What Works and What Do We Not Know Concerning Policies for Youth and Female Entrepreneurship

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Introduction:

In one of his only three visits to Africa while he was President of the US, Barrack H. Obama took time to address the sixth Global Entrepreneurship Summit in July 2015 here in Nairobi. That address dealt with the vital need of provisioning African youth with appropriate skills and pointing them to entrepreneurial initiatives that will solve the most challenging African economic and social problems. "Entrepreneurship", he said, "creates new jobs and new businesses, new ways to deliver public services, new ways of seeing the world---it's the spark of prosperity". Why this renewed emphasis on entrepreneurship in Africa? This is because despite a remarkable streak of rapid GDP growth between 2000 and 2010 averaging 5.4percent annually before declining to a record low of 1.4percent in 2016 (according to the IMF), the number of quality jobs this boom created was unremarkable and incapable of meeting the demands of employment in the world's youngest and most rapidly-growing population. Cynics referred to it as "jobless growth". In the circumstances, local and global entrepreneurship was being challenged to provide "the spark" towards more job creation and prosperity as spelt out in President Obama's speech. Entrepreneurship is the new development buzzword.

For that to happen, the new entrepreneurial initiatives to serve the employment needs of Africa, entrepreneurship must be context-specific in the manner spelt out in the strategy of Partnership for Economic Policy. The slowdown in growth has affected African regions and countries differently. The slowdown in GDP growth rate of expansion of African economies from a 3.3percent average between 2010 and 2015 to 1.4percent in 2016 has been attributed to the decline in global commodity prices, headwinds facing the world economy, and inadequate policy response to the deteriorating circumstances in some countries. But while growth in Eastern Africa has held up, resource-dependent economies in West Africa, the Central African Economic and Monetary Community and Southern Africa experienced sharp declines or stagnation. The IMF's 2016 *Africa Regional Economic Outlook* writes of "multispeed growth" in Africa, with some regions surging while others stagnated.

In all this diversity of experiences, African policymakers face the common challenge of chronic youth unemployment. African youths aged between 15 and 24 were said to number 200 million in 2014. Illegal migration to the developed world has become a choice for some of them, a tragic reality that one reads about with regard to risky human trafficking across the Mediterranean. The scarcity of employment despite growth in Africa is contrasted to the East Asian "tiger" economies where export-led growth took place concurrently with job creation initially in light manufacturing. Against this backdrop, it should be no surprise that the focus of African policy-makers, scholars, and Africa's international development partners has shifted to domestic job creation by Africa's youth themselves through the medium of entrepreneurship in the manner suggested by President Obama.

Over the ages, entrepreneurship has been defined in many and sometimes conflicting ways. While Joseph Schumpter defined it as innovative "creative destruction" driven by competition between single-minded entrepreneurs as opposed to capitalists themselves, Max Weber for his part traced industrial entrepreneurship to an ascetic vocation driven by "the protestant ethic". However, against the backdrop of rapid industrialization in South East Asia over the past five decades, Amartya Sen now considers the Weberian argument absurd. Frank Knight, for his part associated entrepreneurship with a trait in personal inclination to take risk while Peter Drucker claimed that entrepreneurs detected business opportunities others could not see, and took them. As the debate on the determinants of entrepreneurship shifted in turn to economic rationality, resources, "the entrepreneurial ecosystem", psychology and ethnic cultural disposition, two basic attributes that are relevant to the African case were left out: youth and gender. It is therefore opportune that this PEP Annual Conference is devoted to drawing a sharp focus on what works and what we know about policy solutions that will accelerate youth and female entrepreneurship.

These two vital gaps in the distribution of entrepreneurship opportunities—those between age groups and gender—are of critical importance towards generating evidence-based policy strategies that would address the needs of the largest segments of the population, not just in Africa but also in other developing areas. Many developed governments have long met the demands of youth entrepreneurship by vocational training, start-up capital, and linkages to the private sector. But even here, there are inter-country differences in effectiveness. Most critically, the peculiarity of gross under-representation of women among entrepreneurship in the developed world did not become a serious policy issue until after the women's rights movement of the 1960s and after.[1] In these countries remarkable progress has been made towards closing those two gaps.

To arrive at evidence-based policy advocacy that would address the two gaps in Africa and comparable developing regions is fortunately much easier now than compared to the past. Since its inception in 1999, the *Global Entrepreneurship Monitor* (GEM) has provided annual country indicators on "Total Early-Stage Entrepreneurial Activity" (TEA), i.e. the percentage of the population between 18 and 64 years of age—who are either nascent entrepreneurs or owner-managers of new businesses. Such data could provide an excellent start towards understanding the differences in entrepreneurship preference between youth—those between 15 to 24 years of age—and the adults. GEM also provides gender equality scores based on the female/male ratio of total early age entrepreneurial activity. Unfortunately, only seven African countries are covered by the annual GEM as of 2011: Burkina Faso, Cameroon, Senegal, Egypt, South Africa and Morocco. A few other African countries have been featured in the GEM: Uganda in 2003, 2004, 2009 and 2010; Ghana in 2010, and Angola in 2008 and 2010. A special GEM-based report on African entrepreneurship in 10 countries was published in 2012.[2] Asia is also under-

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[1]. Maria Minniti, *Gender Issues in Entrepreneurship* (Cox School of Business, Southern Methodist University, 2009).

[2]. IDRC, *African Entrepreneurship: Sub-Saharan Africa Regional Report 2012*, (Ottawa, IDRC, 2012).

represented. The coverage by country is much better in the World Bank's *Doing Business*, and World Economic Forum's, *Global Competitiveness Report*, but neither of them addresses the two overarching issues that this conference is dealing with on a consistent basis.[3]

What we know in this broad context of surveys of young and women entrepreneurship, though useful, is severely limited especially if want practical case-study experiences. The promotion of youth and female entrepreneurs should not be just restricted to think tanks that generate data. The private sector, commercial banks, faith-based organizations, private foundations and charities, bilateral and multilateral donor agencies are all active in this field one way or another. The overall coverage of these activities, their reach and impact—all these aspects deserve research and policy attention, now more urgently than before. There is ample room for work and much to learn from examining the experiences of this wide set of institutions that are involved in stimulating entrepreneurship among youth and women in Africa.

What Works and What Do We Know Concerning Policies for Youth and Female Entrepreneurship in Africa? : Some Recent Evidence.

As part of extending our understanding of this broad subject, the African Development Bank in its 2017 *African Economic Outlook* was dedicated to the special theme of "Entrepreneurship and Industrialization". This report is barely a month old. As stated earlier, the motivation in part is to generate policy solutions to youth unemployment in Africa. In addition to that, the report was intended to provide a policy linkage between entrepreneurship and industrialization, a sector in which Africa lags behind compared to other developing regions.[4]

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[3]. World Bank, *Women in Africa: Doing Business and World Bank Gender Action Plan*, (Washington, D.C., World Bank, 2008) is another exception that deals with success among African female entrepreneurs in seven countries: Cameroon, Rwanda, Senegal, South Africa, Swaziland, Tanzania and Uganda.

[4]. Manufacturing in 2014/15 constituted 11percent of GDP in Africa, as compared to 23percentin East Asia and the Pacific, 16percent in South Asia, and 14percent in Latin America and the Caribbean, (2017 African Economic Outlook, p.163).

The ADB reports that African entrepreneurs are predominantly young, and much younger than those of other developing regions. The average age of African entrepreneurs was 31 as compared to 36 in Asia, and 35 in Latin America and the Caribbean. Some 22percent of Africa's working population had started a business, one of the highest rates globally.[5] Some 80percent of the total African population is reported to view entrepreneurship positively and this is an indication that, on the face of it, there would be political support for governments in Africa that wish to introduce reform policies that would promote youth-owned enterprises like these. The entrepreneurial specialization of the young business people, however, is heavily biased towards wholesale and retail trade, hotels and restaurants. The second most important cluster of African early-stage entrepreneurs is agriculture, forestry and fishing followed by manufacturing.

This picture from 2017 *African Economic Outlook* firmly confirms many of the findings recorded in the IDRC-funded study at the University of Cape Town, published in 2015, under the title, *African Young Entrepreneurs: Unlocking the Potential for a Greater Future*, authored by Jacqui Kew. On the basis of a survey of nine African countries—Angola, Botswana, Ghana, Malawi, Namibia, Nigeria, South Africa, Uganda and Zambia—this found strong enthusiasm for start-up entrepreneurship among young Africans. Of those young Africans who had started businesses in this survey, 64percent had opted for retail trade, hotel and restaurants. Of the enterprises surveyed 95percent had distinct "low growth" characteristics, implying that new output was consistently just beyond direct costs and personal earnings.

Taking all these observations together, there is a clear policy case for better training and education for young Africans starting a business of their own, especially in areas outside retail trade, restaurants and hotels. Although African youth start businesses in proportionately greater numbers than their counterparts in the other parts of the developing world, they tend to be less prepared for it. Whereas 20percent young African entrepreneurs bring new products to the market, the percentage is 22percent in East Asia and 25percent for Latin America and the Caribbean. The proportion of African secondary school students enrolled in

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[5]. ADB, *2017 African Economic Outlook*, p.158.

vocational courses is also much lower than that of Asia and Latin America, an area in which education and training policy ought to pay greater attention. Finally African governments need to address the binding constraints faced by youth entrepreneurship in the continent: inadequate availability of credit, inadequate infrastructure, and especially reliable supply of electricity, training and the need for a more business-friendly regulatory framework.

The situation differs considerably when the analytical focus shifts to African women in entrepreneurship. To start with women are severely under-represented in new business in the north African countries (Tunisia, Libya and Egypt) where GEM male/female gap ranges between 7 and 10percent. Women's under-representation, however, is moderate in many of the sub-Saharan countries. Here it ranges between 3 to 6perent for four countries in the ADB survey: Botswana at 6percent; South Africa 5percent; Ethiopia 4percent and Cameroon at 4percent. In Ghana, Uganda, Zambia, Nigeria and Namibia, the ratio actually favours women. Women in new businesses exceed males by a range between 4percent (in Ghana), and 2percent in Zambia, Nigeria and Namibia. According to this report, participation in entrepreneurship by African women tends to raise their self-esteem, and to increase their earnings.

Still, policy-makers should not and cannot find solace in any of this. "In Africa", says the ADB report, "female entrepreneurs are more likely to work in non-tradeable services than male entrepreneurs. Sixty-three percent of African female entrepreneurs work in retail trade, hotels and restaurants compared to 46percent of male entrepreneurs."[6] This implies lower levels of profits for women enterprises as compared to those owned by men. According to Jacqui Kew, women dominate businesses in which no employment is created, and their businesses thrive less than those of men. New business operations by women are also less diversified than those run by men, and more likely to operate from home than in the market or the street. A 2015 study of women entrepreneurs in Swaziland found that they had lower start-up capital than those owned by men, were less likely to access credit from formal sources like banks than males, and—more importantly—that training in entrepreneurship for women had failed to narrow the gap between their economic

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[6]. ADB, *African Economic Outlook*, p.173.

achievements and that of men.[7] As is well-known, this last observation could arise from the well-known fact that in general African women face enormous institutional constraints in business: lack of access to collateral notably land, discriminating legal statutes, oppressive customs and traditions.

But these are only some of the many institutional reform problems that African policy makers and policy researchers face. Many micro-enterprises and SMEs in Africa tend to be ephemeral. In one of the most thorough statistical surveys of Micro and SMEs in Africa published in October 2016, the Kenya National Bureau of Statistics (KNBS) found that 46percent of the newly established businesses closed in the first year, and that only 5percent had survived for 15 years and above. The main reason for wounding up the businesses, applying to 30percent of the respondents, was given as "shortage of operating funds", followed by "personal reasons" by 23percent of those opting out. Yet even though Kenya has an elaborate system for credit to small and medium enterprises, the study reported a surprisingly low uptake of formal credit by SMEs.[8] Many (62percent) cited "no need" for credit even though closure of business had been attributed to shortage of operating expenses. Rather than access formal sources of credit, most entrepreneurs relied on their own savings or those of the family, friends and relatives, a phenomenon also observed by Jacqui Kew in the six of the nine countries surveyed by *Africa's Young Entrepreneurs*. From a policy standpoint, this calls for closer inspection of the institutional and other constraints behind low formal credit uptake. This should probably be combined with improved entrepreneurship training, and hands-on technical support to SMEs.

Policy Implications: Keep Trying even if you fail.

According to one branch on the philosophy of science and scientific methods, we learn *more* from failed experiments than we probably do from repeated

[7]. Zuzana Brixiova and Thierry Kangoye, "Gender and Constraints to Entrepreneurship in Africa: New Evidence from Swaziland" (Bonn, Institute for the study of Labour, 2015) DP No.9273.

[8]. Kenya National Bureau of Statistics (KNBS), *2016 Micro, Small and Medium Enterprises (MSME) Survey : Basic Report*, (Nairobi, KNBS, 2016) .

symmetrical success. Failed experiments teach us what to avoid and this is important because scientific progress is defined, in this context, as progressive elimination of error. This is the reasoning behind the late Karl Poppers spirited defence of "falsificationalism", and the runaway popularity of the book, *The Black Swan : The Impact of the Highly Improbable*, by Nassim Nicholas Taleb. Every failed entrepreneurial experiment, wherever it maybe have occurred, should be viewed as a knowledge-creating opportunity, rather than event to mourn about. This should new and more encouraging approach to the persistence of entrepreneurial failure in Afrc and other developing regions.

Our repertoire of failures in this address, therefore, is a good place to start in reforms. For this reason, many of the obtuse challenges now facing youth and women entrepreneurship in Africa should be the priority areas of policy analysis and policy reform. We could learn more from them than we could from the spectacular cases of successful entrepreneurship in Africa that are now routinely featured by *Forbes Magazine*, among other business publication.[9] Not that studies of the success are to be abandoned. In fact in their own intrinsic right, they falsify the old-fashioned prejudice that Africans, whether young, old, male or female could not establish *bona fide* private enterprises and nurture them to the highest international standards and profitability.

I would like to end this address with the story of Bethlehem Tailahum, 33, as of 2012, the Ethiopian founder of the SoloRebels footwear brand based in Addis Ababa. Her story starting with self-employment in artisanal shoe-production at home to the creation of a multimillion-dollar footwear firm that grossed US$2 million in 2011 was first told by Josh Kron in the *New York Times* in 2012.[10] Her company at the time employed roughly 100 workers, had broken successfully in international markets, and opened a state-of-the-art shoe store in Addis Ababa. Asked what prompted her to start a new business, she said the following: "I kept hearing over and over the phrase of poverty alleviation. The media, preoccupied

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[9]. In 2016 *Forbes* published an issue on "30 Most Promising Young Entrepreneurs in Africa". In 2014, *Forbes* featured "Ten Emerging African Enterprises".

[10]. Josh Kron, "Women Entrepreneurs Drive Growth in Africa", *New York Times*, October 10, 2012.

with a single narrative about "Africa" had missed the story of Africa—part of a large spectrum of endless entities". She added, "We've inverted the whole paradigm."

The aim here is to look for solutions where we least expect them and to have the humility to understand that we could be wrong, something Dani Rodrik, the political economist at Harvard keeps repeating. Like East Asia in the 1970s, sub-Saharan Africa is developing on what the IMF called "multi-speed growth". In that confusing situation, the seed of successful entrepreneurship for youth and women could lie where we least expect them.