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Middle Class Growth and Entrepreneurship Development in Africa – Measurement, Causality, Interactions and Policy Implications

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Abstract

The paper is about the role of the African middle class as a base for entrepreneurship development. The key question is what the growth of the African middle class means for the emergence of an entrepreneurial class in Africa. In this context, the "missing middle" in Africa, the gap in small and medium sized companies between microenterprises and large companies, is of interest. So far the theoretical work and the empirical evidence on the relation between middle class growth and entrepreneurship development is quite scarce.

First, the main concepts of defining and measuring the African middle class - via income and consumption, assets, vulnerability, and livelihoods - will be discussed. These differences in definition and measurement have implications for the assumed developmental implications of the growth of the African middle class and the growth of an entrepreneurial class. There are so many statements in the literature about the developmental potentials and the impacts of the African middle class. It is argued that the African middle class is a seedbed of entrepreneurship and management staff; a base for start-ups and high tech companies; that it has an impact on market competition and labour mobility; an impact on level and structure of consumption and marketing, on housing, car and finance markets; an impact on local saving, local investment and on a more long-term investment behaviour; a role in developing a new consumer society based on higher quality and branded goods; a role in participation, empowerment and the formation of economic interest groups; a role in the redistribution of income, assets and economic

[1] This is a long version of a paper which was drafted by the two authors for a book on the Rise of Africa's Middle Class with ZED publishers, London; the book was published in December 2016 with a contribution by the two authors of this essay; see: http://press.uchicago.edu/ucp/books/book/distributed/R/bo25073345.html

power; that it leads to a widespread use of new technologies and has a tremendous role in technology diffusion; that it is creating space for upward mobility and societal change; that it pushes the transition from survival firms to growth-oriented firms; that it has a role in pushing for more rational economic policies and that it is also demanding public goods and fair taxation; and that it is providing stability to the political regime, etc. Most of these arguments lack so far empirical evidence, and there is tremendous speculation and experimentation based on the way of defining and measuring the African middle class and the entrepreneurial class which is coming forth on this basis. A main instrument used for this endeavour is aggregation of some few data over Africa; but this is not enough to draw strong conclusions.

Second, the scarce evidence on the assumed role of the African middle class as a seedbed of entrepreneurship and managerial competencies is discussed and evaluated. The main issue is the role of the African middle class in overcoming the "missing middle" of small and medium sized companies. There is a general discussion about Africa's "missing middle", the assumed gap in terms of small and medium sized companies between the many mostly informal microenterprises and the large public and private companies. It is argued that the concepts of the African middle class used in the literature and the ways of defining and measuring it do not allow a deep investigation of entrepreneurship development and the identification of a growing entrepreneurial class in Africa. The main reason is that the economic lives of the various segments of the African middle class are so different. Also, the poor and the rich classes in Africa have distinct economic lives which partly overlap with those of lower and upper segments of the African middle class.

Third, there is a lack of differentiating the African middle class with regard of the potential for entrepreneurship development, the establishment of entrepreneurial value systems (education, health, saving and investing), and the role in developing local industries (based on increasing middle class consumption). Any change towards the development of growth-oriented small and medium-sized enterprises - between survival and micro enterprises at the lower end and large capitalist and conglomerate enterprises at the upper end - is of interest. Most important is it to know more about the role of the African middle class in developing growth-oriented enterprises. It is also of interest to see how governments in Africa can support entrepreneurship and management competences based on specific African middle class segments, along with strategies to use the entrepreneurial potential of the poor and the rich classes.

The purpose of the paper is it to give evidence on the developmental role of the African Middle Class, by focussing on the "missing middle" of enterprises in Africa and the types of entrepreneurship being associated with the growth of the middle class. After the *Introduction* in Section 1 there is in Section 2 a discussion on *Defining and Measuring the African Middle Class: What about Developmental Implications and Prospects?* In Section 3 is a presentation on *Africa's Middle Class and the "Missing Middle" of Enterprises: New Potentials for the Growth of Enterprises?* In Section 4 there are *Conclusions and Policy Recommendations.* This is an economists' view, but much more interdisciplinary work is needed to cover the issues (and this is done in the collection of essays by Henning Melber, Editor, 2016).

1 Introduction

Many recent studies emphasize the developmental role of a growing African middle class. While a general picture for the whole continent is presented, the studies at country level are scarce (the exception are countries such as South Africa, Nigeria and Kenya). Also, scarce are the studies linking the growth of the middle class with the growth of entrepreneurship in Africa, and on the potential to overcome via the growing middle class the "missing middle" of growth-oriented small and medium-sized companies. The African Development Bank (AfDB 2011; and recently Ncube/Lufumpa 2015) stresses the importance of the growing middle class by propagating a figure of 34% of Africa's population being part of the middle class (including the segment of a "floating middle class" with around 20% of Africa's population, located between the poor and the lower middle class classifications). For the year 2060 even a middle class of 1.1 billion (42 percent of the population) is anticipated. For the year 2030 consumer spending is anticipated to reach $2.2 trillion, a figure high enough for the consumption-related industries and the supermarket business in Africa, although this will only be 3% of world-wide consumption (Ncube 10/2/2013). Anyway, these are fantastic perspectives for the African continent attracting investors, and for consulting companies who are giving advice to the investors (Wohlmuth 2014). But what does all this mean about development in the sense of structural transformation?

It is argued widely that economic growth in Africa over the past two decades has been accompanied and spurred by the sizeable and growing middle class, a development that continues to lead to a significant reduction in poverty and to robust growth in consumption expenditure (AfDB 2011:1). The AfDB assertions are reinforced by Mthuli Ncube and Abebe Shimeles (2013) who found, using different estimation techniques, that in Africa the size of the middle class hovered around 11 percent in the 1990s and at about 15 percent for the 2000 period (Ncube and Shimeles 2013: 8); so there is an acceleration. Overall, the estimates of the African middle class are between 32 and 327 million persons and between 7.6 and 15.7 million households (Jerven 2014a: 6); it is important who counts and how the counting is done. Even others see in Africa not a middle class as the "middle of a pyramid", but only a "wealthy elite" at the top and the masses of the "poor" below; for them there is not a "middle class" in the classical sense which is equipped with an own identity, with social status and with political power (Guardian Africa Network, 3 May 2013). In this view the so-called middle classes are part of the rich classes.

The UNDP Human Development Report (UNDP 2013) revealed that by 2030 more than 80 percent of the world's middle class is projected to be residing in the South and to account for 70 percent of total consumption expenditure (UNDP 2013:14). However, Sub-Saharan Africa (SSA) will only host 2 percent of the world's middle class by 2030 (UNDP 2013:14); out of a world middle class of 4.884 billion in 2030 SSA will have a middle class of 0.107 billion (at earning or spending $10-100 a day per capita in 2005 purchasing power parity). An improving human development index (HDI) in many countries of the developing world continues to fuel the growth of the middle class by size, income and expectations. It is also stated that the South is becoming a breeding ground for technical innovation and entrepreneurship. Although there is some consensus on the broadening of the global middle class and on the positive effect of this development on the expansion of global consumption expenditure, the role of the African middle class remains rather limited, mainly because of its concentration on the North and the South of the continent (see also GGA/Good Governance Africa, 2014). In the UNDP Report and in other publications ambiguity and conflictual conceptualization dominate the social classification of the middle class—that is then to ask, how exactly to define the class? Also, there is no consensus on the developmental effects of the rising middle class – is it entrepreneurial and innovative, is it supporting rational economic reform policies, is it supporting redistribution and poverty reduction policies? Or is it non-developmental in the sense of cementing the inherited economic and social structures.

In Africa, and in SSA in particular, the middle class is associated with a number of distinguishing personal characteristics—tending to reside in bigger and more permanent dwellings equipped with amenities; widespread ownership of major durable goods, such as refrigerators, telephones and automobiles; more likely deriving income from salaried jobs or having small businesses; tending not to rely entirely on public health services and to seek more expensive medical care when being ill; tending to have fewer children and generally spending more on the nutrition and schooling of their children; being better educated; and being geographically more concentrated in urban areas or along the coasts (AfDB 2011: 6-13). Other characteristics relate to the increasing preference for brands and luxury items. These characteristics may have relevance for some segments of the African middle class, but all depends on the definition of the middle class as one can see below in this essay.

Furthermore, in the emerging economies of the world, the middle class has been thought of as the source of entrepreneurship and innovation—the small and medium sized businesses that make a modern economy thrive. Middle class values also emphasize education, hard work, and thrift. Thus, the middle class is considered as the source of all the needed inputs for growth in a neoclassical market economy—new ideas, physical capital accumulation, and human capital accumulation. But how is the reality? Is the African middle class able to bridge the gap between the many informal microenterprises and the rather few large-scale corporations, thereby overcoming the "missing middle" of small and medium-sized enterprises, and so creating employment, social protection and competitiveness? Is the middle class strong in creating entrepreneurial value systems and important inputs (saving and investment, education and health), leading then also to more productivity in firms and the economy? Is the African middle class creating local industries and qualified jobs, as based on increasing consumption spending, or is the upper class benefitting from the consumption boom of the middle class in terms of lucrative business ventures?

In this paper, an attempt is made to examine the alternative definitions/measures of the middle class and its expansion in Africa. It is asked whether the dynamics of the growing middle class is over-exaggerated, and what this means for the size of the poor and/or the rich classes. The paper does this by critically interrogating available statistics on the growth of the middle class which are collected and classified by using different definitions and measurement concepts. On this basis, the types of entrepreneurship prevalent in the supposed middle class are considered, as entrepreneurship development all over the world and observed in world history depends on income levels, income security, and the abilities of people to accumulate capital, knowledge and networking competencies. It is then asked whether the middle class in Africa can overcome the "missing middle" of African enterprises, and how the state could support such developmental impacts by further action. The paper is concluded with some policy recommendations to see what can be done at the operational level.

2 Defining and Measuring the African Middle Class: What about Developmental Implications and Prospects?

2.1 How broad should the Income/Expenditure Range be for Identifying Developmental Roles of the Middle Class?

Approaches to defining and/or measuring the middle class are highly diversified, as the growing literature on the topic reveals; and both development economists and the international/regional institutions continue to grapple on an income/expenditure minimum of middle class status in a developing country; also upper income levels are identified. These lower and upper limits determine a lot: the absolute size, the homogeneity, the social status, the growth rates, etc. For all these reasons the different approaches mean a lot for the political economy of the middle class in Africa. A broad income/expenditure range gives the impression that the polarization of the society is already overcome. Banerjee and Duflo (2008) designate as "middle class" in developing countries people living with expenditure per capita between \$2 and \$10 (when researching the two income groups in their empirical work of \$2 to \$4 and \$6 to \$10 a day)—essentially acknowledging that all those that have escaped the recognized poverty line of \$2 a day (poverty but not extreme poverty) have reached the "middle class" status. Then they start to investigate the "economic live" of the so defined middle class. In another essay on the economic lives of the "extremely poor" and the "merely poor" (Banerjee and Duflo, 2007) there is information on consumption, work, saving and borrowing of these households. In these global comparative analyses (by Banerjee and Duflo, 2007) African countries, like Cote d'Ivoire, South Africa and Tanzania, are as well included. So, for these groups of households (in 13 developing countries) important insights can be studied: the emergence of economic actors, such as entrepreneurs; of values, such as saving, borrowing and human capital accumulation; and of consumption power, such as an increasing demand for higher quality goods with increasing income, etc. The main message is that there is not so much special concerning the middle class when compared with the poor. It is emphasized that nothing seems more middle class than the fact of having/desiring a steady well-paying job. Although there are many petty entrepreneurs in the middle class, they are not capitalists in waiting for an entrepreneurial activity, but they are waiting mainly for a position as a wage employee (Banerjee/Duflo, 2008: 26). This is a class not because of the entrepreneurial spirit but because of the desire to work in a secured wage employment position.

Ravallion (2009) designates as middle class in developing countries all those living between \$2 and \$13 a day, defining the developing countries' middle class as those who are not deemed "poor" by the standards of developing countries but are poor by the standards of rich countries, and capping the developing countries' middle class at a figure close to the poverty line in the United States of \$13 a day in 2005 (Ravallion, 2009: 4). By this definition, Ravallion's middle class is meant to be non-Western and specific to developing countries. The main issue for Ravallion is that the middle class is bulging, but very vulnerable to economic contractions, so that stable growth is important. There is also an increasing polarization of countries with large and small middle classes. Sub-Saharan Africa's (SSA's) rather small middle classes impact on the poor. Pro-poor policies have therefore to look at the size of the middle class. Aiming for a more globally comparable income standard, Milanovic and Yitzhaki (2002) designate the middle class as those living between the mean incomes of Brazil and Italy, i.e. between about \$12 and \$50 (per day in 2000 purchasing power parity terms). The global middle class is then only 11%, while the share of the poor is 78% and the share of the rich is 11%. As the income ranges of the two studies (Banerjee/Duflo, 2008 and Milanovic/Yitzhaki, 2002) do not overlap, nobody is middle class with regard of both definitions (Ravallion, 2009: 3). It is interesting to see that prominent development researchers have created a lot of such dilemmas for the readers of studies on the global middle class.

Whatever the definition of the upper income/expenditure figure for the middle class, the economic life of the rich classes in Africa, in developing countries and elsewhere in the world is important, as the rich control the major political, business and economic decisions. However, there is no comparative analysis of the economic live of the rich, and this would be most important for understanding growth and development in Africa. The "middle classes" are allocated a strategic importance and prominence in important policy circles and are so elevated into a historic mission, while including many "near-poor" or "floating" classes and letting the rich classes "off the hook" again (see Melber 2015: 251-252). The choice of the upper bound of measuring the middle classes is important for analysing the economic life of the rich classes. McKinsey (2010) defines the group of the rich Global Consumers at >\$20,000 (annual income, PPP 2005) with a share of 12% of the African households and the Consuming Middle Class at \$10,000-20,000 with a share of 17% of the households by 2020 (McKinsey 2010: 4). The middle class is in this study and in many others only looked at as a consuming class.

Earlier literature compartmentalized approaches to measuring the middle class into the absolute and relative. An influential paper by Thurow (1987), a proponent of the relative approach, focused on the interval from 75% to 125% of the median per capita income. The literature has obviously shown signs of converging on Thurow's definition (Ravallion, 2009: 3). From this relative measurement point of view, Easterly (2000, 2001) and Birdsall, Graham and Pettinato (2000) defined the "middle class" as those between the 20th and the 80th percentile of the consumption distribution and as those between 0.75 and 1.25 times of the median per capita income respectively (see Kharas 2010: 11, on the literature review). These authors are more interested in assessing the role of the middle class for economic development than in defining more clearly and convincingly the middle class. The World Bank (2007) uses an absolute definition, defining the middle class as those with incomes falling between the mean level of incomes in Brazil and Italy (\$4,000 to \$17,000, in year 2000 PPP). Kharas (2010:12) identified the "global middle class" as households with daily expenditures between \$10 and \$100 per person (in \$ at PPP). This range is excluding those who are considered poor in the poorest advanced countries (Portugal and Italy, countries chosen as they have the strictest definitions of poverty) and those who are considered rich in the richest advanced country (Luxemburg). However, the author warns that because of the deficiencies of the purchasing power parity calculations (along the methodology of the 2005 International Comparison Project) the look at the income range is less meaningful than looking at the changes over time of the number of individuals falling into a specific category (Kharas 2010: 13). There are so many other critical questions concerning data collection and data use in Africa (see Jerven 2010, 2014a, 2014b, 2014c). Despite of the (rather scarce) methodology parts in the studies on the African middle class, even at the country level it is difficult and costly to "measure" the middle class, not to speak about an Africa-wide aggregation (such as it was done in AfDB 2011).

From the foregoing, the conjecture can be made that the definition adopted in most of the literature depends on the purpose for which measurement is intended and on whether one is reaching out after a definition appropriate to rich countries or to poor ones. People living below \$10 a day would clearly not be considered "middle class" in most developed countries; indeed, they would be living well below the US poverty line, which was about \$13 a day in 2005. Yet it is likely that many people in developing countries living below the US poverty line would be deemed as "middle class", especially so in Africa. Identifying "global middle classes" has, obviously, a lot to do with global development imperatives (peace, security, human development, human rights, and overcoming income inequality and economic polarization). The empirical relevance is too often very weak.

Birdsall (2010) moreover is quite critical about all these definitions. She opinions that being a member of the middle class in the classic sense should rather imply that a reasonable level of economic security is given with respect to basic needs; this cannot be guaranteed with an income of \$3 a day in most middle-income developing countries. She therefore defines the "middle class" in the developing world to include people at or above the equivalent of \$10 a day (in 2005 purchasing power terms), and at or below the 95th percentile of the income distribution in their own country. This definition implies some absolute and global threshold (\$10 a day) below which people are too poor to be middle class in any society in today's globally integrated economy, and some relative and local threshold (the 95th percentile of income/consumption) above which people are at least in their own society "rich" (Birdsall 2010: 4-9). She therefore suggests \$10 a day (in 2005 purchasing power parity terms) as the absolute minimum income for a person to have the economic security associated with middle class status in today's global economy. Only then the people have the incentives and the potential to exercise political rights in his/her own interest. It is important to note moreover that Birdsall's argument also stems from her conceptualising of "inclusive growth" - to mean an increase in the proportion of people in the middle class (implying some exit of people out of poverty and income insecurity) and in the proportion of total income they command (implying gains in the middle at the "expense" either of the initially poor or the initially rich). However, Birdsall concludes by saying that defining the top 5 percent of the people in every country as "rich" implies that the middle class is separated arbitrarily from the rich, as the number of the key economic and political actors and the number of those living on capital and rent and privileging themselves in each society is much more limited, especially so in Africa (Birdsall, 2010: 7-8). But the 5% rule signals that in each country not only absolute income matters, but also relative income. But, an analysis of the "rich" by structuring the income, the assets, the capacities and the capabilities is overdue.

In this context of defining and measuring the middle class it is important to look at the experience of South Africa since the end of Apartheid. While the AfDB studies (see Lufumpa/Mubila/Ben Aissa, 2015: 12-13) observe for all of Africa for the decade of the 2000s a rebalancing from the rich to the middle class, for South Africa the opposite seems to be true. There is evidence of a strong growth of the size and the income share of the upper class since 1993 (Visagie 2011, Visagie, 2013a, Visagie, 2013b, Visagie 2015, and Visagie/Posel 2013). The upper class in South Africa has grown much more rapidly than the middle class, escalating from 400,000 people (1993) to 1.4 million people (2008), what is an increase from 0.4% to 1.3% of the population. Interestingly, in self-assessments even 2% identify themselves with the upper class (SASAS, 2008: 12). The upper class could also dramatically increase its share of the national income, from 17% to 32%, what implies a rising concentration of wealth at the top. The income share of the middle and lower classes combined decreased from 83% to 68%. Dramatically was the growth of the

Africans in the upper class, from 19,000 persons in 1993 to 257,000 persons in 2008, only 15 years later. All this has implications for the public policies towards the poor and the middle classes (Visagie 2011, Visagie 2013a, Visagie 2013b, Visagie 2015, Visagie/Posel 2013). By occupations, Africans have gained considerably in management/administrator positions, due to the Black Empowerment policies. The lack of data on the middle and upper class self-employment occupations precludes however a deep analysis of entrepreneurship potentials for South Africa.

We see that for South Africa the data situation is much better and allows it to separate the middle and the upper classes and to analyse the divergences between an "affluent middle class" (with a minimum income of R1400 and a maximum income of R10000 per person and per month after tax earnings in 2008 prices) and the median-based "actual middle class" (with incomes between R380 and R1140 per capita and per month in 2008 prices) (see Visagie 2015). These two income ranges do not overlap because of the very unequal income distribution in South Africa (see Visagie/Posel 2013); this is again showing that the size and the composition of the middle class are highly sensitive to the definition of the middle class. While the lower bound of the "affluent middle class" corresponds to the international 10$ per day income threshold, the "actual middle class" income range falls within 50% to 150% of the median per-capita household income. As the affluent middle class and the upper class approximate the top 20% of individuals in the income distribution, there is nothing middle about the affluent middle class in South Africa (Visagie 2015: 8). Policy implications then depend on a clear presentation about absolute and relative ranges and about giving the sources of the data underlying these ranges. But, not many studies reveal the sources of the data which are used for building income ranges.

2.2 Are Income Security of the People and Strategic Class Size the Key Factors for a Productive and Entrepreneurial Role of the Middle Class?

Recently Birdsall has worked out a broader strategic concept of the "middle class", implying that the middle class has to reach a certain minimum proportion of at least 20 per cent of the population, but perhaps of close to 30 per cent, to be strong enough to demand coherent reforms and good governance (Birdsall, 2015). A middle class with a minimum income of $10 per person and day will be a certain guarantee for an active role in politics and for a steadier employment perspective as the people will have some basic "income security". Only these "income secure" people will demand good governance at all government levels and will support it by paying taxes for public goods of all the types being needed for economic and social development. Only such an "income secure" middle class society can sustain democratic reforms. Although this context of "income security" and "good governance" is criticised (by Melber 2015: 251; and by others) on various grounds (conceptual and measurement), the implications for Africa are important. Even by the year 2050 Kenya will only have a share of 13% for the (income secure) middle class (of $10-50); Tanzania's share will be 11%, Senegal's share only 8%, but Ethiopia may reach a share of 22% what is the lower threshold for a politically and economically effective middle class. It may be criticised that the high share of Ethiopia comes from projecting simply the "tiger economy" growth rates of some past years; this type of calculations also implies that Kenya and Senegal can achieve the strategic minimum share of the middle class only with spectacular growth rates and with a better income distribution. South Africa (with a share of 33% by 2050) and Egypt (with a share of 58% by 2050) are the cases where the Birdsall argument of good, democratic and effective government created by a strong and income-secure middle class may hold. But, all these stated shares are arbitrary figures; there is no relation to theoretical propositions and to historical evidence with regard of the role of the middle classes.

But there are strong opposite forces at work from two sides. The “struggler” (with $4-$10 per day and capita) in African countries may be good for economic development in terms of market development via consumption spending and related local development (Birdsall 2015: 219), but they will not push for reforms and supply of public goods. But as the group of the “strugglers” is remaining large by 2050 in most of Africa (31% in South Africa and 38% in Kenya), the political consequences may be quite different, opposing good government by populism and leaning on autocratic regimes (Birdsall 2015: 219). This group of “strugglers” may so counteract the political trends from the side of the “income secure middle class” in terms of political stability. But also from the side of the “rich” the political stability and good governance direction may become threatened. The spectacular growth of the influential “upper class” in South Africa (see above) may counteract any progressive role of the then politically weakened middle class. Neither the “strugglers” nor the “income secure” parts of the middle class are determining the course of the economy; the top 5% or the top 1% (or the 0.1%, including the African billionaires and millionaires) are at the “steering wheel”, determining the course of the economy and the context of redistribution measures (see Melber 2015: 251). It may be doubted that in such a dilemma situation a share of 20% to 30% for the income-secure middle class is sufficient to lead to good governance and political stability. So even for the time at 2050 the perspectives of Africa do not look favourably, neither with regard of political stability nor with economic development. But again, the Birdsall argument is interesting, but not yet tested by historical evidence and based on stringent theoretical assumptions.

To add to the growing literature on the middle class in Africa, the African Development Bank (AfDB) in 2011 conceptualized and measured the middle class in Africa. In this seminal study (AfDB 2011), the AfDB used the absolute definition of a per capita daily consumption of $2-$20 in 2005 PPP US dollars to characterize the middle class in Africa. This approach went on completely unmodified in the recent AfDB study (edited by Ncube/Lufumpa 2015); without any substantial evidence presented in the book the middle class is ascribed to a huge developmental potential and the size is escalated to 500 million people (see especially chapter 1 on the dynamics of the middle class in Africa by Lufumpa/Mubila/Ben Aissa, 2015). The AfDB study highlights three sub-categories of the middle class: The first is the “floating class”, with per capita consumption levels of between USD 2 and USD 4 per day. Individuals at this level of consumption, which is only slightly above the developing-world poverty line of USD 2 per person per day, are noted to remain largely vulnerable as they can easily slip back into poverty in the event of exogenous shocks. The second sub-category is termed the “lower-middle” class, with per capita consumption levels of between USD 4 and USD 10 per day. The proportion of African population that falls in this group are noted to tend to live above the subsistence level, and so are considered as being able to save and to consume non-essential goods. The third sub-category is termed the “upper-middle class”, with per capita consumption levels of between USD 10 and USD 20 per day. Despite of so many concerns about data (availability and quality of household surveys and respective income and consumption data) and methodology (aggregation of data on middle classes for all of Africa based on Lorenz curves for Africa), the study got wide recognition, as the mass consumption potentials and the local market development perspectives of Africa became so much popularized (mostly by international consulting and advisory agencies; see Wohlmuth 2014). Africa was from now on not only seen as an “African Lion” in terms of growth but also as a relevant Global Consumption Area.

The AfDB (AfDB 2011, Ncube/Lufumpa 2015) characterization consequently reveals that Africa's middle class—looked at as the "middle of the population pyramid"—has increased in size and in purchasing power in the last two decades, as notably strong economic growth rates had helped to reduce poverty and to uplift previously poor households into the middle class. Hence, by 2010, the middle class in Africa (included is the "floating class") had risen to 34.3 per cent of the population—or nearly 327 million people—up from about 115 million or 26.2% in 1980, 158 million or 27% in 1990 and 204 million or 27.2% in 2000. The figures in AfDB 2015 (Ncube/Lufumpa 2015: 12) are somewhat different (slightly updated?), escalating the size of the middle class (including the floating class) to 373 million people and 36% of the population by 2010. In contrast to the earlier study (AfDB 2011) the share of the middle class was already in 1980 above 30% (Lufumpa/Mubila/Ben Aissa, 2015: 12). All these mysteries, all these definitions and redefinitions, calculations and recalculations are not made transparent and are not explained in full by the AfDB.

The AfDB study reports that Africa's middle class is characterized by a high concentration in the lower ranks with per capita expenditure levels of $2 to $4 per day. This means in effect that most of the households remain vulnerable to shocks and to the risk of impoverishment, thus facing the possibility of dropping back into the poor category. This may mean that the 21 per cent (or 199 million) of Africa's population that are reported to be in this income category remain only barely above the poverty line. However, if a stricter definition of the middle class (that uses a minimum threshold of $4 per day) were adopted, this would imply that Africa has a middle class of only about 128 million people in Africa. This grouping is further away from the poverty lines of $ 1.25 and $2, and so is considered as much more stable and sustainable (although this grouping contains all the "strugglers" between $4 and $10 of daily incomes/expenditures, with a problematic record in terms of political stability and governance as it was predicted by Birdsall 2015). So, the main messages from the side of the AfDB are that a huge consumption power was created all over Africa (parallel to the "Africa Rising" narrative), which is inviting investors to Africa, and that it is not so necessary to worry too much about the "poor" and the "rich" classes as the "middle class" will transform Africa anyway, by lifting the poor out of poverty and by lifting the lower middle class up to become part of the upper middle class and/or part of the rich class. The "upper middle class" with a share of 4.7% of the population and the "rich" with a share of 4.84% are in the AfDB accounting the only remaining groups with some level of "income security". However, also the "upper middle class" is threatened by income insecurity due to costs for education, health, housing, traffic, social insurance, quality food, as recent studies show (see the case studies in GGA 2014).

AfDB (2011) concludes by noting that access to employment and income generating opportunities (via continuing growth policies and pro-poor policies) could help the African population who do not belong to the middle class to move up to the lower middle class levels and then further upward. Hope is that the remittances from the diaspora, which ordinarily go to households with per capita income levels of less than $4 per day, will move many people into the lower middle class category of $4 - $10 per day, thus making the estimate of more than 300 million people for Africa's middle class population more plausible. This is a linear model of developing a middle class in Africa, based on trickle down of growth, disregarding the political economy of the major sub-classes and the role of old versus new middle classes (as considered by Birdsall 2015 and Lofchie 2015), and especially disregarding the role of the "rich classes" (an analysis as requested by Melber 2015 and Wohlmuth 2014). In this way, the AfDB (2011) study was an investment promotion measure, but not an attempt to analyse the driving forces of development in Africa and to draw some conclusions on development perspectives for Africa. The lively discussion in the internet about this study came again and again to these points of criticism. The AfDB 2015 study (Ncube/Lufumpa 2015) even argues that the middle class is holding the key to "rebalance the African economies" towards domestic demand-led growth rather than investment- and export-led growth; this would make the middle class to become the major force of structural transformation in Africa via a "consumer society", which is ultimately stimulating local investment and local industries. However, all these studies are silent on African Entrepreneurship as a base for structural transformation; it is not made clear if the growing African middle class could be a seedbed of domestic entrepreneurs.

Contributing to the debate on this exaggerated optimism of the potentials of the growing "middle of the population pyramid" with regard of incomes in Africa, Wohlmuth (2014) was quite critical about the logic behind the statistics in the AfDB (2011) report. He argues that with a share of 60.84 percent for the poor (having an income in 2010 of less than \$2), a share of 20.88 percent for those with an income of \$2 - \$ 4 ("floating class"), a share of 13.44 percent for those with an income of \$4 - \$20 (lower and upper "middle class"), and a share of 4.84 percent for the "rich class" (with an income of more than \$20), one is left with a "middle class" which is highly heterogeneous in terms of income, household characteristics and consumption behaviour. Because of this heterogeneity, common action is difficult. Such a heterogenous "middle class" cannot become a social movement. Furthermore, the "rich class" needs differentiation as the entrepreneurial and developmental spirit associated with the rich class is to some extent different from the one of the middle class. The richest are associated with direct connections to government agencies and bureaucracy (ensuring easy access to licenses, land rights, credits, contracts, privatisation opportunities, and benefitting from the allocation of scarce resources for investment promotion, export promotion, and from the many subsidies); these characteristics and advantages of "political connectivity" are largely missing in the lower income segments of the "rich class" or in the "middle class".

The countries with the largest share for the "middle class" in the AfDB (2011) study are obviously those few with some characteristics of inclusive and sustainable growth - in terms of human development indicators, doing business and competitiveness indicators, and good governance indicators. But even in this small group of African countries (only 13 countries are recorded in Wohlmuth 2014), the overall structure of the "middle class" is highly different. While Gabon has a total share for the middle class of 75.4%, the share of the floating class is huge with 37.6%, while the shares of the lower and upper middle class are 23.0% and 14.7%. Ghana has a total share of 46.6% for the middle class and a floating class share of 26.8%, while the shares for the lower and the upper middle class are 13.5% and 6.2%. Namibia has a total share for the middle class of 47.4%, while the floating class share is 38.2%, and the lower and upper middle class shares are rather small (AfDB 2011, p. 22). In countries like Morocco, Algeria, Gabon, Ghana, and Namibia the share of the middle class - net of the floating class - is relatively small. Only Botswana, Egypt, Gabon, Morocco and Tunisia have a substantial share of the upper middle class which qualifies these countries as having a base for entrepreneurial development, because of greater possibilities for financial accumulation and higher levels of connectivity. South Africa, Kenya and Nigeria have rather small upper middle classes. This means that these important economies and markets have a rather limited potential for entrepreneurship development. So far the studies on the developmental contribution of the "African middle class” are rather anecdotal; there are gaps with regard of analytical investigations on the behavioural and occupational patterns and the entrepreneurial roles of the middle class. All these figures on African middle classes only make sense when analysed in context with the poor and the rich classes, as interactions between classes and sub-classes matter.

2.3 Should the Middle Class be defined rather by Wealth than by Income/Consumption Expenditure?

Building on the AfDB 2011 study and on other earlier studies on the definition and measurement of Africa’s middle class, Ncube and Shimeles (2013) used the asset or wealth status that is regularly reported in Demographic and Health Surveys (DHS) across Africa, obtainable from the World Bank’s PovcalNet (World Bank 2014), as a key indicator in identifying the population of the middle class. The middle class is defined as those households that fall within the bounds of 50% to 125% of the median (weighted) asset index for the entire sample which is 0.5 and 0.7, so getting an absolute measure (Ncube and Shimeles (2013: 7). This method departs radically from earlier ones (AfDB 2011; Banerjee and Duflo 2008) and more recent ones (Birdsall 2015; Ncube and Lufumpa 2015) that had used income or consumption expenditure. Ncube and Shimeles report that the size of the middle class - as defined by a computed asset index for Africa - stood at about 5% of the population at the 1980s, 11 percent for the 1990s, and at 15 percent for the 2000 period. The number of the people belonging to the middle class had therefore increased steeply in the past two decades (Ncube and Shimeles 2013: 8). Even though the methods at measuring the middle class are so different, the results from Ncube and Shimeles’ analysis (Ncube and Shimeles 2013) provide similar estimates of a growing middle class in Africa compared to the earlier studies which were done by the African Development Bank, if the “floating class” people are excluded (AfDB, 2011). The asset index approach has advantages and disadvantages in comparison to the income/expenditure approach, in terms of measurement and interpretation.

The asset status can be better measured than the consumption level, but all depends on the relevance and representativeness of the included asset categories. Because of the predominance of food in consumption expenditure, some factors characterising a middle class can be easily missed. The middle class is defined by an index incorporating 11 aspects of asset formation, such as source of water for the household, condition of housing, ownership of durable assets, etc. But, the focus on assets is of interest as type and size of assets determine the capacity to save and to invest, as well as the capacity to provide for inputs of entrepreneurship (education and health). While the asset index leads to an absolute measure, what is excellent for comparisons, the method itself may lead to disturbing and not easily to be interpreted outcomes. Increases of assets (and of associated living standards) can lead to a shrinking of the size of the middle class (as when the share of the upper class/rich class increases). While most of the African countries show in the decade of 2000 substantial increases of the middle class based on the asset index (such as Senegal, Kenya, Ghana and Nigeria, countries which have shown considerable growth in the decade), some few countries show a shrinking of the middle class (such as observed in Egypt and Madagascar). In Egypt, the size of the middle class (with an asset index between 0.5 and 0.7) has declined considerably, despite of declines of asset poverty and asset inequality, but between 2003 and 2008 parts of the middle class have graduated into the upper class (the rich class). The situation in Madagascar is completely different as a rise in asset poverty and in asset inequality led to a shrinking of the middle class (the mean asset index declined from 0.21 to 0.13). The decline of the middle class was however not large in Madagascar, as a rise in inequality prevented a stronger decline (Ncube/Shimeles 2013: 8-11). Estimating the size of the middle class by assets opens the view for new insights with regard of country characteristics and transitions between social classes.

It is therefore necessary to study the changes in the size of the middle class in a case by case manner when applying the method of an asset index. Because of transitions and changes related to countries' middle class this has implications for entrepreneurship. It is in this context very necessary to know also more about the assets of the poor and the assets of the rich segments of the population as entrepreneurship is related to such accumulation. There are indications that income, consumption and assets of the poor (especially the market volume of the Base of the Economic Pyramid/BOP in Africa) are considerably underestimated (see Standard Bank, September 2011: 4-7). On the other side the assets of the rich are increasingly overestimated by global international finance corporations for calculating the net worth of the assets of the rich in Africa (see Wohlmuth 2014). There are various reasons for estimating the assets of the poor and of the rich in a biased way; the economic interests of investment companies play a major role.

The study by Ncube and Shimeles (2013) reveals a significant mobility of the middle class to the upper class. With the asset index methodology, such mobility can be measured more easily. The dynamics of mobility is important also for analysing potentials for entrepreneurship which are based on classical forms of asset accumulation (savings and investment) and on related human development outcomes (education and health). By using transaction matrices - based on synthetic panel modelling - the authors conclude that those who started in the 1990s in the middle class have a 70% chance to stay there, while many will graduate into the upper class, and only few would flip into poverty (Ncube/Shimeles 2013: 11-13). However, it is also made clear that the middle class has a higher mobility than the classes of the rich and the poor who both are more "cemented" in their positions. In Ethiopia, a country for which the authors have a specific data base, the mobility of the middle class is much higher and different, what is due to the rapid economic and societal changes in this country. For all of Africa, the study reveals correlations between asset ownership and education, governance, and ethnic fractionalisation; good governance and asset ownership are correlated. This is important for analysing the role of the middle class in entrepreneurship development and in supporting public policy reforms.

There are various researches using the asset approach to estimate the size of the middle class in South Africa. The UCT Unilever Institute of Strategic Marketing produced in 2012 the report "4 Million & Rising, Black Middle Class Expanding"[2], and the Standard Bank did in 2013 a report on "Understanding Africa's Middle Class"[3]. For the UCT study AMPS (Africa's Media and Product Survey) data bases were used, a marketing survey instrument for companies, as well as questionnaires, interviews and organized focus groups. Using data and methodology from the Living Standard Measurement Survey (LSMS) for 11 countries in Africa, the Standard Bank concludes that there are 15 million middle-class households in 11 Sub-Saharan Africa economies in 2013. This is a growth of about 226 percent from the 4.6 million recorded in 2000. In 1990, there were only 2.4 million middle class households in these 11 countries. The 11 countries in the sample are:

[2] Web Access UCT study: http://www.uctunileverinstitute.co.za/research/4-million-rising/
[3] Web Access Standard Bank study: http://www.blog.standardbank.com/node/61428

Angola, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Africa, Sudan, Tanzania, Uganda, and Zambia. The South African LSM framework is used for cross-country comparisons. The advantage of this measurement tool is that also upper income households are covered. In fact, 20 variables on living standard characteristics of households (such as equipment, insurance policy, car, TV set, shopping behaviour, etc.) are considered, and all the population is divided into 10 LSM groups - from 10 (highest) to 1 (lowest). LSM5 and above are categorised as middle class. Although LSM is basically a marketing tool and has great relevance for investors, this type of measurement may help to identify upper classes, middle classes and different entrepreneurial groups much better. So, South Africa is well advanced in studying the characteristics of the middle and the upper classes. This is also necessary because of the need to preserve political stability, economic advance and societal coherence in the country.

Given the current unemployment and poverty rates in Africa and the fact that the top five most unequal countries in the world are in Africa—Namibia, South Africa, Lesotho, Botswana and Sierra Leone—there is no logic in celebrating the growth of the middle class in Africa without touching the issues of growth accounting of the middle classes and analysing the role of the upper classes in these countries. Morten Jerven (2010, 2014a, 2014b, 2014c) sums it all up by highlighting the fact that data sources currently available to most national accounting departments in Sub-Saharan African (SSA) economies do not capture economic growth properly; and the published GDP per capita estimates are not adequate reflections of living standards given the associated flaws in methodology. He further pointed out the need to recognize the clear distinction between "stocks" and "flows" when measuring the middle class in Africa by using the Demographic and Health Surveys (DHS). These DHS are in any case only conducted periodically in countries that are peaceful; knowledge about the middle class in countries with fragility is not readily available. It is also argued that assets are not a perfect proxy for the expansion of income, production and expenditure and therefore may not be too relevant in the claim that growing assets (which are obtainable from DHS) will lead to growing consumption expenditures of the middle class.

Again, it needs to be emphasized that the purpose of calculating the middle class and of identifying the basis of their economic strength determines the methodology. Of some policy relevance are vulnerability calculations with regard of the size of the middle class: how great is the probability that parts of the middle class at the lower end fall out of the group to become again part of the "poor citizens group", and how great is the probability that parts of the middle class at the upper end fall out of the group and become part of the "rich citizens group"? Income changes and asset changes may lead to such situations; external and internal shocks may play a role (conflicts, price changes, financial crises, unemployment increases, etc.). External shocks but also internal shocks can lead to sudden changes in the size and the composition of the middle class. Such vulnerability-sensitive methodologies and results are presented and reported in various studies (Ncube/Shimeles 2013; Corral/Molini/Oseni 2015; Visagie 2015). One is left with many differing approaches at defining and measuring, but the major question is about policy relevance. So, it is important to see how the new information about the size and the composition of the middle class is used by policymakers in pro-active policies. Section 3 addresses the policy relevance in some detail.

3 Africa's Middle Class and the "Missing Middle" of Enterprises: New Potentials for the Growth of Enterprises?

3.1 Will entrepreneurs emerge from the African Middle Class?

The discussion about the "missing middle" in Africa is starting again, and now it is continued under the focus of a developmental role of the middle class. It is argued that the "missing middle" in Africa relates to the comparatively low number of small and medium-sized enterprises (SMEs) relative to the developed and developing world, and relates to the huge gap in investable capital targeted for funding SMEs in Africa relative to all other regions. If the emerging middle class in Africa can overcome these gaps by establishing (formal and informal) SMEs and by financing new ventures, growth and employment could be enhanced and could become sustainable. When small enterprises need loans of sizes between $10,000 and $100,000 and medium enterprises loans of sizes between $100,000 and $1 million to grow, the question arises if the heterogeneous middle class in Africa can secure such funds – either by own accumulation or by securing loans on the basis of their asset status. While SMEs account for 57 % of employment and for 50% of GDP in developed countries, in developing countries these shares are much lower with 18% and 16%[4]. In Africa, SMEs contribute less than 10% of the GDP, what gives potentially the middle class a unique opportunity to grow with entrepreneurship[5]. In South Africa, micro and small enterprises provide for more than 55% of all jobs and for 22 % of GDP, while the big firms account for 64 per cent of GDP[6]. This reflects the unequal income, assets and power distribution in South Africa. A change to a higher share of SMEs in Africa will also be associated with an increasing share of the middle class, and could overcome the polarization between rich and poor. While banks all over the developed and the developing world make profits in lending to SMEs, this financing is rare in Africa, not only in Sub-Saharan Africa's least developed countries but also in Southern Africa and in Northern Africa. Despite of some venture capital initiatives, especially for IT firms, no turnaround is in sight (despite of some initiatives by central banks to change the lending behaviour of commercial banks towards SMEs).

How severe is the "missing middle" phenomenon in Africa? There is a huge gap in enterprises between the informal sector microenterprises and the large formal sector enterprises. And there is a huge finance gap between the microfinance institutions (doing lending at the low end) and banking finance (for the large public and private) business ventures). Recently some venture capital finance institutions were built, but the impact on the number and the size of SMEs is still limited (the exception are small IT companies). There are many SMEs in Africa, but their growth record is weak (see Page 2014), so that growth needs to be promoted for all companies, for the small and the large ones. There is a strong hierarchy in African Business (Wohlmuth 2014). At the top, there are some "growth champions" with internationally comparable growth, revenue and profit figures. These 40 so-called "African Challengers" (which are classified in a BCG 2010 study) are in countries such as South Africa (18), Egypt (7) and Morocco (6). Only few of these companies are present in other African countries (2 in Nigeria, 2 in Tunisia, 2 in Angola, 2 in Algeria, and 1 in Togo). Some of these few companies are even moving up the "globalization ladder" – from "master executors" to "multiregional operators" and then

[4] Web Access for Lena Sene: http://www.africa.com/blog/investing
[5] Web Access on World Economic Forum: http://www.weforum.org/sessions/summary/africas-missing-middle
[6] Web Access for Celine Kaufmann: http://www.evancarmichael.com

to “international players” (BCG 2009, BCG 2013). As international players, they are then shaping global markets. Africa has only 6 “Global Challengers” (5 in South Africa and 1 in Egypt). While the “Global Challengers” in Africa are already strong in building capabilities and in mobilizing human resources, the “African Challengers” are involving increasingly local and international talent for their globalized businesses. So, the range of competitive and globalizing companies is limited to a quite small number of firms originating from few African countries, and the presence of such firms in South Africa is overwhelming. While the business areas of the “African Challengers” are diversified, agriculture and agri-food industry corporations are underrepresented on the list of the forty. Financial services; mining and natural resources; technology, media and telecommunications; and international logistics are the main business areas.

Below the top, there are many more public and private large companies. The landscape in Africa with regard of companies and banks is quite heterogeneous. The lists presented annually by The Africa Report identify the 500 largest companies and the 200 largest banks in Africa (see: The Africa Report, February 2013; The Africa Report, September 2013).[7] 400 African companies have annual revenue exceeding $1bn each, and further 300 companies halve annual revenue of $500 million to $1bn each. But, the number of large companies in Africa is smaller than in other world regions (McKinsey Global Institute 2016); and these companies - despite of growth and profitability - still have structural weaknesses and are not always in future-oriented sectors. However, the lists of The Africa Report 2015[8] and of McKinsey Global Institute 2016 with large African ventures contain companies and banks with quite different business structures and records. To see more of these companies and banks catching up to the groups of “African Challengers” and “Global Challengers” substantial reforms would be needed – limiting the influence of the governments on enterprises, pursuing careful privatizations and re-privatizations, strengthening competition and finance systems, and enabling the firms by pro-active state action to move up the globalization ladder. Many public policy areas (reforming financial systems and corporate governance, taxation systems, medium-term public finance strategies, competition policies, science, technology and innovation policies, tertiary and vocational education and training systems, etc.) would need a complete restructuring to allow such changes to happen.

So far, the number of countries where such pro-active policies are implemented is small. A major problem is it that many of these firms are owned by the state or are connected to the state class of politicians and bureaucrats, especially so in sectors such as mining, oil and gas, public utilities, and construction. We see that the “upper class” business interests are dominating the “middle class” business interests although the entrepreneurial spirit of the “middle classes” is emphasized so much in the many reports from international consultancy companies writing on Africa (see Wohlmuth 2014). The “upper class” business interests are controlled by a rapidly growing number of billionaires and millionaires in Africa (see on these trends Forbes 11/13/2013, Forbes 3/2/2015; Ventures Africa, November 23, 2012, Ventures Africa, October 9, 2013, Ventures Africa, December 11, 2013, Ventures Africa, February 28, 2014; and NWW 2015).[9] Their business activities are increasing rapidly but are to a large extent connected with government contracts and licences in sectors such as natural resources, finance,

[7] New information on large African companies is presented in: McKinsey Global Institute 2016.
[8] See most recent information on The Africa Report 500 companies and 200 banks: http://www.theafricareport.com/Top-500-Companies/top-500-companies-in-africa-2015.html
[9] A look at more recent issues of Forbes and Ventures Africa confirms this trend. Also, the reports by New World Wealth (NWW) confirm the overall trend: http://www.nw-wealth.com/

construction, but also services, media, telecommunications, and advanced technologies. However, beside of this type of "upper class" business (organized around groups of companies associated with dynasties of billionaires and millionaires) another type of "upper class" business is emerging: competitive companies which are owned by independent and innovative millionaires/rich people and having strong links to technology sectors and to international finance are emerging (see the report in Ventures Africa, December 11, 2013, and other more recent articles in the magazine on this issue). Some of these companies grow up from "middle class" ranks, others from former "upper class" connections. These companies from independent and innovative millionaires and rich people are not related to traditional forms of wealth generation (based on political connectivity), and many more African countries, like Uganda, Tanzania, Mozambique and Zambia, are involved as a home base of such companies. These companies work increasingly in new business fields (IT, services, and media). Such entrepreneurs are also entering the venture capital business domain (see VC4Africa 2015).

However, the major gap remains with regard of "middle class" entrepreneurs in Africa despite of the claims of the "empowered African middle classes". There is still a huge gap in Africa between the rather small group of large formal companies at the top and the very large number of survival-type micro, small and medium enterprises (MSMEs) at the bottom. This "missing middle" in size and degree of formalization/regulation is prevailing widely. Meant in this context are not only the companies with 250 to 500 and to 1000 employees, called "Mittelstand" in Germany, but also the SMEs which are growth-oriented and have a growth potential down to 10 or 50 employees. There are barriers to grow in Africa up to this range of company sizes, although also the other enterprises at the top share limits to growth (with some exceptions for "African Challengers", but see the data mentioned above from McKinsey Global Institute 2016). Middle class entrepreneurship in Africa is largely of a "survival entrepreneurship" type and is not typically "growth-oriented entrepreneurship" (see Berner/Gomez/Knorringa 2012 on this important distinction). As the upper middle class in most of the SSA countries is very small, an agenda for supporting survival entrepreneurship should be built around the logic of survival entrepreneurship; regrettably the logic of growth-oriented entrepreneurship prevails all over Africa, in programmes of management education, financing and promotion of firms. The greatest gap in terms of the structure of enterprises in Africa is in the range of formal/informal small and medium enterprises (SMEs) which lack largely the ability to grow. Africa has – as revealed by estimates reported in some studies - around 5 million small and medium companies (SMEs), more than 13 million formalized MSMEs (Micro, Small and Medium Enterprises) and many more informal MSMEs, but the growth of such firms to become larger firms with more than 250 employees is limited all over Africa (see on such estimates WEF 2014a, WEF 2014b, and Kushnir et al. 2010). This is so despite of a quite dynamic African entrepreneurship culture (GEM 2012, and Omidyar Network 2013) and a relatively high attractiveness of Africa for foreign investors (Ernst & Young 2013). Also, digital entrepreneurship is growing in Africa, but shares the same characteristics of limits to growth. With so many African countries having an "upper middle class" of less than 3% of the population (while the average figure from data of AfDB 2011 for all of Africa is 4.8%), the social base for entrepreneurship is too small in terms of financing, connecting and competing, especially so for growth-oriented enterprises. Also, the young entrepreneurs (mostly from the middle class) suffer from these conditions, what leads to a high number of "potential entrepreneurs", but to a rather low number of "actual entrepreneurs" (see some of the case studies on entrepreneurship activity in Africa recorded by the Global Entrepreneurship Monitor/GEM: GEM 2014 South Africa, GEM 2013 Ghana, GEM 2013 Zambia, GEM

2014 Burkina Faso, GEM 2012 Nigeria, GEM 2012 Egypt, GEM 2013 Malawi, GEM 2014 Uganda, GEM 2012 Ethiopia, and other recent GEM Africa reports[10]). All those aiming at "growth-oriented enterprises" are then easily disappointed, and entrepreneurial development programmes do not readily support "survival enterprises". However, there are great differences from country to country: in terms of entrepreneurial activity, in terms of the discontinuance rate, in terms of the character of enterprises, in terms of women and youth participation in new firms, in terms of public support, etc. It is therefore an open question if enough entrepreneurs will emerge from the African Middle Class.

3.2 The Role of Africa's Middle Classes in overcoming the "Missing Middle"

There are so many explanations of the "missing middle" phenomenon in Africa, but the main thrust is about the weak role of the middle class relative to the economically dominant and politically connected upper classes. It is not just the lack of a single ingredient to firm growth, such as finance, that matters. Political connectivity of the firms directed by upper classes matters most. Finance is important, but is only an element of the whole picture. All these finance issues are now considered in Africa - by reporting every day on new venture capital funds, SME funds, and other finance initiatives to support SMEs. It is therefore more important to look at the explanations from the sides of the political economy of private sector development in Africa (Handley 2014) and the "development as diffusion" debate (Gelb/Meyer/Ramachandran 2014). Handley (2014) opinions that there are certain minimum conditions for a transformative middle class in Africa (and elsewhere). Three minimum conditions matter in this context.

First, the middle class can only be politically and economically transformative if there is a "collective identity", what may also be called "class consciousness". Such a "class" with a "collective identity" must be aware of its interests and must be able to organize these common interests collectively. The mere "consumerism" of large segments of the African middle class is reported daily in African news magazines, and this "consumerism" is promoted by international and local marketing companies, emphasizing the quality- and brands-consciousness of the African consumer (Mc Kinsey 2012a). There is also a lack of organisations to organize collective interests of the middle class. No public organization or private association is caring for the "survival enterprises" beside of some donor organizations and some few local NGOs. The interests of the "survival entrepreneurs" differ fundamentally from the "growth-oriented entrepreneurs" as the logic of action is completely different. As most of the African middle class (taking on the accounting of the AfDB 2011 study as the basis for arguments) is associated with small survival enterprises, it is fact that the typical crafts and trades organizations in African countries do not represent them. The groups of the "income insecure middle class" and the groups of the "income secure middle class" are so different. The ability to form an empowered collective strategy versus governments and big business is weak for most of the small businesses.

Second, the African middle class can only be transformative if it demands strongly a strategic role by the state in terms of public goods provision. Only when the middle class can exert a strong pressure on the government to supply basic public goods in reasonable

[10] Web Access of GEM reports: http://www.gemconsortium.org/

quality and scope (security, health and education, social protection, infrastructure, coherent economic policies, etc.) and to establish a sound taxation system, then will the middle class become transformative. There is a connection between these two demands. The middle class will only pay taxes if the public goods provision is considered adequate. The expression of "consumerism" of the African middle class, as revealed by international consultancy reports (Wohlmuth 2014) and local marketing reports, reveals that at the upper middle class level a high degree of privatization of public goods provision (power, garbage collection, road repair, health care, and security, etc.) is prevalent. The lower middle class however too often cannot pay for all such services and so they will make choices (such as, concentrating private expenditures on health and education expenditures), and it cannot pressure for the supply of such public services and public goods. The need to care privately for these public goods is costly and reduces the accumulation potential of the middle class. Banerjee/Duflo (2008) show in their empirical investigations that even the lower middle class responds quite rationally by investing privately in core services (notably health and education), but also the poor make such choices (Banerjee/Duflo 2007) towards financing core services privately. Restricted upper middle class enclaves in African cities show the negative results of these developments; private security and private local services supplies are separating and fragmenting the urban social structure more and more. This separation and fragmentation also affects local businesses of the lower middle class.

As a third condition for a transformative role of the middle class, their interests should be compatible with the interests of the broader society. The question is if the middle class organizes in a broad-based political action political support for a more transformative politics. Taking the broad "middle class" definition of AfDB (2011) one can easily see that the political interests of the "middle class" and those of the "upper class" will be quite divergent, so that it cannot be taken for granted that these classes will articulate political interests in favour of the broader society. Some subclasses may be near to the poor and others may be near to the rich classes when rallying for political support. A homogenous "middle class" with a homogenous political interest to pressure for good governance, as assumed implicitly by Birdsall (2015) in her projections up to 2050, is not in sight.

All the three minimum conditions for a transformative role of Africa's middle class are not yet met. It will not have the organizing power of pushing for sustained private sector reforms, it will lack the accumulation potential to finance the growth of micro and small enterprises, and it will not be able to pressure for public goods which are so much needed for business and financing. It is therefore not easy to imagine that this class can overcome the "missing middle" of enterprises, despite of the emergence of some successful entrepreneurs from this class in many African countries (see examples in GEM, SSA Regional Report, 2012, and cases in Wohlmuth 2014). Varieties of capitalism in Africa play a great role (Handley 2014), but are neglected in analyses of the middle class. The middle classes in Ghana, Tunisia or in South Africa play a different role compared to the middle classes in Sudan, Ethiopia or Kenya. The middle classes in Tunisia and in South Africa were promoted actively by government policies, early in the 1970s by industrial policy in Tunisia and from 1993 onwards by empowerment policies towards the black middle class in South Africa (see Ayadi/Ben Aissa 2015), while the middle classes in Sudan and in other African countries (based mostly in public sector jobs and some private ventures) were to a considerable extent destroyed by "pro-rich" government policies (see GGA Africa 2014). Privatization of education and health systems has affected most of the "middle class" people. But, also the "pro-middle class" policies in Tunisia and in South Africa were counteracted in recent years by inflation, food price increases, housing scarcity, and cost recovery for health and education services affecting mostly the lower but also increasingly the upper middle classes.

From other studies (like the one by Gelb/Meyer/Ramachandran 2014) we know that the development of business in Africa (also the business of the middle class) is determined by the economic activities of the upper classes, the rich and the very rich classes. The "diffusion of development and productivity" is slowed in Africa by three factors. The first factor is business climate, via bureaucratic regulations and incoherent policies, and the burden of such costs is not uniformly distributed across firms and firm sizes. The smaller firms bear most of the burden while larger firms (upper class firms) can overcome the impact of such costs and regulations better by their market power and by political connectivity. Second, the complex business-government relations in Africa's relatively small markets lead to an advantage of upper class businesses. Political connectivity has in countries with small markets and lacking competition great impact on market shares and prices. Third, firm ownership structure matters (one should carefully differentiate multinational ownership, African local and indigenous ownership, and state ownership) as well as the unequal distribution of management and technological capacity between social and economic classes (as these factors again are benefitting the businesses of upper classes).

First, the issue of business climate is very important. While an unfavourable business climate affects all firms, large and small ones, the high cost associated with an unfavourable business climate (with so many and often conflicting bureaucratic regulations, irregular supplies, bad quality inputs, lack of enforceable contracts, bad security situations, etc.) creates burdens especially for those firms which are using non-traded inputs, like power, transport, security, and enforceable contracts. Large firms using mostly international inputs, like the oil industry and all the firms associated with global value chains, do much better. Such firms can also better overcome trade and investment barriers. Offshore sectors having some privileges in trade and customs procedures and more globalized firms (like the "African Challengers" and the "Global Challengers") do better, and these are related to upper class business interests. Tunisia's offshore sector is a good example, being separated from Tunisia's onshore sector it enjoys privileges now for decades (Wohlmuth 2015, 2016). The result is lack of linkages between offshore and onshore sectors and a lack of growth of domestic SMEs. The employment crisis in the country has a lot to do with this separation of sectors. Domestic middle class enterprises suffer from these policies.

Middle class entrepreneurship is much more affected by these high costs of non-traded inputs so that many businesses stay at survival level rather than being able to become growth-oriented enterprises (Gelb et al. 2014: 8). Upper class businesses can overcome these costs of non-traded inputs by internationalizing their businesses - by using imported inputs which are easily obtainable as the firms have good access to import licenses and to foreign exchange. Such firms can even create their own infrastructure for doing international business; these comprehensive "do-it-yourself" business strategies are reported for horticultural export firms in Kenya (see Wohlmuth 2011), but they may be widely in practice in sectors with foreign exchange earnings (mining, cash crops, tourist services, etc.). In case that remittances are made available for supplying such inputs (and as they are not only used for consumption), also middle class firms could benefit. Experiences show, however, that governments must have a specific policy to promote such a use of remittances. Large firms in Africa (from the upper class) can also better manage policy uncertainty. Upper class businesses can use preferential deals to accommodate policy uncertainty because of the political connectivity, giving cost and market share advantages to them. The middle class is not in the same position to deal for their firms with policy uncertainty; they even pay high cost for getting decisions done in their favour. The "missing middle" of enterprises is therefore perpetuated by the unfavourable business climate and by the inability of the middle class to push for a better business climate.

Second, business-government relations do not favour middle class entrepreneurship. Competition is weak in most of Africa, and few large companies have a dominating value added share (Gelb et. al. 2014: 10). As each sub-sector is dominated by few firms for export and production the relations with government are highly sector-specific; this implies that there are specific pressure groups at work demanding support, subsidies and concessions, and outright privileges too. Other firms in these sectors, the smaller and small ones, do not count as pressure groups and are even not organized for a collective activity. The dominating firms are upper class in terms of ownership and management, whatever the origin is (ethnic minority, local billionaires and millionaires, foreign investors, state-owned and -managed firms, etc.). Middle class enterprises face a lot of barriers to compete with these dominant firms (or even to cooperate with them) and to grow to sizes at which they could benefit from "new style relations" with government. There is a low-level business climate equilibrium at work (Gelb et al. 2014).

Dominant firms, influential firms, politically connected firms, and large firms have rents to share between owners, employees, and public officials. At this level, there is room for higher wages, extra payments, premiums, etc. Also, this "equilibrium rent allocation" model shows the limits of middle class entrepreneurship. Not only is access to finance limited, but because of the weaker market position extra returns are not accruing and cannot be distributed to strengthen the capacity of the firm to accumulate. The "middle class" business sector has not enough support by strong natural political constituencies (Gelb et al. 2014), neither in government nor in parliament or in judiciary. Government regulations do not facilitate the work of the smaller business ventures. Vulnerability to public policy changes and to political uncertainties makes "middle class" firms dependent on developing and maintaining close relations with governments, but this is a one-sided relation. While dominant firms become stronger, the "middle class" firms are just kept alive by side payments and corrupt practices. The "Missing Middle" is even strengthened because of this type of enterprise-government relations, involving at the top upper class businesses with economic and political power.

A third argument is related to the distribution of ownership and management capacity (Gelb et al. 2014). Studies show that the capacity of firms to grow depends on being part of domestic, regional and global business networks. Business networks help to identify market opportunities, to counteract adverse public policies, and to increase competitive advantages; they are therefore important for growth. The role of indigenous private owners of enterprises is limited in more advanced sectors of industry. Enterprise ownership maps show for some African countries the limits of indigenous private capital businesses relative to trading companies, foreign-owned companies, and state enterprises (Gelb et al. 2014:11-12). Business networks can be strengthened and developed also by indigenous private firms, but there are limits in making them most efficient for their members. Advantages of foreign-owned firms and of state-owned firms remain in this context.

There is, however, some interesting new development. Digital entrepreneurship, such as in Kenya, is building an indigenous base, although the start-ups are usually small and lack finance and so are not able to grow (GSMA 2014). The IT clusters and hubs are part of networks on which the small entrepreneurs can rely on. So, the IT-sector may become a viable base of middle class entrepreneurs. In the IT-sector new business networks are built what is an advantage for small and start-up firms. However, large mobile operators may try to dominate such networks. In other sectors "middle class" entrepreneurship depends on becoming part of established business networks (either in the control of foreign-owned, ethnic minority, trading or state enterprises), what can be achieved via integration into value chains, joint ventures with larger firms, or forms of subcontracting. Becoming part of global value chains is a chance for smaller firms to get access to networks, but the chance to grow on this basis is dependent on many key locational factors and policy preconditions (AfDB et al. 2014).

Ownership matters a lot for "middle class" entrepreneurship development. Data for some countries in Africa show that only about 17% of the firms are owned by indigenous African entrepreneurs (Gelb et al. 2014: 12). New data on large companies in Africa show that African-owned companies have a large share relative to multinational corporations and state-owned corporations (McKinsey Global Institute 2016). But this is upper class dominated business, and still in some sectors the local share is rather small (resources, utilities and transportation, and food and agri-food processing). And, comparisons of indigenous African and minority owned firms show that there are great advantages on the side of the non–African minority-owned firms. This is an additional issue to be addressed by policymakers. Beside of the prevailing ownership distribution also the management capacity endowment in a country can limit "middle class" entrepreneurship development; larger and more globalized firms can hire scarce management capacity (locally, or from the region and even internationally). Evidence shows that the management capacity is scarce and weak in many African countries, thus limiting the growth of "middle class" enterprises. To overcome then the "missing middle", the African "middle class" enterprises need a better integration into local, regional and global business networks, also to overcome the scarcity of management capacity.

3.3 How can middle class entrepreneurship be promoted by government, by civil society and by development cooperation?

Small survival enterprises are dominating the income range of the middle class (the more so if we look at the median-based actual middle class rather than the affluence-based middle class, a distinction of importance for South Africa). Growth-oriented small and middle-sized enterprises may have some relevance for the upper middle class and the upper class. For policymakers, it is obvious that support of middle class enterprises means support of survival enterprises as floating and lower middle classes need specific measures to consolidate their enterprises. However, fact is that the entrepreneurship development programs in Africa are biased against the survival enterprises; these programs are not relevant for them. "Survival enterprises" (see Berner/Gomez/Knorringa 2012) are defined as those which are necessity-driven, have ease of entry, low capital requirements, skills and technology, female majority, are maximizing security, pursuing income diversification, but not specialization, are embedded into family and neighbourhood networks, and are obliged to share income which is generated, and so have a limited capacity to accumulate. For this group of enterprises more than promotional programmes (to increase income, productivity and employment) are needed. Such enterprises need protection to reduce the vulnerability of the enterprises run by the poor and the lower middle class. An agenda of measures to upgrade survival entrepreneurs is presented by experts (such as security enhancement, providing basic services, direct assistance to survive, such as cash transfers and social protection floors, promotion of innovations for the poor and the lower middle class, etc.), but is not followed by policymakers. Most of the poverty reduction programmes in Africa fail to reflect the perspective of survival entrepreneurs who are faced daily with “destructive uncertainty” (Berner/Gomez/Knorringa 2012). Only recently, the “innovation strategies for the enterprises of the poor” agenda has brought some changes, and this agenda is also relevant for the lower middle class enterprises.

On the other hand, “growth-oriented enterprises” are opportunity-driven, face barriers to entry, have male majority, are willing to take risks, are specializing, are embedded in business networks, and are accumulating a part of the income generated in business. For such opportunity-driven entrepreneurs the promotional entrepreneurship development programmes can be useful (such as improving the enabling environment, identifying the missing ingredients for growth, such as finance and training, etc.). Such an agenda may be useful for the upper middle class and parts of the upper class. The reports on entrepreneurship in Africa, done by Global Entrepreneurship Monitoring (GEM), are revealing; they show that the attitudes towards entrepreneurship are very positive, also among the young people, and that so many Africans start their business with enthusiasm, based on opportunity or necessity, but the rates of discontinuance of their businesses are very high (see GEM 2012). An exception is South Africa as there are so many discouraged people with regard of entrepreneurship; the rate of entrepreneurial activity is very low (GEM 2014 South Africa). The case of South Africa can be explained by the fact that the “median-based actual middle class” is poor, while the “affluence-based middle class” is more interested in well-paid and steady salaried jobs.

There are great gender differences among young entrepreneurs (see GEM, Africa’s Young Entrepreneurs, 2015); the support agenda for “survival enterprises” may be even more important for the women entrepreneurs (as 78% of the young women entrepreneurs operate in the retail and agricultural sectors, and so in low-growth sectors; see GEM, Africa’s Young Entrepreneurs, 2015, p. 9). The recommendations to policymakers - to provide for education and training, business support and advice, business capital and financial support, and ICT and technology - seem to be more relevant for men as they are more likely in growth-oriented enterprises. They are more likely in medium and high-growth potential businesses (GEM, Africa’s Young Entrepreneurs, 2015, p. 9). Disregarding gender issues may lead to an agenda for business promotion which is not appropriate for women. The “protective agenda” for survival enterprises is more important for women entrepreneurs at this stage of development in Sub-Saharan Africa than the “promotional agenda” for the growth-oriented enterprises.

For the upper strata of the upper class (the 1% to 0.1% people of the income distribution), different aspects are relevant. This is recorded especially for Kenya as 8,300 super-wealthy persons control two-thirds of Kenya’s economy (Mutegi, February 19, 2014). The rapid increase of the number of billionaires and millionaires in Africa gives now scope for new entrepreneurship networks as based on venture capital funds, philanthropic funds, and start-up capital funds for the digital economy (Wohlmuth 2014, McKinsey 2013). There is evidence that the richest are more active in financing certain sectors of growing social and economic interest (mobile phone, finance, IT, environment technologies, consulting services, etc.). However, the absolute numbers of such engagements are still limited, and government action could be more helpful in creating an environment for the growth of such entrepreneurship development funds. Such investment funds from the rich classes towards entrepreneurship development may open the business networks for smaller and medium-sized enterprises (the online platform VC4A/Venture Capital for Africa is full of examples on such entrepreneurship models). Also, Social Entrepreneurship is an area which could support entrepreneurship development in Africa (see GEM 2015 Report on Social Entrepreneurship, 2016), especially because the gender gap is smaller than with commercial entrepreneurship and because of the great role of social entrepreneurship in North Africa and sub-Saharan Africa, as the sector is attracting young change-makers. The problem in Africa is that small own funds are spent, and most such enterprises rely on government funds for operation (GEM 2015 Report on Social Entrepreneurship, 2016, p. 5).

Regarding the AfDB data (AfDB 2011) not less than 82% of the African population (the poor and the floating class) have income levels which are below the $4 threshold and so these people are not income secure. These people are therefore part of the group of potential "survival entrepreneurs". This is consistent with the analyses of the economic lives of the poor and the middle class (Banerjee/Duflo 2007, 2008). If also the group with an income of $4-10 is added to the group of potential "survival entrepreneurs" (the lower middle class with a share of 8.73%), the potential for "growth-oriented entrepreneurship" is limited to the upper middle class of 4.7% (with an income of $10-20 per day and person) of the population and to the upper class (beyond $20 per capita per day) of 4.8%. The base for potential "growth-oriented entrepreneurship" is limited to not much more than 9% of the population. But, the researches on African Entrepreneurship show that, despite of positive attitudes towards entrepreneurship, the rates of discontinuance of businesses are very high. The "missing middle" is perpetuated through inadequate programmes and policies towards entrepreneurship, and through inadequate development policies towards the poor and the middle classes in Africa.

It is argued that the African middle class provides entrepreneurial inputs and acts on developmental value systems, such as attitudes to save and invest and readiness to spend on health and education. All these attitudes and characteristics are considered as important for productivity growth, giving a middle class more power. Regrettably there is not much direct evidence on these roles of the middle class, neither for saving and investing and nor for spending on education and health. Banerjee and Duflo (2007, 2008) even conclude that up to the level of $10 in per capita daily incomes the differences between the poor and the middle class are not so great. Also, the evidence on education as a major entrepreneurial input by the middle class is not strong; it is just shown that there are correlations between education, economic growth and the growth of the middle class. It is hypothesized (by Kunene/Mubila/Akinkugbe, 2015) that the increase of primary, secondary and tertiary education systems all over Africa has direct potential effects on the growth of the economy and the growth of the middle class, via R&D and productivity advances, but that there are also indirect effects, such as on entrepreneurship, specialization, occupational mobility, FDI inflows, and governance. And the other way around, it is hypothesized that the growth of the middle class leads to increasing standards of living, more private demand for education, growing access to Internet, increased consumption spending, higher public revenues, and a changing social behaviour. However, these potentials are not adequately measured, and for such a heterogeneous middle class (covering 34% of Africa's population; as summed up in AfDB 2011 and Ncube/Lufumpa 2015 studies) such interrelationships cannot be measured. The dynamics of interconnectedness between education expansion and the growth of the middle class

(Kunene/Mubila/Akinkugbe, 2015:140) is made plausible, but is not measured. And so is it also with regard of other entrepreneurial inputs to entrepreneurship development, such as health, saving and investing. There is a lot of statements on interactions between key variables, but there is not enough measurement of impact coefficients.

In fact, looking at African country cases, there is evidence that the increasing cost of education and health (because of low quality public systems and/or cost recovery measures) has affected the middle class in Africa up to the level of the upper middle class, leading even to an erosion of the "middle class" status and reducing the accumulation capacity of the "class". Only segments of the upper middle class and the upper classes may be able to save and to invest beside of covering escalating education and health expenditures. Case studies (such as in GGA 2014) reveal the extent of the erosion of the African middle class by escalating health and education expenditures. Middle class values in the sense of saving and investing for entrepreneurship development are conflicting with human capital accumulation objectives, to the extent that only segments of the upper middle class and the upper classes can overcome this conflict. But evidence on saving and investment by subclasses is rare for Africa; the same situation is true for expenditures on education and health.

Other cost factors also affect the growth of entrepreneurship out of the middle class in Africa. Overcoming the "missing middle" in Africa has also to do with the high cost of formalization of enterprises. Formalization has advantages, say in terms of financing the business, but there are high costs associated with these transactions (getting licences, permissions, certificates for taxation, etc.). Solving the problem of cost is not easy for small and medium enterprises (SMEs), and microenterprises not too often try it. Because of the high fixed cost of entry into formalization not only necessity-driven entrepreneurs/survival enterprises but also opportunity-driven entrepreneurs/growth-oriented enterprises stay with an informal enterprise status, thus limiting finance, accumulation and growth of enterprises (see Ayadi/Ben Aissa 2015). This status of informality has also impacts on the knowledge we have about the financial status of enterprises. Knowledge about saving and investment from the side of the middle class is limited, mostly because of the informality status. Necessity-driven entrepreneurs and survival enterprises have other priorities to spend money than on formalization of their businesses. From some earlier sources (Banerjee/Duflo 2008) we know that the middle class (up to $10 per day per person) saves mainly to become part of the salaried employment force (aiming at steady fully paid jobs), and not so much to become part of an entrepreneurial class. Entrepreneurship may be a transition status towards steady fully paid jobs. Human capital investment may be the preferred route to this position on the labour market.

Segments of the upper middle class and the upper class may have a different behaviour, but there is no evidence that entrepreneurial attitudes and value systems are strong enough to create an entrepreneurial force based on the middle class (when it is defined broadly). Although entrepreneurship is a desired option leading to so many "potential entrepreneurs", also for the young people of the middle class in Africa (see GEM, Africa's Young Entrepreneurs, 2015, GEM 2012 SSA Regional Report, GEM 2012 Nigeria, GEM 2013 Zambia, and GEM 2013 Ghana), the reality of the "actual entrepreneurs" is quite different (especially so in South Africa: GEM 2014 South Africa, with so many discouraged entrepreneurs). Africa-wide studies and country case studies show that there is a huge gap between potential entrepreneurship and actual entrepreneurship, especially also among the youth. Many young people believe that they have the potential to become entrepreneurs (82%), but only a few are then starting a business on their own and ultimately are succeeding over the years (GEM 2012 Nigeria). Information and finance gaps as well as skills and training problems are mentioned for this situation. Nonetheless enterprises are founded as a survival option but discontinuance rates are high. Public entrepreneurship development programmes seem to miss the point - of survival enterprises anyway and of growth-oriented enterprises to some extent. Their impact on overcoming the "missing middle" by supporting "necessity-driven" and "opportunity-driven" entrepreneurs is not relevant. Successes do not depend on such public programmes, but are related to other factors (embeddedness in networks, family structures, product niches and new sectors, etc.).

Although governments in Africa at certain times succeeded in pushing up a middle class (as in Tunisia in the context of the new industrial policies in the 1970s, and in South Africa in the context of the Black Empowerment process), the results with regard of entrepreneurship development were rather modest. Neither in Tunisia nor in South Africa had these moves brought about significant changes towards establishing a growing entrepreneurial base. Also, the "middle class" growth was not stable; it was interrupted because of external shocks. Inflation is eroding the income base of the middle class, and even the upper middle class is slipping down to the ranks of the lower middle class (not only in Tunisia and South Africa, but also in Sudan, Egypt and in many other countries in Africa). Countries with declining oil revenues (Sudan), with a danger of terrorist attacks (Tunisia), and countries with escalating inflation and health and education costs experience a decline of the middle class which is partly migrating (see the cases in: GGA, 2014). Only few countries in Africa have a substantial share of an "income secure" middle class with more than 10$ a day per person (Morocco, Algeria, Tunisia, Cape Verde, Gabon, Namibia, Botswana, South Africa, Seychelles, and Mauritius), but even many people/households of this "upper middle class" suffer from escalating costs, insecurity of jobs, increasing unemployment, and lack of support for an entrepreneurial life (AfDB 2011, McKinsey 2012b, Wohlmuth 2014, 2015, 2016). These are just the countries which are favourably ranked on various development, governance and competitiveness indexes for African countries (Kappel 2014, Wohlmuth 2014).

Growing consumption spending in Africa is widely considered as an important determinant of entrepreneurship development, as a secure and growing domestic market pushes up the economic chances of an entrepreneurial class. It is also argued that income growth, ongoing urbanization and spatial redistribution of the population towards urban centres favour the development of a local industry and the increased use of brands, luxury items, and ICT products. All this can become a basis for a growing entrepreneurial class in Africa. The recent push for the digital economy in Africa and an increasing role of digital entrepreneurship are also mentioned. McKinsey (2010, 2012a) and Mc Kinsey Global Institute (2016) identify the discretionary spending power of African households (based on the global consumers, the consuming middle class, and the emerging consumers), but also those with a spending power only for basic needs, the Basic Needs Consumers, have a role to play in providing the base for local industries, employment and entrepreneurship development. Some confirmation for this potential, also for entrepreneurship, is provided by studies on potential employment growth in sectors near to the consumer if pro-active government policies are undertaken (McKinsey 2012b) and by studies on the potential of Internet for income and employment growth (McKinsey 2013). A new report (Mc Kinsey Global Institute, 2016) confirms the trends and potentials. But there are so many "ifs" and "could be" in these studies, based on specific assumptions which are not always made transparent.

Local entrepreneurship development in Africa is projected by referring to fantastic volumes of consumption spending, up from \$860 billion in 2008 to \$1.38 trillion in 2020 (McKinsey 2010: 7). New figures for 2025 (McKinsey Global Institute 2016, p. 8) give much higher values: they refer to a \$5.6 trillion opportunity for businesses through rising consumer and business spending (\$2.1 trillion as household consumption and \$3.5 of business to business spending). It is argued (and implied in many of these reports) that consumption spending leads directly to local enterprises for the middle class (shops, restaurants, local industries, services of all types, digital entrepreneurship, etc.). However, evidence for African countries shows that these expectations must be discounted. As an example, the South African black middle class has increased largely its consumption but has failed to develop a large entrepreneurial class to exploit these opportunities. White businesses mainly benefit from the growth of the Black African middle class to the extent that now the Project Excellence was created in South Africa to increase the awareness among Black African consumers that they can and should buy at Black African shop owners. It is estimated that most of the spending power of R420 billion from the Black South African middle class (being higher by R40 billion than the spending power of the white middle class) is going to White businesses[11]. The "Buy Black" project is also aiming at service and quality improvement. 600 Black enterprises in Gauteng (retailers, restaurants, plumbers, builders, lawyers, accountants, etc.) were identified to be promoted by quality competitions. The small number of participants and the private nature of this project limit however the scale of the initiative.

Much more is needed to get access to these markets by local enterprises, and pro-active legal instruments of the government can play a role. The increasing importance of supermarkets (established from foreign companies and from local upper class businesses) all over Africa raises the demand for government action to protect local small businesses. Safety and health regulations, but also traffic and town planning regulations play a role in this context. The local food economy is a case in point; it needs more support, by legal instruments toward protective regulation, by facilitating spatial planning, and by new finance instruments. Local formal and informal food markets can become better regulated, governed, and equipped with physical infrastructure so that local businesses can flourish. The "supermarket revolution myopia" (Abrahams 2010) must be overcome by governments to support "middle class" entrepreneurship. The case of Lusaka shows that the rearrangement of the local food economy can give local business players new strengths. Disciplining/restricting policies towards foreign supermarket chains along with promoting/protecting policies for the local retail business can help to generate local entrepreneurship, even to the extent of local industrial value chains. This is key as otherwise the predicted African industrial revolution (McKinsey Global Institute 20116, pp. 14-17) will not be done by the "middle class" entrepreneurs, but by foreign companies' affiliates and by African upper class businesses.

The potential for "middle class" entrepreneurship development will be missed when urban planning is not considering the local potentials (Kingombe 2014). The urban areas will become not only major engines for consumption but also for business development, and middle class entrepreneurship opportunities exist at various levels. There is a hierarchy of cities: there are Volume Opportunity cities, Expanding Mid-market cities, Mature Mid-market cities, and Stable Essentials cities (Kingombe 2014: 17-18). All these types of cities in Africa give opportunities for middle class entrepreneurs at different

[11] See on the Project Excellence:
http://www.itweb.co.za/index.php?option=com_content&view=article&id=135462

levels: to formal and informal enterprises, to necessity-driven and opportunity-driven ones, to survival-based and growth-oriented enterprises. However, this potential can only be exploited if there are supportive policies of the government (in terms of legal instruments, spatial planning, land ownership, competition, finance and training policies, etc.). Some sectors will dominate in the cities because of the huge volume of food and housing-related spending, but growth rates will also be high in cities for recreational and cultural expenditure, for spending in restaurants and hotels, for communication, and for other goods and services (Kingombe 2014: 16-19). The masterplans for African large cities undertaken now by international consulting firms and investors may miss the point of supplying housing and facilities for the African middle class and supporting an African entrepreneurial class. Such masterplans rather favour supplies for upper segments of the "upper class" consumers (Kingombe 2014: 18-19). Middle class entrepreneurship development is not automatically following increases of middle class consumer spending; pro-active policies are needed to achieve this. There is a window of opportunity as Africa has the world's fastest urbanization, and urban areas have a much higher productivity than rural areas (McKinsey Global Institute 2016, p. 6). Cities in Africa will receive every year between 2015 and 2045 an average of 24 million additional people, and this can make the "middle class" benefit in terms of growth-oriented enterprises and opportunity-driven businesses. But, this will not be realised without a strong policy focus.

The "missing middle" of enterprises phenomenon is deeply rooted in Africa and can only be overcome by a whole set of actions which are strengthening the productive role of the middle class: implementing new promotional and protective business policies, designing new promotional finance and human accumulation policies, and using new legal and planning instruments to support local businesses in the quickly growing urban areas.

4 Conclusions and Policy Recommendations

The paper is about the role of the African middle class as a base for entrepreneurship development. In this context, the "missing middle" in Africa, the gap in small and medium sized companies between microenterprises and large companies, is of interest.

First, the main concepts of defining and measuring the African middle class - via income and consumption, assets, vulnerability, and livelihoods - were discussed. These differences in definition and measurement have implications for the assumed developmental implications of the growth of the African middle class. There are so many statements in the literature about the developmental potentials and the impacts of the African middle class, but emphasis in this study is on entrepreneurship as based on the middle class in Africa (necessity-driven versus opportunity-driven entrepreneurship, and survival entrepreneurship versus growth–oriented entrepreneurship). Most of the arguments on the developmental role of the "middle class" lack so far empirical evidence, and there is tremendous speculation based on the way of defining and measuring the African middle class. A main instrument for this is the aggregation of some income/consumption data over African countries.

It is argued that neither income and consumption-based definitions nor assets and wealth-based definitions lead to a sound base for analysing the extent of the entrepreneurial activity of the middle class. Other instruments would be necessary, such as surveys of middle class entrepreneurs in certain countries and economic sectors, and compared over various African countries. A main weakness – beside of definition and measurement - is the fact that the upper classes/the rich segments of the population are not considered in this context, although most of the opportunity-driven and growth-oriented enterprises and most of the large and internationalized companies in Africa (beside of state-owned and multinational affiliates) are upper class businesses. It is also argued that policy implications differ if "median-based" or "affluence-based" definitions of the middle class are used. Only South Africa has enough data for deep analyses of the "middle class" and the "upper class". Also, the origins of the middle classes in Africa are different. In some countries (Tunisia, South Africa) they were strongly promoted by the government policies (industrialisation policies, empowerment policies), but in other African countries they emerged because of windfall revenues (for example, from oil) or public sector expansion and/or growing cash crop exports.

Second, the scarce evidence on the assumed role of the African middle class as a seedbed of entrepreneurship and managerial competencies is discussed and evaluated by referring to the political economy of the "missing middle" in Africa. The main issue is the role of the African middle class in overcoming the "missing middle" of small and medium sized companies. There is a general discussion about Africa's "missing middle", the assumed gap in terms of small and medium sized companies between the many mostly informal microenterprises and the large public and private companies. It is argued that the concepts of the African middle class used in the literature and the ways of defining and measuring it do not allow a deep investigation of entrepreneurship development. The reason is that the economic lives of the various segments of the middle class are so different; also, the various segments of the poor and the rich classes in Africa have distinct economic lives which partly overlap with those of lower and upper segments of the African middle class. There is a lack of differentiating the African middle class with regard of the potential for entrepreneurship development (in transiting from survival to growth-oriented enterprises), the establishment of entrepreneurial value systems (such as accumulating for education and health, and becoming strong in saving and investment), and the role in developing local industries and business networks (based on the increasing middle class consumption spending).

Any change towards the development of growth-oriented small and medium-sized enterprises - between survival and micro enterprises at the lower end and large capitalist and conglomerate enterprises at the upper end – based on the "middle class" growth is of interest. However, the empirical evidence on the African middle class to overcome the "missing middle" is quite limited. Most important is it to research more about the role of the African middle class in transiting from survival enterprises towards growth-oriented enterprises, and to understand better the role of the upper class in impacting on this transition via their strong market power. It is also of interest to see how governments in Africa can support entrepreneurship development and the building of management competences for specific African middle class segments, along with public strategies to use more fully the entrepreneurial potential of the poor and the rich classes.

The purpose of the paper is to conceptualize the composition, the characteristics and the behaviours of the African middle class and to give evidence on the developmental roles of the African Middle Class, by focussing on the "missing middle" of enterprises in Africa and on the types of entrepreneurship being associated with the growth of the African middle class. For policy purposes this is an important step as Africa's middle class is credited with so many significant developmental impacts.

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