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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.



## 2. Regional cooperation at stake for innovation strategies in MENA countries

While MENA countries must develop strong ecosystems offering the necessary infrastructures for the development of innovation, **the regional scale is essential to meet the climatic, health, economic and**

**political challenges** common to the region. Beyond indispensable regional cooperation, the model for which has yet to be invented, **the partnership with the EU must also be rethought.**

### 2.1. A double risk to be defused: dependence and isolation

MENA countries face common issues for which the regional scale appears to be the most appropriate to provide answers: climate change and pollution, external dependence of energy and food security systems, need for access to technologies and foreign markets. To face these different challenges, regional cooperation seems to be the only way to rethink the structure of the commercial partnerships of MENA countries and to progress towards the creation of a "Mediterranean pole" better able to control its economic destiny.

Yet moving in this direction requires building **strong and balanced partnerships**, especially in Europe, in order to **integrate Mediterranean businesses into value chains that become more locally organised**. This also implies inventing a **South-South partnership** model capable of finding its complementarities.

#### > A new model for South-South partnership

After more than 25 years, **the potential of integration in the Mediterranean remains largely untapped**<sup>1</sup>. The dynamic must be relaunched so that the countries of the region no longer think that they are positioned in a competitive way. As regards at least the

countries of the African continent, the detailed analysis of the value chain structure and comparative advantages of each country tends to confirm that **complementarities do exist**. The OECD agrees, explaining in its recent work that "[...] *harnessing regional complementarities creates new competitive advantages for African countries*"<sup>2</sup>.

This non-integration of the South, to which are added **difficulties in the circulation of skills**<sup>3</sup>, is not without consequences for innovation players, especially entrepreneurs, who often have to **consider a move to Europe** before being able to access other markets in the region.

This is illustrated by the example of Walid Mzoughi, the Tunisian founder of Winshot, who was able to benefit from THE NEXT SOCIETY to develop his 360° analysis solution for sales outlets to improve their profitability. His success in Tunisia naturally led him to want to export to Morocco, the start-up's target market, but faced with regulatory obstacles and the lack of facilities offered for such sub-regional operations, the founder decided to create a head office in France to be able to set up operations in Morocco from Marseille.

#### > Accelerating transitions to avoid isolation

The COVID crisis, followed by the war in Ukraine, revealed a number of weaknesses in the ecosystems of the countries in the region. Despite their particularities, these countries face the same challenges of **technological upscaling, industrial diversification, social inclusion or greening of their production methods**, and are therefore equal when it comes to the **necessary transformation of their models**.

Moreover, regional partners, first and foremost the EU, are **setting the agenda for these transformations**. Through its EU green deal, for example, Europe aims to give priority in its trade relations to businesses in third countries that are able to respect its main principles. However, this policy is **not without consequences for the capacity of MENA businesses to insert themselves into Euro-Mediterranean value chains**.

These global shocks and their impact on regional trade policies are therefore putting **pressure on the region's ecosystems to anticipate these transformations, adapt their practices and set up monitoring systems** - which are often lacking - to measure and justify these transformations.

#### > Clusters at the heart of regional cooperation challenges for innovation ecosystems

The regional dimension, particularly in the EUROMED area, holds great potential for clusters. To benefit from it, their businesses must be able to meet a need for transformation with a **production offer to be promoted to foreign partners**, who have themselves been made aware by the global crises of the shortening of value chains and the **relocation of the production tool** to neighbouring countries.

Indeed, the impact assessment of THE NEXT SOCIETY beneficiaries illustrates the challenge for clusters to **become the place through which Mediterranean businesses integrate these "new" value chains and acquire the technology that will enable their ecosystem to become more competitive**. In doing so, they will be able to create the confidence necessary for these new commercial partnerships. Although still underdeveloped in Europe, these dynamics already exist elsewhere, as the following example illustrates.

Indeed, the clustering approach followed in the Suez Canal Zone in Egypt has generated investments and [...] *a positive impact on the national economy, and at the same time produce spillover effects thanks to new technologies and know-how transferred to the region, contributing to transforming the area into a major fulcrum for innovation and entrepreneurship*.

CEO of Suez Canal Zone Mr. Gamal Eldien goes on to say that [...] *the project created here after an agreement with the Chinese Government, is one of the most significant in the area, with state-of-the-art plants producing textiles and plastics, energy, and providing for waste management and recycling*.

1. OECD (2021), Regional Integration in the Union for the Mediterranean: Progress Report, OECD Publishing, Paris

2. AUC/OECD (2022), African Development Dynamics 2022: Regional Value Chains for Sustainable Recovery, AUC, Addis Ababa/OECD Publishing, Paris, <https://doi.org/10.1787/f92ecd72-fr>.

3. See section "Provisions conducive to the mobility of innovation players".





## 2.2. The indispensable political will for such cooperation

Although businesses, especially under the impulse of clusters, can play a role in creating dynamics of economic cooperation and business partnerships at regional level with ultimately an impact on national innovation ecosystems; **the regional political environment, the structure of existing trade agreements** as well as the capacity of **physical mobility** of stakeholders remain decisive to envisage **substantial economic development** at regional level.

### > Enabling regulatory frameworks and revised bilateral agreements

Enhancing R&D capacities, supporting technology transfer, strengthening human capital and its mobility, structuring access to finance, and providing a supportive framework for investors are all dimensions to be taken into account in the national innovation strategies developed in MENA countries. These key issues are the ones addressed by THE NEXT SOCIETY through its support to each ecosystem in proposing future reforms and regulatory provisions to be adopted by its government.

On top of this dynamic of support for the creation of a conducive environment at national level, it is essential to **work in a regional perspective on the implementation of quality infrastructure, modern logistical solutions, optimised customs services and currency transferability policies**. Therefore, the convergence of both regulatory frameworks and national innovation systems should be supported.

This convergence will in fact foster closer trade relations within the MENA region, as well as with Europe. This trend will be amplified by **the need to revise existing trade agreements, especially on the key issues of rules of origin and imposed tariff costs**.

### > Mediterranean institutions and regional projects

Whilst the impetus must come from business and reforms from states, the Euromed region must also be able to provide itself with its **own political institutions and regional projects to lay the foundations for such cooperation**.

This regional cooperation must meet a double challenge:

- Demonstrating that regional integration is not at a standstill and that political institutions such as the Union for the Mediterranean can **play the role of catalysts for the driving forces of the countries in the region to give substance to this cooperation**;
- Giving a **strategic orientation to this cooperation, thanks to key aspects such as mobility, the modernisation of production systems, or social and environmental performance**, which are all common challenges for the countries of the region.

**Regional projects can bring these key issues to the Mediterranean level and the governments of these countries and their agencies should be involved so that they can take advantage of them.**

In this respect, THE NEXT SOCIETY experience teaches us that while such projects can enable the **implementation of measures in favour of innovation by advocating them at national level, they also enable national “good practices” to be brought to the regional level**, particularly those adopted by public authorities under the impulse of such projects.

The examples of **cooperation between different national ecosystems** within the region, which are unfortunately few in number but nonetheless very real, should be given priority to demonstrate the impact of such cooperation for the stakeholders involved.



THE NEXT SOCIETY was at the origin of some of this cooperation.

Garment IO is an Egyptian start-up offering a complete data ecosystem for garment factories. With a cloud-connected proprietary device at every transaction point and a modular cloud system, nearly every action in the factory is logged, analysed and reported in a fully customised format to support the client in the strategic decisions. Garment IO has been supported by the project through capacity building programmes, they participated to international business and innovation exhibitions (Big Booster). Thanks to the project, the start-up has been connected to the Denim and Fashion cluster in Morocco and introduced to the Moroccan garment industry.

#### > Provisions conducive to the mobility of innovation players

Yet, a favourable regulatory framework is not enough to allow the establishment of South-North partnerships. One of the main barriers to the internationalisation of MENA businesses observed during THE NEXT SOCIETY project remains **the issue of mobility** - particularly with regard to **difficulties in obtaining visas and residence permits**. The observation is as follows: despite the willingness of institutions and businesses to work together, the administrative procedure remains so long and tedious that projects have to be postponed, as does participation in programmes for which entrepreneurs are invited (Soft Landing, Incubation...).

On both sides (Europe and MENA), energy is focused around these administrative issues which hinder cooperation work if not the development of innovative solutions. There are many instances where regional conference and event programmes have been compromised by these issues, requiring a great deal of flexibility from all parties to allow speakers to travel to Europe or even to other MENA countries. In addition, Soft Landing missions to Europe had to follow the administration's timetable and not that of the projects or incubators. This has led to significant delays, which cannot always be reconciled with the time of projects or support providers, who nevertheless show genuine willingness to facilitate the procedures necessary for these internationalisations.

As a result, the scaling up and internationalisation of MENA start-ups and, more generally, technology and knowledge transfer are largely conditioned by the mobility of stakeholders, and it appears crucial to place this issue at the heart of any innovation support policy.

Without this mobility and with a situation of imbalance in terms of travel opportunities in the region, Euromed cooperation seems to be compromised.

