

Paving the Path to Successful Youth Entrepreneurship in the Arab States with Behavioural Science

**A review of the evidence by The Behavioural Insights Team
for the United Nations Development Programme**



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Preface

All dimensions of the entrepreneurial ecosystem (young people, their families, communities, organizations, decision-makers and societies at large) are shaped by people's behaviour: the decisions they make and the actions they take. Insights from the behavioural sciences can help better diagnose what drives not only policy-makers to create a positive enabling environment but also institutions to offer relevant and accessible services for young entrepreneurs and young women and men themselves, in all their diversity, to follow through with their entrepreneurship intentions and run successful businesses.

In 2021, the Innovation Team at UNDP's Regional Hub for the Arab States is leading a multi-country project aiming to better understand the behavioural enablers and barriers to a robust, vibrant and inclusive environment and to experiment with solutions that can support young women and men to engage in entrepreneurship and become successful entrepreneurs. The project incorporates behavioural insights as a complement to structural interventions by UNDP and national partners. The 10 UNDP Country Offices involved in exploring behavioural barriers and experimenting with behavioural solutions through this initiative are in Djibouti, Iraq, Jordan, Lebanon, Libya, Morocco, Somalia, Sudan, Syria, and Tunisia.

The project builds on previous UNDP explorations into the potential to apply behavioural insights to youth entrepreneurship. In 2018, preliminary research was undertaken among participants in UNDP's regional Youth Leadership Programme (YLP) to identify structural and behavioural barriers they experience on their path to successful entrepreneurship. Input from this research was subsequently used to structure hands-on interactions with young entrepreneurs to generate behaviourally informed solutions to these challenges.

This evidence review shares the outcomes of a desk review of existing findings on the behavioural barriers to entrepreneurship and possible solutions. It focuses on identifying barriers that are prevalent for youth and women in the Arab States, though the available research often covers broader groups. It was commissioned by UNDP and compiled by The Behavioural Insights Team as part of the multi-country project, and in preparation for behaviourally-informed interventions that participating Country Offices will be undertaking over the course of the year. It will be complemented by further knowledge products and practical tools emerging from their experiences and lessons learned.

1. Introduction

The state of the situation

Young men and women in the Arab States¹ face significant barriers to employment. The unemployment rate among youth aged 15-24 currently stands at an estimated 23%, compared with a global average of 13.7%.² Although the rate has undoubtedly been exacerbated by the COVID-19 pandemic,³ unemployment is not a new issue for the region. The Arab States have seen one of the highest rates of unemployment across the world for at least the past three decades - and it has increased over the past 10 years, especially for women.⁴ Indeed, the unemployment rate among young women is more than double that of young men, sitting at an estimated 42% compared with 20%.⁵ The COVID-19 crisis could widen this gap; UN Women estimates that 700,000 women in the Arab region will lose their jobs as a result of the pandemic.⁶ As was the case globally, employment loss in 2020 disproportionately affected women and youth in the Arab States.⁷

The pandemic has also dramatically shifted the way that people work. Unfortunately, the gendered nature of access to technology in the Arab region means that women are disproportionately impacted by the shift to remote working. For example, only 51% of women in Iraq have access to the internet, compared with 98% of men.⁸ Across the Arab States, nearly half of women do not have access to the internet or a mobile phone.⁹ Young men and women do have greater access to digital technologies than their older counterparts though. In Tunisia, while only 21% of those aged 37 or older report using the Internet at least occasionally and/or owning a smartphone, this jumps to 72% among those aged 18-36.¹⁰ Access to technology can be an opportunity, especially in a COVID-19 world where face-to-face exchanges are less frequent or safe.

Promoting entrepreneurship can help to address the unemployment challenge.^{11,12} One study of 23 OECD countries from 1974-2002 found that every 1 percentage point increase in self-employment (a common measure of entrepreneurship) predicts a 1.12 percentage point reduction in unemployment eight years later.¹³ More youth in the Arab region are interested in working for themselves or their families than they were in 2019, suggesting that there may be an increased interest in entrepreneurship, probably due to the impact of the COVID-19 pandemic.¹⁴ Despite these aspirations, younger people are less likely to be engaged in entrepreneurship than those in older cohorts.¹⁵ Why is this the case? What prevents young people from entering into and succeeding in entrepreneurship?

This evidence review aims to highlight the key behavioural barriers to youth entrepreneurship as identified in the literature and what works to promote entrepreneurship. We also identify barriers that are unique to, or exacerbated among, young women. We have examined academic studies (including systematic reviews and meta-analyses which aim to aggregate findings from many studies) as well as grey literature (e.g. institutional research reports,

working papers, etc.). Where available we focus on findings from the Arab States but also draw on insights from elsewhere when local studies are limited.

Examining entrepreneurship through a behavioural lens

Behavioral insights (BI) is an approach that applies evidence about human behavior to practical problems. Behavioral insights provides a realistic account of how and why humans act the way they do, and encourages the design of policies, products, and services to reflect this understanding. A BI approach takes empirical evidence from the behavioural sciences (like psychology, behavioural economics, and anthropology) and applies it to the real-world problem at hand.

At its heart, entrepreneurship is a set of behaviours. Behaviours include identifying market gaps, designing a product or a service, finding customers and suppliers, registering the business, and creating new networks to extend business reach, to name only a few. This is why a behavioural lens can be particularly useful to approach this issue. However, we found that the vast majority of the entrepreneurship research was focused on structural barriers to engaging and succeeding in entrepreneurship. Where available we focus on reviewing the psychological and social factors that have been found to play a role in youth entrepreneurship and we bring a behavioural lens to the most relevant structural factors.

A note on assumptions

In this review we have suggested that increasing youth entrepreneurship will have a positive impact on the employment opportunities and economic growth of the Arab region. However, some researchers have argued that a focus on quantity (encouraging more people into entrepreneurship) may be less effective than a focus on quality (helping start-ups with the most growth potential to succeed).¹⁶ Some businesses will fail and only a subset will go on to generate jobs and enhance economic growth. Good estimates of business failure are difficult to obtain but some have reported failure rates as high as 90%.¹⁷ Moreover, while promoting entrepreneurship in general has been linked to a reduction in unemployment, encouraging only those who are unemployed to start their own businesses seems to be less effective.¹⁸

Entrepreneurship will not always be the best option for individuals either. Consider a young educated Arab woman from rural Jordan with limited financial resources and a job offer in the public sector. The best option for her may be the secure and stable public sector employment rather than taking on the risk and uncertainty of self-employment. In this note, we make the assumption that *enabling* more young people to engage in entrepreneurship - should they wish to - is a good thing, but note that resources should also go toward supporting existing businesses to grow and create job opportunities for youth in the Arab region.

2. What is entrepreneurship?

For the purposes of this review, we have adapted the definition used by the Global Entrepreneurship Monitor,¹⁹ defining entrepreneurship as any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business, by an individual or a team of individuals. We define youth as those aged 15-24 in accordance with the United Nations definition,²⁰ but recognise that not all literature in this review has used the same definition, and that some UNDP initiatives (such as the Youth Leadership Programme in the Arab region) use the age bracket 19-29.

Two different types of entrepreneurship are also commonly distinguished. *Opportunity entrepreneurs* are those individuals who are motivated to start a new venture because they see an opportunity to do so. *Necessity entrepreneurs* on the other hand are motivated to enter into entrepreneurship because they have no other employment opportunities.²¹ In almost all Arab countries for which there is data, opportunity entrepreneurship is more prevalent than necessity entrepreneurship. However, it varies between countries. The ratio of opportunity entrepreneurship to necessity entrepreneurship ranges from 0.55 in Egypt (as of 2018) and 3.56 in Tunisia (in 2015).²² Because they have different motives for entering into entrepreneurship, opportunity and necessity entrepreneurs sometimes face different challenges in the process and may respond differently to interventions. In this review we aim to call out where effects differ for the different entrepreneurs. However, we also acknowledge that not every entrepreneur's motives will fall neatly into this dichotomy and that the categories sometimes overlap.

Entrepreneurship can also exist in the formal economy or the informal economy (businesses and activities operating at least partially outside the legal and regulatory systems). Informality is high in the Arab States, with 2016 data from the International Labour Organization suggesting that 91% of enterprise owners (including those with and without employees) operate in the informal economy.²³ Although it may be intuitive to think that many informal entrepreneurs are driven to it out of necessity, there is evidence from other regions to suggest this is not the case for everyone. For example, in a qualitative study of almost 500 entrepreneurs engaging in the informal economy in England, Ukraine, and Russia, only approximately 10% cited solely necessity motives for starting their enterprise.²⁴ In Ukraine and Russia, a further almost 60% reported being *mostly* motivated by necessity but also by opportunity. These findings suggest that entrepreneurs who engage in the informal economy may do so for a variety of reasons, including a mix of necessity and opportunity motives.

Box 1. Case study of entrepreneurship in the Arab States: Sawaed19

As a university student, Palestinian entrepreneur Hiba Awaysa had an eye-opening experience: as part of mandatory social service, she spent 120 hours putting up a flag at a popular local shopping festival, while she would have been able to invest her time, effort, and leadership skills more effectively. Informed by this experience and throughout her volunteering efforts over the 12 years that followed, she couldn't help but wonder how

much more impact she could have had if she had been able to volunteer in something more closely aligned to her knowledge and skills.

Indeed, in Palestine alone, 700,000 volunteers generate some USD 150 million annually in economic value, and yet two thirds of volunteers and nonprofits believe that the volunteering ecosystem is disorganized and uncoordinated, making it difficult for non-profits and qualified volunteers to connect effectively. Hiba's digital platform, [Sawaed19](#), aims to support the smart matching of these resources. Since launching its beta version, Sawaed19 has succeeded in attracting hundreds of subscribers (both volunteers and nonprofits) and expanding its network of international and local institutions that are key players in the volunteerism ecosystem.

Hiba and her team have faced numerous challenges in growing their enterprise. The lack of local knowledge and experience in social entrepreneurship has led them to pursue international mentorship opportunities, such as the [Women Innovators Programme](#) by UNDP and GSMA. The economic and political context in which they operate makes it difficult to attract investment, and access to finance is even more complex for social enterprises with unconventional business models. As a result, the team has been unable to take the risk of giving up more secure employment (in a context of high unemployment) and dedicate themselves to the start-up full-time. As the legal environment doesn't recognise social enterprises, the team has also gone through complicated business registration procedures and additional hassle factors to register as a digital service provider.

The COVID-19 pandemic has led Sawaed19 to explore new avenues in digital volunteering, in collaboration with organizations such as UNDP, United Nations Volunteers, Gaza Sky Geeks, and others who are supporting the development of necessary tech-related skills.

In recent years, researchers have turned their focus from the psychological characteristics and personality traits that predict entrepreneurship to the *process* of entrepreneurship.²⁵ In his article *"Who Is an Entrepreneur?" Is the Wrong Question*, Gartner²⁶ argues that research focusing on personality and traits is misguided since the entrepreneur is 'not a fixed state of existence.' He encourages a more fruitful approach focusing on the study of 'entrepreneurial behaviours' within the entrepreneurial process. This is the approach we have taken in this review. In the next section, we will highlight the barriers and levers that can prevent or

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