strategy+business

ISSUE 74 SPRING 2014

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An urgent need for job growth is spurring an innovative trend in CSR and high-minded commercial initiatives.

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REPRINT 00234

This article was originally published by Booz & Company.

Corporate Social Responsibility's New Role in the Middle East

An urgent need for job growth is spurring an innovative trend in CSR and high-minded commercial initiatives.

by Ramez T. Shehadi and Mounira Jamjoom

In most developed nations, corporate social responsibility (CSR) initiatives center on issues such as environmental sustainability, alternative energy, clean technology, and social welfare. Driving these activities, more often than not, is a company's desire to appeal to strong consumer sentiment.

But in the Middle East and North Africa (MENA), CSR is becoming something fundamentally different. It is focusing less on catering to consumer attitudes, and more on addressing social and economic challenges that are hindering development, most notably the shortage of jobs.

The scale of unemployment is enormous in the region (as it is in other developing regions with young populations). The Middle East alone must create 75 million jobs by 2020—a 43 percent increase from 2011, according to the World Economic Forum (WEF). Failure to put large numbers of people to work, particularly young people, could have severe consequences in terms of social unrest and lost economic activity, the WEF has said. By contrast, strong and sustained job creation begets more robust economic activity and political stability, creating a virtuous circle of growth.

However, the responsibility for all this job growth should not and cannot be laid at the feet of traditional employers—large private and state-owned companies. Indeed, one structural weakness of many developing countries is their overreliance on relatively few companies to drive the economy and soak up labor. To diversify their economies, make them more resilient, and put more people to work, these countries need more robust activity among small and medium-sized enterprises (SMEs), which form the backbone of economic stability and job creation in the developed world (*see Exhibit*). In Germany and France, for instance, SMEs account for 60 percent and 61 percent of employment, respectively. Yet in Saudi Arabia and Egypt, SMEs account for only 25 percent and 38 percent of jobs, respectively. In the U.K., U.S., Germany, and France, SMEs contribute a little more than half of GDP, whereas in Saudi Arabia and Egypt the contribution is just 25 percent and 33 percent, respectively.

How Companies Can Help

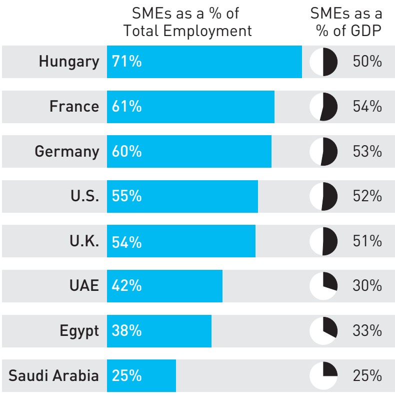
Both local governments and the private sector in the Middle East increasingly realize they have vested interests in clearing a path for SME creation, and they are beginning to act on those interests. For instance, the Ministry of Labor in Saudi Arabia has identified 36 initiatives, seven under development, as part of its "SME Ecosystem" project. These initiatives include a digital gateway that provides information on requirements for startups in different industries, restructuring the SME funding process, and encouraging the creation of accelerators.

Accelerators, which are becoming more popular in the Middle

Illustration by Lars Leetaru

Exhibit: **SME Impact**

Small and medium-sized enterprises play an integral role in virtually all diversified economies.



Note: 2008 data

Source: European Commission SME Performance Review, U.S. Department of Statistics, OECD, UNECE, World Bank, Zawya, Booz & Company analysis

East, are short-term programs that usually involve some funding, formal training in a managed office space, and access to experts and mentors to help develop ideas.

In recent years, nearly half the governments in the MENA region have implemented regulatory reforms that make it easier to do business, according to the World Bank. These initiatives, and others like them, have yielded some early successes. A report issued by Dubai Internet City and Frost & Sullivan, for example, states that from 2005 to 2011, the number of startups in the MENA region grew eightfold.

An SME sector that is creating jobs reduces the pressure on large companies to hire people they don't need just to reduce unemployment.

Still, the pace of change remains too slow given the scale of the economic and employment challenges facing the region in the coming years—and some large established companies are waking up to this fact. They are starting to design CSR initiatives, as well as some profit-minded ventures, that align with their government's SME and job creation goals. Much of the companies' motivation stems from a more rounded understanding of self-interest. All large companies depend on the health of the domestic business environment for their staff and subcontracted work, on top of needing a market for their goods and services. Plus, an SME sector that is creating jobs reduces the pressure on large companies to hire people they don't need just to reduce unemployment.

The wave of corporate initiatives supporting job creation in the MENA region is still very new and has not yielded definitive, long-term results. But the surge of activity and anecdotal evidence convinces us that the trend is significant and could prove pivotal to the region's economic development and job creation abilities. We have identified two areas in which private companies are already making big moves to nurture the entrepreneurial ecosystem and promote SME creation: (1) education and networking, and (2) financing.

Education and Networking

Education is a broad category that includes everything from instilling basic financial literacy, to teaching business theory and practices, to providing hands-on training and guidance from mentors with business and startup expertise. At the base of this education pyramid is teaching fundamental concepts about saving, budgeting, and investing—the CSR focus since 2006 for SEDCO Holding, a private wealth management company based in Saudi Arabia. That year, the company conducted a nationwide survey of 1,000 Saudi youth—the demographic segment that makes up 40 percent of the overall population—to assess their habits in managing expenses, saving money, and investing. According to the survey, only 11 percent kept track of their spending, and 80 percent didn't budget. However, 90 percent said that they wanted to increase their financial knowledge.

In response, the company launched its financial literacy program, called Riyali, partnering with the Saudi Ministry of Labor and Operation Hope, an international nonprofit organization based in the United States. Working with public-sector agencies and local universities to increase scale, Riyali aims to reach tens of thousands of students over the next few years. If young people "don't have the basics of financial literacy today, they're going to fall into many, many problems when they enter the workforce tomorrow," noted Amr Banaja, Riyali program director and vice president of corporate communications and marketing at SEDCO.

Another example comes from the Abdul Latif Jameel Group in Saudi Arabia, which established the Abdul Latif Jameel Community Initiatives (ALJCI) in 2003. ALJCI's current CSR work focuses heavily on job creation. Its Bab Rizq Jameel (BRJ) program (or "The Beautiful

Gateway to Prosperity") focuses on identifying job opportunities, providing skills and training to individuals, and granting microfinance loans to new entrepreneurial ventures. To date, BRJ has created hundreds of thousands of jobs—including nearly 50,000 in 2011 and more than 58,000 in 2012—for men and women in Saudi Arabia and other MENA countries, including Morocco, Syria, and Egypt.

Several large companies are stepping up to provide information and education on more sophisticated business concepts. For instance, Emirates Integrated Telecommunications Company (known commonly as du) launched the Q&A platform Ejaba.me in 2013. The site provides entrepreneurs with answers from experts on topics such as management, legal services, funding, and intellectual property rights. Designed by French entrepreneur Joanna Truffaut, Ejaba.me is intended to give entrepreneurs access to affordable advice at a time in their development when funds are scarce. The site charges by the answer: US$20 for short answers and $30 for longer ones. It is also considering offering monthly subscription packages with lower costs for heavy users.

Other companies in the region are offering more hands-on training and mentorship to entrepreneurs in fields as varied as telecommunications and maritime operations. Dubai-based digital media company Intigral, a joint venture between Saudi Telecom Company (STC) and All Asia Networks (ASTRO), launched an accelerator named Afkar.me to support startups building digital products and services. The startups work out of Intigral's offices in either Dubai or Riyadh for three months to develop their ideas with the help of the agency's expertise and network of mentors. Afkar.me has created regional partnerships with Astrolabs, ArabNet, the Online Project, consultancy Oliver Wyman, PR firm Ketchum Raad, and Wamda programs. These partners provide mentoring, legal advice, product development, design, marketing and PR, and business development support. The goal is for the startups to create viable products that Afkar.me can plug directly into telecom opportunities in Saudi Arabia, Africa, and Asia.

Another new corporate-sponsored accelerator is Turn8, a year-long program supported by DP World, one of the largest marine terminal operators in the world, which is owned by the Dubai government. Turn8 identifies candidates for the accelerator during a global series of pitch events, incubates those startups for several months, and then brings them on a road show. Given the accelerator's sponsor, it's no surprise the startups focus on sectors that support marine port operation, including transportation, logistics, the environment, health and safety, and travel.

Like many other such initiatives, Turn8 is not a selfless program. It benefits both parties. "We realized that change is happening so quickly around us and that we've got to be part of it," said Yousif Al Mutawa, DP World's chief information officer, according to an article in Wamda, a website devoted to news about small business and entrepreneurship in the MENA region. "There's a big drive from the leadership to foster the [entrepreneurship] ecosystem in UAE."

The momentum behind these CSR initiatives and new business models is not coming just from local companies in the Middle East. Some well-known multinationals are throwing their own weight behind the movement. For example, Google for Entrepreneurs is supporting the Library Giza, a community space in the Cairo suburb of Giza designed to offer testing, support, and training for startups that focus on Web technology.

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The Library Giza will offer a collection of devices that startups can use to test their products and services. It will also host meet-up groups; training sessions; and classes on topics such as technical development and design, business planning, management and operations, and business model development. The co-working space will sponsor talks and mentorship sessions with industry experts and provide programs targeted to specific vertical markets, including mobile apps, e-commerce, health, education, and gaming.

"The Library Giza will generate ideas, jobs, and energy for the new Egypt and help harness that energy and untapped potential of the Egyptian youth," said Wael Fakharany, Google's regional manager in Egypt and North Africa, in a statement posted by Wamda.

Creating Financing Options

Beyond education and training, some established companies are beginning to provide more investment support to SMEs. In a speech at the Global Entrepreneurship Summit in Dubai in late 2012, Fadi Ghandour, founder and then CEO of Aramex, noted that SMEs face severe impediments when trying to access capital from banks—including high interest rates and crippling collateral demands—leaving them with few financing options. According to the 2012 World Bank report on SMEs for job creation in the Arab world, only 20 percent of SMEs have a loan or line of credit, and SME lending accounts for only 8 percent of total loans made in the Arab world, the lowest ratio globally.

Ghandour's proposed actions for companies include establishing angel investment networks (by city, country, and sector); investing in and supporting venture capital funds, private equity funds, and other investment tools; partnering with banks to develop SME-friendly debt services; and investing in micro-venture funds and microfinance institutions. Some of these activities will, ideally, result in profit, but the core driver is creating and sustaining a legitimately friendly environment through which entrepreneurship can flourish in the region.

In a similar vein, the Abdul Latif Jameel Community Initiatives has committed to supporting the MIT Arab Business Plan Competition for the next five years to ensure the initiative's sustainability. The competition received 1,852 applications from 13 Arab countries. It requires entrepreneurs to work in teams and to present their business ideas to some of the Middle East's leading decision makers. The short-listed teams compete for startup seed grants of $60,000 as well as mentoring support from successful business leaders and consultants.

Some established companies are making direct investments in the startup space. The Middle East Broadcasting Center Group (MBC), the first private free-to-air satellite broadcasting company in the Arab world, recently began investing in startups focused on media and entertainment through its funding arm, MBC Ventures. Aside from cash investments, which range from $100,000 to $500,000 per deal, MBC will leverage its expertise to support the startups in areas such as advertising, social media, and legal issues.

Several of the region's incubators backed by established companies also include a funding component. Turn8 will invest $24,000 to help teams with promising ideas design, build, and launch a prototype. Intigral's Afkar.me is using a different financing model. Instead of offering seed capital for an equity stake, it will offer as much as $20,000 in seed investment as a loan. Once startups launch their products, Afkar.me will introduce them to a network of partners and investors such as STC Ventures, MBC Ventures, and Middle East Venture Partners.

"We don't want to place a value on the company from Day One," explained Victor Kiriakos, senior manager of strategic products at Intigral, according to an article in Wamda. "Our objective is to create a company that could sit as a partner with us, so that we can set up revenue shares. We're not looking for a return on investment; we're looking to enrich the ecosystem."

CSR as Change Agent

Although we expect large companies to continue and even increase their promotion of entrepreneurship and job creation in the Middle East, the full impact of their activities won't be felt for several years to come. Even in the near term, though, the direction of corporate thinking about CSR and entrepreneurial investments demonstrates a keen understanding of the region's problems and where the gaps in the entrepreneurial framework exist. Increasing collaboration among governments and companies to establish an ecosystem favorable to SMEs could be pivotal to the MENA region's economic development. It may also become a template for other developing regions and for multinationals looking to start CSR programs in those regions. CSR can be much more than a bit of corporate theater. It can be an agent for genuine and much-needed economic progress. +

Reprint No. 00234

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strategy+business magazine
is published by PwC Strategy& Inc.
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