



POLICY PAPER

MEA STARTUPS

“OVERCOMING REGULATORY
HURDLES FOR GROWTH”

2024

I. PREFACE

The startup ecosystem in the Middle East and Africa (MEA) region has undergone a transformative evolution, notably marked by a significant rise in venture capital (VC) funding over the past decade. In 2010, the region saw a modest 19 venture capital deals amounting to a total of **\$300 million**, a figure which steadily increased in subsequent years. However, recent data indicates a concerning trend, with a **23% decline** in overall capital investment observed in the past year. In 2023, MENA deals experienced a notable **34% decrease compared to the preceding year**.

Specifically, in **2022**, Egyptian companies secured **\$517 million** through **160 financing deals**, positioning Egypt as the third-highest recipient of funding in the Middle East, following the **UAE** with **\$1.19 billion** and the Kingdom of Saudi Arabia with **\$987 million** raised. Nevertheless, the first half of 2023 witnessed a slowdown in Egyptian companies' financing activities, with a **28% decrease** compared to the latter half of 2022, despite still securing approximately **\$510 million** in financing.

Beyond the challenges posed by **fluctuating economic conditions** and the highest **interest rates** in over two decades, which escalate borrowing expenses and intensify competition for venture capital investments, **the regulatory environment stands out as a formidable obstacle confronting startup**.

This collaborative policy paper, co-authored by IPA and the STARTUPS WITHOUT BORDERS SUMMIT, delineates essential recommendations aimed at unleashing the potential of the MEA cross-border startup ecosystem. It emphasizes regulatory reforms and presents actionable solutions to bolster startups, leveraging their capacity to fuel economic transformation across the region.

II. REGULATORY CHALLENGES

Varied Legal Frameworks



The intricate Navigating the intricate regulatory landscape of the MENA region poses a significant challenge for startups seeking cross-border expansion. With diverse legal frameworks dictating aspects such as business registration, taxation, intellectual property, and employment regulations, each country introduces layers of complexity and uncertainty. This varied regulatory terrain presents formidable obstacles that startups must overcome to establish and scale their operations across borders, requiring careful navigation and strategic planning.

Bureaucratic Hurdles



Despite ongoing efforts to streamline regulations, notably in burgeoning sectors like fintech and e-commerce, startups in the MEA region continue to face formidable bureaucratic hurdles and persistent ambiguity. While initiatives like tax incentives in Egypt strive to nurture entrepreneurship, additional measures are imperative to enhance operational ease and clarity for startups across the region. Addressing these challenges comprehensively will be pivotal in unlocking the full potential of the MEA startup ecosystem and fostering sustained growth and innovation.

II. REGULATORY CHALLENGES

Challenges for Immigrant Founders

Immigrant founders face additional hurdles, including obtaining **visas** and work **permits**, navigating foreign ownership restrictions, and overcoming the intricacies of local **bureaucratic** processes.



Emerging solutions such as **streamlined visa programs** in countries like **Dubai** and **Bahrain**, establishment of **free zones** with simplified business registration procedures, and government-led initiatives offering legal assistance and access to local networks aim to address these challenges.

Funding Obstacles

The regulatory environment significantly contributes to the financing gap in the MEA region, posing obstacles for startups seeking **capital**. **Regulations** related to **capital assessment**, **exits**, and other financial aspects impact investor confidence and impede the flow of investment into startups. The complexity and uncertainty surrounding regulatory frameworks create barriers to accessing funding, deterring both domestic and foreign investors from committing capital to startups.



III. POLICIES TO ADOPT

To foster the growth of startups and cultivate an environment conducive to innovation, MEA countries should implement policies tailored to the unique needs of their ecosystems. Key recommendations include:

Fostering Startup-Friendly Regulations



Implement startup visa programs and simplify business registration processes. This will reduce bureaucratic hurdles and encourage more entrepreneurs to establish and operate businesses within the region.

Stimulating Investment in Startups



Governments should create government-backed venture capital funds, introduce tax incentives for investors in startups, and develop procurement programs that prioritize sourcing from startups. These measures will attract more funding into the startup ecosystem and fuel growth.

Prioritizing Digital Infrastructure Investments



Governments should invest in digital infrastructure and promote public-private partnerships to ensure widespread access to high-speed internet and advanced technology.

III. POLICIES TO ADOPT

In countries like Egypt, the UAE, and Saudi Arabia, strides have been made towards fostering innovation with initiatives such as startup and innovation visas. However, there's still significant room for growth.

Emulate Singapore's Model



To truly cultivate an environment where startups can flourish, governments in the MEA region should mirror Singapore's comprehensive approach. This includes replicating streamlined business registration processes, attractive tax rates, and supportive visa programs like the EntrePass.

Creating Safe Spaces for Innovation



It requires regulatory efforts that prioritize both safety standards and the protection of intellectual property rights (IPR). Strong IPR protection fosters an environment where startups can innovate without fear of theft. By implementing robust regulations, regulatory bodies instill confidence among entrepreneurs. This comprehensive regulatory approach is vital for nurturing environments where startups can thrive and contribute to economic growth in the MEA region.

By embracing these policies, alongside others, MEA countries can unlock the entirety of their startup ecosystems' potential, catalyzing sustainable economic growth and nurturing an innovation-driven culture that enriches society at large.

In the dynamic landscape of the MEA region, IPA maintains a vigilant eye on legislative activities in MEA, driven by our commitment to keeping our clients informed and abreast of industry-relevant developments. Our approach goes beyond mere observation; we actively engage and intervene to facilitate the smooth advancement of their business ventures in Egypt and MEA, in accordance with evolving legislative landscapes.

This proactive stance assumes critical importance, ensuring that policies align with the priorities of the private sector, thereby nurturing a vibrant investment ecosystem conducive to sustainable growth and prosperity.

