PROMOTING ECONOMIC EMPOWERMENT THROUGH ENTREPRENEURSHIP

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Abstract: This paper explores the strategic necessities for Africa's economic progress and development. It does so by arguing a case for revisiting and possibly redefining Africa's economic development strategy with a view to formulating an overarching strategy that is more inclusive, enduring, sustainable and capable of creating wealth and improving the living standards of Africans. The emergent strategy should necessarily be bottom-up to be able to deliver an integrated approach to strengthening the continent's economy based on a combination of existing and hybrid models. It is premised on the fact that since the majority of people in Africa live in rural areas, dependent on agriculture and other rural economic activities, it is important that economic planning must take a bearing from within these considerations. The central thrust is that economic development thinking and approach should be more market/people orientated than ideologically/politically driven. African nations will attain accelerated and sustainable economic gains and growth if proper foundations are laid; based on grassroots economic empowerment and entrepreneurship.

Keywords: Sustainable economic development, grassroots empowerment, SME growth, entrepreneurship, business climate, Africa.

INTRODUCTION: SYNOPSIS OF THE AFRICAN ECONOMY

In most recent years, many African governments have channelled a great deal of effort into modernising and improving their ailing economies through macroeconomic stabilisation and investment liberalisation schemes. As a result, many countries are experiencing steadier growth. For example, average growth rates in Sub- Saharan economies were 5.4 percent in 2005 and 2006, 6.2 percent in 2007 and 5.2 per cent in 2008 (Africa Development Indicators, 2007 & 2008). In general, Africa seems to have been hit only mildly by the global financial crisis because of the limited level of integration into the global economy. However, the rate of economic growth slowed down in 2008 to 5.2 percent from 6.2 per cent growth rate recorded in 2007.

1n 2006/2007, the World Bank's '*Doing Business Indicators*' average ranking for Africa was 136 out of 178 in relation to the "*Ease of Doing Business Index*". In comparison, East Asia and Pacific were ranked 76. Four countries in Africa had ranks in the top third - Mauritius 32, South Africa 35, Namibia 43, and Botswana 51. Kenya rose to 72, and Ghana to 87. But all the others had ranks of 90 or higher. (Africa Development Indicators 2007). Despite the effort that had gone into stabilising the macro economic conditions, nothing substantial has been done to address the micro economic

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sector even though it is this sector that holds the key to any sustainable growth and the economic empowerment of the masses of African people.

In Africa with some 934 million people, almost 50 percent live on less than US$1 per day; 200 million people between the ages of 15 and 24 make up 60 percent of the continent's unemployed; global competitiveness is low as Africa accesses less than 5 percent of the global market; poor health and poor schooling conditions continue to hold back improvements in people's productivity - and the chances of meeting the Millennium Development Goals (MDG). In terms of Infrastructure, Africa lags at least 20 percentage points behind the average for *International Development Association (IDA)* countries on almost all major infrastructure measures (Ndedi 2006). Power supplies are unreliable, and disruptions are frequent and unpredictable - all pushing up production costs, a critical impediment for inward investment services. The continent's infrastructure requirements are estimated at $22 billion a year (5 percent of GDP), plus another $17 billion for operations and maintenance (Africa Development indicators 2007).

Throughout Africa, access to communications services has increased dramatically over the past five years. Mobile telephone ownership has risen from 3 percent in 1999 to 50 percent in 2006 and by the end of 2006 there were 123 million mobile subscribers. Average penetration rates in the continent doubled between 2004 and 2006 to reach 16 percent. Entrepreneurship has been a major factor for boosting economic growth particularly in the rural areas. A large informal sector and a small volume of mainstream private sector are prominent as most communities produce on small-scale level but market their commodities through cooperatives or agricultural marketing associations. Given the structure of the continent's industrial sector, with low productivity and low investments, it is very clear that micro, small and medium sized enterprises (SMEs) hold the greatest prospect for income and employment for the majority of Africans. The continent's economy is dominated and held together by micro, small and medium sized enterprises and a small number of large businesses which tend to be multinationals. Indeed, SMEs constitute the backbone of African economy and the engine of growth and until and unless the sector is sufficiently enabled to secure the growth and sustainability of enterprises in this sector, African economies will continue to struggle. Furthermore, for the continent to grow and prosper economically, enterprise culture which recognises the full utilisation of the continent's human and material resources must become commonplace and economic development must be grassroots-orientated, bottom up and flexible for productive inputs and rewarding outputs.

Strategic Context

Africa, with a population of over 934 million people, rich with abundant natural resources and an energetic and enterprising communities, offer vast market opportunities for business and economic development. With 2008 GDP of about $1115 billion, ($745 billion in Sub Saharan) the continent's business and economic opportunities remain extensively untapped.

Since the 1980's, many countries in Africa have undertaken political and economic reforms such as trade liberalisation, privatisation and democratisation. As a result of these reforms, since the mid 1990s average incomes in the continent have been rising in tandem with those in other regions. In 2005, average growth rate was 5.5 percent with more than a third of Africans

Table1 Average ease of doing business rank, by region, 2006/07

Region	*Ranking*[2]
East Asia and Pacific	76
Europe and central Asia	77
Latin America & Caribbean	87
Middle East & North Africaww	96
South Asia	107
Sub- Saharan Africa	136

Source: World Bank African Development Indicators 2007

living in countries with annual growth rate of 4 percent for 10 years. Moreover, high rates of growth over decades, such as those observed in developing Asian countries, are desperately needed in Africa to raise the living standards of its people. Although by historical standards the present growth rates in Africa are high, these are below the estimated 7 percent annual growth required to meet the Millennium Development Goal (MDG) of halving poverty rates in the region by 2015 (African Competitiveness Report 2007- World Economic Forum).

In 2006 Africa's best Country Policy and Institutional Assessment (CPIA) average score was 3.2 , rising from 2.80 in 1995 and 27 of 36 countries evaluated in both years had improved their scores. According to a report from the International Development Association (IDA), Africa suffers from high costs inflation and lack of competitiveness. In comparison to other regions in Asia and Europe, the productivity of African manufacturing firms is low although some slow increase in productivity was recorded between 2000 and 2006. Africa's economy is less competitive due to high indirect business costs such as infrastructure including power, roads, water and regulatory bottlenecks. Whereas in China indirect costs amount to 8 percent of total costs, in Africa indirect business costs amount to 18 to 35 percent of total costs. This is clearly demonstrated by Africa's score of 136 out of 178 in the Ease of Doing Business Index in 2006/2007 (see Table 1).

A strong and thriving private sector working in partnership with key national, local and international institutions could be an enduring instruments for warring against endemic poverty and a prolonged economic stagnation. A number of factors and key areas for concerted actions have been identified as inhibitors to rapid economic development and business growth in Africa. These include the following:

- Poor integration of economic activities
- Poor and inadequate infrastructure-roads, power, telecommunications transport
- Regulatory requirements/bottlenecks
- Sound business environment
- Access to finance
- Promotion of enterprise culture/provision of business services
- Education and training-knowledge based economy

The above 7 key areas will be dealt with in more detail in this paper.

2 A lower rank is better

GRASSROOTS ECONOMIC EMPOWERMENT, ENTREPRENEURSHIP AND SME GROWTH

For many years, economic activities of the continent and the resulting impacts on Africans have been affected and mirrored by the state of the national economies and the prescribed economic development models. It is very clear that although improvements in economic activities have been recorded recently in many countries, these have not sufficiently impacted on the lives of millions of Africans or changed the international perceptions about the continent and its economy, a continent riddled with mass unemployment and poverty. The question now is how successive African authorities have been exploiting and managing these resources and how much impact the economic activities arising from these have benefited the people. Ultimately it is the continent's effective economic development models/ strategies, political stability and the efficient management of the continent's human and material resources that will determine our economic success and the ability to create wealth and raise the living standards and economic wellbeing of Africans.

Like many other regions of the world, African economy is dominated and held together by micro, small and medium sized businesses, many of which are retail, small manufacturing, distribution, farming and service based businesses. Indeed the micro, small and medium sized enterprises constitute the backbone of the continent's economy. The SMEs sector is potentially the largest and fastest growing economic sector in the continent. It also has far greater potential for generating employment than either the public sector or the large businesses. Only a small percentage of large businesses are present in African countries and these are largely multi-national and international companies. There is no doubt that large companies especially multinationals can help to create jobs through large scale investments. Evidence clearly shows employment levels have tended to decline in large firms and increase in the micro, small and medium enterprise sector especially during times of economic stagnation and uncertainties.

The positive economic impact of activities of large firms has not been felt by most people in Africa for many years as seen by the high level of acute poverty and destitution felt by many people on the continent even in areas that have generated wealth and resources like the Niger Delta in Nigeria. The net results have been massive capital flight and brain drain. Even then, for any inward investment to have a widespread economic multiplier effect, it has to be built on a strong local economy, namely strong SMEs sector. For years African countries have relied so much and applied prescribed economic models which have not worked and have not withstood the test of time. Of necessity, African Governments must plan their economy accordingly in recognition of these facts. For the Continent to grow and prosper economically, its economic development policy and the resulting activities must be inclusive, grass root orientated, bottom up and flexible, which recognise the massive economic potential of African people for productive inputs and rewarding outputs. For example 60 percent of African youths and many women are excluded from active participation in the economic life of the continent. The exclusion of these segments of the population is a result of African government inability to develop and implement an integrated economic development model. Economic empowerment of women and young people promotes social inclusion, result in social empowerment and cohesion as prosperity sets in and standard of living is raised.

The key to tapping into and exploiting the hidden growth reserves in African people including women and young people lies with the development and application of inclusive economic model and the fine tuning of African government's perception and recognition of the importance of SMEs sector as the channel for transforming and sustaining the continent's and national economies. Of necessity, African governments must create a conducive and enabling economic environment that would allow women and young people to participate in productive economic activities of the continent. Encouraging individuals to create and manage new enterprises is a another way of stimulating the growth of the SMEs sector.

In effect, the small business sector throughout Africa needs to be nurtured in order to support local and foreign investments and to ensure that any investment coming into the continent is maximised for the growth of the economy and creation of wealth. The growth and stabilisation of the small and medium sized enterprises in Africa is bound to encourage inward investments. This is because often investors prefer using local sourcing to support their operations as this is seen to be cheaper and more cost effective in the long run. Also because Africa has been an unattractive continent for investment, both by Africans and outsiders, the challenge therefore is to generate an environment where Africans want to invest in their own farms, their factories, businesses, countries and in their continent, which attracts at the same time greater flows of foreign investments.

At present, throughout Africa, the SMEs sector is experiencing many problems and hardships. These include under-capitalisation, difficulty in gaining access to bank credits and other start-up and expansion funds, lack of training and capacity building. According to the African competitiveness Report, "*expanding firms report that finance is particularly constraining and that making more finance available would significantly raise employment growth*" (African competitiveness Report 2007- World Economic Forum). This situation is collaborated by the result of the 18 months research conducted in Nigeria and Ghana into the difficulties that SME face in those countries - among the top ranking problems identified by SMEs was access to working and expansion capital. Hart(1972) had concluded that "*the apparent problems of capital shortage are a result rather than cause of managerial shortcomings. It is therefore misleading to isolate the question of capital from the complex constellation of forces, which determine entrepreneurial success or failure*". As noted above from recent research studies, there is no doubt that most SMEs in Africa are under capitalised although the issue of complimentary management skills play huge part in successful management of all enterprises.

The most damaging of these is the apparent lack of coherent, effective and robust strategy for developing and supporting start ups, small and medium sized enterprises on the continent.

At the recent AGI[3] SMEs Agenda 2008 conference held in Accra, Ghana, the Vice President of the association, lamented at the lack of effective support and policy for the SMEs sector in Ghana. She called for better attention to be paid to issues that weaken the capabilities and capacities of Small and medium sized enterprises and asked for a more conducive business environment that creates opportunities for all in a fair and equitable manner. She went on to conclude "*Only a few SMEs are competitive in today's globalised business environment, therefore, policies*

3 Association of Ghana Industries

to ensure a more conducive business environment are of the greatest importance to the growth and development of SMEs and the entire Ghanaian economy"

The potential for local SMEs to impact on the continent and wealth creation mirror those in other countries of the world, notably the advanced economies (Osafo 2008). For example in the United States[4], there are over 29.6 million small businesses, and together they create more than 50 percent of the private sector jobs, and generate more than half of the nation's gross domestic product. In the European Union, SMEs are seen as largely essential for European employment. Each year, about one million new SMEs are set up in the European Union. SMEs account for 99.8 percent of all companies and 65 percent of business turnover in the European Union.

Currently, there are about 4.8 million businesses in the United Kingdom, with 99.9 percent of these having less than 50 employees (SMEs), and accounting for 59.4 percent of private sector employment and 50.1 percent of turnover (BIS[5] October 2009). There is a big difference between Africa's view of the small business sector and that of the advanced economies. This difference predominantly relates to the importance attached to the SMEs sector by the government of each country and the perceived role in the economic development, Ariyo 1999). For instance in the UK the small business sector does not only form the bedrock of the British economy, but it is widely accepted as the main hub of economic activity in the country. The government of the day does not only see SMEs as creators of jobs and wealth, but firmly believes that they are crucial to a successful enterprise economy and is fully committed to stimulating the creation, competitiveness and growth of new and small businesses. The UK Government's key approach include fostering an enterprise culture that encourages innovators and risk takers, providing and maintaining a supportive economic environment, identifying and removing barriers to growth and providing high quality business support for firms at all stages of their development. This include supporting and creating a number of business support infrastructure notably, business links, enterprise agencies and access to finance including the government loan guarantee scheme, the new enterprise loan fund, simplification of business regulatory framework and etc.

In Ghana available data shows that 96 percent of companies in the manufacturing sector are SMEs and they employ more than 60 percent of employees in the manufacturing sector. In Nigeria a study by the Federal office of Statistics indicates that about 97% of all businesses in Nigeria are SMEs and account for 50% of employment and industrial output in the country. The World Bank recent statistics show that 60% of firms in the country have between 20-49 employees. While it would be impossible for most African countries to compete directly with both the UK and USA, there are tangible lessons that they can learn and good workable practices and policies that can be replicated in the continent's economic development planning.

The next section will examine seven key areas and factors that hinder the development of grass root economic empowerment, entrepreneurship and the growth of SMEs in Africa.

4 *U.S. Small Business Administration Office of Advocacy, September 2009*

5 Department for Business, Innovation & Skills data. 14 October 2009

TACKLING THE IMPEDIMENTS TO GRASSROOTS ECONOMIC EMPOWERMENT, ENTREPRENEURSHIP AND SMES GROWTH IN AFRICA

Poor integration of economic activities

Currently the majority of African countries have not adopted a joined-up approach to economic development as sectors of their economies operate as discrete entities. Economic development cannot be planned and executed in isolation without taking into consideration controllable and uncontrollable variables within the economic environment. As no economy operates in a vacumm, consideration need to be given to an integrated economic development model which recognises the interdependencies of economic sectors and economic development imperatives.

This is one of the missing links which could be at the root of the continent's economic and enterprise development problems, an integrated economic development framework which embraces and recognises the interaction of key sectors and activities for a successful and sustainable economic development and a thriving private sector in Africa.

These sectors or interactive influences include:

- the private sector
- the public sector
- the community
- the environment
- the stakeholders

The continent's economy needs to be understood as not simply a geography-based set of technical input-output relations, but as a collection of business, public institutions, social partners and stakeholders capable of articulating economic vision for the development of Africa and co-operating to create a strategy for the realisation of Africa's economic vision.

This approach recognises that, above all, African countries face the following four key imperatives:

- The economic imperative of establishing and managing a successful economy and attracting investments and creating jobs
- The social imperative of developing effective economic development strategies for the poor and vulnerable groups and communities threatened by deteriorating and weak economic activities coupled with high levels of unemployment. Creating a sound platform for the poor and those with low income to participate in economic activities of the continent is not only in the best interest of participants, but also of the continent.
- The environmental imperative of tackling the environmental crisis in fundamental ways such as decaying infrastructure, waste disposal, crime, oil spillage, political instability, dilapidated buildings, open gutters and sewage and poor roads which make a place increasing unattractive to live in, inhibit not only local economic development prospects but also inward investment opportunities.
- The institutional imperative of mobilising resources through public- private sector partnerships and financial innovation to meet the challenges of business/ economic development and sustainability. Africa's financial institutions must be seen to be sound and safe.

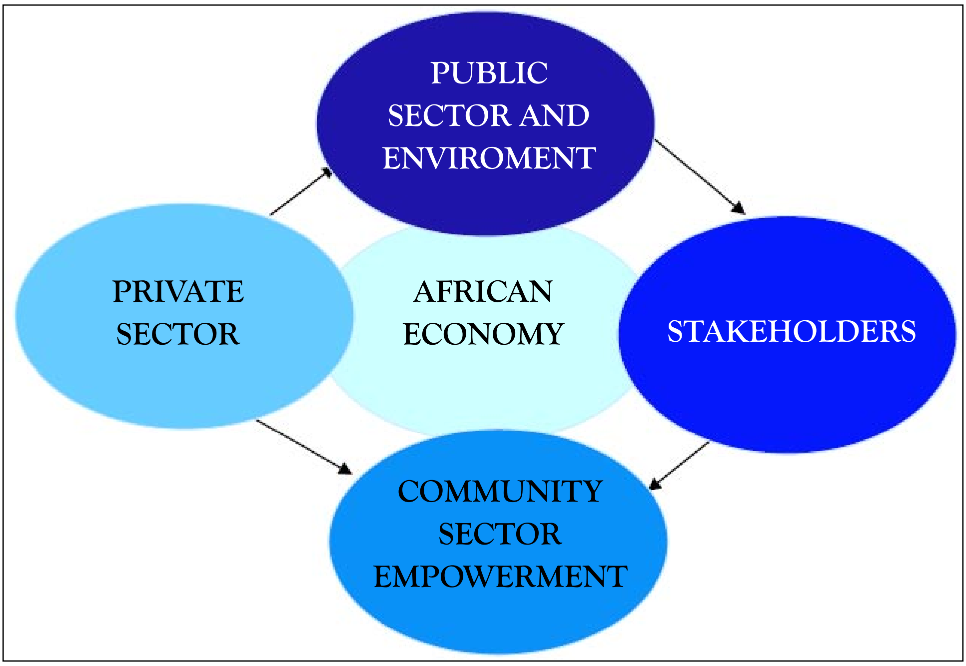

Figure 1 An integrative economic development model

It is therefore essential to take an integrated approach in resolving the problems of economic under performance of Africa. There is a need to tackle not just the macro and micro economic failures, but also the underlying problems of unemployment, skills shortages, social exclusion and physical decay. This integrated and interactive economic development approach is represented by the Model above. The Model, as depicted, shows that to achieve a successful and thriving economy in Africa at least five core sectors have to work in partnership since each of the key sectors identified and by nature of their functions can make appropriate contributions to the development and sustainability of the continent's economy.

The integrated and interactive model can be illustrated by using the following equations:

$$S^2 E = PSE^{i2} + PS^{i2} + SH^{i2} + CSE^{I2}$$

Where:

$S^2 E$ = Successful State's[6] Economy- (it is at this point that Africa's full economic potential is realised)

PSE^{i2} = Public Sector and Environment

PS^{i2} = Private Sector

SH^{i2} = Stakeholders

CSE^{i2} = Community Sector Empowerment

^{i2} = Integrated approach and Interaction processes

6 The State represents each nation/country in Africa

By implication, the above equation means that a successful and thriving African economy is a function of integrated planning and interactions involving the private sector, public sector and environment, stakeholders and the community sector empowerment. It is recognised that the public sector as represented by institutional framework has the primary responsibility for creating conditions that would enable the economy to thrive, this should be done in partnership with the private sector and the Community sector through community empowerment. This will involve massive infrastructure development, simplified regulatory framework, adopting a business orientated approach to economic planning and policy development. The private sector is the driver of wealth creation and economic growth, if it is well structured, it is capable of sustaining Africa's economic competitive advantage, both in terms of high value outputs and providing a broad range of employment opportunities for African people. A strong and vibrant private sector makes for a strong and dynamic economy.

On the other hand, empowered African people can make immense economic contributions as generators of wealth and as consuming stakeholders. Increasingly the importance of social capital- informal and formal networks that create the capacity for local collective action as a force in sustainable economic development is being recognised. The importance of and distribution of social capital is strongly related to the extent of social cohesion and deprivation. Enterprise is the key to building social capital, promoting social inclusion which helps in warring against economic deprivation and political instability.

Poor and inadequate infrastructure

Despite widespread improvements in macro economic performance, inadequate/poor infrastructure has continued to hamper the growth of African economy and SMEs sector in particular. Unlike other regions of the world, Africa has been slow to mobilize the private sector for the provision and financing of infrastructure, although according to Infrastructure Consortium reports, private sector interest has gradually spread resulting in an upward trend in private sector provision and management of infrastructure, which stood at $6 billion in 2006. This is below the required annual expenditure of $39 billion per year (Africa Indicators 2007)

According to the World's infrastructure radar involving 128 countries, only Tunisia, Mauritius, and Namibia are the three best-performing countries in Africa, ranked 37th, 42nd, and 45th, respectively (Africa Competitiveness Report 2007). Sub-Saharan Africa lags at least 20 percentage points behind the average for International Development Association countries on almost all major infrastructure measures. In addition, the quality of service is low, supplies are unreliable, and disruptions are frequent and unpredictable—all pushing up production costs, a critical impediment for attracting inward investors into the continent (table 2). Indirect costs represent a substantial drag on productivity enhancements in Africa and can account for as much as 30-35 percent of overall costs. This can easily erode any labour efficiency gain African firms might enjoy. Most indicators have clearly shown that energy and transportation are among the main bottlenecks to productivity growth and competitiveness in Africa. In a study sponsored by the British Chamber of Commerce and UKTI[7] which looked into the problems which SMEs face in Nigeria, poor infrastructure (power, roads and water) ranked the highest. "*Many SMEs decried the poor infrastructure in the coun-*

7 United Kingdom Trade and Investment

try which have a direct effect on their businesses including bad roads, poor and unreliable transportation, irregular power and water supplies" (LBDC and Akpan,2007)[8]

For any business to thrive competitively and profitably, adequate and stable power and transportation are needed. No modern business can function properly without electricity and good roads to facilitate quick and efficient movement of goods and services. This explains why inward investments into Africa is low and the slow growth of SMEs sector. To overcome the energy difficulties, many businesses have resorted to buying generators which greatly add to the overall costs and contributes to environmental pollution. While larger and medium sized businesses may be able to afford the costs associated with the provision of independent power, most micro and small businesses cannot afford these additional costs. As a consequence of this, many with good business ideas are dissuaded from considering starting up a new business, while those who had started find it very difficult to survive or simply close down their businesses. Even for larger and medium sized businesses, the additional costs are usually passed to the consumers with low personal disposable income. In many African countries connecting to the national grid is difficult as the business may be required to buy the electric poles, cables and meters. After paying for all these there are still no guarantees of electricity supplies, or when one is fortunate to have intermittent electricity, there are serious fluctuations in current, either very low or high current surge. Again in an attempt to overcome this, many businesses have resorted to buying power control equipment such as stabilisers.

In many instances expensive equipment have been lost because of uncontrolled fluctuations in electric current supplied to businesses. Again this unnecessarily adds to the costs of doing business and results in an inefficient use of finite capital resources which should be channelled to productive activities. This is a serious indictment on the management of the continent's energy resources, given that Africa is a net exporter of oil and gas and yet it has not been possible to meet the energy needs of businesses and individuals on the continent.

Apart from transport and energy, upgrading the national information and communication technologies (ICT) infrastructure also plays a vital role in encouraging inward investments and in developing and sustaining a competitive economy. These technologies enable the fast and efficient communications across and within countries that are critical for success in today's global economy. It is unlikely that the continent as a whole will achieve its economic development objectives or the millennium development goals without investing heavily in infrastructure development and improvements and also adopting a maintenance culture.

Under the auspices NEPAD and the African Business Round Table, the following should be considered:

- Development and implementation of the Regional Infrastructure Policy and Strategy (RIPS)
- In turn each country should develop and implement the National Infrastructure Policy and Strategy (NIPS)
- Set up a regional fund for infrastructure development called, African Infrastructure Development Fund (AIDEF). Each country will be required to contribute to the fund on annual basis. Contributions would be sought from

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Table 2 Impact of unreliable infrastructure services on the productive sector

Service Problem	*Sub- Saharan Africa*	*Developing Countries*
Electricity		
Delay in obtaining electricity connection(days)	79.9	27.5
Electrical outrages (days per year)	90.9	28.7
Value of lost output due to electrical outrages (percent of turnover)	6.1	4.4
Firms maintaining own generation equipment (percent of total)	47.5	31.8
Telecommunications		
Delay in obtaining telephone line (days)	96.6	43.0
Telephone	28.1	9.1

Source: World Bank Investment Climate Assessments

multilateral agencies, including the World Bank, International Monetary Fund; international and multinational companies.

- Each country in turn would set up its own infrastructure development funds called the National Infrastructure Development Fund (NIDEF).
- There should be a 10 yearly cycle for regional infrastructure development plan with set targets, reviewed every 2 years.
- Each country would also develop its infrastructure plan with set targets to be reviewed on a yearly basis.

Furthermore, most African countries are weak in terms of the maintenance of existing infrastructure and this lack of maintenance culture has contributed greatly to the poor state of infrastructure on the continent. Throughout Africa, there are thousands of abandoned buildings, expensive equipment and derelict looking government buildings which could have been used productively if properly maintained. Also abandoned derelict buildings and machineries contribute adversely to the environmental condition and outlook of a place, making an area depressing and unattractive to both local and international investors. It is therefore imperative that African Governments develop maintenance policy and strategy. It has been conservatively estimated that building maintenance and improvement is worth over $5.5 billion in Africa annually, taking into consideration the needs of the private, public and domestic sectors. This provides an ideal opportunity for the unemployed and young people interested and skilled in building improvement trade to be engaged. It is possible for African Governments in partnership with other stakeholders to set up projects to train young people and others in general infrastructure maintenance.

Regulatory requirements & sound business environment

No doubt as part of the enabling role of every government, effective regulatory framework is essential as its provides legal platform for individuals and companies to conduct business affairs fairly. It provides protection for consumers, investors, business partners and the environment, resulting in a sound business environment. Throughout Africa, there are numerous inconsistencies in the development and enforcement of regulations which seriously impact negatively on businesses. Some of these regulations are complex and often misapplied by enforcement officers in ways that give rise to or encourage corrupt practices. In some cases, important areas of activities which impact significantly on smooth start of new enterprises or managing existing ones have not been sufficiently regulated. In some African countries, carrying out a search to establish whether a proposed business name is available can only be done by a qualified lawyer with serious costs implication for the potential new business. This is bureaucratic and unnecessary cost burdens on people already with limited resources to bear and a serious barrier to young people and women who desire to start a business.

In United Kingdom and other developed economies, name searches can be carried out personally from home, libraries and other locations with access to computers and internet. In one African country where estate agency is not regulated, estate agents are allowed to charge people or businesses looking for new premises commission up to 20% of the lease/rental value in addition to the parties legal costs. Usually these desperate clients are asked to pay rent for two years advance in the first instance. As a consequence the prospect of starting a new business becomes very daunting and unattractive to new entrants. African Governments have the responsibility of ensuring that regulations that are put in place are simplified, actually needed, properly regulated and implemented in a business friendly and transparent manner. According to Thomas-Greenfield (2006), one of the key requirements for eliminating the potential for bribery and corruption is the implementation of a transparent regulatory structure governing public safety, infrastructure, and fiscal accountability.

Necessary regulatory functions should not hinder or stifle economic growth but should engender productivity and business competitiveness. To achieve this, transparent reforms are needed in each country which incorporates an audit of regulatory functions. The audit should examine the nature of business regulations currently in place, how these are implemented and the impact on SMEs and start up businesses. Thereafter a plan of action incorporating key milestones, showing how regulatory framework affecting business would be improved should be drawn up. It is also necessary and recommended that frontline public organisations dealing with businesses or business related matters should develop Customer or Business Support Charters. In addition as part of their reform or improvement requirements, they should undertake the *Customer First* reviews and eventual accreditations. Customer feedback mechanisms should be developed and implemented.

African governments should begin to think in terms of 'smart regulations'. This is not about regulating less, rather it is about governments working better to serve the interests of people: better protection, lower costs, faster and more predictable regulatory processes, less overlap and duplication, more rapid alignment with global best practices and greater transparency and accountability. It means "competitiveness" and "efficiency".

ACCESS TO FINANCE

A major barrier to rapid development and sustainability of the SMEs sector and new start ups in Africa is a shortage of both debt and equity financing. Throughout Africa entrepreneurs face more difficulties in getting credit to actualise their business dreams than in Europe Mwanika (2006). These problems are more common in lower income countries and affect small firms and even expanding enterprises are not immune. Numerous studies have shown that the lack of adequate capital is an important constraint to business sustainability and competitiveness throughout Africa. Keyser et al. (2000) found that in Zambia, a lack of starting capital was a common problem for entrepreneurs, as only 24% received a loan to start their business. Another study by Koop, de Reu, and Frese (2000) found that the amount of starting capital was positively related to business success. Mensah (2004) concluded that the shortage of both debt and equity financing seriously inhibited the development and growth of SMEs in Ghana.

Okpara (2007) in a research involving five cities in Nigeria concluded that *"financial support was a major problem in managing and sustaining a small business in Nigeria. Some of the business owners stated that it was difficult to borrow money from banks because they lacked collateral. On the other hand, the loans provided by micro-finance institutions were small, with short repayment periods and high interest rates. Respondents also complained that government funds designated for small business and entrepreneurial developments were subsequently allocated to other projects"*. In a research into the business development needs of SMEs, published in November 2007 (Akpan & LBDC) identified access to finance as the fourth[9] most important problem facing businesses in Nigeria. When it came to the issue of current business support requirements, advice on accessing business loans was ranked number two. However Hart (1972) had concluded that problems of capital shortage are products of managerial shortcomings. Other researchers and commentators tend to either directly or indirectly support this conclusion. For instance Mensah (ibid) commented that " *Training of SMEs sector in finance and financial management is critical. The lack of training is adversely affecting the ability of SMEs to acquire financing and raises the risk being taken by the SMEs and lenders by entering business without the benefit of such training"*.

In the NEPAD report on promoting the development of the SMES sector in Africa, Odife (2002) commented as follows: *"SMEs need lots of financial advice as even established SMEs are unlikely to automatically qualify for bank equity without some financial advice"*.

The previous study of the needs of SMEs in Nigeria (Akpan & LBDC) looked into the demand and supply sides of access to finance provision. The study which also involved 10 commercial banks attempted to look at the issue of SMEs bank finance from the banks' viewpoint. Bank respondents were asked to say exactly why most SMEs failed to secure bank loans, their responses are shown below. Banks respondents gave four reasons ranked in order of importance why most loans applications from SMEs failed. The table below shows these reasons:

As the above table shows, respondent banks indicated that most SMEs who had approached them for loans had not been able to demonstrate the viability of the business proposals put forward (97%). Banks have emphasised that it is impossible for them to approve a loan for any business without a clear indication of how the business would eventually manage to repay the

9 The other three most important problems identified included:

1. Power supply
2. Effective business advice
3. Poor infrastructure

Table 3 Banks reasons for SMEs failed loan applications

Reasons	*%*	*Ranking*
Poor presentation of ideas	80	3
Lack of knowledge of Bank Requirements	70	4
Does not have a Business Plan	95	2
Cannot demonstrate business Viability	97	1

Source: Business Development Support Needs of SMEs in Nigeria- November 2007

loan, by demonstrating clearly by the promoters of the business that they know what they are doing and that the business would succeed.

One of the first things most banks would ask for when a loan application is made is a clear and viable Business Plan. As shown by the above table, most loan applications failed because of lack of a Business Plan which is often what is used to demonstrate whether a business is viable or not.

Almost all the banks interviewed had insisted that it was the responsibility of the SMEs loan applicants to provide them with a plan as they do not have in-house support for business plan development. SMEs were also found to lack the necessary skills and confidence to present their proposals eloquently and professionally to banks. Most banks expect any SMEs approaching them for a loan to be able to present their proposals confidently and effectively, to be able to convince them of the medium/long term benefits for the banks. In an article titled, 'Don't Kill the Small Entrepreneur' Dr Ike Abugu, (October 2007) President of the Nigerian Association of Small and Medium Enterprises (NASME) commented as follows "*Banks are short –term players, they don't have long suffering patience (of entrepreneurs), time and knowledge in the management of SMEs". He continued, "the banks have their grudges against SMEs operators. Such include: lack of documentation, management skills, poor packaging of feasibility projects and low quality proposals.*"

As most commercial banks in Nigeria are highly risk averse, they prefer to deal with well established businesses to minimise and reduce the level of risks that they are exposed to. As a result, SMEs are seen currently as a high risk sector and many banks are very reluctant to court them especially the newly established ones and those in sectors with low market dynamism.

The implication for this is the need to tackle the problems of access to finance in a holistic way taking into consideration other influences and factors which impinge on the process involved in accessing business finance successfully. Without reinventing the wheel, African Governments should look at existing access to finance models and programmes utilised in developed countries like the United Kingdom. This should be modified/adapted to meet the needs of SMEs and regulatory framework in Africa. The process of accessing business finance involves more than simply making an application to a bank or other financial institutions and expecting a 'no' or 'yes' outcome, it is complicated with multiple requirements and layers of bureaucratic decision making processes. These complicated processes and the amount of paper work involved are intimidating to SMEs and the main reason for the massive gulf between them and the banks. It is unlikely that SMEs and start up individuals are in a position to pay for professional advice that would allow them access to the needed capital. This situation would call for selective interventions by African Governments to correct the prevailing market imperfections.

Currently in the United Kingdom, the issue of access to finance is tackled in a comprehensive way to give SMEs maximum opportunity to access the needed business finance. Firstly the Government through Regional Development Agencies and Business Links subsidises the costs of preparing a professional business plan tailored to meet specific financial needs and requirements.

Under this programme the following scale of subsidies would apply:

a) Existing firm- 65% of business plan costs paid directly to the agency or the consultant preparing the plan. The firm is expected to contribute 35%

b) New start up- 75% of business plan costs paid directly to the agency or individual consultant preparing the plan. The Entrepreneur is expected to contribute 25%.

Secondly, the Government sponsors the **'Understanding Finance for Business' programme** which provides entrepreneurs and businesses with advice and support to ensure they understand their options for getting the money they need to start, sustain and grow in addition to introducing SMEs to potential sources of finance. **The UK Government also provide the following financial support to SMEs and individual start up businesses.**

Small Loans for Business offers loans of up to £50,000 to small to medium-sized businesses which have viable business plans but have been refused bank finance.

The **Enterprise Finance Guarantee** provides lenders with a government guarantee to loan money to businesses with strong business plans which have been denied a standard loan because of a lack of collateral.

Finance for Business offers flexible finance solutions such as loans and equity finance for businesses with viable business plans that are unable to get support from commercial banks and investors.

Grant for Business Investment (GBI): GBI provides capital to support business investment or job creation projects and is part of the government's Solutions for Business portfolio. The projects should help the business to grow, be more efficient and modernise.

The **Grant for Research and Development** – to help SMEs introduce technological innovation in their businesses. It provides finance to individuals and small and medium-sized businesses in England to research and develop technologically innovative products and processes.

Collaborative Research and Development provides finance to businesses that are working together and with a university or college to develop new products, services and processes.

Knowledge Transfer Partnerships provide businesses with a grant to enable the placement of a recently qualified person at graduate level or above into their business.

Innovation Vouchers enable businesses to buy support from a university or college, to explore potential opportunities for future collaboration in developing and exploiting new ideas.

Networking for Innovation helps businesses to build relationships with universities and/or colleges, to develop and exploit new ideas. It is aimed at businesses with specific technical or scientific research and development requirements, which may be eligible for a grant to establish a network they can share information with.

In addition to the above, the following financial support are targeted at social and community enterprises:

Social Enterprise Investment Fund

Modernisation Fund

Community Builders Fund

As previously mentioned, a holistic approach is required in successfully tackling the problems associated with access to finance. It is widely acknowledged that many African Governments have set up programmes to tackle these problems including banks consolidation and increase in the number of micro finance banks. The fact that these problems persist and in some African countries escalating on an unprecedented scale suggest that existing measures do not work. It is therefore necessary that the problems associated with access to finance for SMEs and individual start ups and entrepreneurs in Africa are addressed through the following processes.

(i) Proper understanding of what Access to Finance is and it objectives

To many SMEs and Government agencies and officials on the continent, Access to Finance implies making out an application and securing a loan or other form of financial support for business development and expansion purposes. Instead a holistic view of Access to Finance should be a programme designed to assist businesses through expert help throughout Africa to become finance ready to raise finance to start up or develop and expand existing business.

The ATF should have the following components:

- Government subsidies towards the provision of consultancy support in order to produce a viable business or investment plan
- Professional advice from an expert business development agency or qualified consultant selected to provide expert advice to help SMEs or individuals raise finance to start or develop a business
- Advice on all types and sources of finance available for SMEs
- A business or investment plan tailored to meet specific financial needs and requirements.
- Coaching/mentoring on how to present a professional case to funders
- A review of business model or ideas and recommendations for further improvements

(ii) Access to Finance Partnerships

A comprehensive approach to tackling the Access to Finance problems would require a multi-agency or partnerships approach.

The ATF partnerships would consist of the following:

- Government/its agencies
- Financial institutions- traditional banks, micro finance institutions, venture capitalists
- SMEs sector
- Business development agencies

African Governments should set aside funds to promote ATF initiatives. This will include business plan subsidies, start up and business development grants and loans. These can be used to lever in further capital from finance institutions. A dedicated business development agency can be chosen to work with governments and partners to implement the programme.

Through NEPAD and African Business Round Table, the African Union should consider setting up the following:

- African Regional Development Fund (ARDF)
- African Social Fund (ASF)

Each country will be required to contribute to these central funds.

Managed centrally from the African Union secretariat, each member country will be entitled to bid competitively for the central fund for economic and social development projects. In turn SMEs and other qualified organisations will be able to bid for funding under the ARDF and ADF programmes managed by their respective governments.

PROMOTION OF ENTERPRISE CULTURE/PROVISION OF SUPPORT SERVICES

It is a widely recognised maxim that sustained development on the continent of Africa can only be achieved through economic growth by adopting entrepreneurship and entrepreneurial activities as a decisive elements of poverty eradication strategies. Thus the promotion of enterprise culture and provision of effective support services to SMEs are essential elements for achieving and sustaining economic growth in Africa. This is because all over the world micro, small and medium sized enterprise are generally regarded as the driving force of economic growth, job creation, and poverty reduction. They have been the means through which accelerated economic growth and rapid expansion have been achieved (Harris and Gibson, 2006; Sauser, 2005; van Eeden, Viviers and Venter, 2004; Arinaitwe, 2006; Kiggundu, 2002; Yusuf and Schindehutte, 2000; Monk, 2000; Goedhuys and Sleuwaegen, 2000; Birch, 1981, 1987). Therefore the development and nurturing of the SMEs sector must form a central economic thinking and mission of every African state.

Even though the SMEs sector forms the backbone of African economy, limited support and resources are channelled into its development. However to sustainably foster economic growth, SMEs do not only need support during their creation, but also throughout the processes of expansion, internalisation and transfer of businesses.

Outside many strategic problems that face African economy in general, the SMEs sector faces many operational difficulties including the following:

a) Lack of Access to Business Development Services

Most SMEs in the in Africa do not have adequate access to the following business support services:

- Business information/market intelligence
- Product development and marketing, for example, there are proliferation of furniture making companies in the State, but the majority do not know how to promote and market their products profitably, they know very little about customer care.

Table 4 Current business support requirements

Business support requirements	*SMEs Respondents*	*%*	*Ranking*
General Business Advice	102	58	1
Advice on accessing business loans	80	45	2
Developing business Plans	78	44	3
Advice on developing new markets	75	43	4
Marketing and promoting your business	69	39	5

Source: Business Development Support Needs of SMEs in Nigeria- November 2007

- Business planning:
  Only very few established business are ever engaged in business planning.
- Skilled human resource and management
- Accounting and financial management services
- Quality management and efficient production systems
- Appropriate technology

In a study of Business Development Support Needs of SMEs in Nigeria (Akpan & LBDC, Nov. 2007), 13 operational business support needs were identified and the top five were:

b) Business premises/incubator

Many SMEs in Africa cannot afford to rent own business premises and office equipment to run their businesses smoothly on a daily basis. Others find it very difficult to identify suitable office accommodation with all the cost implications due to the fact that the sector is largely unregulated in most African countries. There is a need for integrated business centres with hot desking and shared facilities to be developed throughout Africa.

The above issues have to be addressed if African nations are to grow a sustainable private sector and SMEs in particular.

African Governments and other influential decision makers on the continent must recognise that the small firms are the backbone of Africa's economy and must mobilise resources to create institutional framework and the right support and environment that would enhance and foster the stability, growth and competitiveness of the sector.

Currently most African Governments have limited involvements in the SMEs sector. The question is when and to what extent should an African Government intervene in economic development? Four core factors are advanced:

- The Government and its various arms have the responsibility for the provision of public goods and services, investing in basic infrastructure like light, water, local roads before the private sector itself will invest.
- It can intervene to counteract negative side effects of economic activity that are not taken into account by the private firms and individuals. For example putting measures in place to protect local jobs and environment when these are under threat.
- The Government can take action to correct market failures as a result of insufficient and imperfect information which may affect investment decision, development and general economic development decision.
- It may be necessary for the African Government to intervene in order to

achieve social equity in terms of tackling barriers that prevent individuals in the country from fully participating in the market economy. It may also be required to take action to ensure that economic activity is broadly spread or create opportunities where the market itself will not address the issue unprompted.

There is a strong case for Government intervention to work with strategic partners to establish a platform for sustainable economic development, SMEs growth and competitiveness.

The following key actions are recommended:

Establish a series of Enterprise Development Agencies with a business gateway system/One Stop Shop throughout Africa in partnership with the private sector, including Banks, Oil companies and other key stakeholders[10].

Some specific objectives of the Business Development Agency would include the following:

- Provision of business counseling and advisory services such as business plans, cash-flows and business surgeries.
- Business training , capacity building and networking
- Promotion and the creation of new businesses including workers co-operatives
- Active promotion and expansion of existing businesses.
- Active promotion and encouragement of inward investment into the country.
- The promotion and provision of business information and contacts.
- Actively promote and assist existing SMEs with the potential to identify export opportunities and markets.
- Develop and promote SMEs supply chain and public procurement activities
- Compile and publish local and national business statistics
- Monitor small business performance and trends
- Compile and publish local and national business directories

The following programmes can be developed under the auspices of Enterprise Development Agencies

1. Women Business Empowerment Initiative
2. Youth into Business Initiative

Develop a strategic framework for supporting the SMEs sector

The strategic framework should have the following key themes:

- Building and promoting an enterprise culture
- Encouraging a more dynamic start- up market
- Building the capability for SMEs growth
- Improving access to finance
- Encouraging and promoting entrepreneurship in rural and local government areas

10 In the United Kingdom, many oil companies and Banks directly sponsor the setting up and running of enterprise agencies. Many make cash contributions, equipment, office accommodation or experienced staff secondees, serving as board members.

Others are under obligation to sponsor local initiatives by applying what is commonly known as the Section 106 Planning gains. National Legislators could pass a law requiring large companies operating in their respective countries to sponsor specific local initiatives.

- Developing and implementing SMEs support Charter
- Developing business friendly policies and regulatory framework

EDUCATION AND TRAINING-KNOWLEDGE DRIVEN ECONOMY

The final factor which inhibit the rapid economic development and business growth in Africa is education and training. In the modern global economy, African businesses increasingly have to compete by developing and exploiting their skills, knowledge and creativity. Companies will choose to locate elsewhere if the economic environment in the local area or region does not support a modern knowledge economy. Therefore quality and correct mix of education and skills are essential for building a successful knowledge driven economy.

However, entrepreneurial thinking is not only necessary for those who want to become entrepreneurs but for everybody in a performing market society (DTI, 1998). All Africans should be given the opportunity to be familiar and aware of the concept and spirit of entrepreneurship from primary school on and must later have the opportunity to attend specific education and training programmes that correspond to the real requirements of African markets.

In order to positively encourage the spirit of enterprise among young people, universities and other institutions of higher learning must be encouraged to become more commercially aware and more entrepreneurial. They should be encouraged to develop more ties with local businesses and hold more business related activities on campus. Students should been couraged to take business studies modules as part of their main courses. This will help nurture their interest in business, and provide the basic understanding of what to expect when going into business. The knowledge gained will help provide students with a ready option when they graduate, rather than wasting their time looking for jobs that are not available. This will ultimately help to reduce the pool of unemployed young people on the continent as many of this start their own businesses.

African Governments should provide incentives and kick start the Enterprise Education scheme (EES), including the following specific actions:

- Make entrepreneurship and business become an integral part of the curricula of schools and institutes of higher education to ensure that the idea of entrepreneurship is nurtured from the very beginning of the education process and that all citizens, males or females, are regularly exposed to this idea throughout the whole education cycle. Starting a business has to be considered as a valid option and not as a last resort (EU-Africa Forum, 2007/08).
- Support programmes of vocational training initiated by the private sector: Improving the efficiency of vocational training means building training models that are flexible and adaptable, close to businesses so as to be able to keep track of the consistent and rapid development of that latter's needs. State operated training systems should thus be built on private sector input.
- Promote and support closer collaboration between education and training institutions across the continent as well as with training institutions outside of the continent and promote exchange programmes.
- Ensure higher budgetary allocation for education.

- Develop educational programmes that would meet the needs of local labour markets in partnership with universities, schools, training institutes, etc. Discuss business cases and recent economic developments in schools.
- Develop one-to-one mentoring programmes between successful entrepreneurs and new ones. Special attention has to be paid to underrepresented groups in business, e.g. women and young people.

Why SMEs Sector must be Developed and sustained in Africa

- SMEs contribute to employment growth at a higher rate than larger firm do and provide a significant share of overall employment in the longer term
- Economies are given greater flexibility in service provision and the manufacture of a variety of consumer goods
- They aid in increasing competitiveness in the market place and help to dilute the monopolistic position of large companies
- SMEs encourage the development of entrepreneurial skills and innovation and play important part in the provision of services in communities
- Focus on local production and skills, meaning that revenue, skills and knowledge are retained in the local area
- SMEs help to boost local consumer spending
- They contribute to social cohesion, mobility which in turn help with political stability

There is no doubt that for African countries to grow and prosper economically, enterprise culture which recognises the full utilisation of the continents's human and material resources must be ingrained into the psyche of the continent's economic development planning and implementation functions. This must of necessity include mass mobilisation and empowerment of individuals, communities and organisations with skills, abilities, energies, ideas and creativity, channelling these into productive activities for the benefit of individuals, and the African continent as a whole.

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