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INSTITUTIONAL FRAMEWORK AND ENTREPRENEURIAL FUNCTION
IN THE DEVELOPING ECONOMIES OF EAST AFRICA.

This paper is part of a larger study on Planning Institutional Change for Economic Growth in East Africa. The central hypothesis is that, given some amount of capital, a high rate of sustained economic growth will be attained when a sufficient number of entrepreneurs exist; and that these will fully play their part where the institutional framework is conducive to entrepreneurial activities. With this understanding it is the conviction of the writer that there should be planning for strategy change so that our economic institutions are not left to take uncontrolled path and that only those institutions which have the potential to stimulate the entrepreneurial spirit should have the priority.

Introduction

The entrepreneur, the character who carries out new combinations and puts them into practice, is the Catalyst and the main factor that is crucial to sustained economic growth. Where this element is absent, even if natural resources in the form of land, minerals and other forms of capital are abundant, the economy will remain stagnant and people will continually live in poverty. The entrepreneurial function, however, will not be realized unless there is a favourable institutional framework. Some institutions are inhibitive to entrepreneurial activities while others are conducive to growth. Parker puts the same idea succinctly when, he says,

"In economic, as in literary life, one can see the spirit of enterprise struggling for adequate institutional forms through which to express itself; one may distinguish institutions which restrain and stifle creative activity; and one may find instances in which institutions seem to form a specially successful instrument for individual self expression"¹

In case of East Africa there is practically no sizeable indigenous entrepreneurs. Economic institutions are just being established, this is the crucial period in which the new institutions have to be well planned so that they can arouse the entrepreneurial spirit and at the same time serve as training grounds for potential leaders who will play the major role of industrialising and modernising the region.

Just as there are many different types of institutions there are also a diversity of entrepreneurs. In this chapter we shall attempt to define and to make a classification of the entrepreneurs.

It will also be our interest to examine the conditions or the environment that determine the quality of the entrepreneur. Indeed special interest is focused on the African entrepreneur his limitations and the opportunities which accompany the current institutional changes.

Definitions:

Institutions: This word has very many meanings and its not our intention to exhaust all of them except what is relevant to our study. In one of the many definitions by the Webster's International Dictionary of English Language, an institution

"is an established society or corporation; an association of persons or organizations that collectively constitute a technical or study; a significant and persistent element an (organization) in the life of a culture that centers on a fundamental human need....."

Institutions may also be regarded as sets or clusters of organizations and policies, related to each other by a dominant common purpose. So that, for example, the organizations and policies which link the saver, the investor and the entrepreneur (e.g. securities, markets, banks insurance companies, loans and savings association, credit, co-operatives etc) could be considered to comprise a community's capital mobilizing of financial institution.

(b) Entrepreneur.

An entrepreneur can be taken as a leader who has the special talents of vision, initiative creativity, the will and ability to carry out new combinations or innovations irrespective of opposition. He is willing to take chances, largely on the basis of intuition rather than observable facts. He may or may not invent anything but he is able to put other people's inventions into practical economic uses, he may but often does not have personal capital and he depends on loans and credit to carry out his innovations.

Schumpeter who popularised the concept defines the entrepreneur as the individual whose function is to carry out new combinations or "enterprise", a rather self-centred character who does not rely on tradition and whose task, in fact "consist precisely in breaking up the old and creating new, tradition"? Professor Cole says that the nature of entrepreneur function is

"the utilization by one productive factor of the other productive factors for the creation of economic goods; the motive or result being an increase of profit or an accession or shift of personal power, or the growth or survival of the business as a unit"³

all this boils up to one central deterring factor, that an entrepreneur is a leader, a pioneer who not only sees far ahead how new combinations or new organizations can be formed but, given the opportunity he is able to put his visions into practical uses for the satisfaction of human wants. These visions are put into practical application through innovations. Innovations may be in the form of a new product, an improvement in service, a new organization such as merger, opening of a new market, or the introduction of a co-operative society in an area. This also implies exploitation of inventions, re-organization of an industry, revolutionizing the pattern of production or in case of the developing countries it may imply the adaption of different or new methods of production or organization learned from foreign developed countries. In a nutshell, the entrepreneurial function is to get things done in new forms; and the

entrepreneur is the type of a leader who has both the will and magnetic dynamism that pulls substantial followers in business or otherwise to his side.

Classification of the Entrepreneurs:

There are many types of entrepreneurs. In fact no one is similar to the other nor is there any distinct class in any society that can be called entrepreneur. Moreover an entrepreneur can do many other things and once an innovation is successful the same entrepreneur may become a manager of a business or a president of a company. An attempt on grouping the entrepreneur is difficult but it serves a significant purpose. Schumpeter distinguishes three groups according to different motives:

"there is the dream and the will to found a private Kingdom, usually, though not necessarily, also a dynasty."

The second is the group who have

"the will to conquer; the impulse to fight, to prove oneself superior to others, to succeed for the sake not of the profits of success itself";

and the third group consists of those individuals who have the

"joy of creating, of getting things done or simply of exercising one's energy and ingenuity, even at the expense of destroying old patterns of thought and action".⁴

The entrepreneurs may also be classified according to environment and the community into which they are found; they may also differ in the way they operate, given the circumstances.

For our purposes we shall distinguish five groups:

- (a) The innovating entrepreneur:** These are characterised by their aggressive assembling of information, their capacity for analysis of results deriving from novel combinations of factors. These men are generally aggressive in experimentation and they are quick to put attractive possibilities in practice.
- (b) The adaptive entrepreneur: These are characterised by readiness to adopt innovations inaugurated by the first group.
- (c) The imitative entrepreneurs: These are characterised by great caution and skepticism. They may imitate when it becomes perfectly clear that failure to do so would result in a decline in the relative position of the enterprise.
- (d) The Drone or the Ritualist entrepreneur: These are characterised by their refusal to make changes in production methods even at the cost severely reduced returns in comparisons with other producers. In a wider sense this group falls very well in what may be called the "ritualist," a colonial creation. The men who will faithfully perform routine clerical or ministerial functions but whose lives are essentially imitative and they have no initiative of their own to meet the modern complex problems. Hagen says that, "the ritualist is addicted to order and routine, and his meekness masks inner compulsion"⁵

The fear change and they lack the pioneering spirit.

(c) The Community - Centered or Co-operative Entrepreneur:

This group is the same as the first one in attitude and approach to the way he solves various problems. They are innovative, aggressive and creative. But they have an additional vital quality for they are capable of considerable segments of the population. The community-centered entrepreneur seeks to accumulate wealth or power for the community by his individual action; as a by-product he may and very likely will accumulate wealth or power for himself. The motivation of the community-centered entrepreneur is accurately described as

"quasi-tribal, to further the ends of the community; the individual seeks to grow, not so much in the reflection of his wealth, a private good, as in the prestige of the cohesive unity, as social good".⁶

For such a character national goals come first and he is intensely convinced that the goals can best be attained through communal effort.

Clearly in order for high rate of a self-sustaining economic growth to be realized, it is necessary to have a large proportion of the innovating and adaptive, creative type of entrepreneurs. Considering the African economies at this stage, the community-centered entrepreneur is most suitable. Several factors lead us to this conclusion. In the first place the countries are merely beginning to build up national identities and the Government is the only recognizable institution. Secondly the number of the educated elites is so meagre that their maximum usefulness can only be obtained when acting in unison. This way the Government which employs most of these elites would play both the capitalist and the entrepreneurial roles.

The Entrepreneur and the Environment.

The entrepreneurial function depends on the existing environment. Many distinguished economists historians, anthropologists, social scientists explain this phenomenon differently. Mark Weber emphasises the religious aspect, that the calvinistic protestant ethic was based on prosperity ideal and thus men and women who adhered to the religion worked hard, they were frugal and honest thus developed into an entrepreneur group. These were responsible for industrial revolution in the Western World. Shintoism, a rather nationalistic and patriotic religion is said to have had the same influence in Japan. It emphasized hardworking, discouraged luxury and waste, and portrayed the Japanese as the chosen person who must give all his talents to the glorification, security and prosperity of his nation. McClelland in his famous n-Achievement thesis concludes that rapid economic development results where a community through its mores and background, has many substantial number of people with high achievement quotient. He even alludes that the basic reason for the Soviet economic growth was the presence of a determined high achievement entrepreneur when he observes,

"acting as though in response to the short supply of the elites who had high n-Achievement and entrepreneurial spirit, the Russians, centralized their economic activities - so that the entrepreneur served as the nucleus"⁷

In other words the state acted as capitalist institution and the comprehensive planning and co-ordination were the institutional tools by which the few entrepreneurs expected higher communal returns.

What seems to be the root is that institutional framework must be such that a significant number of people are motivated. There must be incentive to work with expectation to achieve higher returns individually or communally. A community in which material prosperity is looked down upon may not be expected to produce entrepreneurial spirit. A society which believes in myths or who believe that prosperity drops from somewhere in the heavens, here few people are likely to work harder in order to better their standards of living.

A community will also lack or encourage innovation and other entrepreneurial ability depending on whether the interpersonal relationships are particularistic or universalistic. In a society which is particularistic the choice of a person for performing a job is based on who the person is, rather than what he can do or how efficient he is. In many cases this will mean family or tribal relations. Such a community is non-rational in attitude and it inhibits the entrepreneurial spirit. In a universalistic society the criteria for appointment for a job or election to an organization is germane to the purposes for which the selection is made, and no person is barred from possessing or acquiring the necessary qualification. This is what we may call a rational community in which the objective and subjective order of action is expected to be united. Choices or appointments to official positions or decisions as to who should receive capital in forms of loans, are expected to be made on the basis of reasoning and in terms of attaining a maximum of an avowed end.

There is no doubt that in order to encourage the entrepreneurial spirit the institutional framework and community ideals should be rational universalistic and that the choice of personnel should be based on efficiency or potential profitability.

With regard to the East-African communities the situation is encouraging. Contrary to the general belief, Africans on the whole have prosperity ethic. This is revealed in many East African proverbs. Take for instance the Baganda saying "Atanafilwa tafuna" which literally means that profit is a result of risk; the Banyarwanda say that "Imana igira aho imanira" or "Imana ifasha uwifasha" which means that God helps only those who help themselves. Another indicative proverb in the same language is "Bukunda ukize" meaning that, people love or respect the rich or that the more prosperous you are the more friends you have and viceversa. Another emphasis on hard work is expressed, "Ushaka inka aryama nkazo", meaning that uncomfortable condition must be accepted in search of wealth. The Luo say "Chiamo biro luya" meaning, food comes with sweat. Indeed the same spirit is shown by the fact that thousands of African travel hundreds of miles in search of jobs and thereby to better their living standards. It is this inborn attitude which gives hope that once appropriate institutions are established so that more opportunities are made available many Africans will develop the entrepreneurial attitude.

Indeed there are a number of institutional limitations mainly "colonial mentality", and lack of financial institutions suited for African situation. The colonial mentality among the educated and civil servants is a deadly defect. During the colonial days the African had no avenue into the business world. He had neither capital nor training or any other kind of encouragement. The only opening for status was to work as a clerk, interpreter, a clergyman or a houseboy.

What was even worse the African was not put in positions of responsibility. In their first contact with modern ways and activity, the Africans were employees of foreign managed plantation, mines and commercial establishments. The other contact was made through paying tax to foreign dominated governments. In every case there was no way

of developing a strong sense of loyalty among the Africans. Foreign businessmen and their enterprises as well as their skills remained behind closed doors to the potential African entrepreneur.

Colonial administrations moreover set a poor example in their negative attitude towards business and the use of hands. The colonial administrations did not work with their hands they lived on conspicuously lavish scale, they tended to regard businessmen irrespective of race with condescension, and they appeared to attach great importance to such social activities as recreation, English games, cricket and etc.

The net result was that most of the young people aspired to work in the government and they look down upon any non-white colour jobs. Imitative rather than creative mentality prevailed. And what is even worse these people developed, their consumption capacity, much faster than their productive capacity. The adverse effect to the economy is that the rate of increase in consumption exceeds the productive capacity. The large number of Mercedes Benzes seen in Kampala may be a case in point. In such circumstances imports may exceed exports indefinitely and the country may constantly face balance of trade deficits. The danger of piling up loans may become unavoidable and thus the country may remain poor humiliated and self enslaving.

This is not to say that there are no potential entrepreneurs. It only indicates that the institution can inhibit entrepreneurial activity or encourage it. It is in fact, like having oil under the ground but without noticing its presence, The entrepreneurial talent must be tapped or else it will remain dormant. Further-more the entrepreneurial activity may be pointed in the wrong direction according to the institutional framework and the attitude of the community. The keen interest in clerical jobs, and priesthood during the colonial days are good examples. Some of the thousands of those Africans who sit round fire are like the untapped oil under a poor sandy Arab villages.

Problems faced by the African Entrepreneur:

a) Lack of operational capital.

Given the correct attitude to business activities and the state encouragement, there still remains a crucial constraint to the entrepreneurial function, chiefly accessibility to operational capital. No matter how many potential entrepreneurs or great projects are available the intended innovations will remain in the idea stage unless there is capital to put it into practice. In other words unless potential entrepreneurs have ready access to capital the entrepreneurial spur to economic growth is seriously stifled.

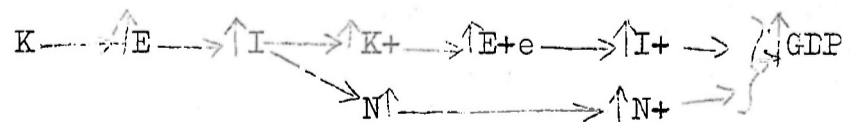
One of the universal characteristics of Entrepreneurs is that with very few exceptions, they do not have their own capital. They depend on loans and credits. In areas, such as East Africa, where commercial banks do not have confidence in African businessmen the African does not therefore benefit from the existing credit system. It is no wonder therefore that the number of African Entrepreneurs in this region is negligible. Yet there is evidence that there are many Africans who have got the entrepreneurial talent. The African has been most unfortunate in this respect. He does not have his own accumulated wealth. There are no African relative or friends who have operational capital and there has been no institutional system whereby credit could be obtained. It is of interest to note that, every person I interviewed put the worst problem as the lack of operational capital. The colonial law preventing banks to extend credit to the Africans was largely if not wholly responsible for the African backwardness in commerce and industries today.

In England it may be observed, the industrial revolution was not a mere miracle. The environment was conducive to creative enterprise. There were various sources of capital. Entrepreneurs borrowed from wealthy landowners, and relatives, club members borrowed from each other, they borrowed from family and friends savings and members of the same church lent each other. As monetary economy expanded, private bankers, blacksmith, lent money to local businessmen. Later on the Bank of England supported many other smaller banks and credit was extended to many individuals as well as societies. The State too, played an important role in encouraging enterprise by granting patents, charters and other privillages to those who produced worthwhile projects. As it is well known, the state provided transportation, established stable and unfied currency. Thus the combination of the state activities and private sources of capital on easy terms fostered the entrepreneurial spirit in such a way that the country become the pioneer of modern industrial growth with its capital, London, serving as the pivot of the money market of the world.

Examples of the significance of credit as a stimulant to the entrepreneurial activity can be taken practically from all the developed countries. It is even said that rapid industrial growth of the United States owed much from the poor banking system of the early stages. In Japan it is known that one of the major inducements to entrepreneurial activities was that the State provided easy credit to individuals either in selling operating plants at very low price or charging very low interest rates to those who could assume management of plants and other industrial firms. The same could be said about the Soviet Union. The scarce capital was channeled through the Gosbank to all the projects which had greater economic returns as far as the Central Planning Bureau was concerned. In this case most of the capital was put into heavy industry projects. The elements of risk, trial and error was not much defferent from what it was in England. The only difference was that while in England the private capitalist or bankers bore the risk, it was the state capitalist in the Soviet Union which had to bear the risks. In this respect managers and the planners played the role of the entrepreneur and the risk were shared by the the whole community.

The phenomena of the availability of capital in order for entrepreneurial function to be realized is universal. It makes no difference, whether the entrepreneur is an individual, a group or a motivated Central Planning Board nor does it matter the way capital is obtained. What matters is that capital should be available with suitable institutions through which it can be utilised most effectively. It must be noted that the entrepreneurial function will expand only if capital is available and when it is easily obtained. By the same token capital will increase as the entrepreneur activities expand. In essence the entrepreneurial function and the increase of Capital are interdependent. In other words the entrepreneurial function varies directly as the availability of capital while the increase of capital is a direct function of the entrepreneurial activity.

Thus $E = f(K, e)$



Where E is entrepreneurial function, e the additional entrepreneur, K, is capital, I investment N employment and GDP is the Gross Domestic Product. Horizontll arrows show general direction while vertical arrows indicate increase or expansion. The sign + indicate additional increase above the initial size.

That means that when capital is suitably channeled the entrepreneurial function rises. As the entrepreneurs invest the available capital into various projects, through their innovations, more capital creating goods are produced. The increase in the supply of operational capital encourages even more people to play the part of entrepreneurs. More innovations appear and investment expands even further. The level of employment rises in response to the expansion of investment. The net result is a general rise in the Gross Domestic Product.

In a nutshell the availability of funds from financial institutions enables the efficient entrepreneur to assume greater debt position and he can engage in a larger amount of productive, investment. Schumpeter observes this point in a clear and emphatic style when he says that,

"the structure of modern industry could not have been erected without it (Credit), it makes the individual to a certain extent independent of inherited possession, and that, "talent in economic life rides to success on debt,"⁹

It is not possible to exaggerate the importance of financial institutions and their effect on the growth of the entrepreneurial function. Yet this is the element which has been lacking in Africa for a long time and whatever plans we can devise to encourage the entrepreneur must consider the creation of and mobility of capital. Few facts that seemed to be at the root of the problems must be mentioned. It has been observed that during the Industrial revolution in Britain, credit to the entrepreneur was extended mainly on the basis of confidence, friendship or acquaintance. It was the capitalist who took the risk while the entrepreneur merely tried out his innovations. In case of success, the capitalist got his money back plus a high interest and the entrepreneur received the profit. In case of failure, however it was the capitalist who incurred the loss.

It is no wonder therefore that the foreign bankers in East Africa hesitate to lend money to the Africans. The foreign commercial banker had no cultural basis to have confidence in the African. They did not and still do not share anything in common, clubs, church, family or even area of residence. This has had another most fundamental indirect consequence. The African did not and does not even today, consider the Asian or the European as part of his society. Consequently he has not developed a sense of competition with the foreign businessmen. He has resigned himself to smallness, and he has accepted that big business is a responsibility of the European and the Asian.

It is important to note too, that educational media through adaptation has been blocked. In the normal circumstances people in a community want to do as the "Jones do". And this is only possible when people visit each other in their homes and share interest in social activities. Once a sense of competition develops those few members who rise above the general standards of living act as natural leaders. In effort to catch up many other members of the community work harder thus increasing their productive capacity and thereby a general rise in the standard of living.

At the moment the only Africans who can develop the spirit of competition with the Asians and Europeans are the educated ones. But these are scared of taking chances. Government jobs are more secure and less exacting than private enterprises. Some educated Africans try to go into business part time but this is far from being successful. In the first place civil servants have to conceal their activities in private business; yet any single business enterprise

requires constant attention by the person directly sponsoring and promoting the investment. For if the business involves acquiring goods on credit, it is imperative that the company providing the goods have confidence in the person who runs the business.

Lack of standard Securities.

The question of Security is also important in this matter. And the problem was created mainly by the failure between the indigeneous and expatriate businessmen to understand each other. The African would show cattle, coffee, trees, and palm trees as securities but no foreign banker in all his senses can accept any of them. Such securities are worthless to the banker but in actual fact the African regards them most dearly. Thus cultural barriers have also played an important negative part with regard to credit creation in East Africa.

Insufficient Banking Facilities:

The situation is even made worse by the fact that there are very few banks in the area. Unless a person lives in one of the few cities, or in one of the larger towns, he has no where to deposit his savings. Under these circumstances thousands of people still keep their money in the ground and in many cases the money is lost unless it is used to buy more goats, cows or drinks. This summer (1967) for example £600 was found eaten up by ants in a village near Kampala, Uganda. In any case a substantial amount of money does not get into the general flow through banks and the net savings for the country is kept constantly low. Consequently the use of money is limited and the banks so far have had little value to the potential African entrepreneur.

Lack of experience:

African businessmen are new in the field, and they lack experience and such vital commercial skills as bookkeeping, picking buying, stock control, banking, insurance and loan facilities. A very high percentage of those I have interviewed showed me that they do not keep accounting books. Many of them are satisfied with a cheque book, a pile of receipts and invoices often held together in a piece of wire. In place of annual balance sheet most African traders merely look at the monthly bank statements. They have the idea of net profit but this is so vague that often steps are taken to expand the business by temporary or seasonal good returns. The expansion measures taken without careful calculation in many cases lead to decline of profits, losses and bankruptcy. A good example is one Company in Western Uganda which when in one year a net profit of Shs 20,000/- was made, three lorries were bought, and the staff was expanded. The Company has since been running at a big loss.

The problems of Specialization:

Connected with lack of experience is the failure to specialize and to make business plan. Most African Traders attempt to run a greater number of business than they can operate efficiently. Often you find a trader who starts with a shop, he then goes into transport business, buys a farm, opens a bar builds a posho or flour mill etc.etc. In this way he becomes a "Jack of all traders and masters none". In Kabale there is one businessman who runs a large capentry shop in which he employs over 20 carpenters, he is a sub agent for beer distribution, he is now building a small bar and he is in fishing business over one hundred and fifty miles away. It is simply impossible for him to attend efficiently to all these lines at the same time. So he has to employ a number of assistants. These assistants are often dishonest and the turn-over is so rapid that

none of them develops lasting skills on the job. It is true this man is making some little money but there is no doubt that he could operate more efficiently and make larger profits if he were to specialize on one of the enterprises. This is, however, another indication that the African has the entrepreneurial talent but lacks technical skills. We may note here that like many other African entrepreneurs, this man has never received a loan or overdraft benefits from one of the existing institutions.

Unfair Competition:

Foreign entrepreneurs on the other hand, the European and the Asian, have been treated differently. Those have had access to capital and they are now the backbone of the East African economy. They are in wholesale, retail and other commercial activities; they are the bankers, miners, food processing, manufacturing, plant managers and they practically run the economic life of the region. It can not be denied that these people have made a contribution to the economy of the region, however, the presence of the foreign entrepreneur and his monopoly of all the commercial and industrial activities has had inhibitive effects on the African entrepreneur. The African has no claims of personal wealth, he cannot compete successfully with the expatriate businessmen who has had and still has the favour of the banks and who has also accumulated wealth.

The African trader faces ruthless competition from rich well established expatriate businessmen who are prepared to reduce their profits or even to make temporary losses in order to keep the Africans out of trade. "There are many instances where established Asian traders sell goods below factory prices so that they may discourage an African trader who dares to compete with them".¹⁰ Some local factories have been known to give special hidden discounts to established Asian traders but not to any Africans. There are even cases where Asian traders charge lower prices than factory prices. The African trader buys his goods from an expatriate wholesaler in towns. He is charged a very high price. When he reaches his village shop he charges a higher price in order to make up for transportation and also to make some small profit. Soon the people in his village realize the differences in prices and they begin to make the trips to Town and buy from the Asian or European shop where the prices are lower. Inevitably the African village shop loses market.

When an African trader attempts to rent a shop in town he rarely gets a premises on the main streets. He is pushed to hidden locations. Yet he has to pay excessive rent. Worse still sooner or later the African will experience rigorous pressure to get out of the shop once he begins to show progress in his shop. In many cases the the Asian landlords close his shops completely instead of letting it to African traders. A good example was observed in the Rift Valley District of Kenya where an Asian closed five shops and completely refused to let them to Africans. Under these circumstances many potential African businessmen fail to make headway in the sphere of commerce and industries not because they lack talent but because the prevailing conditions are discouraging.

Favourable Institutional Charges:

Since achievement of political independence there has been some favourable movements towards encouraging and stimulating the African entrepreneur. In the first place the law forbidding commercial banks from extending credit to the Africans has been abolished. The law may still be valid in spirit and practice but the Africans has, at least the right to apply for a loan.

A more fundamental step has been taken in establishing parastatal institutions whose main purposes are either taking part in investment or and extending credit to African businessmen. In each of the member states of the East African Community there are a number of parastatal corporations which make funds and technical advise to interested African businessmen. Chief among these are:

The Uganda Development Corporation (U.D.C.) a holding Company for 52 subsidiary and Associate Companies. It was launched in 1952 with a capital of £ 6.4 million wholly owned by the Government of Uganda; The Industrial and Commercial Development Corporation (I.C.D.C.) holding a corporation for over a dozen of subsidiary and associate companies. It was established in 1954 by the Government of Kenya. It's main object is to facilitate the industrial and economic development of Kenya; the National Development Corporation of Tanzania (NDC), now holding a corporation for 52 subsidiary and Associate companies and a more recent establishment, the State Trading Corporation of Tanzania, an amalgamation of the major Corporations which were nationalised at the beginning of this year 1967.

These holding corporations issue loans and credits to individual entrepreneurs and mainly to other smaller companies. They also represent their respective governments whenever there is a case for partnership with foreign investment corporations. A good example of such partnership are the Development Finance Corporations which are found in each country. These Finance Corporations are the chief channels through which foreign capital is pulled to East Africa. Major partners are the governments, the Commonwealth Development Corporation (U.K.), the West Germany Development Company and the Finance Company of Netherlands. For each £1 contributed by each government there are £3 contributed by the Foreign Companies. And the whole amount is entirely invested in local enterprises.

Of the many subsidiary and Associate Companies, the National Trading Companies in Kenya and Uganda are by far the best instruments for encouraging african entrepreneurs into commerce and industry. These companies were formed with the primary purpose to reduce the expensive expatriate middleman. They import or buy local manufactured goods and sell, in most cases on credit and at a lower prices, to African distributors and wholesalers. The Kenya National Trading Corporation for instance has been able to put over 91% of sugar distributed in the hands of Africans traders, similar rapid trends are taking place in soap, Nyanza Textile products, beef by-products, Pangas, rice, shovels, galvanised pieces, etc. The Uganda National Trading Corporation merely gives guarantee for limited amount to an African Company who uses the guarantee to get goods from an Asian or European wholesaler. The Africans are in this way able to take active part in retail and semi-wholeselling business. Through this arrangement a substantial number of African entrepreneurs are doing profitable business especially as distributors of locally manufactured products.

On the Operational Capital, Commercial Banks still follow strict rules with regards to securities. The Foreign Banks are still the majority and their attitudes to Africans have not changed much. In Uganda there is a National Commercial Bank whose majority clients are Africans and it helps most in lending money to them.

In Tanzania there is the National Cooperative and Development Bank, the National Co-operative Bank and the National Development Credit Agency. These cater for small business enterprises who are mainly Africans individually or in small co-operations. And with Nationalisation, all Commercial Banks are state owned. In Kenya small loans are issued mainly through the I.C.D.C., the Ministries of Commerce and Industries and the Ministry of Co-operatives. All

these are effects in the right direction. A substantial though small number of Africans are beginning to make use of the financial institutions.

Co-operative movements is another step in the right direction. Here Africans in their villages organize themselves, and pool together funds for hire or buying service which none of them could afford alone. Pooling of funds is particularly significant because it increases the saving and investment ratio. Moreover these associations are excellent training grounds for those who have not had the chance to go to formal training centres. We shall see in chapter 5, that through co-operative associations many men and women are acquiring some business skills. In particular they are getting in the habit of saving and investing. In effort to organize themselves, the potential leaders come out easily and these, given encouragement and financial support, should serve as the initial Community Centred entrepreneurs.

On the training side, in addition to several technical and business training centres there is a Management Training and Advisory Centre in each country. The centre is partly sponsored by the International Labour Organisation and partly by the respective Governments. The experts are provided by the international body. They give lectures and consultations to established firms. The experts have to have local counterpart to understudy them in management skills and they are available to African businessmen who need advice.

African Reaction to the new changes:

It may be noted here that in spite of the unfavourable conditions some African entrepreneurs have been successful. Mr. Basudde of Uganda, in Coffee processing and export, Mr. Kawalya-Kagwa, who now runs over 10 enterprises ranging from growing of tea, sugar manufacture, wholesale export of vegetables to London. Mr. Bushuyu, Kabale who 10 years ago began with 300/- Shs and he is making a monthly turnover of 10,000/-. The Lagum Distributor Company Ltd. of Nairobi, which was founded by three men with an initial capital of 45,000/- Shillings or about (£2,250 or \$ 6,750.0). The company, in its three years, is making an annual turnover of over 5,000,000 Shs. with a net profit of about 20%. The Company is rapidly growing dealing in imports of all sorts of farm tools from Denmark and exporting farm produce. The Ankole Industrial Traders Co. which started in June 1962 with original assets of £7,000 dealing in Nytil, beer, soap, sugar, now making annual sales of over £90,000 in cloths alone. The Kigezi African Wholesale Co. which was launched in 1963 with a capital of Shs 170,000 or £85,000 and now making annual sales of Shs 1,380,000 or £690,000. The East Acholi Wholesale Kitgum, dealing in crocodile skins which began with capital of Shs 46,000/- and has reached an annual sales of 1,200,000/- Shs. The Karamoja African Wholesale Co., Moroto launched in 1966 with 60,000/- or £3,000 dealing in Sugar and beer now making annual sales of Shs 600,000/- or £30,000. The D.N. Macharia Provision Stores, Nairobi started with a capital of £2,500 and it makes a monthly sale of £5,000. The Simba Trading Company, Nairobi whose capital is £1,000 and is making a turnover sale of £10,000. And many others. (See appendix 1.) It is important to note that those small African Companies have shown rapid expansion and the major contributing factor is the help and encouragement they receive from the parastatal institutions especially the National Trading Corporations and Developing Corporations. The contribution of these State Corporation to the stimulation of entrepreneur will be discussed in more detail in the following chapter.

Proposal for improving the Situation: Apprenticeship:

We realize beyond doubt that the African has got the entrepreneurial talent but he lacks the industrial and commercial skills. It is even clear that so far the parastatal institutions are on the right track in as far stimulating the Africans to get into business.

It is also common knowledge that the best way to acquire commercial skills is to learn "on the job". It is known that most people in England, United States and Japan joined the main industrial stream through Apprenticeships. In fact, after the Meiji revolution the Japanese Government sent hundreds of young men to Western countries where they joined various firms and worked as apprentices. Those expert foreigners were exploited as teachers and as soon as a sizeable number of Japanese learned the skills, the instructors were dismissed. Through the system of apprenticeship in local and foreign firms, Japan was able to accumulate a large number of skilled entrepreneurs. Even the English prior to the Industrial Revolution had to learn banking skills from Holland. The Chinese imported Russian technicians and sent thousand to Russia. In both cases there was a concerted effort to borrow the technical and Commercial know-how.

East Africa is not going to be the exception. Depending on the ordinary formal education and the few technical centres will not suffice. A programme of apprenticeship has to be instituted. It seems we are limited to local firms since not many foreign firms would be willing to take up "black" apprentices who will have to return to their home lands immediately the acquired the technical skills.

Earlier it was noted that the Asians and the Europeans form the backbone of the East African economy. It was also observed that the poor African cannot compete successfully with the expatriate businessmen who, because of historical incidence, have accumulated wealth and are well established in their enterprises. These businessmen must play the teacher's role if at all they are to make a more profound contribution towards developing the East African economy. For this to be done the Government should establish an apprenticeship programme whereby every firm, shop owner, wholesaler, bankers etc. would take several young Africans as apprentices. The number of apprentices should depend on the size and activities of each enterprise. There would have to be a small tax allowance. The student's formal education would range between those who have completed primary eight and those who have College Diplomas and University degrees. These students would have to learn everything possible within a limited length of time. As soon as one has acquired some skill and he wants to establish his own business, the government and banks would extend credit to him. Should this scheme go through the gap between the expatriate and the African would be bridged in a relatively shorter time. Secondly the cultural bar would be penetrated since these young apprentices would have to be in closer contacts with the expatriates.

The foreign businessmen may not welcome this proposal in fear that the African entry into commercial and industries would reduce their fat profits or take over their business. This would not necessarily be the case. Rather it would create a larger body of people who would have acquired industrial skills and discipline ready to compete and to introduce new goods and services and thus culminate into a rise in productive capacity of the country. Moreover it should be better to stand competition than to close our eyes to the accumulating envy built on poverty which may burst into anger and disrupt the entire economy.

The Bankers attitude:

Efforts to increase the number of skilled entrepreneurs must be matched by improving financial facilities whereby they can easily obtain credits for trying out their respective innovations. What seems to be vital in the case of East Africa is that the bankers whether locally or foreign owned have to change their attitude towards the African businessmen. It seems clear that basing credit on the New York and or London criterion bars millions of potential African

entrepreneurs from playing their role. It is imperative that some new criterion and required securities for lending money to the Africans be established. This should be the duty of the Commercial Banks in the area to do extensive research so as to find out the type of securities and other loan criteria suited to the East African environment. Indeed the establishment of specialized banks, such as the Co-operative banks and Credit Agencies would help but in order to expect substantial impact there should be a concerted and unified effort by all the financial institutions in East Africa.

The State

It may be asked whether these economic institutions and the necessary changes should be left for the private individuals or groups assuming that the market forces would determine the general trends. The answer to the questions is No. In the first place although many Africans have the entrepreneur talent there are extremely few who have acquired the requisite skills and commercial know-how; secondly the inability of the Africans to compete successfully with the established expatriates would result into imbalance monopolies and eventual civil disturbance. In this case there would be more loss than gain.

It is therefore essential at this stage that the States take the initiative. There must be a deliberate, co-ordinated plan as to the establishment of the necessary economic institutions at the right time. The government not only has to ensure security, provide transportation and communication facilities, but it has to play the capitalist and the entrepreneur function. During the initial stages of economic development at the time when there are no people who have accumulated sufficient capital, the State has to pay for the initial risks. Once there are enough people who have the skills, the know-how, and the managerial abilities, then gradually the government could sell at low prices, some of the firms or other enterprises, to individuals or groups of people.

The government, moreover has the crucial duty to direct political enthusiasm towards economic development. The proposed institutional changes would have no effects if there was no popular enthusiasm in the country. The people must know how backward they are and they must realise the depth of their responsibilities if they are to get rid of their poverty. There has to be hard work and great sacrifices as a price for economic development. This requires wide spread support and a united will among the whole community.

Lewis amply says "Popular enthusiasm is both the lubricating oil of planning, and petrol of economic development a dynamic force that almost makes all the things possible. Even the most backward country will progress rapidly if its government knows how to tap this dynamic factor".¹¹

Planning Strategy

This is where all boils up to the conclusion that economic planners may have to lay their emphasis on planning for a strategy change or institutional framework that stimulates indigenous entrepreneurship and "permits them to challenge traditional output/quality mixes and production co-efficients"¹² Planners have to study, not only the savings investment trends, but also the existing and possible future trends in those economic institutions which renders accelerated sustained and rapid development with the minimum waste and unnecessary duplication of services

CONCLUSION:

The entrepreneur and the entrepreneurial function is the most fundamental and indispensable element for economic development. The question as to how this element can be aroused or created is not yet clear. Schumpeter considered the entrepreneur as an autonomous variable in his economic model. According to him an entrepreneur can spring up from any social class in a country be it peasant or nobles and wealthy men. They must be visionary yet practical men who are insecure and they are satisfied with the status quo. Schumpeter did not specify clearly as to which law that governs the wavelike emergencies of the entrepreneurs.

Other theorists such as McClelland indicate that the entrepreneurs are people who have high achievement ideals. He suggests that these ideals are acquired, during childhood, through stories, legends and proverbs. His theory would indicate that an entrepreneur could be created by devising stories and more that would prepare children to aspire for greater achievement when they grow up.

In relation to the n - achievement theory is the proposition, made by men such as Marx Weber, that religions ideals and teachings creates high achievement or entrepreneurs once the emphasis is on prosperity ethic. The danger that people are likely to believe in heavenly supplies or abstain from worldly goods and therefore stop short of high achievement ideal is so be escaped by the emphasis that God will receive only those who have accumulated wealth on earth. This is where some of the Bantu proverbs, that "Iman ifasha uwifasha" or God helps those who help themselves, would indicate prosperity ethic.

There is yet another thesis commonly associated with Toynbe the historian, that there must be a small group who recognise and respond to a challenge. Once this group has the will, the dynamism and power to pull the rest of the community along with them then there will be successful and positive results. The challenge may be in the form of external or internal danger to the group. This theory does not suggest how the challenge can be created to stimulate entrepreneurial talents. It seems that a society would have to wait for the chance to come so that the discontented or the insecure are triggered into action to lead the rest of the community.

All the theorise point at one central factor, that the entrepreneur forms a small and dynamic group who act like "cells in a charged battery". They revitalise and set the whole community on the move. However the entrepreneur will have no effect unless he can obtain operational capital and unless the institutional framework is conducive to economic development.

We have noted that there is sufficient evidence of the existence of prosperity ethic in traditional philosophy of life in East Africa. It was observed also that the indigenous African businessmen have the entrepreneurial talent. What is lacking is commercial and industrial skills. It is also to be concluded that the chief cause for the African backwardness in business was the discouraging colonial policy the unco-operative commercial banks, the cultural bar which hindered the usual way of learning by contact; and the unfair competition.

An entrepreneur as we have seen is a leader characterized by vision, pioneering, spirit and a person full of dynamism though he does not necessarily have personal wealth and capital. East Africa has a store of potential entrepreneurs especially among the educated elites. These people have high incomes and they live in a relatively more comfortable homes. But they have to realize that they are a minute island in a vast Ocean of poverty. The poor masses who have accepted the leadership of the elites expect fruitful direction.

For the elites to maintain their privileged status, they have to realize that they have the responsibility to lead the country to prosperity. And for this to be done they have to act as community centered entrepreneurs so that they consciously act as the vanguard of their respective communities.

East African economy is largely if not wholly, in the hands of foreign businessmen. These people should be made to play the teachers role through apprenticeship scheme. The East African potential entrepreneur should be able to exploit their knowledge in commerce and industries just as they exploit, profitably our national resources. In this way the gap will be bridged in a relatively shorter time especially if the young educated men and women seize the opportunity.

The challenge is great and indeed urgent response is imperative. Our theory is that positive response has to start by establishing appropriate institutional framework. The State, has to play the role of a capitalist. It has to create the pre-conditions for entrepreneurial function to be realized. Communication and transportation facilities have to be increased, research and, information must be made available to all who are able to benefit by them. More significantly, the mobility of capital must be ensured. This will require that the government undertake the initial capital risks, influence the direction of the industries to be built up so as to prevent waste, promote training of the technicians and mobilize the whole community into a motivated hard working society.

To be effective all these actions should be done by deliberate planning and co-ordinated scheme in which only those institutions which have the potential to effect larger sectors of the economy must be established first. This is to suggest that economist planners should not be contented with merely planning for sources and leaving institutional changes to take their own courses uncontrolled. There must be an effort to plan for strategy change so as to expect efficiency and limit overlapping and waste. The National Trading Corporations, the Development Finance Companies, other specialised financial institutions; and the Eastern African Common Market, are movements in the right direction. It will be our interest in the following chapters to examine the influence of these established institutions on the entrepreneur activity.

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