

Why Saudi Arabia Is Being Increasingly Seen As The Place To Be To Start A Business In The Middle East

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"Did you really quit McKinsey to do this?" Alper Celen's decision to trade his cushy job at the prestigious global management consulting firm's Scandinavian offices for a move to Saudi Arabia to grow a startup there didn't make much sense to his colleagues. Celen founded Saudi's Groupon-like startup Fursaty and co-founded FoodOnClick.com's KSA operations, bootstrapping the ventures at a time when the kingdom's startup scene was barely in its infancy.

"It was soul searching," Celen remembers. "These were smart people making me question my choices. In 2010, when we first got started, we struggled. It was difficult to find talent. It was difficult to raise funding. There were no VC funds to speak off around Wamda or a couple of earlier players, but that was it. There were, essentially, no angel investors. It was very challenging to build something. I was mostly funding stuff from my own pocket."

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But his forward-thinking leap into the Middle East's largest economy has paid off and today, Celen is much sought after by non-Saudi startups for advice on how to enter the Saudi market. He is now founding partner of Middle East venture builder and holding company Enhance, which launched online gifting platform joigifts.com in 2016. Celen, also co-founder and co-CEO of joi, claims the marketplace is the "fastest non-Saudi startup to launch in Saudi Arabia."



Alpen Celen, founder, Enhance

Source: Enhance

Enhance has raised a total seed round of US\$2.6 million so far with investment from Saudi's iNet, Hala Venture Capital, U.S.- based 500 Startups, Shorooq Capital, Kadi Holding, Two Culture Capital, and angel investors from the Gulf, Europe and the US. "We launched joi in Saudi a month after we launched in Dubai, and I don't think anybody has

ever done that [before]," Celen says. "We have a Saudi-first strategy. Most of our investors are Saudi, and our main key market is Saudi. I think that gives you an insight of the change [in the ecosystem] from 2010 to 2019. The last few years have been an amazing boom."

Government-backed vision

Saudi Arabia's Crown Prince Mohammed bin Salman announced Vision 2030 in 2016 as a package of economic and social reforms designed to diversify the economy away from oil, attract foreign capital, and create jobs for citizens. Raising the current contribution of SMEs to GDP from 20% to 35% by 2030 is listed as a top priority for the crude producer's prosperity.

"In line with its Vision 2030, the Kingdom has launched multiple government initiatives to spur entrepreneurship and innovation in order to become the hub for entrepreneurship in the region," says Philip Bahoshy, founder and CEO of MAGNiTT. "These include government-backed initiatives such as licensing opportunities for venture capital firms and startups, investment in local VC funds, funding platforms for SMEs, as well as incubators and accelerators."

The establishment of Monshaat, Saudi's General Authority for Small and Medium Enterprises, is among the key steps to develop and nurture the SME sector. Monshaat works with relevant authorities to remove administrative, regulatory, technical, procedural and informational obstacles faced by the sector. At the end of 2018, Monshaat set up a support center model for SMEs to provide training, advisory and mentorship services to help entrepreneurs navigate challenges to their growth. The entity also launched a government-owned VC firm the Saudi Venture Capital Company (SVC)- with a fund worth SAR 5 billion (\$1.33 billion) that will directly invest in the country's startups and VC funds.

Ali Abussaud, Managing Partner of Saudi-based Hala Venture Capital, says he believes the government's "dramatic support" to SMEs as part of the headline-setting reform plan will help the sector fast-forward to 20 years' worth of progress in just a few years. Public sector initiatives are the most compelling enablers in any economy, he insists. "You cannot really rely on the private sector or anybody else to improve the market, unless the government will step up and do that themselves," he says, hoping the steps will help change misconceptions about doing business in the Kingdom. "There are a lot of people who think Saudi is a place where it's not easy to work or it's not easy to get a license. In reality, that's not the case."



Ali Abussaud, Managing Partner, Hala Venture Capital

Source: Hala Venture Capital

In 2018, foreign investment license provider Saudi Arabian General Investment Authority (SAGIA) announced it would grant licenses in less than four hours, accelerating the process from the previous average of 53 hours. "We applied for a SAGIA license and we got it in two hours," Enhance's Celen confirms, adding that he even received responses from senior officials at SAGIA at midnight. "I thought the person I was interfacing with was relatively junior and then I realized he was the head of the whole program. I see a hunger in the organization and they're out to make a change."

Figures from SAGIA show it issued 267 new licenses to foreign investors during the first quarter of 2019, marking an increase of 70% when compared to the same period last year. SAGIA also launched Venture by Invest Saudi, an initiative to attract international VCs and their portfolio companies. Licensed incubators in Saudi such as AstroLabs have been advertising SAGIA's new subsidized entrepreneur license designed to attract innovative companies to the Kingdom.

In addition to its “unprecedented” results with investor licensing, SAGIA has licensed over 300 entrepreneurs from 45 different nationalities since late 2017. And this is just the start, says Dr. Mazin M. Al Zaidi, Entrepreneurship and Innovation Segment Director, SAGIA. “We are continuously studying new ways to provide our investors with the best user experience,” he insists. “Going forward, we plan to launch even more specific investment opportunities, while further streamlining procedures to access them. Early results are comforting but we will not stop there, there is more to come.”

Last year, Saudi Arabia’s Misk Innovation- a branch of the non-profit Misk Foundation, founded by Crown Prince Mohammed bin Salman to empower young people in Saudi Arabia and around the world to be active participants in the knowledge economy - announced a new partnership with U.S.- based early-stage venture fund and seed accelerator 500 Startups to encourage entrepreneurship across the Kingdom.

The first cohort of the Misk 500 Accelerator program in Riyadh saw 19 startups from across the MENA region pitch their ideas to an audience of more than 200 that included investors and corporations. About 37% of these companies had at least one female founder. The second edition of the initiative is set to kick-off in Riyadh in September.

“We believe entrepreneurship is the key to creating the next generation of innovators, impacting the economy and prosperity of the community, which is why we are focusing on programs that support startups at different stages, from idea to exit, as well as educating key players in the ecosystem such as VC investors and other incubators,” Osama Alraee, Entrepreneurship Growth Director at Misk Innovation, says.

Misk also ran a five day BAM (Boot Camp for Accelerator Managers) program in April, where 500 Startups partners trained 35 local accelerator managers in the best practices of running a world-class accelerator. Topics covered the ins and outs of how to attract startups to the program, select startups, build a community, generate revenue, define and hone the curriculum, and help startups attract downstream capital.

Misk’s support for entrepreneurship goes further, with its international platform, Misk Global Forum’s Entrepreneurship World Cup (EWC), one of the biggest and most internationally diverse entrepreneurship program of its kind. Through the EWC, 100,000 entrants from 170 countries are competing to reach national and regional finals and entry to the Global Final at the Misk Global Forum annual event in Riyadh in November. The Saudi national final was held in early July and have been finals in places as diverse as

Barbados, Bahrain and Boston with more planned for China, India and elsewhere. The competition offers all entrants tools to strengthen and scale their ideas, as well as well as life-changing prizes and investment opportunities for the winners.

A place to 'start first'

Both investors and entrepreneurs in Saudi Arabia say they believe the social reforms spearheaded by the Crown Prince, such as easing restrictions on women driving and the lifting of a 35-year-old ban on cinemas, have also fueled local founders with fresh inspiration to innovate. "The change has sparked a trend in Saudi," says Mohammed Alsehli, CEO of UAE-based blockchain startup ArabianChain, and CEO of new Sukuk capital markets platform Wethaq. "A lot of people are thinking of entrepreneurship and considering joining the startup movement." Although Alsehli, a Saudi national, set-up his companies in Dubai, he says the Kingdom is now positioning itself as a place to "start first and move elsewhere second." He notes: "In 2016, Dubai was already well-established when it came to blockchain technology and innovation. So, it made sense for us to get there, learn from that experience, and then translate that experience into Saudi."



Mohammed Alsehli, CEO, ArabianChain

Source: ArabianChain

But now he has established Arabian- Chain in Saudi Arabia, he is applying for Wethaq to be licensed there too. "Wethaq is going through one of the sandbox applications in Saudi," he shares. "We see the shift in value, and that is what is attracting us to actually bring in innovation from within Saudi to the world." He adds that sandbox regulatory environments like those offered by Saudi Arabian Monetary Authority's (SAMA) and Saudi's Capital Market Authority (CMA) will have a positive impact on both fintech innovation and investment in the Kingdom. The social reforms in the conservative Gulf Arab state have also created many opportunities in entertainment and service sectors, Hala's Abussaud adds. The government said earlier this year that it plans to invest \$64 billion in its nascent entertainment sector over the coming decade. SAGIA's Invest Saudi

website states that it is open to starting tourism, culture and entertainment sector projects “as soon as possible,” including the development of family entertainment centers, botanical gardens, aquariums and theme parks.

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“This [cultural shift] has doubled down on the improvement because you wouldn't really have all sorts of improvements without the change of inside culture,” Abussaud explains. “It will [help] maintain existing companies here. Usually what happens is that you'll see whenever companies start to get bigger, they will start to find places where they will be more comfortable and have a better quality [of life].” In May, the Saudi government also approved the creation of a “green-card”- style permanent residence scheme that will allow eligible entrepreneurs, investors, and highly-skilled expatriates to work in the Gulf state, without the current requirement of having a local sponsor or employer.

“As HRH Crown Prince Mohammed Bin Salman said: 'The sky is our limit,'" SAGIA's Dr. AlZaidi adds. “Therefore, we ask all ambitious dreamers and innovators to unleash their creative business ideas, as this time is theirs. Saudi Arabia is the largest market in the GCC with untapped potential in new innovative sectors. Together with \$1.7 billion in government support allocated to startups and a growing ecosystem of venture capital firms, incubators and accelerators, it makes perfect sense for national and international entrepreneurs to launch their innovative startup in Saudi Arabia.”

TACKLING THE TALENT CHALLENGE

But for the moment, lifestyle -or at least the perception of lifestyle- still makes attracting talent difficult, Enhance's Celen says. More significantly, however, founders struggle to find affordable tech talent. “You still find that if you're a Saudi startup, chances are your tech centre is not in Saudi,” Celen says, with the majority typically outsourcing to more cost-effective alternatives like Egypt, Jordan or India.

Saudi nationals remain reluctant to trade healthy paychecks and the security of working in the public sector or for large multinational corporations, in exchange for significantly lower startup salaries, and hiring expat employees is unaffordable too. “It's not only about salary, it's about living costs. One of the first things we have to ask, unfortunately, is 'Do you have children?' because if you have three kids, how are you going to afford schooling in Saudi or Dubai? We simply don't have the budget for that kind of salary.”

To understand the challenges and opportunities surrounding entrepreneurship further, research is being carried out by the Misk Foundation. *The 2018 Global Youth Index* found that young people today are entrepreneurial-minded, with two-thirds interested in starting their own business, but even more recent research showed that many are discouraged from taking the first step. A white-paper recently published by Misk Global Forum, discussed young people's readiness for the future of work which looked at some of the policy suggestions for how to prepare young people and their societies to address skills gaps in their learning.

Nonetheless, Celen is optimistic that recent exits in the region –like Careem being acquired by Uber for a record-setting \$3.1 billion and Souq' sale to Amazon– will rouse new founders and spark a shift to startup life for many others. To accelerate the transformation, he recommends making entrepreneurship a mandatory course in every university undergraduate program. “Teach students how these famous entrepreneurs got started. You don't have to just tell them about Elon Musk, you can tell them about people like Mudassir Sheikha and Magnus Olsson. The kids would love it. It would change the whole culture around entrepreneurship as an option.”

“A breakfast decision”

Talent is also needed in the form of forward-thinking fund managers, Celen says. According to data from MAGNiTT, Saudi Arabia saw an increase of nearly 90% in the number of investments in startups from 2017 to 2018, including from local investment firms such as Saudi Technology Ventures (STV), Saudi Aramco's Wa'ed Ventures, Raed Ventures, and STC Ventures. A 2018 report by OC&C Strategy Consultants said that the total funds available for SMEs –directly or indirectly to tech entrepreneurs– are valued at \$3.3 billion. However, actual investments going into Saudi tech startups, up to \$5 million, are concentrated on the seed stage and deal flows are moderate.

“The typical seed stage funding is a million or two million dollars,” Celen says. “This is really what I call a breakfast decision for a lot of the big family offices. They just write a cheque, it's not a big thing. Unfortunately, what it requires is some [fund management] talent on their end.” But getting the interest of private investors and VC firms is difficult, Wethaq's AlSehli says. “It still requires a push to elevate the prospects of these entities and to change what they see on their tables from an investment opportunity perspective.”

In April, Misk delivered a VCU (Venture Capital Unlocked) program for up-and-coming VCs and angel investors in the region who want to invest like Silicon Valley VCs. Participants worked with investment partners and legal team members from 500 Startups to design their investment theses, think about how to assess investment opportunities in Saudi, and learn how to use cap tables and term sheets. They also had the opportunity to put their learning into practice as they evaluated startups using tools and tactics from 500 Startups' investment playbook.

*Danish Rizvi, Chief
Operating Officer, ASA Ventures
Source: ASA Ventures*



But conquering the challenge around venture capital requires creating the right mentality for entrepreneurs too, AlSehli says. “When we talk to the entrepreneurs themselves, we need to build the awareness that they can actually build for global issues and on a global scale rather than just solving for local issues or growing regionally.” Many startups from neighboring countries are already looking to scale into the Saudi market to grow their presence in the region

due to its sheer market size, according to Sietse van de Kerkhof, Venture Capital Data Manager at MAGNiTT. Saudi Arabia has a total population of 34 million people and a GDP of almost \$700 billion. “[But] while the Saudi market is one of the largest ones in the region startups have to aim for a regional, if not a global, presence in order to scale and return value to their investors,” van de Kerkhof says.

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Dubai-headquartered VC firm ASA Ventures' Chief Operating Officer Danish Rizvi also advises startups in the region to think beyond solutions for their locale. “There definitely is room for improvement in terms of marketing strategy, strategic planning for expansion and scaling up, and understanding the investor’s perspective,” he says. “One of the major pieces of advice we can provide [startups] is to take full advantage of the size of the market. Once these startups have a strong enough foothold within the region they need to carefully and strategically think about scaling up and expanding beyond Saudi Arabia.” ASA is currently assessing a number of Saudi-based startups and discussing strategic alliances with other VCs in the Kingdom as part of its international expansion. “Apart from empowering Saudi-based startups through operational partnerships, we want to bring our startups to Saudi as well,” Rizvi says. “Due to cultural similarities, there is a high potential for our startups from the UAE to thrive there.”

“A G20 ECONOMY WITH A STARTUP MENTALITY”

Following Careem's acquisition, foreign investors are now, of course, intently watching startups in the Kingdom, Hala's Abussaud says, setting the stage for Saudi to leapfrog

other regional startup ecosystems. "Personally, I completely believe that in a few years Saudi will be the leading market," he says, adding that setting up more incubators and accelerators would further boost progress. "I think that will always increase the quality, and also reduce the economical losses because whenever you have startups that are failing quickly it will negatively impact GDP."

SAGIA's Dr. AlZaidi's message to investors now is simple: "Saudi Arabia is a G20 economy with a startup mentality." And with all eyes on the Gulf nation due to its lucrative and thriving investment environment and untapped opportunities, he says, any savvy early-stage investor in this new exciting phase of the Kingdom's history has "incredibly high chances" to make a return on their investment. The establishment of free zones would also help accelerate bringing foreign investment into Saudi Arabia, Wethaq's Alsehli adds. "I think that's one of the major things we still lack in Saudi Arabia," he says. "We also need to focus on cutting-edge technologies. We need to do things differently if we want to reach a different result. We need to be risk-taking when it comes to certain technologies and create environments that allow entrepreneurs to experiment not just in terms of POCs but also to conduct pilots with government entities on a small scale, see the result, and then scale up as fast as possible."



Dr. Mazin M. Al Zaidi, Entrepreneurship and Innovation Segment Director, SAGIA

Source: SAGIA

Enhance's Celen admits however that for all its progress, the giant Saudi market can still be difficult and daunting to operate in for both local and non-Saudi startups- unless you have willing, active, founder-friendly Saudi investors. It's why he advises startups to look for active founder-friendly Saudi investors irrespective of whether they are seeking funding or not. "They will help in so many ways," he insists, citing his own example. "From getting merchants to list on joigifts.com, to getting our license, to any questions on what would be culturally appropriate, we are on WhatsApp with all of [our Saudi investors] and they're like part of the team."

He adds: "Without Saudi, we strongly believe there is no Middle East story. It's about 40% of the disposable income of all the Arab world. We feel it's the true or forgotten G20, and doing business there is critical for us and our success."

Celen's McKinsey buddies definitely aren't making him question his choices anymore.