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Ideation Center insight

Scaling up MENA SMEs

How a handful of firms can fast-forward economic growth

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We would like to acknowledge the following participants as their contributions played a vital role in this study:

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Ambareen Musa	Souq Al Mal	UAE
Amr Shady	TA Telecom	Egypt
Omar Christidis	Arabnet	Lebanon
Charif Mzayek	Alissar Flowers and FloraNow	Jordan
Emile Cubeisy	Siliconbadia	Jordan
Essam Omran Saleh	Dubai SME authority	UAE
Faisal Alshehhi	Dubai Exports	UAE
Haytham Kamhiyah	Emirates Development Bank	UAE
Heba Ali	Egypt Ventures	Egypt
Henri Asseily	Leap Ventures	Lebanon
Hind Hobeika	Instabeat	U.S.
Idriss Al Rifai	Fetchr	UAE
Jalil Allabadi	Altibbi	Jordan
Jamil Corbani	Green Studios	Lebanon
Khaled Talhouni	Wamda Capital	UAE
Khalid Alkhudair	Glowork	Saudi Arabia
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Mohammed Alashmawi	Classera	Saudi Arabia
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About the Ideation Center

The Ideation Center is the leading think tank for Strategy& Middle East, part of the PwC network. We aim to promote sustainable growth in the region by helping leaders across sectors translate socioeconomic trends into actions and better business decisions. Combining innovative research, analysis, and dialogue with hands-on expertise from the professional community in the private and public sectors, the Ideation Center delivers impactful ideas through our publications, website, and forums. The end result is one that inspires, enriches, and rewards. The Ideation Center upholds Strategy&'s mission to develop practical strategies and turn ideas into action. At the Ideation Center, we enjoy the full support of all practices in the Middle East. Together we bring unsurpassed commitment to the goal of advancing the interests of the Middle East region. Find out more by visiting www.ideationcenter.com.

About Endeavor

Established in 1997, Endeavor is leading the global high-impact entrepreneurship movement and promoting economic growth and job creation by selecting, mentoring, and accelerating the best high-impact entrepreneurs around the world. To date, Endeavor has screened more than 55,000 entrepreneurs and selected more than 1,700 individuals leading over 1,000 high-growth companies. With support from Endeavor's worldwide mentor network, these high-impact entrepreneurs:

- *Have created 1.5 million jobs*
- *Generated US$15 billion in revenues in 2017*
- *Inspire future generations to innovate and take risks*

Headquartered in New York City, Endeavor currently operates in 32 markets throughout Europe, Latin America, North America, Africa, Asia, and the Middle East.

Executive summary

The public and private sectors in the Middle East and North Africa (MENA) have been developing programs to catalyze the growth of small- and medium-sized enterprises (SMEs), including startups. Businesses at every stage of development are important for economic growth. To provide optimum benefits at each stage, players should differentiate among the needs of the various SME segments.

One segment deserving particular attention is "scale-ups" — SMEs with proven business models that are undergoing a rapid growth phase. Scale-ups represent on average 5 percent of SMEs, can be from any sector and of any age, and their founders have the potential to contribute significantly to the ecosystem they operate within. If provided with the right forms of support, scale-ups can grow rapidly, enrich the entrepreneurial ecosystem, and have a positive economic impact.

Our research shows that successful scale-ups in the region generate on average 3.4 times more revenues and 8 times more jobs than other SMEs. Several countries have recognized the economic value of scale-ups and are developing tailored policies and programs for them. Similar initiatives in the MENA region could have a significant impact.

Although superficially the type of support they need seems similar to other SMEs, scale-ups have different requirements given the unique phase they are going through. Our "scale-ups readiness index," developed through interviews and research (*see Appendix, page 35*), assesses the maturity of the scale-ups ecosystems in five MENA countries: Egypt, Jordan, Lebanon, Saudi Arabia, and the United Arab Emirates (UAE).

By studying the importance of scale-ups in the context of their local markets, we identified priorities for policymakers to improve their local scale-ups ecosystems across four growth pillars: business fundamentals, business propellers, demand creators, and country readiness. Within these pillars, we have recognized several priority areas, including access to financing, talent, foreign markets, large customers, and regulatory relief. Success also depends on mobilizing an ecosystem of private and public players to orchestrate growth initiatives.

The definition and characteristics of scale-ups

The public and private sectors in the MENA region have been developing programs and policies to catalyze the growth of small- and medium-sized enterprises (SMEs), including startups, in order to diversify their economies and fuel growth and job creation. Yet, most SMEs often fail to scale their businesses effectively. To help SMEs get out of first gear, it is essential to differentiate among the needs of various SME segments and design programs accordingly. Not all SMEs are at the same stage of development. One segment that deserves particular attention is "scale-ups," sometimes referred to as "gazelles"[1] or "high-growth firms (HGFs)."[2]

Part of the challenge of developing a scale-ups policy is that research and statistics about scale-ups are limited. Also, because being a scale-up is a phase in a company's journey, it is necessary to obtain and update these statistics on a regular basis as they change frequently. Although the leading organizations in the field categorize scale-ups slightly differently, their definitions share important common features, mainly related to the rapid growth of either revenues or employment (*see Exhibit 1, page 8*). Based on our research, we define scale-ups as companies that have an established business model, are fast growing, poised for significant growth, and are typically led by entrepreneurs who can act as role models.

Exhibit 1
There are common characteristics across the different definitions of a scale-up

Scale-ups definitions by leading organizations

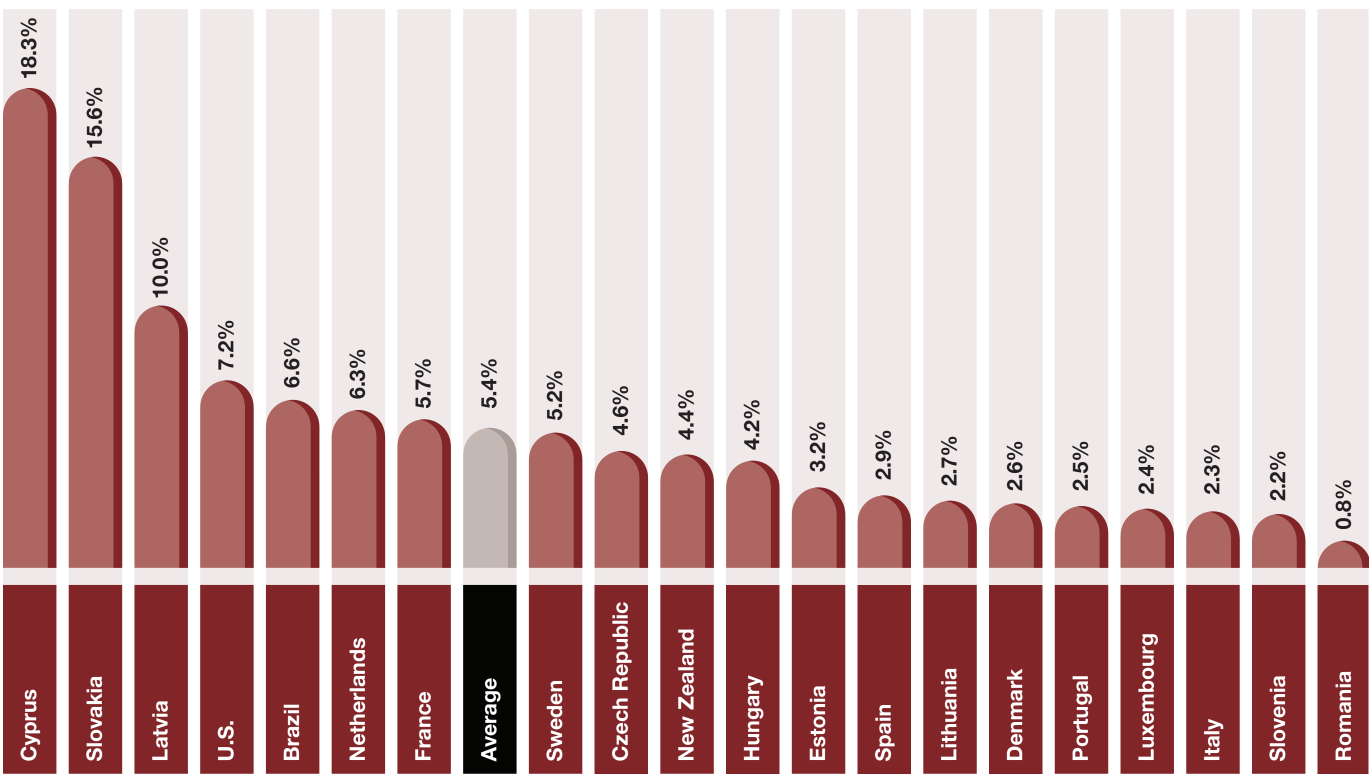
Organization	Terminology	Definition/categorization
OECD	High growth firms	- Minimum of 20% annual growth in employment or revenues; with more than 10 employees at the start of observation period - More than 3 years in operation - Minimum of US$2 million in turnover annually
Scales	Fast growing companies	- Expect to employ 20 employees or more in five years' time
European parliament	Scaleup companies	- A company that is expanding and growing rapidly in terms of market access, revenue, or number of employees
Nesta	High growth firms	- High growth is not a "characteristic" of a subset of firms, but rather a "state" that some firms undergo and temporarily experience - A "moving target," as they are "in a constant state of change"
Endeavor	Scaleups	- Leadership: Candidates exhibit vision, energy, and skills to scale - Business: Significant runway for growth and the potential to scale - Timing: At the key inflection point in their growth trajectory - Ecosystem impact: Candidates can become role models that give back to other players

Source: Marcin Szczepanski, "Helping European SMEs to grow," European Parliament, June 2017; Ross Brown, Colin Mason, and Suzanne Mawson, "Increasing 'The Vital 6 Percent': Designing Effective Public Policy to Support High Growth Firms," Nesta Foundation, Nesta Working Paper No. 14/01, 2014; Endeavor Lebanon, "Impact report 2016-2017," 2017.

Scale-ups represent just a fraction of SMEs at any given point
Our analysis indicates that scale-ups constitute around 5 percent on average of all SMEs globally (*see Exhibit 2*). It is worth noting that while the percentage of SMEs in a country remains fairly stable from year to year, the share of scale-ups in an economy can fluctuate dramatically. This is because being a scale-up is a temporary state during a company's life cycle, not a permanent one. Also, the percentage of scale-ups in each country is driven by the wider economic dynamics of this given country.

Exhibit 2
Only around one in 20 SMEs is a scale-up

Portion of SMEs with 10 to 250 full-time equivalent staff represented by scale-ups (in %, latest available data)



Note: Data on scale-ups are difficult to obtain due to the different definitions and the lack of rigorous monitoring of such companies. The exhibit is based on the OECD definition of high-growth firms using an average employment increase of over 20% per annum over three years. For comparison, based on data from the ScaleUp Institute, the U.K. reached a scale-ups rate of 15% in 2017.

Source: OECD.Stat; IHS Markit Forecast

Scale-ups are of all ages and in every industry
One of the "vivid" myths surrounding the nature of scale-ups is that they are young and predominantly high-tech firms.[3] Instead, their age varies, as their potential to scale is not related to how long they have existed, but rather to their ability to establish a business model, innovate, and disrupt markets. In the U.S., for example, the average age of a scale-up is 25 years.[4] In the U.K., Nesta's research found that 70 percent of British high-growth firms are at least five years old. Their research also shows that scale-ups are fairly evenly distributed between high-tech and other industries.[5]

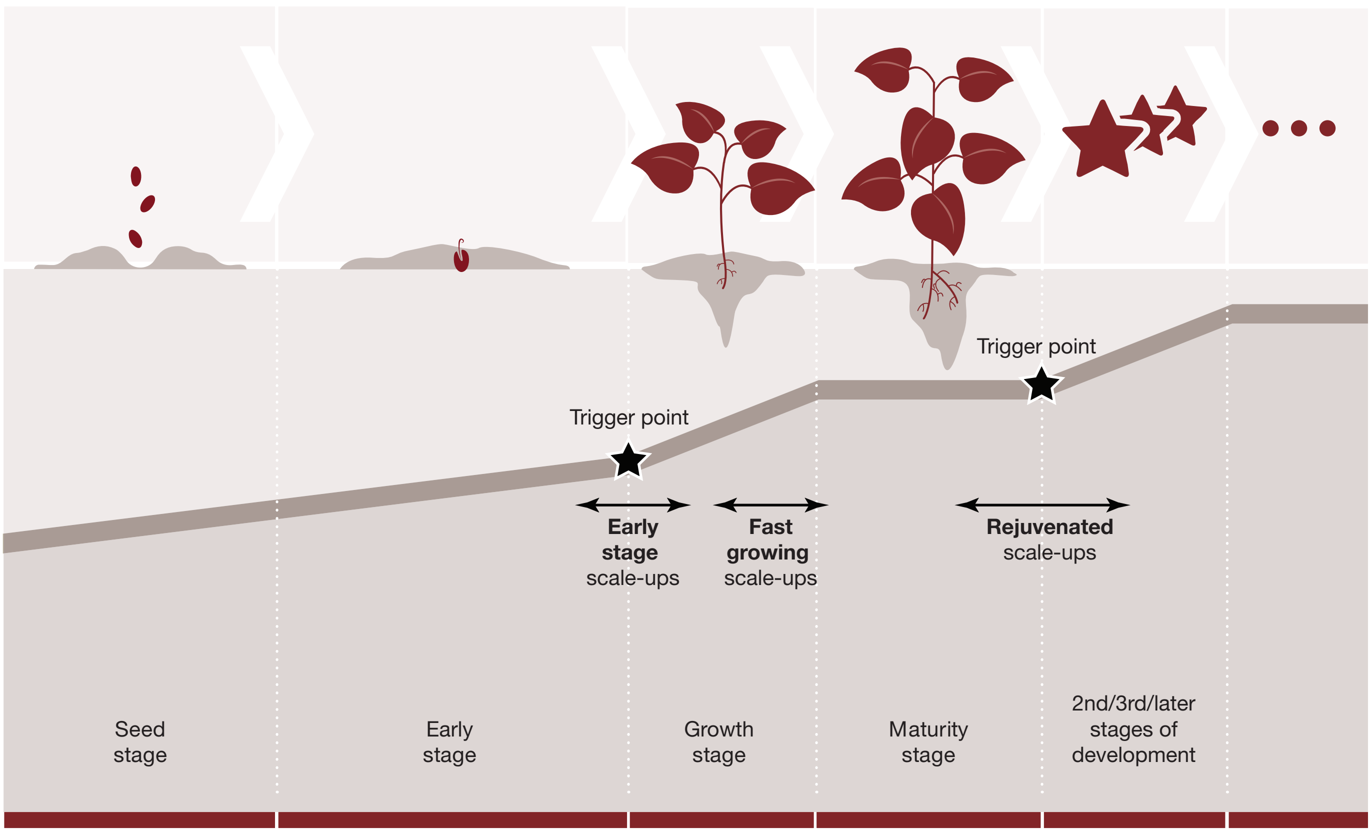
Scale-ups have the potential for fast growth
Scale-ups are companies with a proven business model and are at a pivot point for growth in their life cycle (*see Exhibit 3*). This growth can be triggered by a combination of internal factors, such as the launch of differentiated products, an improved customer experience, an expansion into a new market, an enhanced organizational structure, and improved overall efficiency such as through the adoption of disruptive technologies or supply chain optimization. One example is Dubai-based Platinum Heritage, which expanded from luxury tours into desert safaris, hot-air balloon rides, and private falconry expeditions (which add to the development of the regional tourism ecosystem). Triggers can include external factors, such as regulatory changes, capital injections, technological innovation, or access to large, influential customers. For example, Saudi Arabia-based Glowork, which helps women find jobs, raised funds for female economic empowerment by selling a stake to SAS Holding.

Scale-ups are highly innovative
Other scale-ups hallmarks are high levels of innovation. A study by the Organisation for Economic Co-operation and Development (OECD) states that fast-growing firms are almost twice as likely to innovate as slow-growing firms. This innovation comes in many forms, such as designing ground-breaking products and services, instilling a culture of innovation, and building processes to overcome operational obstacles. For instance, Penelope Shihab, founder of MonoJo (the Jordan Company for Antibody Production) and holder of the trademark Skinue, uses biotechnology to develop patented treatments for skin membrane and gastrointestinal infections.

Exhibit 3

Scale-ups are SMEs that have reached a stage of rapid growth

Positioning of scale-ups along companies' life cycles



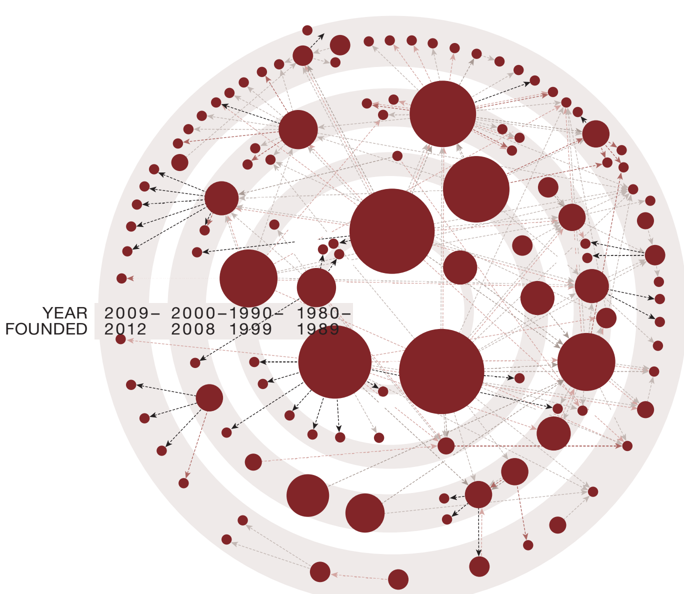
Source: Strategy&

Scale-ups' founders contribute to the entrepreneurship ecosystem
Another characteristic of our definition of a scale-up is the ability of the company's founder to be a visionary entrepreneur, somebody who is supportive of the local entrepreneurial ecosystem. These entrepreneurs are typically active in mentoring, inspiring, financing, and launching new business ventures. According to Endeavor, this is an important characteristic in identifying scale-ups, and it has the potential to create a "multiplier effect" in the entrepreneurship ecosystem. For example, Endeavor's research shows that the nine Jordanian tech companies that were founded between 1980 and 1989 facilitated the rise of 107 companies between 1990 and 2012. Similarly, five Lebanese tech companies contributed to the emergence of up to 80 other tech companies between 2006 and 2016 (*see Exhibit 4*).

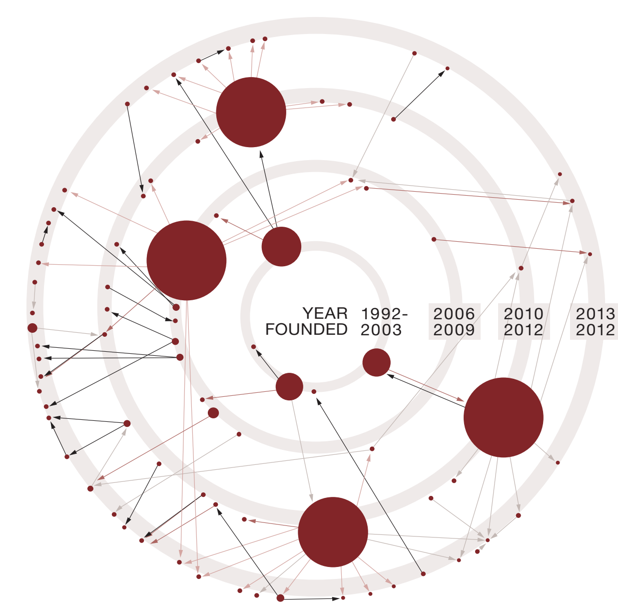
Exhibit 4
Scale-ups' founders significantly contribute to the entrepreneurship ecosystem

Multiplier effect of Endeavor entrepreneurs – tech sector network map in Jordan and Lebanon

In Jordan, between 1990 and 2012, nine companies gave rise to up to 107 companies



In Lebanon, between 2006 and 2016, five companies gave rise to up to 80 companies



Companies:

The size of each bubble reflects the number of connections undertaken by entrepreneurs at each company

Types of connections:

Mentored
Inspired
Invested
Former employee
Founded

Note: Entrepreneurs are represented by their most prominent companies.

Source: Endeavor

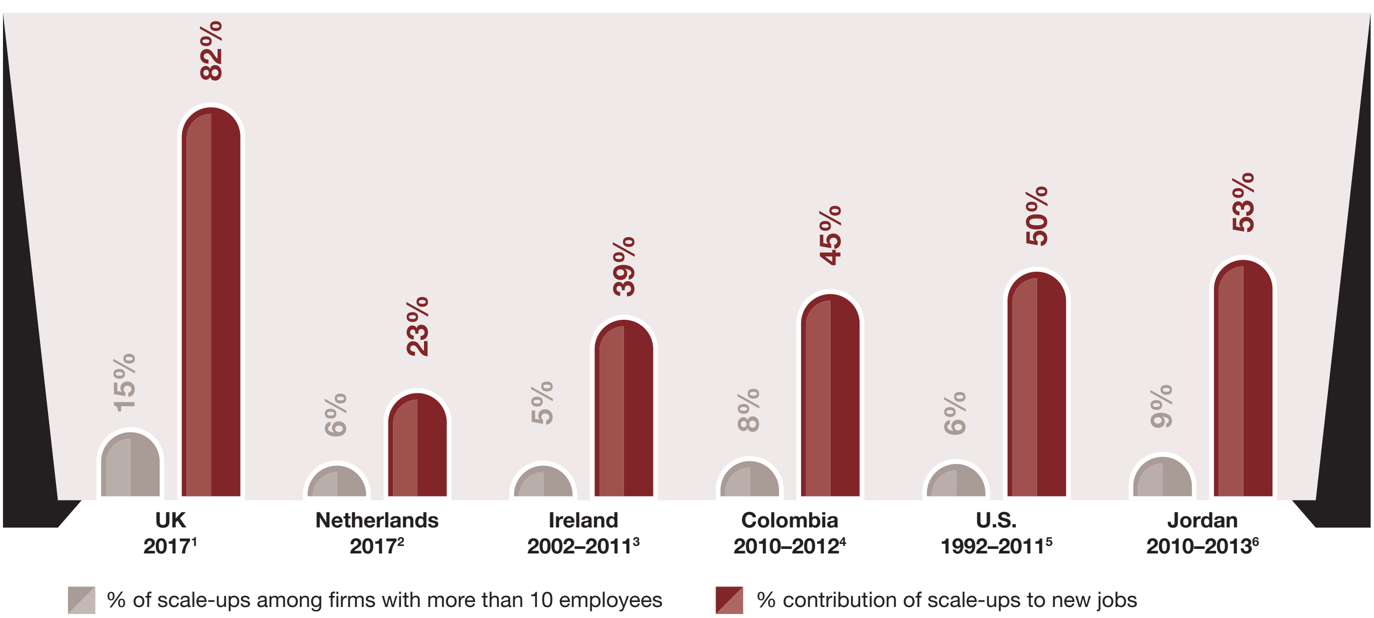
Measuring scale-ups' economic impact

A successful scale-up can have an outsized impact on economic growth. These companies have the potential to drive employment, particularly high-quality jobs, and significantly boost GDP. Looking at the employment angle, such successful scale-ups in the U.S. represented only 6 percent of SMEs between 1992 and 2011, but created 50 percent of all new jobs. There is a similar impact in the MENA region. In Jordan, for example, they contributed 53 percent of total new jobs from 2010 to 2013, even though they represented only 9 percent of all SMEs employing more than 10 people (*see Exhibit 5*). These jobs are often of high quality given the amount of training scale-ups are willing to offer to get the right talent.

Exhibit 5

Scale-ups contribute significantly to the creation of new jobs

Estimates on the job creation potential of scale-ups (in %)



[1] Scaleup Institute, strategy& analysis. [2] Erasmus Center For Entrepreneurship. [3] Forfás Innovation. [4] Endeavor insights. [5] *Journal of Economic Perspectives*, Volume 28, Number 3. [6] Endeavor insights.

Source: Strategy& analysis

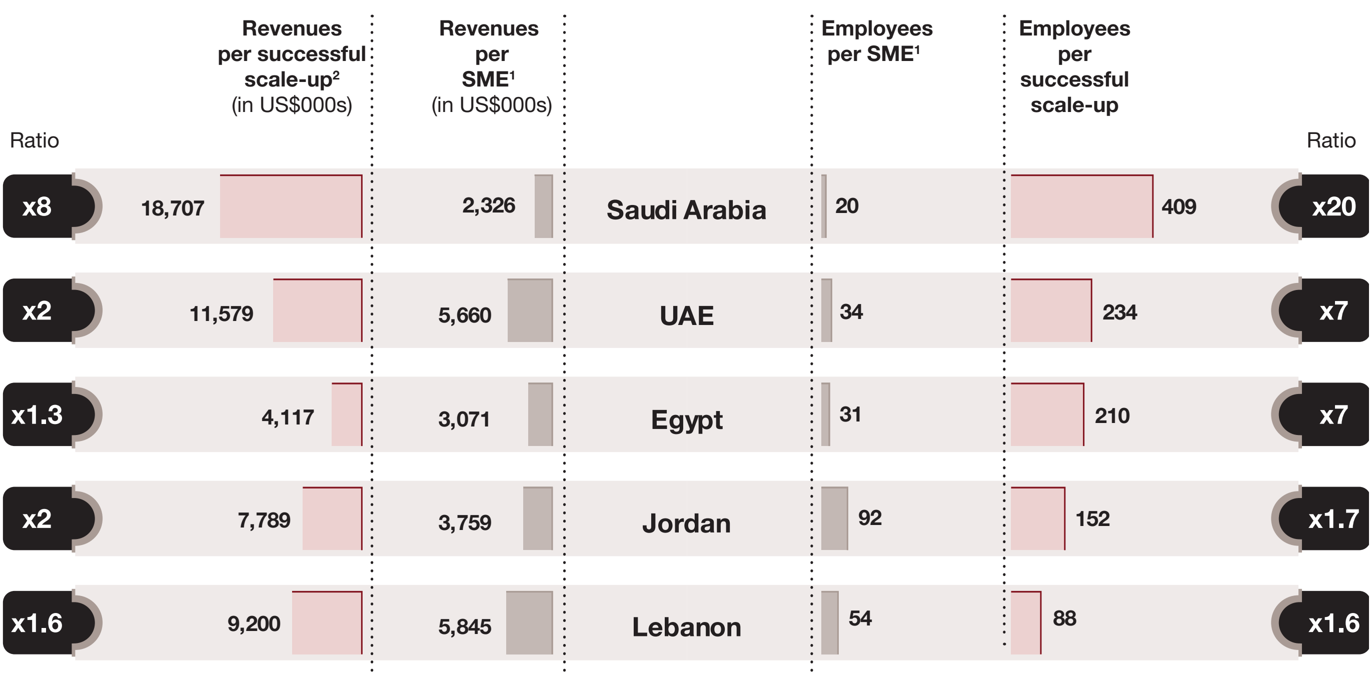
In terms of economic growth, successful scale-ups can boost GDP by driving private-sector revenues. In 2017, successful scale-ups in the U.K. generated 86 times more revenues than micro-firms (companies with fewer than 10 employees) and six times more than regular SMEs, which leads directly to economic growth.[6]

These effects have also been identified in some MENA countries. To be able to measure the scale-ups impact, Strategy& performed a high-level assessment on a sample of Endeavor-assisted scale-ups in the MENA region. Our assessment concluded that, on average, a successful MENA scale-up can generate up to 3.4 times more revenues and 8 times more employment than a company from the regular SME segment, which are firms with 10 to 250 full-time equivalent staff[7] (*see Exhibit 6*). This impact can translate into a significant boost to GDP.

Exhibit 6

Successful scale-ups can boost GDP by generating more revenues and more employment than SMEs

Performance of SMEs versus successful scale-ups in the MENA region[1]



[1] SMEs are companies that have between 10 and 250 employees. [2] We assume that GDP contribution is at 50% of revenues.

Note: Scale-ups data is from 2016, based on Endeavor sample of companies.

Source: Dubai SME report; Lebanon SME Strategy; Jordanian Department of Statistics (2014); Central Agency for Public Mobilisation and Statistics (CAMPAS); Establishment Statistics in AD 2013; Saudi Arabia, General Organization of Social Insurance; Strategy& analysis

The scale-ups readiness index

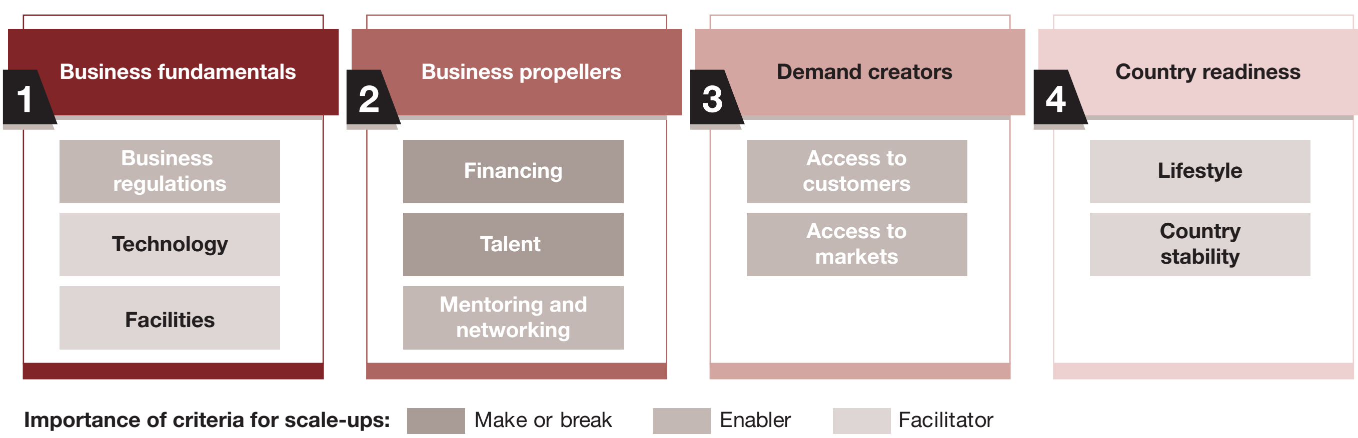
Given the benefits of scale-ups, policymakers and economic planners should pay greater attention to this special breed of company and implement programs that create a healthy scale-ups ecosystem.

To better understand what it takes to support scale-ups effectively, Strategy& Middle East and Endeavor created a scale-ups readiness index to assess the maturity of the scale-ups ecosystem in a given country. This index is based on four key growth pillars that support the broader entrepreneurship ecosystem: business fundamentals, business propellers, demand creators, and country readiness (*see Exhibit 7*). The four pillars each encompass several components, which are further categorized according to their effect on growth. The most important are classed as "make or break," followed by "enablers," and finally, "facilitators."

Exhibit 7

Four growth pillars are key to support the scale-ups ecosystem

Growth pillars with elements ranked by their importance for scale-ups



Source: Strategy&, Endeavor

Based on our comprehensive assessment of global scale-ups efforts, we determined that these are the key requirements for scale-ups' success. The four key growth pillars along with their components are then weighted and turned into the scale-ups readiness index.

Business fundamentals, such as regulations and facilities, are the key elements that enable a company to open and set up operations. Business propellers, such as talent and financing, are the core elements that drive these operations. Demand creators include the different markets where a company sells its products and services. Finally, country readiness is the degree to which a country can aid and facilitate a company's operations by providing political stability and a lifestyle that will attract talented individuals.

Although growth pillars are the same for all companies large and small, their importance and requirements tend to vary among enterprises at different stages of development, such as startups, SMEs, and scale-ups (*see Appendix, page 35*). For example, startups have a pressing need for high-quality IT infrastructure and facilities, while the more mature SMEs have successfully found solutions to these challenges (or they would not have survived), and are facing a different set of growth challenges.

Make or break

The two primary growth drivers are access to finance and access to talent. We refer to these as the make or break elements of the scale-ups ecosystem. In order to grow, a scale-up needs the investments that will allow it to develop new and existing products and services and tap into new markets. Access to funding through a thriving venture capital (VC) and private equity (PE) landscape is critical for growth. According to Fernando Fabre, former president of Endeavor: "Scale-ups in the U.S., U.K., and Germany owe their growth to the healthy investment ecosystem of VCs and PEs."

Meanwhile, it is critical for scale-ups to have access to more sophisticated, specialized, and skilled talent to build an efficient organization structure in areas such as marketing, HR, finance, and technology. Executives need to fill positions with talented people across their organizations — often very quickly. Doing this depends on talent availability within scale-ups' respective national economies and the willingness of these individuals to work for scale-ups.

Enablers
Secondary to finance and talent are the growth enablers, which affect the speed, efficiency, and costs required for scale-ups to achieve their growth ambitions. These include access to new markets or new customer segments. Indeed, for a company to grow properly, it must continuously expand its markets and customer segments to access new clients. Also, exports are critical for growth, particularly if the scale-up's home market is relatively small. Another enabler is to have transparent and stable regulations so that scale-ups can efficiently run their daily operations and launch new products and services. Finally, having access to guidance and mentorships for founders will facilitate management of operations during periods of very rapid growth.

Facilitators
Regardless of the company's stage of development, being able to operate in a stable and healthy economy with an agreeable lifestyle and affordable facilities (office spaces, utilities, etc.) and infrastructure (basic and emerging technology) will also attract entrepreneurs and scale-ups to relocate or start their business. Although these facilitators may seem evident, countries rarely focus on them as areas for improvement.

Malaysia is a good example of a country that undertook extensive efforts to enable the scale-ups ecosystem (*see "The Malaysian approach to developing the scale-ups ecosystem," page 18*).

The Malaysian approach to developing the scale-ups ecosystem

A growing number of countries have started to recognize the value of scale-ups and are putting in place tailored regulations and programs to support the specific needs of these firms. These could be public or government led, as they are in Malaysia and Singapore, or private-sector led, as is the case in the Netherlands and the U.K.

In Malaysia, these initiatives were in the following key areas:

Financing
SME Corporation Malaysia has launched the Business Accelerator Program 2.0 with financial backing from the SME bank. It provides loans for high-growth SMEs of up to 10 years at low interest rates.

Talent
SME Corporation Malaysia's INSKEN500 scale-up program builds entrepreneurialism by "providing comprehensive entrepreneurial skills and knowledge through business counselling, training, consultation and facilitation to empower participants to develop sustainable businesses." It has an allocation of RM7.2 million (US$1.8 million) to scale-up 500 companies.[8]

Regulations
SME Corporation Malaysia, which is managed by the Ministry of International Trade and Industry, is responsible for delegating overall SME policies. The organization is a central reference point for research and data dissemination on SMEs and provides advisory services for SMEs in Malaysia.

Access to customers
The Global Acceleration and Innovation Network (GAIN) program, under the Malaysia Digital Economy Corporation (MDEC), collaborates with media partners and works through various channels to help scale-ups gain credibility, and become better known locally and internationally.

Access to markets
SME Corporation Malaysia launched the Business Accelerator Program 2.0 to help SMEs grow through both local and foreign businesses. Moreover, GAIN connects scale-ups with key stakeholders in targeted markets, and facilitates their participation in business events and conferences.

Mentoring and networking
GAIN offers mentoring, executive learning, and coaching on business fundamentals and strategic growth.

The development of the MENA scale-ups ecosystem

MENA governments and the private sector have significantly increased their focus on entrepreneurship programs and policies, yet there is still room for improvement when it comes to creating mature and well-developed scale-ups ecosystems.

Although scale-ups require similar growth elements everywhere, priorities will vary depending on the characteristics of the existing ecosystem. To identify these needs, we rated the countries across all the dimensions of our scale-ups readiness index and then assessed the maturity of the scale-ups ecosystem along the key growth pillars. The index rating runs from 0 (undeveloped) to 3 (fully developed) (*see Appendix, page 35*). Based on our index, MENA countries rank below average with the exception of the UAE (*see Exhibit 8*).

The UAE

The UAE's scale-ups ecosystem is developing at a faster pace than the rest of the region, driven primarily by Dubai's position as a regional business hub and recent increased focus on SMEs and entrepreneurship.

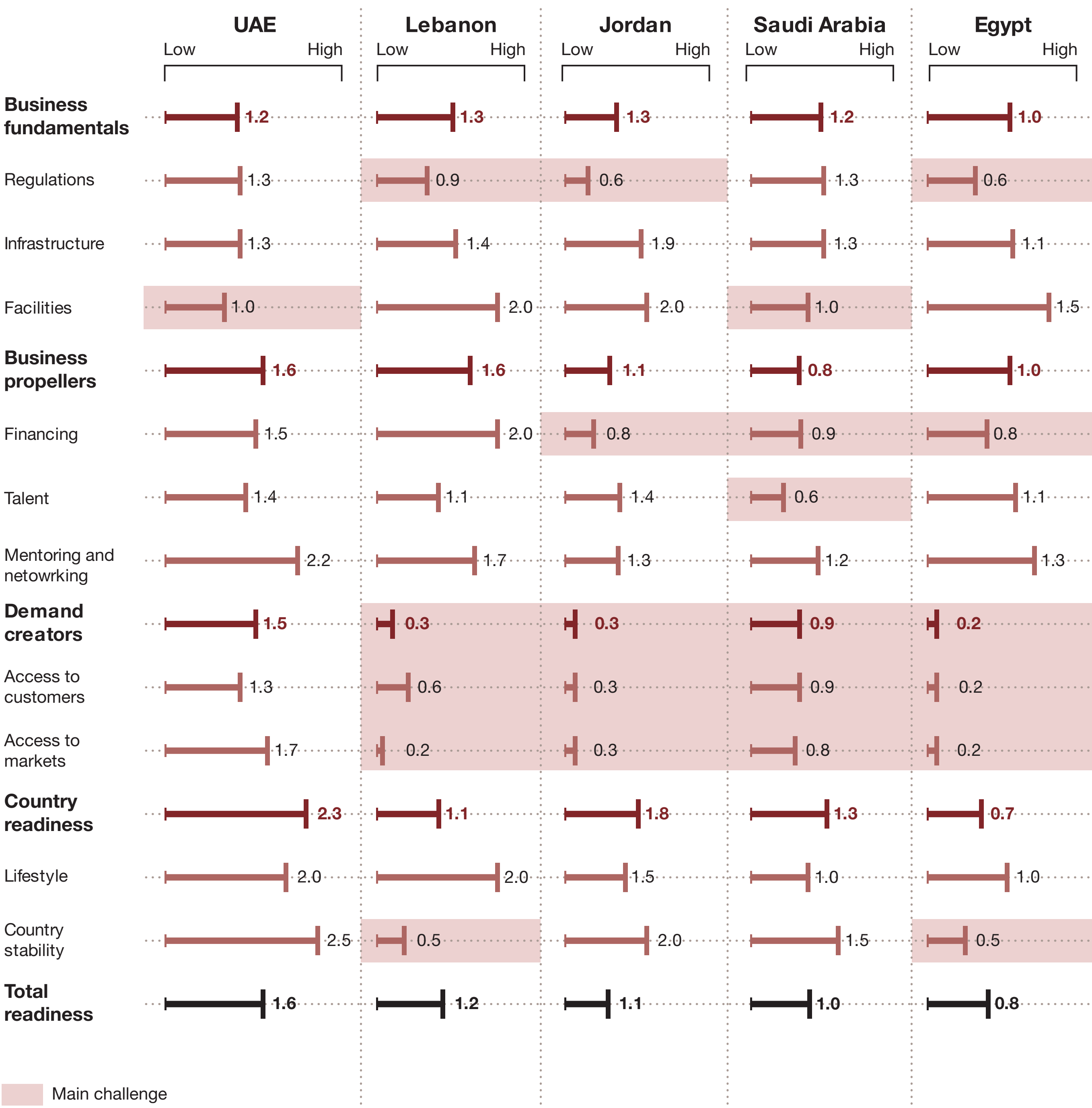
The UAE offers a stable and attractive lifestyle and provides a vast range of mentoring and networking opportunities for entrepreneurs. For instance, the Mohammad Bin Rashid Establishment supports capability development, incubation, networking, market access, and outreach. Consequently, the country attracts many entrepreneurs, including from Egypt, Greece, Jordan, Lebanon, Turkey, and South Africa.

The country also has some initiatives intended specifically to support high-growth-potential companies. Dubai SME, an agency of the Department of Economic Development, launched "Dubai SME 100" to provide mentoring and accreditation to the most promising firms in the country. In addition, through Dubai Exports, the emirate helps SMEs access new markets. Faisal Alshehhi, a specialist at Dubai Exports, notes that "Dubai Exports acts as a mentor to growth firms, providing them with all required information and by guiding them through the different stages of internationalization."

Exhibit 8

MENA scale-ups face a number of challenges, mostly in funding, access to demand, and clear regulations

MENA scale-ups readiness index



Note: The main challenges are selected first on a country perspective (top three challenges), with the challenge critical when compared to other countries in the region or with a score less than 1.

Source: Strategy& analysis

Government funding, VCs, and private equity communities are relatively well developed when compared to other MENA countries; less when compared to developed ecosystems. Most funding in the country is aimed at technology firms and startups. However, large tranches of growth funding are now beginning to emerge. The best examples of such funds include the Mohammed bin Rashid Innovation Fund, the Emirates Development Bank, and the Khalifa Fund. Also, thanks to some recently successful private equity exits, such as Amazon acquiring Souq, investors and entrepreneurs are gaining more confidence to invest in the country.

On the regulatory front, the UAE offers transparent regulations with an efficient application process to start a business — although processes still need some adaptation to accommodate new business models. For example, Platinum Heritage required almost three years to obtain a ballooning license. Adam McEwan, founder of Platinum Heritage, explained, “Regulations are very clear and streamlined in the UAE. However, due to the fact that we have unique and innovative service offerings that did not fit in any of the government’s classifications, we faced a complex and long regulatory process to obtain our licenses.”

A resolution proposed during a UAE cabinet meeting in May 2018 could foster an even friendlier business environment. The government announced new reforms to encourage entrepreneurs, investors, and talent in strategic fields such as science, space, and medicine. These include 10-year visas for professionals and investors, and full foreign ownership of mainland companies — no sponsor required. Exact details have yet to be worked out, but the reforms could be implemented by late 2018.

Other areas of the UAE ecosystem also require development. For instance, the costs of infrastructure and facilities are among the highest in the region. Banks still require substantial collateral and charge high interest rates, making it almost impossible for growth firms to secure loans. Moreover, as in other MENA countries, companies do not have easy access to advanced technology or digital skills. Visas and paperwork are expensive, inconsistent, and sometimes complex.

Other major issues for typically cash-strapped scale-ups are the long payment cycles, bureaucracy, and delays in converting public-sector memoranda of understanding into contracts.

Lebanon
Lebanon benefits from relatively affordable office space and utilities, a well-developed ecosystem of mentoring and networking organizations, and a still-developing financing environment. However, the offerings are more geared toward earlier-stage technology startups, including a number of incubators and accelerators such as Berytech, Speed Lebanon, and UK Lebanon Tech Hub. A new business support unit was established by the Investment Development Authority of Lebanon to support Lebanese startups. Also, Lebanon's mobile operators, known as touch and Alfa, launched a new fund called MIC Ventures to invest in local tech startups.

On the financing front, VC activities are fairly well developed for more established SMEs, with leading players such as Leap Ventures, B&Y Venture Partners, Berytech, and Middle East Venture Partners offering growth funding. Meanwhile, the Banque du Liban (the central bank) facilitates subsidized loans. For instance, the bank's Circular 331 can make up to $400 million available to Lebanese businesses through Lebanese commercial banks. The aim of the program is to facilitate the development of the "knowledge economy" and the creation of more jobs. The country is also attracting multilateral organizations and international donors that provide cheap, long-term financing for SMEs, such as the International Finance Corporation, the European Investment Bank, the Agence Française de Développement, and the European Bank for Reconstruction and Development. Yet, as in other markets, financing for non-tech companies remains challenging.

Furthermore, the country possesses a large pool of skilled talent, yet is suffering from significant levels of "brain drain" as many leave to take higher-paying jobs in the GCC.

Perhaps the greatest challenge for scale-ups is accessing large customers and markets domestically and overseas. There are few government initiatives to promote SME products and services domestically, or to support exports (e.g., information about basic international standards). This is critical given the small size of the domestic market. Local companies must also cope with Lebanon's reputation for poor quality control of exports over the past decades. As a result, scale-ups rely mostly on their personal connections. The opaque regulatory process is also a major hurdle. Endeavor Lebanon today is the only organization to give scale-ups international market access by connecting them to mentors, networks, and talent.

Jordan
Jordan has low-cost facilities of relatively good quality, and an affordable and creative skilled talent base with a culture of entrepreneurship. This makes the country a solid testing ground for startups, whose entrepreneurs also benefit from mentoring and incubation programs in the country.

Another positive development is the number of new investment funds emerging, including the $98 million World Bank–managed Innovative Startups and SMEs Fund (ISSF), bringing total available VC/PE funding and technical support to around $500 million. To date, Jordanian scale-ups and SMEs have relied mostly on regional funds and investors, which lowers their bargaining position. Concurrently, the Central Bank of Jordan is working to improve more traditional SME financing with measures to channel lower-cost funds through the financial system.

Support efforts in the country are generally fragmented, however, and do not address the changing needs of entrepreneurs and their businesses in a comprehensive fashion. Mentoring services are generally not aimed at scale-ups. Scaling remains difficult due to the small local market size, particularly for new and innovative products. It is also expensive and complex for entrepreneurs to enter regional markets. Although there is some sporadic support for SMEs to access new markets, mainly through trade shows and events, these efforts alone are not enough.

The regulatory framework makes doing business and planning ahead difficult because of frequent changes in policy and taxation. Reform efforts are moving slowly, but have recently included important legislation involving the bankruptcy law and secured lending law. There has been an important amendment to the companies law to allow VC and PE investors to set up funds in Jordan.

Saudi Arabia
The government of Saudi Arabia is pursuing reforms that aim to benefit scale-ups and catalyze the entire entrepreneurship ecosystem. For instance, in the realm of regulation, the government has charged the Council of Economic Affairs' Executive Committee for Improving the Performance of the Private Sector (Tayseer) with making it easier for the private sector to conduct business. To this end, the government has introduced a "one-stop-shop" portal to help entrepreneurs navigate regulations and launch new businesses. In addition, the government is offering subsidized licenses for entrepreneurs to set up in the country.

The government is also supporting growth companies with mentorship programs and access to big customers. Although still in its early stages, Monsha'at (the Small and Medium Enterprise Administration) has signed agreements with several large companies, such as the telecom incumbent Saudi Telecom, to allocate 15 percent of their procurement spending to SMEs. On the export front, the Ministry of Economy and Planning is working on a "National Champions Program" to help scale-ups access the export market. Unfortunately, scale-ups still have little, if any, access to government contracts. Also, recent changes that have removed subsidies and introduced taxes have created financial pressures for some scale-ups.

Despite these advances, scale-ups in Saudi Arabia face two significant challenges. First, it is very difficult to attract the right talent. Saudi nationals still prefer the security and salaries of the public sector, which forces many scale-ups to hire expensive expatriates. To build up the local talent pool, the Prince Mohammed bin Salman bin Abdulaziz Foundation (MiSK), has several programs, in partnership with global players, to provide training opportunities for Saudi citizens in different fields.

Second, companies struggle to get financing because the PE and VC communities are not well developed. There are still few bank funding options. As a result, entrepreneurs rely on family/friends and family business funds for financing. However, the Ministry of Finance's Kafala Program is seeking to address this problem by increasing commercial banks' funding of SMEs.

Egypt

In Egypt, the scale-ups ecosystem is rapidly developing. The country's key advantages are low-cost facilities and infrastructure, and access to affordable quality talent.

Mentoring and coaching for entrepreneurs are growing, and networking events are more common now. These include Rise Up Summit, Techne Summit, Techne Drift, Hult Prize, hackathons, and mentor-matching events. Such events bring together entrepreneurs, the world's leading companies, financial players, public-sector players, and consultants to provide entrepreneurs with the chance to network and find the right support. However, the focus of these events remains on startups.

Although the financing ecosystem is gradually improving, the VC presence is still slight and mostly focused on technology startups. The Egyptian government has created Egypt Ventures, a company for entrepreneurship and investment, to make direct and indirect investments in startups and emerging firms. Generally, the equity options for scale-ups remain limited. However, local VCs are setting up shop, and a new Central Bank of Egypt initiative is slowly but surely assisting SMEs. The Central Bank launched a program to finance 350,000 SMEs with $22.5 billion from 2016 to 2020, and ordered banks to commit 20 percent of their loan portfolios to SMEs. The growing availability of funding in Egypt reflects the improved funding ecosystem in the MENA region as a whole (*see "The funding ecosystem in the MENA region," page 25*).

Despite progress, there are entrenched challenges for scale-ups, particularly with accessing large customers and navigating the regulatory environment — which is often described as opaque, complex, inconsistent, and an impediment to growth. The government does not offer programs or information about regional and global opportunities that could help scale-ups boost exports. The government and large companies are also less inclined to work together than in some other countries to support emergent businesses.

The funding ecosystem in the MENA region

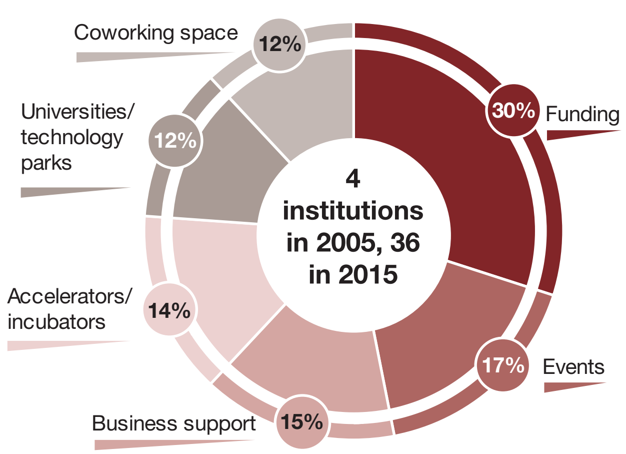
In recent years, there have been significant improvements in funding for SMEs in the MENA region. For example, from 2012 to March 2018, the number of funds investing in technology in the MENA region grew from 51 to 199 (*see Exhibit 9*). The region also acquired about 44 incubators and technology parks and 36 venture capital (VC) funds over the same period.[11] The most active players include 500 Startups and Middle East Venture Partners.

Exhibit 9

The MENA entrepreneurship ecosystem and funding have developed rapidly in the last 15 years

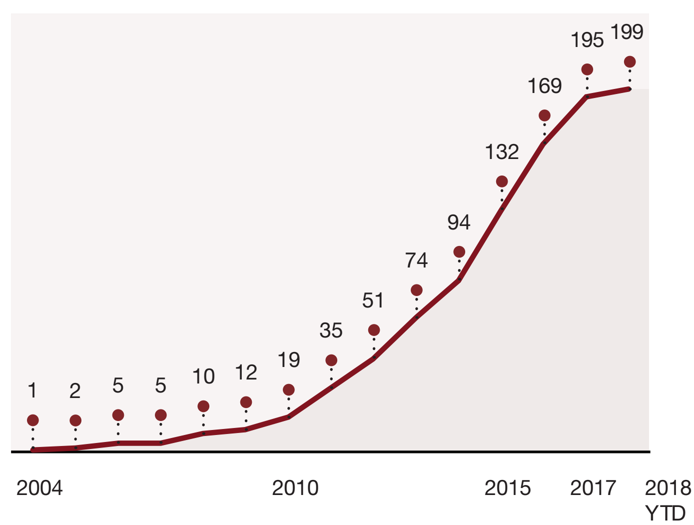
Active entrepreneurship ecosystem

Split of entrepreneurship support institutions (Saudi Arabia, 2017)[1]



Increased funding for SMEs

Cumulative number of tech investors in the MENA region[2] (2017)



[1] "The Kingdom of Saudi Arabia: Status of the entrepreneurship ecosystem," Wamda Research, June 2017. [2] "The state of digital investments in MENA 2013–2017," Arabnet.

Source: Wamda; Arabnet

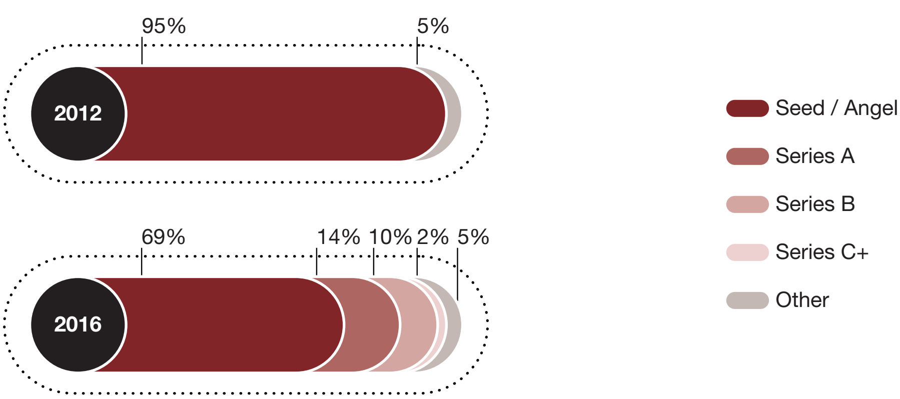
Despite this rapid development, funding is still focused on the early stages of businesses. This means many businesses cannot obtain the financing needed for the rapid growth that characterizes scale-ups. However, the funding ecosystem is becoming more sophisticated. More sources of growth capital (late-stage funding such as series B and C equity rounds) have begun to emerge, with the UAE leading the way (*see Exhibit 10*).

Exhibit 10

Funds are focused on seed stage and series A, with the UAE leading the way in growth funding for scale-ups

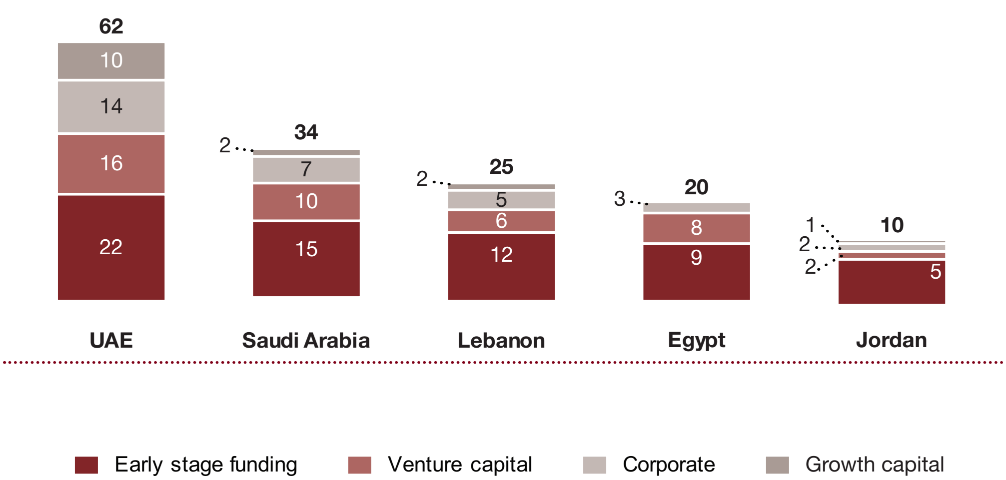
Rising focus on growth funding

MENA investors' private market activity in MENA by stage[1]



The UAE is leading the way

Number of investors by stage in 2017[2]



[1] CB Insights, "MENA Investment Trend." [2] 2017 MENA Venture Report, MENAbytes.

Source: CB Insights; MENAbytes; "The state of digital investments in MENA 2013–2017," Arabnet

Key priorities for a flourishing scale-ups ecosystem

There are seven key areas that all MENA countries should focus on to support the scale-ups ecosystem: access to financing, access to talent, access to foreign markets, access to large customers, access to clear and transparent regulations, access to better facilities and infrastructure, and access to networking and coaching opportunities. These challenges apply to each country to varying degrees. For example, access to facilities and networking are both important requirements for Saudi Arabia.

Access to financing
As mentioned previously, scale-ups require access to large investments that will allow them to develop their products/services and enter new markets. Therefore, a thriving VC/PE landscape is vital for the growth of a scale-up. Governments can help by ensuring laws and regulations are in place that encourage VC/PE firms to set up operations in the country.

Governments can also create a "fund of funds" to attract foreign funds and create a much larger pool of financing that local entrepreneurs can access with more ease. Governments can provide financial or regulatory incentives for VCs and PE funds to invest in high-growth companies, and incentives for banks to offer loans with low interest rates or no collateral. For example, Invest Northern Ireland developed six funds totaling more than £184 million ($240 million) to help companies with high-growth potential. One of these funds, the £50 million ($65 million) Growth Loan Fund, provides unsecured loans to SMEs that show strong growth and export potential.[9]

Other ways to stimulate scale-ups funding include: setting up sovereign funds (state-owned investment funds that invest in real and financial assets) or co-investment funds with private investors to offer second and third rounds of funding (usually with higher value than first rounds of funding) to scale-ups, which are often looking for cash infusions of $5 million or more. For example, the state-owned British Business Bank operates the Enterprise Capital Funds, which combine private and public money to make equity investments in high-growth firms.

Access to talent
As scale-ups grow, executives need to fill positions across their organizations — often very quickly. Besides business development, marketing, human resources, etc., companies in all industries increasingly need access to highly skilled technical resources at the junior and senior levels.

The private sector, particularly universities, businesses, and associations, can help by partnering with leading technology firms to offer digital training programs for students and employees. For example, Google Digital Garage works with organizations in the U.K. including the chambers of commerce, local enterprise partnerships, and job centers to provide free digital skills training and assistance.

MENA governments could also support scale-ups by connecting them with students and promoting scale-ups opportunities in universities. When talent is not available locally, governments should make hiring international talent easier by streamlining visa procedures for highly skilled migrants, and offering grants for specialized high-level trainings, capability development programs, and subsidies to recruit specific talent.

When barriers to recruiting talent or firing existing employees are too high, scale-ups may simply relocate. Hind Hobeika, founder of Instabeat, was the first to design goggles that measure and track swimming performance. She offers a cautionary tale: "I relocated my business from Lebanon to the U.S. because it was very hard for me to find the right talent, as I needed skilled and advanced tech talent in hardware and software development to support in the design and manufacturing of the goggles."

Access to foreign markets
For a company to grow, it must continuously expand its markets to access new clients. Exports are critical for growth, particularly if the scale-up's home market is relatively small (e.g., Lebanon, Jordan, and the UAE). MENA countries can support exports by offering mentoring and information sessions to executives on how to access foreign markets, facilitating foreign partnerships, and organizing trade exhibitions and events. Governments could also provide subsidies and/or tax exemptions for companies to set up international branches.

For example, the Global Company Partnership Grant, offered by Enterprise Singapore, supports internationalization efforts by subsidizing costs of overseas expansion, including capability building, market access, and employment.[10] In Spain, the government covers up to 50 percent of the costs of setting up branches outside the EU.

Furthermore, in Ireland, the Go Global 4 Growth Program organized by Enterprise Ireland and the DCU Business School offer customized executive education programs to help companies grow globally. In addition to country-specific initiatives, the region should work toward reducing cross-border market barriers. Today, MENA scale-ups often face significant regulatory hurdles when trying to do business in neighboring countries, particularly in the largest two markets: Egypt and Saudi Arabia.

Access to large customers

To take their growth to the next level, most companies need to win contracts with government agencies or large companies. However, there is a significant barrier. Large firms often have well-established relationships with suppliers and partners, making them disinclined to experiment with scale-ups.

Governments could try stimulating an appetite for scale-ups' products and services by providing subsidies or other incentives to large firms that buy goods and services from scale-ups. Or governments could even require large companies to allocate part of their business to SMEs.

The public and private sectors can also help raise awareness among large firms and scale-ups by organizing networking events for buyers and sellers. In Ireland, for instance, Enterprise Ireland raises awareness and connects local suppliers to public-sector projects through "meet the buyer" events.

Governments should also consider becoming customers themselves to support scale-ups directly and set an example for the private sector. If they do, they should reduce delays in converting memoranda of understanding or letters of intent into contracts, divide big tenders into smaller segments so that scale-ups can participate, and speed up payment cycles so that scale-ups can maintain a stable cash flow.

Access to clear and transparent regulations
Scale-ups need clear, transparent regulations so they can efficiently run their daily operations and launch new products and services. With this in mind, MENA countries should work to simplify all processes — from opening, to operating, to closing the business. For example, the Estonian government streamlined the process of opening a company by allowing holders of an Estonian ID card or e-Residency card to establish a private limited company online in about three hours.

Governments could improve transparency by digitizing and automating processes related to legal and regulatory issues for companies so that these become more transparent and easier for small businesses to operate. They could also offer advisory support and contacts to guide entrepreneurs throughout the process. For instance, the Utrecht City In Business in the Netherlands provides regulatory guidance by pointing entrepreneurs to the right contacts and providing advice on procedures.

Finally, governments and the private sector should find ways to work together to improve the regulatory climate and design pro-growth policies. For example, in London, the ScaleUp Institute is a private initiative that collaborates with policymakers, corporations, and academia to build a supportive policy environment.

Access to better facilities and infrastructure
Many countries need to renew efforts to improve their facilities (offices, utilities, etc.) and technology-related infrastructure to ensure a low-cost and high-quality setup. This is a particular challenge in Lebanon, Saudi Arabia, and the UAE. One way to accomplish this is through dedicated locations. An example is the Google campus in London, which provides top-notch technology infrastructure.

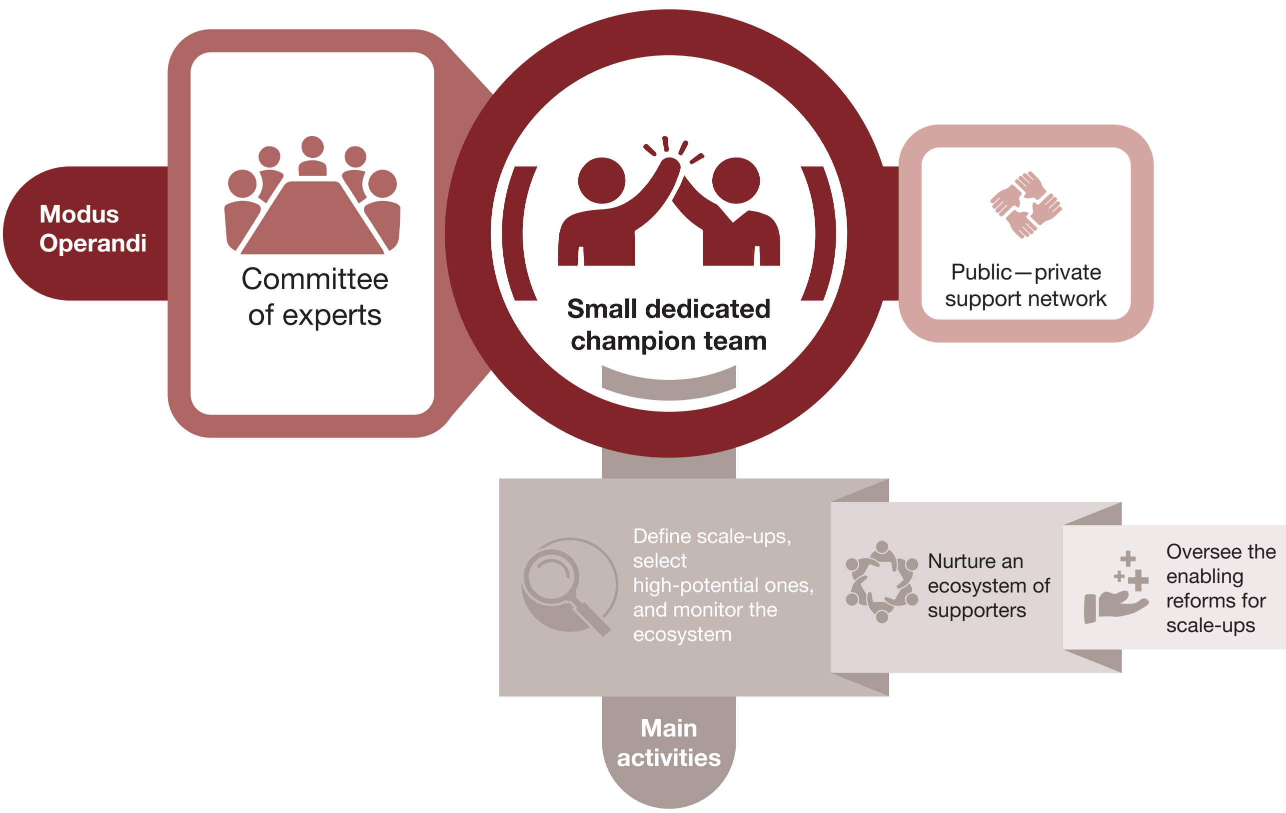
Access to networking and coaching opportunities
All countries, in particular Jordan and Saudi Arabia, would benefit from strengthening their networking ecosystem and providing mentoring and scale-ups programs to entrepreneurs. For instance, Invest Northern Ireland runs a Leadership Team Program focused on helping firms grow their businesses. It combines world-class executive education modules, specialist business coaching, and shared learning through peer networks.

Creating the scale-ups support network

To promote scale-ups, each MENA country should designate a champion to lead its scale-ups strategy, which will include defining, nurturing, and sustaining the scale-ups ecosystem (*see Exhibit 11*). In each country, this champion may take a different form. It may be public, private, or a collaboration of both.

Exhibit 11
A champion for the scale-ups' strategy will be key to guarantee the implementation of these initiatives

Overview of the "scale-ups champion"



Source: Strategy&

The scale-ups champion will be composed of a small and nimble team. The team's first task is to define scale-ups and gather the information required for identifying them within the country. This will enable the team to select the most promising scale-ups in order to provide them with individualized support. This effort will be periodically repeated to ensure up-to-date numbers are maintained as scale-ups grow. Then, it should advocate policies and reforms to improve the ecosystem, oversee the implementation of programs, and monitor and report on the progress of individual scale-ups and the ecosystem's development.

In addition, the team must mobilize a constellation of private and public players, by establishing partnerships with them across diverse fields of expertise, to support and nurture the scale-ups ecosystem. These players include central banks, ministries, banks, VCs, PEs, accelerators, civic organizations, and academia (*see Exhibit 12*).

Finally, a committee of experts should provide oversight and governance for this champion, providing approvals and expert advice when needed.

One such example of a champion is the ScaleUp Institute in the U.K., a privately owned, non-profit organization that collaborates with policymakers, corporations, and academia. The Institute's activities include researching and monitoring the ecosystem, understanding the changing needs of scale-ups, promoting growth initiatives, and providing input on policies. It works closely with the U.K. government on developing action plans, and publishes an "Annual Scale-up Review" that has become the main resource for the ecosystem.

Exhibit 12
Public–private partnerships are vital to deliver policy reforms and programs across growth pillars

Public–private support network

Source: Strategy&

Conclusion

MENA countries need to encourage growth and enterprise, and providing scale-ups with appropriate support is a promising route to those goals. Focusing on these relatively few companies would require only modest additional cost and effort; yet scale-ups will have an outsized impact on jobs and GDP, easing the pressing economic issues that MENA countries are confronting today. Organizing the private and public stakeholders to create and nurture a flourishing scale-ups ecosystem will take planning and determination, but these future growth engines warrant close attention and targeted policy reforms.

Appendix

Strategy& Middle East developed a scale-ups readiness index to assess the state of the scale-ups ecosystem in MENA countries and their needs for development. The index was built on the basis of interviews and research. The index takes the four pillars of the scale-ups ecosystem (business fundamentals, business propellers, demand creators, and country readiness) and breaks them down into their components, each of which is then allocated a score.

Scale-ups readiness index methodology: breakdown and ratings rationale

Scale-ups readiness index components and scoring

Component	Sub-component	Scoring			
		0	1	2	3
Business fundamentals					
Business regulations	Availability of required regulations	Outdated – non-SME focused	Incomplete regulations; with gaps	Relatively complete regulations for SMEs	Complete and SME-friendly regulations
	Clarity and efficiency of regulations/ processes	Opaque, lengthy, and unpredictable	Not very clear process or lengthy but predictable	Information available at targeted entity, efficiency depends on nature of activity	Updated Information through an OSS; streamlined process
	Affordability of public processes	Not affordable/ corrupted for SMEs	Relatively expensive	Acceptable/ affordable costs	Affordable and tailored for SMEs
	Optimization and transparency of custom policies and processes	Process/fees not well defined	Unpredictable; process/fees differ by product	Unpredictable process; fixed and clear fees	Transparent/clear process and fees
Technology	Access to quality/reliable technology	Unavailable basic IT infrastructure	Available basic IT infrastructure	Partially available emerging tech	Available state-of-the-art technology
	Affordability of technology	Very expensive access	Expensive	Affordable for basic technology	Affordable for basic and emerging technology
Facilities	Affordability of setting up basic operations	Very expensive to set up office	Affordable only in remote areas	Affordable with range of options	Cheap and flexible office set-up options
	Affordability of utilities	Very expensive	Expensive	Affordable	Highly affordable

Note: OSS = One stop shop

Index breakdown and ratings rationale

Scale-ups readiness index components and scoring

Component	Sub-component	Scoring			
		0	1	2	3
Business propellers					
Financing	Availability of a range of financing product offerings	Lack of basic financing options	Partially developed — basic financing	Partially developed — few advanced options	Developed; range of financing offerings
	Access to VC and PE funding ecosystem	Absent VC/PE options	Limited options with complex processes	Improving and increasing accessibility	Fully developed and accessible across sectors
	Accessibility and affordability of debt financing	Unavailable for SMEs	Available with high interest and collateral required	Available and affordable for some sectors	Well developed; targeted programs
	Availability of government support in facilitating access to finance	No efforts from government	Basic monitoring of financing ecosystem by government entity	Efforts to facilitate lending and make available financing options	Incentives to support scale-ups funding
Talent	Availability of general management talent	Unavailable general management national talent	Available but hard to retain local talent	Available talent; or high reliance on expats	Available and easy to retain local talent
	Availability of technical/sophisticated talent	Unavailable tech/skilled national talent	Available but hard to retain local talent	Available talent; or high reliance on expats	Available and easy to retain local talent
	Availability of operational/low-skilled talent	Unavailable operational national talent	Available but hard to retain local talent	Available talent; or high reliance on expats	Available and easy to retain local talent
	Affordability and ease of recruiting new talent	Complex and costly to hire talent	Lengthy/ unpredictable process	Affordable process	Easy and cheap access to talent (local and expats)
Mentoring and networking	Availability of coaching/mentoring programs for established businesses	Lack of coaching/ support programs	Some private-sector coaching/ mentoring programs available	Some public-sector-led coaching/mentoring programs available	One-stop-shop platform for mentoring/coaching
	Accessibility of networks for more established businesses and potential partners/contacts	Lack of networking efforts	Some private-sector networking efforts available	Some public-sector-led networking efforts available	One-stop-shop platform for networking
	Availability of events/forums/ conferences to support scaling up	Lack of events/ forums	Few events/ conferences targeting scale-ups	Frequent events/ forums targeting scale-ups and SMEs	Available events/ forums targeting scale-ups

Index breakdown and ratings rationale

Scale-ups readiness index components and scoring

Component	Sub-component	Scoring			
		0	1	2	3
Demand creators					
Access to customers	Access to public entities/large companies as clients	No willingness to work with smaller companies	Few efforts to incentivize support of smaller firms	Available support programs from government/large firms	Culture of targeting new/smaller firms
	Availability of policies/programs to enable access to government/large customers	Lack of efforts to facilitate access to public procurement/large companies	Minor efforts to facilitate access to public procurement/large companies	Advanced efforts to facilitate access	Extensive and continuous efforts to facilitate access
	Accessibility of individual customers	Lack of trust in new/less-established brands	Preference for bigger brands	Interest in new/local products in some sectors	Culture of supporting new/local entities
Access to markets	Enforcement of international trade standards	No alignment with int'l standards	Policies in line; yet not enforced	Policies in line; partially enforced	Coordination with other regions/full enforcement
	Availability of support to access potential partners for import/export/distribution	Lack of export support	Sporadic government efforts	Available government support; yet limited range of services	Available and overarching government support for exports
Country readiness					
Lifestyle	Country's agreeable lifestyle (access to culture, city life, events, entertainment, restaurants, night life, etc.)	Restrictive/unattractive lifestyle	Restrictive; with national plans to improve it	Convenient and easy lifestyle	Well developed and attractive quality of life
Country stability	Country's political and economic stability	Unstable political/economic situation; with unexpected events	Relatively unstable political front	Relatively unstable economic front	Stable and well developed

Endnotes

[1] Term coined by Verne Harnish. Verne Harnish and the team at Gazelles, *Scaling Up: How a Few Companies Make It...and Why the Rest Don't* (Gazelles, Inc.), 2014.

[2] Term coined by the OECD and Nesta to refer to scale-ups; M. Anyadike-Danes, K. Bonner, M. Hart, and C. Mason, "Measuring business growth: High-growth firms and their contribution to employment in the UK,"Nesta, 2009.

[3] Ross Brown, Colin Mason, and Suzanne Mawson, "Increasing 'The Vital 6 Percent': Designing Effective Public Policy to Support High Growth Firms," Nesta Working Paper No. 14/01, 2014, page 9 (https://media.nesta.org.uk/documents/working_paper_-_increasing_the_vital_6_percent.pdf#page=11).

[4] Zoltan J. Acs, William Parsons, and Spencer Tracy, "High-Impact Firms: Gazelles Revisited," Office of Advocacy of the US Small Business Administration (SBA), June 2008, page 1 (https://www.researchgate.net/publication/267218946_High-Impact_Firms_Gazelles_Revisited).

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[6] Micro-firms and SMEs from Eurostat SBS Database, 2017 (https://ec.europa.eu/eurostat/web/structural-business-statistics/data/database); scale-ups number from the ScaleUp Institute's 2017 index (https://about.beauhurst.com/research/scaleup-index).

[7] Strategy& analysis, based on respective countries' national statistics and Endeavor scale-ups' performance.

[8] SME Corporation Malaysia, Secretariat to the National SME Development Council, "SME Annual Report 2016/2017," Chapter 5: "SME and Entrepreneurship Development Programmes in 2017" (http://www.smecorp.gov.my/images/SMEAR/Chapter5.pdf#page=4).

[9] Mike McKerr, "Invest NI's Access to Finance portfolio spurs growth in local businesses," Invest Northern Ireland, 6 March 2018 (https://www.investni.com/features/invest-ni-access-to-finance-portfolio-spurs-growth-in-local-businesses.html).

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[11] "The Kingdom of Saudi Arabia: Status of the entrepreneurship ecosystem," Wamda Research, 12 June 2017 (https://www.wamda.com/research/kingdom-saudi-arabia-status-entrepreneurship-ecosystem); "The state of digital investments in MENA 2013–2017," arabnet business intelligence, 3rd edition, in partnership with Dubai SME, page 12 (http://sme.ae/StudiesAndResearchDocument/The-State-of-Digital-Investments-in-MENA-2013-2017.pdf).

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