

## Accelerating Entrepreneurship in Africa

Despite the positive economic news and encouraging trends that have emerged from Africa over the past decade, the troubling reality remains that the everyday livelihoods of Africans have not kept pace with macroeconomic growth, and per-capita GDPs on the continent persistently lag behind the rest of the world. We submit that entrepreneurship can address this stubborn income gap in Africa if—and only if—it is able to evolve beyond its current state of necessity-based informality into one that is vibrant and robust enough to promote sustained economic growth and generate long-term, viable livelihoods across the continent.

To gain understanding of the state of entrepreneurship in Africa, Omidyar Network launched the Accelerating Entrepreneurship in Africa Initiative in 2012. To execute this multiphase research project, we partnered with Monitor Deloitte South Africa (formerly Monitor Group). We set out together to identify the challenges facing African entrepreneurs and to pinpoint the most trenchant barriers inhibiting high-impact entrepreneurship.

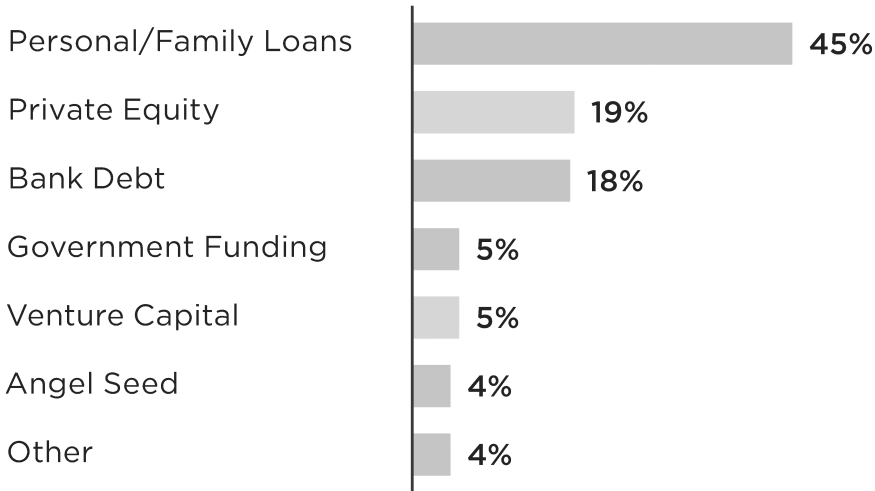
The first phase of the initiative began with a survey of 582 entrepreneurs in six sub-Saharan African countries: Ethiopia, Ghana, Kenya, Nigeria, South Africa, and Tanzania. The survey was augmented by 72 in-depth interviews and then benchmarked against 19 global peers.<sup>1</sup> The survey focused on four critical aspects of entrepreneurial environments:

- Entrepreneurship assets: financing, skills and talent, and infrastructure
- Business support: government programs and incubators
- Policy accelerators: legislation and administrative burdens
- Motivation and mindset: legitimacy, attitudes, and culture

The initiative's second phase brought together business, government, and thought leaders to analyze the survey findings and to examine the state of entrepreneurship in Africa more closely. The sessions were held in October 2012 at the inaugural Entrepreneurship in Africa Summit in Accra, Ghana. Convened by Omidyar Network in collaboration with the African Leadership Network and Monitor Deloitte South Africa, the summit drew more than 300 relevant leaders from both private and public sectors to participate in a solutions-driven dialogue on fostering high-impact entrepreneurship across the continent. This article pres-

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**Figure 1.** Self finance and family loans are the main sources of funding.

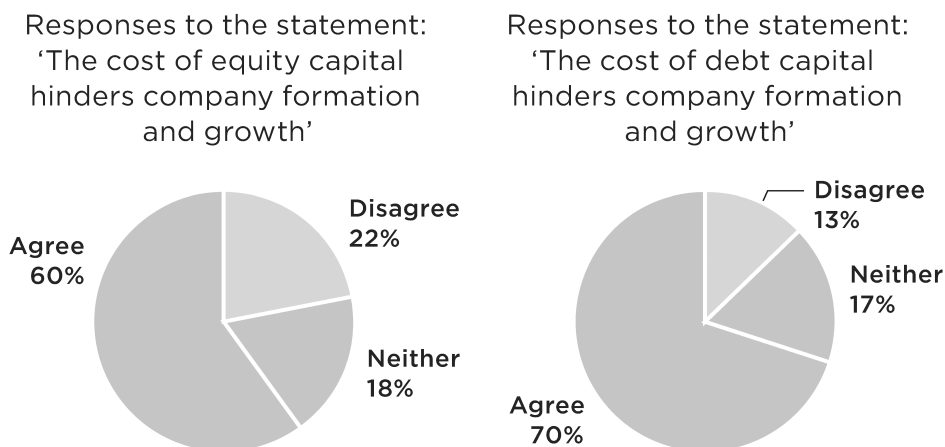
ents the findings of the entrepreneur survey, the outcomes of the workshops in Accra, and the conclusions of the third and final phase of the initiative: the recommended actions needed to accelerate entrepreneurship on the continent.

We are pleased to report that a culture of entrepreneurship is growing in sub-Saharan Africa, with indicators related to entrepreneurial motivation on par with or higher than global peers. However, despite these positive signs, the business landscape in the region presents a number of challenges that prospective entrepreneurs must transcend. We outline the opportunities and challenges Africa's entrepreneurial ecosystem is facing, and the key practices that we believe will spur the continent forward.

#### ENTREPRENEURSHIP ASSETS: FINANCING, SKILLS AND TALENT, AND INFRASTRUCTURE

##### Financing

A supply of and access to capital are critical to stimulating entrepreneurship and economic growth. The International Finance Corporation estimates that up to 84 percent of small and midsize enterprises (SMEs) in Africa are either unserved or underserved, representing a value gap in credit financing of US\$140-\$170 billion.<sup>2</sup> In the Monitor survey, challenges related to accessing finance drew mixed perceptions from the demand and supply sides. Seventy-one percent of respondents believe that not enough equity capital exists to start new firms, but while many "Afro-entrepreneurs" bemoan a limited supply of capital, financiers point out that many projects simply are not fundable. Of the six countries surveyed, Kenya seems to fare the best in terms of capital supply, given that only 52 percent of Kenyan respondents highlight this as a challenge.



**Figure 2.** The cost of accessing capital is prohibitive.

Currently, the main sources of capital for small and growing enterprises are retained earnings, credit cards, loan associations, and investments from family and friends. Forty-five percent of Afro-entrepreneurs report that they used family loans to finance their business, and 19 percent say they used private equity (see figure 1). However, once these sources are exhausted, entrepreneurs face the challenge of tapping other sources of capital. The following section explores the constraints facing funders and entrepreneurs, as well as various frameworks that banks, venture capitalists, angel investors, incubators, and large corporations could establish to increase the availability of financing to entrepreneurs.

The cost of funding is prohibitive. While the majority of Afro-entrepreneurs in five of the six countries indicate that they know of organizations and programs that can direct them to sources of capital, they cite the cost of funding as a primary reason they are reluctant to access, or even explore, different avenues of funding. As illustrated in figure 2, 70 percent of respondents believe that the cost of debt capital (and, for 60 percent, the cost of equity capital) hinders company formation and growth. The cost of capital charged by banks and investors is often so high that it reduces the entrepreneur's profit.

In some cases, banks require 150 percent of the borrowed amount in collateral, thereby automatically disqualifying many from funding eligibility. Government funding is viewed as difficult to access due to bureaucracy and nepotism; only 5 percent of survey respondents used government funding. Many entrepreneurs admit to being unaware of alternative funding options available from government or private sources other than banks. There is also a lack of patient capital sources, leaving entrepreneurs heavily reliant on family and friends for capital to start and run their businesses.<sup>3</sup>

Access to finance remains a dilemma. Debt financing from banks is one of the most prevalent funding sources in Africa; however, it is viewed as unsuitable for

entrepreneurs, given the structure of funding from banks. Paul Harris, founder of the First Rand Group in South Africa, states that the risk-reward structure of banks makes them reluctant to invest in startup ventures. If one considers the fact that banks' earnings are capped on loans made and that nine out of ten ventures fail within five years of operation, the risks are exceedingly high and do not offer a corresponding reward. Banks make loans using depositors' savings, which are put at considerable risk if they invest heavily in entrepreneurial ventures.

Venture capital, where investors share the risk but also the gain on the equity upside, provides a more appropriate source of financing. Equity markets for small and growing firms, however, are still in their infancy in Africa; only 33 percent of respondents in the Monitor survey believe enough venture capital is available.

For venture capital to succeed in Africa, entrepreneurs must demonstrate to investors that they are profit-driven, are interested in maximizing returns for themselves and their financiers, and have a potentially profitable business. Accessing financing is part of a composite of factors that require entrepreneurs to demonstrate intimate knowledge of their business models, as well as the operating environment of their industry as a whole. In the words of Paul Harris, the entrepreneurs must "know something about everything, and everything about something."<sup>4</sup> Entrepreneurs must also have a convincing story and be able to persuade potential investors that they are better than other entrepreneurs competing for the limited pool of finances.

Although capital supply may be limited, financiers note a lack of fundable business plans, pointing to issues ranging from the quality and feasibility of the business idea to the commitment of the entrepreneur and their team. The entrepreneur must focus on rigorous business planning and demonstrate understanding of a particular sector. The central issue, according to the panelists who participated in the Entrepreneurship in Africa Summit, is that financing is not the determining cause of a venture's success or failure. Rather, the entrepreneur's ability to adapt to market changes and cope with uncertainty, as well as their level of tenacity, are greater determinants of business success. If these qualities are in place, capital will usually follow.

Communication plays a vital role in accessing capital. Entrepreneurs often view funders' investment requirements as onerous and difficult to meet. Sixty-four percent of Afro-entrepreneurs say that bank lending policies favor well-established firms over new companies, given their limited or nonexistent financial and bank records. Nearly the same percentage of respondents (57 percent) feels this is also true of financial assistance programs and government subsidies. Funders must perform a thorough due diligence on companies in which they invest. Their stringent requirements are designed to reveal the extent to which an entrepreneur understands their business model, industry, and external regulatory environment. Yet, while a financier may discredit an entrepreneur who does not meet a checklist of requirements, it is presumptuous to expect that many entrepreneurs understand these requirements. Entrepreneurs may not be thinking about their businesses along the same structured lines as financiers, thereby running the risk of discount-

ing this type of funding as prohibitive or even impossible. Enhanced communication can mitigate many of these misperceptions and misunderstandings.

In some cases, entrepreneurs are aware of what is required but cannot meet those requirements, particularly when new businesses must submit bank and financial statements. To meet the financiers' requirements to provide capital to small enterprises, entrepreneurs are challenged with finding service providers who can prepare documents, analyses, and reports that will support their financing pitch.

With the exception of South Africa, business funders in Africa have limited exit options to recoup their investments. This challenge is most pronounced in Ghana, where 48 percent of respondents report that business owners rarely use buyouts to sell their firms. Respondents in Ethiopia (42 percent), Tanzania (41 percent), Nigeria (38 percent), and Kenya (37 percent) share the same concern. The lack of viable exit opportunities is a disincentive for making investments in the first place. The regulations for existing businesses to recoup their investment are also considered rigid, and few entrepreneurs realize that large multinational corporations or private equity funds can offer compelling buyout options.

Access to market is a greater challenge than access to funding. Although many entrepreneurs perceive a lack of funding as their greatest growth inhibitor, they often discredit the effects of a lack of access to markets for their products and the implications this has for getting funding to expand. Without multiple product channels, revenues and profits likely stall, and this lack of growth makes funders reluctant to invest.

The power of networks is critical to shaping an entrepreneur's horizon. The size of an idea is shaped by the resources—financial and otherwise—that an entrepreneur has to nurture the idea and bring it to life. If an entrepreneur believes they can raise \$5,000, the business idea gets adjusted accordingly; if they have access to \$500,000, however, the idea is likely to be larger. This poses difficulty for entrepreneurs who do not have a network of potential investors and mentors beyond their family and friends, as their ventures face a higher chance of stagnation.

Seed financing and angel networks should be more formalized in Africa because they are vital to boosting financing for small-scale ventures. Because the cost of making large-scale investments is equal to that of small-scale investments, seed financing can be professionalized to make investing in small-scale ventures more efficient and cost effective. Additionally, angel networks offer entrepreneurs access to business experience and capital. Successful examples, such as the Mo Ibrahim Foundation and the Tony Elumelu Foundation, highlight the trend toward angel and philanthropic investments by Africans. Hakeem Belo-Osagie, an angel investor from Nigeria and an Entrepreneurship in Africa Summit panelist, attests that, in Nigeria, successful angels attract funds from other wealthy individuals who are keen to invest in entrepreneurs.

Four percent of respondents report funding their businesses using corporate funding, lease or receivables financing, or stock options. Some South African entrepreneurs claim that their businesses are funded using multiple credit cards

because most banks are reluctant to provide a loan to businesses but are willing to increase limits on the entrepreneurs' credit cards. This is a remarkably expensive way to fund a business, but some entrepreneurs prefer the ease of accessible funding.

Preparedness for funding is key. For entrepreneurs to successfully secure funding, they must identify the availability of capital sources and the suitability of capital, given their company's stage of growth. Entrepreneurs must be able to assess their funding requirements and identify the funders that are most likely to fund them. Due to many constraints and circumstances that limit funding options, entrepreneurs should be proactive in the fundraising process and/or access external support when needs arise.

### Recommendations for Financing

#### *Early-Stage Enterprise Financing in Africa*

- Reduce bureaucracy for early-stage companies to access government funding in order to provide "softer" sources of financing for less-experienced entrepreneurs.
- Expand or initiate local angel investing ecosystems to ensure the availability of the most appropriate type of funding for startups, especially for entrepreneurs who lack the network of friends and family that traditionally plays this role.
- Provide tax and other incentives to formal, as well as informal (e.g., family and friends), angel investors to make it easier for people who have extra cash to invest in startup businesses and reduce their risk. For example, in Singapore, investors in startups receive tax deductions if the company fails or if its shares are sold at a loss, and new businesses receive tax exemptions for three years.
- Provide tax and other incentives for large clients of early-stage ventures to provide supplier credit to incentivize and reduce the risks suppliers take when providing generous payment terms or stock to new ventures. In South Africa, for instance, large businesses get Black Economic Empowerment procurement points by supporting small black-owned businesses on favorable terms.
- Educate entrepreneurs about possible sources of funding outside banking systems. Leverage website portals and other types of guides so that local entrepreneurs have a quick view of various sources of funding available in their locality.
- Train and assist early-stage entrepreneurs in the intricacies of raising capital. When necessary, extend the training to general business management so that fund seekers understand the language and requirements of fund providers and become better prepared for their fundraising searches. In the United States, for example, the Small Business Administration and regional or local governments offer educational programs and grants in areas of traditionally low entrepreneurial activity (e.g., North Carolina Institute for Rural Entrepreneurship). The Gauteng Investor Centre, established by the South African government, acts as a one-stop shop for investors, with the aim of removing barriers between entrepreneurs and funders and, therefore, facilitating investments in small businesses.

## *Accelerating Entrepreneurship in Africa*

- Train the local financial community to evaluate investment opportunities on the basis of future prospects rather than historical cash flows. This will help ensure that people working at financing institutions are better able to evaluate business prospects and risks inherent to the new ventures they are asked to evaluate.

### *Mid-Size Enterprise Financing in Africa*

- Leverage indirect personal sources of funding, such as pension funds, to fund SMEs so that more resources are available to fund more-established enterprises, where the risks are lower. In Singapore, for example, foreign pension funds are a growing source of capital investment; in the United States, pension funds are the leading source of venture capital for minority-owned firms.
- Expand or initiate local venture capital-investing ecosystems to ensure that the most appropriate source of funding is available for companies at the mid-level stage of development. Typically, midsize companies need banking overdraft facilities to cover predictable working capital, debt to finance certain types of capital investments, and second rounds of equity to finance expansion. This kind of funding can be made available through venture capital firms and possibly private equity funds for the larger midsize companies (circa the \$70 million threshold).
- Use local banking systems to disburse donor or government lines of credit to SMEs to reduce prohibitive interest rates and collateral requirements. This approach puts enterprise funding in the hands of commercial bankers who are trained to assess risk and evaluate potential but may lack the soft funds needed to take slightly less-secured credit-equity positions. Kenya's Equity Bank, for example, lends on preferential rate lines provided by multilateral institutions.
- Provide incentives and support to encourage midsize enterprises to practice sound financial management and maintain adequate records, including audited statements. This will help such enterprises be more funding ready, as investors invariably ask for reliable financial information.

### *Later-Stage Enterprise Financing in Africa*

- Create capital-raising engagement programs with leaders of well-established private African enterprises to inform entrepreneurs about the benefits of private equity funding and of listing at local stock exchanges. This will help alleviate the concerns of many successful African entrepreneurs about giving up control of their enterprise brainchild. For instance, in 2012, India launched an SME stock exchange, which is expected to lower borrowing costs by 5 percent.<sup>5</sup>
- Create continent-wide regional champion programs to facilitate access to capital (both debt and equity) for independently vetted pan-African companies that are expanding across the continent.

## SKILLS AND TALENT

The informal sector is pervasive in Africa, so the continent sees a significant amount of informal entrepreneurship. This reality often prevents SMEs from professionalizing and thus scaling their operations. Entrepreneurs with technical backgrounds, such as information technology or engineering, or those with little to no business management training have an even greater need for experienced managerial talent to complement their technical talent.

The challenge that entrepreneurs in Africa (and elsewhere) face is the ability to attract and retain such managerial talent, especially in light of severe competition with well-established corporate firms that have the means and security to hire that talent. Hence, most African education systems focus on preparing the workforce for employment by more-established firms. As highlighted in the Monitor survey, the existence (or lack) of entrepreneurship training in the education system plays a crucial role. Entrepreneurs in Africa require training and education to allow them to succeed in starting or growing a business. Furthermore, entrepreneurs need a skilled workforce to meet their business goals.

While 86 percent of colleges and universities in sub-Saharan Africa offer a course in entrepreneurship, Afro-entrepreneurs overwhelmingly respond that schools and tertiary institutions do not focus on the practical skills required to start, manage, or work in entrepreneurial ventures.<sup>6</sup> Only 14 percent of Afro-entrepreneurs believe that primary and secondary schools devote enough time to teaching entrepreneurship. Colleges and universities do better, but they still could offer more practical aspects of entrepreneurship in their curricula. In addition, just 25 percent of Afro-entrepreneurs agree that colleges and universities devote enough time to teaching entrepreneurship.

### **Key Points of Discussion**

Schools are lacking in the culture of innovation. Stakeholders generally agree that the education system tends to focus on theoretical education and on harnessing skills most useful in corporate firms, failing to offer more practical curricula that can adequately prepare youth to work in entrepreneurial enterprises. Among colleges and universities in sub-Saharan Africa, only 7 percent have an entrepreneurship center dedicated to entrepreneurial development; 28 percent offer courses specializing in entrepreneurship; and 10 percent offer a course in innovation and technology.<sup>7</sup> Limited opportunities for hands-on learning and managing small projects mean that students are not afforded clear paths for cultivating competencies related to practical thinking and creative problem-solving—skills needed to successfully build and manage a business. As a result, most Afro-entrepreneurs do not feel adequately trained to manage a new firm, which for many leads to the tendency to look for jobs in well-established firms and corporations. According to the Monitor survey, the percentage of Afro-entrepreneurs who believe they have the skills to manage new firms is quite low: 9 percent in South Africa, 14 percent in



Ghana and Nigeria, 19 percent in Ethiopia, 22 percent in Tanzania, and 23 percent in Kenya.

Formal education, including attitudes and behaviors, plays a role in entrepreneurship. The lack of a basic business culture in most small-scale enterprises—evidenced by traits such as procrastination, poor client management, and missing deadlines—may be attributed to the fact that few formally educated employees have worked at entrepreneurial ventures. Such employee challenges in most small businesses reduce their ability to retain long-term clients or acquire new ones.

Many entrepreneurs do not see how the type of formal education provided in schools and the values and attitudes promoted at home relate to the skills they need to develop their businesses. Through efforts such as conducting continuous assessments and providing a strong ethical culture and system of values, at-home upbringing and learning institutions can help lay an important foundation for entrepreneurial behavior.

Developing an entrepreneurial skills base requires a shift in culture. One of the biggest limitations to developing an entrepreneurial skills base is the lack of support from society and formal institutions. Few avenues of support are available to help people identify their passion and build the confidence required to convert that passion into a business. Society fails to encourage students to recognize or take advantage of their inherent entrepreneurial potential, as society often values and respects professionals over entrepreneurs. Parents and guardians pressure their wards into studying more professional courses rather than entrepreneurial or creative ones, sometimes even tagging students as crazy when they make the decision to work in a startup company or develop their own businesses.

Entrepreneurial ventures need professional skills. Participants in the Accra workshops said that business owners find it difficult to recognize when their operations need the support of a professional with a different set of skills and expertise. Entrepreneurs often take on too much when trying to sustain their business, which can eventually stunt growth. For entrepreneurial organizations to grow, it is important to identify the professional skills needed for a particular task or stage of growth, to acknowledge the team's existing strengths and gaps, and then to source the missing skills accordingly. Trust must also be established between businesses and service providers. Entrepreneurs fear that hired service providers may steal their business ideas.

Financial remuneration is not the only tool available for entrepreneurs to attract talent. The notion that remuneration always has to be monetary, and therefore that small enterprises cannot attract the most talented staff, should be revisited. It is true that in most cases entrepreneurs cannot compete with more structured companies for certain types of skilled talent; however, the skills that small ventures require may not be available in the regular job market. Providing opportunities for problem-solving in the work environment, which offers increased individual responsibility, is an effective means of attracting talented staff. Entrepreneurs have the option of investing in management skills training for their

staff if they cannot afford to source outside skills. To grow their businesses, entrepreneurs should be willing to train and build the workforce available to them.

Talent management systems should attract, engage, and retain employees. The right employee value proposition provides an opportunity to attract talent to build staff and maintain the appropriate composition of skills required for a company to grow. A company's culture should excite and reward innovation among its staff. It should also challenge and reward creative abilities and the capacity to exercise independent judgment. A culture that promotes employee autonomy and flexibility is more likely to attract young talent. Entrepreneurs should promote the opportunities available to would-be employees for cross-functional work within the business. This can often be an alternative to attracting young talent because cross-functional work gives workers a better understanding of the operations of small enterprises. We make the following recommendations for skills and talent.

### **Recommendations for Skills and Talent**

- Include entrepreneurial and vocational training in the education system in Africa so that learners are exposed to entrepreneurship from a young age. This will help future workers determine the possibility of having their own businesses, the financial rewards attached to ownership, and the challenges inherent to the journey.
- Create and deploy an entrepreneurship curriculum for primary and secondary schools with practical apprenticeship-like programs that supplement theoretical learning, collaborations between local schools and local stakeholders to provide internships, and training as a means to develop the talent needed to support small enterprises. This will expose young learners to the full reality of entrepreneurship: the idea, the journey, the challenges, and the successes, both theoretically and practically. In Singapore, for example, students receive a year of mandatory entrepreneurship education in the primary school system. In Mexico, students are required to learn basic economics and business skills; beginning with basic classes at the pre-high school level, students progress to creating and managing their own business by the age of 18. The United States and many other countries have numerous examples of primary and secondary educational curricula that emphasize group learning and hands-on projects.
- Best practices such as these can be applied to increase entrepreneurial education in formal institutions in Africa. The school system in Mauritius provides entrepreneurship learning at the primary level. Real-world experience will also aid young people in developing critical skills such as integrity, adaptability, and having the wherewithal and constitution to do the right thing.
- Leverage Internet-based solutions that offer training in business skills and entrepreneurial management to provide assistance to entrepreneurs that is scalable and available at a relatively low cost. For instance, the International Finance Corporation has developed an SME toolkit—an online collection of training materials, translated into 15 languages—for SME managers in developing countries.

- Establish communication and career counseling programs that encourage and guide young people toward the creation of entrepreneurial ventures. Identifying one's passion is an important step in the path of entrepreneurship; developing the corresponding skill set and/or obtaining experience that can translate one's passion into a business that adds value to society requires access to the right support structures.
- Schools should help students by providing guidance and counseling services to help them choose between various career options. Entrepreneurs need training programs on how to promote the value of greater worker responsibility in entrepreneurial ventures than in the corporate world; this will prepare them to articulate the opportunities for professional advancement that their companies offer.
- Institute "secondment"—a temporary transfer to another job or post within the same organization—mentorship, and networking programs in which seasoned executives (previously or currently employed) support SMEs for limited periods by working alongside and training SME staff on key projects. By creating opportunities for practical, on-the-job training and skills development, SME staff can engage in hands-on learning with experienced managers.
- Offer incentives (e.g., subsidies, tax advantages) to entrepreneurs who motivate prospective professional staff with advantages such as stock options or specialized training. This will help entrepreneurs to be creative in their compensation so they have better chances of attracting and retaining talent.

## INFRASTRUCTURE

The poor state of infrastructure across sub-Saharan Africa is a significant obstacle to the growth of entrepreneurial enterprises, as it adversely affects entrepreneurs' costs, market access, and efficiencies.

Respondents to the Monitor survey pinpoint the lack of access to constant electrical power as the biggest challenge related to infrastructure. Unreliable electricity supply, poor-quality and limited breadth of road and rail networks, and poor communications infrastructure are all highlighted as having a significant impact on the cost of doing business. Influenced by additional costs, such as purchasing generators or grading rural roads, 52 percent of respondents in Tanzania believe that new and growing firms cannot afford the costs of physical infrastructure.

According to the survey of Africa's entrepreneurs, these are their worst infrastructure problems.

- *Infrastructure is inadequate and unreliable.* Only 38 percent of Afro-entrepreneurs agree that infrastructure provides sufficient support for new and growing firms.
- *Infrastructure is costly and inefficient.* Only 23 percent of Afro-entrepreneurs believe that new and growing firms could afford the costs of using infrastructure.
- *Electricity supply is inadequate and unreliable.* The issue is most prominent in Nigeria, where only 27 percent of respondents believe that the physical infrastructure provides sufficient support for new and growing firms.

The cost of dealing with unreliable infrastructure is prohibitive. With the exception of South Africa, all countries surveyed face electricity shortages, and most entrepreneurs must purchase diesel generators to supplement grid electricity. This increases the costs of doing business. While supply is less of an issue in South Africa, recent announcements regarding electricity tariff increases over the next few years will see the cost of electricity becoming a more significant proportion of small business costs.

There are, however, some perceived successes in Kenya, where the integration of mobile technology into everyday life has improved the way business is conducted and payments are processed. Fifty-three percent of Kenyan respondents believe that physical infrastructure in the country provides sufficient support for new and growing firms. The following are recommendations for improving infrastructure.

### **Recommendations for Improving Infrastructure**

- Deploy and upgrade infrastructure first in selected productive areas with substantial business activity and strategically important local industries. Infrastructure deployment requires making significant capital investment where the prospects of good economic activity and returns exist.
- Favor public-private partnerships in the execution of infrastructure projects. Public agencies in Africa are often affected by capacity and resource constraints, and both the culture of urgency and types of skills that tend to reside in the private sector play a pivotal role in the completion of infrastructure projects.

## **BUSINESS SUPPORT: BUSINESS ADVISORY SERVICES, GOVERNMENT PROGRAMS, AND INCUBATORS**

### **Business Advisory Services**

Africa lacks widely-available, high-quality business support services. Existing services are primarily located in urban centers, which are out of reach for thousands of rural entrepreneurs. A number of other visible and invisible barriers, such as cost, gender discrimination, and poor-quality assistance, have prevented these centers from providing effective support to African entrepreneurs.

Access to professional and affordable business advisory services (e.g., lawyers, accountants, consultants) remains elusive for early-stage businesses. Only 30 percent of entrepreneurs in Kenya and less than 25 percent in the other five Monitor-survey countries believe that business support services are sufficient to meet the needs of new firms. Furthermore, fewer than 20 percent of entrepreneurs in five of the six African countries believe that business support services are available throughout the entire country. Where services are available, the Monitor survey indicates that fewer than one-third of respondents find the value of the services delivered worth the cost, particularly services received from banks (22 percent).

Access to the knowledge and tools required to formalize and sustain businesses is scarce. The majority of entrepreneurs and their employees do not have the necessary expertise or the professional networks to address the breadth of their

businesses' functional needs. Moreover, these services are not easily found in Africa, especially services required to raise capital.

Obtaining funding is a process that requires a business to conduct a rigorous analysis of its business model, its market potential, and its changing external environment. Entrepreneurs without access to information, or without access to the required expertise, are unable to present convincing applications for funding. The situation is quite dire for necessity-driven entrepreneurs in particular, because available services are targeted at more-established entrepreneurs rather than start-ups.

The supply, access, and affordability of business advisory services prohibit their uptake. Service providers such as accountants, lawyers, and third-party consultants are mostly clustered around key urban centers and thus are not easily accessible to entrepreneurs who operate in rural or less affluent areas. Although banks are found to be the most available source of advisory services, their ability to support businesses is rarely exploited due to the low perception of value. When the scarcity of services is coupled with high costs, the majority of entrepreneurs are unable to obtain the counsel and advice they need.

### **Government Programs**

As a general observation, large government-assistance programs for SMEs have not worked for two reasons. First, mass-scale, factory-like business assistance doesn't work because in business, one size does *not* fit all: industry, stage of development, and management expertise present too many variables for a template approach to be effective. Second, government personnel lack the motivation and skills required to assist entrepreneurs. Entrepreneurs are best assisted either by other entrepreneurs or by established functional or industry experts who have appropriate and relevant expertise.

African governments have increased support for entrepreneurs by creating several initiatives to encourage small enterprises. However, the results of these initiatives have been limited. In the Monitor survey, a composite of survey questions related to the supply, accessibility, and coordination of government programs shows that Afro-entrepreneurs rate the efficacy of government programs lower than the peer average. Government programs can be more effective and some governments have made efforts to support entrepreneurs, including the following programs:

- Small and Medium Enterprise Project, Ghana
- Youth Enterprise Development Fund, Kenya
- Federal Government Youth Entrepreneurship Programme, Nigeria
- Small Enterprise Development Agency, South Africa
- Small Industries Development Organisation, Tanzania

Nevertheless, entrepreneurs on the whole do not believe that the programs are having the intended impact. Factors contributing to this may include invisible barriers, including gender and ethnicity, that affect small-enterprise owners' access to

support programs. A general sense prevails that you need to know someone in government to get the support. Furthermore, government does not understand business well, so even when entrepreneurs can access these programs, they are not always particularly useful. Barriers in legislation and policies also make it difficult for African entrepreneurs to formalize their businesses, seek funding, or enter new markets.

### **Incubators**

Incubators and accelerators can offer entrepreneurs vital support during the start-up phase. It is widely held that, to be effective, incubators must focus on a limited number of companies to provide the high-touch support that entrepreneurs need to launch, find and serve new customers, and scale. The concept of mass incubation is, therefore, ill-suited for such requirements, although it has unfortunately been widely adopted in many African and non-African countries. The Monitor survey found that most Afro-entrepreneurs believe there are not enough incubators to support the launch of new firms in their respective countries: 92 percent of those in Ghana, 90 percent in South Africa, 87 percent in Tanzania, 78 percent in Nigeria, 77 percent in Ethiopia, and 76 percent in Kenya.

Incubators and accelerators, though in their infancy in Africa, have demonstrated some success. Incubators and accelerators give entrepreneurs the tools required to formalize and grow their businesses. Given the aforementioned lack of entrepreneurship training in schools, incubators play a particularly vital role in addressing the gap in entrepreneurial capability. Services range from physical incubation (setting up offices and structures required to function) to providing networks of advisory services and funding.

Africa has relatively few business incubators for startup and early-stage businesses because support organizations for such businesses are a new, but growing, trend. Cases of successfully incubated businesses do exist, however, and these support recognition of the need for incubators and accelerators.

Two examples—one for-profit business and one government program—demonstrate the potential of incubators. Privately owned and managed NextZon in Lagos provides a range of services that include strategy and planning, office facilities, and human resource, legal, and accounting services. The Incubation Support Programme of the South African Department of Trade and Industry supports incubators via cost-sharing (40:60) between government and the private sector. Funding can be used to provide business development services, infrastructure such as building and furniture, information and communications technologies, feasibility studies, product or service development, and operational costs. The following are recommendations for improving business support.

### **Recommendations for Business Support**

- Provide generous incentives and subsidies for private-sector players that offer business development services to set up companies providing business support

services. Make vouchers and discounts available for SMEs to access specific professional advisory services, such as legal, accounting, and human resources services.

- Allow private and government-run business support organizations to leverage widespread government offices (e.g., post offices and city halls) for the provision of business services to reduce the capital costs of providing support. Document and disseminate the sources of business support services in a jurisdiction at both the national and local level, such as information portals in electronic and printed formats.
- Create networks of support services in which local business professionals are identified, documented, mobilized, and incentivized (e.g., via personal tax breaks) to provide mentoring and/or technical support to local entrepreneurs. As an example, the Endeavor VentureCorps is a global network of more than one thousand individuals who mentor entrepreneurs. Accountants, lawyers, and tax specialists could assist entrepreneurs on their own time and earn tax credits or cash while providing crucial support.
- Establish one-stop-shop setup and regulatory compliance agencies for SMEs, as has been done in Russia:
  - Create, if needed, dedicated access for women and ostracized minorities.
  - Create, if appropriate, dedicated access for nationals who have emigrated and want to invest back home, by having branches at relevant embassies.
- Provide incentives to corporate entities and their employees to start employee-created businesses or spinoff divisions. For example, the Enterprise Development Programme in South Africa awards companies with more than five million South African Rand in turnover that spend 3 percent of profits for enterprise development (e.g., training, support, equity, and debt) with 15 points in the Black Economic Empowerment scorecard.<sup>8</sup> This in turn gives them preferential access to government business opportunities.
- Develop networking programs or platforms for young entrepreneurs; provide spaces where less experienced entrepreneurs learn from experienced business owners; and leverage large anchor firms, as well as university and business school networks, to provide entrepreneurs with physical access to groups of like-minded individuals and enterprises (e.g., technology driven, clean energy, and manufacturing) where incubation happens naturally. An example of this is the iHub, an innovation hub for the technology community in Nairobi.
- Where appropriate and feasible, create entrepreneurship hubs focused on the commercialization of locally developed intellectual property because tech entrepreneurs often lack the business skills to transform innovation into sustainable businesses. Examples of these types of hubs include Bangalore in India and the Silicon Cape Initiative in South Africa.

POLICY ACCELERATORS: LEGISLATION  
AND ADMINISTRATIVE BURDENS

**Legislation**

The Monitor survey found that laws governing business competition favor large, well-established firms, although markets remain relatively open, given the infancy of many industries on the continent. South African respondents in particular identified labor law as a barrier: 54 percent say that government labor regulations actively discourage the hiring of employees. By contrast, only 33 percent of respondents across sub-Saharan Africa share these views.

The complexity of legislation in South Africa, coupled with the harsh penalties imposed for noncompliance, is a significantly greater constraint for new entrepreneurial ventures than for those in peer countries. The requirements of the Consumer Protection Act, Labour Relations Act, and National Credit Act 73 are onerous and time consuming. Entrepreneurs who fail to comply face harsh penalties: for example, the penalty for failing to adhere to the procedures for dismissing employees, as set out in the Labour Relations Act, could be as high as 12 to 24 months of wages to the dismissed employee in question. The complexity of regulations places an unfair burden on entrepreneurs vis-à-vis large, well-established firms that are better positioned to absorb the costs of compliance. The Strategic Business Partnership has estimated that the average cost of compliance for small businesses is approximately 8.3 percent of turnover, compared to only 0.2 percent for big businesses.<sup>9</sup>

Positive views on legislation in other African countries are driven in part by an ability to curtail poorly enforced regulations. The pervasive informality on the continent allows entrepreneurs to operate below the radar and outside the confines of formal laws. This informality excludes these businesses economically, but with limited access to financial and consumer markets, 60 percent of respondents believe that it is acceptable to launch a new venture by operating in the informal sector. Similarly, 62 percent of respondents personally know entrepreneurs who started in the informal sector, avoided paying taxes, operated without certified accounts, and hired employees informally.

From the state's perspective, this informality results in the forfeiting of potential tax revenues. However, if moves are made to formalize industries and processes, policymakers and other stakeholders may very well be confronted with the challenge of preparing entrepreneurs to operate more formally while simultaneously having to reduce potentially detrimental unintended consequences of significantly higher operating costs in a more regulated environment.

It is relatively easy for new and growing firms to enter new markets. With the exception of South Africa, most sectors are not typically dominated by large firms; entrepreneurs are therefore able to pursue market opportunities without being unfairly blocked by well-established firms. In Tanzania, for example, the economy is still heavily reliant on the agricultural sector, which employs approximately 80 percent of the workforce, thus many other sectors remain largely undeveloped.



## **Administrative Burdens**

Despite recent improvements, administrative burdens still hold back businesses across the continent. Out of 183 countries ranked in terms of general ease of doing business, Kenya (109th), Nigeria (133rd), and Tanzania (127th) all rank in the bottom half. South Africa (35th) is in the top quintile. Similarly, all countries except South Africa fall in the bottom half for starting a business. In Ghana and Tanzania, entrepreneurs indicate particularly acute challenges when dealing with construction permits. In contrast, respondents in Ghana indicate relative ease in the process of registering a business.<sup>10</sup>

While Afro-entrepreneurs concede that reforms enacted to improve the ease of doing business have been helpful, entrepreneurs continue to face many administrative challenges. Entrepreneurs repeatedly remark that the business environment has significantly improved over the past 10 to 20 years, particularly in East Africa, due to the implementation of various government initiatives aimed at reducing red tape. These include efforts to increase the ease with which new businesses can obtain licenses and permits, trade across borders, and enter new markets. Such efforts not only have helped to improve entrepreneurs' experiences but also have opened up new market opportunities. Nonetheless, there is room for additional intervention and, as previously discussed, the majority of entrepreneurs continue to operate in the informal sector, where they are not subject to bureaucracy and regulation. Below are our recommendations for policy accelerators.

## **Recommendations for Policy Accelerators**

- Provide targeted incentives to entrepreneurs for the development of key sectors that are currently underserved.
- Develop more nuanced legislation that differentiates between big business and SME segments. Conduct impact assessments before enforcing new legislation to determine the potential consequences for entrepreneurs and proactively enact measures to minimize negative outcomes.
- Reduce the prohibitive costs, time, and bureaucracy associated with regulatory compliance to discourage the widespread informality of businesses. Governments should continue to implement reforms that can further decrease red tape and create a more enabling environment for new businesses. In Kenya, for instance, recent improvements to business registration processes have significantly decreased administrative burdens for new businesses. Additionally, the Kenyan Anti-Corruption Commission has been established to curb corruption.<sup>11</sup>

## MOTIVATIONS AND MINDSET: THE CULTURE OF ENTREPRENEURSHIP IN AFRICA

The culture of entrepreneurship in Africa is largely driven by necessity—that is, entrepreneurship as a means of survival. Entrepreneurship is viewed as a last resort, rather than an opportunity or aspiration, although the Monitor survey suggests that the pursuit of entrepreneurship as a career has gained acceptance and

legitimacy in Africa. Despite the fact that most African societies seem to approve of entrepreneurship, efforts must still be made to promote high-impact entrepreneurship based on opportunity rather than necessity.

It was noted during Omidyar Network's 2012 Entrepreneurship in Africa Summit that Africans at this juncture may not fully appreciate the entrepreneurial journey. Having a romanticized image of the smart, impetuous, bold, and rich entrepreneur who conquers markets and lives in luxury can be very misleading if it is not coupled with an awareness of the countless hours of work, the uncertainty of meeting payroll, struggles to keep operations going on razor-thin cash flows, and many other challenges that all entrepreneurs encounter at one time or another. This section covers the drivers of the culture of entrepreneurship, as well as the roles various institutions can play in fostering a better culture of entrepreneurship.

General views on entrepreneurship are improving. While formal employment is still highly prized, some encouraging trends are emerging. Opportunity-driven entrepreneurship, for example, is becoming respectable, and the Monitor study found that more than three-quarters of Kenyan and Ethiopian respondents now believe that most people consider becoming an entrepreneur a desirable career choice. The same holds true for 64 percent of respondents in Tanzania, 51 percent in Ghana, 49 percent in Nigeria, and 44 percent in South Africa .

Maybe even more important is the high number of Afro-entrepreneurs who agree with the statement, "People who successfully start new firms have a higher level of respect than a manager in a corporation": 78 percent in Ethiopia, 63 percent in Kenya, 55 percent in Tanzania, 55 percent in Nigeria, 54 percent in Ghana, and 47 percent in South Africa.

Stereotypical views of business success also adversely affect the culture of entrepreneurship. In Africa, the successful businessperson is often celebrated for their wealth and lifestyle, rather than their business acumen and entrepreneurial flair. As a result, many young people venture into entrepreneurship solely to attain wealth and emulate such lifestyles, embarking on the same lines of business as the successful businesspeople they are trying to emulate without any knowledge of that particular industry. This discourages innovation. This skewed view of success is exacerbated by the common belief that, to be celebrated, people must acquire material possessions and give the impression of success before actually attaining it. Thus some entrepreneurs buy expensive cars and rent luxurious and expensive office space. This culture poses many risks to businesses whose resources are redirected toward consumer expenses that are not necessary for the business.

To combat these stereotypes and offer an alternative model, the number of awards celebrating entrepreneurship is on the rise. Examples include the Africa Awards for Entrepreneurship, All Africa Business Leaders Award, Schwab Foundation for Social Entrepreneurship, and Tanzania Entrepreneur of the Year Award. Complementing such awards is an increased number of media outlets focusing on entrepreneurship. Respondents to the Monitor study acknowledge the media's improving coverage: responding to the statement, "The media often publishes stories about people who successfully start new firms," 75 percent of those in

Kenya, 63 percent in Ethiopia, 57 percent in Nigeria, 52 percent in South Africa, 46 percent in Tanzania, and 40 percent in Ghana agree.

Failure should be an option for success in business. Lack of knowledge—and the resulting fear—among existing and aspirant entrepreneurs keeps them from taking calculated risks to start and stretch their businesses. Entrepreneurs must be prepared to acknowledge that some of the most thorough and well-executed plans will not be successful. Entrepreneurs must be allowed to fail fast and fail often—and bounce back. Some investors actively seek individuals who have failed, learned from their failures, and are willing to try again. Fortunately, attitudes toward failure are becoming more accepting. Afro-entrepreneurs in the Monitor study recognize that failure is part of the entrepreneurship process and that it is common for failed entrepreneurs to try again by starting a new business. Rates of agreement with this concept are 68 percent in Kenya, 67 percent in South Africa, 63 percent in Tanzania, 56 percent in Ethiopia, and 54 percent in Nigeria.

The culture of entrepreneurship is also largely defined in the family unit. The litmus test for gauging the view of entrepreneurship is the dinner-table conversation, where one's closest supporters disclose their views of on the idea of entrepreneurship. Governments also play a role in fostering a culture of entrepreneurship; however, views are mixed about the extent of that role. Government by nature is not entrepreneurial, and opponents of government involvement say it is ill suited to lead. There also is concern that entrepreneurs could form dependencies on government, thereby stifling creativity and resourcefulness. Proponents, however, point to models where government has successfully improved the culture of entrepreneurship. In South Korea, before the 1997 economic crisis that led to high levels of unemployment, most people aspired to work for the government or large organizations. After the crisis, the government encouraged entrepreneurship by implementing creative policies that changed tax laws and bankruptcy codes. The government also introduced an Entrepreneur of the Month program to raise the profile and stature of entrepreneurs. We also make the following recommendations.

### **Recommendations for Motivations and Mindset**

- Establish programs and media initiatives that celebrate entrepreneurs' successes, honor their journeys, and encourage those who have failed to rise again. For example, Singapore has established the Phoenix Award, which specifically awards entrepreneurs who have failed and then gone on to create another start-up.
- Formulate and introduce income-insurance schemes for selected types of African entrepreneurs.

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1. The six sub-Saharan African countries are benchmarked to a peer group, including an additional 13 countries where Monitor Deloitte has previously undertaken the Entrepreneurship Benchmarking Initiative: Chile, China, Colombia, Denmark, Egypt, India, Jordan, Russia,

- Singapore, South Korea, United Arab Emirates, United Kingdom, and United States This peer group was chosen to allow the focus countries to be compared to a geographically and economically diverse group of countries.
2. "Barriers to Finance Africa's SMEs," *ABN Digital*, 2011, p. 3.
  3. Patient capital is often defined as a long-term investment where an investor is willing to accept a longer-term horizon for return of capital or forgo maximum financial returns in return for social impact.
  4. Paul Harris. Omidyar Network's Entrepreneurship in Africa Summit in Accra, Ghana, October 2012.
  5. "NCR Based Small and Medium Enterprises Hail NSE SME Exchange," *The Economic Times*, September 2012.
  6. Dr. Jean Kobongo, "The Status of Entrepreneurship Education in Colleges and Universities in Sub-Saharan Africa," Millersville University, 2010.
  7. Kobongo, "The Status of Entrepreneurship."
  8. More info on the Black Economic Empowerment Scorecard can be found here:  
[http://en.wikipedia.org/wiki/Black\\_Economic\\_Empowerment](http://en.wikipedia.org/wiki/Black_Economic_Empowerment)
  9. "Counting the Cost of Red Tape," Strategic Business Partnerships for Growth in Africa.
  10. World Bank, *Ease of Doing Business Index*, 2012.
  11. Kenya Overview, Trust Law website, 2012.