Entrepreneurship: The Answer to Africa's Endemic Poverty

By: Jason Benedict & John Mulford
The continent of Africa contains 28 of the 30 lowest ranked countries in the world according to the United Nations Human Development Index. Almost without exception, the nations of Africa have not participated in the economic growth and rising wealth of the world over the last forty years. Countries whose wealth (or poverty) was similar to that of the average African nation in the 1960’s have far surpassed virtually all African nations in the ensuing 40 years. Why is that?

Experts in economic development offer a variety of reasons:

- Poorly developed institutions that don’t protect private property and contracts
- Bad government—wrong policies and corruption
- Civil wars and genocides kill productive workers and scare off investment
- Debilitating disease and famine decimate labor productivity
- Developed country agricultural subsidies and trade barriers undercut local suppliers
- Poverty trap—no way to overcome lack of infrastructure, education, capital, markets

It isn’t that Africa has been overlooked by the international community. International quasi-governmental organizations, such as the IMF and World Bank, relief and development organizations, and rich nations have interceded with humanitarian relief for victims of natural and man-made disasters and have invested billions of dollars in development aid—but, to what effect?

Aid has not solved the problem of underdevelopment. Countries that received the most aid relative to their GDP from 1980-2002 have fallen further behind those who received little aid (see Table). In fact, they actually declined in absolute terms over that period.

Table: 1980-2002 Per Capita Growth (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita Growth (%)</th>
<th>Aid/GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>5.9</td>
<td>0.03</td>
</tr>
<tr>
<td>China</td>
<td>5.6</td>
<td>0.38</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4.5</td>
<td>0.00</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.5</td>
<td>0.07</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.9</td>
<td>0.61</td>
</tr>
<tr>
<td>India</td>
<td>3.7</td>
<td>0.66</td>
</tr>
<tr>
<td>Japan</td>
<td>3.6</td>
<td>0.00</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.5</td>
<td>0.02</td>
</tr>
<tr>
<td>Mauritius</td>
<td>3.2</td>
<td>2.17</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.1</td>
<td>0.40</td>
</tr>
<tr>
<td>Median</td>
<td>3.8</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Source: RCE Research

A vibrant business sector requires businesses of all sizes. In developed countries, small to medium sized enterprises (SME’s) constitute 85% of all business establishments and 70% of employment. They account for 80% of new jobs. Entrepreneurs are the driving force behind the SME sector.

In less developed countries, SME’s account for a smaller fraction of establishments and jobs. Large multinational corporations employ locals to extract resources, but they provide many of their own support services—accounting, marketing, legal—and they export the raw material for further processing in a more developed country. The SME sector that should complement the MNC’s is underdeveloped.

At the other end of the size spectrum, individuals scrape out a living through self-employment in occupations such as street vendor, tailor, barber, etc. They rarely grow their business to a size where they need employees. In these nations, the job-producing engine—entrepreneurs starting and growing SME’s—is not firing on all cylinders.

In market economies, the absence of a needed product, service or activity signals an opportunity to an entrepreneur to fill that need. Those entrepreneurs become the backbone of the economy—filling consumer needs and employing people to do it. Although most African countries operate market economies of some sort, they have not yet seen the full benefits. But signs of hope are sprinkled throughout the continent.

What is Working in African Entrepreneurship

Empowerment

Empowerment is a central theme in the strategies that are working. For example Opportunity International (OI) does not see its African clients as beneficiaries who need charity but rather as entrepreneurs who need investment. Similarly, the UK based Transformational Business Network (TBN) has learned that it is best to capitalize small businesses with a clear ROI motivation. Jerry Marshall of TBN says, “When our clients know we are interested in ROI, expectations are clear, but if we present ourselves as social entrepreneurs with the motivation of ‘helping out’, the dynamics of the relationship change, and we see catastrophic defaults.”

Training

An empowerment strategy that is bearing considerable fruit is entrepreneurship training. For example, Nehemiah Project International Ministries (NPIM), a Washington, D.C. train-the-trainer organization, operates in Cameroon, the home country of its founder Patrice Tsague. Patrice says, “In Cameroon corruption is systemic, touching every level of society. We need a training approach that is truly transformational. Simply presenting business principles or ethics is
not enough. We provide entrepreneurs with a biblical paradigm of business.

NPIM trainers in Cameroon have trained over 700 aspiring entrepreneurs in their Biblical Entrepreneurship (BE) curriculum. These trainees have in turn bootstrapped approximately 200 businesses, amazingly without any formal access to capital program. Most of the businesses are small, but some employ more than 20 people.

TBN’s train-the-trainer programs in Uganda use a curriculum called “Starting a Biblically Based Business.” They have seen an amazing 67% success rate with their trainees. They define success as equipping entrepreneurs who create businesses that give them the ability to feed, house and educate their families. Like the NPIM program, they focus on training and leave capitalization to commercially minded micro-finance organizations.

Opportunity International combines training and lending. OI and its partners have developed more than 440 training modules that vary in complexity and cover topics as diverse as: life management, bible study, business principles and even bank management. They make non-collateralized loans to groups of aspiring entrepreneurs called trust groups. These groups cross-guarantee each other’s loans. Prior to becoming eligible for a loan, the trust group must complete eight weeks of training. Training continues throughout the life of the group. Lydia Meyer of OI’s Banking on Africa initiative underlined their desire to see transformation in the lives of their clients. “This transformation comes with being able to continue to have input into people’s lives.” Transformation is so essential to their strategy that they have even hired Chief Transformation Officers in their banks. These CTOs come up with creative ways to impact the lives of our clients.

Rēp, a California-based organization, undertakes the transformation of existing small to medium sized enterprises (SMEs) through an intensive equipping and consulting relationship. They form teams of in-country consultants and outside consultants (typically from the US) that agree to extensive training in the Rēp system. Each of their volunteer consultants has undergone more than 100 hours of training. Each of their client businesses in the country is matched with one in-country and one foreign consultant. The goal of this process is to repurpose these businesses for a higher purpose thus transforming their sphere of influence. Brett Johnson, founder of Rep, says, “An interim goal for us is to repurpose about 100 businesses in a large city over five years. On that scale we begin to see significant transformation. One hundred businesses operating for a higher purpose can literally impact the lives of tens and even hundreds of millions of partners, vendors and customers.”

**Capitalization**

Patrice Tsague of NPIM states that although they have seen hundreds of small businesses bootstrapped without a formal finance program, the number one expressed need of these entrepreneurs is sufficient capital to expand their businesses. Of the businesses started in Cameroon only a small percentage could be considered SMEs. “Invariably these are BE trainees that have access to capital through family or other employment. SME-level finance is a real gap.”

As mentioned previously, TBN learned the hard way that they must base the capitalization relationship on ROI terms and not on their motivation to help. Their Uganda program does not have a finance element, but they do have financially viable capitalization projects addressing three levels of capitalization in other countries. They have a micro-finance program in South Africa, and in Kenya they have an SME fund called Fusion. The Fusion fund is targeting the SME level gap of $2000 - $4000 USD loans. Marshall indicates, “Almost all our clients say that without our program they would have no other avenue of funding.” A TBN corporate member has started larger investment effort called Africa Invest. This fund is based on their experience with successful multi-million dollar agriculture projects. The larger funds have strong mentoring programs. Mr. Marshall said, “Capitalization without training and mentoring is like throwing your money away.”

OI has been developing strategies to alleviate poverty for over 37 years. However, they had a massive shift in scale seven years ago when they moved away from the NGO model and adopted a formal banking model. The NGO model allowed them to service about 1 million clients in their first 30 years of operation. The shift to a formal banking model allowed them to access capital markets and open savings account programs. This in turn allowed them to offer services on another order of magnitude. In the last seven years alone they have served over 7.2 million clients worldwide. This strategic shift allowed them to achieve the scale they always wanted. Savings accounts are a significant part of this strategy. For example, in OI’s $385M USD Banking on Africa Initiative, over half of the anticipated funds will come from African savings accounts and just a little more than 10% and 30% of the
funds coming from capital markets and donations respectively. In Malawi they have 17,000 loan clients but an amazing 180,000 savings account clients.

Networking and Savoir Faire
Another element in successful initiatives seems to be their ability to effectively connect entrepreneurs to networks of expertise. OI has built an international team of bank startup experts to help them with speed to market issues in Africa. This team is able to quickly begin a new bank and then train or recruit the right in-country leadership. They also are investing in training initiatives and even an African University project, to insure a steady stream of talent and expertise.

TBN taps into the human capital and the expertise of its members to accomplish demonstration projects and provide ad hoc solutions for their African partners. They have even developed a sophisticated web platform with features like help wanted, best practices and training resources to facilitate networking. Rēp uses the expertise of its consultants combined with its unique methodology to impart business knowledge and a biblical paradigm of business. It seems that networks of expertise like this can provide a needed transfusion of business DNA into transformation efforts.

Scale and Results
We have wondered what scale is needed to achieve transformation in a country. NPIM believes that in a country the size of Cameroon (population 18.5 million) they can reach a sustained level of 10,000 trained per year. “At this level we would see transformation on a national level,” says Patrice Tsague. OI has observed transformation beginning on a national scale when they are able to saturate a country with their services: banks in all urban centers and a significant deployment of rural banking solutions as well. It takes them about 3 years in mid-sized African countries to cover the urban centers. TBN feels that their training program and the Fusion model could scale sufficiently to see significant impact. The expressed goal of their training program is to create an economic impact equal to £1B GBP in new domestic product.

Summary and Conclusions
Our findings are that successful entrepreneurship development programs have creatively combined solutions that provide training, finance, and the effective use of human capital. In terms of training, the emphasis is on providing a contextually appropriate level of business know how with an emphasis on empowerment and biblical transformation (changing worldviews). Capitalization seems to be most empowering and work best when it is approached as business proposition without any hint of aid.

Note: Comments on specific programs come from interviews with leaders from the organizations conducting those programs:

Jason Benedict serves as a Strategist for the Regent Center for Entrepreneurship. He and his wife Kimberly began working cross-culturally in 1994, and he has had the pleasure of equipping leaders around the world, leading field teams, starting businesses and developing innovative ways to share the Good News with the nations. Jason is a contributing editor of Momentum Magazine and is the author of Eden Inc. Jason Benedict can be reached for comment at jb@blessed2bless.net.

John Mulford serves as Director of the Center for Entrepreneurship and Professor in the School of Global Leadership and Entrepreneurship. He teaches international entrepreneurship and conducts research on social investing and best practices for growing kingdom businesses in developing countries. He can be reached at johnmul@regent.edu for comment.
CALL FOR ARTICLES

As RGBR expands its international subscriber base, we desire to provide substantive articles for our readers while also including perspectives beyond that of traditional Western views. To truly represent global business, we seek to encourage new ways to approaching commerce that balance performance goals with responsibilities to employees, consumers and suppliers. Based in principles of biblical scripture, we believe the Global Business Review enriches our readers with articles and information to impact their organizations with worthwhile, enduring results.

If you are interested in contributing to the exploration and advancement of global business, we are interested in hearing from you. The RGBR seeks articles from contributors who are recognized experts in their field or who have requisite experience and credentials to be qualified to speak authoritatively on a subject matter. RGBR invites articles addressing the following content areas:

- Strategy
- Innovation and Design
- Entrepreneurship
- Business Globalization
- Social Responsibility
- Human Resources Development
- Human Resources Management
- Change Management
- Business Environment and Public Policy
- Values-based Management
- Faith and Workplace Integration
- Finance
- Accounting and Financial Management
- Technology
- Operations Management
- Marketing and Sales Management
- Not for Profit Management
- Leadership and Executive Development

For submission guidelines, visit: www.regent.edu/rgbr or submit your article to the editor at rgbr@regent.edu