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Doing business in Africa: do the poor profit?

The role of Dutch business in development

Annemarie van de Vijsel | November 12, 2014

When the Dutch private sector is involved in development in Africa, a dilemma may arise. The Dutch government claims that businesses could have a positive impact on local economic development on the continent in the longer term. But do their activities also benefit the poorest and marginalized groups? This dilemma was addressed at the 'Africa Works!' conference in Leiden, the Netherlands, on 16 and 17 October.

With the number of Dutch companies active in Africa steadily rising, this second edition of Africa Works! looked at the challenges and opportunities of doing business on the continent. As the conference showed, doing business creates profit and employment for the Dutch private sector, but also impacts on the local economy and population. This impact is largest when businesses cooperate with other parties - other businesses, NGOs, governments and/or knowledge institutes from Africa and the Netherlands. This point was stressed by the Dutch ambassador to Kenya, Joost Reintjes, referring to partnerships between Dutch and Kenyan entrepreneurs. "I am confident of the win-win," Reintjes said. "Partnerships benefit both Kenyans and Dutch companies. We are partners in business and partners in development."

Traditionally in the Netherlands, NGOs and the government have focused on development in Africa. Now, in addition to profit-making, the private sector is devoting more attention to its social value. In doing so, it is increasingly receiving support from the Dutch Ministry of Foreign Affairs, which now frames trade and business as contributing to development. Because of its different approach and interests, the Dutch private sector generates a different local impact than traditional development cooperation. As discussed at the Africa Works! conference, by doing business in Africa, Dutch companies can help strengthen local small and medium-sized enterprises (SMEs) and economic development.

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And this is where the dilemma arises. The question was raised whether Dutch investments benefit the entire local population. “Inclusiveness is not high on the priority list of foreign investors,” said Angeline Nguedjeu of the Dutch NGO ICCO. “It is all about income generation for international and local companies.” Nguedjeu argued that, as companies primarily have a commercial interest, they may not invest in the poorest population groups. In addition, they do not always focus on the quality of jobs they create and on providing basic education. This is the main difference between the private sector and development actors operating in Africa.

Creating local employment

Dutch fabric printing company Vlisco is an example of a business that has a direct effect on local economic development. Vlisco’s Hans Ouwendijk told the conference that the company’s plants in the Netherlands, Ghana and Côte d’Ivoire employ 2,700 people, 1,650 of them in Africa. Other Dutch companies do business in Africa by investing in or trading with local companies.

Robert Dijksterhuis of the Netherlands Enterprise Agency (RVO) explained that, to receive a loan from the Ministry of Foreign Affairs’ Dutch Good Growth Fund (DGGF), Dutch companies have to create local jobs. Loans from the DGGF are intended for Dutch companies investing in in Africa or in African SMEs. These local jobs do not necessarily have to be held by Africans.

It is difficult to know exactly how many jobs the private sector creates in Africa. According to Rob van Tulder of the Rotterdam School of Management, “the social return on investment is difficult to measure as hardly any methods exist for that”. As Dijksterhuis confirmed, the DGGF does not require a minimum number of local jobs to be created. He explained that it is not only about creating direct jobs, but also indirect jobs in the market that arises around the funded activities.

Quality of employment

Caroline Wildeman of the Dutch NGO Hivos said that it is not enough for Dutch firms to claim that their investments create local jobs. “It is too easy to say: ‘we invest, this brings employment and that’s enough’,” said Wildeman. “We have to look at the quality of employment that Dutch businesses bring.” But as the main aim of many companies is to make a profit, employing African staff in decent jobs may not be the highest priority for all foreign businesses. However, more and more companies are becoming aware of the importance of doing this. “Boosting positive impact on the local economy is our goal, besides making money”, said Simon Derrick of Blue Skies, a British company with fruit production facilities in Ghana, Egypt and South Africa. “We pay more than the minimum wage to local African employees. That money can be invested in the local economy and thus has a positive economic impact.” Therefore, whether they provide decent jobs or not, foreign firms doing business in Africa have a direct impact on the local labour market. In that sense, the private sector has a different focus than traditional development cooperation, which focuses more on improving conditions of employment rather than on directly creating jobs.

Education, training and innovation

While not focusing mainly on directly creating local jobs, traditional development cooperation does concentrate more on basic education. According to Caroline Wildeman, literacy is important so that “local employees do not get exploited in contracts”. While they are usually not involved in and are not responsible for providing basic education, Dutch companies in Africa sometimes give practical training on the skills their employees need. Both Blue Skies and Vlisco do this. “Vlisco provides training to motivated young women through the business leadership programme and gives training to designers”, Monique Gieskes of Vlisco said. Gieskes added that the aim of this training is that employees “can work with our company and let their societies profit”. Nevertheless, the number of women that receive this training is limited to 15 to 30 per country, and 60 in total.

At Africa Works!, Peter Muthee of the Latia Resource Center in Kenya was looking for Dutch investors to learn how to make better use of new technologies in farming. His company helps African farmers to develop their entrepreneurial approach. The Dutch government is generally willing to make investments of this kind, especially in medium-sized farmers. According to Joost Reintjes, this is part of a shift in emphasis away from traditional assistance to investment and trade. Medium-sized farmers are more interesting than subsistence farmers from a business perspective, as they “have the potential to grow and use the expertise and techniques that the Netherlands can offer them”. Subsistence farmers, by contrast, usually receive tools to innovate, Reintjes added, as they do not have the financial means to invest.

Access to finance

Besides creating local employment and providing training, Dutch firms and banks doing business in Africa usually mention the valuable contribution they can make to increasing access to finance and improving the required financial structure . In his keynote address, Berry Marttin of Rabobank said that “over 2.5 billion adults in Africa have no bank account”, and that Rabo Development aims to address this by providing “access to bank accounts and training account managers to assist farmers with business and financial plans”.

Kirunga Doreen Tumusiime of The Ark Kindergarten in Uganda, also indicated that access to finance is a problem in some areas, saying “The government of Uganda only spends 3% of its budget on education. We see business as a solution to fill that gap. What we need from the Dutch is money for investments.”

However, Ugandan entrepreneur Agnes Apea pointed out that the private sector provides African SMEs with loans rather than the donations with which traditional development projects have often been funded. As interest rates may be high, loans may not be an option for these SMEs. As Samer Abdelnour of the Rotterdam School of Management also noted, problems may arise when they have to pay back the loan while they have not yet had enough success to survive without it.

During the conference it became clear that one of the advantages of the Dutch private sector playing a role in development is that it is less dependent than the traditional development sector on shrinking government budgets. This may lead to a more stable source of finance. However, the point was again raised that companies may only be willing to invest in people and places if there is sufficient likelihood of them getting a return on their investment. For example, Helen Gichohi of the Equity Group Foundation, which works in a partnership with the Equity Bank and the Dutch government, said that the Foundation is working in “high potential areas” in Kenya. These may not be the poorest and most marginalized areas. The private sector may consider the risk too high to invest in countries with a less enabling environment, like those struggling with Ebola. Therefore, just like development projects in Africa, local African SMEs looking for investments are dependent on financial choices made in the Netherlands. As Gemma Betsema of LANDac argued, those areas that do not attract foreign investment may still need development cooperation.

Read more on the local impact of doing business in Africa in the article ‘Looking beyond success stories’ by Klaartje Jaspers at The Broker.

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