

Policy Paper

Recommendations for lifting barriers to private investment in young firms

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Abstract

MENA countries are urged to restore their balance of payments to overcome the social and economic challenges which have led to the recent political movements. With tourism and FDI having decreased over the last year, industrial competitiveness and capacity to export become a central issue. Capitalising on the vivid new entrepreneurial scene developing in all countries becomes part of the solution to developing innovation and creating fast-growing companies able to grow on the international markets.

In MENA, young entrepreneurs often complain about a lack of access to finance and by contrast, investors report meeting difficulties sourcing high quality mature projects. Indeed many of these entrepreneurs lack the managerial capacities to grow their businesses. National and international (notably diaspora) private individual investors could play a major role in overcoming these challenges of access to finance and technology, mentoring entrepreneurs and helping them access foreign markets.

Business angel networks and crowdfunding investment platforms are instruments likely to enlarge the volume of potential individual investors in young firms because they offer mutualisation mechanisms which reduce the risk taken by these investors. To develop in the region, these instruments need conducive legal frameworks and support policies, both which are lacking in most countries at the moment.

This paper will give a short overview of the policy and market context in selected countries and propose a set of recommendations to favour the development of these new investment mechanisms.

Introduction

Most of the MENA countries have encountered major political changes over the last five years, following popular demonstrations and demands. The expectations of the people, especially the youth, are high in regard to accessing jobs and prosperity. While the natural aspiration of young graduates was to apply for public jobs, the post-economic crisis context and the security situation puts MENA states under budgetary pressure, with very limited capacity to “buy” social peace through public jobs and subsidies. Moreover, the political, security and migrants’ situation limits the attractiveness of MENA, and Foreign Direct Investment (FDI) have fallen by a factor of three in ten years (from €70m in 2005 to €25m in 2014). 50% of this FDI is in very capital intensive sectors where jobs versus investment efficiency is limited (conventional energy, public works, cement, telecoms).

In the meantime, the entrepreneurial spirit among young people in MENA is increasing, supported by the creation of many accelerators, co-working spaces, business plan competitions, investment funds and mentoring programmes. The diaspora is also playing an increasing role in transferring know-how and disseminating role models through successful entrepreneurship stories.

Over the last decade, most of the MENA countries have developed policies to support research and innovation, but they have not led to improving the position of MED in international competitiveness rankings. The situation has improved, but MED progresses more slowly than the rest of the world. The challenge today for MED is twofold: create jobs in the short term to satisfy peoples’ demands, which means boosting the private sector capacity to do so, and restoring their balance of payments, which will mostly be driven by the increase in their capacity to export, considering tourism is badly harmed by security warnings.

According to McKinsey, 60% to 70% of MENA companies are family-owned. Although these companies often have long-term views and strong loyalty to their staff, their corporate governance makes them grow more slowly than those with diversified shareholders: they are more reluctant to open their capital, to open up to foreign markets, and often have organic growth. In addition, the low innovative supply from MENA companies, which contributes to

the countries' limited exports, is the consequence of the low level of their industry in terms of quality, technology and overall innovation management.

According to an OECD survey, in the US from 1980 to 2000 nearly all job creation occurred in young firms (less than five years old). In 2007, US census data showed that young firms accounted for two-thirds of job creation. In MENA, we are facing a dual reality with regard to young firms. Most of the time, young entrepreneurs complain about a lack of access to finance and by contrast, investors report difficulty sourcing high quality mature projects. According to a Wamda Research Lab (WRL) study in 2014, around 40% of entrepreneurs in the MENA region surveyed did not have a mentor.

National and international (notably diaspora) private individual investors could play a major role in overcoming these challenges of accessing finance and technology, mentoring entrepreneurs and helping them access foreign markets. Today very few entrepreneurs are connected to potential private investors outside their circle of friends and family (when this circle exists and has the capacity to support them).

Business angel networks and crowdfunding investment platforms have developed over the last 15 years in most of the regions of the world, but have barely emerged in MENA. Both are instruments likely to enlarge the volume of potential individual investors in young firms because they offer mutualisation mechanisms, which reduce the risk taken by these investors. To develop in the region, these instruments need conducive legal frameworks as well as support policies, which are lacking in most countries at the moment.

This paper will give a short overview of the policy and market context related to investment and equity investment in young firms in Algeria, Egypt, Lebanon, Morocco and Tunisia, and propose a set of recommendations to favour the development of these new investment mechanisms.

Methodology and scope

The policy paper focuses on recommendations for developing private investment from individuals in young firms through two new mechanisms which are emerging in the MENA countries: business angel networks and crowdfunding platforms.

The policy review is limited to Algeria, Egypt, Lebanon, Morocco and Tunisia, while the recommendations could apply to other countries and refer to foreign best practices, especially from Europe.

The policy review is based on the information provided by the public authorities of the surveyed countries as well as the review of the recent literature. It is completed by interviews of practitioners of the young entrepreneurs' scene as well as a review of the recent press.

The policy recommendations rely on the review of foreign best practices and their potential adaptation to the MENA countries context.

Business angel networks or syndicates are associations of individuals who pool their resources and competences and communicate under one brand to attract a dealflow of entrepreneurs to invest, analyse the projects together and co-invest in these projects.

Crowdfunding investment platforms are online portals where entrepreneurs' projects are promoted through online and offline campaigns with the objective of attracting individual investors to support them through online investment. These platforms usually offer marketing support as well as investor-relation facilitation to the entrepreneur. Their fee depends on the amount raised and the services delivered.

Policy framework: Main features

Algeria

The Algerian investment code provides a number of advantages to investors, which may apply to third parties investing in a new company. They are implemented by ANDI, the national agency for investment in Algeria.

Financial incentives for those who borrow funds to finance their investment mainly take the form of preferential interest rates from SME financing banks for the start-up and expansion phase, as well as when the investment enters a certain framework (business sector, restructuring and upgrading, projects of general interest, etc.).¹

The code also foresees tax advantages in the case where the investment is an imported input in industry (exemption from customs duties and exemption from VAT) and exemption from transfer tax for real estate acquisitions.² The invested in enterprise is also granted an exemption from the tax on profits and tax on professional activity for three years.

But young promoters (under 35) and jobseekers in Algeria are not really pushed to seek private investment, since the country is offering quite a generous public framework through two programmes for these populations: respectively, ANSEJ and CNAC.

According to these schemes, promoters are supposed to benefit from public financing of 99% of the investment for projects below €46,000 and 98% for projects below €86,000. This public support includes a free loan for 28% to 29% of the investment and preferential loan rates for the rest of the investment. Their company also benefits from the same fiscal incentives as the investors mentioned above.

Hence, the access to finance legal framework in Algeria seems mostly targeted at developing enterprises and investors' capacity to raise loans, and not at motivating patrimony holders to

¹ <http://www.mf.gov.dz/article/300/Grands-Dossiers/246/L%E2%80%99investissement-en-Alg%C3%A9rie,-ce-qu%E2%80%99il-faut-savoir.html>.

² <http://www.mf.gov.dz/article/300/Grands-Dossiers/248/LES-AVANTAGES-FISCAUX-ACCORDES-A-L%E2%80%99INVESTISSEMENT.html>.

inject funds into enterprises. This obviously limits the development of business angels in the country. The first (and only) business angel network in Algeria is Casbah Business Angel, created in 2012, which brings together a dozen experienced entrepreneurs and investors. To date, they have not provided information on their portfolio of invested companies.

In regards to crowdfunding Algeria is one of the least developed countries in the region along with Libya. Four projects were promoted by associations (including three in the humanitarian sector), which have been funded by crowdfunding (donation), with half of the funds coming from the United States. No experience has been acquired in regard to equity crowdfunding. There is no specific legal framework to authorise the establishment of crowdfunding platforms in the country. They should fall under the public offering conditions. Public offerings are regulated by the code of commerce (Art. 715 bis 81 and 715 bis 82) in the country which limits the companies' capacity to raise funds to corporations with two years of existence. This neither prevents nor authorises specific crowdfunding platforms to raise funds for third-party companies, and thus creates a blurry environment which does not favour the development of this sector.

Egypt

Financial instruments in Egypt are various but **they prefer to deal with large companies because they are more profitable, less risky and less costly** to approach. Although there are many programmes through the Social Fund for Development, NILEX (the Nile Stock Exchange) and other instruments, MSMEs are still facing problems accessing finance.

The investment regime in Egypt is designed for corporate investors. The general regime is ruled by Investment Law No.8 of 1997 which has been regularly amended since then.³ The principle of this law is to offer investment guarantees (in particular protection and advantages offered to foreign investors) and tax exemptions for investments in specific sectors. The last amendments date from 2005 when a number of new provisions were introduced, including the removal of most financial and tax incentives, to be replaced by

³ <http://www.gafi.gov.eg/English/StartaBusiness/Laws-and-Regulations/Pages/BusinessLaws.aspx>.

more facilitation services.⁴ In addition, Egypt is providing several specific frameworks for investment in specific locations of the country (free zones, inland, industrial zones, special zones, etc.), which provide special incentives to companies establishing in these areas. The law is implemented by GAFI, the national investment agency, which also manages free zones in the country.

Law No. 94 of 2005 aims to unify the legal rules of companies and establish a link between company law and investment law, setting up simple procedures for company foundation as well as land and real estate ownership. Companies founded under the Companies Law will have access to privileges granted by the Investment Law. The amendment is meant to balance these two laws with the provisions of the new tax law, especially where they relate to tax exemptions. This law allows new sectors to benefit from the law, including ICT and certain financial services. It also modifies the non-tax benefits for investors, and focusses them on: (1) labour intensive projects where the number of Egyptian workers is not fewer than 250, or where the cost of creation of each job opportunity does not exceed 250,000 Egyptian pounds, or where the total direct labour cost does not exceed 35% of total operating cost; (2) projects with no less than 50% local components (inputs and equipments), ; (3) logistical services; (4) internal trade development projects; (5) electricity production; transport, and distribution services; (6) land reclamation and agriculture projects; (7) land, marine and railway transport projects; (8) projects established in upper Egypt, Sinai, Matrouh and Nubia under certain conditions.

These non-tax benefits are targeted to increase the competitiveness of company operations by allowing them to: (1) establish a dedicated custom point; (2) purchase power at reduced cost; (3) recover part of the cost of utilities incurred by the projects; (4) recover part of the labour training costs; (5) recover part of the social insurance cost; and (6) obtain land for investment.

According to SwitchMed's *Egypt Mission Report*, venture capital and angel investors have a limited yet growing presence in the Egyptian market. Their operations are not easily tracked in terms of magnitude due to the lack of a comprehensive regulatory and reporting

⁴ http://www.gafi.gov.eg/English/StartaBusiness/Laws-and-Regulations/PublishingImages/Pages/BusinessLaws/The%20most%20important%20features%20of%20the%20Investment%20Law_2015.pdf.

framework governing their operations. The EBESM survey estimates that there are eight active private equity funds in Egypt amounting to a total of €1.1 billion and three venture capital companies (Idevelopers, Vodafone and Sawari Ventures).

Despite the absence of any specific conducive framework, business angels are rather lively in Egypt, with Cairo Angels being the main club. The number of business angels in Egypt is estimated to be around 100 by EBESM: Cairo Angels brings together 80 individual investors, while other initiatives, such as KI Angel, Alexandria Angels and others represent the rest. In June 2016, Cairo Angels had already invested €600,000 in 15 companies.⁵

Even more important is the accelerator community in Egypt. These are centres offering an incubation period and business coaching to promising entrepreneurs in whom they intend to invest. Founded by private investors these accelerators are probably the best tool for solving the equation of risk mitigation. Indeed the incubation period and door opening offered is key to reducing the risk of start-up failure. Flat6Lab and Tamkeen Capital are leading this new scene, with other players like Tahrir.⁶

In Egypt, there is a law about establishing investment companies: banks are permitted to establish a subsidiary. The main problem of financing institutions is **that they are reluctant to invest until they get some sort of certification of economically feasible technical solutions to prove viability**. If there is a guarantee from the government it is easier to get the financing; however, the government provides direct guarantees to private projects only through the investment fund.

In regards to new business models (internet) or new sectors (green tech), investors do not have a clear idea of how these new business models can be profitable. This phenomenon still exists in southern Europe and it is not surprising that scale-up innovative firms mostly raise funds in the UK or the US. To this end, they have to be made aware of the potential of these new sectors.

Equity financing for small companies in Egypt is thus mostly provided initially **via personal referrals (friends) and local networks (such as families)** and to a less extent

⁵ <http://www.dailynewsegypt.com/2016/06/15/cairo-angels-invest-egp-13m-sixteen-companies/>.

⁶ <https://www.wamda.com/2013/03/investors-in-egypt-who-s-hot-who-s-not>.

crowdfunding platforms (like Shekra), government programmes (GAFI Bedaya Center, Ministry of Investment) and donors.

Lebanon

The investment regime in Lebanon is ruled by Law No.360. Concerning small scale enterprises, the law offers specific incentives for their investment projects, depending on the location of the project, under the IPZ scheme (Investment Project by Zone),⁷ the most attractive being the incentives offered to projects in the hinterland of the country. These incentives concern work permit facilitation, and exemptions on corporate income tax and tax on project dividends. The level of the incentive depends on the location of the project, and is subject to a minimum level of investment which depends on the sector. For example, projects benefitting from the incentives must have a minimum investment of \$200,000 in the media sector anywhere in the country, or up to \$10,000,000 USD in the tourism sector in the coastal regions of the country.

According to the regional mapping of financing instruments in the region conducted by the EBESM project in 2016, Lebanon offers the most developed ecosystem in the region for early stage financing with six seed instruments, 17 start-up instruments and 15 instruments supporting innovation. The country also hosts 15 development funds which are promising for scaling-up the new ventures created in Lebanon.

Business angels are less developed in the country but are becoming a growing option for entrepreneurs. Besides the historical Lebanese Business Angel club created by Bader, USAID is supporting IM Capital (Insure and Match Capital), whose strategy is to match existing investment with additional capital, to structure a new network of business angels to generate more investment-matching opportunities. Private investment by business angels is not regulated but the government and the central bank (BDL) have introduced measures to boost the start-up ecosystem. In August 2014, BDL introduced Circular 331, which

⁷<http://investinlebanon.gov.lb/Content/uploads/CorporatePageRubric/161202125524363~IPZ%20Scheme%20-%20En.pdf>.

guarantees 75% of the banks' investments in the knowledge economy through direct start-up equity investment or indirect start-up support entities of up to \$400m for the whole country. These funds have already benefitted many funding initiatives by targeting the start-up early stage financing stage.

Crowdfunding is also booming in Lebanon. Crowdfunding platforms play a channelling role between entrepreneurs and funders to support mostly digital and cultural projects in the country. The success of crowdfunding in Lebanon also benefits from the large Lebanese diaspora spread all over the world (the US, Europe, and the Middle East for the latest generations of expatriates). Almost 100% of the funds come from Lebanese platforms.

Recently a decree to regulate crowdfunding activities in Lebanon has been issued by the Capital Markets Authority (CMA). This decree requires crowdfunding institutions to set up an electronic platform as well as specifying the minimum amount of capital of LBP 30m or \$20,000 that SMEs and start-up companies need to raise through crowdfunding. In addition, it states that crowd investors' direct and indirect investment in each company is set between LBP 750,000 (€471) and LBP 15 Million (€9,420).

Morocco

Morocco offers several incentives to corporate investors, depending on the sector they operate in and the level of investment. These incentives include funding from the Investment and Industrial Development Fund (FDII) and/or the Hassan II Fund, as well as custom taxes and VAT exemptions. The FDII is the most likely to benefit new entrepreneurs, under its intervention on “structuring projects”, which targets new activities (never implemented in the country), R&D and intensive engineering projects, as well as projects or activities valorising local sourcing or local integration. However, this concerns ambitious projects since the minimum investment to benefit is €1.8m. The other incentive schemes target investments of above €25m.

Despite a high proportion of bank loans to SMEs, and a good number of instruments to fund the start-up (11) and development stages (28), financing is one of the major barriers to company creation because of difficulties over both access and cost. This constraint reflects

the graduate entrepreneurs' sources of funding, all of whom primarily used money from informal resources such as loans from family, help from parents, or their own financing. Access to formal financing instruments was the exception. Large companies continue to dominate the Casablanca Stock Exchange, and banks favour them over start-ups. The complicated procedures required to get loans also discourage start-up firms from seeking bank finance. The first experiences of creating venture capital funds have been mitigated so far. The quality of the projects did not match the investors' expectations and the size of the funds created did not allow large enough portfolios to mitigate the risks.

Business angels hardly exist in the country, and are not organised. Atlas Business Angels, the first network, created in 2010, has so far not really developed. One reason is both a lack of education on the part of investors and entrepreneurs and a sense that they don't necessarily understand and know each other. The other reason is that the investment tax framework gives no incentive so far to investors to support entrepreneurship. Young entrepreneurs have been lobbying for a business angel bill over recent years, but it has not translated into a law at this stage. The German cooperation agency GIZ is currently supporting the Moroccan government to develop a framework for business angels' development.

Globally, the absence of any risk mitigation or guarantee mechanism from the government or from banks to support investment in young enterprises is a limit to the development of the start-up ecosystem.

A new fund, Innov Invest, has been under creation since summer 2016 in Morocco with the support of the World Bank through a loan of \$50m to the Moroccan government from its subsidiary, the IBRD. It will invest \$12m in seed capital, \$30m in venture capital to bring start-ups to the next stage, and use \$6m to support the start-up ecosystem actors. The fund will be managed by the Caisse Centrale de Garantie (CCG), and the government intends to accompany the launch of Innov Invest with a new legal framework that is more conducive to start-ups. This might include measures to favour business angels as well as crowdfunding.

Indeed, in this transitional context, crowdfunding might offer an alternative, especially for entrepreneurs who cannot rely on the financial support of friends and family. Today, crowdfunding in Morocco mostly concerns green tech projects and commercial,

humanitarian, cultural and arts activities. Half of the funds collected originated in French platforms, the other half came from US ones.

Tunisia

With its very highly qualified human resources, praised by all foreign investors in the country, Tunisia presents very promising potential for developing start-ups.

Grants from the government are provided for investments targeting environmental protection, regional development (hinterland) and agricultural development. When projects require the development of infrastructure, the government can sponsor the investment for up to 85% depending on the location.

Tax rebates are also offered to investors (on corporate taxes or on personal income in the case of private persons). Tax exemptions are also applied to dividends for both corporate tax and personal income tax. These two last are even more important in “support sectors”: education, R&D, vocational training and health.

Tunisian financing instruments are relatively well developed for the size of the country. They focus on the start-up stage (nine instruments), innovation (eight) and development (23). Tunisian banks constitute the most frequently used sources of funding for SMEs. Even so, there are difficulties accessing bank loans and the relationship of SMEs with banks remains fragile. Guarantees are the rule for any credit application and alternative funding channels are not very visible to SMEs. In addition, the entrepreneurs regret a lack of knowledge and expertise from banks to assess the financing of businesses in new sectors. This situation may explain the low penetration of financial instruments for SMEs, thus self-financing and informal financing, especially profit reinvestment, remain the main source of funding for Tunisian small businesses. Funding through investment companies to venture capital (SICAR) and other non-bank financial institutions plays a minor role, whilst venture capital is not on the radar of the vast majority of SME entrepreneurs seeking finance.

Concerning innovative companies, entrepreneurs express regrets about regulatory obstacles to the development of new sectors. For example, online payment through credit or debit

cards is not authorised in the country, which prevents the development of the whole internet industry: according to the Ministry of Finance, a recent government study showed that around 70% of the Tunisians surveyed expressed a desire to buy things online. The government approval process for online businesses is slow, according to Ahmed Ouadi, whose Albecha Group developed recharge.tn, a site for buying cellphone credit.

Private funding of young start-up companies started with Réseau Entreprendre Tunisie, which has clubs of businessmen spread all over the country and who offer free loans, often backed by banks or other sponsorship funds (such as the Qatar Friendship Fund). Most importantly, these businessmen offer mentoring support to the entrepreneurs selected for two years.

Business angel activities in Tunisia are probably the most structured in the region. They started in 2009 with the creation of the Carthage Business Angel Network (CBA). In January 2016, CBA was reported to have invested 10 million TND (€4m) in 15 start-ups. The network, which today has 28 members, also launched a seed fund and opened it to subscription in June 2015 – the CAPITALease Seed Fund, as well as the first private incubator in Tunisia, Wiki Start-Up, which is also the executive operator of the Carthage Business Angel Network.

In Tunisia, individuals as well as associations are the actors that use crowdfunding the most for fundraising. The associations, mainly financed on French donation platforms, have carried out humanitarian projects, mainly sports and to a lesser extent film, book and music projects. Companies have made less use of this funding solution, as only three projects have been financed through crowdfunding in Tunisia, two in the collaborative sector and one in the production of books, films and music. 60% was financed in France, the rest in Lebanon. The government and the central bank are sensitive to the issue of offering a legal framework to crowdfunding. The Ministry of Investment, the governor of the Central Bank and the Ministry of Finance participated in Tunis in the 1st Forum on Crowdfunding in the Mediterranean on October 28th 2016 and all showed an interest in developing this sector.

Policy recommendations

Introduction

The policy framework review in the five countries shows various situations in terms of dynamism of the private investment and enterprise creation ecosystem. However, all countries share an almost non-existent policy framework for promoting private investment by individuals in entrepreneurs' projects. Money from friends and family remains the most common source of funding for entrepreneurs launching a new venture, and business angel networks have emerged in all countries. But this is driven only by individual willingness, not incentive, and it is not supported by a legal or public framework.

The following section will highlight a number of recommendations which, in our view, could bring leverage to private investment, entrepreneurs' development and thus job creation by young entrepreneurs in the MENA countries. These policy recommendations focus on two objectives:

- 1) Motivating more individuals to invest in young companies, and;
- 2) Allowing the development of alternative tools where individual private funding is likely to multiply: business angel networks and crowdfunding platforms.

Fiscal incentives to multiply private investment in young firms

Fiscal incentives specifically available for individual investment in young firms do not exist in the surveyed countries. In Europe, they can be found in 13 countries where governments have given attention to incentivising individual investment in venture capital, private equity and start-up angels: Belgium, Finland, France, Ireland, Italy, Germany, Lithuania, Luxembourg, Portugal, Slovenia, Spain, Turkey and the United Kingdom.

These incentives are various and include government guarantees, reductions on tax rates or tax credits. It is interesting to note that in Europe wherever there are tax incentives, there are also significant volumes of business angel activity.

A benchmark for all EU countries is provided in the 2015 Tax Outlook Compendium produced by EBAN, BAE and BOFIDI listed in the references. These incentive schemes could inspire fiscal schemes applying to individual investment and business angel syndicates as well as investments by individuals through crowdfunding platforms in the MENA countries.

They may be summarised as in the table below.

Type of incentive	Description	Exemption rate range in Europe	Ceiling
Income tax exemption	Individual investors can deduct a share of the amount invested from their income tax Conditionality or additional incentives can be introduced in regards to the impact of the project (social, charity, job creation, etc.)	From 10% to 50% of the investment (the average being around 25%, and above in western Europe)	Very large range from €50,000 to €1 million
Wealth tax exemption	For countries applying a tax on individuals' net wealth (like France), deduction of a share of the amount invested from the net tax	50% in France	€45,000
Capital gains exemption	A share of the capital gains made from the investment by the individual is exempted from the taxable income	From 4% to 43%	N/A

Supporting the development of business angels

Facilitating the creation of business angel networks

Business angel syndicates or networks are interesting tools for engaging new individuals in investing in young companies as they are clubs of people who analyse investment projects together, and often decide to co-invest. Thus, business angel networks reduce the risk to the investor:

- A business angel club is more likely to gather the necessary sector competence among its members to analyse the business project of an entrepreneur, and thus evaluate the risk and advise the entrepreneur;
- Co-investing with other angels allows lower amounts to be invested per project, and thus investment may be made in more numerous projects or in larger projects, which mitigates the risk;
- Investing in a syndicate allows angels to benefit from best practices and tools to formalise the investment deal with the entrepreneur and thus facilitate the learning process for new investors.

Institutions such as banks, incubators, chambers of commerce and regional development agencies are the ideal partners to facilitate the development of business angel networks. In the MENA countries, the stock exchange or some national industrial or innovation development agencies could also play this role. These institutions can provide the angel network not only with sponsorship, but allow them to use their infrastructure in terms of rooms, sharing events, and providing administrative and coordination staff. In return, the business angel network can secure credits in the supporting banks, and help the creation of jobs and innovation in the territory.

In Europe, the European Commission estimates in its *Guidebook: How to support SME policy from Structural Funds* that the cost of operating an angel network ranges from €150,000 to €500,000 per year. In order to have these funds available, most networks are using either a system based on a registration fee from business angels and a success fee on the investment deals provided or a registration fee only. The second major revenue stream of

business angel networks is public support from the institutions mentioned above. These revenues are meant to cover networks' operational costs. The highest cost is almost always linked to human resources.

Networks like EBAN or BAE which represent the regional and national business angel networks in Europe could offer technical assistance to national or local authorities in MENA countries to set up and develop such networks, either directly or through their networks. In the past, ANIMA mobilised France Angels to support the creation of the first business angel networks in Morocco (Atlas BAN) and in Tunisia (Carthage BAN), and LINK Scotland to support the creation of the first angels network in Jordan (Bedaya BAN).

Set up public supported co-investment funds

The support for creation of business angel networks presented above might be seen as an important precondition for co-investment schemes.

In Europe, a co-investment fund is an investment mechanism that results from a public private partnership between the public body and business angels for investments in early stage start-ups. Unlike standard venture capital funds or private business angels, co-investment funds derive from public initiatives after recognising the presence of a gap in the equity market. The advantage of this type of vehicle is that they are an accelerator for the development of the business angel community and thus attract new funding from individuals and develop mentorship for entrepreneurs (which is always associated with angel investment), in addition to offering what is usually good leverage for the public money invested in these funds.

Although investment funds pooling public money exist or did exist in the MENA countries to support early stage companies – such as the SICAR and Sages Capital in Tunisia or the Bedaya Fund in Egypt – the only co-investment-focused initiative is the recent IM Capital created in Lebanon with the support of USAID.

Co-investment funds are generally managed by private management companies to assure a market-driven approach. The peculiarity of co-investment funds is the fact that they do not

negotiate investment deals on their own. Instead, they form contractual partnerships with selected co-investors (VC funds, business angel networks and syndicates or wealthy individual investors) to perform joint investment in target companies proposed by these co-investors. In the future, co-investment funds are also likely to partner with equity crowdfunding platforms.

Thus, the co-investment fund is performing due diligence on the co-investors rather than on the entrepreneurs themselves. The due diligence would include analysing the track record and investment policy and evaluating the management team.

The co-investor is then in charge of finding the dealflow and negotiating the investment with the entrepreneurs. The co-investment fund would generally invest automatically and under the same conditions as the co-investor, but any conditionality could be introduced, such as the impact expected (social, environmental, technological), or the possibility of refusing to match the investment proposed.

Different models exist with various potential impacts. But looking at the relatively emerging angel scene in the MENA countries, we would recommend the creation of funds which aim at increasing and incentivising the angel community to grow and thus have a larger impact on the market. This kind of co-investment fund would be very flexible in regard to the nature of the co-investors, which could be experienced business angels as well as new angels. The idea of this type of co-investment fund is to start a virtuous cycle where “virgin” angels start learning and become experienced angels who will, in turn, teach others. Private accelerators, venture capital funds as well as potential newly created equity crowdfunding platforms in the MENA countries could also be among the co-investors. Many other models and case studies of co-investment funds are presented in the European Commission’s *Guidebook* listed in the references.

Developing an investment crowdfunding ecosystem

According to the InfoDEV report of 2013 on “Developing crowdfunding in the developing world” there are a number of prerequisites for the development of an investment crowdfunding ecosystem. For some of them, we have seen that the countries targeted by this report are already moving forward. But some of these prerequisites remain to be tackled in

order to expect crowdfunding to participate in delivering its expectations in terms of job and value creation.

A vivid entrepreneurial culture

A crowdfunding industry needs entrepreneurs. Over the last five to eight years, we have seen that MENA countries' entrepreneurial ecosystems have developed strongly. In all the countries surveyed, we note that business angels networks, incubators and sometimes private accelerators have been created, either by public or private actors. Business plan competitions have spread all over the region as well as foreign franchises to support ideation or start-up development (start-up weekends, ENPACT, TEDx, etc.) and the model of the entrepreneur is becoming more and more an option for young graduates who were traditionally attracted by public careers. Major issues remain, related to the managerial capacities of entrepreneurs to drive growth and access to finance, but we can state that an entrepreneurial scene now exists in these countries.

Continuous and growing support for the innovation and entrepreneurship ecosystem, and a stronger link between the education system and industrial policies is however essential to pursue this dynamic and expect a sound impact on economic development.

Engagement of the community

The success of a crowdfunding campaign relies on the engagement of the entrepreneurs' community online, at local level, and sometimes at national and international levels. The political events of 2011 which have impacted almost all countries have illustrated the high penetration and impact of social media in the MENA countries, especially among the youth. In this regard, there is a market opportunity in these countries for the development of crowdfunding.

The Mediterranean diasporas are another aid to the success of crowdfunding campaigns. A recent survey from the French national institute of demographics (Ined) shows that the proportion of graduates among MENA immigrants in France and Austria is far above that in the home country (respectively 15% to 30% compared to less than 5% in the home country). Likely to be more wealthy and more connected online, members of the diaspora are also

ready to engage for their home country. In MENA, migrants' remittances add up to three times the development aid from the international community, which shows the commitment and solidarity of these populations in supporting their home countries.

If the government is to support the development of crowdfunding investment, we would encourage them to develop communication campaigns to make them known all over the country and abroad, using all online and offline channels so that these communities are engaged. Messages about the social and democratic benefits of this financing channel could be an efficient driver of engagement.

A conducive technology

Crowdfunding can only grow in countries where the technology provides the necessary infrastructure. This technology includes quality and available internet access and online secured payment systems (e-commerce and m-commerce).

MENA countries are facing weaknesses in these domains, which need to be overcome urgently in order for the technology scene to really emerge. As reported in the previous chapter, e-commerce is not authorised in some of the countries surveyed. This is not only a barrier to the development of crowdfunding, it limits the development of the entire internet industry in these countries, and thus of the innovative and entrepreneurial scene. In addition, physical telecoms infrastructure and broadband penetration is quite low in MENA compared to European countries, which limits the potential market outreach of internet and e-commerce. This drawback is compensated by high level of mobile network penetration (often above 100% of the population), but 3G and 4G are still under-deployed.

It is important that MENA governments start regulating e-commerce and m-commerce in order to dynamise the internet industry and give chances for crowdfunding to emerge. Alternative solutions like the use of telecoms and mobile operators as third parties to allow online payment could offer quick transitional solutions to unleash this sector.

Conducive economic regulations

Besides the technology, crowdfunding is facing two major limitations in the MENA countries: the right of crowdfunding platforms to raise funds for third parties and be

considered part of the financing ecosystem, and the right to collect funds locally which have been raised abroad (notably from the diaspora).

While addressing these two issues, governments will also have to make sure that the process of marketing a crowdfunding campaign and the cost of collecting the funds remains affordable for young entrepreneurs. Otherwise, many of them may choose to remain part of the grey market economy rather than using crowdfunding platforms. The Turkish experience of tackling this issue is presented in the InfoDev report listed in the references.

Recognising crowdfunding platforms as a potential partner for co-investment funds, and developing public matching funds for crowdfunders could also be an accelerator for this industry.

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Researching
Arab Mediterranean Youth:
Towards a New Social Contract



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