Promoting Entrepreneurship: Trends, Issues and Prospects

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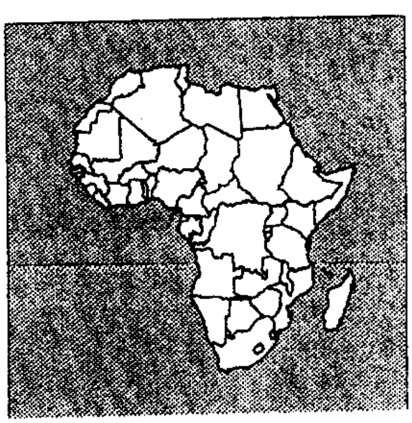

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I INTRODUCTION AND OVERVIEW

The stimulation, development, and promotion of African entrepreneurial capacity in the 1990s is the theme of this paper. This paper is being written against a background of reform trends since the early 1980s to liberalise African economies, down-size and restructure public sectors, and facilitate environments in which market forces can exert a more direct influence on allocative efficiency. These reforms do of course reflect the rethinking of the developmental role of the state in society and economy.[1]

But the adoption of measures at the macro-level to stabilise African economies should not be seen as an end in itself. After a decade of experience with liberalisation and adjustment, it is becoming increasingly clear that a fundamental challenge of the 1990s and beyond is to return African economies to a more consistent trajectory of growth. Pre-eminently, this will require the production of goods and services with higher levels of local value-added. Notwithstanding the new orthodoxy, this means in practical terms that governments must intervene to provide an appropriate regime of incentives to stimulate and encourage entrepreneurial ventures with a potential for significant value-added and/or export to niche markets. However, such incentives must also be sufficiently sensitive to market signals. In other words, government intervention to assist promising businesses or industries should be carefully targeted so that uncompetitive or unproductive ventures do not become a drain on resources. If the policies that created some of Africa's industrial white elephants are to be avoided, assistance in the form of tariff rebates, fiscal incentives, favourable terms of credit and so on must be made conditional on performance. This indeed is no less than the approach to business development taken by governments of the most successful developing countries, notably the East Asian nations.[2]

But it should also be acknowledged and recognised that in the African context, the ubiquitous informal sector remains a fact of entrepreneurial life. Typically operating on a very small scale, informal sector businesses provide a variety of services including all kinds of repairs. Beyond providing services, informal sector entrepreneurs produce goods ranging from simple farm tools to consumer products such as kerosene lamps, charcoal cookers, utensils, clothing and furniture usually - but not exclusively - for low income rural and urban groups. Often engaged in low value-added activities, many ventures in this sector exhibit considerable potential to 'graduate' into better established and endowed businesses.

The informal sector has long been ignored by African governments. Any realistic distribution of incentives to stimulate and encourage indigenous entrepreneurial capacity must carefully target the most promising informal sector ventures for assistance.

Entrepreneurship in Africa remains the main vehicle of economic diversification, future growth, higher living standards and increasing levels of self-reliance. This is the burden of the opening citation quoted above. This line

of thinking is further represented in the United Nations *New Agenda for the Development of Africa in the 1990s*, a compact between the donor community and African governments on the main principles underlying development cooperation during the decade. The "principal priority objectives" were defined in the document as "the accelerated transformation, integration, diversification and growth of the African economies in order to strengthen them within the world economy, reduce their vulnerability to external shocks and enhance self-reliance."[3]

To the extent that future development in Africa rests with entrepreneurs and markets, this paper represents a timely Economic Commission for Africa (ECA) contribution to discussion of the issues on what amounts to an enormous subject of utmost contemporary relevance. The study builds upon previous work on entrepreneurial development undertaken at the ECA. Much of this work falls into two categories. The first set of ECA studies carried out in the early 1980s were primarily concerned with entrepreneurship as one of the modalities of implementing the *Lagos Plan of Action*.[4] The second, more recent set of ECA entrepreneurial studies have been concerned with entrepreneurship as a vehicle of economic recovery and sustained development in a post-crisis Africa.[5] This publication falls into the latter category.

This study further draws upon the voluminous literature on the subject of several international development agencies with an interest in promoting different levels of entrepreneurship. These agencies include the ILO,[6] the UNDP[7], the World Bank group[8], the OECD[9] and other African development partners such as the Aga Khan Foundation.[10]. The work of the African Association for Public Administration and Management (AAPAM) on entrepreneurship has often mirrored ECA concerns and indeed the two organisations have collaborated in producing two reports.[11] Perspectives from the political economy of African entrepreneurship are introduced.[12] Reference is also made to the general[13] and comparative literature.[14]

In drawing upon all these sources, this paper does not claim to break new ground. But in distinguishing between different levels and categories of entrepreneurship in the region, the study does attempt to distil and situate assorted concepts of entrepreneurship that can be found in the literature. Bringing order to this conceptual jungle is a key step in identifying the constraints faced by entrepreneurs operating at different levels vis-a-vis the agenda of private enterprise development in Africa in the 1990s:

i facilitating the 'graduation' of informal sector ventures with realistic business prospects from their characteristic state of perilousness to better established and endowed enterprises;

ii increasing the value added of locally produced goods and services;
iii economic diversification; and
iv export to niche markets.

Discussion of the constraints on this agenda, clears the way for the recommendation of practical measures for enhancing African entrepreneurial capacity and effectiveness in the 1990s and beyond.

On this prospectus, this paper has three objectives encompassed in three sections as follows: First, it tours the labyrinth of concepts characterising African entrepreneurship to distinguish between owners or operators of microenterprises, small-sized enterprises, intermediate-sized enterprises and large-scale enterprises and to situate or pinpoint these levels of entrepreneurship in African political economy. Second, the paper examines the constraints on the effectiveness of entrepreneurs operating at these levels in regard to emerging agenda of the 1990s that has just been outlined. And third, the paper distils from the discussion in the first two sections a number of practical in sights, policy measures and recommendations for overcoming the constraints contemporary African entrepreneurs face and for promoting entrepreneurship as a vehicle of future growth, better living standards and sustained development. Before turning to this prospectus, it is necessary to define the concept of entrepreneurship.

Schumpeter's classical characterisation emphasises that entrepreneurship means creativity and innovation (including - but not only - technological invention and adaptation) as well as competent management in a business setting to meet specific business objectives. Over and above this formulation, Gershenkron has emphasised that entrepreneurial capability also means the application of these same attributes and practices to meet objectives which a nation has set itself in economic or development management. On both counts, entrepreneurial attributes and practices are relevant to various levels of private sector operations as well as public sector responsibilities. In short, an entrepreneur is a person who is able to perceive opportunities, and is creative, innovative and capable of marshalling the resources to bring the opportunities as perceived to fruition. To this extent the term is used in a very broad sense to include persons operating and engaged in large, intermediate-sized, small or microenterprises as well as those in cooperatives and government or indeed any other work situation.

II A POLITICAL ECONOMY OF AFRICAN ENTREPRENEURSHIP

Expressions of entrepreneurial capability can be found at different levels and on different scales. Conceptualising these differences in the literature has given rise to several concepts of size to characterise differences in the scale of entrepreneurial ventures. This variety of characterisation points to a simple problem: any concept of size is relative. There are varying degrees of large, medium, small, or micro entrepreneurial ventures. Moreover, the diversity of entrepreneurial experience among them is considerable. It is virtually impossible therefore to generalise about the motivation, dedication, capacity for learning, market percipience, organisational ability, ingenuity and other qualities or skills which entrepreneurs operating at any of these levels may evince. If this is much less so in regard to large-scale ventures (that have enjoyed business success), it is especially so in the case of small- to medium-sized enterprises. Indeed for the latter group, a miscellany of terms including micro, small, medium, intermediate, non-structured, informal sector, petty production, transitional sector, etc, have emerged to cope with the untidy reality of variable size, scale, level and complexity. Page and Steel have also noted that the commonly-used English concept - small-scale enterprises, does not quite correspond to the usual French term - *petites et moyennes enterprises.*[15] Making sense of the conceptual labyrinth of variable size in African entrepreneurial ventures requires insights and perspectives from history, politics, society and economy - a political economy - to pinpoint, different concepts of scale. Accordingly, the focus shifts to outline the main elements of the political economy of African entrepreneurship in three phases:

a the colonial phase when Europeans and other non-indigenous groups exercised considerable control over entrepreneurial opportunities in the region;

b the post-colonial phase when contradictions emerged to bedevil and impinge on efforts to promote indigenous entrepreneurship; and

c the contemporary phase in which assorted concepts of African entrepreneurship can be 'situated' against the background of the colonial legacy and post-colonial trends.[16]

Elements of Political Economy

a The Colonial Legacy

Africans are no less responsive than other people to opportunities to make a profit, increase their incomes, and improve their standard of living and

life chances. For centuries during the pre-colonial era, long-distance trade caravans plied the Sahellian belt and the main grassland areas and were carried along inland waterways. Dar-es-Salaam, Kano, Timbuktu, Port Sudan and Cairo were among major trading posts that grew and flourished as cities. Indigenous groups like the Hausa-Fulani of the Sahel became especially famous for their prowess in the long-distance trade.

The growing presence in Africa of Europeans during the eighteenth and nineteenth centuries altered the direction and focus of pre-colonial trade patterns and systems. Indeed, the most striking feature of entrepreneurship throughout the continent since the nineteenth century has been the domination by non-Africans of trade and business opportunities. Europeans virtually everywhere, Levantines in West Africa, Asians in East Africa, Turks, Syrians and other groups from the Arabian peninsula in North Africa established and exercised control over trade, investment and business. The carving up of Africa into colonies and protectorates during the late nineteenth century reinforced and consolidated this trend. Under colonial rule, foreign interests succeeded in establishing control over leading economic sectors. But there were significant differences between the West, East and Southern, and the North African sub-regions in the extent of indigenous participation in the business opportunities that opened up under colonial rule.

In West Africa, the main thrust of colonial policy was to stimulate peasant cash crop production on a very wide scale. Various measures were used to achieve this. Hut or poll taxes were imposed; administrative apparatuses were established to provide basic infrastructure, maintain law and order, supervise production and trading arrangements; and the support of those chiefs who were willing to place their authority behind the colonial agenda was enlisted. European commercial houses dominated both the produce trade as well as the merchandising of manufactured imports that grew alongside the former. European capital was also applied to mining operations. Cooperative African chiefs provided the labour.

Africans did however find entrepreneurial opportunities as intermediaries in the import-export trade enabling them to accumulate some capital as well as small business experience. To this extent trade was the economic base of the small West African bourgeoisie that emerged under colonial rule. But Levantines who began to arrive in the sub-region in the 1880s and a smaller group of Asians from India who came later established themselves as shrewd competitors to African traders. By the 1940s they dominated the intermediary wholesale and retail trade. There are at least two explanations for this. First, African traders tended to 'invest' their profits in the education of their offspring often at metropolitan institutions and/or in real estate. The settlers on the other hand ploughed their profits back into their businesses and so increased their entrepreneurial experience as the Africans' diminished. Second, the African bourgeoisie became preoccupied with nationalist politics during the inter-war

period seeking to share power with the Europeans. Indeed nationalist agitation was spear-headed by the growing class of highly educated Africans (often the offspring of the earlier generation of indigenous entrepreneurs whom had enjoyed business success in the intermediary trade) that had emerged by this time. By the independence era, West Africans were in a strong position to take over key positions in the civil service and government by virtue of their educational attainments but their role in business had become marginal. The Levantine and Indian settlers on the other hand were by this time 'graduating' from the intermediary trade and venturing into intermediate and large-scale ventures in light industry.

Unlike West Africa, a unique feature of colonialism in East and Southern Africa was the presence of European settlers. They became engaged in commercial agriculture and mining and invested their profits in industry. While colonial policy in West Africa was primarily concerned with the promotion of peasant cash crop production, the main priority in East and Southern Africa was to secure a male migrant labour force for European-owned agricultural estates, mines and factories. In South Africa, the Rhodesias, Nyasaland and Kenya, this was accomplished through land alienation, taxation, and the imposition of restrictions on the range of economic activities Africans were allowed to pursue. As the import-export trade flourished in this sub-region, there was accordingly very little scope for Africans to assume an intermediary role in it as had been the case in West Africa. In South Africa, Tanganyika, Kenya and Uganda, the main intermediaries were Indian traders who had established themselves along the East African coast during the nineteenth century in places like Zanzibar, Mombassa, Dar-es-Salaam, Port Elizabeth and East London. The building of railways in the sub-region during the 1890s and 1900s brought another wave of Indians into the area as indentured labour. In time, these manual labourers also turned to commerce. Thus, Africans in Eastern and Southern Africa were marginalised by European and Asian settlers far more than was the case in West Africa. Moreover while the early business success of West Africans financed the training of a well-educated elite, the indigenous manpower situation in Eastern and Southern Africa was dismal by independence in the early 1960s. Indeed it was not until after independence that comprehensive measures were introduced to develop both indigenous manpower and promote African participation in business.

The situation in the Maghreb, Egypt and the Sudan was very different. People, capital and goods had always moved throughout North Africa (and indeed the Arabian peninsular and beyond) and a substantial degree of indigenous capital accumulation had occurred by the early nineteenth century. The civil service bureaucracy was for the most part indigenous as Turkish and later European colonialism in North Africa took the form of a suzerainty. That is to say, the North African states remained internally autonomous but a protectorate was imposed over them. Under this arrangement, Turks and later Europeans assumed ascendancy over trade and business in the area. Syrians

and merchants from the Arabian peninsula were also prominent in the business life of the sub-region. By the middle of the nineteenth century in Egypt for example, the leading entrepreneurs in the cotton trade were Turks. But they intermarried with the local population and often ran their businesses in partnership with indigenous capital. Similarly in the Sudan, the leading entrepreneurs right up to the 1940s, and 1950s in the trade in cotton, oilseeds, livestock and gum arabic among other commodities were Turks, Syrians and merchants from the Arabian peninsula, across the Red Sea. As in Egypt they married into the local population.

Throughout the sub-region entrepreneurial profits were reinvested in industry - creating a substantial industrial base in the main North African metropolitan centres, from Casablanca to Cairo to Khartoum. The growth and spread of wealth facilitated an appreciable degree of indigenous manpower development and real estate holdings. Conjugal relations and business partnerships between the non-indigenous Turkish and Arab entrepreneurial class and the local population as well as strong affinities in religion, culture and language between the indigenous and non-indigenous attenuated or mitigated the extent of foreign domination of entrepreneurial opportunities in North Africa. Moreover the British and the French as colonial overlords (since the late nineteenth century) with a vested interest in the import-export trade, were content to rely upon the well-established entrepreneurial class as intermediaries.

By the time independence came to Africa in the 1950s and 1960s, the entrepreneurial experience of indigenous Africans ranged from minimal in Eastern and Southern African to marginal in West Africa and fairly substantial in North Africa. Only in North Africa did indigenous entrepreneurs (mostly through partnership with settlers) have experience in operating large-scale enterprises. In West, East and Southern Africa, indigenous entrepreneurial experience was limited to the operation of very small businesses and ownership of real estate - more so in the former than in the latter sub-region. While efforts were made to promote indigenous business capacity after independence, the colonial legacy had profound implications for the accumulated experience of African entrepreneurial capability and, in consequence, the size and scope of ventures indigenous people were running.

Elements of Political Economy

b Post-Colonial Trends

At the level of official policy, the encompassing preoccupation of African governments upon attaining independence was to provide visible and tangible manifestations of development. The legacy of non-indigenous control - particularly in West, East and Southern Africa - over leading economic sectors ensured that Africans, now in charge of their own affairs, will seek to take

command over national economies. It is significant that one of the popular slogans in nationalist circles during the early 1960s was 'political independence without economic independence is meaningless'. Over and above such sentiments, contemporary models of economic development that were most influential in both government and international development circles during the 1960s and 1970s favoured state action to promote development through interventionist policies, public enterprises, and related measures. Ideological conviction in some countries (for example Egypt under Nasser, Ghana under Nkrumah, Guinea under Sékou Touré, Algeria under Boumedienne, Tanzania after the 1967 Arusha Declaration, Zambia after the 1968 Mulungushi Statement, Ethiopia after the 1974 Revolution and in the former Lusophone colonies) reinforced the commitment to state intervention. During the two decades between the 1960s and 1980s, two trends in the changing character of entrepreneurship in Africa can be identified as follows: (i) the key role assumed by public enterprises in virtually all countries; and (ii) a significant expansion of private indigenous entrepreneurial capacity. Both of these trends have been bedeviled by contradictions. In the case of public enterprises, their record of performance has been dismal. And in regard to policies on promoting indigenous entrepreneurial capacity, rent-seeking activities tended to be favoured and the informal sector was virtually ignored. Measures to promote entrepreneurship were concentrated on the formal sector where incentives were often distributed not according to merit, performance, or other commercial criteria, but on the basis of political patronage. In countries which professed a commitment to socialism, measures were actually adopted to limit the development of private indigenous entrepreneurial capacity. The focus now shifts to a discussion of each of these two main trends and the contradictions surrounding them.

i Public Enterprise

Public enterprise in Africa is not a post-colonial invention. Colonial governments used this mechanism of state intervention to operate public utilities such as railways, ports, electricity, water, telecommunications and for the marketing of agricultural produce through marketing boards. Sentiments associated with controlling the commanding heights of African economies, ideological conviction is some countries, conventional thinking on the role of state enterprise in economic development at the time of independence, and the general colonial legacy of a weakly developed class of indigenous entrepreneurs, left many African governments with little choice other than to use public enterprise as instruments of entrepreneurial activity. By the mid-1970s, public enterprises were operating in such businesses as mineral extraction, petroleum, banking, insurance, air travel, shipping, hotels and tourism, wholesale merchandising, and manufacturing. To this extent, public enterprise in Africa has been a vehicle for indigenous entrepreneurship on a very large-scale - in terms of both capital and labour employed. A 1974 report on the public sector in Nigeria was quite apposite in claiming:

We are now selling insurance, printing notes, minting coins, we are sailing ships and refining oil ... We are banking and building. Tomorrow we shall be forging steel.[17]

Hence public enterprises were to be found virtually in all economic sectors as governments embarked on wide range of business ventures. By the early 1980s, the World Bank estimated that there were over 3000 public enterprises in sub-Saharan Africa. In the region as a whole, it was further estimated that public enterprises accounted for as much as 15 per cent of output and 25 percent of investment.[18]

Few African public enterprises have however performed satisfactorily. Post-colonial politics of patronage and patron-clientelism has been the basis of operating difficulties such as unclear or conflicting enterprise objectives; inadequate arrangements for managerial accountability; and the trivialisation of board and political supervision. During the 1960s and 1970s, most African governments enjoyed favourable budgetary and fiscal balances and found it possible to underwrite public enterprise losses. By the 1980s, however, a host of exogenous and endogenous problems emerged to constrain the previous largesse of the public exchequer. In these difficult times, the operating inefficiencies of public enterprises have quite properly been perceived as a burden on the public purse. Chastened by financial difficulties, African governments, as noted earlier, have implemented radical economic reforms including the restructuring of the public enterprise sector. These reforms have included 'privatisation' or divestiture and other measures. As conventional joint-stock companies and joint (foreign and indigenous) ventures replace public enterprises, the recent wave of divestuture in the region has profound implications for changing ownership patterns. In this regard, empirical studies of country experiences are urgently needed to throw light on this changing dimension of African entrepreneurship.

ii Private Enterprise

Alongside the growth of the public enterprise sector during the 1960s and 1970s, measures were taken in non-socialist African countries to promote private indigenous entrepreneurial capacity. As in the case of public enterprises, post-colonial politics of patronage and patron-clientelism had profound influence on the distribution and targeting of incentives and benefits. In so far as economic or commercial criteria were often overridden by political considerations, the promotion of indigenous businesses after independence had more to do with nationalist sentiments and rewarding political supporters than with entrepreneurship as a vehicle of economic development. Be that as it may, promotional measures fell into three categories as follows: (i) restrictions on the range of business activities non-indigenous could pursue; (ii) facilitation of access to credit; and (iii) assorted initiatives on entrepreneurial support.

Restrictions on foreign firms have included outright bans from operating in certain sectors. These sectors are typically characterised by relative ease of entry and include wholesale and retail trade, brokerage, transportation and civil construction. It was often the case that nationals had obtained experience running businesses in these sectors or could more readily break into them. In some cases, foreign firms have been allowed to operate in 'easy entry' sectors provided their annual sales turnover, capitalisation or both were above a certain minimum. Such requirements cleared the way for nationals to engage in the activity on a smaller scale while acquiring entrepreneurial experience as a basis for 'graduating' to operations on a larger scale. Alternatively, or in addition, indigenisation legislation carried the provision that nationals must be permitted to hold a certain proportion of the equity share in foreign enterprises that were allowed to continue. Another variant of this requirement has been a provision for nationals to be represented on the policy-making councils such as boards of directors of foreign-owned businesses. Nigeria provides the case of an African country where comprehensive legislation was enacted specifying the conditions of non-indigenous participation in various kinds business ventures. While several other countries adopted similar measures after independence, they have generally not been as comprehensive as those in Nigeria.[19] Côte d'Ivoire and Malawi on the other are examples of African countries were hardly any restrictions on foreign participation in business were enacted.

Facilitation of access to credit is the second category of measures taken by post-colonial African governments to promote private indigenous entrepreneurship. Indeed indigenisation programmes are viable only to the extent that nationals possess or have access to capital to buy out departing foreigners or to establish new businesses. Against a background of discrimination by foreign banks in providing credit to African-owned businesses during the colonial years, governments after independence required the termination of such practices, sometimes putting credit guarantee schemes in place. Beyond this, several state-owned institutions were established to provide credit and a range of financial services including insurance to indigenous entrepreneurs. Some of these institutions - industrial, agricultural or trade development banks assumed sectoral specialisation. Development corporations were also set up at a sub-national level in the case of Nigeria and at a national level in Cameroon, Kenya, Malawi, Sudan and Zambia among many countries to maintain a portfolio of equity shares in foreign or local enterprises as well as to provide credit. One of the most successful of these corporations has been the Kenyan Industrial Commercial Development Corporation (ICDC). The ICDC has been responsible for providing credit to establish a number of Kenyan entrepreneurs and for facilitating the 'take over' by Kenyans of Asians and European-owned businesses.[20]

In the post-colonial effort to promote indigenous entrepreneurship restrictions on foreign firms and facilitation of access to credit was accompanied by assorted business support measures. These included technical, financial,

marketing and management training schemes; industrial estates and craft centres providing subsidised workshops, equipment and basic infrastructure; and a host of incentives such as tax relief and exemptions from customs duties.[21] Foreign firms and joint ventures have also benefitted from these business support schemes.

It should be evident that the range of measures taken by post-colonial governments to promote private enterprise were primarily designed to assist entrepreneurs operating in the formal sector. To this extent, the informal sector where the vast majority of indigenous entrepreneurs - especially women - operate has been largely ignored.[22] It is also significant that some of the most successful indigenous entrepreneurs have been politically well-connected. In the Sudan, for example, Kalil Osman emerged as a millionaire industrialist during the late 1960s, operating over ten industrial establishments, some as joint ventures with Emir of Kuwait or with Lonrho, the UK-based multinational. Osman is reputed to have played a leading role in foiling the coup attempt against General Nimeiri in July 1971.[23] In Kenya, Njenga Karume, an influential politician acquired interests in over thirty-three companies including the Tiger Shoe Company which he founded to compete with Bata.[24] Nigeria's leading capitalists have also been politically well-connected to both civilian and military regimes. Chief Alhaji Yinka Folowiyo of Lagos emerged as a shipping magnate during the early 1970s, operating a private shipping company, Nigerian Green Lines, with six cargo carriers and a total of 88,000 tons dead-weight. The company provides a freight service between Nigeria and Europe.[25] Also in Nigeria, the Dantata family of Kano emerged as probably the wealthiest merchants and manufacturers in tropical Africa. They were able to acquire the largest bloc of shares in the United Africa Company (UAC), a subsidiary of UNILEVER in Nigeria, when the company was obliged to indigenise its equity in the mid-1970s.[26]

The entrepreneurial activities of the politically well-connected has not always led to productive investments. In many instances, privileged access to credit and other facilities has been used to engage in luxury consumption and speculative activities such as purchasing of real estate (locally and abroad), investment in overseas stock markets, and for savings in high interest yielding accounts in foreign banks. Indeed a web of corruption encompassing government officials and private entrepreneurs has not been unknown in many African capitals. Other wealthy Africans have invested abroad simply because they lack confidence in local economic management and the stability of local politics and public institutions. As conditions of governance improve during the 1990s, it remains to be seen whether Africans with investments abroad will assume the confidence necessary to invest locally.

Another contradiction that should be acknowledged and noted is that during the 1960s and 1970s, several African governments eschewed private enterprise development for ideological reasons. Guinea, Mali, Somalia,

Mozambique, Tanzania and Benin fall into this category. From 1974, the Marxist government in Ethiopia, for example, limited the private ownership of business to a few areas such as weaving, grain milling, and hotels. It also limited such enterprises to individual ownership and forbade any one individual from owning more than one business.[27]. For countries committed to socialism, public enterprise became the main vehicle of entrepreneurial development. And, as already noted, few African public enterprises have been commercially successful.

In spite of the contradictions surrounding public enterprise and the promotion of indigenous entrepreneurial capacity in post-colonial Africa, there is evidence to suggest that a significant degree of indigenous entrepreneurial expansion has occurred since independence in countries with mixed economies. From operating predominantly small businesses especially in sub-Saharan Africa, many indigenous entrepreneurs have 'graduated' to running intermediate- and large-sized concerns. The data-base on various aspects of microeconomic behaviour in Africa is notoriously deficient. But in Ghana, for example, a 1984 official survey recorded 206 wholly Ghanaian-owned enterprises employing a total of 29,036 workers - an average labour force of 140 persons.[28] In Kenya, official data for 1987 recorded 13,237 private establishments of varying sizes in the formal sector. Foreign-owned enterprises accounted for only 15.3 percent of total private sector employment.[29] In Malawi, the Export Promotion Council had by the late 1980s registered 108 private firms - more than half of them owned by Malawians - engaged in direct exporting in 32 product groups.[30] Reference has already been made to the World Bank estimate of 3000 public enterprises operating in sub-Saharan African countries by the early 1980s. A 1989 estimate of informal sector employment suggests that as much as 59 percent of urban labour in Africa is engaged in informal sector activities - in many cases as microentrepreneurs.[31]

The expansion of African entrepreneurial capacity after independence is clearly not an issue of doubt. More relevant to an agenda for the 1990s are the constraints on indigenous entrepreneurial activity as vehicles of value-added, economic diversification and exports. There is also the important issue of facilitating the 'graduation' of informal sector businesses with sound prospects into stable and well-endowed enterprises. Thus the challenge of the 1990s is for economic and commercial criteria to override political considerations in the promotion of African entrepreneurship. Before turning to these matters, it is necessary to 'situate' and illustrate the range of African entrepreneurial ventures that emerged during the post-colonial era.

Elements of Political Economy

c Situating Concepts of African Entrepreneurship

As the expansion of African entrepreneurial capacity occurred after independence, the diversity of business experiences gave rise to several concepts of size and scale. As noted above, any concept of size is relative. It is therefore necessary at this point to pin down and exemplify different concepts of African entrepreneurship. The metaphor of an 'iceberg' has been used by one author to describe the range of African entrepreneurial experiences.[32] It is a useful metaphor, modified here to make sense of the conceptual labyrinth of African entrepreneurship.

Deep below the waterline of the iceberg is mass of very small, often one-person enterprises which typically operate outside any legal or fiscal framework. Excluding the subsistence agricultural sector, these entrepreneurs are engaged in selling assorted merchandise, providing a range of basic services such as repairs, and producing goods such as farm implements, indigenous craftware and consumer products including utensils, clothing and furniture. It is well known that the 1972 ILO Employment Mission to kenya introduced the term 'informal sector' to describe such entrepreneurial activities. The ILO Mission went on to suggest that the proliferation of entrepreneurs operating on this micro-scale is fundamentally a consequence of un (and under) employment in a context of rapid population growth in rural and urban settings. Informal sector enterprises usually employ no more than 5-10 persons including the owner and family and/or some apprentices. They would normally require less than the equivalent of US$100 in starting capital and rarely up to the equivalent of US$5000. (These figures on employment and capital are illustrative: rigid adherence to them is not necessary). Such businesses are referred to as **microenterprises** in this paper. A profile is presented in Box 1 to exemplify the reality of an African microenterprise.

In the area around the waterline of the iceberg are those businesses that rarely incorporate and operate according to the requirements of existing national legislation. They may or may not occupy known premises, may or may not own bank accounts. Such businesses straddle the informal and formal sectors and, like microenterprises, can be found in virtually all kinds of economic activities - financial services (such as savings clubs), agriculture, fishery, cottage industries, craftware, manufacture, mining, trade, construction, transportation, etc. They may employ as many as 10-50 persons or more and their start-up capital could range from as little as the equivalent of US$100 to as much as US$10,000 or more. These businesses are referred to as **small-sized enterprises** in this study. A profile of an African small enterprise is provided in Box 2, again to present such a business in a less abstract light.

Above the waterline, where the iceberg becomes visible, but still well below the tip, can be found formal, known, registered companies established and operating according to legal standards defined in relevant national legislation. Such enterprises operate within the banking and fiscal framework and can be found in virtually all sectors of the economy. They may employ as many as 100 persons or more including perhaps expatriate experts. Start-up capital could range from the equivalent of US$1000 to as much as US$1 million or more. In this study , businesses operating on this scale are referred to as **intermediate-sized enterprises**. Again, a profile is presented in Box 3 to illustrate the reality of an intermediate-sized enterprise operating in a post-colonial African country.

Box 1

Profile of an African Microenterprise
The story of Gilbert Sarre who repairs
refrigerators and air conditioners

At 14 years of age Gilbert Sarre found himself out in the streets of Abidjan. He tried various jobs. That was in 1978. His father, a Burkinabe migrant, had moved to Abidjan from another city in the Cote d'Ivoire four years earlier as a houseboy/cook, earning no more than a minimum income or in any case, not enough to see his six children through school. Because of moving from place to place, Gilbert had no more than a few years of primary education.

Today he owns a small, but well-equipped workshop where he repairs refrigerators and air conditioners. Here is his story:

By chance, really. I had this friend who knew this priest in Port Bouet who, on a day when I was there, told us about a plan to set up a centre where young people could meet and also learn certain things. I thought that this was a good idea and I volunteered with other kids to help construct it. When the Pilot Centre as it is called opened in 1983, the 20 volunteers could enrol without being charged - subsequent apprentices paid 5,000 CFA to enter. The municipality of Port Bouet took care of construction costs and they sent some of their employees to run the Centre.

I decided to go for the repairs of refrigerators and air conditioners because a relative whom I admire is in this business. Unfortunately, he couldn't help me because he doesn't have his own workshop; he is employed by someone else. For our training, the Centre found a first-rate refrigerator repair man. He didn't have his own workshop - he worked in the open air - he agreed to the Centre's proposal: he would train apprentices while pursuing his business and they would provide him with a suitable work place free of charge. It is like that for all six trainers in the Centre.

I spent three years there. At the end the Centre gave me a certificate. Because it is difficult to find a wage-job and because I didn't have the means to set up my own workshop, I then became a mobile repair man. I went door-to-door on my little motorbike to repair refrigerators and air conditioners. Slowly I accumulated savings, I bought myself the necessary tools and, finally, I opened my own workshop. It is now my turn to train. I have six apprentices. I am a happy man. I earn enough and every month I give my mother some money to help her feed my little brothers. I don't live with them any longer. I am independent. I am thinking of marriage.

Source: Fred Fluitman (ed.), *Training for Work in the Informal Sector* (Geneva:ILO, 1989), p.114.

Box **2**

Profile of an African Small-scale enterprise
The Story of Irene Dufu, fishery entrepreneur

Irene Dufu, a Ghanaian nurse turned business woman, shows what access to resources in a more and more competitive economy can do to spark the entrepreneurial spirit. She registered her fishing company-Cactus Enterprise Ltd. in Tema, Ghana, in 1978, having started operations informally two years earlier. She began with a small wooden vessel and a crew of twelve. Today she employs sixty-five fishermen on three boats. Her turnover in 1989 was more than $1.2 million.

What was Mrs. Dufu's route to success? While serving as a nursing officer at the Accra military hospital, she was approached by a group of artisan fishermen from a village where her father had served as regent. These fishermen were seeking a loan to buy new canoes. They were illiterate and lacked collateral, so the banks had turned them down. Mrs. Dufu received a loan on their behalf, using her house as security. The fishermen repaid it in six months. This started Mrs. Dufu thinking about a career switch. Salaries in the army and public enterprises were not keeping pace with the rapidly rising cost of living, and she had three children to educate. Many successful trading businesses and bus transport companies in Ghana are owned by women. Why not go into fishing and marketing on her own? With an end-of-service gratuity from the army, she bought a truck, which she then used as collateral for a loan to purchase a secondhand wooden fishing boat. Then she recruited a captain with a nose for tracking down shoal movements and a crew willing to spend weeks at sea.

She found she could compete with the state-owned fishing company, selling cheaper yet still enjoying good margins. She then bought and repaired an inexpensive tuna ship which allowed her to break into the market for canned tuna, supplying a U.S. company. Since the liberalization of Ghana's foreign exchange market in 1987, Mrs. Dufu has been able to keep a foreign exchange account, making it easier to raise the money to buy and repair the two secondhand vessels. Refitting the engine in one boat will need to wait, however. Ghanaian banks give priority to government borrowing: only 10 percent of overall credit was allocated to the private sector in 1989. Despite the credit constraints, Mrs. Dufu is contributing to Ghana's economic resurgence.

Source: World Bank, *World Development Report 1991.*, (New York: Oxford University Press, 1991) p.70-71.

Box **3**

Profile of an African Intermediate-sized Enterprise
The story of the Patels of Tanzania, automobile radiator manufacturers

Tanzanian firm, Afro-Cooling is majority-owned by local Asians with a government minority equity holding. It started operations in 1979 to make radiators for automobiles by importing a dozen technicians from an Indian firm with considerable experience in radiator manufacture based originally on German technology. The experts designed a small two-shed plant and procured equipment from Germany and cheap, simple tools from India. Local employees working with the Indian technicians on the shop floor were trained intensively. Although the scale of operation was about one-tenth of international levels, the use of simple labour-intensive techniques enabled Afro-Cooling to keep costs down and produce an enormous variety of radiators efficiently. Its products were exported to other African countries and the Middle East, and it won a contract to supply radiators as "original equipment" to the local Saab-Scania truck assembler after rigorous testing of its products in Sweden.

Source: S. Lall, "Structural Problems of Industry in Sub-Saharan Africa" in World Bank, *Long-Term Perspective Study of Sub-Saharan African Volume 2: Economic and Sectoral Policy Issues* (Washington DC: World Bank, 1990), pp.100-101.

At the tip of the iceberg can be found **large-scale-enterprises** - typically establishments with well over the equivalent of US$1 million in start-up capital and usually employing well over 100 persons. Large-scale enterprises operating in the region are engaged in all sectors: trade, agriculture, industry, mining, utilities, transport and communications, finance, insurance, utilities and other services. Examples of indigenous privately-owned large-scale enterprises range from a shipping company and trading/manufacturing conglomerates in Nigeria to substantial industrial establishments in Kenya or Tunisia. While public enterprises are prominent in large-scale operations, there is evidence to suggest that the recent wave of privatisation is altering prevailing ownership patterns. One estimate suggests that out of over 3000 public enterprises operating in the region between 1983 and 1987, about 557 enterprises (or 18.5 per cent of the estimated total) have been affected by various reform measures. Of this number, 80 enterprises in 19 countries were divested or sold to private interests. Sixty more enterprises in 11 countries were in the process of being sold. Over and above the 557 public enterprises affected by reforms, feasibility studies were being carried out in 11 countries on the future divestment of 133 enterprises.[33] Box 4 provides a profile of an African large-scale enterprise at the tip of the indigenous entrepreneurial iceberg.

The metaphor of an iceberg, somewhat awkward in Africa's tropical context, nonetheless provides a useful means of pinpointing and illustrating various concepts of post-colonial African entrepreneurship. It facilitates a distinction between entrepreneurial activities in terms of level, size and scope: microenterprises operating beyond the pale of a fiscal or legal framework and providing employment and income for marginal groups such as women

Box **4**

Profile of an African Large-scale Enterprise
The Story of Morogoro Shoe Company of Tanzania

Tanzania's state-owned Morogoro Shoe Company (MSC) is a case of wasted resources. Financed by the World Bank, MSC was based on Tanzania's large supply of hides and skins and seemed economically sensible. It was a relatively low-technology activity in which several developing countries have established export markets. It was supposed to have high local value added and economies of scale (it was apparently designed as the world's second largest shoe factory). Its products were aimed at the quality end of the market, with 80 percent of output to be exported to Europe. An Italian consultant designed the plant and installed state-of-the art equipment, highly automated, and technically capable of producing quality shoes. MSC came on stream in the early 1980s, with ample supply of imported raw materials to operate for two years. Because of a disagreement, the Italian consultant backed out before the plant became operational and the Tanzanians independently undertook the final phases of commissioning and training, with disastrous results. MSC achieved just over 5 percent capacity utilization at its peak; by 1986 the figure was below 3 percent. Most of the machines were never used, quality and design were abysmal, and unit costs were very high. MSC could not compete with long-established local shoe manufacturers, like Bata, which had much older technology but a well-trained work force, and exports were clearly out of the question.

Source: Lall, "Structural Problems of Industry in Sub-Saharan Africa", p.100.

and the poor and low-cost, on-the-job training for apprentices in skills and occupations that are in demand; small-scale enterprises manoeuvring between stages of formality but with much potential to 'graduate' into firmly-established

formal enterprises; intermediate-sized enterprises - trail-blazers of African versatility in export markets; and large-scale enterprises endowed to make the most of scale economies.

With this outline of elements of the political economy of African entrepreneurship as a background, an assessment of the constraints African entrepreneurs operating at different levels face against the economic and commercial imperatives of the 1990s follow.

III INDIGENOUS ENTREPRENEURIAL CAPACITY: CONSTRAINTS OF THE 1990s

Entrepreneurship - in all its diversity - in Africa provides a flexible, dynamic and potentially efficient means of meeting the emerging challenges of development in the region. The evolving context of an African Common Market presents new opportunities for entrepreneurial percipience, acumen and versatility. In practical terms, the question that arises is, quite simply, what is holding African entrepreneurs back? What are the constraints on African entrepreneurial success in the 1990s? What can be done to remove the constraints?

A summary of the main constraints - distilled from a number of studies on this question[34] - is presented in Tables 1 (please see page 21) and 2 (please see page 28). The former provides a general list of constraints which apply to existing and potential entrepreneurs operating at all levels; the latter applies to specific levels of entrepreneurial activity, namely, informal sector microenterprises, and formal sector small-, intermediate -, and large-scale enterprises. An elaboration and discussion of the two listings follow. The question of what can be done to remove the constraints is a subject for later discussion in section IV of this study.

a General Constraints

General constraints on entrepreneurship in contemporary Africa apply to existing and potential entrepreneurs. That is to say, aside from the obstacles posed by these constraints on businesses which are already in operation, potential investors may be deterred by what is perceived as an unfavourable business climate. An unfavourable business climate is difficult to define or much more to measure. But it refers to the willingness of investors and entrepreneurs to risk their capital, time and other resources in the expectation of future returns. To this extent, the business climate is fundamentally a matter of perception of risk. As such it cannot always be explained by a set of objective conditions. Take the case of **political instability** in Africa.

Table 1

General Constraints on Entrepreneurship in Contemporary Africa

- Political instability
- Lack of business confidence
- Deteriorating infrastructures
- Uncoordinated policies on business promotion and development
    o financial policies
    o trade policies
    o labour policies
- Insufficient knowledge in government about the business sector

Source: Distilled from the literature cited in notes 4 to 14 in the references

Political instability can of course be defined 'objectively' in terms of a break-down in the normal functioning of government, civil unrest or warfare, or an acute condition of political disorder. Indeed Liberia or Somalia in 1992 would provide objective African examples of political instability. But such clear-cut cases are the exceptions rather than the rule. Moreover with a political settlement of the underlying problems, conditions in obvious cases of political instability could change very rapidly. What is more, where there are flashpoints of civil strife or other difficulties arising from conflicts over the legitimacy of government (for example Algeria, Kenya, Malawi, Nigeria, Sierra Leone, Sudan or Togo also in 1992), the extent of the deterrent to an investor is ultimately a matter of personal judgement. The point is, however, that weakly institutionalised governments, challenges to the legitimacy of established authority, and civil unrest generate a psychology of fear. The whole African region is losing billions of dollars every year in both indigenous and foreign investment (and much more from multiplier effects) as a result of perceptions of risk associated with political instability. Such perceptions would of course deter the informal sector microentrepreneur wishing to set up an operation to produce kerosene lamps as it would deter the large investor wishing to establish a factory to manufacture office furniture. Perceptions of political instability is one of the major constraints holding back entrepreneurship in Africa.

Another dimension of an unfavourable business climate is **lack of business confidence**. Business confidence has been defined as a complex combination of objective 'incentive' factors and subjective 'confidence' factors.[35] As with political stability, a lack of confidence in any given country is related to 'objective' conditions in this instance unhelpful policies or nefarious practices towards the business community. It is further related to fears - or subjective perceptions - that these policies and practices may change for the worse in the future. Apprehensions or misgivings are usually aroused by an established record of poor economic management and performance in the country in question. One of the symptoms of this is large public sector deficits which occur with chronic frequency. Such deficits generate a fear of credit stringency, tax increases and foreign exchange shortages among other anxieties and business confidence diminishes accordingly.

Another symptom of disarray in national economic management can be found in a situation where public policies do not adequately address obvious economic priorities such as reducing high levels of inflation or the need to provide stimuli for economic growth. In such a context, business confidence shrivels out of fear of the chaotic state of economic management.

Aside from these examples of a lack of business confidence arising from incompetence in government economic management, business confidence may flag in a situation where public pronouncements are consistently made by politicians or influential public figures accusing entrepreneurs of exploitation, profiteering and other anti-social conduct. Indeed entrepreneurs in various African capitals have been harassed through looting and destruction of property especially during times of civil unrest. Where public authorities fail to demonstrate a realistic or hard-headed understanding of the role of entrepreneurs in national development, the business community may feel vulnerable, exposed, and inclined to take their investments elsewhere.

A final example of a context in which lack of business confidence may arise is one in which the public service bureaucracy is unhelpful, obstructive, or even hostile to investors. This can happen where bureaucratic inefficiency, incompetence or red tape results in unnecessary delays in processing applications for licenses and permits or obtaining various types of clearances. An unclear or inconsistent division of responsibilities between departments, poor coordination among them or the prevalence of corrupt practices can also frustrate *bona fide* entrepreneurs operating at any level. All of these examples illustrate how objective disincentives can combine with subjective confidence factors to constitute a formidable constraint on entrepreneurial impulses.

The general business climate is also affected by the quality of **public infrastructure**. One of the casualties of Africa's intractable economic crisis of the 1980s is the deterioration of infrastructures, particularly in power, transport and communications and water supply. Telephone and other communication

facilities which work erratically, congested port facilities and badly surfaced roads will inevitably result in delays. As one assessment of contemporary African capitalism has noted, such inadequacies push up the cost of handling inputs and outputs and absorb scarce capital because of the need to hold large stock of goods as a reserve against likely shortages.[36] Other examples of the constraints associated with inadequate infrastructure include unreliable supplies of water and electricity which may disrupt production runs. One study of 30 construction projects undertaken between 1983 and 1986 in several African countries has tested the relationship between poor infrastructure and unit costs. The evidence from the study is inconclusive but points towards higher unit costs for power, highways and water supply in the African sample vis-a-vis other developing regions.[37]

Uncoordinated policies on business promotion and development is another dimension of an unfavourable business climate and a source of may entrepreneurial frustrations. At the heart of this issue lies a practical problem: one agency of government does one thing; another agency (or perhaps even a division within the same agency) does the opposite. Contradictions abound; mixed signals are sent to investors. The solution is not of course to leave business development to 'market forces'. But the objectives of government intervention must be clearly defined, policies and measures made consistent with objectives, and assistance to enterprises and industries made contingent on performance. As will become evident from examples of contradictory financial, trade and labour policies that are discussed presently, there is simply no alternative to sound institutional capacity in government for policy development, sensitivity analysis, and policy coordination - if national objectives in development policy and management are to be pursued with efficiency and consistency.

Government financial polices on credit, foreign exchange allocation, and taxation as well as its public expenditure and investment programme interact in many complex ways to constitute a regime of constraints or incentives to entrepreneurs operating at different levels. One assessment of the pattern exhibited by government financial polices in the region during the 1980s found potential constraints on entrepreneurial activities in five areas as follows:

- o low interest rates which reduce saving deposits and discourage banks from lending;
- o foreign exchange allocation systems that tend to give priority to the public sector;
- o excessive borrowing by government that tends to 'crowd out' private entrepreneurs;
- o foreign loans and grants earmarked for public investment programmes; and

- o relatively high marginal tax rates, squeezing entrepreneurial profits and incomes and limiting capacity to generate internal investment funds.[38]

A sixth area of inconsistency noted by the same study was concerned with development or sectoral banks as a channel of credit.[39] Aside from a general tendency to withhold credit from informal sector microentrepreneurs and some small-scale businesses because of perceptions of risk or because project proposals can rarely be prepared to the demanding standards required by conventional banks, development finance companies have also been found to generate an anti-equity bias. That is to say as a source of investment capital, development finance institutions typically extend credit to sole proprietorships or partnerships. In the absence of (or where there are only fledgling) stock markets and merchant banks able to mobilise equity capital, this pattern of lending perpetuates itself. Thus joint stock companies and equity markets have been slow to develop in African countries and formal sector entrepreneurs are denied both the flexibility of tapping this source of finance as well as the discipline of working under pressure from stock or capital markets. To some extent, this institutional weakness is consistent with relatively low income levels and large non-monetised segments of the economy. Nonetheless, the unintended consequences of development finance institutions' operations for both small business access to credit and institutional development in the corporate sector need careful appraisal.

Uncoordinated trade policies can also hinder entrepreneurial operations and development. Policies on exchange rates, import and export tariffs and taxes, and quantitative restrictions on imports intermesh to confer costs and benefits on entrepreneurs operating at various levels. Economic recovery programmes of the 1980s have gone some way in reducing market distortions on trade regimes. But here again, the solution is not simply to leave trade policy to 'market forces'. Government intervention to fine-tune exchange rates and tariffs or to make discretionary concessions to certain entrepreneurs, businesses and sectors will be required from time to time. Indeed, intervention to make discretionary concessions and cautious management of trade regimes are some of the key lessons that have emerged from the successful experience of the East Asian economies.[40] Consistency in implementing development policy priorities and objectives, careful monitoring of the effects of specific policy measures and concessions, openness to feedback from the market and on-going dialogue with the business community are the key elements of a well-coordinated trade policy.

As in the case of financial and trade policies, inconsistencies in **labour policy** can also constitute a formidable constraint on business promotion and development. The key issue here is that long-term employment expansion and non-inflationary increases in wage levels can only be generated by economic growth and labour productivity. One assessment of factors inhibiting private

sector expansion in the region during the 1980s found that political pressure on employers by governments to take on or maintain more staff than was required and the widespread use of statutory minimum wages had the effect of making African labour markets less competitive and rigid.[41] Labour practices in the informal sector on the other hand have been found to be more flexible: extra labour (including family members) are simply brought in to cope with busy periods and withdrawn during slack periods. Wages tend to be more closely related to productivity. Apprentices sometimes pay for their training by providing free services.[42]

Labour is an important part of the cost structure of any business. The competitiveness of the labour market, and the quality of the work force are among the key factors determining the attractiveness of the business climate in any given country. It follows from this that governments do of course have a responsibility to regulate labour markets, set standards, determine the institutional framework of labour relations and collective bargaining, meet training needs and, more generally, enhance human resource development. Specific policy measures must, however, be consistent with the broader objectives of entrepreneurial promotion and development.

Insufficient knowledge about the business sector in government is the final issue for consideration among general constraints on entrepreneurship in contemporary Africa. That this is the last issue to be considered in the catalogue of general constraints is not to suggest that it is the least important. On the contrary, efficient information flows between government and the business community is perhaps the most crucial element in improving the business climate, overcoming policy inconsistencies and reassuring business confidence. Three areas of weakness are worth emphasising in a discussion of the information gap between government and business in contemporary Africa: inadequate institutional mechanisms for consultation and consensus-building between planners and policy-makers in government on the one hand and different sectors and levels of the business community on the other; shortcomings in national microeconomic databases and information systems; and insufficient appreciation in government of the role of market networks in business development and in enhancing the efficiency of business operations.

Planning and policy-making in many African countries has often proceeded as a top-down technical exercise. That is to say, planners, technical experts and other officials in government generally proceed by appraising the objective situation in the economy resulting in a blue-print to deal with perceived short-comings. Consultations with various groups of economic actors (including different levels and sectors of the business community) is rarely taken beyond a superficial plane. This information gap is made all the more worse by insufficient knowledge of microeconomic behaviour including backward and forward linkages or market networks between production units, and the specific requirements of technological transfer and adaptation.

Changing economic circumstances, or the need to change or modify objectives and strategies as new challenges emerge are not taken into consideration adequately. Even the political feasibility of plans is sometimes ignored although politicians may pay lip-service to planning. Institutional mechanisms and resources for plan implementation, follow-up and evaluation are often inadequate. It follows from this that national plans and the policies stemming from them have in many cases not only been out of touch with the needs of the business community and other economic actors but have also been poorly implemented. One example of this is the case where informal sector microentrepreneurs have been forced to relocate their businesses to remote, low cost sites lacking in all kinds of facilities in an effort to get them off the streets. The effect, of course, is to separate these entrepreneurs from their markets.

African governments have certainly not been short of good intentions in promoting and supporting entrepreneurial growth. Indeed, it is often the case that officials and politicians own private businesses themselves. However, the overall framework of government-business relations has fallen short of effective or strategic direction.

The African experience contrasts sharply with East Asian experience. In the latter case, planning and policy-making is characterised by on-going dialogue between government and different groups of economic actors, regular exchange of information on specific needs and requirements, a coherent and coordinated approach between different government agencies in their dealings with the business community, flexibility in response to changing circumstances, attention to detail in the implementation of objectives that have been agreed upon, and emphasis on achieving high levels of performance. Take the case of the Republic of Korea. The Economic Planning Board and its network of sectoral and inter-sectoral councils is the key agency responsible for maintaining an up-to-date data-base and information system on the details of microeconomic behaviour and activities within the economy as well as of course aggregate (macroeconomic) information; taking stock of emerging needs and requirements (including the crucial issue of technology transfer and adaptation); building consensus within and outside government on strategic national objectives; and monitoring implementation and performance. In Japan, the Ministry of International Trade and Industry (MITI) has also been outstanding in providing an institutional basis for dealing systematically with all matters concerning technology, industry and commerce.[43]

Two lessons from the East Asian experience stand out. First is the close partnership between government and business in defining and meeting national development objectives. Second is the institutionalisation of procedures and practices to acquire relevant and up-to-date information on the intricacies of microeconomic behaviour. The flow of information between business and government and vice-versa is an essential part of the consensus-building,

planning and policy-making process. Far from being only well-intentioned and vaguely generalised as in the African experience, government intervention in business promotion and assistance in East Asia is focused, mission-specific, well-targeted, and results-oriented.

b Specific Constraints

Table 2 (on page 28) provides a listing of constraints which apply at respective levels of entrepreneurial activity: informal sector microenterprises; small/intermediate-sized enterprises and large-scale enterprises. The focus now shifts to a discussion of the issues at these different levels.

Informal Sector Microenterprises

Among the constraints which apply particularly to the **informal sector** are limited, segmented markets; crude management and production techniques; and inadequate institutional/public policy support.

The size of market for many informal sector microenterprises depend on personal relationships between the owner and a limited number of customers, or alternatively, on the service or good being costumed-designed. Thus the potential for intra-entrepreneurial growth is limited by market size. It follows from this that economies arising from production on a1 larger scale cannot be achieved. This has often been the case in the metal-working trades, in tailoring, and in furniture making.

Table 2

Specific Constraints on Entrepreneurship in Africa

Informal Sector Microenterprises

- Limited, segmented markets
- Crude management and production techniques
- Inadequate institutional/public policy support

Small/Intermediate-sized Enterprises

- Constraints of managerial capacity
- Constraints of technological adaptation and development
- Weaknesses in government schemes for enterprise-level support

Large-scale Enterprises

- Problems of investment design
- Excess capacity
- Weaknesses in technology adaptation/assimilation
- Paucity of backward/forward linkages between firms
- Difficulties in the management of size and complexity

Sources: Distilled from the literature cited in notes 4 to 14 in the references.

On top of this, management and production techniques in the informal sector are often cumbersome - a function of the low educational attainment of microenterprise entrepreneurs, their lack of knowledge about more effective techniques and lack of capital. While some incremental efforts have been made over the years by African governments to provide support services such as workshops on low cost sites, training, and access to loans, such efforts as noted in the discussion of general constraints have often lacked effective and strategic direction or have been inadequate.

Nonetheless, informal sector entrepreneurs have been known to overcome these specific constraints of limited market size, cumbersome management and production methods, and government inertia through two

major routes. First, by means of linkages with formal sector businesses, microenterprises can achieve access to more sizeable markets and information or advice on such matters as improved management and production methods and better product design. An example of this is the wicker work (*vannerie*) cane furniture trade in Abidjan. Much of the production of this beautiful and exotic furniture is carried out in the informal sector. Formal sector merchants, realising the profits that could be made from the product, have been keen to acquire a steady source of supply from microentrepreneurs at wholesale prices for both onward local retail sales as well as overseas exports. As linkage relationships develop, formal sector entrepreneurs have often been a source of information on product designs that are popular with consumers and advice on management and production techniques that would enhance the quality of the product.[44] In the same way, the wood carving industry (predominantly an informal sector activity in many African countries) has acquired a world-wide market through formal sector linkages.[45] The linkage relationship has often been a source of feedback, information and advice on improving the quality of the product and overcoming management and production constraints.

A second way in which informal sector microenterprises can surmount the factors inhibiting intra-enterprise growth is through intergenerational expansion. This is the case where the business gradually expands from one generation of family ownership to the other as experience, know-how and capital is acquired or accumulated. In this way, petty trading among some Hausa families of Northern Nigeria, for example, has grown through several generations into multi-store ownership and even diversification into manufacturing industry.[46] In the Sudan, one study has demonstrated the underlying continuity of business experience and capital accumulation over several generations, beginning with traditional office-holding and early access to land for commercial farming, through the education of sons, diversification from agriculture into trade, and culminating in the case of some families in the establishment of modern industries by a more recent generation of Western-educated descendants.[47]

Thus intra-enterprise growth in the informal sector can be achieved in the short-term through formal sector market linkages and networks and, over time, through accumulated business experience and intergenerational expansion. These two routes are not mutually exclusive; on the contrary they reinforce each other. The challenge for public policy on informal sector entrepreneurial development during the 1990s is both to facilitate an 'enabling environment' in which market networks can flourish and to provide appropriate support services.

Small-and Intermediate-sized Enterprises

The profiles in Boxes 2 and 3 (on pages 16 and 17) illustrate the nature of **small- and intermediate-sized** entrepreneurial activities and operations. Such businesses are usually well-established and managed by enterprising

individuals with fairly sophisticated organisational skills. But among the constraints which apply specifically to entrepreneurship at these levels are limited managerial capabilities; an underdeveloped capacity for technological adaptation and development; and inadequate public provision of enterprise-level support.

The definition of entrepreneurship that was referred to earlier emphasised that an entrepreneur is a person who is able to perceive business opportunities, and is creative, innovative and capable of marshalling the resources to bring the opportunities as perceived to fruition. On this basis, a distinction can be made between the investment aspect of entrepreneurship - identifying market opportunities and acting upon them; and the managerial side - running all aspects of the business once if it is established and as it grows: finance, production, technology, labour relations, marketing, advertising, research and development, and so on.[48] The investment side requires a flair or talent to perceive market opportunities and a willingness to take risks. The management side requires not only leadership and organisational competence but - in today's complex world - highly specialised knowledge and experience of the various areas of management. As a business grows beyond a certain size, even if as in the cases represented in Boxes 2 and 3, it remains relatively small in the amount of capital or labour employed, it begins to require input from different management specialisations. At this point in the development of the business, it is seldom the case that the founder, owner or any individual can satisfactorily combined in his or her person all the skills required in the investment and managerial sides of entrepreneurial capacity. In the context of Africa's relative early stage of economic development, the supply of managerial skills and experience is limited. Although increasing numbers of Africans are acquiring management training and experience, management capacity remains a major constraint as businesses grow beyond a certain size.

An underdeveloped capacity for technology adaptation and assimilation is also related to the early stages of industrial development. Here again, as businesses grow in size, improvements in both productivity and the quality of the good or service usually require the application of more effective production methods. To this extent technological innovation (or the successful assimilation or adaptation of existing technology) is a necessary condition for sound operations as the business expands.

The profile in Box 3 presents a successful African case of technology assimilation and adaptation. Technical assistance from abroad was a key element in the success of the firm in question - Afro-cooling of Tanzania. It is clear that joint ventures, technical assistance and foreign investment will remain important mechanisms for the diffusion of technological know-how in Africa for some time to come. Indeed these mechanisms have often provided African entrepreneurs with experience of the technical aspects of production. A survey of Nigerian industrial businesses in 1975 for example reported that 65 percent

had been founded by former employees of expatriate firms.[49] A more recent study found that "many of the African entrepreneurs interviewed acquired their basic technical or managerial skills working for foreign companies."[50] To this extent, foreign enterprises provide highly valued assistance to indigenous entrepreneurs as suppliers of machinery, spare-parts and professional services and as technical, sales or equity partners in their businesses.[51]

Technological education and training has expanded considerably in post-colonial Africa but indigenous technological capacity remains an area of relative weakness. This has long been recognised in African business circles. For example, representatives of African Chambers of Commerce pointed out more than a decade ago that "lack of practical know-how and of appropriate technology.... often proved to be major constraints".[52] The East Asian experience has demonstrated that efficient information flows between government and business is essential in coordinating all aspects of policy on business development including this important question of technology transfer and adaptation. Indeed the African experience of institutional and policy limitations in government is the basis of the third major constraint on African entrepreneurs as their businesses grow in size: weaknesses in government schemes for enterprise-level support.

Entrepreneurs everywhere need advice, information and various kinds of services in setting up their businesses and in dealing with difficulties that arise in the course of operations. To some degree, technical and advisory services can be provided through market networks (via private consulting companies, finance companies and commercial banks) and through the tertiary sector (via Chambers of Commerce, management professional organisations, cooperatives, universities, colleges, management training institutions and non-government organisations). While private (and some tertiary) sector provision can be expensive, they are probably more professional and results-oriented.

There is certainly a role for market and tertiary networks in providing consulting and other services to entrepreneurs. Nonetheless, government intervention is also required to establish a general framework for business development consistent with national economic objectives and priorities. Indeed as part of post-colonial efforts to indigenise business activities in key economic sectors, many African governments as previously noted established a range of support systems such as facilities to provide start-up capital, loans, technical advice and training, industrial estates, warehouses and other infrastructure for business operations. Sectoral development banks, investment promotion centres, management training and advisory centres, industrial extension services and export processing zones were among public institutions established to provide enterprise-level support. Specific country examples include Cameroon's National Centre for Assistance to Small and Medium-Size Enterprises (CAMPE), Kenya's network of industrial estates, Mauritius' Export Processing Zone (EPZ), and Nigeria's system of Industrial Development

Centres. CAMPE for instance was established in 1970 to help entrepreneurs in Cameroon carry out market studies, compile credit applications and documentation required for registration under the investment code and to provide facilities for the training of managers and technicians.[53] The Mauritius EPZ was also established in 1970. Its role is to stimulate exports of manufactured goods. Businesses operating under the terms of the EPZ are provided with a physical infrastructure of well-serviced industrial estates at subsidised rents and enjoy incentives such as simplified regulations, liberal trade regimes, and tax breaks. Incentives for foreign investors include liberal ownership policies that allow foreign investments to reach the 100 percent level and unlimited repatriation of profits.[54]

A systematic appraisal of the effectiveness of government schemes for enterprise-level support has probably not been undertaken. However there is evidence to suggest that a few countries such as Cameroon, Mauritius and Kenya are way ahead of others in the provision of schemes that are well-coordinated, flexible, un-bureaucratic and performance-oriented. But in several other countries, evidence suggesting serious weaknesses in government support systems has emerged. In Nigeria, for example, one study found that only a few Industrial Development Centres (established to provide industrial extension services) are working as envisaged. Shortages of equipment, funds and trained personnel were identified as serious weaknesses.[55] Moreover, research in anglophone West Africa "also points up the lack of ... extension or training".[56] Writing from Ugandan experience, another study has identified the absence of official schemes for technical, consulting or advisory services to small-scale entrepreneurs as a major weakness.[57] Here again, these symptoms of policy inadequacies underline the general African experience of poorly coordinated and badly implemented intervention in business promotion and assistance by government. These shortcomings constitute a source of many entrepreneurial frustrations especially as opportunities open up for businesses to grow beyond a certain size.

Large-scale Enterprises

Some of the specific constraints on African business that have been discussed up to this point do of course apply to **large-scale enterprise** operations. But at this level of entrepreneurship, constraints that are particularly related to size, scale and complexity of the undertaking are especially relevant. In this regard, five major constraints (please see Table 2 on page 28) can been identified. A discussion of the main issues follow.

Designing investment in large-scale operations is a very complex undertaking. Mistakes are extremely costly and can easily result in industrial white elephants as the profile in Box 4 readily illustrates. Indeed, problems in original investment design have been a common constraint on the performance of many of the 3000 odd public enterprises established by post-colonial African

governments by the early 1980s and among large-scale enterprises in the private sector as well. The key issues in investment design include:

- project identification, preparation, evaluation and supervision;
- determination of scale and product mix;
- specification of plant size and technology;
- identification of source of technology and negotiation for its transfer;
- identification of equipment suppliers, equipment specification, and comparison of prices;
- site selection, civil works construction, provision of supporting services, and infrastructure;
- installation and commissioning of plant including design of the production process;
- initial training and operations start-up.

Shortcomings in attending to the details of initial investment design have been known to have bedeviled such operations as the steel, petro-chemical and pulp and paper industries in Nigeria and the textile industries in Tanzania and Somalia.[58] While the expertise and experience provided through foreign assistance or joint ventures in designing complex investments is useful - perhaps even essential - in overcoming the complexities, foreign experts cannot always be relied upon for the best possible advice. This is particularly so if they provide technology and equipment or if their renumeration is linked to the size of the investment. Another hazard in relying exclusively upon foreign experts is that local engineers and technicians gain little insight into how the technology works and how it can be modified, expanded and improved. The new learning that arises in any project from adapting it to new settings or new raw materials accrues to the foreign experts with little spillovers to the local economy. Moreover, experience has shown that the lower the absorptive and adaptation capabilities of technology buyers, the higher is the total cost of technology transfer. East Asian experience on the other hand has demonstrated that local participation by design and engineering firms can quickly lead to development of the relevant skills.[59]

Closely related to the question of investment design is the problem of excess capacity. Significant excess capacity is known to exist in many African large-scale operations. One of the reasons for this is simply too ambitious an original investment design resulting in structural excess capacity. But other reasons include operating difficulties such as frequent shortages of spare-parts or essential raw materials or inadequate provision for the maintenance of equipment; and infrastructural deficiencies, for example a frequent break-down of power or water supply. It is difficult to measure the extent of excess capacity in African industrial ventures. But one assessment of the performance of public enterprises in a sample of countries during the 1980s found that productivity (or value added) tends to fall short of the overall outlay of expenditure on

production.[60] The shortfall implies that excess capacity has been a fairly common problem among African public enterprises.

Weaknesses in the adaptation and assimilation of technology is a third constraint that is often a cause of excess capacity. As previously noted, an underdeveloped technological capacity is related to the early stages of industrial development. The turn-key approach to technology transfer is simple, attractive, fairly straight forward, and in certain industries, perhaps even the most efficient and cost-effective option. Once installed, however, the equipment requires maintenance and possibly adaptation to meet variations in raw materials or new product designs. Over time, the technology may also require upgrading. Current environmental concerns such as finding new uses for waste products and reducing energy consumption levels also demands thorough familiarisation with the technology.

All of these demands require an internalisation of production and engineering processes at several levels and from numerous disciplines. As one major study of structural problems in African industrial ventures has noted,[61] these demands rise with the inherent complexity of the technology, the scale of the operation and the speed of technological advance in the industry. Industries like food processing, beverages, textiles or leather products have relatively stable technologies, simple process layouts and easily transmitted skill requirements. On the other hand, mechanical and electric engineering industries, electronics, chemicals and steel utilise complex, fast-changing technologies.[62]

The point here is that African entrepreneurs operating or venturing into large-scale industrial ventures are compelled to assemble the capacity - in terms of technical personnel - to mount the sustained technological effort that efficient production requires. That this capacity remains underdeveloped in contemporary Africa is a formidable constraint on entrepreneurial industrial initiatives. But it is also one that can be overcome within an appropriate public policy framework and specific strategies on technology transfer and assimilation.

Another symptom of underdeveloped technological capacity in the region is the paucity of backward/forward linkages between firms in the same industry. Most industries (for example motor vehicles, electronics, chemicals, or consumer appliances) depend on a dense network of information, technical and other cooperative arrangements. Any specific input such as a particular component for a vehicle or appliance or a catalyst for a chemical process has to be designed for a particular use and its planned production geared to the quality required by the next stage of manufacture with prior information on design specifications, price and quantity.[63] The manufacture of such inputs is usually contracted out to component suppliers - firms operating on a small or intermediate scale within the industry. To this extent an industry is

characterised by linkages between firms in a chain of production and distribution.

A major constraint on African entrepreneurs venturing into manufacturing industry on a large-scale is that the linkage-generating efforts have to proceed more or less simultaneously with the establishment of the lead enterprise. African industry is characterised by huge gaps in linkage relationships. The motor vehicle industry in Nigeria for example has to import virtually all the components necessary for assembling the final product. In the advanced industrial countries on the other hand, linkage relationships between firms have evolved over a long period of time. The experience of the newly industrialising countries has revealed that a carefully orchestrated effort is required by both the lead enterprise and government industrial development agencies in providing an appropriate policy framework and well-targeted incentives for small- and medium-scale entrepreneurs to enter into cooperative linkage operations with entrepreneurs in large-scale industrial undertakings.

The management of size and complexity is a fifth constraint on large-scale entrepreneurship in contemporary Africa. There is growing consensus among management practitioners and academic commentators that the days of the 'traditional' Weberian bureaucratic organisational form are over.[64] In an increasingly competitive world economy, innovation has become the cutting-edge of comparative advantage. Large-scale bureaucratic organisation stifles initiative, efficiency and creativity. Experience has shown that large-scale organisation in Africa is especially prone to bureaucratic rigidity and pathology although the worst cases tend to occur among public sector organisations.[65]

An emerging challenge for African entrepreneurs - on the management side of entrepreneurship - is to manage size and complexity with creativity and flexibility. To the extent that certain scale economies are contingent on large size, large organisations are being broken down into profit centres, quality circles, work groups or work sections and task forces. These sub-organisational units are then flexibly reintegrated into the overall organisational structure. It has been observed that the "Japanese have always based their continuing manufacturing miracle on tiny entrepreneurial component makers ... and on surprisingly small but brotherly profit centres even within huge plants."[66] As the same issue of the magazine somewhat humorously noted, perhaps 10-11 people was the optimum size of a small productive group: "Jesus Christ tried 12 and that proved one too many."[67]

Size and complexity is often underestimated in large-scale entrepreneurial activity. Careful management of size is required if arid deserts in which efficiency and innovation cannot thrive are to be avoided.

In conclusion, this section of this study has examined in both general and specific terms the range of constraints on the effectiveness of African

entrepreneurs operating at different levels of African economies. From these constraints - and from the earlier discussion of the political economy of African entrepreneurship - can be distilled a number of practical insights, policy measures and recommendations for promoting African entrepreneurship as a vehicle for future growth, higher living standards and sustained development. These insights and recommendations are the focus of the final section of the study.

IV POLICY MEASURES, RECOMMENDATIONS AND CONCLUSION

In most African countries, the main emphasis of policies to promote entrepreneurship during the 1960s and 1970s was on the indigenisation of business activities. The provision of credit and other support measures were primarily directed at this objective. And partly to meet this goal, public enterprises were used extensively as vehicles of entrepreneurship - especially for large-scale ventures. The priority given to indigenisation was quite understandably inspired by the experience and legacy of colonial rule. Nationalist sentiments of controlling the 'commanding heights' of African economies also played a part. But political considerations such as rewarding the supporters of ruling regimes, often provided the main criteria for access to the benefits of business promotional measures that were adopted. Considerations based on long-term economic development objectives often assumed secondary importance. Accordingly, some ventures that were established during the early post-independence period were of a speculative or directly unproductive nature - indigenous capacity in real estate, brokerage, trade and distribution being cases in point. Nonetheless, an impressive expansion of formal sector indigenous business activity occurred between the 1960s and 1980s in such areas as transport, commercial agriculture and ranching, light industry, assorted services, and hotels and tourism. Rapid population growth, associated pressures of unemployment and, at the individual level, personal dilemmas of survival arising therefrom, provided the main stimulus of informal sector expansion.

However, business in Africa stagnated during the 1980s, the 'lost development decade'. African governments became preoccupied if not overwhelmed by crisis management, stabilisation, adjustment and recovery. One of the lessons of economic management which have emerged from this crisis is that government intervention is most successful when policies flow along with - rather than go against the grain of - market forces. As African economies emerge from stagnation, a critical challenge to governments in the region during the 1990s is to harness both formal and informal sector entrepreneurial capacity to meet emerging priorities such as the need for higher levels of value added, economic diversification and a wider range of exports. But general constraints which apply to existing and potential entrepreneurs and specific constraints which apply at different levels of entrepreneurial activities have to be overcome. What, then, can be done to remove these constraints? Following the mode of analysis that has been adopted in this study, two categories of recommendations can be identified: general recommendations which apply across-the-board; and specific recommendations which apply to particular levels of entrepreneurship.

General Recommendations

Political Stability

Entrepreneurship at any level cannot thrive in a context of political instability. The whole African region is losing billions of dollars every year in both indigenous and foreign investment as a result of perceptions of risk associated with civil unrest, challenges to the legitimacy of established authority and weakly institutionalised governments. To be sure, the causes of political conflict and instability in many countries are often complex and intractable. Be that as it may, the current wave of democratic reforms in the region augurs well for the future although democratic structures of governance remain fragile. Both the business community and public officials bear a heavy responsibility in educating public opinion on the relationship between political stability and business confidence. Africa's development partners should also take concrete measures to foster the consolidation of democratic processes and political stability in the region.

Competent Economic Management, Efficient Public Services and Sound Infrastructure

Business confidence is also affected by the level of competence in government economic management, the efficiency of the public service bureaucracy, the attitudes of influential public figures towards private enterprise, and the quality of public infrastructure and services (including roads, ports, airports, telecommunications, power and water). Specific measures to stimulate, develop and promote African entrepreneurship must rest on a firm foundation of sound economic management, efficient public services, positive attitudes towards business and reliable infrastructure.

In regard specifically to investment promotion by sending missions abroad or advertising internationally, such expensive efforts might best be undertaken when the ingredients for a satisfactory business climate at home are already in place. Moreover an investment promotion agency and other public service agencies must first establish a 'service function' (rather than a purely screening or regulatory function) to assist entrepreneurs who are already doing business locally.[68]

Establish Institutional Capacity for Policy Development and Coordination

Experience has shown that there are often profound contradictions among the range of policy measures on business promotion and development. Finance, trade, and labour policies are areas of particular concern. In this regard, there is simply no alternative to the establishment of sound institutional capacity in government for policy development, sensitivity analysis (to project

the likely effect of particular measures), policy coordination, and attention to the details of implementation. Policy objectives must be clearly defined and specific measures made consistent with overall priorities and objectives of national economic management. Experience has further shown that the provision of incentives and other forms of assistance to entrepreneurs operating at different levels must be subject to periodic review and continuation made conditional upon performance criteria established in advance.

Review the Role of Lending Institutions

In regard to one aspect of financial policy, the role of sectoral development banks as a channel of credit should be carefully reviewed. Aside from a tendency to withhold credit from informal sector entrepreneurs and other small-scale businesses, there is evidence to suggest that such financial institutions generate an anti-equity bias. That is to say as a source of investment capital, development finance institutions typically lend to sole proprietorships or partnerships. In the absence of (or where there are only fledgling) stock markets and merchant banks able to mobilise equity capital, this pattern or lending perpetuates itself. Thus joint stock companies and equity markets have been slow to develop in African countries and formal sector entrepreneurs are denied both the flexibility of tapping this source of finance as well as the discipline of working under pressure from stock or capital markets. Hence, the unintended consequences of development finance institutions' operations for both small business access to credit and institutional development in the corporate sector need careful appraisal.

Establish Sound Information Systems on Microeconomic Behaviour and Markets

Inconsistencies in this important area of credit policy and practice is one indication that the overall framework of government-business relations in contemporary Africa has fallen short of effective or strategic direction. Evidence of insufficient knowledge and information in government about the business sector is another indication. The main areas of weakness include inadequate institutional mechanisms for consultation and consensus-building between planners and policy-makers in government and different sections and levels of the business community; short-comings in government information systems on microeconomic behaviour including market networks or linkages between firms, and the specific requirements of technology transfer and adaptation. This stands in sharp contrast with East Asian experience where planning and policy-making is characterised by on-going dialogue between government and different groups of economic actors; regular exchange of information on specific needs and requirements including the critical area of technology transfer and development; a coherent and coordinated approach between different government agencies in their dealings with the business community; flexibility in response to changing circumstances; attention to detail

in the implementation of objectives that have been agreed upon; and emphasis on achieving high levels of performance.

Any African government seeking to provide strategic direction on the promotion of entrepreneurship within the overall framework of development priorities and objectives must first collect basic information about the scale and nature of existing businesses operating at all levels including linkages (or lack of them) between firms and the range of problems or difficulties that are being experienced. It is only on the basis of such information that the main activities to be encouraged can be identified and resources, incentives and policy measures targeted accordingly and appropriately. It follows from this that African governments should take steps to ensure that reliable mechanisms for efficient information flows between business at all levels and government and vice-versa are put in place as the basis of the strategic direction of business promotion.

Specific Recommendations for Particular Levels of Entrepreneurship

Measures to Promote Informal Sector Microentrepreneurship

Among the factors limiting the growth and 'graduation' of informal sector microenterprises to better endowed establishments include limited and segmented markets, cumbersome management and production methods and inadequate or inappropriate institutional and public policy support. It will become evident in the discussion which follows that market networks, government and non-governmental organisations can play key roles in overcoming these constraints and promoting informal sector entrepreneurship. Over the long-term of course, microenterprises can grow through intergenerational expansion - i.e. the case where the business gradually grows as it is passed on from one generation of family ownership to another.

a The Role of Market Networks

In the short-term, experience has shown that microentrepreneurs can overcome the limitations of market size and other constraints through linkages with formal sector businesses. As the examples of the wicker work (*vannerie*) cane furniture trade in Abidjan and the continent-wide wood carving industry which were discussed earlier illustrated, informal sector entrepreneurs can achieve access to bigger markets and information and advice on such matters as improved management and production methods and better product design through formal sector linkages. Over and above this, experience has also shown that such market networks or linkages are often more effective mechanisms for the transfer of know-how and assistance than networks composed of government departments and non-governmental organisations.

The latter sometimes lack competitive pressures, the exigence of profit, and specialised knowledge to provide inputs that are most relevant to the needs of microentrepreneurs.[69]

b The Role of Government and NGOs

The foregoing is of course not to deny African governments and the NGO community a proactive role in the stimulation, promotion and development of informal sector business activities. Markets often fail to generate linkages for a variety of reasons including information gaps between potential collaborators. Through incentives and other measures, governments can encourage or facilitate linkages between informal sector entrepreneurs and their better established formal sector counterparts. The NGO community, often a reservoir of knowledge and expertise on grassroots activities and operations, can also play an important role in linking informal and formal sector business.[70]

As previously noted in the discussion of general recommendations, government or NGO intervention is most effective within a framework of strategically formulated policy objectives. In this regard, up-to-date knowledge on the range of informal sector businesses, relevant information on specific needs and requirements, and the identification of those activities that would enhance such objectives as economic diversification and export to niche markets are important requirements. This last point is crucial as some informal sector operations are nothing more than rackets with little if any economic potential.

It is neither feasible nor desirable to provide a blue-print of government and NGO measures to assist and promote *bona fide* microentrepreneurs. Circumstances, needs and requirements differ from country to country and among informal sector business activities. But experience has shown that policy and institutional support would at minimum include three key measures as follows.

- **Training**

  The provision of facilities for technical and vocational training to upgrade the skills of informal sector workers and entrepreneurs is an important requirement. In this regard, the profile of an informal sector microentrepreneur in Box 1 (please see page 15) vividly illustrates the association between training, entrepreneurship and business development. Over and above this association, one of the many spin-offs from informal sector business activities is the training of apprentices (for example goldsmiths, blacksmiths, watch-repairers, shoe-repairers, carpenters, masons, electricians and so on) in the course of normal business operations. Government and NGOs can encourage and give

recognition to this valuable service provided by informal sector entrepreneurs by making available grants and other incentives to foster the practice of informal sector apprenticeships.

- **Credit**

A second measure is the provision of credit facilities specifically designed to meet the needs entrepreneurs operating on a very small-scale, typically without collateral or an established business track-record. The issue here is that the management of small loans is time-consuming and expensive. Accordingly, conventional banks and financial institutions tend to shy away from dealing with microentrepreneurs. It follows from this that the provision of credit facilities to informal sector operations require unconventional banking practices. Grassroots or community-level institutions are well-placed to fill this vacuum. The Grameen Bank system pioneered in Bangladesh and specifically oriented towards lending very small amounts to microentrepreneurs is one model that can be employed. Another model is Nigeria's network of People's Bank which also lends to informal sector businesses, small-scale farmers and rural enterprises.

- **Enterprise-Level Support**

A third measure that can be adopted by governments and/or NGOs in promoting informal sector entrepreneurship is the provision of enterprise-level support systems such as business advisory centres, small-scale enterprise extension systems, and physical facilities such as workshops, craft centres, water, electricity and telephones. Advisory and extension services can provide valuable information and assistance to informal sector entrepreneurs especially in such areas as book-keeping, management, production and marketing techniques. Advisory and extension services can also play an important role in facilitating linkages between informal and formal sector business. Beyond this, such services can help to steer informal sector entrepreneurs through the unfamiliar corridors of government bureaucracies with which they must sometimes deal. The promotion of informal sector goods and services through exhibitions, craft shows and trade fairs is another benefit that can be provided by advisory and extension services. Evidence that these services tend to be understaffed and under-equipped in several African countries was referred to earlier. These are shortcomings which appropriate steps should be taken to overcome.

Many informal sector businesses are itinerant in character or are housed in deplorable conditions. The provision of physical facilities can help microentrepreneurs stabilise and consolidate their businesses. Experience has shown, however, that consultation with the intended

beneficiaries must be a prerequisite in selecting locations or sites for workshops and craft centres and designing the facilities.

c Intergenerational Expansion

While specific measures can be taken in the short- or medium-terms to stimulate and promote informal sector-level entrepreneurship, it should be recognised and acknowledged that microenterprises grow and 'graduate' over time through intergenerational expansion. This is the case where as earlier noted, the business gradually expands as it is passed on from one generation of family ownership to another and experience, know-how and capital is acquired and accumulated. In this regard, it should be recalled that many of the world's leading corporations, for instance the Ford Motor Company, have grown from obscure or even shadowy micro-scale ventures to graduate into the transnational corporations they have become today. There is evidence that this phenomenon is already happening among many African entrepreneurial families.

Measures to Promote Small- and Intermediate-Scale Entrepreneurship

A distinction was made earlier between the investment aspect of entrepreneurship - identifying market opportunities and acting upon them; and the managerial side - running all aspects of the business as it is established and as it grows: finance, production, technology, labour relations, marketing, advertising, research and development and so on. As a business grows beyond a certain size, it is seldom the case that the founder, owner or any individual can satisfactorily combine in his or her person all the skills required in the investment and managerial sides of entrepreneurial capability.

Entrepreneurs operating on a small- to intermediate-scale usually exhibit fairly sophisticated organisational skills. But as their businesses grow along the small- to intermediate-scale continuum, they often face constraints such as limited managerial capabilities; difficulties with technology transfer and adaptation; and, as in the case of informal sector micro-entrepreneurs, inadequate or inappropriate public provision of enterprise-level support. Measures to promote and develop entrepreneurial capacity at these levels of the business structure in contemporary Africa must seek to surmount these constraints. This is the focus of the discussion which follows.

a Overcoming Managerial Constraints

In the context of Africa's relative early stage of economic development, the supply of indigenous managerial skills experience and expertise is understandably limited - although increasing numbers of Africans are acquiring management training and experience. If, however, entrepreneurship is to

become the vehicle of future growth, higher levels of value-added and economic diversification, it is clear that the current deficit of skills that are necessary to establish a range of capabilities on the managerial side of entrepreneurship must be overcome. National agendas of manpower and human resource development needs are already very crowded. Nonetheless the expansion of management training facilities must be a leading priority. In this regard, however, it should also be noted that approaches to management education, development and training are undergoing a fundamental shift from 'traditional', formal, class room-based methods to an increasing emphasis on informal, in-house, on-the-job learning and training.[71] Dissatisfaction with traditional methods has opened the way for new arrangements which facilitate the acquisition of management skills that are directly relevant to the needs of business operations to emerge. One of the implications of this trend is that private businesses will increasingly bear the cost of training their own managerial personnel. Planners and policy makers in African governments will be well-advised to carefully consider the implications of this trend for national manpower and human resource development strategies.

b Surmounting Difficulties with Technology Transfer and Adaptation

The issue here, again, is that as businesses grow along the small-intermediate-scale continuum, productivity gains can be made from the application of more effective production methods including improvements in technology. Disadvantaged by its relative early stage of industrial development, the capacity for technology adaptation and assimilation in contemporary Africa is underdeveloped. To be sure, technological education, training and experience has expanded considerably in post-colonial Africa but indigenous technological capacity remains an area of relative weakness. It is inevitable that technical assistance from abroad, foreign investment and joint ventures will remain important mechanisms for the diffusion of technological know-how in Africa for some time to come. This was clearly illustrated in the profile of an intermediate-scale enterprise in Box 3 (please see page 17) - a successful African case of technology assimilation and development. Technical assistance from abroad was a key element in the success of the firm in question, Afro-cooling of Tanzania. Government, as East Asian experience has demonstrated, has a key role to play in facilitating and encouraging technology transfer, local adaptation and development by providing a policy framework consistent with national development objectives and priorities. In this regard, efficient information flows on precise needs and requirements between governments and business, as previously noted in the discussion of general recommendations should be an essential part of the policy-making process and the targeting of incentives.

c Enhancing Enterprise-Level Support Systems

Entrepreneurs everywhere need advice, information and various kinds of services in setting up their businesses and in dealing with problems that arise in the normal course of operations. Experience has shown that while technical and advisory services can be provided through market networks (via private consulting companies banks and financial houses) or through the tertiary sector (via Chambers of Commerce, management professional organisations, universities, colleges and NGOs), government intervention is also required to establish a general framework for business development as part of the planning and policy-making process. Indeed, post-colonial efforts to indigenise and promote entrepreneurship witnessed the establishment by African governments of a range of enterprise-level support systems such as facilities to provide start-up capital, loans, technical advice and training, industrial estates, warehouses and so on. Cameroon's National Centre for Assistance to Small and Medium-Size Enterprises (CAMPE), Kenya's network of industrial estates, Mauritius' Export Processing Zone (EPZ) and Nigeria's system of Industrial Development centres were cited as specific country examples of such efforts.

There is evidence to suggest that a few countries such as Cameroon, Kenya and Mauritius are way ahead of others in the provision of schemes that are well-coordinated, flexible, unbureaucratic and results-oriented. But in several other countries, Nigeria and Uganda were cited as examples, studies have found huge gaps and serious weaknesses in enterprise-level support systems. These short comings constitute a source of many entrepreneurial frustrations especially as opportunities open up for business operations to expand. African governments should systematically appraise existing policies and measures on enterprise-level support systems to make them relevant to the needs of entrepreneurs. Here, again, public officials must feel duty-bound to consult regularly with representatives of business and entrepreneurial groups to ensure that specific measures have not outlived their usefulness but are making an impact on performance and results.

Promoting Large-Scale Entrepreneurship

Many of the recommendations on promoting specific levels of entrepreneurship that have been advanced up to this point also apply to the promotion of African entrepreneurship on a large scale. But the main constraints at this level are principally related to size, scale and complexity of extensive undertakings. Five such constraints were earlier identified. These are as follows:

- the complexity of investment design for a large project;
- the potential difficulty of excess capacity arising from too ambitious the original investment design or operating difficulties;

as in the case of small and intermediate-scale ventures, weaknesses in technology adaptation and assimilation;

the dearth of backward and forward linkages or cooperative relationships between firms in the same industry; and

the problems of managing large, complex organizations.

The profile of Morogogo Shoe Company of Tanzania (please see Box 4 on page 18), an African large-scale enterprise, illustrates the issues raised by these constraints with poignant realism. African governments can adopt two strategies to overcome these constraints: by providing a policy framework which favours an incremental approach to investments in large, complex undertakings; and by encouraging the 'turn-key' approach to investment in large-scale operations in industries where this is a viable alternative to the incremental approach.

a The Incremental Approach

There is evidence to suggest that an incremental approach to investment in large and complex undertakings - within the context of a supportive public policy framework - provides a sound and effective basis for establishing a capacity and the experience to cope with higher levels of managerial, organisational and technological complexity. The textile industries in Kenya and Zimbabwe for example have grown during the last twenty-five years from a few small mills in each country to a well-integrated industry encompassing several establishments engaged in cotton/ raw materials production, spinning, weaving, design tailoring and manufacturing, and marketing. The incremental growth of the industry over time facilitated the evolution of linkage relationships between production units in the industry and the foundation of a deeply-rooted capacity to manage all aspects of the production process including technology, quality control and marketing.[72]

Another example of the incremental approach to investment in large and complex undertakings is Zimbabwe's iron and steel complex (ŻISCO) established in the 1940s and today a well-integrated, highly competitive and efficient facility.[73] East Asian experience also suggest that most industries have grown over time from an'infant' or 'cottage' stage, through the establishment of linkages, between firms in the industry and mastery of production and technological processes, to become world leaders in many cases. The East Asian electronics and motor vehicles industries are good examples of the incremental approach to the establishment of entrepreneurial capacity in large-scale complex undertakings. A supportive policy regime, or an 'enabling environment', provided the context and framework for the growth of this capacity.[74]

b The 'Turn-Key' Approach

It should be understood that the 'turn-key' approach to investment design and management of large-scale operations is a viable alternative to incremental growth in certain industries. Food processing, beverages, tobacco, soaps and detergents are good examples of such industries. Indeed, indigenous entrepreneurship is well-established in many such ventures in most African countries. One of the explanations of the success of the 'turn-key' approach in these cases is that the technology is relatively simple to acquire, install, operate and maintain and the products have been relatively stable. Soft drink factories or bottling plants which churn out an established range of products provide a good illustration of this point.

The lesson and recommendation which must emerge from the foregoing is that mastery of the complexities of large-scale operations by African entrepreneurs is clearly a long-term process. But business confidence and a favourable business climate (see the discussion of general recommendations) are key factors in enhancing both the incremental and 'turn-key' approaches to investment in large-scale operations.

Conclusion

In conclusion, this paper represents an ECA effort to situate the issues in promoting indigenous entrepreneurship in the context of the challenges of the 1990s and recent development disappointments. Future growth in Africa rests with entrepreneurs, markets and a supportive policy framework provided by governments. In this regard, this study has been concerned to identify the main constraints holding back entrepreneurship in Africa, to provide practical insights and to propose policy measures and recommendations for surmounting these constraints. Policy makers in government and African business leaders can adapt these recommendations to their own specific circumstances. Africa's economic and social advance rests squarely on the shoulders of Africans themselves, their governments and their entrepreneurs. This is a truism which contains the foremost challenge in the economic development of Africa in the 1990s.

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Promotion Organisations Joint Symposium of Presidents and Secretaries-General of African Chambers of Commerce, p.3.

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54 See Rolf Alter, "Lessons from the Export-Processing Zone in Mauritius" in *Finance and Development* December 1991, pp.7-9.

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56 *Ibid*

57 See G.F. Mbowe, "Financing African Entrepreneurs: Opportunities and Constraints With Specific Reference to Small-Scale Industry Entrepreneurship" (Paper commissioned for the ECA/SAPAM Senior Policy Seminar on Enabling Environment for Enhancing Entrepreneurship in the Private and Public Sectors in Africa, Cairo, 8-12 October, 1990), pp.8-9.

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69 See Marsden, *African Entrepreneurs*, pp. 21-22

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