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Abstract	<p>The typical African entrepreneur is a necessity entrepreneur, who works in the informal sector on a small piece of land. Young people would like to be a successful entrepreneur, but hesitate to start a formal enterprise. Their role models are different. Entrepreneurship in Africa has to face more uncertainty than elsewhere, because of the five “C”s: corruption, crime, conflict, competition, and climate change. High uncertainty leads to short-term time horizons. Other constraints include limited education, lack of finances, and bad infrastructure. If these limitations were addressed on a large scale, an enormous entrepreneurial potential could be unleashed.</p>	
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African Entrepreneurship: Constraints and Improvements

Gerd Junne

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If you think of African entrepreneurs, the Nigerian billionaire Aliko Dangote may come to your mind, “Mo” Ibrahim, or Isabel dos Santos. There are many distinguished African entrepreneurs like them.¹ But they are still the exception. The typical African entrepreneur is a woman, most probably a smallholder, who works in the informal sector on a piece of land, which sometimes is as small as a tennis court.² The majority of the world’s entrepreneurs are poor people in poor countries, and this is even more the case on the African continent, where most of the working-age adults can be regarded as starting up or running their own business.³

There is a great entrepreneurial potential. When the Tony Elumelu Foundation launched the Tony Elumelu Entrepreneurship Programme (TEEP) in 2015, it received more than 20,000 applications from all 54 African countries.⁴ Africa is full of entrepreneurial people. What are their ambitions and role models? What is their time horizon? And what holds them back?

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This chapter will first present some general aspects of entrepreneurship in Africa. It will then concentrate on the specific constraints that limit the opportunities for entrepreneurs to grow their business. It finally indicates a number of possible measures that would broaden these opportunities and facilitate a successful accumulation process.

Framework Conditions for Entrepreneurship

Different Role Models

Africa experiences the fastest demographic growth of all continents. By the end of the century, its population may reach four billion. According to recent figures from the African Development Bank, there are 480 million youth on the continent today (the number is expected to grow to 850 million by 2050), with 10–13 million entering the job market every year and only 3 million getting wage employment.⁵

Governments cannot provide these jobs. Formal economic sectors are strongly biased toward the exploitation of mineral resources with little employment, other sectors are exposed to strong international competition from (often Chinese) imports. There are few fast-growing industrial sectors (like telecom, breweries).

Agriculture is not attractive in its present form and is largely subsistence agriculture.

If there are only a few jobs offered, people have to create their jobs themselves. Hence, there are a large number of people who become “necessity entrepreneurs” in the informal sector. The very fact that many people have no other choice (and certainly do not get wealthy in this way) creates a negative image of (most) entrepreneurship. You become an entrepreneur if everything else fails. “In many parts of the continent there are so few successful companies that would-be entrepreneurs seldom see inspiring examples or have trusted friends in business to turn to for advice or as suppliers or customers.”⁶

Well-educated people aspire to become government officials with a guaranteed pension or get employed by a large company. If you can land a job in the petrol industry and get a monthly salary of \$ 3000, why go

through all the hardship and face the risks of a starting enterprise with a meager income, lots of work, and an uncertain future?

AU2 If you want to become rich, you would rather become a politician than an entrepreneur. This is not an either-or question, however, since (big) business and politics are largely intertwined. If your family is politically well connected, you can more easily get government orders and subsidies, and if you do well in business, you can more easily become an elected official. Politicians are often political entrepreneurs. Kenyan politicians, for example, spend more on election campaigns (per voter) than politicians in the United States, a country which is 40 times richer.⁷

AU3 If you do not have the right connections, you may have other role models: You may want to become a musician, a football player, an athlete, an actor, a scientist, but probably not an entrepreneur. That is, you may want to BE a successful entrepreneur, but you do not want to try to BECOME one. The main reason may be that too many determinants beyond our control decide whether you will be successful or not.

Uncertainty

Entrepreneurship implies risk taking. But the risks are usually much higher in an African context than in OECD countries. To understand entrepreneurial behavior in Africa, it is good to take this higher degree of uncertainty into account. Many of the risks can be summarized as the “Five Cs”: corruption, crime, conflict, competition, and climate.

Corruption takes many forms: Nepotism creates situations which limit business opportunities to people with connections. Licenses may depend on “speed money” and patronage lineages. High crime rates raise costs to guard property and reduce mutual trust that would facilitate business transactions.

The higher chances of violent conflict increase the risk of investment especially in fixed assets. Strong competition, recently especially by Chinese products, makes it difficult to find a suitable market niche.

The decreasing predictability of the weather due to climate change reduces the attractiveness of investments in agriculture.

The high levels of uncertainty contribute to a hesitance to invest in ventures with a long time span before they deliver results. It is no wonder that the African countries covered by the Global Entrepreneurship Monitor occupy the lowest ranks on the “Undeterred by fear of failure” indicator.

Since uncertainty is so high in an African context, entrepreneurial individuals, who can mobilize the means to be mobile, often leave and migrate to another country where the chances are higher that with hard work, you will really achieve something.

Time Horizon

The high degree of uncertainty has a double impact on entrepreneurship. It reduces the incentive to plan—and to save (to invest). Both would be necessary to become a successful entrepreneur. In our own entrepreneurship program,⁸ we have seen that participants find it especially difficult to produce a cash flow forecast—because “they cannot know beforehand.” Several African languages are even said to lack a future tense.⁹

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A rational analysis is substituted by hope. One result is that many ventures remain unsuccessful—which then has a negative impact on the image of entrepreneurship.

Religion also plays an ambiguous role in entrepreneurship, and many Africans are deeply religious. If I wait for higher powers to rescue me, put more emphasis on the after-life than on life on earth, or believe that everything is pre-determined, it provides some spiritual comfort, but does not expand my business. However, it can also work out in the opposite way. Many entrepreneurs who are successful are religious people. They dare to take risks, because they are confident that “God is at their side” and will help them, if they persevere.

Planning always assumes that the entrepreneur can exercise some control over the outcome. Given the high uncertainty, this may not be the case. While this hampers the capacity to plan, it can also have a positive impact on other ingredients of entrepreneurship. If I cannot control the outcome, I have to be flexible and be able to improvise. I would guess that African entrepreneurs have developed a higher degree of flexibility

and improvisation talent than most of their counterparts elsewhere. They just had to; otherwise, they would no longer be in business.

Another important aspect of a limited time horizon is the limited inclination to save. What makes saving so difficult is that most assets may quickly lose their value—by fire, flood, theft, inflation, corruption, or armed conflict. Besides, the pressing social needs around the entrepreneur are so abundant that it is difficult to save instead of satisfying at least some of these needs, especially of the own larger family. Since in the absence of a well-functioning social security system, family bonds provide the only social safety net, the pressure to share any income earned from business activity is very high. Financial literacy in the larger family is generally low. So a decision to save more and share less would not be well understood in the entrepreneur's social environment. Many entrepreneurs therefore move to another town or abroad, so that success becomes less visible for the larger family, which otherwise would exercise a lot of social pressure. Such moves have the disadvantage that entrepreneurs may start in an unfamiliar environment, where they do not have a dense personal network—which then is another obstacle.

Constraints for Entrepreneurship

Knowledge

The generally low average level of education in most African countries forms a bottleneck for entrepreneurs. It implies not only difficulties to find suitable employees. The entrepreneurs themselves often have enjoyed little formal education, which makes it difficult for them to get information on business opportunities, to go through the procedures of formal registration, and to keep proper records. In Sierra Leone, for example, more than half of all entrepreneurs are illiterate.

The formal education system is not geared toward entrepreneurship. It offers a more abstract curriculum, and teachers lack experience in entrepreneurship themselves.

Since most people still depend on agricultural activities, it is especially problematic that agricultural extension services do not function properly and in many countries have been cut down for financial reasons. More and more helpful information is available on the Internet, but a minimal level of literacy, reading English, familiarity with computers, Internet access and electrical power is necessary to make use of the wealth of information out there. People who do have access then mostly look for an occupation outside agriculture.¹⁰

Finance

If you ask entrepreneurs what the most important bottleneck is that they experience, they would probably not start with knowledge, but with finance. "There is a myth out there that every good idea can find funding," according to Goolam Ballim, the chief economist of South Africa's Standard Bank. "But in Africa that simply isn't true."¹¹

The grim reality is that there is money,¹² but it is hardly available for investment in small enterprises.

AU6 One aspect of this is income inequality. "In addition to being [one] of the poorest regions in the world, Africa is also the world's second most inequitable region after Latin America. Inequalities have not diminished over time. In 2010, six out of the 10 most unequal countries worldwide were in Sub-Saharan Africa, and more specifically in Southern Africa."¹³

But the poorer groups of the population still have some money. Every year, several hundred thousand Africans try to reach Europe. It is very costly to pay for the journey through Africa and then pay a human trafficker to put you on a boat to Europe. Let's assume that the average costs of such migration are \$ 5000. If 100,000 refugees and migrants embark on such a voyage, this would imply that \$ 500 million have been collected to make this flow possible. With the same amount, thousands of small companies could have been started instead.

Migration is costly, but it also leads to dividends in the form of remittances. African countries south of the Sahara received about \$ 33 billion of remittances in 2016, of which 19 billion went to Nigeria alone.¹⁴ But only a tiny percentage is invested in businesses.¹⁵

Most African banks shun away from credits to small companies and prefer to lend money to governments.¹⁶ The banks' aversion to lending to small enterprises is particularly preventing micro and small businesses from exploiting their full potential.¹⁷ Interest rates are high, and bank employees are not well trained in assessing the risks of lending to these enterprises.

Financing business through microfinance credits is not very attractive either, since interest rates are high, and (micro)entrepreneurs fear that they might lose even their last assets if they do not pay back the credit in time.¹⁸

Infrastructure

Access to finance depends on the opportunities to sell what you produce. But “even if entrepreneurs get access to finance, it is still difficult for them to make and sell things.”¹⁹ The lack of road infrastructure makes it expensive to get supplies. Regular power cuts (or no electricity at all) make it difficult to produce. High transport prices make it difficult to reach markets. Traffic jams in the major cities cause a lot of time to travel from one end to the other. Spare parts for broken machinery or cars can be hard to obtain.

While some major roads have improved, the infrastructure in rural areas remains deficient. This implies huge post-harvest losses for farmers, because they cannot reach markets in time.²⁰ On the other hand, it also limits the size of the market for other goods: “Investors who want to reach the majority of consumers still need to focus on getting goods out to dispersed rural communities. In many cases overcoming infrastructure gaps matters more than product novelty.”²¹

The International Fund for Agricultural Development (IFAD) summarizes the crucial role of infrastructure very well: “Reliable infrastructure is essential for all elements of rural development. It has an enormous impact on the cost of supplying both farm and non-farm goods and services. It is a key determinant of the business services available to smallholder family farmers (for example, processing, marketing, storage) and to their profitability.”²²

At present, large parts of African countries are not accessible for long periods during the year, due to the weather, mud, bad roads, or lack of bridges.

Of course, in addition to the constraints in the field of education, finance, and infrastructure, there are the well-known problems of bureaucracy, lack of political stability, and lack of good governance in general, which can create obstacles as big as the ones depicted above.

Improvements

Given all these constraints, what can be done about them? How can the chances especially for starting entrepreneurs be improved? Political stability, of course, would be a precondition for a positive investment climate (for other entrepreneurs than arms dealers, smugglers, and similar trades). Besides that, major changes in education, finances, and infrastructure could give a great boost to African entrepreneurship.

Education

The majority of African entrepreneurs are smallholders who practice agriculture with a relatively low productivity on an increasingly exhausted soil.²³ To get a maximum result from small farms without damaging the environment further, while adapting to climate change (and reversing its negative impact where possible), a lot of additional knowledge would be necessary. A big step into the right direction would be the expansion of agricultural extension services, which have been severely curtailed in the past in most countries. To reverse this trend, Nigeria has taken an initiative that should be followed by other countries. The Nigerian vice-president has announced the recruitment and training of 100,000 young persons as agricultural extension workers as a way of providing support services in agricultural technologies to farmers.²⁴

Agriculture in the present setting is not attractive for young people. Many therefore would like to migrate to the cities (or abroad). To increase its attractiveness, education would be desirable in a broad range of agriculture-related professions that would help to improve the image

of agriculture, like Agricultural Economist, Arboriculturist, Agricultural Lender, Animal Geneticist, Crop Scientist, Conservation Officer, Educational Specialist, Export Sales Manager, Ecologist, Food Microbiologist, Farm and Land Appraiser, Farm Manager, Grain Broker, Livestock Procurement, Market News Reporter, Plant Geneticist, Quality Assurance Officer, Soil Scientist, Toxicologist, Viticulturist, Waste Management, and Wildlife Biologist, as suggested by the “Kairos Ladies” in Ghana.²⁵

At the same time, a tremendous expansion of informal education could take place. There is so much information available in international networks on the Internet, which could boost not only agriculture but any kind of economic activity. A precondition for that would be more widespread literacy, access to the internet, computer literacy, and knowledge of English or another widespread language.

Besides such basic knowledge, more entrepreneurial skills training could improve the chances of entrepreneurial success. Such programs have quickly spread in many African countries but could still reach more people and coach them for a longer period.²⁶ There is disagreement about whether entrepreneurship can be learnt,²⁷ but relevant skills can certainly be acquired by additional training.

A Financial Marshall Plan

There are thousands of capable people all over Africa with viable business ideas that cannot be realized because there is no initial financing. An institutional network is lacking that would be able to provide small credits at bearable interest rates that would help to get these companies started. There are many initiatives at a small scale, but their impact has been limited. This is understandable, because the same uncertainties that plague the starting entrepreneurs are also encountered by institutions that could provide such start-up financing. In addition, these institutions have to cope with the uncertainties regarding the skills and the integrity of the entrepreneurs. Only a comprehensive approach that combines financing with intensive mentoring would have a chance to yield the expected results.

One handicap for most initiatives is that they usually target individual enterprises rather than a group of mutually supporting enterprises that would be clients for each other. This, however, would require a degree of planning, cooperation, and mutual trust that does not yet exist in many communities.

Improved Infrastructure

At least one aspect of infrastructure has improved at lightning speed in Africa: Mobile phones have spread into the most peripheral areas. There are actually 557 million unique subscribers in Africa with a mobile phone, and their number is expected to reach 725 million by 2020, which would imply a penetration rate of 54 percent. The number of mobile internet subscribers tripled in the last five years to 300 million by the end of 2015, with an additional 250 million expected by 2020.²⁸

This has not only created a large number of telecom-related companies (like mobile network operators, infrastructure service providers, retailers and distributors of mobile products and services, handset manufacturers and mobile content, application and service providers). It has also increased the opportunities for doing business in general, because it has facilitated not only communication and coordination but also marketing and financial transactions.

While this is probably the most important change that is actually taking place, there are also large infrastructure developments on the continent that create many new opportunities for trade between African countries—and other continents.²⁹ While this will improve the chances for traders, it may also hamper the chances of local small-scale industries, which may suffer from increased global competition.

The rise of China has been crucial for the expansion of African infrastructure. The World Bank already “in the 1960s shifted its aid focus away from infrastructure, transportation, and infrastructure, leaving basic irrigation, transportation, and electrification systems underdeveloped. China has stepped in as a new and symbiotic partner. ... Today China is the greatest force evolving Africa beyond its artificial European

colonial borders because it is paving over them with sturdy infrastructures reaching deep into landlocked countries.”³⁰

This infrastructure also provides new opportunities for African entrepreneurs, though it basically serves to provide access to African raw materials and to distribute Chinese goods—in the same way as the colonial infrastructure served Europeans in the nineteenth and twentieth centuries.

A major difference, however, between now and then is the existence of a growing group of African entrepreneurs who—in spite of all obstacles described above—can also use this very same infrastructure.

Notes

1. See, for example, Iwa Adetunji (2017), *African Entrepreneurs—50 Success Stories*, MX Publishing; Quemchy Angels (2017), *African Entrepreneurs and Their Success Stories*. See also Mfonobong Nsehe—The African Billionaires 2017, <https://www.forbes.com/sites/mfonobongnsehe/2017/03/20/the-african-billionaires-2017/#79ea289f2334>.
2. New York Times, 4 August 2017.
3. In Burkina Faso, for example, “close to two-thirds of working-age adults [...] are starting up or running their own businesses”. Global Entrepreneurship Monitor, 2016/2017, p. 24. <http://www.c4e.org.cy/reports/2017/gem-2016-2017-global-report-web-version-1486181226.pdf>
4. Cf. Tony Elumelu Foundation—Unleashing Africa’s Agricultural Entrepreneurs. Improving the Enabling Environment for Agriculture, February 2016, p. 2. <https://www.growafrica.com/sites/default/files/Unleashing-Africas-Agricultural-Entrepreneurs.pdf>.
5. Pan-African Youth Empowerment Conference: to support young people to shape their own future, Press Release, 18 August 2017, <https://d3japsmk00rot.cloudfront.net/wp-content/uploads/2017/08/Press-Release-Pan-African-Youth-Empowerment-Conference.pdf>.
6. The Economist, 30 June 2016.
7. The Economist, ...
8. The Network University (TNU) has offered an online training to starting entrepreneurs in West Africa, <http://ent.netuni.nl>.

9. Other languages, however, have even more tenses than Westerners are used to: There are African languages with even eight tenses, like “simple past,” “recent past,” “remote past,” “present,” “habitual,” “immediate future,” and “remote future.” See <http://www.africananaphora.rutgers.edu/tense-and-aspect-in-african-languages-hiddenmenu-218>.
10. Cf. Tony Elumelu Foundation—Unleashing Africa’s Agricultural Entrepreneurs. Improving the Enabling Environment for Agriculture, February 2016. <https://www.growafrica.com/sites/default/files/Unleashing-Africas-Agricultural-Entrepreneurs.pdf>.
11. The Economist, 30 June 2016.
12. There is money, in spite of the fact that huge amounts of resources are transferred out of the continent every year: “In 2012, the last year of recorded data, developing countries received a total of \$1.3tn, including all aid, investment, and income from abroad. But that same year some \$3.3tn flowed out of them. In other words, developing countries sent \$2tn more to the rest of the world than they received.” See the summary of the study by Washington-based Global Financial Integrity and the Norwegian School of Economics on <http://www.gfinintegrity.org/press-release/new-report-on-unrecorded-capital-flight-finds-developing-countries-are-net-creditors-to-the-rest-of-the-world/>.
13. African Development Bank, Briefing Note 5: Income Inequality in Africa, 7 March 2012, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/FINAL%20Briefing%20Note%205%20Income%20Inequality%20in%20Africa.pdf>.

At the end of 2014, Africa was home to 160,000 people with personal fortunes in excess of US\$ 1 million, a twofold increase in the number of wealthy people since the turn of the century. “Meanwhile, the number of poor people in Africa—defined as those living on less than \$1.25 a day—increased from 411.3 million in 2010 to 415.8 million in 2011.”<https://www.theguardian.com/global-development/datablog/2015/jul/31/africa-wealth-report-2015-rich-get-richer-poverty-grows-and-inequality-deepens-new-world-wealth>.
14. World Bank, Migration and Development Brief 27, April 2017, p. 27–28 <http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf>.
15. See the figures on the use of remittances for business or investment in five countries (Burkina Faso, Kenya, Nigeria, Senegal, Uganda). Admittedly, “it is difficult to identify the share of remittances devoted to

specific uses, as money is fungible, and reports from remittance recipients on how they use remittances may be biased. Evidence from other regions suggests that a significant part of remittances is spent on housing investment and the purchase of land, particularly where few other assets are reliable stores of value.” World Bank, “Leveraging Migration for Africa. Remittances, Skills, and Investments,” 2011, p. 63–64.

16. “This is beginning to change, thanks largely to the spread of mobile phones, which is allowing for new ways of lending cheaply. Take Letshego, a Botswana-based microlender with operations in nine other African countries. It signs up customers using their mobile phones and runs its entire operation from a data centre in South Africa, giving it a cost-to-income ratio (a standard measure of efficiency in banking) that is about half that of traditional banks.” The Economist, 30 June 2016.
17. Sparkassenstiftung für internationale Kooperation, Annual Report 2016, International Cooperation, Projects and Partners, p. 19.
18. The World Bank paper “Financing Businesses in Africa: The Role of Microfinance” by Shilpa Aggarwal, Leora Klapper, and Dorothe Singer evaluates how microfinance performed in providing business financing in 27 sub-Saharan African countries. It shows that economic gains from microcredit have been more modest than what was once believed. Policy Research Working Papers, Washington, February 2012.
19. Ashish Thakkar, an African entrepreneur and philanthropist, says that shortages of electricity, potholed roads, and inefficient ports and railways hold back manufacturers. “If someone making shoes in Port Harcourt can’t even get them to Lagos [both are cities in Nigeria] then forget about them going global.” The Economist, 30 June 2016.
20. In Cameroon, for example, 40 percent of the annual production of plantain banana is lost due to the lack of adequate road infrastructure. <http://ideas4development.org/en/processing-of-agricultural-raw-materials-in-africa-reaffirmed-as-a-priority/>.
21. <https://hbr.org/2017/02/3-things-driving-entrepreneurial-growth-in-africa>.
22. IFAD—Investing in smallholders family farmers For the future we want, Rome 2014, p. 9.
23. Netherlands Environmental Assessment Agency—Micronutrients for agricultural intensification. Is Sub-Saharan Africa at Risk? Policy study by Ezra Berkhouit, Mandy Malan and Tom Kram, Den Haag, 2017, <http://www.pbl.nl/sites/default/files/cms/publicaties/pbl-2017-micronutrients-for-agricultural-intensification-1946.pdf>.

24. Vice President Yemi Osinbajo acknowledged in the same announcement that this could only have a real impact if other policies are aligned: “You cannot have a policy of encouraging local production of food, while, on the other hand, you have a high tariff on agricultural imported equipment. There is no way that we can encourage local production when we allow unbridled importation of the same things that we are trying to produce... There is no way we can do the scale of agricultural production both for domestic consumption and export without ensuring improved local seedling development alongside those that we import and of course encouraging the work of the agencies of the Ministry of Science and Technology who have been making great breakthroughs in local development of agricultural equipment.” Public address at the official launch of the Agriculture Promotion Policy (APP) tagged the “Green Alternative” in Abuja, 15 August 2016. <http://nifaas.org.ng/2016/09/01/nigeria-to-employ-100000-extension-workers/>.
25. <https://kairosadiesnet.wordpress.com/page/2/>.
26. African start-up mentor Michele Grosso noted that while African entrepreneurs have amazing drive and hardworking spirit that cannot be seen elsewhere, most of them lack the basic business skills that are expected from anyone that wants to start and run a business. “This is probably due in part to lack of proper business education; they don’t have access to a wide international business community except at events like DEMO Africa which don’t happen every day.” <http://ventureburn.com/2015/12/entrepreneurship-training-african-startups-stakeholders-disagree/>.
27. <http://ventureburn.com/2015/12/entrepreneurship-training-african-startups-stakeholders-disagree/>.
28. GSMA—The Mobile Economy, Africa 2016, p. 3. <https://www.gsmaintelligence.com/research/?file=3bc21ea879a5b217b64d62fa24c55bdf&cdownload>.
29. TradeMark East Africa, for example, an NGO funded largely by Western governments to encourage trade, reckons that improvements in Kenya’s ports and roads have cut by about 60 percent the time it takes to ship a container from the port of Mombasa to Kampala, the capital of Uganda, lowering costs too. The Economist, 30 June 2016.
30. Parag Khanna—Connectography. Mapping the Future of Global Civilization, New York, 2016, p. 95.

Author Queries

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Queries	Details Required	Author's Response
AU1	Please provide Abstract and Keywords.	
AU2	Please check and clarify whether this refers to the US dollars or any other country currency. Check here and other similar instances throughout.	
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AU4	Please check if "eight" is correct as it is.	
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