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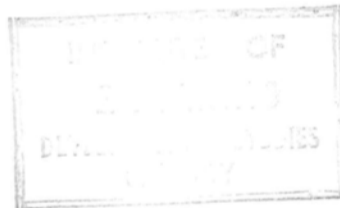
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Discussion Paper No. 6

PROBLEMS OF AFRICAN BUSINESS ENTERPRISE

J. Kamau



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Problems of African Business Enterprise

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The main purpose of this paper is to discuss the main problems which hinder the development of African business enterprise and to suggest some remedies. The paper is not based on a countrywide survey, but rather on discussions with businessmen in and around Nairobi, officials of the Ministry of Commerce and Industry and some bank officials. I hope this paper will stimulate further research into this vital but rather neglected aspect of our economic life.

In their efforts to achieve a higher standard of living for their peoples, developing nations in Africa are mobilising their latent and proved indigenous enterprise by emphasizing individual, corporate, corporative or a mixture of these three forms of private enterprise, influenced no doubt, by the 'new' and the 'old' philosophies on social and economic development. African socialism, implying the harmonization of economic activities with the traditional African values of communal responsibility and mutual aid, is the philosophy behind social and economic development in Kenya. It has been interpreted as leading to a co-operative form of private enterprise in the economic sphere(1).

The Kenya Government has accepted that indigenous private enterprise is an important force in economic development. One of the objectives pervading the 'Development Plan 1964-70' is the need to increase African participation in the economy. The Minister of Commerce and Industry has reiterated his determination to promote Africans in business and to increase their share in the industrial, commercial and agricultural sectors. This post-independence pre-occupation with indigenous business enterprise stems from several factors. One is the realization that private enterprise has played and will continue to play a very important role in the economic development of the country. The commitment of Government to the

building of a socialist state means that the present imbalances in wealth and income between the immigrant and the indigenous populations has to be narrowed. The monopoly of business enterprise held by the immigrant communities is held further, to be incompatible with political independence, and as politicians have said often, and the African masses have recognised, political independence is not synonymous with economic independence. (2)

Very little information is available on African enterprise before the arrival of Arabs, Asians and Europeans in Kenya. It is known, however, that some form of barter trade existed within communities and even between some tribes. The trade that existed was an exchange of foodstuffs and a few articles produced by craftsmen. This petty trade was occasioned mainly by the need for some articles for religious and social purposes. The communal nature of economic activity hindered the growth of this trade. The view that African social structure disdained entrepreneurs is not applicable to many tribal structures in Kenya especially among the Bantu. (3) The local magnates - by such criteria as the herds of cattle, number of wives and other status symbols - were respected and emulated.

The influence of Arabs, Asians and Europeans at the turn of the century had not extended much into the rural Kenya and it gradually extended as and when the hinterland had been conquered and settled. Before the second World War and for many years after, African enterprise was minimal. Trade in agricultural products was a monopoly of the White farmers, and retail trade a monopoly of Asians and Arabs who, as one author has put it "gripped and held the trade of both village and town". (4)

Establishment of peace and better administration, development of agriculture, growth of towns, better roads and the railway system: these and many other factors led to the gradual participation of Africans in the commercialized sector of the economy. A new culture,

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introduced by missionaries and administrators meant new ideas, products and concepts. The introduction of a hut tax meant Africans had to work or sell for money. Emulation of the new neighbours played its part. Self-interest, a basic drive in human beings, can be singled out as the main motive force behind African entrepreneurs. The desire for a better life, both for themselves and for their children, is a recognised force behind indigenous economic activities. Status and prestige are important too. Africans have had the will to enter the money economy but the way has not been easy.

The scanty figures that are available on the extent of African business enterprise indicate that, given a chance, Africans have the basic characteristics that are required for a successful business. They are willing and determined to work hard and to take risks. They display the necessarily drive, and can be tough and shrewd in commercial transactions. The vegetable sellers in Nairobi markets at 3 a.m., the illegal selling of meal, milk, etc. under disguise, the overloading of commercial and passenger vehicles, these and many other examples could be cited to show that Africans are not inferior to other races in perceiving and exploiting an economic opportunity. Of course, Africans in West Africa are far ahead of Africans in East Africa, but this is due mainly to their earlier contact with a commercial economy and the relatively smaller influence of immigrant communities.

African enterprise in Kenya includes the market women in the rural areas involved both in barter and cash transactions, innumerable retailers in the rural areas, itinerant traders moving from office to office and house to house in the urban areas, hawkers in the main towns, established traders and entrepreneurs in the commercial centres and a few business magnates, both in the urban and rural areas. The greatest number of entrepreneurs is in distribution, but as far as import and export trade is concerned, Asians still have the monopoly. Another group is engaged in service and artisan activities - tailoring, painting, wood-carving, motor and cycle repair, dry cleaning, etc. In

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transportation African enterprise is better organised. Lorries, buses and taxi services operate practically on all roads of Kenya. Individuals and partnerships own one or even a fleet of lorries and buses. The development of cash crops and the activities of hire-purchase firms have been instrumental in the development to a higher extent, of African enterprise in transportation. In manufacturing, banking and finance enterprises Africans play a very insignificant role. This is mainly due to the fact that in these enterprises, capital, skill and managerial requirements are high, and as we shall see below, these are the most limited inputs in African enterprises.

The forms that these enterprises take are typical of developing countries. Individual and family enterprises predominate, limited companies have not been very successful so far and co-operatives are just emerging, following their success in agriculture. (5) The location of these enterprises is as varied as their range. They are operated on the roadside, on temporary stalls, mobile 'kiosks', in mud and/or paper shanties and in concrete buildings either owner built or rented. As for geographical location, most enterprises are in the hand of the tribes which have had greater contact with the European and Asian traders. Thus we find more business entrepreneurs among the Kikuyu and the Luo than among the nomadic tribes of Kenya.

By a criterion, African enterprise in Kenya is small, but it is expanding. This is shown by the gradual replacement of Asian traders in the rural areas by Africans, the slow but discernible invasion of Asian traders in the urban areas and by the number of Africans who are applying and getting loans from financial institutions. A few Africans have successfully established themselves in transportation, construction, dry cleaning, distribution of beer and cigarettes, typewriter agency, bars and restaurants.

African business enterprise is faced with many problems. Traditional family obligations have hindered the development of African

....../enterprise

enterprise in several ways. Entrepreneurs are expected to share their incomes with other members of the extended family. They are expected to come to their aid in case of financial hardships and to employ relatives regardless of whether they are efficient. These considerations lead to a withdrawal of a substantial amount of capital from an enterprise and to its eventual failure. Bonds of the family and the tribe the formation of partnerships and limited liability companies. A relative is considered a suitable partner despite his inefficiency. These problems are however being gradually overcome as extended families give way to elementary families as a result of the process of social differentiation which is bound to accompany social and economic development.

The other set of problems revolves around the availability of capital. In the urban areas, the entrepreneurs complain that they cannot get financial resources to start or expand their businesses. The problem here is mainly a lack of funds for stock in trade, for erecting of business premises would be in any case a very expensive affair. In the rural areas, the value of stock in trade is relatively small, and the main problem here is a lack of capital to erect business premises. The problem is enhanced by the requirements of local authorities that business premises must conform to some set standards and specifications. As a result, a lot of money is wasted in constructing impressive buildings which remain idle for many years after completion. The great number of incomplete buildings in practically all the trading centres is a further indication of the tying of huge funds in buildings, thereby reducing the savings available for buying stock and equipment. Credit facilities have not for a long time been available to Africans. This is mainly due to a general distrust of Africans and to their inability to offer acceptable securities. (6) Fear of default has also hindered the provision of credit facilities to them. These difficulties, coupled with the low

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personal savings resulting from low incomes have hindered the development of African enterprise to a great extent.

Capital is but one input in an enterprise. Managerial skill is also important for the success of any enterprise, and it is in management that Africans have the greatest difficulties. Only a small number of African businessmen keep any accounts worthy of that name. Majority keep 'notebook accounts' which are of practically no use for proper management. Profitability of enterprises is rarely if ever ascertained. In short no proper records are kept and many shopkeepers find their shops with no money to re-stock it. Few businessmen have any idea about market possibilities, and one often finds many shops competing for a handful of customers. It is not surprising to find an article on the shelf for a year or more.

In the urban areas, high rents are an important obstacle and even more so when the poor Africans have to pay rent for six or even more months in advance. The rent control that has so far existed dealt mainly with residential buildings. Several enterprising Africans have been barred from entering into business for example in Nairobi and Thika by the exorbitant rents demanded by landlords. The outcry against high rents and the demands for rent control earlier this year is a clear indication of the problem.

As I said earlier, Asians and Arabs have monopolized commercial and industrial enterprises in Kenya. Africans, struggling to start some business have found themselves faced with keen competition from these established traders. There are several ways in which Africans are affected by this competition. It is difficult for many Africans to let business premises in some areas and streets. The established business will either outbid them or rent them to their kith and kin. Underselling is another subtle form of competition. It is moreover easier for the established business to secure capital for expanding their enterprises.

Trade Union activity has invaded the small African businessman especially in the urban areas. Demands for higher wages are leading

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to the closure of some of the African enterprises which have managed to go through some of the problems mentioned above.

Several other problems arise directly from ignorance. For a long time some Africans have not been aware of loan facilities provided by the Government. Some of them are not even aware of the existence of loan facilities provided by banks and other financial intermediaries. Ignorance of viable projects is still high.

The Kenya Government has instituted some remedial measures. These include a loan programme for African industrialists, artisans and businessmen which is now in the hands of the Regions. This programme has so far been only a partial success. Mismanagement by both loan administrators and recipients is indicated by the high rate of default.(7) The Industrial Development Corporation was set up in 1955 to facilitate industrial and economic development by initiation, assistance or expansion or by aiding in the initiation, assistance or expansion of industrial, Commercial or other undertakings or enterprises"... By 1960, the I.D.C. had not been granted loans to the African businessmen and it is only during the last two years that the I.D.C. has managed to give considerable loans to a number of African businessmen. The success of these loans cannot be judged accurately as yet, but it seems as if most of them will be successful. The Development Finance Company of Kenya Ltd. owned partly by I.D.C., by the C.D.C. and a German Development Corporation is concerned with the provision of medium and long term loans for mining, agricultural and industrial purposes. So far, it has not given loans to African businesses but in future its role will be of considerable importance. The Kenya National Trading Corporation Ltd., state-owned and in process of formation, will be concerned with supplying imported goods to African businessmen and will also undertake the export of Kenya produce. The Corporation will have peoples' shops as retail outlets all over Kenya. The main purpose of the Company is to provide relatively cheaper goods to the retailer and to break the monopoly of immigrant communities in the export and import trade. It is too early

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to assess the contribution of this corporation. In the field of education, business management centres are to be set up in each district to help potential African businessmen. Arrangements are under way also for a productivity centre where management courses will be taught. A small industry Research and Training Centre has already been established at Nakuru with assistance from Japan. The aim of the centre is to provide the training necessary for successful African managers and industrialists. There are technical schools which also are playing an important role in implanting skills on young Africans who are likely to be the future managers and foremen in their own businesses or as employees.

Foreign businesses are playing their part through in-training and provision of scholarships for advanced commercial training. Banks and other financial intermediaries are providing loans provided adequate securities are available. Where land has been consolidated and title deeds issued security is not a major problem.

The social problems mentioned earlier are not likely to be remedied by direct government intervention. They will be solved in time in the course of the process of social development. Government and financial institutions have almost solved the problem of capital shortage in the sense that any competent African who can provide the necessary security can now get a loan without much difficulty. The Government is soon tabling a bill on rent control and exorbitant rents should not be an important drawback in the future.

Managerial skills can be acquired through experience, training or both. As for the training Government efforts in establishing the Research and Training centre at Nakuru and the proposed training centres in the districts are likely to be extremely useful. However there is some need for centralising the training and perhaps six months' courses at the Kenya Institute of Administration or elsewhere in accountancy and business administration for potential businessmen might be very effective. Loan recipients should also be required to prove that they can keep a simple books of accounts before they get a loan. Those responsible for giving loans should also devise some simple systems of keeping records
...../and distribute

and distribute them freely or sell them to traders or other entrepreneurs. There is a lot to be said for insisting that the formation of a partnership or a limited company or a co-operative society is a condition for the issue of large loans. Direct cash payments should be avoided wherever possible. Experience in the agricultural sector and in the loan programme now under the regional assemblies shows that such direct cash payments are not always used for the purpose for which they were issued. Some of the money, it has even been suggested, was used for buying more wives!

Foreign businesses could help in several ways. Some Africans could be attached for short periods to foreign firms to learn some techniques of management on the job. The system of share participation, started already by White Rose Drycleaners Ltd. could be adopted by more firms. Africans could be taken in as partners and some appointed as managers.

A withdrawal of immigrant businessmen from the rural areas would reduce competition, thereby facilitating the emergence of more African business enterprises. These same communities can easily undertake light manufacturing industries for they have the necessary skill, capital and foreign contacts. A unified chamber of commerce, by pooling together divers financial and management know-how, could institute a progressive programme of helping African businessmen and industrialists.

Experience, however, cannot be taught. As the World Bank Mission to Uganda so aptly pointed out:

"the creation of a class of successful entrepreneurs takes a long time as it involves not only training techniques but the development of business attitudes and new psychological drives"

Therefore, the long-term solution to many of these problems is overall economic and social development out of which more economic opportunities will arise, and a rising standard of living and more literacy will put the population in a better position to exploit these opportunities.

N o t e s

1. "The most promising method for increasing African participation in the economy is cooperative ownership". Development Plan 1964 p. 42. This view has been reiterated by Government Ministers in many public meetings since independence.

2. In July this year, the following motion was passed in the House of Representatives:

"This house notes the monopoly of trade in Kenya by Indian and the complete exclusion of African traders to participate in building Kenya's economy" This motion and the debate that followed reflect clearly the feelings of Africans on this issue.

3. D.H. Houghton and E.M. Walton in their book The Economy of a Native Reserve conclude:

"It is, however, in the matter of entrepreneurial ability that the Bantu peasant shows the greatest deficiency; economic enterprise and initiative are most noticeably lacking"..... Quoted by P.T. Bauer and B.S. Yamey in their book The Economics of Underdeveloped Countries p. 106. This view is held by many economists. Prejudice often mars the truth.

4. G. Hunter, The New Societies of Tropical Africa

5. Between 1946 and 1963, 4718 companies were registered in Kenya. The breakdown among the different communities are as follows:

European	57%
Asians	36%
Africans	3%
Other	4% (partly European & partly Asian).

The nominal capital structure of these companies has the same reflection:

European	£94m
Asian	£29m
African	£1m
Other	£15m

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6. Until very recently, there was a law to the effect that credits to Africans over £200 could be recovered by the process of the law.
7. The latest figures available in the Ministry of Commerce and Industry show that the percentage rate of default varies from zero to over 80%.