

Micro-finance:

**a tool for democratising self-development and  
priming strategies that lead to sustainable livelihoods.**

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## Abstract

Five decades of development theories have been motivated by the need to explain the phenomenon of poverty. These reflect the *modernisation theories of the 50's /60's; dependency theories of the 60's & early 70's and world economy view of the 70's / 80's; basic needs approaches of the late 70's; and alternative modes of production and IMF/WB adjustment programmes of the 80's/90's.*

Because these development strategies have not provided long terms benefits to the poor, there is a growing interest in the poor as agents for their own self improvement guided by their own knowledge base. These are strategies that could lead to sustainable livelihoods -- people's capacities to generate and maintain their means of living and enhance their well being. Micro-finance is expected to play a key role in catalysing this self-development. The paper reviews

the African political economy scene and suggests macro, meso and micro level interventions in financing society's endogenous self-development efforts as a basis for discussions in the workshop syndicates. It reviews the role of civil society in emerging democracies and economies in taking charge of its means and ends in ensuring sustainable livelihoods and how micro-finance and capital can assist in the process.

Introduction: The stewardship, management and administration of the economic reform process in Africa, led by political transition, structural adjustments and the introduction of free market economy (with the attendant introduction of credit and capital markets) are marked by uniquely austere organisational-strategic issues. Even under democratically favourable contemporary global conditions, historical, ideological and strategic characteristics internal and external to the transition process still would exist that make that transition a costly exercise. Characteristics and problems of this sort can be identified and understood through critical, yet constructive, analysis focused on certain key elements of the reform strategy; in setting the stage for the evolution of political and economic culture in Africa and founding **centres of excellence** for dialogue on these issues. This paper is an attempt to initiate such dialogue on credit as a tool for building sustainable livelihoods as an instrument of “poverty eradication” – a phrase one needs to approach very carefully.

There is no simple or immediate identification of African transition problems as they actually are; there is only a definition of them from a certain perspective and towards a certain "resolution". The structural reforms, democratisation and poverty alleviation perspective of the multi-lateral development agencies in currency on the formation of the problems and their solutions constitutes one among other actual or possible perspectives, though a dominant one to be sure. Recognition of this fact would represent a significant improvement in our consciousness and practice.<sup>1</sup> What is important in the political economy of democratisation and development is not so much the root causes against what various, competing organisations and groups conceive them to be, in comparison to how the agencies of development and political organisations "settle" their conceptual differences.

Although Sub-Saharan Africa is lumped as a political community, it is also a continent, where various nationalities who speak different languages, enjoy different culture, inhabit their own territories, live together, interspersed in various mode of assimilation and integration with historically rooted blood ties. Africa is an ancient continent.

Under the totalitarian rule of colonialists and military governments that were handpicked to replace them the state assumed leviathan proportions around the 1970's. The period, which lasted from 1970-1991, was even in African history unprecedented. At no other time has a government had such a total control over its objects as in that period. The peasants were controlled by peasant organisations; the urban dwellers were under tight supervision of the city administration. Neither labour, nor the youth, nor the press - in short no component of what is understood by civil society was allowed any form of autonomy.<sup>2</sup>

The African State has exhibited an enhanced degree of coercive power deployed both for construction and territorial expansion. This resulted in a pervasive military ethos and the fusion of political and military titles. The same personnel were administrators and judges in times of peace and commanders when war broke out. The long ancestry of the military in African history

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<sup>1</sup>The passage to sustainable livelihoods and democracy in Africa is political development problematique because of the limited “democratic” exposure, “underdeveloped” civil society and high levels of illiteracy and shortcomings that stem in part from historical and structural conditions marked by authoritarian traditions.

<sup>2</sup> Costantinos, BT. “Transition to democracy in Africa: an African Case Study”, ALF/GCA. Addis Abeba, Washington. p. 19

and its pivotal place in the social fabric was attended by a high degree of militarism. To be a soldier, to bear arms, has always remained a sign of manly distinction. The fact that military service was also rewarded with tributary rights over or outright grants of land gave the ingrained military ethos a solid economic basis. Military discipline and Marxist-Leninist ideology combined to breed a national culture of conformity and uniformity. It was against this background that liberation forces everywhere in Africa committed to a long struggle and won a war against mighty war machines.

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Notwithstanding the doubts and worries it has raised, ethnic-nationalism remains the bedrock of the transition strategy in many emerging democracies in Africa. The preoccupation with the "liberation" and "self-determination" of ethnic

and cultural communities in Africa represents a larger issue having to do with the restructuring of the African polity as a whole. It concerns the democratisation of Africa as the understood and operational concept of liberation, not one of simply changing or improving the position and status of "nationalities", or, in simpler terms, ethnic groups, within Africa; but the radical transformation of the values, traditions and institutions of the African nation-state itself in their historic and contemporary forms. It is wrestling at once with the question of the self-

determination of nationalities and the problem of national unity connected with it. For the liberators of African, popular unity was deeply flawed. A forced unity, it was established and maintained at the expense of nations, nationalities and peoples by

- 1. the subjugation of ethnic communities in military conquests;**
- 2. economic exploitation and political tyranny in which the machinery of a centralised state was used as an instrument of national oppression; and**
- 3. cultural domination which devalued and suppressed the languages, customs, and religions of diverse peoples in the country. African unity was not based on the distinctive identities, interests and aspirations of various nationalities. Rather, it was based on the domination of a small ruling class.**

What does this leave the transition to democracy and sustainable livelihoods in Africa? Practically nothing besides concluding that the African nation-states needed to be built - and built democratically - virtually from scratch. Politically, its past is more a liability than an asset. Because citizenship was imposed on nationalities by force, it was inauthentic and unstable, chronically beset with rebellions and civil wars. Because it contradicted the rights of people's to their own identity, culture, political life and sustainable livelihood security, it was undemocratic and a drag on the development of the country. The brutal military dictatorship of the Idi Amin of Uganda, Mengistu of Ethiopia, Mobutu of Zaire, Said Barre of Somalia, etc. which in the end brought the countries they ruled to the edge of disintegration, was in essence a continuation, and hopefully the culmination, of all kinds of previous dictatorial regimes.

The end of the Cold War marked the dismantling of these state power oligarchies and the titans who presided on humankind's most appalling era of distress and despair. As we entered the decade of the Nineties, ordinary Africans witnessed a unique era emerging in human history

Today's "development" projects attempt to secure, little more than basic welfare functions, rather than targeting human development. This is not to say that such programmes are unnecessary. The point is it is dishonest and misleading to continue to refer to such outcomes as "development". A more accurate description would be that we may have pioneered the spread of transitory remunerated welfare safety-nets in marginal areas; which rather than promoting societal convergence, appear more to underpin the objective conditions for the absence of such a possibility.

testifying to the systematic disintegration of totalitarianism and with them the miraculous reprieve of humanity that tend to relegate earlier 'great' events in history to the backstage. Advances in human thought and action towards global justice and universalisation of guarantees for human rights were gathering added momentum with the motive energy contributed by these unprecedented events. The ability of states to strip people of their rights to livelihood security, behind the thin veneer '**non interference in each other's internal affairs**' was increasingly being challenged.

The paper is prepared as a backgrounder to this workshop on micro-credit and poverty alleviation. As such it will not dwell on the mechanics of micro-credit programme implementation. Rather it will focus on the political, macro-economic and socio-cultural basis for entrepreneurial development that led to sustainable livelihoods. As such section I deals with the general analysis of trends in African social, political and economic development; section II presents the framework for sustainable livelihoods programming dealing with employment food security, environment, governance and development management. Section III dwell with a presentation

of micro-credit programme - strength, weakness, opportunities and threats and section four deals with capital markets and their utility in driving African Economic and social transformation. Section five brings up conclusions, recommendations and issues for further debate at on micro-credit at the workshop itself and the role of NGOs in this process.

Section two

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### **“Poverty” and sustainable livelihoods: Five decades of development theories and problem setting**

The most widely used word in the development literature of the 1980s and 1990s must be **POVERTY**. A battery of programmes designed as poverty alleviation, poverty elimination, poverty eradication, counter poverty strategies etc. has been popularised by major agencies of world development. NGOs also claim a good share of the market under the same agenda and nomenclature. The problem is what is poverty and how do we define it?

Indeed a definition is demanded by many that believe that poverty has become as vague as development itself and has become another slogan to infuse world's emerging fourth industry - foreign aid. Today's "development" projects attempt to secure, little more than basic welfare

functions, rather than targeting human development. This is not to say that such programmes are unnecessary. The point is it is dishonest and misleading to continue to refer to such outcomes as "development". A more accurate description would be that *we may* have pioneered the spread of transitory remunerated welfare safety-nets in marginal areas; which rather than promoting societal convergence, appear more to underpin the objective conditions for the absence of such a possibility.<sup>3</sup>

The response of the WCC conference in El Escorial Spain in 1987 to the alleviation of worldwide poverty was to

- a fundamentally new value system based on justice, peace and the integrity of creation. It will be a system that recognises the rich resources of human communities, their cultural and spiritual contributions and the wealth of nature. It will be radically different from the value system on which the present economic and political orders are based and which lies behind the current crises like those of nuclear threat and industrial pollution.
- a new understanding of sharing in which those who have been marginalised by reason of sex, age, economic and political condition, ethnic origin and disability, and those who are homeless, refugees, asylum-seekers and migrants take their place at the centre of all decisions and actions as equal partners. This means that:
  - churches, councils and networks will establish for this purpose ecumenical mechanisms both nationally and regionally;
  - equitable representation will be provided for women and youth in decision-making making structures.
- identify with the poor and oppressed and their organised movements in the struggle for justice and human dignity in church and society. This in turn will imply the refusal to participate, either as giver or receiver, in ways of sharing that undermine this struggle.
- bear witness to the mission of God by identifying, exposing and confronting at all levels the root causes, and the structures, of injustice which lead to the exploitation of the wealth and people of the third world and result in poverty and the destruction of creation. This entails working for a new economic and political order. This would mean joining with the people in their struggle against trans-national corporations, militarism and foreign intervention and occupation.
- enable people to organise themselves and realise their potential and power as individuals and communities, working towards the kind of self-reliance and self-determination, which are an essential condition of interdependence.

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<sup>3</sup> Duffield. M (1995) Protracted political crisis and the demise of developmentalism: from convergence to co-existence. Discussion Paper Prepared For Aid Under Fire Redefining Relief and Development Assistance in Unstable Situations. International Seminar, Wilton Park, Sussex, UK 7-9th April 1995. Brighton, UK. Italics by the author of the report.

- be open to one another, as friends on the basis of common commitment, mutual trust, confession and forgiveness, keeping one another informed of all plans and programmes and submitting ourselves to mutual accountability and correction. This implies, for example, the implementation of mutual accountability and participation in decision-making between the South and the North.
- represent to one another our needs and problems in relationships where there are no absolute donors, or absolute recipients, but all have needs to be met and gifts to give, and to world for the structural changes in the institutions of the north and the South which this calls for.
- promote through words and deeds the holistic mission of the church in obedience to God's liberating will. We are convinced that in responding only to certain parts of the mission we distort and disrupt mission as a whole.
- participate in the struggles of people for justice, and thereby overcome all barriers between different faiths and ideologies, which today divide the human family. This means, for example, churches in East and West making use of all opportunities to strengthen the process of détente and integrating the resources freed by this process for ecumenical sharing.
- resist international mechanisms (such as the international Monetary Fund/World Bank) which deprive the people of the South of their resources transferring for example their hard-earned capital, which is more than the aid they receive, in payment of foreign debt, thereby putting them in a state of perpetual dependence contributing instead to a fundamental and just redistribution of the wealth and resources of a country including the wealth of its churches.
- devise ways of shifting the power to set priorities and terms for the use of resources to those who are wrongly denied both the resources and power, such as movements for social justice. This would imply that participation of the South in the decision-making must not only be on a consultative basis as it is practised today.

How do development theories of the last five decades relate to the vision of El Escorial? A primary role was certainly played by the economic and financial crises that shook the poor World in the 1980s. This include the effects of the structural adjustments austerity measures imposed by lending agencies to contain public debt. Both crises became the chief ferment of social discontent. To these initial causes, we must add the consequences of the end of the cold war, which has profoundly altered Third World political strategies. The geo-political tactic of playing off the superpowers for gain had, for so long, bolstered the power of authoritarian regimes that have now become obsolete.

At the same time, almost every where in the Third World, a new generation, politically more aware and more open to change, is taking root in the networks of the power system. The wealthy nations, have become its determined supporters, and even tend to link the aid they provide to the

progress made in democratisation and liberalisation. In this regard, the official documents issued by international development agencies are revealing reading.

Central to defining the nature of third world problems is the issue of mass poverty and deprivation and socio-economic backwardness. Theories of development have, therefore, been motivated by the need first and foremost to explain this phenomenon of backwardness. Interest in development issues is of rather recent origin, dating back not much earlier than the nineteen fifties and early sixties. As represented by their more influential proponents, the development schools of thought reflect roughly the following chronological order of appearance:

- a) modernisation theories (1950's, early 1960's)**
- b) dependency theories (late 1960's, early 1970's).**
- c) World economy view (late 1970's ,early 1980's),**
- d) basic needs approaches (late 1970's).**
- e) alternative modes of production perspective and**
- f) structural adjustments (1980's)**

In our brief review that follows, we shall see that each was, in effect, a development from, as well as reaction to, the theoretical inadequacies of the proceeding school. But from the recent theoretical insights of the “articulation of modes of production” perspective, none of them seems to provide an adequate theoretical bases for analysing those third world social formations currently undergoing a transition to dominance by a form of restricted and uneven capitalist development.

#### Five decades of development theories – what did we learn and where do we go?

The 1980s have witnessed a major evolution in the perceptions of the economic policy and management challenges in long standing low-income countries. In the mid-1980s, a consensus emerged on the need for structural adjustment and policy reform in these countries. The need for a much more coherent organisation of the multi-donor aid effort, funded with adequate resources and available at a time and in a form related to the implementation of adjustment programmes and policy reforms, was also recognised. A process of international co-operation has seen this new approach take concrete shape, with

- the commitments of many developing countries to adjustment programmes and policy changes,
- donor efforts to ensure an enhanced and more co-ordinated aid effort,
- the provision of new aid modalities and multilateral facilities, and
- the recognition of the need for substantial concessional debt relief.

A number of key instruments for carrying through this new approach have been put in place over the last 2-3 years viz.:

- a) **The DAC Principles on Aid for Improved Development policies and programmes strengthened aid co-ordination of 1986;**
- b) **Adjustment-oriented planning mechanisms:**
  - i) **Policy Framework Papers (PFPs);**
  - ii) **Public Investment Programmes (PIPs);**
  - iii) **Public Expenditure Programmes (PEPs);**
- c) **The co-ordinated co-financing programmes of the world Bank, with its associated donors consultation mechanisms;**
- d) **Increased bilateral donor provision of quick- disbursing funds;**
- e) **The enhanced structural Adjustment Facility, financed by bilateral donors multiplying the concessional resources available from the IMF; and**
- f) **The Paris Club agreement, on range of options for providing concessional debt relief for the poorest debt distressed countries.**

It should be noted that adjustment and stabilisation are essential pre-requisites to growth and development although they may, in some instances, adversely impact on the poor and vulnerable groups. It is considered necessary to incur some short-term costs at the outset of adjustment programmes in order to provide the basis for longer-term gains later on. Unfortunately, this in most cases will be unavoidable.<sup>4</sup>

The World Bank defines structural adjustment as programmes consists of policies and institutional change necessary to modify the structure of an economy so that it can restore or maintain its growth, and viability in its balance of payments, over the medium term.<sup>5</sup> In "generic" terms, structural maladjustment of an economy - in any country, developing or industrialised- is characterised by aggregate demand exceeding aggregate supply. This maladjustment usually leads to an increase in the external balance of payments (BOP) deficit. Structural adjustment in the broadest sense relates to the ongoing changes in a national economy, as that economy adjusts to micro- and macroeconomic changes in the international economy. The emphasis is placed on the external manifestation of structural maladjustment - i.e. serious BOP difficulties - because it is only when a developing country faces an untenable BOP deficit that external donors become involved in supporting a structural adjustment programme. In fact, it was the severe balance of payments crises that occurred in many developing countries

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<sup>4</sup> In the end maintaining an equilibrium between growth and development must be a priority for any structural adjustment programme. Nations continuing challenge will be to operate a socio-economic adjustment programme which stimulates growth with equity, and sets for us a balanced module which effectively addresses growth as well as poverty alleviation, food security, gender sensitive development, environmental protection and human development. Programming should involve structural adjustment designs that can achieve the economic conditions and policy environment in which sustainable longer term development efforts, addressing the various development themes, can bear fruit.

<sup>5</sup>World Bank, 1987 annual Report, p. 54.

following the 1973 oil price shock that led the World Bank to introduce structural adjustment lending the next year.<sup>6</sup>

The twin objectives of adjustment are a viable balance of payments situation and sustainable economic growth. A country could in theory reduce an untenable BOP deficit purely in ways that restrict economic growth, namely through stabilisation policy measures, which serve to reduce aggregate demand, or by imposing severe quantitative restrictions on imports. Early adjustment efforts focused on such measures. It was soon recognised that such programmes could lead to a situation where, at least in the short-term, "the cure is worse than the disease", because it imposes restrictions on the growth of the economy.<sup>7</sup>

### Quo vadis development

The salient features of the first four developmental schools of thought are now depressed. In the processes an argument is developed for the sixth school of thought - "empowerment and human development" perspective; a perspective that emerges as the more adequate basis for critically reflecting on the general relevance of international accounting across disparate societies. As a logical consequence, a move towards some form of "development accounting" in third world societies is suggested.

The modernisation school of thought was the first attempt to articulate the problem of development in terms of the need to transform the backward "traditional" nature of third world economies into "modern" economies. Drawing from the historical experience of the Western Europe after the Second World War, under the Marshall Plan, it advocated the need for accelerated economic growth through an import substitution form of industrialisation, a process seen to entail securing the right quantity and mix of saving investment and foreign aid. Given the relatively low levels of new capital formation in most third world countries, one obvious policy implication was the need for massive capital investment through foreign aid. There is wide agreement that economic development based on modernisation theories failed to bring about the much hoped for rapid growth, dynamic industrial sectors, the expansion of modern wage economy and the alleviation of the impoverished rural subsistence sectors.<sup>8</sup> The most incisive blow to the modernisation theories came from the "dependency"<sup>9</sup> or "underdevelopment" theories,<sup>10</sup> as well as those of the Structuralist writers.<sup>11</sup>

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<sup>6</sup>Those wishing an introduction to the economic theory of adjustment in developing countries may refer to the following article: "Macroeconomic Adjustment in Developing countries: A policy perspective" by Mohsin S. Khan in The World Bank Research Observer, Vol. 2, No. 1 (January 1987).

<sup>7</sup>To avoid this, adjustment programmes typically include, in addition to stabilisation measures, policy reforms aimed at increasing the efficiency -and the growth potential - of an economy. Adjustment programmes often also include measures aimed at reducing the BOP deficit directly by encouraging exports.)

<sup>8</sup>Singh, JS (1977) "A new international economic order : Towards a faire distribution of the world's resources". New York : Praeger. Bagwahati, JN. 1977. "The New International Economic Order. The North South Debate". Cambridge, Mass :Mit press. Tinbergen, J. 1978. RIO : "Reshaping the International Order : A Report To The Club of Rome". Lewis, WA. 1978. "The Evolution Of The International Economic Order". Princeton : Princeton university Press. ILO 1976-1977. "Employment Growth and Basic Needs" "Meeting Basic Needs : Strategies For Eradicating Mass Poverty and Unemployment" (Geneva).

<sup>9</sup>O'Brien, PJ. 1975 "A Critique Of Latin American Theories Of Dependency", in I. Oxaal et al., ed., "Beyond the Sociology Of Development". London : Routledge & Kegan Paul. See also Furtado, C. 1971-1972 "Development Under Development" Berkeley: Berkeley University Of California Press.

<sup>10</sup>Baran, P. 1957. "The Political Economy Of Growth", ( 1968 edition) New York : Monthly Review Press.



the capitalist mode of production, in which the direct producers are separated from their means of production. It is this coexistence of (at least) two modes of production that forms the theoretical object of investigation for the AMP perspective.

“The contemporary realities of African societies must be analysed from within historical materialism as a social formation which is dominated by an articulation of (at least) two modes of production—a capitalist and a non-capitalist mode—in which the capitalist mode is or is becoming increasingly dominant over the other. From within historical materialism social formations in poor nations are viewed as transitional. The specificity of this transition lies in it being brought about largely by capitalist penetration, and, more particularly, by one of its forms, imperialist penetration, the specific economic of which is the separation of direct producers from their means of production. The object of imperialist penetration is to ensure the increasing dominance of capitalist mode of production. But this means that the transition will be characterised by a series of economic, political and ideological dislocations both between and within the different articulated modes of production, as imperialist penetration intervenes to guarantee the reproductive requirements of the capitalist mode. Moreover, the specific pattern of imperialist penetration has the effect of creating uneven and restricted forms of economic development, specific to third world social formations.

In these terms, we tend to be critical of all the four development schools of thought. The ideas of the modernisation school are seen as lacking general empirical validity and as being historically impoverished. The opportunities that shaped the development path for capitalist penetration into the rest of the world are no longer available to third world countries. On the other hand, reducing all expansion of dependency and underdevelopment to a conflated capitalist penetration renders the theoretical insights of the dependency school of doubtful validity.

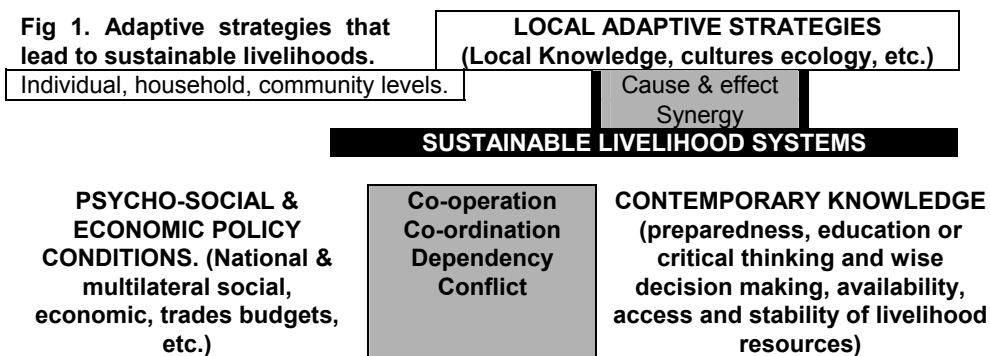
The world economy perspective recognises the interdependency between ‘North’ and ‘South’. It does not, however, theorise the nature of this interdependency in terms of articulation, which is structured by the reproductive requirements of the ‘North’ and its local supports and their restrictive effects on the development of the ‘South’. Its policy implication for restructuring the international economic order is therefore confined to seeking ‘charity’ from the ‘North’.

The ILO's basic needs philosophy, while appearing radical in intent, nevertheless remains at best a valuable vision of an alternative: a more just society, essentially a utopia rather than a development strategy. This is because, in practice, the over-riding concern centres on peripheral problems. These include, basic needs qualification, the technical feasibility of combining such measures as appropriate planning and resource allocation, rather than political feasibility and strategies for realising the programme’s radical implications for social structural changes.

Participation in citizenship, sustainable  
livelihoods and good Governance

The requisite commitment to participate in development - to ending poverty and promoting

**Fig 1. Adaptive strategies that lead to sustainable livelihoods.**



human dignity has never been more opportune and feasible. We now recognise the constitutive tenet of human progress that development springs from the collective imagination, experiences and decisions of people; once more testifying to how critical it is for development to proceed

from the cultural make-up, skills, needs and aspirations of individuals and communities.

Participation in citizenship is, hence, the basis of all other forms of participation in development. Democracy underpinned successful development and that successful development was the outcome of popular participation not only at the project level, but far more importantly - participation in citizenship. Divorced from participation in citizenship, the concept of popular participation in development becomes a mere administrative strategy-- a callous manipulation of the innocent peasantry and urban poor even if the end result might be a "successful project" - but can the end morally justify the means.<sup>16</sup> Participation is an essential element of human development and, hence, an overall development strategy: it is, after all a process, not an event.<sup>17</sup>

Development is a dialectical process of qualitative and quantitative change and transformation that arises as a result of internal and external contradictions. The history of mankind, of its progressive evolution was none other than the story of the development of the human community. But that the rights of the very human resources, on which depend the activity of development should be made antagonistic to the rhetorical demands of development is unacceptable. In the human rights vocabulary of government delegates, inhuman realities such as genocide, extra-judicial killings, rape, torture, deprivation of rights of minorities' etc. do not exist. Instead, a near-mystical linkage is rigorously inserted between human rights and development aid - "invaluable", "non-negotiable" and "sacrosanct" etc.

The conclusion of every such presentation is quite straightforward: "it is immoral of you to withhold aid from us because we withhold rights from our citizens." The majority of the "right to development" brigade are simply opportunistic, cynical and incorrigible. The alternative of making their citizens partners of free will in the process of development is anathema to such leaders who are driven by nothing more elevated than the common lust for power, for domination at all costs. This is an abiding theme, the contest between power and partnership, to which we must constantly relate. Power cannot be negotiated: it must be tamed: the differences between

<sup>16</sup> Participation, from the human development perspective, is both a means and end. Human development stresses the need to invest in human capabilities and then ensure that those capabilities are used for the benefit of all. ... has an important part to play here: it helps maximise the use of human capabilities and is thus a means of increasing levels of social and economic development. But human development is also concerned with personal fulfilment. Active participation, which allows people to realise their full potential and make their best contribution to society, is also an end in itself.

<sup>17</sup> UNDP "Human Development Report" 1995.

ruler and ruled; between dominance and free will; between coercion and collaboration; identify the correlation of all such polarities with the rights and responsibilities of the individual within the community of which every individual is a fundamental unit. The discovery that where there are conflicts between these claims and/or imperatives, they have mostly been deliberately inserted, or harmonisation, is a threat. The elite minority that requires protection from their own communities, and mystification does this. We are confronted by the deliberate, purely opportunistic paradox of being castigated as victims of the very disease with which that power-privileged minority is incurably afflicted a heightened anti-social individualism. In numerous instances ideology and religion are conveniently sucked into this process. They provide glorified frameworks of credible cosmopolitan goals that merely disguised subjective cravings that the proper community belatedly recognises as extreme forms of individualism and self-alienation. The result, at such moments of recognition, is a straightforward, contest between

- power and freedom; cloaked in far more grandiose expressions;
- progress against the forces of reaction;
- cohesion versus fragmentation;
- egalitarianism versus privilege - dictatorship of the proletariat versus Feudalism or the Bourgeoisie;
- religious piety versus libertarianism and decadence,
- nationalism versus Sectarianism.

This must change through education that leads to self-empowerment. One should then look into indigenous capacities and windows of opportunities that provide the base for permanent and dynamic change.

What do we need to change?

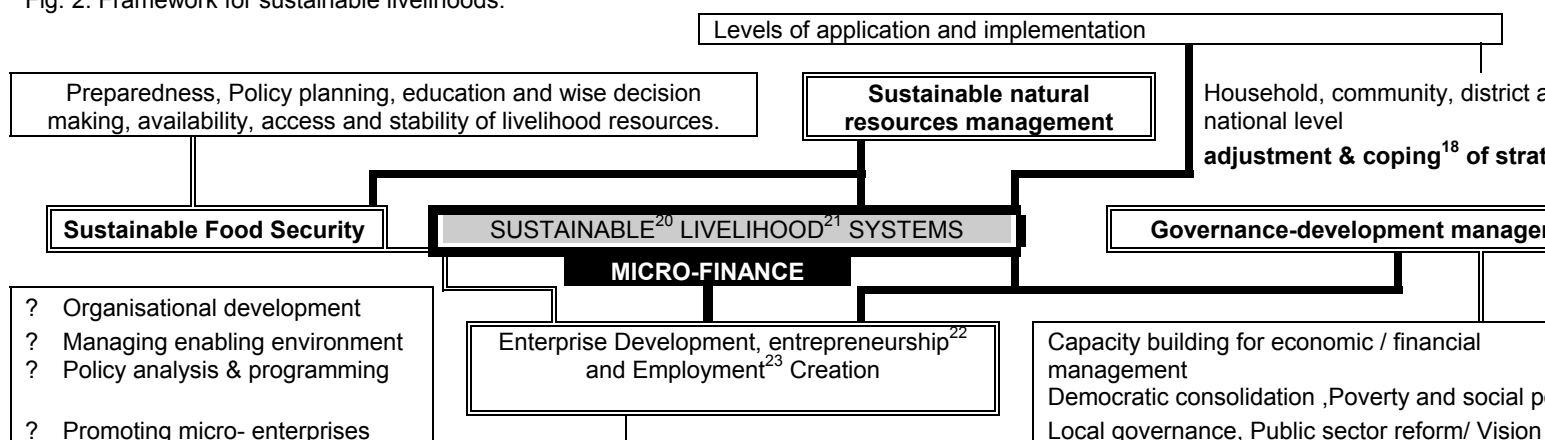
Three decades after independence, most African countries are still to trying to emerge from the vicious cycle of human deprivation and underdevelopment. The political changes that swept the countries during the past few years have enabled many to make substantial stride towards creating an enabling environment for development. The partial removal of policy and strategic constraints on production has ushered a new era of pluralism, where farmers can articulate their demand and participate in decision-making process. In spite of the fact that the State is committed to sustained human development and an outpouring sympathy from the international community, cushioned by massive resources, nations enter the end of the Nineties and beginning of the second new millennium with:

- ◆ a crippling poverty that permanently haunts a majority of the population;
- ◆ a resource carrying capacity base and population growth spun out of control with no visible hope of stabilising or reversing trends;
- ◆ a subsistence single season mono-crop food production system characterised by debilitating droughts, shortage of arable land; lack of capital and inputs, land tenure regimes that do not encourage long term investment;
- ◆ an animal resources potential characterised by low productivity and lack of inputs;
- ◆ an agro-cash-economy dominated by one crop;
- ◆ decades of disabling policy environment that had resulted in systems dominated by a single party rule that left little or no room for popular decision-making;

- ◆ degradation of the natural environmental resources, (forests, water resources, etc.) that had hitherto been an important elements of and supplemented food security, serious enough to warrant an urgent political manifesto and a major national programme; and
- ◆ a governance and management structure dominated by central control, highly statutorised systems unintelligible to ordinary people; formal institutions that barely address the aspirations of the indigenous people and contemporary knowledge systems packaged without sensitivity to traditional levels of knowledge and local cultures.

Obviously any agency must marshal its resources to build upon the achievements of all past initiatives. More than that, the current development programmes must focus on enhancing people's capacities to exploit their options and opportunities while sustaining both their livelihoods and their environment.

Fig. 2. Framework for sustainable livelihoods.



**Sustainable livelihoods concern people's adaptive strategies and capacities to generate and maintain their means of living and enhance their well-being and that of future generations.<sup>24</sup>** The following characterise sustainable livelihoods

<sup>18</sup> Coping strategies are defined as the bundle of poor people's responses to declining food availability and entitlements in abnormal seasons or years. Thus coping strategies are characteristic of secure livelihood systems used only during periods of food stress; they constitute a fall-back mechanism during periods of decline in access to food. This include selling household items, stealing, loitering, street children's engagement in mob actions, prostitution, etc.

<sup>19</sup> Adjustment strategies - a realignment of resources and orientation of resource use by microeconomic decision-making units with a view to maintain existing livelihood levels and strategies. This strategies include changing cropping patterns, dietary patterns, alternative livelihoods, etc.

<sup>20</sup> people's capacity to make a living in such a way as to survive shocks and keep options open to others to make a living in the future<sup>21</sup>

<sup>21</sup> Livelihoods - means, activities and entitlements that ensure survival and enhance living conditions.

<sup>22</sup> durable ? and stable ? income to support livelihoods. Assumes a high element of risk, enabling economic, political environment.

<sup>23</sup> some employment (as within the family) are unpaid; usually remuneration under safety nets is not adequate for meeting basic needs; employment under safety nets is basically transitional and erratic because of dependence on outside assistance; and hence not continuously available; some employment is based on core-exploitation of natural resources and thus unsustainable; targeting methods may not sift of the poorest of the poor.

<sup>24</sup> Titti, V. and Singh, N. (1995) "Adaptive strategies in Arid and Semi-arid lands". IISD Resources Paper.

- ◆ They constitute a permanent change in the mix of productive activities and require modification of community rules and institutions to meet livelihood needs.
- ◆ These invariably lead to sustainable livelihoods that are concerned with people's capacities to generate and maintain their means of living, enhance their well being and that of future generations.
- ◆ These capacities are contingent upon availability, stability and accessibility of options, which are ecological, socio-cultural, economic and political.
- ◆ They are predicated on equity, ownership of resources and participatory and wise decision-making -- notions of sustainable human development and sustainable livelihoods that incorporate the idea of change and uncertainty.

A major objective of sustainable livelihoods is to build the capacity of individuals at the household level. This enables them to plan and undertake activities which efficiently and effectively utilise household resources in a manner which increases the sustainability of their livelihood systems and ensures that all household members have stable access to adequate, safe and nutritious food required to maintain a healthy and active life. In order to achieve this, the sub-programme aims to develop the capacity of individuals, organisations and institutions at the

- Community level to organise households in a manner which empowers them: to analyse the constraints and opportunities they face in their day-to-day life; to propose and plan activities (relevant to local conditions) which address the problems identified (using methods, techniques and technologies appropriate to local conditions); to be major partners in the implementation of the priority actions; and to play a key role in the monitoring and evaluation of all activities, so that appropriate refinements can be made to ensure they remain appropriate to local circumstances and their sustainability.
- District level to facilitate community participation in the development process; to provide or ensure access to decentralised, local level services and goods from both public agencies (research, extension, health, education,) and the private sector (finance, markets...); to facilitate the flow of information and resources from the national level down, and from the community level up; and to ensure strong linkages between national policies and strategies and community level plans and action.
- National level to create and maintain an enabling policy environment conducive to the development of sustainable livelihood systems; to enact necessary economic, political and legislative reform; to provide public services and goods, including information, which would not be economically, financially or logistically viable for the private sector to provide; and to ensure co-ordination of activities and collaboration between the public sector, the private sector and partners in development.

Section three

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### State, civil society and development

As we said in the introduction, the nineties marked the beginning of a new wave of political reform in Africa. Most one-Party military regimes had lost legitimacy domestically and calls for a return to multi-party politics became widespread. The cause for this wave of political reform were multiple, both domestic and international, viz. disillusionment with economic performance,

corruption and abuse of power by ruling parties, diffusion effects of the democratic upheaval world-wide, the collapse of the soviet union and consequent end to the bipolar world system.

Alas! These high hopes were soon replaced by the general acknowledgement that post-Cold War permutations have not delivered the vision of a new era Africans had held self-evident. Our understanding of the interconnectedness of people and good governance were manifested by how seemingly minor and irrelevant incidences can turn into genocide of mind boggling proportions fracturing the foundations of social accord in distant communities. Turbulent countries such as Rwanda, Liberia and Somalia are evidences of polities widely spun off their axes as a result of the actions of colonial masters and imperious regimes that replaced them. The paradox of the African State is that, at the same time, the authoritarian power of the state is based in part upon appearance. The state is weak by any conventional measure of institutional capacity and has little or no control over peripheral regions and rural areas. Vigilant and obsessed by the preservation of power, state officials are pre-occupied to an even greater extent by political tasks that have little to do with ensuring the rights of people or their democratic mandates.

As Africa observes the 500<sup>th</sup> year of the beginning of its social disintegration<sup>25</sup>, humankind still stands on an extraordinary, and perhaps, seductive sets of dilemma. A global lifestyle and value system in which there has never been enough, such a lot that is all lavishly squandered, while we are haunted by an oppressive present -- an embodiment of famine, wars, and devoured natural environment.<sup>26</sup>

In the current drive for democracy and development in Africa, civil society and institutions within it are "foregrounded" as the arena, agents and instruments of the movement. Internal and external demands for good governance and democratisation and the need to reform the indigenous state into a system of transparent practices have placed a heavy emphasis on social institutions as autonomous actors to ensure a peaceful transition to democracy. It is against this background that we need to dwell on issues leading to dialogue on the following assumptions

- A transition succeeds most likely when initiatives emanate from civil society rather than other organisational sectors i.e. the state or international sectors. Political and economic interests in civil society must become formally organised if they are to prevent the disruption or reversal of initial liberalisation reforms or push through a democratic transition.
- The effectiveness of organisations in civil society at promoting democratic reforms depends on their autonomy, capacity, complexity, and coherence. The organisation, which displays the greatest strength on these dimensions, is likely to become the lead organisation in civil society in promoting democratic reform.

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<sup>25</sup>as depicted by the commencement of the slave trade, over a century of colonialist and feudo-military rule.

<sup>26</sup>Costantinos. BT. 1994. "**Priming state and public administration: corruption, human rights, democracy and development in Africa**". Paper presented to the Africa Leadership Forum and Transparency International Seminar on Corruption, Human Rights and Democracy , East and Central Africa, Kampala, December 12-14, 1994.

- Different civic organisations take the lead in different phases of the transition.<sup>27</sup> A transition to democracy requires the formation of at least one major, unified opposition party.<sup>28</sup> In addition to partisan organisations, transition to democracy also requires neutral organisations that can arbitrate between contending actors when the transition reaches an impasse. Within civil society, religious organisations are best equipped to play this role. The formal requirement of multi-party elections is not sufficient to make progress towards democratisation. More substantive criteria need to be addressed such as
  - whether multi-party competition makes any difference in the choices presented to citizens.
  - Is there an ideological base for an opposition to emerge?

This question can only be answered if we broaden the scope of inquiry into the nature of civil societies in Africa, where **a capacity to articulate and aggregate political demands** must be present as a basis for political autonomy.

Because pressure for regime transformation and transitions to democracy has come from below, outside the decrepit, authoritarian state, in civil society; society yields the spontaneous interests, demands and institutional mechanisms of democratic transition, the state has only a limited role to play. Its function will not be to manage society's democratic aspirations and activities, but to create the enabling conditions for their free play. Institutions and groups in civil society must form and run themselves. When they begin to address longer socio-economic and political issues beyond their limited sectional concerns, or to co-operate with the state on certain matters, they should be able to do so in terms of their specific interests and competence, not as mere instruments or extensions of governments.

Alternatively, the underdevelopment of civil society in Africa and the incapacity of institutions within it are seen as major barriers to democratisation. The activities of some social institutions may have the salutary effect of bringing into transparency the work of government, and of opening up state institutions and practices to public suiting. But the overall weakness of African civil societies is often cited as a fundamental structural constraint on democratic transformation in Africa. Rather than offering agents and arenas of transitions to democracy, African civil societies are generally seen as objects and problems of reform. Indicators of their weakness include low levels of economic, technological, professional and cultural development and high levels of illiteracy. On account of this view, the state assumes a large role in democratisation. It is assigned the task of nothing less than "**cultivating civil society**" itself through political education and mobilisation.

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<sup>27</sup> cultural and educational organisations often initiate the critique of the old regime; religious organisations provide an interim organisational base while political parties are banned; occupational groups (especially mass organisations like labour unions) provide the strongest foundation for the formation of political parties.

<sup>28</sup> An opposition victory in a founding election is least likely where the opposition is divided into multiple small parties.

Civil society is defined by its paradoxical relation to the state: it is simultaneously arrayed against the state and engaged with the state. While it is characterised by its assertion of autonomy vis-à-vis the state, it is simultaneously shaped by the state. In particular the opportunities and constraints provided by state policy influences the formation and public role of civil associations: civil society is engaged with the state. Inherently, civil society entails pluralism: it entails an array of separate and discretionary interests, because individuals associate on the basis of perceived interests. At the same time, civil society is unified by a minimum of cohesion. This cohesion is provided not by uniformity or similarity, but by consensus on the fundamental rules of the political regime. 'Civil society' presupposes citizenship, which is here conceptualised as an identity of individuals vis-à-vis the state.<sup>29</sup>

organisations to engage with the state rather the 'exit' option prevailed as individuals preferred to remain outside the reach of the state.

We have then divergent representations of civil society accompanied by somewhat conflicting conceptions of the role of the state in the African passage to democracy.

- **The perception of society as producer of the spontaneous interests, demands and institutional resources of democratic change to some degree conflicts with the view of civil societies as weakly developed social and institutional structures in need of cultivation and support by the state.**
- **The conception of the state as creator of the enabling environment for the free democratic activities of individuals and groups diverges from the view of government as political educator, mobiliser and democratiser of civil society.**

Moreover, these conflicting perspectives commonly tend to confuse representations of "civil society" and "the state" as conceptual or ideal categories with actual communities and regime fuelling the transition. The categories are often conflicted into the immediate stuff of African political and social experience. This is not to deny that there are representations of civil society and the state in current perspectives on democratisation in Africa where the elements categorised are more evidently those of really existing African social formations. It is to note a disabling analytical tendency in which the actualities of African politics (tribalism, the government of individuals and groups rather than the rule of laws and so on) tend to be pre-empted and displaced by the very conceptual categories used to describe them otherwise.

A major problem inherent in the political transition local conflict resolution in Africa is the extreme weakness of the social movements and their failure to develop coherent strategies for promoting broad based and well organised citizenry. For the lack of opportunities for self-organised civil associations, whose functions are to

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<sup>29</sup> Lijphart, A. Democracy in plural societies: a comparative exploration ( New Heaven, 1977).

- **preserve basic rights of its constituents and the society at large,**
- **educate the citizens and advocate popular claims,**
- **build a consensus and promote political and moral ethical values and**
- **disseminate them among the populace,**

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Fine-tuning the paradigm of effective self-development: Micro-finance and entrepreneurship

I. Characteristics of development finance institutions.

Private and public sector enterprise require capital for the acquisition of assets such as factory buildings and machines; motor vehicles and trucks; and office equipment for their operations. Governments need funds to finance social and economic development activities for the general welfare of the public or the common wealth. Long-term finance is required for all societal activities, which have an impact on human development. Banks can provide short-term finance. For long-term finance, institutions such as development banks; building societies; bond and stock markets; insurance companies; pension funds and development finance companies are required. Stock markets are of essence in the raising of long-term capital.

Because of the diversity of financial institutions in various countries it is not that easy to have a catchall classification or categorisation of financial institutions or credit and capital markets. The list below<sup>30</sup> indicates the general features of financial institutions found in both developed and developing countries. It enumerates the institutions that constitute the financial system. The sources and uses of the funds of these institutions are also listed. It should be noted that, taken together, these financial institutions play significant roles in the establishment, operationalisation and the functioning of capital markets.

Although capital markets are in essence more of private sector than public sector institutions, the laws and the government promulgates regulations under which they are established and operate. In most African countries the government charges the Ministry of Finance (or some permutation thereof to include planning) with responsibility for the formulation, implementation, monitoring and accountability for monetary and fiscal policies. The delegation of these responsibilities by the central government enables the Ministry of Finance to initiate the establishment of the Central Bank of the country. The central bank has responsibility for the implementation of the monetary policy of the government. This entails the issuance of the nation's currency (money supply) and management of the money including mechanics for the expansion or contraction of credit. Supervision of the establishment of commercial and other money and non-money financial institutions is also the responsibility of the central bank. Thus central banks have regulatory and supervisory responsibility for the good health of all money non-money institutions in the financial system. The institutions in the latter could, therefore, be broadly categorised into the following subsystems:

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<sup>30</sup> Richard L. Kitchen, *ibid.*, p.18

- ◆ **COMMERCIAL BANKING SYSTEM: NATIONAL AND FOREIGN-OWNED BANKS:** they accept deposits from the public and other institutions; give loans to public and private sector individuals and institutions; and can deliberately credit by intermediation or the process of bringing savers and borrowers together through the acceptance of deposits and the giving of loans and overdrafts.
- ◆ **NON-BANKING AND QUASI/SEMI-BANKING INSTITUTIONS INCLUDING DEVELOPMENT FINANCE COMPANIES (DFCs).** The government may, for instance, expect DFCs to contribute to the development of capital markets or finance projects, which do not meet commercial banks criteria.
- ◆ **CAPITAL MARKETS: STOCK EXCHANGE OR SECURITIES MARKETS:** they facilitate the raising of new capital (the primary market); and trading in existing securities or capital or stocks/shares (the secondary market)

**Function of capital markets:**<sup>31</sup> the main function of a capital market (including other financial and non-financial capital market) is to mobilise and allocate a nation's limited capital resources among numerous competing alternative uses. This allocative function can be critical in determining the overall growth of the economy. In effect, capital markets or stock exchanges fulfil the following functions within an economy:

- ◆ they provide a means for raising funds to expand and modernise;
- ◆ they facilitate the allocation of national real and financial resources between various industries and companies and hence accelerate industrialisation;
- ◆ they provide liquidity for the investment funds from the standpoint of the individual for the economy;
- ◆ they provide a measure of confidence in the economy and serves as an important barometer for the economy;
- ◆ through the price mechanism, they provide industrial management with some idea of the current cost of capital and this can be important in determining the level and rate of investment;
- ◆ they act as reliable medium for broadening the ownership base from the erstwhile family dominated to public companies; and capital markets, facilitate the privatisation of public enterprises: small investors have opportunities to buy shares in the privatised enterprises through, for example, the stock exchange.

## II. Entrepreneurship

The concept of entrepreneurship has been around for a very long time, though its popularity is recent. The western system of free enterprise has always generated the spirit of entrepreneurship. The world's most developed countries have been nourished by entrepreneurs and became world economic powers through entrepreneurial activities. Entrepreneurship is critical in the bid to achieve

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<sup>31</sup> H.I. Alile, "Establishing a stock market - Nigerian experience" Paper presented at International Conference on promoting capital markets in Africa, organised by the Securities and Exchange Commission, Nigeria, in collaboration with African Development Bank, in Abuja, 11th-13 November 1992.

economic self-sufficiency and social advancement. It also happens to be the main vehicle of economic diversification and higher living standard. The French economist, Jean Baptiste Say, describes an entrepreneur as:

**a person with an unusual foresight who possesses certain arts and skills of creating new economic enterprises, yet a person who has exceptional insight into society's needs and is able to fulfil them.**<sup>32</sup>

The implication of Jean's view is that entrepreneurship is the change agent that transforms resources into useful goods and services, thereby triggering economic growth. More importantly, the future growth of a nation rests squarely on entrepreneurial ventures taken by creative individuals. But, who are these individuals? "These individuals are inspired people, often adventurers, who can at once disrupt a society and instigate progress. They are risk takers and strategic thinkers who recognise changes and seize opportunities to harness and use resources in unusual ways. By creating new ventures based on these strategic changes, entrepreneurs make a contribution and are rewarded in terms of wealth and personal satisfaction."<sup>33</sup>

Entrepreneurship means creativity and innovation (including-but not only-technological invention and adaptation) as well as competent management in a business setting to meet specific business objectives. An entrepreneur is a person who is able to perceive opportunities, and is creative, innovative and capable of marshalling the resources to bring the opportunities as perceived to fruition.

Entrepreneurship is one of the four main stream economic factors: Land, Capital, Labour, and Entrepreneurship. The word is derived from 17<sup>th</sup> century French "*entreprendre*", referring to individuals who were UNDERTAKERS, meaning those who undertook the risk of new enterprise. They were 'contractors' who bore the risks of profit or loss. Many entrepreneurs were soldiers of fortune, adventurers, builders, and merchants.

Early references to the ENTREPRENEUR in the 14<sup>th</sup> century spoke about tax contractors - individuals who paid a fixed sum of money to a government for the license to collect taxes in their region. TAX ENTREPRENEURS bore the risk of collecting individual taxes. If they collected more than the sum paid for their licenses, they made profits and kept the excess. If they failed to collect enough to match the cost of their licenses, they incurred loss. Entrepreneurship was a common topic in economic essays for much of the eighteenth and nineteenth centuries. Notable early French, British, and Austrian economists wrote about entrepreneurs as the "change agents" of progressive economies.

- a) Entrepreneurship: We do not have one indisputable definition of entrepreneurship. There are various definitions of entrepreneurship in dozens of books. All that can be aimed for, however, is a sufficiently wide scope. We shall therefore review five important definitions given by different authors and draw conclusions about what entrepreneurship really means. Schumpeter,<sup>34</sup> in his book "Theory of Economic Development", provides us with a

<sup>32</sup>Jean Baptiste Say, "A Treatise on Political Economy," 4<sup>th</sup> ed., translated by C.R. Prinsep (Philadelphia: Grigg and Elliot, 1845)

<sup>33</sup>David Robinson, "The Naked Entrepreneur," Kogan Page, Great Britain, 1990.

<sup>34</sup>Schumpeter Joseph A. "The Theory of Economic Development," translated by R. Opie (Cambridge, MA: Harvard University Press, 1934).

framework for understanding entrepreneurship in terms of a process. The entrepreneur seeks, in his words,

**to reform or revolutionise the pattern of production by exploiting an invention, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up new source of supply of materials or a new outlet for products... Entrepreneurship, as defined, essentially consists in doing things that are not done in the ordinary course of business routine.**<sup>35</sup>

Schumpeter did not equate entrepreneurs with inventors, suggesting instead that an inventor might only create a new product, whereas an entrepreneur will gather resources, organise talent and provide leadership to make it a commercial success. Robert Ronstadt, on the other hand, defines entrepreneurship as follows:

**Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service.**<sup>36</sup>

The definition given by John E. Trepman and Gersh Morningstar<sup>37</sup> is also worth mentioning. They define the entrepreneur as:

**A combination of the thinker and the doer. The entrepreneur sees an opportunity for a new product or service, a new approach, a new policy, or a new way of solving a historic problem.**

The above definition and Schumpeter's express a common idea that entrepreneurship refers to conducting unusual commercial undertakings, while Ronstadt views the entrepreneur as a risk taker in search of incremental wealth. Peter F. Drucker, emphasises on the association of entrepreneurship with 'change':

**Entrepreneurs see change as the norm and as healthy. Usually they do not bring about changes themselves. But - and this defines the entrepreneur and entrepreneurship- the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.**<sup>38</sup>

A more comprehensive definition is provided in the following words:

**Entrepreneurship means creativity and innovation (including-but not only- technological invention and adaptation) as well as competent management in a**

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<sup>35</sup>Ibid. p. 13

<sup>36</sup>Robert C. Ronstadt, "Entrepreneurship: Text, Cases and Notes," Dover, MA: Lord, 1984.

<sup>37</sup>John E. Trepman and Gersh Morningstar, "Entrepreneurial Systems for the 1990's, Their Creation, Structure, and Management," Quorum Books, 1989.

<sup>38</sup>Drucker, P.F., "Innovation and Entrepreneurship," Pan Books, London, 1986.

**business setting to meet specific business objectives. In short an entrepreneur is a person who is able to perceive opportunities, and is creative, innovative and capable of marshalling the resources to bring the opportunities as perceived to fruition.**<sup>39</sup>

Entrepreneurship, therefore, refers not only to the businessman or firm that perceives economic opportunities, undertakes innovations, takes risks to make profit from them, but also to a range of managerial functions such as planning, obtaining resources, and directing the resources to achieve the desired goals. Karl Vesper has researched entrepreneurship and explains that its nature is often a matter of individual perception. According to Vesper, economists view entrepreneurs as those who bring resources together in unusual combinations to generate profits. Vesper also found out that psychologists tend to view entrepreneurs in behavioural terms as achievement-oriented individuals driven to seek challenges and new accomplishments. Marxist philosophers may see entrepreneurs as exploitative adventurers, representative of all that is negative in capitalism. Corporate managers view entrepreneurs as small businesspersons lacking the potential needed for corporate management. On a positive note, he suggests that those of us who strongly favour a market economy view entrepreneurs as pillars of industrial strength - the movers and shakers who constructively disrupt the status quo.

- Enabling Environment for Entrepreneurship Development: In order for the developing countries to overcome their gripping economic crisis they should design and effectively implement economic reform measures that are conducive for growth and development. This, in turn depends crucially, among other things, on their capacity and willingness to create on a sustained basis an enabling environment conducive for the emergence of entrepreneurship. Fostering entrepreneurship is, thus, vital for developing countries if they are to recover and resume growth as well as develop and transform their economies. Because the potentials in these countries are enormous if they could be harnessed to develop the entrepreneurial skills in the private and public sectors.

Policy makers in government and business should, therefore, design and execute policies that create an enabling and stable environment for entrepreneurship development. The policies should provide appropriate incentives to stimulate and encourage entrepreneurial ventures. Moreover, there should be a collaborative relationship between government and business in the decision making process regarding the regulatory framework for promoting private enterprises.

Any attempt to involve governments in productive activities has been historically a failure and governments in developing nations must appreciate this reality and evolve relevant policies to effect appropriate changes. A lesson from Africa shows:

**The middle class comprising the intellectuals, the entrepreneurs and others who could be materially independent, politically organised and ideologically assertive in playing a prominent role in the founding and leadership of civic organisations and in articulating shared universal values are distinctly absent in**

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<sup>39</sup>ECA/PHSDE, "Measures for the Stimulation, Development and Promotion of Indigenous Entrepreneurial Capacity in Africa," UN-ECA Public Administration, Human Resources and Social Development Division, Addis Ababa, 1992.

**the continent.... The reality of our country is that the state is too powerful and too controlling in the face of an embryonic and weak civil society. The result has been a complete absence of space for effective civic participation of the citizenry in national life.**<sup>40</sup>

The public sector, instead of monopolising, should concentrate on the commanding heights of the economy and provide support for the private sector to fulfil its role through creating an appropriate atmosphere for investment. In other words, the involvement of the state should be accepted as either a transitional one, or a facilitator for entrepreneurs in the private sector. The private sector, on the other hand, should create job opportunities and be assisted in this regard through appropriate economic policies that remove obstacles to the investor.

- Development of Grassroots Entrepreneurship: Grassroots businesses (Small Scale Businesses) constitute the building blocks of entrepreneurial development anywhere in the world. Therefore, the extent to which their development has been encouraged is an important measure of government support for creating an enabling environment for private sector entrepreneurial development. In the context of development of small businesses, the role of the informal sector should be underlined. Particularly in the developing countries' context, Small-Scale entrepreneurs in the informal sector can be crucial actors in the effort for economic recovery and development. Typically operating on a very small scale, the informal sector provides a variety of advantages.” Besides its high responsiveness to market forces, advantages of the informal sector are: use of simple technology, high level of capacity utilisation, ease of entry and exit relative to the formal sector, and use of more domestic raw materials and labour in comparison with large scale business.”<sup>41</sup>

Governments of developing countries, though, have long ignored the informal sector. Any realistic distribution of incentives to stimulate and encourage entrepreneurship must carefully target the most promising informal sector. The following are major problems that deserve urgent attention in developing entrepreneurial capabilities and the Small Scale Sector in particular.<sup>42</sup>

- i. Lack of Appropriate Training System: One constraint related with training is the inadequacy of financial allocations in the exchequer budgets for entrepreneurial training and the low priority given in private sector budgets to such training. Another constraint is the absence of indigenous training materials and local case studies relevant to local environments and the import of such case studies and teaching materials from overseas not having a direct bearing on local conditions and problems.

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<sup>40</sup>Costantinos BT, "The Manager: In Search of Identity," in The Ethiopian Management Professional Association Special Issue, The Management Profession; A paper presented for the Third General Assembly of The Ethiopian Management Professionals Association, Addis Ababa, 1995. p 2.

<sup>41</sup>ECA/SAPAM & AAPAM, "Enabling Environment for Entrepreneurship Development in Africa," ([Proceedings of a Senior Policy Seminar on an Enabling Environment for Enhancing Entrepreneurship in the Private and Public Sectors in Africa] Addis Ababa: ECA/AAPAM, 1990) pp. 7-8

<sup>42</sup>compiled from papers presented by Prof. Odetola, Dr. Patel and Mr. G. Mbowe on the Senior Policy Seminar on an Enabling Environment for Enhancing Entrepreneurship in the Private and Public Sectors in Africa, held in Cairo, 8-12 October, 1990. Titles of their papers appear in the bibliography. pp-3-4

- ii. Lack of Information: the following are constraints with regard to availability of information; lack of information on available project portfolios from which entrepreneurs could choose in accordance with their interest and that of the nation; inadequacy of information of available entrepreneurial training programmes in local or overseas institutions; and inadequacy of information on domestic and foreign market opportunities, industrial technology and raw materials.
- iii. Lack of Consultancy or Advisory Services: This includes the lack of technical consultancy or advisory services to small scale entrepreneurs and the lack of institutions which could assist potential entrepreneurs to carry out feasibility studies at nominal fee or free of charge.
- iv. Financial Constraints: the following are finance related problems; the lack of entrepreneurial development banks to provide financial facilities and counselling to potential entrepreneurs, especially those in small businesses; the lack of non-conventional lending systems to small scale industrialists which could ameliorate rigid loan conditions such as security of tangible assets as a pre-condition for loan approvals; and the lack of soft funds which could be used to assist new entrepreneurs to set up enterprises.
- v. The lack in many countries of properly defined national policy of developing local entrepreneurial capabilities in both public and private sectors, particularly in the small-scale sector.
- vi. Other problems include the lack of market power and penetration which inhibits the growth of several small indigenous enterprises, and the lack of guidance to selection of raw material or other supplies suitable for industrial production in small scale industries.

Presently, it appears that many government institutions are ignoring the ones at grassroots level. It is evident from the orientation of many lending institutions and policies that the large-scale businesses are favoured at the expense of small-scale businesses. Bearing in mind the observations discussed earlier, it follows that various types of support should be provided to grassroots entrepreneurs. New special banking institutions or facilities should be created or strengthened where they exist. It is, however, not enough to make money available through banking institutions. Grassroots entrepreneurs should also be provided with different kinds of support and advisory services to ensure that they survive.

But, of what, in particular, should these support and advisory services be comprised? They should comprise the following.<sup>43</sup>

- The need to provide managerial counselling,
- risk assessment training,
- diagnosis of business problems,
- identification and implementation of corrective actions,
- over all training in entrepreneurial skills,
- establishment of industrial estates and technology institutes,

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<sup>43</sup>ECA/SAPAM & AAPAM, "Enabling Environment for Entrepreneurship Development in Africa," ([Proceedings of a Senior Policy Seminar on an Enabling Environment for Enhancing Entrepreneurship in the Private and Public Sectors in Africa] Addis Ababa: ECA/AAPAM, 1990) pp. -12-14

- financial support ranging from availing easy term credit facilities to various forms of subsidies,
- project identification and planning support,
- establishment of national committee for small scale industries to promote marketing support,
- standardisation and quality control,
- appropriate technology support, and
- training and human power development.

In the context of grassroots entrepreneurship development, one important point worth mentioning is; there should be a distinction between those who express vague interest in entrepreneurial activities and those who have the aptitude for it. The Indian experience demonstrates that industrial or commercial work experience is a key element in the process of industrial enterprise formation. If, however, the experience inputs are weak or lacking in an individual, a development programme package can be suitably evolved to make up for this inadequacy provided the person has entrepreneurial aptitude. Success in industry has been found to be a result of enterprise and competence rather than the financial background of the entrepreneur.<sup>44</sup>

However, the task of developing entrepreneurs (selecting, motivating, and training entrepreneurs, and deploying organisational resources and institutional support) can be complex and substantial. At the same time, for a significant impact on employment and growth, entrepreneurship development should be undertaken on a large scale. It, therefore, follows that manpower resources for effective entrepreneurship programmes should be strengthened and, with it, adequate funds should be committed to this activity.

- Ingredients of Enabling Environment for Entrepreneurship Development
  - i. Avoidance of Bureaucratic Barriers: The simplification of the process for entrepreneurs to enter into business is important contribution governments can make to entrepreneurship and business development. Procedures for the registration of business enterprises and the regulations governing their day to day operations should not be cumbersome, complex and time-consuming.<sup>45</sup> Bureaucratic barrier has been found to be one of the major constraints in developing countries. Built over the last fifty years, the organisational imperative of the massive, all powerful, highly centralised and hierarchical bureaucratic structure (characterised by clientelism) in to command and control and is preoccupied with its own survival and enrichment. The bureaucratic set-up is characterised by a complicated net works of patron client relations, with a patron giving a decent position in the government in exchange for a client's political support.<sup>46</sup>

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<sup>44</sup>Patel V.G., "Entrepreneurship Development for New Enterprise Creation: Lessons from India," in ECA/SAPAM and AAPAM (eds.), *Enabling Environment for Entrepreneurship Development in Africa*; Proceedings of a senior Seminar on Enabling Environment for Enhancing Entrepreneurship Development in the Private and Public Sectors in Africa, Addis Ababa, 1990. pp. 78-90.

<sup>45</sup> Entrepreneurs may lose business confidence if the public service bureaucracy is unhelpful and obstructive. This can happen where bureaucratic inefficiency, incompetence or red tape results in unnecessary delays in processing applications for licenses and permits or obtaining various types of clearances.

<sup>46</sup>Costantinos, BT. Ibid. pp. 2-5.

- ii. Efficient and Reliable Infrastructure: Availability of efficient and reliable infrastructural facilities is one of the crucial ingredients for entrepreneurship and business development in developing countries, as the lack of the basic infrastructure particularly power, transport and communication, and water supply prevail. Poor telephone and other communication facilities congested port facilities and badly surfaced roads inevitably result in delays, while constituting a major barrier to entry of would-be entrepreneurs. The costs to an entrepreneur of arranging his own water, electricity and in some case communication facilities are unthinkable.

Why Micro-finance Institutions have failed?  
A case analysis<sup>47</sup>

**Generally, the performance of state- or donor-sponsored rural finance operations has fallen substantially short of expectations, and many of the credit programmes have become a costly drain on government budgets. The programs have reached only a minority, often the wrong minority, of the rural population, generating an unintended "grant" in the form of negative on-lending interest rates, which are captured by wealthy and influential farmers. Administrative interventions have retarded the establishment of efficient financial markets and have impeded the development of other sectors of the economy, mainly by depriving the institutions of loanable funds and increasing their borrowing costs. Many of the large MFIs have been associated with heavy losses generated either by inadequate indexation in a highly inflationary environment (such as Brazil and Mexico) or by poor loan collection in a stable economy (such as India).**

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<sup>47</sup> Yaron, J. Rural finance Institutions. The World Bank Research Observer, vol. 9, no. 1 (January 1994), pp. 49-70 @ 1994 The International Bank for Reconstruction and Development/The World Bank.

Specialised agricultural credit institutions established to implement targeted and often-subsidised loans have suffered from inadequate planning and inefficient operation or have

“Two objectives are paramount for a rural finance institution (MFI) to be successful: financial self-sustainability and substantial outreach to the target rural population. These criteria were used to assess the performance of four MFIs generally considered successful: the Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand, the Badan Kredit Kecamatan (BKK) and the Bank Rakyat Indonesia Unit Desa (BUD) in Indonesia, and the Grameen Bank (GB) in Bangladesh. The BAAC was founded in 1966, the BKK began operations in Central Java in 1972, the BUD initiated the KUPEDES program in 1983,<sup>1</sup> and the GB began as a pilot project in August of 1976, becoming an independent bank in October 1983 when it began to lend to self-help groups. By 1989 the BAAC was serving the credit and savings needs of more than 2.6 million clients; the BKK offered credit to 500,000 rural clients for off-farm activities; the BUD's lending reached 1.6 million clients, and the GB served 660,000 rural clients, about 91 percent of whom were women”.<sup>48</sup>

been hamstrung by economic, political, social, and institutional environments inimical to their effectiveness. Among their most important deficiencies has been the imbalance between the institutions' sizeable, supply-led loan portfolios and mobilisation of savings. Inadequate, depressed deposit interest rates have combined with concessional funds from state or international donors to discourage savings mobilisation. The MFIs have consequently ended up as mere disbursement windows, rather than balanced, full service financial institutions, and often the costs of the indirect subsidisation implicit in this access to cheap sources of finance have not been properly disclosed.

Unmotivated by commercial imperatives, these institutions have suffered from inadequate credit evaluation, management, and monitoring, with inevitably poor loan collection. Meanwhile, their attempts to ensure the eligibility of borrowers and to avoid diverting

funds not only have resulted in high costs but also have imposed high transactions costs on borrowers, who must wait long periods to receive their loans. Legally imposed ceilings on lending interest rates, prevalent in developing countries, have not allowed compensation for the high risk necessarily present in lending to agricultural operations, given their exposure to the vagaries of nature. To minimise the risk and administrative costs, MFIs have often favoured large-scale borrowers at the expense of small-scale entrepreneurs.

- iii. Expansion and Establishment of Government-sponsored Financial Institutions: Such financial institutions should be established to cater the needs of various forms of enterprises. Since a sustainable strategy for fostering entrepreneurship depends on the entrepreneur's ability to mobilise his/her own resources, it is essential that appropriate institutions be created that would assist entrepreneurs' easy access to financial resources. In most developing nations, policies concerning the financing of entrepreneurs are unfavourable. The banks' preference for the bigger businesses has denied the smaller entrepreneurs, who dominate the African economic scene, of the necessary resources for

<sup>48</sup> Yaron, J. Rural finance Institutions. The World Bank Research Observer, vol. 9, no. 1 (January 1994), pp. 49-70  
@ 1994 The International Bank for Reconstruction and Development/The World Bank.

its growth.<sup>49</sup> Regarding financial matters, the following specific constraints to entrepreneurship development in most developing countries are:

- It is not easy for small entrepreneurs to get access to credit due to high interest rates, collateral requirements and bureaucratic procedures. The presence of high marginal tax rates have an adverse effect on entrepreneurial ventures by reducing profits and incomes, thereby limiting the capacity to generate investment funds.
- In the few cases where the banks deal with the small entrepreneurs, they do so reluctantly and consider them more of a problem than true business partners.
- Governments tend to interfere in the work of financial institutions by, for instance, restricting the amount of loan that can be given out to small entrepreneurs. Governments can also affect credit availability indirectly, i.e., where there is excessive borrowing by government that tends to crowd out private investment.
- Unstable political and economic conditions, leading to coups and massive and frequent currency devaluation, have forced many people to keep their money in places other than banks, thus reducing the amount of funds available for lending to present or potential entrepreneurs.
- Low saving interests tend to reduce saving deposits and discourage banks from lending.
- The role played by grassroots and informal financial institutions in entrepreneurship development are considerable. However, these institutions are not receiving adequate support from governments.

iv. Establishment of Education and Training Institutions: Keeping in mind that developing countries have a large pool of potential entrepreneurs the adequate establishment of education and training institutions ought to be ensured to foster creativity, inventiveness, and innovation. Given the stagnation of the developing nation's economy and the states' inability to absorb the fast growing school leavers, it is worth it to prepare those with the talent for entrepreneurship through appropriate training. In the African context, the following observations have been made with regard to developing and training entrepreneurs.<sup>50</sup>

- The African economy is declining and is therefore incapable of absorbing the increasing number of school-leavers and other job seekers;
- In responding to the critical employment situation, the tendency has been to adopt a "fire fighting approach", rather than one which is systematic, co-ordinated, and designed to focus the attention of relevant institutions on a common goal of entrepreneurial development;
- There is a pool of entrepreneurial talent in the informal sector which is yet to be properly harnessed;

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<sup>49</sup>ECA/SAPAM & AAPAM, "Enabling Environment for Entrepreneurship Development in Africa," ([Proceedings of a Senior Policy Seminar on an Enabling Environment for Enhancing Entrepreneurship in the Private and Public Sectors in Africa] Addis Ababa: ECA/AAPAM, 1990) p. 23.

<sup>50</sup>Ibid. p 25.

- The educational system is geared towards white-collar jobs and/or wage employment, and the curricula tend y and large to promote a dependent mentality among the products of the educational system;

Entrepreneurial development should be dealt with by designing a training and educational system which gives due regard to the above observations.

- v. Healthy Business-Government Relationship: Cordial relationship between business and government is a necessary condition for entrepreneurship development. In most developing countries, especially Africa, the relationship tends to be characterised by mutual mistrust and suspicion. The system of rule is authoritarian top-down style of governance, with an urban-based power structure and authority radiating from the centre. Various efforts to devolve authority and involve people have been unsuccessful. As a result there is little popular participation in the political process and the populace has become distrustful and critical of the state and wary of having any contact with it.<sup>51</sup>

Considering the complementary roles both the private and private sectors have to play in economic development, the relationship has to be improved and appropriate measures are taken to that end. The prevailing mistrust has to be improved and both sectors should create conditions that would result in mutual confidence building.

- vi. Stable Political and Regulatory Climate: Stable political and regulatory environment is also one of the major ingredients for enabling entrepreneurship and business development. Political instability can be referred to as a breakdown in the normal functioning of government, civil unrest or warfare, or a critical condition of political disorder. Where there are signs of civil strife or other difficulties arising from conflicts over the legitimacy of government, the pace of growth of entrepreneurship and business development will slow down. The reason is; (1) weakly institutionalised governments, (2) challenges to the legitimacy of government, and (3) civil unrest cause a psychology of fear on the part of entrepreneurs. Moreover, sharp swings in regulatory policies affecting business and rapid changes of governments are major constraints to entrepreneurship development in that they create uncertainty in the operations of business organisations and in the minds of entrepreneurs. Governments, therefore, regardless of their ideology, should take great care in introducing changes that adversely affect the operations of business.

Creating, managing and sustaining an enabling environment for micro-finance driven entrepreneurship

It could be argued that the removal of the above inefficiencies would improve the enabling environment for the development of credit and capital markets. The above efficiency constraints are derived, as they are, from the efficient capital market hypothesis on market efficiency and the expected availability of complete information to all the participants. These constraints are, no

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<sup>51</sup> Costantinos BT, "The Manager: In Search of Identity," in The Ethiopian Management Professional Association Special Issue, The Management Profession; A paper presented for The Third General Assembly of The Ethiopian Management Professionals Association, Addis Ababa, 1995. p 3.

doubt, relevant to the **environment prerequisites** for credit and capital markets development in Africa.

Experience<sup>52</sup> demonstrates that the environment of a country plays an import part in the success or failure of a stock market development programme. Where the environment is conducive, the stock market develops much faster than in countries where the environment is unfriendly. The various environmental factors that influence stock market development include the following:

- Political environment;
- Economic system: socialist/socialist orientation;
- Status of the private sector;
- Institutional environment: system of intermediaries and communications;
- Legal and regulatory environment;
- Marketing-educational efforts;
- Broad range of securities instruments;
- Appropriateness/type of stock exchange vis-à-vis level of development, and the level of a country's economic development.

**SOCIO-POLITICAL AND ECONOMIC INDICATORS<sup>53</sup> TO IDENTIFY AN ENABLING ENVIRONMENT FOR MICRO-FINANCE BASED ENTREPRENEURSHIP.**

**Country**

<b>INDICATORS</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>1) Are there ranges of countervailing intermediary civic organisations that function freely and openly?</b>			
a) Is the non-governmental sector well developed, with organisations serving a variety of sectors of the population, rural as well as urban?	N	N	N
b) Are there organisations which function as political pressure groups or which lobby for specific interests?	N	N	N
c) Do labour unions and professional associations exist and do they promote the rights of their members?	Y	Y	N
d) Do independent institutions such as policy or political and economic think tanks exist?	N	N	N
<b>2) Do processes for popular participation exist?</b>			

<sup>52</sup> H.I. Alile, "Establishing a stock market - Nigerian experience.", op.cit., pp.3-9

<sup>53</sup> GCA.(1996) "Indicators for measuring good governance" GCA, Washington DC

a) Are there established and recognised ways and means for the public to voice concern or express opinion to policy makers?	N	N	N
b) Are such things as opinion polls or attitude surveys undertaken?	N	N	N
c) Are there means by which communities can express their development priorities at the local level?	N	N	N
d) Are local government officials elected?	Y	Y	N
<b>3) Is there constitutional and legal provision for freedom of speech, media, assembly and association?</b>			
a) Are these "freedoms to" broadly permitted, or are they subject to a variety of restrictions which effectively curtail public liberty?	Y	Y	N
b) Are special permissions required before such freedoms can be implemented, and if so are they applied impartially to all interest groups?	N	N	Y
c) Is there an independent press and media?	Y	Y	N
d) Is the governmental censorship of the press, or are there recorded or known instances of press freedom curtailed due to fear of governmental redress?	N	N	Y
<b>4) Are non-governmental organisations financially and operationally independent of the government?</b>			
a) Do non-governmental organisations receive subsidies from the government?	N	N	N
b) Do most non-governmental organisations have independent boards of directors, and operate according to a constitution or other set of binding principles?	Y	Y	N
c) Does legislation permitting non-governmental organisations to earn revenue, collect membership contributions, or receive donations from the public or local or foreign	Y	Y	Y

institutions exist?			
d) Are most non-governmental organisations self-financing?	N	N	N
<b>5) Are non-governmental organisations and institutions legally allowed to exist and free from governmental control?</b>			
a) Are non-governmental organisations legally allowed to exist, and are there any restrictions placed upon them?	Y	Y	Y
b) Are there known or recorded instances of governmental interference with non-governmental organisations?	N	Y	Y
c) Does the government encourage the formation of non-governmental entities and seek their opinion on key issues?	N	Y	Y
d) Do non-governmental organisations act as intermediaries between the government and their members?	N	N	N
<b>6) Are political parties allowed to exist legally and constitutionally?</b>			
a) Can political parties exist, and can they generate revenue?	Y	Y	N
b) Are there regulations governing what political parties can and cannot do, and do these apply uniformly to all political parties?	Y	Y	Y
c) Are all political parties allowed to campaign in all geographic areas?	N	N	N
d) Is there legislation that effectively impedes political parties being formed, because it requires certain minimum numbers, funds, or geographic representation?	Y	Y	N
<b>7) Do opposition groups have legitimacy, and do they play a role in the political process?</b>			
a) Do both the opposition and the public generally understand the concept of a “loyal opposition”?	Y	Y	N
b) Is there provision for opposition groups to be involved in the political process, for example by members of minority parties being elected to the	Y	Y	N

legislature?			
c) Does the dominant national party also automatically control local government, or are local government officials elected?	Y	Y	Y
d) Do opposition parties have clearly articulated political platforms, or do individuals dominate them?	N	N	N
<b>8) Is there an elected legislature, which is responsible to the electorate?</b>			
a) Are members of the legislature elected through open ballot?	Y	Y	N
b) Does the legislature understand its role, or does it either generally acquiesce to governmental demands or consistently try to oppose the government?	Y	Y	Y
c) Are elected officials required to spend a minimum amount of time in their electoral district?	N	N	N
d) Are there systems in place whereby public opinion can be made known to members of the legislature?	N	N	N
<b>9) Does the legislature have oversight over governmental policy?</b>			
a) Can the executive branch implement decisions without legislative approval of broad policy measures?	N	Y	N
b) Do members of the legislature have sufficient access to information and technical resources to enable them to make informed decisions, for example, is there a research service or library available and do they have technical staff?	N	N	N
c) Is the legislature responsible for drafting legislation?	N	N	N
d) does it approve legislation drafted by the executive branch, or does it do both?	Y	N	N
e) Is there provision for individual members of the legislature to introduce new legislation or amendments to existing legislation on specific subjects?	Y	Y	N

<b>10) Are legislative decisions made public?</b>	
a) Are legislative records kept and decisions published?	Y Y N
b) Are sessions of parliament or the legislature open to the public?	Y Y N
c) Is there press and media coverage of the parliament or legislature?	Y Y N
d) Is there a system of disseminating legislative information beyond the capital city or major urban centres?	Y N N
<b>11) Is there constitutional and legal provision for private ownership of property and investment?</b>	
a) Is legislation conducive to the private ownership of property, or does it make it difficult and only possible in certain circumstances?	Y Y Y
b) Is private ownership of both property and land for any purposes allowed, and can such property and land be sold or otherwise passed on by the owners?	Y Y Y
c) Are there property and land ownership records which can be publicly consulted?	Y Y N
d) Do the regulations and administrative procedures which need to be followed facilitate or impede private ownership of property and land?	F I I
e) Is provision made in the constitution for private investment, and does legislation conducive to private investment exist?	Y Y Y
f) Is private investment permitted in all sectors, or is it controlled?	Y Y C
g) Is the regulatory environment conducive to small scale business, the informal sector and women entrepreneurs?	Y Y N
h) or does it in effect discriminate against them?	N Y Y
i) Is information about investment options easily available and is the tax structure conducive to small scale private investment?	N N N

<b>12) Are there political conditions on access to credit?</b>			
a) Is the amount of money available for credit controlled by the government?	Y	Y	Y
b) Are the restrictions on credit eligibility such that only a small percentage of the population qualifies?	N	N	Y
c) Is credit generally available, to both men and women, in rural as well as urban areas through a variety of mechanisms, or is it restricted?	R	R	R
d) Are there governmental restrictions on what credit can be provided for?	Y	Y	Y
<b>13) Is the banking system's ability to support private investment curtailed by governmental regulations?</b>			
a) Is there a functioning banking system?	Y	Y	Y
b) Is the banking system subject to arbitrary political manipulation?	N	N	N
c) Are there governmental restrictions on lending for private sector investment or purchase of property or land?	Y	Y	Y
d) Do government regulations on interest rates or tax on private deposits exist, and do they negatively affect private sector activity?	Y	Y	N
<b>14) Is the implementation of government regulations and licensing procedures slow and complicated?</b>			
a) Is there a facility for "one stop" procurement of licenses or other required documents?	N	N	N
b) or is it necessary to visit a variety of different departments or offices?	Y	Y	Y
c) Are officials generally familiar with regulations, and able to expedite the process?	Y	Y	N
d) or are they uninformed and need to seek guidance on a case-by case basis?	N	N	Y
e) Are there known or recorded instances of bribes or other payment being required to obtain licenses or	Y	Y	Y

other documents, even though regulatory procedures have all been followed?			
f) Is it possible to obtain licenses or other documents within a relatively short time frame?	N	N	N
g) or does it take a long time and require repeat visits by the person applying for the license?	Y	Y	Y
<b>15) Is there constitutional and legal provision for private ownership of property?</b>			
a) Is legislation conducive to the private ownership of property, or does it make it difficult and only possible in certain circumstances?	Y	Y	Y
b) Is private ownership of both property and land for any purposes allowed, and can such property and land be sold or otherwise passed on by the owners?	C	C	C
c) Are there property and land ownership records which can be publicly consulted?	Y	Y	Y
d) Do the regulations and administrative procedures which need to be followed facilitate or impede private ownership of property and land?	Y	Y	Y
<b>16) Is there constitutional and legal provision for private investment?</b>			
a) Is provision made in the constitution for private investment, and does legislation conducive to private investment exist?	Y	Y	Y
b) Is private investment permitted in all sectors, or is it controlled?	C	C	C
c) Is the regulatory environment conducive to small scale business, the informal sector and women entrepreneurs, or does it in effect discriminate against them?	Y	Y	Y
d) Is information about investment options easily available?	N	N	N
e) is the tax structure conducive to small scale private investment?	N	N	N

<b>17) Are there political conditions on access to credit?</b>	
a) Is the amount of money available for credit controlled by the government?	Y Y Y
b) Are the restrictions on credit eligibility such that only a small percentage of the population qualifies?	Y Y Y
c) Is credit generally available, to both men and women, in rural as well as urban areas through a variety of mechanisms, or is it restricted?	R R R
d) Are there governmental restrictions on what credit can be provided for?	Y Y Y
<b>18) Is the banking system's ability to support private investment curtailed by governmental regulations?</b>	
a) Is there a functioning banking system?	Y Y Y
b) Is the banking system subject to arbitrary political manipulation?	N N N
c) Are there governmental restrictions on lending for private sector investment or purchase of property or land?	Y Y Y
d) Do government regulations on interest rates or tax on private deposits exist, and do they negatively affect private sector activity?	Y Y N
<b>19) Are regulations governing investment, and import and export procedures clear and easy to understand?</b>	
a) Are there administrative regulations governing investment and import and export procedures, and are these publicly available?	Y Y Y
b) Are the regulations supportive of, and conducive to, private sector activity, or are they designed to exercise control over it?	C C C
c) Are the regulations consistent, or are there instances in which one set of regulations are contradicted or overruled by another set?	N N N
d) Are the regulations uniformly enforced, or are there known or	N N N

recorded instances of their being  
waived in certain instances?

### The new policy trust

The main emphasis of policies to promote entrepreneurship during the 1960s and 1970s was on the indigenisation of business activities. The provision of credit and other support measures were primarily directed at this objective. Partly to meet this goal, public enterprises were used extensively as vehicles of entrepreneurship - especially for large-scale ventures. The experience and legacy of colonial rule quite understandably inspired the priority given to indigenisation. Nationalist sentiments of controlling the commanding heights of the national economy also played a part. However, political considerations, such as rewarding the supporters of ruling regimes, often provided the main criteria for access to the benefits of business promotional measures that were adopted. Considerations based on long-term economic development objectives often assumed secondary importance.

Accordingly, some ventures that were established during the early post independence period were of a speculative or directly unproductive nature - indigenous capacity in real estate, brokerage, trade and distribution being cases in point. Nonetheless, an impressive expansion of formal sector indigenous business activity occurred between the 1960s and 1980s in such areas as transport, commercial agriculture and ranching, light industry, assorted services and hotels and tourism. Rapid population growth associated pressures of unemployment and, at the individual level, personal dilemmas of survival arising therefrom, provided the main stimulus of informal sector expansion.

However, business stagnated during the 1980s, the “lost development decade”. African governments became preoccupied, if not overwhelmed, by crisis management, stabilisation, adjustment and recovery. One of the lessons of economic management which have emerged from this crisis is that government intervention is most successful when policies flow along with, rather than go against, the grain of market forces. As African economies emerge from stagnation, a critical challenge to governments in the region during the 1990s is to harness both formal and informal sector entrepreneurial capacity to meet emerging priorities, such as the need for higher levels of value added, economic diversification and a wider range of exports. General constraints, which apply to existing and potential entrepreneurs, and specific constraints, which apply at different levels of entrepreneurial activities, have to be overcome. What, then, can be done to remove these constraints? Following the mode of analysis adopted for this study, two general measures that support the hypothesis, which apply to particular levels of entrepreneurship are:

- a) Political stability: Entrepreneurship at any level cannot thrive in a context of political instability. The whole African region is losing billions of dollars every year in both indigenous and foreign investment as a result of perceptions of risk associated with civil unrest, challenges to the legitimacy of established authority and weakly institutionalised governments. To be sure, the causes of political conflict and instability in many countries are often complex and intractable. Be that as it may, the current wave of democratic reforms in the region augurs well for the future although democratic structures of

governance remain fragile. Both the business community and public officials bear a heavy responsibility for educating public opinion on the relationship between political stability and business confidence. Africa's development partners should also take concrete measures to foster the consolidation of democratic processes and political stability in the region.

- b) Competent Economic Management, Efficient Public Services and Sound Infrastructure: Business confidence is also affected by the level of competence in government economic management, the efficiency of the public service bureaucracy, the attitudes of influential public figures towards private enterprise, and the quality of public infrastructure and services (including roads, ports, airports, telecommunications, power and water). Specific measures to stimulate, develop and promote African entrepreneurship must rest on a firm foundation of sound economic management, efficient public services, and positive attitudes towards business and reliable infrastructure. In regard specifically to investment promotion by sending missions abroad or advertising internationally, such expensive efforts might best be undertaken when the ingredients for a satisfactory business climate at home are already in place. Moreover an investment promotion agency and other public service agencies must first establish a 'service function' (rather than a purely screening or regulatory unction) to assist entrepreneurs who are already doing business locally.<sup>54</sup>
- c) Establish Institutional Capacity for Policy Development and Co-ordination: Experience has shown that there are often profound contradictions among the range of policy measures on business promotion and development. Finance, trade, and labour policies are areas of particular concern. In this regard, there is simply no alternative to the establishment of sound institutional capacity in government for policy development, sensitivity analysis (to project the likely effect of particular measures), policy co-ordination, and attention to the details of implementation. Policy objectives must be clearly defined and specific measures made consistent with overall priorities and objectives of national economic management. Experience has further shown that the provision of incentives and other forms of assistance to entrepreneurs operating at different levels must be subject to periodic review and continuation made conditional upon performance criteria established in advance.
- d) Review the Role of Lending Institutions: In regard to one aspect of financial policy, the role of sectoral development banks, as a channel of credit should be carefully reviewed. Aside from a tendency to withhold credit from informal sector entrepreneurs and other small-scale business, there is evidence to suggest that such financial institutions generate an anti-equity bias. That is to say as a source of investment capital, development finance institutions typically lend to sole proprietorships or partnerships. In the absence of (or where there are only fledgling) stock markets and merchant banks able to mobilise equity capital, this pattern of lending perpetuates itself. Thus joint stock companies and equity markets have been slow to develop in African countries and formal sector entrepreneurs are denied both the flexibility of tapping this source of finance as well as the discipline of working under pressure from stock or capital markets. Hence, the unintended

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<sup>54</sup>The Economist. (1982) :Entrepreneurial now" p. 50

consequences of development finance institutions' operations for both small business accesses to credit and institutional development in the corporate sector need careful appraisal.

- e) Establish Sound Information Systems on Micro-economic Behaviour and Markets: Inconsistencies in this important area of credit policy and practice is one indication that the overall framework of government-business relations in contemporary, Africa has fallen short of effective or strategic direction. Evidence of insufficient knowledge and information in government about the business sector is another indication. The main areas of weakness include inadequate institutional mechanisms for consultation and consensus-building between planners and policy-makers in government and different sections and levels of the business community; short-comings in government information systems on micro-economic behaviour including market networks or linkages between firms, and the specific requirements of technology transfer and adaptation. This stands in sharp contrast with East Asian and experience where planning and policy-making is characterised by on-going dialogue between government and different groups of economic actors; regular exchange of information on specific needs and requirements including the critical area of technology transfer and development; a coherent and co-ordinated approach between different government agencies in their dealings with the business community; flexibility in response to changing circumstances; attention to detail in the implementation of objectives that have been agreed upon; and emphasis on achieving high levels of performance. Any African government seeking to provide strategic direction on the promotion of entrepreneurship within the overall framework of development priorities and objectives must first collect better information about the scale and nature of existing businesses operating at all levels including linkages (or lack of them) between firms and the range of problems or difficulties that are being experienced. It is only on the basis of such information that the main activities to be encouraged can be identified and resources, incentives and policy measures targeted accordingly and appropriately. It follows from this that African governments should take steps to ensure that reliable mechanisms for efficient information flows between business at all levels and government and vice-versa are put in place as the basis of the strategic direction of business promotion.
- f) Measures to Promote Informal Sector Micro-entrepreneurship: Among the factors limiting the growth and 'graduation' of informal sector micro-enterprises to better endowed establishments include limited and segmented markets cumbersome management and production methods and inadequate or inappropriate institutional and public policy support. It will become evident in the discussion which follows that market networks, government and non-governmental organisations can play key roles in overcoming these constraints and promoting informal sector entrepreneurship. Over the long-term of course, micro-enterprises can grow through inter-generational expansion - i.e. the case where the business gradually grows as it is passed on from one generation of family ownership to another.

The Role of Market Networks: In the short-term, experience has shown that micro-entrepreneurs can overcome the limitations of market size and other constraints through linkages with formal sector businesses. Over and above this, experience has

also shown that such market networks or linkages are often more effective mechanisms for the transfer of know-how and assistance than networked composed of government departments and non-governmental organisations. The latter sometimes lack competitive pressures, the exigency of profit, and specialised knowledge to provide inputs that are most relevant to the needs of micro-entrepreneurs.<sup>55</sup>

The Role of Government and NGOs: The foregoing, however, is not to deny African governments and the NGO community a proactive role in the stimulation, promotion and development of informal sector business activities. Markets often fail to general linkages for a variety of reasons including information gaps between potential collaborators. Through incentives and other measures, governments can encourage or facilitate linkages between informal sector entrepreneurs and their better-established formal sector counterparts. The NGO community, often a reservoir of knowledge and expertise on grassroots activities and operations, can also play an important role in linking informal and formal sector business.<sup>56</sup>

As previously noted in the discussion of general recommendations, government or NGO intervention is most effective within a framework of strategically formulated policy objectives. In this regard, up-to-date knowledge on the range of informal sector businesses, relevant information on specific needs and requirements, and the identification of those activities that would enhance such objectives as economic diversification and export to niche markets are important requirements. This last point is crucial as many informal sector operations are nothing more than rackets with little if any economic potential.

It is neither feasible nor desirable to provide a blueprint government and NGO measures to assist and promote bona fide micro-entrepreneurs. Circumstances, needs and requirements differ from country to country and among informal sector business activities. But experience has shown that policy and institutional support would at minimum include three key measures as follows.

The provision of facilities for technical and vocational training to upgrade the skills of informal sector workers and entrepreneurs is an important requirement. In this regard, the profile of an informal sector micro-entrepreneur vividly illustrates the association between training, entrepreneurship and business development. Over and above this association, one of the many spin-offs from informal sector business activities is the training of apprentices (for example goldsmiths, blacksmiths, watch-repairers, shoe-repairers, carpenters, masons, electricians and so on) in the course of informal business operations. Government and NGOs can encourage and give recognition to this valuable service provided by informal sector entrepreneurs by

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<sup>55</sup>Marsden, K. (1990) "African Entrepreneurs: pioneers in development" Washington DC IFC Technical paper. No. 9, pp. 21-22.

<sup>56</sup>Aga Khan Foundation, (1987) "The Enabling environment Conference: Effective private sector Contribution to Development in Sub-Saharan Africa" held in Nairobi, Kenya, 21-24, October 1986, p. 13.

making available grants and other incentives to foster the practice of informal sector apprenticeships.

Another measure is the provision of credit facilities specifically designed to meet the need entrepreneurs operating on a very small-scale, typically without collateral or an established business track record. The issue here is that the management of small loans is time - consuming and expensive. Accordingly, conventional banks and financial institutions tend to shy away from dealing with micro-entrepreneurs. It follows from this that the provision of credit facilities to informal sector operations require unconventional banking practices. Grassroots or community-level institutions are well placed to fill this vacuum. The GRAMEEN Bank system pioneered in Bangladesh and specifically oriented towards lending very small amounts to micro-entrepreneurs is one model that can be employed. Another model is network of People's Bank, which also lends to informal sector businesses, small-scale farmer s and rural enterprises.

Enterprise-Level Support: provision of enterprise-level support systems such as business advisory centres, small-scale enterprise extension systems, and physical facilities such as workshops, craft centres, water, electricity and telephones is another area of support that can be provided by governments. Advisory and extension services can provide valuable information and assistance to informal sector entrepreneurs especially in such areas as bookkeeping, management, production and marketing techniques. Advisory and extension services can also play an important role in facilitating linkages between informal and formal sector business. Beyond this, such services can help to steer informal sector entrepreneurs through the unfamiliar corridors of government bureaucracies with which they must sometimes deal. The promotion of informal sector goods and services through exhibitions, craft shows and trade fairs is another benefit that can be provided by advisory and extension services. Evidence that these services tend to be understaffed and under-equipped in several African countries was referred to earlier. These are shortcomings which appropriate steps should be taken to overcome.

To eliminate dependence on subsidies, MFIs<sup>57</sup> must

- **Have positive on-lending interest rates high enough to cover non-subsidised financial costs, as well as administrative costs, to maintain the value of equity in real terms**
- **Achieve a high rate of loan collection**
- **Have deposit interest rates high enough to ensure that voluntary saving becomes increasingly significant in financing the loan portfolio**
- **Contain administrative costs through efficient procedures for assessing in- it vestment plans, screening borrowers, processing loans, collecting repayments, and mobilising and servicing savings to ensure that lending rates do not become prohibitive.**

Many informal sector businesses are itinerant in character or are housed in deplorable conditions. The provision of physical facilities can help micro-entrepreneurs stabilise and consolidate their businesses. Experience has shown, however, that consultation with the intended beneficiaries must be a prerequisite in selecting locations or sites for workshops and draft centres and designing the facilities.

Inter-generational Expansion: While specific measures can be taken in the short-or medium-terms to stimulate and promote informal sector-level entrepreneurship, it should be recognised and acknowledged that micro-enterprises grow and ‘graduate’ over time through inter-generational expansion. This is the case where as earlier noted the business gradually expands as it passed on from one generation of family ownership to another and experience, know-how and capital is acquired and accumulated. In this regard, it should be recalled that many of the world’s leading corporations has grown from obscure or even shadowy micro-scale ventures to graduate into the trans-national corporations they have become today. There is evidence that this phenomenon is already happening among many African entrepreneurial families.

Measures to promote small-and intermediate-scale enterprises: A distinction was made earlier between the investment aspect of entrepreneurship - identifying market opportunities and acting upon them; and the managerial side - running all aspects of the business as it is established and as it grows: finance, production, technology, labour relations, marketing, advertising, research and development and so on. As a business grows beyond a certain size, it is seldom the case that the founder, owner or any individual can satisfactorily combine in his or her person all the skills required in the investment and managerial sides of entrepreneurial capability.

Entrepreneurs operating on a small-to intermediate-scale usually exhibit fairly sophisticated organisational skills. But as their businesses grow along the small-to intermediate-scale continuum, they often face constraints such as limited managerial capabilities; difficulties with technology transfer and adaptation; and, as in the case of informal sector micro-entrepreneurs, inadequate or inappropriate public provision of enterprise-level support. Measures to promote and develop entrepreneurial capacity at

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<sup>57</sup> Yaron, J. Rural finance Institutions. The World Bank Research Observer, vol. 9, no. 1 (January 1994), pp. 49-70 @ 1994 The International Bank for Reconstruction and Development/The World Bank.

these levels of the business structure in contemporary Africa must seek to surmount these constraints. This is the focus of the discussion that follows.

Overcoming Managerial Constraints: In the context of Africa's relative early stage of economic development, the supply of indigenous managerial skills experience and expertise is understandably limited - although increasing numbers of Africans are acquiring management training and experience. If, however, entrepreneurship is to become the vehicle of future growth, higher levels of value-added and economic diversification, it is clear that the current deficit of skills that are necessary to establish a range of capabilities on the managerial side of entrepreneurship must be surmounted. National agendas of manpower and human resource development needs are already very crowded. Nonetheless the expansion of management training facilities must be a leading priority. In this regard, however, it should also be noted that approaches to management education, development and training are undergoing fundamental shift from 'traditional', formal, class room-based methods to an increasing emphasis on informal, in-house, on-the-job learning and training.<sup>58</sup> Dissatisfaction with traditional methods has opened the way for new arrangements that facilitate the acquisition of management skills that are directly relevant to the needs of business operations to emerge. One of the implications of this trend is that private businesses will increasingly bear the cost of training their own managerial personnel. Planners and policy makers in African governments will be well advised to carefully consider the implications of this trend for national manpower and human resource development strategies.

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<sup>58</sup>On this point, see "Leaner Times Business Schools" in The Economist 8 February 1992, pp., 65-66; see also John W. Hunt, "Management Development for the Year 2000" loc.cit; and "Survey of Management Education" in The economist 2 March 1991.

Table 5. Synopsis of areas enabling micro-finance driven entrepreneurship

1. **Development of Grassroots Entrepreneurship - the problems**

- a) lack of appropriate training system
- b) lack of consultancy or advisory services
- c) financial constraints:
- d) lack of properly defined national policy

2. **Development of Grassroots Entrepreneurship - preconditions**

3. Political Stability

- a) stable political and regulatory climate
- b) competent economic management, efficient public services and sound infrastructure
- c) avoidance of bureaucratic barriers
- d) efficient and reliable infrastructure
- e) expansion and establishment of government-sponsored financial institutions
- f) establishment of education and training institutions:
- g) healthy business-government relationship

4. **Development of Grassroots Entrepreneurship - Opportunities**

- a) establish institutional capacity for policy development and co-ordination
- b) review the role of lending institutions
- c) establish sound information systems on micro-economic behaviour and markets

5. **Measures to promote informal sector micro-entrepreneurship**

- a) the role of market networks
- b) the role of government and NGOs
  - i) provision of facilities for technical and vocational training
  - ii) provision of credit facilities
  - iii) provision of enterprise-level support systems

6. **Measures to promote small-and intermediate-scale entrepreneurship**

- a) addressing managerial constraints
- b) technology transfer and adaptation
- c) enhancing enterprise-level support systems

G = Government, N = NGOs, B = Business, P = People's organisations

Who does what  
G N B P



Surmounting Difficulties with Technology Transfer and Adaptation: The issue here, again, is that as businesses grow along the small-intermediate-scale continuum, productivity gains can be made from the application of more effective production methods

including improvements in technology. Disadvantaged by its relieve early stage of industrial development, the capacity for technology adaptation and assimilation in contemporary Africa is underdeveloped. To be sure, technological education, training and experience has expanded considerably in post-colonial Africa but indigenous technological capacity remains an area of relative weakness. It is inevitable that technical assistance from abroad, foreign investment and joint ventures will remain important mechanisms for the diffusion of technological know-how in Africa for some time to come. This was clearly illustrated in the profile of an intermediate-scale

enterprise in a successful African case of technology assimilation and development. Technical assistance from abroad was a key element in the success of the firm in question, Afro-cooling of Tanzania. Government, as East Asian experience has demonstrated, has a key role to play in facilitating and encouraging technology transfer, local adaptation and development by providing a policy framework consistent with national development objectives and priorities. In this regard, efficient information flows on precise needs and requirements between governments and business, as previously noted in the discussion of general recommendations should be an essential part of the policy-making process and the targeting of incentives.

**Measures of Outreach: Micro-finance institutions have often had different stated objectives for providing credit and other financial services to the rural population and sometimes to particularly disadvantaged population segments. Outreach is assessed here on the basis of the type of clientele served and the variety of financial services offered, including:**

- **The value and number of loans extended**
  - **The value and number of savings accounts**
  - **The type of financial services offered**
  - **The number of branches and village sub-branches**
  - **The percentage of the total rural population served**
  - **The real annual growth of the MFI's assets over recent years**
  - **The participation of women as clients.**
- The growth rate of assets might, under given conditions, also serve as a crude proxy for new clients' access to financial services.**

Enhancing enterprise-Level Support Systems:

Entrepreneurs everywhere need advice, information and various kinds of services in setting up their businesses and in dealing with problems that arise in the normal course of operations.

Experience has shown that while technical and advisory services can be provided through market networks (via private

consulting companies banks and financial houses) or through the tertiary sector (via Chambers of Commerce, management professional organisation, universities, collages and NGOs), government intervention is also required to establish a general framework for business development as part of the planning and policy-making process. Indeed, post-colonial efforts to indigence and promote entrepreneurship witnessed the establishment by African governments of a range of enterprise-level support system such as facilities to provide start-up capital, loans, technical advice and training, industrial estates, warehouse and so on.

Governments can adopt two strategies to overcome these constraints: by providing a policy framework which favours an incremental approach to investments in large, complex undertakings; and by encouraging the 'turn-key' approach to investment in large-scale operations in industries where this is a viable alternative to the incremental approach.

There is evidence to suggest that incremental approach to investment in large and complex undertakings - within the context of a supportive public policy framework - provides a sound and effective basis for establishing a capacity and the experience to cope with higher levels of

managerial, organisational and technological complexity. The textile industries in Kenya and Zimbabwe for example have grown during the last twenty-five years from a few small mills in each country to a well-integrated industry encompassing several establishments engaged in cotton/raw materials production, spinning, weaving, design tailoring and manufacturing, and marketing.

The incremental growth of the industry over time facilitated the evolution of linkage relationships between production units in the industry and the foundation of a deeply rooted capacity to manage all aspects of the production process including technology, quality control and marketing.<sup>59</sup> Experience also suggest that most industries have grown over time from an ‘infant’ or ‘cottage’ stag, through the establishment of linkages, between firms in the industry and mastery of production and technological processes, to become world leaders in many cases. The East Asian electronics and motor vehicles industries are good examples of the incremental approach to the establishment of entrepreneurial capacity in large-scale complex undertakings. A supportive policy regime, or an ‘enabling environment’, provided the context and framework for the growth of this capacity.<sup>60</sup>

Section six

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Micro-finance institutions in Africa:  
protocol for developing a  
**Code Of Practice**  
**for Organic Networking at the national, regional and continental levels**

problem formulation: All efforts here need to focus on addressing the principal issues raised a self-evaluation of the work of micro-finance and credit institutions. The following is an attempt at summarising the problem analysis

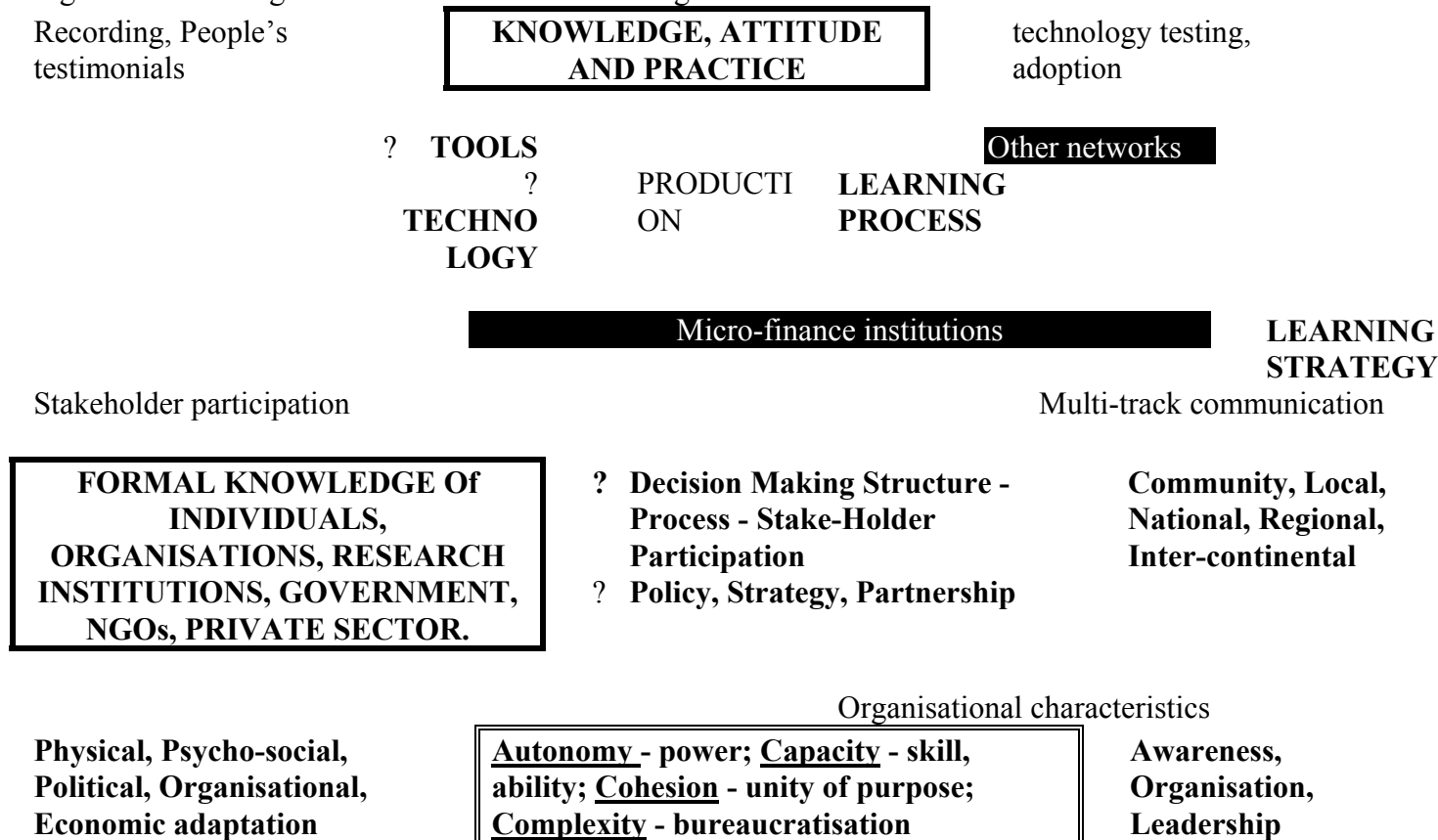
- Lack institutional memories and, hence, the reflective capacity and absence of professionalism in their work and the ability to take stock of where they are going, what they have learned and what lessons can be passed on to others.
- Lack of programme focus and the closely related over-dependence on external finance and assistance.
- Lack of an appropriately staffed networking “nerve” centre; the absence of effective “in-house” network which co-ordinates their relations, represents their interests and advocate their positions on important national and regional issues, has hindered their ability to make collective demands on some important issues.
- Questions have been raised as to whether micro-finance and credit institutions have so far been effective in building channels and media aimed at promoting and institutionalising empowerment among grassroots populations.

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<sup>59</sup> See Lall, “Structural problems of Industry in sub-Saharan Africa”, pp. 103-104.

<sup>60</sup> On this point, see Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy 1925-1975.

Fig. 3. Nodal linkages for micro-finance networking



- Although they have a lot to contribute in their advocacy roles, networks have been unable to establish a clear and coherent voice nationally on issues which are crucial to their work, or to the interest of the local communities they serve. While many proposals for remedial action have been formulated, real commitment to collaborative processes at the inter-organisational level has till now been limited;

The mission

The basic mission of this comprehensive initiative is to develop a framework that enables strategic thinking - the strategy, policy, and structure and decision making process of networking. The basic elements of strategic thinking are the ability to understand behaviour as a system in which state, civil society, ordinary people, and resources continually interact; ability to use this understanding to predict how a given strategic move will rebalance the equilibrium and use of networking resources that can be permanently committed to new uses even though the benefits will be deferred; and ability to predict risk and return with enough accuracy and confidence to justify that commitment; and willingness to act.

This list may sound like nothing more than the basic requirements for any ordinary programme formulation strategy. But strategy is not and cannot be that simple! It is all encompassing, calling on the commitment and dedication of the whole organisation. Participants failure to act/react and then deploy and commit own resources in support of the strategic move of

networkers can turn existing co-operative relationships upside down. By committing resources, strategy seeks to make sweeping changes in communicative relationships. Only two fundamental inhibitions moderate its revolutionary character.

One is failure, which can be as far reaching in its consequences as success. The other is the inherent advantage of a well-situated strategic network co-ordinator. Success usually depends on the culture, perceptions, attitudes, and characteristic behaviour of NGOs and on their mutual awareness of each other. **Strategy is a deliberate search for a plan of action that will develop a competitive advantage and compound it.** For networking the search is an iterative process that begins with recognition of where you are and what you have now.

A comprehensive study will therefore address the following areas of Networking management and development

1. **Networking Strategy:** Networking strategy is a process of conceptualisation expressed or implied by the long-term objectives or purposes -- the broad constraints and policies, either self-imposed or accepted as a donor condition, that currently restrict the scope of electoral networking activities, and the current set of plans and near term goals that have been adopted in the expectation of contributing to the achievement of its objectives."

The purpose of a well-defined strategy is to maintain or gain a position of advantage in relation to the external environment. An advantage is gained by seizing opportunities in the environment that enable micro-finance and credit institutions to capitalise upon areas of strength. The best options to guide an organisation's use of resources to pursue its Mission. It is the leverage where the organisation's activity will have the most impact. Strategy allows decision about where and how to use scarce resources for maximum impact to achieve organisational mission/goals. A strategy is a framework that provides choice about what to do and what not to do. A good Strategy must fit

- a) Networking vision and mission,
- b) your analysis of the present development problems,
- c) your analysis of the external context (forces),
- d) your organisation's capacity, make a choice amongst various strategic issues,

**OUTPUT:    DEFINED A STRATEGY FOR NW THAT WILL DETERMINE THE RULES OF THE GAME IN THE CODE OF PRACTICE**

1. **Networking Policy:** One outcome of the MF Networking strategy development is MF Networking policy. Policy is generally used to refer to general guides to actions and decisions. A policy is often referred to as a standing decision made in advance to cover a prescribed set of conditions, thus setting the limitations or guide-lines for making decisions or taking actions that would determine the scope, levels of penetration and collective goals of the members of the MF Networking.

Networking policies also provide MF Networking members with a framework for making

**OUTPUT: DEVELOPED A MICRO-FINANCE NW POLICY THAT WOULD SERVE AS A GUIDING RAIL TO NETWORK CO-ORDINATORS AND NETWORKERS AT DIFFERENT LEVELS THAT WILL BE THE CENTRE PIECE OF THE CODE OF PRACTICE**

decisions so that actions will be consistent throughout the system.

1. Micro-finance networking: vision, mission statements and goals

- a) Vision is an expression of ideals, which may not be attainable in one's lifetime. It is initial idea/force that brings people together for collective action. Vision is the focus. Vision is not mystical. Vision is not predicting but much more clearly seeing what the organisation can be in the future. A clearly articulated MF Networking vision provides stakeholders or performers: Energy, Momentum, and Strength.
- b) Mission: mission is the organisation's purpose for existence, mission(s) describe(s) in general terms how the vision would be pursued mission provides members with shared sense of direction. A clear mission ensures that people's energy and organisational resources serve a common purpose. A clear mission can guide an organisation's leaders in major policy decisions about alternative courses of action. A clear mission helps define what the organisation will do and what it will not do.

**OUTPUT: CLEARLY SPELT OUT THE VISION, MISSION STATEMENT, GOALS AND OBJECTIVES FOR MF NETWORKING CODE OF PRACTICE.**

- a) Micro-finance networking goals and objectives: Goal is a statement indicating what is expected to be accomplished by an organisation in the future. Objective is a statement indicating what is precisely going to be accomplished by an organisation in a specific period of time and with specified resources when implementing programmes/projects. Goals are the overall strategic mission expressed in terms of three-year MF planning, etc. the strategy and plans are designed as directions for achieving attainment of goals and missions, the steps that lead to the attainment of objectives. From strategy and plans, policies are then developed to provide guidance for operational decisions and actions. Procedures provide direction in handling specific sections but allow for a certain amount of judgmental discretion. Rules, which are quite rigid and very specific, deal with certain categories or situations in which little if any discretion is allowed.

1. MF Networking structure: Within the context of MF networking, structure refers to the relationships that are established both by the `voluntary contracts' between people, participating nations and institutions and more importantly the Networking nodes and

**OUTPUT: A FUNCTIONAL STRUCTURE THAT WILL DETERMINE NODAL POINTS OF CONTACT AND HORIZONTAL/ LATERAL RELATIONSHIPS IN THE MF NW. THIS WILL SERVE TO DETERMINE THE RELATIONSHIP OF NETWORKERS AT ALL LEVELS IN THE CODE OF PRACTICE.**

“reporting” chains within the network management. The organisational structure of MF Networking needs to be developed without due regard to grassroots networking to perform the tasks defined by its strategy in the best possible manner. These include the relationships in the allocation of authority and responsibility, the reporting relationships and the

mechanisms for integrating the different components of the Networking project.

1. **MF Networking decision-making processes**: The organisational processes within MF Networking are represented with the motivational and attitudinal aspects of the Networking development setting. The MF Networking has little or no means of “motivating” MF “staff” and volunteers to accomplish common goals from the point of financial and material type of incentives. But participative goal setting, allocation of resources and implementation of the Networking project, important components of an organisational processes, need to be developed gradually. The monitoring methods for

**OUTPUT: A SERIES OF PROCEDURAL GUIDELINES THAT WOULD UNDERSCORE THE MECHANISM FOR PARTICIPATION, COMMUNICATION AND INTERACTION AMONG NETWORK MEMBERS.**

evaluating and controlling performance need to be exhausted very well. The indicators for monitoring and evaluation, which have been revised over and over again have not been skilfully, used to measure performance due to lack of the necessary background.

2. The strategic planning and management process: Because of the success of strategic planning, the emphasis has been shifting from policy or operational planning toward strategic planning and management. This emphasis on strategic planning and management reflects the growing importance of the impact of the outside world on the organisation. The fast changing and uncertain world situation is forcing organisations to do more strategic planning.

**OUTPUTS: THE FOLLOWING OUTPUTS ARE EXPECTED TO BE ACHIEVED AS AN OPERATIONAL PART OF THE CODE OF PRACTICE.**

- identifying the basic purpose or mission of micro-finance-networking
- strategic decisions in micro-finance-networking
- determining specific organisational goals and objectives for micro-finance networking
- identifying organisational strengths and weaknesses
- identify strategic opportunities and threats

- **identifying and comparing strategic alternatives**
- **the strategic decision and implementation of the strategic decision and plans**
- **strategic evaluation .**

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