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Innovation challenges in the MENA region

Lessons from THE NEXT SOCIETY



Summary

In the framework of THE NEXT SOCIETY, ANIMA conducted an impact assessment with start-ups and clusters from the MENA region that participated in the project, in order to draw lessons on how to **support innovation** among these stakeholders.

The aim was to better understand how **the approaches proposed** in the framework of cooperation projects **correspond to the dynamics and practices** of these stakeholders, how they encounter **blockages in their direct and indirect environment** and how to support their capacity to **create value** and competitiveness for their country and the region.

The paper is structured in three parts, which stem directly from the findings of this impact assessment.

With a view to raising the level of competitiveness of the countries in the region and better **inserting them into global competition**, the first part questions the

position of **national ecosystems** with regard to the practices of their innovators, as well as the relationship between **frugal innovation**, **digital transition** and the need for **technological upscaling**.

The second part details the conditions for renewed **regional cooperation**, underpinned by national strategies that need to integrate **transitions towards more virtuous production models** to address their challenges and **avoid isolation**, as well as the place of **clusters as a gateway** to regional dynamics.

Lastly, the third part shows how so-called **impact solutions** appear to be essential for start-ups in the region to participate in creating a **new paradigm** based on their ability to mobilise **partners and investors** more than others, to respond to **local issues** and put **human capital** at the heart of their project.





Methodology of the impact assessment

The objective of this document is to **reflect on the role of innovation to face the major challenges of the MENA region, the effectiveness of Mediterranean ecosystems in this respect, the place of EUROMED cooperation in these dynamics and the importance of the social and environmental dimensions** in the investment and development strategies of businesses.

The questions raised at the origin of this paper are the following: Frugal innovation and market reality? What place for regional cooperation and partnership with the EU? What model should we aim for to reconcile the need for economic growth with social impact?

To address these questions, an analysis and reflection process was conducted on the **data from the impact assessment of THE NEXT SOCIETY project**, a project co-funded by the European Commission and led by the ANIMA network and some twenty partners, which aims to support innovation ecosystems in the MENA region.

This document aspires to feed the **positioning of ANIMA and its partners, as well as the European Commission**, by identifying approaches to be prioritised in the future.

The impact assessment from THE NEXT SOCIETY on which this document is based was conducted among THE NEXT SOCIETY beneficiaries and gathered responses from **81 start-ups and 18 clusters from 7 countries** (Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia). The interviewees, entrepreneurs and cluster managers, are beneficiaries of THE NEXT SOCIETY acceleration programmes for start-ups and clusters. They have all participated in **business events organised by the project in Europe, the Maghreb and the Middle East, mentoring programmes, soft-landings** (visits and e-visits of MENA start-ups to European incubators), **B2B meetings** and different types of activities offered by the project **to meet their development, growth or internationalisation needs**.

This impact assessment aimed to collect several types of information - i. Feedback from the activities in which the beneficiaries took part and assessment of their added value, ii. Impact of COVID on their activity, and iii. Impact of the project on their development - which will be analysed here to give substance to ANIMA's reflection on how to support innovation in the Mediterranean.

1. Frugal innovation upscaling technology

Frugal innovation - and the idea that it is possible to do a lot with little - lies at the heart of many development projects seeking to identify potential 'breakthrough' ideas that do not require significant economic investment or cutting-edge technology, and are easily exportable.

Nevertheless, this concept of frugal innovation comes up against **the need** for the countries of the southern and eastern Mediterranean **to move upscale technologically** in a context of global competition. In fact, the aim is to increase the share of added value in the goods

and services developed by businesses in the region, and to attract investments and trade that are currently made with Asia.

Moreover, it seems to us that the **answers to the challenges** in the Mediterranean and in the world require a search for efficiency and sustainability in traditional sectors. To this end, **the integration of technological solutions**, particularly **digital ones**, is necessary. The question then arises of the capacity to finance these solutions and their proper appropriation, which requires a **structured support ecosystem for innovative projects and facilitating legislation**.

1.1. Digitalisation and technological upscaling as solutions to the need for market access

The performance assessment of THE NEXT SOCIETY beneficiaries - both in the context of the project and in the broader context of resilience to COVID - highlighted **the importance of the sector** in resilience and development, as well as the importance of the **flexibility** of start-ups to cope with different crises. This leads to the following reflection: the **role of the digital sector** - both as a **sector specialisation** and as a **working and business development tool** - is decisive.

> Lessons from the COVID crisis: the resilience of the technology and digital sectors

The COVID crisis, which has shaken up lifestyles and consumption patterns, has impacted the global economy in many ways - not least as a catalyst for market forces.

In the field of innovation, this period has both illustrated and highlighted the weakness of the discourse around innovation 'in the broadest sense' by putting forward **sectors** that are truly capable of **resilience** and economic growth in times of crisis: **Fintech, Edtech, Healthtech**, etc. As such, the businesses that were identified as having high growth potential before the pandemic and have remained so afterwards are precisely those that offer concrete answers to societal challenges and **use the digital transition** to do so.

Respondents to THE NEXT SOCIETY impact assessment illustrate this idea, whether in their answers to the question of the impact of COVID on start-ups' activity or in the observation of reported business successes despite the adverse context.

When asked whether COVID had an impact on their business, only 21% of start-ups answered no. The start-ups concerned were active in the following fields: e-commerce, business solutions, defence, education, greentech, health, mobility and tech&software (accounting for 7% of the no's alone). For 12%, in the fields of **e-commerce, business solutions, tech&software, health, greentech, education and fintech**, the impact was positive.

Two fields in particular can be identified as having **flourished during the pandemic** within THE NEXT SOCIETY project: **e-commerce** and **digital products**, where the demand for products and solutions has increased.

One such success story is Sghartoon (Tunisia) - a telemedicine platform specialising in learning disabilities that allows parents, therapists and schools to come together to provide the best care and education for children. In the case of Sghartoon, *"the COVID-19 crisis highlighted the importance of digital tools in all sectors, which contributed to increasing demand for [their] tool".* Or Tribaliste (Morocco) - an online furniture sales platform - *"Sales have increased due to the increase in awareness of online shopping, and also because during this period people wanted to refurnish their homes to make them a better living space, as more and more people work from home."*

> The key role of digital transition in MENA countries highlighted by COVID

In all fields, and especially in the service sector, **the digital transition** in COVID times played a **key role** in maintaining **the competitiveness of businesses** - particularly given the restrictions on freedom. This strengthened the idea that Mediterranean countries need to ensure **a successful digital transition to effectively support the wider ecosystem**.

Indeed, THE NEXT SOCIETY impact assessment revealed that the **resilience**¹ shown by the region's businesses has come mainly from start-ups that have focused on **digitalisation, online sales and payments**, or those that have made the **"pivot" to digital marketing**. Some more than others, such as DCX - Digital Cultural Experience (Tunisia) which has gone as far as *"pivoting and producing web applications that are accessible online and based on grants"* but also Horizon Education (Tunisia) which claims to have *"[...] pivoted all of (their) operations, (their) strategy, (their) products and (their) marketing to the digital space. (They) have developed and designed a new 100% digital educational platform, (which they) just launched on the market a week ago."*

For **clusters**, it was also important - in order to maintain business - to rethink the way they operate by **moving towards 100% digital**.

More generally and at the scale of the project, the **digitalisation of THE NEXT SOCIETY's activities** has also led to many successes: Soft-Landings, which provided short-term incubation for MENA businesses in Europe, have been replaced by an online version, reducing costs, overcoming mobility issues and increasing opportunities - increasing the number of Soft-Landings from 14 before 2021 to 26 by the end of the same year.

1. This concerns start-ups that responded that COVID has positively and negatively impacted their business - mainly with a negative shock followed by measures that have - ultimately - improved their offer/business model/product.



1.2. The importance of efficient and outward-looking national ecosystems

The study of the international dimension of THE NEXT SOCIETY beneficiaries illustrates that, in addition to the **necessary digitalisation and technological upscaling** of businesses, the **role of the national ecosystem** is essential in the establishment of a **framework capable of supporting its innovators**. Indeed, without innovation support infrastructure, the potential struggles to expand. While internationalisation may make it possible to overcome certain weaknesses to a certain extent, investments in innovation and large-scale projects necessarily require a **pre-existing and well-functioning ecosystem**.

Therefore, it is interesting to ask the question: why do start-ups go international? Is it in search of technology partnerships? To fill a gap in the ecosystem's capacities (budgets, universities, partners, patents, etc.)? Because of an inadequate regulatory framework? Or is it above all to meet the need to develop their markets, especially when they are launched in a country with a limited domestic market? Answering these questions is crucial to get indications on the performance of national ecosystems in supporting their entrepreneurs.

> Internationalisation seen primarily as a means to access markets

Within the project, 56% of start-ups declare that they have an international strategy. Although the internationalisation of a start-up - whether regional or global - is often seen as a necessary step and a sign of economic success, this internationalisation is not an end in itself and must take place at an appropriate stage of development. Aside from the famous precept "think global from day one", which is widespread in start-up circles, reality shows that premature internationalisation often means **losing the benefits of the technology** at local level and having it taken over by extra-territorial players.

In the MENA region, **internationalisation often takes place at the commercialisation stage**: THE NEXT SOCIETY beneficiaries tend to develop commercial partnerships rather than technical or development partnerships. For instance, among the start-ups that have developed partnerships within the framework of the project, 47% declare that they were of a commercial nature (sales, representation, etc.), 27% in the field of business development or financing (funds, support, business deals, R&D projects) and 23% of technical ones.

These figures provide two main elements of analysis. Firstly, **internationalisation is seen above all by businesses as a means of expansion** to cope with the limitations of domestic markets. Secondly, in the face of this internationalisation trend of start-ups towards new markets, **national ecosystems are not encouraged to structure a model fostering collaboration between innovation stakeholders, especially between start-ups, large corporations and research stakeholders**.

> Developing locally through an efficient ecosystem focused on financing

To encourage the construction of this ecosystem, it is therefore necessary for the region's start-ups to be integrated into an ecosystem that is sufficiently effective to support their development by enabling them to **find the right technical and financial partners locally**, before being able to turn to other markets. It is worth noting that an ecosystem presents a genuine added value for entrepreneurs when it **integrates public and/or private innovation financing stakeholders, covering at least the early stages** of business development, and that as a result, entrepreneurs do not need to turn to the international market to cover this need for access to financing.

Indeed, an analysis of the investments declared by start-ups shows that most of the funds raised by THE NEXT SOCIETY start-ups come from international sources, although national sources are not insignificant: 27% of respondents declared at least one fundraising operation. Of these funds, 11% were raised from the diaspora and 31% from national investors, while 58% of these funds were raised from foreign investors.

> An underused European partnership

It is worthwhile questioning the place of Europe in the partnerships created by innovation players in the MENA region, and thus get an idea of the potential of the EUROMED partnership.

In the responses from THE NEXT SOCIETY beneficiaries, Europe appears to be an **almost unavoidable partner for clusters**, while this is less the case for **start-ups**. The latter first

sign national partnerships, before turning to Europe, which they perceive more **as a market with more opportunities to raise funds**, at the expense of the possibility of sourcing knowledge and technology. Indeed, whereas 20% of international partnerships of start-ups are signed with Europe, 43% of clusters declare having signed international cooperation agreements with European structures. This leads to two observations:

- MENA innovation ecosystems should open up more to Europe, particularly **to source and/or use technology developed there, and enhance their local production and transformation capacities** by involving the entire ecosystem;
- The **region's clusters** should use their connections with Europe to **become the place where businesses and start-ups benefit from a privileged opening onto the international scene**.

