Towards the Emergence of the Next Generation of Entrepreneurs in Africa

An issues-framing white paper for discussion
This white paper has been prepared by IFC in the context of Africa’s Next Startups Initiative, a joint initiative of the IFC and Egypt’s Ministry of Investment and International Cooperation. Its aim is to provide a framework for discussion on how to create the conditions for transformational entrepreneurs to emerge and thrive in Africa. IFC and the ministry selected up to 100 of the continent’s most promising start-ups and invited them to participate in the Africa 2018 Forum, held under the patronage of Egypt’s president in Sharm El-Sheikh from December 8 to 9, 2018. The initiative aims to connect start-ups with business leaders, policy makers, and investors, helping them showcase their businesses, receive advice, and access new markets.
Table of Contents

Foreword 4
Acknowledgements 5
Executive Summary 6
I. Introduction: Spurring Transformational Entrepreneurship in Africa 9
II. A Policy-Framework to Support the Next Generation of Entrepreneurs 13
III. Where Does Africa Stand in Terms of its Entrepreneurship Ecosystem? 16
IV. Policy Priorities to Foster Transformational Entrepreneurship in Africa 36
V. References 40
African economies have been growing steadily over the past two decades, but that expansion has not been enough to meet the needs of their fast-growing populations. As a result, the continent continues to struggle with poverty, under-employment and low productivity. The African continent needs a vibrant private sector with a new generation of entrepreneurs capable of generating jobs and economic opportunities for all.

African entrepreneurs have a key role to play in creating the jobs of tomorrow. With their talent, drive, and ability to leverage technology, they are capable of building the companies of tomorrow—businesses that not only create stable, well-paying jobs, but that also take on some of Africa’s most pressing development challenges.

This white paper provides an overview of entrepreneurship on the continent and examines how Africa can cultivate a new generation of transformational entrepreneurs. It emphasizes the need to put in place the conditions to encourage risk taking, and the easy entry and exit of firms in a way that does not punish failure. An economic culture that supports innovation, competition and the emergence of new business models and ideas will enable the formidable potential of the continent to thrive, including in the digital economy. Governments across the continent need to put in place regulatory environments that enable private sector dynamism, particularly with regard to business creation and growth.

The responsibility for supporting entrepreneurs does not lie only with governments. Africa’s business community, especially seasoned founders, need to contribute to this effort. Research shows that entrepreneurs benefit most by receiving knowledge, capital, and other support from people who have led successful companies before. The African private sector needs to be at the forefront of the transformation of the continent and in building its entrepreneurship ecosystem.

This change is happening already. Cities like Cairo, Lagos, Nairobi, Cape Town and others are home to burgeoning start-up ecosystems. Companies there are using cutting-edge technology to help people power their homes, access medical care, and open bank accounts for the first time. These kinds of disruptive solutions, which are spreading across the continent, are vital and historic opportunities to support African entrepreneurs and improve the daily lives of the continent’s citizens.
Acknowledgements

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Executive Summary

For nearly two decades, Africa has largely maintained real gross domestic product (GDP) growth at higher rates than the world average, which helped the region stay on a convergence path. GDP growth was mainly supported by buoyant domestic demand and investment. However, given the high population growth in most of parts of the continent, GDP per capita growth rates were modest.

Unleashing the potential of the private sector is needed to create new and better jobs—the most promising pathway to poverty reduction. Transformational entrepreneurship could be at the heart of the emergence of a new private sector that delivers on this promise. Transformational entrepreneurs aim to create large, vibrant businesses that grow beyond the scope of individual subsistence needs and provide jobs and income for others. That contrasts with subsistence (often informal) entrepreneurs who conduct business activity as a means of providing subsistence income, remaining very small, with limited productivity.

If transformational entrepreneurs are to play an important role in boosting economic growth and job creation in Africa, then governments, international financial institutions, and the private sector should aim to put in place ecosystems that nurture the development of vibrant start-ups and enable them to grow and compete. The framework proposed in this paper assesses where the continent stands in different areas of an entrepreneurship ecosystem. This multi-dimensional assessment suggests that governments in the region should focus on four broad areas of policy making to foster entrepreneurship ecosystems that are favorable to the emergence of transformational entrepreneurs and productive, innovative firms:

1. Improving the enabling environment.
2. Policies that foster skills development and support the overall start-up ecosystem.
3. Early-stage financing and start-up capital development.
1. Improving the enabling environment

Establishing framework conditions that support competitive markets is important to improve business dynamism and foster the reallocation of resources towards productive firms and entrepreneurs. African governments aiming to spur business dynamism should encourage transformational entrepreneurial activity and consider designing and implementing policies that spur the reallocation of resources towards their most productive use. This requires a policy mix that addresses several entrepreneurial barriers simultaneously—developing an entrepreneurial culture that reduces risk aversion and does not punish failure, helping entrepreneurs deal with uncertainty, reducing experimentation costs, and eliminating the wage gap between the self-employed and wage-earners, which can make entrepreneurship less attractive to highly skilled individuals.

Entrepreneurial policies should be complemented with regulatory frameworks that facilitate doing business. Entrepreneurial societies encourage start-up activity, as well as a culture of risk-taking, where both success and failure are celebrated. The cycle of business entry, exit, and re-entry is a key element of entrepreneurial societies. While 21 of the 46 economies improving the most across three or more Doing Business topics in 2017/18 were African, overall rankings remain relatively low. African governments should accelerate the current reform momentum to improve the enabling environment and help transformational entrepreneurs thrive. Besides the regulatory environment for entry and exit, the competition framework needs to be improved in most countries of the continent where dominant positions and non-competitive practices prevail in key sectors.

2. Policies that foster skills development and support the overall start-up ecosystem

In order to better position the next generation of citizens to contribute to the labor force and the development of entrepreneurial societies to foster economic growth and prosperity, African policy makers should continue to put human capital development at the center of their development priorities. Evidence from the World Bank Human Capital Index (HCI) shows many countries in Africa are below the levels expected given their level of development. In addition, the Global Entrepreneurship Index shows the continent performs poorly in risk tolerance and start-up skills, both of which are crucial to promoting transformational entrepreneurial activity. To support the next generation of entrepreneurs, governments and IFIs need to increasingly focus on strengthening the entrepreneurial culture in African education systems, emphasizing traits such as risk-taking, innovation, and creativity.

The private sector and governments need to work together to articulate and address the gap between demand and supply of skills in their economies. Entrepreneurial capability—the ability of the entrepreneur to manage information, learn from experimentation, and internalize what he/she has learnt to produce better outcomes—is a key aspect of human capital development. This includes business training programs that help firms improve their managerial skills, programs that teach personal initiatives, and programs to adopt new technologies. These programs require governments and the private sector to work together, where the private sector is best suited to identify growing demand for specific skills and inform government and other private sector counterparts responsible for supplying skills.

Ecosystem support programs should strive to have active private sector participation at the core of their offerings. Governments, IFIs and the ecosystem support entities themselves should encourage and incentivize successful entrepreneurs to share their knowledge, capital, and other resources with up and coming entrepreneurs. Effectively supporting entrepreneurs requires the active involvement of Africa’s business community.

Also, to fully realize the potential of female entrepreneurs, program design should take into account women’s specific needs and challenges. Women face challenges related to restricted mobility, lower levels of financial inclusion, and constraining social norms in some countries. Supporting intermediaries to design programs to provide skills development, mentorship, and training that account for challenges faced by women can play an important role in achieving gender parity. For example, women-only networks may be useful to help familiarize participants with networking and in building professional confidence, but broader networking activities are needed to support firm development. Women entrepreneurs also need to build linkages with mixed-gender networks, which tend to be male-dominated but represent important gateways in the private sector.
3. Early-stage financing and start-up capital development.

Despite the improvements in equity finance, early stage financing is lacking in Africa. Ensuring the availability of early stage risk capital to address the financing gap, from ticket sizes of $50,000 to $500,000, is necessary to fuel the growth of transformational entrepreneurs in Africa. Governments and IFIs should consider developing instruments and allocating resources to help de-risk these investments and crowd in new investors. Governments and IFIs should also engage with the growing angel investor community in Africa, improving their capacity and ability to invest, and acknowledging their key role in sharing knowledge, experience, and networks with entrepreneurs.

IFIs and fund managers should consider designing funds and instruments to allow for longer-time horizons, allowing for profitability, scale, and exit opportunities. Transformational entrepreneurs would benefit from mezzanine financing instruments, falling between the spectrum of pure equity and pure debt. Addressing these financing gaps could also require IFIs and fund managers to explore new fund structures, moving from closed-ended funds to more flexible time horizons, lower management fees, higher carried interest, and broader exit options. Ultimately, funds and their instruments should be tailored to target start-ups’ needs, aiming to fill financing gaps and avoid crowding-out private investments. They should consider the right structure of legal and economic incentives and guarantee that access to capital is based on business potential and performance.

A holistic approach to supporting entrepreneurship is needed, one that links funding to pipeline development. Fostering the supply side of the business angel or venture capital ecosystem is not enough to guarantee access to external sources of finance that can support experimentation and innovation. The investment readiness or quality of the pipeline is also crucial. Investment readiness programs are important to provide individualized training, mentoring, coaching, and other services to overcome these constraints. Improving the effectiveness of these programs means working closely with investors to understand their requirements and tailoring them accordingly.

4. Creating digital markets

Governments, IFIs, and the private sector have an important role to play in catalyzing firm growth by creating digital markets. Enabling e-commerce, using digital platforms, fostering access to modern digital payment systems, and expanding access to broadband and the Internet are key elements of the development of the digital economy in Africa. The World Bank Group, in close coordination with African governments and regional organizations like the African Union, has recently launched the Digital Economy for Africa initiative that aims to achieve just that, with ambitious 2030 moonshot targets amounting to no less than having Every African individual, business and government Digitally Enabled by 2030.

In order for transformational entrepreneurs to take advantage of the digital economy, the necessary digital infrastructure needs to be made available, with improved connectivity, reliability, and speed. Digital platforms can play an important role in improving efficiency and creating markets for entrepreneurs in Africa. In many cases, these digital platforms are being developed by the transformational entrepreneurs discussed in this paper. Success in using digital platforms to build demand crucially depends on consumers’ capacity to connect to, and engage on, those platforms.

As customers continue to use their mobile phones for e-commerce to engage and transact, data download speeds and reliability will increase in importance. Despite the prevalence of mobile banking in Africa, the cost of mobile phone tariffs remains a barrier to mobile adoption and intensity of use. In order to support the growth and proliferation of these digital platforms, African governments should consider the cost and performance of digital infrastructure in their countries, and how private sector participation in these sectors can help unlock potential.
I. Introduction: Spurring Transformational Entrepreneurship in Africa
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For nearly two decades, Africa has largely maintained real GDP growth at higher rates than the world average, which helped the region stay on a convergence path (Figure 1). GDP growth was mainly supported by buoyant domestic demand and investment. However, after taking into account population growth, GDP per capita growth rates were much more modest. Real GDP per capita in Sub-Saharan Africa (SSA) grew at an annual average rate of 1.8 percent in 1996-2016, compared to -1.5 percent in 1978-95.\(^1\)

The consistent economic deceleration process that started in 2013 raises concerns about the capacity of the region to catch up and its long-term ability to fulfill the needs of a rapidly growing, young population. One of the main obstacles to pursuing long-term sustainable growth is the substantial lag in the process of structural transformation; i.e., the reallocation of labor, capital, and other resources from low-productivity sectors to high-productivity sectors. This can be explained by the presence of economic distortions that prevent labor and capital from moving freely across sectors, as well as the low levels of human development.

Unleashing the potential of the private sector by removing key constraints is needed to create new and better jobs, as well as to reduce poverty in Africa. Regions that in the past were behind Africa in terms of poverty rates have improved living standards through a context-specific mix of policies and principles, including private sector development. The case of South Asia demonstrates that significant results can be achieved impacting the lives of millions of citizens. A simple comparison between the number of people living on less than $1.90/Day in South Asia and Sub-Saharan Africa from 1990 to 2013 shows a reduction from 545 million to 274 million in South Asia, in comparison to an increase in Sub-Saharan Africa from 277 million to 405 million people over the same period (Figure 2).

Transformational entrepreneurship could be at the heart of the emergence of a new private sector that delivers on the promise of new and better jobs—the most promising pathway to poverty reduction. Transformational entrepreneurs aim to create large, vibrant businesses that grow beyond the scope of individual subsistence needs and provide jobs and income for others. That contrasts with subsistence (often informal) entrepreneurs who conduct business activity as a means of providing subsistence income, remaining very small, with limited productivity.

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\(^1\) Calderon, C., (2018)
Box 1. Twiga Foods, Increasing Demand and Creating Markets Through Blockchain-Enabled Microfinance Solutions

Twiga Foods, a mobile-based business-to-business logistics platform sourcing produce from farmers and delivering it to vendors, has been operating in Kenya since 2014. IBM and Twiga Foods recently piloted a blockchain-enabled microfinancing tool to increase food kiosk owners’ working capital through microloans. The tool analyzes the purchase records from a mobile device and then applies machine-learning algorithms to predict credit worthiness. Once the credit score is determined, the tool uses blockchain to manage the lending process from application to accepting the terms to repayment. The loans are carried out on mobile phones and contribute toward working capital for the businesses, while the use of blockchain increases transparency for all parties during the lending process. Twiga Foods has raised over $20 million in investment, including a Series A round in 2017 of $6.3 million in equity and $4 million in debt. More recently, Twiga raised a Series B round of funding, including a $3 million investment by IFC.³

The majority of Africa’s entrepreneurs today are subsistence rather than transformational entrepreneurs; it is important to differentiate between the two to support each segment effectively.⁴ Subsistence entrepreneurs conduct business activity as a means of providing subsistence income, remaining very small and replicating existing businesses, with limited productivity. Conversely, transformational entrepreneurs aim to create large, vibrant businesses that grow beyond the scope of individual subsistence needs and provide jobs and income for others.⁵ Recent research by ecosystem intermediaries, fund managers, and funders also emphasize the importance of using a segmentation framework to improve the effectiveness of support, distinguishing subsistence entrepreneurs from high-growth ventures,⁶ niche ventures,⁷ and dynamic enterprises,⁸ the latter three of which this paper will continue to refer to as transformational entrepreneurs.⁹ While this paper acknowledges the importance of subsistence entrepreneurship in Africa, and the need to further support it, it will focus on transformational entrepreneurs as an important potential source of growth for African economies.

Transformational entrepreneurs have the potential to catalyze productivity and develop the innovative business models needed to create new markets, thereby generating growth and jobs in Africa. A recent Global Entrepreneurship Monitor survey of over 70,000 entrepreneurs in more than 60 countries, many of them developing countries, showed only 4 percent were high-growth entrepreneurs, but they were responsible for 38 percent of the jobs created by participating firms. For example, Twiga Foods, a mobile-based business-to-business logistics platform, employs over 240 staff and brokers business between over 3,000 farmers and 3,500 registered vendors.¹⁰ M-KOPA, the Kenya based off-grid solar company employs approximately 850 direct staff, and another 200 staff indirectly through its partners.¹¹ Evidence from Ghana, Kenya, South Africa and Tanzania suggests that increasing competitive pressure on large firms through new entry could boost their productivity.¹² Among these firms, the evidence points to the significant potential for entrepreneurs to demonstrate higher productivity, industrial upgrading, and innovation.¹³ These transformational entrepreneurs can also help develop the innovative business models needed to create new markets in Africa by unlocking niche customer or market segments, opening up opportunities for themselves as well as for other businesses in Africa. For example, the success of M-PESA, a Kenyan mobile phone payment solution platform, created markets for other transformational entrepreneurs who built on the platform, developing merchant acquisition networks and innovative pay-as-you-go models for goods such as solar lights and panels.¹⁴

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⁴ Schoar (2010).
⁵ Schoar (2010).
⁶ Defined by Chau and al. (2018) as “Disruptive business models and targeting large addressable markets, high growth and scale potential, ...”.
⁷ Defined as “Create innovative products and services that target niche markets or customer segments, entrepreneurs who seek to grow...”.
⁸ Defined as “Operate in established, industries, deploy existing products / proven business models; seek to grow through market extension ..”
¹⁰ Ajadi, S., “Meet our portfolio start-ups: Twiga Foods Kenya”, GSMA
¹¹ See M-KOPA Website http://www.m-kopa.com/our-path-to-profitability/
¹⁴ International Finance Corporation (2018)
Recent World Bank data shows that transformational entrepreneurship is weak in Africa thus far, despite immense opportunities, particularly in terms of reaping the benefits of new (digital) technologies (Figures 3). Panel “a” in Figure 3 shows that the percentage of those self-employed in the labor force is higher for Sub-Saharan Africa (SSA) than it should be, given country development levels. However, panel “b” displays that the percentage of entrepreneurs in the labor force is lower than expected, given per capita GDP levels. Further, the proportion of entrepreneurs with tertiary education and that of tertiary-educated workers who are entrepreneurs is below the expected levels for several economies in the region (panels c and d).

Figure 3. Low Transformational Entrepreneurial Activity

Source: Cusolito and Maloney (2018).

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Cusolito and Maloney (2018).
II. A Policy-Framework to Support the Next Generation of Entrepreneurs
Central to the emergence of transformational entrepreneurs are the features of the entrepreneurship ecosystem in each country: how much they encourage risk taking, entry and exit of firms, and competition. African governments need to encourage an economic culture that supports innovation, competition and the emergence of new business models and ideas to enable the formidable potential of the continent. Such an environment would encourage more would-be entrepreneurs, particularly but not only among youth, to launch their own businesses and compete in the marketplace. It should also make it easier for established entrepreneurs to expand their companies. Governments across the continent need to put in place regulatory environments that enable private sector dynamism, particularly business creation and growth. To reap the benefits offered by digital technologies, governments also need to encourage technology adoption, invest in technology infrastructure, like broadband Internet, and encourage competition, especially in sectors like telecommunications, finance, and transport. Finally, they need to support the emergence of strong entrepreneurship ecosystems, notably with early-stage financing schemes for start-ups and non-financial support instruments, privately delivered by intermediaries like incubators, accelerators and the like.

A framework to identify the different policies that underpin an ecosystem favorable to entrepreneurship should be established. Figure 4 presents a simple framework for the entrepreneurial decision and, implicitly, the elements of the “entrepreneurial ecosystem” that African governments could promote to support transformational start-ups. Like any investment, an entrepreneur is fundamentally placing a bet, by creating a project with an expected return and risk compared to other alternatives, such as “safe” salaried work. This is the opportunity cost of entrepreneurship. As Kerr (among others) argues, entrepreneurship is a form of experimentation where entrepreneurs learn about the viability of a product or process in the local context. This implies both a process of managing risk and of learning about the investment, about running a firm, and about evaluating risk. Two sets of factors impede this experimentation: environmental factors and factors pertaining to entrepreneurs themselves (human capital, very broadly construed). The intuition is that without an enabling environment, capable entrepreneurs will not thrive or enter, and conversely, a pristine experimental environment without capable entrepreneurs will show a similar lack of dynamism. Section III will provide an overall assessment of where the African continent stands in the various features of an entrepreneurship ecosystem, as described in this framework, and defined along nine dimensions.
Figure 4. A Framework for an Entrepreneurial Ecosystem

**Opportunities**
- Global arrival of new ideas
- Gap with frontier countries

**Environment**
- Potential Return
  - Enabling business environment
  - Availability of complementary factors/markets
- Cost of Experimentation
  - Information
  - Barriers and Institutions
  - Financing and risk management
  - Cost of failure
    - Bankruptcy
    - Social stigma
    - Ease of return to salaried work
  - Rent seeking alternatives

**Capabilities of Entrepreneurs**
- Personality, Culture
  - Drive (Need for Achievement, conscientiousness)
  - Risk attitude and Patience (Self efficacy, locus of control)
  - Ability to identify opportunities (Openness, innovativeness)
- Human Capital
  - Basic human capital
  - Management capabilities
  - Technological literacy
  - Actuarial and learning capabilities

Source: Cusolito and Maloney (2018).
III. Where Does Africa Stand in Terms of its Entrepreneurship Ecosystem?
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1. Attitudes towards risk and entrepreneurship

Evidence from the Global Entrepreneurship Index (GEI)\(^{16}\) shows that entrepreneurs’ perception of opportunities is relatively high in Africa. But the region scores low in risk tolerance, availability of risk capital, and start-up skills (Figure 5). The North Africa region performs better in product innovation, process innovation, human capital, and risk capital than other sub-regions. Southern Africa scores highest in opportunity perception and Central Africa in networking (Figure 6). Information from the Global Entrepreneurship Monitor (GEM) shows that African entrepreneurs can identify good opportunities to start a firm, view entrepreneurship as a good career choice, and believe that society has a favorable perception of successful entrepreneurs. However, fear of failure seems to be a major constraint preventing some talent from starting their businesses, especially in Morocco (53 percent), Madagascar (42 percent), and Tunisia (30 percent).\(^{17}\)

African women are more likely to start a business than women in industrialized countries, and fear of failure is less of a deterrent, which is very encouraging news. Forty percent of women in Nigeria and Zambia start businesses, compared with 10 percent or less in industrial countries.\(^{18}\) According to GEM’s 2016/2017 Women’s Entrepreneurship Report, over 75 percent of women in Sub-Saharan Africa would not be deterred from starting a business by the prospect of failure, compared to 57 percent of women in Europe, Asia, and MENA.\(^{19}\) If there were gender parity, African women’s higher risk appetites could lead to overall higher levels of women entrepreneurship.

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\(^{16}\) The Global Entrepreneurship and Development Institute’s GEI available http://thegedi.org/global-entrepreneurship-and-development-index

\(^{17}\) The Global Entrepreneurship Monitor (GEM), Adult Population Survey (APS) available https://www.gemconsortium.org/data/key-aps

\(^{18}\) African Development Bank. 2017

Although African women are more likely than African men to be subsistence entrepreneurs, in some countries the number of transformational/opportunity female entrepreneurs exceeds that of men. According to the GEM 2016/2017 Women’s Entrepreneurship Report, total entrepreneurial activity (TEA) rates for women are lower than for men. However, as shown in Figure 7, there is considerable country-level variation; in some countries, women lag in TEA, but the gender gap is smaller for opportunity entrepreneurship. Seven of the 18 African countries with GEM data show a smaller gender gap for opportunity entrepreneurship than for subsistence entrepreneurship. Tunisia has a female/male TEA ratio of 0.36 compared to a female/male opportunity-driven TEA ratio of 0.93. In Morocco, Libya, Algeria, and Madagascar, women’s opportunity entrepreneurship outstrips that of men.

Figure 7. Gender Gap Ratios for Types of Entrepreneurial Activity

Source: Authors’ elaboration with data from Global Entrepreneurship Monitor (GEM) Adult Population Survey (APS).

2. Entry and exit, and the overall business environment

Recent World Bank evidence based on the use of Doing Business indicators shows several countries in the region have costs of business start-up procedures (Figure 8, panel a) and time to resolve insolvency issues above the expected levels given their level of development (Figure 8, panel b). Further, removing barriers to entry seems to be highly correlated to global entrepreneurship activity in the region (Figure 9). Africa’s insolvency proceedings can be lengthy and complex, resulting in unpaid debts and, in some cases, imprisonment. A business-friendly environment and transparent regulations are necessary drivers for the commercialization of technology, leading to innovation-based development.

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20 GEM defines Opportunity Entrepreneurs as: a person who aims to create a large, vibrant business that grows far beyond the scope of the individual’s subsistence needs and provides jobs and income for others. Subsistence entrepreneurs are defined as: A person who engages in entrepreneurial activity chiefly as a means of providing subsistence income to himself/herself. Subsistence entrepreneurs typically do not—and do not aspire to—grow the business to the point of creating employment opportunities for workers outside of their immediate families.

21 TEA: percentage of population aged 18 to 64 who are either nascent entrepreneurs or owner-managers of a new business.


23 Female/Male Opportunity-Driven TEA: Percentage of those females involved in TEA (i) who claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income, divided by the equivalent percentage for their male counterparts.

24 Cusolito and Maloney (2018).
While 21 of the 46 economies improving the most across three or more Doing Business indicators in 2017/18 were African, overall rankings remain low. These economies were Burundi, Chad, the Democratic Republic of Congo, Côte d’Ivoire, Djibouti, the Arab Republic of Egypt, Ethiopia, Gabon, Guinea, Kenya, Madagascar, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rwanda, Sudan, Togo, Tunisia, and Zimbabwe. According to the report, for example, Egypt made starting a business easier by removing the requirement to obtain a bank certificate and establishing a one-stop shop. Egypt also made resolving insolvency easier by allowing debtors to initiate the reorganization procedure and granting creditors greater participation in the proceedings. Morocco made starting a business less costly by abolishing the deed registration fee and stamp duties. Resolving insolvency was also made easier by encouraging the continuation of the debtor’s business during insolvency proceedings, making insolvency proceedings more accessible for creditors, and granting them greater participation in the proceedings. Ethiopia made starting a business easier by removing the need to obtain a certificate of competence for certain types of businesses. South Africa made starting a business easier by reducing the time for online business registration.

Doing Business 2019 uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2017/18 implemented regulatory reforms making it easier to do business in three or more of the 10 topics included in this year’s aggregate ease of doing business score. Second, Doing Business sorts these economies on the increase in their ease of doing business score over the previous year and the scores for both years are calculated using the same macroeconomic data (such as income per capita and currency conversion rates) to remove the effect of changes in these variables. Changes making it more difficult to do business are subtracted from the total number of those making it easier to do business.
Africa needs an environment more prone to competition—dominant positions and non-competitive practices mute private sector dynamism across the continent. Recent World Bank data for Africa shows markets are restricted by business practices that undermine competitive dynamics. Moreover, most countries in the region are perceived to have lower levels of competition than the global average (Figure 10).

The prevalence of monopolies, duopolies, and oligopolies is relatively high in some African economies, even after considering market size. In the manufacturing sector, markets in countries with relatively high GDP per capita have fewer participants than some smaller economies in the region. In the services sector, in more than 40 percent of African countries, a single operator holds over half the market share in telecommunications and transport. Senegal, Uganda, and Ghana display the highest proportion of multiplayer markets. Angola, Botswana, and South Africa—countries with relatively high GDP per capita—are among the countries with a higher prevalence of monopolies, duopolies, and oligopolies in manufacturing (Figure 11).

**Figure 10. Intensity of Local Competition by Country Group**

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**Figure 11. Manufacturing Sector Market Structures**

NOTE: Figures for China do not include SOEs.

Source: Licetti et al. (2016).
3. Innovation

Recent World Bank data shows that in Sub-Saharan Africa, the contribution of total factor productivity (TFP) to labor productivity and economic growth was almost negligible during the period 1961-2014. This is partially explained by weak firm capabilities, including innovation, technology adoption, and managerial practices.

According to a recent World Bank report, most firms in Africa invest less in research and development (R&D) than their counterparts in South Asia (Table 1). Overall, incidence rates of R&D are highest in South Asia, followed by Africa, then Europe and Central Asia (ECA). In Africa, approximately 16 percent of firms do some form of R&D in the formal sector, ranging from 33 percent in Namibia to 1 percent in Egypt. In South Asia, the data indicates significant variations with unusually high rates in India (56 percent) and very low rates in Nepal and Pakistan. R&D incidence is the lowest in the Middle East, at an average of 6 percent. Innovation is difficult to finance because firms are not investment ready, meaning they do not have the capacity to attract external sources of funding as they struggle to package and pitch an idea to potential investors, while investors are often unwilling to finance innovation activities because of the risk involved.

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Calderon et al. (2018).
A challenge on the innovation front is that the majority of innovative activities in Africa have limited novelty. They tend to focus on marginal instead of radical innovations, which are new to local markets but not national or international ones (Table 2). Evidence shows that most innovation outcomes are due to upgrading the quality of existing goods or services, rather than the creation of new products, processes, or services. As a result, the final impact of innovative activities on firm profits is often small.

![Image](http://www.m-kopa.com)

**Table 2. Degree of Novelty**


| Box 2. M-KOPA Pay-As-You-Go Solar Innovation |

One example of a successful radical innovation that spread to international markets is Kenya-based M-KOPA’s pay-as-you-go solar home systems. As of January 2018, M-KOPA had connected over 600,000 homes to their platform. Its business model innovation combines solar technology, microloans, flexible mobile payments, and machine-to-machine technology, making off-grid solar technologies affordable for a market segment that would have been unable to adopt the technology otherwise. Several other companies have now adopted the pay-as-you-go solar model and expanded throughout Africa, Bangladesh, and Pakistan. The leading companies in the field, including M-KOPA, Off-Grid Electric, d.Light, BBOXX, Nova Lumos, and Mobisol, raised more than $360 million from 2012-2016.

**Women have the potential to be a driving force for innovation within firms across Africa. According to the GEM 2016/17 Women’s Entrepreneurship Report, innovation shows high levels of gender equality. Across the 74 global economies surveyed, women entrepreneurs have a 5 percent greater likelihood of being innovative than men. However, Sub-Saharan Africa lags behind East and South Asia Pacific and the Middle East and North Africa (MENA) regions with 18 percent of women in SSA stating their offerings are innovative, compared to 22 percent and 31 percent of women in East and South Asia Pacific and MENA, respectively.**

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30 Website: [http://www.m-kopa.com](http://www.m-kopa.com)


4. Technology adoption

Technology adoption has the potential to open up new opportunities in Africa, catalyzing growth and creating good jobs in the region. A recent World Bank report shows that facilitating technology adoption is crucial to help Africa revamp the private sector, while fostering bottom-up innovation to adapt technologies to local needs is vital to increase the competitiveness of local firms.33

Technological capabilities play a key role in determining firm performance by equipping firms with the capacity to absorb new knowledge and use it to introduce new products, processes, and services, or improve their quality. Technological capability is an important efficiency determinant not only for firms that are close to the technological frontier, the so-called leaders, which require sophisticated abilities and equipment to escape from product market competition, but also for those that are far from the frontier, the so-called laggards, which require absorptive capacity to catch-up.

The ability of lagging countries to tap into a now-massive stock of global know-how and technical knowledge— to be able to adopt what has already been invented—is a potential transfer of wealth from rich to poor of historic proportions.34 Yet relatively few developing countries have proven able to leverage this stock of knowledge to achieve sustained catch-up with advanced countries. Indeed, differences in technology adoption and the intensity of use of adopted technologies, both domestic and foreign, have been identified as one of the main factors explaining the productivity gap between poor and rich countries.35 While evidence on the cross-country evolution of technology diffusion over the last two centuries documents that adoption lags have converged, the intensity of use of adopted technologies of poor countries relative to rich ones has diverged.36

Digital technologies are one example of enabling technologies that can be transformational for society and especially for the private sector. Panel “A” of Figure 12 scores digital adoption by businesses, using the World Bank Digital Adoption Index (DAI) calculated as

the simple average of four normalized indicators: the percentage of businesses with websites, the number of secure servers, download speed, and 3G coverage in the country.37 Panel “B” scores digital adoption by people, calculated as the simple average of two normalized indicators from the Gallup World Poll: mobile access at home and Internet access at home. Panel “C” scores digital adoption by governments, calculated as the simple average of three sub-indices: core administrative systems, online public services, and digital identification. The figure shows that digital technology adoption by governments is more advanced in Africa than digital adoption by people and businesses, with a greater number of African countries (the majority of which are middle-income countries) above the trend line. Despite the prevalence of mobile phones in Africa, lower levels of internet access at home mean that African countries scored lower in terms of digital technology adoption by people, with the Seychelles, Mauritius, South Africa, Botswana, and Tunisia scoring the highest. The South African, Egyptian, and Nigerian governments score the highest in the digital technologies adoption index for Africa, while South Africa, the Seychelles, Mauritius, Tunisia, and Morocco score the highest in digital technologies adoption by businesses in Africa.

Moreover, the licensing of foreign technologies is below the expected rate, given the GDP per capita of several economies in Africa. As Figure 13 shows, countries such as Egypt, Kenya, Ghana, Uganda, Tanzania, and Zambia are below the line, while Morocco is above the line. However, recent enterprise survey data shows that firms with women as the top manager have a greater likelihood of adopting technology. In Ethiopia, Tanzania, Kenya, Egypt, and Namibia a greater share of firms with women as top managers use technology licensed from foreign companies.38

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34 Cirera and Maloney (2017)
35 See Casolito and Maloney (2018) for a review.
36 Comin and Mestieri (2017); Comin and Hobijn (2010).
37 The Digital Adoption Index (DAI) is a composite index measuring the extent of the spread of digital technologies within and across countries. DAI is a composite index that measures the depth and breadth of adoption of digital technologies in 183 countries, spanning every region and income group. It is based on three sectoral sub-indices covering businesses, people, and governments.
38 Enterprise Survey data, Innovation and Technology topic, available http://www.enterprisesurveys.org/data Survey question is “Does this establishment at present use technology licensed from a foreign-owned company, excluding office software?".
Figure 12. Digital technologies adoption by:

A) Businesses in Africa and comparison countries
B) People in Africa and comparison countries
C) Governments in Africa and comparison countries

Source: Digital Adoption Index, most recent data 2016. GDP per Capita sourced from WDR 2016 Report.

Figure 13. Licensing of Foreign Technologies

Source: Cirera and Maloney (2017).
5. Management quality

Many firms in Africa suffer from weak managerial capabilities as measured by international surveys, in comparison with other developing countries and advanced economies (Figure 14). These weaknesses have both short-term negative effects on firm performance, as firm-level productivity is low, and long-term negative effects on firm growth, as managerial capabilities are a key input for innovation. Reductions in firm profitability in the short term are often the result of a sub-optimal use of the workforce and capital endowment, wasteful intermediate inputs, and inefficient use of the input-factor mix, which happens on the production floor on a daily basis. Long-term negative effects on firm growth frequently occur because firms do not do more R&D or licensing, as they lack managers with the ability to identify high-return potential projects, engage in the long-term planning required for their gestation, pitch effectively to potential investors, and then recruit, train, and motivate the necessary talent. Management can itself be thought of as a technology, with empirical evidence suggesting that raising managerial quality could significantly raise productivity. The Kenyan government recently launched a program, with the support of the World Bank, to increase innovation and productivity in select private sector firms. It aims to foster small and medium enterprise (SME) linkages and strengthen the productivity and internal capabilities for innovation for Kenyan SMEs so they can better compete for local and global market opportunities. It will also support SMEs in improving their managerial and technical skills and their use and access to technology, and contribute towards the creation of local content. Finally, the program aims to improve the survival and growth rates of technology-enabled start-ups in Kenya through a stronger innovation and entrepreneurship ecosystem and talent base.

The lack of managerial capabilities is partly explained by low levels of human capital development. Evidence from the World Bank Human Capital Index (HCI) shows many countries in Africa are below the levels expected given their level of development (Figure 15). In order to better position the next generation of citizens to contribute to the labor force and the development of entrepreneurial societies to foster economic growth and prosperity, African policy makers should consider the time horizons needed for human capital investments to materialize.

Figure 14. Management Quality

![Figure 14](image)


The Human Capital Index (HCI) measures the human capital that a child born today can expect to attain by age 18, given the risks to poor health and poor education that prevail in the country where they live. An economy in which the average worker achieves both full health and full education potential will score a value of 1 on the index.

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39 Bloom and Reenen (2007) and Bloom et al. (2013).
40 Cirera and Maloney (2017).
42 The Human Capital Index (HCI) measures the human capital that a child born today can expect to attain by age 18, given the risks to poor health and poor education that prevail in the country where they live. An economy in which the average worker achieves both full health and full education potential will score a value of 1 on the index.
Connecting firms to buyer-seller digital platforms can boost firm profits and support the rise of digital entrepreneurship and the emergence of new business models. Digital platforms reduce search, matching, and transaction costs because costly intermediaries disappear. They reduce transaction costs through electronic communication, electronic brokers, or electronic integration. They allow firms to tap into spare physical and human capacity by exploiting existing assets to their full use. The thickness attribute of platforms, which allows users to have access to several potential trading partners at the same time, spurs product market competition and guarantees more competitive price-quality packages for consumers. It also encourages sellers or service providers to offer more competitive price-quality packages than those supplied in standard markets. Digital platforms also provide reliable mechanisms to build two-side trust (e.g., brand certification, digitalized social capital, third party validations), which removes informational asymmetries.

6. Use of digital platforms and digital payments

Connecting firms to buyer-seller digital platforms can boost firm profits and support the rise of digital entrepreneurship and the emergence of new business models. Digital platforms reduce search, matching, and transaction costs because costly intermediaries disappear. They reduce transaction costs through electronic communication, electronic brokers, or electronic integration. They allow firms to tap into spare physical and human capacity by exploiting existing assets to their full use. The thickness attribute of platforms, which allows users to have access to several potential trading partners at the same time, spurs product market competition and guarantees more competitive price-quality packages for consumers. It also encourages sellers or service providers to offer more competitive price-quality packages than those supplied in standard markets. Digital platforms also provide reliable mechanisms to build two-side trust (e.g., brand certification, digitalized social capital, third party validations), which removes informational asymmetries.

Box 3. Africa’s Talking: Creating Markets and Fueling Growth by Increasing Access to Digital Infrastructure—Kenya

Africa’s Talking is a cloud-based software platform that virtualizes telco infrastructure across the continent and provides unified access via its application programming interface (API) to more than 20,000 software developers in Africa. It currently serves over 1,000 fast-growing digital companies, enabling them to create applications faster and more efficiently. Africa’s Talking’s platform enables it to serve both the one-man shop as well as larger enterprises to embed messaging, voice, and video communications into their apps, allowing them to more effectively connect with their mass market customers. The company is headquartered in Kenya and recently expanded to Uganda, Rwanda, Tanzania, Malawi, and Nigeria. In 2018, IFC led an $8.6 million Series A equity investment in Africa’s Talking, with the aim of widening access to the digital infrastructure that African firms need to scale.

Source: Authors’ elaboration with data from HCI and World Bank databank 2017 GDP per capita.

43 Guellec and Pauvnoc 2017.
44 Cusolito and Pena 2018.
Evidence on the effects of access to digital platforms on firm performance is still not established. Yet, there are interesting examples of successful initiatives in Africa, both in the manufacturing and services sectors. These include e-commerce platforms such as Jumia in Nigeria, Souq.com in Egypt, Afrigator, an Africa-focused platform for photos or videos sharing, and SkilledAfricans, Africa’s version of LinkedIn. In the service sector, VulaMobile, a South African service platform, links thousands of individuals in rural areas to specialized medical services in fields as diverse as ophthalmology, dermatology, HIV, cardiology, and oncology, while Hello Tractor, a popular asset-service sharing platform that emerged in Nigeria, established a network of tractor owners, offering the equipment as well as services to those who cannot afford to buy one. More recently, Kobo360, a Nigerian start-up that aims to connect truckers to companies with freight needs, is launching a crowd-based vehicle finance program to help drivers finance new trucks through citizen investors who would earn interest over the period.

Success in using digital platforms or e-commerce to build demand crucially depends on consumers’ capacity to connect to, and engage on, those platforms, browse for the goods or services they want to buy, and pay for them online. Most of these transactions happen through mobile phones. Mobile banking adoption in Africa has been more advanced than in South Asia and Europe. Sub-Saharan African countries are largely leading the mobile money adoption rates, with North Africa at significantly lower levels. Sixty-six percent of the combined adult population in Kenya, Rwanda, Tanzania, and Uganda uses mobile money on an active basis. The use of mobile banking has increased for most countries with the exception of North Africa (Figure 16). According to the CEO of Jumia, Africa’s leading e-commerce platform, 71 percent of the company’s Nigerian users access their portal through their mobile phones, compared to 53 percent in the other African countries they operate in. As customers continue to use their mobile phones for e-commerce, data download speeds will increase in importance.

Despite the prevalence of mobile banking in Africa, the cost of mobile phone tariffs remains a barrier to mobile adoption and intensity of use. Prepaid tariffs, which typically target lower-income earners, vary significantly across countries in Africa, from as high as 43 percent of Gross National Income (GNI) per capita in the DRC to less than 1 percent in Madagascar and Egypt (Figure 17). On the other hand, mobile download speeds can help increase demand by allowing users and start-ups to engage online more efficiently. According to EIU’s Inclusive Internet Index, South Africa, Kenya, and Morocco have the fastest mobile download speeds in the region, while Rwanda, Madagascar, and Liberia have the slowest.

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46 Bright, J., “Nigerian logistics startup Kobo360 accepted into YC, raises $1.2 million” Crunchbase.
49 The Economist Intelligence Unit (EIU). “How technology is driving retail in Africa.” 2017
50 The Economist Intelligence Unit (EIU inclusive internet index; https://theinclusiveinternet.eiu.com/.)
Box 4. Fintech in Africa
Paystack is a start-up out based in Lagos, Nigeria that provides online payment facilities to merchants and others through its API. Paystack aims to unlock new payment methods in Africa using payment cards and bank transfers, as well as new channels including mobile money and USSD services to connect with Africa’s large unbanked population. In 2016, it became the first Nigerian start-up to enter Y- Combinator, and recently raised $8 million from Visa, Tencent, and Stripe. In October 2018, Paystack enabled over 2.9 million transactions, valued at $27.5 million for the month.

Fawry, Egypt’s largest electronic financial platform, serving 20 million Egyptians, carries out an average of 1.8 million transactions per day, with approximately $1.1 billion in transactions enabled in 2018. Fawry connects customers, businesses, governments, and financial institutions though its platform, which is accessible through retail point-of-sale machines, ATMs, mobile wallets, and online. Fawry has been expanding its services, including allowing its customers to pay bills for telecommunication services, online payments, utility payments, education fees, donations, banking transactions, and government licensing. The company is looking to expand and integrate its existing service offering with a microfinance solution for its customers. IFC invested $6 million in Fawry in 2013 to support the expansion of its electronic payment terminals.

7. Entrepreneurship ecosystem intermediaries

The number of entrepreneurship ecosystem support intermediaries has been growing in Africa. Incubators and accelerators play an important role in supporting a firm during its start-up phase, providing tailored skills training, mentorship and networking opportunities, as well as organizational support, seed capital and technical assistance, while raising the overall profile of entrepreneurship in their countries. According to GSMA’s mapping of tech hubs, the number of active intermediaries in Africa grew from 314 to 442 between 2016 and 2018. According to the analysis, five cities are home to 22 percent of all tech hubs in Africa, with Nairobi hosting 83 percent of Kenya’s hubs, Cairo 68 percent of Egypt’s hubs, Accra 67 percent of Ghana’s hubs, Lagos 56 percent of Nigeria’s hubs, and Cape Town 44 percent of South Africa’s hubs. While the concentration of tech hubs in core cities can benefit from agglomeration effects, policy makers and ecosystem players should consider the potential opportunities and challenges from extending beyond city centers.

Ecosystem activity across regions in Africa shows country-level variation and concentration in major cities. Country ecosystems vary in terms of the number of intermediaries, the level of maturity, and connectivity between regional ecosystems. The number of intermediaries in an ecosystem also varies according to the size and entrepreneurial activity in a country. Intermediary support typically ranges from ideation to growth-stage support, depending on the lifecycle stage of the start-ups. Connectivity between intermediaries across Africa can play an important role in helping them learn from each other’s experiences, share knowledge, and connect start-ups to opportunities in new markets.

North Africa’s largest ecosystems in terms of tech hubs are in Egypt, Morocco, and Tunisia (Figure 18). North Africa’s entrepreneurship ecosystem experienced significant growth over the past decade. Cairo-based Flat6Labs, launched in 2011, invests in start-ups, providing seed financing, mentorship, workspace, and technical support. It expanded to Tunisia in 2016 and has offices in four other Arab countries. In Tunisia, Flat6Labs is partnering with Le 15, an early stage and seed financing program for promising Tunisian start-ups. Endeavor has had a presence in Egypt since 2008 and launched in Morocco and Tunisia in 2013 and 2017, giving entrepreneurs access to its global networks of mentors, experts, and other entrepreneurs. Similar examples are emerging in Algeria and North Africa is now on track to catch up with some of the Middle East’s more mature ecosystems, such as in Dubai.

GSMA define tech hubs as physical spaces designed to foster and support tech start-ups. These include incubators, accelerators, co-working spaces, fab labs, makerspaces, hackerspaces, and other innovation centers. Active hubs are defined as hubs that have shown active digital presence (website, news, social media) or have been reported as active by local experts interviewed.
GSMA data.
Kenya with 30 hubs and Uganda with 16 hubs have the largest number of active hubs in East and Central Africa (Figure 19). Over the past decade, the ecosystem grew significantly in Kenya, to the extent that by 2016, there was one incubator, accelerator, or similar organization launched for every 32 software companies in Nairobi.\textsuperscript{53} Entrepreneurship activity in Kenya is very much centered in Nairobi, which accounted for 25 of Kenya’s 30 hubs in 2018.\textsuperscript{56} Nairobi is also home to the Kenya Climate Innovation Center, which provides incubation and acceleration services to Kenyan cleantech entrepreneurs. This is tied into the Climate Business Innovation Network (CBIN), which includes members from seven African countries (Kenya, Egypt, Ethiopia, Ghana, Morocco, Nigeria, and South Africa). Members meet annually and share experiences through webinars enabled by the World Bank Group. Impact Hub, a global network, has also established a presence in Rwanda, Burundi, and Sudan. While Endeavor launched in Kenya in 2017, it has yet to establish a presence in other East or Central African countries.

West Africa’s largest ecosystems are in Nigeria, Ghana, Cote d’Ivoire, and Senegal in terms of the number of tech hubs (Figure 20). Nigeria continues to be one of Africa’s most dynamic ecosystems, expanding from 23 hubs in 2016 to 55 in 2018, followed by Ghana with 24 hubs in 2018.\textsuperscript{57} The Meltwater Entrepreneurial School of Technology (MEST) incubator supports entrepreneurs throughout Sub-Saharan Africa at the ideation and start-up stage. MEST was developed in Accra, Ghana in 2008 and supports entrepreneurs with a 12-month training program, incubation, and seed financing. It has had many success stories, including some of its start-ups being accepted by well-known US-based accelerators such as 500 Startups, Y Combinator, and Techstar. MEST has moved beyond Accra, opening offices in Lagos, Abidjan, Nairobi, and Cape Town. Jokkolabs, founded in Dakar, aims to create a community of entrepreneurs through its network in Senegal, Cameroon, Benin, Gambia, Cote d’Ivoire, Burkina Faso, Mali, and Morocco. Austria’s Impact Hub has established a presence in Accra, Bamako, and Lagos. While Endeavor launched in Nigeria in 2018, it has not yet established a presence in other West African countries.

South Africa continues to be the largest destination for intermediaries in Africa, with 59 tech hubs in 2018 (Figure 21). Zimbabwe is a distant second in Southern Africa with 13 active tech hubs. Impact Hub has established a presence in Johannesburg and Harare. MEST established a presence in Cape Town in 2017. Endeavor launched in South Africa in 2004 and its office there remains its only operation in the Southern African region.

\textsuperscript{54} GSMA Data
\textsuperscript{55} GSMA Data
Ecosystem players and policy makers should consider how proximity for entrepreneurs and the markets they operate in can have an impact on widening the entrepreneurial pipeline, particularly for women entrepreneurs. An IFC study identified geographical distance as a barrier preventing women-owned SMEs from accessing financial services due to the centralized structure of many banks, with long distances to travel to conduct banking severely hampering business growth.

These challenges can be more pronounced for women entrepreneurs dealing with cultural norms, in addition to the cost and time commitment related to travel. Egypt’s Technology Innovation and Entrepreneurship Center (TIEC), which has supported many of Egypt’s IT start-ups, is working with local ecosystem players to establish technology hubs outside Cairo to widen their support footprint. The initiative started in greater Alexandria and New Assiut city, with plans for further expansion to up to five other locations across Egypt.

In Nigeria, support programs are exploring how technology can mitigate mobility and time challenges by using online platforms to facilitate mentee-mentor interactions, providing a virtual space to engage, share knowledge, and track progress.

Box 5. Can Networking Events Make a Difference? The Story of Yaoota! in Egypt

Yaoota! is an Egyptian shopping search engine that offers Egyptians the ability to search, compare, and buy products sold in online stores in Egypt. The following is an excerpt from a Forbes Article:

In the fall of 2014, a friend introduced [Yaoota! founders] to Hani Buttikhi, an adviser to the CEO of an Abu Dhabi family investment firm, called KBBO Group, which has interests in hospitals, but had never invested in a tech startup. After listening to their 12-minute pitch, Buttikhi said he would speak to his boss Nabeel Abdulrahman. [...] In a scenario that must sound familiar to many entrepreneurs, ElRakabawy and Ewis [Yaoota! founders] never heard back from Buttikhi, despite his enthusiasm.

Desperate to reestablish contact, when ElRakabawy found out that Buttikhi and Abdulrahman were attending the Egypt Economic Development Conference in March 2015, he jumped in his car and drove six hours to the southern resort of Sharm El-Sheikh, making his way past a series of army checkpoints. He tracked down Buttikhi in a packed conference room. That week, he signed a term sheet, landing $2.7 million. “Just a couple of weeks more, and we would not have any money in the bank,” says ElRakabawy.

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Ensuring the private sector’s active involvement and contribution to the ecosystem is key. Increasing the number of ecosystem intermediaries or widening their geographical scope should not come at the expense of quality or effective support. Omidyar Network’s research observed that entrepreneurs are best assisted by other entrepreneurs, or by established industry experts with relevant experience.61 Endeavor recently carried out a study on fostering productive entrepreneurship communities, interviewing more than 2,000 tech entrepreneurs in major cities including Bangalore, Dar es Salaam, Dhaka, Kampala, Lagos, and Nairobi, as well as using secondary data from over 5,000 tech founders and their companies, and 500 investment firms and local entrepreneurship support organizations. A key finding was that top performing entrepreneurs were much more likely to receive knowledge, mentorship, or investment from other, more seasoned entrepreneurs who had led a company to scale.62 The report goes on to recommend that decision-makers encourage and incentivize people who have led successful companies to share their knowledge, capital, and other resources with up-and-coming entrepreneurs, and that intermediaries run by people with no entrepreneurial leadership experience can negatively affect the community. Ecosystem intermediaries led by people who have previously scaled companies bring market networks as well as their knowledge about investment readiness and start-up challenges to their support models.

Box 6. Bangalore and Cairo Investing Back into their Ecosystems63

Endeavor Insight’s 2018 research observed that founders in Bangalore, who succeeded at building large companies, often reinvest their resources back into the community by supporting former employees who launch their own firms and acting as mentors as well as investors.64 Endeavor Insights also surveyed 236 tech founders in Egypt to understand how their connections had evolved from 1998 to 2014. The 2014 analysis found the most successful companies in Egypt at that time—ITWORX, SYSDSoft, and LINKdotNET—were connected directly or indirectly to two-thirds of the firms mapped, in the form of mentorship, investment, inspiration, former employer, or serial entrepreneurship. In 2001, IFC invested $2.5 million in ITWORX to assist its expansion and entrance into Internet-related activities.65 ITWORX’s employees went on to launch some 200 other start-ups.66 Today, the founders of ITWORX, SYSDSoft, and LINKdotNET continue to be active supporters of Egypt’s ecosystem through various intermediaries including Sawari Ventures, KI Angels, and Accelero Capital.

8. Early-stage finance and venture capital markets

African entrepreneurs have been steadily raising more capital, but at levels that are still not enough to support the growth potential of African start-ups.67 African entrepreneurs raised $556 million in 2017, a 53 percent increase compared to 2016. Despite the recent improvements in terms of access to equity finance, the region is behind Latin America ($1.9 billion) and India ($7.4 billion). There is also a high geographical concentration of equity investments, with 84 percent of the funds raised in the region going to just four countries: South Africa raised $167 million, Kenya $147 million, Nigeria $114 million, and Egypt $37 million. The main sectors invested in were fintech (24 percent), off-grid solar (21 percent), and e-commerce (19 percent). Of the top 10 investments in 2017 (Table 3), two were fintech-related, compared to four of the top 10 investments so far in H1 2018 (Table 4). Cellulant, the largest investment so far in 2018, was founded in 2004 in Nigeria and Kenya, and offers digital financial payments platforms and mobile banking services aimed at the unbanked in 11 African markets.68 As well, Johannesburg-based CRE Venture Capital recently led a $40 million Series C investment in Andela software, which previously raised $24 million in Series B capital from the Chan Zuckerberg Initiative.69

63 Endeavor Insight. (2014).
69 https://www.crunchbase.com/funding_round/andela-series-b-3c35c38e
Several investment funds have been raised in Africa, or outside the continent, targeting African firms in recent years. For example, in 2016, IFC invested $10 million in Algebra Ventures, a $40 million Egyptian fund targeting investments from $500,000 to $4 million in start-ups. 70 In 2018, IFC became an anchor investor in a €100 million fund, Partech Ventures, targeting €500,000 to €5 million tickets, which is expected to become the largest venture-capital fund focused on digital-technology start-ups in Sub-Saharan Africa. 71 More recently, Novastar Ventures, a Nairobi-based impact fund, raised $75.5 million for a new fund and will expand its operations to Lagos to target West African investments. 72

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<th>Table 3. Top 10 African Startup Investments in 2017 73</th>
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<tr>
<td><strong>Startup</strong></td>
<td><strong>Country</strong></td>
</tr>
<tr>
<td>Andela</td>
<td>Nigeria/USA</td>
</tr>
<tr>
<td>PEG Africa</td>
<td>Ghana</td>
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<tr>
<td>Twiga</td>
<td>Kenya</td>
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<tr>
<td>Flutterwave</td>
<td>Nigeria</td>
</tr>
<tr>
<td>IoT.nxt</td>
<td>South Africa</td>
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<tr>
<td>Solar Now</td>
<td>Uganda</td>
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<tr>
<td>Vezeeza 75</td>
<td>Egypt</td>
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<tr>
<td>Cars45</td>
<td>Nigeria</td>
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<tr>
<td>We think code.</td>
<td>South Africa</td>
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<tr>
<td>BitPesa</td>
<td>Kenya</td>
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</tbody>
</table>

Despite these improvements, African start-ups continue to face the classic ‘valley of death’ challenge— the space between when the entrepreneur’s resources from family and friends is depleted and when the company is financially viable and able to attract later-stage investment from the market. According to VC4A 76 and Investisseurs & Partenaires 77 research, the availability of capital for ticket sizes ranging from $50,000 to $500,000 is significantly lacking in Africa. 78 Evidence from the Global Entrepreneurship Monitory (GEM) shows the difficulties entrepreneurs face in accessing external sources of funding (with the exception of Algeria) (Figure 22).

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75 Vezeeza raised a $12 million Series C funding round after H1 2018 and therefore is not reported in the table.
Ensuring the availability of early-stage risk capital is necessary to fuel the growth of transformational entrepreneurs who have greater financing needs than start-up grants, but are either too small, or lack proven business models or the growth trajectories targeted by traditional venture capital funds. Some investors have begun to address this gap, establishing funds and networks across Africa and attracting investment from other regions. Recently, private funds such as Teranga Capital in Senegal, Sinergi in Niger and Burkina Faso, and Comoe Capital in Cote d’Ivoire, have been established, targeting ticket sizes from $100,000 to $300,000 in West Africa, in addition to providing start-ups with management and governance support. While these are positive developments, they are not enough. Addressing these financing gaps could require exploring new fund structures, moving from closed-ended funds to more flexible time horizons, lower management fees, higher carried interest, and broader exit options. Government interventions should be geared toward creating the necessary conditions to promote the development of the business angel community, early-stage finance, and the venture capital ecosystem. This involves a holistic approach that could include the creation of public-private VC funds, reforms to the legal framework, financial regulation, tax incentives, and labor market regulations.

**Figure 22. Access to External Sources of Funding**

Source: Authors’ elaboration with data from Global Entrepreneurship Monitory (GEM) National Expert Survey (NES) data.

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**Box 7. Access to Finance Challenges and Opportunities for Women-Owned Start-ups**

While women-owned SMEs face the same challenges as other SMEs, these challenges are usually amplified or more difficult to overcome. An estimated 31-38 percent of formal SMEs in developing countries are fully or partially owned by women and up to 69 percent of these are unserved or underserved by financial institutions, amounting to a credit gap of $260 to $320 billion. Access to finance for women-owned firms is also constrained by the legal and regulatory environment, firm or owner-specific characteristics (e.g. education, training, size of firm, etc.), and cultural barriers, which may impact women entrepreneurs disproportionately. Similarly, a recent IFC study on Tunisia estimates that women participate in the ownership of up to 23 percent of the country’s formally registered firms, but their financial needs are largely unmet. IFC’s Banking on Women program helps play a catalyzing role for partners and financial institutions to better serve women-owned firms profitably and sustainably.

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81 Ardic, O., P., et al. (2013)
Angel investors have the potential to address seed-stage financing needs in Africa, as well as provide valuable mentoring and guidance to African start-ups. However, the networks which have started to emerge in Africa have made limited investments to date. Recent research has shown that business angels are beneficial to the growth, performance and survival of start-ups, even if they are located in economies that are not particularly favorable to entrepreneurs. The results show that start-ups supported by business angels have an at least 14 percent higher chance of surviving for 18 months or more after financing and hire 40 percent more employees than unsupported start-ups. The African Business Angel Network (ABAN) is a pan-African non-profit association founded in 2015 to support early-stage investor networks across Africa. ABAN includes 66 angel organizations, the majority of which were founded less than three years ago, in 27 countries, including the Lagos Angel Network, Carthage Business Angels, and Cairo Angels. ABAN's aim is to promote a culture of angel investing, support existing networks, and develop new ones, enabling co-investments and knowledge exchange, and providing an advocacy platform working with governments to support early-stage investing in Africa. An ongoing World Bank and ABAN study of 22 of these angel networks found that only Nigeria, South Africa, Egypt, Kenya, and Uganda have multiple initiatives that have each made at least one investment. The research estimates that approximately 32 investments were made by the Lagos Angel Network, 21 by Cairo Angels, and 20 by Carthage Angels since their inception.

9. Investment readiness programs

While significant policy attention around the world has been given to efforts to expand the supply of equity finance for innovative start-ups and SMEs (through seed and venture capital co-investment funds and other activities to attract capital), the effectiveness of these programs can be hampered by the lack of readiness of these firms to receive equity investment. Innovative start-ups and high-growth firms in developing and transitional markets often have many ideas, but rarely have them fine-tuned enough to attract outside funding. Mason and Kwok (2010) highlight three main aspects of this lack of readiness: first, many entrepreneurs are believed to be equity-averse, unwilling to surrender ownership and control of their firms; second, many businesses that seek external finance are not considered “investible” by external investors due to deficiencies in their team structure, marketing strategy, financial accounts, intellectual property protection, and other business areas; thirdly, even if entrepreneurs are willing to consider equity and have investible projects, presentational failings mean that many firms are unable to pitch their ideas successfully to investors.

Investment readiness programs (IRPs), which provide individualized training, mentoring and coaching, are designed to overcome these constraints, but the programs can be expensive to provide and to date, there is no rigorous evidence as to their effectiveness. Although the number of demand-side initiatives is scattered, there are good examples of projects that have helped to build demand. In general, IRPs are intended to increase the effective demand for equity financing by helping firms overcome the factors that result in a lack of investment readiness, thereby enlarging the size and quality of the pipeline of potential funding opportunities for investors and increasing the likelihood of new equity investments being made. These programs are a relatively new form of intervention, but there are now several examples in the US, Western Europe, and Australia. While there is substantial heterogeneity in the content of the programs, the most comprehensive ones usually cover four dimensions, based on the core reasons for the failure of investment deals to materialize.

Recent World Bank evidence shows that IRPs can facilitate access to equity funding and there are also signs that these types of programs can be useful to screen and identify high-growth firms. A comparison of initiatives in the region, including the Ghana Angel Investment Network (GAIN) and the Meltwater Entrepreneurial School of Technology (MEST), shows the value of linking investment readiness programs to those who make the investment. GAIN was established in 2011 with a mandate to identify high-growth entrepreneurs and help them gain access to external sources of funding by arranging pitches in front of business angels. MEST was established in Accra as an integrated training program, incubator, and seed investor. From 2011-2013, GAIN organized a number of pitch events, but the initiative was not entirely successful due to the poor quality of the entrepreneur pipeline and pitches. As a result, few entrepreneurs obtained access to funding. On the other hand, MEST, whose program integrates seed investment with its training program, has made several seed investments in firms that received MEST support and training.

83 Mason and Kwok 2010.
84 Cusolito, Dautovic, and McKenzie 2017.
An initiative by Egypt’s Ministry of Investment and International Cooperation (MIIC) aims to link accelerator investment readiness programs to follow-on investment. MIIC has been taking a holistic approach to supporting entrepreneurship in Egypt by linking funding to pipeline development. The ministry has developed an investment company, Egypt Ventures, to invest in early-stage funds and venture capital funds, as well as to invest directly in early growth companies. Egypt Ventures has created a blended finance model through which investments are directed into accelerators, venture capital firms, and start-ups. MIIC convenes public, private, and development partners to support entrepreneurs by strengthening the overall ecosystem. It is currently working with Falak Startups, a sector agnostic accelerator seeded by Egypt Ventures; Flat6Labs, an accelerator based in Cairo with operations throughout MENA; and a financial technology-focused accelerator established in partnership with the private sector to directly support Egyptian seed and early-stage start-ups.

**Box 8. XL Africa: Refining Investment Readiness Programming for Sub-Saharan African Digital Entrepreneurs**

To help its client foster the growth of inclusive innovation and entrepreneurship ecosystems, the World Bank Group launched a five-month pan-African digital acceleration program, XL Africa (https://www.xl-africa.com), to support growth-stage companies in securing investment and scaling their businesses across borders. XL Africa received over 900 applications, of which 20 competitive start-ups, representing eight countries, were selected to participate. The program targeted companies raising Series A financing, defined as $250,000 to $1.5 million. Companies were exposed to a customized investment-readiness curriculum and matched with global and local mentors. Finally, they convened in Cape Town, South Africa for a two-week residency that included learning tours, peer-to-peer learning sessions, and pitching at prominent industry events, AfricArena and Africa Com. The final Venture Showcase occurred during the annual African Early Stage Investor Summit organized by VC4Africa and the Africa Business Angels Network (ABAN). In the year since the XL Africa activities concluded, over half of the cohort has received grants or investments, totaling close to $18 million. In 2018, a regional edition of the program dedicated to Francophone Africa following the same approach was launched under the brand name “L’Afrique Excelle”.
IV. Policy Priorities to Foster Transformational Entrepreneurship in Africa
IV. Policy Priorities to Foster Transformational Entrepreneurship in Africa

If transformational entrepreneurs are to play an important role in boosting economic growth and job creation in Africa, then governments, international financial institutions (IFIs), and the private sector should aim to put in place ecosystems that nurture the development of vibrant start-ups and enable them to grow and compete. The framework proposed in this paper suggests that governments of the region should focus on four broad areas of policy making to foster such an entrepreneurship ecosystem:

1. Improving the enabling environment
2. Implementing policies that foster skills development and support the overall start-up ecosystem
3. Enhancing access to early-stage financing and start-up capital development
4. Creating digital markets

1. Improving the enabling environment

Establishing framework conditions that support competitive markets is important to improve business dynamism and foster the reallocation of resources towards productive firms and entrepreneurs. Governments aiming to spur business dynamism should encourage transformational entrepreneurial activity and consider designing and implementing policies that spur the reallocation of resources towards their most productive use. This requires a policy mix that addresses several entrepreneurial barriers simultaneously—developing an entrepreneurial culture that reduces risk aversion and does not punish failure; helping entrepreneurs deal with uncertainty; reducing experimentation costs; and eliminating the wage gap between the self-employed and wage-earners, which can make entrepreneurship less attractive to highly skilled individuals. Entrepreneurial policies should be complemented with regulatory frameworks that facilitate doing business. Entrepreneurial societies encourage start-up activity, as well as a culture of risk-taking, where both success and failure are celebrated. The cycle of business entry, exit, and re-entry is a key element of entrepreneurial societies. While 21 of the 46 economies improving the most across three or more Doing Business indicators in 2017/18 were African, overall rankings remain relatively low. African governments should continue the reform momentum to improve the enabling environment and help transformational entrepreneurs to thrive. Besides the regulatory environment for entry and exit, the competition framework needs to be improved in most countries in the continent where dominant positions prevail in key sectors.

2. Skills and ecosystem support

In order to better enable the next generation of citizens to contribute to the labor force and the development of entrepreneurial societies to foster economic growth and prosperity, African policy makers should continue to put human capital development at the center of their development priorities. Evidence from the World Bank Human Capital Index (HCI) shows many countries in Africa are below the levels expected given their level of development. In addition, Global Entrepreneurship Index scoring shows that the continent performs poorly in risk tolerance and start-up skills, which are crucial to promoting transformational entrepreneurial activity. To support the next generation of entrepreneurs, governments and IFIs should consider looking at how to support the development of entrepreneurial culture, such as risk-taking, innovation, and creativity, through formal education systems.

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87 Doing Business 2019 uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2017/18 implemented regulatory reforms making it easier to do business in three or more of the 10 topics included in this year’s aggregate ease of doing business score. Second, Doing Business sorts these economies on the increase in their ease of doing business score over the previous year and the scores for both years are calculated using the same macroeconomic data (such as income per capita and currency conversion rates) to remove the effect of changes in these variables. Changes making it more difficult to do business are subtracted from the total number of those making it easier to do business.

88 The Human Capital Index (HCI) measures the human capital that a child born today can expect to attain by age 18, given the risks to poor health and poor education that prevail in the country where they live. The index is measured in terms of the productivity of the next generation of workers relative to the benchmark of complete education and full health. An economy in which the average worker achieves both full health and full education potential will score a value of 1 on the index.
The private sector and governments need to work together to articulate and address the gap between the demand and supply of skills in their economies. Entrepreneurial capability—the ability of the entrepreneur to manage information, learn from experimentation, and internalize what he/she has learnt to produce better outcomes—is a key aspect of human capital development. This includes business training programs that help firms improve their managerial skills, programs that teach personal initiatives, and programs to adopt new technologies. These programs require governments and the private sector to work together, where the private sector is best suited to identify growing demand for specific skills and inform the government and other private sector counterparts responsible for supplying skills.

Ecosystem support programs should strive to have active private sector participation at the core of their offering. Research shows that ecosystem intermediaries led by people who have previously scaled companies bring market networks as well as their knowledge about investment readiness and start-up challenges to their support models. Governments, IFIs and the ecosystem support entities themselves should consider encouraging and incentivizing people who have led successful companies to share their knowledge, capital, and other resources with up-and-coming entrepreneurs. These programs should also be conscious of the risk of intermediaries with limited entrepreneurial experience negatively impacting the effectiveness of the ecosystem. Effectively supporting entrepreneurs requires the active involvement of Africa’s business community.

To fully realize the potential of female entrepreneurs, program design should take into account women’s specific needs and challenges. Women face challenges related to restricted mobility, lower levels of financial inclusion, and constraining social norms in some countries. Supporting intermediaries to design programs providing skills development, mentorship, and training to address the challenges faced by women can play an important role in achieving gender parity. For example, women-only networks may be useful to help familiarize participants with networking and build professional confidence, but broader networking activities are needed to support firm development. Women entrepreneurs also need to build linkages with mixed-gender networks, which tend to be male-dominated but represent important gateways in the private sector.59

3. Early-stage financing and start-up capital development

Despite the improvements in equity finance, early stage financing is lacking in Africa. Ensuring the availability of early stage risk capital to address the financing gap, from ticket sizes of $50,000 to $500,000, is necessary to fuel the growth of transformational entrepreneurs in Africa. Governments and IFIs should consider developing instruments and allocating resources to help de-risk these investments and crowd in new investors. Governments and IFIs should also engage with the growing angel investor community in Africa, improving their capacity and ability to invest, and acknowledging their key role in sharing their knowledge, experience, and networks with entrepreneurs. IFIs and fund managers should consider designing funds and instruments to allow for longer time horizons, allowing for profitability, scale, and exit opportunities. Transformational entrepreneurs would benefit from mezzanine financing instruments, falling between the spectrum of pure equity and pure debt.50 Addressing these financing gaps could also require IFIs and fund managers to explore new fund structures, moving from closed-ended funds to more flexible time horizons, lower management fees, higher carried interest, and broader exit options.51 Ultimately, funds and their instruments should be tailored to target start-ups’ needs, aiming to fill financing gaps and avoid crowding out private investments. They should consider the right structure of legal and economic incentives and guarantee that access to capital is based on business potential and performance.

A holistic approach to supporting entrepreneurship is needed, which links funding to pipeline development. Fostering the supply side of the business angel or venture capital ecosystem is not enough to guarantee access to external sources of finance that can support experimentation and innovation. The investment readiness or quality of the pipeline is also crucial. Investment readiness programs are important to provide individualized training, mentoring, coaching, and other services to overcome these constraints. Improving the effectiveness of these programs means working closely with investors to understand their requirements and tailoring them accordingly.

4. Creating digital markets

Governments, IFIs, and the private sector have an important role to play in catalyzing firm growth by creating digital markets. Enabling e-commerce, using digital platforms, fostering access to modern digital payment systems, and expanding access to broadband and the Internet are key elements of the development of the digital economy in Africa. The World Bank Group, in close coordination with African governments and regional organizations like the African Union, has recently launched the Digital Economy for Africa initiative that aims to achieve just that, with ambitious 2030 moonshot targets amounting to no less than having Every African individual, business and government Digitally Enabled by 2030.

In order for transformational entrepreneurs to take advantage of the digital economy, the necessary digital infrastructure needs to be made available, with improved connectivity, reliability, and speed. Digital platforms can play an important role in improving efficiency and creating markets for entrepreneurs in Africa. In many cases, these digital platforms are being developed by the transformational entrepreneurs discussed in this paper. Success in using digital platforms to build demand crucially depends on consumers’ capacity to connect to, and engage on, those platforms. As customers continue to use their mobile phones for e-commerce to engage and transact, data download speeds and reliability will increase in importance. Despite the prevalence of mobile banking in Africa, the cost of mobile phone tariffs remains a barrier to mobile adoption and intensity of use. In order to support the growth and proliferation of these digital platforms African governments should consider the cost and performance of digital infrastructure in their countries, and how private sector participation in these sectors can help unlock potential.
V. References

Photos by Dominic Chavez/IFC


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