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ABU DHABI CHAMBER

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Entrepreneurship in Abu Dhabi

June 2019

In association with IHS Markit

Dear reader

The subject of entrepreneurship is a recurring hot topic in Abu Dhabi. Rightly so, it is regarded as the best way toward further economic diversification and shifting the focus away from oil. Recently, the Abu Dhabi Chamber and IHS Markit published a policy brief on the matter, including policy recommendations. This follow-up sector report comprehensively distills the arguments in the debate and provides a status update for entrepreneurs in Abu Dhabi.

This report benefits from a truly global perspective and insights into best practices. Examples from other countries, including the US, are featured on the following pages to compare with conditions in place in Abu Dhabi and the Arab region. We reinforce the debate around the level of entrepreneurial activity while nearly all necessary ingredients for successful entrepreneurial culture are in place in Abu Dhabi—including new innovations, incubators and other facilities, international university campuses, and a sprawling urban upper middle-class population ready to spend.

The Abu Dhabi Chamber has accumulated a wealth of experience in supporting entrepreneurs and related activity in the country. The Chamber provides support through various mechanisms, including advice on business plans, tracking down and winning tenders, strategic consulting, dealing with authorities, supporting finances in the form of guarantees, and more. We describe and assess the Chamber's activities in more detail in the latter pages of this report.

However, the level of research and development spending in Abu Dhabi is still relatively low. The government's commitment to increase that level is therefore commendable. Moreover, although entrepreneurial activity is well regarded in Abu Dhabi, the share of "part-time" entrepreneurs is high. Risks of failure still too often outweigh chances of success, and many entrepreneurs maintain a safety cushion in the form of a regular job. However, this prevents the entrepreneur from focusing solely on the subject matter of the start-up and limits its potential.

This report would like to contribute measures to give entrepreneurship in Abu Dhabi a fresh stimulus. The overwhelming majority of the Abu Dhabi Chamber of Commerce and Industry's members are small-and medium-sized enterprises. Since many of those companies are start-ups and create value and jobs from scratch, this report is of high relevance for the Chamber and its members.

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Key Sector Permissions Coordinator
Main Building of Abu Dhabi Chamber
Corniche Rd., P.O.Box 662
Tel + 971 2 6214000
Fax + 971 2 6215867
E-mail: contact.us@adcci.gov.ae
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Entrepreneurship is a key driver of economic growth, with the ability to level the playing field across emerging and advanced economies. For Abu Dhabi, entrepreneurs are natural allies of the emirate's drive toward economic diversification. Creating a successful business from scratch is arguably the smartest way to diversify and grow—and support prosperity in the private sector.

The current era of heightened globalization and digitization has enabled more individuals to pursue entrepreneurship, fostering innovation and advancement in a variety of sectors. Although, the ever-changing global economy suggests that entrepreneurship must also be constantly changing. According to Babson College, a forerunner on entrepreneurship in the United States and globally, "the world keeps changing and as it does, so must our definition of who an entrepreneur is and what skills he or she needs to make an impact. In the past, entrepreneurs were seen as lone visionaries; today, teams, divisions, even whole enterprises are striving to be more entrepreneurial."

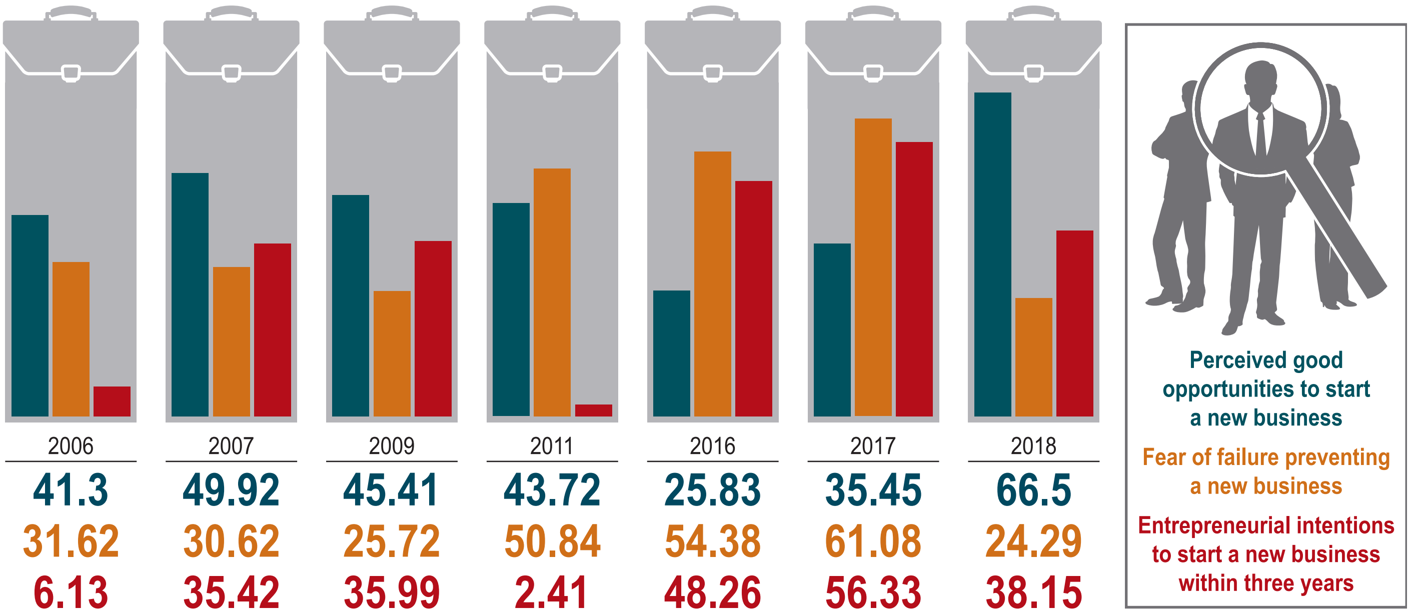
Generally, entrepreneurship and self-employment go together, but working independently is not the only characteristic of an entrepreneur. Innovation and leadership—and finding a way to create and manage a business around a specific idea—are inherent in all entrepreneurs. Anyone from a home-based business owner to an online tycoon or inventor fits under the entrepreneur umbrella; although, the most successful entrepreneurs tend to share similar traits such as creative and independent thinking, tenacity, vital problem-solving skills, and the ability to monetize an idea, among others.

Entrepreneurship is also becoming more diverse, albeit slowly. Given that most entrepreneurs need some cash to get started, the inherent bias is that the wealthier entrepreneurs with more connections in the business world tend to be more successful. Furthermore, according to the Kauffman Foundation, a non-profit organization that encourages entrepreneurship, investment is very regional: in the US, more than 75% of venture capital loans in 2016 went to just three states (New York, Massachusetts, and California), with less than 1% going to rural areas. Moreover, only about 2% of venture capital in the US was invested in female entrepreneurs and just 1% to African-American and Latino businesses.

The Global Entrepreneurship Monitor

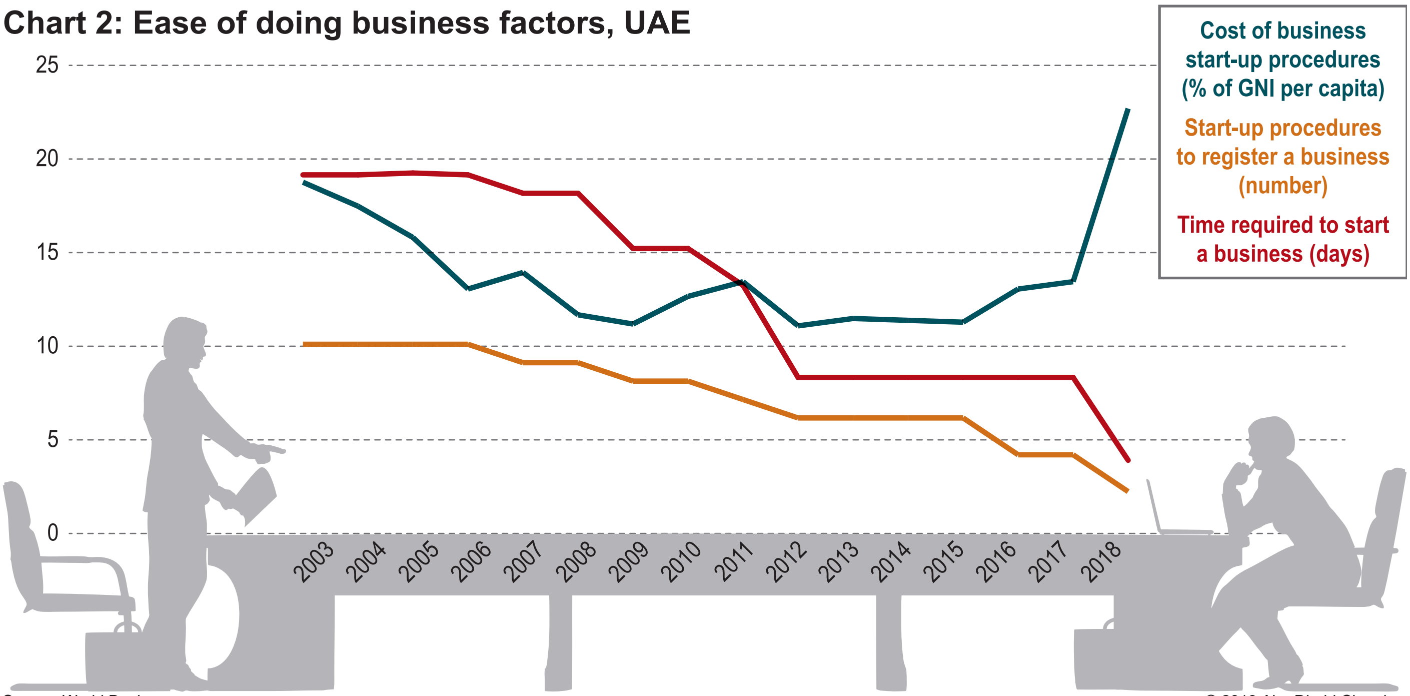
"The world keeps changing and as it does, so must our definition of who an entrepreneur is and what skills he or she needs to make an impact. In the past, entrepreneurs were seen as lone visionaries; today, teams, divisions, even whole enterprises are striving to be more entrepreneurial."

Chart 1: UAE entrepreneurial perceptions (% of 18-to-64-year-old population)



Source: GEM

Chart 2: Ease of doing business factors, UAE



Source: World Bank

33

UAE's rank in the country list of entrepreneurship activity

(GEM), introduced in 1999 by Babson College and the London Business School, is a world-renowned research program studying "the behavior of individuals with respect to starting and managing a business." As the world's largest study of entrepreneurs, the data cover nearly 70% of the global population and 85% of total GDP.

The US has a reputation for being an entrepreneurial hotbed. According to the GEM, there are nearly 25 million entrepreneurs in the US (about 7.7% of the population). Most American entrepreneurs are driven by opportunity (rather than necessity), and slightly more than half of Americans see good opportunities to start a business. This outlook is more encouraging than those of most other economies studied, where only about 40% on average perceive opportunities around them to start a business. Compared with some other nations, entrepreneurship in the United States is more active in the slightly older age group of individuals between 35 and 44 years, as opposed to the group between 25 and 34 years of age. The GEM data also suggest that women in the US are more likely than men to deliver innovative products or services.

So what makes the US so successful? One of the underlying features in the US is that, according to Babson College Professor and GEM team member Mahdi Majbouri, "Entrepreneurs are often seen as celebrities and highly admired.… positive media attention makes a valuable contribution to the entrepreneurship ecosystem. Enhanced visibility for entrepreneurs provides others with reputable role models, and points them in the direction of networks and resources. Such access could make the difference between a potential entrepreneur and an intentional one."

Another factor that makes the United States a strong home for entrepreneurs is technological adaption. More entrepreneurs in the US develop and deliver innovative products and services based on new technology (36%, versus 31% on average for other innovation-driven economies). Furthermore, the diversity of the home base allows for new businesses to expand domestically without having to export sales to become profitable.

Compared to the US, entrepreneurship activity in the UAE is relatively low, ranking 33rd globally according to the GEM. However, activity is growing faster than in most other countries. In general, there is a positive overall view of entrepreneurship in the UAE—ranking first globally on two GEM survey components—nearly 88% in the UAE feel that successful entrepreneurs have a high level of status and respect, and 84.5% acknowledge that success stories will be reported in the public media and/or on the internet. Similar to the US, the majority (79.9%) of entrepreneurs start a business based on opportunity and/or innovation, rather than necessity.

Despite being the top-ranked nation for entrepreneurial intentions, the UAE also ranks the highest in fear of failure and the lowest in perceptions on good opportunities to start a business in the next six months. Still, in 2017 the UAE had the highest GEM Entrepreneurial Spirit Index (GESI) among all innovation-driven economies (0.35 compared to 0.04 for the US) and a growing share of entrepreneurs in the region intend to create at least some jobs in the near future (see chart 1).

Other data support this strong GESI score. For instance, the UAE climbed to 11th place in the world in the World Bank's ease of doing business score, compared to regional neighbor Saudi Arabia, which sits at 92nd. The UAE ranks first in getting electricity—they eliminated all costs for commercial and industrial connections of up to 150 kilovolt-amperes (kVa)—and second in paying taxes. Policymakers in the UAE have made it easier to start a business by improving online registration over the years, boosting the overall rank to 25th in the world in 2019. Trading across borders (including time and cost for border compliance) is a major area of weakness, ranking 98th (compared to the United States' 36th-place ranking) (see chart 2).

The demographic breakdown of entrepreneurs in the UAE sheds some light on ongoing policy actions to encourage such activity. Interestingly, GEM data suggest that MENA economies have the highest growth expectations for female entrepreneurs (37%, on average), with more than half of these female entrepreneurs in the UAE expecting to hire at least six employees in the next five years.

Overall, Emiratis (representing about 10% of the total population) are responsible for about one-third of new business in the UAE, but only 15% of established businesses. They also have a more positive view overall than non-Emirati expats when it comes to starting a new business.

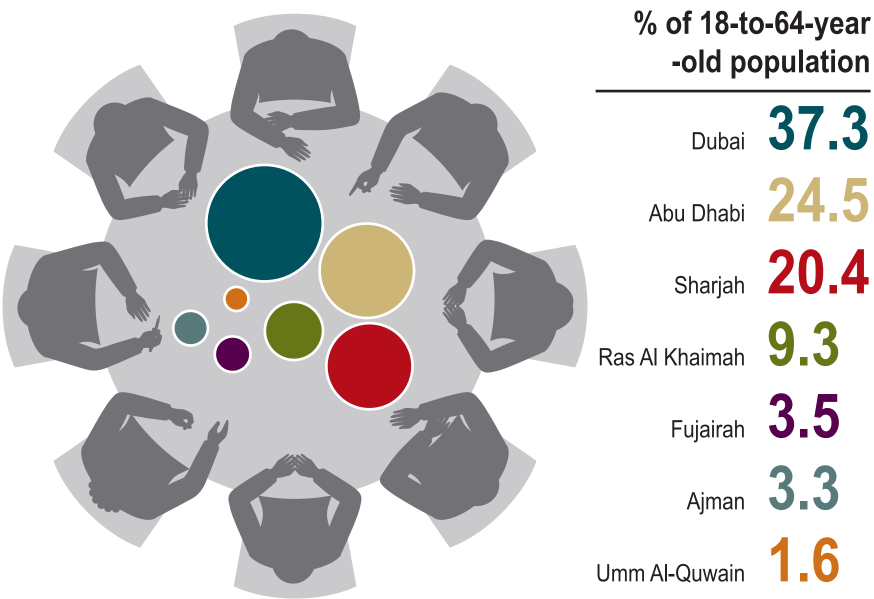
Half of all UAE entrepreneurs are self-employed and make an average annual income of AED240,000 or more (up from a median annual income of AED150,000). Non-Emiratis tend to focus mostly on the consumer services sector while Emiratis lean more toward the retail sector. Both groups have high expectations for hiring in the short-term, with 35.5% non-Emirati and 38% Emirati entrepreneurs expecting to create 20 or more jobs in the next five years.

While Dubai remains in the forefront of entrepreneurial activity in the UAE, Abu Dhabi's entrepreneurial spirit is improving. As the largest and wealthiest of the seven emirates, Abu Dhabi has the lowest rate of fear of failure in starting a new business. Nearly 85% of respondents in Abu Dhabi acknowledge that it is easy to start a new business. Abu Dhabi had the highest rate among all emirates for total entrepreneurial activity in 2016 (36.8%), but declined in 2017 to 24.5% (see chart 3).

Start-up performance in Abu Dhabi has been decent, but there is still room for improvement. The number of new business licenses in the emirate hovers around 9,000, down from a peak of nearly 11,000 back in 2009. In addition, the number of cancelled business licenses has increased significantly in the last few years, with a temporary jump in 2015, which was due to a fall in overall demand as oil prices fell. With the oil price rebounding, license cancellations fell back to normal levels (see chart 4).

A unique aspect of Abu Dhabi's entrepreneurial field is that most Emiratis start a new business as simply a part-time job. According to the Organization for Economic Cooperation and Development (OECD) and GEM research, nearly 82.5% of Emirati entrepreneurs work a full-time job, typically in government, outside of their new business. Although Abu Dhabi entrepreneurs have a lower fear of failure compared to other emirates, they are still

Chart 3: Regional distribution of early-stage entrepreneurial activity in the UAE, 2017

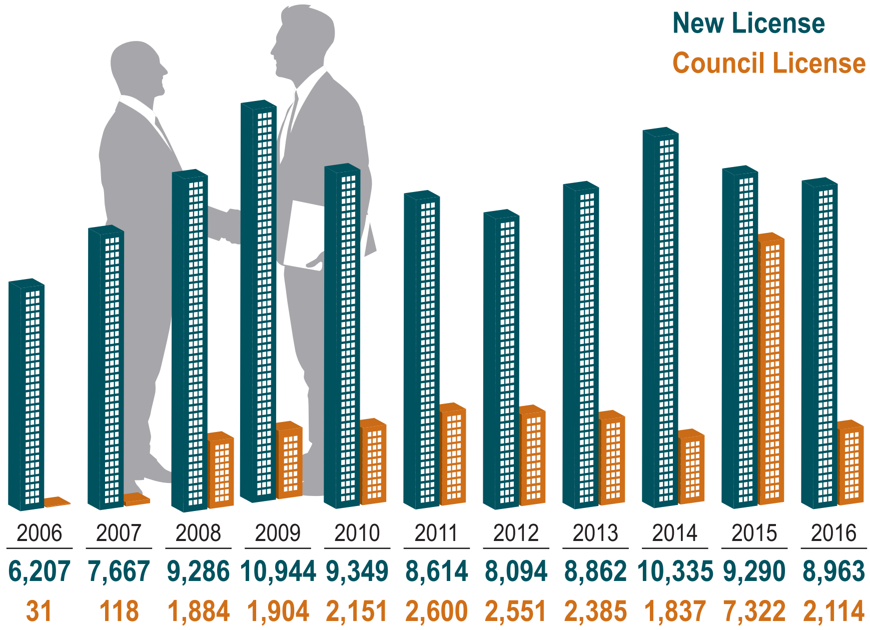


Source: GEM

9,000

is the number of new business licenses in the emirate

Chart 4: Business registrations in Abu Dhabi



Source: SCAD

82.5%

of Emirati entrepreneurs hold a full-time job outside of their new business

reluctant to leave the comforts of a stable job. This may also be cultural, given the strong social stigma of business failure. Another factor that contributes to high part-time entrepreneurship includes the fact that full-time employees have an easier time getting a loan.

As Abu Dhabi becomes more of an entrepreneurial focus with the UAE and the region overall, business conditions will continue to adapt. One of the big motivators for new business development is the Khalifa Fund, the main financing tool for small to medium enterprises (SMEs) and entrepreneurship, from the government of Abu Dhabi. The fund was established in 2007 with an initial capital base of AED300 million and contributes not only to Abu Dhabi but also to Ajman, Ras Al Khaimah, and Fujairah. The geographical expansion was matched with an increase of the capital base to AED2 billion in 2011.

The motivation for setting up the Khalifa Fund was the diversification and the long-term sustainability of the Abu Dhabi economic model. The fund thus supports businesses alongside the Abu Dhabi Vision 2030 and the industry strategies that operationalize the long-term goals. Specifically, the fund supports novel ideas and nurtures entrepreneurship in the following sectors for Abu Dhabi (the sector list for the other emirates is slightly different) (see chart 5).

The fund provides equity finance to business ventures and training and coaching sessions with entrepreneurs. Financing typically ranges between AED100,000 and AED10 million. The fund also facilitates new business by giving access to the wide network it has weaved over the years, including organizing conferences and other networking events.

Part of Khalifa Fund's mission is to support social and demographic development objectives. The fund has programs to increase the participation of disabled persons in the society, reintegrate former prison inmates, and has a special program to nurture female entrepreneurs. Khalifa Fund's wealth of experience and knowledge of key ingredients and best practices in this regard is what the fund can bring to bear. In fact, while most entrepreneurs approach the fund for financing, they also realize that training and counseling is required as well.

The results to date are quite remarkable. According to the Khalifa Fund, new economic activity generated because of the fund's support equaled 1.15% of GDP in 2019, and as of April 2019, there were 6,758 jobs created in the UAE. For every direct job that an entrepreneur creates from scratch, there is one indirect job created on the supplier side. Moreover, induced jobs are created with every Emirati dirham spent from the earnings of the new business. All those jobs would not exist without the Khalifa Fund's support.

The Khalifa Fund reported a phenomenal success rate for new business ventures of 75.5% in April 2019—this means that three-quarters of all business ideas supported by the fund are still operating to date. Most venture capitalists in western societies consider themselves lucky if one in three or four businesses takes off and generates revenue to eventually become profitable.

To recap, there are some major challenges that need to be addressed for Abu Dhabi to catch up to global leaders in entrepreneurship:

- Access to financing/financial stability
- Fear of failure/cultural stigma of business failure
- Low perceptions on good opportunities to start a new business in the short-term
- High costs for trading across borders (i.e., time and cost for border compliance)

Not surprisingly, one of the biggest roadblocks for entrepreneurs is access to funding. According to the Kauffman Foundation, more than 80% of entrepreneurs do not have access to bank loans or venture capital. In fact, only 18% of businesses ever access a traditional bank loan, and only 0.6% are able to attract venture capital. On average, businesses only require about USD30,000

Chart 5: Priority sectors supported by Khalifa Fund

Source: IHS Markit

in funds to get started, but banks tend not to lend on such low, unprofitable finances. Typically, banks require a certain track record of audited accounts and a profitable business, of which an aspiring start-up is usually lacking. Therefore, entrepreneurs turn to personal savings, family loans, or other connections to sustain their business ventures.

In addition, entrepreneurs often need to obtain start-up funding from big investors/companies that are far from home (abroad). Creating a more home-grown approach may be an important solution not only for access to capital but also for reducing or eliminating regulatory or other obstacles facing entrepreneurs. Fostering more entrepreneurship at the local level has the potential to build up the community via job and wealth creation. Nearly 55% of entrepreneurs surveyed in the GEM expect to create at least one job within the next five years. Babson College Professor and GEM team leader Donna Kelley noted that "The power of entrepreneurship to create jobs demonstrates its crucial importance to economic growth and stability around the world. Whether this means alleviating regulatory burdens or offering specialized financial support, policy makers and private stakeholders will need to direct their attention toward policies and practices that can together strengthen the ecosystem that supports the efforts and ambitions of entrepreneurs."

The government should continue providing the seed capital through key programs and vehicles such as the Khalifa Fund and encourage banks to provide easier access to financing for new start-ups. Commercial banks may be enticed to work more with start-ups if the right incentives are in place. Lending restrictions could be lowered and other kinds of collateral could be accepted. That could potentially mean that the central bank introduced special lending requirements for start-ups, such as a quota for state-owned banks (in line with capital requirements from Basle II framework) to lend to start-ups. A uniform definition of SMEs (across the UAE) could also help facilitate classification of such companies by banks.

Another increasingly popular way to overcome financing shortages is crowdfunding, which is becoming a more common way for individuals to finance entrepreneurial opportunities in the UAE. In 2017, the Dubai Financial Services Authority launched a framework with regulatory guidelines for investment-based crowdfunding platforms. Current examples of these platforms include Beehive, Eureeca, and Zoomaal. Incorporating this type of funding strategy into the Abu Dhabi entrepreneurial plan would ease the burden of financial stress and could even allow entrepreneurs to work at their business full-time rather than just part-time.

In the UAE, and Abu Dhabi specifically, addressing the fear of failure and perceived opportunities to start a new business will help foster an increasingly innovative and entrepreneurial spirit throughout the local and national economy. Support programs such as marketing campaigns, export promotions, help dealing with government entities, accounting and other business-oriented support should be continued. The same holds for business incubators and accelerators where such services are shared, and entrepreneurs can test how to can successfully launch a business or an idea.

However, it is not only the emotional concept of fear that is holding back new business development in the region. There are institutionalized issues that work in the same vein. The lack of a modern insolvency law is a key obstacle. An OECD report said that it takes on average 5.1 years for a company to go through insolvency in the UAE, compared to 3.5 years in the MENA region and 1.7 years of the OECD average. Likewise, related costs are also higher than usual.

Introducing a bankruptcy law that respects the rights of both creditors and debtors alike

1.15%

of GDP in 2019 was generated from economic activity supported by the Khalifa Fund

5.1 years

is the average period for a company to resolve insolvency in the UAE

would go a long way in reducing the risk aversion to starting a new business. In the case of business failure, creditors should be able to recover as much as possible while debtors should not be loaded with liabilities for too long a time. Moreover, the existing credit bureau should provide the most comprehensive data and information by monitoring and frequently updating company information.

For many years the Abu Dhabi Chamber has been committed to supporting entrepreneurs in Abu Dhabi. Activities have been steered toward mitigating many of those issues and helping start-up businesses to overcome many of those obstacles.

The two main areas where the Chamber has been most active in are training and consulting advice for entrepreneurs. This means concrete help with daily business operations, tracking down and bidding for tenders and finding suppliers, providing social media training and more strategic support, and even shaping the novel idea for the needs of the market.

In terms of training, the Chamber team organizes around nine workshops, each spanning a week. The topics of these workshops are derived from questionnaires that were collected from start-ups. Topics range from accounting standards to social media marketing to strategic business planning.

In terms consulting, the team at the Chamber provides support for virtually any matter relevant for the business of entrepreneurs. This could be short-term requests via email, phone, or else. The team first tries to diagnose and systematize the underlying issue, and then develops a solution together with the start-up to mitigate the problem. Start-ups are usually grouped in three buckets—startup, growth, and expansion. Each of those usually have slightly different issues that require different treatment.

Finding funding is supported in several ways. One of them is providing guarantees for start-ups to get funding from associated banks. The Chamber is also trying to maintain cash-flow by providing advice for start-ups on how to overcome a liquidity gap between delivery of a product and actual payment reception.

The Chamber works closely with other organizations in Abu Dhabi with related purposes, such as the Khalifa Fund, where the Chamber provides members with funding advice and consulting. Moreover, the Chamber also acts as guidance for suitable candidates to the Khalifa Fund.

Despite all that and the best of efforts, Chamber sources say that about 90% of all entrepreneurial ventures, which the team supports in one way or another, eventually fail. However, this is in line with international experience. As a rough rule of thumb, business experience suggests that out of 10 novel ideas that are brought to the market, 9 would be abandoned owing to inadequate business planning, lack of demand, or other factors beyond the entrepreneur's control.

The Chamber's support is commendable and should be continued. Training and consulting—all sorts of advice on almost anything in fact—is helpful to get a start-up running, grow, and thrive. Direct or indirect financial support—in the form of bank guarantees—will be difficult, though, and is possibly outside of the Chamber's mandate. This could possibly be only as a stop-gap measure and should be evaluated carefully.

Cooperation between the public and private sectors will be imperative. Setting aside a certain quota of public sector contracts for SMEs would further encourage local entrepreneurship. This should be institutionalized in law by the governments of Abu Dhabi and the UAE. For instance, in 2016 Dubai launched the Dubai Future Foundation (DFF) with the objective of shaping strategic sectors in cooperation with public and private entities. Some of the initiatives include disruptive innovation, a strategy on autonomous transportation, and a council on blockchain, among others. This type of collaboration would benefit local entrepreneurs in Abu Dhabi but also spill over to other emirates as well.

The future of entrepreneurship in Abu Dhabi looks bright. Addressing the primary concerns of financing and overall perceptions of starting a new business is achievable in the near term, so long as public and private cooperation is encouraged. Furthermore, providing the best education and information on entrepreneurship up front would likely boost the success rate of new businesses. There are some items such as financing that potential entrepreneurs would know, and other things that entrepreneurs would learn experientially as they launch and operate a company. Best practices in accounting, marketing, promotion, and other core business standards, applied and learned at the right time, will save an idea from failure and nurture a successful launch. ■

Contacts

IHS Global GmbH
Friedrich-Ebert-Anlage 35-37, 60327 Frankfurt, Germany

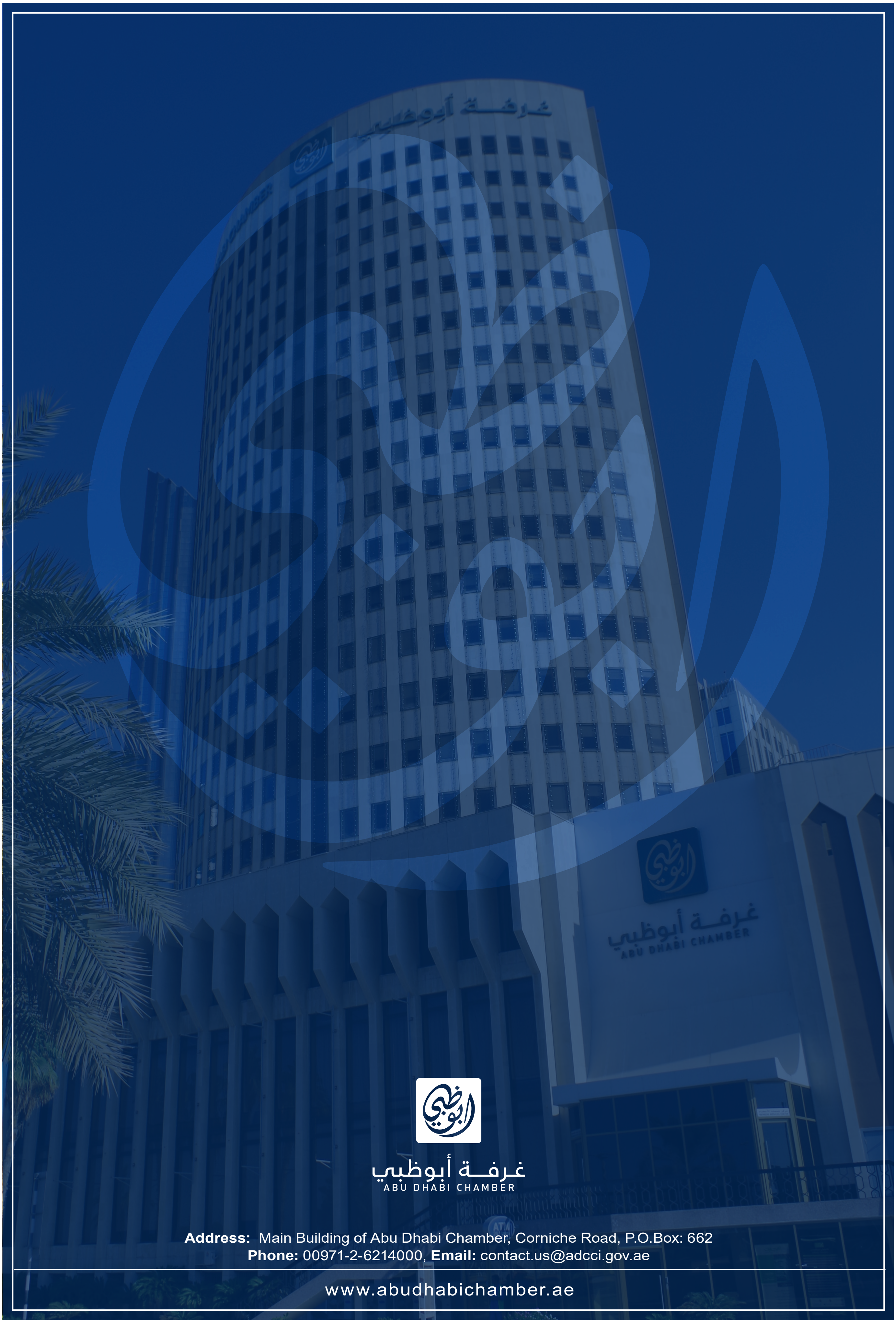
Dr. Ralf Wiegert
Associate Director Consulting – IHS Economics & Country Risk
Ralf.Wiegert@ihsmarkit.com
+49 (0)69 20973 320
+49 (0)151 42628 143

IHS Markit
300 Brickstone Square, Suite 500, Andover, MA 01810, US

Janice Branco
Principal Consulting – IHS Economics & Country Risk
Janice.Branco@ihsmarkit.com
+1 781 301 9018

Abu Dhabi Chamber
P.O. Box 662, Abu Dhabi, U.A.E

Mohamed A. Rahim Sid Ahmed
Economic Consultant – Abu Dhabi Chamber
m.sidahmed2@adcci.gov.ae
www.abudhabichamber.ae
+971 2 6177532
+971 508101754



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Address: Main Building of Abu Dhabi Chamber, Corniche Road, P.O.Box: 662
Phone: 00971-2-6214000, **Email:** contact.us@adcci.gov.ae

www.abudhabichamber.ae