

AFRICAN ENTREPRENEURSHIP

Sub-Saharan African Regional Report

2012



Mike Herrington and Donna Kelley



IDRC | CRDI

International Development Research Centre
Centre de recherches pour le développement international

Canada

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Contents

Executive Summary 6

Key overall findings	7
Attitudes	7
Perceived opportunities and intentions	7
Fear of failure.....	7
Entrepreneurial intentions.....	8
Beliefs about entrepreneurship	8
Early-stage entrepreneurial activity	8
Established business ownership rates.....	8
Summary of implications and recommendations	8
Acknowledgements.....	8

Chapter 1: Introduction and Background..... 10

1.1 The Global Entrepreneurship Monitor (GEM) research project.....	10
1.2 The GEM conceptual model.....	11
1.3 How GEM measures entrepreneurship	13
1.4 GEM methodology.....	13
Adult population survey (APS).....	13
National expert survey (NES)	13

Entrepreneur's story: Namibia: Kuana Ndilula 14

Entrepreneur's story: Namibia: Dr Frans Indongo..... 15

Chapter 2: Main Result of Sub-Saharan Africa Study, 2012..... 16

2.1 Introduction: the financial crisis.....	16
2.2 Africa	16
2.3 The Entrepreneurial Pipeline.....	20
2.3.1 Societal attitudes towards entrepreneurship	20
2.3.2 Potential Entrepreneurs.....	22
2.3.3 Entrepreneurial intentions	23
2.3.4 Early-stage total entrepreneurial activity.....	24
2.3.5 Entrepreneurial motivations	28
2.3.6 Established business ownership	28
2.4 Profile of entrepreneurs	30
2.4.1 Age distribution.....	31
2.4.2 Gender differences	31
2.4.3 Education.....	32

2.5	Entrepreneurship impact	34
2.5.1	Job creation	34
2.5.2	Industry Sector.....	36
2.5.3	Innovation.....	37
2.6	Summary of Entrepreneurship by Country	39

Entrepreneur’s story: Uganda: Paddy	42
--	-----------

Entrepreneur’s story Ghana: Daniel Annor	43
---	-----------

CHAPTER 3: Entrepreneurial framework conditions in sub-Saharan Africa	44
--	-----------

3.1	Introduction.....	44
3.2	Financial support.....	45
3.3	Education and training	46
3.4	Government policies.....	47
3.5	Research and development transfer	49

ENTREPRENEUR’S STORY: Malawi: Lonia Mwiyeriwa	51
--	-----------

CHAPTER 4: Recommendations for policy and practice	52
---	-----------

4.1	Financial support.....	52
4.2	Education and training	53
4.3	Government policies.....	54
4.4	Research and development transfer	55
4.5	Addressing key barriers and constraints.....	55

ENTREPRENEUR’S STORY: Nigeria: Saidata Shonoiki Abidun	56
---	-----------

ENTREPRENEUR’S STORY: Malawi: Willy Thembo.....	57
--	-----------

APPENDICES.....	58
------------------------	-----------

Appendix 1: Tables on Entrepreneurship Framework Conditions.....	58
---	-----------

Appendix Table 1.1.	Financing for entrepreneurs	58
Appendix Table 1.2.	Entrepreneurial education and training	59
Appendix Table 1.3.	Government policies.....	60
Appendix Table 1.4:	R&D Transfer.....	61

Appendix 2.....	62
------------------------	-----------

Angola – Example of a policy intervention, 2012	62
Malawi – Example of a policy intervention, 2012	63
Namibia – Example of a policy intervention	63
Uganda – Example of a Policy Intervention, 2012	65
Botswana – Example of a policy intervention, 2012.....	66

List of Figures

Figure 1.1:	The GEM model.....	12
Figure 2.1:	Summary Information on Sub-Saharan African Countries.....	19
Figure 2.2:	The entrepreneurial pipeline.....	20
Figure 2.3:	Total early-stage entrepreneurship activity rate in 67 economies, GEM 2012.....	26
Figure 2.4:	The entrepreneurial pipeline by country in sub-Saharan Africa.....	30
Figure 2.5:	TEA rates by age group in ten sub-Saharan African countries, GEM 2012.....	31
Figure 2.6:	TEA rates by gender for ten Sub-Saharan African countries, GEM 2012.....	32
Figure 2.7:	Distribution of education levels for TEA in ten sub-Saharan African countries, GEM 2012.....	33
Figure 2.8:	Current employment levels among ten sub-Saharan African countries, GEM 2012.....	34
Figure 2.9:	Job growth expectations among ten sub-Saharan African countries, GEM 2012.....	36
Figure 2.10:	New products or services offered to customers, 2012.....	38
Figure 2.11:	Proportion of competitors in TEA, 2012.....	38

List of Tables

Table 2.1:	Societal attitudes in seven sub-Saharan African countries and comparisons with other regional averages, percentage of the adult population (18 to 64 years of age), GEM 2012.....	21
Table 2.2:	Perceived opportunities, capabilities and fear of failure in ten sub-Saharan African countries and comparisons with other regional averages, GEM 2012.....	22
Table 2.3:	Entrepreneurial intentions in ten sub-Saharan African countries and comparisons with other regional averages, GEM 2012.....	24
Table 2.4:	Activity levels in the entrepreneurial pipeline and entrepreneurial motivations in ten sub-Saharan African countries, with comparisons to other regional averages, GEM 2012.....	27
Table 2.5:	Reasons for exit, 2012.....	29
Table 2.6:	Distribution of entrepreneurship by sector.....	37
Table 3.1:	Global Competitive Index: Rankings out of 142 countries, 2012-2013.....	48

List of Charts

Chart 3.1:	Average expert ratings on financing for new and growing businesses across ten sub-Saharan African countries (five point scale).....	45
Chart 3.2:	Average expert ratings on education and training for entrepreneurship across ten sub-Saharan African countries (five point scale).....	46
Chart 3.3:	Average expert ratings on government policies for entrepreneurship across ten sub-Saharan African countries (five point scale).....	47
Chart 3.4:	Average expert ratings on R&D transfer across ten sub-Saharan African countries (five point scale).....	49



Throughout the world, shifts in population demographics, technological changes, fluctuating economies and other dynamic forces have transformed societies as never before, bringing new challenges and opportunities to the forefront. Among the responses to these shifting forces is an increased emphasis on entrepreneurship by governments, organisations and the public.



(GEM Global Report, 2012)

Executive Summary

This has never been more relevant than in sub-Saharan Africa (SSA), where huge change is taking place and where the growth in the gross domestic product (GDP) per capita is one of the highest in the world, albeit from a very low base. High poverty and unacceptable levels of unemployment are prevalent in most African countries and some of these problems may be addressed through entrepreneurial activity. While entrepreneurship may not be a panacea, it can most certainly form part of the solution.

The Global Entrepreneurship Monitor (GEM) provides useful data on both the extent and nature of entrepreneurial activity. It is uniquely positioned to advance understanding about the process of entrepreneurship and to facilitate decisions and initiatives that promote these endeavours. Each year since 1999, GEM has provided a broad array of data on societal attitudes, participation levels of individuals at different stages of the entrepreneurship process and the characteristics of entrepreneurs and their businesses. Since entrepreneurial activity does not exist in a vacuum, GEM also considers factors that stimulate and support it. An assessment of these factors has been made using GEM's Entrepreneurial Framework Conditions (EFCs), particularly identifying how they relate to each stage of the entrepreneurial pipeline. While it is likely that most of

the EFCs will have an effect on each stage in some way, certain EFCs will be more critical in a particular phase and may serve as determinants for progression from one phase to the next.

A substantial grant from the International Development Research Centre (IDRC) of Canada has enabled a three-year study of the entrepreneurial attitudes, perceptions and intentions of entrepreneurs in 10 sub-Saharan African countries, namely Angola, Botswana, Ethiopia, Ghana, Malawi, Namibia, Nigeria, South Africa, Uganda and Zambia. Particular emphasis will be placed on the youth (18 to 34 years) in these countries in the second year of the project, with the objective of getting a better understanding of what their perceptions and intentions are towards entrepreneurship and what factors are likely to influence them into making entrepreneurship their first career choice.

With its ambitious objectives, this study aims to facilitate a better understanding in these countries of the influence of entrepreneurship on economic growth and to assist in the identification of factors that encourage and/or hinder this activity. In 2012, more than 20 000 adults between the ages of 18 and 64 years were interviewed face-to-face and asked a series of structured questions. In addition, 36 key informants,



ranging across a number of disciplines in each country, were interviewed using both a structured questionnaire and a semi structured one. The results of the interviews with these key informants are presented in this report.

There are significant national differences in some aspects of the entrepreneurial pipeline, but many similarities exist, from which there is an opportunity to learn best practices.

Key overall findings

Attitudes

Positive attitudes about entrepreneurship in an economy can markedly improve the propensity of people to engage in this activity, which in turn can have a marked influence on the well-being and economic growth of that country's economy. In addition, attitudes can play an important role in the extent to which society may provide both cultural and financial support and to generate potential stakeholders that could enhance and assist the efforts of entrepreneurs.

Perceived opportunities and intentions

In general, most individuals in SSA have a high perception about the existence of good opportunities for starting a business in the next six months, with the exception of South Africa (35%), falling well below the average of 70% for the region. However, it should be noted that the types of businesses in which they commonly engage differ from more developed

economies, in that they are generally low margin, 'me too' businesses that have very little differentiation and are possibly driven by necessity or survival. This is important, as the results highlight the value of GEM's distinctions between necessity and opportunity motives.

The perception that individuals have the skills necessary to start and successfully run a business are high in all countries (average 76%), again with South Africa being the exception at 39%. Nonetheless, the figures for SSA are substantially higher than all other regions around the world, including those in developing economies.

The perceived high levels of both opportunities and skills is most encouraging, as research has shown that a strong association exists between the individual's perceptions of desirability and feasibility towards entrepreneurship and entrepreneurial intentions.

Fear of failure

Fear of failure can play an important role in influencing whether a person is likely to actually start a business, irrespective of whether they see opportunities and whether they think they have the capabilities to do so. According to the 2012 GEM Global report, economies in SSA exhibit the lowest levels of fear of failure, with only 24,5% of all respondents indicating that fear of failure would prevent them from starting a business. The only other region that comes close to this is Latin America and the Caribbean at 28%.



Entrepreneurial intentions

Individuals who intend to pursue a business opportunity within the next three years are defined by GEM as intentional entrepreneurs. Again, the levels of intentional entrepreneurs in SSA are high at an average of 53%, which is consistent with their positive perceptions about opportunities and capabilities. The only exceptions are South Africa (12%) and Ethiopia (24%). This means that societal attitudes towards entrepreneurship are favourable in most SSA countries, which is very positive for both entrepreneurship and SMME development.

Beliefs about entrepreneurship

Beliefs about entrepreneurship play a very important role in influencing whether a potential entrepreneur actually starts a business. These beliefs are influenced by whether people see entrepreneurship as a good career choice, whether high status is given to entrepreneurs and what media attention is given to entrepreneurs. In all SSA countries, without exception, entrepreneurship is seen as a good career choice; more so than in any other regions except Latin America and the Caribbean. In addition, both high status and good media attention is given to entrepreneurs, which is a good thing for the future and may explain the high levels of early-stage entrepreneurial activity in SSA countries.

Early-stage entrepreneurial activity

Total early-stage entrepreneurial activity (TEA) is the key indicator of GEM and measures the percentage of adults (18 to 64 years) who are in the process of starting

or who had just started a business. In economies with a low GDP per capita, TEA rates are generally high, with a correspondingly higher proportion of necessity-driven entrepreneurship. This is certainly the case in SSA countries, again with the exception of South Africa (7%), where the average rates are 28%, significantly higher than all other geographical regions.

In fact, countries like Zambia (41%), Ghana (37%), Nigeria (35%) and Angola (32%) show some of the highest TEA levels in the world.

Established business ownership rates

Established business rates are typically higher than early-stage entrepreneurial rates in factor-driven economies, while the gap narrows in the innovation-driven economies; with some showing more established business owners than entrepreneurs. This gap is typically the case in all SSA countries, with the widest gaps showing in Angola (32% vs 5%), Botswana (28% vs 6%), Malawi (36% vs 11%) and Zambia (41% vs 4%). The economic implications are important, in that these countries exhibit high discontinuance rates where many nascent and new businesses do not reach maturity and hence do not contribute significantly to employment.

Summary of implications and recommendations

Positive attitudes reflect entrepreneurial ambitions and societal support; and these are needed as African economies develop, grow and move towards lower unemployment. With unemployment and a growing youth population in all sub-Saharan African countries,



the identification and successful implementation of policies that encourage youth to start businesses, and support for businesses with high employee growth expectations will be vital to creating jobs and ensuring economic growth and societal stability.

The picture one gets from the above summary is that:

- On the one hand, an attitude of entrepreneurship is generally high in the region; fear of failure does not seem to inhibit people's entrepreneurial aspirations and actions; and the region exhibits generally high

levels of entrepreneurial activity rates – one of the highest in the world; and

- On the other hand, necessity seems to be one of the key motivations of entrepreneurial activity and many people start enterprises, but a significant proportion of them remain survivalist activities.

The key purpose of this report is to lay the groundwork towards further investigation and analysis, which will help policy makers gain greater insight that will help to increase both the levels of entrepreneurial activity and the quality of such ventures.

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Introduction and Background

1.1 The Global Entrepreneurship Monitor (GEM) research project

Academics and policy makers agree that entrepreneurs, both young and old and the new businesses they establish, play a critical role in the development and well-being of their societies. As such, there is increased appreciation and accounting for the role played by new and small businesses in an economy. GEM contributes to this recognition with longitudinal studies and comprehensive analyses of entrepreneurial attitudes and activity across the globe. GEM's purpose is to assess and track entrepreneurship and explore its relationship to national economic growth. Specific objectives include the following:

- To track entrepreneurial attitudes, activity and aspirations within economies, in order to provide annual national assessments of the entrepreneurial sector;
- To allow for comparison of levels of entrepreneurial activity among different economies, geographic regions and economic development levels;
- To determine the extent to which entrepreneurial activity influences economic growth within individual economies;

- To identify factors which encourage and/or hinder entrepreneurial activity; and
- To guide the formulation of effective and targeted policies aimed toward stimulating entrepreneurship within individual economies.

Since its inception in 1997 by scholars at Babson College and London Business School, GEM has developed into one of the world's leading research consortia focused on improving understanding about entrepreneurship and its relationship to national development. GEM academic teams in each participating economy oversee surveys of demographically representative samples, consisting of at least 2 000 adults between the ages of 18 and 64 years. In 2012, teams from 69 economies participated in GEM.

GEM measures individual participation across multiple phases of the entrepreneurial process, providing insights into the level of engagement in each stage. This is important, because societies may have varying levels of participation at different points in this process; however, a healthy entrepreneurial society needs people active in all phases. For example, in order to have start-ups in a society, there must be potential entrepreneurs. Later in the process, people that have started businesses must have the ability and the support



Academics and policy makers agree that entrepreneurs, both young and old and the new businesses they establish, play a critical role in the development and well-being of their societies. 

to enable them to sustain their businesses into maturity. GEM's multiphase measures of entrepreneurship include the following:

- **Potential entrepreneurs** – those who see opportunities in their environments, have the capabilities to start businesses and are undeterred by fear of failure.
- **Intentional entrepreneurs** – those who intend to start in the future (in the next three years).
- **Nascent entrepreneurs** – those who have taken steps to start a new business, but have not yet paid salaries or wages for more than three months.
- **New entrepreneurs** – those who are running new businesses that have been in operation between three and 42 months and are paying salaries.
- **Established business owners** – those who are running a mature business and have been operating for more than 42 months.
- **Discontinued entrepreneurs** – those who, for whatever reason, have exited from running a business in the past year.

GEM's individual-level focus enables a more comprehensive account of business activity than firm-level measures of formally registered businesses. In other words, GEM captures both informal and formal activity. This is important because in many societies, the majority of entrepreneurs operate in the informal sphere. In addition, GEM's emphasis on individuals provides a lens into who these entrepreneurs are: for

example, their demographic profiles, their motivations for starting ventures and the ambitions they have for their businesses. GEM also assesses broader societal attitudes about entrepreneurship that can indicate the extent to which people are engaged or willing to participate in this activity, but also the level of societal support for their efforts.

1.2 The GEM conceptual model

The GEM model (**Figure 1.1**) maintains that particular environmental factors are influential in creating unique business and entrepreneurial contexts. These factors should therefore be taken into account when analysing cross-national differences, as well as changes within economies over time. At a national level, there are three levels of factors that impact business activity and specifically entrepreneurship. These factors are dependent on the social, political and economic circumstances in the societies in which they exist.

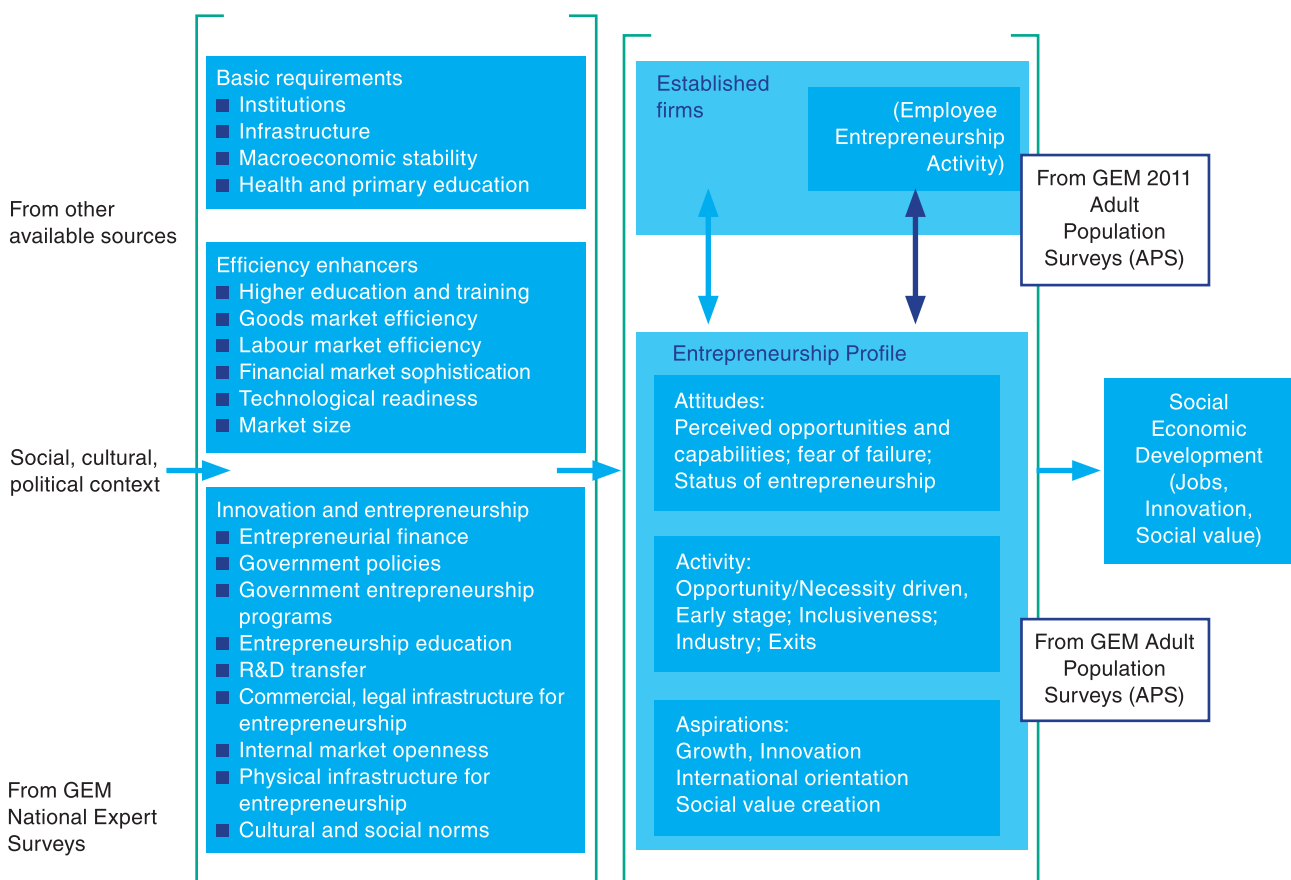
The most fundamental set of conditions are basic requirements. Without a healthy foundation of these conditions, it is difficult for the efficiency enhancers at the next level to productively influence business activity. In turn, the innovation and entrepreneurship factors will be less effective without a strong base of efficiency enhancers (which, as stated, depend on basic requirements). Economies that are in their earlier stages of development are often more focused on getting basic requirements in place, while more

economically advanced societies turn their attention toward innovation and entrepreneurship factors, such as a formal venture finance sector and research and development (R&D) transfer.

International organisations such as the World Bank, the World Economic Forum, Doing Business Report, the Heritage Foundation and the United Nations provide indexes and data on the conditions composing the basic requirements and efficiency enhancers. GEM data, which is more directed towards individuals and not businesses, complements and supplements the work done by these agencies. To assess the innovation and entrepreneurship factors, GEM developed the National Expert Survey (NES), described in the next section. The key entrepreneurship indicators shown in **Figure 1.1** (shown under attitudes, activity and aspirations) are assessed through GEM's Adult Population Survey

(APS), also described in the next section. The GEM APS included additional questions on employee entrepreneurship activity in organisations as a special topic focus in 2011.

While entrepreneurial activity is influenced by framework conditions in the particular environment in which it takes place, this activity ultimately benefits this environment through social value and economic development. For example, entrepreneurs create jobs for themselves and others, which create income for families. They develop new products that improve people's lives and advance the knowledge and competitiveness of their societies. The GEM conceptual model is a dynamic entity that is progressively developed to incorporate advances in understanding the entrepreneurship process and to allow for further exploration of patterns revealed in GEM studies.



Source: GEM Global Report, 2011

Figure 1.1: The GEM model

1.3 How GEM measures entrepreneurship

A primary measure of entrepreneurship used by GEM is the Total Early-Stage Entrepreneurial Activity (TEA) rate. TEA indicates the prevalence of individuals engaged in nascent entrepreneurship and new firm ownership in the adult (18 to 64 years of age) population. As such, it captures the level of dynamic early-stage entrepreneurial activity in a country.

Every person engaged in any behaviour related to new business creation, no matter how modest, contributes to the national level of entrepreneurship. However, it is important to recognise that entrepreneurs can differ in their profiles and impact. For this reason, GEM provides a range of indicators that describe the unique, multifaceted pattern exhibited in each society. It is, therefore, important to consider, not only the number of entrepreneurs in an economy, but other aspects, such as the level of employment they create, their growth ambitions and the extent to which groups like youth and women are participating in this activity.

1.4 GEM methodology

Adult population survey (APS)

The key indicators of GEM are measured through an Adult Population Survey (APS). Academic teams in each participating economy administer and oversee this survey, which is conducted through a random representative sample of at least 2 000 adults between the ages of 18 and 64 years. The surveys are conducted at the same time every year (between May and July), using a standardised questionnaire provided by the GEM Global Data Team. The questionnaire is translated into local languages and back-translated for a validity check.

To ensure that the sample is representative, area stratified probability sampling is used. The sample is stratified by gender, age and population group, then by region and community size. Cities and large towns, small towns and villages and even rural areas are additionally assessed in some economies. Accredited research companies in each economy conduct the survey or, under certain circumstances, this can be done by the country team, as in the cases of Ghana, Malawi and Uganda; in 2012, these qualified survey vendors interviewed between

2 000 and 10 000 respondents. This process is led and spearheaded in each country by the national team, who oversee the data collection.

Upon completion of the survey in each economy, the raw data is then sent directly to the Global Data Team for quality control checks and uniform statistical calculations. The data are then released to the participating economies for analysis and interpretation and, ultimately, to compile annual national reports. Results for the entire dataset are released in a global executive report, which is launched each January at the GEM annual meeting.

The APS methodology was developed to measure entrepreneurial activity in a way that allows for meaningful cross-national analyses each year, as well as intra-country comparisons over time. To provide for reliable comparisons across economies, GEM uses a research design that harmonises the data over all participating economies.

National expert survey (NES)

A National Expert Survey (NES) was designed to support GEM's main APS survey. The NES assesses nine Entrepreneurial Framework Conditions (EFCs), which are shown in **Figure 1.1** under innovation and entrepreneurship factors. These EFCs are important to GEM, because they are conceptualised as having a more specific influence on entrepreneurial behaviour. The NES survey is thus a key component of GEM, because it provides insights into the entrepreneurial climate in each economy.

In conducting the NES, GEM teams interview at least four experts from each of the nine categories (entrepreneurial finance, government policies, government programmes, education and training, R&D transfer, commercial and service infrastructure, cultural and social norms and so on), for a minimum total of 36 experts per country. Out of this sample, a minimum of 25% must be entrepreneurs or business owners and 50% must be professionals. Additional aspects, such as geographical distribution, gender, work in the public versus private sector and the level of experience are also taken into account in selecting the sample. The information is used to add context to GEM reports and to help explain the relationship between entrepreneurial activity and economic growth.



Namibia: Kuana Ndilula

Business Financial Solutions (BFS)

Kuana Ndilula, a 'child of the Namib Desert', founded her financial solutions company – Business Financial Solutions (BFS) – with a strong venture capital focus. Under the influence and mentorship of her parents and school principal and with a hearty appetite for hard work, Ndilula qualified as a social worker and put these skills to good use in disadvantaged communities. This experience instilled in her the importance of economic empowerment.

Work with the Peace Corps followed and she went on to obtain a master's degree in development economics from Williams College in Massachusetts. After working with SMEs funded by the African Development Fund, she joined Windhoek Bank's SME unit, growing the loan book from 2.3 million Namibian dollars (N\$) to N\$150 million in just one year, emphasising the importance of investing in SMEs along with mentoring and coaching.

In 2008, Ndilula left the bank to establish BFS, which she calls 'a one-stop service centre for SMEs and a channel for foreign investors'. Its venture capital fund, the Nampro Fund with an N\$160 million capitalisation from the GIFFP, has already allocated N\$1 million of this funding. She prides herself on developing BFS into one of the true venture capital firms of Namibia – and with a woman at the helm!





Namibia: Dr Frans Indongo

Indongo Group

Respected businessman and founder of the Indongo Group, Dr Frans Aupa Indonge grew from humble beginnings in the migrant labour system, to where he is today through “hard work, hard work and more hard work”, plus the willingness to receive good business advice as well as discipline, control and good oversight.

Born in 1936, he joined the migrant labour system at the age of 20; but in 1956, thanks to his initiative and entrepreneurial drive, he entered the bricklaying business and used the profits from this venture to buy sewing machines to make and sell clothes. There were many challenges, due to the circumstances created by the apartheid system, but he established the Continental and then the Indongo Group, which are “well-managed, create jobs and pay taxes to the government; a success for the country”.

What started as a success in the retail sector of northern Namibia is today a group that has substantially invested in diversified businesses such as fishing, farming, hunting, property, the motor industry, the hospitality industry and financial investment. His advice to small businesses? When in debt, do not try to compete with established business. Start small and grow.

Chapter 2



Main Result of Sub-Saharan Africa Study, 2012

2.1 Introduction: the financial crisis

The US financial crisis of 2007/2008 is considered by many leading economists to be the worst economic crisis since the Great Depression of the 1930s. It resulted in the potential collapse of large financial institutions, the bailout of banks by national governments and dramatic declines in the stock market. In many cases, the housing market also suffered, leading to evictions and foreclosures and exacerbating the effect of prolonged unemployment. This led to the 2008 to 2012 global downturn, which contributed significantly to the European sovereign debt crisis¹. This downturn brought to light the fact that people could no longer depend solely on large organisations and government as job creators. Across the globe, broader awareness and respect developed for those who could start their own businesses to build jobs for themselves and, ideally, employment for others.

Likewise, entrepreneurship has become a key focus of academic research over the past three decades, but never more important than in the past ten years, as the connection between entrepreneurship and economic development and especially job creation,

has received increased recognition by policy makers and a broader global audience. Entrepreneurship is now widely acknowledged as the primary driver of sustainable economic growth. Entrepreneurs are the ones who create new businesses, drive and shape innovation, speed up structural changes, introduce new competition and contribute to an economy's fiscal health.

Collecting information on entrepreneurship will be especially useful in helping to fill the knowledge gaps in sub-Saharan Africa and then what the results mean to policy and the implications thereof. The GEM data is especially important in SSA countries, as very little is really known about people's perceptions, intentions and attitudes towards entrepreneurship. Obtaining information about this is important, as it will assist policy makers to make more informed decisions about how to increase entrepreneurship and enhance SMME development.

2.2 Africa

For decades, the world has looked upon Africa as the 'lost continent', where institutions are fragile and weak, economic growth has stalled and where



The US financial crisis of 2007/2008 is considered by many leading economists to be the worst economic crisis since the Great Depression of the 1930s.



poverty and disease are widespread. The situation is changing dramatically. Africa's economic pulse has quickened, infusing the continent with new commercial vibrancy. Real GDP rose by 4,9% from 2000 to 2008, more than twice that of the 1980s and 1990s. The telecommunications, banking and retail sectors are flourishing. Construction is booming and private investment inflows are surging. Many countries in sub-Saharan Africa are becoming less reliant on raw material mineral extraction and agriculture and moving toward high technology innovations.²

The rate of return on foreign investment in Africa is higher than in any other developing region. Global executives and investors must now pay heed to the opportunities that exist in this continent.

To be sure, many of Africa's 50-plus countries still face serious challenges; these include poverty, disease and high infant mortality. Nevertheless, the continent remains among the world's most rapidly growing economic regions. Africa has benefited from the surge in commodity prices over the last decade, where rising global demand has boosted prices for mineral, grain and other raw materials. Yet the commodity boom explains only part of Africa's broader growth story. This sector accounted for about one-third of Africa's GDP

growth from 2000 through to 2008². The remaining two-thirds has come from other sectors, including wholesale and retail, transportation, telecommunications and manufacturing, as well as financial intermediation.

At the same time, wars, natural disasters or poor government policies could halt or even reverse the gains made in any individual country. But in the long term, both internal and external trends indicate that Africa's economic prospects are strong. Each country is following its own growth path, but the overriding reasons behind the growth experienced in the fastest growing economies include government action to end armed conflict, improve macro-economic conditions and undertake micro-economic reforms to create a better business climate. The resultant growth has started to improve conditions for Africa's people by reducing the poverty rate, although several measures of health and education have not improved as fast. To lift living standards more broadly, the continent must sustain or increase its recent pace of economic growth.

Africa's growth is more than a resource boom; it is a result of African government policies designed to energise markets.

1. "Brookings Financial Crisis" Retrieved 1 May, 2010. Williams, Carol J. (2012). Euro crisis imperils recovering global economy, OECD warns. Los Angeles Times, May 2012.
2. McKinsey Global Institute analysis.



Economists have traditionally grouped individual economies by region, language, or income level. This provides a better understanding about the commonalities and dissimilarities, both within and across different groups. Although much is known about Africa at a macro-level, there is less understanding about what happens within individual countries. As a result, similarities are often overemphasised and presumed to be representative of this region. Yet Africa is undoubtedly a complex continent. Each country has its own unique economic and political environment and the cultures and origins of the people are totally different from one another. With regard to entrepreneurship, this report provides macro-level insights across ten countries in this region, as well as country-level insights into the people who participate in this activity at various phases.

South Africa has participated in GEM every year since 2001. A few other countries have periodically joined the consortium over the past ten years: Uganda (2003, 2004, 2009 and 2010), Ghana (2010) and Angola (2008 and 2010). The low and sporadic participation of sub-Saharan countries has provided few insights into the nature and diversity of entrepreneurship in this region.

As a result of a generous grant from the IDRC of Canada, a three-year project was launched to enhance informed and evidence-based policies that foster entrepreneurship and sustainable livelihoods in sub-Saharan Africa. The project will place a special focus on youth entrepreneurship. In particular the project's aim is to:

- Collect scientifically sound, harmonised and publically available data sets on entrepreneurship and enterprise formation in SSA, through the application of the GEM methodology with added emphasis on youth;
- Strengthen capacity of researchers within the SSA region, to undertake rigorous research and data analysis on entrepreneurship and to facilitate discussion of these research findings among policy makers, the private sector, educators and researchers, particularly regarding the promotion of youth entrepreneurship;
- Contribute to a deeper understanding of the nature, characteristics and dynamics of entrepreneurs and enterprise formation within the SAA, including perceptions, aspirations and practices of youth with respect to entrepreneurship and what accounts for differences across countries;
- Facilitate gender-aware policies and programmes on youth entrepreneurship and livelihoods within SSA, by providing a deeper understanding of the challenges that young women face with regards to entrepreneurial development and integration into productive livelihood opportunities and the factors that may hinder their involvement in innovative businesses.

This report is the first of a series that will attempt to meet these objectives.

To start a brief summary of the population and GDP indicators for these countries as well as the most problematic factors as revealed by the Global Competitive Index 2013/14 report in doing business is shown in **Figure 2.1**.

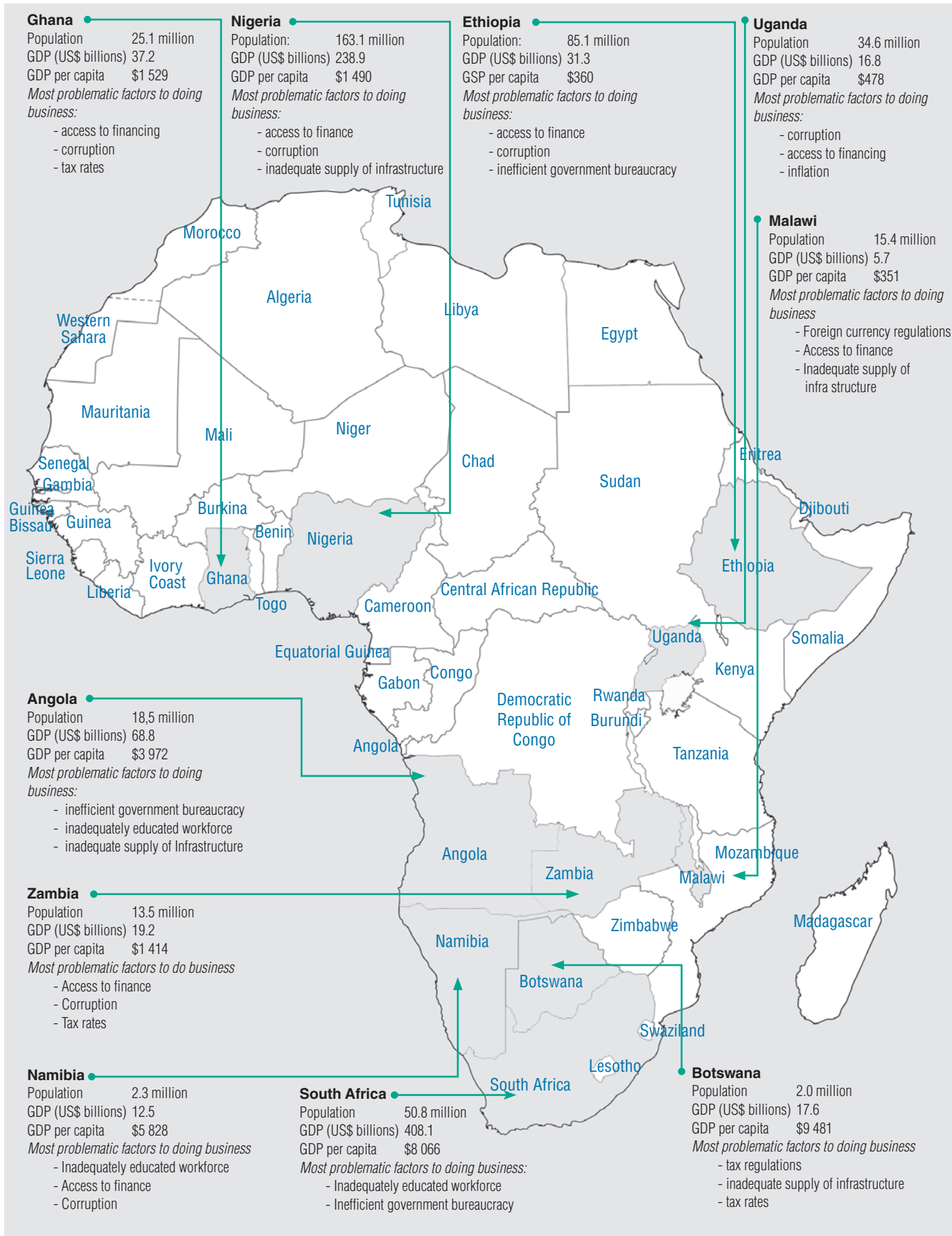
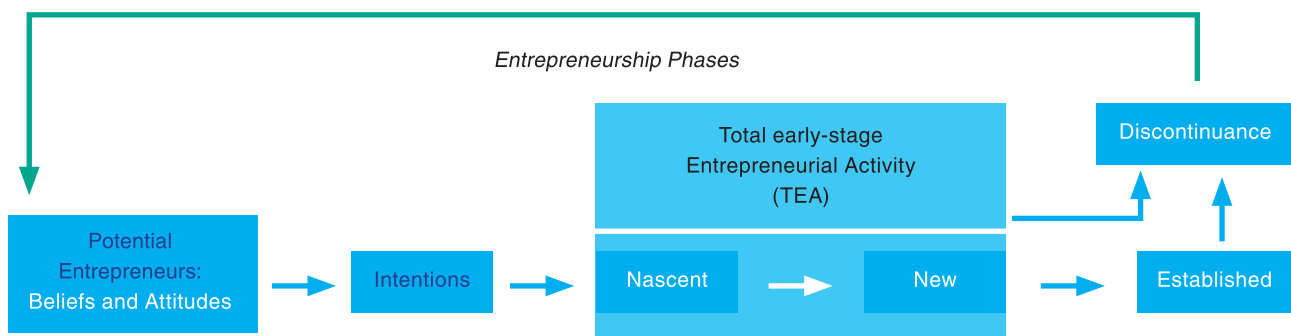


Figure 2.1 : Summary Information on Sub-Saharan African Countries



Source: GEM Global Report, 2011

Figure 2.2: The entrepreneurial pipeline

2.3 The Entrepreneurial Pipeline

GEM sees entrepreneurial activity as a continuous process, rather than an event. As such, the Adult Population Survey (APS) is designed to measure individual participation across a range of phases making up this activity: potential entrepreneurship, entrepreneurial intentions, nascent and new entrepreneurship activity, established business ownership and discontinuance.

We can view this process as a pipeline, where people participating at each phase are the source of those advancing to the next one, as **Figure 2.2** illustrates. Even those discontinuing businesses may re-enter the process as entrepreneurs, or as stakeholders or facilitators for other entrepreneurs. While not everyone in the pipeline will move on to the next step, each step does require participants in prior phases.

2.3.1 Societal attitudes towards entrepreneurship

“The entrepreneurship process is a complex endeavour, carried out by people living in specific cultural and social conditions. For this reason, the positive and negative perceptions that society has about entrepreneurship can strongly influence the motivations of the people to enter entrepreneurship. Societies benefit from people who are able to recognise valuable business opportunities and who perceive that they have the required skills to exploit them. If the economy, in general, has a positive attitude towards entrepreneurship, this can generate cultural and social support, financial and business assistance and networking benefits that will encourage and facilitate potential and existing entrepreneurs.”³

Although not a direct step in the entrepreneurial pipeline, societal attitudes influence this activity throughout the pipeline. GEM views entrepreneurship as a social process. Societies with positive impressions about entrepreneurship are likely to contain people willing to venture into this activity and those who will support their endeavors, such as investors, employees, customers and other stakeholders. It is for this reason that GEM measures societal attitudes in the general adult population, capturing this aspect in three questions:

- Do people consider starting a new business a good career choice?
- Do people consider successful entrepreneurs to have a high level of status?
- Is there a lot of media attention about successful new businesses?

Table 2.1 exhibits these societal attitudes in the adult population of seven SSA countries (three did not include these questions in their survey), with regional comparisons.⁴ On average, over three-fourths of the people in these countries believe entrepreneurship is a good career choice. This is similar to the average for the Latin America and Caribbean and the Middle East/ North Africa (MENA) regions.

SSA, as well as the MENA region, also has a high proportion of people believing entrepreneurs have high status. There appears to be a divide, though, where the vast majority of those in Ghana and Ethiopia attribute high status to entrepreneurship (91% and 92%), while fewer in the remaining five countries hold this view

3. GEM Global Report, page 20

4. Lewin, P. (2012, January 23). *Perceptions of Opportunities – Part 1*. Retrieved from Organizations & Markets: <http://organisationsandmarkets.com>

Table 2.1: Societal attitudes in seven sub-Saharan African countries and comparisons with other regional averages, percentage of the adult population (18 to 64 years of age), GEM 2012

Economy	Entrepreneurship as a good career choice	High status to successful entrepreneurs	Media attention for entrepreneurship
Botswana	76% *	73%	79%
Ethiopia	76%	92%	73%
Ghana	84%	91%	82%
Namibia	73%	76%	82%
Nigeria	82%	76%	78%
South Africa	74%	74%	73%
Zambia	67%	79%	72%
Sub-Saharan Africa Average (unweighted)	76%	80%	77%
Latin America and Caribbean Average (unweighted)	75%	71%	67%
MENA Average (unweighted)	76%	81%	56%
Asia Pacific and South Asia Average (unweighted)	59%	65%	70%
European Union Average (unweighted)	58%	69%	50%
Non-European Union Average (unweighted)	62%	66%	52%

* For example 76% of respondents in Botswana consider entrepreneurship as a good career choice

(73 to 79%). However, SSA stands apart regionally in its high level of media attention, with 77% believing there is high visibility for successful entrepreneurs. This contrasts with about half the people in Europe seeing this level of awareness in the media.

It should be noted that different aspects can shape attitudes in a society. For example, a few highly visible entrepreneurs at a national level may influence impressions differently than personal experiences with entrepreneurs in one's own community. The fact may be considered that high rates of entrepreneurship in many SSA countries provide more individual interactions with entrepreneurs; in other economies, people may know entrepreneurs primarily through the media.

A more specific example can be seen in a study done for the International Labour Organisation (ILO)⁵, which showed that most of the business owners in one of the provinces in South Africa were running informal,

survivalist businesses; this decreased the desirability of entrepreneurship as a career choice.

At the individual country level, Ghana shows consistently high levels of societal attitudes across all three measures, illustrating the visibility and status entrepreneurs hold in this society, as well as respect for this activity as a form of employment. Zambia, on the other hand, reports among the lowest regional levels on all three indicators, although these are still high when compared to economies outside the region. It is notable, though, that Zambia reports the highest entrepreneurship rates in this region, as shown later in this report.

Prospective entrepreneurs are influenced by how society views this activity. GEM assesses whether people generally consider entrepreneurship a good career choice, attribute high status to successful entrepreneurs and whether this activity garners media attention.

5. Turton, N., Herrington, M., Kew, P. & Dyring Christensen, J. (2012). *The ILO Free State SME Development Initiative: The State of Youth Entrepreneurship in the Free State. Bloemfontein: The International Labour Organisation.*

Overall, entrepreneurship is highly regarded in SSA. The positive views reflected in these three measures can influence the willingness of individuals to become entrepreneurs, as we see in the next section.

2.3.2 Potential Entrepreneurs

Potential entrepreneurs believe that in the next six months there will be good opportunities for starting a business in the area where they live and that they have the knowledge, skills and experience required to start a new business.

While societal attitudes influence entrepreneurship at all phases, the entrepreneurial pipeline itself begins with potential entrepreneurs. At this stage, individuals have not embarked in any specific action to start a business, but believe there are good opportunities for starting a new business. These opportunities may be real or

subjective⁶. However, they are almost always created by human activity; this can occur within markets where opportunities are often discovered by passive or purposeful search, or perhaps serendipitous discovery. Opportunities can also be created by activity outside markets, such as from technological and scientific discoveries.

While opportunity perceptions demonstrate people's views of the environment around them, beliefs about capabilities are more reflective of self-perceptions. Potential entrepreneurs believe and are encouraged by the belief that they have the necessary capabilities and experience to successfully start a new venture. Admittedly, merely believing one has the skills to start a business and actually having them could be two different things. This indicator may therefore reflect confidence in one's abilities, whether or not one truly possesses these skills.

Table 2.2: Perceived opportunities, capabilities and fear of failure in ten sub-Saharan African countries and comparisons with other regional averages, GEM 2012

Economy	Perceived opportunities	Perceived capabilities	Fear of failure*
Angola	66% **	72%	38%
Botswana	67%	71%	25%
Ethiopia	65%	69%	33%
Ghana	79%	86%	18%
Malawi	74%	85%	12%
Namibia	75%	74%	35%
Nigeria	82%	88%	21%
South Africa	35%	39%	31%
Uganda	81%	88%	15%
Zambia	78%	84%	17%
Sub-Saharan Africa Average (unweighted)	70%	76%	24%
Latin America and Caribbean Average (unweighted)	53%	62%	28%
MENA Average (unweighted)	41%	53%	35%
Asia Pacific and South Asia Average (unweighted)	30%	32%	41%
European Union Average (unweighted)	31%	42%	39%
Non-European Union Average (unweighted)	33%	42%	36%
United States	43%	56%	32%

* Fear of failure assessed for those seeing opportunities

** 66% of respondents in Angola perceive that there a good opportunities in their country

6. Lewin, P. (2012, January 23). *Perceptions of Opportunities – Part 1*. Retrieved from *Organizations & Markets*: <http://organisationsandmarkets.com>



Fear of failure can reflect constraints imposed by the environment, but also differences in beliefs among people. Some entrepreneurs simply don't see failure as a possibility.

In some countries, the legal and social ramifications of business failure are sufficient to deter many potential entrepreneurs from even thinking about starting a new venture. They may have seen opportunities and believe that they have the capabilities to pursue them, but their fear of failure may be strong enough to act as a barrier to action. However, in any given environment, people will differ in the extent fear of failure would deter them from entrepreneurship. This measure is thus reflective of both the constraints faced in an environment and the beliefs of people that live there.

Table 2.2 shows that people in SSA report among the most positive attitudes relating to potential entrepreneurship among all the regions, including those in Latin America and Caribbean, which also show typically high levels on attitude measures. Over twice as many people in SSA see opportunities than do people in Europe and the Asia Pacific and South Asia region. There are also twice as many people in SSA with beliefs in their capabilities, compared with the Asia Pacific and South Asia region.

Within SSA, however, there are some quite divergent results. The levels of both perceived opportunities and perceived capabilities in most SSA countries, except South Africa, are the highest among the 67 economies examined in 2012, ranging from 65% to 82% and 69% to 88% respectively. Outside the SSA region, only Chile and Colombia match these high levels of perceptions. On the other hand, South Africa is the only country

reporting a minority of the population with positive perceptions about opportunities and capabilities (35% and 39%).

Fear of failure is more common in developed economies, which may reflect societal beliefs about failure, but also the greater prevalence of alternative career pursuits, which can create the perception that one has more to lose by foregoing these other job opportunities.

For the SSA countries participating in the study, fear of failure, assessed in those seeing opportunities, is as low at 12% for Malawi, but reaches 38% in Angola, close to the EU regional average. Compared to many of the world's economies, however, fear of failure in SSA is generally low.

2.3.3 Entrepreneurial intentions

Entrepreneurial intentions are an important step in the pipeline, because they are strongly associated with actual entrepreneurial behaviour.

The next step in the entrepreneurial pipeline occurs when people express their intentions to start a new business in the near future. GEM measures intentions as those individuals who are planning to start a new business alone or with others within the next three years. Entrepreneurial intentions can be influenced by characteristics relating to the entrepreneur, like motivations and capabilities, those relating to perceptions about the opportunity, such as feasibility and the attractiveness of the market and competitive environment and ecosystem factors that support (or constrain) these efforts.



Table 2.3: Entrepreneurial intentions in ten sub-Saharan African countries and comparisons with other regional averages, GEM 2012

Economy	Entrepreneurial intentions **
Angola	70%
Botswana	72%
Ethiopia	24%
Ghana	60%
Malawi	70%
Namibia	45%
Nigeria	44%
South Africa	12%
Uganda	79%
Zambia	55%
Sub-Saharan Africa Average (unweighted)	53%
Latin America and Caribbean Average (unweighted)	34%
MENA Average (unweighted)	26%
Asia Pacific and South Asia Average (unweighted)	17%
European Union Average (unweighted)	13%
Non-European Union Average (unweighted)	14%
United States	13%

** Intentions assessed among nonentrepreneur population

Entrepreneurial intentions are high on average in SSA, higher than any other region. However, as **Table 2.3** demonstrates, this indicator exhibits a wide variation across the region: 12% of the adult population in South Africa intend to start a business in the next three years, while 79% express these intentions in Uganda. The low intentions in South Africa and Ethiopia to a lesser extent, are matched by high TEA rates for the region.

The relationship between intentions and TEA likely requires acknowledgement of time lags: in other words, those who are currently starting businesses likely expressed intent in an earlier period. To the extent that conditions change in the environment, this will likely be reflected in fluctuations in the connections between intent and TEA and for that matter, the relationships between levels reported across any subsequent stages.

2.3.4 Early-stage total entrepreneurial activity

The Total Entrepreneurial Activity (TEA) rate is the percentage of individuals in an economy who are in the process of starting or are already running a new business.

A central measure of GEM is the Total Early-Stage Entrepreneurial Activity (TEA) rate, which consists of the percentage of individuals in an economy, aged 18 to 64 years, who are participating in either of two initial periods of the entrepreneurship process:

- Nascent entrepreneurs, who have not paid salaries or wages for more than three months; and
- New business owners, who are beyond the nascent phase and have paid salaries or wages for more than three months, but less than 42 months.



Measuring these types of entrepreneurs is important, as it highlights the level of early-stage development that will hopefully be transformed into established businesses.

GEM groups its participating economies into three development levels, following the World Economic Forum's classification of factor-driven, efficiency-driven and innovation-driven economies. This view of economies by development level is based primarily on GDP per capita and the share of exports comprising primary goods. This classification is relevant to GEM, because certain patterns in entrepreneurial activity can, at least in part, be explained by phase of economic development. Following are descriptions of the three economic development levels:

- **Factor-driven economies:** early stages of economic development, typically with a large agricultural sector and where the economy is largely dependent on the extraction of natural resources. (Angola, Botswana, Ethiopia, Ghana, Malawi, Nigeria, Uganda and Zambia);
- **Efficiency-driven economies:** further development of the industrial sector, higher productivity through economies of scale and developed financial institutions (South Africa and Namibia); and
- **Innovation-driven economies:** a gradual shift in emphasis towards an expanding service sector, catering to the needs of an increasingly affluent population. This is typically associated with increasing research and development, as well as knowledge-intensive businesses.

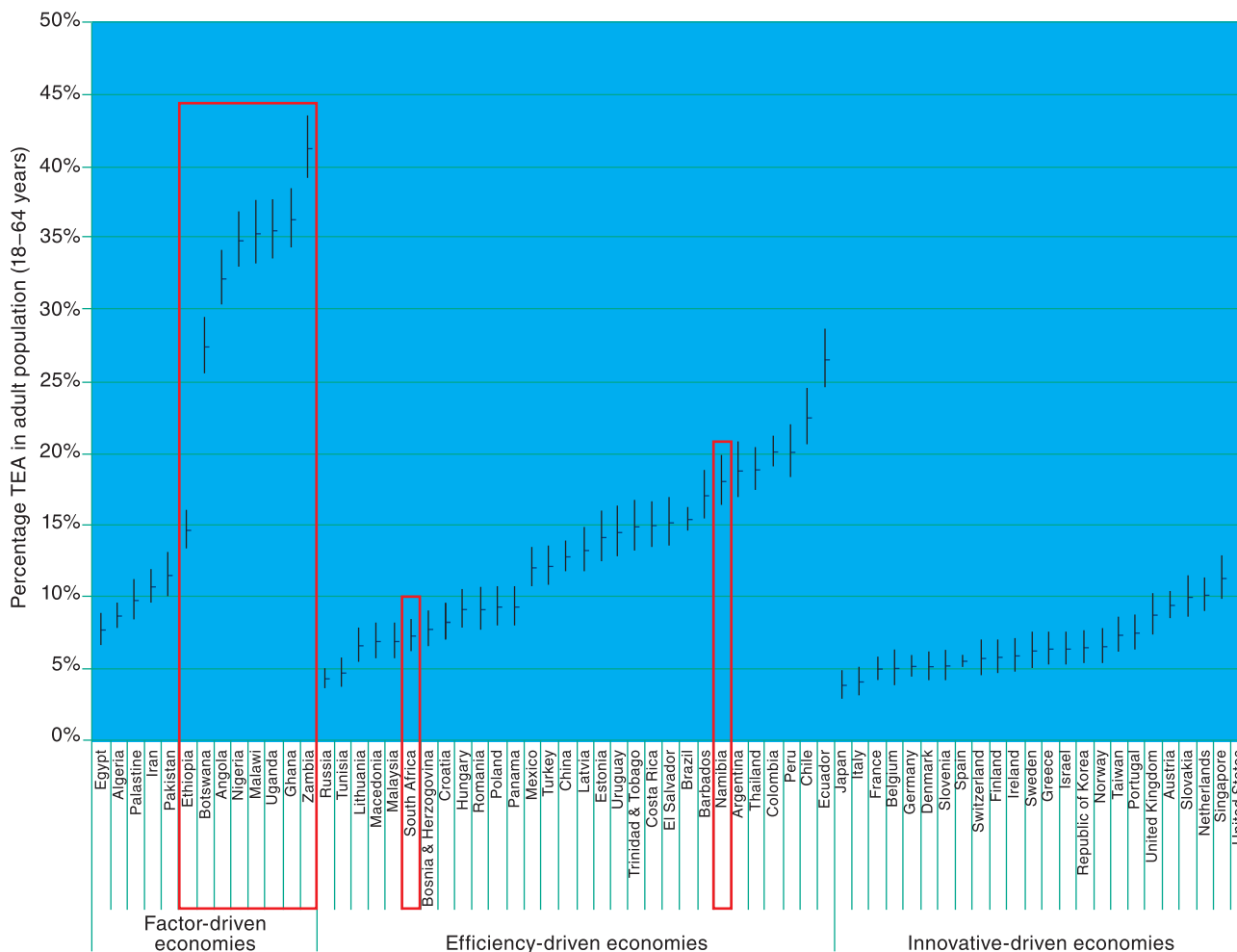


Figure 2.3: Total early-stage entrepreneurship activity rate in 67 economies, GEM 2012

TEA rates are generally highest in factor-driven economies and decline with greater development levels.

In sub-Saharan Africa, most of the economies are in the factor-driven stage of development. Exceptions are South Africa and Namibia, which are considered efficiency-driven economies.

Figure 2.3 shows TEA rates across the 67⁷ economies that participated in the 2012 GEM cycle. This figure groups economies by development levels and ranks them from lowest to the highest TEA rates within each group. The red boxes highlight the SSA countries.

GEM research has consistently shown a relationship between GDP per capita and TEA rates. Generally, TEA rates are highest in the factor-driven stage, although **Figure 2.3** shows high variation across this development level, with SSA countries exhibiting the highest TEA levels. In Zambia, 41% of the adult population is starting or running a new business, the highest rate among all the economies participating in the 2012 survey. The factor-driven economies also tend toward relatively high proportions of necessity-motivated entrepreneurs, which explains, at least in part, these higher TEA levels.

Economies in the efficiency-driven stage typically show lower TEA rates. In many cases, this is due to increased

7. The original GEM 2012 survey included 69 economies, but two had issues with their data; these weren't resolved at the time of this report and therefore were not included in the analyses.

industrialisation in this phase, which leads to more job opportunities with larger companies that displaces some entrepreneurial activity. South Africa, an efficiency-driven economy, has one of the highest GDP per capita (\$8 066) in the region (**Figure 2.1**), with Botswana (\$9 481) being one exception. Given that higher development levels are accompanied by a reduction in entrepreneurship, this may explain, at least in part, lower TEA levels; however, this level is still lower than expected for a middle-stage development economy.

Table 2.4 shows activity levels at different stages of the entrepreneurial pipeline, as well as the primary motivations that drive people to enter entrepreneurship, discussed in the next section. This table also breaks down TEA into its two components: nascent and new



Table 2.4: Activity levels in the entrepreneurial pipeline and entrepreneurial motivations in ten sub-Saharan African countries, with comparisons to other regional averages, GEM 2012

Economy	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Angola	15%	19%	32%	9%	26%	24%	38%
Botswana	17%	12%	28%	6%	16%	33%	48%
Ethiopia	6%	9%	15%	10%	3%	20%	69%
Ghana	15%	23%	37%	38%	16%	28%	51%
Malawi	18%	20%	36%	11%	29%	42%	43%
Namibia	11%	7%	18%	3%	12%	37%	37%
Nigeria	22%	14%	35%	16%	8%	35%	53%
South Africa	4%	3%	7%	2%	5%	32%	40%
Uganda	10%	28%	36%	31%	26%	46%	42%
Zambia	27%	15%	41%	4%	20%	32%	46%
Sub-Saharan Africa Average (unweighted)	15%	15%	28%	13%	16%	33%	47%
Latin America and Caribbean Average (unweighted)	11%	7%	17%	8%	5%	22%	51%
MENA Average (unweighted)	4%	5%	8%	5%	6%	34%	37%
Asia Pacific and South Asia Average (unweighted)	5%	5%	10%	10%	3%	26%	50%
European Union Average (unweighted)	5%	3%	8%	7%	3%	21%	47%
Non-European Union Average (unweighted)	4%	3%	7%	6%	4%	34%	43%
United States	9%	4%	13%	9%	4%	21%	59%

entrepreneurship. In Zambia, a large proportion of the country's high TEA level is due to nascent activity, suggesting a recent upsurge in entrepreneurial activity, with many adults in the process of starting a business. On the other hand, new business ownership composes much of Uganda's high TEA level. In Ethiopia and South Africa, the levels of nascent entrepreneurship and new business ownership is very low, which explains the low levels of TEA in these countries.

2.3.5 Entrepreneurial motivations

Necessity-driven entrepreneurs are pushed into starting a business because they have no other choice and no other source of income.

GEM recognises that entrepreneurs have different motivations for starting businesses. Necessity-driven motives arise when an individual needs a source of income, but has no other job options and is thus pushed into entrepreneurship because there is no other choice. A necessity-motivated entrepreneur often conducts little analysis and/or preparation before starting the venture.

Another type of motivation defined by GEM is opportunity-driven, where an individual decides to pursue an opportunity, even if there are other employment options available. The entrepreneur may have done thorough analysis and planning before embarking on this new venture, or may engage in trial-and-error learning before discovering the true opportunity.

Opportunity-driven entrepreneurs are pulled into entrepreneurship by the opportunity they perceive and choose to pursue.

GEM has shown that opportunity-driven businesses are more likely to survive, grow and employ people than necessity-driven businesses. These motives are more prevalent in economies with higher development levels. Hence, one would expect that economies with high levels of employment would have a high ratio of opportunity to necessity entrepreneurs. In the European Union, the ratio is over 2:1 (ie, for every necessity-driven entrepreneur, there are more than two opportunity-driven ones). In the United States, it is even higher (nearly 3:1), while it is slightly lower in the Asia Pacific and South Asia region (less than 2:1).

In SSA, where unemployment and underemployment are both high, this ratio is 1.4:1, which still represents a high level of opportunity-driven entrepreneurship, albeit lower than more developed regions. The only country where there are more necessity than opportunity-driven entrepreneurs is in Uganda, although this may not be statistically significant. The biggest gap between necessity and opportunity entrepreneurship is in Ghana and Ethiopia. In South Africa, unemployment is 40% among older adults (more than 35 years old) and over 60% among youth (18 to 34 years). Few job options might suggest high levels of necessity entrepreneurship, yet this is not the case. While other African countries have higher proportions of necessity entrepreneurs as a result of unemployment and underemployment, this is not apparently pushing people to start businesses in South Africa. This may help explain low TEA levels in this country.

2.3.6 Established business ownership

Opportunity-driven entrepreneurs are pulled into entrepreneurship by the opportunity they perceive and choose to pursue.

An analysis of established business ownership rates provides some indication about the sustainability of entrepreneurship in an economy. Businesses surviving beyond the nascent and new business phases are able to contribute to a country's economy through ongoing introductions of new products and services and more stable employment. The level of established businesses rates is high in SSA compared to other worldwide economies, with the notable exceptions of Namibia (3%), South Africa (2%) (**Table 2.4**) and Zambia (4%). However, these businesses may be small and may not contribute significantly to reducing the high unemployment.

In societies where industrialisation and institutionalisation have taken hold, more people choose employment over starting and developing their own business, creating lower TEA rates. Along with this, there are more sophisticated ecosystems for businesses; people who do start are more able to sustain them because of more favourable conditions, such as access to finance, a highly educated sales force, rule of law and so on. This leads to fewer start-

Table 2.5: Reasons for exit, 2012

	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia
Opportunity to sell	25%	3%	6%	1%	3%	7%	1%	2%	2%	4%
Business not profitable	22%	38%	23%	40%	39%	19%	20%	34%	36%	23%
Problems getting finance	22%	18%	33%	23%	30%	39%	34%	34%	23%	26%
Another job or business opportunity	10%	9%	10%	6%	7%	11%	11%	6%	4%	11%
Exit was planned in advance	4%	5%	0%	2%	3%	2%	3%	1%	6%	3%
Retirement	1%	1%	0%	2%	1%	2%	1%	0%	2%	2%
Personal reasons	14%	18%	27%	18%	11%	17%	26%	23%	16%	20%
Incident	2%	6%	1%	10%	5%	3%	5%	1%	12%	11%

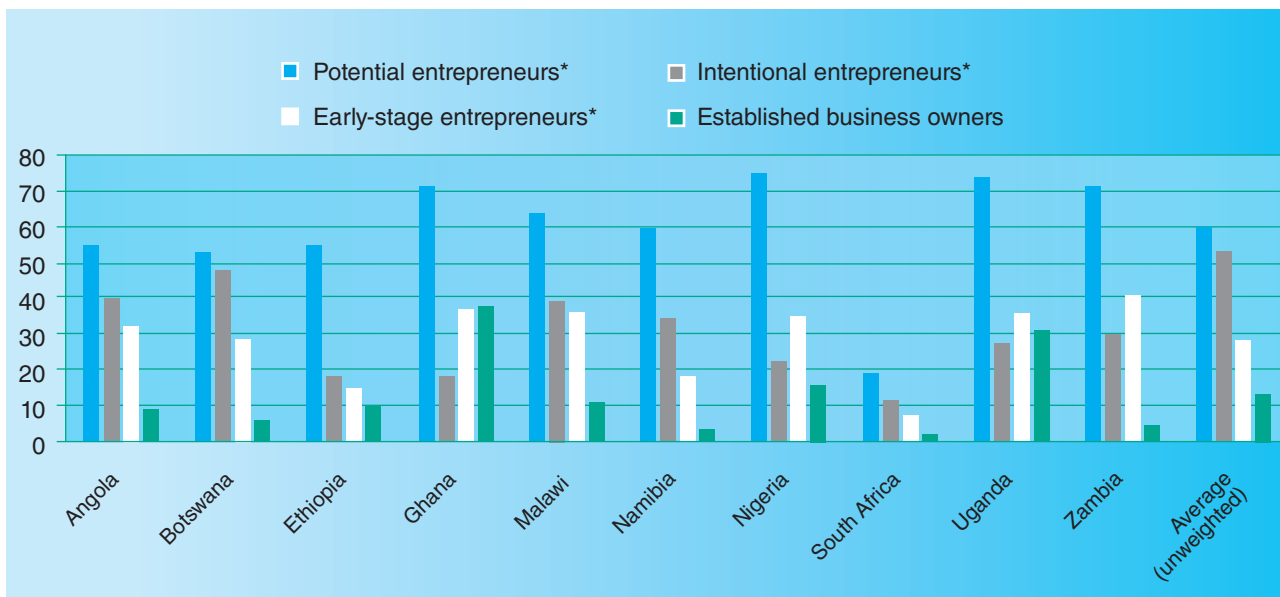
ups relative to established businesses. In the United States, Europe and Asia, there are between one and one and a half start-ups for every established business. In SSA and also Latin America, there are over twice as many start-ups as established businesses. This means that, with high TEA rates in SSA, there are also a lot of established businesses simply because a lot are getting started; however, when viewed relative to the start-up rate, fewer have survived into the mature stage.

Further evidence of this proportionally low sustainability is the high discontinuation rates in SSA. Over 16% of adults in SSA on average have discontinued a business in the past year, reaching as high as 29% in Malawi (Table 2.4). In comparison, Asia, Europe and the United States show only 3% to 4% of the population with business stops in the last year. Of course, when there are high levels of start-ups, it is expected that there will also be a lot of stops. But SSA has a high level of people discontinuing, relative to those starting. While there are more than three entrepreneurs for every person exiting a business in the past year in Latin America and the Caribbean; in Asia Pacific and South Asia and the United States, this ratio is 1.75 in SSA.

While entrepreneurship rates decline as economic development increases, rates of business discontinuance relative to the startup base also generally decline. In factor-driven economies, on the other hand, high discontinuance is a function of both high levels of entrepreneurship and high exit rates per start-up.

The reasons for discontinuance are many and varied. Some could be seen as positive explanations, such as an opportunity to sell, pursuing another opportunity, or retiring. On the other hand, exits may be due to the business not being profitable or problems with getting finance and this accounts for many of the reasons for exits in SSA countries, along with personal reasons (Table 2.5).

In summary, the entrepreneurial pipeline, extending from potential entrepreneurs, to those intending to start, to early-stage entrepreneurial activity and finally, to established business ownership and discontinuance is a complex process. It is influenced by many factors that include those relating to the entrepreneur, the opportunity and the industry environment, but also the general ecosystem for entrepreneurship, which



* Potential entrepreneurs represent those who both see opportunities and believe they have the capabilities to start a business.

+ Intentional entrepreneurs are those who express intent to start in the next three years, are undeterred by fear of failure and believe entrepreneurship is a good career choice and carries high status.

Figure 2.4: The entrepreneurial pipeline by country in sub-Saharan Africa

is measured through the Entrepreneurial Framework Conditions (EFCs) discussed in Chapter 3.

The entrepreneurial pipeline for the ten SSA countries is shown in **Figure 2.4**. This chart shows that, with some exceptions, the highest number of people participate in the potential entrepreneur stage, with fewer people involved in each subsequent stage. It makes sense that the ready supply of entrepreneurs will be larger than those actually endeavouring to start; not everyone who is ready to start will actually do so, for various reasons. In addition, given the risky nature of entrepreneurship, not every start-up effort will eventually lead to a mature business.

However, while it is a positive indicator to have many people willing to try their hand at entrepreneurship, it could be problematic when these are not appearing to translate into action. For example, in Uganda, people have high intentions, but there is currently a relatively low level of nascent activity; for every person in the process of starting, there are nearly eight intending to do so. Additionally, where there are stark differences between those starting and those running established

businesses, this could indicate challenges transitioning to the mature stage. In Zambia, for example, there are nearly four times as many business owners in the new versus established business phase.

Ghana, Nigeria, Uganda and Zambia show high levels of potential entrepreneurs, because respondents in these countries perceive that there are good opportunities and also believe that they have the skills necessary to start a business

2.4 Profile of entrepreneurs

GEM's individual-level perspective allows this research to reveal a range of demographic and other characteristics about entrepreneurs. Evident in the data is the truly diverse profile of those who participate in this activity around the world. This also enables an assessment of the level of inclusiveness in an economy—the extent all groups engage in this activity (gender, age, income or education level), thereby benefitting themselves and their stakeholders and contributing to the socio-economic development of their societies.

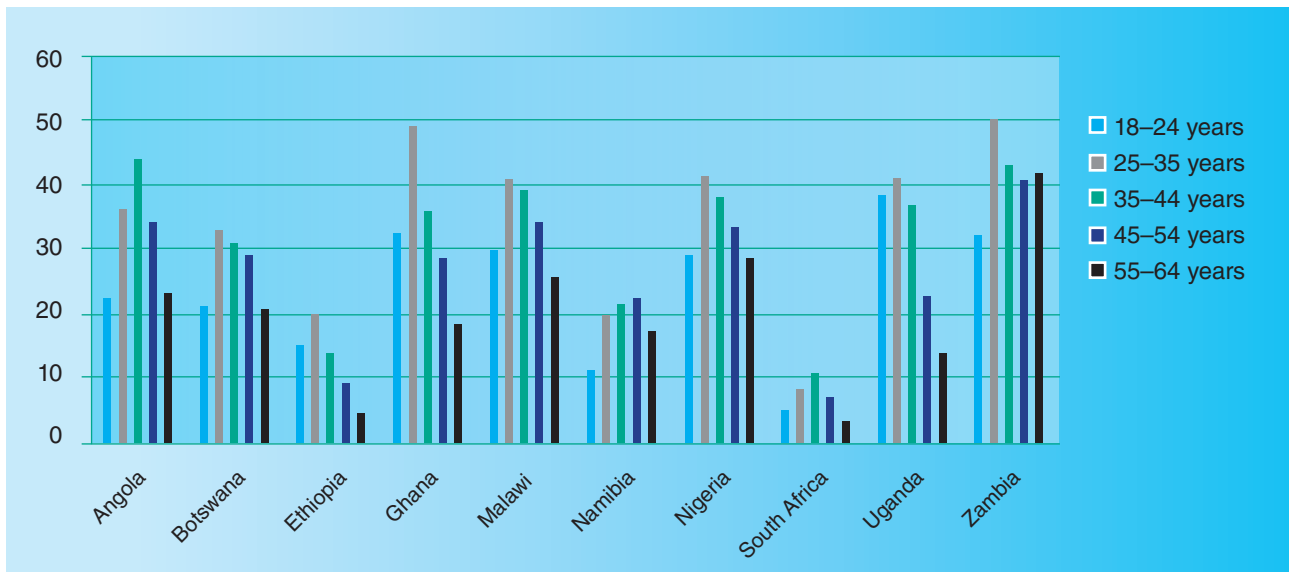


Figure 2.5: TEA rates by age group in ten sub-Saharan African countries, GEM 2012

2.4.1 Age distribution

Over the years, GEM has revealed that people can start businesses at any time in their lives. However, this activity is more prevalent among those 25 to 34 years of age. A variety of reasons may account for this result:

- Individuals in this age group may have developed enough competence to manage a new business through work experience.;
- They may have accumulated other resources, such as relevant networks, personal savings, or access to financial resources;
- They may have recognised opportunities related to their experiences or may have decided to work independently after having been employed; and
- They are less established in a career that may offer higher salaries or positions, or they may have fewer personal financial obligations, such as major loans and families to support. In other words, they may have less to lose when compared to their older counterparts.

Economies in all geographic regions generally show bell-shaped distributions across the age groups. An analysis of TEA rates across individuals countries in SSA, however, shows some unique patterns (**Figure 2.5**). Angola and South Africa have comparatively high participation levels among older age groups, for example, while Ghana, Ethiopia and Uganda appear to engage more younger people in this activity.

2.4.2 Gender differences

GEM surveys over the years have consistently shown that men are significantly more likely to pursue entrepreneurship than women.

Although GEM surveys have consistently shown that men are generally more likely to pursue entrepreneurship than women, the ratio of male to female participation in early-stage entrepreneurial activity nevertheless varies across different economies. This possibly reflects differences in cultural aspects and customs regarding women's role in the family and participation in the labour force. Nonetheless, women enter entrepreneurship for many of the same reasons as men, such as the need to support their families, provide education for their children, to enrich their lives with careers, or to attain some financial independence. However, more research needs to be done to understand whether men and women have different aspirations and face different challenges. Further analysis could be undertaken to ascertain whether there are differences in perceptions, attitudes and intentions between male and female entrepreneurs. This analysis will be done in the next regional report based upon the 2013 results.

The GEM 2012 survey showed that the highest regional-level gender disparities can be seen in the MENA region, where men participate at nearly three times the level of

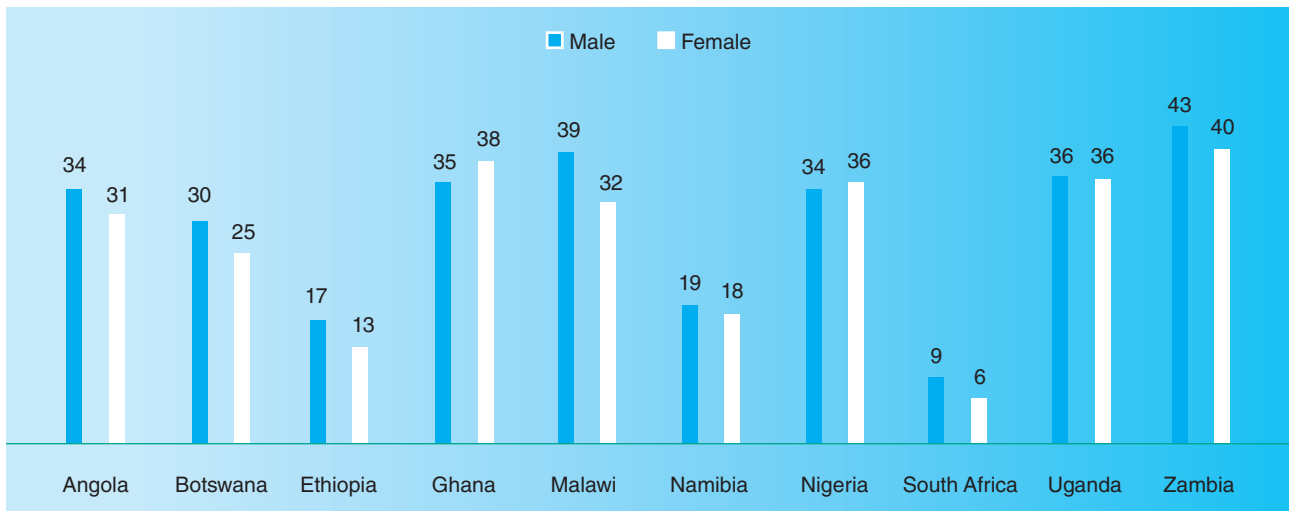


Figure 2.6: TEA rates by gender for ten sub-Saharan African countries, GEM 2012

women. In the SSA region, as well as in Latin America and Caribbean, there is greater gender parity. However, it appears that women are pushed into entrepreneurship more often out of necessity, when compared to men in these regions. **Figure 2.6** shows entrepreneurship rates by gender in the SSA countries. This chart illustrates the high gender parity among entrepreneurs in all SSA countries, with the exception of South Africa, where women participate at about two-thirds the level of men.

Ghana and to some extent Nigeria, show an interesting result in that they are one of the few countries in the world where female entrepreneurs outnumber the males. This begs the question as to whether there are gender differences in the types and sizes of enterprises that females are in and whether they are necessity-driven or opportunity-driven. Further research on this is needed.

2.4.3 Education

As the GEM model shows, education is a component of each of the three sets of environmental factors that affect business activity and entrepreneurship; more specifically, as discussed in the introduction to this report. Primary education is one of the basic requirements and higher education is an efficiency

enhancer. Among the innovation and entrepreneurship factors is entrepreneurship education and training, which is discussed more fully in Chapter 3. Here, general education levels in the entrepreneurship population are examined. However, in certain countries, it has been shown that there is a direct correlation between the level of education and both the level of entrepreneurship and sustainability of the business.

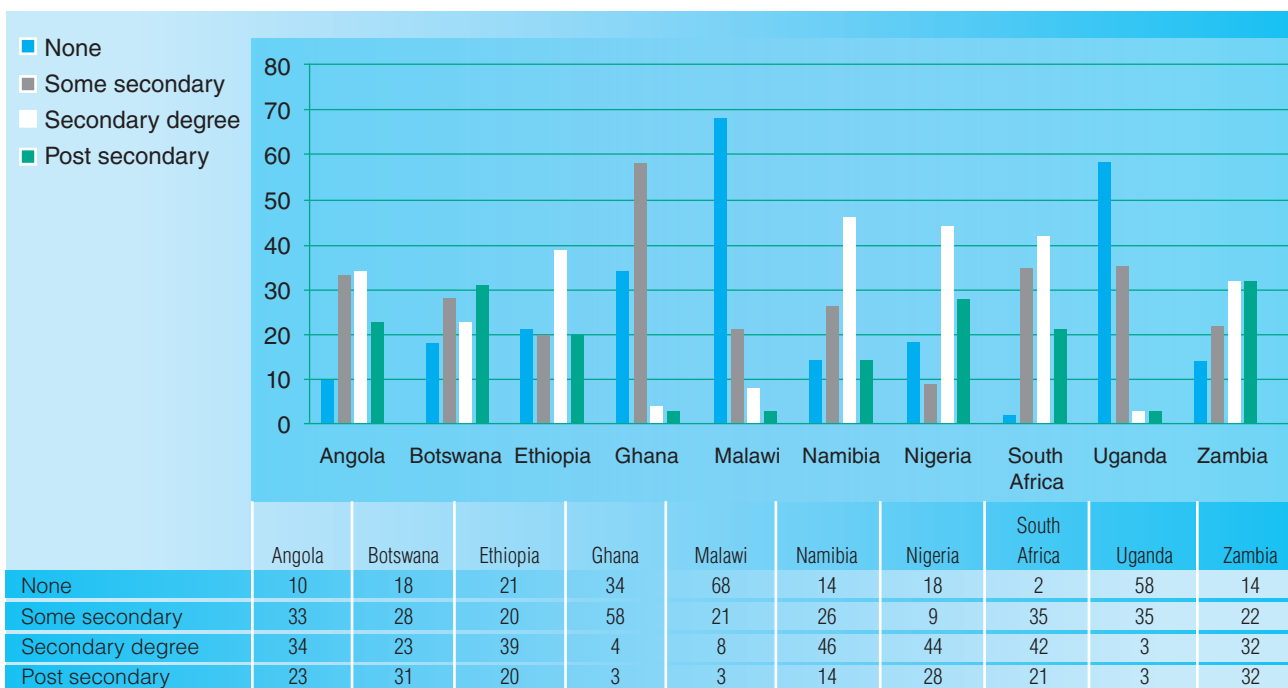
In South Africa, a positive correlation was found between opportunity-driven entrepreneurship and levels of education.

In many economies, entrepreneurs tend to have attained higher education levels than non-entrepreneurs. In South Africa, this has been confirmed in a number of GEM studies conducted over the years^{8&9}. Additionally, entrepreneurs with higher education levels in this country were more likely to be opportunity-driven.

The distribution of education levels across entrepreneurs in each country in SSA is shown in **Figure 2.7**. This figure shows considerable differences in the highest level of education attained by entrepreneurs across the sample. In Malawi and Uganda, the majority of entrepreneurs had not received any

8. Herrington, M., Kew, J. & Kew, P. (2010). *Global Entrepreneurship Monitor South Africa 2010 Report*. Cape Town: University of Cape Town Graduate School of Business.

9. Turton N., Herrington, M. (2012). *Global Entrepreneurship Monitor South Africa 2012 Report*. Cape Town: University of Cape Town Graduate School of Business.



Expressed as a percentage of early-stage entrepreneurs who have "no education"

Figure 2.7: Distribution of education levels for TEA in ten sub-Saharan African countries, GEM 2012

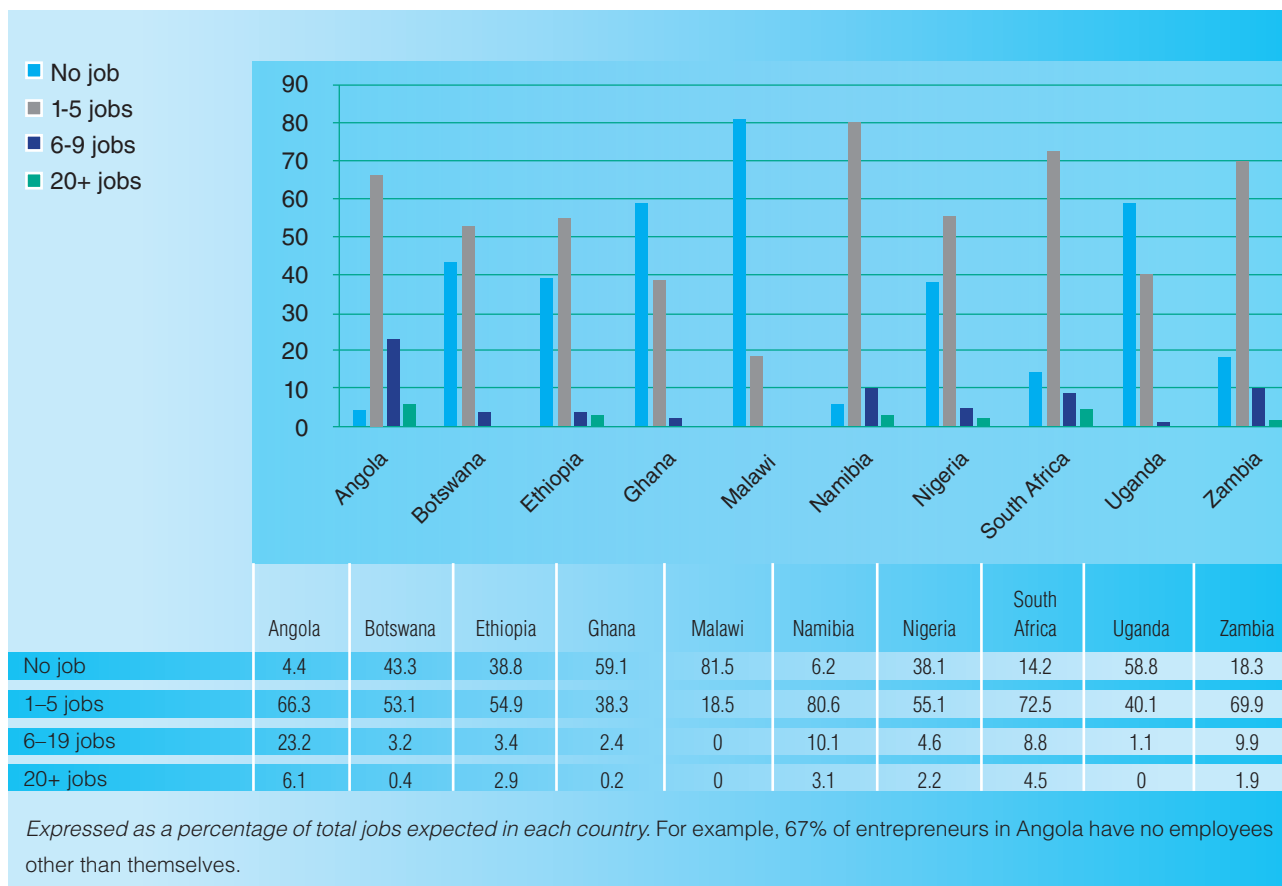


Figure 2.8: Current employment levels among ten sub-Saharan African countries, GEM 2012

secondary education. It is interesting to note that both countries have very high rates of necessity-driven entrepreneurship. In Ghana, the majority of entrepreneurs had some secondary education. For all three of these countries, only 3% of the entrepreneurs had attained a secondary degree and received some post-secondary education. It might be expected that the percentage of entrepreneurs with necessity-driven motives would be high in these countries. As **Table 2.4** shows, this is not the case for Ghana, where only 28% of the entrepreneurs are necessity motivated. Malawi and Uganda, on the other hand, show the highest levels of necessity motives in SSA; Uganda is the only SSA country where necessity-driven entrepreneurship is higher than that of improvement-driven opportunity motives.

In the remaining seven economies, the majority of entrepreneurs (54%–72%) had completed at least a secondary level of education. Further, nearly one-third of entrepreneurs in Zambia and Botswana completed

their secondary education *and* received some post-secondary education, demonstrating the higher education levels among many entrepreneurs in these factor-driven economies.

2.5 Entrepreneurship impact

In studying the impact of entrepreneurs, GEM recognises that while all entrepreneurs are important, they have differing impacts on their societies. Job creation is on the mind of nearly every policy maker, particularly in regions experiencing high levels of unemployment, often resulting in a disaffected population and areas affected by the aftermath of the global financial crisis. Also key to a country's development is the mix of industries and level of innovation. This section looks at these impact factors in SSA entrepreneurs.

2.5.1 Job creation

In three SSA countries, the majority of entrepreneurs run one-person businesses. As **Figure 2.8** shows, 82% of

entrepreneurs in Malawi and 59% in Ghana and Uganda have no employees. TEA rates for these countries are between 36% and 37%, showing a high level of self-employment activity in these countries.

In contrast, most entrepreneurs (82% to 96%) are employers in Angola, Namibia, South Africa and Zambia. Additionally, 29% of entrepreneurs in Angola and 12% to 13% of entrepreneurs in Namibia, South Africa and Zambia, employ more than five employees. Particularly for Angola and Zambia, with TEA rates of 32% and 41% respectively, this translates to significant job creation for these countries. At the same time, although South Africa and Namibia show below average TEA rates for this region (7% and 18%), the higher level of employment generated by the average entrepreneur contributes to the impact of entrepreneurship in these countries and warrants some consideration.

In most economies, only a small percentage of strategic or high-growth entrepreneurs generate the bulk of new jobs associated with the entry of new firms.

Growth expectations represent a future assessment of the expansion prospects for a business, but also the entrepreneur's ambitions to grow the enterprise. This measure relates to job creation potential and while not all of these expectations will manifest exactly as predicted in reality, it must be recognised that those who do not endeavour to grow their companies most likely will not.

Figure 2.9 shows the percentage of jobs *expected* to be created in each SSA country over the following five years. Only Malawi revealed a majority of entrepreneurs (57%) with no job expectations. This country also had, by far, the highest proportion of non-employer entrepreneurs. The other two countries with many self-employed entrepreneurs (Ghana and Uganda), as well as Ethiopia, exhibited just over 30% of entrepreneurs with no job growth expectations. This, again, illustrates that the high TEA rates in Malawi, Ghana and Uganda, should not be considered without acknowledging the lower current and expected job creation indicators. For Ethiopia, both TEA rates and growth expectations

are low for this region, lessening the overall impact of entrepreneurship in this country.

Conversely, high growth potential can be seen in Angola, where nearly all entrepreneurs expected to create new jobs in the future. Nearly half of them had even higher-level expectations, projecting to add more than five jobs in the next five years. Angola's impact can be seen in its high TEA rates, a majority of entrepreneurs currently employing others and nearly all expecting to create more jobs (substantially more for half of them) in the future.

Namibia and South Africa, both with lower than average TEA rates, showed a majority of entrepreneurs (92 to 94%) anticipating they would create future jobs. Combined with the fact that these entrepreneurs show high current employment levels, the overall impact of entrepreneurship needs to look beyond a simple count of entrepreneurs in these countries and acknowledge the current and future jobs these entrepreneurs contribute to their societies.

Many entrepreneurs in Zambia, on the other hand, project moderate growth expectations: 81% expect between one and five new jobs in the next five years. Fewer (13%) expect to create more than five jobs. With 41% TEA rates and high levels of current employer entrepreneurs, however, Zambian entrepreneurs nonetheless account for substantial current and future job creation.

Interestingly, Nigeria and Botswana had few entrepreneurs currently employing more than five employees (4% to 7%). Yet 33% expect to add this many jobs in the next five years. This may show a high level of future optimism among entrepreneurs in these countries. At the same time, nascent activity accounts for a higher proportion of TEA than new business ownership in both countries. It is possible that people in the process of starting have not yet employed many people, but anticipate doing so in the future.

With regard to age-related differences, there were no significant differences in growth expectations between the youth (18 to 34 years) and the older adult population (35 to 64 years) across the sample.¹⁰

10. Kew, J., Herrington, M. & Gale, H. (2013). *State of Global Youth Entrepreneurship Report*. In process of publication.

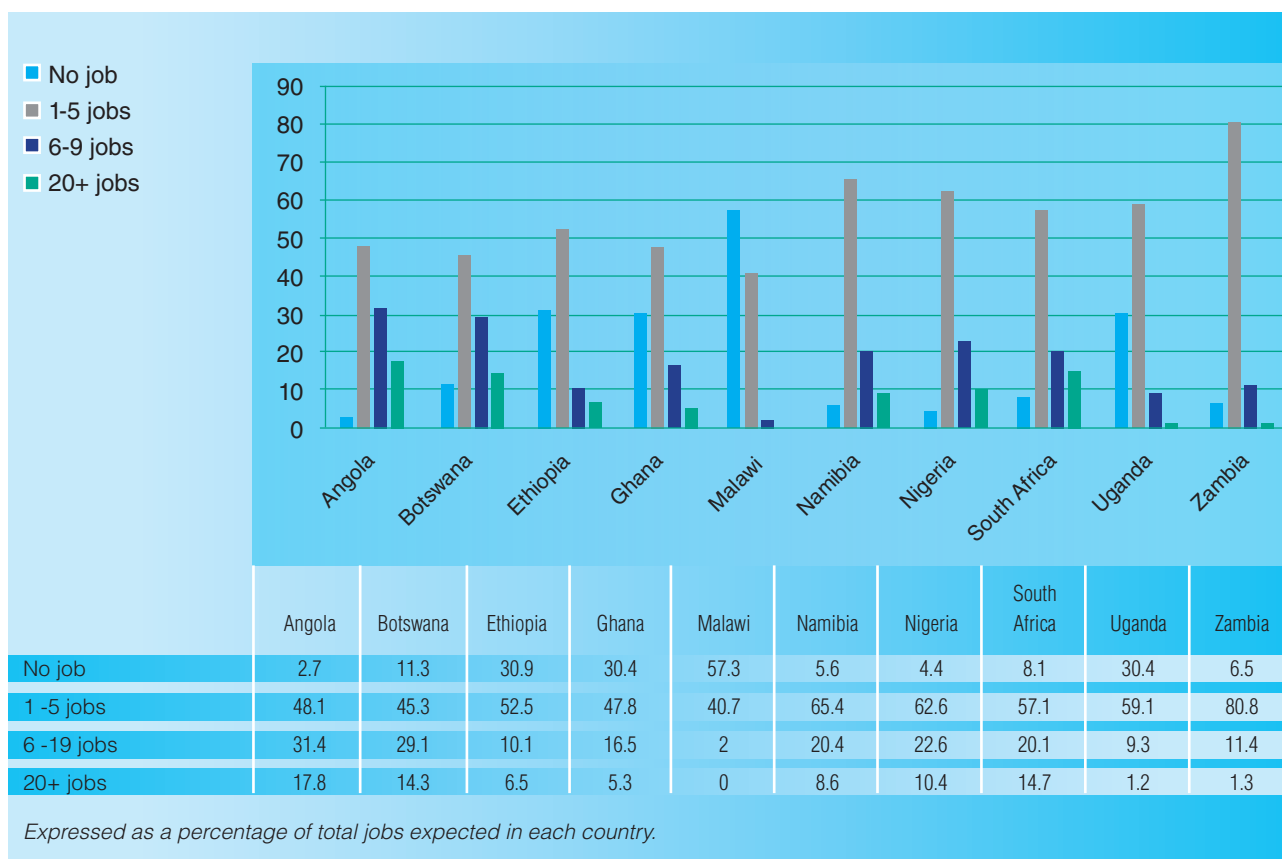


Figure 2.9: Job growth expectations among ten sub-Saharan African countries, GEM 2012

2.5.2 Industry Sector

The distribution of entrepreneurs across industry sectors can indicate the extent these pursuits encompass a diversity of business activity. Some industries have more favourable growth potential; and economic fluctuations and other changes in the environment can affect some industries more than others. In addition, some governments promote certain industries that they view important to their national competitiveness. For these and other reasons, it's critical to pay attention to the type and mixture of industries entrepreneurs compete in.

Entrepreneurs identified in the GEM study provide descriptions of their business activities. The GEM SSA study categorised these activities into industry sectors, using the International Standard Industry Classification (ISIC). The distribution of entrepreneurship by sector for SSA countries in 2012 is shown in **Table 2.6**.

In all countries, the retail, hotel and restaurant sector dominates, particularly in Malawi and Uganda, where more than three quarters of entrepreneurs are starting

and running these types of businesses. These tend to be 'me too' operations, however, with low growth potential. The dominance of this sector indicates little development in high-growth industries, such as those with high dependence on technology and knowledge.

Other sectors playing minor roles include agriculture in Ghana (22%), Malawi (10%) and Zambia (11%) and some manufacturing in Botswana, Ghana, Malawi, Namibia, Nigeria and South Africa (8% to 10% of entrepreneurs). Mining plays a limited role in Botswana and South Africa (7% for both). Perhaps more interesting is the participation of entrepreneurs in the government, health, education and social services sector in Ethiopia (15%), Namibia (13%) and Angola and Zambia (8% for both).

Although one industry dominates across all the countries, the most diverse distribution across industries can be seen in Botswana, where 45% of entrepreneurs are engaged in retail, hotels and restaurants—the only country with fewer than half the entrepreneurs competing

in this sector. This country also shows comparatively higher levels of entrepreneurs in mining and construction, manufacturing, wholesale and finance.

Less industry diversity is evident in Malawi, where 76% of the entrepreneurs are in retail, hotels and restaurants and where two other industries (agriculture and manufacturing) each account for 10% of the entrepreneurs in this country. The remaining industries contain 1% or fewer entrepreneurs.

2.5.3 Innovation

Innovative products and services add unique value to societies and create positive impacts on the lives of people. Entrepreneurs introduce these benefits into markets and create a source of competitive advantage for their businesses. To understand more about the level of innovation of new firms, GEM looks at two main variables with regard to the entrepreneur's products or services: the degree of newness they represent to customers and the extent competitors are not offering the same products or services.



Table 2.6: Distribution of entrepreneurship by sector

	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia
Agriculture, forestry, fishing	1.0%	1.8%	6.1%	22.3%	10.2%	1.1%	6.0%	2.6%	6.8%	11.1%
Mining, construction	0.9%	7.0%	0.5%	0.9%	0.5%	5.1%	0.6%	6.8%	1.6%	3.0%
Manufacturing	4.9%	8.6%	6.6%	7.8%	10.2%	9.4%	9.9%	9.4%	7.0%	4.2%
Utilisation, transport, storage	3.8%	3.4%	2.7%	2.5%	1.2%	2.8%	1.8%	4.2%	2.1%	3.6%
Wholesale trade	5.3%	5.9%	1.2%	1.9%	0.2%	5.4%	1.5%	3.6%	0.8%	1.2%
Retail trade, hotels, restaurants	72.1%	44.9%	60.8%	57.2%	75.8%	56.0%	67.4%	53.6%	77.8%	63.0%
Information & communication	1.5%	2.0%	1.9%	0.7%	0.2%	1.4%	1.6%	4.2%	0.2%	1.8%
Financial intermediation, real estate activities	0.8%	2.7%	0.5%	0.0%	0.2%	2.0%	0.4%	1.0%	0.1%	0.8%
Professional services	0.8%	1.8%	1.5%	0.0%	0.2%	0.9%	3.0%	2.1%	0.4%	1.5%
Administration services	0.4%	2.7%	1.7%	0.0%	0.3%	2.3%	1.0%	5.2%	0.5%	1.3%
Government, health, education, social services	8.2%	4.9%	15.1%	6.7%	1.2%	13.4%	5.6%	5.7%	2.4%	8.2%
Personal/consumer service activities	0.4%	1.3%	1.5%	0.1%	0.0%	0.3%	1.0%	1.6%	0.2%	0.2%

Expressed as of TEA activity within a country falls into each sector.

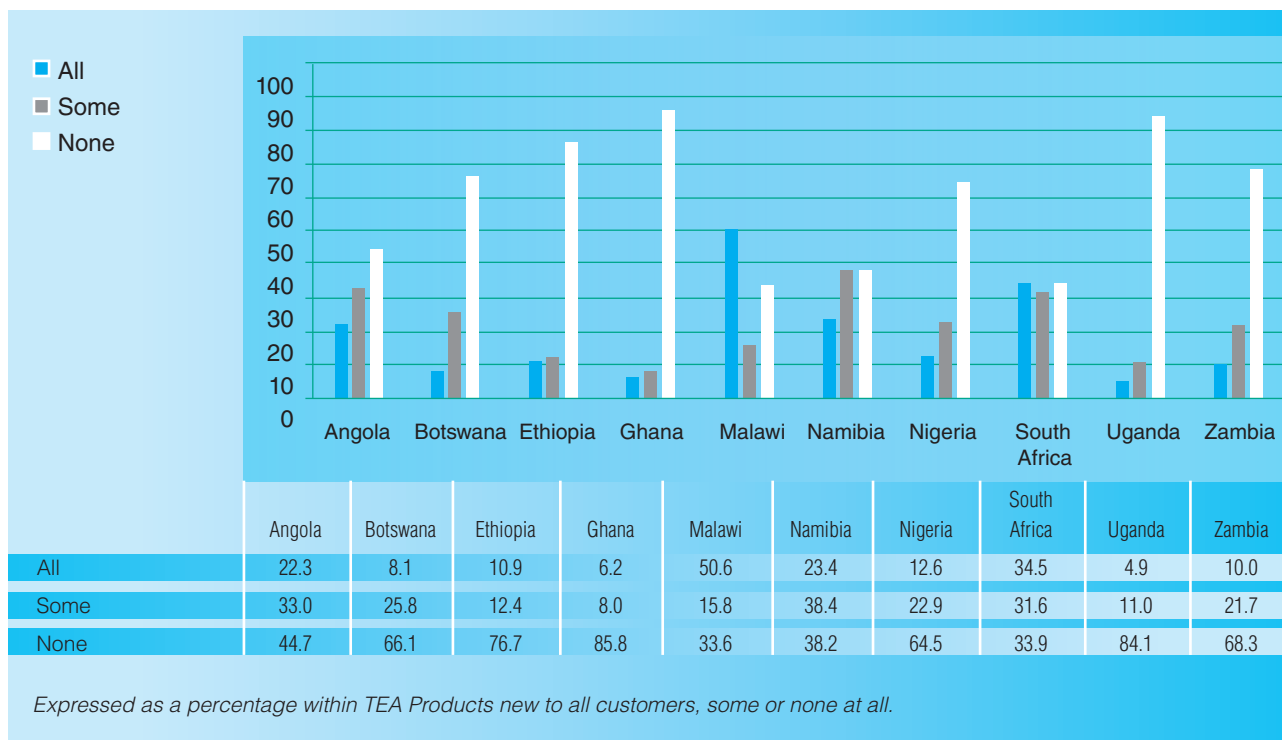


Figure 2.10: New products or services offered to customers, 2012

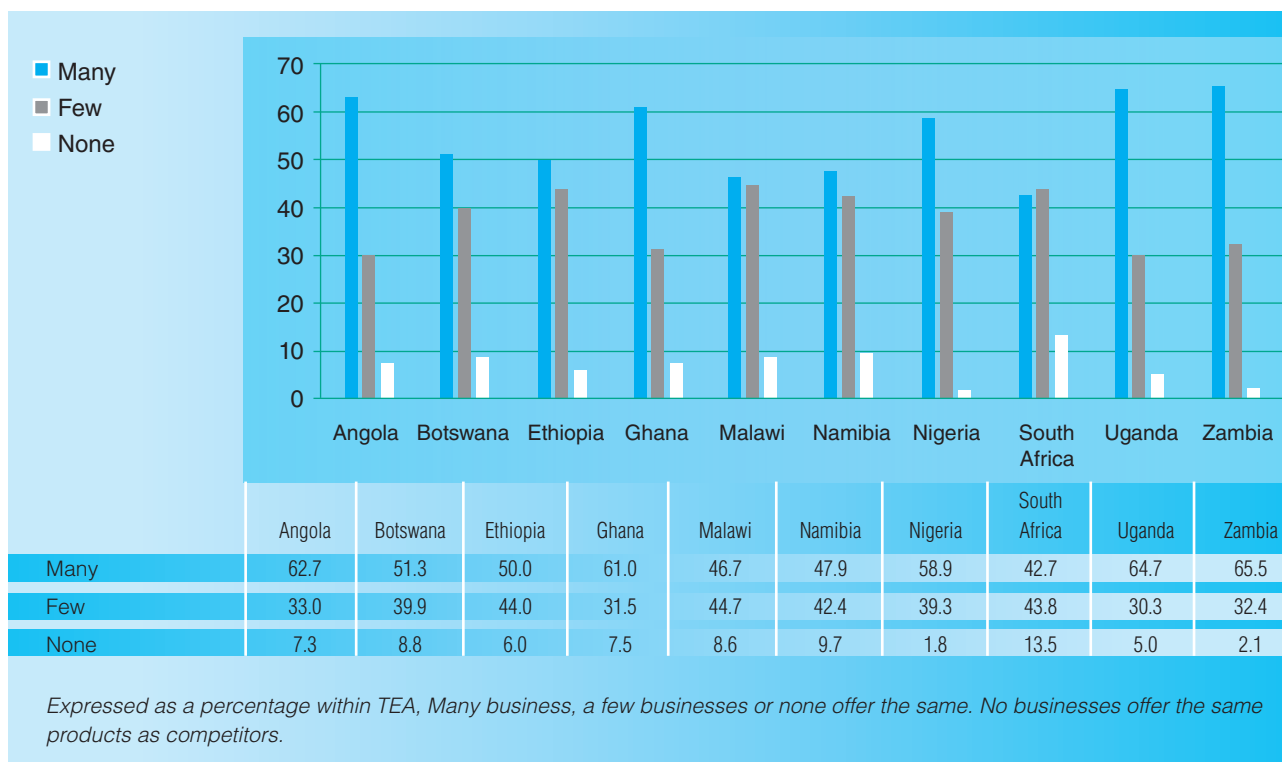


Figure 2.11: Proportion of competitors in TEA, 2012

Figure 2.10 shows the percentage of entrepreneurs who perceive their products or services to be new to all, some, or no customers. This figure shows a low level of newness in general: many entrepreneurs believe that none of their customers would consider their offerings to be new, reinforcing the concept that many are starting 'me too' businesses. This is especially the case in Uganda and Ghana, where 84% and 86% state that there is no novelty in their products or services.

In Angola, Malawi, Namibia and South Africa, a majority of respondents indicate that a high percentage of their products or services are new to some or all customers. This may indicate a higher degree of novelty in their offerings. Yet these findings must be regarded with caution. Some or many entrepreneurs may be selling less novel products into new markets, where customers are not familiar with them.

Innovation goes beyond just creating novel products and services. To commercialise their innovations, entrepreneurs need to identify new market niches and develop creative ways to offer, deliver and promote their products. All of this requires an awareness of competitive offerings and incorporating this knowledge into distinct products and services.

Figure 2.11 shows the extent to which entrepreneurs believe there are many, few, or no competitors for their products and services. In every country except South Africa, almost half or more of the entrepreneurs believe that there is high competition for their offerings. About two-thirds of the entrepreneurs in Uganda and Zambia stated they have many competitors. This imposes significant challenges for these entrepreneurs in providing the competitive advantage they need to generate healthy profits and viable businesses over the longer term. South Africa is an exception, with 43% of entrepreneurs perceiving many competitors.

2.6 Summary of Entrepreneurship by Country

As a region, sub-Saharan Africa reports the highest levels of entrepreneurship, with a high proportion of necessity motives. These entrepreneurs come from a ready supply of potential entrepreneurs and those expressing intentions and they are supported by

positive societal attitudes about their endeavours. This region also exhibits high gender parity. Accompanying this large base of entrepreneurs are high rates of established business activity. However, the ratio of established businesses to start-ups is lower than other regions, suggesting some lack of sustainability. High discontinuance rates, especially compared to TEA levels also hint at problems with sustainability.

Following are some summary insights on entrepreneurship in each country:

- In **Angola**, high TEA rates correspond with high intentions in the adult population. This is despite exhibiting the highest fear of failure rates in the region and high rates of discontinuance. Entrepreneurs tend to be older, on average, for the region. A vast majority run retail, hotel, or restaurant businesses, although there is also some activity in the government, health, education and social services sector. The majority believe their products and services are new to all or some of their customers. Most of the entrepreneurs are employers; 29% have more than five employees. In addition, most expect to create future jobs, with half expecting to create more than five jobs in the next five years.
- In **Botswana**, there are slightly fewer potential entrepreneurs (those with beliefs about opportunities and their own capabilities) and this society does not generally associate entrepreneurship with high status. Yet people have high intentions to start. TEA rates are average for the region, but established business ownership rates are below average. Although the region shows little industry diversity, Botswana is comparatively diverse in the participation of entrepreneurs across different sectors. One-third of entrepreneurs expect to create more than five jobs in the next five years, exhibiting comparatively high growth potential.
- In **Ethiopia**, low intentions are accompanied by higher than average fear of failure rates and less visibility in the media, although high status is bestowed on entrepreneurs. Although TEA rates are low, relatively few enter this activity because of necessity; in fact, this country has the highest proportion of improvement-driven opportunity

entrepreneurship. Discontinuance rates are also low. Entrepreneurs tend to be young and a relatively higher percentage (31%) project that they will add no jobs in the future. More than three quarters state that their products or services are not new to any customers. The highest proportion (15%) of entrepreneurs in the government, health, education and social services sector can be found in this country.

- In **Ghana**, there is a large supply of potential entrepreneurs with high perceptions about opportunities and their own capabilities for starting a business, along with low fear of failure. Societal impressions about this activity are very positive. TEA rates and established business ownership rates are high, indicating there are both many start-up efforts, as well as longer term sustainability. Entrepreneurs tend to be younger, with comparatively low education levels. Entrepreneurship primarily takes the form of self-employment, rather than job creation for others. Future job creation is relatively low, with 30% expecting to add no jobs in the next five years. Innovation levels are low, with 86% stating that none of their customers consider their products and services to be new. Ghana has the highest level of entrepreneurship in the agricultural sector.
- In **Malawi**, high intentions are coupled with the lowest fear of failure levels in the region and above-average perceptions about opportunities and capabilities. TEA levels are above average with a high percentage of necessity motives. Discontinuance levels are the highest in the region. Entrepreneurs have low education levels and both current and future job creation is low: self-employment levels are the highest in the region and 57% of entrepreneurs project no new jobs in the next five years. Entrepreneurship exhibits little industry diversity, with 76% operating in the retail, hotel and restaurant sector and 10% in each of two other sectors: agriculture and manufacturing. A relatively high number believe their products or services are new to some or all customers.
- In **Namibia**, entrepreneurship enjoys high media attention, but people have above average fear of failure. TEA levels are lower than average and

established business ownership rates are low. Most entrepreneurs are employers, though, with 13% employing more than five people. Future job expectations are high, with 29% expecting to create more than five jobs in the next five years. Relative to the other countries in the region, many entrepreneurs believe their products are new to some or all customers.

- In **Nigeria**, the highest perceptions about opportunities and capabilities indicates a ready supply of entrepreneurs and this is supported by below average fear of failure levels and impressions of entrepreneurship as a good career choice. TEA rates are above average and discontinuance levels are below average. Entrepreneurs have high growth expectations, with one-third anticipating adding more than five jobs in the next five years.
- In **South Africa**, the lowest TEA rates in the region are coupled with low societal attitudes about status and media attention for entrepreneurs, low levels of opportunity and capability perceptions, higher than average fear of failure and the lowest intention levels among the SSA countries. South Africa also reports the lowest established business ownership rates, but discontinuance rates are also low. Entrepreneurs are older and women participate at two-thirds the level of men. Despite low participation in entrepreneurship, however, most entrepreneurs are employers, with 13% currently employing more than five employees and 35% expecting to create more than five jobs in the next five years. In addition, a relatively high number of entrepreneurs in this country perceive their products or services to be new to some or all customers and comparatively few believe their offerings have many competitors.
- In **Malawi**, high intentions are coupled with the In **Uganda**, high TEA levels are mostly due to new business ownership; proportionately lower nascent activity indicates that fewer people are in the process of entering, but more have entered in the recent past and are now running new businesses. Yet there are high levels of potential entrepreneurs, given that opportunity and capability perceptions are the highest in the region and that fear of failure is low. In addition, intentions are highest among



the ten SSA countries. Uganda reports the highest proportion of necessity-driven entrepreneurship and high discontinuance levels. Entrepreneurs are younger and with low education levels. Most entrepreneurship is self-employment and job growth projections are low: about 30% anticipate adding no new jobs. The retail, hotel and restaurant sector dominate and innovation is low, with 84% stating that their products or services are not new to any of their customers and 66% stating they have many competitors.

- In **Zambia**, which reports the highest TEA rates in the region, mostly due to high nascent activity, is also the highest level in the region. This suggests

a recent upsurge in entrepreneurship, which apparently happened in spite of low societal impressions about entrepreneurship as a career choice, being associated with status and receiving media attention. The supply of entrepreneurs, however, is supported by low fear of failure and above average impressions about opportunities and capabilities. Established business ownership rates are very low, which could suggest low sustainability or low activity in prior years. Most entrepreneurs are employers, with 12% employing more than five people. Job growth expectations are moderate: 81% expect to add between one and five jobs over the next five years. Two-thirds of entrepreneurs see lots of competition for their products or services.

Entrepreneur's story



Uganda: Paddy

With a love of art and creativity, Paddy (24) acquired skills in tie-dye art for ladies. In 2002, he made his first sales with a huge profit margin and he grew his handicraft business to offer a variety of products including necklaces, shoes from hides and skins, tie-dye pieces, straw mats, T-shirts and necklaces. Most of his products are purchased by other businesses, who re-sell them at a profit. Working with a young trainee, Paddy can sell up to 50 pieces per day. He would like to build up to five employees in the next three years, training young people to make handicrafts to improve their livelihoods.

As he uses oddments and found materials to do his work, he doesn't need financing and can create a substantial mark-up on his finished products.

However, being in the informal sector, he adds that income is unpredictable. His friends and family support him and help to market his work, even sometimes delivering the finished products to customers.



Entrepreneur's story



Ghana: Daniel Annor

Ghanaian, Daniel Annor has been running the Danny Fashion Studio for ten years now, employing two people and creating custom-made garments for his clients.

After moving to Accra, he found it difficult to make ends meet, so he took on casual jobs until he had saved enough money to start his current business. With only one sewing machine, he started sewing in his own house and gradually acquired more machines and expanded his business.

The major challenge for his start-up business was a lack of finance, exacerbated by the non-arrival of clients to collect their finished clothes and resulting in non-payment for his services.

During the start-up phase, Daniel gained experience by working for other people. He learnt how to save money for bigger projects, he learnt about superior-subordinate working relationships and very importantly he learnt perseverance in the face of difficulties.



Entrepreneurial framework conditions in sub-Saharan Africa

3.1 Introduction

The introduction to this report described the GEM Model, illustrated in **Figure 1.1**. Although there is not a full understanding of all the variables that have a direct effect on entrepreneurial development, the basic requirements, namely a country's macro-economic stability, institutions, infrastructure, health and primary education, certainly provide the underlying fundamental conditions required for a well-functioning business environment. These requirements are and should be, the focus of development efforts in factor-driven economies (Angola, Botswana, Ethiopia, Ghana, Malawi, Nigeria, Uganda and Zambia). Once these factors are sufficiently established, the country's economy moves towards the efficiency-driven stage (South Africa and Namibia) where funding and development efforts should focus toward the efficiency enhancers. These factors include financial market sophistication, technology, development, higher education and training and labour market efficiency.

The features that are expected to have a significant impact on the entrepreneurship sector are captured in the Entrepreneurial Framework Conditions (EFCs).

The EFCs are described as:

- *Physical infrastructure for entrepreneurship;*
- *Cultural and social norms;*
- *Entrepreneurship education;*
- *Government policies;*
- *Government entrepreneurship programmes;*
- *Internal market openness;*
- *Research and development transfer;*
- *Commercial and legal infrastructure; and*
- *Entrepreneurial finance.*

Information around these framework conditions is gathered through the National Expert Survey (NES) which provides insight into the ways in which these EFCs either foster or constrain the entrepreneurial climate. Normally 36 respondents are interviewed in each country through both a semi-structured and structured questionnaire. The closed, structured questionnaire assesses factors relating to the entrepreneurial environment in the economy. The responses are measured on a five-point Likert scale where a score of 1 = completely false and 5 = complete true. The questions are designed so that a score of 4 or 5 indicates that the expert regarded the factor as being positive for entrepreneurship, while



Although there is not a full understanding of all the variables that have a direct effect on entrepreneurial development, the basic requirements, namely a country's macro-economic stability, institutions, infrastructure, health and primary education, certainly provide the underlying fundamental conditions required for a well-functioning business environment.]

a score of 1 or 2 indicates a negative sentiment for entrepreneurial development.

Four key EFCs are reviewed next; detailed tables may be found in appendix 1 to this report.

3.2 Financial support

Critical to the development of any new business is the existence of accessible funding that provides entrepreneurs with the financial resources to start their businesses. In many SSA countries, not only is

financial support not readily available, but when it is, it is difficult to access, due to bureaucratic inefficiencies and lack of appropriate know-how on the financing side. There are a number of ways that financing for entrepreneurs has evolved in different parts of the world; for example, the development of seed financing mechanisms, the establishment of new credit options (such as moving the banks away from asset-based financing), providing large firms with meaningful tax incentives to assist small businesses and developing a viable and active network of both venture capitalists and angel investors.

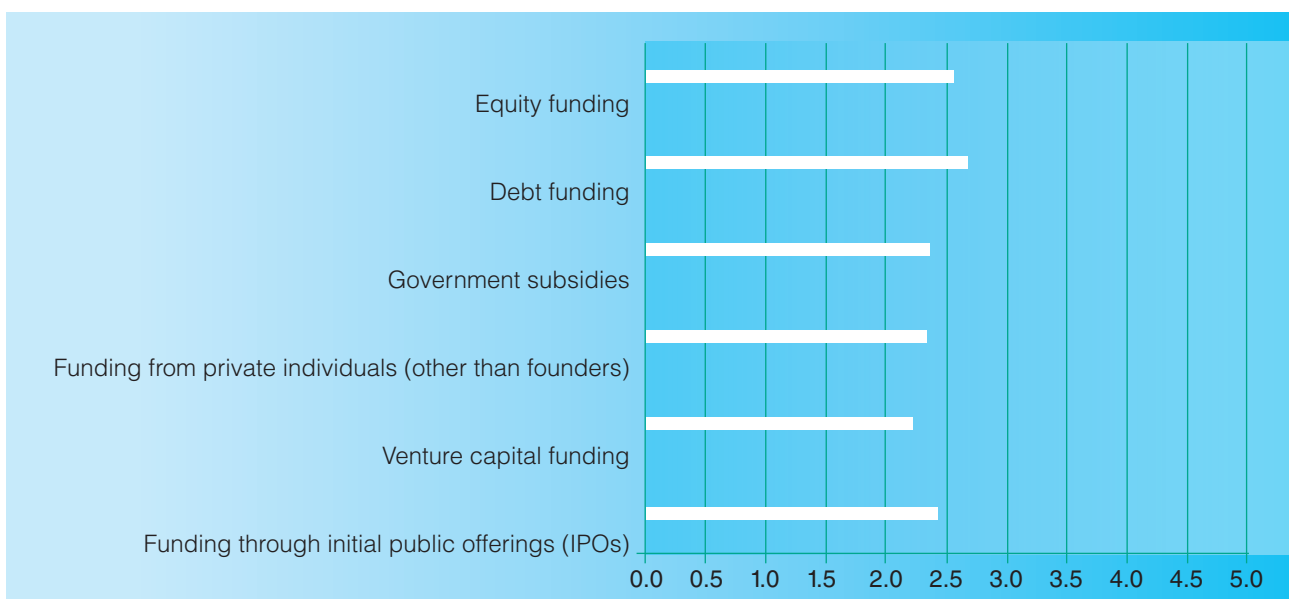


Chart 3.1. Average expert ratings on financing for new and growing businesses across ten sub-Saharan African countries (five point scale)



The average results from experts with respect to financial support in the SSA countries is shown in **Chart 3.1** below. There is high agreement among experts in the ten countries regarding the difficulty in obtaining funds from private individuals and venture capitalists. The biggest discrepancy can be seen in the availability of equity funding in general; this item was rated 1.9 by experts in Namibia while experts in both Botswana and South Africa rated this at 3.2.

Comments made by experts on the constraining factors around finance include the following:

- Financing is not available to entrepreneurs, either in the form of credit or capital;
- Existing financing systems function poorly;
- There is a lack of access to reasonably priced start-up capital and funding often requires collateral; and
- Government agencies tasked with assisting with start-up capital are corrupt and inefficient.

“Banks and other financial institutions need to be encouraged to reform their credit policies to provide – at an acceptable risk level – small, unsecured, non-salary-based loans to new and growing businesses on credit assessments of business models, projected profit, etc.” ZAMBIA

3.3 Education and training

The ability of an entrepreneur to go from an idea to the commercialisation of a business based on this idea requires particular competencies (knowledge, experience and skills). These may be developed through formal education in grade school or university courses, informal methods like books or websites, or training programmes offered by private or government sources. Such education is critical to the initial success and sustainability of any enterprise. As shown in **Chart 3.2**, experts provided very low scores for education and training, more specifically in primary and secondary education.

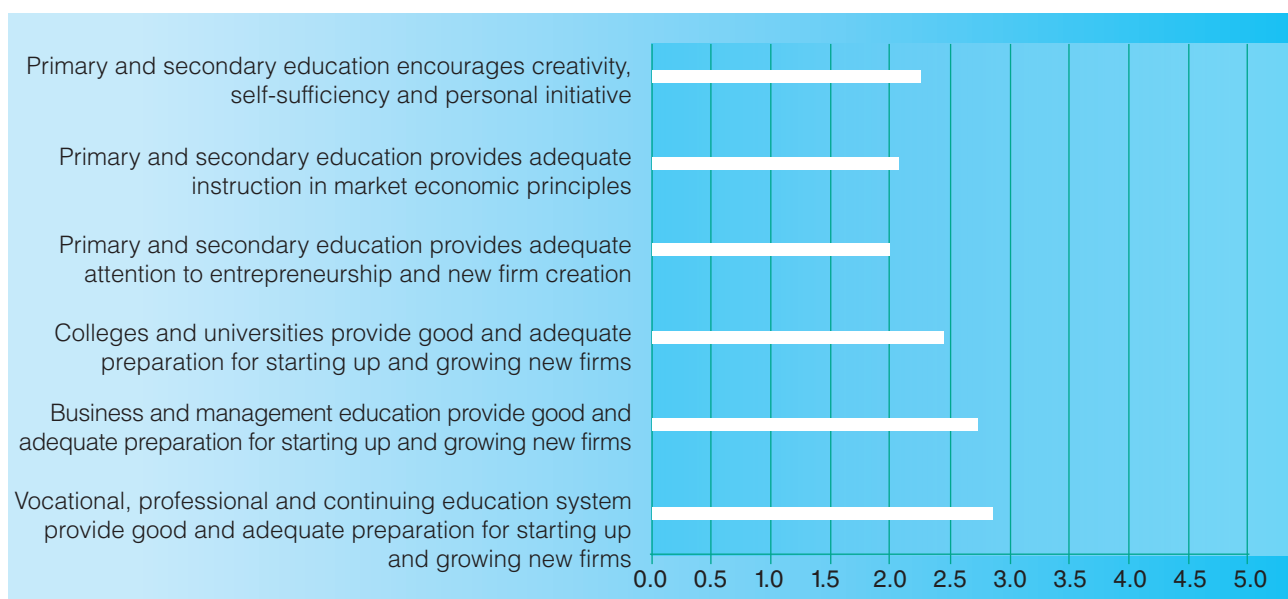
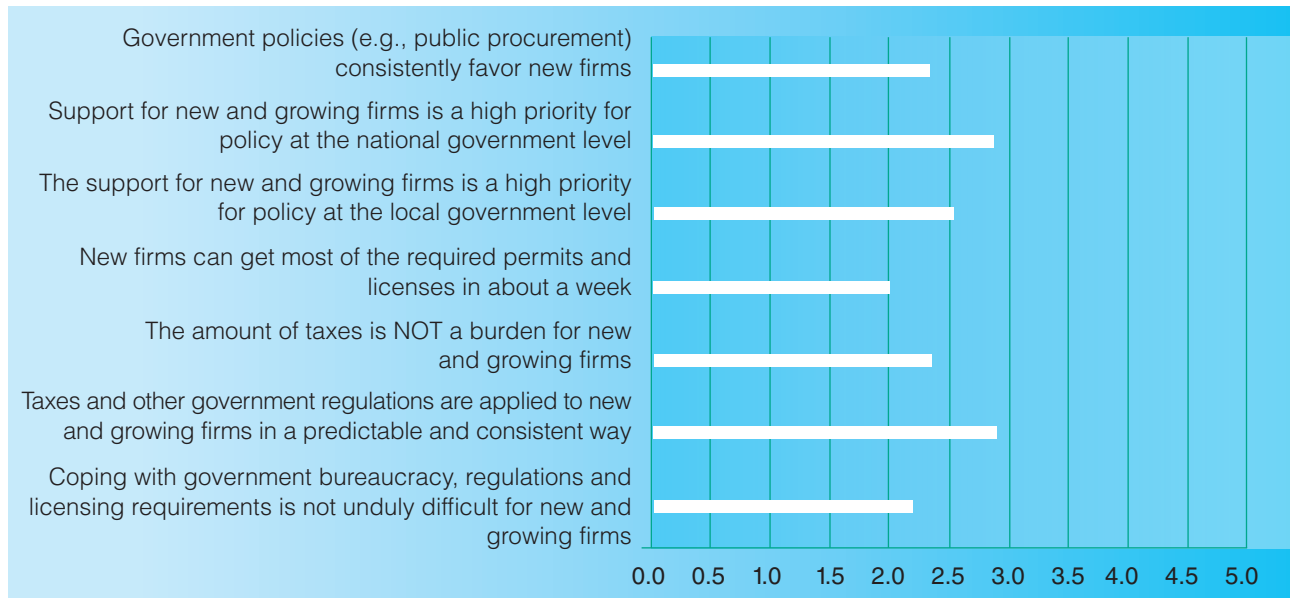


Chart 3.2. Average expert ratings on education and training for entrepreneurship across ten sub-Saharan African countries (five point scale)

Chart 3.3. Average expert ratings on government policies for entrepreneurship across ten sub-Saharan African countries (five point scale)



“Colonial education systems do not teach young people to become entrepreneurs.” UGANDA

There was high agreement among experts across the ten countries about the extent to which primary and secondary education encourages creativity, self-sufficiency and personal initiative. Greater discrepancy was displayed in the extent that experts thought business and management education provided good preparation for starting and growing new firms. Experts rated this lower (2.1) in Botswana, Ethiopia, South Africa and Uganda, while the highest rating (3.5) could be seen in Namibia.

Comments made by experts on the constraining factors in education and training include the following:

- General education levels are low and education systems are failing;
- Little entrepreneurship-specific knowledge; business or entrepreneurship training is absent;
- Lack of skills and training are particularly problematic in the rural areas; and
- Poor skills and training in areas relevant to business: financial literacy, maths, science, technology and e-commerce.

“We need more accessible training centres to impart entrepreneurial skills to youths across the country.” ZAMBIA

The extremely low results in this area are substantiated by the rankings given by the Global Competitive Index Report of 2012/2013. The quality of primary and higher education, as well as in math and science, ranks among the worst in the world with the exception of Botswana and possibly Ghana (**Table 3.1**).

3.4 Government policies

The role that governments can play in the formulation of policies directed toward promoting and supporting entrepreneurship is widely recognised, but often debated—particularly whether direct intervention is warranted or whether government should simply ‘get out of the way’. Generally, though, it is not the function of government to directly create jobs and start new business. Fundamentally, it is their job to make it easier, less costly and quicker for new businesses to start.

The results in **Chart 3.3** show that the national experts believe that their national governments have not implemented adequate policies to foster and encourage



Table 3.1: Global Competitive Index: Rankings out of 142 countries, 2012–2013

	Angola*	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia
1. Institution										
- public trust of politicians	66	22	48	76	73	46	102	88	83	51
- irregular payments & bribes	110	36	105	115	97	61	127	47	124	93
- wastefulness of government spending	116	21	29	69	94	55	111	62	120	57
- burden of government regulations	137	43	63	66	79	68	36	123	40	21
2. Infrastructure										
- quality of overall infrastructure	138	64	100	86	116	40	117	58	110	84
- quality of electricity supply	135	104	112	116	128	52	138	94	129	107
3. Health & education										
- business impact of HIV/Aids	126	136	126	120	143	138	114	141	132	139
- quality of primary education	139	56	105	73	112	120	102	132	100	88
- quality of higher education	139	55	85	62	65	126	83	140	69	39
- quality of maths & sciences	139	66	105	93	96	127	92	143	109	77
- internet access in schools	137	96	119	109	124	110	99	111	118	107
4. Market & labour efficiency										
- number of procedures to start a business	73	110 (10)	29 (5)	74 (7)	110 (10)	110 (10)	87 (8)	29 (5)	140 (16)	47 (6)
- time required to start a business	129	131 (61)	43 (9)	53 (12)	117 (39)	132 (66)	109 (84)	80 (19)	109 (34)	76 (18)
- hiring & firing procedures	81	123	81	30	58	130	17	142	7	31
5. Financial										
- availability of financial services	129	72	137	85	104	55	106	2	73	75
- ease of access to loans	111	35	133	125	112	64	121	30	60	80
6. Innovation										
- internet users	125	124	142	109	132	113	91	95	112	116
- quality of scientific research institutions	139	73	99	79	89	92	97	34	86	81
- availability of scientists & engineers	134	112	132	87	100	138	68	122	89	41
GPD per capita	\$3972	\$9481	\$360	\$1529	\$351	\$5828	\$1490	\$9481	\$478	\$1414
TEA in 2012	32	28	15	37	36	18	35	7	36	41

* 2010/2011 GCI report

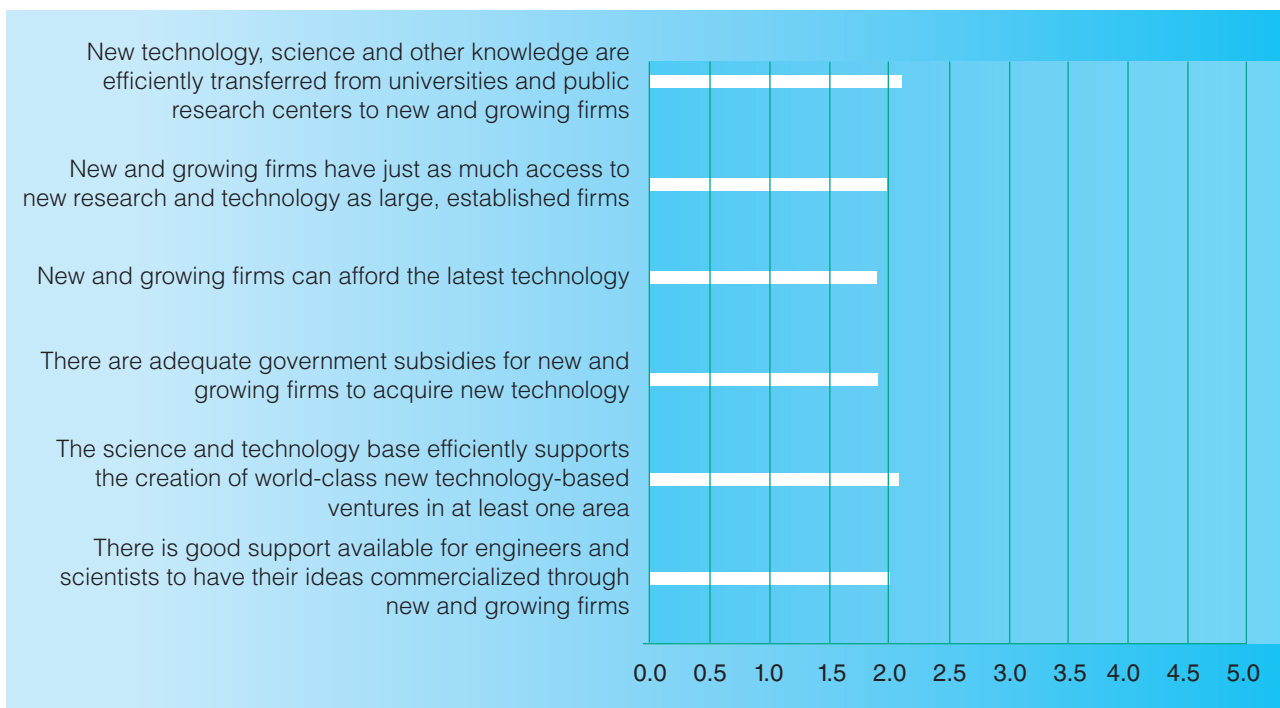


Chart 3.4: Average expert ratings on R&D transfer across ten sub-Saharan African countries (five point scale)

entrepreneurship. However, the country-level ratings generally vary across the sample on all the indicators. In particular, Ghana rates policy support and taxes/regulations low (1.7), while these items are rated higher in Botswana, Namibia and Uganda (3.1–3.3).

Comments made by experts on the constraining factors regarding government policies include the following:

- Lack of government transparency, incoherent policies;
- High corruption, misallocation of government resources;
- High bureaucracy and inefficiency, excessive red tape and costs when starting a business;
- Lack of government assistance, programmes, mentorship to support entrepreneurship, little protection for entrepreneurs; and
- Excessive taxes and poor infrastructure.

These results are consistent with the World Bank's Global Competitive Index Report (**Table 3.1**), which shows that certain countries in SSA rank very poorly with respect to the time it takes to start a business (Angola, Botswana, Malawi, Namibia, Nigeria and Uganda). These countries are ranked 100 or higher of 142

countries and are considered to be among the worst. A similar trend occurs with respect to hiring and firing procedures, where Botswana (123), Namibia (130) and South Africa (142) rank among the worst in the world. Another factor that stifles growth is the burden placed upon businesses with respect to the level of government regulations. Angola (137) and South Africa (123) rate very poorly.

“Neptotism and corruption make effective and efficient functioning of support agencies and development institutions very difficult.” NIGERIA

3.5 Research and development transfer

The transfer of research and development is vital to fostering innovation in businesses and moving away from the ‘me-too’ practices that prevail in Africa. Unfortunately, this condition received one of the lowest scores from the experts and hence is probably the main cause of the low levels of innovation prevalent in new and established businesses. One key underlying contributor to this constraint is that researchers, scientists and engineers do not have a well-developed and efficient support system to help them commercialise their intellectual property in many SSA countries. This, in



turn, restricts the emergence of high-tech businesses, which are the very ones that stimulate the economy and create employment.

“We need to establish incubators to back business ideas with the potential for high growth and innovation.” ZAMBIA

Chart 3.4 shows these low ratings on various aspects relating to R&D transfer. Ratings were quite consistent across the countries on government subsidies and the transfer of technology, science and other knowledge from universities and public research centres to new and growing firms (the bottom one in the original chart).

More of a difference could be seen in the transfer of technology, science and other knowledge from universities and public research centres to new and growing firms (the top one); this received a low rating in Namibia (1.3) and higher (albeit still low) ratings in Ethiopia and Uganda (2.4).

Comments made by experts on the constraining factors for research and development include the following:

- Lack of appropriate and affordable technology;
- Distrust between researchers and government; and
- No incubators or science parks.

“There is a lack of effective incubation parks and lack of programmes to help commercialise intellectual property from research institutions.” SOUTH AFRICA

It is important to understand that many of the Entrepreneurial Framework Conditions can influence more than one stage of the entrepreneurial pipeline. For example, investing in an economy’s infrastructure (utilities, communication and transport) could reduce the cost of operations, distribution and marketing for existing entrepreneurs and both enable and encourage potential entrepreneurs to get started. A prospective entrepreneur could otherwise be discouraged by a lack of infrastructure (roads, electricity supply) and consequently decide against pursuing a good opportunity.

An economy cannot increase the quantity and quality of potential and intentional entrepreneurs without creating an enabling environment in which entrepreneurship can flourish. Each phase of the pipeline will depend on having those in earlier phases and those at the end of the process may re-enter as repeat entrepreneurs or stakeholders, in some way, for other entrepreneurs, thereby creating an interconnected cycle of determinants and effects.

Entrepreneur's story



Malawi: Lonia Mwiyeriwa

October Wine and Liquor

October Wine and Liquor in Zomba, Malawi is owned and managed by a young woman by the name of Lonia Mwiyeriwa. With the fortunate combination of a good education (she is now pursuing a master's degree in development studies) and the ambition of becoming a businesswoman, Mwiyeriwa started researching the business environment in Zomba, seeking a gap in the market. Realising that there were no liquor stores to supply the many bars and restaurants in the town, she opened her business, supplying liquor on a wholesale and retail basis.

Mwiyeriwa imports her commodities from South Africa, her supplier being her uncle, who lives there. She was able to borrow her start-up capital from her mother, interest-free and is now debt-free. She has two paid employees in the shop.

Having never been to business school, Mwiyeriwa attributes her success to her drive to become a businesswoman. In the two years since she started her venture, two other shops opened in the town. They are no threat to her business, as she believes in absolute customer satisfaction and therefore has retained a loyal customer base. The recent fuel crisis and devaluation of the Kwacha have presented major challenges.



Recommendations for policy and practice

GEM has begun to move towards utilising the extensive data collected since the inception of GEM reports in 1999, as well the vast network of teams and experts in each economy, to provide recommendations and guidance to government and other influencers of entrepreneurship. To this end, GEM is piloting a policy monitor template that has been sent to national teams in SSA and BRICS economies. The principal purpose behind this is initially to study one successful intervention in each of these countries which could then be used as a basis for discussion by policy makers, educators and practitioners to determine whether and what might be applied and how, to improve their levels of entrepreneurship and SME development. Examples of this for Malawi, Namibia, Zambia and South Africa are given in Appendix 2.

The countries that have participated in the IDRC-supported GEM Africa study presented in this report are markedly diverse, from a cultural, social and economic point of view. This makes it difficult to come up with blanket recommendations that will be applicable to all countries. However, it is possible to highlight particular commonalities within the region, as well as areas of distinction in particular economies and identify relevant implications. These may provide a basis for discussions and targeted areas of focus for improvements in the


ecosystem for entrepreneurship. The implications for policy initiatives given below are based upon the results presented in chapter 2 and those provided by GEM's national experts (covered partially in chapter 3) and relate to the most critical and important Entrepreneurial Framework Conditions.

4.1 Financial support

Entrepreneurs in SSA countries find it problematic to obtain funding at all levels in the entrepreneurial pipeline, especially those intending to start a business and those in the early stages (nascent and new firms). Some of the policy options could include the following, but further discussion is needed with policy makers to come up with workable solutions:

- Introduce new funding models, possibly backed by government, that enable entrepreneurs to obtain seed capital without the stringent requirements required by commercial banks of providing collateral. This is particularly important for female entrepreneurs, who often face additional barriers to access to finance. The danger of this is that most governments and government agencies in SSA are not good at assessing and working with entrepreneurs. An alternative might be to offer a



GEM has begun to move towards utilising the extensive data collected since the inception of GEM reports in 1999, as well the vast network of teams and experts in each economy, to provide recommendations and guidance to government and other influencers of entrepreneurship. 

private-run model, staffed by people who have practical business experience, but funded by government;

- Encourage and, if necessary, incentivise banks to create a pool of funds that is available to entrepreneurs, not on asset-based assessment, but upon different ideas, such as co-operative funding, which is used by many African villages;
- Established financial institutions that will provide low cost funding for nascent, new and established entrepreneurs. However, the money should preferably not be given to the entrepreneurs, but rather to a third party, who supplies the material or assets;
- Incentivise private individuals or corporations to provide equity, grants, or loans to new ventures through tax deductions. It might be useful to encourage corporations to build up their SME capabilities and to help them develop their supply chain and distribution infrastructure;
- Incentivise established and large businesses to support new and growing businesses through tax deductions and not only through the corporate social responsibility path, as is particularly evident in South Africa;
- Structure and customise different government funding instruments to meet the unique needs of entrepreneurs at different stages of development, since enterprises at these different stages require funding assistance that is customised to their specific needs;
- Prioritise investment in high-growth youth entrepreneurship, as a means of addressing

the mounting youth unemployment, which has significant implications for social welfare, health, safety and security and overall economic growth. Also encourage high-growth enterprises to employ youth, who can learn from their experience and then start new ventures at a later stage; and

- Although new funding models are to be encouraged, they should preferably be linked to mentorship and support by experienced entrepreneurs and not government political appointees who get positions because of the people they know and not on their own knowledge and experience.

4.2 Education and training

Over the years, GEM has found that there is a positive correlation between the success rate and sustainability of early-stage entrepreneurs and the level of education attained. The results in **Chart 3.2** show that in all countries, the level of education, especially entrepreneurial-orientated education, is sadly lacking. Some of the policy suggestions made include:

- Expanding the education curriculum to improve the capability, as well as the motivation, of students to engage in entrepreneurial activities, to develop skills, as well as positive attitudes and then make this type of education a compulsory subject in primary and secondary schools;



- Introduce into schools a stronger focus on entrepreneurship as a life skill, in order to foster problem-solving skills and self-confidence that will benefit young people. These skills could be applied across a range of contexts such as managing family finances, working as an employee and so on.
- Review the entrance requirements, as well as the curriculum, for teacher training, as poor quality educators can have a lasting negative impact on the economic and social welfare of students. Capable teachers, who have practical experience in teaching their subject matter, will have a greater impact. Possibly more practical, train-the-trainer programmes;
- Drive entrepreneurship education through colleges and universities for all qualifications; and
- Introduce regular training programmes in entrepreneurship, conducted by experienced and practical entrepreneurs.

4.3 Government policies

Governments can play a critical and important role in creating a climate that encourages new business start-ups and assists existing business to grow and remain sustainable. Some of the suggestions to policy makers to improve this in SSA include:

- Improve the physical infrastructure – power, transportation, water and broadband internet, especially in the more rural areas;
- Reduce bureaucracy and red tape in starting a business. Make it quicker and less costly;
- Implement incentives to encourage entrepreneurs to start new businesses and companies to invest in small businesses through internships and apprenticeships;
- Streamline the labour laws to make it easy to hire and fire employees; and

- Minimise corruption, which, from the top down, is having a massively negative impact on the economies of all SSA countries.

4.4 Research and development transfer

Research and new developments are important to a country's economy, in order to be internationally competitive and to differentiate one business from another, so that competition is not based solely on pricing. Some policy suggestions which could improve this include:

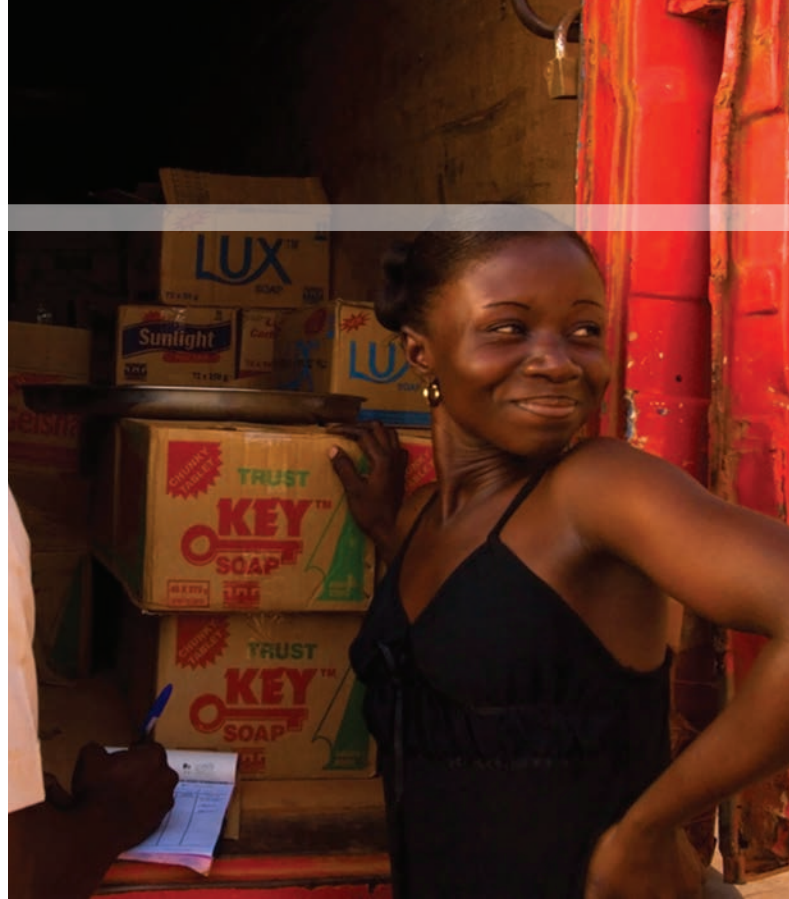
- Forming partnerships between public and private sectors to facilitate the transfer of technology and innovation, as well as assisting university researchers to communicate their intellectual property. This is not done well in SSA countries;
- Considering incentive programmes for large companies to provide small businesses with knowledge and technical expertise, as most small businesses cannot afford to import technical expertise or to develop technology. By creating an environment that facilitates R&D transfer, governments would be contributing to creating more competitive and sustainable enterprises; and
- Establishing business incubators and research parks in all countries, similar to what has taken place in a number of countries around the world.

4.5 Addressing key barriers and constraints

Almost all of the sub-Saharan countries participating in the survey experience the same barriers and constraints towards fostering entrepreneurship and economic development. The primary barriers are undoubtedly:

- Education;
- Health; and
- Corruption in government.

Health among the populace has, for many years, been a major inhibitor of entrepreneurship in SSA. The high prevalence of HIV/AIDS, together with that of malaria and tuberculosis, has had a devastating effect on the



labour force, through both sickness and death. The situation is improving in most countries, but not rapidly enough.

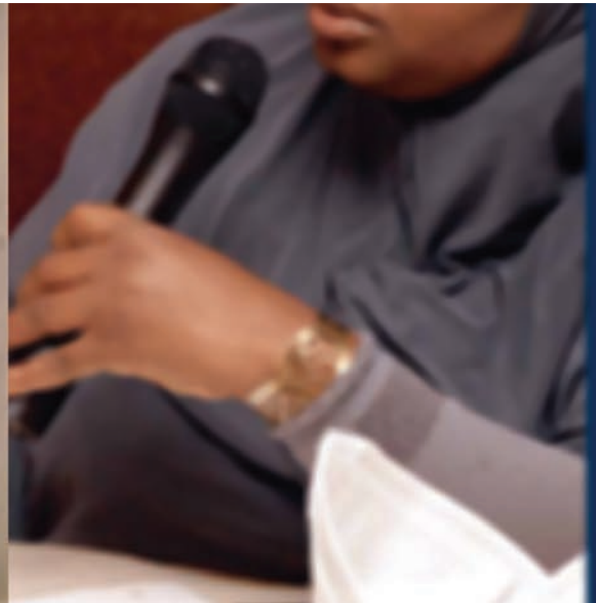
Unless these three primary factors are addressed, any measures taken for short-term improvement will be just that – short-term.

There are still many challenges ahead for countries in sub-Saharan Africa, but they have come a long way in the past decade. GDP per capita is increasing, infrastructure is improving, trade with the rest of Africa and the world is significantly higher, health care is improving .

This report is the first of several, as further longitudinal studies are required, which will be completed in 2013. In addition, in 2013, an in-depth study is being conducted of youth entrepreneurship in SSA countries. This research is of paramount importance, considering that between 45% and 55% of the region's population are considered to be young and according to the ILO this percentage will increase to almost 75% by 2015.

There are two possible scenarios to this situation:

- Firstly it could be a potential time bomb waiting to explode, or
- secondly it could be a gold mine, if properly managed.



Nigeria: Saidata Shonoiki Abidun

De Ideal Agro Allied Services Ltd

Mrs Saidata Shonoiki Abidun is the chief operating officer of the De Ideal Agro Allied Services Ltd, a growing agricultural and animal feed production company. Established in 2007, the company now has an asset base more than 15 million Naira and an annual turnover of 27 million Naira. In 2005, before incorporating De Ideal, she had started the production of dry pelletized fish feeds, using a locally made pelleting machine in Lagos. In 2007, after relocating to Abuja with her husband, she approached an investment club; her business concept was adopted and her company registered with substantial technical investment and a board of directors. The company now has its own permanent site on 4 100 m² and grown from two employees in 2007, to the current tally of nine.

Challenges she faced when starting the business included convincing local fish farmers of the quality of their product, finding investment finance when expanding to industrialised production capacity, as well as attracting new clients by creating awareness among the fish farmers. Additionally, an unreliable power supply posed a problem – until the business was able to invest in a generator.



Her feasibility study and business plan won the Abuja Business Plan Competition and this in addition to her working with and drawing expertise from her board, good financial structuring and good customer relations, have all combined to ensure her company's growth and success.



Malawi: Willy Thembo

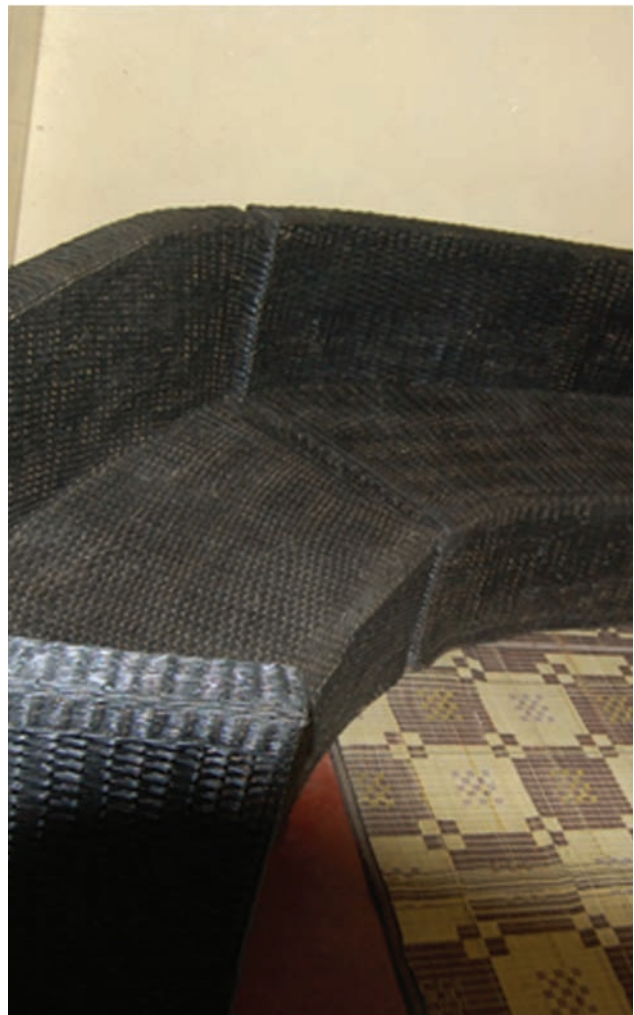
Benwood Furniture

A 32-year-old entrepreneur, Willy Tembo, is the owner of Benwood Furniture, weaving and selling cane products at a small trading centre in Zomba, Malawi. Lounge, bedroom and dining room furniture, as well as numerous related products are on display outside his workshop.

After graduating from high school and working in various jobs in a supervisory capacity, he came into business by chance, as a result of a loan he made to a friend. The friend was unable to repay the cash, so as a compromise, the friend gave Willy the cane chairs that were equivalent in value to the loan. They travelled to South Africa to sell the furniture and seven years later Willy is still in the cane furniture business.

Willy partnered with his friend, who had established a workshop employing skilled young men to weave cane products. The two partners eventually went their own ways and today Willy, apart from being the 'boss' also doubles as a worker.

With many orders coming in, it appears that his business is lucrative. A major financial loss when trying to sell furniture in South Africa resulted in him no longer being able to export. However, he reports that things are back on track and now his main challenges are the high price



of materials and the instability of the local currency, the Kwacha. Having no property to use as collateral, he has not been able to take out a loan.



Appendix 1: Tables on Entrepreneurship Framework Conditions

Appendix Table 1.1. Financing for entrepreneurs

In my country	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia	Average
there is sufficient equity funding available for new and growing firms	3,16	3,2	2,8	2,7	2,3	1,9	3,1	3,3	2,8	2,7	2,6
there is sufficient debt funding available for new and growing firms	3,1	2,9	3,1	2,4	2,7	2,3	3,1	2,9	3,1	2,4	2,7
there are sufficient government subsidies available for new and growing firms	2,7	2,8	2,8	2,3	2,0	2,7	2,7	2,8	2,8	2,3	2,4
there is sufficient funding available from private individuals (other than founders) for new and growing firms	2,2	2,1	2,0	2,2	2,2	2,4	2,2	2,1	2,3	2,0	2,3
there is sufficient venture capitalist funding available for new and growing firms	2,1	2,2	1,9	2,1	2,0	2,2	2,1	2,2	1,9	2,1	2,2
there is sufficient funding available through initial public offerings (IPOs) for new and growing firms	2,8	3,0	2,3	2,2	2,4	2,6	2,8	3,0	2,3	2,2	2,4



Appendix Table 1.2. Entrepreneurial education and training

	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia	Average
In my country											
teaching in primary and secondary education encourages creativity, self-sufficiency and personal initiative	1,9	2,0	1,9	2,3	2,3	2,2	1,9	2,0	1,9	2,2	2,3
teaching in primary and secondary education provides adequate instruction in market economic principles	2,1	2,0	1,9	2,5	2,7	2,8	2,1	2,0	1,9	2,7	2,1
teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation	2,7	2,3	2,3	2,8	2,9	3,4	2,7	2,3	2,3	2,8	2,0
colleges and universities provide good and adequate preparation for starting up and growing new firms	2,6	2,2	1,8	2,3	2,9	2,8	2,6	2,2	1,8	2,3	2,53
the level of business and management education provide good and adequate preparation for starting up and growing new firms	2,3	2,1	2,1	2,8	3,1	3,5	2,3	2,1	2,1	2,8	2,7
the vocational, professional and continuing education systems provide good and adequate preparation for starting up and growing new firms	2,8	2,5	2,6	3,0	3,3	2,9	2,8	2,5	2,6	3,0	2,9



Appendix Table 1.3. Government policies

	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia	Average
In my country											
government policies (eg, public procurement) consistently favour new firms	2,3	3,1	2,8	1,6	2,4	2,8	1,8	2,3	3,1	2,8	2,3
the support for new and growing firms is a high priority for policy at the national government level	2,2	3,1	2,8	1,7	2,5	3,2	1,9	2,2	3,1	2,8	2,8
the support for new and growing firms is a high priority for policy at the local government level	3,4	3,7	3,5	3,7	3,0	2,9	2,8	3,4	3,7	3,5	2,5
new firms can get most of the required permits and licenses in about a week	2,0	2,5	2,2	2,0	2,2	2,7	2,2	2,0	2,5	2,2	2,0
the amount of taxes is NOT a burden for new and growing firms	2,2	2,6	2,4	1,8	2,3	3,1	2,6	2,2	2,1	2,4	2,3
taxes and other government regulations are applied to new and growing firms in a predictable and consistent way	2,6	3,3	2,9	1,7	2,3	3,3	2,7	2,6	3,3	2,9	2,9
coping with government bureaucracy, regulations and licensing requirements is not unduly difficult for new and growing firms	1,8	2,3	1,8	1,6	2,2	2,3	2,0	1,8	2,3	1,8	2,2



Appendix Table 1.4: R&D Transfer

	Angola	Botswana	Ethiopia	Ghana	Malawi	Namibia	Nigeria	South Africa	Uganda	Zambia	Average
In my country											
new technology, science and other knowledge are efficiently transferred from universities and public research centres to new and growing firms	1,7	1,8	2,4	1,9	1,7	1,3	1,7	1,8	2,4	1,9	2,1
new and growing firms have just as much access to new research and technology as large, established firms	2,42	2,15	1,8	2,1	2,2	2,1	2,4	2,2	1,8	2,1	2,0
new and growing firms can afford the latest technology	1,9	2,1	2,0	2,4	2,3	2,6	1,9	2,1	2,0	2,4	1,9
there are adequate government subsidies for new and growing firms to acquire new technology	2,1	2,3	2,1	2,0	2,0	2,00	2,1	2,3	2,1	2,0	1,9
the science and technology base efficiently supports the creation of world-class new technology-based ventures in at least one area	2,2	2,2	1,7	1,6	1,7	2,0	2,2	2,2	1,7	1,6	2,1
there is good support available for engineers and scientists to have their ideas commercialised through new and growing firms	2,6	2,1	2,0	1,9	2,4	2,3	2,6	2,1	2,0	1,9	2,0
new technology, science and other knowledge is efficiently transferred from universities and public research centres to new and growing firms	2,0	1,8	1,6	1,7	2,0	1,9	2,0	1,8	1,6	1,7	2,1

Appendix 2

■ Angola – Example of a policy intervention, 2012

1. **Country:** Angola
2. **Key Indicators:** Nascent business rate – 14.9% : New business rate – 18.9% : TEA – 32.4% : established business rate – 9.1%: Potential entrepreneurs – *data not available* : Intentional entrepreneurs – 70.6%
3. **Name of initiative, policy or programme:** Angola Invest
4. **Target market:** Micro, small and medium-sized businesses (MSME)
5. **Geographic Scope:** National within Angola
6. **Description**

- i. **Goal of initiative, policy, or programme**

The Angola Invest Programme is an initiative of the Angolan government, in partnership with 20 banks operating in the country. It aims to facilitate access to credit for micro, small and medium-sized companies.

- ii. **Description of initiative, policy, or programme**

Angola Invest provides subsidised interest payments and government guarantees on loans awarded to Angolan MSMEs by any commercial bank included in the list of the programme's partners. Annual interest payments by the MSME do not exceed 5% and the government guarantee covers up to 70% of the loan principal. Loans may be repaid during a period of up to seven years. These conditions are better than what MSMEs in Angola would normally be able to negotiate directly with the banks. Under the programme, businesses can apply for loans of up to 20 million kwanza (200 000 USD), 150 million kwanza (1.5 million USD) or 500 million kwanza (5 million USD), depending on whether they are micro, small, or medium-sized.

- iii. **Description of entry requirements or restrictions**

Three major eligibility conditions apply to businesses wanting to take advantage of Angola Invest:

- They need to be officially certified MSMEs, meaning they have to be recognised as such

by the Angolan Institute for the Support of Micro, Small and Medium-Sized Companies (INAPEM);

- At least 75% of their equity must be Angolan-owned; and
- They need to operate in one of the priority economic sectors that the government has defined. These include agriculture, livestock and fisheries, infrastructure and a comprehensive group of manufacturing industries and services.

- iv. **Length of support by initiative, policy, or programme**

Angola Invest is not based on continuous support, being a one-off measure. However, the government guarantee and the subsidised interest rates extend throughout the entirety of the payback period, which can be from six months to seven years.

- v. **Scale of the initiative, policy, or programme**

The programme's main objective is to create conditions among banks and businesses, so that 300 billion kwanza (3 billion USD) can be injected in the economy until 2015. Banks agreed to make 147 billion kwanza (1.47 billion USD) available for MSME financing during the first year of the project, but less than that has been disbursed. To subsidise interest payments and create the loan guarantee fund, the government has set aside 35.5 billion kwanza (355 million USD).

Angola Invest has only been in existence for approximately one year and, after a slow start, the pace has picked up in recent months. By early June, only 23 projects had been approved, of the 77 presented, which amounted to a little more than 4 billion kwanza in approved loans. By mid-July, however, about 100 projects had been approved and 30 of them had already received financing. No figures on the total amount disbursed have been disclosed.

- vi. **Overview of how the policy or programme works/worked, including a description of how support is/was tailored to different target groups and how it is funded**

Angola Invest is fully funded by the Angolan government, but it is implemented through the partnering commercial banks and INAPEM. In order to participate in the programme, a company

must obtain INAPEM certification, a process that automatically ensures that the company is in a reasonable position to engage in the negotiation process with the banks and provide the necessary information and documentation. Ultimately, though, it is up to the bank to decide whether the company qualifies for a loan or not. Until recently, it had been discussed that the programme was not moving as fast as planned, but the situation does seem to have improved. Actions on both sides will help improve the programme implementation. On the one hand, MSME can improve the structuring of the investment projects so that they become more appealing to the banks. INAPEM's support will significantly help in this and the government has invested considerably in expanding its means and resources. On the other hand, banks can improve their openness to the needs of small business owners and increase business with sectors such as agriculture.

■ Malawi – Example of a policy intervention, 2012

1. **Country:** Malawi
2. **Key Indicators** : Nascent business rate – 18.45% : New business rate – 20.39% : Potential entrepreneurs –85% : intentional entrepreneurs – 70% : TEA – 35.56% : established business rate –10.80%: Discontinuation rate – 28.91%
3. **Name of initiative, policy, or programme:** Youth Entrepreneurship Development Fund (YEDEF)
4. **Target market:** Youth (18 to 35 years)
5. **Geographic Scope:** Nationwide
6. **Description**
 - i. **Goal of initiative, policy, or programme**
The goal of YEDEF is to empower youth with entrepreneurial skills for survival and reduce youth unemployment.
 - ii. **Description of initiative, policy, or programme**
YEDEF provides young people with loans to start new businesses or expand existing businesses. In addition, the fund assists the youth with acquiring machinery for their businesses.
 - iii. **Description of entry requirements or restrictions**
A viable business plan was the determining

factor for qualifying for a YEDEF loan. Age was another factor, but because of a poor registration system in Malawi, many would deliberately misreport their ages to access the loan. One week's training is organised to help potential beneficiaries develop good business plans.

iv. Length of support by initiative, policy, or programme

Youths have the opportunity to access second or third loans, as long as the previous loans were paid back.

v. Scale of the initiative, policy or programme

Since its inception, YEDEF has supported more than 5 000 youth with cash and machinery. At the inception, the total amount of resources was 3 billion Malawi Kwacha, (1US\$= 320 Malawi Kwacha) of which 1 billion Kwacha was used to buy machinery and 2 billion Kwacha was disbursed as loans.

vi. Overview of how the policy or programme works/worked, including a description of how support is/was tailored to different target groups and how it is funded

YEDEF was an initiative of the former head of state. Funding came from Ministry of Finance, Treasury Department. The funds were given to MARDEF, a financial institution chosen to administer the funds. An account was opened, into which repaid funds were deposited for remitting to YEDEF. The major drawback of the programme is that it was politicised, with members of the ruling party being favoured. Some of the beneficiaries did not pay back their debts, because they viewed the loans as gifts.

■ Namibia – Example of a policy intervention

1. **Country:** Namibia
2. **Key Indicators:** Nascent Entrepreneurship rate – 11% : New business ownership rate – 7% : TEA – 18% : established business ownership rate – 3%: Necessity-driven (% of TEA) – 37%
3. **Name of initiative, policy, or programme:** SMEs Compete
4. **Target market:**
SMEs Compete works with clients across the spectrum, including SMEs in the catering, tourism,

hospitality, garment manufacturing, woodworking, beauty and cosmetic, light engineering and leather products sectors. However, the firm does not work with shebeens and taxis.

5. Geographic Scope: National in Namibia, but also facilitates business linkages in the domestic market, as well as regionally and internationally, through a wide array of on-going services and events.

6. Description

i. Goal of initiative, policy, or programme

SMEs Compete's primary objective is to improve entrepreneurial, management, marketing and information technology skills of SMEs. For small firms in Namibia to grow, they must improve their business performance and competitiveness at home and abroad.

ii. Description of initiative, policy, or programme

To help clients overcome challenges typically encountered during the course of conducting business, SMEs Compete has developed an array of services focused on capacity building, skills enhancement and growing business. The approach is to cater to the SME sector in general and to suit specific requirements of individual clients.

iii. Description of entry requirements or restrictions

SMEs Compete is focused on a niche market and does not claim to have the resources or ability to serve everyone aspiring to be in business. Therefore, in order to become a client of SMEs Compete, the following eligibility criteria have to be met:

- Business must be owner-driven and managed;
- Owner(s) must be engaged in the operations of the business on a full-time basis;
- Business must be in existence for at least one year;
- Business must employ at least one person, in addition to the owner;
- Business must enjoy a legal status (ie, operate in the formal sector); and
- Business must be conducted from premises (even it is only from the kitchen table or backyard).

iv. Length of support by initiative, policy, or programme

Most clients routinely return and consequently benefit from follow-up training and on-going business mentorship.

v. Scale of the initiative, policy, or programme

More than 1 000 SMEs around Namibia have already benefited from SMEs Compete's capacity-building activities and mentoring services.

vi. Overview of how the policy or programme works/worked, including a description of how support is/was tailored to different target groups and how it is funded

SMEs Compete's wide array of training courses aims to enhance business skills and to position SMEs for growth. Amongst others, courses related to the following subjects are offered:

- Bookkeeping;
- Selling, customer care and shop display;
- Staff matters, including labour legislation;
- Negotiating skills;
- Marketing – methods and materials;
- Administration;
- Computer skills and application; and
- Capital accessing – how, when, where and preparation.

Mentoring forms an integral facet of the services offered to clients. Need-driven, the aim is to routinely guide and advise clients on an array of business-related matters, be it issues related to taxation, human resources, bookkeeping, marketing, or finances. The approach is customised and revolves around the specific needs of the client.

SMEs Compete receives support under a Public Private Partnership (PPP) Programme from the German Development Service, Deutsche Entwicklungsdienst. (DED). The firm is also supported by way of a long-term service engagement with First National Bank Namibia Ltd.

■ Uganda – Example of a Policy Intervention, 2012

1. **Country:** Uganda
2. **Key Indicators:** Nascent business rate – 26% : New business rate – 28% : TEA – 36% : established business rate – 31% : Potential entrepreneurs – 88%: intentional entrepreneurs – 79%
3. **Name of initiative, policy, or programme:** The Youth Opportunities Programme (YOP) under the Northern Uganda Social Action Fund (NUSAF)
4. **Target market:** Poor youth (15 to 30), who are unemployed or underemployed
5. **Geographic Scope:** 18 Districts of Northern Uganda
6. **Description**

- i. **Goal of initiative, policy, or programme**

To provide youth with specific vocational skills and tool kits, to enable them earn incomes and improve their livelihoods, to contribute towards community reconciliation and conflict management and to build capacity of NGOs, CBOs and vocational training institutes (VTIs) to respond to the needs of youth.

- ii. **Description of initiative, policy or programme**

Under YOP, small groups of youth self-organise, identify a vocational skill of interest and a VTI and apply to NUSAF District Technical Offices (NDTOs) for funding. The NDTOs process and recommend proposals to the District and the central NUSAF Management Unit (NUMU), who screen for incomplete or inappropriate proposals.

Youth groups with successfully approved proposals receive a cash transfer of up to the equivalent of US\$10,000 to a community bank account. These funds are used to enroll in the VTI, purchase training materials and equip graduates with the tools and start-up costs for practicing the trade after graduation. NDTOs are supposed to provide supervision and technical assistance throughout. In 2008, the programme provided cash transfers to thousands of young men and women for investment in skills training and capital for self-employment. The focus of the programme was vocational training and employment. Applicants were required to form a group of roughly 15 to 25 young adults interested in a vocation and submit a proposal for purchasing skills training, tools and other materials required to start an enterprise.

On average, successful groups received a lump sum cash transfer of \$7,108 to a jointly held bank account—roughly \$374 per group member, at market exchange rates. Groups were otherwise free of supervision or oversight in the actual spending. Not surprisingly, demand for the programme far outstripped supply of funds: hundreds of groups, representing tens of thousands of young adults, applied.

- iii. **Description of entry requirements or restrictions**

Like many participatory development programmes, the objective was not only to enrich, but also to empower young adults. Groups were responsible for selecting a management committee of five members, choosing the skills and schools and budgeting, allocating and spending all funds. Groups self-organised, or were spurred by a facilitator. Such facilitators, often a community leader or local government employee, helped groups identify projects and trainers, budget and assisted with the application process, but played no formal role after the proposal was submitted. The group management committee and members were wholly responsible for disbursement and purchases, accountable only to one another. If a group was selected, the government transferred cash in a single tranche to a bank account in the names of the group leadership, with no further supervision.

In 2008, the government determined that it had funding for 265 of 535 eligible groups. The average group had 22 members and 80% of groups ranged from 13 to 31 members in size, according to pre-intervention group rosters. Group cash transfers averaged nearly 12.8 million Ugandan Shillings (UGX, equivalent to \$7 108) and varied not only by group size, but by group request (that is, transfers were not uniform). The average transfer size was UGX 673 026 (\$374) per member—more than 20 times the average monthly income of the youth at the time of the baseline survey. Given the variation in group size and requests, however, transfer size per official group member varied from UGX 200 000 to more than UGX 2 million across groups. The majority received between UGX 350 000 (\$200) and UGX 800 000 (\$450).

iv. Length of support by initiative, policy, or programme

In addition to training unemployed youth in trade skills, the programme, in some cases, also provided life skills and psychosocial counselling to the beneficiaries.

v. Scale of the initiative, policy, or programme

Training is expected to increase the technical and professional skills of the trainee, skills that will be valued on the labour market. Therefore, youth who went through the training and acquired skills will find work more easily, be paid higher wages when finding a job and have better quality of employment, as expressed in stability of employment.

Funds reserved for the acquisition of tools and enterprise start-up expenses will also increase the likelihood of self-employment. Thus, youth who participate in the programme should start a greater number of enterprises and earn greater net profits.

Training programme graduates are also expected to be more likely to pursue higher levels of education and skills training, both because they have the background and the financial means (via any increased employment and incomes). Thus increased levels of educational attainment (beyond the duration of the training programme) may be an additional consequence of participation.

vi. Overview of how the policy or programme works/worked, including a description of how support is/was tailored to different target groups and how it is funded

The programme was aimed at reviewing the impact of participation in a training programme on labour market success, educational attainment, leadership development and psychosocial well-being.

YOP had begun as a \$1.6 million Northern Uganda Youth Rehabilitation Fund (NUYRF), with grant funding from the Japanese Social Development Fund. Its purpose was to pilot vocational training interventions. The project selected vocational training institutions to train unemployed youth in trade skills (accompanied by tool kits for the trade), in order to improve their chances of employment. In March 2005, NUSAF

decided to scale up this effort and committed roughly \$6 million to YOP, with \$9 million disbursed in the category of Vulnerable Groups (VGS) and \$6 million through the Community Development Initiative. In 2006, to stimulate such employment growth, the government announced a new NUSAF component: the Youth Opportunities Programme (YOP), which provided cash transfers to groups of young adults for self-employment in trades.

Challenges in the Programme

The criteria by which past YOP and VGS proposals have been selected for appraisal and approval in the districts is not clear and selection procedures appear to have varied over time and by district. There have also been allegations of corruption, mismanagement and fraud aimed at many NUSAF, district and community officials. Many of these allegations have been addressed head-on by NUSAF management, with several improvements made in the next phases.

It is not clear whether the districts have been successful in targeting vulnerable youth. There are signs that urban and peri-urban youth, educated youth and well-connected youth were more likely to receive funds than rural, uneducated and dislocated youth.

It seems that a large number of individual youth projects have also suffered from poor planning, management and accountability. While there are some cases of corruption or fraud by the community facilitator, VTI, or youth themselves, the more common problems seem to be poor decisionmaking and management of funds. According to programme officers, the most important determinants of training success are good planning (such as reservation of funds for tools and enterprise start-up), good investment choices (eg, oriented towards available markets), district or community monitoring and oversight and provision of technical extension services, where required.

■ Botswana – Example of a policy intervention, 2012

1. Country : Botswana

2. Key Indicators: Nascent business rate 41.1%: New business rate 37.3%: TEA – data not available: Established business rate 38.1% : Potential and Intentional entrepreneurs 73.9%.

3. Name of initiative, policy or programme: Citizen Entrepreneurial Development Agency (CEDA) Young Farmers Fund.

4. Target market: All Botswana citizens, aged 18 to 40 years and wholly citizen-owned companies by directors aged 18 to 40 years

5. Geographic Scope: National.

6. Description

i. Goals of initiative, policy, or programme

The fund has two main goals:

- Financial assistance provided in the form of loans at subsidised interest rates. The loan may be used for infrastructure development required for the project ,or to cover working capital, or both; and
- Training and monitoring of projects is considered critical to the success of projects. Requisite training is provided prior to the disbursement of the loan. Monitoring and mentoring services are also provided by CEDA.

ii. Description of initiative, policy, or programme

The programme offers young farmers loans to expand or create an agricultural venture. The maximum loan is 500 000 Pule (P) at an interest rate of 5% charged on the loan. The repayment periods for loans are as follows:

- Up to P100 000 will not exceed 60 months;
- P100 001 to P250 000 will not exceed 84 months; and
- More than P250 000 will not exceed 120 months.
- The grace period for loans does not exceed 24 months and the interest accruing during the grace period is capitalised.

iii. Description of entry requirements or restrictions

The fund is available to all young people (aged between 18 and 40 years) who are citizens of Botswana or wholly citizen-owned companies, wishing to start or expand agricultural projects.

iv. Length of support by initiative, policy, or programme

The Citizen Entrepreneurial Development Agency (CEDA) supports the funded business ventures for as long as the ventures are actively operating. Support ceases when either the business is foreclosed or has paid off its loan obligation to CEDA.

v. Scale of the initiative, policy, or programme

Since the fund's establishment in 2007, the following has been recorded:

- There have been a total of 517 applications by intentional and potential entrepreneurs;
- Of the 517 applications, 288 were approved for funding under the Young Farmers Fund;
- Of the 288 funded ventures, 261 are still in operation;
- 21 of the funded ventures have ceased to operate and hence have been closed; and
- Six of the 288 funded projects have successfully paid off their loans.

vi. Overview of how the policy or programme works/worked, including a description of how support is/was tailored to different target groups and how it is funded

The Young Farmers Fund focuses specifically on the development of viable, sustainable youth-owned agricultural projects, through access to funding and entrepreneurial and management skills training, monitoring and mentoring services.

Up to 31 March 2009, CEDA had approved an amount of P76 million for the Young Farmers Fund (CEDA Annual Report 2009, page 24).

Financial assistance provided by the Young Farmers Fund is in the form of loans at subsidised interest rates. The loan may be used for infrastructure development required for the project ,or to cover working capital, or both. Availability and suitability of land required for development of the project is the responsibility of the promoter.

Project-specific training is considered critical to the success of the project. In this respect, requisite training is provided prior to the disbursements of the loan.

A monitoring and mentoring service is provided and this support equips young people with the requisite skills for running businesses, thereby enhancing prospects of success of the programme. Training, monitoring and mentoring under the fund is rationalised with other training programmes provided by government institutions, including the Ministry of Agriculture, to avoid duplication of efforts.

Insurance cover for drought and other natural disasters is critical and is provided for under the Agricultural Credit Guarantee Scheme, which is currently managed by the National Development Bank.

The fund encourages the use of existing infrastructure in the country to minimise costs and avoid duplication of efforts.

The workflow for the processing of loan application is as follows:

- Visit the nearest Ministry of Agriculture office to get the technical requirements for the project;
- Complete the business plan as per requirements. CEDA has a business plan form that will guide the applicant to coin a detailed and comprehensive business plan;
- Submit the business plan to the CEDA office nearest to the location of the applicant's project;

- The application will be reviewed by the Youth Development Officer against basic assessment criteria;
- The initial project review includes in-depth on-site evaluation of all information, to verify information supplied by applicant;
- Preparation of terms and conditions reflecting key understanding;
- Internal approval – presentation and motivation to investment committee;
- Contracting – drawing up of legal agreements and signing thereof;
- Training/attachment of the successful applicant;
- Disbursement - after all conditions have been met, the funds may be disbursed as per agreed financing plan.







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