

Entrepreneurship Development in Botswana Lessons for Other Developing Countries

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ABSTRACT

The paper analyzes the narrative in the annual reports of the Citizen Entrepreneurial Development Agency (CEDA), the main institution charged with development of entrepreneurial capacity in Botswana to illuminate its performance and draw possible lessons for other developing countries in the region and beyond. Further insights are derived from face-to-face interviews with a senior CEDA official. The study finds that CEDA faces many challenges including inadequate resources and the failure to repay loans by promoters which leads to many foreclosures. As a consequence, CEDA is unable to achieve some of its stated objectives and to sustain itself from loan revenues without government support. The findings further indicate that while the entrepreneurship development model in Botswana is robust, it is more geared towards enhancing the production side of business in the process neglecting the marketing side. These findings suggest that there is need to improve the marketing skills of promoters so that they can deal effectively with demand related challenges. Similarly, there is need to ensure that institutions charged with entrepreneurship development are well resourced. The findings also suggest that although financial assistance is important in promoting entrepreneurship it is not a sufficient condition. Beyond this, a more comprehensive environment must be facilitated.

Keywords: Botswana, Entrepreneurship Development, Training, Foreclosure, Business, Linkages

INTRODUCTION

Through job creation, innovation and its welfare effect, entrepreneurial activity is considered an important mechanism for economic development and this has generated growing policy interest at national level (Munemo, 2012). In Africa and the developing world generally, lack of or poorly developed entrepreneurial capacity is one of the main factors that contribute to the continent's poor socio-economic performance (see Leibenstein, 1968; Marsden, 1992; Kristiansen, 2001; Fick, 2002). Compared with the Americas, Europe and Asia, Africa has the lowest rate of entrepreneurial development and the highest rates of poverty and unemployment (Elkan, 1988; Moss *et al.*, 2006; Naudé, 2010; Zoltan and Virgill,

2010; Naudé, 2011; Munemo, 2012). In response to this, most African governments have been implementing policies and programs aimed at developing entrepreneurial capacity, with varying levels of success (Hawkins, 1986; Elkan, 1988; El-Namaki, 1988; Kaunda and Miti, 1995; Bryceson, 1999; Holtz-Eakin and Rosen, 2004; Biggs and Shah, 2006; Kenosi, 2011; Muranda *et al.*, 2011). In this regard Maas and Herrington (2011, p. 225) emphasize this point:

For decades, entrepreneurs have been identified as critical change agents in socio-economic development. It is probably safe to say that some countries have had more success than others in the promotion of entrepreneurship...

Botswana is one of those countries in Africa where the government has put in place policy measures and programs designed to foster entrepreneurship development (Assan, 2012). Unlike most countries on the continent however these policy measures and programs have not been externally imposed by developed countries through the IMF and the World Bank as part of structural adjustment programs but have been voluntarily implemented in an environment characterised by relatively good macro-economic policies, good governance and respect for the rule of law (see Acemoglu *et al.*, 2003). This suggests that the conditions in Botswana are more conducive for entrepreneurial development than in most countries in the continent (see Carden, 2008). The key question is to what extent has this had a positive impact on entrepreneurship development and growth in Botswana? This paper seeks to address this question, in the context of the institutional framework that has been put in place by the Government of Botswana to develop and grow entrepreneurial capacity in the country.

The paper is structured as follows: It begins with an introduction to the Botswana entrepreneurial framework, followed by a review of literature on the various schools of thought in entrepreneurship. This is followed by an explanation of the methodological positioning adopted in the study. The study then examines Citizen Entrepreneurial Development Agency (CEDA) the main institution charged with entrepreneurship development in Botswana, highlighting its strengths, weaknesses and implications for entrepreneurship as well as drawing insights and lessons thereof for other countries. The study ends with a conclusion pointing to ways forward.

THE BOTSWANA ENTREPRENEURIAL DEVELOPMENT FRAMEWORK

Although the Government of Botswana has always recognized the importance of business enterprise in economic development it was not until the last decade that it took concrete measures towards the promotion of entrepreneurship among its citizenry. To that end, an elaborate network of institutions and programmes involved (directly or indirectly) with entrepreneurship development has been established in recent years. Of all these institutions, the Citizen Entrepreneurial Development Agency (CEDA) is the umbrella body whose involvement in entrepreneurship development transcends all sectors of the economy. Other institutions include the Local Enterprise Authority (LEA) which provides advisory and mentoring services ; the Botswana Investment and Trade Centre (BITC), which provides advice on matters relating to export and foreign direct investment; the National Development Bank (NDB) providing funding and the Botswana Development Corporation (BDC), provides equity and partnership in business, discounting, and marketing research. These institutions are state owned and therefore reflecting Botswana Government's efforts in promoting entrepreneurship in the country.

The above efforts are complemented by programmes operated by government such as the Youth Development Fund (YDF) which is directed at the unemployed and under-employed youth in Botswana. Other youth bodies linked to government with some entrepreneurial mandate include Junior Achievement Botswana (JAB) and the Botswana National Youth Council (BNYC). These agencies provide advocacy roles and assist with a variety of issues relating to youth development in general including entrepreneurial skills (Kenosi, 2011).

There are other two major government programmes that are focused on the agricultural sector including the Livestock Management and Infrastructure Development (LIMID) assisting with financing and acquisitions of livestock, and the Integrated Support Programme for Arable Agriculture Development (ISPAAD) which, among others, assist farmers to commercialize production through mechanization and access to farm inputs and credit.

Other support agencies include Botswana Innovation Hub (BIH), whose task is to promote technology based innovation and entrepreneurship and The Botswana Institute for Development Policy Analysis (BIDPA), an autonomous government agency providing policy research, analysis, advice and capacity building, including on entrepreneurial matters.

It must be noted however that much of the efforts on entrepreneurship development in Botswana have been aimed at production rather than the marketing side of the business. To that end, a few marketing oriented institutions form part of the network of institutions that promotes entrepreneurship development in Botswana. These include for example, the Botswana Meat Commission (BMC), an abattoir that mainly exports beef products and the Botswana Agricultural Marketing Board (BAMB) which buys farming produce for onward sale to the public.

From the foregoing discussion it is clear that the different institutions and programmes currently used by the Botswana Government to build entrepreneurial capacity in the country are broadly encompassing and that a great deal of overlap exist between institutions. This elaborate framework also has major implications for the government budget and can as such serve as an important lesson for other countries in the region and beyond. The development of entrepreneurship however has been well documented and vital insights can be drawn from examining previous studies in this area. In the next section we, review some of the key studies.

LITERATURE REVIEW

The studies reviewed here consider the complexities of entrepreneurship and the related schools' of thought. We then proceed to examine characteristics of an entrepreneur as identified in the literature. We further explore entrepreneurship development and its antecedents including culture, education and training as well as supportive environment for business development. Interest is in how these contribute towards the development of entrepreneurial capacity and activity in general.

Entrepreneurship Definition

Entrepreneurship has been defined variously since the early 1930s (Schumpeter, 1934; Marris 1968; Cole, 1969; Long, 1983; Gartner, 1990; Sexton and Bowman-Upson 1991; Bull and Willard, 1993; Kao, 1993; Kristiansen, 1997; Carland *et al.*, 1988; Zahra and George, 2002; Oviatt and McDougall, 2005; Ahmad and Seymour, 2008; Anderson and Starnawska,

2008). Ahmad and Seymour (2008, p. 1) emphasise the contention over entrepreneurship definition thus:

The paper recognises the long history in this area and the contention and differences that have existed, and that continue to exist, between academics who have confronted this issue over the last two centuries.

This contention has led to the emergence of two dominant schools of thought regarding the definition of entrepreneurship. One of these is the Schumpeterian school, which defines entrepreneurship in terms of a person's ability to be innovative in respect of goods, methods of production, markets, sources of supply, and industrial reorganisation (Schumpeter, 1934; Solomon and Winslow, 1988; Sharma and Chrisman, 1999; Ahmad and Seymour, 2008). Other authors either embrace this definition or have extended it. For example, Kristiansen (1997, p. 1), drawing from the Schumpeterian understanding of the role of individuals and innovations for economic development, defined entrepreneurship as "...an individual or group of people, initiating the provision of products or services to a market, representing something new in that given context." Kristiansen further states that:

The core quality of the entrepreneur is to be an innovator, and I make a distinction between innovative and copying business starters. Innovation means expanding production or improving technology, and thus economic development. Copying means sharing an established market or a known technology by more producers, and thus increased employment in the best case, and shared poverty or involution in the worst case. It is worth underlying, however, that innovative element is context specific. Proper entrepreneurship in rural Africa does not have to be based on advanced scientific or managerial research .

To underscore this point Kristiansen (1997, p. 1) quotes Marris (1968) as follows:

In the African countryside, an innovator may not seem, at the outset, remarkable – a wholesale business, a restaurant at the cross-road, a saw mill. But to achieve these, the owner must have seen what others had missed – an unsatisfied demand, a way of raising money, a source of skilled labour, and put them together.

This view of entrepreneurship as involving opportunity recognition and exploitation is shared by Sexton and Bowman–Upon (1991, p. 12) who define entrepreneurship as an approach to general management that begins with opportunity recognition and culminates with the exploitation of the opportunity. Gaglio and Katz (2001) refer to this as being intuitive and alert to business opportunities.

Based on the Schumpeterian perspective therefore, the critical element of entrepreneurship is innovation (Schumpeter, 1934; Stevenson and Sahlman, 1989; Stanworth *et al.*, 1989). Kristiansen (1997) however, suggests that what amounts to innovation may vary from one context to another. In developing countries, for instance, just owning a small business can be considered entrepreneurship even though nothing new is created. By contrast, in a developed country context, entrepreneurship could well be the creation of something new (Drucker, 1985, 1999). The reason for this is that the odds against forming a business are considered relatively low in developed countries as compared to developing countries in terms of capital, weak institutional environment, market, technology and many other factors (Marris, 1968; Amjadi and Yeats, 1995; Rutashobya, 1998; Nkya, 2003; van Stel *et al.*, 2005;

Klapper *et al.*, 2010; Grimm *et al.*, 2013). In Botswana, policy makers seem to think of an entrepreneur as anyone who owns a business irrespective of whether or not something new has been created. Consequently, the majority of businesses established with the help of government programs and schemes tend to be copycat businesses not engaged in the creation of new products or services.

The Schumpeterian perspective also emphasizes opportunity recognition in its conception of entrepreneurship. That is, entrepreneurship is the ability to recognize an opportunity and exploit it for own benefit (see Gaglio and Katz, 2001; Ardichvili *et al.*, 2003). Therefore based on Schumpeterian perspective, entrepreneurship is not limited to the creation of new products and or services. It includes the use of existing ideas, products and or services to exploit an identifiable opportunity. In other words rather than being innovators in the classical sense entrepreneurs are the kinds of innovators who exploit and develop ideas, which have been initiated by others. From the nature of businesses supported by agencies within the Botswana entrepreneurial framework particularly Citizen Entrepreneurial Development Agency (CEDA) and from our general observations, it could be argued that entrepreneurs in Botswana fall in this category.

The other dominant view is the resource-based school, which views entrepreneurship as an economic behaviour that entails strategic orientation, commitment to opportunity, resource deployment and control (Olomi, 1997; King and Zeithaml, 2000; Alvarez and Busenitz, 2001; Casson, 2005; Galbreath, 2005). In other words, entrepreneurship is the ability to combine the means of production, such as capital, land, and labour to come up with a winning formula for producing and selling goods and services at a profit.

Characteristics of an Entrepreneur

Entrepreneurship characteristics have also been referred to in literature and there is no agreement amongst the scholars as to the number and labels of these characteristics (Kibera *et al.* 1997; Littunen, 2000; Weber and Schaper, 2004). Amongst the long list of characteristics identified by different authors include autonomy, risk-taking propensity, and internal locus of control, self-confidence, independence, motivation to progress, commitment, innovativeness, determination, persistence and others (Byers *et al.*, 1997; Kuratko, 2009; Graham, 2010; Daley, 2010). The list is so long as to render fruitless any attempt to delineate it. Indeed some of these characteristics tend to contradict each other and most importantly, no one person can possess all of them at any one time (McClelland, 1987; Chinyoka, 1993; Shaver, 2004; Graham, 2010).

In spite of the foregoing, some characteristics of entrepreneurship including risk-taking, determination, commitment and integrity have featured more prominently in most studies (Kuratko, 2009; Babarto and Sunborg, 2010; Graham, 2010; Daley, 2010). Successful entrepreneurs are also considered to be knowledge seekers - those who constantly want to know more about their business and market in which they operate (Barbato and Sunborg (2010). Barbato and Sunborg (2010, p. 4) alludes to this very important point about knowing the business and state of the market:

Do you know who your customers are and how to reach them? Just having a viable idea is not enough to insure success. You need to have adequate research and a plan in place to bring the dream to fruition.

Entrepreneurship Development Antecedents

There is no agreement amongst the scholars and practitioners regarding the contextual variables and their influence on entrepreneurship (Ucbasaran *et al.*, 2001). From the extant literature on entrepreneurship, a number of variables have been posited to have some influence on entrepreneurship (Munene, 1997; Carland *et al.*, 1988). In general these variables can be categorized into three groups, namely, culture and related factors, education and or training, and the business environment in general.

Culture

Culture takes on significance as one of the main variables influencing entrepreneurship because of its impact on the attitudes of individuals towards the initiation of entrepreneurship (McGrath *et al.*, 1992; Vernon-Wortzel and Wortzel, 1997; de Montoya, 2000; Hayton *et al.*, 2002; Lindsay, 2005). Whilst certain cultural values, norms and belief systems are thought to support entrepreneurship development, others discourage it (Hofstede, 1980). It has been observed by various authors for example that African cultures generally are not supportive of entrepreneurship (Buckley, 1996; Munene, 1997; Storr and Butkevich, 2007). Munene (1997, p. 6), for example, drawing from Onwuejeogwu (1995), lists the following features of the African culture which in his view impede entrepreneurship development:

1. Maintain order in life by avoiding unnecessary risks.
2. View wisdom as thought and behaviour that follows one's ancestors.
3. See success or failure in life as bound up with whether powerful others (e.g. Godfathers) help or hinder.
4. Define wisdom as making the best of available opportunities.
5. See advancement as dependent on allegiance to powerful groups or individuals.

Morrison (2000, p. 4) on the other hand has argued that entrepreneurship is also influenced by the prevalence of entrepreneurial culture - a positive social attitude towards personal enterprise, which enables and supports entrepreneurial activity. Morrison (2000) further posits that economies and regions that have flourished in the late 20th century are those that have a well-developed entrepreneurial culture.

In Botswana entrepreneurial culture is being undermined by negative attitudes towards self-employment. Self-employment is not generally regarded as an alternative to employment by, say, Government or some established private sector company, but rather, it is regarded as something you do when all else has failed - a last resort so to speak. Banks and other lending institutions display the same attitude and rarely advance loans to self-employed people.

Education and Training

Much debate involving practitioners, policy-makers and researchers alike has persisted in recent decades regarding the role of education and training in entrepreneurship development (Unger Rauch, Frese & Rosenbush, 2011; O'Connor, 2013; Graevenitz, Harhoff and Weber, 2010; Davidsson and Honig, 2003). At the heart of this debate is whether entrepreneurship is an in-born attribute where people who are born entrepreneurs will succeed with or without formal education or training and that, no amount of education will produce an entrepreneur out of someone who is not a born entrepreneur (see Ogbor 2000; Man and Lau 2000; Dana, 2001; Thompson, 2004; Heinonen and Poikkijoki, 2006; Kirby,

2006) or whether entrepreneurship can and should be taught and learnt (Gottlieb and Ross, 1997 Henry *et al.*, 2005). This debate has over the years coalesced into two camps with those who are influenced by the trait theory arguing against attempts to socially engineer entrepreneurs through education and training (Gibb, 1987, 1993; Jack and Anderson, 1999; Lüthje and Franke, 2002; Fayolle, 2005) while the followers of the human capital theory (Becker, 1964) favour entrepreneurship educating and training. Human capital theorists have long argued that attributes such as education, experience, knowledge and skills are critical for entrepreneurship success (Unger *et al.* 2011; Colombo and Grilli, 2010).

Either perspective has implications for policy relating to the development of entrepreneurship. If entrepreneurs are born and not made then the main task of policy makers is to identify those with entrepreneurial characteristics and provide them with the resources they need to realise their potentials, i.e. those who are intuitive about entrepreneurial opportunities (See Craig and Lindsay, 2001; Sutton, 2001; Matzler *et al.*, 2007). The main problem however is in establishing a definite set of characteristics that can be used to identify entrepreneurs. To date, there is no universally agreed upon set of entrepreneurship attributes.

On the other hand, if entrepreneurs can be taught, everyone can potentially be developed to become an entrepreneur with the right education and training. This is the assumption behind most educational, training and mentoring programs. The problem with this assumption is that in reality not everyone can become an entrepreneur even with all the right education and training programs in place. Therefore, there will always be a need for policy makers to try to distinguish between individuals who can potentially be developed to become entrepreneurs and those who cannot, a fairly arduous task (Sriram and Mersha, 2006). Moreover, scholars have yet to firmly establish the link between human capital and entrepreneurship (Unger *et al.* 2011; Davidsson & Honig, 2003; Martin, McNally and Kay, 2013).

From the foregoing therefore it would appear that while both theoretical positions are intuitively plausible they suffer from a litany of methodological and conceptual problems. Despite this, entrepreneurship education and training programs are widely used by governments to foster entrepreneurship in both developing and developed countries. In Botswana, the position of government is that entrepreneurship can and should be taught and mentored (see LEA, CEDA programmes). This is despite concerns by some people about the failure of existing educational and training programs to produce successful entrepreneurs. A counter argument could be made that either we teach the wrong things or we use wrong methods of teaching entrepreneurship. Either way, there is yet no consensus as to what entrepreneurs should be taught or how to teach entrepreneurship (Olomi and Sabokwigina, 2010; Higgins and Elliott, 2011).

Supportive Business Environment

The term business environment is used rather loosely to include issues such as the legal framework, the state bureaucracy, infrastructure, credit system, tax regime, corruption and others which influence entrepreneurship development (Dubini, 1989; Rugumamu, 1997). In most of the developing countries, and Africa in particular, the general business environment is characterised by lack of well-developed legal framework, stifling bureaucracy (e.g. time and effort required to obtain a license), poorly developed public infrastructure (Kaunda and Miti, 1995; Satta, 2003; Eifert, Gelb and Ramachandran, 2008) lack of credit, punitive tax regimes and corruption (Fombad, 1999; Fjeldstad *et al.*, 2006; Dreher and Gassebner, 2007; Storr and Butkevich, 2007; Mbaku, 2010). Rather than reward people for engaging in entrepreneurship, this kind of business environment, it is argued, punishes them (Rugumamu, 1997). This puts entrepreneurs in developing countries and Africa in particular

at a disadvantage because of their inability to harness the benefits of efficient production systems (Bain, 1956; Kaplinsky and Mhlongo, 1997; Satta, 2003; Eifert, Gelb, and Ramachandran, 2008; Robson, Haugh and Obeng, 2009). All of these problems combined do not make for a conducive entrepreneurial environment (Lucas, 1997; Satta, 2003; Eifert *et al.*, 2008).

The absence of supportive business climate in developing countries cannot be entirely blamed on internal factors. External generated influences such as globalization, the integration of the global economy have contributed to the difficulties of doing business in developing countries (Bain, 1956; Kaplinsky and Mhlongo, 1997). For example, because of globalization consumers in developing countries shun locally produced products in favor of goods and services produced in technologically more advanced nations, which are perceived to be cheaper and of higher quality. This puts entrepreneurs in developing countries and Africa in particular at a disadvantage because of their inability to harness the benefits of efficient production systems (Bain, 1956; Kaplinsky and Mhlongo, 1997; Satta, 2003; Eifert, Gelband Ramachandran, 2008; Robson, Haugh and Obeng, 2009). Consequently, products produced locally tend to be relatively more expensive than those imported from more advanced nations.

The Structural Adjustment Programs (SAPs) imposed by the IFM and the World Bank in the 1980s and 1990s have also had unintended adverse effects on the economies of developing countries which took the medicine (Heidhues and Obare, 2011). For example, one of the prescriptions of SAPs was the reduction of public expenditure by reducing the number of public sector employees and by capping salaries of the remaining civil servants (Dowden, 2009). This, it was hoped, would lead to a small but more effective and efficient workforce. But the actuality of it challenges the assumption. Although SAPs were designed to reduce the cost of doing business and to encourage investment in developing countries, in many countries they worsened the situation (Heidhues and Obare, 2011).

Theoretical Framework

The theoretical framework that informs the present paper is based on the Schumpeterian school of thought, which views an entrepreneur as an innovator. The theory suggests that at the core of entrepreneurship is the ability to innovate or create something new with the hope of making a living or profit out of it (Gaglio and Katz, 2001). Entrepreneurship itself is seen as the hallmark of economic development and any dearth of innovation and hence entrepreneurship impacts negatively on the economy at large (Kristiansen, 2001). Similarly, innovation and therefore entrepreneurship is not confined to the creation of new products but rather extends to activities ranging from introduction of new methods of production, finding new sources of funding, finding new markets, and new sources of raw materials to creation of monopolies (Kristiansen, 2001). The Schumpeterian school further asserts that the introduction of new products and the continuous improvements of existing ones engender entrepreneurship.

In this paper therefore innovation is considered a critical component of entrepreneurial development (Schumpeter, 1934). Without innovative promoters, prospects for developing entrepreneurial capacity are limited.

We have reviewed the argumentations surrounding what entrepreneurship is and what begets it. These arguments have policy implications which will be addressed later. We have also outlined the theoretical framework that informs this paper. In the next section we elaborate on the methodology.

METHODOLOGY

To gain insights into entrepreneurship development efforts in Botswana, the paper focuses on the performance of CEDA as reflected in its annual report and illuminates possible lessons. In particular we pay close attention to the narrative from the Chief Executive Officer and the Chairman of the Board in the annual reports. These annual reports are available online and were accessed on different dates. Key thematic phrases and words were searched for, in order to understand the narrative in terms of challenges and opportunities. One of the key thematic indicators is the ability of projects funded by CEDA to payback their loans. In this regard bad debts are a significant measure of success or failure and have major implications for entrepreneurship development. The levels of foreclosure are also a theme identified. These foreclosures signify difficulties and challenges that businesses funded by CEDA face. There would be real questions as to why these foreclosures occur. The financial performance of CEDA is also a key insight, in terms of the traditional measure of profit or at least breakeven point. The question is whether CEDA is receiving sufficient repayments to be self-sustaining instead of depending on government subventions. Employment levels associated with CEDA projects and general contribution to economic diversification also form the basis of our analysis. In addition to this we focus on the stated objectives and mandate of CEDA.

Further insights were gained from the opinions and views of a high-ranking CEDA official, whom we interviewed at the organization's head office in Gaborone in November, 2014. The interview which lasted for about one hour provided opportunity both to delve deeper into key emergent issues and to corroborate the evidence through triangulation.

THE CITIZEN ENTREPRENEURIAL DEVELOPMENT AGENCY (CEDA)

Formation and objectives

The Citizen Entrepreneurial Development Agency (CEDA) was established by the Botswana Government in August 2001 as a company limited by a guarantee. This followed recommendations of the National Conference on Economic Empowerment (NACEE) in 1999 and the 4th evaluation of Financial Assistance Policy (FAP) program. One of the key recommendations was that government should manage its financial assistance initiatives in a more professional manner and streamline the various programmes providing similar services such as the Financial Assistance Policy (FAP) and the Micro Credit Scheme, previously managed by the National Development Bank (NDB). The main objectives of CEDA are to:

- Foster citizen entrepreneurship and empowerment;
- Achieve economic diversification;
- Encourage competitiveness and sustainability of citizen enterprises;
- Create employment opportunities;
- Promote vertical integration and horizontal linkages.

The key questions to address relate to how well CEDA has performed with regard to its stated objectives and the implications for the development of entrepreneurial capacity in the country?

CEDA assistance

To achieve the foregoing objectives CEDA provides financial assistance to citizen owned business enterprises considered viable and sustainable, in the form of loans at subsidized interest rates and provides venture capital for joint ventures between citizens and foreigners. In addition to funding, CEDA provides training and mentoring services to promoters. Funding, however, remains the primary function with training and mentoring being secondary functions. As noted earlier, these secondary functions are now the main remit for LEA. This raises a fundamental question: for the purpose of promoting entrepreneurship, should funding be considered separate from training and mentorship? From our interview with a CEDA official and from the mentoring challenges CEDA has faced to date, it would appear that separation of these functions is necessary. The establishment of LEA, though it came rather late was thought a necessary measure to mitigate the challenges of training and mentorship faced by CEDA as a function of the institution.

Operational Challenges

Since it started operating in 2001, CEDA has experienced a number of problems relating to loan processing, project monitoring, accounts in arrears, training and mentoring. The number of loan applications received by CEDA when it started to operate far exceeded expectations (Sekwati, 2011; Mwobobia, 2012). Because of this and lack of capacity at the initial stages, CEDA could not cope with the processing of forms, which resulted in a backlog of up to six months. In its 2012 annual report eleven years after establishment the agency still raises concerns regarding funding for its on operations (CEDA, 2012). The length of time applicants had to wait to receive feedback led to public discontent and pressure on CEDA to address the problem as a matter of urgency. This culminated in CEDA devoting more resources to loan processing and soliciting the services of private consultants. Due to the sheer number of applications that had to be processed within a short period of time, less attention was paid to detail resulting in the approval of some undeserving applications. Thoroughness in the processing of applicants may also have been compromised by the involvement of private sector consultants, who desire to make own profit.

The focus on loan processing also meant that monitoring activities received less attention. This resulted in a number of promoters failing to meet their part of the bargain particularly with regard to submission of regular reports and loan repayments. The upshot was an increase in the number of loan accounts in arrears and the foreclosure of some projects (Table 1). The loan arrears have persisted over the years CEDA has been in operation to this day. In response CEDA indicates that "...a team has been established to collect arrears and this has already yielded significant results" (CEDA 2012). CEDA is also concerned by the toxicity of loan arrears on its operations and efficiency:

The main challenges are delays in decision making regarding project funding, rising arrears, increased contamination rate of the loan book and reduced portfolio revenues (CEDA, 2012).

CEDA attempts to define and provide parameters:

...a borrower is...in default on a loan, if they fail to meet their scheduled payment obligations for four consecutive months before a participating bank

can submit a claim under the scheme. Provision for claims comprise the portion of the loss expected to be incurred by the group for the guaranteed loans that are four months or more in arrears but not yet claimed by the bank (CEDA, 2012).

Table 1: Arrears and Foreclosures

	2012	2011	2009	2008
	P	P	P	P
Performing loans	676,293,015	568,337,760	483,796,473	302,579,005
Loans above 5 months in arrears	475,240,879	427,236,870	80,997,348	93,588,040
Loans which are foreclosed	116,446,284	77,180,477	216,862,777	215,163,982
	1,267,980,178	1,072,755,107	658,381,860	734,605,764

Source: CEDA Annual reports 2008 and 2009.

The problem of backlogs and arrears led CEDA to revise its strategies on loan processing and in particular the use of private consultants. One way of doing this was to beef up its staffing capacity in terms of both numbers and skills. Rigorous methods of loan processing were also introduced and a loan clean-up campaign was mounted to identify all problem accounts and follow them up with the help of debt collectors. Other measures used to arrest the deteriorating arrears include the introduction of monthly collection reports and snap checks (visits to businesses without prior knowledge of the owners) (see CEDA, 2012).

The above measures have helped reduce the number of applications received, the number of unprocessed applications and the average age of loan applications (decreased from six to one month). The clean-up campaign led to several foreclosures. Average monthly collection increased as a result of the clean-up campaign. The number of accounts in arrears, however, remained high following the clean-up campaign as per annual reports. The main problems relating to training and mentoring services within CEDA include the failure to adequately provide these services at pre-appraisal stage, lack of commitment by promoters and inadequate number of skilled trainers and mentors. The shortage of people with entrepreneurial skills was highlighted by the senior officials as a major problem. Initially, training and mentoring were provided at implementation and turnaround stages respectively thereby leading to failure to identify skills gap at appraisal stage and the consequent disbursement of funds before necessary training is provided. This also meant that mentoring came rather too late for some projects to be turned around. To provide timely intervention, training and mentoring had to be carried out at pre-appraisal stage as well. Government has responded to this gap by setting up LEA to assist with mentoring and general advice. According to the senior CEDA officials the establishment of LEA is a welcome development as CEDA is primarily a funding institution.

The forgoing highlights the institutional challenges associated with attempting to build entrepreneurship capacity in the context of a developing country. For the institutions which are charged with building entrepreneurship capacity to succeed in their remit, they need themselves to be capacitated in terms of resources. In the case of CEDA it is quite clear that the resources at its disposal are inadequate.

Loan Performance

The performance of CEDA's loan book is fundamental to understanding its relevance, limitations and possible potential. One way of assessing the performance of CEDA in

fostering citizen entrepreneurship in Botswana is through the number and value of loans disbursed. To date 5000 projects valued at over One billion pula have been funded. This is a significant achievement although it must be understood against the failure rate and foreclosures. CEDA suggests that its performance is:

...influenced by two elements that have shown to be inconsistent over the years, therefore making financial performance to fluctuate significantly. The two elements that have a significant impact are the level of grants received from Government and the level of provisions for impairment required on the loan book. Financial year 2006/07 recorded a loss of P44M and this improved to a profit of P32M in 2008/09. The positive results are mainly attributable to the significant grant received from Botswana Government in 2008/09. During this year P160M received from the government was credited to income in line with IAS 20: Accounting for government grant and disclosure of government assistance (CEDA, 2009).

Loan arrears resulting from poor repayments leading to foreclosures are the greatest challenges for CEDA. This is part of CEDA's narrative:

The performance of CEDA is greatly affected by the provision for bad and doubtful debts. Though management has been focusing on tightening the credit policy, challenges experienced during the formative years of CEDA have had an impact on the performance of the loan book. Loans approved in periods 2001-2004 had been very problematic as a result of capacity constraints experienced during those years (CEDA, 2009).

Given these problems CEDA is not able to sustain itself from its loan disbursements. It has to continue depending on subventions from government:

It is therefore, expected that the Agency would continue depending on Government support to effectively execute its mandate of entrepreneurship development in the country. This is a challenging but equally important mandate for the country to achieve its aspiration of being a prosperous and productive nation. CEDA operates in lower end of the market, in terms of financing, where the market is predominately start-ups. Globally 80% of start-ups collapse in the first three years of their existence and the challenge for CEDA therefore is to survive as many enterprises as possible. This calls for continued support towards the provision of training and mentoring services by CEDA. It is also important that we inculcate the culture of honouring repayment of loans from our customers and the challenge for us is to find smart ways to encourage our customers to faithfully service their loan obligations within agreed time schedules to the Agency to fund as many of our people as possible (CEDA, 2009).

One of the key questions is whether those who obtained loans were sufficiently motivated to run businesses or they were overwhelmed by the invitation to obtain loans without a full appreciation of the complexities associated with debt financing. Often it is important to understand the funding mix of one's business. Did these investors understand the implications of debt funding? Did they make significant and thorough analysis and come to

an informed conclusion that indeed some debt injection into their business was needed? What role did CEDA play in explaining the downside of debt financing? These are key questions going forward. A CEDA official indicated that some of their clients do not understand the full implications of debt financing and often seek more loans even when it is not necessary. As an example, he noted that some clients whose businesses are profitable still want to borrow more to expand their operations thereby jeopardizing the financial position of the business.

CEDA is nonetheless concerned about the arrears and reflects on this:

While the Agency continues to collect from defaulting customers by way of foreclosure, a lot of emphasis is being placed on rehabilitating projects that show prospects of viability. This is particularly so with respect to projects that may have been affected by the recent economic down turn.

The failure to repay loans could also be attributed to the “entitlement mentality” as one senior CEDA official observed:

...some promoters feel that as citizens, not only are they entitled to a loan but that they also don't have to pay it back. For example, some promoters would rather repay loans from commercial banks than repay CEDA loans even though they are in a sound financial position.

Asked why this perception exists the CEDA official noted that:

...the writing off of debts owed to the National Development Bank by the Government..

This could also be attributed to the fact that the recipients of previous schemes such as FAP were not required to repay the government as these were grants.

Enhancing Economic Diversification

Economic diversification in the context of Botswana means establishing and developing economic activities outside the mining sector, which dominates the economy. CEDA funded enterprises are mainly in sectors of the economy apart from mining including Agriculture, Manufacturing, Retail and Tourism. CEDA therefore funds projects across sectors that are generally viewed as not being the traditional income generators for the country. The 2009 CEDA annual report:

Loans by Sector as at year end, the CEDA loan book stood at P546.4 million. The Agency is exposed to the sectors in the following proportions: Services sector 44%, Agriculture 30%, Retail 14%, Manufacturing 9% and Property 2%. = 99%. Going forward, the Agency has adopted a sector allocation strategy to manage the growth of the loan book.

While the performance of CEDA funded businesses varies in different sectors their overall effect on economic diversification has been at best minimal. It is over a decade now since CEDA was established and the country continues to be dependent on mineral revenue and diamonds in particular (Acemoglu, Johnson, and Robinson, 2003). CEDA annual reports do not reflect this as an area they have succeeded in. The annual government budgets do not

reflect this either. At this point therefore in terms of the country's economic diversification objectives, CEDA has not made a significant impact since it was established in 2001. This should however not be interpreted as outright failure on the part of CEDA since most of the entrepreneurs in Botswana are being developed from scratch. Moreover, Agriculture and Manufacturing, two key economic sectors in Botswana, have been adversely affected by drought in Botswana and the global financial crises respectively. According to the CEDA official we interviewed, manufacturing is in a much direr situation due to competition from cheap Chinese products.

Enhancing Competitiveness

The ultimate objective of CEDA is to see citizen entrepreneurs becoming competitive and self-sustaining. Before CEDA was introduced very few citizen-owned companies existed and those that did, could not effectively compete in the domestic market let alone regional markets. With CEDA's financial assistance, training and mentoring, a relatively large number of citizen owned businesses have been established and an increasing number of them is competing relatively well in the domestic market. The real litmus test however remains their ability to compete beyond the borders of Botswana and to take advantage of the opportunities presented by amongst others the Africa Growth Opportunity Act (AGOA) (Ojione, 2012). So far, the participation of Botswana companies in regional and global markets has not been significant (Mokhawa and Osei-Hwedie, 2003; Nouve and Staatz, 2003; Shapouri and Trueblood, 2003; Tadesse and Fayissa, 2008). Others argue that AGOA is a trade preference illusion (Rolfe and Woodward, 2005). One of the key problems hampering CEDA funded businesses from competing effectively in both local and international markets is lack of or inaccurate market information. As CEDA official we interviewed observed:

Local entrepreneurs rely solely on demand forecasts by government which are often unreliable.

As an example CEDA official indicated that the failure of some projects such as Ostrich farming and centralized vegetable warehouse were due to inaccurate demand forecasts.

Employment creation

To date, the actual number of jobs created by CEDA is difficult to accurately determine. This was attributed by the CEDA official to a number of factors including among others, delayed implementation of projects, failure to keep up-to-date employment records, the usage of part-time employees, poor performance leading to job cuts and the general tendency by some promoters to deliberately misinform CEDA officials in order to give an impression that their business is either doing well or not doing well, whichever position suits them.. Due to competitive pressures, most CEDA funded companies are forced to employ relatively fewer people than originally planned (Kapunda and Botlhole, 2008). The small number of jobs created may also be an indication of the failure to grow by some of the CEDA funded businesses.

Promoting vertical and horizontal linkages

Vertical linkages occur when a large firm decides to reduce costs by outsourcing from smaller firms activities or functions that had previously been carried out internally (Lim and Fong, 1982; K'obonyo, 1997). Vertical linkages can also take the form of sub-contracting or

licensing. Such linkages are necessary for the development of the small firms who often find it difficult to penetrate established markets.

Most of the vertical linkages involving CEDA companies include public sector organizations. For example, all public organizations are now outsourcing cleaning services from citizen owned companies including those funded by CEDA. Government organizations are required to outsource some of the services to citizen-owned businesses. This is done through the tendering process, which does not however guarantee jobs for most small businesses including those funded by CEDA.

The vertical linkages, which hold great potential for the development of citizen entrepreneurs, are those involving the private sector. Although CEDA encourages private sector companies to establish links with the citizen owned companies that it funds, few such linkages exist (see Hussain and Planning, 2000; Mbayi, 2011). The few that do exist are characterized by unfair deals in favour of the large companies in terms of price bargaining and other terms and conditions of exchange. Most of these large companies are of foreign origin with the majority of them being South African (see Ahwireng-Obeng and McGowan, 1998; Daniel, Naidoo and Naidu, 2003; Weatherspoon and Reardon, 2003; Emongor and Kirsten, 2009). For reasons ranging from allegations of racism on the part of these companies to shortcomings on the part of local producers (i.e. low quality products and unreliable delivery schedules amongst others) most of these companies shun local producers (LEA, 2014).

In addition to developing vertical linkages with large corporations, CEDA businesses are encouraged to develop networks amongst themselves or horizontal linkages. For example, small poultry farmers have been encouraged to work together to overcome common problems such as lack of sufficient production and distribution capacity to be able to compete effectively with large firms. However, for some reasons, few citizen-owned companies cooperate with each other. By contrast foreign-owned companies particularly those owned by Batswana of Chinese or Indian origin tend to cooperate with each other. Therefore individualism is impeding Batswana from developing into successful and competitive entrepreneurs (Kaunda and Miti, 1995). This tendency was highlighted by the CEDA official who lamented that individualism is “prevalent” among local businesses.

LESSONS FOR OTHER COUNTRIES

A number of important lessons can be drawn from the experience of Botswana in promoting and fostering entrepreneurship. First, our findings indicate that while the availability of credit is important in fostering entrepreneurship, training and mentoring services are equally important. The ability to forge vertical and horizontal linkages is also found to be a critical factor in entrepreneurial success. Such linkages are particularly important as they serve as a conduit towards established markets both locally and internationally.

Second, our findings suggest that most of the CEDA-funded entrepreneurs fail due to their inability to analyze and understand the market. The lack of attention given to the marketing side of the business by the government institutions charged with entrepreneurship development especially CEDA, contributed towards this state of affairs. The establishment of LEA by the Government of Botswana was largely informed by this realization. An important lesson for other countries in the region and beyond is that the marketing side of the business is just as important if not more important than the production side.

Third, the nature of financing and how it is marketed to individuals or potential investors is another area of interest. The marketing of CEDA services may have

overshadowed the complexities inherent in debt financing. Debt has to be repaid at a given interest rate. The lower interest rates associated with CEDA were also sold as an advantage in the process glossing over the real issue which is debt. Many whose projects collapsed may have been positively coerced into the business mirage. The actuality of their expectation did not match the situation on the ground. Their daily grind of running the business and the intricacies of penetrating markets did not match the ease with which they obtained the financing.

Fourth, an elaborate entrepreneurial framework, such as the one set up by Botswana government, has budgetary implications in terms of maintenance and running costs. A more streamlined system with clear performance indicators could be advocated. One of the key issues that emerged from this study is the near absence of performance indicators developed specifically for the institutions charged with entrepreneurship. We found in the case of CEDA that there were no clear key performance indicators upon which to ascertain organisational performance.

Finally, it must be noted that developing successful entrepreneurs from scratch is a daunting and complex task that cannot be achieved over a short period of time. As the Botswana experience shows, many factors influence entrepreneurship development and there are no certain outcomes, at least in the short to medium term.

CONCLUSION

Whilst the Government of Botswana through CEDA has the potential to foster entrepreneurial capacity in the country it is limited by amongst others lack of resources, the small domestic market, lack of entrepreneurship culture in general and relatively unsupportive business environment. By providing loans with low interests rates and longer grace periods as well as training and mentoring services CEDA hoped to turn out enough successful entrepreneurs to help the country achieve some of its key macro-economic objectives such as economic diversification and employment creation. However, more than ten years since its formation, CEDA has yet to achieve those goals. This begs the question whether Botswana's entrepreneurship development framework serves as a role model for other countries in the region and the continent at large or whether a substantial relook at this model is needed.

Going forward

Future research will have to use various sources of data including the views of the various key stakeholders and observation. Views of stakeholders would be necessary to obtain lived experiences of those who have been involved in entrepreneurship development in Botswana. These may include policy makers from the Ministry of Trade and Industry, officials of various organizations involved in entrepreneurship development and entrepreneurs themselves. Significant insights could be obtained from these lived examples and pointing to future directions.

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