



The UAE Start-Up Ecosystem: Many Challenges, But Great Rewards

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Introduction

The UAE has one of the most conducive and thriving ecosystems in the world to give wings to entrepreneurial ventures across various sectors. Small and medium-sized enterprises (SMEs) and start-ups comprise 95% of the country's private sector, employ 42% of the workforce, and contribute 40% of the national economy.

The federal government, too, is committed to providing necessary support to new businesses as it makes concerted efforts to create a new "knowledge-based, non-oil" economy by rolling out an extensive roadmap for the next 50 years.

With the government allowing 100 per cent foreign ownership and ushering in several reforms to make the business ecosystem better, there is a steady rise in the number of new enterprises.

Start-ups in the Middle East, with 35% headquartered in the UAE, raised over a record \$1 billion in investment in 2020. However, every new business in the Emirates is required to take into account procedural complexities, capital requirements, and a host of other processes before it becomes operational.

The next pages identify the key areas that a start-up needs to focus on before cementing its place in the UAE.



1

Getting company formation right

There are three types of company formation in the UAE, namely Mainland, Free Zone, and Offshore. Each formation has its own merits, geographical restrictions, and ownership limitations. If one engages a company formation specialist, it may cost from anywhere \$10,000 to \$50,000. This amount includes government fee and charges for fulfilment of all legal requirements, and business registration and corporate account procedures.

A Free Zone company is the most preferred way of doing business, as it can be formed by only one individual. Zero taxation, 100% ownership, less renewal charges, no requirement for a sponsor or an agent, and several other benefits come with a Free Zone company. An offshore company gets a regional tax relief invoicing facility. There is no minimum capital requirement and no need to set up an actual office facility.



2

Business activity and trade licence

A start-up can operate in more than one area. Its business activity will determine the legal form and the related applicable laws and regulations. General partnership, limited partnership, limited liability company (LLC), and civil company are among the various legal forms one has to select from.

Next, a business has to apply for a licence, which has six types — industrial, commercial, professional, tourism, agricultural and occupational. Trading companies go for commercial licence, those involved in manufacturing apply for industrial, and for personally offered services, professional licence is required. The licence should carefully be selected as the documentation and approval procedures vary.



3

Minimum capital requirement

The minimum capital share requirement in the UAE varies with each registration authority. For example, the minimum capital requirement for free zone companies in Dubai varies between \$13,614 and \$273,000. Other free zones may require a lower capital, and some may not prescribe a set capital requirement. There is generally no minimum capital requirement imposed on foreign branch offices operating in free zones. Some authorities may ask for a stamped bank statement or a share capital certificate to verify the minimum deposit in the company's corporate account, others will just require its mention in corporate documents.



4

Challenges to remaining economically viable

Start-ups initially require a great amount of funding to find a firm footing in the market. Though there's a growing support from venture capitalists and incubators, secure funding for projects continues to remain a major challenge. Investors largely focus on high revenue-generating start-ups. Also, securing finance from banks is also not that easy. Business loans, especially for start-ups, involve a lot of paperwork and time as banks want to be sure that the enterprise they are dealing with is economically stable and trades sustainable products and services. Besides, a careful planning of expenses involving the payment of office rent, employees' salaries, purchase of software, hardware, etc., is a must to remain economically viable.



5

Understanding local market, cultural norms

The UAE is firmly rooted in Islamic culture, even though it represents the quintessential cosmopolitan lifestyle and boasts of multinational workforce. Profanity must be avoided at any cost. Modesty and sophistication go hand in hand. It is customary to address Emirati people and introduce them with utmost respect without being too personal and informal.

New companies should also ensure their operations, services, and marketing plans are in consonance with the local religious and cultural belief systems. At no point should the sensitivities of any community or religion be hurt, which can adversely impact companies' image.



Conclusion

Any new enterprise which wants to avoid teething problems in the UAE's thriving ecosystem needs to give considerable attention to the above-mentioned areas. This will ensure the right start to guarantee rapid growth and more time to meet bigger challenges of positioning and scaling, and better implementation of bold ideas.

The UAE is the on cusp of leading a global start-up revolution as it recently launched a public-private partnership programme to attract and expand SMEs' role in the country's non-oil economy. Opportunities are galore for start-ups, but challenges, too, are many in a competitive business ecosystem in the post Covid-19 times. A pragmatic planning and execution coupled with compliance with local rules and regulation will pave the way for a successful business venture.

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