AFRICA'S UNTAPPED BUSINESS POTENTIAL:

Countries, sectors, and strategies

Spotlighting opportunities for business in Africa and strategies to succeed in the world's next big growth market

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Africa's potential as a growth market for business remains both underestimated and misunderstood—as does the potential for business to play a transformative role in solving the continent's biggest challenges.

Consider one question: How many companies in Africa earn annual revenues of $1 billion or more? Most global executives and academics we speak with guess there are fewer than a hundred. Many answer "zero." The reality? More than 400 such companies exist—and they are, on average, both faster growing and more profitable than their global peers.

Africa's fast-growing population and markets present important opportunities for business in an environment of slowing global growth. At the same time, greater innovation and investment from business is essential to meet Africa's unfulfilled demand for goods and services, close the gaps in its infrastructure, create jobs, and decrease poverty. Here, we describe the extent of the African business opportunities in key sectors and suggest steps investors can take to translate that opportunity into profitable, sustainable enterprises.[1]

Five bold business opportunities

Africa's real GDP grew at an average annual rate of 5.4 percent in 2000–2010,

1 Acha Leke et al., "Africa's Business Revolution: How to Succeed in the World's Next Big Growth Market" (Harvard Business Review Press, 2018), Landry Signé, "Capturing Africa's High Return" (Brookings Institution. March 14, 2018), and Landry Signé, "Africa Booming: Winning during the Fourth Industrial Revolution" (tentative title) (forthcoming, Brookings Institution Press, 2019).

driven in nearly equal measures by labor force growth and productivity growth. After a slowdown prompted by the shocks of the Arab Spring in 2011 and the collapse of oil prices in 2014, Africa's growth has recovered and its future prospects look buoyant. Two indicators from the World Bank underline the continent's promise. First, of the 10 fastest-growing economies in the world in 2018, six were in Africa—with Ghana at the top of the world ranking. Secondly, in the World Bank's 2019 Doing Business index, five of the 10 most improved countries are in Africa, and one-third of all reforms recorded globally were in sub-Saharan Africa.

The economic acceleration and improving business environment are underpinned by five long-term trends, each of which is unlocking transformative growth in key economic sectors.

Opportunity 1. A population that is fast growing and urbanizing

Africa's current population of around 1.2 billion people is projected to reach 1.7 billion by 2030. More than 80 percent of Africa's population growth over the next few decades will occur in cities, making it the fastest-urbanizing region in the world. At the same time, incomes are rising across much of the continent, generating new business opportunities in the consumer market.[2] In total, we expect annual spending by African consumers and businesses to reach $6.66 trillion by 2030, up from $4 trillion in 2015. These trends are spurring growing markets in a range of sectors where Africans have unmet needs, including food, beverages, pharmaceuticals, financial services, healthcare, and education.

Opportunity 2. Africa is industrializing

An African industrial revolution is underway as manufacturers ramp up production of everything from processed food to automobiles.[3] We calculate that African industries have the opportunity to double production to nearly $1 trillion within a decade (Figure 5.1). Three-quarters of that growth is likely to come from manufacturing to substitute imports and meet burgeoning local demand. But there is also an important opportunity to grow manufacturing exports and make Africa the world's next great manufacturing center as industries shift away from China to lower-cost regions. The ongoing revolution among industries without smokestacks, such as tourism,[4] agro-industry, and some information and communications technology based services, can serve as a development escalator as these industries share three key characteristics of traditional manufacturing—exportability, higher productivity, and high labor intensity (See John Page's Essay on Page 45).[5]

Africa's current population of around 1.2 billion people is projected to reach 1.7 billion by 2030.

2 Landry Signé, "Africa's Consumer Market's Potential: Trends, Drivers, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

3 Landry Signé, "The Potential of Manufacturing and Industrialization in Africa - Trends, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

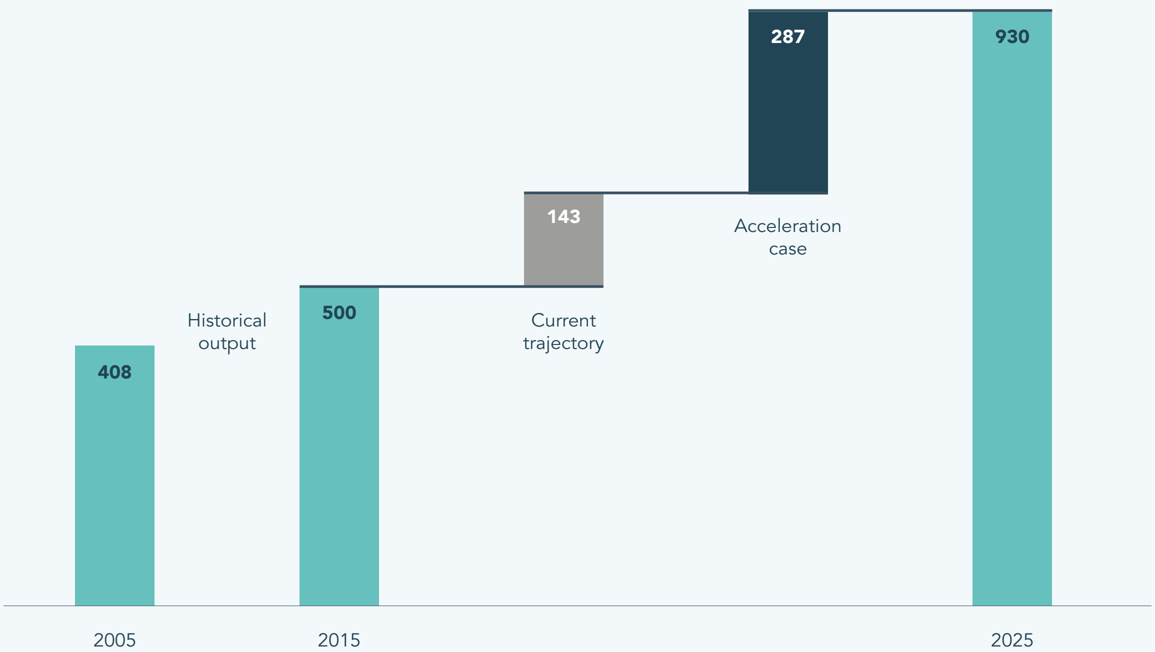
4 Landry Signé, "Africa's Tourism Potential: Trends, Drivers, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

5 John Page, 2018 and Brahima Coulibaly, 2018.

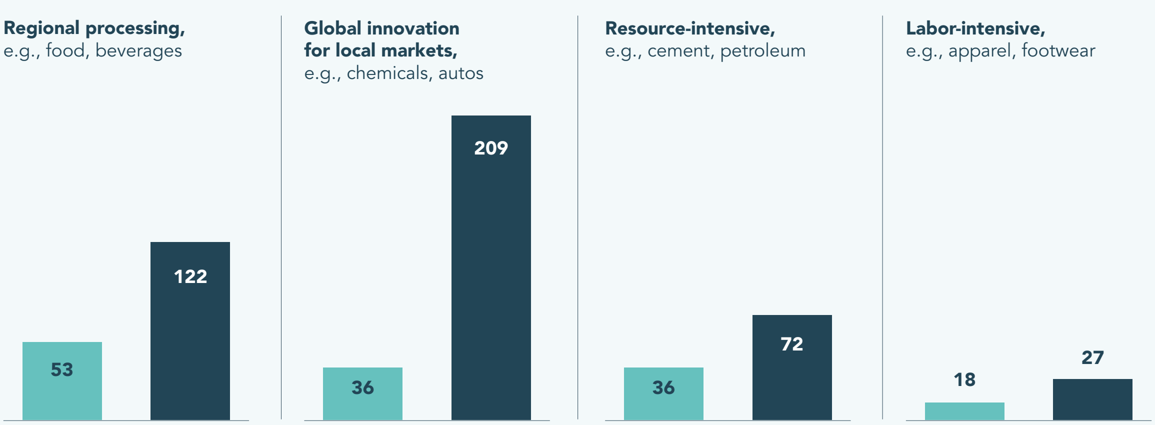
Figure 5.1 Africa has an opportunity to triple historical manufacturing output growth rates, and to double output, in 10 years

Potential revenue growth from African manufacturers by 2025.

Africa revenue output, $ billion, 2015 prices



Current trajectory vs. acceleration case, by key sector, $ billion, 2015 prices



Note: Figures may not sum, because of rounding.

Source: IHS; UNCTAD; McKinsey Global Institute analysis.

Opportunity 3. Africa is pushing to close its infrastructure gap

Poor infrastructure is one of the key impediments to investment and growth in Africa. For example, nearly 600 million Africans lack access to the electricity grid. But while Africa's infrastructure still lags behind that of other developing regions, significant progress has been made: Africa's annual investment in infrastructure has doubled to around $80 billion a year since the beginning of this century. That represents a big opportunity for investors and entrepreneurs with the imagination to help solve Africa's infrastructure challenges.

Opportunity 4. Innovations to unleash agricultural and resource wealth

Africa has long been known for its resource abundance in both agriculture and mineral resources. To date, though, Africa has struggled to translate these resources into shared wealth and sustained economic development. New innovations and investments promise to change that picture and create exciting growth opportunities for business. For example, in oil and gas, Africa is rich in unexplored, high-potential regions, and the continent has huge unmet demand for energy. We estimate that the domestic gas market in Africa will grow by 9 percent a year to 2025, by which time the continent could use up to 70 percent of its own gas.

Opportunity 5. The potential of increasing digital and mobile access

Sub-Saharan Africa saw the world's fastest rate of new broadband connections between 2008 and 2015, and mobile data traffic across Africa is expected to increase sevenfold between 2017 and 2022. Africa has more than 120 million active mobile money accounts, over 50 percent of the global total; this has leapfrogged many people over traditional banking products (See Njuguna Ndung'u's Viewpoint on Page 36). This trend will allow companies to improve productivity, speed up transactions, and access wider markets, and could add $300 billion to the continent's GDP by 2025.

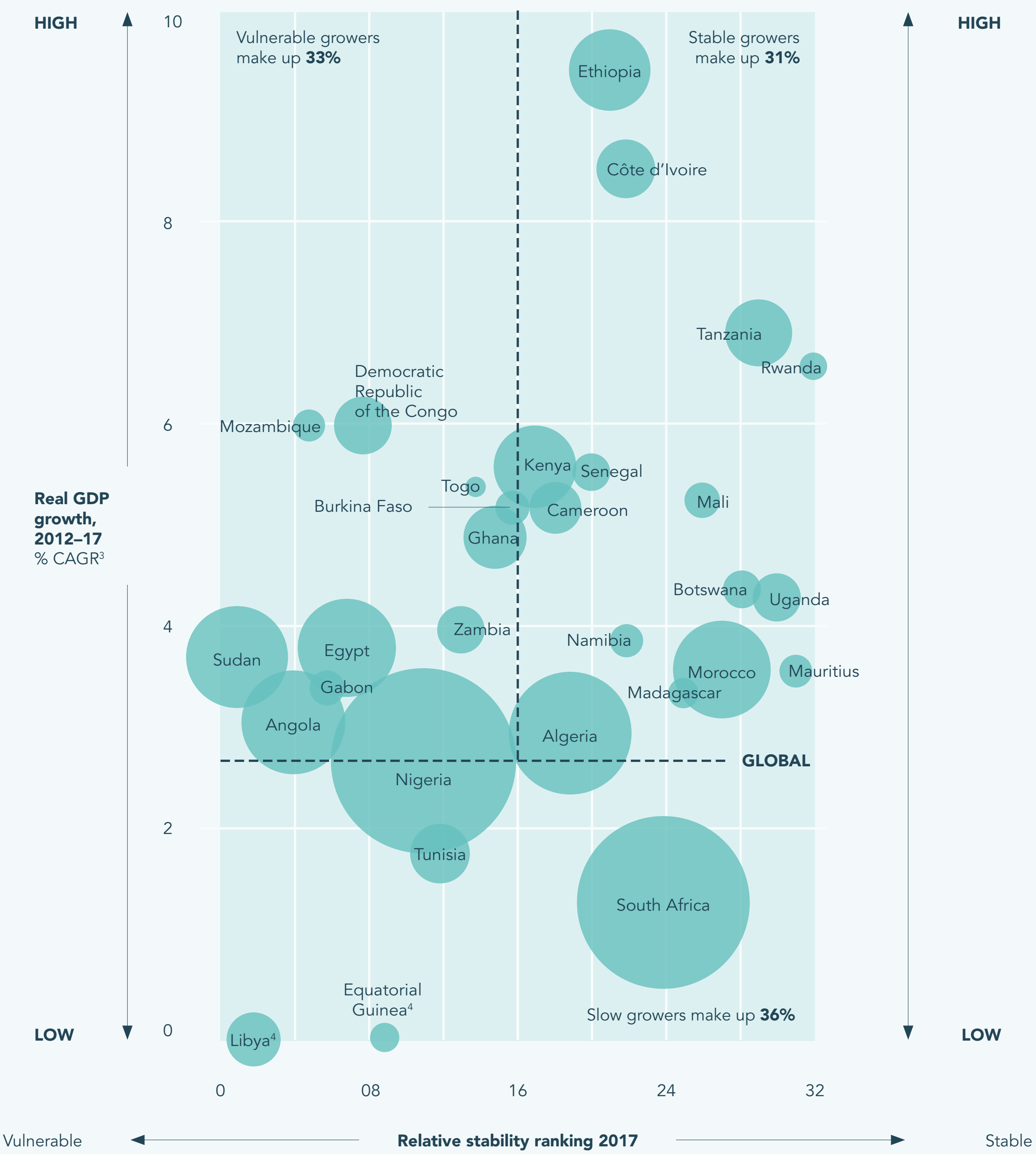
Africa's annual investment in infrastructure has doubled to around $80 billion a year since the beginning of this century.

Mapping the opportunities across Africa's diverse countries and cities

Africa's 54 countries are diverse in terms of population, development levels, growth rates, and stability. While Nigeria has nearly 190 million people and Ethiopia and Egypt have over 90 million people each, most African nations have populations below 20 million. Likewise, nine countries make up three-quarters of Africa's GDP, and in 2030 three countries will represent almost half of the household consumption on the continent: Nigeria (20 percent), Egypt (17 percent), and South Africa (11 percent). Many smaller countries, however, are growing quickly and increasing their share of continental GDP and consumption. We expect East

Figure 5.2 McKinsey's African Stability Index pinpoints countries' growth and risk profiles

Comparison of historical GDP growth rates to country stability rankings.[1]



1 Bubble size represents country GDP estimate, 2016.
2 The index covers 30 economies accounting for 97% of GDP.
3 Compound annual growth rate.
4 Equatorial Guinea and Libya are plotted manually because of negative growth rates over this period.
Source: MGI African companies database; McKinsey Global Institute analysis.

Africa and Francophone Central and West Africa to increase their share of Africa's overall consumption significantly.

To serve a sizeable market, companies must therefore shape a coherent geographic portfolio with prioritized countries and cities of operation. We designed one tool, McKinsey's African Stability Index, to support businesses and investors to balance their portfolios (Figure 5.2).

Three distinct groups of countries emerge from this analysis, each accounting for around a third of Africa's GDP:

> **Stable growers.** These economies are relatively less dependent on resources for growth and are progressing with economic reforms and increasing their competitiveness.

> **Vulnerable growers.** These countries each have at least one of three types of vulnerability. Some, such as Angola and Nigeria, are heavily dependent on resource exports. Other countries, such as the Democratic Republic of the Congo, face security or governance challenges. Finally, countries such as Mozambique are vulnerable to macroeconomic difficulties. For investors, vulnerable growers offer promising growth potential, but they also pose risks that need to be properly assessed and understood.

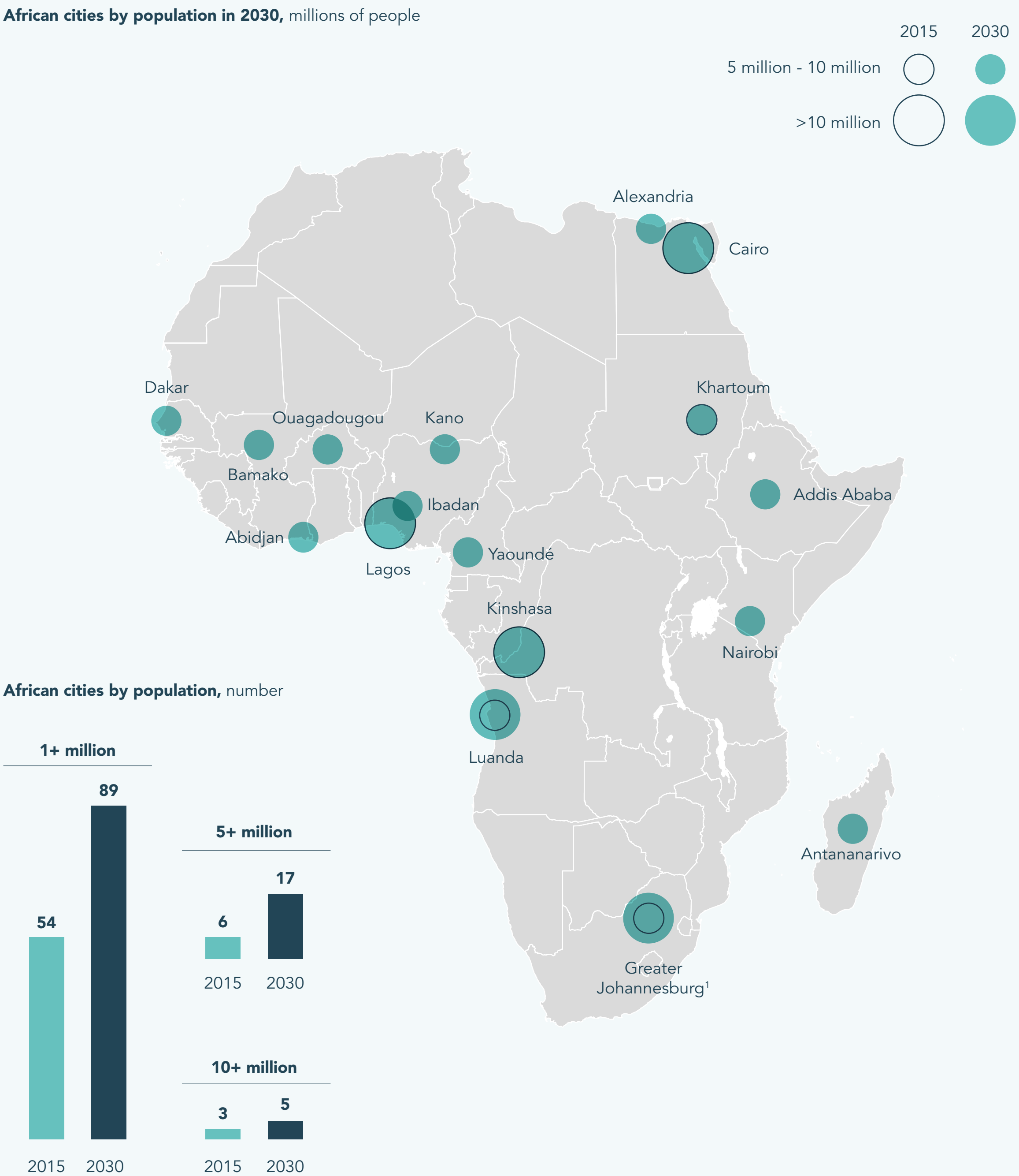
> **Slow growers.** This group includes Libya and Tunisia, countries affected by the Arab Spring, and Africa's second-largest economy, South Africa. Investors will need to assess growth opportunities at the sector level or use their activities as a base from which to expand into other parts of the region.

We also encourage investors to think about Africa's cities, not just its countries, as they construct their African portfolios. By the end of the next decade, Africa will have nearly 90 cities with at least a million inhabitants (Figure 5.3). Rapid urbanization[6] is one good reason why companies should make cities a central focus of their African growth strategies. Just as important, though, is the fact that per capita consumption in Africa's large cities is nearly double the average of these cities' host countries.

By the end of the next decade, Africa will have nearly 90 cities with at least a million inhabitants.

6 Eyerusalem Siba, "The New Urban Agenda and Demographic Dividend: Investments for Africa's Youth (Brookings Institution: 2018)."

Figure 5.3 By 2030, Africa will have 17 cities with more than 5 million inhabitants



1 Greater Johannesburg includes the City of Johannesburg, Ekurhuleni, and the West Rand.

Source: United Nations World Population Prospect, June 2014 revision, U.N. population division; MGI Cityscope; McKinsey Global Institute analysis.

Winning in Africa

Although Africa's successful firms differ widely in their geographic and sector focus, what they have in common is the imagination to see the continent's unmet needs as opportunities for entrepreneurship, and the long-term commitment required to build businesses of meaningful scale. Indeed, the fastest-growing and most profitable businesses in Africa typically see challenges as a spur for innovation.

Successful African innovators are also deeply conscious of the barriers to their businesses' success, and careful to build long-term resilience into their business models. Consider the example of Nigeria-based Dangote Industries, which manufactures commodities in massive volumes, and has made founder Aliko Dangote Africa's richest person. Dangote has built a shock-proof manufacturing model through vertical integration of the supply chain, on-site power generation, robust engagement with government, and an internal manufacturing academy (see his viewpoint on his experience on Page 86).

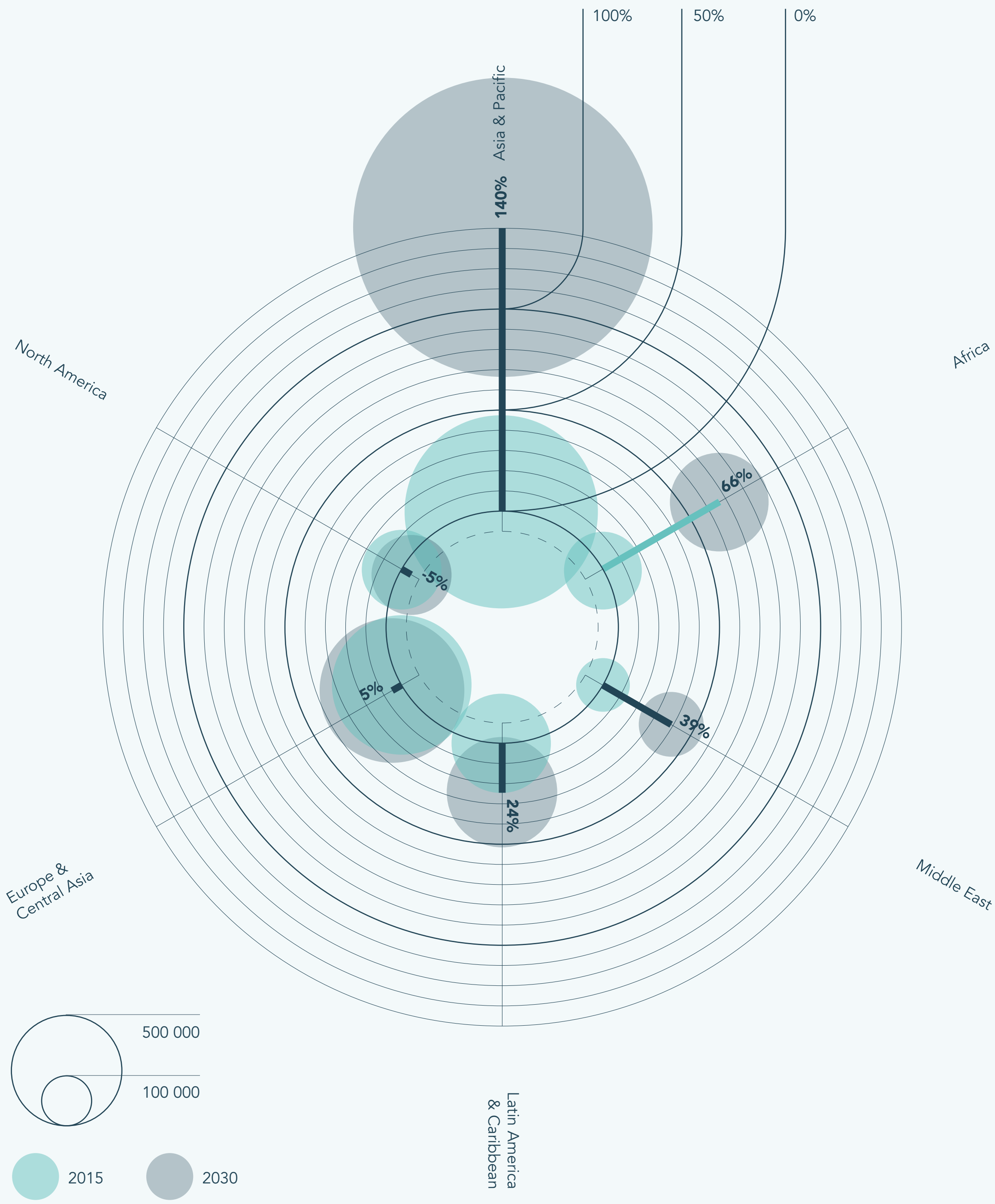
African innovators are often driven by a deeper purpose. They look at Africa's high levels of poverty and its gaps in infrastructure, education, and healthcare, and they do not see barriers to business, but human issues they feel responsible for solving. Strive Masiyiwa, chairman of the pan-African company Econet Group, remarked: "Africa is a continent with extraordinary challenges, and it's a cop-out just to wait for governments to deal with them. If you see a problem, then think about how you can solve a piece of it."

For entrepreneurs ready to solve problems and innovate to meet Africa's unmet needs there is tremendous opportunity for growth. One example is Paga, a Nigerian mobile money startup that has signed up more than 8 million users in less than a decade—and today, processes $2 billion a year in payments. Other innovative problem solvers include Viola Llewellyn (see Viewpoint on Page 88), Joe Huxley (see Viewpoint on Page 91), and Adam Grunewald (see Viewpoint on Page 53). Africa has room for many more such entrepreneurs and investors. We hope you will be one of them.

For entrepreneurs ready to solve problems and innovate to meet Africa's unmet needs there is tremendous opportunity for growth.

Figure 5.4 Global middle class growth

Africa is poised to be the next frontier for a thriving middle class with the region experiencing a 66 percent growth in its middle class by 2030, only falling behind to Asia's tremendous 140 percent growth fueled by South Asia.



Source: Brookings calculations.

VIEWPOINT

Doing business in Africa: My experience

Aliko Dangote
@AlikoDangote - President, Dangote Group

01.

As an entrepreneur, I have traversed the length and breadth of Africa from Cape Town, South Africa, to Cairo, Egypt, exploring the huge potential often hidden throughout the continent.

The business potential of the continent is tremendous in various sectors, including energy, infrastructure, agriculture, natural resources, and information and communications, offering opportunities for entrepreneurs. For example, with about 65 percent of the world's uncultivated arable land, Africa has the potential to ensure its own food sufficiency and be a major supplier in global food markets. Similarly, the continent has the world's largest reserves of vanadium, diamonds, manganese, phosphate, platinum-group metals, cobalt, gold, aluminum, and chromium, offering opportunities for entrepreneurs in the mining sector.

Africa presents many challenges to doing business, but to those who are willing to learn and understand the intricacy of the region, there are massive opportunities for growth and success. For example, while infrastructural deficits look despairingly challenging to many, I am inspired by opportunities and not discouraged by the challenges. The $30 billion of annual investment in power and energy needed in Africa may seem like a half-empty, risky situation, but I see a glass half-full of opportunity to meet unmet needs. Similarly, the energy of youth bursting at its seams portends a binary action for good or for bad. I see a ray of hope in the former.

The perception of risk often exceeds real risk and the doing business environment is improving rapidly in several countries. Real opportunity is based on how you perceive the risk as a half-full or half-empty glass. Understanding the local context will help to better realign actual and perceived risk. There is also progress on reforms to improve the business environment with countries such as Mauritius, Rwanda, Botswana, Nigeria, South Africa, and Kenya all offering ease in doing business through conducive environments and incentives.

Mauritius now ranks 25th in the Doing Business rankings compared to its former 49th rank, and remains the highest ranked economy in sub-Saharan Africa. Rwanda ranks 41st, Kenya 80th, Botswana 81st, and South Africa 82nd. According to the World Bank, Rwanda ranks among the best globally in the Doing Business areas of Registering

Property (ranking second) and Getting Credit (ranking sixth). In registering property, Rwanda has an efficient land registry where it takes seven days to transfer property and costs only 0.1 percent of the property value, the same as in New Zealand. Mauritius has among the least cumbersome business regulations in two Doing Business areas: Dealing with Construction Permits (ranking ninth) and Paying Taxes (ranking 10th).

That said, policy uncertainty and regulatory inconsistency must give way to transparency and accountability in governance, backed by political will to ensure and promote regional integration and backward integration.

In sum, Africa offers the world the biggest deal now and the continent is open for business, but the mindset of entrepreneurs and businesses is important to appreciate and seize opportunities. It is time to refocus the lens through which we see the continent.

Figure 5.5 Biggest business obstacles for small and medium-sized enterprises in sub-Saharan Africa

Access to finance remains the largest obstacle for small and medium-sized enterprises in sub-Saharan Africa. Among these, almost 75 percent of the SMEs surveyed were financed by internal funds and only 10 percent used traditional banking loans.

Note: Survey size N=13,722 (number of enterprise-years). Survey years: 2011-2017 in sub-Saharan Africa.

Source: European Investment Bank. 2018. "Banking in Africa: Delivering on financial inclusion, supporting financial stability."

VIEWPOINT

Winning in Africa's fintech: The Ovamba way

Viola Llewellyn
@VALlewellyn - Co-Founder & President, Ovamba

02.

All businesses need capital to grow. This is especially true in most of Africa. Ovamba, which is often referred to as a "fintech" platform, specializes in trade and technology. It was founded in 2013 and launched a successful pilot in Cameroon in 2014. Ovamba's strategic focus is to offer businesses in the formal and informal sector short-term capital for the importation of wholesale/retail goods and to support exportation of commodities such as coffee, cocoa, and cashews. The inspiration came to us when we observed how the under-developed business ecosystem was compounding the problem of access to capital. Applied technology, especially in the finance and trade sectors, brings the creative freedom of innovation to markets and demographics where traditional solutions are restricted by regulation, leadership, or understanding of the changing needs of businesses.

Having noticed that banks and microfinance institutions were not closing the credit gap nor creating sustainable wealth, we were inspired to take a multi-track approach and offer a combination of capital and business support (such as logistics and warehousing), deep analytics, and alternative risk assessment algorithms. Ovamba specializes in culturally attuned innovations that respond to Africa's varied ecosystem to fund businesses with the capital they desperately need to grow. We do this via mobile apps and online platforms that efficiently meet the demands of fast-moving small and medium-sized enterprises in ways that banks cannot. As one of the few providers of what we refer to as "tradetech" solutions in the market, we have had a long honeymoon and have now expanded beyond Cameroon into Côte d'Ivoire, with more markets coming online.

To date, Ovamba has funded approximately 270 small businesses with over 22 million euros ($25.4 million). Some of Ovamba's customers are on their seventh transaction. Some customers have seen their businesses grow almost 450 percent over an 18-month period. Access to global suppliers has brought new diversity of products to the wholesale space. Demand for cocoa financing is up by more than 25 percent. New funding partners have been identified to satisfy this pipeline. Looking ahead, 2019 and 2020 look very promising indeed.

We have great optimism that small and medium-sized enterprise development in commodities exportation will continue to grow, requiring banks to provide more than basic services. At present, banks do not seem to be able to keep pace with the needs of these businesses. Ovamba believes this is an opportunity to innovate alternative risk models and financial services, such as sharia-compliant financing. These innovations are key to unlocking this new asset class. New asset classes along with capital velocity will go a long way to closing Africa's business credit gap, which by some World Bank reports has continued to increase past $360 billion.

An improved investment environment and private sector performance will attract foreign direct investment into regions with a thriving trade economy. Excited as Ovamba is about having a head start in this new asset class, we realize that ill-informed policies, heavy-handed regulation, and prohibitive taxation could slow our progress and quell the inflow of much needed capital from external investors.

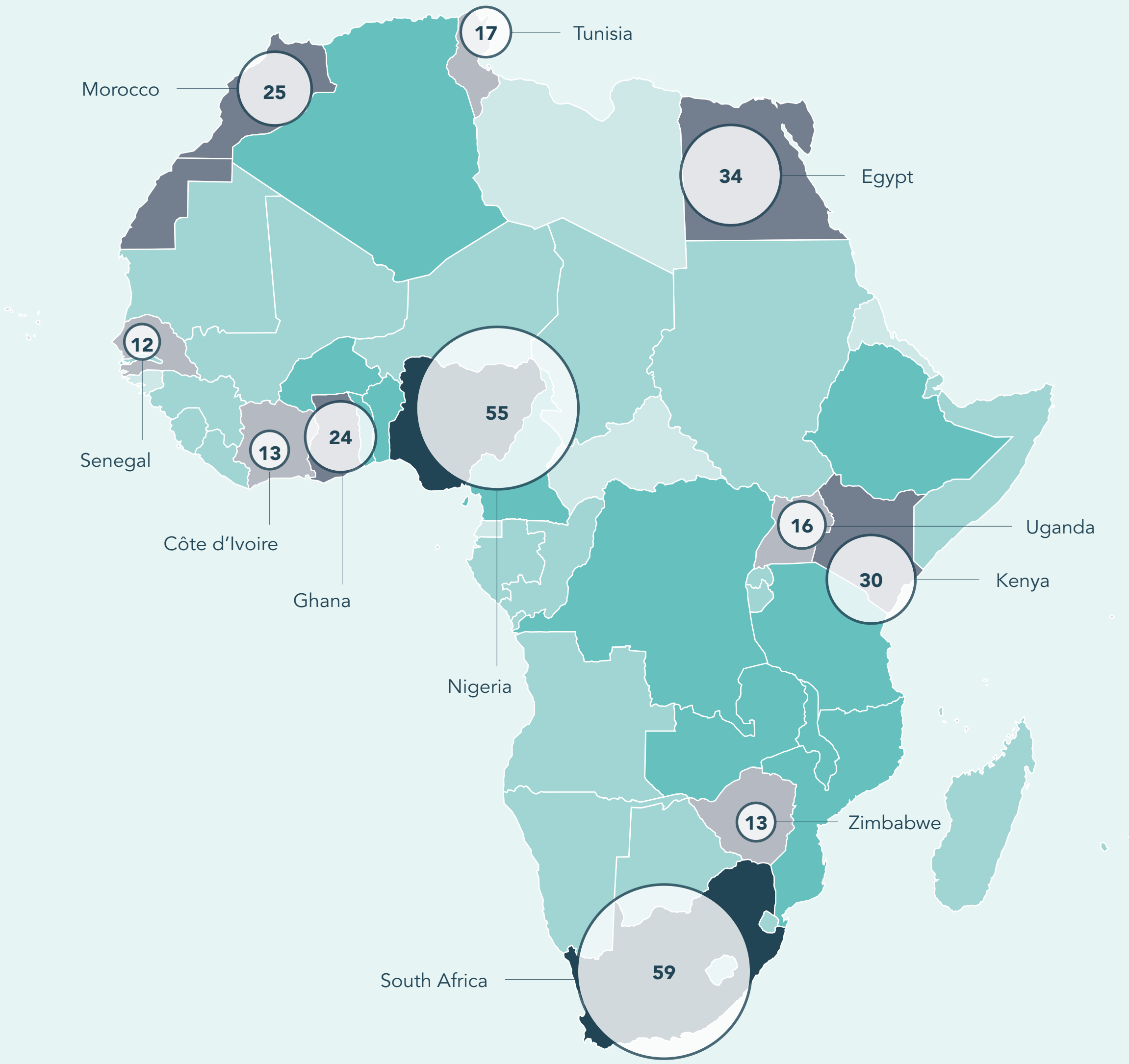
Over the next few years, we will focus on improving literacy and financial awareness in the informal sector because better-educated business owners are a better investment risk. We have created a natural language chatbot that uses African languages to teach business efficiencies to customers who are not "classically" trained in business in order to drive financial inclusion. Designing a paradigm shift for Africans to see finance as a tool for success is the prize and promise of fintech. Solutions such as ours that use artificial intelligence and behavioral metrics will have the most impact.

In considering areas of risk, instability in Central Africa is of great concern. Cyber security and corruption in Cameroon and its bordering neighbors such as Gabon will require constant vigilance. Also, access to a steady source of blended capital will be required. Our main challenge is and always will be politics and the governments that are afraid of technology, afraid of change, and lack appreciation of the value of Africa's private sector and growing middle class.

We credit our success to our business philosophy. We do not view Africa's business challenges as a capital problem, but instead as an ecosystem development opportunity. We answer the problem that is rarely articulated: How can we build wealth and financial freedom for all Africans? The answer: By combining investment, trade, culture, and financial awareness into supply chains and the collective business consciousness.

Figure 5.6 Africa tech hubs landscape

In 2018 there were 442 active tech hubs in Africa. This represents a 41 percent jump from 2017 estimate of 314 tech hubs.



47%	26%	27%
Incubators & Accelerators	Coworking Spaces	Other Tech Hubs

Fastest growing ecosystems (2016-2018)

- **Democratic Republic of the Congo** +200%
- **Zambia** +200%
- **Côte d'Ivoire** +160%
- **Togo** +150%
- **Nigeria** +139%

Top 5 ecosystem cities by number of Active Tech Hubs

- **Lagos** - 31 Hubs
- **Cape Town** - 26 Hubs
- **Nairobi** - 25 Hubs
- **Cairo** - 23 Hubs
- **Accra** - 16 Hubs

■ >50 Tech Hubs ■ 20-49 Tech Hubs ■ 10-19 Tech Hubs ■ 5-9 Tech Hubs ■ 1-4 Tech Hubs ■ No active hub

Source: Global System for Mobile Communications.

VIEWPOINT

Financing the frontier: Risk, reward, and reality in Africa's fragile states

Joe Huxley
@JoeHuxley - Director, Regional Strategies, FSD Africa

03.

Like most bankers, Patrick Kiiru did not imagine Congolese refugees as his ideal clients, seen by most as simply hungry, homeless, and transient. But after three days with FSD Africa in Gihembe Refugee Settlement—a bumpy one-hour journey north of Rwanda's capital Kigali—the head of diaspora banking at Kenya's Equity Bank Group began to change his mind.[1]

> *"You just have to get your boots on the ground, you have to roll your sleeves up, you have to walk into a camp, you have to talk to a few people."*
>
> **Patrick Kiiru,** Equity Bank Group

After having experienced the refugee finance business case firsthand, Kiiru describes reaching an "aha" moment: "I can solve this problem. It is possible to serve... refugees profitably." Refugees need more than food and shelter; they, too, can benefit from financial services.

With targeted financial and technical support from two United Kingdom aid-supported agencies—FSD Africa and Access to Finance Rwanda—Kiiru's bank is preparing to offer its Eazzy Banking mobile money product to Rwanda's adult refugee population of more than 89,000, with plans to expand in other countries. With a footprint in Kenya, Uganda, Rwanda, and the Democratic Republic of the Congo (DRC), this may be the early days of a region-wide approach by Kiiru and his team.

1 https://www.youtube.com/watch?v=t3vCiUJIRv0.

This risk perception versus reality gap is not distinct to banking refugees. The theme persists across all 26 fragile and conflict-affected states in sub-Saharan Africa, as defined by U.K. aid. There are two big picture consequences.

First, development agencies and their partners with a focus on private sector development can neglect to deliver services where they are needed most. According to a 2016 CGAP survey of 19 financial inclusion donors in sub-Saharan Africa, the highly fragile states of Chad, Central African Republic, and Somalia had only one active donor each.[2] This means some countries, regions, and communities remain trapped within a humanitarian crisis paradigm.

Second, development financiers, commercial investors, and business leaders can misprice risk—adding a premium based on perception rather than the reality. This means capital is not being efficiently allocated. According to World Bank figures in 2017, excluding Ethiopia, Kenya, and Nigeria, just 3.23 percent of all foreign direct investment in sub-Saharan Africa reached fragile states.[3] This mean that, in fragile states, many investment-ready firms are left without the long-term finance they need to survive and grow.

This is not to say fragile states are not difficult places to invest and do business. Since 2016, FSD Africa's own increasing fragile states footprint in the DRC, Sierra Leone, Zimbabwe, and for forcibly displaced people has had to weather a cycle of instability: political (e.g., military coups, new central bank governors), environmental (e.g., Ebola outbreaks, mudslides), and economic (e.g., currency depreciation, inflation).

But the people, entrepreneurs, and investors in Africa's fragile states are resilient and resourceful. The FSD Africa team has witnessed numerous examples of smart practices which help to mitigate risk.

On the investor side, locally born nationals, who are better able to price risk accurately, are particularly active; many accept that there will be arid periods when deploying capital is too risky, and so switch to running their own enterprises; and many deals rely on financial innovation to hedge against risks.

On the donor side, some build a presence—people and platforms—which lays dormant when things are difficult, but which springs into action when pockets of opportunity present themselves. Others complement their fly-in, fly-out model with a permanent local lead, who provides a depth of relationships and market intelligence to build and maintain momentum in good times and bad.

As the world grows more prosperous, international development practices will only increase in concentration in the left-behind nations, regions, and communities. As a result, the fragility agenda may slowly become the international development agenda.

2 *Interactive Data on International Funding for Financial Inclusion in 2016*. CGAP: 2018. http://www.cgap.org/research/data/interactive-data-international-funding-financial-inclusion-2016.

3 *Foreign direct investment, net inflows (BoP, current US$)*. The World Bank. https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.

As the world grows more prosperous, international development practices will only increase in concentration in the left-behind nations, regions, and communities.

We need to continue to challenge the prevailing humanitarian discourse that predominates in fragile states—that food, shelter, and security must be directly delivered by donors, and that there is little room for private sector enterprise to deliver welfare-enhancing products and services. By challenging perceptions of risk in fragile states, we can start to build a more balanced approach to aid delivery for those people and places most in need.

VIEWPOINT

Discovering a more inclusive private sector development where least expected

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04.

Small and medium-sized enterprises (SMEs) have the lowest rates of business survival worldwide, and it is generally difficult to grow employment in SMEs. Africa is no different.[1] Viable businesses struggle with typical growth challenges around lack of access to capital and markets and the skills gap. Finding sustained solutions

1 See for instance, Siba and Söderbom (2011), "The Performance of New Firms: Evidence from Ethiopia's manufacturing sector", University of Gothenburg, Mimeo.

to these core private sector development challenges requires exploring territories beyond providing targeted support to SMEs, including building a more inclusive entrepreneurial ecosystem and embracing a more effective labor market and social protection policies.

Entrepreneurship needs to be nurtured, which should start with diagnosing the "scarcest resource" for enterprise development to maximize impact. Reliable funding is the lifeblood of any startup, yet in-depth knowledge of and experience in both domestic and international markets and managerial capability to run a firm of substantial size may well be far more important success factors than basic technical production knowledge.[2] So how are the continent's young populations and underrepresented groups supposed to acquire these much-needed entrepreneurial skills?

Africa is also home to one of the highest rates of necessity entrepreneurs in the world.[3] Views on how to support necessity entrepreneurs are varied, ranging from giving the poor money to make use of their existing skills, to building firm capability, to overcoming sectoral and spatial mismatches to help necessity entrepreneurs transition out of existing enterprises or change the sector and location of current employment.[4] The chosen tactic needs to be based on effective diagnosis of the scarcest resource and the market failures to be addressed. In many cases, microcredit and the provision of basic business trainings on technical skills can fail to generate meaningful impact on business performance of SMEs, notably for women-owned businesses.

While SMEs may have helped lift millions out of poverty through employment, provided first time employment to youth, and improved the wellbeing of SME owners, they have failed to create the large-scale and high quality jobs that Africa needs.[5] At the core of the challenge to SME development in Africa lies failed labor market policies and skill investment strategies to match the skill needs of growing industries. If growth of small firms into medium- or large-scale enterprises is a measure of success, most of these targeted micro-interventions would best be viewed as extensions of livelihood support programs. Within these programs, Africa needs the right mix of private sector development and labor market and social protection policies with clarity on which objectives are being promoted to improve targeting.

2 Based on in depth interviews with successfully large companies in Ethiopia, Ghana, Mozambique, Tanzania, and Zambia. See for instance Sutton, John and Kellow, Nebil (2010), An enterprise map of Ethiopia. International Growth Centre, London, UK.

3 Global Entrepreneurship Monitor (2018), Global Report 2017/2018.

4 Banerjee, A. V., & Duflo, E. (2011). Poor economics: A radical rethinking of the way to fight global poverty. New York: Public Affairs.; McKenzie, David J. 2017. *How effective are active labor market policies in developing countries? a critical review of recent evidence (English).* Policy Research working paper; no. WPS 8011; Impact Evaluation series. Washington, D.C.: World Bank Group.

5 Page and Söderbom (2015): "Is small beautiful? Small Enterprise, aid and Employment in Africa", *African Development Review* 27(S1):44-55; Page and Shimeles (2015), "Aid, Employment and Poverty Reduction in Africa", *African Development Review* 27(S1):17-30; David McKenzie (2018) Marginal changes for the many or focusing on the few? Trade-offs in firm support policies and jobs, Development Impact blog, The World Bank.

Beyond smart policies, inclusivity must be actively pursued by a range of stakeholders. This priority should be reflected in governments' procurement policies, budgeting, and engagement with social entrepreneurs and innovators, as well as in the private sector's participation in inclusive business models to advance both economic and social returns to investment.

Notably, for communities of stakeholders who chose to support a segment of underrepresented populations such as women and youth, a focus on the entrepreneur helps to identify binding constraints, leverage key strengths, and direct effective support. It is worth noting that women bring different sets of skills to labor markets; face different challenges within and outside their enterprises; and thrive in settings where a web of institutions and range of stakeholders promoting inclusion, forming an essential component of women's "empowerment capital," safeguard and promote their interests and address their specific challenges. The crucial ability here lies in identifying which skills and resources a woman needs to thrive in her given empowerment capital, and in expanding and enriching the latter.

Emerging evidence from psychology and experimental economics has advanced our understanding of effective pathways to best support women-owned SMEs. Notably, for successful interventions to be transformative, they need to move beyond basic access to financial and human capital and address central psychological, social, and skills constraints that women entrepreneurs face. Interventions which saw more transformative effects for female entrepreneurs have expanded capital and skill-centric programs with the provision of softer skills; agency, leadership, and mind-set considerations; market-focused programs, such as training to identify new market opportunities; and gender-lens investing to accommodate women participants' schedules and provided free or affordable child care.

Finding lasting solutions to development challenges and creating a generation of entrepreneurs requires tapping into existing capabilities while filling gaps and scaling up successful pathways.[6] Identifying cost-effective pathways should be an agenda of high priority to guide policies and inclusive and sustainable investments.

6 Ndidi Okonkwo Nwuneli (2016). Social Innovation in Africa: A practical guide for scaling impact. Routledge, New York.