

RESEARCH PAPER BY RICHARD ATTIAS & ASSOCIATES

TASKFORCE SESSION

Scheduled for: August 30, 14:00

## ENTREPRENEURSHIP

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### Session overview

Three-quarters of respondents in the Train My Generation survey were interested in starting their own business, seeking either to develop their own idea or work for themselves. Ambition was also high, with over half of the entrepreneurs questioned saying that in 10-15 years they see themselves running a business of 15-40 people. But there are significant barriers to starting new businesses, including access to start-up capital, support for start-ups from the government, and high levels of bureaucracy and red tape. How do we reduce these barriers to the next generation of entrepreneurs?

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### Entrepreneurship in Africa

Africa's stereotype as "the lost continent" has recently transformed into "the continent of growth and opportunity". Robust economic growth and a vibrant private sector contribute to approximately 80% of the continent's GDP (*AfDB, 2013*). Part of Africa's economic growth potential stems from the continent's entrepreneurial activity. Across the continent, entrepreneurs are starting businesses of all types and sizes. According to Gallup's 2013 survey, more than one in three respondents (35%) from sub-Saharan Africa planned to start their own business, marking the highest entrepreneurial initiative among all world regions (*Gallup, 2013*). Entrepreneurship has become a force for development, generating jobs and wealth, financing and accelerating Africa's structural transformation.

Despite the promising trend, higher growth rates and the boom in entrepreneurship have not translated into broad improvements of livelihoods. The majority of the population is still trapped in poverty with limited access to water, sanitation and education. Moreover, young entrepreneurs face many obstacles in both starting businesses and scaling them for global markets. In 2014, more than 14% of the start-ups in Sub-Saharan Africa discontinued their businesses after a 12-month period, a rate much higher than

that of Asia, Europe and the United States whose discontinuation rates averaged 3 to 5% (*Global Entrepreneurship Monitor, 2014*). Inadequate business skills, poor market knowledge, underdeveloped infrastructure, and insufficient funding and access to capital are the biggest problems faced by African social innovators. Unless those barriers are well understood and addressed, African entrepreneurship cannot fully unleash its potential to drive Africa's development.

The World Bank projects that over the next 10 years, only 25% of the Sub-Saharan African young population will find a wage job, and only a small fraction of those jobs will be formal jobs in large enterprises (*World Bank, 2014*). Although accurate numbers are difficult to obtain, the International Labor Organization (ILO) estimates that nine in 10 rural and urban workers hold an informal job. Women make up a higher percentage of workers in the non-agricultural informal sector at 84% compared with 63% of male workers (*ILO, 2009*). The ILO reports that self-employment in sub-Saharan Africa makes up 53% of non-agricultural employment. This only reinforces the need for governments and policymakers to create programs to prepare entrepreneurs for success.

## Barriers to Entrepreneurship

### **Access to finance:**

Accessible funding is critical to stimulating entrepreneurship. The World Bank reports that micro-enterprises do not emerge from the informal economy into the formal economy because of the large cost of capital. The official cost of setting up a firm is a sunk cost, often out of reach for a young entrepreneur. Entrepreneurs heavily rely on family and friends for capital to start their business. According to the 2014 Global Entrepreneurship Monitor survey, 45% of the business owners used family loans to finance their business (*Global Entrepreneurship Monitor, 2014*). Approximately 28% of respondents in the 2014 [Train My Generation Survey](#) felt that access to start-up capital was their biggest obstacle in starting a business. Other financial sources such as bank debt, government funding, private equity and venture capital, may not be readily available.

### **Inadequate infrastructure:**

Limited infrastructure, including broadband Internet access, basic telecommunications services, reliable electricity supply and good transportation, is a handicap for African start-ups, and affects costs, market access and ease of doing business. Ernst and Young stresses the importance of technology and globalization in propelling entrepreneurship. Staying connected in a globalized world allows entrepreneurs to solve problems created through globalization, such as climate change. African entrepreneurs who wish to address these problems also need to harness global markets to scale their products (*Ernst and Young, 2010*). Vijay Govindarajan of Dartmouth argues that the biggest obstacle for young, local companies is to build global brands and scale their distribution internationally (*Vijay Govindarajan and Knowledge @ Wharton, 2012*). Although entrepreneurs must have a global mindset

with an understanding of local cultures and nuances, they need technology to access trade and capital that may not be available on a local capacity. The International Energy Agency reports that in 2014 only 32% of the Sub-Saharan population had power (*IEA, Africa World Energy Outlook 2014*). Unreliable electricity supply, in particular, is the biggest infrastructure problem, because it forces entrepreneurs to pay additional costs to purchase generators. According to the World Bank's Doing Business 2015 survey, the cost of obtaining electricity in Sub-Saharan Africa is the highest in the world. Moreover, the poor transportation networks limit access to international markets and reduce competitiveness of African products (*World Bank, 2015*).

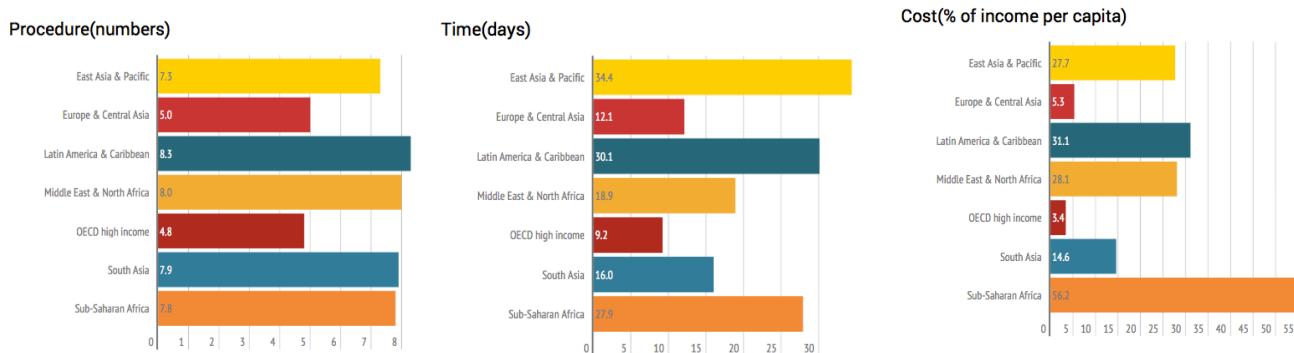
#### **Substandard education and training:**

Incomplete schooling and substandard primary education - particularly in STEM areas - prevents young people from acquiring the base level skills they need to succeed in college or to launch and sustain businesses. With Africa's young population growing over the next decade, African policymakers will need to focus on ensuring that this population has enough skills to succeed in the informal sector and as entrepreneurs. This preparation is necessary both at the primary, secondary level and tertiary level. The quality of education at the tertiary level in Africa varies by country, but budgetary constraints make it generally lower than other regions of the world. Statistics from the British Council show that universities in Africa report a higher than average student per lecturer ratio of 24:1 compared to the global rate of 16:2 (*British Council, 2014*). The organization's study found that employers were dissatisfied both with African college graduates' soft skills and analytical skills including ability to do teamwork, oral communication skills, problem solving skills and IT skills (*British Council, 2014*). Moreover, most four-year university programs fail to provide students with the formal training that will teach them the necessary skills for an entrepreneurial setting. The 2014 [Train My Generation Survey](#) illustrated that youth who were polled cited entrepreneurial skills and ICT skills as the top skills they hoped to learn in an institutional setting.

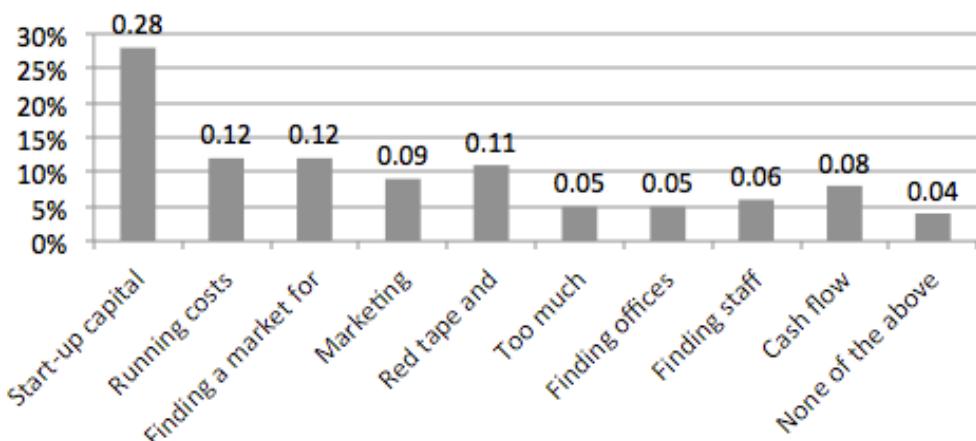
#### **Administrative burdens:**

World Bank data shows that it takes 27.9 days on average to start a new business in Sub-Saharan Africa compared to 9.2 days in OECD countries, and the cost is 56.2% of income per capita compared to 3.4% in OECD countries. Lack of government transparency, incoherent policies, excessive red tape and inefficient government agencies add obstacles to launching a business in Sub-Saharan Africa. The complexity of regulations places an unfair burden on entrepreneurs and encourages the informality of the market.

## Starting A Business World Bank Group Doing Business 2014



**What were the biggest hurdles in starting your business? (Choose as...)**



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Figure 1 Train My Generation Survey, 2014

## When starting your company, how helpful was the government?

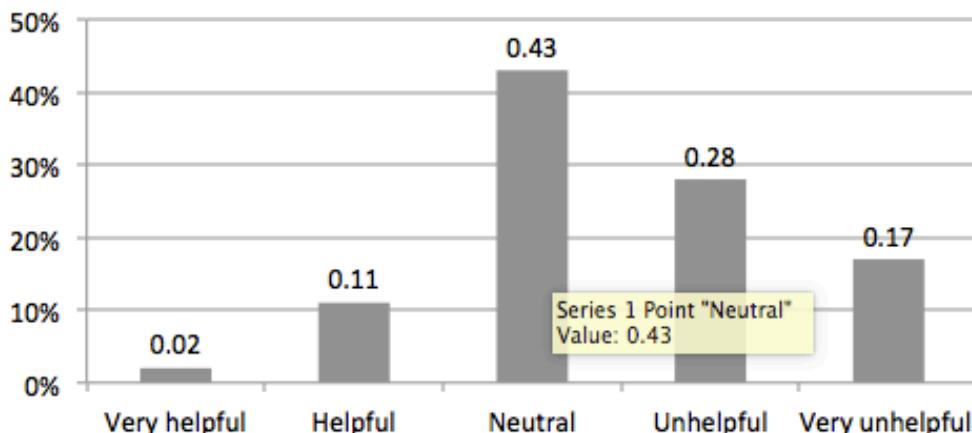


Figure 2 Train My Generation Survey

### Recommendations/Solutions:

- The African Development Bank encourages governments to invest in education and vocational training as a means to strengthen the skills base of the African labor force. Within this strategy, the bank itself aims at facilitating the introduction of entrepreneurship into curricula and incentivizing private sector entrepreneurs to develop adaptable vocational training programs (*AfDB, 2012*)
- The World Bank suggests that African governments should introduce new funding models to enlarge the pool of funds that is available to entrepreneurs and encourage inter-firm relationships between small firms and large buyers. Effort should be made to help small firms meet international product and process standards (*World Bank, 2009*)
- UNCTAD has developed the "Entrepreneurship Policy Framework" which guides developing country policymakers to identify their policy objectives and options, recognizing the regulatory environment, education and skills and access to finance as key components to boost entrepreneurship in developing countries.

- The UN recommends that the public and the private sector should invest in education programs that build skills that could eventually be useful in the labor force. In particular, the government should provide incentives for the private sector including a private investment policy (*UNDP, 2014*)
- Governments should emphasize the informal sector as a potential for job growth by creating market enhancing programs enabling disadvantaged youth to access training (*World Bank, 2014*)
- Targeted skills enhancement programs play a role in encouraging entrepreneurship (*British Council, 2014*)
- Capacity building through enhanced national education policies and practices, accessible learning materials, and social networks in the informal sector are key to enhancing entrepreneurship (*UK Department for International Development, 2013*)
- Policymakers can transform learning and prepare the current generation of young entrepreneurs by emphasizing ICT-based learning opportunities, and fostering learning in real life contexts. (*ILO, 2009*)
- Policymakers should help upgrade informal apprenticeships by addressing their strengths and weaknesses and creating links with formal training centers (*ILO, 2009*)
- African governments need to develop regulatory support and incubator services so that entrepreneurs can scale up their businesses (*McKinsey, 2012*)
- Training programs for entrepreneurs should focus on soft skills including communication, oral communication skills, problem solving and teamwork (*McKinsey, 2012*)
- Peer-to-peer education programs and partnerships with development organizations and the private sector can fill in the gaps that formal education programs leave behind and provide valuable mentorship opportunities for aspiring entrepreneurs (*UNECA, 2006*)
- Policymakers and governments can emphasize pro-poor ICT policy, the promotion of ICT investments in rural areas and support of ICT youth led-enterprises (*UNECA, 2006*)
- Public-private partnerships can nurture young entrepreneurs by developing technology parks and business incubators for the ICT sector (*UNECA, 2006*)
- Training programs should focus on hard business skills, soft skills and also foster linkages to business service providers (*African Development Bank, 2014*)

#### **For further discussion:**

1. Can ICT address the barrier of inadequate infrastructure and supplement substandard education?
2. How can business advisory services reach to local entrepreneurs and help them to formalize their businesses?

3. How can government reduce informality while not increasing administrative burdens to firms?
4. How can local entrepreneurs compete with large established firms for skilled talents?
5. Should entrepreneurial classes be compulsory at the secondary and tertiary level?

**Forum Flashback:**

**NYFA 14:** The Taskforce on Higher Education and Vocational Training moderated by Jon Foster-Pedley, Dean of the Henley Business School, South Africa, recommended that current curricula should be reassessed, and educational awareness campaigns should be developed. Gabon's Minister of National Education and Training, Leon Nzouba felt that job creation had to start by improving education including lowering class sizes and improved teacher trainings.

**NYFA 13:** Paolo Montessori, CEO, E-Serve Global, France argued that governments should create more linkages between the formal and informal economy. However, he cautioned against too much formalization of the informal economy, which he argued could destroy its entrepreneurial nature.

**Further reading:**

*Fast Company* reports "The Future of Online Education is in Africa". <http://on.ft.com/1DY787u>

Female CEOs and Entrepreneurs Leading Business in Africa, reports *Essence Magazine*  
<http://www.essence.com/2015/07/13/model-moguls>

Moroccan Entrepreneurship Program launched in partnership with Virginia Commonwealth University.  
<http://allafrica.com/c/-5bRFz>

African Technology Start-ups to pitch at 2015 edition of DEMO Africa according to *Pulse Nigeria*.  
<http://bit.ly/1Jfk3IW>

*Forbes* emphasizes the importance of supporting African entrepreneurs with a strong social mission.  
<http://onforb.es/1TM9udf>

*Quartz Africa* reports: female entrepreneurs from Women's Technologies design robots to help with Kinshasa's traffic problem. <http://qz.com/419524>.

*The Wall Street Journal* reports Africa's entrepreneurs face finance and infrastructure barriers.  
<http://on.wsj.com/1CVuFFz>

*Quartz* finds that African entrepreneurs are frustrated lack of investment in the continent's start-ups.  
<http://qz.com/423821>.

*Financial Times* reports that a new generation of African entrepreneurs is leading the way.  
<http://on.ft.com/1DY787u>

*Afrik Info* "Les gouvernements doivent soutenir les projets de l'entrepreneuriat en Afrique"  
<http://bit.ly/1IEBOqR>

*Forbes* advises entrepreneurs venturing into Africa. <http://onforb.es/1DvsqJe>

*Financial Times* reports: "The African entrepreneurs who go at it alone to cut risks not increase it".  
<http://on.ft.com/1JmwcqV>

Global Entrepreneurship Summit helps raise credibility of entrepreneurship according to *The Brookings Institution*. <http://brook.gs/1LRi47M>.

*CNBCAfrica* reports: "Tech start-ups and venture capitalists drawn to Lagos". <http://bit.ly/1Kzm1fQ>

*New York Times*, "Women Entrepreneurs Drive Economic Growth" <http://nyti.ms/1Pvrdl>

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