Institutional and Economic Foundation of Entrepreneurship in Africa: An Overview

By: Nir Kshetri


***Note: This version of the document is not the version of record. Figures and/or pictures may be missing from this format of the document. ***

Abstract:

Africa is arguably the richest continent in terms of minerals and natural resources. Prior research has also shown that Africa has an abundance of entrepreneurs who possess the ability to identify business opportunities and exploit them. However, the continent's entrepreneurial performance has been weak. Our goal in this paper is modest and is simply aimed at identifying and synthesizing the available evidence on economic and institutional factors affecting entrepreneurship in Africa. This paper also reviews various mechanisms by which foreign businesses are exploiting Africa for resources and market and examines Western response to the low level of entrepreneurial activities in Africa. Finally, this paper provides case studies of some successful entrepreneurial activities in the continent. The cases indicate that successful businesses do not necessarily need to depend on natural resources.

Keywords: Arbitrage strategies | oligarchic capitalism | formal and informal institutions | natural resources | Susu collectors

Article:

1. Introduction

Africa is arguably the richest continent in terms of minerals and natural resources. However, the continent’s entrepreneurial performance has been weak. Although entrepreneurial activities arguably existed in Africa before colonization (Buame, 1996; Robson, Haugh and Obeng, 2009), such activities slowed down since the colonial period (Takyi-Asiedu, 1993). Experts argue that Africa’s entrepreneurial failure can be attributed to factors such as the lack of sensitivity of raw agricultural products to international prices, poor infrastructure, lack of human and financial capital and government policies that are not entrepreneurship-friendly (Lall, 1995; Robson and Obeng, 2008; Sender and Smith, 1989; Teal, 1998). According to a Gallup poll, 59 percent of Nigerians were unhappy with the filing process for registering a business (Rheault and Tortora, 2008). Productive entrepreneurship has also been hindered by a lack of quality standards and inappropriate trade policies (Alamine, 2006).
Some analysts have pointed out that poor management of human resources is among the major barriers to entrepreneurship in Africa (Alamine, 2006). An observation is that African private entrepreneurs lack financial and managerial ability to run large and sophisticated businesses (Wilson, 1990).

However, there are many successful entrepreneurs in Africa who come from various demographic, cultural and educational backgrounds. Studies have also shown the existence of many competitive small businesses in the region (Elkan, 1988). Some successful businesses in the continent have found creative ways to overcome economic and institutional barriers to entrepreneurship. For instance, the fashion label KEZA was able to overcome various barriers for the company’s business model to work in Rwanda. The company trained manufacturing cooperatives in such areas as design, quality control, product consistency and accounting (Ruxin, 2009).

Entrepreneurship in developing economies has been an important but under-researched aspect of international entrepreneurship. Scholars have paid even less attention to entrepreneurship in Africa. Coster (2007) forcefully argued, “Think of Africa as a normal place. There are 15 times more analysts covering Indian companies than covering African companies, and 11 times more analysts covering Chinese companies than African companies. Can someone please switch on the light and enhance our knowledge of this place a little bit?” The purpose of our study is to contribute to filling this research void. Our goal in this paper is modest and is simply aimed at identifying and synthesizing the available evidence on economic and institutional factors affecting entrepreneurship in Africa.

In the remainder of the paper, we first provide a review of natural and human resources in Africa and potential for entrepreneurship. We then provide a survey of entrepreneurship and economic performance of Africa, followed by a review of entrepreneurial finances in Africa. Next, we examine foreign companies’ entrepreneurial activities in Africa, analyze institutions and entrepreneurship in Africa and discuss Western response to low level of entrepreneurial activities in Africa. The final section provides discussion.

2. Natural and Human Resources in Africa and Potential for Entrepreneurship

2.1. Natural resources

Africa principally remains a source of natural resources, raw materials and commodities; it is considered to be the most mineral-rich continent in the world (Jones, 2005). One estimate suggests that about two-thirds of the world’s cobalt is mined in central Africa. Similarly, the Ivory Coast, Ghana, Nigeria and Cameroon are the four major West African cocoa producers. The Ivory Coast alone produces about 43 percent of the world’s cocoa (“Cocoa”). Likewise, Zimbabwe has the second largest reserves of platinum in the world and large quantities of other precious metals such as gold and copper (Mutasa, 2009).

It is suggested that African economies carry enormous potential for entrepreneurship in agricultural development because of the continent’s abundance in natural resources and labor (Stryker and Baird, 1992). Yet, it is also apparent many African countries export agricultural
products such as cocoa, coffee, tobacco and cotton, mainly in raw forms (Sáez and Gallagher, 2009). There has been limited success in their attempts to add value to agricultural products through processing and their use to develop other industrial sectors. Moreover, because of the recent global financial crisis, some African economies are severely affected by declines in global demand and value for these commodities (Green, 2009).

The continent holds eight to nine percent of the world’s crude oil reserves and provides about 10 percent of the global production (Bell, 2006). This is considerably less compared to the Middle East’s 62 percent. However, some industry analysts believe the continent could have much more undiscovered reserves (Hanson, 2008). Indeed, during 2000–2005, 30 percent of the world’s newly discovered oil reserves were from the Gulf of Guinea region of Africa’s west coast (Donnelly, 2005a). More important, West Africa’s oil reserves are of high quality; for instance, a low sulphur content of West Africa’s oil makes it easier and cheaper to refine (Bajpae, 2005). Furthermore, West African reserves are easily accessible to Western Europe and the United States by sea (Thompson, 2007).

Natural resources have also transformed some African countries’ economic orientation. For instance, after the discovery of oil in 1957, Nigeria began transformation from an agriculture-based to an oil-dependent economy (Donnelly, 2005a).

2.2. Human resources

Among the biggest roadblocks for entrepreneurial performance in the region are the lack of entrepreneurial skills and poor management of human resources (Alamine, 2006). Estimates suggest that about 60 percent of Africa’s population is younger than 25. Only a quarter of the continent’s children receive secondary education. Among the students enrolled in secondary education, only five percent get vocational training. Moreover, business studies are virtually absent and critics point out that most apprenticeships involve child exploitation (Smith, 2009).

3. A Survey of Entrepreneurship and Economic Performance of Africa

African economies have failed to productively utilize their natural and human resources. Salzman (2010) reports a conversation among delegates during the World Economic Forum Annual Meeting 2010 in Davos-Klosters, Switzerland: “In Ghana, the unemployment rate can easily be dealt with if most of the available resources are channeled toward entrepreneurship.”

African economies contribute less than one percent to the global GDP (Alamine, 2006). Estimates suggested that about 600 million people in Africa live on less than US$3 a day (Prahalad, 2005) and over 350 million live on less than US$1 a day (Moyo, 2009). African economies have made little progress in fighting poverty in the past three decades. For instance, while the proportion of East Asia’s population living below the poverty line decreased from 80 percent in 1981 to 18 percent in 2009, Africa’s poverty level has not changed during this period (Vassiliou, 2010). According to the UNDP’s Human Development Report 2007–8, 25 of the world’s 26 economies with the lowest Human Development Indices (HDI) were in sub-Saharan Africa. Even South Africa, one of the most successful African economies, ranked 125 in terms of HDI. Although some African economies are growing fast, because of high income inequality, the
population at the bottom of the economic pyramid has seen virtually no improvement in living standard (Sáez and Gallagher, 2009).

Observers have noted that while entrepreneurial activities existed in Africa before colonization (Buame, 1996; Robson, Haugh and Obeng, 2009), such activities have slowed down since the colonial period (Takyi-Asiedu, 1993). A problem hindering entrepreneurial efforts in Africa is the large size of the region’s informal economy. In Malawi only 50,000 people out of a population of 12 million (0.4 percent of the total population) have formal jobs in the private sector (The Economist, 2006a). Estimates suggested that 42 percent of the economy in Africa is informal, which is the highest proportion in the world (The Economist, 2006a). A Gallup survey conducted among Nigerians found that 69 percent of potential entrepreneurs would not formally register their businesses and only 19 percent of the respondents said their business would be formally registered (Rheault and Tortora, 2008).

3.1. Linkages of trade and investment

There has been a limited impact of African entrepreneurial activities to the local economy. For instance, there are reports that the garment manufacturing industry in many parts of Africa is shallow. That is, this industry has few linkages to the domestic economies. In some African economies such as Namibia and Lesotho, even skilled direct employees for this industry are foreigners (Rasiah and Ofreneo, 2009).

Foreign aid also lacks linkages to the local economy. Prahalad (2005) illustrates this situation with an example from U.S. aid. In 2004, the United States had provided African economies with US$1 billion in food aid, 90 percent of which was spent on foods manufactured in the United States. Similarly, the plan for AIDS also required use of FDA-approved drugs, which are expensive. Overall, no attention was paid to investing in generic drugs and prevention programs. The poor (the intended beneficiaries), or the NGOs and foundations working with them, receive a small percentage of the total aid and have very little say in how it is used. Aid may benefit the givers and aid administrators as much as or even more than the recipients (Prahalad, 2005).

The host African countries can increase benefits of foreign trade and investments by creating efficient channels for forward and backward linkages, labor mobility and stimulation of knowledge and technology transfer to local firms (Markusen and Venables, 1999). Income growth among the wider population is likely to produce forward linkages leading to a growth of demand for small businesses’ outputs (Elkan, 1988).

3.2. Some positive and encouraging signs

There have been positive and encouraging signs in Africa’s entrepreneurial landscape. Some African economies have made significant strides in improving their entrepreneurial climate (see Case 1 for Ghana). For instance, Botswana had the world’s highest average economic growth during 1966–1999 and has been successful, both politically and economically (Sáez and Gallagher, 2009; Vassiliou, 2010). Likewise, according to the World Bank, three of the top reformers in 2007–2008 were African economies — Senegal, Burkina Faso and Botswana.
Various studies have led to the accepted view that Africa doesn’t lack entrepreneurial talent. Elkan’s (1988) study challenged the widespread belief that indigenous entrepreneurship is less well represented in Africa compared to other parts of the world. He found that Africa has an abundance of entrepreneurs who possess the ability to identify business opportunities and to exploit them, and recent surveys conducted in some African economies have confirmed this view. For instance, a Gallup Poll indicated that 67 percent of Nigerians have thought of starting a business. The proportion was among the highest rates in West Africa (Rheault and Tortora, 2008).

Case 1: Ghana’s entrepreneurial climate

Ghana achieved independence from British rule on March 6, 1957. It was the first sub-Saharan African nation to gain independence. Ghana has an abundance of natural resources including deposits of gold, timber, industrial diamonds, manganese, bauxite, oil, natural gas and hydrocarbons. It also has vast forests and a large amount of arable land. There are rich marine fishing reserves on the coast of the Atlantic Ocean. Ghana is also the world’s second biggest cocoa producer after the Ivory Coast.

Ghana’s major trading partners include Nigeria, China, the United States, the United Kingdom, Germany, Togo, France, Netherlands and Spain. In terms of the access to foreign markets, the country’s location provides easy access to the regional markets of about 250 million people in West Africa (African Business, October 2009).

The Ghanaian government has set a vision to transform Ghana into a prosperous middle-income country by 2020. Five development themes have been identified to achieve the vision: human development, economic growth, rural and urban development, private sector development and enabling environment (African Business, 2009). The government has taken measures to facilitate employment creation and is committed to expanding broadband Internet connectivity (Robson Haugh and Obeng, 2009). The country is described as “a hotbed of technology entrepreneurship” (Chafkin, 2008). The World Bank’s Doing Business report in 2007 ranked Ghana as among the top ten reformers on the ease of doing business, and has been recognized as a top global reformer by the World Bank in its Doing Business reports (African Business, October 2009). Ghana was the winner of the Commonwealth Business Council (CBC) — African Business Awards 2008 for the “Best Efforts towards Improving Investment Climate” (africanexecutive.com, 2008).

There are also some high profile examples of African businesses with highly effective entrepreneurial impacts (see Cases 2, 3 and 4). Most impressive of all, some African businesses have been able to build global brands. South African Breweries Ltd. (SAB), which was founded in 1895 in South Africa, is a case in point. SABMiller, which was created by the merger of South African Breweries and the Miller Brewing Company, holds a prominent place in the global beer market. One of its brands, Castle, has been introduced as a premium beer brand across the world (Haigh, 2009). SABMiller has discovered how to tap the local taste for homemade brews, making them with cheap inputs (instead of barley), while adapting modern technology and promoting local economic development.
In Africa, SABMiller buys local crops such as sorghum instead of importing expensive barley. A SABMiller-commissioned study indicated that for every job in SABMiller’s breweries in Uganda, the company supported over one hundred other jobs throughout the country. The company has thus contributed to local economic development by stabilizing the prices of local commodity such as sorghum and increasing farmers’ incomes (Kapstein, 2009).

Case 2: Ecobank

Ecobank (Ecobank Transnational Inc.) was founded in 1985 and is headquartered in Lome, Togo. As of late 2009, the bank had a customer base of about 2 million accounts and employed more than 11,000 people. EcoBank is a public company, which had 180,000 shareholders (local and international institutional and individual investors) and US$2.5 billion share capital as of December 2009 (Kabange, 2009). EcoBank has a presence in more African countries than any other bank, with over 600 branches and service offices in 28 African countries and in France (Kabange, 2009).

By January 2010, EcoBank had banking operations in 30 countries in Europe and Africa. Its revenue in 2008 was US$850 million. As of 2009, the bank was listed on three stock exchanges in West Africa — Lagos, Accra and the Bourse Régionale des Valeurs Mobilières (BRVM) in Abidjan (Kabange, 2009).

EcoBank’s innovative services include its rapid transfer facility, which allows customers to send and receive funds quickly and its Non-Resident African Account (NRAA) for Africans living and working outside their home countries (Nigerian Compass, 2009). The bank has also launched Africa’s first multiple currency debit card (Haigh, 2009).

EcoBank was the winner of the Commonwealth Business Council (CBC) — African Business Awards 2008 for “Technological Innovation” (africanexecutive.com, 2008).

Case 3: Jamii Bora

Jamii Bora, which means “good families” in Swahili, is the largest microfinance institution in Kenya. Jamii Bora had over 150,000 borrowers in 2007 (Nicholson, 2007), which increased to over 300,000 by January 2009 (Jamiibora.net, 2009). As of September 2009, the institution had about 230,000 members. By May 2009, Jamii Bora’s total loan portfolio crossed US$38 million (Levy, 2009). All members of Jamii Bora were its former clients. Jamii Bora reported that it had made loans to beggars, prostitutes, thieves and gang members and developed a health insurance program (Jamiibora.net, 2009). Kaputei Town, Africa’s first eco-friendly town, which was “built by and for the members of” Jamii Bora, is its most high profile project. The town is built in 293 acres located 30 kilometers outside Nairobi. Over 2,500 families from the Kibera slum are planned to move to Kaputei (socialearth.org, 2009).

Case 4: KEZA and social entrepreneurship
The fashion label, KEZA (www.keza.com), which means “beautiful” in Kinyarwanda, was started in Rwanda. KEZA has developed a social entrepreneurship-based business model, which is sustainable and is making a profit. It trains Rwandan women in business development and growth (Ruxin, 2009). The company has partnered with Rwandan women to bring their handmade jewelry to the United States. The company started with three major goals, “(1) To create locally owned businesses that provided women with an income, and therefore with dignity, (2) To create high-quality products and a preferred brand, (3) To do it all so well that outside vendors are attracted to do more business in Africa” (Ruxin, 2009).

As of December 2009, KEZA worked with 43 women who helped build Sisters of Rwanda. These women are provided with a loan of as little as US$65 to buy the beads and cloth to start embroidery businesses. KEZA’s team of international fashion experts helps them in areas such as product design and development (Ruxin, 2009). Rwandan women who are KEZA’s partners earn US$200–US$300 per month compared to their income of about US$17 per month before they partnered with the company (Ruxin, 2009). In this way, KEZA has empowered Rwandan women to own their own businesses; they work autonomously (Alonzo, 2009).

KEZA focuses on making high-end, high-quality goods, emphasizing on the quality of the products instead of “Western pity.” KEZA founder Jared Miller put the issue this way, “Pity sells once...but quality products sell over and over because people genuinely desire them” (Moore, 2009).

In industrialized countries, the fashion industry is growing and is resilient even in economic recession. Millions of entrepreneurs in the developing world, on the other hand, are actively searching for economic opportunities. KEZA aims to work with existing women’s cooperatives in Africa to unite those two worlds.

The growth of new enterprises also depends upon the development of the knowledge base through research and development (R&D) (Mayer, 2010). R&D and technology-related factors such as R&D investment, technology diffusion, patent systems and standards, technological cooperation between firms, broadband access and university/industry interface in order to affect entrepreneurial performance (Ahmad and Hoffman, 2007). In this regard, there have also been some successful R&D efforts in Africa, which are likely to contribute to the continent’s entrepreneurial development. For instance, Uganda’s Makerere University is engaged in world-class research in various areas relevant to the African context. They include HIV/AIDS, natural resources and food security. The university has partnerships with various Western universities, foundations and development agencies (Lindow, 2009). Likewise, The University of Pretoria, South Africa has been an early adopter of cloud computing, especially its use for next-generation medical research. Students in the university use cloud computing to test the development of drugs, which are expected to cure serious illnesses unique to Africa.

There is some evidence to suggest that men and women have equal propensity to be entrepreneurs. A Gallup survey, for instance, indicated that in Nigeria, 67 percent of female respondents and 68 percent of male respondents liked the idea of starting a business (Rheault and
Women’s propensity to engage in entrepreneurial activities in Nigeria compares more favorably with many economies in the Arab world and Asia. In 2006, for instance, proportions of the adult population (age 18–64) engaged in entrepreneurial activities in India were 18.9 percent for men and 13 percent for women (Allen, Langowitz and Minnitti, 2006) (cf. Hanson, 2009).

In prior research, scholars have implicitly or explicitly referred to self-employment as associated with entrepreneurship (Bradford, 2007; Cranford, Fudge, Tucker and Vosko, 2005; Fajnzylber, Maloney and Rojas, 2006; Hamilton, 2000; Mora and Dávila, 2006; Yunus, 2007). In this regard, it is important to note the findings of some surveys, which have indicated that entrepreneurship is not necessarily a substitute for employment. In Nigeria, people with jobs are found to have a higher propensity to start a business than those without a job. For instance, 77 percent of Nigerians who had a job expressed an interest in starting a business compared to only 53 percent of those who were unemployed (Rheault and Tortora, 2008). This indicates that more and more entrepreneurial activities in the country are opportunity-based instead of necessity-based.

4. Entrepreneurial Finances in Africa

Researchers have shown that capital requirements and the availability of financing sources affect entrepreneurial propensity (e.g., Baumöl, Litan and Schramm, 2007; Ho and Wong, 2007; Van Stel et al., 2007).

4.1. Household saving

In prior theoretical and empirical research, scholars have found the existence of overlapping functions of saving, credit and insurance. Savings can thus partially substitute for credit and insurance, especially when markets for the latter two are imperfect (Besley, 1995). Analysts have linked economic under-performance of sub-Saharan Africa with a low savings rate (Aryeetey and Udry, 2000). In sub-Saharan Africa, the median saving rate declined from 14 percent in 1970–1976 to 10 percent in 1980–1986 and then increased to 14 percent in 1987–1994. Notwithstanding this recovery, SSA’s saving rate is the lowest across all regions (Loayza et al., 1998). Estimates that are more recent suggest the average saving rate in Africa is about 10 percent compared to 40 percent in Asia (Nabyama, 2007). The low savings rate can be attributed to a low level flow of financing between the informal and formal sectors (Collier and Gunning, 1999). A severe problem of capital flight has worsened the situation. In this regard, household savings are also less prone to capital flight (Berg, 2007).

4.2. Remittances

A study of the International Fund for Agricultural Development (IFAD) indicated there are about 30 million African migrant workers living abroad, who send home over US$40 billion to the continent annually. In the sub-Saharan African countries, remittances increased from US$3.1 billion in 1995 to US$18.5 billion in 2007, which were 9–24 percent of GDP and 80–750 percent of official development assistance (ODA) (Mbaye, 2010).
Research shows that although most money sent home by migrants is spent on consumption, remittances also contribute to entrepreneurial activities because they allow even the very poor to save. Although remittance transfer costs have declined significantly in Latin America and in Asia, they are still high in Africa. In Africa, costs to remit money home can be as high as 25 percent of the sum to be remitted (IFAD, 2009). Moreover, rural areas account for 30–40 percent of remittances to Africa, where the recipients have to travel a long distance to get their cash. Africa has the same number of remittance payout locations as Mexico. Note that Mexico has only one-tenth of Africa’s population. Restrictive laws and prohibitively high fees have thus hindered the potential of remittance to contribute to poverty reduction and productive entrepreneurship. At the 2009 G8 summit in L’Aquila, Italy, world leaders set a goal of reducing the cost of remittances by 50 percent by 2014 by promoting a competitive environment and removing barriers.

4.3. Capital markets in Africa

Capital markets are described as the “lifeblood” of entrepreneurial and economic development. Alagidede (2008) notes that African capital markets “are small, highly illiquid and are mostly not properly regulated.” Although the number of stock exchanges in sub-Saharan Africa increased from five in 1989 to 16 in 2008, liquidity has been a concern. At the Uganda Securities Exchange in Kampala, for instance, only nine companies were listed in 2008 and stock trading took place only 11 days in the month of June 2008 (Christy, 2008). The capitalization of African stock markets increased from 20 percent of GDP in 2005 (Kapstein, 2009) to 30 percent in 2008 (Christy, 2008). This compares with Brazil’s 70 percent in 2008. In sum, Africa’s nascent and poorly functioning credit markets are linked to the region’s under-performance in entrepreneurial development (Collier and Gunning, 1999).

4.4. Availability and costs of bank financing

Availability of bank finances has also been a barrier to entrepreneurial activities. According to a Gallup poll, 73 percent of Nigerians expressed concerns about getting a loan (Rheault and Tortora, 2008). According to an adviser to the Central Bank of Nigeria (CBN), 60 percent of Nigerians are “under banked” (Awhotu, 2010).

Studies have found that low interest rates lead to an increase in new business start-ups (Audretsch and Acs, 1994; Highfield and Smiley, 1987). According to the Euromonitor International, in 2008, of the world’s five countries with the highest annual lending rates (ALR) for short and medium-term financing needs of businesses, four were from Africa. The ALRs in 2008 were 28.8 percent in Gambia, 32.4 percent in Sao Tomé e Principe, 45 percent Madagascar and 62.2 percent in Zimbabwe.

4.5. Foreign investment in Africa

Although global FDI fell in 2008, FDI flows to Africa grew by 16.8 percent in 2008 to reach US$61.9 billion (africaneconomicoutlook.org, 2010). In 2008, mergers and acquisitions (M&As) in Africa increased by 157 percent to US$26 billion (africaneconomicoutlook.org, 2010). In 2009, however, FDI inflows in Africa fell by 36 percent after the peak year of 2008. The least developed countries (LDCs) in Africa were especially badly hit by the global financial crisis. FDI inflows to Africa’s 33 least developed countries (LDCs) experienced a major decrease in 2009 because of the high degree of uncertainty in the global demand for commodities.

Most of the FDI inflows in Africa are concentrated in a few large economies. In 2006, for instance, South Africa and Nigeria accounted for 37 percent of the region’s inward FDI stock (UNCTAD, 2008). Moreover, most of the inward FDI in the continent has been in the primary sector, notably in the oil industry. There has been a vanishingly small stock of FDI outside this industry. Although FDI flows to Africa increased in 2008, the increase was mainly driven by the primary sector. Indeed, except for a few countries, most of the African country’s shares of FDI in the manufacturing sector declined in 2008 (UNCTAD, 2008).

4.6. Foreign economic aid

African economies have taken US$568 billion in economic aid between 1958–2009 (Vassiliou, 2010). Donor flow accounts for 30–40 percent of the budget of some of the poorest African nations such as Guinea-Bissau, Burkina Faso, Togo, Malawi and Swaziland (Green, 2009). In Ethiopia, foreign aid constitutes over 90 percent of the government budget (Moyo, 2009).

5. Foreign Companies’ Entrepreneurial Activities in Africa

International entrepreneurship involves exploiting capital, labor and other resources across the globe (Oviatt and McDougall, 2005). In this regard, as noted above, Africa is considered the most mineral-rich continent in the world. Africa’s abundance of natural resources makes it an attractive destination for resource-seeking investments for foreign businesses. Note that resource-seeking investments are made to establish access to basic materials, input factors and natural resources such as those in energy, metallic minerals, wood, paper and other raw materials. Most foreign companies have mainly concentrated on accessing the natural resources in the continent. For instance, Western oil companies such as ExxonMobil and Chevron of the United States, France’s Total and Britain’s BP and Shell are planning to invest tens of billions of dollars in sub-Saharan Africa (Thompson, 2007).

It has been suggested that the U.S. and China are actively competing for access to Africa’s oil, gas and other resources (Frynas and Paulo, 2006). The United States imports 15 percent of its oil from Africa and the proportion is expected to reach 25 percent by 2015 (Donnelly, 2005). It is suggested that by 2017, it will import more oil from Africa than from the Middle East (Thompson, 2007). Nigeria, Africa’s biggest oil exporter and the world’s 11th largest producer, with a capacity of 2.5 million barrels per day (Bell, 2006), is the fifth-largest oil supplier of the United States (Petroleum Economist, 2006). In 2005, the United States imported more oil from the Gulf of Guinea region of Africa’s west coast than it did from Saudi Arabia and Kuwait combined (Thompson, 2007).
China’s gravitation toward Africa for the acquisition of energy and other natural resources deserves special attention. This is because oil and natural gas production in Asian countries is insufficient to meet the Chinese demand (Brookes and Shin, 2006). A large proportion of Middle Eastern exports of oil and gas production go to the United States and Europe. An estimate suggested that Africa accounted for 25 percent of China’s oil imports in 2004 (French, 2004), which increased to 33 percent in 2006 (Hanson, 2008).

Africa is not only a strategic source of raw materials but is also becoming an attractive market. Foreign companies have thus increased market-seeking investments in Africa (Pritchard, 1997). Partly because of economic liberalization, there has been a greater availability of imported goods. However, it is worth noting that government purchases account for a significant proportion of imports in some African countries. In Ethiopia, government purchases account for 40 percent of total imports, with loans by international financial institutions such as the World Bank and the African Development Bank.

5.1. Arbitrage strategies

Arbitrage strategies entail exploiting opportunities associated with differences across countries. Foreign companies’ potential to benefit from utilizing the region’s raw materials and natural resources can be described in terms of economic arbitrage, which entails exploiting specific economic factors (Ghemawat, 2003). Foreign companies can also benefit from geographic arbitrage, which involves the exploitation of geographic factors such as the region’s strategic location (Ghemawat, 2003). For instance, there is a potential to expand their operations to utilize the continent’s labor force to serve international markets, especially the European ones. Likewise, Chinese firms can use Africa’s geographical position as proximity to Europe to establish factories in the continent and sell products to the European market. There is also an opportunity to benefit from the cultural arbitrage (e.g., language skills of the workforce). For instance, Indian off-shoring companies can utilize the continents’ English, French and Portuguese speaking populations to provide call center services to Europeans.

For some multinationals, combining components from the existing institutional environment and reorganizing them strategically — also known as bricolage (Campbell, 2004) — has been an important way to operate in Africa. For instance, the British bank — Barclays — is strategically utilizing Susu collectors in Ghana, which are among the oldest financial groups in Africa (Case 5). This approach can also be described as an institutional arbitrage, which entails exploiting opportunities associated with differences in formal and informal institutions across countries.

Case 5: Barclays’ “Susu collectors” in Ghana

Susu collectors are among the oldest financial groups in Africa. These groups are mainly based in Ghana and charge a small fee to provide an informal means to save and access money for Ghanaians. They also provide limited access to microfinance credit.

Since 2005, Barclays has worked with Susu money collectors in Ghana. Susu collectors’ main function is to collect savings daily from informal traders. Barclays’ model in Ghana
is considered to be another successful business model in the African context. These trades lack access to banking. It was estimated that in 2006, there were about 5,000 Susu collectors in Ghana; each Susu collector usually has between 400 and 2,000 clients in 2008. This model of Barclays allowed the company to capture a US$140 million market, which was not identified by other banks’ traditional model. Barclays subsequently expanded the services to provide special bank accounts. Susu collectors are also provided training and lending; they can provide credit to their clients (The Economist, 2006a). About 70 percent of the Susu collectors have attended Barclays’ training sessions.

5.2. Exploitation of Africa’s resources by foreign multinationals

There are many examples and complaints regarding exploitation of these resources by Asian, European and American multinationals at low costs (Haigh, 2009, Case 6). For instance, global mining companies are making huge profits by extracting gold, diamonds, copper and other metals from Africa. Likewise, using fruits, flowers and vegetables from the continent and paying “starvation wages” to African workers, European grocery retailers produce their own label products (Haigh, 2009).

Case 6: Entrepreneurship in the African fisheries industries

International fishing fleets have been exploiting African coastal waters for low cost fish (illegal-fishing.info, 2007). In a testimony to the U.S. Congress, Stephen Hayes, President & CEO of the Corporate Council on Africa noted: “Africa’s fishing reserves are being plundered by the fishing fleets of Europe and Asia” (Hayes, 2009, p. 4).

One estimate suggested the amount of fish in West African waters reduced by 50 percent in the past three decades (illegal-fishing.info, 2007). In many African economies, there has been overexploitation of the existing fisheries stocks. Studies have suggested fisheries stocks in Uganda are either close to or have exceeded the maximum sustainable yield (MSY) (Kaelin and Cowx, 2002). Likewise, according to a committee of Mauritanian scientists, the octopus stock in Mauritania in recent years had declined by 31 percent compared to historical averages (illegal-fishing.info, 2007).

A study conducted in Uganda indicated various problems associated with entrepreneurship in the fishery sector of the country. There has been a lack of improved catch boats. The country also lacks well-developed support infrastructure for the growth of this industry. Roads are poor and not well maintained. Landing sites lack power for the construction of ice plants and other basic hygienic facilities. Consequently, the losses through spoilage are substantial.

The growth and productivity in the fisheries industry in Uganda have been hampered by a lack of development of commercial aquaculture (Kaelin and Cowx, 2002). The local catching sector lacks awareness of the need for quality management for export products. There has been some external investment from the processing industry. Experts point out that it is unlikely for this sector to attract further investment (Kaelin and Cowx, 2002).
Foreign fishing companies are increasingly moving into Africa. For instance, one estimate suggested that over 340 foreign boats were licensed to fish on the coast of Mauritania in 2007 (illegal-fishing.info, 2007). Asian and European countries such as China, Russia and Ukraine have signed fishing deals with Mauritania. In 2007, there were 99 Chinese boats that operated in joint ventures with domestic companies. In some instances, these countries have paid for fishing rights with military equipment. In 2005, China provided Mauritania with two fighter jets as partial compensation for access to Mauritanian waters (illegal-fishing.info, 2007).

Estimates suggest that rich countries subsidize about US$30 billion a year to their commercial fishermen. The European Union and its member countries provide over US$7 billion a year in subsidies. Likewise, China is estimated to provide US$2 billion a year in fuel subsidies. Such policies have increased the global catch, which has led to lower fish prices. Fishermen in poor African nations, on the other hand, receive no subsidies from their governments, which makes it difficult for them to compete (illegal-fishing.info, 2007).

In recent years, complaints regarding exploitation of Africa’s minerals and natural resources are especially directed at China. Deputy Prime Minister of Zimbabwe, Arthur Mutambara noted, “China comes to Africa and extracts raw materials and goes back to China” (Newstime Africa, 2009). China’s African involvement has also been criticized by some environmentalists. A July 2005 report of the International Rivers Network and Friends of the Earth accused China’s Exim Bank for funding environmental unfriendly projects such as the Merowe Dam in Sudan. Likewise, quoting a primatologist, a Huffington Post article noted “China’s thirst for natural resources, including wood and minerals, is leading to massive deforestation in Africa and the destruction of crucial wildlife habitat” (Burdick, 2009).

Global multinationals are using their marketing and branding power to make big profits from Africa’s natural and labor resources, raw materials and commodities (Haigh, 2009). With an example of A la Perruche, a brand of cubed sugar sold in New York, Colburn (2006) illustrates problems faced by African companies on the branding front: “The carton of 1.1 pounds of pure cane sugar pressed into cubes is imported from France. The back of the box states, ‘Product made of Swaziland or Congo sugar packaged in France.’ The value of the sugar on the international market is about 12 cents, though the carton, which boasts “since 1837,” sells for US$5.99. Africans try to earn a living while selling raw sugar on the international market for 11 cents a pound; the French, with their skills in packaging and marketing, pocket the dollars.”

6. Institutions and Entrepreneurship in Africa

An economic system is arguably a “coordinated set of formal and informal institutions” (Dallago, 2002) influencing economic agents’ behavior (Matutinović, 2005). Put differently, all economic phenomena arguably have institutional components and implications (Parto, 2005). North (1990) defines institutions as “macro-level rules of the game.”
Formal and informal institutions in most African economies have been working as major barriers for entrepreneurial development (see Case 7 for the Democratic Republic of Congo). Considering market forces provide the “invisible hand” to guide and encourage productive entrepreneurship and sustainable development, observers maintain that a liberal economic regime is more likely to promote entrepreneurship than training programs directed toward teaching entrepreneurial skills (Elkan, 1988).

Private entrepreneurship growth is associated with and facilitated by the existence of a free enterprise system, free enterprise economy and capitalism, which refer to an economic and social system in which the means of production are mostly privately owned and a market economy operates, that is, decisions are influenced by competition, supply, and demand (Schrems, 2004). Intrinsic to this definition is also the existence of the rule of law and property rights.

Case 7: Entrepreneurial climate in the Democratic Republic of Congo

The Democratic Republic of Congo (DRC) is located in central Africa, which has over 50 million people and an area of more than two million square kilometers. Note that the DRC has the third biggest population and the second biggest land area in sub-Saharan Africa.

The DRC is considered the most mineral rich country in Africa. It holds the world’s largest deposits of copper, cobalt and cadmium. The DRC also has large quantities of gold and diamonds (learningafrica.org.uk, 2009). In addition, the country also has coltan, which is a rare metallic ore used in the manufacture of cellular handsets.

The DRC has failed to utilize the country’s abundant natural resources in improving the country’s citizens’ lives. Starting the mid-1990s, the DRC has experienced several wars, in which millions of the country’s citizens died and millions were forced to leave their homes. According to a United Nations (UN) report, the wars in DRC have been the result of various groups competing for access to the country’s natural resources. Indeed, the DRC is a perfect example of how a country’s natural resources can prove to be a curse rather than a blessing (Warren, 2009).

According to The World Bank’s annual “Doing Business 2009” report, which ranked the world’s 181 countries on their regulatory climate for businesses, the DRC was the least friendly country for entrepreneurs. The country ranked 181 in 2008 and 2009. In the 2010 Index of Economic Freedom released by the Heritage Foundation and The Wall Street Journal, the DRC ranked 172 out of 179 economies that were ranked (Miller, 2010).

To start a business in DRC, it costs more than four times the country’s per capita income. Formal registration of a business takes about 155 days and there are virtually no protections for investors. Very little credit-record information is maintained for the country’s citizens (Cowley, 2008). It is argued that it can be even more difficult for foreigners to start a business in DRC. Some suggest that for many entrepreneurs in DRC
and other African economies, the costs of operating a business legally is too high and the benefits are too few (The Economist, 2006a).

The rule of law in many African economies is “often weakly developed” or sometimes “ignored with impunity” (Bratton, 2007). In a survey of 23 African countries, Sievers (2001) found that governmental and judicial institutions were “lower than needed for sustained high growth.” Factors such as corruption, the quality of the rule of law and the effectiveness of the national legal system in enforcing contracts acted as barriers hindering the development of entrepreneurship (Sievers, 2001). According to African Union, corruption is costing Africa about US$150 billion annually, or a quarter of the region’s GDP. The World Bank has estimated the figure even higher — US$500 billion to US$1 trillion (Global Witness, 2006). Note that these figure are significantly higher than the continent’s FDI, which was US$38.8 billion in 2006 (Turner, 2007) and aid inflow into the continent which is estimated at about US$25 billion a year (Global Witness, 2006).

The International Country Risk Guide (ICRG) index, which considers political, economic and financial indicators, is probably the most comprehensive indicator to study institutions. Sub-Saharan Africa has performed poorly in the ICRG index. Likewise, a study comparing the world’s geographic regions in terms of market orientation found that Africa performed the worst (Egypt Business Forecast Report, 2006).

According to Freedom House’s Freedom in the World — 2006 report, only 11 out of 48 countries in sub-Saharan Africa were in the “free” category, while 23 were “partly free” and 14 were “not free” (Freedom In The World, 2006). Freedom House referred to Africa as the “bleakest” region in terms of political rights and civil liberties in 2009. In 2009, Africa experienced more declines in political rights and civil liberties than any other region in the world. Freedom House’s survey indicated that the human rights situation worsened in 16 countries in Africa in 2009. According to the Council on Foreign Relations, only 40 percent of African countries are electoral democracies (Kempe, 2006). Commenting on elections and superficiality of Africa’s donor-driven democracy, Sáez and Gallagher (2009) state, “While donors make regular electoral contests a condition for aid and debt relief, many African regimes have paid little more than lip-service to reforms, aided by the relative weakness of state institutions which enable the subversion of free elections.”

Studies have found that economic freedom and political freedom “typically go hand in hand” and are highly correlated (La Porta et al., 2004). This means economies that lack political freedom are also likely to have a low level of economic liberalization, which is essential for promoting private entrepreneurship.

One reason most African countries have been unable to attract investments concerns a lack of institutions to protect the long-term security of property rights (Mbaku, 2007). Researchers have noted that developing economies that lack institutions to ensure the impartial enforcement of contracts are unable to realize the potential gains from trade and specialization (Olson, 1996). Observers have noted that in many African countries with weak institutions, economic policy is dominated by wealth redistribution instead of wealth creation (Fosu, Bates and Hoffler, 2006).
Institutional reforms have been initiated in some African economies such as Morocco and Tunisia. These economies are considered to be ahead of most other economies in the region, and analysts have rated Morocco and Tunisia among the most liberalized economies in the region (Foroohar, 2003; Schlumberger, 2000) despite a lack of political freedom in both. In particular, market reforms in Tunisia have made the country a model for the International Monetary Fund. In 1995, Tunisia became the first Arab country to sign a free-trade agreement with the European Union (Foroohar, 2003). The capital city, Tunis, houses major multinationals such as Benetton, Danone, Nestle, Peugeot and Citibank (Foroohar, 2003). However, it is important to note that notwithstanding significant progress on market reforms and economic performance, Tunisia is arguably among the “most repressive Arab states” (Carothers, 2003).

One way to bring changes in the entrepreneurial climate in African economies would be to take measures to bring capable and honest bureaucrats and technocrats in the public sectors of these economies (Mbaku, 2007). Prior researchers have noted that bureaucrats can help precipitate institutional changes by directing attention and providing support and resources (Duerst-Lahti, 2002; Long and Franklin, 2004). There is growing recognition that internationalist links provide technocratic and educational expertise necessary for reform (Stallings, 1992). Technocrats with extensive foreign training and experience are more open to Western style reforms (Stallings, 1992). Bureaucrats and technocrats with the above qualities can arguably minimize corruption and make public services more efficient and utilize the continent’s enormous endowments of natural resources to generate wealth (Mbaku, 2007).

6.1. Governments’ involvement in economies

Virtually all African countries are mixed economies. A review of the power structure in African economies and the influence on business parameters would provide helpful theoretical perspective for understanding the continent’s entrepreneurial patterns. Compared to other countries in the world, in most African countries, governments control a significantly higher proportion of national resources. In most African countries, the government is the largest employer (Mvunganyi, 2010).

As are the cases of many developing countries, a number of firms were nationalized in Africa. Private and public firms function side by side in these economies. In some African countries, the nationalization process is still going on with large, economically central firms that are particularly attractive for a national take over. For instance, in 2004, Zimbabwe’s President Mugabe announced his government’s plan to demand half-ownership of all privately owned mines in the country to stay in control of its natural resources (African Times, 2004).

In Africa, the commercial class and the national elite have a high degree of complementary characteristics. As noted earlier, African commercial class lacks financial and managerial ability to run “high markets” (Wilson, 1990). The state elite, on the other hand, sees professional and personal rewards in nationalizing such markets.

6.2. Capitalism in African economies
Baumöl, Litan and Schramm (2007) have highlighted four prevalent forms of capitalism and how each form contributes to economic growth: (i) entrepreneurial, (ii) big firm, (iii) state directed and (iv) oligarchic. Oligarchic capitalism deserves special attention in the context of some African economies. In oligarchic capitalism, corrupt government officials are linked to entrepreneurship. Many African economies are characterized by this form of capitalism. Among the defining features of this form of capitalism is a symbiosis of political and economic elites (Sabri, 2001; Schlumberger, 2000). Political elites (Moore, 1979) can be defined as “persons who, by virtue of their institutional positions, have a high potential to influence national policy making.” 

In oligarchic capitalism, entrepreneurs tend to use political power, capital and social networks to maximize economic rewards (Hankiss, 1990; Staniszkin, 1991; So, 2003; Stoica, 2004). Oligarchic capitalism is associated with and facilitated by what Adly (2009) refers to as “politically-embedded cronyism.” Adly observed that in such a system, state incumbents may generate and maintain uneven distribution of property rights, which favor a few private actors. This system may serve as a tactic of survival for a ruling regime. There tends to be a limited role of societal groups. Donnelly (2005b) comment illustrates the existence of oligarchic capitalism and cronyism in Africa, “African leaders, their cronies, European traders, foreign heads of state, and American middlemen, among others, have reaped billions from the continent’s oil resources over the last four decades.” The ruling elites and their family, friends and clients have thus lived a parasitic existence in some African economies (e.g., see McGaffey, 1987 for Congo, former Zaire). According to creditors and Publish What You Pay, in 2004, about US$300 million or about one-third of Congo’s oil revenues did not show up in the country’s budgets (Donnelly, 2005b).

6.3. Heterogeneity among African economies

African economies are heterogeneous in their policies to promote entrepreneurship. South Africa is the largest center of entrepreneurial activities in Africa. A survey found that 50 of the top 90 companies in the African continent were in South Africa (Ford, 2009). According to the World Bank, South Africa, Mauritius, Namibia and Botswana rank among the world’s top 50 countries in their entrepreneurial climate in 2006 (The Economist, 2006a). Likewise, in the World Bank’s “Ease of Doing Business” report published in 2009, which ranked 183 countries, Mauritius, South Africa and Botswana ranked in the top 50.

However, the World Bank’s study also found that of the 35 least business-friendly country in 2006, 27 were in sub-Saharan Africa. In the World Bank’s “Ease of Doing Business” report published in 2009, among the 25 countries at the bottom, 22 were in Africa. Regulatory burden, bureaucracy, and lack of political will have severely affected formal operations of businesses in the continent. In Sierra Leone, to pay all taxes due, firms need to spend about three times their profits. Likewise, to enforce a contract in Angola, a firm needs to complete 47 procedures, which takes over 1,000 days (The Economist, 2006a).

Most African countries have made little progress in reforming institutions to promote entrepreneurship. Among the African countries that are Arab League members, the depth of institutional reforms is arguably low in Algeria and the region’s primary export economies such
as Comoros, Djibouti, Mauritania, Sudan, and Yemen. Likewise, although Morocco has encouraged economic liberalization, there has also been a convergence of business and government interests in the country (Schlumberger, 2000).

7. Western Response to Low Level of Entrepreneurial Activities in Africa

The member countries of the G-8 believed that debt relief and increasing aid to Africa would help promote economic development and entrepreneurship in Africa. A growing number of observers have noted that efforts to relieve debt and increase aid have been largely unsuccessful in fighting poverty and promoting entrepreneurship in Africa. Some argue that the United States has been a supplier of food aid and contraceptives instead of being a provider of development assistance to Africa (Awori, 2009). Zambian economist Dambisa Moyo believes that foreign aid in Africa has deepened the poverty, led to an economic distortion and fueled corruption and inequality in the continent (reuters.com, 2009). Likewise, Hubbard and Duggan (2009) have also expressed their disappointment with the existing system of aid to stimulate economic development in Africa and other developing countries.

To understand the feelings that accompany these critics’ viewpoint against the process of increasing aid, consider one detail: according to Jeffrey Sachs’ calculation, out of US$1 aid given to Africa, about 16 cents was spent to pay to consultants based in donor countries, 26 cents went to emergency aid and relief operations, and 14 cents into debt servicing. African economies pay about US$20 billion in debt repayments annually (Moyo, 2009). Analysts suspect that corrupt officials take a large proportion of the remaining 40 cents, leaving very little to benefit the poor people who really deserve the aid (Prahalad, 2005).

An increasing number of observers have advocated the necessity to increase the private sector’s involvement in the economy and help develop a market-based system (Prahalad, 2005). Hubbard and Duggan (2009) have argued that a reorientation of aid to promote private businesses in poor countries would be more effective. Zambian economist Dambisa Moyo has also advocated alternatives such as encouraging trade and foreign direct investment with the continent and developing micro-financing and capital markets (reuters.com, 2009). Note that private businesses have been a cornerstone to economic development in the fast growing developing countries. However, promotion of private business has rarely been the principal focus of development aid (Hubbard and Duggan 2009).

The emphasis on trade and investment rather than aid is echoed in (Kristof, 2009) field observation, “I was recently in Liberia, a fragile African democracy struggling to rebuild. It is chock-full of aid groups rushing around in white SUVs doing wonderful work. But it also needs factories to employ people, build skills and pay salaries and taxes. Americans are horrified by sweatshops, but nothing would help Liberia more than if China moved some of its sweatshops there so Liberians could make sandals and T-shirts.” The founder of New York-based Acumen Fund, Jacqueline Novogratz has also advocated profitmotivated venture capital at below-market returns to provide social benefits to least developed economies such as those in Africa (Kristof, 2009).
Increased access to foreign market is important for African entrepreneurs. Some have argued that economic aids tied to regionalization are more likely to be effective in stimulating entrepreneurship in Africa. The Sudanese-British entrepreneur Mo Ibrahim noted, “The World Bank should refuse to fund any project which is not regional. African governments must be pressed to regionalize their economies and stop being 53 little countries, each with their flag, jealously watching each other” (Smith, 2009).

8. Discussion

Development of a free enterprise economy in Africa with a strong rule of law and property rights is likely to benefit not only the African society but also the global economy. However, Africa’s abundant natural and human resources have mainly benefited American, European and Asian multinationals and the continent’s dictators and tiny minorities. They have failed to bring economic and developmental advantages for the poor people (Sáez and Gallagher, 2009). As noted earlier, there has been a vanishingly small stock of FDI outside the oil industry. Optimism about entrepreneurial development in Africa is thus pretty rare.

A common thread runs through corruption and instability in most countries in the continent — connection to natural resources. In some countries such as the DRC and Sierra Leone, mineral resources have been blamed for economic, political and social problems such as excessive corruption, political instability and even state collapse (Sáez and Gallagher, 2009). A commonplace observation is that Africa’s oil or mineral wealth is a curse rather than a blessing, which has led some countries in the continent to economic and political instability, social conflict and environmental degradation (Warren, 2009). Faced with examples such as these in many resource-rich African countries, some authors have used the term “resources curse” to describe their economic failure (Auty, 1998). Donnelly (2005c) observed, “because of wars, dictatorships and thieves, Angola and other oil-rich African nations have failed so far to turn their natural wealth into better lives for their citizens.”

An uncomfortable reality is that the development of productive entrepreneurship has been slow in most African economies. Some argue that Western aid to Africa may have benefited donor countries and aid administrators rather than the intended recipients in Africa (Prahalad, 2005).

African economies undergoing market and economic reforms have been able to attract foreign investment. Tunisia, which offers a one-stop shop for foreign investors with all services, including courts and customs, in one building, is one example. As of 2000, Tunisia had the third largest FDI stock in the Middle East, which is a phenomenal success considering its small size and lack of oil (Foroohar, 2003). As noted above, democracies and liberalization in some African countries have shifted into reverse gear. However, some countries in the continent have made movement toward democracy (Easterly, 2005), albeit very slow. To take an example, Ethiopia recently moved from a one-party to a multi-party system. As noted earlier, economic freedom and political freedom “typically go hand in hand” and are highly correlated (La Porta et al., 2004). Political freedom is thus likely to lead to economic liberalization, which may boost private entrepreneurship in the continent. In recent years, Ethiopia has won some of the flower-exporting business away from its neighboring country Kenya (The Economist, 2006b).
The above discussion also indicates that African economies need to strengthen linkages of foreign investments to the domestic economies. There is also an urgent need to hasten these efforts to benefit from foreign trades and investments.

The preceding examples also point to the fact that many foreign firms’ entrepreneurial activities in Africa may have come at the expense of local entrepreneurs. In recent years, thousands of fishermen on Africa’s coast have lost jobs (illegal-fishing.info, 2007). In this regard, prior research in economics indicates that the political process in a country has a built-in bias that favors organized groups and industries compared to those that are unorganized (Mitra, 1999). For example, most African countries do not have large and organized local commercial fishing industries to pressure their governments. A lack of domestic entrepreneurs’ organized movements can be attributed to such dynamics.

It is also worth mentioning that some African businesses have performed well in the international markets. Some businesses such as South African Breweries Ltd and Ecobank have internationalized successfully. Likewise, KEZA helped the Rwandan cooperatives connect to an international market for luxury products (Ruxin, 2009). However, cases like these are extreme in the present context.

Prior researchers have noted that third-world MNCs are familiar with the business terrains of other developing countries thanks mainly to economic, cultural and political proximity, and thus experience a lower degree of foreignness associated with dissimilarity or lack of fit (Kindleberger, 1969; Hymer, 1976) in the operating contexts of these countries. Environment in Africa may thus enable better arbitrage opportunities for multinationals based in developing economies such as China and India than those in industrialized economies.

Multinational enterprises based in Asia, Europe and North America have exploited natural and human resources in Africa. Foreign governments and multinational enterprises have employed ecological discourses to establish discursive legitimacy and gain access to the continent’s natural resources. For instance, EU officials and other beneficiaries of fishing-rights agreements in Africa have argued that unregulated domestic fishermen are the real problems behind the decline in the continent’s fisheries stocks. It is argued most domestic fishermen in Africa tend to fish close to the shore, which offers a suitable habitat for fish spawning. EU officials have also made the point that most African countries have performed poorly in managing their fish stocks (illegal-fishing.info, 2007).

African economies have been hard hit by the recent global financial crisis (GFC). Many economies in the continent are facing stiff budget cuts because of low foreign aid and declining remittances from the West. Domestic investment is also severely affected by high interest rates and depreciation of national currencies (Mvunganyi, 2010), thereby affecting the level of entrepreneurship support and resources in Africa.

Notes


eThis is the “median of all corresponding observations for all countries” — not the median of each country’s median or mean (Loayza et al., 1998, p. 7).


iThe Arab world consists of the 22 Arabic-speaking member countries of the League of the Arab States (LAS). Some African economies are also members of LAS.

References


Mayer, C (2010). *The Need for Investment*. [www.ft.com/cms/s/0/a7ad05bc-03c8-11df-a601-00144feabdc0.html].


The Economist (2006b). International: Injustice will be done; Ethiopia. *The Economist*, 378(8469), March 18, 60.


