



Enterprising Nigeria: How “Job Seekers” can become “Job Creators” through Functional Entrepreneurship Ecosystems

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EXECUTIVE SUMMARY

In 2040, Africa will be the continent with the largest working population in the world. This implies that jobs will be needed for this rapidly growing population. Current projections show that underemployment and unemployment rates will rise, causing a shortfall in the number of available jobs for the working population. Entrepreneurship has been identified as a promising approach to “transform job seekers into job creators”, hence the challenge – how can Nigeria’s enterprising youths become sustainable job creators? At the core of this challenge are three key issues:

(1) translating the high volume of entrepreneurial activities in the country into investable job-creating ventures, (2) Closing the massive skills gaps among young Nigerian entrepreneurs, (3) Building better-functioning entrepreneurship and innovation ecosystems to support startups. This policy brief submits that fostering collaboration amongst key ecosystem players can enhance the success rate of startups in Nigeria. It proffers key ecosystem support activities that can help young entrepreneurs before submitting three key policy options: Creating new entrepreneurship centres of excellence across Nigeria, creating a blueprint for entrepreneurship development in Nigeria, and developing knowledge-sharing systems within the entrepreneurial economy.

INTRODUCTION

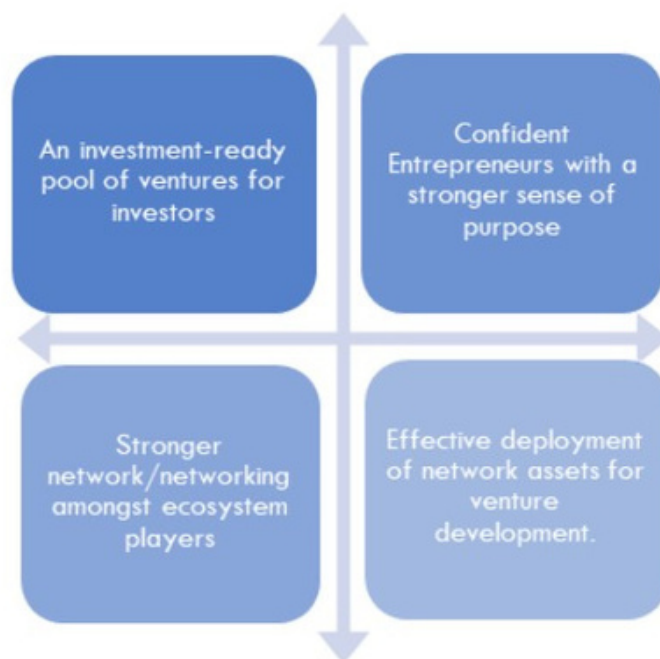
Young Nigerians who venture into entrepreneurship desire to achieve three things: to make a decent living, to solve wicked problems profitably, and to ultimately build investable businesses. Yet, in achieving these, they are confronted by low levels of technical and business skills necessary to achieve their dreams. With an 85 percent startup failure rate in the country (African Business Communities, 2023) and very limited access to top-quality management education at the university level able to fill this void, a huge demand for validated and localised technical and business skills exists in the country. For these youths, access to credible technical and business education with reputable institutions, as well as coaching and mentoring to develop their business ideas, are their short-term focus. Their long-term focus is gaining exposure to funders, investors and other key stakeholders who can support their ultimate dream of building investable businesses.

The sprouting of technology hubs (643 as of the end of 2019) (Shapshak, 2019), typically functioning as incubators, accelerators, and co-working spaces, have attempted to address the skills gap by providing support services (such as training and mentoring, etc.) and access to critical infrastructure (working spaces and high-speed internet) for young entrepreneurs to transition from idea to market. Still, it has become apparent that they are not universities and are unable to fully commit to eradicating the massive skills deficiency, especially business skills, for which they have minimal competency. Similarly, for investors, access to portals where credible and validated investment-ready startups are forged remains a critical short- and long-term need. The supply of investment capital in the Sub-Saharan Africa (SSA) region remains significantly mismatched with demand from validated small and medium enterprises (SMEs) businesses, giving rise to the “missing middle” financing gap.

More practically, there is strong evidence that a lot of young entrepreneurs in Nigeria are building in isolation, under pressure and are disconnected from the broader ecosystem, thereby contributing to potentially high failure rates. Yet, ecosystem players such as academic institutions, industry partners and investors have the knowledge, human and financial assets to offer specialised technical and market support for young entrepreneurs. Hence, it seems that while relevant key stakeholders that make up functional innovation ecosystems are present, the synergy amongst them seems weak and needs to be strengthened if “job seekers” are to become “job creators.”

The four key objectives of the agenda presented in this policy brief are summarised in Figure 1 below and listed as follows: nurturing purposeful entrepreneurs, stronger networking among key ecosystem players, deploying the assets of these networks for venture development, ultimately resulting in an investment-ready pool of venture for investors.

FIGURE 1: THE KEY OBJECTIVES



This policy brief submits that by building a bridge between the 'research economy' (African Universities that can provide validated management knowledge) and the 'market economy' (investors and the tech hubs who can provide market support), through multi-stakeholder collaborations, the high volume of entrepreneurship activities on the continent will benefit from the right level of skills, knowledge and better-functioning ecosystem that can catalyse change and drive economic growth.

The key questions pertinent to this brief, therefore, are:

- How can Nigeria's enterprising youths become sustainable job creators?
- What key support programmes should functional entrepreneurship ecosystems offer young entrepreneurs in Nigeria?

Entrepreneurship ecosystems (EE) consist of a group of individual stakeholders which are heterogeneous in nature, interconnected and interdependent and combine to produce and sustain entrepreneurial activities - these elements include capital markets, sociocultural values, community agents, political leadership and institutions. These elements, while in silos, can play their part in contributing to entrepreneurship development but are usually insufficient to sustain growth. However, working in tandem can ensure that these elements address the root challenges of entrepreneurship and create the enabling environment for business success.

EEs do not just spring up overnight; they are the result of careful and deliberate actions of entrepreneurs and other elements in the ecosystem to build a strong nexus, one that is able to adapt and respond to its environment and is resilient to internal and external forces. EEs are intricately linked between micro and macro-level processes within the ecosystem, and every EE is unique, depending on its local context and the political, social and economic situation surrounding it; the diverse group of stakeholders, venture capitalists, business models, and support organizations and the shared socio-economic connections.

Identifying the connections between the partners and what makes the partnership work, the diversity and coherence, builds resilience across the ecosystem layers.

Businesses and SMEs have, at one time or the other, been enabled directly or indirectly by governments that have successfully created the environment for investments and policies that sustain the entrepreneurship ecosystem. However, there is only so much the government can do; this is where strong partnerships and shared responsibilities between the organized private and non-profit sectors come in. There have been instances where private institutions, coalitions of entrepreneurs, investors and professional bodies and organisations have shouldered certain responsibilities in the EE in terms of financing, educating and advocating for favourable policies in entrepreneurship. For example, the activities of organisations like the British Council in partnership with local and foreign stakeholders to fund and support programmes for entrepreneurs in Nigeria demonstrates how other key stakeholders have played crucial roles in developing entrepreneurship. In most cases, a unified private sector that shows real leadership and has clear solutions to entrepreneurial challenges makes it easier for the government to engage and work with to build resilient entrepreneurship ecosystems.

Strong networks connect entrepreneurs with investors, mentorship and skilled human capital - the three critical resources required for venture growth. Investors and venture capitalists can use their networks to evaluate potential investments, and entrepreneurs use their networks to identify skilled talents to work with and share knowledge for their startups to thrive within the ecosystem, and to avoid common business pitfalls. However, the critical part of the ecosystem depends on entrepreneurs themselves. The bulk of the resourcefulness, readiness and mental toughness rely on them.

The major challenge for ecosystem partners is how governments can work with entrepreneurs and other stakeholders to develop a strong, functional EE. A healthy ecosystem has a strong culture and network of successful entrepreneurs as well as a wealth of entrepreneurial knowledge. The presence of clusters - concentrations of interconnected companies, specialized suppliers, service providers, training institutions, and support organisations - can help to build a healthy ecosystem. The role of the government in ecosystem development is very crucial, and the wrong moves within the ecosystem elements can lead to perverse outcomes.

Encouraging young people to have entrepreneurial aspirations, for example, can have a boomerang effect and cause brain drain if those aspirations are foiled by a hostile environment. Ecosystems face disturbances arising from shifting external and internal conditions (Roundy, Broackman and Bradshaw, 2017). Having a clear map of what an entire ecosystem looks like will help governments take the first steps without losing sight of what comes next.

In the long-term, social and digital media can also play an important role in supporting local entrepreneurs. The media can play an important role not just in celebrating wins but in changing attitudes. In Puerto Rico, El Nuevo Día, the largest daily newspaper, supported local entrepreneurship by running a weekly page of startup success stories. Just as grape growers withhold water from their vines to extend their root systems and make their grapes produce more-concentrated flavour, governments should “stress the roots” of new ventures by meting out funds carefully, to ensure that entrepreneurs develop toughness and resourcefulness and weed out opportunities. When well-conceived and managed, entrepreneurship ecosystems can take 20 years or longer to generate measurable impact on entrepreneurship.

Public Support Systems

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established to support SMEs through rural industrialization, poverty, and new job creation. The agency is responsible for connecting SMEs in Nigeria with domestic and foreign funding opportunities. The main focus of SMEDAN initially was supporting agripreneurs, but more recently, tech entrepreneurs have become major beneficiaries of grant and finance opportunities through the agency. The National Information Technology Development Agency (NITDA) was established to implement the Nigerian Information Technology Policy and ensure adequate ICT infrastructure. The Federal Government also signed the National Broadband Plan for 2020-2025 to achieve 70 percent broadband penetration by 2025.

Startup Incentives

When starting up a business in Nigeria, entrepreneurs have the option either to register the business as a corporate entity (e.g., a company) and pay taxes to the federal government or register as a non-incorporated entity (e.g., partnerships and enterprises) and pay taxes to the State.

This incentivizes states to encourage businesses to register as non-incorporated entities, leading to tensions at state and federal levels as to who should collect the taxes for the businesses. This friction between the State and Federal governments can be observed in the clauses of newly passed legislation, such as the recent Finance Act. The Finance Act states that companies with less than ₦25 million annual turnover do not pay income tax, while companies with a turnover between ₦25 million to ₦100 million will pay income tax at a reduced rate of 20 percent. This is a reduction from the previous 30 percent, which now applies to companies with annual turnovers above ₦100 million (Federal Inland Revenue Service, 2021). For every equity investment made by a venture capital company in a startup in Nigeria, there are deductions from the amounts to be paid as tax from the startup company's income tax each year for the first five years; 30 percent is deducted in the first two years, 20 percent in the third year and 10 percent in the fourth and fifth year.

Investor Incentives

Nigeria also offers incentives for venture capitalists in the form of capital gains taxes associated with the sale of startups. The Office for ICT Innovation and Entrepreneurship (OIIE) in Nigeria focuses on enabling startup growth by eliminating the barriers that startups face while supporting innovation and entrepreneurship. This is done through programmes such as The ICT for Change Empowerment Program, which focuses on ICT innovation and entrepreneurship.

Angel Investment in Nigeria

In Nigeria, both the number of angel investors and the investments they make are limited. Data related to large local corporations in Nigeria contributing to the startup ecosystem remains unavailable. Angel investment is not supported by incentives compared to other economies, limiting individuals with high net worth to invest in riskier options such as tech entrepreneurship. On the other hand, Nigerian tech entrepreneurs are resilient and well-informed. Many of them actively apply for international grant programs to some good degree of success. With many founders' journeys into entrepreneurship being based on necessity as opposed to choice, their innovations are usually centred on solving social issues, which aligns with the focus of many foreign grants.

Entrepreneurship Education

Nigeria's spending on education is one of the lowest in Africa, with less than 7 percent of the national budget invested in education. As a result, the education standards are deemed low, suffering from inadequate funding and deteriorating teaching capabilities. Universities lack quality educational research and are insufficient to prepare students to solve marketplace challenges and be entrepreneurs. Nonetheless, Nigerian universities are required to provide compulsory entrepreneurship education. However, the effectiveness of the entrepreneurship education being provided and the overall objectives and execution are still relatively unclear. Young entrepreneurs still graduate from universities with huge entrepreneurship skills gaps. Technology has made it easy for young entrepreneurs to access massive open online courses with leading global universities. In addition, a lot of the formal and informal trainings provided by different stakeholders has shored up knowledge gaps. However, most young entrepreneurs still desire to access validated, relevant and valuable management education from credible institutions.

The main focus of ecosystem support activities should be to de-isolate young entrepreneurs and connect them to an ecosystem of knowledge intervention and technical support services. By this, too, the silos amongst key ecosystem stakeholders can be broken to allow for better functioning support systems that can improve the chances of startup success in Nigeria. Some of the key activities that have been proven through research and practice to benefit young entrepreneurs in their journeys towards building sustainable ventures include:

Validated Management Education Programmes - These programmes can be delivered in partnership between academic institutions and industry practitioners. Knowledge intervention can be based on the identified knowledge gaps as well as the learning needs of young entrepreneurs. The objectives enhance business founders' entrepreneurship skills and ultimately facilitate the development of stronger and sustainable businesses.

Professional and Personal development Programmes - In addition to the management education course, there is a need for professional and personal development programmes that will cover critical areas such as understanding factors influencing professional identity development, business acumen, and effective communications to develop and maintain relationships with key stakeholders and team members.

Business Mentoring & Coaching - Structures and classroom interventions such as coaching and mentoring components grant target youth access to one-to-one technical skills support with seasoned entrepreneurs who are typically willing and happy to give back. Alumni bodies of academic institutions provide a ready pool of business mentors to further support the young entrepreneur's venture-building journeys.

Investment Readiness / Assessment –

This is a market-driven narrative articulating the entrepreneur's journey from their early stages into investable and sustainable ventures. Investment Readiness Assessments can be conducted in formal and informal ways to help evaluate the readiness of the founders who have gone through the aforementioned programmes towards attracting investment and exposing them to opportunities and partnerships.

Pitch Events –

Pitch events are designed to assess the founder's investment readiness. By exposing the youths and their ideas to investors through investor communities, the effectiveness of the prior interventions can be measured. Investor panels will typically comprise avid angel investors and external investors with a background in early stage investing impassioned about helping start-ups grow and become successful. The panel aims to assess the investment readiness of the founders and to provide an external viewpoint of their companies.

Nigeria has a youthful population, with the tech industry gaining inroads into the continent and start-ups receiving a lot of attention. While shaping the entrepreneurship ecosystem, the acts and policies guiding the ecosystem should be tailored to suit the local culture, values and socio-economic and political climate. This can ensure that entrepreneurs are guided by policies that are not 'foreign' to them. However, a supportive and localized culture may not be enough to sustain long-term entrepreneurial development. Entrepreneurs must draw on resources such as risk capital, talented workers, and mentorship from experienced entrepreneurs and support organizations as they start up and scale new ventures. The following options will also further ensure this.

Creating new Entrepreneurship Centres of Excellence across Nigeria

While it is crucial to evaluate the effectiveness of current entrepreneurship education options, it is even more essential to develop new systems for accessing validated, relevant management education in Nigeria. This can be achieved through the creation of key regional centres of entrepreneurship excellence.

Centres of Excellence ensures that quality management education and access to crucial support services are available and accessible to young entrepreneurs in Nigeria. With this approach, the academic institutions housing these centres will be carefully chosen based on the track record of excellence in critical areas, which will include the ability to foster fruitful partnerships with key ecosystem stakeholders. The funding needed to drive these centres of excellence will come from multiple stakeholders such that if these centres can support quality entrepreneurs and enterprises, they become 'factories' for building the next generation of businesses that can power Nigeria's future.

Fostering effective partnerships for entrepreneurship development in Nigeria

A clear vision and blueprint are necessary for coherence within the Nigerian entrepreneurship ecosystems. Given the current state of entrepreneurship development and the fragmentation of efforts among different key stakeholders, fostering coherence becomes critical towards ensuring more effective partnerships.

Coherence is the degree of connectedness between the partnerships in the EE and what makes them work as one system despite the diversity between the components. This can be achieved when entrepreneurs and other ecosystem partners have shared goals and operate with some degree of common values. These values influence their activities and how they look out for each other within the system - who their ideal investors are, what they want from the government, how to test their business models and what defines successful outcomes for them. Support organisations such as profit or non-profit-oriented incubators and accelerators can increase the level of coherence in the ecosystem by working with young entrepreneurs and exposing them to practical knowledge that enables them to pursue innovation, sustainable business models, and diverse ventures, ultimately opening up new market opportunities.

Knowledge-sharing systems within the entrepreneurial economy

It is important to build "community logic" as a philosophy of any policy intervention. Communities focus on developing mutual trust between EE participants to enable knowledge-sharing and learning about the ecosystem's needs. A knowledge-sharing economy will require consistent effort and investment from the partners, and it is expected that EE participants will undergo a series of trial-and-error approaches on the road to growth. However, lessons learnt along the way are viewed as experiments in their search for the right business models. Platforms for frequent dissemination of such insights can create Nigeria's knowledge hub to help the government across all levels target interventions based on genuine facts. This will also mean all stakeholders can plan for entrepreneurship ecosystems based on local conditions.

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