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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 GDP levels 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 better understand the state of entrepreneurship in Africa, Omidyar Network launched the *Accelerating Entrepreneurship in Africa Initiative* in 2012. To execute this multi-phase research project, we were fortunate to partner with the Monitor Group, and together we set out to identify the challenges facing African entrepreneurs and pinpoint the most trenchant barriers that inhibit high-impact entrepreneurship.

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

- **Entrepreneurship assets:**
  Financing, skills and talent, and infrastructure.

- **Business support:**
  Government programmes and incubation.

- **Policy accelerators:**
  Legislation and administrative burdens.

- **Motivations and mindset:**
  Legitimacy, attitudes, and culture.

The **second phase of the initiative** brought together business, government and thought leaders to analyse the survey findings, as well as more closely examine the state of entrepreneurship in Africa. The sessions were held in October 2012 at the inaugural **Entrepreneurship in Africa Summit** in Accra, Ghana. The summit was convened by Omidyar Network in collaboration with the African Leadership Network and the Monitor Group and 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 report presents 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 happy to report that a culture of entrepreneurship is growing in Sub-Saharan Africa, with indicators related to entrepreneurial motivations at least on par with or higher than global peers. However, despite these positive signs, the business landscape in Sub-Saharan Africa provides a number of challenges that prospective entrepreneurs must transcend. The following pages outline the opportunities and challenges for Africa’s entrepreneurial ecosystem, also summarised in Figure 2, and the key recommendations that we believe will spur the continent forward.

Malik Fal
Managing Director
Omidyar Network Africa

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1 The six Sub-Saharan African countries are benchmarked to a peer group, including an additional 13 countries where the Monitor Group 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.
ENTREPRENEURSHIP ASSETS
Financing, skills and talent, and infrastructure

The greatest challenge facing entrepreneurs across Africa is the state of entrepreneurial assets:

1 – Financing  
2 – Skills and talent  
3 – Infrastructure

The following section outlines the barriers that need to be overcome and offers recommendations on how to address the structural deficits now facing African entrepreneurs.

FINANCING
Supply and access to capital are critical to stimulating entrepreneurship and economic growth. The International Finance Corporation estimates that up to 84% of small and medium-sized enterprises (SMEs) in Africa are either unserved or underserved, representing a value gap in credit financing of USD 140-170 billion.²

In the Monitor Survey, challenges related to accessing finance drew mixed perceptions from both the demand and supply sides. While many Afro-entrepreneurs bemoan a limited supply of capital, financiers point out that many projects are not fundable. Seventy-one percent of respondents believe that there is an insufficient supply of equity capital to start new firms. Of the six countries surveyed, Kenya seems to fare the best in terms of capital supply, given that only 52% of Kenyan respondents highlight this as a challenge.

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% say they used private equity (see Figure 3). However, once these sources are fully exhausted, entrepreneurs face the challenge of tapping other sources of capital. The following section explores the constraints facing both funders and entrepreneurs, as well as the different frameworks and structures that could be established by banks, venture capitalists, angel investors, incubators and large corporations to increase the availability of financing to entrepreneurs.

FIGURE 3 - Self Finance and Family Loans are the Main Sources of Funding
KEY POINTS OF DISCUSSION

The cost of funding is prohibitive. While the majority of Afro-entrepreneurs in five of the six countries indicate that they know of organisations and programmes 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 4, 70% of respondents believe that the cost of debt capital (and 60% believe that 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 impedes the entrepreneur’s profitability. In some cases, banks require 150% 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% 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 their network of family and friends to source capital to start and run their businesses.

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 an unsuitable funding source 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 reticent to invest in start-up ventures. If one considers the fact that banks’ earnings are capped on loans made, and that nine out of 10 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% of respondents in the Monitor Survey believe that there is sufficient supply of venture capital.

For venture capital to be successful in Africa, entrepreneurs need to demonstrate to investors that they are profit-driven, interested in maximising returns for themselves and their financiers, and have a potentially profitable business. Accessing financing is part of a composite of factors that require an entrepreneur to demonstrate intimate knowledge of their business model, as well as the operating environment of his or her industry as a whole. In the words of Paul Harris, the entrepreneurs must ‘know something about everything, and everything about something.’ The entrepreneur must also have a convincing story and be able to persuade potential investors that he or she is better than other entrepreneurs competing for the limited pool of finances.

While 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 his or her team. This emphasises the aforementioned point that the entrepreneur needs to focus on being a rigorous business planner and demonstrate his or her understanding of a particular sector.

While many Afro-entrepreneurs bemoan a limited supply of capital, financiers point out that many projects are not fundable.

The central issue, according to the panellists who participated in the Entrepreneurship in Africa Summit, is that finance 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 his or her level of tenacity, are greater determinants of a business’ success. If these aforementioned 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

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2 “Barriers to Finance Africa’s SMEs”, ABN Digital, 2011.
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.
Afro-entrepreneurs express that bank lending policies favour more well-established firms compared to new companies, given their limited or non-existent historical financial and bank records. Nearly the same percentage of respondents (57%) feel that this is also true of financial assistance programmes and government subsidies.

Funders need to 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 his or her business model, industry and external regulatory environment. Yet, while a financier may discredit an entrepreneur who does not meet his or her 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 discounting this type of funding as prohibitive or even impossible. Many of these misperceptions and misunderstandings can be mitigated by enhanced communication.

**Many of these misperceptions and misunderstandings can be mitigated by enhanced communication.**

In some cases, entrepreneurs are aware of what is required but cannot meet those requirements, particularly in cases where new businesses must submit historical 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.

**Limited exit options exist for investments.** 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% of respondents report that it is uncommon for business owners to use buyouts to sell their firms. Respondents in Ethiopia (42%), Tanzania (41%), Nigeria (38%) and Kenya (37%) share the same concern. The lack of viable exit opportunities is a disincentive for making investments in the first place. The regulations for exiting businesses are also considered rigid, and there is little awareness about the fact that large multinational corporations or private equity funds can sometimes be compelling buy-out options.

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

**The power of networks is critical to shaping an entrepreneur’s horizon.** The size of an idea is shaped by the resources—financially and otherwise—that an entrepreneur has at his or her disposal to nurture the idea and bring it to life. If an entrepreneur believes that he or she can raise USD 5,000, the idea gets adjusted accordingly; if he or she has access to USD 500 thousand, 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 formalised in Africa.** Seed financing and angel networks 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 professionalised to make investing in small-scale ventures more efficient and cost effective. Additionally, angel networks offer entrepreneurs access to business experience, as well as capital. Successful examples, such as the Mo Ibrahim Foundation and the Tony Elumelu Foundation, highlight the changing trends towards angel and philanthropic investments by Africans. Hakeem Belo-Osagie, an angel investor from Nigeria and an Entrepreneurship in Africa Summit panellist, attests that in Nigeria, successful angels attract funds from other wealthy individuals who are keen to invest in entrepreneurs.

**‘Other’ sources of funding.** Four percent of respondents report funding their business using corporate funding, lease/receivables financing or stock options (refer to Figure 3). Some entrepreneurs in South Africa 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 those 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 start-ups, especially for entrepreneurs who lack the network of friends and family that traditionally play 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 start-up businesses and reduce their risk. For example, in Singapore, investors in start-ups 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 incentivise and reduce the risks suppliers take when providing generous payment terms and/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 favourable terms.
- Educate entrepreneurs about possible sources of funding outside banking systems. Leverage website portals and other types of guides so 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 capital-raising. 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/local governments offer educational programmes 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, aimed at removing barriers between entrepreneurs and funders and, therefore, facilitating investments into small businesses.
- 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-sized 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, mid-sized 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 expansions. This kind of funding can be made available through venture capital firms and possibly private equity funds for the larger mid-sized companies (circa the USD 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 kinds of ‘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 mid-sized SMEs to practise sound financial management and maintain adequate records, including audited statements. This will help enterprises be more ‘fundable-ready,’ as investors will invariably ask for reliable financial information.

Later-stage enterprise financing in Africa:
- Create capital-raising engagement programmes with leaders of well-established private African enterprises to inform entrepreneurs about the benefits of private equity funding, as well as the benefits of listing at local stock exchanges. This will help alleviate the concerns many successful African entrepreneurs have 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%.4
- Create continent-wide ‘regional champions’ programmes to facilitate access to capital (both debt and equity) for independently vetted pan-African companies that are expanding across the continent.

4 ‘NCR based small and medium enterprises hail NSE SME Exchange.’ The Economic Times, September 2012.
SKILLS AND TALENT

The informal sector is pervasive in Africa; as a result the continent sees a significant amount of informal entrepreneurship.

This reality often prevents SMEs from professionalising and thus scaling their operations. In cases where entrepreneurs have more technical backgrounds, such as information technology or engineering, or where they have received little to no business management training, the need for experienced managerial talent to complement a company’s technical talent is all the more critical.

FIGURE 5

Africa’s Limited Skills and Talent For Entrepreneurial Ventures

The challenge 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 thereof) of entrepreneurship training in the education system plays a crucial role in this discussion. 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% of colleges and universities in Sub-Saharan Africa offer a course in entrepreneurship, ³ Afro-entrepreneurs overwhelmingly respond that there is an inadequate focus within schools and tertiary institutions on the practical skills required to start, manage or work in entrepreneurial ventures. As highlighted in Figure 5, only 14% of Afro-entrepreneurs believe that primary and secondary schools devote enough time to teaching entrepreneurship. Colleges and universities fare better, but they still could offer more practical aspects of entrepreneurship in the curricula. In addition, just 25% of Afro-entrepreneurs agree that colleges and universities devote enough time to teaching entrepreneurship.

KEY POINTS OF DISCUSSION

The culture of innovation is lacking in schools. Stakeholders generally agree that the education system tends to focus on theoretical education and 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% have an entrepreneurship centre dedicated to entrepreneurial development; 28% offer courses specialising in entrepreneurship; and 10% offer a course in innovation and technology. ⁶ Limited opportunities for hands-on learning and managing small projects means 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% in South Africa; 14% in Ghana and Nigeria; 19% in Ethiopia; 22% in Tanzania; and 23% in Kenya.

Formal education, including attitudes and behaviours, 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.

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.
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 for developing 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 behaviour.

**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, as well as build the confidence required to convert that passion into a business. Society fails to encourage students to recognise 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 them as ‘crazy’ when students make the decision to work in start-up companies or develop their own businesses.

**Entrepreneurial ventures need professional skills.** Participants in the workshops in Accra expressed that it is difficult for business owners to recognise when the operations of their business need to be supported by a professional with a different set of skills and expertise. Often, entrepreneurs take on too much when trying to sustain their business, which can eventually stunt growth. For entrepreneurial organisations to grow, it is important to identify the professional skills needed for a particular task or stage of growth, acknowledge existing strengths and gaps on the team and then source the missing skills accordingly.

Trust must also be established between businesses and service providers. Among entrepreneurs, a significant fear exists that, whilst engaging advisory services, the 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 the more structured companies for certain types of skilled talent; however, the skills that small ventures require may actually 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 training in management skills for their existing staff if they cannot afford to source outside skills.

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Parents and guardians pressure their wards into studying more professional courses rather than entrepreneurial or creative ones, sometimes even tagging them as ‘crazy’ when students make the decision to work in start-up companies or develop their own businesses.

To grow their business, entrepreneurs should be willing to train and build the workforce available to them.

**Talent management systems need to attract, engage and retain employees.** Providing the right employee value proposition is 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 incentivise and excite staff to be innovative. It should also challenge and reward creative abilities and the capacity to exercise independent judgment. A culture that promotes employee autonomy and flexibility will be more likely to attract young talent. Entrepreneurs should promote the opportunities available to would-be employees for cross-functional work within their business. This can often be an alternative to attracting young talent because such cross-functional work provides workers with a better understanding of the operations of small enterprises.

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2 Ibid.
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 ascertain the possibilities 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 programmes 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 mandatory entrepreneurship education for one year within 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 exhibit numerous examples where primary and secondary educational curricula emphasises group-learning and hands-on projects.

Best practises 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 experiences will also aid young people in developing critical skills such as integrity, resilience to change 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 relatively low costs. 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 communications and career counselling programmes that encourage and guide young people towards 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 assist students by providing guidance and counselling services to help them discern between various career options. By developing training programmes/modules for entrepreneurs on how to communicate the attraction of greater individual responsibility (as compared to in the corporate world) within entrepreneurial ventures, entrepreneurs will become better prepared to articulate the opportunities for professional advancement that their companies offer.

- Institute secondment, mentorship and networking programmes where 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 working staff can learn hands-on, side-by-side with experienced managers.

- Offer incentives (e.g., subsidies, tax advantages) to entrepreneurs who offer strong employee value propositions to prospective professional staff, such as stock option programmes or specialised training. This will make it easier for entrepreneurs to be creative in their compensation offering so they have better chances of attracting and retaining talent.
The poor state of infrastructure across Sub-Saharan Africa is a significant obstacle to the growth of entrepreneurial enterprises; it severely 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 in terms of 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% of respondents in Tanzania believe that new and growing firms cannot afford the costs of physical infrastructure.

In the words of Africa’s entrepreneurs and as illustrated in Figure 6:

- **Infrastructure is inadequate and unreliable:** Only 38% of Afro-entrepreneurs agree that infrastructure provides sufficient support for new and growing firms.
- **Infrastructure is costly and inefficient:** Only 23% 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% of respondents believe that the physical infrastructure provides sufficient support for new and growing firms.

The cost of dealing with unreliable infrastructure is prohibitive. In the case of electricity, 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 a 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.

**RECOMMENDATIONS FOR INFRASTRUCTURE**

- Deploy and upgrade infrastructure first in selected productive areas where there are substantial business activity and strategically important local industries. Infrastructure deployment requires significant capital investments that should be made where the prospects of good economic activity and returns exist.
- Favour 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.

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The responses to the statement: ‘Infrastructure provides sufficient support for new and growing firms?’

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>48%</td>
<td>14%</td>
</tr>
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</table>

The responses to the statement: ‘New and growing firms can afford the costs of using infrastructure?’

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>58%</td>
<td>19%</td>
</tr>
</tbody>
</table>

**Infrastructure Composite Indicator**

- SSA Avg: 2.44
- Peer Avg: 2.90
- Increase: +19%

**Quality of Electricity Supply: GCR* Composite Averages**

- SSA Avg: 2.76
- Peer Avg: 5.07
- Increase: +84%

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*Global Competitiveness Report 2010-11, World Economic Forum, 2011*
Small enterprises require entrepreneurial support services to formalise and build their businesses, especially in areas such as readiness for funding, competition research and financial management. This section assesses the availability of support services in Africa and examines the impact they have on business. We also suggest areas that need improvement.

Business support services are classified as:

1 - Business advisory services
2 - Government programmes
3 - Incubators

The provision of widely available, high-quality business support services has been lacking in Africa. Those services that do exist are primarily located in urban centres—out of reach for thousands of local entrepreneurs.

In addition, a number of other visible and invisible barriers such as cost, gender discrimination and poor quality assistance have prevented these centres from providing effective support to African entrepreneurs.

Access to professional and affordable business advisory services such as lawyers, accountants and consultants remains elusive for early-stage businesses. Shown in Figure 7, only 30% of entrepreneurs in Kenya and less than 25% in the other five Monitor-Survey countries believe that business support services are sufficient to meet the needs of new firms. Furthermore, less than 20% 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 less than one-third of respondents find the value of the services delivered worth the cost, particularly relating to services received from banks (22%).

Access to knowledge and tools required to formalise and sustain businesses are scarce. The majority of entrepreneurs and their employees do not possess the necessary expertise or the professional networks to address the breadth of the functional needs of their business. Moreover, these services are not easily found in Africa, especially as they pertain to services required to raising financial capital.

Obtaining funding is a process that requires a business to conduct a rigorous analysis of its business model, the market potential and the changing external environment. Entrepreneurs without access to information, or without access to the required expertise, are unable to present convincing applications for funding. For necessity-driven entrepreneurs in particular, the situation is quite dire, as the services that are available are targeted at more-established entrepreneurs as opposed to 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 centres and are not easily accessible to entrepreneurs who have businesses in rural or less affluent areas. Although banks are found to be the most available source of advisory services, due to the low perception of value, their ability to support businesses is rarely exploited. When the scarcity of services is coupled with high costs, the majority of entrepreneurs are unable to obtain the counsel and advice they need.

**Entrepreneurs without access to information, or without access to the required expertise, cannot present convincing applications for funding.**
GOVERNMENT PROGRAMMES

As a general observation, large government-assistance programmes 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. A business’ 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 possess 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 programmes shows that Afro-entrepreneurs rate the efficacy of government programmes lower than the peer average.

KEY POINTS OF DISCUSSION

Government programmes could be more effective.

Governments have made efforts to support entrepreneurs, notably through the following programmes:

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

Nevertheless, entrepreneurs as a whole do not believe that the programmes are having the intended impact. Contributing factors may include some invisible barriers, including gender and ethnicity, that affect the accessibility of support programmes to small-enterprise owners. A general sense prevails that ‘you need to know someone in government to get the support.’ Additionally, government does not understand business well, so even when entrepreneurs can access these programmes, they are not always particularly useful.

Additionally, barriers in legislation and policies make it difficult for African entrepreneurs to formalise their businesses, seek funding or enter new markets.

INCUBATORS

Incubators and accelerators can offer entrepreneurs vital support during the start-up phase. To be effective, it is widely held that 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.

FIGURE 8 - Business Incubation Remains in Its Infancy

Respondents who agree that: ‘There are sufficient numbers of incubators to support the launch of new firms’

![Incubators and accelerators are valuable to entrepreneurs by providing them with the tools required to formalise and grow their businesses.](image)

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. As highlighted in Figure 8, the Monitor Survey found that most Afro-entrepreneurs believe that an insufficient number of incubators exists to support the launch of new firms in their respective countries: 92% of those in Ghana; 90% in South Africa; 87% in Tanzania; 78% in Nigeria; 77% in Ethiopia; and 76% in Kenya.

KEY POINTS OF DISCUSSION

Incubators and accelerators, though in their infancy in Africa, have demonstrated some success. Incubators and accelerators are valuable to entrepreneurs by providing them with the tools required to formalise and grow their businesses. Particularly given the aforementioned lack of entrepreneurship training in schools, incubators play a 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-service providers and funding.

The prevalence of business incubators for start-up and early-stage businesses is relatively low in Africa, as the idea of support organisations for businesses is a new—but growing—trend. Cases of successfully incubated businesses do exist, however; and these emerging results are encouraging for the whole concept of incubators and accelerators.

Two examples—one for-profit business and one government programme—demonstrate the potential of incubators. Privately-owned and managed NextZon in Lagos provides a range of services including 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 a cost-sharing basis (40:60) between government and the private sector. Funding can be used to provide business development services, infrastructure such as building and furniture, ICT, feasibility studies, product or service development, and operational costs.

Cases of successfully incubated businesses do exist, however; and these emerging results are encouraging for the whole concept of incubators and accelerators.

**RECOMMENDATIONS FOR BUSINESS SUPPORT**

- Provide generous incentives and subsidies for private-sector players offering business development services to set up business support services companies. 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 organisations 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 various sources of business support services available in a jurisdiction at both the national and local levels. Examples include information portals in both electronic and printed formats.

- Create networks of support services where local business professionals are identified, documented, mobilised and incentivised (via personal tax breaks, for example) to provide mentoring and/or technical support to local entrepreneurs. As an example, the Endeavor VentureCorps is a network of 1,000+ individuals globally who provide mentoring to entrepreneurs. Accountants, lawyers and tax specialists could assist entrepreneurs on their own time and earn tax credits and/or cash while providing crucial support.

- Establish one-stop-shop set-up and regulatory compliance agencies for SMEs (as has been done in Russia).
  - Create, if needed, dedicated access for women and ostracised minorities.
  - Create, if appropriate, dedicated access for diaspora nationals wanting to invest back home, with branches at relevant embassies.

- Provide incentives to corporate entities and to individuals working at those corporate entities for the set-up of employee-created businesses and/or division spin-outs. For example, the Enterprise Development Programme in South Africa awards companies with more than ZAR 5 million in turnover that spend 3% of profits for enterprise development (e.g., training, support, equity and debt) with 15 points in the Black Economic Empowerment scorecard. This, in turn, gives them preferential access to government business opportunities.

- Develop networking programmes/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.

Create entrepreneurship hubs focused on the commercialisation of locally-developed intellectual property—wherever appropriate and feasible—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*

While legislation is not perceived as a major hindrance to entrepreneurs in Sub-Saharan Africa, administrative burdens still weigh heavily across the continent.

More and more governments are recognising that entrepreneurship can be a huge contributor to economic growth and are beginning to support efforts and initiatives that encourage innovation and enterprise-creation.

**LEGISLATION**

Laws governing business competition were generally found to favour large, well-established firms; although markets remain relatively open given the infancy of many industries on the continent.

South African respondents, in particular, identified labour law as a barrier. Fifty-four percent of South African respondents express that government labour regulations actively discourage the hiring of employees, as shown in Figure 9. By contrast, only 33% of respondents across Sub-Saharan Africa share these views.

**KEY POINTS OF DISCUSSION**

The complexity of legislation in South Africa, coupled with the harsh penalties imposed for non-compliance, 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 are faced with harsh penalties. The penalty for failing to adhere to the procedures for dismissing employees as set out in the Labour Relations Act, for example, 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% of turnover compared to only 0.2% for big businesses.  

Positive views regarding legislation in other African countries are, in part, driven 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. While this leaves these businesses...
To successfully launch a new venture, new and growing firms can enter new markets relatively easily. It is acceptable to begin by operating in the informal sector and to informally hire employees. However, such a strategy can lead to unintended outcomes.

Economically excluded, with limited access to financial and consumer markets, 60% of respondents are of the opinion that to successfully launch a new venture, new and growing firms typically operate in the informal sector. Similarly, 62% of respondents personally know entrepreneurs who had started in the informal sector, avoided paying taxes, operated without certified accounts, and informally hired employees. These points are illustrated in Figure 10.

From the state’s perspective, this informality results in potential tax revenues being forfeited. However, if moves are made to formalise 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; as such, entrepreneurs are 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% of the workforce; thus, many sectors remain largely undeveloped.

Despite recent improvements, administrative burdens still weigh heavily across the continent. Out of 183 ranked countries, in terms of general ease of doing business, Kenya (109), Nigeria (133), and Tanzania (127) all rank in the bottom half. South Africa (35) ranks in the top quintile. Similarly, all countries except South Africa rank 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.9

KEY POINTS OF DISCUSSION

While Afro-entrepreneurs concede that reforms that have been put in place to improve the ease of doing business have been helpful, entrepreneurs continue to face a number of administrative challenges. Particularly in East Africa, entrepreneurs repeatedly remark that the business environment has significantly improved over the past 10 to 20 years 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 have not only helped to improve entrepreneurs’ experiences but have also 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.

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 prior to enforcing new legislation to determine the potential consequences for entrepreneurs and proactively enact measures to minimise 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. For instance, in Kenya, 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.10

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7 ‘Counting the Cost of Red Tape,’ Strategic Business Partnerships for Growth in Africa
8 CIA World Factbook, Tanzania Country Summary
The culture of entrepreneurship in Africa is largely defined by necessity-driven entrepreneurship; that is, entrepreneurship as a means of survival. Entrepreneurship is viewed as a last resort, as opposed to the pursuit of 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 have bestowed a ‘seal of approval’ on entrepreneurship, efforts still need to be made to promote high-impact entrepreneurship based on opportunity rather than necessity.

It was noted that Africans, at this juncture, may not fully appreciate the ‘entrepreneurial journey.’ Having a romanticised 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, disconcerting moments of payroll uncertainty at month-end, 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 role various institutions can play in fostering a better culture of entrepreneurship.

Maybe even more important, and also shown in Figure 11, 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 corporate.’ 78% in Ethiopia, 63% in Kenya, 55% in Tanzania, 55% in Nigeria, 54% in Ghana and 47% in South Africa.

Stereotypical views of business success adversely affect the culture of entrepreneurship. In Africa, the successful ‘business-person’ is often celebrated for his or her wealth and lifestyle as opposed to business acumen and entrepreneurial flair. As a
Failure should be an option for success in business. Lack of knowledge—and the resulting fear—among existing and aspirant entrepreneurs restricts 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, fail often’ and bounce back. In some cases, investors actively seek individuals who have failed, learned from their failures and are willing to try again. 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,’ which discloses prevailing views of one’s closest network on the idea of entrepreneurship.

Fortunately, attitudes towards failure are becoming more accepting. Afro-entrepreneurs in the Monitor Study recognise 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% in Kenya, 67% in South Africa, 63% in Tanzania, 56% in Ethiopia and 54% in Nigeria.

Governments play a role in fostering a culture of entrepreneurship; however, the views as to the extent of that role are mixed. Opponents of government involvement offer that the government is ill suited to lead. Government—by its nature—is not entrepreneurial, and there is a 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 organisations. After the crisis, the government found innovative ways to encourage entrepreneurship by implementing creative policies that changed tax laws and bankruptcy codes. The government also introduced an ‘Entrepreneur of the Month’ programme to raise the profile and stature of entrepreneurs.

RECOMMENDATIONS FOR MOTIVATIONS AND MINDSET

- Establish programmes and media initiatives that celebrate entrepreneurs’ successes, honour 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.
THE WAY FORWARD

Following is a summary of the recommendations for accelerating entrepreneurship in Africa, which are presented in the previous pages of this report. These are informed by the Monitor Survey, discussions held at Omidyar Network’s Entrepreneurship in Africa Summit and the combined experiences of the Monitor Group and Omidyar Network as collaborators in Africa’s entrepreneurial ecosystems.

There is a wide range of possible interventions and recommendations for supporting entrepreneurship that can be pursued; thus it is important to prioritise measures and identify actors who can play a role. Furthermore, the relative strengths and challenges of a particular environment should be taken into account when mapping a way forward.

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<td>EARLY-STAGE ENTERPRISE FINANCING</td>
<td>Reduce bureaucracy for early-stage companies to access government funding in order to provide ‘softer’ sources of financing for less-experienced entrepreneurs.</td>
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<td>Expand or initiate local angel investing ecosystems to ensure the availability of the most appropriate type of funding for start-ups.</td>
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<td>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 start-up businesses and reduce their risk.</td>
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<td>Provide tax and other incentives for large clients of early-stage ventures to provide supplier credit to incentivise and reduce the risks suppliers take when providing generous payment terms and/or stock to new ventures.</td>
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<td>Educate entrepreneurs about possible sources of funding outside banking systems.</td>
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<td>Train and assist early-stage entrepreneurs in the intricacies of capital-raising.</td>
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<td>Train the local financial community to evaluate investment opportunities on the basis of future prospects rather than historical cash flows.</td>
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<td><strong>MID-SIZED ENTERPRISE FINANCING</strong></td>
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<td>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.</td>
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<td>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.</td>
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<td>Use local banking systems to disburse donor or government lines of credit to SMEs to reduce prohibitive interest rates and collateral requirements.</td>
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<td>Provide incentives and support to mid-sized SMEs to practise sound financial management and maintain adequate records, including audited statements.</td>
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<td><strong>LATER-STAGE ENTERPRISE FINANCING</strong></td>
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<td>Create capital-raising engagement programmes with leaders of well-established private African enterprises to inform entrepreneurs about the benefits of private equity funding, as well as the benefits of listing at local stock exchanges.</td>
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<td>Create continent-wide ‘regional champions’ programmes to facilitate access to capital (both debt and equity) for independently vetted pan-African companies that are expanding across the continent.</td>
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# THE WAY FORWARD

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<td>Include entrepreneurial and vocational training in the education system in Africa so that learners are exposed to entrepreneurship from a young age.</td>
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<td>Leverage Internet-based solutions that offer training in business skills and entrepreneurial management to provide assistance to entrepreneurs that is scalable and available at relatively low costs.</td>
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<td>Establish communications and career counselling programmes that encourage and guide young people towards the creation of entrepreneurial ventures.</td>
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<td>Institute secondment, mentorship and networking programmes where seasoned executives (previously or currently employed) support SMEs for limited periods by working alongside and training SME staff on key projects.</td>
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<td>Offer incentives (e.g., subsidies, tax advantages) to entrepreneurs who offer strong employee value propositions to prospective professional staff, such as stock option programmes or specialised training.</td>
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<td>Deploy and upgrade infrastructure first in selected productive areas where there are substantial business activity and strategically important local industries.</td>
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<td>Favour public-private partnerships in the execution of infrastructure projects.</td>
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<td>BUSINESS SUPPORT</td>
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<td>BUSINESS ADVISORY SERVICES, GOVERNMENT PROGRAMMES AND INCUBATORS</td>
<td>Provide generous incentives and subsidies for private-sector players offering business development services to set up business support services companies.</td>
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<td>Allow private and government-run business support organisations 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.</td>
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<td>Create networks of support services where local business professionals are identified, documented, mobilised and incentivised (via personal tax breaks, for example) to provide mentoring and/or technical support to local entrepreneurs.</td>
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<td>Establish one-stop-shop set-up and regulatory compliance agencies for SMEs.</td>
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<td>Develop networking programmes/platforms for young entrepreneurs.</td>
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<td>LEGISLATION AND ADMINISTRATIVE BURDENS</td>
<td>Provide targeted incentives to entrepreneurs for the development of key sectors that are currently underserved.</td>
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<td>Develop more nuanced legislation that differentiates between big business and SME segments.</td>
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<td>THE CULTURE OF ENTREPRENEURSHIP</td>
<td>Establish programmes and media initiatives that celebrate entrepreneurs’ successes, honour their journeys and encourage those who have failed to rise again.</td>
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<td>Formulate and introduce income-insurance schemes for selected types of African entrepreneurs.</td>
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COUNTRY HIGHLIGHTS • ETHIOPIA

MACROECONOMIC CONTEXT

Ethiopia has experienced impressive economic growth on the back of a number of policy successes and favourable external conditions, creating an air of optimism about operating businesses in the country.

According to government figures, Ethiopia’s economy has grown at an average annual rate of 11% over the past five years. Although World Bank and IMF estimates revise this down to between 7% and 8%, it is generally believed that the country will be one of the fastest growing economies over the next five years. Regulatory and institutional reforms, such as improved business registration requirements and procedures have helped to strengthen investor confidence, with investment in infrastructure reaching USD 6 billion (20% of GDP) in 2010.1

Entrepreneurs have a role to play in diversifying the Ethiopian economy away from its current overreliance on agriculture and creating jobs that improve the livelihoods of Ethiopians. Although Ethiopia has made some strides in reducing rural poverty and illiteracy, the government’s current significant spending is unlikely to be sustainable. Improvements have been largely underpinned by pro-poor public spending in agriculture, education and health, and road development, which currently accounts for more than half of government spending.2 Further, despite these improvements, there has been rising urban income inequality and per capita income at USD 1,100 is still among the lowest in the world. This situation is compounded by the economy’s reliance on agriculture, which accounts for 41% of GDP and 85% of total employment but is susceptible to the effects of frequent droughts.3 It is within this context that entrepreneurship has a potentially significant role to play in creating sustainable growth and improving the lives of Ethiopians.

ENTREPRENEURIAL LANDSCAPE

Results from Ethiopia reflect a positive outlook for conducting business as the country continues to embark on a cautious program of economic reform including the privatisation of state enterprises and rationalisation of government regulation.4

As Figure A1 shows, Ethiopia outperforms her global and Sub-Saharan African (SSA) peers along a number of factors including legislation, administrative burdens and legitimacy of entrepreneurship. There are however challenges related to supply of capital, limited networking organisations and more innovative business support approaches such as incubation.

KEY CHALLENGES

Financing is the most notable constraint, with access to capital and limited financing options emerging as the most significant challenges.

As illustrated in Figure A2, the survey found that only 15% of respondents know of organisations and programs that can direct them to sources of debt capital. Even when entrepreneurs know where to find debt, the costs associated with accessing it are perceived to be prohibitive with 52% of respondents believing that the cost of debt hinders company formation and growth. Interviewees highlighted collateral requirements, often over 100% of the loan value, as the key hurdle. The challenge with sourcing funds is exacerbated by largely undeveloped capital markets and limited alternative funding options. Less than 15% of respondents believe that there is a sufficient supply of seed or venture capital for growing high risk firms, and Ethiopia recorded the most negative survey responses with regard to the use of mergers and buyouts to raise capital.

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2 Ibid.
4 Background Note: Ethiopia, U.S. Department of State, 2012.
The growth of a number of micro-financing institutions, as well as increasing capital inflows, are a positive sign for new and growing businesses. Addis Credit and Savings Institution, established in 2000, provides individual, cooperative and community-based organisation loans to permanent residents of Addis Ababa who are willing to engage in credit groups. On a national level, the Development Bank of Ethiopia has taken a recent focus on providing medium and long-term loans for investments projects engaged in agriculture, agro-processing and manufacturing. The expansion of state-backed funding for new and growing businesses, be it at the regional or national level, has the potential to reduce the significant funding challenges entrepreneurs face. In addition to micro-financing, Ethiopia has begun to attract the attention of foreign investors who are drawn to the rapid economic growth the country continues to experience. Significant investments like South Africa-based Tiger Brands’ acquisition of East Africa Tiger Brands Industries, as well as Diageo and Heineken’s estimated USD 400 million acquisitions of state breweries in Ethiopia, help to shine a spotlight on the country as a viable destination for foreign and domestic capital. This is already bearing fruit for entrepreneurs as exhibited by the launch of a USD 100 million Ethiopia fund by the Schulze group in March 2012, the first private equity fund focused exclusively on Ethiopia.

Limited networks of formal and informal business-membership organisations fail to capture the potential of knowledge-sharing and promotion of trade. As illustrated in Figure A3, the majority of Ethiopian respondents believe they do not have a sufficient framework for meeting and engaging with other entrepreneurs. In-depth interviews revealed that while many entrepreneurs are aware of the Chamber of Commerce, 


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few know of regular networking events. Some respondents revealed that they are gradually beginning to see more sectoral conferences and networking opportunities; however, the need to actively drive more platforms where entrepreneurs can meet and exchange ideas for fostering businesses and developing business acumen in both urban and rural regions cannot be emphasised enough.

Business incubation is still in its infancy, and Ethiopia lags its SSA and global peers in this regard. Seventy-two percent of respondents believe many people do not have access to incubators to support their efforts to start new firms. While there are some steps in the right direction, including Ice Ethiopia—an ICT-focused incubation platform founded in Addis Ababa in 2011, this area of business support is largely undeveloped.

KEY STRENGTHS

Ethiopian respondents are particularly upbeat about the changing business environment as the country continues to reform from a more planned and centralised socialist state, to a more open economy that is increasingly adopting aspects of capitalism and a free market economic framework.

In addition, a number of regulatory and administrative reforms have made it easier to start and operate a business. Interviewees felt strongly that the business environment has significantly improved over the last 10 to 20 years, and this view also came to the fore in the survey results. Survey responses indicate Ethiopia outperforms its SSA peers with regard to starting a new business. Respondents are more positive about the ease with which required permits and licenses can be obtained than in the benchmarked countries. In addition, 52% of respondents believe government regulations do not interfere with the successful start of new and growing firms, in comparison to SSA and global average agreement rates of 36%. The IMF and World Bank identified a number of reforms over the last five years that have made it easier to do business in Ethiopia including:7

- Reforming the registry and streamlining procedures to improve the registration process for new businesses
- Decentralising administrative tasks to sub-cities, merging procedures conducted at the land registry and municipal offices to ease property transfer procedures
- Reducing significant backlogs and improving case management and internal training, as well as expanding the role of the enforcement judge, to reduce delays in court and thus improve the enforcement of contracts
- Addressing internal inefficiencies to make trading across borders easier
- Improving access to credit information by establishing an online platform for sharing such information and guaranteeing borrowers’ rights to inspect their personal data

Figure A4 highlights Ethiopian respondents’ positive perceptions towards legislation in comparison to SSA and global peers. The country has sought to incentivise the growth of business through a number of business incentives that have had an impact on entrepreneurs, including provisions in public procurement that require large contractors to sub-contract portions of large government projects to smaller, local businesses.

It is not surprising then that the legitimacy of entrepreneurship is growing, and a culture of entrepreneurship is emerging. Seventy-four percent of respondents believe that the creation of new firms is an appropriate way to become wealthy, while 78% consider becoming an entrepreneur a desirable career choice. Interviewees pointed out that this has not always been the case, and for many years, professional corporate or government careers were considered the only desirable career choices. However, it would appear along with the evolving political and macroeconomic climate, Ethiopians are seeing more business opportunities and wishing to pursue them. Figure A5 highlights that 78% of respondents believe that successfully establishing a business now carries as much prestige as traditional career choices. The challenge for government and other stakeholders is to harness this emerging culture of entrepreneurship and channel it into the development of sustainable businesses that will drive economic growth, create jobs and reduce inequalities.

**FIGURE A5**

**Responses to Questions Related to Entrepreneurial Mindsets**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The creation of new firms is considered an appropriate way to become wealthy</td>
<td>74%</td>
</tr>
<tr>
<td>Most people consider becoming an entrepreneur a desirable career choice</td>
<td>78%</td>
</tr>
<tr>
<td>People who successfully start new firms have a higher level of status and respect than a manager of a medium-sized company</td>
<td>78%</td>
</tr>
<tr>
<td>Most people think that individuals who start new firms are competent and resourceful</td>
<td>78%</td>
</tr>
</tbody>
</table>
KENYA

MACROECONOMIC CONTEXT

Kenya is the largest economy in East Africa and plays a role as the hub for trade and finance in the region; however the country faces significant challenges related to poverty, unemployment and corruption.

In spite of the economic downturn in the rest of the world, Kenya experienced robust GDP growth in 2011 and is forecasted to continue to achieve growth rates of at least 5% in 2012 and 2013. Nonetheless, 50% of the population lives below the poverty line and the rate of unemployment, at 40%, is amongst the highest in the world. In addition, while the country has stabilised since the political unrest that followed the 2007 elections, corruption remains a challenge for enterprises in the Kenyan operating environment.

In recognition of the role that entrepreneurial activity has to play in addressing some of these economic challenges, the government has made some efforts to create a more enabling environment for entrepreneurs. For example, recent improvements to the business registration processes have significantly reduced administrative burdens for new businesses.

ENTREPRENEURIAL LANDSCAPE

The results from Kenya indicate that positive perceptions exist regarding the local entrepreneurial environment: Kenya outperformed African and even global peers across a number of composite indicators. Key strengths include an education system that produces adequate skills for entrepreneurial ventures, limited administrative burdens and a strong culture of entrepreneurship. Entrepreneurs in Kenya did however cite challenges related to the cost of infrastructure and business support services.
KEY CHALLENGES

Entrepreneurs find the cost of accessing business support from banks, lawyers and accountants to be prohibitive.

As illustrated in Figure A7, while entrepreneurs believe that they derive significant value from these services, survey responses indicate that the fees charged are too expensive for start-ups. Business owners who are located in remote areas also have to incur additional expenses, including transport and accommodation, when accessing these services, as they are typically concentrated in a few urban centres.

![Figure A7](image_url)

Percentage of Respondents Agreeing with Questions Related to Business Support

- Business support services are affordable enough to be used by new firms: 13%
- Business support services deliver value for money: 33%
- Business support services are uniformly available throughout the country: 5%

A number of public and private sector programmes, such as the Youth Enterprise Development Fund (YEDF) and the Kenya Youth Business Trust (KYBT), have been established in response to these obstacles. The YEDF is a Kenyan government initiative, which focuses on enterprise development for Kenyan youth (between 18 to 35 years of age) by providing financial support and entrepreneurship training. KYBT provides seed capital, training, business support networks and mentoring to disadvantaged youths. Replication of these models, particularly in remote locations, will go a long way towards reducing the cost burden for entrepreneurs.

![Figure A8](image_url)

Responses to the statement: ‘New and growing firms can afford the costs of using the physical infrastructure’

- Agree: 28%
- Disagree: 58%
- Neither Agree/Disagree: 14%

‘Power is pretty unreliable so we have to invest in a standby generator […] tariffs are also very high […]. The roads are not good. Generally the public goods are not supporting the business.’

— Entrepreneur, Kenya

KEY STRENGTHS

Survey respondents were of the opinion that the Kenyan education and training system provides a good foundation for entrepreneurs.

Entrepreneurial education in primary and secondary schools is still in its early stages; however colleges and universities are perceived to offer a sufficient amount of teaching on the subject. In-depth interview participants stressed the importance of including additional practical skills training in the curriculum.

![Figure A9](image_url)

Kenya’s Skills and Talent for Entrepreneurial Ventures Infrastructure

- ‘Schools Devote Enough Time to Teaching Entrepreneurship’
  - Agree: 20%
  - Disagree: 10%
  - Neither Agree/Disagree: 70%
- ‘Many People Can Manage New Firms’
  - Agree: 44%
  - Neither Agree/Disagree: 23%
  - Disagree: 36%

![Key Challenges and Strengths](image_url)

The poor state of infrastructure also has a negative impact on the operating costs of new businesses. During in-depth interviews, participants repeatedly cited energy infrastructure as their greatest infrastructural challenge. Studies conducted by the World Bank confirm this: electricity has been identified as the biggest infrastructure problem facing Kenya and the country is ranked 162nd out of 185 countries on the ‘Ease of Getting Electricity’ metric. Institutional reforms have improved electricity efficiency by 1% since the early 2000s, but there is still room to improve the output and reliability of electricity. Kenya will need to double current capacity over the next 10 years in order to meet the economy’s needs. Communications infrastructure is however quite developed: Kenya is ranked 34th out of 217 countries globally for number of mobile phone users and 59th for number of internet users.

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*Youth Enterprise Development Fund website, 2012.
in order to develop critical-thinking abilities. Nonetheless, survey respondents were fairly confident that many people had the skills to respond to market opportunities and ultimately lead new and growing firms. Similarly, entrepreneurs in Kenya were generally more positive about the preparedness of the workforce to work in entrepreneurial ventures.

Government reforms to decrease red tape have been effective in improving the operating environment for new businesses. In 2008 for example, 110 business licenses were eliminated, and a further eight simplified, making it easier to register a business and obtain a building license. Other initiatives to reduce administrative burdens include the merging of corporate tax and value-added tax procedures, as well as the digitisation of the registrar’s records in 2011. As a result, many entrepreneurs expressed positive sentiments regarding government regulations, as well as the administrative processes involved in starting and running businesses, as illustrated in Figure A10.

There is a strong culture of entrepreneurship in Kenya, and survey responses suggest that entrepreneurs are accorded a higher level of status and respect than mid-level and senior managers in medium-sized companies. Entrepreneurship is increasingly being viewed as a desirable career option. This is at least in part due to the role the media has played in profiling successful entrepreneurs.

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**FIGURE A10**

Administrative Burdens Composite Indicator

<table>
<thead>
<tr>
<th></th>
<th>Kenya</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>3.02</td>
<td>2.87</td>
<td>2.87</td>
</tr>
</tbody>
</table>

‘I think [entrepreneurship] is definitely increasing. If I look at my graduating year at high school, of those living here, about half are self-employed or have been. [...] The social acceptability of entrepreneurship is very strong.’

— Entrepreneur, Kenya

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17 Ibid.
18 A composite of survey questions related to government impact and government regulations.
Nigeria has been marred by poor macroeconomic management, political instability, corruption and insufficient infrastructure for many years. The Federal Government continues to face the challenge of diversifying the economy away from an overreliance on the capital intensive oil sector, which provides 95% of foreign exchange earnings and approximately 80% of budgetary revenues.  

Like many other resource-dependent African states, despite a strong real GDP growth rate of 7.2% in 2011, economic growth has had a limited impact for the majority of citizens, with an estimated 70% living below the poverty line. Inequality is growing, with the number of Nigerians living in abject poverty (less than USD 1 per day) increasing from 54% in 2004 to 61% in 2010 and unemployment hovering around 21%. It is within this context of largely developed markets, outside of traditional economic drivers like the oil sector, as well as high levels of poverty and unemployment that entrepreneurship has a potentially significant role to play in shaping Nigeria’s economic, social and political dispensation.

ENTREPRENEURIAL LANDSCAPE

Results from Nigeria go a long way to confirm some of the key challenges and strengths often ascribed to this market. As Figure A11 shows, Nigeria underperforms her global and SSA peers along a number of contextual factors; most notable are financing, infrastructure and government regulations. Nigeria’s key entrepreneurial strengths are found in more individualistic factors like the mindset towards entrepreneurship and a limited fear of failure.

**MACROECONOMIC CONTEXT**

Nigeria has been marred by poor macroeconomic management, political instability, corruption and insufficient infrastructure for many years.

The Federal Government continues to face the challenge of diversifying the economy away from an overreliance on the capital intensive oil sector, which provides 95% of foreign exchange earnings and approximately 80% of budgetary revenues. 

Like many other resource-dependent African states, despite a strong real GDP growth rate of 7.2% in 2011, economic growth has had a limited impact for the majority of citizens, with an estimated 70% living below the poverty line. Inequality is growing, with the number of Nigerians living in abject poverty (less than USD 1 per day) increasing from 54% in 2004 to 61% in 2010 and unemployment hovering around 21%. It is within this context of largely developed markets, outside of traditional economic drivers like the oil sector, as well as high levels of poverty and unemployment that entrepreneurship has a potentially significant role to play in shaping Nigeria’s economic, social and political dispensation.
COUNTRY HIGHLIGHTS • NIGERIA

KEY CHALLENGES

Infrastructural challenges are the most notable constraint highlighted by respondents, with electricity supply emerging as the most significant challenge.

Fifty-eight percent of respondents believe that the physical infrastructure available in the country does not provide sufficient support for new and growing firms, the most negative result amongst benchmarked countries. Figure A12 highlights the significant gap between Nigerian infrastructure and the rest of the continent.22 The country’s infrastructure scores only 10.1 out of 100 across a composite of infrastructure indicators. Inconsistent electricity supply across the country has resulted in backup generators forming a key part of any business’ assets, albeit at a significant additional operating expense. In fact, only 12% of respondents believe that new and growing firms can afford the costs of using the physical infrastructure available in the country. These findings highlight the impact of Nigeria’s well-documented infrastructural challenges on new business owners. Publications such as the Business Day and Bloomberg have also indicated that the 4,000MW of power that Nigeria currently produces is less than a tenth of the power generated by South Africa,23 a country with a third of its population.

A positive sign in this space, however, is that the Federal Government has started to make tangible steps to address the electricity issue. In March 2012 General Electric Co. and the Federal Government signed an agreement for the construction of power plants in line with a broader initiative to privatise and grow the electric industry. Nigeria has also signed a Memorandum of Understanding with Chinese Sinohydro Corporation that will see the construction of a 3,050MW hydropower plant in the eastern Mambila Plateau.24

Nigerian respondents cited access to finance as a key challenge for starting and growing small businesses. In particular, the requirements for obtaining capital are prohibitive. As illustrated in Figure A13, Nigeria marginally lags her SSA peers with regard to financing,25 while the gap to global peers is more pronounced. In-depth interview participants indicated that collateral of up to 120% is often required for debt financing. As a result, 67% of respondents believe that bank-lending policies for newer companies are more challenging than for well-established firms. There is also a perceived shortage of equity capital with only 15% of respondents believing there is a sufficient supply of equity capital for starting new firms.

FIGURE A13

Financing Composite Indicator

The Federal Government has taken a number of monetary, fiscal and industrial policy measures to promote the development of small and medium-scale enterprises (SMEs). Some notable examples include:26

- Funding industrial estates to reduce overhead costs
- Establishing some specialised financial institutions, including the Small Scale Industry Credit Scheme (SCICS) and Nigerian Bank for Commerce and Industry (NBCI) to provide long-term credit
- Establishing the National Economic Reconstruction Fund (NERFUND) to provide medium to long-term local and foreign loans for small and medium scale businesses, particularly those located in the rural areas

There is, however, more room for growth in the development of accessible financial options for entrepreneurs.

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24 ‘Nigeria, China’s Sinohydro Sign Accord For Power Plant,’ Bloomberg, 2012.
27 Infrastructure Indicator, Mo Ibrahim Index, 2012. This is a cluster indicator on a potential range from 0 to 100, with 100 indicating the best possible access to electricity, road, rail, air transport facilities, as well as telephone and digital infrastructure.
29 ‘Nigeria, China’s Sinohydro Sign Accord For Power Plant,’ Bloomberg, 2012.
30 A composite of survey questions related to supply and access to debt and equity financing, as well as other financing and exit strategies. Responses are on a scale from 1 to 5, with 1 strongly disagree and 5 strongly agree.
Survey respondents also revealed concerns around the fairness and consistency of government regulations. As indicated in Figure A14, only 20% of respondents believe government regulations are frequently applied to new and growing firms in a predictable way. One of the major challenges unearthed through in-depth interviews and other discussions with stakeholders was that state legislation varies and is often inconsistently enforced. Many entrepreneurs find that although federal laws are generally clear, ever-evolving state legislation places significant administrative burdens on new and growing businesses.

**KEY STRENGTHS**

The survey not only found supporting evidence of a strong, entrepreneurial culture in Nigeria, but also identified a series of specific attitudes towards the legitimacy of entrepreneurship and fear of failure that explain it.

While many small businesses in Nigeria are survivalist, entrepreneurship is increasingly viewed as a desirable career option. A significant proportion of SMEs are born out of a context of high unemployment and limited corporate sector opportunities. This view is shared by the 72% of survey respondents who believe the establishment of entrepreneurial ventures in Nigeria is driven primarily by necessity.

“Although conventional wisdom is to work for a corporate, more people want to start businesses. It has become a bit of a fad.”  
— Entrepreneur, Nigeria

“Perceptions are not that negative with regard to failed businesses, at least you tried and can start another business.”  
— Entrepreneur, Nigeria

Entrepreneurship is however also viewed as a legitimate source of employment, wealth and job creation for communities. Society encourages and celebrates successful entrepreneurs, spurring many young Nigerians to want to start and grow their own business empires.

The entrepreneurial spirit is strengthened by a limited fear of failure, as shown in Figure A15. Bankruptcy is not a significant concern for Nigerians with one interviewee, a former lawyer at a top law firm, indicating that bankruptcy laws are not well understood and are not a general consideration for most business owners in the country. It is also encouraging to note that respondents do not ascribe a negative stigma to people who have previously failed in business.

**FIGURE A15**

Responses to the statement: 'It is common for people who have failed in business to try again'

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
<th>Neither Agree/Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>19%</td>
<td>27%</td>
</tr>
</tbody>
</table>

The positive entrepreneurial culture is enhanced by a growing network of formal and informal business-membership organisations that have provided entrepreneurs with a platform to share information and engage with new business partners. Close to half of survey respondents believe there are sufficient business-membership organisations, in line with the global peer group. Informal business networks in particular are prominent in Nigeria, and 44% of respondents believe there are many angel investors and entrepreneur networks to support new and growing firms. This was more positive than the global average of 32%.

**FIGURE A16**

Respondents who agree that: 'There are many informal business networks to support new and growing firms'

<table>
<thead>
<tr>
<th>Nigeria</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>44%</td>
<td>31%</td>
<td>32%</td>
</tr>
</tbody>
</table>

These positive perceptions regarding business support are partly being influenced by government programmes. In more recent years, innovative approaches have been taken to encourage and support small business development. One such example is the Youth Enterprise With Innovation in Nigeria (YouWin!) programme discussed by a number of in-depth interview participants. This is a joint initiative by the Ministry of Finance, the Ministry of Communication Technology, the Ministry of Youth Development and the Ministry of Women Affairs and Social Development. Through an annual business plan competition, equity grants and training support are distributed to new businesses. More initiatives like this will not only provide much needed business support but also continue to raise the profile of entrepreneurship.
Despite strong gold production and a growing tourism sector, Tanzania’s economy is still heavily reliant on agriculture, which provides 85% of exports and employs approximately 80% of the workforce. Although the National Strategy for Growth and Reduction of Poverty (NSG&RP, popularly known by the Ki-Swahili acronym MKUKUTA) projected unemployment would fall to 7% by 2010, the specific programmes under this strategy have failed to deliver the desired results. Unemployment estimates remain at approximately 11% despite average GDP growth of 7% between 2000 and 2008 and growth of 6% in 2011. In addition, an overreliance on World Bank, IMF and bilateral donor funds gives further credence to the need to foster entrepreneurship as an avenue towards greater self-reliance.

**ENTREPRENEURIAL LANDSCAPE**

Tanzania generally tracked the performance of its SSA peers as shown in Figure A17. Key challenges within the entrepreneurial landscape include prohibitive requirements to access capital, insufficient and often unreliable physical infrastructure and taxes that are perceived to be excessive. Encouragingly, the majority of respondents believe a largely under-developed formal sector enables small businesses to pursue new opportunities without being blocked by large, established firms. There is also a strong belief that successful steps have been taken to amend costs and processes involved in starting a business. These measures include decentralising business registration by creating a business activities registration system and business registration centres in local authorities, as well as eliminating the requirement for inspections by health, town and land officers as a prerequisite for a business license.
KEY CHALLENGES

Insufficient and unreliable physical infrastructure features prominently as a hindrance to the successful establishment and growth of business ventures.

Unreliable electricity supply, poor quality and limited breadth of road and rail networks, and poor communications infrastructure are 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% of respondents believe new and growing firms cannot afford the costs of physical infrastructure. Figure A18 illustrates two sides to this issue: firstly, the cost of using Tanzania’s physical infrastructure can be prohibitive, and secondly, the reliability and security of electricity supply significantly lags the global peer group.

Tanzanian Physical Infrastructure

‘New and growing firms can afford the costs of using infrastructure’

<table>
<thead>
<tr>
<th>Agree</th>
<th>Disagree</th>
<th>Neither Agree/Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>27%</td>
<td>52%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Quality of Electricity Supply: GCR Composite Averages

![Quality of Electricity Supply Diagram]

<table>
<thead>
<tr>
<th>Tanzania</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.90</td>
<td>2.88</td>
<td>4.66</td>
</tr>
</tbody>
</table>

The World Bank estimates, for example, that the cost of obtaining electricity is 1.040% of income per capita putting it out of reach for many individuals.28

Infrastructure development is a key area of public policy given the significant effect it has on broader economic development. As such infrastructure investment was emphasised in the 2011/12 government budget with an 85% increase in budget allocation from the previous year.29 In addition, FDI to exploit large natural gas deposits should also help to alleviate specific challenges around the provision and accessibility of electricity. It is worth noting, however, that government’s ability to fully realise its investments plans is constrained by a significant reliance on loans and grants from foreign entities like the European Union and the World Bank who, along with other General Budget Support (GBS) partners, contributed 29% of the 2011/12 budget. Thus, the political reform required by many of these donors is deeply intertwined with Tanzania’s development prospects.30

Respondents in Tanzania perceive income taxes to be prohibitively high. An overwhelming 68% of respondents believe the level of taxes discourages people from starting new firms, compared to an SSA average of 46%. In addition, 52% believe the business tax policy interferes with the ability to grow firms successfully. This negative attitude towards income taxes appears to reflect a societal view towards paying taxes as opposed to actual taxes being exorbitantly high. Tanzania’s corporate tax rate of 30% and progressive tax policy for non-corporate businesses are in line with African peers. For example, Figure A19 highlights that Nigeria has the same corporate tax rates, but respondents were far less negative about the impact of taxes on starting businesses. Nonetheless, tax incentives have a potentially significant role to play in further encouraging a culture of entrepreneurship.

Access to capital was highlighted as a key stumbling block for Tanzanian entrepreneurs. Although many businesses are aware of potential sources of funding, the costs and requirements for accessing funding are often found to be prohibitive, as shown in Figure A20. Newer firms in particular lament an insufficient supply of capital, with only 26% of survey respondents believing that there is a sufficient supply of debt capital. In addition to collateral of over 130% being required by financiers, the need to furnish title deeds is a practical hurdle for obtaining loans. One interviewee estimated that fewer than 20% of properties in Dar es Salaam are actually registered. As a result, many potential entrepreneurs are prevented from accessing secured debt financing from large financial institutions. Growing firms also face challenges accessing capital, with 56% of respondents believing there is an insufficient supply of equity capital. Financiers and other support organisations, for their part, highlight that many entrepreneurs need to develop more sound business ideas and further analyse potential markets for their products or services. It is difficult to finance many of these ventures as they have not been developed beyond an initial idea.

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32 Ibid.
COUNTRY HIGHLIGHTS • TANZANIA

Some efforts have been taken by the private and public sectors to address the need for micro-financing. One notable example is the NMB Jahudi loan scheme, an SME loan scheme through Tanzania’s largest bank to members of partner organisations from the public sector, such as the Business Development Gateway (BDG), the Small Industries Development Organisation and Enablis Tanzania. Through this scheme, partners provide guarantees to allow their members to access loans of between TZS 5 million and TZS 500 million (USD 3,100 to USD 310,000).32 These small business owners have access to guarantee schemes provided by partner organisations, as well as some business skills training.33 Further innovative products from both the public and private sectors are required to address the financing challenge.

KEY STRENGTHS

Tanzania’s undeveloped formal sector enables small businesses to pursue opportunities without being blocked by larger firms as illustrated in Figure A21.

The majority of respondents believe that costs and processes involved in registering a business have successfully been amended to stimulate entrepreneurship. This encourages entrepreneurs to take advantage of market opportunities. As Figure A22 indicates, many Tanzanians believe that the country is a cost-competitive place to do business relative to other regions in which they could conceivably operate their businesses.
Tanzania embarked on a wide reform programme from the mid- to late-1990s that included a five-year, multi-sectoral Business Environment Strengthening for Tanzania (BEST) programme to reduce the administrative and regulatory burden of doing business. Survey results suggest that these initiatives around business registration, land and labour law reforms have begun to have a positive impact on the entrepreneurial environment.\footnote{Average daily exchange rate on 5 December 2012: USD/TZS = 0.00062.}

\textbf{Caution must be taken when considering these results as some of the positive views regarding administrative burdens are driven by an ability to curtail weakly enforced regulations.}

Forty-nine percent of respondents believe that to successfully launch a new venture, it is acceptable to informally hire employees. If the country moves to further formalise industries and processes, policymakers and other stakeholders would need to confront a challenge of preparing entrepreneurs to operate more formally while reducing potentially detrimental unintended consequences of significantly higher administrative costs.

\footnote{\textquoteleft NMB Jahudi Loan Scheme,\textquoteright NMB Microfinance, 2012.}

\footnote{\textquoteleft Ease of Doing Business,\textquoteright World Bank, 2012.}

\footnote{Ongoing Reforms, Tanzania Investment Centre, 2012.}
It is the second-largest economy in West Africa, with a 2011 GDP of USD 39.1 billion, and was the fourth-fastest growing economy in the region from 2006 to 2010. Ghana’s economic growth was primarily driven by the revised GDP in the oil sector, construction, transport and ICT. Agriculture is also a key economic driver, contributing approximately 30% to GDP.

The business environment in Ghana is relatively conducive to starting new businesses, and the country was ranked 64th in the World Bank’s Ease of Doing Business Index for 2012. Unemployment and the population below the poverty line, at 11% and 28.5% respectively, are low compared to other African countries. While corruption remains an issue, overall, Ghana has a stable socio-economic environment and provides entrepreneurs with a relatively enabling environment to launch and grow their businesses.

ENTREPRENEURIAL LANDSCAPE

Entrepreneurs in Ghana cited the limited supply of capital and business support services as the main challenges in their entrepreneurial environment. Market openness, the ease of doing business and positive attitudes towards entrepreneurship are key enablers.
KEY CHALLENGES

The supply of business support for entrepreneurs is perceived to be inadequate, and government programmes, in particular, are difficult to access.

Sixty-four percent of respondents indicated that government programs are not sufficient to support new firms. Where these programs are available, they do not always meet the needs of entrepreneurs; only 8% of respondents are of the opinion that government programs provide high-quality services to new and growing firms. Challenges in accessing these limited support systems are further compounded by corruption, with entrepreneurs suggesting that it is almost impossible to receive government support legitimately without engaging in some form of corruption: patronage and nepotism have been identified as the most common forms practised.42

Additionally, entrepreneurs find it difficult to access the limited pool of financing with interest rates and collateral requirements often proving unaffordable.

There have been some positive steps taken to assist entrepreneurs with low-cost, long-term finance. The Venture Capital Trust Fund (VCTF) was established by the Government of Ghana in 2004 to make equity and quasi-equity investments in small and medium businesses through five venture capital financing companies.46 A key to success for VCTF has been the provision of technical and management expertise to capacitate small business owners. Initiatives that bundle funding and business support in this way stand to make a significant impact in environments where entrepreneurs often do not have the resources or skills.

KEY STRENGTHS

Entrepreneurs in Ghana expressed positive sentiments regarding the legislative environment for new and growing businesses.

As illustrated in Figure A26,46 Ghana outperformed SSA and global peers on metrics related to administrative burdens. This aligns with World Bank research, which has ranked Ghana 64th out of 185 countries on the Ease of Doing Business rankings.47 While this ranking only places Ghana in the second quartile of global rankings, indicating that there is still room for improve-

FIGURE A24

Responses to the statement: 'There is a sufficient number of government programmes to support new firms'

Agree 18%  Disagree 64%
Neither Agree/Disagree 18%

'The government started some credit facilities, but if you are not one of their cronies, then you can’t get credit.'

— Entrepreneur, Ghana

The Commission on Human Rights and Administrative Justice and the Serious Fraud Office form Ghana’s two main anti-corruption bodies. However, the bodies need to be capacitated to enable them to curb corruption.43

FIGURE A25

Supply of Capital Composite Indicators

<table>
<thead>
<tr>
<th></th>
<th>Ghana</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital</td>
<td>1.90</td>
<td>2.24</td>
<td>2.54</td>
</tr>
<tr>
<td>Debt Capital</td>
<td>2.14</td>
<td>2.30</td>
<td>2.57</td>
</tr>
</tbody>
</table>

As per Figure A25,44 the availability of capital for new and growing firms is perceived to be insufficient. Ghana lagged both African and global peers on metrics related to the supply of capital—particularly with respect to equity capital.

FIGURE A26

Administrative Burdens Composite Indicator

<table>
<thead>
<tr>
<th></th>
<th>Ghana</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.96</td>
<td>2.87</td>
<td>2.87</td>
</tr>
</tbody>
</table>

'The process of registering a business is extremely easy. You walk into the building, fill out some forms, hand them in, and within days, your business is ready to go.'

— Entrepreneur, Ghana

42 World Economic Outlook Database, International Monetary Fund, 2011.
44 Ibid.
50 A composite of survey questions related to supply and access to debt and equity financing, as well as other financing and exit strategies.
51 Venture Capital Trust Fund website.
52 A composite of survey questions related to government impact and regulations.
ment, Ghana is well ahead of many African counterparts and is ranked 5th out of 46 countries in the World Bank’s Ease of Doing Business rankings for SSA. When starting a new business, for example, the average time to register a business in Ghana is 12 days compared to an average of 34 days in the rest of SSA.

The Ghanaian economy, with limited industry concentration, enables entrepreneurs to pursue opportunities in relatively open markets. Survey respondents indicated that it is relatively easy for entrepreneurs to enter new markets, suggesting that there is significant potential for small businesses to make an impact in key sectors. Currently, however, many entrepreneurial ventures in Ghana operate in the informal sector, and there may be a need to formalise in order to become more active participants in the economy.

There is evidence that a strong culture of entrepreneurship is emerging in Ghana. Entrepreneurs displayed positive attitudes towards income tax and bankruptcy—issues that typically deter people from starting new businesses. As such, indigenous entrepreneurs are making a significant contribution to the economy, with small, medium and micro-enterprises employing approximately 70% of labour.

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50 Ibid.
distribution of goods to major urban centres throughout the region. A well-developed formal sector exists, with sophisticated legal, communications, energy and transport sectors, as well as a financial sector that compares to global peers and boasts of a stock exchange that is the 18th largest in the world. The country has high industry concentration with most sectors being dominated by a few large firms.

In spite of its developed economic infrastructure, South Africa continues to experience severe income inequality, and 50% of the population lives below the poverty line with limited prospects of finding employment. South Africa’s GINI coefficient, at approximately 63, is one of the highest in the world. In addition, the country is plagued by high unemployment due to the misalignment of the skills required by the economy and those possessed by the populace.

The government has committed to fostering entrepreneurship to advance its economic development and, in particular, job creation priorities. This is in recognition of the fact that investment in the development of small businesses has been among the key ingredients of success for many successful economies. The impact is, however, still limited; total early stage entrepreneurial rates in South Africa are approximately one-third of comparable low to middle income countries so there is still potential to improve.

MACROECONOMIC CONTEXT

South Africa is the economic powerhouse of Africa, accounting for approximately 20% of the continent’s USD 1.9 trillion GDP. The country has an abundant supply of natural resources, as well as modern infrastructure that supports relatively efficient

**FIGURE A28**

South Africa’s 6th-Level Composite Indicators vs. Peers

<table>
<thead>
<tr>
<th>Entrepreneurship Assets</th>
<th>Business Assistance</th>
<th>Policy Accelerators</th>
<th>Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>Support</td>
<td>Legislation</td>
<td>Mindset</td>
</tr>
<tr>
<td>Skill, Talent</td>
<td>Services</td>
<td>Admin, Burdens</td>
<td></td>
</tr>
<tr>
<td>Tech, and Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financing strategies give entrepreneurs alternatives to traditional debt and equity

Education does not equip people to manage or work in entrepreneurial ventures

Although infrastructure is better than African peers, respondents were negative

Legislation favours large businesses that can absorb costs of compliance

A culture that supports entrepreneurship is evident
ENTREPRENEURIAL LANDSCAPE

In spite of South Africa’s comparatively more developed formal economy and related services, perceptions of local entrepreneurs and service providers are surprisingly more negative than African counterparts across many components.

As illustrated in Figure A28, South Africa underperforms both SSA and global peers when assessed against most measures, including infrastructure where the country could have been expected to fare better. Complex legislation and the limited availability of appropriate skills and talent for entrepreneurial ventures present significant challenges for new and growing businesses. In contrast, the sophistication of financial markets is an enabler with entrepreneurs in South Africa enjoying access to a more diverse range of financing strategies than both SSA and global counterparts. An emerging culture of entrepreneurship is also evident.

KEY CHALLENGES

The complexity of legislation in South Africa, coupled with the harsh penalties imposed for non-compliance, is a significant constraint for new entrepreneurial ventures, as illustrated in Figure A29.63

Survey findings suggest that the impact of government regulations on new businesses in South Africa generally fared worse than those in peer countries. In-depth interview respondents repeatedly cited the requirements of the Consumer Protection Act,64 Labour Relations Act65 and National Credit Act66 as onerous and time consuming. Entrepreneurs additionally felt that regulations placed an unfair burden on their businesses vis-à-vis large, well-established firms that are better positioned to absorb the costs of compliance. Studies conducted by the SBP confirm this perception: the average cost of compliance for small businesses was estimated at approximately 8.3% of turnover compared to only 0.2% for big businesses.67

A number of government initiatives have been put in place in order to allow for the development of more nuanced legislation that is conducive for small and new businesses. Tangible results, however, have not yet been realised. The National Small Business Advisory Council, for example, was established in 2006 with the mandate to advise the Department of Trade and Industry on how to address the impact of current

FIGURE A29

Government Regulations Composite Indicator

<table>
<thead>
<tr>
<th></th>
<th>South Africa</th>
<th>SSA</th>
<th>Peer Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.56</td>
<td>2.81</td>
<td>2.86</td>
</tr>
</tbody>
</table>

‘Schools Devote Enough Time to Teaching Entrepreneurship’

<table>
<thead>
<tr>
<th></th>
<th>Primary &amp; Secondary</th>
<th>University &amp; College</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>Agree/Disagree</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Disagree</td>
<td>75%</td>
<td>79%</td>
</tr>
</tbody>
</table>

‘Many People Can Manage New Firms’

‘I spend a lot of time training employees and then big supermarket chains like Pick N’ Pay come in and steal them. I try to keep them by improving their education and thereby inspiring loyalty.’

— Entrepreneur, South Africa

and new legislation on small businesses.68 Capacity constraints have prevented the council from delivering against this mandate, and as such, further measures will be necessary.69

There is limited availability of skills for entrepreneurial ventures, as illustrated in Figure A30, Schools, whether pre- or post-secondary, are not seen to devote enough time to teaching entrepreneurial courses. As such, school-leavers are not well equipped to manage new firms. The schooling system does not provide the critical thinking and problem-solving capabilities that are vital to the success of entrepreneurs and is perceived to prepare students to seek employment in large corporations. Entrepreneurs also face significant challenges when trying to recruit skilled candidates, in the face of competition for talent from large firms with well-known brands and more attractive compensation packages.

64 Total Early Stage Entrepreneurial Rates, Global Entrepreneurship Monitor, 2010.
65 A composite of survey questions related to government regulations and policies.
68 Act 34 of 2005.
Survey respondents had negative perceptions regarding infrastructure; although these are likely influenced by unfavourable comparisons to the developed world. Only 32% of the survey respondents believed that the physical infrastructure in South Africa adequately supports new and growing firms. Participants in the in-depth interviews suggested that electricity and internet are the main drivers behind the perception that infrastructure in South Africa is problematic for small businesses. Recent increases in electricity prices are beginning to make a dent in business profits, and this trend will continue as Eskom tariffs are increased over the next five years. Internet speeds and rankings significantly lag global peers, although analysts believe that new fibre optic cables coming online in the short term may ease prices and enhance service.

KEY STRENGTHS

South Africa’s financial sector emerged as a key enabler for entrepreneurs.

The sophistication of financial markets provided entrepreneurs with an array of options for financing their businesses. Entrepreneurs in South Africa were notably more au fait with the use of alternative financing vehicles, such as stock options, pension funds and mergers and buy outs, than their counterparts not only in Africa but the rest of the world as well.

There is a growing culture of entrepreneurship in the country; although there is still some risk aversion. Nonetheless, the fear of failure is not particularly high. Entrepreneurship is increasingly being viewed as a legitimate career option and individuals are being encouraged to take responsibility for their individual success. While risk aversion and the fear of failure do continue to deter some, survey respondents indicated that a large majority of those who do take the plunge to start entrepreneurial ventures and fail are not too afraid to try again.

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**Figure A31**

Infrastructure Constraints in South Africa

![Bar chart showing internet speeds and rankings for South Africa, UK, and USA, with the highest speed in 6th place for USA and the lowest in 81st place for South Africa.]

**Figure A32**

Positive Responses to Questions Related to Culture

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most people think that individuals who start new firms are competent</td>
<td>69%</td>
</tr>
<tr>
<td>People emphasise individual responsibility for career success</td>
<td>62%</td>
</tr>
<tr>
<td>People encourage risk taking in one’s career</td>
<td>28%</td>
</tr>
<tr>
<td>It is common for people who have failed in business to try again</td>
<td>67%</td>
</tr>
</tbody>
</table>

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Omidyar Network would like to acknowledge several individuals and organisations for their contributions to the *Accelerating Entrepreneurship in Africa Initiative*: the entrepreneurs who took part in the Monitor Survey; the many leaders who participated in the *Entrepreneurship in Africa Summit* last October; the panellists from the Summit: Moky Makura (facilitator), Pedro Arboleda, Patrick Awuah, Hakeem Belo-Osagie and Paul Harris; Palesa Makanda for her assistance at the Summit; and Affiong Williams for her support with writing this report.

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The wealth of input and involvement we have received from these individuals and organisations is greatly appreciated and continues to be critical to nurturing Africa’s entrepreneurial ecosystem and to leading the continent towards greater prosperity.

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**ACKNOWLEDGEMENTS**

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**ON OMDIYAR NETWORK**

**About Omidyar Network**

Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. Established in 2004 by eBay founder Pierre Omidyar and his wife Pam, Omidyar Network invests in and helps scale innovative organisations to catalyse economic and social change. As of March 2013, Omidyar Network has committed more than $611 million to for-profit companies and nonprofit organisations that foster economic advancement and encourage individual participation across multiple initiatives, including entrepreneurship, financial inclusion, property rights, government transparency, consumer Internet and mobile. To learn more, visit www.omidyar.com.

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