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Entrepreneurship and SME Sector Development in Post-genocide Rwanda: a Search for the 'Missing Middle'

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Abstract

This thesis aims to gain an understanding of why a new entrepreneurial class and a vibrant small and medium-sized enterprise (SME) sector have failed to materialise in post-genocide Rwanda.

Vision 2020, the government's economic and social development plan, set the goal of transforming Rwanda into a middle-income country by the year 2020. This was to be brought about via the emergence of a new entrepreneurial class and a dynamic SME sector that would deliver economic growth, employment and a stable and secure future for the country's citizens. But despite implementing a comprehensive strategy that conforms to orthodox development theory, the desired SME sector is conspicuous by its absence.

The thesis examines the validity of the theoretical arguments that underpin the strategy, the context within which the economic transformation was expected to occur and specific stimulus measures that were taken. Possible explanations for the mismatch between anticipated outcomes and reality were explored via face to face interviews with successful and aspiring entrepreneurs in Rwanda.

Analysis of the interviews with successful entrepreneurs revealed a divergence between their characteristics and experiences and orthodox theory. Contrasting these findings with those from the interviews with aspiring entrepreneurs facilitated identification of a sub-set of proto-entrepreneurs, who were a close match to successful entrepreneurs both in the characteristics they displayed and the entrepreneurial journey they intended to take. However, the paucity of proto-entrepreneurs and the anticipated lengthy gestation period that is likely to accompany the development of their enterprises challenge both the common conception that developing economies are populated by a vast number of 'entrepreneurs in waiting' and the assumption that the supply of credit and business skills training will trigger the formation of a dynamic SME sector.

The thesis also highlights the unintended consequences of resources being misdirected as well as the risk of leaving behind a large body of well-educated but disillusioned individuals, who anticipated being included in an economic success story, which has not come to pass and generated the sustainable volume of employment that was an explicit objective of *Vision 2020*.

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Preface

In line with the belief in the transformational power of small and medium-sized enterprises (SMEs), *Vision 2020*, the Rwandan government's economic and social development plan, anticipates the emergence of a new entrepreneurial class that will catalyse the formation of a dynamic new private sector. In addition to prompting economic growth and poverty reduction it is anticipated that Rwanda's economic transformation from agricultural to knowledge-based society will produce the tax revenues that the government will need to fund public goods and reduce reliance on external aid (Minecofin, 2000: 4).

The World Bank's Ease of Doing Business Index indicates that considerable progress has been made in establishing business-friendly institutions, to the extent that Rwanda ranks second out of the 47 countries in Sub-Saharan Africa (World Bank, 2016). Financial support is available in the form of loan guarantees via the Rwandan Business Development Fund (BDF) and the near ubiquitous provision of microcredit. Major government initiatives targeted specifically at stimulating entrepreneurship and SME formation have been developed including a large-scale national business plan competition, run by the Rwandan Ministry of Trade and Industry (Minicom). There is also an abundance of 'entrepreneurship training' backed by international and local NGOs, government, overseas development agencies, educational establishments and international financial institutions.

Despite the efforts designed to stimulate domestic entrepreneurship and SME sector development, evolution of the much vaunted SME sector has not come about. The Rwandan economy remains dominated by a mass of single-worker micro-enterprises. Against its target of achieving middle-income status by 2020, the purchasing power adjusted GDP per capita of $1,661 ranks only 163rd of the 178 countries for which data is available, placing the economy firmly in the bottom decile for average income (World Bank, 2016d). That this should be the case is surprising given the extent of the initiatives that have been undertaken.

The need to resolve the apparent paradox is of particular relevance to post-genocide Rwanda given that *Vision 2020* explicitly promises peace and prosperity on the back of entrepreneur-led economic growth. The country also faces a significant demographic challenge: with a median age of 18.8 years and with 61 percent of its population under 25 (CIA, 2016), there is an urgent need to create a large and sustainable volume of employment opportunities.

This thesis explores and attempts to explain why a new entrepreneurial class and a vibrant SME sector are struggling to materialise in Rwanda despite all the supportive measures that have been instigated.

Terminology

Before examining the Rwandan context in detail, it is necessary to define carefully the key phenomena that the research will be addressing, namely: SMEs and entrepreneurs. The main focus of the research is the SME sector, which the Rwandan government believes will be the engine of economic growth. In addressing this central phenomenon it is also important to consider the individual entrepreneurs who bring these SMEs into existence. Although both terms are used widely throughout the academic literature and policy documents, there is a marked lack of consistency about what exactly is meant when they are used. It is therefore important at the outset to determine clearly the meaning that will be given to both terms in the context of this thesis and the research that underpins it.

Small and Medium-Sized Enterprises

SMEs constitute a segment of commercial enterprises that, by definition, falls midway between micro-enterprises and large corporations. But despite the apparent clarity of this segmentation, there is considerable variance in the scale of enterprise that is considered to be an SME. The European Commission, for instance, defines the segment as comprising enterprises that employ between 10 and 249 individuals, to which is added a secondary financial filter as shown in Table P.1.

Table P.1 European Commission SME Categorisation

Enterprise Category	Employees	Turnover or Balance Sheet Value
Micro	1-9	≤ € 2 million
Small	10-49	≤ € 10 million
Medium	50-249	≤ € 50 million turnover or ≤ €43 million balance sheet value

(Source: European Commission, 2005: 14)

This segmentation is designed to ensure that “support measures are granted only to those enterprises which genuinely need them” (ibid: 5). Yet when examined closely, it is clear that it is cast so broadly as to render it essentially useless, as can be seen in Table P.2.

Table P.2 European Union Enterprise and Employment Distribution

	Micro	Small	Medium	Large	Total
Number of enterprises	19,969,338	1,378,374	223,648	43,517	21,614,908
Share of total	92.3%	6.4%	1.0%	0.2%	
Number of employees	38,629,012	27,353,660	22,860,792	44,053,576	132,897,040
Mean number of employees	1.9	19.8	102.2	1012.3	6.1

(Source: Derived from Muller et al., 2014)

With a mean of less than two employees per micro-enterprise, it is difficult to fathom why the European Commission should have set an upper threshold of nine for the category. A much lower cut-off would have better reflected the make up of this segment, given that the Centre for Strategy and Evaluation Services (CSES) identified that more than half of all European enterprises are firms that have no employees at all (CSES, 2012: 74). Ranging from the traditional self-employed sectors of transport and agriculture to crafts, the micro segment in Europe also includes the more recent phenomenon of freelancers in the ICT and creative industries using service companies to capture and account for their income, expenses and tax liabilities.

The European Union eloquently demonstrates the increasingly sloppy and often schizophrenic application of the term SME. On the one hand the EU's economic development plan, the Lisbon Agenda, refers narrowly and precisely to "the importance of creating a climate favourable to small and medium sized enterprises (SMEs)" (EU, cited in CSES, 2012: 15). According to the EU's own segmentation this means the 7.4 percent of enterprises, numbering 1.6 million, that employ between 10 and 249 people. Yet in other contexts, like the 2013 EU conference 'Europe Works for SMEs', it is perfectly common to find references made to "the 21 million SMEs in the EU" (European Commission, 2013: 1) - a usage that conflates SMEs and micro-enterprises. This subsuming of the micro-enterprise category into SMEs facilitates the creation of great headline assertions such as "85 percent of net new jobs in the EU's private sector are created by SMEs", or that they are "Europe's job engine" (ibid.). But these claims are neither surprising nor useful when subsuming micro-enterprises into SMEs results in a category that includes all bar a minuscule 0.2 percent of enterprises that fall above the 250 employee threshold that defines Europe's large enterprises.

The EU segmentation was standardised in 2005 and adopted by all EU countries. While this facilitates cross-country comparisons, it does raise the question of whether such standardisation hides more than it reveals. Examination of the individual data sets that underpin the EU's 2014 report on SMEs (Muller et al., 2014) reveals that SMEs in the Czech Republic and Greece account for 36.3 percent and 30.4 percent of employment respectively, despite having the smallest SME sectors in the whole of the EU (just 3.7 percent of enterprises in both cases). In contrast, Germany's SME sector, which at 17.8 percent is the largest of any EU country, accounts for 44.3 percent of German employment. But this is significantly less than Latvia, which has 51.3 percent of employees working in an SME sector that comprises just 10.7 percent of enterprises in the country. To add to the confusion, Germany maintains two separate SME definitions. For the EU it reports figures in line with the EU standardisation, but the Institut für Mittelstandsforschung (IfM) in Bonn maintains the use of the traditional range of 10 to 499 for SMEs.

Within Africa individual definitions of what constitutes an SME also vary widely, as shown in Table P.3.

Table P.3 SME Definitions used by African States

Country	SME Upper Limit for Number of Employees	Maximum Revenue or Turnover	Maximum Assets
Algeria	250	2 Billion Dinars	500 Billion Dinars
Botswana	100	$270,000	none
Kenya	100	5 Million to 800 Million KSh	none
Mauritius	50	none	none
Mozambique	100	none	none
Nigeria	50	none	none
Rwanda	100	none	none
South Africa	200 for all categories except agriculture (100)	varies by sector	varies by sector
Tanzania	100	none	none
Uganda	250	10 Million to 50 Million USh	50 Million USh

(Source: IFC, 2010a)

Ethiopia was also included in the IFC data, but did not differentiate between medium and large enterprises. Less than ten employees is defined as small, ten and above is defined as one category: medium and large.

This problem of arbitrariness is not restricted to individual countries either. As Table P.4 shows, multilateral institutions engaged in development can also be seen to be at odds with each other over what constitutes an SME.

Table P.4 SME Definitions used by Multilateral Institutions

Institution	SME Upper Limit for Number of Employees	Maximum Revenue or Turnover	Maximum Assets
World Bank	300	$15,000,000	$15,000,000
Multilateral Investment Fund	100	$3,000,000	none
African Development Bank	50	none	none
Asian Development Bank	none - uses individual government definitions	none	none
UNDP	200	none	none

(Source: Gibson and van der Vaart, 2008: 5)

The lack of consistency is also well illustrated both by Gibson and van der Vaart's (2008) and Ayyagari et al.'s (2007) reviews of the official SME definitions employed by various governments. For the former the official upper limit for SMEs in Tanzania is 200 employees, for the latter it is 20, while the IFC figure, indicated in Table P3 is set at 100. Amplifying the confusion, Japan varies the employee element of its SME definition by sector. In transportation the upper limit is set at 300, in wholesaling and services at 100, while the retailer upper limit is set at 50 workers (Lindner, 2004: 9). Despite the common parlance, it is unlikely that a 20 employee food processor in Tanzania will closely resemble a 100 employee equivalent in Norway, let alone a 500 employee undertaking in Germany.

Whilst the lack of a consistent classification makes cross-country comparisons problematic, it is also clear that a one-size-fits-all approach would be inappropriate: a 100 employee enterprise in a developing economy would be a very different proposition to a developed economy enterprise employing a similar number of individuals. This difficulty leads Gibson and van der Vaart (2008) to question the whole validity of an employee-based classification and to advance the proposition that a turnover segmentation would be more appropriate. Whilst the context point is well made, it must be acknowledged that validating turnover in developing economy contexts depends on enterprises maintaining accurate financial accounts, which could be highly problematic when dealing with SMEs that may often operate informally. Additionally, shifting to a financial segmentation still leaves similar problems. A developing economy enterprise with a $5 million turnover is likely to be a more significant player in its own domestic market than a $5 million turnover enterprise in a developed economy marketplace.

Given the inescapable issue of context, it might be better to recognise it and adopt a quartile-based segmentation whereby a given enterprise's status would be determined relative to the distribution of enterprises in its own particular domestic economy. Micro, small, medium and large enterprises could thus be defined according to which quartile of their domestic enterprise distribution they fall into. This would have the benefit that the SME sector would always be that which comprises the second and third quartiles of a given economy's enterprise size distribution, whether defined by headcount or turnover. Although it is beyond the scope of this thesis, adopting such a segmentation might facilitate more meaningful cross-country comparisons. It must be acknowledged though that this too would initially have limitations in the case of highly under-developed economies, such as Rwanda, where the vast bulk of enterprises are very small indeed and typically feature only one self-employed individual. An initial separation into quartiles in this context would still concentrate enterprises at the lower end of the distribution, but it would nonetheless provide more meaningful insights into the impact of government policy as the enterprise distribution changed over time.

As this thesis focuses exclusively on the Rwandan context, the SME sector will be taken to mean that segment of enterprises that comprises the middle ground between micro and large enterprises, which is defined specifically by the National Institute for Rwandan Statistics to be those enterprises that employ between 4 and 100 individuals (NISR, 2015a: 10). The Rwandan segmentation will be examined fully in Chapter 1.

Entrepreneurship and Entrepreneurs

An entrepreneur is essentially an individual who brings a new commercial enterprise into existence. The word has its origins as an economic term in 18th century France, where it was first used by Richard Cantillon to distinguish between the separate economic roles of labour, landowner and entrepreneur.

As such, entrepreneurship is concerned with the ability to identify new commercial opportunities and coordinate the resources required to realise the latent commercial potential that exists.

Unfortunately, as interest in the process of entrepreneurship has expanded, so too has misappropriation of the term. It has become increasingly fashionable to modify the original meaning and apply it to any of a broad range of activities that imply some form of innovation, the most common being social entrepreneurship - the creation of enterprises designed to address social issues. Other misappropriations that can be readily encountered include artrepreneurship, political entrepreneurship, educational entrepreneurship, parentrepreneurship and the World Bank's more recent use of norm-entrepreneur to describe someone who instigates a change in social norms (World Bank, 2015: 54). None of these have much to do with the original notion of the entrepreneurial process and undermine the clarity needed when addressing the complex issues surrounding economic development.

Given that this thesis is concerned specifically with the role that the Rwandan Government expects will be played by entrepreneurs in the creation of new commercial enterprises that will generate economic growth and incremental employment, the thesis will focus on individuals who create new commercial entities that are intended to be self-sufficient by virtue of their ability to produce long-run profit streams and incremental employment.

Summary

In the light of the above discussion, the thesis will use the following definitions:

> SMEs: small to medium-sized enterprises, defined in Rwanda as enterprises that employ 4 - 100 people
>
> Entrepreneur: an individual who creates a viable new commercial enterprise, acting either on their own or in teams
>
> Entrepreneurship: the process through which a viable new commercial enterprise is created.

Chapter 1 The Rwandan Context

1.1 Introduction

The development strategy that the government of Rwanda is pursuing was first elaborated in its economic plan *Vision 2020.* Written in 2000, and with frequent references to unity, inclusiveness, political stability, absence of discrimination, social cohesion, rule of law and the embedding of democracy, the plan aims to transform Rwanda into a middle-income country and spells out the broad components of the strategy.

Central to the original strategy, and the subsequent updates, is a belief in the emergence of a class of domestic entrepreneurs that will create a new and vibrant small to medium-sized enterprise sector:

> The emergence of a viable private sector that can serve as the principle engine of the economy is paramount to Rwanda's development and key to this will be fostering an environment conducive to SME growth and development (Minicom, 2012: 11).

This belief in the transformative power of entrepreneurs and the SMEs they will create is expressed again unequivocally by President Kagame in his essay 'The Backbone of a New Rwanda', where he states:

> It is increasingly clear to us that entrepreneurship is the surest way for a nation…to develop prosperity for the greatest number of people (Kagame, 2009: 12).

This chapter will focus on reviewing the context within which this new class of Rwandan entrepreneurs and their SMEs is expected to emerge, institutional arrangements and strategies that have been employed to support them, and the degree to which their emergence can be discerned.

1.2 Country Overview

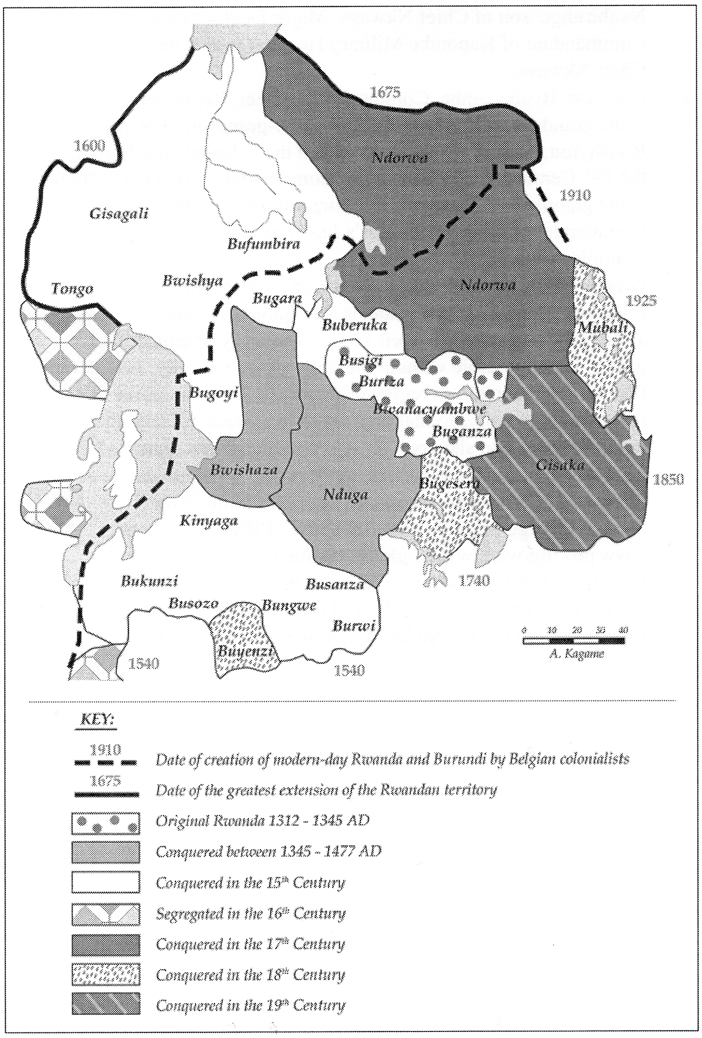
1.2.1 Geopolitical Considerations

There are two significant regional issues that warrant initial consideration. First, as a landlocked country short on natural resources, it could be argued that Rwanda is at a major competitive disadvantage economically and risks becoming a hostage to its neighbours (Collier, 2007: 55). However, it should be noted that being landlocked has not prevented Botswana from becoming “a development success story” according to the World Bank (2015b), having moved from being one of the poorest countries in Africa to become “one of the fastest growing economies in the world” (ibid.). Baumol, Litan and Schramm (2008: 9) have also pointed out that a similar context clearly has not been a major handicap to other economies such as Switzerland, which is also landlocked, but benefits nonetheless from its close proximity to the European single market. In fact, there is every reason to believe that Rwanda too could overcome its supposed geographic isolation and benefit from the emerging East African Community single market of Burundi, Kenya, Rwanda, Tanzania and Uganda and its combined population of 130 million. Although it is not yet clear when the single market will be fully implemented, significant progress has been made in reducing cross-border tariffs between the participant countries and in laying the plans for a single currency. Taken together with the presence of institutions that underpin the rule of law and support enterprise, which will be addressed below, Rwanda and its capital Kigali would seem well placed to become an attractive location for its common market neighbours both to do business and to base their commercial headquarters. Indeed this very route - becoming a regional haven - is identified by Collier as a possible solution to the problem of being a landlocked country (2007: 60).

The second significant geopolitical issue is the presence in the eastern part of the Democratic Republic of the Congo (DRC) of the 10,000-strong Force Democratique de Libération du Rwanda (FDLR), led by perpetrators of the 1994 genocide, who have mounted periodic raids and terrorist acts in Rwanda. Two grenade attacks in Musanze in northern Rwanda in January 2014 (*Associated Press*, 28th January 2014) raised concern that the twentieth anniversary of the genocide might be marked by further violence, but in the end this did not materialise. The situation is further complicated by periodic cross-border raids mounted by the Congolese army to loot Rwandan villages, the most recent of which resulted in Congolese fatalities when the looters were engaged by the Rwandan army (*New Times*, June 14th 2014). Although they appear to have reduced in frequency, such incursions clearly raise the prospect of some direct action by Rwanda in eastern DRC.

Rwanda's Government has been accused of supporting a pro-Rwandan rebel group, the M23, in eastern DRC following the release of a UN Security Council report in mid 2012 (Hege et al., 2012). Looked at dispassionately, the Rwandan Government must be expected to secure its borders and plainly has a responsibility to protect its citizens. It would be naïve in the extreme to assume that President Kagame, a proven military leader, would not try to destabilise the Congo based FDLR terrorist threat. Indeed, the doctrine of making pre-emptive strikes or using proxy forces against such potential threats is one that is hardly uncommon amongst developed nations. In this context too, *Vision 2020*, perhaps presciently, made the observation that the 1910 partition of Africa removed roughly a third of Rwanda's territory, along with the bulk of its previous store of natural resources (Minecofin, 2000: 5). Given the ongoing lack of stability in the DRC, one is tempted to surmise that this observation might have put down a marker for claims to pre-existing rights over some of the territory and resources of eastern DRC. Although it is difficult to identify what these potentially disputed territories might be, the following map, taken from Rusagara's *Resilience of a Nation* (2009: 208), indicates that pre-partition Rwanda comprised a land mass that was approximately 50 percent bigger than it is today and encompassed large parts of eastern DRC.

Figure 1.1 Map of Ku-aanda



(Source: Rusagara, 2009)

1.2.2 Demographics

When *Vision 2020* was published in 2000 it observed the need to take action to encourage a reduction in the Rwandese birth rate, without which the population was forecast to rise to 16 million by 2020. The 2012 Population and Housing Census, undertaken by the National Institute of Statistics of Rwanda (NISR), put the population in 2012 at 10.5 million, and identified that the birth rate had indeed fallen from its 2000 level. Projecting forwards at the 2012 recorded growth rate of 2.6 percent (NISR: 2012) suggests that the population will in fact only hit 12.9 million in 2020 - slightly below the level of 13 million targeted by the government. With a land mass of just 24,668 km^2, some 18 percent larger than Wales, this would yield a population density in 2020 of 522 people per square kilometre, compared to its current level of 460 (World Bank, 2016e).

Much is made of the fact that Rwanda is already the most densely populated country in Africa and that it ranks 19th globally (ibid.). But even at the 2020 projected level of 522 people per square kilometre, it still falls way behind, for example, the current Bangladeshi level of 1,222 and ranks only one place behind Holland, which is not generally regarded as an overcrowded country. However, given that 90 percent of the population is still rurally located and predominantly engaged in subsistence agriculture (CIA, 2016), the increasing population density does highlight the need for long-term structural change.

The median age of 18.8 indicates a skew towards youth in the country's population distribution, with 61 percent under 25 (ibid.). Within this broad skew, the most immediate concern is the fact that 34 percent of the Rwandan population falls within the narrow 18 - 30 range (Finscope, 2016: 14). If the government's economic policies do bear fruit, Rwanda may benefit from what the World Bank refers to as a "demographic dividend" as some two million new workers are expected to enter the job market by 2022 (World Bank, 2013: 45). But conversely, failure to meet the economic aspirations of this group raises the stakes considerably for the government, as any economic shortcomings are likely to be seized upon by the FDLR rebel forces.

1.2.3 Donor Funding

Government expenditure has historically been heavily reliant upon direct budget funding by donors, which has been described as both ultimately "dehumanising" by President Kagame (cited in Crisafulli and Redmond, 2012: 111) and tantamount to begging during a meeting with Alex Ruzibukira, Director General of Minicom.

In the wake of the 2012 UN Security Council report claiming that the M23 in the DRC had received support from Rwanda, donors dramatically scaled back their support despite the government's strenuous denials of involvement. In 2012 aid donations were estimated to account for some 40 percent of the government's budget[1], so the impact of this reduction was considerable. The World Bank estimates that it resulted in a shortfall of $232 million between what the Rwandan Government had anticipated receiving and what was actually

[1] Discussed in a meeting with Alex Ruzibukira, Director General of Minicom.

delivered (World Bank, 2013: 17). Although posing immediate and significant challenges, the government was able to overcome the shortfall, partly via increased borrowing but also as a result of higher than expected tax receipts.

Despite these cuts in donor funding, media coverage would suggest that Rwanda's rehabilitation with the donor community was relatively swift. By the middle of 2014 the *New Times* (7th June, 2014a) was able to report on commitments to large increases in support from both the World Bank and the International Finance Corporation (IFC). According to the report the World Bank, which at the time provided \$500 million a year in support, had indicated it would be prepared to provide additional funding of between \$200 million and \$250 million a year in order to help realise the country's economic and poverty reduction objectives. At the same time the IFC, which in 2013 channelled \$13.3 million, or 6.4 percent, of its total African spend into five projects in Rwanda under its Entrepreneurial Development Programme (IFC, 2013: 23) indicated it would be prepared to advance another \$120 million to Rwanda. Data from DfID's Development Tracker website (DfID, 2014) also revealed that substantial UK funding was again finding its way to the Rwandan Government, albeit via individual government departments rather than directly to the Ministry of Finance.

The experience of having to cope with large cuts in donor funding clearly had an impact, though. The budget for the fiscal year to July 2015 indicated a marginal reduction in the reliance on donor support from 40 percent to 38.1 percent of the full year's budget total (*New Times*, 15th June 2014b), and in the latest budget for the year to July 2016 Minister of Finance, Claver Gatete, presented figures to parliament that indicated further reductions in the reliance on external support (*New Times*, 11th June 2015). The total budget for the year stands at Rwf 1.768 trillion (\$2.3 billion). Of this the minister anticipates that 66.4 percent, Rwf 1.174 trillion (\$1.6 billion), will be financed domestically with just 20.2 percent of the balance coming from donor grants of Rwf 358.3 billion (\$474.1 million) and 13.3 percent from loans of Rwf 235.7 billion (\$311.9 million).

Further evidence for the government's desire to find its own solutions and reduce its reliance on external aid can also be discerned in the August 2012 introduction of the Agaciro Development Fund (Agaciro, 2016). This is a sovereign wealth fund, which encourages private individuals and public servants to commit to a monthly payroll deducted contribution to the fund. It also accepts one-off donations from companies and government. The money raised is then intended for investment in projects that fit with the national economic development objectives. Agaciro, broadly meaning 'dignity' in Kinyarwandan, has clearly resonated with the population. By March 2016 the fund had already accumulated Rwf 31 billion, equivalent to $41 million. Whilst it must be acknowledged that this is only a relatively small amount when set against the donor aid that Rwanda has historically received, it nevertheless demonstrates the government's desire to become increasingly self-reliant. Despite its success in raising income, the fund's website does not, however, list any actual investments. Similarly, the financial statements to December 2015 make no reference to expenditures beyond the fund's operating costs, perhaps indicating that its main purpose is to build reserves that could provide a short-term financial buffer in response to any future fluctuations in donor funding.

1.2.4 The Post-genocide Political Settlement

In the aftermath of the genocide Rwanda adopted a presidential system of government, with presidential powers kept in check by an elected parliament. The constitution specifically proscribes divisions along ethnic lines or the creation of political parties with an ethnically exclusive membership or agenda (Golooba-Mutebi and Booth, 2013: 3). It also restricts the dominant political party to no more than 50 percent of cabinet posts, thereby encouraging cross-party coalition and consensus building that matches the country's long-term interests. Under the constitution, women are guaranteed a minimum of 30 percent of positions on all representative bodies, and following the 2013 elections actually occupy 64 percent of parliamentary seats. Although government power is theoretically balanced by the parliament, the Rwandan Patriotic Front (RPF) won 78 percent of parliamentary seats in the 2013 elections and consequently dominates the country's politics to the extent that Rwanda is "de facto a one party state" (Bozzini, 2013: 11).

Article 101 of the 2003 approved constitution stipulated that the president would be elected for a term of seven years and was restricted to serving only two terms. Elected in 2003 the current president, Paul Kagame, was therefore due to stand down in 2017. However, following extensive media coverage arguing the desirability of extending his tenure, parliament was petitioned and asked to consider reforming the constitution. The requisite national referendum was held in December 2015, with 98.4 percent of voters approving two major changes to the constitution. These allow President Kagame to stand for a third term of seven years, after which the presidential term will change from seven to five years, hence in theory Paul Kagame could remain in power until 2034.

In practice the Rwandan system of government is highly analogous to corporate management, as detailed in Crisafulli and Redmond's *Rwanda Inc.* (2012). Policy is debated at cabinet retreats, which it is claimed seek to discuss and agree the programmes that are needed to address the main issues facing the country. Once formulated, policy is then handed down for local implementation, although central control is reinforced via the *Imihigo* system. The plural form of the Kinyarwandan word *Umuhigo*, which signifies a 'vow to deliver', *Imihigo* requires that all public servants commit to annual performance standards that have to be signed and witnessed in public. Performance against these public commitments is actively monitored and evaluated. Those who are judged to have achieved a minimum 80 percent performance rating are awarded a bonus equivalent to 5 percent of their annual salary, 70 percent performance yields a 3 percent bonus and those falling below 60 percent are at risk of losing their jobs.

Implementation of the devolved strategy is overseen by the president in the manner of a CEO coordinating the implementation of a corporate business plan - in the words of Faustin Mbundu, Chairman of the Private Sector Federation: "We call him the CEO of Rwanda…He runs the country like a business" (ibid: 92). The corporatist style does leave room for criticism, however. Even though *Vision 2020* spelled out a commitment to good governance and included a specific reference to ensuring transparency, the government's preference for conducting debate behind closed doors leaves room for doubts to be raised about this commitment. Indeed it is a specific criticism levied by Reporters Without Borders, whose 2015 Press Freedom Index assigned Rwanda the low rank of 161st of the 180 countries that make up its index. It must be acknowledged, however, that press freedom is a contentious subject in Rwanda given the extensive role that radio, most particularly Radio Télévision Libre des Milles Collines, played in priming and maintaining the genocide. To the extent that transparency is normally seen as a key tool in combatting corruption, any lack of transparency also casts the government's apparent zero tolerance for corruption into an interesting light. It points to the possibility that it is a function of political will, linked to the objective of creating a business supportive context, rather than being derived from external pressure.

Questions about rent-seeking are raised by the RPF's ownership of Crystal Holdings, formerly known as Tri-Star, a corporation that holds commercial assets. Previously the RPF's production department, this was used to raise funds for the RPF while it was in exile. It now owns stakes in large-scale enterprises in a range of industrial sectors including telecommunications, property development and media. Similar questions also arise from the Rwandan Ministry of Defence's ownership of commercial assets via Horizon Group. Booth and Golooba-Mutebi (2011) argue, though, that rents have been systematically captured by these corporate entities, thus preventing their appropriation by individuals; indeed they suggest that early defections from the RPF appear to have been by individuals who anticipated a more flexible and traditional attitude to appropriating rents.

Poorly endowed with natural resources and with the recent experience of the genocide, Rwanda would appear to fulfil two of the three conditions that comprise "systemic vulnerability", which it has been argued leads to the emergence of the development state (Doner, et al., 2005: 329). The third condition, the need to be able to make side payments in order to maintain a broad coalition of interests, is obviated by the central appropriation of rents. Instead it has enabled the government to subsidise economic policy, driven by the belief that long-term nation building and the pursuit of economic and social development represent the best option for overcoming the ethnic problems of the past (Booth and Golooba-Mutebi, 2011:8). It is argued further that this model, a form of developmental (neo)patrimonialism (ibid: 21), is more appropriate to low-income countries like Rwanda than the orthodox prescriptions promoted by the international community. It facilitated, for instance, being able to put up the substantial risk capital needed to fund a successful joint venture with MTN to establish a Rwandan mobile phone network. With a relatively small population, and therefore a limited potential subscriber base, moving into Rwanda would not at the time have been a commercial priority for South African based MTN, but was feasible with the funding that was injected by the government via Crystal Holdings.

With the parliament dominated by the RPF, little in the way of effective opposition that can hold the government to account, a corporatist style of management and a change to the constitution that will extend the president's term, it is easy to conclude that power in Rwanda is very much in the hands of one individual: President Paul Kagame. But suggestions that this automatically implies a lack of political space or a "decent into tyranny" (Miller, 2012)[2] are oversimplified. Rather, it needs to be seen in the context of trying to address the country's unique recent history and immediate challenges (Golooba-Mutebi and Booth, 2013: 5) and in the light of the RPF's core principles of power sharing and inclusiveness, which translated into a rejection of a winner-takes-all approach to government in the aftermath of the genocide (ibid: 11). That this system leaves itself open to criticism that it is dictatorial is obvious. It does though have some clear benefits. In the aftermath of the genocide it has permitted the government single-mindedly to pursue an agenda that it believes is appropriate for rebuilding and unifying the country and has led to it being credited for "its high degree of organization, its capacity to manage resources efficiently and its focus on delivering results" (Bozzini, 2013: 6).

1.3 *Vision 2020*

The government's economic development plan *Vision 2020,* written by the Rwandan Ministry of Finance and Economic Planning (Minecofin), set the ambitious aim of transforming Rwanda into a middle-income country by the year 2020, with high levels of domestic savings and investment and a parallel reduction in the reliance on external aid (Minecofin, 2000: 4). The strategy to deliver this transformation comprised six main pillars: good governance, underpinned by a capable state; enhancing the productivity, value and

[2] Miller produced several articles and broadcasts during 2012 and 2013 for Channel 4's Dispatches criticising Britain's ongoing aid donations to Rwanda.

market-orientation of the agriculture sector, as well as linking it to other sectors of the economy; private sector development, spearheaded by entrepreneurship and competitiveness; human capabilities development; infrastructure development and the promotion of regional integration (ibid.).

Implementation of the plan was divided into three overlapping time scales, the first of which aimed to achieve macro-economic stability, reduce debt and the reliance on foreign aid through focussing on trade liberalisation, tax reform[3], privatisation and market-driven exchange and interest rates. This phase also sought to begin the shift away from government provision of goods and services in favour of the private sector. On these foundations, the medium-term phase of the plan focused on deepening the move away from agriculture through exploiting competitive advantages that were perceived to exist in a cheap and multi-lingual labour force, in particular by developing the service sector of the economy. In parallel, this medium-term element of the economic plan also committed to investing significantly in health, education and infrastructure. The long-term and key element of the economic plan, taking it up to 2020, envisages the creation of a vibrant middle class and the emergence of productive entrepreneurship, underpinned by a broadening and deepening of the financial sector, enhanced use of information technology and a greater investment in education, particularly in the areas of science and technology.

Included in the text is the aim of replacing an entire generation of "trained teachers, doctors, public servants and *private entrepreneurs*" (ibid: 8; author's italics) that it is claimed was lost when the genocide took the lives of up to one million people[4], and prompted potential victims, and later perpetrators, to flee the country. A body of literature covering the events that led up to the 1994 genocide and how it was carried out has developed[5], but there is a general lack of detailed information about the genocide's impact upon Rwanda's professional and commercial classes. Hatzfeld's (2008) interviews with perpetrators did

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[3] The level of tax revenue that would be generated by the plan is not computed, although the core assumptions include public spending initially equivalent to 10 percent of GDP, declining to 8 percent after 2005.

[4] The UN estimates that 800,000 people were killed; the Rwandan government puts the figure at 1,071,000 (SURF, 2013).

[5] See for instance Gourevitch (1999), Dallaire (2003), Melvern (2006) and Hatzfeld (2008, 2008a, 2009).

indicate that the killings provided profitable opportunities for looting, but there is nothing in his accounts to suggest that the killings targeted businesspeople in particular. What is feasible, but unproven, is that those potential victims who had the financial means, such as business owners, had a better chance to exit the country quickly. The accounts do indicate that a middle class including business owners was well represented amongst the initiators and perpetrators of the genocide. It is reasonable to assume then that they too would have been part of the mass exodus of perpetrators who fled to the Congo in the aftermath of the killings.

What is indisputable is the immediate and devastating impact that the genocide had on the economy. Rwanda's GDP had been declining from its 1990 peak of $2.55 billion, but was still at $1.97 billion in 1993 before crashing to just $0.75 billion in 1994, the year of the genocide. By 2000, the year that the government launched *Vision 2020*, it had climbed back up to $1.73 billion but was still well short of its pre-genocide levels.

The plan set very specific milestones for GDP and GDP per capita (Minecofin, 2000: 23), as summarised in Table 1.1.

Table 1.1 *Vision 2020* GDP and GDP per Capita Targets

	2005	2010	2015	2020
GDP ($ Millions)	1,218.75	2,147.85	3,957.28	7,291.04
GDP per Capita	$231.39	$336.48	$542.63	$875.08

(Source: Minecofin, 2000: 23)

The core target of achieving middle-income status implied moving from a GDP per capita level of $220 in 2000 to nearly $900 in 2020, fuelled by an annual growth rate of 7.5 percent. Against this ambitious target, growth has been impressive. By 2014 nominal GDP and GDP per capita had risen to $7.9 billion and $696 respectively. However, the World Bank's threshold for lower middle-income status is recalculated periodically and at the time of writing stands at $1,046 (World Bank, 2016g). Hence Rwanda is still firmly anchored amongst the low-income countries with a rank of 168th out of the 182 countries for which the World Bank displays 2014 GDP per capita data (World Bank, 2016a).

Moving to the World Bank's PPP adjusted data (2016d) raises the GDP per capita figure to $1,661, but still leaves Rwanda in the bottom decile of the distribution with a rank of 163rd of the 178 countries listed.

The original economic plan has been the subject of two major updates since 2000. The first of these, the Economic Development and Poverty Reduction Strategy (EDPRS) was undertaken in 2007 and set a revised framework for the period 2008 to 2012. This was then superseded in 2012 by a further review (EDPRS 2), which set revised targets and updated strategies for the five years 2013 to 2018. The revised plan retained the key objective of achieving middle-income status by 2020 and updated the corresponding target GDP per capita figure to $1,240, which was expected to be achieved via an average GDP growth rate of 11.5 percent (Minecofin, 2012: 2). The ongoing expectation that this growth will be driven by development of the private sector is stated explicitly in President Kagame's foreword to the updated plan:

> The EDPRS 2 period is the time when our private sector is expected to take the driving seat in economic growth and poverty reduction (Minecofin, 2012: viii).

It could be argued that achieving middle-income status is an arbitrary target, which to the extent that it is a relative measure, is irrelevant versus Rwanda's economic progress and how that performance translates into welfare improvements for the population. However, it is a specific target for the economic plan and is expected to be realised through the strategy of supporting the evolution of a vibrant SME sector, so it is important to assess the veracity of the income per capita level that is implied by achieving the target.

At a 2014 actual GDP level of $7.9 billion, factoring in the targeted growth rate of 11.5 percent across the remaining six years to 2020 yields a forecast real GDP, at 2014 prices, for 2020 of $15.2 billion. Dividing this by the projected 2020 population figure of 12.9 million, calculated at section 1.2.2, yields a real GDP per capita figure of $1,175 - close to, but below, the EDPRS 2 target of $1,240.

Both the EDPRS 2 revised target of $1,240 and the author's derived figure of $1,175 for GDP per capita would place Rwanda within the World Bank's current lower middle-income band. However, as already noted, the income thresholds are periodically updated by the World Bank. Whilst it is impossible to draw any clear conclusions about where the middle-income threshold will sit in 2020, a straight line extrapolation from its value in 2000 ($761) through its current value suggests that a figure of $1,224 for 2020 would not be inconceivable. This would tend to suggest that Rwanda could indeed realise lower middle-income status by 2020 based on the EDPRS 2 targeted figure of $1,240 if it can achieve its stated growth target, but would fall short of the target if the author's projection of GDP per capita is accurate. In this regard, an analysis by Ernst and Young has also concluded that Rwanda will not actually reach middle-income status until 2025 (Igihe, 2013). Much is clearly dependent upon whether the government's forecast 11.5 percent average annual growth rate can be delivered, which in turn is predicated on the much vaunted private sector's role in creating SMEs that can consistently contribute to that growth in the run up to 2020.

Compared to the targeted annual growth rate of 11.5 percent underpinning the government's GDP per capita objective, the compound annual rate of growth that has been achieved over the last five years is 9.7 percent, as shown in Table 1.2, which also clearly highlights the impact that cuts in donor funding had on the annual growth rates in 2013 and 2014.

Table 1.2 Rwandan GDP Growth

Year	GDP in $ Millions	Annual Growth Rate	5 Year Compound Growth
2009	5309.0	10.7%	
2010	5698.5	7.3%	
2011	6406.7	12.4%	
2012	7219.7	12.7%	
2013	7522.0	4.2%	
2014	7890.2	4.9%	9.7%

(Source: Derived from the World Bank, 2016b)

Against this backdrop considerable effort has gone into fashioning a climate that would be conducive to enterprise development. This encompasses establishing a stable banking sector, a favourable governance context and investment in infrastructure, which will be explored in the next section.

1.4 Creating a Climate for Enterprise Development

1.4.1 Banking

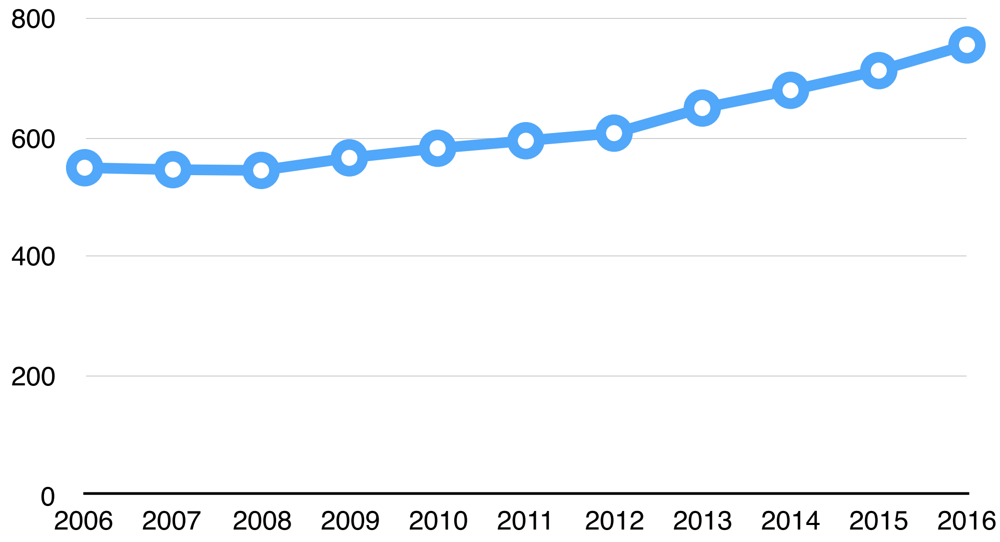
The National Bank of Rwanda (BNR[6]) is mandated to conduct a monetary policy that will produce price stability and low inflation. At the time of writing the annual inflation rate stood at 4.4 percent for the year to February 2016 (BNR, 2016). With a freely floating currency, the BNR's main economic lever is the use of its Repo rate, which governs the rate of interest that it extends to commercial banks. This has been held at a relatively consistent rate during the past ten years, ranging between 6 and 7 percent and at the time of writing was at the midpoint of this range at 6.5 percent.

While a competitive exchange rate can have an impact on economic growth, it is also important to minimise volatility and thereby incentivise exports and encourage investment (Ocampo et al., 2009: 107). The central bank does, therefore, occasionally engage in market transactions in order to smooth out any such volatility. As a result, although there has been a gradual decline in the value of the Rwandan franc versus the dollar over the past ten years this has been moderate, as can be seen in the following graph, which displays the modal values for the exchange rate for the past ten years versus the US dollar[7] (the full tabulation is included in Appendix A).

[6] Although its official title is the National Bank of Rwanda, it has retained its original French acronym 'BNR' derived from 'Banque Nationale du Rwanda'.

[7] Throughout the thesis, where a dollar equivalent to Rwandan francs is given it will be at the modal value for the exchange rate for the year in question.

Figure 1.2 Rwandan Franc/US Dollar Exchange Rates Over Time



As well as contributing to macroeconomic performance the BNR is also responsible for licensing, supervising and ensuring the stability of the financial sector. According to the BNR's website this comprises the central development bank, twelve commercial banks, one cooperative bank, a network of 491 user-owned savings and credit cooperatives (Saccos) and fifteen micro-finance banks of which twelve are limited liability enterprises (BNR, 2016).

1.4.2 Governance

Vision 2020 identified the establishment of a good governance platform as a key priority that would underpin macroeconomic stability and provide a supportive context for the government's business development strategy. This is fully consistent with the World Bank's position that "countries with strong institutions prosper by creating an enabling environment that facilitates private sector growth" (World Bank, 2016c).

Various indices can be consulted to gain a degree of insight into the extent to which Rwanda appears to match this objective. It must be recognised, though, that such indices are often constructed on the basis of subjective assessments, which may deviate from reality, and that African development statistics are also subject to both "validity and reliability" problems (Jerven, 2103: 16). Nevertheless, the cross-country comparisons contained in these indices do provide a degree of insight into the extent to which Rwanda appears to be meeting its aim of fashioning a context that will support entrepreneurs and enterprise development.

In the World Bank's Ease of Doing Business Index[8] (World Bank, 2016) Rwanda ranks in the top third of the 189 countries included in the composite global ranking[9]. Amongst the 47 countries that make up the Sub-Saharan Africa category, Rwanda occupies second place. It comes top for registering property and getting credit, and third for ease of obtaining construction permits. The overall ranking though is compromised by lower scores for trading across borders and enforcing contracts, which ranked 28th and 20th respectively. Applying the low-income countries filter to the Ease of Doing Business Index data shifts Rwanda into top position overall for the 34 nations that make up the World Bank's low-income grouping.

To enhance the institutional support for entrepreneurship the process for registering a business has been streamlined through the Rwanda Development Board (RDB). In theory this provides a one-stop-shop where a new enterprise can be up and running in a matter of hours. This is indeed reflected in the time taken to complete the individual steps included in the Ease of Doing Business data, although in aggregate the process is judged to take 5.5 days rather than a few hours (World Bank, 2016). Once completed the East African Community (EAC) protocols allow a business registered in one member country to trade without further registration in all of the EAC countries.

In order to bring about improvements in resolving commercial disputes, the government established separate commercial courts and recruited expatriate judges from Mauritius to populate them (Minicom, 2012:15). Like Rwanda, Mauritius is a member of the Commonwealth of Nations, formerly the British Commonwealth, with English as the official language but where French is also widely spoken. The judges would therefore have been able to integrate rapidly into the Rwandan legal system, as suggested by the high rankings that accrue

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[8] Although the World Bank publishes a "Doing Business" report, its on-line index is labelled the "Ease of Doing Business" index. The former includes data from the latter.

[9] The index is a composite of scores on ten individual topics. Interestingly on the sub-index for getting credit Rwanda actually ranks second globally, beaten only by top placed New Zealand.

in the Ease of Doing Business Index for resolving insolvency and enforcing contracts (World Bank, 2016).

The supportive commercial context would also seem to be demonstrated by low levels of corruption, as seen in the Graft Index that features in the IFC Enterprise Survey's profile for Rwanda. The Graft Index records the frequency with which firms were expected or requested to make a gift or informal payment when applying for six different public services or licenses. Overall this records a score for Rwanda of just 5 percent, suggesting that corruption is low (IFC, 2011: 13). Where problems do occur, these tend to be skewed towards large firms, especially those applying for construction permits.

Table 1.3 Graft Index Scores for Rwanda

Firm Size	Graft Index
Small	0%
Medium	4.8%
Large	20.1%

(Source: IFC Enterprise Survey, 2011: 13)

Although based on perceptions rather than objective measures, a similar picture can also be seen in the 2015 Transparency International Corruption Perceptions Index. At a relatively high ranking of 44th out of 168 countries, Rwanda falls just outside the index's top quartile and is fourth highest of all African countries behind Botswana, Cape Verde and the Seychelles (Transparency International, 2015). This broadly positive outlook is further reinforced by the East Africa Bribery Index, which shows only a 2.9 percent likelihood of encountering a situation where a bribe would be sought or expected - much less than the rates recorded for the other EAC countries (Transparency International, 2014:1).

Table 1.4 East African Bribery Index

Country	Likelihood of Encountering Bribery
Rwanda	2.9%
Kenya	12.3%
Uganda	17.9%
Tanzania	19.0%
Burundi	19.4%

(Source: Transparency International, 2014: 1)

The index also shows that where corruption is encountered in Rwanda, it is most likely to occur when dealing with the police, as is the case for all the countries in the East African Community (ibid: 2). But here too Rwanda appears to perform better than its neighbours, with the likelihood of encountering police corruption recorded at just 6.0 percent of interactions, and down from 10.7 percent in 2013 (ibid: 28).

Overall, the perceived level of corruption in Rwanda is seen to be falling, with 74 percent of the study's sample reporting that they believed corruption had reduced in the previous twelve months, compared with only 10 percent who felt it had increased. Projecting forward, a similar picture was observed with regard to the anticipated future level of corruption, with 78 percent anticipating that the level of corruption would continue to fall during the next twelve months and only 7 percent expecting it to increase (ibid: 33). The survey also identified a very high level of satisfaction with specific measures taken by the government to curb corruption, such as public wealth declarations that are required of senior public officials, the creation of an anti-corruption department in the Rwandan Revenue Authority and regular auditing of government ministries' accounts by the Auditor General's Office. The ongoing commitment to improving governance is also evidenced in the fact that the government's annual budget includes a specific and sizeable allocation against improving the accountability of its institutions. In the financial year to June 2015 this stood at Rwf 53.1 billion ($78 million), representing an increase of 34 percent on the previous year (*New Times*, 14th June 2014c).

The composite Worldwide Governance Index (WGI, 2015) also seems to confirm that a context that should be broadly supportive of business development has indeed been progressively fashioned.

Table 1.5 Worldwide Governance Index Scores for Rwanda[10]

Indices	2004	2009	2014
Political stability and absence of violence	14.42	29.86	42.72
Rule of law	23.44	37.44	61.06
Regulatory quality	26.47	42.11	58.65
Control of corruption	39.02	62.68	76.92
Government effectiveness	32.68	49.76	56.25
Voice and accountability	10.58	11.37	17.24

(Source: WGI, 2015)

A similarly positive picture is revealed in Table 1.6 by disaggregating the Ibrahim Index of African Governance (IIAG, 2015).

Table 1.6 Ibrahim Index of African Governance Scores for Rwanda

Sub-indices	2015 Score	Score Change Over 5 Years	Rank (Out of 52)
Safety and rule of law	62.0	+3.3	12
Sustainable economic opportunity	63.5	+2.1	7
Human development	71.0	+5.3	9
Participation and human rights	46.3	+0.7	30
Composite Index	60.7	+2.9	11

(Source: IIAG, 2015)

Taken together the various governance indices would appear to paint a generally positive image and suggest that the corporatist approach to government discussed in section 1.2.4 has been an efficient way to implement policy designed to support enterprise development. However the weak rankings observed in the sub-indices for participation and human rights (IIAG, 2015) and

[10] The indices indicate the percentage of countries worldwide that rank lower than the indicated country, so that higher values indicate better governance scores.

voice and accountability (WGI, 2015) would suggest that outsiders have little scope to engage in the debates that frame such policies.

1.4.3 Infrastructure Development

Vision 2020 also observed that major infrastructural investment would be required. According to the Rwanda Development Board the government invests nearly 10 percent of its annual spend in infrastructure projects, which include improving roads, constructing a new airport to serve as a hub for the Great Lakes region, and improving public transport (RDB, 2015). It has also made significant investments in telecommunications in order to enhance its broadband capabilities and position Kigali as a potential high value-added internet hub for the region - a strategy that would seem to mirror that undertaken by Malaysia in the mid 1990s. By 2012 telecommunications investment in Rwanda had already reached $95 million, and in addition to the 2,300 kilometres of fibre optic cable across the country its network had been connected via the East African coast to undersea cables that deliver international connectivity (Crisafulli and Redmond, 2012: 9). The telecoms development plan also received a considerable boost in 2013 when Korea Telecom and the Rwandan Government jointly announced that agreement had been reached for Korea Telecom to invest a further $260 million in developing broadband capabilities (*New Times*, June 11th 2013).

A major EAC regional railway project is also in the early stages of development, which would give Rwanda access to the ports of Mombasa and Dar es Salaam (Mineac, 2011: 33). Developing the network across the EAC is an ambitious project that will clearly require massive funding. It did though receive a significant boost in 2014 with an agreement from China's Exim Bank[11] to provide Kenya with 90 percent of the money required to fund the first stage of its development (*New Times*, 6th May 2014d), with the balance of the funding to be provided by the Kenyan Government. The Rwandan element of the plan involves building two new railways from Kigali. The first would connect to the Tanzanian network, at a cost of $5 billion, with a second to connect with the Kenyan network at an estimated cost of $13 billion. Although it is not clear yet

[11] The bank exists to promote foreign trade and investment as well as development assistance.

how these would be funded, both are listed on the RDB’s website as potential private-public partnerships (RDB, 2015).

The importance of these railway connections in providing a commercial gateway to overseas markets is reflected in the fact that Rwanda’s export trade has historically been dominated by its near neighbours. In 2012 some 75 percent of exports went to East African Community countries and a further 15 percent went across the border to neighbouring DRC (World Bank, 2013: 10). Gaining access to the Kenyan and Tanzanian ports and the parallel development of the single East African Community market, potentially with a single currency, would therefore present a major commercial opportunity to Rwanda if it can succeed in its goal of building scalable and competitive businesses.

In addition to its plans for rail links, the government is also committed to investing heavily in other infrastructure projects that will support private enterprise development. The potential for using Lake Kivu, which borders on the DRC, as an inland waterway that can be used to transport goods is also being examined (RDB, 2015). In addition, the lake is thought to contain some 55 billion cubic meters of methane gas, held in suspension at a depth of 300 meters. If this can be extracted cost-efficiently, it presents a considerable opportunity to generate electricity for both domestic and export markets. The gas extraction rights were awarded in 2011 to Contour Global, which estimates that up to 100 megawatts of electricity could be produced annually (Contour Global, 2012).

1.5 Stimulating SME Sector Development

The text of *Vision 2020* acknowledged that the agricultural sector had limited potential to drive the economy and determined that growth should be grounded in Rwanda’s comparative advantage, which was defined as:

> …a plentiful supply of cheap labour, a large multi-lingual population, a strategic location as the gateway between East and Central Africa as well as its small size, making it easy to build infrastructure (Minecofin, 2000: 9).

There is little in this comparative advantage to suggest though that a vibrant SME sector would emerge as a spontaneous reaction to the convergence of cheap labour and a supportive institutional context. The government has therefore taken on the mantle of development state and become actively engaged in upgrading the economy, a strategy that is fully consistent with Chang's view that comparative advantage is nothing more than a "base-line" that developmental states can deviate from (Lin and Chang, 2009: 495). As part of this upgrading it has instigated a number of strategies that are designed specifically to support the emergence of an entrepreneurial class that can set up and develop the vibrant SME private sector that *Vision 2020* envisages.

1.5.1 SME Regional Cluster Strategy

In 2012 the government introduced the SME Regional Cluster Strategy, with the objective of capitalising on regional concentrations of raw materials and workforce skills (Minicom, 2012). Based on Porter's[12] theories of regional competitive advantage (Porter, 1998, 2000), the strategy identifies 20 'unique' SME product clusters across the 30 districts of Rwanda, ranging from agricultural processing and fish farming, through tourism and ceramics, to business process outsourcing (Minicom, 2012: 10). Based initially on a random survey of 404 enterprises, equivalent to just 0.3 percent of the total number of enterprises that exist in the country, the strategy document identified five product clusters for each district, from which one priority cluster was selected for each district outside Kigali and two for each of the three districts in Kigali. A full list of the clusters is included in Appendix B.

Throughout the strategy document explicit references are made to the importance of the SME sector. There is no overt discrimination against 'informal sector' establishments, indeed the foreword to the strategy document recognises that establishments across the formality spectrum play a "crucial role in the country's development" (ibid: 3).

The cluster strategy acknowledges that Rwandan SMEs tend to be uncompetitive compared to similar enterprises in neighbouring countries (ibid: 12) and stresses the importance of quickly establishing efficient, competitive and scalable SMEs that will be able to capitalise on the single East African Community market when it comes fully into existence. In addition to

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[12] Interestingly, Michael Porter is a member of President Kagame's Presidential Advisory Council (Crisafulli and Redmond, 2012: 99).

mapping out the regional specialisations, the programme also identified five cross-cutting issues facing all the SME clusters. These were: cluster organisation, access to finance, access to market information, skills development, and production capabilities. To address these Minicom has developed short and long-term strategies, which have been allocated to individual government departments for implementation. The major actions to be undertaken include the appointment of regional cluster managers, providing improved access to market information and finance, targeted education and training, and the development of graduate entrepreneurship programmes (ibid: 58).

The first stage in the process of identifying and selecting product clusters was overseen by District Cooperative Officers and Vice Mayors, who were charged with shortlisting suitable product clusters based on four key criteria, namely: the number of SMEs already operating in a particular cluster, the number of cooperatives in the cluster, how many people the product cluster employs or could employ and especially whether it had the potential to generate high and rising wages, plus the average annual turnover per SME. In developing the strategy consideration was also given to additional criteria such as the proximity of the raw materials that would be required, whether a plan for exploiting the cluster at district level existed, and the cluster's export potential.

The clusters identified from this selection process were then reviewed and prioritised in discussion with stakeholders. The cluster strategy actually makes several references to involving stakeholders in the process and these are variously referred to as national and local government and the private sector, although they are not identified specifically. The main government stakeholder is likely to have been Minicom, which has overall responsibility for implementing the strategy, supported by district administrators. Further insight can, however, be found in the schematic representations of the 30 individual district plans. These diagrammes suggest a matrix approach involving major institutions including the IFC and World Bank, development NGOs, government ministries and agencies, and the Private Sector Federation, which is broadly equivalent to a chamber of commerce.

The 20 SME product clusters identified in the original assessment are listed in Table 1.7.

Table 1.7 Identified Regional SME Product Clusters

Products
Horticulture
Fish
Milk
Meat
Honey
Wood
Fashion and tailoring
Essential oils
Leather
Irish potatoes
Eco-tourism
Macadamia nuts
Spices
Ceramics and pottery
Handicrafts
Maize
Minerals, including precious stones, gems and jewellery
Cassava
Wheat
ICT and business process outsourcing

(Source: Minicom, 2012: 10)

At the end of the process a list of five products was identified for each individual district. In most cases there is evidence of convergence across the product categories, mainly reflecting the national dominance of farming. For instance Gatsibo district's list features leather, maize, rice, coffee and cassava. But in some cases the linkages look more tenuous - Kicukiro, a district of Kigali, for example features a diverse list of weaving and handicrafts, meat, furniture, agro-processing and coffee.

The finally selected schedule of priority clusters differs though in some important ways from the initial list. The originally identified clusters of horticulture, Irish potatoes, maize, cassava and wheat do not figure at all in the final schedule, which additionally includes a number of categories that did not feature in the initial list, namely: banana wine, pineapple, silk and passion fruit. Furniture is also included in the final schedule, although this is arguably linked to wood in the original list. Similarly, mining is assumed to be equivalent to minerals in the original schedule.

Table 1.8 details the final list of clusters that were selected and the frequency with which they occur across the country's 30 districts. The most popular cluster activity is milk, including butter production, which is the priority for four districts, followed by production of essential oils and fishing related activities, which are both prioritised for development in three of the 30 regional districts.

Table 1.8 Regional SME Cluster Frequency

Product	Frequency
Milk, including butter production	4
Fish, including fishing, fish-farming and fish-flour	3
Essential oil	3
Banana wine	2
Pineapple	2
Furniture	2
Pork	2
Weaving - handicrafts	1
ICT - software development	1
Fashion and tailoring	1
Leather	1
Macadamia nuts	1
Pottery	1
Eco-tourism	1
Honey	1
Mining	1
Silk	1
Passion fruit	1
Spices	1

(Source: Minicom, 2012: 21)

The ongoing dominance of agriculture in the economy is evident in the fact that 18 of the clusters relate broadly to agriculture, while adding in the fisheries related clusters raises the agriculture and fisheries element to 21, or 70 percent, of the clusters. Whilst this obviously reflects the actual situation at the time, it stands in stark contrast to the fundamental plan to migrate from an agricultural to a knowledge-based economy and the EDPRS 2 target of generating 200,000 off-farm jobs per year (Minecofin, 2012: 55).

With no central database of enterprises, implementation of the cluster strategy is devolved to provincial level managers, located at business development centres, who are charged with identifying SMEs that might qualify for support and then connecting them with the institutions and government programmes that might be able to help. Clearly with such a devolved programme, much depends upon the capabilities and motivations of the individual managers. This was evidenced when discussing the SME Regional Cluster Strategy during an interview with Eusebe Muhikira, the Rwanda Development Board's Head of Trade and Manufacturing Department. During the discussion it was conceded that the results of the programme have been "very mixed", that only three of the five provincial managers were viewed as being effective, and that the strategy seemed only to work with communities that are in very close geographic proximity to the business development centres.

On the face of it, there would seem to be some considerable logic in the regional product cluster strategy and the attempt to tailor government and institutional support to pre-existing concentrations of materials and expertise, and the explicitly stated objective of identifying and supporting those entrepreneurs who would seem to have high potential. Additionally, efforts to facilitate greater levels of collaboration and integration between regionally complementary businesses and to seek to improve their competitiveness would also seem to make sense. But despite the apparent logic of the cluster strategy, it is possible to take issue with what might be seen as an overly prescriptive strategy and its attempt to pull entrepreneurs into very specific commercial sectors identified by government.

Although Porter advances the argument that governments should actively try to facilitate cluster development (Porter, 2000: 26) he also observes that they tend to form independently, sometimes "in spite" of government, and seems to suggest that privately led initiatives that enlist government support are more likely to be successful than government led initiatives (ibid: 31). He also notes that cluster boundaries need to reflect the economic realities, rather than political boundaries (ibid.), which rather calls into question the very logic of picking clusters on the basis of district geography.

Isenberg (2013: 232) goes even further and argues strongly against such interventions on the basis that entrepreneurs reside in the margins, rather than in the mainstream, and that government action that pulls them into the middle ground is both alien to them and even counterproductive. Rather than delivering opportunities ‘on a plate’, he argues that entrepreneurs are quite able to find opportunities for themselves and that the real commercial opportunities will tend to reside where everyone else - policymakers included - think they do not exist. In particular he takes issue with a ‘famous development economist’ who has developed a methodology for identifying sectoral strategies that governments should incentivise entrepreneurs to occupy, and goes on to claim that such sectoral cluster strategies are “misguided and potentially harmful” (ibid: 233). He argues forcefully that governments should, at most, aim to fulfil the role of market maker through deploying government expenditure, reducing barriers to market entry and publicising commercial successes. Rather than trying to push entrepreneurs into specific sectors, Isenberg stresses that the government’s role is to create a supportive context and observes that “opportunities pull entrepreneurs, whether incentives push them there or not” (ibid: 239).

1.5.2 *Hanga Umurimo*

In October 2012 Minicom launched *Hanga Umurimo*, a strategy devised specifically to stimulate positive attitudes towards entrepreneurship and to encourage individuals to embark on the process of SME creation and thereby build towards the realisation of *Vision 2020* (Minicom, 2012a). Subtitled “Start Small, Grow Big”, the literal translation of the Kinyarwandan *Hanga Umurimo* is “Create Own Jobs” - a call to action that encourages people to think about creating jobs rather than seeking employment, which might not exist, or defaulting to subsistence activities. Young people, especially students, were targeted through a communications programme designed to fashion positive attitudes towards entrepreneurship as a career choice. Financial institutions were also included as secondary targets for the communications strategy, with the objective of generating favourable attitudes amongst those individuals that would be expected to advance credit to the budding entrepreneurs who responded to the call to action.

Training is a key element of the strategy, with the joint aim of both enhancing business management skills, including business plan writing, and also raising individuals' levels of self-confidence when they come to seek credit from financial institutions. For this the *Hanga Umurimo* programme draws heavily on the International Finance Corporation, which provides skills training for the Minicom recruited service providers as well as training on the IFC SME toolkit.

The *Hanga Umurimo* plan is comprehensive and identifies key stakeholders as well as a wide range of delivery partners that encompasses government ministries, the National University of Rwanda[13], the Private Sector Federation, the IFC and NGOs. The core aim of the plan is the identification of individuals with the right aptitude and the subsequent nurturing of what are judged to be "good business ideas" (ibid: 2). The main mechanism for achieving this objective is a national business plan competition, which is coordinated at district level. Where funding is subsequently provided for an enterprise, 75 percent of the financial risk is underwritten by the Business Development Fund and the remaining balance of 25 percent has to be covered by the enterprise applicant.

An evaluation of the project undertaken by Management Consult Associates (MCA) for Minicom and the IFC determined that within three weeks the awareness campaign yielded 16,032 applications from individuals who wanted to participate in the business plan competition. From this the review panel selected 50 SME concepts per district (MCA, 2013: 9). The resulting 1,500 potential enterprises received initial business training from five Minicom appointed service providers, one for each of the country's five provinces, who were responsible for data collection, liaising with applicants, helping them to prepare their business plans and supporting the loan application process, as well as participating actively in the final selection process (ibid: 10).

The original plan was to select ten business plans per district, yielding a total of 300 across the country, but this was increased initially to 600 by adding in the next ten best plans per district. Following the provision by the IFC of incremental funding, this was then increased again to a total of 30 business

[13] Although originally a single university, in November 2013 all of Rwanda's state run universities were amalgamated to form a single university under the National University of Rwanda name.

plans per district. The resulting 900 business plans, written to a predetermined IFC defined format, were judged by a panel of 'experts' comprising bankers, professional services providers, civil servants and the chairman of the Access to Finance Forum (AFF) - a body mandated to mobilise and sensitise the population to join financial institutions as well as recommending ways to overcome constraints to accessing finance.

Winning business plans were circulated to the banks, confirming that they had been approved and that the individuals behind them had received the requisite business skills training. When accepted by a bank, the loan details were then forwarded to the BDF who, after undertaking due diligence checks confirmed that they were guaranteeing 75 percent of the loan amount. This took the form of a guarantee certificate that the enterprise owner took to the loan provider to confirm that the underwriting was in place via the BDF, thereby triggering release of the loan.

Whilst laudable in its aims, winners have nonetheless found it difficult to obtain the funds needed to get their enterprises off the ground. This points to fundamental difficulties with the strategy's architecture. First, it is assumed that the judging panel have the experience and skills necessary to recognise a viable business idea and the ability to assess accurately the risks involved. Furthermore, the judges are unlikely to want to be seen as a bottleneck to implementation of the government's strategy and are therefore likely to fall into a quantity over quality mindset. Second, even though 75 percent of the commercial banks' risk is underwritten by the BDF, the banks still bear 25 percent of the risk themselves. Being sensitive about the ratio of non-performing loans in their portfolios they will be averse even to BDF underwritten loans if there is any uncertainty about an individual's ability to make repayments. Thus they will seek to reassure themselves about the viability of winners' concepts and to select those they feel are likely to be able to repay their loans, rather than processing them automatically. The more the programme tries to deliver volume to support the strategy, the more the commercial banks can be expected to deepen their reservations about the plans they are being asked to fund. In fact their reserve would seem to be well founded - a frank and revealing interview with Maryse Nyirubutama Uwera, the

Professional in charge of Innovation and Business Development at Minicom[14], emphasised that many applicants think the loans that they receive are a government grant, which in turn leads directly to repayment defaults.

Shortcomings in the *Hanga Umurimo* programme have also been conceded more recently by Trade and Industry Minister Francois Kanimba. Appearing before parliament to explain why the programme appeared to be failing, the minister also said that many people thought they would obtain free money that they could use to start a business and added that it appeared many had artificially inflated their business projections in order to obtain the free money that they thought was on offer (*New Times*, 13th March, 2016).

The project evaluation undertaken by MCA also identified that in aggregate only 58 percent of the business competition winners were actually able to meet the 25 percent collateral requirement (MCA, 2103: 19), suggesting that the screening process had failed to exclude enterprise ideas that would never manage to trigger full-scale financial backing, even despite the BDF guarantees (ibid: 19). To overcome this problem the BDF is now examining the scope for equity participation in enterprises, alongside its 75 percent loan guarantee function, making it a commercial partner in the businesses. Whilst this is also to be applauded, a flaw clearly still persists. The supposition that a panel of 'experts' that collectively have little or no experience of setting up and running a business should nevertheless be adept at spotting potential entrepreneurs and viable business plans seems highly optimistic. Furthermore, the decision to select enterprise ideas on the basis of a pre-determined format - the IFC standardised template (Minicom, 2012a: 2) - assumes the appropriateness of a one-size-fits-all approach to planning. Indeed, the use of such a business plan template has the hallmark of having more to do with overcoming the judging panel's lack of familiarity with business plans and a corresponding inability to assess the commercial potential of the business concepts that they were being asked to judge.

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[14] The information contained in this section is based both on a review of the available documentation and notes made during a meeting with Maryse Nyirubutama Uwera, who in a frank and open discussion revealed helpful insights that would not have otherwise been available.

The project appraisal also identified that, after completing their training, the trainees had only a single day to refine and present their business concepts to the selection panel (MCA, 2013: 25). The selection panel too had faced a similarly daunting task in having only a week to pick 1,500 trainees from the initial 16,032 applications and typically had to handle between 80 and 100 business concept presentations per day (ibid: 27). The net result is that, despite the high level of interest in the competition, by June 2014 only 170 business plans had actually been funded[15]. Of additional concern is the fact that 74 percent of the enterprises that are receiving funding are sole-proprietorships (ibid:16), which sits uneasily with the claim that a key screening criterion for the 1,500 selected business ideas was their “potential to create jobs” (ibid: 26). It consequently raises the question of whether the strategy might be compounding the very problem it seeks to address, rather than solving it.

In addition to the national business plan competition the *Hanga Umurimo* strategy also integrates two further components designed to support SME development: *Project Pour la Promotion des Petits et Micro-enterprise Rurales* (PPPMER), and Proximity Business Advisors (Probas).

1.5.3 *Project Pour la Promotion des Petits et Micro-enterprise Rurales*

PPPMER is a district level programme that is supported by the UN’s International Fund for Agricultural Development (IFAD), which exists primarily to enhance levels of food security and reduce poverty by acting in the interests of what they refer to as ‘subsistence’, emerging and expanding SMEs. As its French name suggests, PPPMER was originally started in 2000 - before Rwanda joined the Commonwealth of Nations in November 2009 and formally adopted English as its first language.

According to the IFAD project brief for Rwanda, PPPMER’s aims will be achieved through a combination of developing viable SMEs, training individuals who are in possession of “entrepreneurial potential”[16], supporting local initiatives, strengthening grassroots organisations and facilitating financial access for the rural poor (IFAD, 2014). The anticipated result of this intervention

[15] Figure confirmed by Maryse Nyirubutama Uwera, the Professional in charge of Innovation and Business Development at Minicom.

[16] The document does not, though, explain how such potential would be recognised.

matrix is the development of rural SMEs that will become sources of incremental income in areas of high population density, via the opening up of secondary and service markets. Despite IFAD's overt agricultural remit, these are expected to be "especially in areas such as petty commerce, repair shops and handicrafts" (ibid.).

The strategy also seeks to support the development of apprenticeships in areas such as carpentry and tailoring in an effort to help young, vulnerable, individuals who did not complete their schooling. Under the PPPMER scheme, apprentices are given Rwf 18,000 to fund six months of training, which is provided by a local neighbour who is skilled in the particular craft. Half of this funding is a government grant, the other half is provided as a repayable microcredit from the local savings and credit cooperative (Sacco).

Beyond the top-level information provided in the IFAD briefing document, Minicom's own description of the scheme (Minicom, 2014) indicates the existence of a well-thought-out approach to the stated objective of supporting rural SMEs. The programme is divided into two key elements and details the existence of two separate funds that can award grants to specific projects. The first of these is the Technological Innovation Fund, which lends support to projects that are designed broadly to improve methods of production such as funding new equipment, technology training, product quality improvements and testing the viability of new products. The second fund, the Marketing Support Fund, finances the development of promotional materials, marketing strategies, and the opening up of new distribution channels. The funds available for a single project are not inconsiderable, with grants of up to Rwf 10 million and a planning assumption of a grant average of Rwf 8.2 million (ibid: 3).

1.5.4 Proximity Business Advisors

Hanga Umurimo's strategic architecture is completed by the Probas: sector level business advisors who are typically rural artisans or SME owners. Probas are not employed by Minicom - they receive their remuneration via a voucher scheme. An intending entrepreneur seeking business advice buys a voucher, which costs Rwf 50, from their local Sacco. This functions basically as an order for the Proba's services. Probas, who also receive IFC business skills training in order to enhance their ability to advise people who are planning to set up an enterprise, subsequently redeem the vouchers at the Sacco for Rwf 5,000.

On the face of it, the Probas scheme looks like an ingenious way for budding entrepreneurs in rural settings to get the kind of guidance that they would not normally be able to access. Furthermore, the Probas are expected to take their best prospects to the local Sacco and help them to obtain the loans they need to start their enterprises. Typically these fall into the Rwf 500,000 to Rwf 1 million range and constitute in the main agriculture orientated businesses such as maize and milk processing, production of cassava flour as well as retail shops and handicrafts, plus some services such as bicycle taxis and car washing. Unfortunately, as with the national business plan's bias, each Probas scheme is administered on the ground by a six-person committee made up of the District Vice Mayor responsible for economic matters, the District Executive Secretary, the Rural SME Facilitator, the District Cooperative Manager, a Sector Executive Secretary and - finally - a lone SME representative selected by the local community (Minicom, 2012a: 8).

In line with conventional thinking, the strategies to support entrepreneurship make frequent references to ensuring access to finance, which is also the subject of a specific strategy.

1.5.5 Access to Finance

Developing access to finance was seen by the Rwandan Government as a critical factor in achieving its economic plan. *Vision 2020* emphasised the promotion of microcredit that, in combination with investments in vocational and technical training, would especially support young self-employed workers (Minecofin, 2000: 13). Additionally, the 2006 Financial Sector Development Plan observed the need to build an effective microfinance sector that could deliver a broad range of financial products for the unbanked, thereby triggering savings that would build capital markets and facilitate investment (Finscope, 2012:1). Despite the accent placed on microfinance, by 2008 only 3 percent of Rwanda's adult population had savings with either a microfinance institution (MFI) or a savings and credit cooperative (Minecofin, 2009: Executive Summary[17]) and over half the population were unable to access any form of financial services at all, whether formal or informal (Finscope, 2012: 11).

Recognising that the government's economic agenda could not be realised without an effective financial sector that could mobilise savings and recycle them into long-term investments, such as backing new SMEs, Minecofin devised the Umurenge Saccos Strategy with the aim of massively expanding the national coverage of Saccos (Minecofin, 2009). The plan received a substantial budget allocation of Rwf 4.3 billion ($7.6 million). The lion's share of this funding, Rwf 3.3 billion, was used to subsidise the operating costs: 80 percent in the first year, reducing to 50 percent in year two and 30 percent in year three. A further Rwf 850 million was allocated for equipment, Rwf 63 million to train staff and Rwf 9 million to raise awareness and interest in Saccos across the population (ibid: section 5.2). Strategic partnerships were also sought with formal banks and microfinance institutions so that cases that were beyond the means of an individual Sacco could be referred to a formal institution for support.

The strategy of expanding the distribution of Saccos can only be regarded as an outstanding success for Minecofin, with financial service providers now distributed densely right across the country. The 2012 Financial Inclusion Report (Finscope, 2012) revealed that 44 percent of the population now live within five kilometres of an MFI, and 91 percent live within five kilometres of a Sacco[18]. Apart from the continued uptake of Sacco accounts, inclusion has also been aided more recently by the development of mobile banking, which by 2016 was being used by 2.3 million adults (Finscope, 2016: 34). As a result of the strategy financial exclusion had reduced dramatically from 52 percent of the population in 2008 to 11 percent in 2016, just one percentage point away from reaching the *Vision 2020* target of reducing financial exclusion to 10 percent of the population.

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[17]The strategy document does not use page numbers, so references refer to a section of the plan, as published.

[18] For the 2016 Finscope report the proximity measure was changed from distance to average travelling time and gives an average travelling time of 47 minutes to a Sacco and 52 minutes to an MFI.

Finscope's data also throws up some additional and surprising insights. Although there are a total of 34 MFIs present in Rwanda (Mix Market, 2014), their combined share of the lending market remains unexpectedly low[19], with two and a half times more people borrowing from a cooperative Sacco. In fact MFIs appear to have benefitted very little from the government's financial strategies. In 2008 only 3.9 percent of adults had taken up an MFI product and by 2012 this share was virtually stagnant at 4.1 percent (Finscope, 2012: 18). Whilst this might be partly explained by the MFIs' traditional focus on credit products, rather than savings, it may also be linked to an apparently low level of trust generally for the MFI sector. Only 3 percent of individuals said they would trust an MFI with their savings or as a provider of credit (ibid: 39), while in contrast Saccos received a much higher approval rating of 49 percent for savings and 50 percent for credit provision (ibid: 42). The high approval rate for Saccos as a source of credit did not, however, translate into a high demand for their loans. 42.0 percent of individuals joined a Sacco in order to save, another 8.8 percent to have a safe place to keep their money, and only 13.8 percent were motivated by the opportunity to obtain credit (ibid: 41).

Saccos and MFIs both pale into insignificance, though, against informal borrowing. The data, seen in Table 1.9, shows increased usage across all sources of credit but that informal sources continue to dominate.

[19] Interestingly, although Mix Market identified the presence of 34 microfinance institutions in Rwanda, it was seen at section 1.4.1 that the central bank lists only fifteen that have been officially licensed.

Table 1.9 Sources of Credit

Source	2012	2016
Bank	3%	4%
MFI	1%	2%
Mobile money	2%	3%
Sacco	2%	5%
Employer	3%	6%
Informal group	18%	41%
Moneylender	2%	3%
Shop credit	27%	34%
Farmers association	3%	6%
Family and friends	28%	32%

(Source: Finscope 2016: 54)

In aggregate 51 percent of adults in Rwanda rely solely on informal sources of credit, up from 43 percent in 2012 (Finscope, 2016: 53). It is worth noting though that the analysis is based on the number of loans advanced, and says nothing about the amount borrowed. A corresponding analysis based on value might have raised the importance of the more formal sources of lending, but this was not an area covered by the report. It also provides no analysis of the increasing reliance on informal credit, making it impossible to assess the impact of rates of interest charged on formal loans, which typically range between 16 and 18 percent for commercial banks and 24 percent on money borrowed from Saccos (*New Times*, 24th February, 2016a). It is significant though that the motives for taking out credit are dominated by consumption needs, with 34 percent needing to borrow to cover living expenses, 11 percent to cover medical costs and 8 percent to cover non-medical emergencies.

In contrast to the success in increasing the distribution of Saccos, the 2012 Finscope report revealed that the general population still tended to be wary of credit. Although 56 percent had used credit in the previous twelve months (Finscope, 2012: 9), 68 percent of adults indicated that they preferred not to borrow (ibid: 9) and 28 percent said they would be embarrassed to admit that they had needed to borrow (ibid: 8). Amongst non-borrowers, 45 percent said they did not take on credit because they were worried that they would not be able to repay the money (ibid: 16). The existence of such attitudes to debt may partially explain the preference for taking loans from local, ‘known’, informal sources that might be more flexible with regard to repayment than the more rigid constraints of unfamiliar formal providers - similar to the phenomenon observed by Banerjee and Duflo in Bangladesh, where rescheduling of informal debts often proves to be considerably more pliant than loans from formal institutions (2011: 167).

The underlying weakness in the demand for credit is also revealed in the fact that 68 percent of adults said they preferred to save up to buy something rather than take out a loan. In fact Finscope’s recent data reveals a striking preference for savings rather than credit products. In 2016 it was recorded that 86 percent of adults were saving - up from the 2008 level of 71 percent (Finscope, 2016: 50). But it is informal savings that again dominate, as summarised in Table 1.10. Such informal savings are a relatively common phenomenon across Africa and traditionally take the form of saving in groups so that unexpected expenses, typically funerals, can be met out of the group’s funds.

Table 1.10 Savings Mechanisms Used by Rwandans

Savings Mechanism	2012	2016
Bank	14%	13%
MFI	3%	4%
Sacco	21%	27%
Savings group	40%	54%
Someone in household	8%	16%
Secret place at home	20%	25%
Mobile money	0%	17%

(Source: Finscope, 2016: 51)

The aggregate total in Table 1.10 adds up to considerably more than 100 percent, implying that individuals are using more than one savings mechanism. It also correlates with the report’s finding that 66 percent of individuals use both formal and informal financial products, such as maintaining a formal bank account for their income but in parallel also belonging to a savings group in order to be able to access funds to cover emergency consumption such as unexpected medical expenses (ibid: 20). This phenomenon of utilising a portfolio approach to managing finances is also fully consistent with Banerjee and Duflo's Bangladeshi findings (2011).

Although the Finscope report makes interesting reading and throws light on some of the dynamics of the Rwandan financial market, it may nonetheless mask a key flaw in the government's core economic strategy, which relies on a fundamental assumption. It requires that people will create savings accounts with the formal institutions, which would then be recycled back into the economy as investment loans. As banks only hold fractional reserves, they are able to issue credit that is at a much higher multiple of the savings amount. But if individuals are favouring informal, typically group savings, then this money is not creating the formal bank savings that the government anticipated would be recycled into funding SME startups that can catalyse growth and employment[20].

It is also worth noting that the 2012 Finscope report appeared to contradict the traditional microcredit model, which advances loans in preference to women because they are viewed as more likely to pay off their loans than men[21]. This was not reflected in the Rwandan case, where 56 percent of MFI borrowers and 55 percent of Sacco borrowers are men (Finscope, 2012: 38, 41). Even though these shares are significant in themselves, the skew in favour of lending to men becomes even starker when one considers that they represent only 42 percent of the Rwandan population. This over-representation of the male population can also be seen in the case of community savings clubs. Although on the face of it savings clubs seem to be dominated by women, at 55 percent of members (ibid: 45), women make up 58 percent of the Rwandan population; thus here too men are over-represented relative to their population share. More importantly though, despite the claims made by the microfinance industry, the money they advance does not appear to be used to establish commercial enterprises, rather it is used to support current consumption requirements, especially emergency expenditure - a phenomenon that will be explored more fully in the next chapter.

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[20] Even if some informal savings might be invested in businesses, this is not leveraged up by the bank multiplier effect.

[21] Unfortunately the gender analysis was dropped from the 2016 report, so it is not possible to assess any underlying trend.

A further contradiction can be observed in the Business Development Fund's 2012 annual report. The Chairman's and CEO's joint foreword to the report congratulates itself on increasing its underwriting portfolio by 97 percent year-on-year, comments on changes that it has made to its loan guarantee process in order to increase support for SMEs and claims to have underpinned Rwf 40 billion in disbursements that small businesses need to "fuel their growth and create jobs" (BDF, 2013: 3). Yet the same text indicates that the bulk of the loans it guaranteed in the year were "channeled [sic] largely in support of agriculture" (ibid.). The discrepancy clearly raises serious questions about the degree to which the BDF's loan underwriting is actually contributing to the realisation of the government's aim of bringing about a fundamental transformation of the country's economy versus reinforcing the dominance of the very sector that the strategy is intended to supplant, as spelled out by President Kagame:

> We understand that achieving prosperity requires a metamorphosis of our economy. We are fundamentally changing our economy to move away from a dependence on agriculture toward a knowledge economy (Kagame, 2009: 4).

The Rwandan economic plan hinges on the creation and development of an efficient private SME sector "spearheaded by competitiveness and entrepreneurship" (Minecofin, 2000: 4) that will underpin the transition from an agricultural to a knowledge-based economy. It is therefore important at this juncture to examine the commercial landscape and assess the degree to which the desired SME sector can be discerned.

1.6 Enterprise Distribution

In June 2015 the National Institute of Statistics for Rwanda (NISR) published its latest comprehensive survey of enterprises in the country, and defined them according to the segmentation shown in Table 1.11.

Table 1.11 Rwandan Enterprise Segmentation

Enterprise Segment	Number of Workers
Micro	1-3
Small	4-30
Medium	31-100
Large	>100

(Source: NISR, 2015a: 10)

The census uses a very broad concept of employment - that of ‘in establishment workers’ (NISR, 2015a: 13). This encompasses paid workers, the self-employed and unpaid family members. It has also dramatically broadened its definition of what constitutes an enterprise. In the 2011 census, street vendors, taxi and motor drivers, road and building construction sites plus temporary retail booths were specifically excluded from the data (NISR, 2011: 31). These exclusions have been dropped from the latest census, which has adopted the broader International Labour Organisation’s (ILO) definition. Consequently “self-employed street vendors, taxi drivers, home-based workers, etc. are all considered enterprises” (NISR, 2015a: 23). A petty vendor would thus be categorised as both enterprise owner and as the worker employed in that enterprise.

The census recorded a total of 154,236 establishments of which the vast bulk, 90.1 percent, are categorised as micro-enterprises employing 1-3 people. SMEs accounted for just 9.9 percent of total establishments, and LSEs 0.2 percent of the total. But a closer analysis shows that even this low incidence of SMEs is overstated. The top-level enterprise distribution given in the report includes entities such as local and international NGOs, government and civil society enterprises and cooperatives, which need to be stripped out of the quoted figures in order to arrive at an objective assessment of how the enterprise distribution reflects the *Vision 2020* aim of creating a vibrant SME private sector. Excluding the spurious categories and focusing purely on the private enterprise category produces a very different picture, as indicated in Table 1.12.

Table 1.12 Distribution of Private Sector Enterprises

Enterprise Segment	Establishments	Percentage
Micro	137,297	93.9%
Small	8,412	5.7%
Medium	380	0.3%
Large	138	0.1%
Total	146,227	100.0%

(Source: Derived from Table 4.4 NISR, 2015a: 45)

The SME sector thus accounts for only 6 percent of private sector enterprises, but this figure too overstates the number of SMEs.

In the previous census (NISR, 2011) the lion's share of all enterprises, 53.5 percent, fell into the 'household' economic sector, which was defined as businesses that were owned by individual households, and which did not regularly hire employees. Rather, the work was typically carried out by own-account workers supported by unpaid family members. This was followed by the private sector, which accounted for 41 percent of enterprises nationally. For the 2015 report these two categories have been merged into a single private sector category and the household sector has disappeared completely from the analysis. The 2015 figures for the private SME sector will therefore include household level enterprises that depend on the support of unpaid family members, hence even the low reported figure of 6 percent for private sector SMEs is likely to be significantly overstated[22].

The data in the census also show a considerable skew away from the kind of knowledge-based enterprises that the government's strategy is seeking to catalyse. The very broadly drawn grouping of 'wholesale and retail trades, including the repair of motor vehicles and motorcycles' accounts for 53.3 percent of all enterprises, while 'accommodation and food services' accounts for another 30.4 percent. The report also shows that 94.7 percent of all enterprises categorised by the 2015 report as private were informal, with a median number of workers reported as one (NISR, 2015a: 26), indicating that

[22] Applying the same ratios that were reported in the previous census would suggest that the private SME sector would account for only 2.5 percent of total private enterprises.

these are self-employed enterprises. Additionally, 54.5 percent of the 315,076 workers in private enterprises were unpaid, 95.8% of private firms were sole proprietorships and 91.8% did not keep financial accounts. Thus the report's assertion of an annual "growth of 24.4 percent in the total of private and business orientated mixed establishments" (ibid: 16) creates a seriously erroneous impression. In reality the private sector in Rwanda is characterised by informal household level subsistence enterprises which are, if anything, supported by unpaid family workers.

The recently published Integrated Household Living Conditions Survey (NISR, 2015) also indicates that the country's economy remains orientated towards agriculture, with 87 percent of all households actively engaged in crop production and 65 percent owning livestock. Production remains highly labour intensive, with hoes and shovels the main tools employed, and modern agricultural equipment almost completely absent. The fact that only 21 percent of agricultural production is sold also indicates that the vast bulk of agricultural production is for own consumption. The National Agricultural Export Development Board (NAEB) data shows that Rwanda's exports are also dominated by agricultural produce, with tea and coffee being the main products exported, as indicated in Table 1.13.

Table 1.13 Rwanda's Main Agricultural Export Products[23]

Product	Export Value
Coffee	$64.0 million
Tea	$61.8 million
Cereal and grains	$44.5 million
Live animals	$23.7 million
Meat	$12.9 million
Milk	$10.0 million
Dairy	$15.2 million
Hides and skins	$11.8 million
Horticulture	$6.7 million
Pyrethrum	$1.8 million
Other	$29.9 million
Total	$282.3 million

(Source: compiled from NAEB, 2015)

A mining sector that exports tin, tantalum and tungsten ores along with a small amount of gold and gemstones has also developed. Accounting for only $96.4 million in 2010 (RDB, 2014) by 2014 it had risen to a value of $210.6 million (RDB, 2016)[24]. Tourism has also started to increase in importance, and in the financial year 2013/2014 tourist visits to Rwanda rose by 3 percent to 1.17 million visitors, yielding a total value of $297.4 million (Minicofin, 2014: 20).

1.7 Conclusion

Rwanda's economic strategy is centred on fashioning an institutional and business environment that will support the emergence of a class of entrepreneurs and the SMEs they are expected to create. To this end the

[23] Figures are for the fiscal year to June 2015.

[24] Although the recent data listed on the RDB's website does not indicate which countries these minerals are exported to, the website previously listed China, Germany and the USA as the sector's main export markets (RDB, 2014).

government has overseen the creation of a context that it anticipates will favour enterprise formation, as evidenced by the generally positive governance ratings, levels of access to finance and commitments to infrastructure development. Measures to stimulate uptake of entrepreneurship in particular are also widespread, ranging from the *Hanga Umurimo* national business plan competition, PPMER, Probas scheme, the SME Regional Cluster Strategy, business risk underwriting via the BDF and the teaching of skills that are thought to be appropriate to entrepreneurship. Furthermore, the particular political settlement that has emerged in Rwanda has meant that the government has been able to achieve a high degree of consensus about how best to go about achieving its development goal and has enabled the single-minded pursuit of the related strategies.

Reflecting on the claim that SMEs in OECD countries account for 95 percent of all firms, 60 to 70 percent of employment, 55 percent of GDP and the majority of all new jobs (Minicom, 2012: 11), the government plainly believes that the underlying dynamics of a developed economy can be replicated in Rwanda and will catalyse the transition from agrarian to knowledge-based economy. It is also proceeding in the belief that a dramatic turnaround can be achieved within a very short timescale: the 20-year term of *Vision 2020.*

In essence the economic strategy is predicated on the assumption that there is an abundant pool of individuals who can become entrepreneurs and create the dynamic SME sector that is desired. However, despite everything that has been done, there is little evidence so far of the anticipated emergence of the new entrepreneurial class that will spearhead economic growth and generate the high levels of employment that are envisaged in the economic plan. Enterprise distribution remains very heavily skewed towards a vast number of informal, single-worker micro-enterprises. Instead of generating genuine employment there is a risk that the strategy “may simply force people to ‘hire’ themselves at starvation wages” (Amsden, 2010: 60).

The next chapter will examine the main theories relating to entrepreneurship and enterprise formation with a view to assessing the veracity of the assumptions that underpin the government’s strategy.

Chapter 2 The Theoretical Context

2.1 Introduction

Domestic entrepreneurs are increasingly thought to hold the key to the economic progress of developing economies: by creating new commercial ventures it is anticipated that they will stimulate the development and continued expansion of an economy's small and medium sized-enterprise (SME) sector and thereby make a significant incremental contribution to economic growth, employment and poverty reduction. This growing belief in the transformational power of SMEs would appear to have derived in large part from the emergence of SME sectors in developed economies.

Following the second industrial revolution of the late 19th and early 20th centuries, large scale enterprises (LSEs) were able to exploit economies of scale and scope to the extent that they came to dominate the pre-1970 commercial landscape, particularly following the 1960s "conglomerate merger wave" (Carree and Thurik, 2011: 557). LSEs consequently became the main focus of interest for politicians and economists alike, who saw the mass production of standardised goods as the primary driver of industrial economies (Stenkula, 2006: 2). The 1970s though witnessed the beginning of a shift in LSEs' fortunes and the rise of SMEs, as demonstrated by the share of employment in the USA accounted for by Fortune 500 companies. In 1990 these LSEs' share of employment stood at 20 percent, but by 1996 had receded to just 8.5 percent (Carree and Thurik, 2011: 559). The reduced importance of LSEs and corresponding rise of SMEs is attributed to a number of factors including technological advances, increased globalisation, deregulation and changing consumer preferences (ibid: 558), a decay in the returns to scale and the rising significance of entrepreneurs (Stenkula, 2006: 2). Whilst these factors would be expected to be favourable to SMEs' development, it is likely that the major shocks that confronted LSEs in the 1970s would have also played a significant role in shifting the balance. Being both highly capital intensive and heavy consumers of oil (both as raw material and energy source), LSEs in both the USA and UK were seriously affected by the combined effects of a quadrupling of the oil price between 1973 and 1974 (Baumol and Blinder, 2012: 217), a doubling of the price between 1978 and 1979 (Begg, et al., 1994: 499) and the high interest rates employed to counter subsequent high inflation. Faced with the combined penalties of high oil prices and high cost of capital many heavy industries struggled to survive, and those that could embarked on a process of spinning-off subsidiaries and down-sizing in order to concentrate on core competencies (Carree and Thurik, 2011: 562). Coupled with the 1980s trend for deregulation and a shift of emphasis towards service industries, which tend to favour SMEs, changes in the commercial landscape post-1980 were thus characterised by the rise of SMEs and a parallel demise of LSEs rather than the rise of entrepreneurs and SMEs alone.

At the same time developing economy governments were finding that neither import substitution nor export orientation were able fully to deliver the economic benefits that had been anticipated (Acs and Virgill, 2011: 488). They consequently turned their attention to the role that entrepreneurs and SMEs could play as a stimulus for growth, spurred on by both the enhanced significance that SMEs seemed to have in developed economies and their overt promotion by specialist units of the World Bank and the United Nations Industrial Development Organisation (ibid: 486). Held to be the most dynamic part of a developed economy, the belief is that the importance of SMEs can be extrapolated directly to developing economies - that they can be the “driving force of *any* country’s economy” (de Vries, 2000: 5; original italics). Thus although originating in developed economies, belief in the economic power of SME sectors has become the development orthodoxy, as reflected in the World Bank’s stated commitment to deliver economic growth, employment and poverty alleviation via development of SMEs (World Bank, 2001, cited in Ayyagari et al., 2007: 415), the African Development Bank’s insistence that they are critical to the development of African nations (Calice et al., 2012: 5), the assertion by the International Finance Corporation (IFC) that SMEs are important drivers of growth “across Sub Saharan Africa” (IFC, 2014) and the commitment by the UK’s Department for International Development (DfID) to implement strategies to finance 300,000 SMEs in low income countries (DfID, 2011: 14). Consequently, developing economy governments and the global institutions that support them have been keen to promote measures to facilitate development of dynamic SME sectors.

As SMEs do not come into existence by themselves, developing economy governments need a supply of entrepreneurs who will create them in the first place. Academic analysis of how entrepreneurs in developing economies come into existence and the structures that support them remains, though, far from extensive. Consequently the observation by Lingelbach, de la Vina and Asel (2005: 1) that "entrepreneurship in developing economies is arguably the least studied economic and social phenomena in the world today", still resonates. That this should be the case is somewhat unexpected, given the extent to which entrepreneurship is generally credited with catalysing both economic growth and new employment (Thomas and Mueller, 2000: 287; OECD, 2004: 5; Tesfayohannes, 2006: 234, 235) and that it is assigned a key role by the major global financial institutions seeking to foster growth strategies for developing economies. Additionally, even though the entrepreneur as a factor of economic growth in industrialised economies has been the subject of analysis and theorising for over 100 years, there is still no general unified theory of entrepreneurship. Early assertions that some individuals possessed character traits that gave them an entrepreneurial predisposition were posited and developed, but were far from universally agreed upon. Taken together with the lack of evidence from developing economies, one is left confronted with a discourse that often seems to be pulling in divergent directions.

The absence of a unified theory of entrepreneurship and a paucity of truly reliable evidence around SME sector formation makes it exceedingly difficult for policymakers to determine, with any real sense of confidence, how best to proceed when attempting to design and implement policy measures that will lead directly to the creation and expansion of the SME sector that is desired. Furthermore, the diversity of opinion on how and why entrepreneurs emerge and how best to support them is such that developing economy governments are frequently faced with taking policy decisions that essentially constitute little more than leaps of faith based on the discourse surrounding entrepreneurship. It also exposes them to being influenced by a broad array of vested interests, be they providers of microcredit, management consultants, NGOs or economists of various persuasions.

This chapter will examine existing theories of entrepreneurship. To impose a degree of structure on the disparate views and aid analysis, the principal arguments will be organised into three main groups, which are broadly categorised according to the underlying hypotheses that entrepreneurship is fundamentally a matter of economics, of psychological characteristics, or of individuals' access to various forms of capital. In this segmentation access to capital refers not only to finance, it encompasses also human capital, such as training and education, and social capital in the sense of personal networks that can be leveraged. One approach promoted by the Global Entrepreneurship Monitor (GEM) arguably attempts to bridge the economic and capital allocation camps, but it will be argued that fundamental weaknesses in its data and theoretical model are such that this attempt largely fails. It will therefore be included in the first, economic, category.

As explored in the Preface, in order to address the complex issues surrounding enterprise creation it is necessary to fix clearly the meaning of the terms 'entrepreneur' and 'entrepreneurship'. Throughout this thesis the term entrepreneur will be taken to mean an individual who creates a viable new commercial enterprise, acting either on their own or in teams. The term entrepreneurship refers to the process of establishing said viable new commercial enterprise. Hence the entrepreneur will be treated consistently as one who creates an enterprise, irrespective of whether they employ innovation, copy others' ideas, exploit an identified opportunity, or are driven by financial gain or personal characteristics. While such concepts might lead to different policies and outcomes, they do not in and of themselves constitute alternative definitions. They relate narrowly to 'how' and 'why' entrepreneurs create enterprises and are fully encompassed within the definition of entrepreneurship employed in this thesis.

2.2 The Entrepreneur in Economic Theory

Whilst there seems to be broad agreement in the economic camp that the entrepreneur plays a key role in generating economic growth and employment, there is considerable disagreement about the process by which this comes about. The main debate has tended to polarise primarily between whether it is by virtue of their creativity or innovative capacity, or as a result of identifying and capitalising on market opportunities. This section will look at the main arguments in this regard.

2.2.1 The Entrepreneur as Disruptor of Market Equilibrium

Richard Cantillon, an Irishman living in France in the 18th century, is generally credited with having first acknowledged the economic role of the entrepreneur. Although the exact date of publication is unknown his *Essai Sur La Nature Du Commerce*, which is thought to have appeared sometime between 1730 and 1734, uses the term for the first time to distinguish between the separate roles of labour, landowner and entrepreneur. This initial usage of the term was further amplified during the 19th century, particularly by the French economist Jean-Baptiste Say who went on to distinguish between entrepreneur and enterprise manager. Whilst both can share similar roles in administering an enterprise, Say differentiated clearly between them on the basis that only the entrepreneur is engaged in taking risks in the form of putting at stake both his own funds (Say, 1826: 303; cited in Koolman, 1971: 279) and his reputation (ibid: 274). Say additionally identified the primary role of the entrepreneur as a coordinator of the factors of production but critically differentiated between entrepreneurial and capital functions (ibid: 270), which had otherwise tended to be treated as synonymous. Although entrepreneurs can, and do, put their own money at risk the distinction is important because it allows that entrepreneurs can also obtain credit from capital markets in order to realise their enterprise objectives, rather than having to rely entirely upon their own resources. It also clearly positions capital's essentially passive role versus the active coordinating function of entrepreneurs in the process of enterprise creation and postulates a four-factor model of production comprising land, labour, capital and entrepreneur, as opposed to Cantillon's three-factor model of labour, landowner and entrepreneur.

Whilst the role of the entrepreneur can thus be traced back to the 18th and 19th centuries, it is arguably Schumpeter's seminal *The Theory of Economic Development* (1983) that moved the entrepreneur centre-stage in economic theory. Originally published in German in 1911, the work was subsequently translated[25] into English in 1934 following Schumpeter's move to the USA in 1932. Central to Schumpeter's approach is the notion of 'creative destruction', whereby entrepreneurs employ superior knowledge to disrupt market equilibrium by forming new enterprises that make traditional methods of production redundant (ibid: 66). It is important to note that Schumpeter's notion of creative destruction represents a revolutionary combination of factors and consciously rules out incremental change: Schumpeter cites the development of the railways as an example, pointing out that it was not stagecoach makers who created commercial railways and that simply making more stagecoaches would never have created a railway:

> …that kind of change arising from within the system *which so displaces its equilibrium point that the new one cannot be reached from the old one by infinitesimal steps.* Add successively as many mail coaches as you please, you will never get a railway thereby (1983: 64; original italics)[26].

Although noting that the ideal state of equilibrium is "never attained" (ibid: 62), the equilibrium model is nevertheless drawn upon to build the platform for Schumpeter's theory of economic development. The theoretical construct of market equilibrium, though, implies conditions of perfect information, and therefore a context that allows no price variability and no competition. In reality markets under a capitalist system are unlikely to ever achieve such an idealised condition, which implies an all-pervading state of knowledge that is hard to imagine. Although market equilibrium may have been a useful intellectual construct to aid theorising, in reality markets will only approximate to this idealised state - a kind of 'fuzzy equilibrium' is probably as close as one could ever expect to get. If the idealised condition of market equilibrium is a simplification not found in reality, then creative destruction would have to occur in situations of non-perfect equilibrium. This becomes more explicit in Schumpeter's later work, *Capitalism, Socialism and Democracy*, which stresses the incompatibility of perfect competition and creative destruction (2010: 90).

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[25] By the time the text came to be translated into English, the original had been radically modified and reduced from its original 548 pages to 369. The translation to English that appeared in 1934 was based on this later 1926 German version.

[26] Notwithstanding the elegance of the point, there is some evidence though that early railroad carriages were in fact modified stagecoaches (Sarasvathy, 2008: 186), although Schumpeter probably had locomotive steam engines in mind when making the point, rather than railway carriages.

Schumpeter's assertion that the entrepreneur "forever alters and displaces the equilibrium state previously existing" (1983: 64) therefore needs to be interpreted figuratively, rather than literally. Hence Schumpeter's entrepreneur acts against a tendency towards equilibrium, which is never reached.

Like Say, Schumpeter draws a conceptual distinction between entrepreneurs and capitalists, which he uses to dispense with the idea that a shareholder is an entrepreneur. But, departing from Say, the distinction is used to position the capitalist as the bearer of risk and thus "disposes of the conception of the entrepreneur as risk bearer" (ibid 75) - a position Schumpeter goes on to stress further when asserting "the entrepreneur is never the risk bearer" and "risk-taking is in no case an element of the entrepreneurial function" (ibid: 137). Schumpeter does though concur partially with Say when conceding that the entrepreneur "may risk his reputation", thus a more figurative interpretation may also be deployed to infer that Schumpeter is referring primarily to the financial risk that the entrepreneur faces.

Schumpeter also adopts the stance that an individual is only an entrepreneur during the period when he is actively engaged in the process of carrying out the new combinations that destabilise equilibrium, and as soon as the enterprise becomes established as a going concern he ceases to be an entrepreneur and becomes a normal businessman (ibid: 78). Thus for Schumpeter, entrepreneurship is a purely transient state, which would suggest that the entrepreneurial class envisaged specifically in the Rwandan government's economic plan would be in a constant state of flux, rather than being fixed, as successful entrepreneurs transition into being businessmen and are replaced by new entrepreneurs. It is important to note though that an entrepreneur's activities may not be restricted to a single enterprise, as some go on to become serial or portfolio enterprise founders (Birley and Westhead, 1993; Balunywa and Rosa, 2009). The existence of such habitual entrepreneurs means that SMEs, once established, do not have to be actively managed by the entrepreneurial founder. In the case of serial entrepreneurs this is by definition not the case, as the founding entrepreneur typically sells on a successful enterprise to an investor, who then installs a manager while the original founder goes on to create another new enterprise. Similarly portfolio entrepreneurs, although not selling off successful enterprises, may choose to install managers to run individual units on their behalf once they are successful.

2.2.2 The Entrepreneur as Exploiter of Arbitrage Opportunities

In contrast to Schumpeter's concept of creative destruction, Kirzner takes the position that the entrepreneur is one who spots market information asymmetry and then exploits corresponding market disequilibrium: the entrepreneur as arbitrager (1973: 18). Thus entrepreneurship for Kirzner consists in the act of seeing that an opportunity exists because markets are already in a state of disequilibrium (ibid: 47). So instead of moving markets away from equilibrium, Kirzner takes a position that is diametrically opposed to Schumpeter and asserts that the changes brought about by entrepreneurial action "are always towards the hypothetical state of equilibrium" (ibid: 73). Identifying the essential flaw in arguments derived from the equilibrium model, Kirzner argues that if an entrepreneur were one who used superior market knowledge to exploit opportunities, then he simply could not exist in a general equilibrium market that assumes perfect and ubiquitous information. Thus Schumpeter's entrepreneur would be unable to possess any form of superior knowledge and therefore could neither act nor indeed exist. To the extent that arbitrage can occur by virtue of spotting and acting on instances of disequilibrium, Kirzner also takes the position that entrepreneurship can be exercised without initial ownership of the asset in question (ibid: 16). From this he deduces that everyone is a potential entrepreneur, and disagrees with Schumpeter's position that entrepreneurs are a special minority of individuals (Schumpeter, 1983: 93).

Given that Kirzner's argument proceeds from the premise that entrepreneurship consists of acts of arbitrage taken in imperfect markets, he naturally also takes issue with Schumpeter's pedantic assignment of risk as a purely capitalist function. Arguing that in an imperfect market the entrepreneur would be operating under conditions of imperfect knowledge, then by definition the role of the entrepreneur must be subject to uncertainty and therefore a degree of risk (Kirzner, 1973: 78). Furthermore, an entrepreneur using their own finance would by definition be simultaneously performing both an entrepreneurial and capitalist function (ibid: 49), thus making it difficult to maintain Schumpeter's strict separation of these roles.

Although Kirzner and Schumpeter's respective positions would appear initially to be irreconcilable, they quickly take on the form of a false dichotomy when viewed in the context of real world markets. If, in the real world, markets can only ever approximate to equilibrium, then under the resulting near-equilibrium condition there should be scope for a Schumpeterian innovating entrepreneur to possess and use a degree of superior knowledge to create new combinations and to have an incremental disequilibriating impact. Kirznerian entrepreneurs, alert to the new entrepreneurial profits on offer, could then be expected to follow the lead of Schumpeter's entrepreneur, to bring about corrections to the market's imperfect knowledge and thereby act in an equilibrating manner. Thus the real world market is more likely to exhibit oscillations between near-equilibrium and marginal disequilibrium, thereby allowing plenty of scope for pioneering creative destroyers and arbitragers to co-exist.

2.2.3 Entrepreneurs as Innovators and Replicators

Baumol, winner of the Global Award for Entrepreneurship Research in 2003 and increasingly venerated as the leading contemporary authority on the economic role of the entrepreneur, acknowledges this scope for parallel coexistence. Cutting to the quick he dismisses the use of theoretical equilibrium models, thereby permitting the simultaneous existence of both Schumpeterian and Kirznerian entrepreneurs (Baumol 2010: 15) and defines an entrepreneur broadly as anyone who organises a new firm, irrespective of whether they are an originator or follower. Baumol draws a clear distinction, however, between a minority of 'innovative entrepreneurs' and a majority of 'replicative entrepreneurs' who copy the formers' inventions, and although he fails to make an overt connection, his innovative entrepreneur bears remarkable similarity to Schumpeter's creative destroyer and his replicative entrepreneur to Kirzner's arbitrager. Commenting that an entrepreneur is "someone who undertakes" (ibid: 18) - a virtually literal translation of the German 'Unternehmer' - he does though arguably betray a certain empathy with Schumpeter, who used the German term in his original writing[27].

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[27] Schumpeter's original work in German: *Theorie der wirtschaftlichen Entwicklung* used the term Unternehmer. This was translated into 'entrepreneur' when the work was subsequently published in English.

Throughout his work Baumol seems keen to stress the superiority of value creating innovative entrepreneurship, especially small firms that produce the breakthrough technology that more conservative, risk-averse, large companies are unable to engage in (ibid: 31). This preoccupation with innovation reappears as a theme in Baumol and Blinder's *Economics: Principles and Policies* (2012) and is also evidenced in his collaboration with Litan and Schramm, where entrepreneurship is constrained even more tightly to the generation of an entity that provides a "*new* product or service or that develops and uses *new* methods to produce or deliver existing goods or services at lower cost" (Baumol, Litan and Schramm, 2008: 2; original italics). Baumol's unflinching commitment to the importance of innovative entrepreneurship is also further reflected in his signposting of a link between innovation and expenditure on education that raises human capital and thereby facilitates further enhancements in innovation (ibid: 96). Taken together with the development of human and physical capital that he also attributes directly to innovation, Baumol concludes that innovation is "responsible for most of the growth of production, production per capita, and productivity that followed the Industrial Revolution" (ibid.). Support for this position is also seen in Drucker's insistence that "innovation is the specific instrument of entrepreneurs" (Drucker, 2011: 17). However, although Baumol seems to draw heavily on Schumpeter, Schumpeter himself would appear to take issue with the stress that is given to innovation when he comments that it is "not advisable, and it may be downright misleading, to stress the element of invention as much as many writers do" (Schumpeter, 1983: 89).

It is easy to be distracted by Baumol's apparent preoccupation with innovative entrepreneurship and to conclude that the replicative entrepreneur has little significance in economic development. On closer examination it is clear though that Baumol does give due, though rather scant, credit to the replicative entrepreneur. From his observation that 90 percent of the benefits of innovation do not accrue directly to the innovator (Baumol, 2010: 95), one can deduce that imitating replicators must reap the bulk of the economic potential that follows from an innovation. Thus if, as Baumol claims, over half of the USA's current growth rate can be ultimately attributed to innovation, it must follow that a significant element of this growth is achieved because replicative entrepreneurs take up and exploit innovative entrepreneurs' leads.

Whilst Baumol has much to offer the discourse, it is unfortunate that his pronouncements go largely unchallenged in the context of development, given that his work is very heavily orientated towards highly developed economies like the USA[28]. Innovative entrepreneurship may be extremely relevant to highly developed economies operating at the technological frontier but the distinction may be far less significant in developing economies where markets are frequently far from saturated, and where the very process of development is often seen to be a matter of shifting along learning curves. In such contexts replicative entrepreneurship could have a very significant role to play. Although Baumol concedes (ibid: 105) that imitation (i.e. replicative entrepreneurship) is important for the technological progress of developing economies, he fails to stress the role that it could play in their economic growth and its capacity for generating incremental employment. Consequently there is a real risk that developing economies, like Rwanda, might well be seduced by Baumol's acolytes into initiating policies that understate the role that replication might play.

2.2.4 Institutions

Baumol also introduces an important distinction between 'productive' and 'unproductive' entrepreneurship, and defines unproductive entrepreneurship as activities such as rent-seeking and organised crime (ibid: 152). He would appear to believe that entrepreneurs make a conscious decision about whether to pursue a productive or unproductive entrepreneurial course, thereby implying a coldly exploitative psyche that can move freely between a "parasitical existence" (ibid: 153) that damages the economy and an economically beneficial one. According to Baumol, much depends on the institutional settlement. If the 'rules of the game' favour productive over unproductive entrepreneurship, then enterprising individuals will tend to move from the latter to the former (ibid: 192). A fuller indication of the type of institutions that he is alluding to is given in Baumol, Litan and Schramm (2008: 7), which specifies a functioning financial system that can channel funds to entrepreneurs, flexible

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[28] The pervasiveness of Baumol's influence is seen for example in the comment "is there anything else to be learnt about entrepreneurship that hasn't already been said by Baumol?", volunteered during a conversation with Professor Peter Rosa of Edinburgh University Business School, a former member of GEM's data team in Uganda.

labour markets and effective rule of law - particularly with respect to contract enforcement and property rights. Additionally these need to function in a manner that ensures that it is easy to form a business, without time consuming and expensive red tape, and facilitate the ability to abandon a failing enterprise by putting it into bankruptcy.

It was seen in the previous chapter that the development of such institutional arrangements is already well advanced in Rwanda. Baumol's argument that this should lead to productive rather than parasitical entrepreneurship would seem to be borne out by the observed low incidence of corruption and the government's ability to capture rents centrally and deploy them to support economic development.

2.2.5 Necessity versus Opportunity

A view that developing economy entrepreneurship is driven fundamentally by necessity has gained in popularity via the increasing influence of the Global Entrepreneurship Monitor (GEM), an annual comparative analysis of international data on rates of entrepreneurship. Initially set up as a joint venture between London Business School and Babson College[29], it is now a collaboration between Babson College, Universidad del Desarrollo[30], Universiti Tun Abdul Razak[31] and Tecnológico de Monterrey[32] and includes in its partnership base the International Council for Small Business (ICSB), a non-profit organisation that provides training for entrepreneurs and small businesses and the International Development Research Centre (IDRC), which reports directly to the Canadian Minister of International Development. Having started data collection in 1999, the GEM dataset is now considerable in scope. The 2015/2016 report covers 60 countries and over its full 17-year period GEM has gathered data across a total of 100 countries.

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[29] An American business school, claiming to be "recognized internationally as a leader in entrepreneurial management education" (Kelley et al., 2011: 79).

[30] A Chilean university whose website claims it is known "for its entrepreneurial hallmark".

[31] A Malaysian university and winner of the Higher Education Ministry's 2015 prize for Entrepreneurial Private University of the Year.

[32] A Mexican university with a mission to "educate leaders with an entrepreneurial spirit".

GEM expounds the thesis that the majority of developing economy entrepreneurs are driven by necessity, due to the absence of realistic alternatives for employment, whilst developed economies' rates of entrepreneurship are more a function of opportunity. Its derived necessity-opportunity model suggests that high levels of necessity-driven entrepreneurship in underdeveloped economies begin to drop off once economic growth starts to increase and pure necessity becomes less of a driver: individuals are able to find alternative, secure employment and benefit from the emergence of social safety nets. The model employs a U-shaped curve to describe a subsequent increase in rates of entrepreneurship that is exhibited in more highly developed economies, as individuals can use more readily available capital to exploit commercial opportunities (Acs et al., 2004: 12; Kelley et al., 2011: 27). Thus a dichotomy is observed whereby high levels of entrepreneurship are either a function of necessity (in developing economies) or opportunity (in developed economies), with the interstitial range populated by countries with low levels of entrepreneurship. Although more recent analysis has increasingly tended to focus on a more nuanced segmentation based on Porter's differentiation between factor-driven, efficiency-driven and innovation-driven economies (Porter et al., 2002; cited in Amaros and Bosma, 2014: 20), GEM still holds to its basic differentiation between necessity and opportunity entrepreneurship. Whilst it deserves credit for embarking on an analysis of entrepreneurship that encompasses both developed and developing economies, and for highlighting the link between new firm creation and economic dynamism (Bosma et al., 2012: 19) its approach can, nonetheless, be criticised on a number of fronts.

First, the very notion of 'necessity entrepreneurs' is highly questionable. GEM defines such necessity entrepreneurs as individuals who "are involved in entrepreneurship because they had no other options for work" (Kelley et al., 2011: 64) - a position that sits uncomfortably with an approach to entrepreneurship that implies volition, be it Schumpeter's original notion of entrepreneurs as revolutionary actors who make conscious attempts to disrupt market equilibrium, Kirzner's arbitragers who deliberately exploit disequilibrium, or even Baumol's intentional innovators and replicators. In underdeveloped economies those acting out of necessity are likely to be petty-vendors or self-employed individuals, who are typically engaged in a whole portfolio of survival strategies. Where goods or services are offered, they characteristically lack any significant form of differentiation or innovation and mainly constitute 'enterprises' that are generally unprofitable once the full cost of labour is factored in (Banerjee and Duflo, 2011: 214). To categorise such activities as acts of entrepreneurship is seriously misguided. They are first and foremost activities undertaken by individuals who are engaged in doing something rather than nothing (i.e. rather than starving), and are extremely unlikely to create employment, let alone generate the economic growth that developing economy governments are seeking.

Second, the GEM's model of the entrepreneurial process is based on a concept of Total Early Stage Entrepreneurial Activity (TEA), defined as a measure of initial and nascent entrepreneurship. Nascent entrepreneurs are categorised as individuals who are in the process of taking some ill-defined action aimed at setting up an enterprise, but where the owner has been unable to draw more than three months' wages or income. Initial entrepreneurs are meanwhile designated as owner-managers of new businesses that have been able to fund more than three, but less than 42, months' wages[33] (Kelley et al., 2011: 63). The fact that TEA is defined by GEM as including nascent entrepreneurs who are, according to the authors of the 2013 report, merely at "the stage *in advance* of the start of a new firm" (Amaros and Bosma, 2014: 53, author's italics) adds considerable confusion. It means that the author of any half-baked concept which has no real commercial potential is nevertheless regarded as an early stage entrepreneur according to GEM's categorisation. By its own definition, nascent entrepreneurs are not engaged in fully fledged entrepreneurial activities, so to include them in the data for a model that attempts to link entrepreneurship to GDP looks far from legitimate and leads to some truly astonishing claims. The 2010 report data for instance (Kelley et al., 2011: 22) classifies more than half of the entire population (52.2 percent) of Vanuatu as early stage entrepreneurs. Worse still, some elements of its analysis focus on an even more precarious concept of 'intending-entrepreneurship', defined as

[33] Confusingly, in describing the modelling process, the authors of the 2013 report omit the wages or income requirement and substitute them with the time the enterprise has been in existence (Amaros and Bosma, 2014: 19).

individuals who have expressed the intention of starting a business sometime in the succeeding three years (ibid: 63). Although echoing the increasingly common notion of a swathe of 'entrepreneurs in waiting', it must be acknowledged that including such intending entrepreneurs in a serious analysis of entrepreneurship is highly problematic. Kelley et al.'s 2015/16 GEM report (2016: 102), for instance, records 67 percent of the entire population of Senegal as individuals who, implausibly, intend to start a business during the next three years.

This all adds weight to the view that GEM's core approach to entrepreneurship is seriously flawed and reinforces the view that the bulk of TEAs included in their analysis relates to individuals who will ultimately fail in their entrepreneurial ambitions. It is therefore unsurprising that the 2013 GEM report observes that economies in their dataset that see a high level of business start-ups correlate positively with a high incidence of enterprises being abandoned by their owners (Amaros and Bosma, 2014: 13). This was expanded further in the 2015/2016 report, which revealed for instance, that for every ten people in the Philippines who are "currently starting or running a new business, there are seven who have discontinued one in the past year" (Kelley, et al., 2016: 21). Similarly, by GEM's own admission, economies with high TEA rates have been seen to correspond with low levels of anticipated employee numbers in the enterprises concerned:

> …if one is interested in linking entrepreneurship to indicators of economic performance (such as job growth) a simple count of start-ups or self-employed is not sufficient (Amaros and Bosma, 2014: 13).

Support for excluding both nascent and intending entrepreneurs from the mix can be found directly in Schumpeter, who identifies entrepreneurs as those individuals whose specific function is that of creating new enterprises (Schumpeter, 1983: 74). In other words an entrepreneur only comes into existence at the point where an enterprise is actually created and thus it is quite unacceptable to conflate intending or nascent entrepreneurs with actual entrepreneurs, in much the same way that nascent or intending surgeons would not be classified as individuals capable of carrying out medical operations, no matter how much they might aspire to do so.

The integrity of the data underpinning the GEM's analysis is further undermined by the observation that the concept of necessity entrepreneurship appears to have been largely retro-fitted to explain away the high levels of TEA that were found in low-income contexts as a result of weaknesses in the original definition of TEA and the corresponding failure to differentiate adequately between survivalist strategies and genuine entrepreneurship - an interpretation that was endorsed during an informal discussion with one of the authors of the 2003 and 2004 GEM national reports for Uganda. It is also self-evident that, in the absence of a true market opportunity, no amount of necessity is going to result in an economic exchange (i.e. there will be no trade), so a concept of opportunity must surely figure in any realistic model of entrepreneurship. The opportunity/necessity distinction therefore bears the hallmark of a false dichotomy and the U-shaped curve a false construct. If necessity entrepreneurship is consequently disallowed from the mix, GEM's model probably resolves itself into a simple construct whereby an upward sloping curve displays a correlation between GDP per capita and levels of entrepreneurship, but without inferring any direction of causality.

More worryingly, the GEM approach also leaves considerable scope for policy error. Under the headline "Facilitate Necessity, Encourage Opportunity" (Kelley et al., 2011: 58), the authors of the 2010 GEM report appear to speculate that a legitimate course of action for governments could be deliberately to reduce the benefits of employment, in order to stimulate more necessity-driven entrepreneurship, presumably on the pretext that a Darwinian market will ensure that some will survive and be successful and thereby lead to economic growth and employment. Without any sense of irony, the authors gloss over the obvious contradictions in this position. Namely, that on the basis that the majority of new commercial ventures fail, forcing people out of employment and into necessity-driven entrepreneurship must inevitably lead to increased levels of poverty (as capital invested in unsuccessful new ventures is eliminated). Furthermore, those enterprises that do succeed will struggle to recruit labour if the employment benefits they offer have been deliberately reduced in order to make it a less attractive option than necessity-driven entrepreneurship. By propagating the false benefits of necessity entrepreneurship, GEM's proponents may well catalyse inappropriate policy decisions and actually hinder economic development. The ethics of forcing poor people into the more precarious existence that is implied by what GEM refers to as necessity entrepreneurship (predominantly petty vending) are also, obviously, highly questionable.

At a minimum GEM needs to conduct some form of longitudinal analysis of their dataset in order to address the question of how many intending or nascent entrepreneurs actually create viable enterprises and then to apply an element of discounting to their core TEA data to better reflect the extent to which it represents actual levels of entrepreneurship. It simply defies logic to equate intending or endeavouring to establish an enterprise with having actually started one. Rather than addressing these essential weaknesses, though, GEM now seems intent on compounding its shortcomings. In the 2011 extended report it added ‘entrepreneurial employee activity’ into the mix, defined as “employees developing or launching new goods or services” for their employer (Bosma et al., 2012: 53). It has also added ‘social entrepreneurship’, and makes the claim that for their purposes entrepreneurship encompasses:

> …any attempt at new business or new venture creation such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business (Amaros and Bosma, 2014: 18).

To the extent that any established commercial enterprise seeks to grow organically rather than stand still, the definition would seem to risk re-categorising a whole raft of normal business development activities as entrepreneurship, as well as treating petty vending survival strategies and social ventures as if they were fully equivalent to creating a commercial enterprise.

In a further tangential development GEM has now also begun capturing subjective assessments of entrepreneurial well-being, such as work-life balance and job satisfaction. Although advisedly sounding a note of caution about the results, the authors of the 2013 report claim to have identified evidence for a link between well-being and involvement in entrepreneurship and that their data:

> …show initial evidence that involvement in entrepreneurial activities, both in early stage and established phases, is related to personal evaluation of higher subjective well-being (ibid: 64).

This is an assertion that is difficult to accept when the claim is based on GEM's all-encompassing definition of entrepreneurship, which incorporates those who are only planning to start an enterprise, 'social entrepreneurs', nascent entrepreneurs, so-called 'entrepreneurial employees' and even managers engaged in normal business expansion strategies.

Examining the research instrument, an interviewer administered questionnaire, also suggests weaknesses in the underlying methodology. By way of example, the block of questions relating to enterprise owner-managers allows for a "don't know" response to the question "are you, alone or with others, currently the owner of a business you help manage, self-employed, or selling any goods or services to others". If the answer given is "don't know" the research instrument instructs the interviewer to explain "perhaps we were not clear on what we mean with a 'business'. If you personally share in the profits of selling any goods or services to others that can be a business". Thus by the logic of the research instrument a subsistence farmer selling an agricultural surplus at market could presumably be categorised as an enterprise owner-manager, as could an employee receiving a profit-share bonus or even arguably a thief.

The more it expands its definition of entrepreneurship, the more GEM risks approaching the point where it will ultimately incorporate all of humanity and consequently compound its growing irrelevance[34].

2.2.6 Enterprise Formation

While the entrepreneurship literature associates the entrepreneur with the phenomenon of enterprise formation, it largely tends to gloss over the reason why it is that entrepreneurs chose to create commercial enterprises, or 'firms'. It is important to address this shortcoming briefly, given that Rwanda's objectives envision quite specifically that its entrepreneurial class will form the commercial enterprises that will constitute its SME sector.

The general equilibrium model, which is the key reference point for both Schumpeter's and Kirzner's theories about the role of the entrepreneur has, at

[34] It is interesting to note that London Business School, one of the two founding institutions, are no longer listed as a sponsor in the recent 2015/2016 GEM report (Kelley et al., 2016). Attempts to uncover the reasons behind their departure elicited responses that were exceedingly tight-lipped.

its core, the assumption that market transactions are mediated by the price mechanism. In this simplified view of the world there is no reason for firms to exist at all. Rather, markets would be characterised by a nexus of exchanges between individual actors, so the fact that firms do exist in the real world must signify that something other than the price mechanism is at work. This apparent paradox was explored fully by Coase who, in *The Nature of the Firm* (1937), observed that there must be an underlying economic reason why firms are brought into existence and deduced that relying purely on the price mechanism to bring about an efficient allocation of resources implied a price, in the form of information and contract costs (ibid: 390), which could be obviated by organising production at the level of the firm.

Although he does not make the point explicitly, it can also be assumed that at the enterprise level the cost of obtaining market information can be amortised across long-run production such that firms are able to take on information costs that individual actors would be unable to bear. A further cost can also be surmised: the cost of failure. An institutional arrangement that permits the creation of limited liability companies restricts potential losses in the case of enterprise failure to the firm's share capital, thereby restricting the personal cost to the entrepreneur's investment. Thus by acting through the agency of a firm, an enterprise founder can significantly reduce the element of personal risk that he would face if he were an individual actor, with unlimited exposure, relying merely on the price mechanism to inform his decisions.

Commercial enterprises, operating in the real world, are consequently able to produce goods and services far more efficiently than a network of individual jobbers. Entrepreneurs, in forming enterprises, perform a resource coordinating function that replaces and is more efficient than the price mechanism. This insight makes it clear that developing an effective SME sector will be significantly more economically efficient than relying on mass self-employment. Indeed for countries like Rwanda, who seek to move to a knowledge-based economy producing sophisticated high value-added goods and services capable of competing in international markets, it is quite inconceivable that this could be achieved without capitalising on the contract and information economies that accrue to firms and which cannot be captured by a nexus of individual self-employed actors. Additionally, the existence of fewer, larger, and therefore more visible enterprises in place of a mass of individual jobbers facilitates more efficient tax collection and the enforcement of compliance with government regulations.

2.2.7 Summary

Economic theory is useful in identifying the entrepreneur as a key factor in economic development, and taken together with Coase's theory of the firm lends support to the appropriateness of Rwanda's attempts to stimulate the emergence of a dynamic SME sector via domestic entrepreneurs. Whilst there are substantial differences of opinion on how the entrepreneur impacts upon economic development, the main proponents of economic theory do seem to share a common view that entrepreneurship is largely a matter of spontaneous combustion, based on the underlying assumption that there is a corpus of potential entrepreneurs that are constantly scanning the horizon for opportunities, and that they will spontaneously emerge to take advantage of such opportunities if the requisite institutions are in place. This would also seem to be the basic tenet underpinning GEM's casting of a broad range of intending entrepreneurs, petty vendors and self-employed individuals as people who are somehow engaged in the entrepreneurial process, even when many of them have nothing more than a vague intention to start a business at some ill-defined point in the future. Consequently, little is provided in the way of specific policy guidance beyond the observation that the entrepreneurs who create firms are catalysts of economic growth and the standard institution-building rhetoric summarised in Baumol's claim that "devoting resources (both funds and effort) to institution building ultimately leads to greater returns from entrepreneurship" (2010: 187). The evidence in Rwanda, though, would seem to indicate that even if having the right institutions is a necessary precondition, it is by no means a sufficient one and that the evolution of a dynamic SME sector must incorporate factors beyond the institutional. With this in mind, the following section will look at the argument that it is access to capital that determines levels of entrepreneurship.

2.3. The Role of Capital Access in SME Formation

In direct contrast to the essentially passive perspective of economics, the capital allocation ('allocationist') approach takes a far more deterministic stance. Allocationists broadly adopt the position that entrepreneurial activity and SME formation in developing economies is suppressed because potential entrepreneurs lack access to various forms of capital - predominantly financial, but also to a degree human and social capital - and are therefore deprived of the opportunity to engage in entrepreneurial activities. Echoing aspects of GEM's dubious necessity-opportunity model, its advocates principally advance arguments whose common denominator is fundamentally investment: that more money is required in order to generate financial capital, particularly in the form of microcredit, that enhanced education and training is needed to raise the stock of human capital, and that facilitating improved access to support networks will yield improvements in social capital.

Used extensively in the sphere of economics, business and entrepreneurship the term 'capital' can, nevertheless, be problematic. It is encountered in a wide variety of guises including financial capital, physical capital, variable (wage) capital, fixed capital, working capital and risk capital, as well as human capital and social capital. Most of these are variations on the concept of capital as a factor of production and essentially relate to the deployment of money for the purpose of producing goods or services for sale. This is far less clear cut with the terms 'human capital' and 'social capital'. The former is used to denote the stock of knowledge, skills, experience and personal attributes possessed by an individual, while the latter can encompass capital owned in common by a community, the set of norms that bind a community together, or reciprocity and the network of social relations that might be leveraged. Both terms lack the essential fungibility that is implied by capital as a factor of production. Despite this difficulty, both terms have become fully embedded in the entrepreneurship literature, alongside the less problematic term 'financial capital'.

An important distinction is also drawn in the entrepreneurship literature between 'specific' and 'general' human capital, a distinction which it is difficult to address without referring directly to human capital. This section will therefore address the three concepts of capital that dominate the entrepreneurship literature - those of financial, human and social capital.

2.3.1 Financial Capital

Calls to increase access to credit are based on the belief that potential entrepreneurs in developing economies struggle to obtain the finance they need. It is maintained that cross-country analyses, such as those undertaken by the OECD and the World Bank, provide compelling evidence that ensuring access to a plentiful supply of credit is a critical component of SME development (OECD, 2004: 5) and that this problem of financial access is particularly exacerbated in developing economies (IFC, 2010: 23). Lamenting this general lack of financial access, the OECD's 2006 publication *The SME Financing Gap* (OECD, 2006) similarly asserts that the inability to access finance in developing economies is "especially worrisome" on the basis that it hinders the development of SMEs that are the source of a large share of both employment and national income (ibid: 11).

Thus conventional wisdom runs that improved levels of financial access in developing economies would be disproportionately beneficial to SMEs (Beck, 2013: 25), who can therefore be expected to make a disproportionately high contribution to economic growth, employment and poverty reduction. This view is also clearly reflected in the 2009 G20 meeting's initiation of a Financial Inclusion Experts Group (FIEG) with the joint aims of supporting the development of innovative financial delivery to the poor and enhancing the financing of SMEs. Its SME Finance Sub-Group subsequently committed itself to pursuing a development agenda by "focusing on providing SME Finance solutions for developing countries in particular" (IFC, 2010: 5). The logic for this commitment is found in the joint assertions that "Small and Medium Enterprises (SMEs) play a major role in economic development, particularly in emerging countries" (ibid: 6) and that "access to finance remains a key constraint to SME development in emerging economies".

Such claims are, though, usually advanced without being backed by hard evidence. Indeed the report emanating from the G20 meeting admits in its own text (ibid: 7) that, despite extensive efforts to stimulate SMEs, little in the way of analysis has been undertaken and that consequently not much is actually known about the effectiveness of financial interventions taken in support of SMEs. Despite this admission the IFC is, though, happy to follow the popular line and press on regardless with the business of advocating the necessity for increased financial access for developing economies' entrepreneurs. It is interesting to note, however, that its declamations about developing economy SMEs' struggle to obtain such finance are made in the context of contradictory parallel assertions that much has already been done to address this very problem, specifically that:

> The role of International Finance Institutions (IFIs) and Development Financial Institutions (DFIs) to foster SME financing in the developing world has been significant so far (IFC, 2010: 8).

Such an apparent paradox is readily explained. As is widely acknowledged, the vast majority of new businesses fail within the first three years of operation (Chell, 2008: 231). It is one thing for the global institutions to bemoan developing economy SMEs' lack of access to credit, but when the banks that are expected to advance these funds face a fiduciary duty to constrain risk and a commercial compulsion to compete with one another, it is hardly surprising that credit should be a scarce resource if lenders are confronted by a diverse range of individuals, the majority of whom are seeking finance for enterprises that will in all probability fail. Furthermore, in the aftermath of the global credit crisis, the Basel II framework requires that banks align their capital structures with the risk profile of their loan portfolios (IFC, 2010: 29). Although some leeway was given to SME lending on the basis that SME failures, being relatively small enterprises, would be less threatening to banks' balance sheets, national interpretations of Basel II often do not make this allowance on the basis that such additional leeway was given without supporting evidence (ibid: 30). Indeed the IFC's generic claim that Basel II's impact on lending to SMEs is "neutral to positive" (ibid: 29) appears to be based wholly on evidence from the EU (ibid: 30). It does not therefore follow that developing economy lenders would be unconcerned about loan quality when facing calls to facilitate greater access to credit by SMEs - indeed the resulting tension they face can be seen directly in the case of Rwanda, where banks' sensitivity to portfolio risk appears to remain a limiting factor despite the government's loan underwriting programme, as observed at section 1.5.2. Additionally, the claim that surveys such as those undertaken by the World Bank have revealed that SMEs face greater constraints in accessing finance than large firms (ibid: 13), and that this is especially true in low income economies (ibid: 23), is wholly fatuous when the World Bank's threshold delineating large firms from SMEs is set at 300 employees (as discussed in the Preface). It is completely unsurprising that such surveys should reveal that large corporations employing more than 300 people, and presumably with a considerable track record, should find it easier to access credit than SMEs, which even in the very highly developed EU context typically have a workforce that is only 3 percent of the size of a large corporation[35]. That the problem should be exacerbated in developing economies, where average SME workforce numbers can be expected to be even lower, is also anything but surprising.

2.3.2 Microcredit to the Rescue

While mainstream banking struggled with responding to demands to fund aspiring entrepreneurs, popular attention shifted increasingly to microcredit. Led primarily by international development agencies and charities that sat outside the mainstream banking sector, and who were therefore immune to the accountability demands of shareholders, the scale of the microcredit industry is now considerable. Using data from the Mix database (Mix, 2014), the 2015 *Microfinance Barometer* published by Convergences[36] reported that the 1,391 microfinance institutions providing financial results for 2013 represented a combined loan portfolio of $95.1 billion with a client base of 105.9 million borrowers (Convergences, 2015: 3), representing annual growth in financial assets of 12.9 percent and borrowers of 10.3 percent. The market's geographic breakdown is indicated in Table 2.1.

[35] Derived from Table P2, the mean SME employee scale in Europe is 31.3 compared to a mean of 1,012.3 for LSEs.

[36] That microcredit is now big business is evident from the company it keeps. Convergences lists BNP Paribas, Unilever, Orange, and L'Oréal amongst its sponsors, while its *Microfinance Barometer* is part funded by MasterCard.

Table 2.1 Scale of the Global Microcredit Market

Region	Gross Loan Portfolio	Active Borrowers
Africa	$8.3 billion	8.7 million
East Asia and Pacific	$22.5 billion	13.4 million
Eastern Europe and Central Asia	$14.1 billion	3.1 million
Latin America and Carribean	$38.1 billion	21.9 million
Middle East and North Africa	$1.6 billion	2.0 million
South Asia	$10.7 billion	56.7 million
Total	$95.1 billion	105.9 million

(Source: Convergences, 2015)[37]

The underlying logic informing the development of microcredit resides in the presumed presence of an extensive pool of ‘entrepreneurs in waiting’ that can be catalysed into existence if they could access small amounts of credit. Yunus (Yunus and Jolis, 2003; Yunus and Weber, 2007, 2010) and de Soto (2001) give popular voice to this notion. De Soto’s position hinges on poor people’s property rights. His core argument being that once their property is recognised, no matter how meagre, it constitutes an asset that can be used as collateral that can facilitate access to credit. In contrast, Yunus and his followers advocate the provision of small amounts of non-collateralised debt and the use of social pressure, such as group lending, to ensure repayment rather than the risk of forfeiting collateral. What they share is an unquestioning belief in the ubiquitous entrepreneurial capacity of poor people, as plainly expressed in Nobel Prize winner Yunus’s claim that “every single human being, even one barefoot and begging in the street, is a potential entrepreneur” (2003: 216).

The sheer naïvety of such a claim and the total implausibility of the existence of such a vast untapped reservoir of entrepreneurial talent is exposed by the observation that there is no logical reason why the distribution of entrepreneurial characteristics in developing economies should be any different to that in the rest of the world. Some will have the potential, but the majority will

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[37] In the 2013 *Microcredit Barometer*, it was estimated that the institutions that provide data represent approximately 80 percent of the total microcredit market (Convergences, 2013: 2). Factoring this into the above figure and extrapolating the 2014 growth rate of 12.9 percent across the two succeeding years implies a total value of $171 billion for 2016.

not (Dichter, 2008: 181). That this should be the case would seem to be borne out by statistical analyses, which have consistently shown that only about 8 percent of a nation's population are typically engaged in entrepreneurial activities (Minniti, 2006, cited in McMullen, 2011: 196; OECD, 2013). Thus arguments that extending microcredit to a vast pool of poor people will unleash massive levels of entrepreneurship and thereby bring about economic growth and poverty reduction look highly optimistic.

Although the microcredit industry has long promoted itself on the basis that the money it advances is used to build businesses and that they are facilitating entrepreneurship by poor people, its occasional anecdotal success stories, used as a platform to support fund-raising campaigns in donor countries, simply do not equate to robust evidence that microcredit is fuelling domestic entrepreneurship and the creation of SMEs in developing economies. On the contrary, in contrast to the marketing hype surrounding microcredit there is mounting evidence that it has no significant commercial impact and that the vast bulk of loans that are advanced are used predominantly to satisfy short-term consumption needs, a phenomenon that Ellerman refers to as "consumption smoothing" (2008: 153). Similar conclusions have also been reached by Collins et al. (2009: 159), who examined three years' worth of 'Grameen II Diaries' from NGO Microsave and by Rahman (2008: 195) on the basis of research carried out for NGO CARE.

Rahman found that the expectation microcredit would meet poor individuals' working capital requirements was not met. Instead loans were initially used to fund consumption and for meeting medical or educational costs. Similarly, while Collins et al. found that those with existing enterprises might use microcredit to pay for retail stocks, it was also used for a diverse set of other purposes. They concluded:

> …it is clear that an early hope of microfinance lending - that virtually every loan would be invested in a micro-enterprise - has not come about (2009: 167).

This pattern is also evident in the Rwandan access to finance data, in Table 2.2, where it can be seen that 84 percent of microcredit is used for purposes that constitute consumption smoothing.

Table 2.2 Motives for Taking a Microcredit Loan in Rwanda

Use Of Loan	Share
To cover living expenses at time of difficulty	39%
School fees	9%
Emergency medical costs	10%
To repay an informal loan	26%
Total	84%

(Source: Finscope, 2012)

That this should be the case is hardly surprising when one considers Collins et al.'s additional observation that "one of the biggest challenges of living on two dollars a day is that it doesn't always come" (2009: 181). Hence the overriding imperative for many poor people of accessing microcredit simply in order to survive.

Where microcredit is used for commercial purposes, this is invariably in connection with petty vending activities that help satisfy daily subsistence needs. Rather than being an expression of entrepreneurship, such activities are more likely to be about creating some form of 'job' where none exists (Banerjee and Duflo, 2011: 26). Whilst this does not invalidate the importance of microcredit for many poor people, it is important to recognise that such petty vending merely functions to move individuals to a marginally enhanced subsistence position rather than being an expression of entrepreneurship. The same conclusion is also reached by a number of authors including Dichter (2008: 181), who points out that a poor person going to market in the hope of securing a small amount of cash should not be conflated with real business or entrepreneurship, by Roxin (2013) with his observation that being poor but economically active is not the same as being an entrepreneur, and by Lingelbach et al. (2005: 8) who observe that such enterprises make no meaningful contribution to economic development whatsoever.

Banerjee and Duflo also noted that the micro-enterprises created by poor people are: "too small and utterly undifferentiated" (2011: 218), and that the operators of such micro-enterprises would usually be better off were they to pool their resources and create larger scale enterprises that could operate more efficiently and compete more effectively. In a similar vein, it has also been argued that by wilfully directing a large proportion of microcredit at highly inefficient subsistence agriculture, rather than medium-sized farms where economies of scale could yield an incrementally beneficial economic impact, the net effect of microcredit is that scarce financial resources are directed at activities that in the long run are "the *least* efficient way of promoting rural development" (Bateman, 2012: 595; original italics).

It is important to remember too that microcredit is a zero-default concept. It is typically organised on a group-lending basis, where members of the group police repayments by individual borrowers in order to ensure the on-going credit-worthiness of the rest of the group, so that they will be able to borrow when their turn comes around. Whilst this peer-group pressure is a useful risk-reduction strategy for microcredit lenders, the formula feels wholly at odds with the notion that entrepreneurship naturally implies a preparedness to engage in a degree of, albeit quantified, risk-taking. Additionally, the microcredit model requires a high repayment frequency (usually bi-monthly), which tends to favour petty vending activities, which generate small but regular cash flow, in preference to the 'lumpy' returns and longer timeframe of genuine new enterprise development.

Hardly surprising then that the whole pretext for microcredit, that the money would be used to catalyse entrepreneurship, simply "has not come about" (Collins et al., 2009: 167). Rather than perpetuating the myth that microcredit is fuelling entrepreneurship, it would be more appropriate to heed Dichter's call "radically to reduce our expectations about microcredit, and thus better align ourselves with reality" (2008: 191). Indeed to continue to do otherwise risks distracting developing economy governments from implementing alternative policies that could address poverty reduction directly, instead of continuing to pursue ineffective programmes based on microcredit.

2.3.3 Repositioning Microcredit

In the face of its abject failure to achieve its primary goal - catalysing entrepreneurial development - one might be forgiven for wondering why microcredit continues to persist at all. Instead of facing the reality of their failure, though, microcredit appears to be going through a subtle re-branding. Repositioning Yunus as a social entrepreneur (Nicholls and Young, 2013: ix) for having inspired the microcredit movement (Grenier, 2013: 119) and lauding him as a latter day Florence Nightingale (Drayton, 2013: 45), microcredit can seek renewed legitimacy in the emerging social entrepreneurship and social finance discourse. Thus its failure to bring about economic gains becomes unimportant if it is counterbalanced by the delivery of broader social gains that accrue in the form of social entrepreneurship and financial inclusion[38]. This is aided by the development of micro-savings, money transfer and insurance products (Sabin, 2015: 158), which then enables microcredit to be positioned as just one product in an expanded micro-finance portfolio. Thus it is possible to claim that social entrepreneurs are providing "new financial services to the poor" (Nicholls and Young, 2013: x) and to make a virtue of Morgan Stanley's and Citigroup's bundling and selling of securitised loans (for which read microcredit), by relabelling it social entrepreneurship.

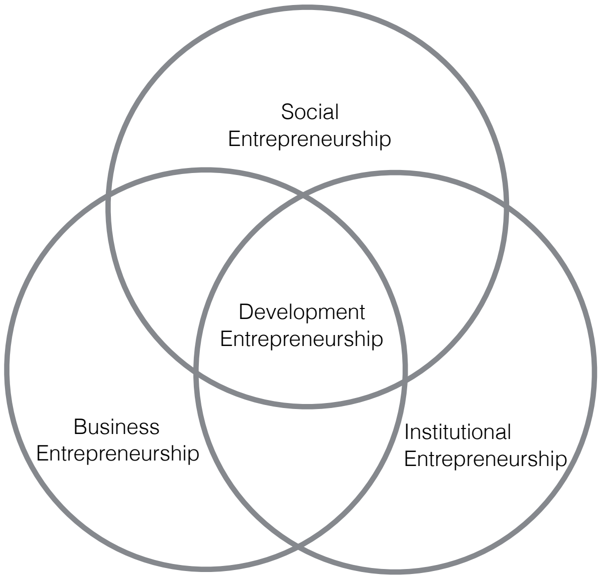
Reclassifying entrepreneurship as "commercial entrepreneurship" (Austin et al., 2006:1; Estrin et al., 2013: 481) permits the conceptualisation of a corresponding social entrepreneurship, which is cast as the socially minded equivalent of commercial entrepreneurship. The latter seeks to maximise profits, while the former seeks to maximise social value. Convoluted arguments are employed that position social entrepreneurship as a response to market failure, whereby social entrepreneurs enter spaces that are insufficiently profitable for exploitation by commercial entrepreneurs. Or alternatively, that social entrepreneurship generates social capital that is subsequently exploited by commercial entrepreneurs (Estrin et al., 2013: 497). The prize for the most convoluted argument arguably belongs though to McMullen (2011) for his conceptualisation of 'development entrepreneurship'.

Making the point that microcredit is no silver bullet and that just providing more of it feeds into consumption smoothing rather than enterprise development, McMullen offers "an economic theory of social entrepreneurship" (ibid: 186),

[38] A good example of this shift in emphasis was evidenced in a face-to-face meeting with the CEO of microcredit provider Uwego Opportunity Bank in Kigali. When asked a direct question about whether the bank's activities were having an economically beneficial impact, the answer was couched in terms that cast doubt on the author's preoccupation with economic gains and that Uwego's mission encompassed more than its clients' material wellbeing.

which he labels ‘development entrepreneurship’ and places at the nexus of interactions between ‘institutional entrepreneurship’, ‘social entrepreneurship’ and ‘business entrepreneurship’ as indicated in Figure 2.1.

Figure 2.1 McMullen’s Development Entrepreneurship Model



(Source: McMullen, 2011: 187, simplified for clarity)

His argument appears to be that less developed economies lack the formal institutions needed to facilitate market development, particularly those relating to property rights and the rule of law (ibid: 192). Business entrepreneurs, being utility maximisers, do not seek to develop these institutions because to do so would imply a cost. It therefore falls to social entrepreneurs to engage in institutional entrepreneurship and bring about institutional changes that make Baumol’s productive entrepreneurship more attractive. Thus social entrepreneurs bring about institutional changes that benefit business entrepreneurs who then subsequently go on to demand further institutional improvements. Hence the argument runs that low-income countries need social entrepreneurs who will facilitate the institutional entrepreneurship that is a pre-requisite for inclusive economic growth (ibid: 208).

Much of what is described as social entrepreneurship, though, can be quite adequately categorised as acts of altruism. Whilst there is plainly nothing wrong with altruism or the associated generation of social gains that might accrue to a community, the attempt to recast such benefits as some special form of entrepreneurship seems misguided at best and self-serving at worst if it permits allocationists to neatly sidestep the issue of enterprise viability and claim to be generating social returns in the face of growing criticism of their failure to generate sustainable commercial returns. Even McMullen's subtle differentiation between "market-appropriating entrepreneurship", "social business entrepreneurship", "profit-motivated entrepreneurship", non-income earning "social innovation", partial income earning "social entrepreneurship" that makes a contribution to operating costs, and "socio-political activism", which earns no income, does little to dispel the underlying concern.

Given that the essential point of entrepreneurship is the creation of commercial enterprises that are self-sustaining by virtue of being able to generate long-run profit streams, McMullen's architecture borders on the bogus. It is entirely unhelpful to invoke the spurious category of social entrepreneurship, let alone institutional entrepreneurship, business entrepreneurship or indeed his hypothesised resultant development entrepreneurship. Low income countries, such as Rwanda, are endeavouring to stimulate entrepreneurship - period. In order to do so they are addressing the question of which institutions are needed to underpin that objective and these institutions are, to a degree, shaped by civil society. Charities, meanwhile, have always commonly employed income generating activities both to raise dispersible funds and to contribute to their operating costs. To attempt to label each of these elements as some special form of entrepreneurship in order to arrive via social entrepreneurship at an unconvincing model of development entrepreneurship is self-indulgent mental gymnastics of the worst kind: it provides nothing in the way of useful insight or guidance for developing economy governments that are engaged in Herculean efforts to stimulate economic growth and poverty reduction.

To achieve *Vision 2020*, Rwanda needs the creation of independent, self-sustaining, commercially viable enterprises that increase GDP, provide employment and generate tax revenues that can be invested in public goods. Followed to its logical extreme, though, what passes for social entrepreneurship (i.e. altruism) risks prompting 'neo-dependency' rather than commercial self-sufficiency. The underlying sense is that the social entrepreneurship discourse has more to do with legitimising on-going charitable support of non-self-sufficient enterprises and the corresponding perpetuation of misconstrued microcredit programmes. While this might be all very well for the NGO and development agency employees who enjoy the benefit of comparatively up-scale living conditions and attractive (often tax-free) salaries for delivering such programmes, the resulting context is one in which there is a high probability of misguided and ineffective policies and significant misuse of scarce resources.

Presentations by microcredit providers Opportunity International and Oiko Credit at a 2013 microcredit conference (Bad Boll, 2013) also provided corroborating evidence that microcredit institutions are increasingly seeking to justify their activities on the basis of supposed 'holistic social gains' in order to counter the growing realisation that their economic impact is not proven. Foremost amongst these gains were claims relating to facilitating financial inclusion, an argument that on the face of it seems to begin to acknowledge that microcredit is fundamentally about advancing money to poor people in order to facilitate their daily survival via the very consumption smoothing that Ellerman pointed to (2008: 153). Such a potentially laudable objective though is thoroughly compromised when one observes that those most in need are the ones who pay the highest interest rates for accessing such loans (Waterfield, 2013; Rosenberg et al., 2013: 2) and raises the question of the degree to which the expansion of microcredit is driven by a desire to expand financial markets rather than stimulating economic growth and employment in developing economies. The case of Compartamos eloquently illustrates the point. In 2000 Mexican NGO ACCION used an initial USAID direct grant of $1 million to set up a for-profit microcredit subsidiary. One is inevitably forced to wonder 'for whose benefit?' when some seven years later the same subsidiary's stock market launch realised a capital value of $300 million for its shareholders (Waterfield, 2013). There is a certain hypocrisy too when lenders employ arguments about holistic social gains to deflect criticism about their failure to realise the original objective of stimulating entrepreneurship, whilst simultaneously maintaining the microcredit entrepreneurship myth when conducting fund raising campaigns or providing feedback intended to maintain the engagement of their supporters.

When the dialogue at the Bad Boll microcredit conference (2013) revealed that growth and market share strategies were uppermost in the minds of delegates, one is again forced to question who the primary beneficiary of the industry is - those paying excessive rates of interest as part of their daily struggle to survive, or the salaried fundraisers and loan officers of the lending institutions? In this context too, Taylor (2012: 607) makes the telling observation that consumption smoothing is really just a euphemism for credit-driven survival strategies, and that the treatment of the global poor as if they were a homogenous group facing financial exclusion is a proposition that is now increasingly being used to legitimise a growing commercialisation of microcredit. Institutional investors, pension funds, sovereign wealth funds and wealthy individuals are all now actively engaged in financing microcredit (Rhyne, 2009: 79), which raises the obvious question of the degree to which, under the guise of financial inclusion, it might increasingly be merely a cynical exploitation of the world's poorest people - essentially a new spin on the sub-prime lending strategy that was a pre-cursor to the 2008 global financial crisis. Direct evidence for this can be discerned in Rosenberg et al.'s (2013: 2) analysis, which indicates that despite the increased numbers of MFIs now offering microcredit, the interest rates charged to the poorest communities have actually increased rather than being driven down by higher levels of competition. Although the standard riposte from the microcredit industry is that they face higher operating costs when lending small amounts to poorer groups, the authors give the lie to this defence when observing that these poorer communities are the most profitable to lend to (ibid.). They also point out that the poorest users of microcredit are typically obliged to maintain part of their loan in the lender's compulsory savings products, alongside the credit products that they are sold (ibid: 4), thus providing the lender with a useful buffer in the event of periodic default by the borrower. Given that the repayments that have to be made are calculated on the whole capital sum advanced, not the net of savings figure, the effective interest rate charged is therefore actually raised above the already high theoretical rate.

2.3.4 Human Capital

Development of 'human capital' is held to be one of the key components of economic growth (UNCTAD, 2005: 4; Vivarelli, 2012: 20; Alvarez and Barney, 2014: 160). Governments and NGOs have therefore invested heavily in education and training, in order to enhance the stock of human capital in developing economies (Alvarez and Barney, 2014: 160, citing Romer, 1990, Lucas, 1998, Cohen and Soto, 2007).

Although Gedajlovic et al. (2013: 459) note that it is often difficult to draw a clear dividing line between ‘social’ and ‘human' capital, in the context of economic development the tendency is to treat human capital as a clearly separate phenomenon. Citing Lepak, Takeuchi and Swar (2011), Alvarez and Barney (2014: 165) define it as comprising the sum total of knowledge, skills and abilities that an individual possesses, along with any other characteristics which might have a productive value with respect to work. It encompasses a broad range of skills including literacy, leadership characteristics, the ability to communicate with and motivate others plus the ability to work in teams and problem solving (ibid: citing Nahapiet and Ghosal, 1998; Greenwood, Li, Prakash and Deephouse, 2005). In addition to their diversity such skills also vary considerably in their level of sophistication, ranging from basic levels right up to university degrees (ibid: 166) and, although not mentioned specifically by the authors, would presumably also include numeracy.

Human capital theory has its origins in attempts to explain variances that were observed in employees’ financial returns in developed economies and included the Mincerian earnings regressions, named after Jacob Mincer, that postulated a return-on-investment dimension to education. The underlying hypothesis was that those individuals who had invested in raising their stock of skills would actively seek to obtain a higher level of income having made such investments (Rauch and Rijsdijk, 2013: 925), an argument that clearly also chimes with the traditional rational choice concept of economic theory: a rational actor facing such higher costs would logically seek to obtain a higher return against having incurred them. At the aggregate level the argument is that investments made in education, which improve the knowledge and skill base of the population, will translate directly into workers’ ability to increase their level of output at the same level of physical capital (Begg, et al., 1994: 537), thereby generating growth. In the context of the economic development of low-income countries, this has migrated to the belief that if the store of human capital in a developing economy can be enhanced, then this will catalyse improvements in commercial performance, economic growth, improved incomes and poverty reduction and will overcome the constraints in physical capital investment that might prevail in low-income economies. It would seem logical, too, that individuals with higher levels of human capital, and who therefore possess greater levels of knowledge and skill, are more likely to perceive opportunities for new commercial enterprises and have greater levels of insight into how to exploit them.

Following Becker (1993), both Alvarez and Barney (2014: 170) and Rauch and Rijsdijk (2013: 925) draw an important distinction between two types of human capital: the ‘general’, comprising schooling and work experience that can be utilised in multiple settings, and the more narrowly focused ‘specific’, which encompasses industry specific knowledge, prior experience of self-employment and the employment experience of one’s parents. Although it might be expected that general and specific human capital would have a combined additive effect, Rauch and Rijsdijk’s (2013) longitudinal analysis of the two forms revealed some surprising results. Whilst it was found that general human capital was positively correlated with enterprise growth, specific human capital was found to be negatively correlated with growth (ibid: 934). Thus general education and general knowledge would appear to be beneficial to enterprise performance, in a way that specific human capital is not. This leads Rauch and Rijsdijk to recommend that it is broad general knowledge development that both individual entrepreneurs and governments need to invest in.

Reviewing the status of research into entrepreneurship in general, Kenworthy and McMullen commented particularly on the lack of robust testing of human capital theory (2013: 985). Notwithstanding the observation, some hard evidence for a link between entrepreneurship teaching and subsequent behaviour has actually been sought. Walter et al.’s (2013) analysis of university entrepreneurship students claimed to have established a positive correlation between entrepreneurship education and future intentions to become self-employed, although the relationship was found to apply only to male students and not to female ones. Leaving to one side the fact that the content of the supposed entrepreneurship teaching, as described by the authors, appeared to differ little from standard business management training, and that the authors conceded that whether entrepreneurship can actually be taught is contested (ibid: 178), there are a number of significant and obvious flaws in the study.

To equate mere future intent with actual entrepreneurship is clearly far from legitimate, as was discussed fully at section 2.2.5 with respect to the GEM data. Similarly, equating self-employment with growth-inducing entrepreneurship is stretching the point a bit too far when self-employment has at best, according to Alvarez and Barney, only a very limited impact on economic growth (2014: 162).

Even more tellingly, in direct contrast to Walter et al.'s findings, Bae et al.'s 2014 meta analysis of the same subject area concluded the exact opposite: that entrepreneurship education is *not* effective in shaping entrepreneurial intentions once pre-course entrepreneurial predisposition is controlled for. In other words, the Walter et al. study failed to realise that those who sign up for entrepreneurship training are likely to be the very individuals that already want in the future to be entrepreneurs, thus rendering Walter et al.'s findings redundant. When Bae et al. controlled specifically for this pre-course predilection, they "found no significant effects for entrepreneurship education on entrepreneurial intentions" (Bae et al., 2014: 241). To the extent that such entrepreneurship training constitutes an attempt to raise individuals' specific human capital levels, the findings would seem to corroborate Rauch and Rijsdijk's (2013) conclusion that entrepreneurs benefit more from general education, that enhances their general human capital, rather than engaging in entrepreneurship training that would raise their specific human capital[39]. Despite the evidence that general education is more beneficial, there is no shortage of efforts to teach entrepreneurship, presumably predicated on the continuing and common core supposition of the existence of a vast pool of potential entrepreneurial talent that just needs to be shown how to act - a belief that can be traced back to the 1980s when business schools began incorporating entrepreneurship modules into their MBA programmes, based on the notion that entrepreneurial success could be attributed directly to the successful implementation of strategic planning. This unquestioning faith in the benefits of teaching entrepreneurship has now expanded to such an extent that

[39] It might be argued that if entrepreneurship training encompasses the skills needed to undertake basic cash flow and profit and loss calculations, it might enhance numeracy and lead to a marginal increase in the aggregate level of human capital, thereby making a contribution to economic growth. However, any such contribution to aggregate human capital is likely to be infinitesimal when set against the transformational aim of entrepreneurship training and raises the obvious question of whether funds invested in such training would be better employed in mainstream general education.

it is perfectly common to find major business schools and universities across the globe offering dedicated degrees in entrepreneurship in the clear belief that students can be taught how to be successful entrepreneurs[40]. Such thinking is also clearly in evidence in Rwanda, where an initial desk survey by Babson College (2011), intended to map the entrepreneurship development landscape that Babson would be competing in, revealed a total of 24 competitor institutions who were actively delivering programmes designed to stimulate Rwandan entrepreneurship[41]. These ranged from international and domestic NGOs, private enterprises, domestic and international universities, as well as the overseas development arms of donor governments.

Belief in the benefits of human capital development can also be discerned in the fact that microcredit providers now also commonly make obtaining credit conditional on borrowers participating in financial literacy and basic business skills training, in keeping with the already explored preconception that they can thereby become successful entrepreneurs - a belief that sometimes can take some curious twists. Alvarez and Barney (2014: 167), for instance, make the assertion that putting together a rudimentary business plan, obtaining and repaying a microcredit and learning basic business skills are all things that can help those in extreme poverty to build their store of human capital. Yet the practical benefit of this enhancement is seriously questionable when the overriding motive for obtaining microcredit is to facilitate consumption smoothing rather than creating a business, as was explored in section 2.3.2. It plainly borders on the absurd to enhance an individual's stock of specific human capital by teaching them how to write a business plan for an enterprise they will never create. This is not to imply that some individuals would not benefit from such basic skills training. The issue is rather the blanket approach that sees a budding entrepreneur on every corner and the fad for trying to 'teach entrepreneurship' to all on the basis that such teaching automatically increases the likelihood that they will become entrepreneurs.

[40] A brief survey by Saint Louis University (2016) turned up 224 business schools and universities offering degrees in entrepreneurship or small business development.

[41] Limited in scope, the report clearly understates the number of institutions actively involved.

A similarly odd belief in specific human capital investment's impact on entrepreneurship is also evident in GEM's "Model of Entrepreneurial Processes Affecting National Economy Growth" (Amoros and Bosma, 2014: 44). Despite conceding earlier that there is a central problem with locating evidence for economic performance within its all-encompassing definition of entrepreneurship (ibid: 13), the 2013 GEM report nonetheless still offers its model as an explanation of the processes that produce economic growth. A core element of the model is its "Entrepreneurial Framework Conditions", which is informed by the "National Experts Survey" that forms a key part of GEM's methodology (ibid: 45). This requires an assessment of the degree to which entrepreneurship education is delivered throughout the education system, including all the way down to primary school (ibid.). Whether training primary school children to be entrepreneurs is actually beneficial is not analysed, but the clear implication is that those behind the GEM reports also subscribe to the belief that entrepreneurship training does raise levels of entrepreneurship and subsequently impacts on economic growth. The reasons for holding to the belief are not difficult to find though. The universities behind GEM are all very actively involved in entrepreneurship teaching, and the generation and sale of corresponding materials[42], so plainly have a vested interest in avoiding any admission that there might be an inherent weakness in linking entrepreneurship teaching to the generation of entrepreneurs or economic growth.

2.3.5 Social Capital

While a distinction can be drawn between capital owned by society as a whole, the shared norms that bind a community together and the network of personal connections that can be exploited by an individual, the entrepreneurship literature focusses narrowly on the latter. This section will therefore also focus on the entrepreneur's ability to leverage their personal network of contacts.

It is claimed that social capital has special relevance to development as it "plays an *essential* role in the entrepreneurial success" (Gedajlovic et al., 2013: 456; original italics). Estrin et al. (2013) have even attempted to legitimise their

[42] Including Babson's 2014 bestseller *Teaching Entrepreneurship.*

arguments for social entrepreneurship by suggesting that it is the source of the social capital that entrepreneurs subsequently exploit. Described by Chell as part of an entrepreneur's "strategic armoury" (2008: 77), it would indeed seem logical that a broadly based network of contacts would expose an entrepreneur to a greater range of information about possible opportunities as well as providing a wide array of potential resources that can be utilised to exploit those opportunities, such as enabling access to key decision makers that might be in a position to influence the success of the intended venture. Defined as an asset that is available to an individual by virtue of their position in a social network and/or the nature of their social relationships (Gabbay and Leenders, 1991; cited in Jonsson and Lindbergh, 2013: 662), it has been observed by a wide range of authors that entrepreneurs tend to be well networked and that they actively leverage those networks in order to exploit perceived opportunities (Birley, 1985; Aldrich and Zimmer, 1986; Johannisson, 1987, 1995; Dubani and Aldrich, 1991; Chell and Baines, 2000; all cited in Chell, 2008: 3).

Although social capital has become embedded in the development vocabulary and figures in both academic and policy documents relating to enterprise creation, Fine argues that the term is "oxymoronic" on the basis that capital is by its very nature inherently social (Fine, 2001: 15; 2010: 3). Given that the dominant discourse relates primarily to the development and leverage of social networks and the reciprocity that is contained in them, it would indeed seem questionable whether anything is gained by attempting to position the existence and utilisation of such networks as some special form of capital. Social networks would appear to be perfectly adequate as a definition.

The social networks that entrepreneurs establish may be assessed along two key dimension: their 'density' and 'intensity' (Kreiser et al., 2013). While the former is a function of how many individual relationships exist in a network, the latter represents the degree of effort that has to be invested in maintaining it. Their examination of entrepreneurs' network ties led the authors to conclude that it is the density of an individual's network, i.e. the number of ties, that is important, rather than their intensity. It would seem that having a large number of weak ties brings greater exposure to a range of resources, whether information or finance, while a smaller number of intense ties requires considerable effort to be expended in maintaining their quality, and therefore implies a greater cost. Network density is consequently found to be positively correlated with enterprise formation, while network intensity is found to be negatively correlated.

In spite of the attention that has been given to the supposed phenomenon of social capital, it is difficult to find much in the way of specific insights or guidance about measures that could be employed by developing economy governments to actively enhance it, other than the general suggestion that mentoring and the input of external advisors might help entrepreneurs to succeed (Lingelbach et al., 2005: 7). However, mentoring normally implies both close physical proximity between the mentor and the person being mentored and a good supply of experienced mentors who can periodically provide the input needed. Clearly this is a significant problem in a context that is characterised by the kind of polarised commercial landscape that is evident in Rwanda: a low number of large corporations, a mass of micro-enterprises, and an acute shortage of the very entrepreneur-led SMEs that aspiring entrepreneurs would want to gain exposure to. Consequently there are limits to what can be achieved even with enlightened initiatives such as Kigali's 'KLab' technology hub, which aims to provide networking and mentoring support to aspiring IT entrepreneurs.

Some embryonic efforts at remote mentoring have been made, whereby aspiring entrepreneurs in developing economies are linked to mentors in developed economies via Skype, telephone and email. A good example of this is the Grow Movement, which attempts to link aspiring entrepreneurs in Uganda, Rwanda and Malawi with remote mentors in countries such as the UK, Canada and Australia[43]. But in the five years it has been operational the Grow Movement has provided mentoring to only 483 individuals, 165 of which were in Rwanda, and resulted in the creation of just 911 new jobs across all three countries (Grow Movement: 2015). Whilst this is clearly encouraging, it is difficult to see it being readily scaled up to a point where it might have a

[43]The Grow Movement is supported by London Business School, Ashridge Business School, Cass Business School and the UK's Management Consultancies Association.

significant impact on levels of enterprise formation in developing economies in general and Rwanda in particular.

It is also worth noting that entrepreneurship literature has a tendency to focus very much on the positive, enabling character of social networks. This does not mean, however, that they have a purely positive dimension as they could equally be employed by a dominant group to protect their self-interest and make it difficult for new entrants to exploit the commercial opportunities that are present[44].

2.3.6 Summary

There is no doubt that the allocationists do raise some important issues around the problem of access to financial, human and social capital in developing economies. But their 'Pot Noodle' approach to development - in place of hot water, 'just add capital' - falls short of the mark. As put by Bradley, McMullen, Artz and Simiyu (2011: 36), even where access to financial, human and social capital is provided, it is no 'silver bullet' - to be successful, developing economy entrepreneurs still need to innovate and/or differentiate their offerings. Furthermore, if it were as simple as just adding capital, then one would expect to observe higher rates of entrepreneurship as levels of economic development increase and access to capital rises. This though is at odds with GEM's claims that, as development increases, rates of entrepreneurship initially appear to decline (Kelley et al., 2011). It also fails to explain why highly developed economies, which have readily available capital, in all its forms, are not thoroughly awash with entrepreneurs.

Microcredit's well-documented failure to achieve its goal of stimulating entrepreneurship amongst poor people leaves it with a considerable dilemma. On the one hand it is clearly attempting to reposition itself as a provider of social gains or deliverer of financial inclusion, yet at the same time it continues to peddle anecdotal evidence in support of the entrepreneurship myth in order to attract donor funds and to maintain supporter engagement. This is clearly a

[44] In a related observation Miller (2015), has argued that entrepreneurship literature also tends to focus largely on the positive side of entrepreneurial activity, and has suggested that there could be merit in exploring possible negative dimensions such as a tendency for narcissism, mistrust and ruthlessness and their possible negative social effects.

more palatable sell than the alternative, but perhaps more accurate scenario, of extracting profits from sub-prime lending to the world's poorest communities. Either way, it is unlikely to spark the economic transformation that is sought by developing economy governments. Although microcredit providers have broadened their activities to incorporate business and financial literacy training in the belief that it enhances borrowers' abilities to start businesses this, as with much in the microcredit arena, seems to have been done without supportive evidence that it actually makes any difference. Such unfounded leap of faith approaches look even more questionable when for instance ASKI, the Philippine arm of Opportunity International, insists on beginning its group lending meetings with bible studies (Bad Boll, 2013) and consequently raises further uncomfortable questions about the existence of alternative agendas amongst some in the microcredit community.

Efforts to deepen human capital through general education and broad knowledge development may provide a sound basis for enhancing the ability of certain individuals to better identify and exploit opportunities, and may have a role to play in facilitating that exploitation, but efforts to raise specific human capital by attempting to teach entrepreneurship to a wide audience on the premise that 'all can be entrepreneurs' is seriously problematic when there is compelling evidence suggesting that it does not actually translate into more individuals becoming entrepreneurs.

Despite differences of emphasis, the allocationists' core proposition that development can be catalysed if aspiring entrepreneurs in developing economies could just gain access to finance and build their stock of human capital borders on the deceitful when it leads poor people into pursuing a goal that the majority have no realistic hope of ever achieving. This is even more the case if pursuing that goal involves their putting at risk even the limited assets that they possess. In the light of shortcomings in the allocationists' approach to economic development and the improbability of entrepreneurial potential being ubiquitous, the next section will examine whether there is evidence for it being a minority, rather than a universal, characteristic.

2.4 Entrepreneurship as a Function of Psychological Makeup

Diametrically opposed to the allocationists' broad conception that 'all can be entrepreneurs', is the view that entrepreneurship is the preserve of a minority of individuals whose personal characteristics set them apart from others. This particular perspective is well reflected in Isenberg's observation (2013: 177) that entrepreneurship is not about central distribution tendencies, but is rather about characteristics that are to be found in the extremes. Thus in any normal distribution of characteristics, the entrepreneurs will tend to be found in the distribution tails, not in the main body of the distribution curve.

Categorising entrepreneurs as a special minority group, Schumpeter (1983: 81) had already pointed to a number of distinguishing characteristics including natural competitiveness, a need to prove themselves, deriving pleasure from engaging in the creative process and a tendency to strive for success for its own sake rather than the financial reward that it yields (ibid: 93). In this he clearly concurs with Baumol's observation that entrepreneurs typically accept financial rewards that are significantly lower than they could expect if they were in orthodox employment[45], but that they experience counter-balancing psychological benefits (2010: 49), such as the satisfaction of being their own boss (Baumol and Blinder, 2012: 413). Rather than developing this psychological insight though, Baumol reduces the observation to an argument that entrepreneurs have a tendency to be overoptimistic and speculates that innovative entrepreneurs are likely to be "self-selected risk-lovers" (2010: 66), a position that diverges dramatically from Schumpeter, who insisted that the entrepreneurial function is non-risk taking. It also sits uneasily with literature that tends to suggest that entrepreneurs are actually rather adept at identifying and avoiding risk. This question of the degree to which entrepreneurs embrace risk when setting up their enterprises is a recurrent one - it will crop up in several guises. Rather than just dealing with it piecemeal, it will also be addressed in its own right towards the end of this section, which seeks to examine the

[45] Although entrepreneurs may not be primarily motivated by financial returns, it must be admitted that a successful entrepreneur has the option to cash-in the enterprise value and realise a capital gain, which taken together with their historic earnings from the enterprise is likely to exceed the opportunity cost of such orthodox employment.

arguments that entrepreneurship correlates with the possession of certain individual characteristics.

2.4.1 Psychological Traits of Entrepreneurs

The development of traits theory is primarily associated with psychologist G. W. Allport, who hypothesised that personality characteristics would follow a normal distribution across a population, thereby paving the way for the exploration of personality as a predictor of behaviour (Chell, 2008: 84). Although Gartner (1988) questioned the use of psychological traits to characterise entrepreneurs, on the basis that observing their behaviour would be more revealing, the belief in the prevalence of certain key personal attributes amongst entrepreneurs was widely accepted and is encountered right across the economic, psychological, sociological and business studies literature. The underlying hypothesis is that certain individuals possess personality traits that predispose them towards following an entrepreneurial course (De Vries, 2000), to the extent that some even become habitual entrepreneurs, launching multiple enterprises (Birley and Westhead, 1993; Balunywa and Rosa, 2009).

The early approach and dominant discourse on traits theory focussed on three characteristics in particular. Described by Chell as the ‘Big Three’, these are: the need for achievement, an internal locus of control and a propensity for tolerating risk (Chell, 2008: 88). The first of these - a high need for achievement - was posited by psychologist McClelland (1967) as the key determinant of entrepreneurial behaviour. It expresses itself as a preference for striving to overcome difficult challenges, a preparedness to accept responsibility and a desire for personal improvement. Need for achievement also tends to be associated with a preference for challenges that require the exercise of mental agility, imagination and the use of complex arithmetic (ibid: 216). McClelland additionally appears to concur with Schumpeter and Baumol over the preparedness to accept negative financial returns when he observes that historical accounts of 19th century entrepreneurs seem to indicate that they were not primarily motivated by financial returns (ibid: 233), thereby implying that the need for achievement is not financially driven.

The second entrepreneurial characteristic, internal locus of control, has its origins primarily in Rotter's 1966 work on learning behaviour. Although he was actually writing at the time about the differential impact on learning that would result from whether reward reinforcement was perceived to be internally or externally controlled, individual locus of control was subsequently subsumed into entrepreneurial traits theory as a reflection of the degree to which one feels in control of one's own future (Chell, 2008: 98), a corresponding fear of being subject to the control of others and an anti-authoritarian predisposition (de Vries, 2000: 5). Individuals with an internal locus of control believe that they are able to take steps to actively shape their destiny, while those with an external locus of control perceive themselves to be at the mercy of events around them. Thus entrepreneurs, being individuals with an internal locus of control, are people who feel empowered to initiate enterprise formation while those individuals with an external locus of control would not.

The third major personality trait theorised is that of one's preparedness to deal with risk. Although for McClelland (1967: 211) this propensity was limited to a preference for taking only intermediate risks, the general perception is of entrepreneurs as risk-takers. They are thought to be undeterred by the probability of enterprise failure and exhibit a heightened propensity for risk-taking when compared to business managers (Sexton and Bowman, 1985: 134; Begley and Boyd, 1987: 88; Busenitz, 1999: 336; Baumol, 2010: 66). Although classically this risk is seen as financial, it would also encompass the risk to one's personal and commercial reputation should the venture fail.

The hypothesis that entrepreneurial behaviour is dependent upon the degree to which these three character traits are present in an individual is, however, highly contestable. McClelland examined an impressive array of sources and undertook extensive studies to support his hypothesis that an "achievement motivation is in part responsible for economic growth" (1967: 36). Employing a methodology derived from Freud's waking fantasies and free association techniques (ibid: 39), McClelland initially conducted research on male college students that appeared to confirm that some individuals had a need for achievement bias, which could be assessed and scored for individual subjects. Subsequent tests with children as young as five and adolescent boys (ibid: 211), appeared to show that those with a high need for achievement exhibited certain discernible characteristics such as a preference for only taking moderate risks, a preparedness to take on responsibility and a desire for feedback on their progress. Arguing that individuals who exhibited such characteristics would be well suited to the entrepreneurial role, McClelland thereby inferred that high need for achievement ('high n Achievement'), being virtually synonymous with entrepreneurship, was the engine of economic growth:

> The parallel between the behaviour evoked by high n Achievement and that required for the entrepreneurial role is so close that one can understand much better how a high n Achievement level in a society can produce more rapid economic development (ibid: 239).

Conceding that the supposed presence of a high need for achievement amongst children and students did not necessarily mean that they would go on to become entrepreneurs, McClelland endeavoured to obtain further support for this possibility by testing for the trait amongst mid-ranking businessmen attending training programmes at M.I.T. and Harvard Business School. Cross-checked against managers attending training courses in Italy, Turkey and Poland, as well as students studying for a career in the professions and American civil servants, the findings were mixed to say the least. Although business managers in the USA, Italy and Poland were all found to score significantly higher on need for achievement than professionals in their own countries, the opposite was found in Turkey. Furthermore, although private sector managers in Turkey and Italy had higher need for achievement scores than their contemporaries in the public sector, this was not replicated in the USA, where public sector managers actually marginally outscored their private sector equivalents (ibid: 295)[46]. The clear implication is that even if individuals with a strong need for achievement are well suited to an entrepreneurial career (ibid: 259), it does not follow automatically that those exhibiting the trait will necessarily follow the entrepreneurial track.

The biggest shortcoming in McClelland's assertion that the entrepreneur provides the essential link between the need for achievement trait and rapid

[46] At the time the research was undertaken Poland was still a communist economy, so only its public sector was examined.

economic growth (ibid: 205), though, can be seen in the complete interchangeability that he allows between the terms business manager and entrepreneur. His entire argument about supposed entrepreneurial behaviour and associated characteristics is thoroughly weakened by the astonishing revelation, somewhat disingenuously hidden away in a footnote to the chapter on Entrepreneurial Behaviour, that the research actually failed to look specifically at entrepreneurs. Entrepreneurial behaviour is therefore merely inferred from people who are not, actually, entrepreneurs. Given the reverence that is generally accorded McClelland, it is worth quoting his footnote in full:

> Throughout the chapter, the terms *entrepreneur*, *executive*, *manager*, and the like will be used interchangeably, despite the ease and clarity with which these roles have been distinguished by economists and sociologists. The reason is a simple practical one: while we were able to distinguish clearly in Chapter 6 what we meant by the *entrepreneurial role*, when it came to picking particular individuals to test, we had no refined instruments of job analysis available to decide who was really acting in an entrepreneurial way. Instead we were forced to fall back on job titles, or on occupational statuses; and, in the jumble of terminologies used in firms, both here and abroad, we were able to distinguish only a single very generalised managerial status in which we could not pick out sub-types with any degree of success. The confusion adds to error, of course, and once again stresses the fact that while our groupings, though crude, are generally sufficient to establish the existence of a relationship, they are by no means precise enough to provide a valid estimate of its extent (ibid: 300; original italics).

By failing to cross-validate the hypothesised link between high need for achievement and entrepreneurial behaviour with an actual cohort of entrepreneurs, the whole argument about need for achievement as an entrepreneurial trait is left in limbo and, although the trait became thoroughly embedded in the entrepreneurship literature, there is actually no robust basis for it in McClelland’s oft-cited work. Indeed all one can say with any confidence is that need for achievement appears to be associated with the behaviour of some middle-ranking business managers and that its association with entrepreneurship, on the basis of his evidence, is purely hypothetical. Indeed McClelland’s insight would seem to border on the tautological: those who achieved appeared to have a need to achieve. That it should nevertheless have become so universally accepted in entrepreneurial traits theory is striking.

A very similar criticism could be levied at the locus of control trait. Despite being largely treated in the entrepreneurship literature as if it were a simple binary condition, it is unlikely to be merely a matter of internal versus external control. It would seem far more likely that these conditions represent two polar extremes on a continuum, with a very high degree of variability in between. Indeed Rotter's (1966) original work on the impact of internal versus external control on learning reinforcement refers frequently and quite specifically to it being a continuum. Whilst it may well be the case that the internal locus of control end of the spectrum is more associated with entrepreneurship, it does not follow that this can be taken as providing evidence for a causal relationship where a high internal locus of control leads individuals into enterprise formation. It is perfectly possible, in fact, to argue that the reverse could be the case: if the internal-external locus of control is a continuum, rather than a binary condition, then an individual might arguably see the setting up of an enterprise as a legitimate means of recalibrating their perception of where they feel they fall on the internal-external control spectrum. To imply that having a high locus of control is predictive of entrepreneurial behaviour would consequently also be a false inference. It could just as equally be a predictor of many other career choices that allow a heightened sense of personal freedom, including various forms of self-employment such as becoming an artist, shepherd or taxi driver.

The third of the Big Three traits, that of risk propensity, is shrouded in confusion and misnomer. Despite the popular perception that entrepreneurs are prone to taking risks, there is actually strong evidence suggesting the exact opposite. It has been argued that although they are excited by being engaged in undertakings that are challenging, entrepreneurs' strong desire to succeed means that they actually tend to avoid high-risk situations and therefore, contrary to popular contention, are averse to actions that are akin to gambling (McClelland, 1967: 224; Meredith et al., 1982; cited in Chell, 2008: 102). Instead they are believed to prefer to engage in activities where they feel the outcome is related to the exercise of their skill, and are adept at deliberately quantifying and limiting risks (McGrath, 2000; Chell, 2008: 48), a position that would seem to echo Schumpeter's original insistence (1983: 137) that risk-taking is not an entrepreneurial function. Arguing that it is increasingly recognised that the risk-taking entrepreneur is simply a myth, Isenberg (2013: 205) introduces the helpful analogy of mountaineering to explain the apparent confusion (ibid: 207). To the lay person mountaineering would be perceived as decidedly risky. But mountaineers take deliberate action to mitigate that risk by using the best equipment and proceeding with the utmost caution. They are aware of the risks involved, but seek to avoid them; yet external observers, who are unaware of the risk-reducing action that mountaineers take, regard them as risk-takers. The analogy would seem to chime particularly well with the observation that entrepreneurs seem to avoid both low and high risk situations - the former because they want to feel challenged, the latter because they want to succeed (Meredith et al.,1982: 25; cited in Chell, 2008: 102).

A further problem with traits theory rests in the tendency to treat the Big Three traits as if they were completely independent variables, when a reference back to the original materials suggests that this is anything but established. In referring to McClelland's earlier work on need for achievement (McClelland et al., 1953; cited in Rotter, 1966: 3), Rotter suggests that those individuals at the internal end of the internal-external control scale could be more prone to strive for achievement (ibid: 21). He also refers to a 1960 experiment conducted by Liverant and Scodel (ibid: 19) which observed that individuals at the internal control end of the scale also exhibited a preference for intermediate probability betting, which appears to match the suggestion made by McClelland that individuals with a high need for achievement also tend to prefer games of chance where the outcome probability is intermediate (McClelland, 1967: 211). If these observations by Rotter are indicative of covariance between the three traits, then it would seriously undermine the tendency to treat them as wholly independent variables.

With all its concomitant weaknesses, it is hardly surprising that traits theory failed to resolve itself into a unified predictive model or that the list of hypothesised traits just continued to expand and now includes overconfidence (Busenitz, 1999; Salamouris, 2013), optimism (Cooper et al., 1988), and possession of high energy levels that are expressed by an ability and preparedness to work the long hours required to establish a venture (Sexton and Bowman, 1985; Begley and Boyd, 1987). It has similarly been argued that entrepreneurs have a high need for autonomy (Sexton and Bowman, 1985; Lumpkin and Dess, 1996) as well as a heightened tolerance of ambiguity - meaning that in contrast to the majority of individuals, who find ambiguity stressful, entrepreneurs appear to actively seek out and enjoy such situations (Sexton and Bowman, 1985).

Additional attempts that have been made to distinguish between entrepreneurs and the general population include Eysenck's theories of personality type, based on assessments of three psychological factors: neuroticism, degree of extraversion versus introversion, and psychoticism (Chell, 2008: 123); the 'Big Five' model of personality as a function of neuroticism, extraversion, openness, agreeableness and conscientiousness developed by Dreary and Mathews (1993; cited in Chell, 2008: 123) and the Myers-Briggs Type Indicator personality profiling tool which identifies sixteen possible personality types based on the work of psychiatrist Carl Jung. All share a common problem with traits theory, namely, whether a distribution of characteristics displayed in a population can be reliably used to infer the behaviour of a single individual.

Despite this obvious shortcoming, interest in using such psychometric profiling as a predictor of entrepreneurship can be seen in its recent use as a potential modelling technique which, alongside standard credit scoring, it is argued could help banks to assess who they should advance loans to (Klinger et al., 2013). Tests undertaken initially in Peru, Columbia, Kenya and South Africa have suggested that the variables of extraversion and educational background correlate positively with enterprise success, while integrity and digit span were negatively correlated with enterprise profitability. But, as one might expect, the tests revealed that integrity is also strongly negatively associated with default. In other words the least honest individuals are the most likely to default. Whilst hardly surprising, this leaves the banks with a considerable dilemma. On the one hand they would want to lend to the more honest entrepreneurs and thereby avoid default, but the observed inverse relationship between integrity and profitability that was also evident in the study suggests that these are individuals who are more likely to start less profitable enterprises, and might therefore indicate a long-run inability to repay. On the other hand, the most likely to be profitable are, perversely, the very individuals the banks would want to avoid - those with a heightened propensity to default.

By failing to address core weaknesses in its approach traits theory has largely failed to keep pace with the allocationists' popularist insistence that 'all can be entrepreneurs' and so has tended to fall out of favour in recent years. This might be about to change though in the wake of some interesting work undertaken by Sarasvathy (2008) and a growing band of her followers, and opponents, who are beginning to reignite the debate about the psychological makeup of entrepreneurs. Although Sarasvathy has tended to position herself as being distinct from traits theorists, her work has much in common with this earlier approach.

2.4.2 Effectuation - Traits Revisited?

To explore the characteristics of highly successful ('expert') entrepreneurs, Sarasvathy deployed a technique known as 'thinking aloud protocols'. The research sample were presented with hypothetical business start-up problems and asked to think aloud about how to resolve them. Their monologues were recorded and transcribed, and the resulting transcripts subsequently analysed to identify the vocabulary and underlying thinking processes that were being used. The results led Sarasvathy to distinguish between two types of logic: normal deductive logic, which she refers to as 'causal', and the inverse, which she calls 'effectual'. She then uses the term 'effectuation' to describe the use of this second type of logic (2008: 16). Whilst causal logic helps individuals to make decisions, Sarasvathy maintains that it is effectual logic that enables one to construct possible future scenarios (ibid: 73), particularly in a context of uncertainty. Although her expert entrepreneurs sample were capable of using both types of logic, she found that they had a marked preference for using effectual logic when dealing with the uncertainty that surrounds new venture creation. Thus whereas causation tends to focus externally on predetermined markets or fixed goals and marshals the requisite resources to achieve them, Sarasvathy's entrepreneurs tended to focus inwardly and go through a process of identifying the means they have at their disposal. This entails identifying "who I am, what I know and whom I know" (ibid: 78). Having thus assessed the available resources, they then imagine possible future ends and engage in an iterative process of creating and exploiting opportunities as they arise (ibid: 38). In simple terms, causation and effectuation can be seen to be the obverse of each other. Causation starts with a given end objective and seeks the right balance of means to achieve it, thereby maximising utility. Effectuation, though, starts with a given set of means and explores multiple possible ends that can be realised with the means at hand.

Contrary to Baumol's casting of entrepreneurs as "self-selected risk-lovers" (2010: 66), Sarasvathy's evidence suggests that their inward focus, use of effectual logic and preparedness to act iteratively preconditions them to believe that they can transform current realities in their favour (Sarasvathy, 2008: 86). Thus rather than embracing risk (Baumol, 2010) or minimising risk (McGrath, 2000), entrepreneurs embark on the inverse process of seeking to "make success happen" (Sarasvathy, 2008: 17). Whilst at face value this might still seem to contain an element of risk and to echo the tendency to be overoptimistic that was identified by traits theorists, it is mitigated by the entrepreneur's calculation of 'affordable loss' (ibid: 15), whereby risk is constrained by the effectuator's objective quantification of what they are prepared to lose in the process of testing whether a venture is viable. This would seem to echo the preference for intermediate betting that is posited by traits theorists and also sits well with McGrath's (2000) view that a key entrepreneurial characteristic is the ability to quantify and limit financial exposure. It is worth drawing a key distinction here, too, between venture failure and the failure of the entrepreneur. The literature often conflates the two, but to an effectual entrepreneur calculating and acting according to affordable loss, one can easily imagine that venture failure may be merely one step on the iterative journey towards ultimate personal success. This very point, that failure may be a precursor to success, also conforms with Hirschman's position that "lofty achievements", including the economic, "come about by stumbling rather than through careful planning, rational behaviour" (2015: 13).

Most economists, business schools and even allocationists proceed though on the basis that opportunities are somehow 'out there' waiting for entrepreneurs of whatever hue to employ causal logic to exploit them - that opportunities somehow pre-exist entrepreneurial action. Sarasvathy's work calls into question this traditional notion of entrepreneurs constantly ‘scanning the horizon’ (Kirzner, 1997: 72) for pre-existing opportunities that they can exploit. If Sarasvathy is right, then it opens up the possibility that instead of being discovered, markets are “more likely *made* than *found*” (Sarasvathy, 2008: 17; original italics), as a result of entrepreneurs’ deployment of effectuation.

In contrast, the causal logic approach to strategic planning is typified by the Segmentation, Targeting, Positioning (STP) approach made famous by Kotler (1994: 93). It begins with a predefined market that contains all potential customers, which is then segmented to reveal a niche that can be profitably exploited. A customer proposition is developed and tested for resonance with the targeted niche, ahead of developing a communications strategy designed to appeal to the customer target. This process identifies a fixed end goal, usually expressed in terms of the desired share of a pre-defined market, and then seeks to identify and marshal the resources that will be needed to achieve that defined goal. According to Sarasvathy, such causal reasoning is appropriate in situations where the future is predictable, and aids the selection of appropriate measures where the environment is independent of actions taken. It is seen in the classic approach undertaken in “MBA classrooms” (Sarasvathy, 2008: 73) and is expressed in the logically constructed formal business plan.

The distinction between causal and effectual reasoning has important implications, given that classic business training tends to be dominated by a causal orientation. Although business schools often include some form of entrepreneurship module, such as case studies of successful entrepreneurs, the core logic seems to be that mastering a broad portfolio of business skills results in the creation of a perfectly formed embryonic entrepreneur who has the ability to segment a market, identify a profitable niche and write a ‘bankable business plan’ that would qualify for the bank credit or venture capital that it is perceived would be needed to get the venture started[47]. But if entrepreneurs are dealing with uncertainty and acting contingently, rather than following a means-end rationality, it could well be that business schools, governments and NGO training programmes in developing economies are simply teaching the wrong things. Teaching causal logic based classic business skills may be

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[47] In essence this assumes that business management and entrepreneurship are synonymous.

appropriate for developed economies, which need a regular supply of competent business executives to be employed in established enterprises, but might be highly questionable for countries like Rwanda if such teaching produces a massive cohort of classically trained middle-managers for a highly evolved commercial sector that has not yet been brought into existence. What is more, if there is an effectuation dimension to entrepreneurship, then potential entrepreneurs in developing economies are likely to have it knocked out of them by the time they have completed formal business training built on a platform of causal logic.

The problem becomes even more acute when one considers that developing economies' banking sectors and business development funds, being risk averse, will be on the lookout for bankable business plans - plans that have been developed using a highly causal logic approach. If potential entrepreneurs eschew causal logic in favour of effectuation, they are unlikely to get past the front door, despite the fact that their particular psychological makeup might make them more likely to succeed. This has serious implications for the policies that developing economy governments implement to stimulate entrepreneurship and may partially explain why an SME sector is still struggling to emerge in Rwanda despite all the efforts that have been made. It may also go some way to clarify the observation that in Rwanda obtaining finance is still claimed to be the biggest handicap to enterprise development (IFC, 2012: 4), even though Chapter 1 concluded that finance is widely available.

Sarasvathy's theory of effectuation is not, though, without its detractors. Examining a broad array of literature through "the decision-making lens of effectuation theory" Goel and Karri (2006) make an implicit link between effectuation and certain character traits, including: a predisposition for non-conformity (ibid: 485), high achievement orientation (ibid: 486), preference for innovation (ibid.), and high levels of self-efficacy (ibid: 485). They also introduce the additional psychological concept of 'over-trust', the tendency to trust beyond the level that a particular context would suggest is justified, and go on to argue that entrepreneurs have an inbuilt predisposition to over-trust compared to others (ibid: 479).

Although Sarasvathy and Dew (2008) put up a spirited argument against linking effectuation to psychological traits, their argument was weakened by the heavy use of anecdote and the fact that their main source of evidence was an unpublished PhD thesis (Allen, 2003; cited in Sarasvathy and Dew, 2008: 732). Furthermore, in conceding that Allen's evidence indicates that a link between effectuation and self-efficacy cannot be ruled out (ibid: 732) their defence is considerably undermined given that Goel and Karri (2006) identified self-efficacy as a combination of sub-traits including emotional stability, self-esteem and internal locus of control (ibid: 485). Karri and Goel's (2008) arguments about effectuation being conditioned by psychological traits were driven home even further in their response to Sarasvathy and Dew's (2008) rebuttal, with Sarasvathy ultimately seeming to hedge her bets when conceding in her book that "there may of course be a traits aspect to effectuation" (2008: 131). By failing adequately to address Goel and Karri's arguments, room is therefore left for a predisposition for effectuation to be conditioned by psychological characteristics that were identified in the earlier literature. Despite these shortcomings, Sarasvathy's theories have rekindled interest in entrepreneurs' psychological makeup and suggest potentially fruitful areas for research, both in developed and developing economy contexts.

In drawing attention to the importance of recognising the key distinction between causal and effectual thinking, and the preference amongst expert entrepreneurs for the latter, Sarasvathy would seem to have concurred with the traits theorists' and Schumpeter's underlying thesis that entrepreneurship is a minority capacity. However, this position would appear to be seriously at odds with her more recent activities. Effectuation now boasts its own website[48], which actively recruits instructors of effectuation and promotes the corresponding teaching materials. Foremost of these is the joint production of *Effectual Entrepreneurship* (Read et al., 2011), a hybrid effectuation course book/self-help workbook that makes overt and positive references to both Yunus (ibid: ix) and microcredit (ibid: 201). Thus it would seem that Sarasvathy has taken to siding with the allocationists' view that 'all can be entrepreneurs', if they just follow her teachings and learn how to think effectually, rather than causally.

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[48] http://www.effectuation.org

2.4.3 Risk, Uncertainty and Heuristics

It is perfectly common to find the term risk used in relation to enterprise creation. Knight, cofounder of the Chicago school of economics, makes the important point however that its use is highly ambiguous (2006: 19). It is sometimes used to refer to a phenomenon capable of being measured, but sometimes not. This ambiguity led him to argue for a clear separation between ‘risk’ and ‘uncertainty’, where it is only ‘measurable uncertainty’ that constitutes risk. Its probability of occurring can be assessed statistically, whereas uncertainty in its proper sense is something that cannot be measured, by virtue of being unknowable, and represents a phenomenon now commonly referred to in the entrepreneurship literature as ‘Knightian uncertainty’[49].

Knight’s distinction is an important one. A corporate manager with sufficient resources and data on historical performance is better able to assess the likelihood of possible outcomes, based on known probability distributions (ibid: 199). They can therefore quantify the risks they will face, and can even go as far as insuring against adverse outcomes. In contrast, entrepreneurs who create new enterprises typically have very little information to go on. Because they cannot possess perfect knowledge, in the sense of knowing the outcome that will derive from starting a new venture, they operate in a context of uncertainty and have to rely largely on their instincts when assessing the viability of a new opportunity. They are dealing with a unique situation for which there is no prior experience or known probability distribution (ibid: 233). For Knight the entrepreneur’s overriding uncertainty surrounding such judgement is that relating to the sale price of his product or service (ibid: 317). But to the extent that the price is determined by the intersection of the supply and demand curves, it can be argued that in fact their real uncertainty is the level of demand that will exist for the goods or services they are planning to supply.

Considering the exercising of judgement under conditions of uncertainty, Knight draws a further distinction between ‘confidence’ and what he refers to as ‘conative attitude’ and suggests that while some individuals will seek to avoid

[49] Although the headlines are given to Knight, the question of uncertainty was also arguably raised by Keynes when referring to the “extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made” (2012: 149).

uncertainty because they have an inbuilt need to feel sure about the actions they take, others seem prone to exploring original ideas and therefore “prefer rather than shun uncertainty” (ibid: 242). The comment is interesting in that it seems to mirror the tolerance of ambiguity predisposition identified by traits theorists. It points, significantly, to the importance of how an entrepreneur feels and thinks about the level of uncertainty that persists, the capacity for exercising judgement despite that uncertainty, and the possibility that some individuals think differently about such uncertainty.

A similar line of reasoning is explored by Chell (2008: 259) when she observes that for entrepreneurs to be successful under contexts of uncertainty they must be able to make the right judgements at the right time. Determining that this constitutes a cognitive process, she goes on to suggest (ibid: 267) that entrepreneurs appear to share a common cognitive-affective core. Linking this with the third state of mind, conation, that was raised by Knight, would seem to suggest that there is something different in the way that entrepreneurs think. Indeed Chell goes on to suggest that they are in fact able to engage in framing different scenarios that they can then act out in their minds, as well as sounding them out with others, and consequently hypothesises that “entrepreneurs have a flexibility of mind that permits leaps of imagination through counterfactual thinking” (ibid: 259). Echoing Sarasvathy’s theories of effectuation, Chell (ibid: 172) draws on Gaglio (2004) and Gaglio and Katz (2001) to theorise that entrepreneurs use both counterfactual thinking and envisioning to imagine both what might be possible and how to bring that possibility about. This thought, that there is something in the attitude or mindset of entrepreneurs, is also identified by Isenberg (2013: 189) as fostering the contrarian thinking that leads entrepreneurs to perceive things differently, in particular the ability to see potential value where others do not (ibid: 58).

When operating under conditions of uncertainty, entrepreneurs are forced into making subjective rule-of-thumb judgements that behavioural economists refer to as ‘decision making under heuristics’. Kahneman (2011: 21) identifies two fundamental cognitive approaches to decision making, which for convenience he labels ‘System 1’, concerned with quick, unconsidered, reflex and often impulsive thinking, and ‘System 2’, the seat of slow, rational, ordered thinking.

For Kahneman, it is thoroughly irrational to take the unquantified risks typically associated with System 1 thinking. By failing to draw on Knight's key distinction between risk and uncertainty, he consequently characterises entrepreneurs as irrational, optimistic risk-takers and asserts that a cognitive bias causes them to neglect the role that luck plays in their success and makes them prone to an illusion of control (ibid: 259). He consequently dismisses their belief in the ability to shape their success (ibid: 260) and reduces entrepreneurship fundamentally to serendipity, whereby "undeserved rewards" are gained by individuals who "took a crazy gamble and won" (ibid: 204). His failure fully to address the key distinction between risk and uncertainty, though, represents a key flaw in his reasoning. If entrepreneurs have to make judgement calls in the absence of knowledge about the probabilities of possible outcomes, then castigating them for failing to base their decisions on probability and labelling them merely as lucky gamblers becomes wholly nonsensical when such statistical probabilities are simply not available. The underlying implication that they act without fully considering the implications of their actions also seems a poor fit with McClelland's view that entrepreneurs seem to prefer contexts where the risks are intermediate. It also sits uncomfortably with Sarasvathy's expert entrepreneurs' capacity for calculating affordable loss.

Failure to appreciate the significance of uncertainty can also be discerned in the 2015 Human Development Report (World Bank, 2015). Drawing very heavily on Kahneman, it highlights poor people's failure to act rationally and take the decisions that are in their own long-term best interest, such as their use of credit to fund current consumption when consistently foregoing such consumption could yield long-term savings that would obviate the need for credit. The report consequently appeals to development practitioners and governments to take measures to "improve the quality of the decisions that people make" (ibid: 31). Thus the subtext would appear to be a continued faith in the rational choice model and that action needs to be taken to hinder aberrant, irrational, behaviour that departs from the orthodox model. Although the report does make some important observations about behaviour and context, it tends to gloss over the reasons that underpin such apparently irrational behaviour, for instance the fact that many poor people are forced into using credit for consumption smoothing to ensure their daily survival because they are managing an uncertain and irregular cash flow (Collins et al., 2009: 181).

Tuckett (2011: xvi) makes an incisive point about this failure to address the issue of uncertainty when observing that economists are happy to define it in terms of the ‘unknown unknowns’, but then proceed to devote the bulk of their attention to risk - the ‘known unknowns’ - and largely ignore uncertainty. This is seriously problematic when the corresponding use of deductive logic treats an uncertain future merely as if it were a game of chance. Tuckett (ibid: 13) goes on to criticise behavioural economists, like Kahneman, for merely fitting their insights about cognition into standard economic theory, pointing out that behavioural economic theory is essentially concerned only with contesting the degree to which economic actors are rational, rather than recognising that in the context of uncertainty the exercise of reason alone is insufficient when dealing with the unknown unknowns, as there is simply no probability databank available on which to base a purely rational decision. Referring to Simon’s concept of ‘bounded rationality’ (1997, cited in Tuckett 2011: 185) Tuckett argues that under conditions of uncertainty, when the economists’ standard rational choice model is inapplicable, people still engage in what he describes as ‘rational action’ - action that is “rational from *their* point of view” (ibid: 184; original italics). Although Tuckett was writing primarily about the apparently irrational behaviour of financial investors, his insights resonate strongly with the actions taken by entrepreneurs under conditions of uncertainty who, in the absence of hard data on which to base a rational choice, may nonetheless still be acting in a manner that, for them, is highly rational within the particular context that they are experiencing. Indeed in the context of uncertainty, attempts to apply rational choice may be wholly irrational if it means behaving as if the unknown unknowns were known.

Tuckett also introduces a concept he calls ‘groupfeel’ (ibid: 65) - a tendency to take reassurance from the fact that one is acting in a manner that is consistent with one’s peer group and where membership of the group feels good (ibid: 68). Thus even actions that would be considered by behavioural economists to be irrational, on the basis of having a high risk probability, can nonetheless acquire a degree of subjective acceptability by virtue of the fact that others are seen to be pursuing the same course of action. Again, although Tuckett was writing specifically about the actions of fund managers, such a mindset might also have implications for entrepreneurship if intending entrepreneurs can draw reassurance from the observation that other intending entrepreneurs appear to be following a similar path. This may well be a factor in Rwanda, where entrepreneurship is positioned as the country's economic priority and is being very actively encouraged by the government, the major global financial institutions, NGOs and educational institutions.

2.4.4 Summary

Kahneman argues that under System 1 thinking individuals are prone to rely too heavily on evidence from small samples and therefore tend to draw false conclusions from unrepresentative data. But it is also possible to levy a reciprocal criticism at psychologists, who have an equivalent tendency to imply that the behaviour of an individual can be inferred from attributes displayed in large data distributions. Even if certain traits can be identified as being over-represented amongst entrepreneurs, this plainly does not infer causality: that the mere presence of certain traits predetermines that an individual will necessarily follow an entrepreneurial course, or that there is a one-size-fits-all cocktail of characteristics that will facilitate accurate prediction of entrepreneurial success. As stressed by Low and MacMillan, the idiosyncratic nature of entrepreneurs is such that they essentially "defy aggregation" and means that attempts to provide a profile for a typical entrepreneur are "inherently futile" (1988: 148). Given the heterogeneity of individual backgrounds and experiences it is hardly surprising then that traits research quickly begins to feel like a search for the Holy Grail.

A further difficulty is the assumed immutability of such psychological traits - that once evidenced they are fixed for all time and in all contexts. In reality, people and their characteristics may well change over time, or behaviour may well vary according to context and experience; so some form of longitudinal evidence is surely required before any definitive conclusions can be reached about the predictive value of psychological biases that are exhibited in what is in reality a mere snapshot at one moment in time and in one context. This in turn gives rise to arguably the biggest weakness of the whole psychological approach to entrepreneurship: that it is based exclusively on studies of extant entrepreneurs, and has not been tested for predictive validity against intending entrepreneurs (Chell, 2008: 258). In observing this fact Chell touches on a very significant problem, namely that no distinction is made between the ex-ante and ex-post characteristics of an entrepreneur. In the absence of longitudinal evidence spanning both the pre- and post-entrepreneurial experience it is simply impossible to asses the degree to which entrepreneurial traits existed prior to, and therefore predicated the entrepreneurial course being followed, or whether they were learned via the experience of setting up and running an enterprise.

This longitudinal problem is equally problematic for Sarasvathy's theories of effectuation. Whilst at one level her insights would seem to echo the envisioning and counterfactual cognitive style highlighted by Chell, because Sarasvathy's work was restricted exclusively to expert entrepreneurs in one highly developed economy (the USA), it is also impossible to determine the extent to which their predilection for effectuation might be a learned behaviour resulting from an accumulation of experience. By suggesting that entrepreneurs follow an iterative path when developing enterprises Sarasvathy's theory does though point to a significant weakness in Kahneman's approach, namely, that life is not lived as a series of self-contained one-off laboratory experiments. Life, by its very nature, is an iterative process where certain decisions taken today can be modified tomorrow if they are found to be inappropriate; hence Tuckett's 'rational action' might indeed be a vey rational way to proceed under the conditions of uncertainty that entrepreneurs are confronted with.

Knight's key distinction between risk and uncertainty was a crucial observation and one that has considerable implications. External observers of entrepreneurial behaviour, who fail to recognise this subtle but critical distinction, can wrongly associate being prepared to act under conditions of uncertainty with risk-taking, even when the individuals under observation may actually be attempting to minimise risk. Indeed it might even be argued that acting under uncertainty might well be an essential precondition of entrepreneurship: if there were no uncertainty, then markets would presumably be exhibiting perfect information and be in the hypothetical state of equilibrium, which has already been shown to be a condition where entrepreneurs and entrepreneurial profits could not exist (see section 2.2.2).

Curiously, and despite his critical insight on this distinction between risk and uncertainty, Knight towards the end of his book seems to presage Kahneman when intimating a belief in the superiority of taking calculated risks rather than embracing what he refers to as the “essential evil of uncertainty” (2006: 347). Given the highly objective nature of his prior analysis, this is a surprising departure and contrasts starkly with, for instance, Keynes who noted that the preparedness of some to engage with uncertainty is an extremely important quality, as eloquently expressed in his observation that:

> If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation (Keynes, 2012: 150).

Rwanda needs such individuals who eschew the behavioural economists’ lauding of rationality, are comfortable with embracing uncertainty and prepared to engage in action that is “rational from *their* point of view” (Tuckett: 184; original italics) and can thereby lead to successful enterprise creation.

2.5 Conclusion

None of the three dominant approaches that have been reviewed in this chapter can offer a satisfactory explanation for the lack of SMEs in Rwanda. The economists’ positioning of entrepreneurs as a key factor in economic development and their emphasis on the institutional context and greater efficiencies that accrue to firms versus individuals underpins the Rwandan Government’s focus on entrepreneurship and SME sector development. It was seen, in the first chapter, that an enterprise climate has been fashioned that is very much in line with the institutional context that most economists call for. The absence of a vibrant SME sector, the missing middle, does not, therefore, appear to be due to any lack of diligence in pursuing the prevailing prescription. If having the right institutions is a necessary precondition for entrepreneurship and SME sector formation, the evidence from Rwanda would suggest that it is by no means a sufficient one.

The allocationists’ explanation for the missing middle would rest in arguments around the problem of access to financial, human and social capital in developing economies. In this they are supported by the global institutions’ forceful assertions that the dearth of SMEs in developing economies is linked particularly to their difficulties in accessing credit. Following this line of reasoning the Rwandan Government has been very active in initiating strategies that conform to the allocationists’ arguments. It has raised levels of access to credit, invested in human capital and devised programmes, such as *Hanga Umurimo,* which are designed specifically to prime entrepreneurship and support SME development. Yet this too has failed to deliver the desired dynamic SME sector. There is considerable evidence, in fact, that the allocationists’ prescriptions for stimulating enterprise formation are fundamentally flawed. This includes the well documented tendency for microcredit to prompt consumption smoothing, rather than enterprise creation, and the apparent inappropriateness of investments in specific human capital, such as entrepreneurship training. Worryingly too, arguments in favour of social entrepreneurship, used as a screen to excuse the allocationists’ failure to catalyse viable self-sustaining commercial enterprises and economic dynamism, raises the risk of prompting neo-dependency rather than the development of the self-sufficient SME sector that is desired.

The psychological approach also struggles to provide an explanation for the missing middle. Although it does point to factors that might have a bearing on entrepreneurial behaviour, such as attitude to risk, use of effectuation and psychological traits, the arguments centre exclusively on extant entrepreneurs in developed economies. It cannot be concluded, therefore, that traits theory or Sarasvathy’s theory of effectuation can simply be extrapolated to a developing economy context. Additionally, even if the theories were applicable, a further weakness prevails. By focussing only on individuals who have successfully built enterprises, it cannot be inferred that the observed characteristics existed prior to and preconditioned setting up an enterprise. Hence there is no basis for drawing any inferences about whether the attributes associated with entrepreneurs in developed economies are present in Rwanda.

Finding explanations for the low incidence of SMEs in Rwanda is also hampered by the discovery that the dominant theories frequently present arguments that are contradictory. The allocationists' assumption that there is a veritable ocean of 'entrepreneurs in waiting' appears to conform with economists Kirzner and Baumol, and the GEM's ever expanding definition of entrepreneurship. But the very idea that there could be a vast contingent of potential entrepreneurs is at odds with traits theorists' and Schumpeter's position that entrepreneurial characteristics are possessed by a minority of individuals. Sarasvathy on the other hand appears to be hedging her bets: initially observing that effectuation is exhibited by expert entrepreneurs, who are few in number, but simultaneously promoting it as a skill that can be taught to anyone.

One can also discern a dissonance between the allocationists' propensity for prompting neo-dependency and the rational choice model that underpins most economic arguments. While the former requires the continuing support of external agents, the latter assumes that SMEs are the result of the utility maximising behaviour of independent entrepreneurs. It might be argued that the behavioural economists' approach bridges this divide with its argument that individuals do not always act in their own best interests, so external agents have to be brought back into the mix in order to induce rational choice. The net effect though is merely to reinstate the core logic of the rational choice model. Difficulties with this approach are betrayed, however, by Kahneman's painting of entrepreneurs as foolish gamblers who just got lucky. Were this to be the case, and everyone followed the invocation to act rationally, then by deduction there would be no entrepreneurs in the first place. There would also presumably be no SMEs, no employment opportunities and no economic growth. Following Kahneman's logic leads inevitably to the fatuous conclusion that the SME sector in Rwanda has not developed either because the nation's foolish gamblers have not yet become lucky, or that the population is dominated by expert System 2 thinkers who would not consider anything so irrational as trying to start an enterprise in the first place.

The theoretical review conducted in this chapter revealed that entrepreneurship theory is fragmented and characterised by inconsistencies and contradictions.

Various factors that might have a bearing on entrepreneurship and enterprise creation were identified, but none were able to provide an explanation for Rwanda's missing middle. The next chapter will seek to find a way through these contradictions and shortcomings and define a methodology that can yield insights that should help explain the observed lack of SMEs in Rwanda. This will be undertaken within the definitions framework established in the Preface and the introduction to this chapter[50].

[50] See pages 19 and 69.

Chapter 3 Research Objective and Methodology

This chapter explains the rationale for the research design that was selected, how the data was collected and analysed and how the findings will subsequently be presented.

3.1 The Rwandan Enterprise Paradox

Macroeconomic stability and the institutional settlement that has emerged since the genocide would appear to be consistent with what most economists claim should be conducive to entrepreneurship and the formation of the vibrant SME sector that is envisaged by the government's economic plan, *Vision 2020*. Similarly, investments made in general human capital development and enhanced access to credit should be supportive according to the arguments advanced by the allocationists, as should government instigated measures, such as *Hanga Umurimo* and the SME Cluster Strategy, which were geared towards promoting and nurturing the SME sector specifically. Yet the data from the Rwandan enterprise survey, examined in detail at section 1.6, indicate a large skew towards single-worker micro-enterprises, which make up 94 percent of total enterprises, and a dearth of SMEs, which at best make up only 6 percent of the total[51]. There is, therefore, something fundamentally paradoxical about the enterprise distribution that is observed in Rwanda. Despite everything that has been done to stimulate and support them, entrepreneurs have failed to emerge and create the SMEs that were anticipated.

The research aims to resolve the contradictions that are apparent in the Rwandan enterprise paradox and thereby answer the specific research question: why it should be that the new class of entrepreneurs and the vibrant SME sector, which were envisaged in *Vision 2020*, are still struggling to emerge in post-genocide Rwanda despite the concerted effort that has gone into building a context that should encourage and support their formation.

[51] And may be as low as 2.5 percent - see Footnote page 62.

3.2 Research Permission

Undertaking academic research in Rwanda is subject to fulfilling certain strict requirements. Obtaining the necessary clearances for the research proved to be a highly bureaucratic and time-consuming process, that in the interests of brevity is summarised as follows.

The first requirement is that the research must be endorsed by a Rwandan university or government ministry, who must confirm their support in writing and under the institution's official seal. Once this has been obtained a formal application to conduct the research has to be submitted to the Rwandan Ministry of Education. The written application, addressed to the minister in person, has to be accompanied by the endorsing institutions's letter of recommendation, a letter of recommendation from the researcher's university, a proof of good standing certificate issued by the police in the researcher's main country of residence[52], and a copy of the formal research proposal. Once the application has been vetted and approved, the Ministry of Education issues a certificate confirming that it has sanctioned the research. This certificate then has to be presented to the Ministry of Immigration, who issue a two-year research visa allowing the researcher to undertake the specific research[53].

This particular research was endorsed by two Kigali based institutions: the Ministry of Trade and Industry (Minicom) and the School of Finance and Banking (SFB), which at the time was one of Rwanda's six public universities. In 2014 the government's restructuring of tertiary education created a single national body, the University of Rwanda. SFB was subsequently renamed the College of Business and Economics (CBE), a self-governing college under the newly created national institution.

3.3 Research Design

The literature review undertaken in the second chapter concluded that entrepreneurship theory is fragmented and characterised by inconsistencies

[52] If the original is not in English, then a verified English translation of the certificate must also be supplied.

[53] While this proved to be a lengthy and often frustrating process, one must recognise that in the aftermath of the genocide there are considerable sensitivities around the purpose and methodology of any research undertaken in Rwanda.

and contradictions. A number of factors were identified that could bear on entrepreneurship and enterprise development, such as psychological traits, use of effectuation and access to finance, but it was not possible to know in advance which factors identified from the literature might contribute to explaining the SME sector's failure to materialise, or whether the Rwandan enterprise paradox might be explained by other elements that were absent from the literature.

An additional difficulty that had to be addressed was how to overcome the problem of merely observing static variables. Much of the existing entrepreneurship research has a tendency to atomise the entrepreneur and analyse individual factors within a narrow specialist field, rather than attempting a cross-discipline integration of knowledge[54]. Such atomisation is fraught with difficulty as it can only ever yield isolated and disjointed snapshots that record a given situation in a single context and at a single moment in time, and tends to ignore the scope for any subtle interaction between individual factors. Yet any attempt to integrate individual static variables is also problematic as it can lead to a hugely diverse set of outcomes. The problem is easily illustrated by considering a palette of just ten variables[55]. If the presence of each of these factors was assessed on a simple decile scale, the ten variables taken together would yield 10 billion possible combinations - more than the entire global population. Each additional variable that is subsequently admitted to the mix consequently moves the total number of possible permutations in the direction of infinity. Any attempt to integrate a diverse set of individual and static factors is therefore likely to yield the unsurprising conclusion that entrepreneurs are a heterogenous group, where each entrepreneur is unique. As a result, the finer the analysis one attempts the more understanding seems to recede, much as staring at individual pixels hinders the perception of a coherent picture. Commenting on this very problem, Knight (2006: 8) observed that when the factors that need to be considered become too numerous, interpretation

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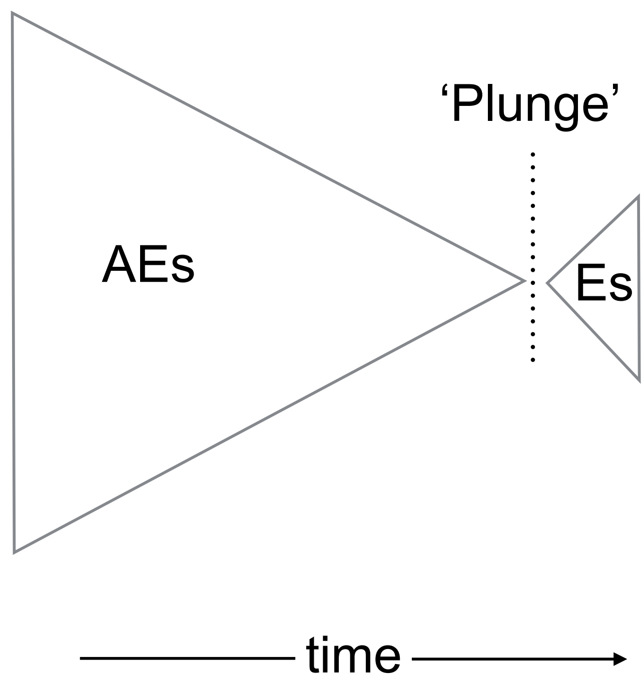
[54] Whilst it could be argued that the behavioural economists have at least attempted to integrate psychology and economic decision making, it has largely tended to become sidetracked into a debate about economic actors' lack of rationality and how this can be corrected (see section 2.4.3).

[55] For example, Costa and McCrea's (1992) 'Big Five' model of personality, three variables covering access to capital (financial, human and social) and two for Baumol's (2010) distinction between replication and innovation.

becomes unmanageable and leads to errors to such an extent that results lose more significance than they gain.

Thus, although the research had to be capable of engaging with multiple and diverse factors that might have influenced the phenomenon under investigation, it was clear that it would be necessary to move beyond simply cataloguing the presence or absence of certain variables. It was concluded that obtaining the level of insight required to address the research question would mean focussing instead on the process that derives from the complex interaction of such variables. This would require achieving an understanding of how aspiring entrepreneurs (AEs) went about creating enterprises and transitioned to becoming successful entrepreneurs (Es), as stylised in Figure 3.1

Figure 3.1 Aspiring Entrepreneurs and Entrepreneurs



As this would require entering into a dialogue with individuals about their attributes and behaviour it was deduced that it would be appropriate to adopt a qualitative approach to the research, which would facilitate probing for individual attitudes and experiences of the process of enterprise formation. This would be consistent with Gartner and Birley, who concluded “that many of the important questions in entrepreneurship can only be asked through qualitative methods" (2002: 387), and Smith et al.'s (2013: 364) argument that qualitative research into entrepreneurship is fundamentally more enriching than quantitative research.

It was also clear that exploring the processes employed in enterprise formation meant that the factor of time had to be admitted to the analysis in some way, as such actions would be dynamic rather than static. This need to include time is also implicit in Sarasvathy's observation that enterprise formation is largely an iterative process (2008: 370). The importance of addressing the dynamic processes that are at work is also indicated by Chell's (2008) repeated observation that there is a need to enhance understanding by extending research beyond expert entrepreneurs, to include aspiring entrepreneurs who are engaged in enterprise creation. McMullen and Dimov (2013) have gone even further and argued explicitly that enterprise formation should be seen as an "entrepreneurial journey", because "entrepreneurship is a process that transpires over time" (ibid: 44). Despite the apparent logic of looking at entrepreneurship as a longitudinal process McMullen and Dimov also observed, however, that the most significant aspect of such calls for the use of longitudinal methods is the fact that they have largely gone unheeded (ibid: 2). By failing to address this call, entrepreneurship theory has tended as a result to become locked into focussing exclusively on the attributes of expert entrepreneurs, after enterprise formation, and then to infer rather than establish that those same attributes existed prior to enterprise formation and were causal in nature.

Shifting the focus to the entrepreneurial journey also avoids the trap of treating entrepreneurs as if they were homogenous. It allows that a heterogeneous group of individuals could converge on a shared objective, that of creating a viable enterprise, and allows commonalities between them to emerge rather than testing for evidence of any preconceived homogeneity.

It must be acknowledged, though, that undertaking the kind of longitudinal study that could facilitate insight into the process of enterprise formation in Rwanda is highly problematic. If only 8 percent of a population are likely to be engaged in setting up an enterprise, as suggested by Dichter (2008: 181) and the OECD (2013), and only 20 percent of them are ultimately expected to succeed, then using a randomly generated sample from the general population of Rwanda would have implied tracking a relatively large initial sample, in order to identify the resulting 1.6 percent of the population that could be expected to succeed in their efforts to establish a viable enterprise. In the absence of any prior knowledge about which individuals from a random sample would be likely to embark on the entrepreneurial journey and be successful in their endeavour it would have been necessary to recruit, interview and track a sample that would include a very high degree of wastage - the 92 percent of individuals in the sample that would not actually attempt to set up an enterprise[56]. It would also have meant tracking the full set of individuals over a relatively long period (probably several years) in order to identify both the 8 percent that would attempt enterprise creation and the 1.6 percent who would subsequently be likely to succeed. The scale and length of time this would have implied was beyond the scope of an individual thesis.

Any attempt to narrow down the universe for the research in order to draw a more manageable sample would have also been problematic, as it would have meant making assumptions in advance about attributes that might affect the phenomenon that the research was attempting to explore. It was therefore concluded that it would be appropriate to use a purposive sampling method, even if this meant accepting that there would be a necessary trade-off between the external validity of a random sample and the need to obtain participation by interviewees who could provide insights into the phenomenon under investigation. Whilst it must be admitted that purposive sampling risks incorporating bias into the research, it does have the advantage that research samples can be built that provide an opportunity to explore complex phenomena and thereby yield meaningful insights.

The research had to find a way around these problems if it was to throw light on the reasons for the missing middle, which led to the following considerations. If the term entrepreneur is reserved for one who has established a viable enterprise (ex-post), then it is feasible that prior to taking the entrepreneurial plunge there was a corresponding ex-ante proto-entrepreneur (PE) who

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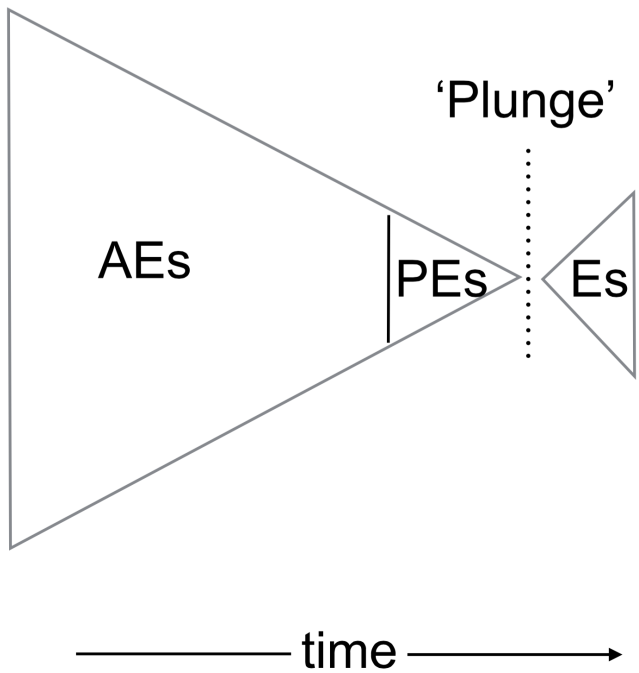
[56] For example, to produce a sample of just ten individuals who had embarked on the entrepreneurial journey and were successful in their endeavour would mean having to recruit, interview and track circa 625 subjects (10 ÷ 1.6%), of which it would be expected that about 575 would make no attempt to form an enterprise (625 x (100% - 8%)).

mirrored the ex-post entrepreneur's makeup apart from having taken the enterprise plunge, as stylised in Figure 3.2. Even if some aspects of the entrepreneur's character are shaped by the entrepreneurial journey itself, it was concluded that it should be possible to identify commonalities between entrepreneur and proto-entrepreneur, such as psychological traits, use of credit or attitude towards risks. The research therefore aimed to compare successful entrepreneurs with those individuals who aspired to set up enterprises and to assess the degree to which proto-entrepreneurs appeared to be present amongst the set of aspiring entrepreneurs.

Figure 3.2 Proto-entrepreneurs



In essence this meant that the methodology had to be retrospective in approach. It had to begin by looking for characteristics that appeared to be shared by a sample of entrepreneurs in Rwanda and then it had to attempt to identify the extent to which these characteristics appeared also to be present amongst a sample of aspiring entrepreneurs. The degree of commonality between the two samples would then facilitate a determination of the degree to which proto-entrepreneurs are present. This in turn could then provide insights into why a dynamic SME sector is still struggling to emerge in post-genocide Rwanda.

It was concluded that the most appropriate qualitative method would be the use of semi-structured face-to-face interviews in order to uncover, retrospectively, the narrative underpinning the entrepreneurial journeys that had been undertaken by successful entrepreneurs and the forward journeys that aspiring entrepreneurs were intending to embark upon. It was anticipated that this approach would provide optimum flexibility for exploring themes that were suggested by the literature review, while simultaneously providing scope for uncovering factors that were not suggested by the existing literature. It must be acknowledged that this approach implies that the resulting analysis incorporates two levels of interpretation, as the accounts given by the interviewees are influenced by their own subjective interpretations of their experiences, which are then in turn subject to the researcher's interpretation of their meaning. However, this type of approach is supported by Desai and Porter's observation that it can yield an "understanding of complex realities and processes" (2012: 117) and also conforms with the aim of "understanding lives in context" (Cole and Knowles, 2001: 23). Furthermore, the technique of analysing the narratives of a purposive sample closely matches that used by Tuckett (2011) in his investigation of hedge fund managers. The fact that Tuckett was able to use this methodology to generate insights into the attitudes and processes employed by these investors provided a degree of reassurance about the validity of the chosen approach.

As already noted, the research was of necessity exploratory and had to proceed from a pragmatic worldview. The pragmatic orientation holds to the view that there is an objective real world that exists independent of our knowledge of it, but that our understanding is mediated by subjective perceptions of that world, thus implying an integration of realist ontology with constructivist epistemology (Creswell and Clark, 2011: 45). This had the benefit of emphasising the research question over any particular method and obviated the need to engage with metaphysical debates about the nature of truth or reality. It also had the additional advantage of facilitating both inductive and deductive analysis, which allows emerging insights to be contrasted with existing theoretical approaches and thereby to shed light on a phenomenon that appears to contradict existing theory.

3.4 Interviewees

Generating the successful and aspiring entrepreneurs' samples for the interviews was not an easy task. Formal records, from which contact lists could be produced, are rarely compiled, even for the government's SME support programmes. A meeting with the Head of Trade and Manufacturing Department at the Rwanda Development Board (RDB), for instance, confirmed that the RDB did not have any records of individuals who had participated in the SME Cluster Strategy. The two purposive samples therefore had to be drawn from a number of different sources. This included the Rwandan Private Sector Federation (PSF), a body that is broadly equivalent to a chamber of commerce, who were able to provide a telephone contact list of 40 members who were thought to be owners of SMEs. Attempts were made to contact all 40 members, however the list was found to be of generally poor quality, with telephone numbers that were often out of date. It was actually only possible to contact and obtain agreement to participate in the research from seven individuals on the original PSF list. This was supplemented by referrals from the Grow Movement, direct approaches made by the author to enterprise owners and snowballing, whereby additional referrals were obtained from interviewees. Notices were displayed in two Rwandan Universities - the School of Finance and Banking and the Kigali Independent University - inviting direct telephone contact from individuals who intended to create or were in the process of creating an enterprise. In addition to aspiring entrepreneurs, these notices also produced responses from two entrepreneurs. The combined approach yielded a total of 33 interviewees. With internet penetration in Rwanda low, at 8.7 percent (World Bank, 2015a), making and maintaining contact with interviewees had to be undertaken predominantly via telephone. This was handicapped by a government anti-terrorism measure that was undertaken during the period of the research, which involved switching off all the country's mobile phone accounts where the owner's personal details had not been formally registered with their airtime provider.

It was crucial ahead of the fieldwork to establish a way of distinguishing clearly between entrepreneurs and aspiring entrepreneurs. This was achieved by setting two criteria that had to be met before an individual could be classified as an entrepreneur. As was seen at section 2.2.5, the Global Entrepreneurship Monitor (GEM) uses a weak classification that includes individuals who have merely expressed an intention to set up a business as early stage entrepreneurs, even though no action has been taken. While it does use a three-month threshold to differentiate nascent entrepreneurs from new businesses owners, this was felt to be insufficiently robust as an indicator of long-term viability. While there is no particular timescale that could be reliably used to imply viability it was felt that there should be evidence that an enterprise was a going concern, other than the fact that it had been created, before an individual should be classified as an entrepreneur. A threshold of twelve months was therefore set, such that a business founder would only be classified as an entrepreneur if they had established an enterprise that had survived market entry for a minimum of twelve months. Whilst this cutoff is still somewhat arbitrary, it corresponds with the standard accounting definition of a going concern[57], and so has the advantage of providing a greater degree of robustness than the lower GEM threshold. The second requirement was that the enterprise had to have yielded incremental employment, beyond an individual business founder, in order to filter out the self-employed. Thus in summary, enterprise creators were only classified as entrepreneurs if they had formed an enterprise that had been trading for a minimum of twelve months and had produced incremental employment, as evidenced by employment numbers at the time of the interview. Individuals who were only at the planning stage or had an enterprise that had been in existence for less than twelve months and/or had not produced incremental employment were categorised as aspiring entrepreneurs. The resulting segregation between entrepreneurs and aspiring entrepreneurs and their source is indicated in Table 3.1.

[57] Accountants define a going concern as one that is able to meet its liabilities for twelve months. Although this is a forward rather than retrospective assessment, it does give validity to selecting the minimum twelve months trading cutoff.

Table 3.1 Source of Interviewees

Source of Interviewees	Entrepreneurs	Aspiring Entrepreneurs	Total
Private Sector Federation	4	3	7
Referrals	4	3	7
School of Finance and Banking	1	5	6
Kigali Independent University	1	7	8
Grow Movement	1	1	2
Direct Approach	1	2	3
Total	12	21	33

As shown, this classification generated a sample of twelve successful entrepreneurs and twenty-one aspiring entrepreneurs.

3.5 Research Instrument

The research instrument comprised semi-structured interviews with two groups of individuals: entrepreneurs and aspiring entrepreneurs. For the entrepreneurs' group the interviews were designed to explore their commercial life histories and to probe for insights into their personal characteristics, attitudes and the processes involved when their companies had been brought into existence. A guide sheet, which is included in Appendix C, was prepared for the interviews. It covered the main themes that had been identified from the review of the theoretical literature, such as sources of finance that were used to get the business off the ground, evidence for the presence of psychological traits, especially the 'Big 3' of need for achievement, locus of control and risk propensity, and use of effectuation. The guide sheet also included items such as the importance of role models and the interviewees' attitude towards trust. It included sample questions that could be used to explore a particular theme, but as the research was exploratory in nature, specific questions were kept to a minimum in order to allow scope for the interviewees' individual narratives to emerge.

A slightly modified version of the interview guide sheet was prepared for interviews with aspiring entrepreneurs and is also included in Appendix C. Whilst this took a similar form to that used for the entrepreneurs, it recognised that those planning or attempting to set up a venture were only just starting out on their entrepreneurial journey. These interviews would therefore be capturing information relating to the processes they planned to use, rather than the fuller narratives that could be provided by the successful entrepreneurs.

Basic demographic data was also obtained, such as interviewee age, education, marital status and family background. Supplementary information on government programmes was obtained from meetings with the Director General of Minicom, the Professional in charge of Innovation and Business Development at Minicom and the RDB's Head of Trade and Manufacturing Department, who were all extremely helpful and supportive.

3.6 Data Collection

Interviews were conducted prior to April 2014 so that they could be completed ahead of the twentieth anniversary of the 1994 genocide, which was expected to include 100 days of official mourning and a heightened security level that might have adversely affected participants' preparedness to take part in the research. All interviews were conducted in English, which was adopted as the country's official language following Rwanda's accession to the Commonwealth of Nations, and were recorded. At the beginning of each interview the purpose of the research and how it would be conducted was explained fully to the interviewee. It was also explained that the material provided during the course of the interview would be for the sole purpose of the author's research and that all recordings, transcripts and field notes would be kept securely. All interviewees were given the opportunity to use pseudonyms, but only one person actually took up this offer. Interviews typically lasted between sixty and ninety minutes and were transcribed verbatim. In total they amounted to just under a quarter of a million words. Transcriptions were provided to interviewees for checking strictly on the proviso that only factual corrections could be made, rather than allowing embellishments to the information obtained during the interviews, and follow-up contact was made where the transcriptions required clarification. With the obvious exception of the one pseudonym the thesis uses the interviewees' real first names. Where there is more than one individual with the same first name an extra suffix, A or B, has been added to differentiate between them.

Deliberate obfuscation, which can be encountered when conducting qualitative interviews, did not appear to be an issue with the research participants. All were open about their experiences and expectations and although there was clearly a risk that some of the narratives might have been coloured by the respondents' wish to be perceived in a positive light, this did not appear to be the case. Rather they tended in the main to be acutely aware of their own failings and limitations and genuinely modest about their achievements. Similarly, while some interviewees were reasonably ambitious, this did not appear to be overstated.

It should also be noted that interviews invariably had to be conducted in situations that were less than ideal. Locations were varied and included guesthouse common areas, communal meeting and working spaces, and shared offices. They also frequently had to cope with considerable background interference in the shape of the ubiquitous Rwandan cockerel, chainsaws, and drumming troupe practices. On one notable occasion an interview had to be interrupted when an overhead storm blew in the windows of the room where the interview was being conducted.

3.7 Data Analysis

Individual hand-drawn mind maps were first used to identify the main themes that were present in each successful entrepreneur's interview transcript. This initial long list of themes was seen to contain several items that were related, so the initial long list was aggregated to produce eight categories for analysis: the motives for starting the business, source of funds used to launch the enterprise, business planning, attitude to risk and corresponding behaviour, use of networking, trust, role models and a general category for additional attributes that were not captured by the other seven categories. These were used to produce eight initial 'parent nodes' for Nvivo qualitative analysis software, which was used to manage interpretation of the entrepreneurs' accounts. Subdividing these into 'child nodes', yielded a total of 35 nodes that were used to manage the data. Once the analysis of the entrepreneurs' sample had been completed, the same broad approach was then used to record and manage interpretation of the aspiring entrepreneurs' interviews. This used the same eight parent nodes, which when subdivided generated a total of 37 nodes for managing the information gleaned from the aspiring entrepreneurs' accounts.

Although Nvivo proved to be a high-quality tool for organising and managing the interview data, it cannot replace careful deliberation and interpretation of the information that was obtained or the representation of its meaning. It also does not provide any particular formula for presentation of the insights, which must simultaneously allow the "participants' voices [to be] heard" (Cole and Knowles, 2001: 114) and facilitate the type of expository writing that builds an understanding of the key themes that emerged from the data.

Insights gained through analysing the interviews with successful Rwandan entrepreneurs will be dealt with first, in Chapter 4. Each key topic that emerged from the analysis will be supported by comments taken directly from the interviews. The entrepreneurs' narratives will thus be gradually built through exploration of the themes that were revealed when analysing the interviews, thereby ensuring that their voices will be heard in context. Chapter 4 will conclude by assessing the characteristics and processes that Rwandan entrepreneurs appeared to have in common. Chapter 5 will then analyse the narratives provided by the aspiring entrepreneurs in Rwanda and contrast these with the key findings derived from the analysis conducted in Chapter 4. It is anticipated that this comparison of aspiring entrepreneurs with successful entrepreneurs will reveal the extent to which proto-entrepreneurs appear to be present among the set of aspiring entrepreneurs. If present, this could then shed light on the reasons underlying the Rwandan enterprise paradox. Chapter 6 will subsequently attempt to draw together the meaning of the insights gained and to answer the specific research question: why it should be that the new class of entrepreneurs and the vibrant SME sector, which were envisaged in *Vision 2020*, are still struggling to emerge in post-genocide Rwanda despite the concerted effort that has gone into building a context that should encourage and support their formation.

Chapter 4 The Interviews with Rwandan Entrepreneurs

This chapter will begin with a brief introduction to the entrepreneurs that participated in the research. It will then present the main findings that emerged from analysing the interviews that were conducted with them. Throughout the chapter, the findings will be illustrated with verbatim quotes from the transcriptions, thereby ensuring that the interviewees' voices are heard in context[58].

The accounts given were dominated by six key themes that described how the entrepreneurs went about setting up their enterprises. These appeared to be underpinned by a common motive that shaped the decision to embark upon a future that most would regard as too risky to undertake. Each of these factors will be dealt with individually in order to aid presentation of the findings.

4.1 Introducing the Entrepreneurs

The twelve Rwandan entrepreneurs that participated in the interviews are listed in Table 4.1. They had all built an enterprise that had been trading for a minimum of twelve months and all had created incremental employment via their businesses. At the time of the interviews their enterprises were employing a total of 224 people. The businesses were predominantly orientated towards the economy's services sector, but also included food processing and quarrying.

[58] Wherever possible the quotes have been given in their original form. Editing has been kept to a minimum in order to be true to the objective of letting the respondents' voices be heard. This occasionally means that the language used is imperfect, but it was felt preferable to over-editing. Square brackets have been used to indicate clearly where it was necessary to clarify a comment.

Table 4.1 The Entrepreneurs and their Businesses

Name	Age	Gender	Enterprise	Year Started	Employees
Akaliza	27	Female	Multi-media design agency	2011	3
Annette	33	Female	TV and film production	2012	7
Bosco	36	Male	Building materials supply	2010	11
			Retail pharmacy	2012	5
Christian	37	Male	Business consultancy	2007	7
Damien	45	Male	Food processing	2008	103
Eric A	33	Male	Business consultancy	2008	4
Gilbert A	27	Male	Business stationery supplier	2011	4
Jacques	38	Male	Football academy	2010	5
Jean	27	Male	Business software development	2012	5
Jimmy	30	Male	Music studio	2008	14
Sharon	27	Male	Quarry	2012	15
			Waste management	2013	30
Willy	28	Male	Translation and business services	2012	12
				total	224
				mean	16
				median	7

Thirteen of the fourteen enterprises operated by these entrepreneurs had reached SME scale according to the Rwandan size classification[59]. One, Damien's food processing business, had actually passed through this level and achieved LSE scale. Akaliza's multi-media design business had achieved SME scale in 2011, but at the time of the interview it was employing only three people[60] as the headcount had to be reduced from four following a cash flow glitch that resulted when her accountant miscalculated taxes that were due to the Rwandan Revenue Authority.

While the majority had started only one business, three were clearly on their way to being portfolio entrepreneurs, having already started or planned a further

[59] Defined as providing employment for 4 to 100 people.

[60] In the interview Akaliza suggests that the enterprise employed two, though this was later corrected to three.

enterprise at the time that the interviews were conducted. In addition to the quarry business that he had started in 2012, Sharon had established a waste management business in June 2013. Although at the time of the interview this second business had only been trading for seven months, it was already employing 30 people. Bosco too, at the time of the interview, already owned two businesses and although Gilbert A had only set up a stationery business, the interview with him revealed that he had identified two further opportunities: a microcredit lender and an enterprise that was so secret that he was reluctant to provide the author with any information about it.

The first topic that will be addressed is how the entrepreneurs went about funding the creation of their enterprises. Although the interviews revealed a wide range of views and experiences there was a common thread running through them. In particular it shed light on their attitudes towards credit.

4.2 Financing the Startup

Section 2.3.1 explored the argument that potential entrepreneurs in developing economies struggle to obtain credit (IFC, 2010: 23) and that as a consequence this limits the development of SMEs in low-income countries (ibid: 6). It was seen that considerable effort has gone into policies designed to facilitate access to credit in low-income countries in the expectation that it will be taken up by entrepreneurs who will subsequently have a disproportionately positive impact on economic development (Beck, 2013: 25). A belief in the transformational impact of credit was also seen in Yunus' hypothesis that access to small amounts of unsecured credit can enable anyone to become an entrepreneur (Yunus and Jolis, 2003; Yunus and Weber, 2007; 2010) and was additionally reflected in de Soto's (2001) belief that establishing poor people's property rights would also bring about the realisation of collateralised debt which could similarly be used for investment.

Facilitating access to credit for individuals who want to create businesses is also seen in the strategies that have been deployed in Rwanda, which were reviewed in the first chapter. Raising access to credit was seen to be an explicit component of the SME Cluster Strategy and the *Hanga Umurimo* programme included measures that sought to predispose financial institutions' executives towards advancing credit to aspiring entrepreneurs. It was also apparent in the Business Development Fund's 75 percent loan guarantee scheme and the huge expansion of Saccos, the savings and credit cooperatives. The method of funding used to start a business was therefore probed for specifically in the interviews with entrepreneurs.

4.2.1 Use of Personal Savings

Contrary to the proposed theoretical importance of access to credit, the narratives revealed that four of the entrepreneurs had used their own personal savings to fund the enterprises that they started.

Akaliza, having completed her bachelor's degree in multimedia technology and design at the University of Kent, had been deliberately building up her personal savings in order to further her education via a Master's degree. This was in order to achieve her initial career goal of finding employment with a large film animation company, such as Pixel, and thereby open up the possibility that at a later date she could move into producing animated cartoons for the African market. While studying for her first degree Akaliza had gained initial experience of digital consultancy by designing and implementing a website for a local antique shop. In Rwanda she subsequently bid for and won a tender for the design and build of a government website. On being awarded the project Akaliza abandoned her plans for returning to university and decided instead "to use this money I've saved up to start a business". The enterprise she founded was Shaking Sun, her digital media agency.

Funding the enterprise out of personal savings was also the method employed by Christian when he set up his business consultancy company Outreach Development Services. Previously business development director of the Rwandan arm of Tanzanian-owned consultancy Kilimanjaro International, he had been responsible for securing consultancy contracts for the Rwandan office. After winning a major DfID contract worth $400,000 for Kilimanjaro, he became so disillusioned with the way the project was managed by his employers that he decided to leave to form his own enterprise. Probed about the use of credit to fund the business, Christian's response was an emphatic "no, no, no it was just our savings".

When Sharon and seven of his colleagues started their waste processing business they also avoided borrowing any money. Asked about how they had raised the money to start the enterprise, he explained that they too “didn’t borrow money from the bank”. Instead they used their combined savings to subscribe for shares in the business, thereby generating the initial risk capital of circa Rwf 5 million that was needed to get it started. This was supplemented by a windfall cash prize when Sharon entered and won a business plan competition. Jean too had built up his personal savings through working as a freelance IT contractor while he was studying for his bachelor’s degree, so that he “had some money on the side”. When he graduated that money was used to start his own software development company Torque.

4.2.2 Consumption Sacrifice

The narratives also revealed that another three of the entrepreneurs had used an alternative source of personal funds. Instead of taking on credit or using their personal savings, they consciously reduced their outgoings and engaged in what could be termed ‘consumption sacrifice’ in order to free up money that could be invested in their businesses.

Jimmy and his two partners, King Victor and Singeras, are the owners of music recording studio True Friends Records. Jimmy had originally studied Applied Chemistry at the Kigali Institute of Science and Technology (KIST) and was subsequently employed by the NGO One Laptop per Child. While at university he and a number of friends, including King Victor, began exploring ideas for starting their own businesses. With a shared interest in music they decided to experiment with creating a home studio, which Jimmy and King Victor ultimately turned into True Friends Records. Asked where they had got the money to start the business, Jimmy’s answer was that they both used part of their salaries:

> By our self sponsoring. He [referring to King Vincent] and I have jobs, so that sustains our family and the remainder is the one that we use.

Unlike Jimmy and King Victor, the third partner in the business, Singeras, does not have a parallel job. He is employed full time as the studio’s producer.

Damien too started his food processing company, Shekina Enterprises, by foregoing an element of income. Asked about whether he had borrowed money to start the business, he revealed that he had used the rental income that he made from letting his deceased father's house to fund the business startup:

> No I was just using the small money that I had. The money that I started with, it was just a heritage my father left me: I was renting the house to get money to use in my business.

Jacques, an ex-footballer who was also employed in a senior position at a government agency, was frequently approached for financial help by former team mates who were short of money. Allied to his desire to see Rwandan football improve its international ranking, he decided to start the Dream Team football academy that could train young players but would also provide employment for some of his former team mates. He got the enterprise off the ground initially by diverting some of his salary into it, but with 400 trainees it became clear that the enterprise was beyond his means. He discussed the problem with his former football coach, who advised him to "stop spending your own money". The coach then also informed the trainees' parents that he "had a meeting with Jacques and we found he spent a lot of money from his pocket" and that going forward "the only way to survive is to introduce fees". This had the benefit of reducing the number of trainees to a more manageable level of circa 100. It also secured jobs for five of his former team mates who are employed as the academy's football trainers and removed the necessity for Jacque's ongoing consumption sacrifice.

4.2.3 Positive Cash Flow

Three of the interviewees were able to use positive cash flow to fund their businesses, rather than taking credit or using their own money.

Eric A's enterprise, Indigo, is a business consultancy which undertakes market research, business planning, product testing and auditing. Prior to starting the business he was employed as a trainer at the Private Sector Federation (PSF). When aid donations to the PSF began to decline, he and his future partner Norman recognised that there was a risk that the PSF might have to downscale. They decided to pre-empt the risk of redundancy and form their own business consultancy, which could bid for projects that would be subcontracted by the PSF. Although they would have to resign from their jobs at the PSF ahead of bidding for any such contracts, they calculated that they would be highly likely to succeed in the tendering process and expected to obtain a project that would be of considerably greater value to them than any money that they might receive if the PSF did indeed downsize and they were included in the redundancies that might follow. Their confidence was well placed. They were awarded the contract for a PSF-outsourced project that was worth $70,000, with 40 percent of the project fee paid in advance. Probed about how they had funded the business Eric A explained “you know in consultancy, you got money from the client to use. Because when you won a contract they give you 40 percent”. Thus they were able to use the advanced fee they were paid to establish the business out of the resulting positive cash flow.

Annette was working for Rwandan film producer Eric Kabera’s company, The Kwetu Film Institute, when she was approached by two executives from an advertising agency in Kigali, who suggested that she should set up her own film production company to undertake the production of a new TV commercial for one of the advertising agency’s major clients. Although initially uncertain, she was eventually persuaded and started the business with a guaranteed contract for production of the commercial. Asked whether she had to borrow any money to get the business started she responded with an emphatic “no” and explained that “when a client comes in they put in a deposit”, which meant she too could establish her business out of the positive cash flow that the first contract yielded.

Willy owns a translation and business services company, which was also funded out of positive cash flow. When starting the venture he had no savings or income to invest, having been made redundant, so when discussing whether he had put any of his own money into the startup his reply was a straightforward “no because, as I said, at the time I was no longer employed. I spent all the money I had”. When probed further about the use of credit he insisted “no, I did not” and explained that it was possible to use “the first client or the first money you get” to start the business.

4.2.4 Finding a Strategic Partner

By finding and bringing in a strategic partner another entrepreneur, Gilbert A, also challenges the mainstream notions about the importance of access to credit.

Gilbert A is the co-owner of a stationery business which he set up in 2011 and which sells to local businesses. He identified the stationery market as an area to invest in after having worked part time in another stationery business, where he had the opportunity to learn about suppliers and the tendering process and saw the kind of profit margins that were available. He calculated that he could operate a viable stationery business himself, but had neither savings that he could call on nor a regular income and so had to employ an alternative strategy to get the money that he would need to get the venture started. His chosen route to realise the opportunity that he had identified was to seek a partner who would be able to provide the risk money that would be required. Gilbert A produced a brief outline showing that “we can sell and make a profit” and talked it through with a friend he thought might have the funds needed for the start-up capital. The friend that he approached was impressed with the financial potential that appeared to exist and agreed to provide the funding that was required. Both parties took equal shares in the business - Gilbert 50 percent for having the idea and identifying the potential, his partner 50 percent for putting up the risk money required to get the business off the ground.

4.2.5 The Compound Solution

In one particular case a compound solution to the problem of start-up capital was found, which involved using multiple sources of finance.

Bosco’s retail pharmacy business started operating in 2012. He initially calculated that he would need a total of Rwf 20 million to fund it. The initial funding estimate was made up of three elements. He took out a bank loan for Rwf 7 million and put in 3 million of his own savings as well. He also brought in a partner, his cousin, who was a qualified pharmacist. This cousin, Denise, provided the balance of Rwf 10 million that Bosco calculated would be needed to start the enterprise, for which she received 50 percent of the company. He also negotiated extended payment terms with the pharmacy’s suppliers.

Receiving payment from customers at the point of purchase, but paying his suppliers three months after delivery of goods, he was also able to benefit from the positive cash flow that resulted from the float period between when he was paid by customers and when he had to pay suppliers. Having initially underestimated the amount of money that would be required meant, though, that he also had to “tighten [his] belt” and divert some of his regular income into the enterprise. Thus of the twelve entrepreneurs interviewed, Bosco had the most elaborate approach, using five sources of money.

When probed during the interviews about their source of start-up capital, two of the entrepreneurs spontaneously volunteered negative comments about taking on a loan. Akaliza, when asked about how she had funded her business and whether she had considered taking a loan responded that it was “something I’ve really tried to avoid”. She also revealed that her father had offered to provide her with money, but that this too had been rejected. Jean, the owner of business software company Torque, also revealed an underlying aversion to taking on credit to fund the enterprise when he made the interesting point that if he had taken on a bank loan it would have been like working for someone else:

> I never wanted to work for anyone, that was the first thing…and I considered borrowing money…it’s almost in the same context because you have to report to someone again. Like I’m not really formally reporting to someone, but someone is monitoring your success. So I really wanted to keep independent.

These comments would seem to match the observation at section 1.5.5 that Rwandans generally have a fundamental aversion to credit, with 68 percent of the adult population preferring to save up to buy something rather than borrowing.

4.2.6 Summary

Table 4.2 summarises how each of the twelve interviewees financed the startup of their enterprises.

Table 4.2 Source of Start-up Funds

Interviewee	Personal Savings	Consumption Sacrifice	Strategic Partner	Positive Cash Flow	Credit	Competition Prize Money
Akaliza	x					
Annette				x		
Bosco	x	x	x	x	x	
Christian	x					
Damien		x				
Eric A				x		
Gilbert A			x			
Jacques		x				
Jean	x					
Jimmy		x				
Sharon	x					x
Willy				x		

In total, eight of the entrepreneurs interviewed used their own money to get started, either in the form of personal savings that had been built up or by sacrificing part of their income, of which four - Bosco, Jacques, Jean and Jimmy - indicated clearly that this had been derived from wage employment[61]. A further three found creative ways to start the business without having to borrow or use their own money. Credit played only a very minor role. It was only used by Bosco who employed it as part of a compound funding strategy, where it represented only 35 percent of what he initially calculated he would need. It is worth noting that at the time he took out the bank loan Bosco was head of retail banking at KCB Rwanda, the Rwandan subsidiary of the Kenyan Commercial Bank, so could have been expected to have a reasonably favourable attitude towards credit. But the fact that he decided that credit should make up only about a third of the start-up capital for his retail pharmacy and that he preferred to put his own money at risk as well as sharing ownership of the business is revealing, given his position at the bank. It suggests that on balance he too had

[61] Off-farm wage employment by farmers was identified by Kitching (1982) as a means of increasing income and facilitating savings. These savings were often invested in acquiring additional land and/or stock but could also be used to establish non-farm commercial enterprises (ibid: 370).

a greater preference for funding sources other than credit. Apart from Bosco's partial use of credit, none of the other entrepreneurs took out loans to get their businesses started.

The implications of the Rwandan entrepreneurs' use of funding mechanisms *other* than credit are considerable. If they tended not to use credit and are as averse to it as the rest of the population appear to be, then a serious question mark is placed against the ongoing drive to increase access to credit on the premise that it automatically translates into higher levels of entrepreneurship and SME sector formation. On the contrary, the evidence from the interviews suggests that the received wisdom that SME formation is constrained by poor access to credit does not apply in the Rwandan context. The finding also provides tangible evidence to support the argument, advanced in section 2.3.2, that microcredit's main role appears to be that of consumption smoothing, not enterprise creation.

If the efforts being placed behind promoting access to credit are therefore misplaced, it raises the obvious question of whether the money earmarked for providing such credit to aspiring entrepreneurs might better be deployed to support alternative strategies. It also raises the additional question of what sort of support, other than credit, Rwandan entrepreneurs might actually benefit from. The implications of this will be addressed further in Chapter 6.

4.3. Effectual versus Causal Reasoning

This section will examine the extent to which the entrepreneurs appeared to use effectual or causal reasoning when they set about creating their enterprises. Section 2.4.2 observed the contrast between Sarasvathy's theory of effectuation and the causal logic that underpins approaches to teaching business management skills based on the traditional segmentation-targeting-positioning (STP) process. Effectuation begins by identifying a set of means that are at the entrepreneur's disposal: who they are, what they know, and whom they know. It then involves an iterative process of creating and choosing between alternative paths as they are encountered (Sarasvathy, 2008: 38). In contrast, the causal approach sets a fixed end goal and then seeks to identify and martial the resources required to achieve it.

As observed in section 2.4.4, Sarasvathy's theory of effectuation was born out of research conducted exclusively with expert entrepreneurs in the USA who had built major corporations with annual sales in excess of $200 million, as well as having had experience of floating an enterprise on a stock market. Consequently the degree to which the predisposition for effectual reasoning might be a learned, as opposed to being an innate, characteristic was not addressed. Similarly, whether it might be a predominantly developed economy phenomenon was also left open.

It was felt, however, that it would be valid to probe for evidence of effectual versus causal reasoning in the Rwandan entrepreneurs' interviews, as this could reveal important information about the process by which they had brought their ventures to market. This was explored by asking the interviewees to talk about the planning process that they had used when developing their businesses. In particular it sought to explore the degree to which they had employed a causally reasoned STP process to produce a business plan, as opposed to the effectuation preference for diving in and developing an enterprise contingently.

4.3.1 Evidence for Effectuation.

Although Sarasvathy's expert entrepreneurs were able to reason both effectually and causally, she discovered that they had a strong preference for the former. This predilection also appeared to be indicated in the interviews with Rwandan entrepreneurs. It was revealed particularly in the comments that were made in relation to business plans, dealing with failure and customer demand.

Rather than writing causally reasoned business plans for their enterprises, nine of the entrepreneurs revealed that they had started their ventures without a formal plan. It appeared that they had dived in and set about developing the enterprise as an iterative journey, exactly as predicted by effectuation theory. The reasons given proved to be sometimes quite straightforward. Jacques, for instance, admitted that he was simply unaware that "people should have a business plan" while Sharon, whose first enterprise was a quarry, pointed out that at the time his "skills in business planning [were] still limited". Christian on the other hand pragmatically maintained that if he had set about writing a business plan ahead of launching his enterprise it would have been a mistake, as he would probably have been too ambitious and as a result might never have actually got the business started. One would have expected though that Eric A, who with his partner Norman had been working as a PSF trainer extolling the virtues of writing a business plan, would have followed his own advice, but he did not. He too took the plunge and set up his business consultancy, Indigo, without any kind of formal plan and recognised the irony that this implied:

> …every training we used to be training as [like] the preachers. We [would] say: if you don't [do] planning guys, you are planning to fail. But we entered in[to] a business without planning.

This apparent contradiction was also exhibited by Annette who did eventually write a business plan for her TV and film production company A Wiz Media, but this was a full year after it had started trading. Similarly, when probed about the importance of planning Sharon claimed that "a business plan is vital for the success of a business" despite having revealed that his first successful enterprise, the quarry, was also started without one.

Three of the interviewees, Akaliza, Jimmy and Willy, did claim to have produced formal plans for their businesses, but it became clear during the interview with Akaliza that she too had actually registered, and therefore committed herself to her enterprise, before writing the business plan. Additionally, when Jimmy was probed about his claim to have produced a business plan for True Friends Records it transpired that it was just one of several plans, for various businesses, that he and his fellow students had experimented with while at university and that it had not been subsequently updated to match the current enterprise. Willy too, when made redundant, formalised activities that he had previously been undertaking on an informal and unplanned basis, in parallel to his main employment. If Akaliza's, Jimmy's and Willy's claims to have produced business plans are consequently discounted, there was little or no evidence that business plans were actually produced ahead of committing to the ventures. Instead the narratives seemed to point strongly to a predisposition for diving in without a plan, and developing contingently, in line with effectuation theory.

In aggregate the narratives seemed to reveal a significant mismatch between the perceived importance of formal business planning and its actual absence, which will be explored more fully at section 4.3.2.

The preparedness to develop the business contingently was also seen when the interviewees were asked about the possibility of enterprise failure. According to effectuation theory, effectuators “do not seek to avoid failure; they seek to make success happen” (Sarasvathy, 2008: 17). As a result “surprises can be positive” for a business rather than terminal (ibid: 255) as they can be leveraged to create new opportunities. This attitude did seem to come to the fore when exploring the prospect of enterprise failure with the interviewees. It was clear that they were quite sanguine about the possibility that their businesses could fail, with eleven of them making comments that suggested they regarded it as an opportunity to learn and change tack, rather than being a reason to give in. Whether it was Akaliza’s “the worst thing that can happen is I lose everything and start again”, Bosco’s “I always look for option A, B, plan A, B, C and D”, or Jimmy’s “you need to learn from that failure and then build something new”, it was evident that confronting and being prepared to deal with failure, should it arise, was part of the iterative journey in which these entrepreneurs were engaged. Annette too indicated that she would “just keep going, just keep trying every avenue”, and echoed Bosco when asserting that “there’s plan A to Z and ZA, ZB” as alternative options. The recognition that he had started off on the wrong track with the Dream Team also meant that Jacques “changed the configuration and we came up with a different approach”.

The entrepreneurs’ reaction to probing about the prospect of failure would seem to confirm, too, the observation made in section 2.4.2 that enterprise failure should not be conflated with failure of the entrepreneur, as learning from venture failure might represent one step on an entrepreneur’s iterative route to eventual success. This was seen explicitly in Jean’s assertion that if a venture is to fail it is better to fail quickly “so that [I can] start something new”.

Sarasvathy’s claim that through effectual thinking markets are more likely to be created than discovered was also borne out by the interviews. It was evident when Damien described how he had gained acceptance for his processed cassava leaves. He took a stall at a trade fair in Kigali and offered the product for sale. Although consumers would have been familiar with other dried produce, they were initially highly sceptical about Damien's new product, having never before seen dried cassava leaf. And rightly so; quite apart from concerns about how it would taste, incorrectly prepared cassava is highly poisonous. Undeterred, he decided to give the product away free for two days to people who visited his stall on the condition that they "look on the packaging [where] there was a telephone number to call me back to give me feedback". On day three trialists started to return to his stall and were prepared to pay him for the product, having been convinced of its quality. By midday on the fourth day he had sold his entire stock.

Armed with the evidence consumers would buy his dried cassava leaf, Damien was then able to approach supermarkets:

> I said: okay, can you please just put your [my] products in your shelf and give me a small space where I can put a small table with two people who can try to explain to the customer how to use the product. And maybe [in] two or three weeks you will see what profit you will make through my product.

From this humble beginning, Damien's business Shekina has developed to the extent that it employs more than a hundred people and, in addition to its home market, now exports to Europe, Canada, the USA and South Africa.

Damien's tactic of distributing his dried cassava leaf free in exchange for feedback on its quality raises an interesting point with regard to supply and demand, namely, whether it could be argued that his action was an example, per Say's law, of supply creating demand. To address the question one must first consider that when he offered the product for sale, no one was willing to pay for it. His supply did not lead to a transaction, thus supply had not created demand. His free samples tactic worked though, suggesting there must have been latent demand for the convenience and long shelf-life that the product provides[62], which was being suppressed by a lack of familiarity with the product. By allowing potential consumers to try it free, he was able to overcome their

[62] Latent demand was also evident when one of the early adopters explained that she wanted to "buy this because I have a relative who stays in Europe and he wants to go back taking together with your product". Being light in weight the dried cassava leaves are ideal for Rwandans living abroad.

initial reluctance and reap the pre-existing latent demand, which had been suppressed by doubts about product quality.

An alternative demand generating tactic was used by Jean when he decided to start his business software company, Torque. He identified a potential first customer for his inventory management system and pre-sold the idea:

> Actually, it's possible to go to someone who you think they have a need and tell them exactly what you want to do for them, and see if you can engage a contract with them. If that works out then there is a potential that you can get money…to build…and that's what I did up to my third client.

Thus Jean was able to get buy-in from a key first customer who had a shared interest in realising the vision that he had:

> …he was also very helpful. He realised it was a good idea, so he kept injecting…more money into the company. He did a really good job… because he knew he needed that such a product.

It is interesting to note that this approach, getting buy-in from a first key customer, is also a tactic that was identified by Sarasvathy as a characteristic of effectuation employed by her expert entrepreneurs. Yet in this case it is being used by an individual who is far removed from the context and profile of Sarasvathy's expert entrepreneurs sample. The fact that an inexperienced entrepreneur, in a low-income context like Rwanda, should be expressing so eloquently a technique that Sarasvathy associates with expert entrepreneurs in the USA was unexpected and points to the possibility that aspects of her theory of effectuation may indeed be generalisable beyond her expert entrepreneurs sample and beyond a developed economy setting.

Jimmy too adopted a creative approach to building his portfolio of recording artists. He approached school headteachers and gained permission to run talent shows for the pupils that attend their schools. The prize for individual winners was the opportunity to have three songs recorded free of charge and for these recordings to be promoted to radio stations by True Friends Records. Thus he has been able to create a continuous stream of new talent rather than competing on the open market for recording artists. As with Damien and Jean, this tactic too is far removed from the classic STP approach that would normally feature in causally driven business planning. Rather, it would appear to sit well with effectuation - the ability to use the means at hand to fashion a market, rather than seeking to discover one.

This recognition of the importance of demand or the need to stimulate it, rather than relying purely on the supply side of the equation, was also apparent when Akaliza, for example, commented that she “saw there was a demand” for websites in Rwanda. Annette similarly said that she “realised there’s such a great need in the market” for film and TV production, while Bosco too affirmed during the interview “I know my demand”. Willy went a stage further and sought to stimulate market demand by using the initial client income that he received to fund promotional activities for his translation and business services. Similarly, Jacques “posted a small announcement on the social media” and also displayed posters in embassies and places frequented by ex-pats in order to recruit children of foreign nationals as well as those of Rwandans for his football academy.

There is no doubt that Jean’s pre-selling to a first potential user and the market fashioning tactics used both by Damien and Jimmy are straight out of Sarasvathy’s (2008) effectuation theory. It would be wrong though to think that all the successful entrepreneurs were fully-formed effectuators that completely mirrored Sarasvathy’s expert sample. No one else replicated the techniques used by Damien, Jimmy or Jean. Additionally, other key aspects of effectuation theory were either only weakly expressed, or absent. For instance, although the author tried to use the discussion of topics such as risk and expectations of success to draw out the affordable loss principle of effectuation (Sarasvathy, 2008: 34), there was no evidence that it formed part of the Rwandan entrepreneurs’ calculations. Similarly, deploying the means at hand was only partially observed inasmuch as there was little evidence, as will be seen at section 4.5, for leveraging a key individual relationship: the ‘whom I know’ in Sarasvathy’s theory.

Consequently, although effectuation was clearly evident in the predilection for diving in and developing a business contingently and the preparedness to embrace unanticipated ends including dealing with failure, the overall evidence from the interviews seemed to suggest that the entrepreneurs in Rwanda were predisposed only towards a dilute form of effectuation. They were all though, quite clearly engaged in the broad effectual process of seeking “to make success happen” (ibid: 17).

4.3.2 Evidence for Causation

Although a majority of the interviewees revealed that they had started their enterprises without a business plan, their apparent preparedness to dive in and instigate an enterprise without a formal plan should not be taken to imply a lack of foresight. Rather than just diving in and acting contingently, it became clear from the narratives that it was common for the entrepreneurs to seek a degree of reassurance that their enterprise ideas were viable before taking the plunge. Even if this did not constitute actually producing a formal business plan, it often involved actions that appeared to indicate the use of the causal reasoning that is found in the STP process. The interviews often revealed that the entrepreneurs had undertaken a considerable amount of research to assess the viability of the intended business. This research proved to be broad in its range and quite time consuming.

When Damien noticed that small-scale farmers selling perishable vegetables at market would throw away any unsold produce at the end of the day, he realised that “these people, they are throwing money [away], but they don’t know [it]”. He decided to build a small oven so that he could undertake his own research to see if it was possible to preserve cassava leaves by drying them. He invested two years in researching whether he could get his dried cassava leaves to the point where he could be sure his production process would yield a non-lethal and consistently high-quality product with a long shelf life. Gilbert A, too, revealed that he spent a whole year investigating the stationery tendering process, sources for materials supplies and profit margins before concluding that he could start a viable stationery business himself.

Other research activities that were volunteered in the course of the interviews included Sharon’s analysing how district level authorities collected and disposed of waste, and the research Bosco undertook to determine the best retail sites for a new pharmacy. In Jimmy’s case a considerable amount of effort also appears to have gone into determining how True Friends Records could carve out a niche in the music recording industry. This involved briefing their recording engineer, Singeras, to visit existing recording studios in order to determine the equipment that was being used and how these studios dealt with their clients. The recording engineer even went as far as working in some of the studios that would become their competitors in order to gain insights that would help True Friends Records to differentiate their particular offering from the rest of the market:

> …we told him to visit all the studios in Kigali and Rwanda if possible. And he's been in all those studios. The aim was to see their equipment, to see the artists - are they happy. To see, like to know what the business is like. How do they approach the artists, how do they approach the presenters…the radio presenters…so we did the market research and he has been in all the studios.

These entrepreneurs all appeared to be seeking rational reassurance that their effectuation instincts were well grounded. Set against the effectuation predilection that appeared to be present, such reassurance seeking looks initially contradictory. It appears to reflect the use of a degree of causal reasoning, which effectuation theory argues is sidelined by the entrepreneur's preference for effectuation. This apparent contradiction was not restricted to research activities either; it also surfaced in other ways. Bosco, for example, explained that even though he did not produce a business plan he had nevertheless spent time checking the underlying financial assumptions for his retail pharmacy:

> I make sure I know the start-up capital - how much it is and…what is the income statement. How does it look like, the projected income statement. So long as I put there some assumptions, I test, I try to change some scenarios then as long as I'm satisfied, I don't need to go into the details of…well I know my supply, I know my demand, and then as long as the figures…I know my costs, everything.

Once he has checked his assumptions, he feels he can "move forward. I don't need to go into a very elaborate business plan".

Similarly, Gilbert A produced a brief outline covering the key assumptions and profit potential when he sought to persuade a friend to invest in the stationery business. Jean too was clear that he could not write a business plan, admitting that on "the business side I'm not that strong". But like Gilbert A he had produced a rough outline, and insisted that it was "not really a formal business plan, it's more like a concept note".

This causally derived reassurance that the business idea is broadly sound falls far short of the STP business planning methodology, but is nonetheless highly rational in its approach. It is perhaps best described as ‘sketching’, whereby the basic assumptions that underpin the commercial opportunity that was being considered are checked for validity. The resulting sketch might be committed to paper, as in Jean’s “concept note”, Gilbert A’s profit outline and Bosco’s scenario planning, or it might merely be a mental process, as appeared to be the case with Christian when he:

> …calculated that the four years I was with [Kilimanjaro International] I had managed to bring in projects worth $2.8 million, and I said if I was lucky to be having the same capacity, where would I be now?”.

In reflecting on what he had contributed in the past to his employer, Christian too seemed to have been seeking to validate his decision to abandon Kilimanjaro and start his own business.

A further contradiction was also observed when the interviewees talked about what their enterprises would look like in the future. Although the Rwandan entrepreneurs did not use business plans with fixed end goals that characterise the STP process, and instead developed contingently, they nevertheless had little difficulty in envisioning what their enterprises might look like in the future. Eleven of them volunteered a very specific longer-range vision for the business that they had created. This was sometimes expressed as a view of the future geographic reach of the enterprise. In Eric A’s case it meant expanding into Burundi and the Democratic Republic of the Congo, while Christian had his sights set on Mozambique and Tanzania. Jean meanwhile saw his business, Torque, ultimately operating across the whole of Africa. For others what was envisioned had more to do with qualitative dimensions such as Jacques’ expectation that in five years his football academy would have its own sports complex, or Jimmy’s belief that True Friends Records would be recording some of Rwanda’s top artists and would develop a future winner of Guma Guma, the nation’s biggest talent contest. Annette too seemed to have a clear view of what the future holds when reflecting on the growing significance of television in the Rwandan media market and the expectation that in the future it would be her main source of revenue rather than film production. Whilst this might all be wishful thinking that might not be actually realised, what was obvious during the interviews was the fluency with which the participants were able to express their expectations for the future of their businesses and that they saw it as thoroughly within their power to bring that vision about.

Despite acknowledging that her expert entrepreneurs were capable of using both causal and effectual reasoning, Sarasvathy argues for treating causal and effectual approaches "*theoretically"* as a strict dichotomy (2008: 16, original italics). The Rwandan interviews, though, seem to call into question the usefulness of such a dichotomy. While on the one hand the entrepreneurs had a predilection for a dilute form of effectuation, they also simultaneously sought reassurance about their effectual instincts by using causally orientated techniques like basic research, demand assessment and scenario testing. Additionally, despite developing their enterprises iteratively they also seemed to have a future vision for their business, which would seem to contradict the non-predictive basis of effectuation (ibid.) and thus also suggests the simultaneous coexistence of elements of causal and effectual reasoning. Furthermore, obvious contradictions were also seen in the entrepreneurs' espousing of the benefits of a business plan, but not actually writing one. While Sarasvathy might have found it useful to treat effectuation and causation as theoretically dichotomous when developing her theory, the extent of the incongruity observed during the interviews questions the usefulness of this in practice. Rather than just treating these contradictions as elements of an unresolved, possibly spurious, dichotomy there is likely to be more value in attempting to resolve the inconsistencies that were observed.

4.3.3 Addressing the False Dichotomy

As was observed at section 4.3.1, nine of the twelve entrepreneurs admitted to diving in without a business plan, two more wrote plans after committing themselves to their enterprise, and the twelfth had been operating informally without a plan before formalising the business. Taken together this would seem to suggest a clear cut preference for effectual over causal reasoning, even if the former only amounts to a dilute form of effectuation. However, it must be acknowledged that the entrepreneurs had a very diverse range of backgrounds. With the obvious exception of Eric A, who had been advocating and teaching business planning, the apparent broad rejection of traditional business planning may have been influenced by a lack of specific knowledge about how to write a business plan, rather than necessarily indicating a clear-cut predilection for effectuation. Indeed it is significant that five of the interviewees felt that their lack of traditional business planning skills represented a gap in their knowledge, which they later endeavoured to address by enrolling on short duration courses[63]. Thus rather than there being a simple binary split between producing a business plan or diving in and developing iteratively, the interviews seemed to suggest that these two conditions actually represent opposite ends of a continuum, between which there seemed to be an intermediate space where the Rwandan entrepreneurs had undertaken some degree of scenario planning or basic research, termed sketching, in order to verify the commercial opportunity that they thought they had seen, and which they then set about developing contingently.

Given this apparent conjunction of sketching and a dilute form of effectuation, one would expect to find that the Rwandan entrepreneurs would be able to move freely between causal and effectual approaches. While restricted to just two examples, this did appear to be suggested by a curious, and contradictory, variant that was observed. Although having eventually produced a plan for her initial enterprise, the web development agency Shaking Sun, at the time of the interview Akaliza was seeking to realise her ambition of producing animated films for the African market but volunteered that this time she was “kind of just diving in - I don’t have a plan”. Whilst at one level this might be taken as support for the idea that effectuation is an acquired skill, it is counterbalanced by Sharon, who did the exact opposite. Having dived in without a plan with his first business, the quarry, he meticulously planned the second one, the waste management enterprise. “When I started the business of waste management, the company it was very well planned and very well organised”, he said .The claim would seem to be justified, as his business plan for the enterprise won first place in a business plan competition that yielded a cash prize that was also put into the business:

[63] Foremost amongst which were the part-time courses offered by the Rwandan Business Development Centre.

> …in June 2013 we participated in a business competition from the National Youth Council. I was in charge of building a business plan. A business plan…the business plan entered through a competition, and the business plan that I made won the first place. And once we won the first place it was guaranteed to receive I think 3 million Rwandan Francs.

These two examples would seem to correspond to Sarasvathy's observation that, although her expert entrepreneurs favoured effectual reasoning, they were also able to use causal reasoning. If their preference for effectuation was an acquired characteristic though, then one might conclude that with growing experience Akaliza and Sharon would both migrate in the direction of the effectuation end of the continuum from the intermediate area of sketching. But in fact they seem to be moving in opposite directions along the continuum. With only two examples it is not appropriate to read too much into this observation, although it could provide a fruitful area for further research.

The existence of an intermediate space where the Rwandan entrepreneurs engaged in sketching, also appeared to be reflected in their capacity for envisioning what their enterprises would look like in the future - a facility that would not be encompassed by Sarasvathy's strict dichotomous spilt between effectuation and causation. The former is expressed as a purely exploratory and non-predictive approach to enterprise formation based on the logic that if an effectuator is able to control the future, there is no need to predict it (Sarasvathy, 2008: 17). In contrast the inverse, causation, is concerned with realising a very specific and clearly articulated future goal. The successful entrepreneur's facility for describing their future expectations for their businesses appeared to fall midway between these two extremes. They were plainly not pursuing the fixed end goals of a casually constructed formal plan, but they were equally clearly able to engage in a degree of prediction that Sarasvathy had excluded when defining effectuation. Again, it would seem that there is more to be gained by conceptualising an intermediate space, where the successful entrepreneurs drew on elements of both effectuation and causation, than in maintaining Sarasvathy's strict theoretical dichotomy. It is worth keeping in mind though that the interviewees had already established successful enterprises, and so were well beyond the initial stage of considering what range of future outcomes might be possible with the means at hand. In developing a successful business they had in fact already narrowed down those future imagined possibilities and decided to pursue a single option, even if its exploitation still required thinking and acting contingently.

4.3.4 Summary

While there is strong evidence that the entrepreneurs in Rwanda were prepared to dive in without a business plan and employ a degree of effectuation to build their enterprises iteratively, they also seemed to simultaneously employ causal reasoning to gain a degree of reassurance about the validity of the commercial opportunity they were intending to exploit. It also allowed them to construct an image in their minds for what the business would look like in the future, even though they were not pursuing a fixed end goal. The observed lack of formal business planning prior to launch is perhaps then far from surprising. If the Rwandan entrepreneurs had undertaken sufficient background research to determine that their ideas appeared to have traction and they were not planning to access a bank or microcredit loan to fund the enterprise, then there would seem to be little sense in producing a traditional ‘bankable business plan’ in the first place. Even less so if they were aware that they would be embarking on a journey that would require taking incremental iterative steps instead of seeking and marshalling resources to pursue a clearly determined fixed end goal. Furthermore, at the point where they felt they had gained a sufficient degree of reassurance about what they were planning to do, it would make sense to push ahead and launch the business if all the signals were broadly positive, rather than taking the risk that someone else might occupy the commercial space that had been identified.

It is also worth noting that the entrepreneurs had all been successful, otherwise they would not have been in the entrepreneurs research sample, so even if they had written a business plan they would clearly not have needed it. This raises an important issue. If Rwandan entrepreneurs did not use, or indeed need, traditional business plans before starting their enterprises, is there really any sense in teaching someone how to write a business plan in advance of having identified a commercial opportunity if, as was suggested by the interviews, entrepreneurs will eventually seek out the input that they need when they feel they need it? The implications of this question will be revisited in Chapter 6.

4.4 Dealing with Risk

At section 2.4.1 it was seen that theories relating to the question of how entrepreneurs engage with risk are contradictory. While McClelland (1967: 211) argued that entrepreneurs have an appetite for intermediate level risk, others have claimed that they have a heightened propensity for risk-taking when compared to business managers (Sexton and Bowman, 1985: 134; Begley and Boyd, 1987: 88; Busenitz, 1999: 336; Baumol, 2010: 66). Kahneman (2011) went even further and characterised them as nothing more than foolish gamblers who wilfully ignore the probability of enterprise failure, and therefore adopted the position that entrepreneurial success is a function of luck rather than judgement. This last position is the popular conception, that enterprises are started by individuals who are prepared to take risky actions that the majority would avoid. Against this contested backdrop, the interviews undertaken with Rwandans who had built successful businesses were highly revealing and provided significant insight into their attitude to risk and the behaviour that resulted from it.

4.4.1 Ignoring, Embracing or Averting Risk?

The entrepreneurs' narratives did initially appear to provide evidence for a propensity to engage with risk.

Akaliza, Eric A and Sharon all commented that they did not think they had taken any significant risks when they started their businesses, while others tried to legitimise the risks they had taken by claiming that it was a necessity. While admitting that he "didn't see it as a risk" Jean also pragmatically observed that "as an entrepreneur you always have to be ready to take such kinds of risk". This latter sentiment was also apparent in Damien's "sometimes in business you must take risks". Jacques too, when asked whether he took any personal risks in founding the Dream Team replied "No I didn't. In fact I didn't realise that when I was thinking to start the initiative", indicating that he did not perceive his actions when launching as risky. He went on to explain though that after getting started he did begin to perceive risks that he had initially overlooked:

> In the course of implementing the initiative I found a lot of risks that [laughs] I didn't analyse before I started the project and I had some risk analysis that was so minor, and some of the points I didn't take them into consideration.

In particular he came to realise that enterprise failure could have seriously damaged his professional reputation. As the director of information technology at the government agency that issues national identity cards and driving licences, he enjoys a certain standing in the community that could have been significantly dented if it became known that he had started an enterprise that subsequently failed.

Taken together, the comments would seem to conform to the common perception that entrepreneurs are risk takers by virtue of either failing to perceive the risks they were actually facing or, if they are perceived, being prepared to tolerate them. It is also worth reflecting though on the point that, by definition, all of the interviewees had created successful enterprises. So when asking them to talk in retrospect about the risks they had faced when setting up their ventures, it is feasible that their responses were coloured by their proven success. Specifically they had all, in hindsight, correctly identified an opportunity and used their skill and judgement to exploit it. As a result there might be a considerable dissonance between the reality of their commercial success and the author's questions about the risks they had taken when they got started, which could have led to a tendency to understate or dismiss the risks that had actually existed at the time that the enterprise was created. If this were the case, then the risks at the time of enterprise formation would have been greater than as described during the interviews, in which case the arguments that they were risk-takers would be amplified beyond the level that the entrepreneurs claimed. It became clear during the interviews, though, that their apparent attitude to risk was more complex.

4.4.2 Mitigating Risk

When scrutinised, the successful entrepreneurs' narratives did not match the popular notion of them as careless risk takers. Far from it, the interviewees seemed instead to have assessed the risks they might encounter when starting their businesses and then attempted to act rationally to limit their exposure. This tendency to appraise and mitigate risk was a common feature, but was revealed in a diverse set of tactics. It was evident, for instance, in the sketching process that was employed by some of the interviewees, such as Bosco, who explained that his risk-mitigating strategy first involved gathering information:

> …you've collected some data, you've done research to make sure that you are investing in the right business. But you have that fear for the unknown and that was the first risk. Taking the risk of putting money in something, yet you don't know whether you are sure of the return…you do your research, you interview people, you get information from different offices.

Once he was sure that he had the requisite information, he engaged in scenario planning, so that he had a range of options that he could deploy if things did not go to plan. Thus in his own words, "plan B will be there if plan A is not moving. So even plan C, even D".

Such scenario planning is far removed from the popular conception of entrepreneurs being predisposed to taking risks. Indeed this very point was noted at section 2.4.1, that deliberate action related to risk assessment and reduction can nonetheless be missed by an external observer, who then wrongly judges an action as risky. This scope for external misjudgement of the risks was expressed very clearly by Annette when she explained that she takes only calculated risks. When pressed about what others would think of her being prepared to take risks she replied that "I calculate pretty much, but I don't think that they see that I've sort of taken my notes before I take a decision". In her particular case, the decision to start her own business was taken after she was approached by two executives from Saatchi and Saatchi's Kigali advertising agency, who were looking for a production company that could take on producing a TV commercial for their major client MTN, the largest telecommunications company in Rwanda. Although Annette was initially unsure about taking the risk of going alone, she was eventually persuaded to do so because she had the guarantee of a first major production contract and one that would afford her company a high profile when the commercial was aired. She freely acknowledged that it "probably wasn't the most ethical thing to do" as the contract could have gone to her employer at the time, but she calculated that she would be able to start her own production company without taking any significant risks, even though external observation might have judged her action in starting her own production company as risky. Similarly, Akaliza didn't just set up Shaking Sun and then go looking for business. She reduced the risk of market entry via the expedient of first tendering and winning the contract for creating a government website. The normal risk of market entry was therefore mitigated by the fact she had already secured a major first client.

A further tactic was revealed by Sharon, who indicated that when confronting risk he “must make an analysis of it and see whether there is a way of reducing it”. When he set up his waste processing business, he got the local authority to enter into a memorandum of understanding in which the responsibilities of the local authority and those of his company were spelled out. Although not carrying the legal weight of a contract, Sharon felt that this was enough of a commitment from the local authority for him to move forward with the new venture as he believed the memorandum of understanding would in due course translate into a formal contract.

Additional evidence for the degree to which the interviewees were attuned to risk and sought to reduce it was also given by Jean, who revealed that he was “a little bit paranoid” about the risk that a larger, global, competitor could discover how successful he had been with Torque and might enter the Rwandan market and potentially damage his business. His anxiety was heightened at the time of the interview, as he was on the verge of landing a deal which could have a huge and positive impact on his business. The main user of his inventory management software was the Rwandan drinks company Bralirwa, which is 40 percent owned by the major drinks corporation Heineken. Having seen Jean’s inventory management software operating within Bralirwa, Heineken had also become interested in becoming a Torque client. But rather than being carried away by the prospect of growth that this represented, Jean’s immediate preoccupation was what he should now do to further improve his product and maintain his competitive advantage. Far from being cavalier about risk, he was clearly attuned to it, explaining:

> I always have a kind of fear, so that really push[es] me ahead to always look around and see if there is something…I cannot sit still.

Even though he has been successful he had not stopped scanning the horizon for risks, beyond those encountered at launch, and thinking about ways to mitigate them. The prospect of gaining Heineken as a client had actually increased his awareness of the risk of a larger competitor entering the market and had prompted him to start thinking about what he could do to mitigate the increased risk that he perceived. Additionally, it will be recalled that Jean had deliberately sought the support of a first key customer who had a shared interest in the successful development of Torque's inventory management software, and who would therefore fund its development. Thus he too had reduced the risk of market entry.

Three of the interviewees - Bosco, Jimmy and Jacques - had full-time parallel jobs. This also had the clear benefit of mitigating the risk of enterprise failure as operating costs could be kept to a minimum during the setup phase. When they were probed about whether they intended to move full time into the enterprise themselves it was clear that they had in mind that the enterprise would first have to generate a threshold level of income before they would countenance adding their own full-time salaries as an incremental cost to the business. Although it will be seen at section 4.6.1 that this threshold might be set at a level that represents a discount on the income from their wage employment, the critical point is that they all had in mind that the enterprise would first have to demonstrate its ability to produce this threshold level of income, so that the decision to move across full time would be relatively risk-free.

Gilbert A, who was a student when he set up his stationery company, did not have the benefit of a secure job to offset the risk of starting a company. But he had used the experience of working part time for another stationer to learn about the business. Far from embracing risk, he spent a whole year researching the commercial potential from the inside and only launched the business when he had learned enough to be sure he had identified a viable opportunity. Furthermore, by the expedient of bringing in a partner he was able to obviate the need to borrow money to start the venture; he had managed to get it to market by putting someone else's money at risk. Eric A too seems to have gone through an objective risk and return assessment when concluding that his chances of securing a lucrative contract for an outsourced PSF project outweighed the risk and returns of redundancy.

4.4.3 Tolerance of Ambiguity

Operating under conditions of uncertainty means that outcomes are ambiguous. The majority of individuals find such outcome ambiguity stressful. In contrast, entrepreneurs are believed to be able to handle uncertain situations with relative ease, are thought to actively seek out and enjoy such situations (Sexton and Bowman, 1985) and “prefer rather than shun uncertainty” (Knight, 2006: 242). The observation was made at section 2.4.3 that this emphasises the importance of how entrepreneurs think and feel about the uncertainty they face.

The interviewees’ attitudes to such outcome ambiguity were explored by asking them to talk about the uncertainty they had faced, the stress they had experienced and how they felt about such stress. The comments that were volunteered by ten of the respondents appeared to indicate the presence of the tolerance of ambiguity trait. For most of the respondents there was an acknowledgement that the experience of creating their enterprises had been stressful, but that it had been something that they could deal with. This was seen in Willy’s “when you are working on your own thing sometimes you don't even count that as stress. It is part of your life”. Eric A too appeared to be composed when acknowledging “in business life, it’s all about stress”, a sentiment that was also indicated by Jimmy’s “It’s life. It makes us live. Makes us feel that we are living, you know”.

Jacques cited his “patience and the determination” as personal qualities that had enabled him to cope with the stresses and uncertainties he had faced. Akaliza, when talking about the fact that her business had followed a trajectory that was very different to her expectations, including having to downsize because of financial pressures, explained “it’s disappointing, but I’m glad I went through it”. Rather than being negative about the experience, she felt that it had strengthened her ability to deal with future difficulties that she might encounter, affirming “I feel if something worse happened I would know how to deal with it”.

Some of the responses, though, went even further than this apparent ability to accept and deal with ambiguity. Jean claimed that “it actually excites me, because I’ve seen…so many things taking different directions”. Similarly Bosco asserted “you need to absorb it and have it as a fuel - to move forward”.

Both of these comments would seem to echo Sexton and Bowman's (1985) suggestion that entrepreneurs seem to actively seek out and enjoy ambiguity, which the majority of individuals find stressful.

While the ability to tolerate, even welcome, ambiguity seemed to be strongly represented amongst the entrepreneurs who were interviewed it must, however, be seen in the context of other factors that were observed. Although tolerance of ambiguity is treated in the literature as an independent predisposition it is unlikely to exist in complete isolation. As already seen, the entrepreneurs in Rwanda took rational steps in order to increase their chances of success. Although the future is uncertain, in the Knightian sense of an unknowable unknown, it is clearly feasible that the more the Rwandan entrepreneurs felt able to take measures to control that future, by virtue of mitigating risk, sketching and acting contingently, the more likely it is that they would feel confident in addressing the ambiguities that they were facing. Thus it would be logical that the entrepreneurs' tolerance of ambiguity would increase in line with the rational steps they had been taking. It would also strongly suggest that the tolerance of ambiguity observed in the interviews was a dependent, rather than independent, variable.

4.4.4 Summary

In contrast to the popular notion that entrepreneurs are individuals who possess a propensity for engaging in risky undertakings, the interviews with these successful entrepreneurs suggested they had an aversion to risk[64]. McClelland's argument that entrepreneurs are likely to favour situations where risks are intermediate, would thus seem to miss the point.

The Rwandan entrepreneurs had recognised that they are operating in an uncertain context, but through sketching and basic research they were able to obtain knowledge and thereby to reduce the realm of uncertainty. In effect they had transformed some 'unknown unknowns' into 'known unknowns' and could thereby form an assessment of the risks they would be likely to face. They then

[64] By definition the interviews were conducted after they had established a viable commercial enterprise, so the comments made cannot necessarily be taken to imply that the interviewees' risk profile had always been absolutely fixed. It is clearly feasible that this changed over time. What is important though is that their narratives indicated quite clearly that action had been taken to frame and reduce risk.

took deliberate action designed to modify those risks, even though they could not know with any certainty what the outcome of their actions would be. This suggests a high degree of rational deliberation and behaviour, rather than a predisposition for irrational behaviour and corresponds well with Tuckett's idea of rational action (Tuckett, 2011: 184), which was explored in the second chapter. It is also redolent of Sarasvathy's observation that her expert entrepreneurs saw themselves as being able to change the odds in their favour (2008: 138), thereby allowing them to turn what might be games of chance for others into games of skill for themselves.

4.5 Social Networks

The literature reviewed in Chapter 2 indicated that entrepreneurs build and maintain social networks that they can subsequently exploit for commercial advantage. In particular it is argued that it is the breadth of networks that is important, rather than the intensity of the relations (Kreiser et al., 2013) and that such breadth correlates with enterprise success. The logic runs that having a broad range of weak ties exposes entrepreneurs to a wider range of resources that they can access as well as exposing them to a greater range of potentially exploitable opportunities. The interviews therefore sought to probe for evidence that the entrepreneurs were actively engaged in network building.

4.5.1 Network Building

The interviewees certainly appeared to confirm the theoretical view that entrepreneurs seek to establish social networks that might be beneficial to their businesses. Seven of the interviewees made unprompted comments about the importance of building and maintaining a network of contacts that could be beneficial commercially. In some cases this appeared to be a faculty that came quite naturally to them. Willy volunteered "I like to interact with people" while Jean similarly commented "I like to do that a lot". However, the apparent gregariousness expressed by these two was not universal. Akaliza revealed that building a network that might help her is something she does quite deliberately, although she has to work at it:

> …in myself I'm not a very social person, but I know that for the business to survive you need to connect to people…I do try to make an effort to… to connect with people. Either people who can give me advice, or that can connect me to a potential client, or who might be a client.

The necessity of taking such calculated actions was also mirrored in Christian's "I put a lot of effort [into it], because I know it's a key component", and was also apparent in Jean's assertion "it is very important for you…if you really want to grow a business".

It would also appear that the interviewees are tuned into the long-term potential of the networks that they establish, rather than expecting any immediate payoff. Thus for Willy the contacts that he adds to his social network are individuals that may at some time in the future become clients: "they are potentials; they are people who are going to help us grow our business". Similarly, for Gilbert A it is important to work at maintaining contact with people he has never done business with as they may still become clients in the future. For Eric A this has even extended to being prepared to undertake work for free, if he thinks that it might lead to future opportunities for remunerated work - in his own words "even doing something for free, it can be also an opportunity for future cooperation".

The accent throughout the interviews was very much on building contacts with a wide range of potential customers, rather than focussing on building strong relationships with key individuals and would therefore certainly seem to fit with the idea that what is sought is the creation of a broadly based network of loose ties, rather than a narrow intense network.

4.5.2 Trust

The decision to probe for trust in the interviews was influenced by the thought that the 1994 genocide might have had an impact upon trust and social cohesion, which in turn could have affected the capacity for network building. Although the government has made considerable efforts at bringing about reconciliation, it is easy to imagine that residual knowledge of 'who perpetrated what' might have acted as a significant break on developing the kind of social networks that might play a role in entrepreneurship and SME development.
In this context, it was interesting to see that the regional product cluster strategy (Minicom, 2012) made a direct reference to trust, initially referring to "low levels

of societal trust" as a challenge for SMEs (ibid: 11), but also noting that the cluster strategy would help to develop dialogue and trust (ibid: 3).

The World Values Survey conducted in 2007 did appear to confirm a low level of trust in Rwanda (WVS, 2016). In response to the survey question "generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" only 5 percent of those interviewed thought others could be trusted, which was the lowest level recorded for African countries. A similar picture was also suggested by Hatzfeld's *The Strategy of Antelopes* (2009)[65]. Talking about the reconciliation process, one of Hatzfeld's interviewees asserted "trust has been driven out of Rwanda" (ibid: 204). While one might have anticipated that difficulties would persist between perpetrators and victims, it was also clear from Hatzfeld's interviews that perpetrators could be reproached over their *gaçaça*[66] admissions by other perpetrators (ibid:7), and that survivors also had difficulties interacting with each other, even when they had been together during the genocide:

> Today those six have broken up, and the friendship with it. We don't get together…we six manage just in time to steer clear of one another (ibid: 43).

It has been suggested though that entrepreneurs exhibit a tendency to over-trust: to trust to a level that exceeds that which the context suggests is rational (Goel and Karri, 2006: 479). Thus even if trust had been fractured by the genocide, it was still feasible that the Rwandan entrepreneurs might have exhibited greater levels of trust relative to their peers. Attempts to probe for levels of trust and over-trust in the successful entrepreneurs' interviews proved though to be rather fruitless.

Comments on trust were obtained from ten of the interviewees, but these tended to indicate that the respondents had a highly pragmatic view that if one was going to develop a business then there was little option other than trusting others, be they suppliers, partners or customers. It was a fact of life for them

[65] Written in French the book was first published in France and the English translation referred to here was published two years later. Hence Hatzfeld's interviews would have been contemporaneous with the 2007 WVS survey.

[66] With so many perpetrators to deal with, the normal legal system would have collapsed. Instead the traditional *gaçaça* communal justice system was employed.

and if the trust they placed in someone was betrayed, then that was really just part of the price they felt they had to pay for setting up and remaining in business. Even though several of the respondents were able to quote instances where their trust had been exploited, the pragmatic nature of their need to trust is seen for example in Gilbert A's rational justification "I see the business in the people". This sentiment was also apparent in Bosco's comment that:

> …any person in business should have trust, actually. That's very important. Why? Because without trust then you won't move forward.

It was also seen in Willy's assertion "I have to trust people because people are the bridge to my success" and Sharon's assertion that it is "for the sake of the business".

The more positive attitude to trust that was present in the interviews was also reflected in the most recent edition of the World Values Survey (WVS: 2016). Compared to its 2007 level of 5 percent, by 2014 the level of trust in others had risen to 17 percent. Whether this increase and the pragmatic comments seen in the entrepreneurs' accounts are due to the cumulative efforts at reconciliation and social cohesion, or suggestive of an increased inability to discuss or admit, in the face of such efforts, that problems still persist remains unclear.

4.5.3 Summary

The interviews provided evidence that the entrepreneurs actively set about building broad networks with weak ties, which were focussed particularly on their potential for delivering future customers for their businesses. They also appeared to recognise that developing such networks was dependent upon trusting people, and therefore had a very pragmatic attitude to trust. It was essentially seen as a pre-requisite for developing the business.

The evidence that entrepreneurs spontaneously engaged in such network building does, though, question the suggestion that specific action is needed to build their social capital via mentoring and the input of external advisors, as suggested by Lingelbach et al. (2005: 7). If entrepreneurs in Rwanda instinctively know that network building is critical to their success and have no difficulty initiating it, then there is presumably no need for external input.

4.6 Motives for Starting the Business

The second chapter showed that there is a considerable divergence of opinion over the motives that drive the entrepreneurial process. On the one hand is the economic argument that individuals are pursuing the opportunity to capture entrepreneurial rents that arise from Kirznerian arbitrage opportunities or equilibrium disturbing, Schumpeterian, creative destruction. In contrast to such acts of volition the GEM argument is that, in developing economies, the decision to start an enterprise is predominantly grounded in necessity. Individuals who have no realistic alternatives for obtaining wage employment form enterprises that can provide them with an income. The psychologists meanwhile posit that following the entrepreneurial track is preconditioned by the presence of certain character traits, particularly the need for achievement, internal locus of control and risk propensity. The allocationists' orientation on the other hand is that anyone can become an entrepreneur, and would be inclined to do so, if they could access various forms of capital. Thus the economists' universal 'homo economicus' is trumped for the allocationists by a ubiquitous 'entrepreneur in waiting' who possesses the power to transform economic fortunes once access to capital has been assured.

If the economists are right about the capture of entrepreneurial rents, or GEM are right about the need to create an enterprise that can generate an income where none exists, then one might anticipate that monetary concerns would have been very much front of mind when Rwandan entrepreneurs started their businesses. Alternatively, if the traits theorists are correct then one might expect to find that monetary considerations would be relegated in importance, while for the allocationists financial motives might or might not be uppermost. The interviews with the entrepreneurs sample therefore sought to achieve some degree of resolution of these conflicting views and shed light on the extent to which the decision to set up an enterprise appeared to be shaped by the financial returns that were on offer or whether they were influenced by other factors.

4.6.1 Not Just About the Money

When talking about why they had decided to set up a business, the entrepreneurs advanced explanations that were couched in terms that appeared to indicate that they were not motivated primarily by material gain. The clearest indications were evident in Christian's "it's not just about the money", Sharon's "it's not a matter of money", Willy's "the main thing was not to sustain myself in terms of financial [gain]", and Gilbert A's assertion that in a hierarchy of motives money ranked only fourth in importance for him. Instead the narratives frequently referred to motives that were beyond material gain, such as Eric A's insistence that the "love of the job is [more] essential than even money". Annette too explained that money for her is really just a tangible indication of how clients see the quality of her creative output, rather than an end in itself:

> I think that's part of the excitement, to actually see your art also valued monetarily. So it is very important - for me I think I value people's response to my art by how much they are willing to pay for it. So it's a very good indicator.

This concern with customer response to the business was also evident when Akaliza explained "I love when my clients are happy. When they…when they're surprised, that's my favourite thing. Yeah I think that's the best thing" and was quite clearly uppermost in Jean's mind too when he drew the important distinction between external perception of success versus what he regarded as important:

> Well, the financial is always what the outside [world] will look at and say: this is success. But the reward…for me [the] first really big reward was my clients saying: oh wow, this is really good software.

This apparent absence of materialism was well demonstrated by Annette's broader narrative. Although having completed a first degree in accounting and an internship at KPMG[67], she abandoned a career in auditing and accounting to complete a B.Tech in motion picture production. She then went to work for the Kigali based Kwetu Film Institute where she earned little more than a "stipend" that was only enough to cover her travel and basic subsistence costs.

[67] One of the leading global business services corporations, providing audit, tax, and business advisory services.

Asked further about the decision to abandon a career in finance Annette's disregard for the material was obvious when replying "am I working hard to just make money in life? At some point just making money didn't make sense". Questioned further about how she would equate realising her vision for the company versus the financial returns it could produce for her, elicited the response "as long as I can break-even, as long as I don't go bankrupt", indicating that her overriding concern was that the business should earn enough to ensure its survival rather than enrich her.

Bosco, Jimmy and Jacques, who were all running their enterprises in parallel to having full-time jobs, also revealed a low level of materialism when talking about when they would move full time into running their enterprises. The decision did not seem to be shaped by any expectation that running their own businesses would produce higher levels of income. Jacques hoped only to maintain the same standard of living rather than expecting an increment. Bosco too, when asked about what level of income he would need to achieve before moving across full time to run his two enterprises, initially replied that the same level of income would be the benchmark but then later confided that he would be prepared to sacrifice "even 50 percent of the income" if it meant he could satisfy his desire for self-determination. According to Jimmy, he and his partner King Victor were also prepared to "lose 30 percent, or 40 maybe" of their wage income if it meant they could devote themselves fully to running True Friends Records.

If they did not start their enterprises in order to make money, why did the Rwandan entrepreneurs embark on a track that is so shrouded in uncertainty and where they potentially stand to lose the money they had invested? Why were some of them also prepared to countenance the acceptance of negative financial returns? Addressing these questions pointed to motives that lay beyond the material.

4.6.2 Internal Locus of Control

As discussed at section 2.4.1, entrepreneurs are thought to have an internal locus of control. They feel that they are able to take measures to control their own destiny (Chell, 2008: 98) and, as posited by de Vries (2000: 5), have a fear of being controlled by others. The interviews suggested that this characteristic was present amongst the Rwandan entrepreneurs, as was evident in comments that were volunteered by eight of the respondents.

It was clearly indicated by Jean who, it has already been noted, equated taking a loan with a lack of independence (see section 4.2.5). This was amplified when he made it clear that he felt he could only achieve his true potential by taking full responsibility for his future rather than relying on others. Two of his comments made this clear and were both highly suggestive of his having an internal locus of control. The first was when he said that he always felt that he had great potential, but was concerned that no one else would ever recognise it. This led him to worry that if he did not take his future into his own hands then "someone could just give me a mediocre job and [I would] end up not doing what I'm supposed to do". A similar sentiment was also expressed by Akaliza. When discussing what running her own business meant to her she insisted that she just "couldn't imagine the alternative of taking a 9 to 5" job. Even though she had earlier in the interview indicated that prior to starting Shaking Sun she had envisaged working for a spell for a company like Pixel as a precursor to setting up her own business, Akaliza seemed to imply that she saw it only as a worthwhile short-term compromise on the route towards the independence she ultimately sought through running her own company.

Christian's desire for self-determination was illustrated by two key incidents in his personal narrative. His first job after graduating was in a debt recovery department, a role that he found so bureaucratic and personally unrewarding that he quit after only three weeks, as it was clear to him that this was not the type of job that he wanted. A second major incident led him to leave his job at Kilimanjaro International. Having won a large DfID sponsored contract for his employer, worth $400,000, he fully expected to be responsible for its implementation, but was relegated by the firm's head office to a minor administrative role on the project. His frustration was clear when he described what happened:

> I spent about a month writing this proposal. We won it; it was a tight competition. It was DfID sponsored and here now I'm managing a project that has outsiders who are managing it for me. Yet I'm the one who had conceived everything, so I knew what I really wanted. So with the outside interferences from the headquarters, from the Tanzanian office, I didn't take it well. So I said let me close shop with them.

If, as would appear to be the case, he is an individual with an internal locus of control then finding himself in a context that would better suit someone with an external locus of control, it is hardly surprising that he felt frustrated and decided to take ultimate responsibility for his future, even if this meant taking a leap into the unknown. Furthermore, during the time he was employed by Kilimanjaro, Christian earned his income entirely on commission - a fact that seems to corroborate the view that he clearly felt sure of his ability and in control of his life.

This need for self-determination was also reflected in comments made by Jimmy that revealed a desire to move out of regular employment, where one's decisions are compromised, and into running True Friends Records full time:

> You know when you are working for somebody sometimes you want to do things your way, but he [the boss] says: no, I want you to do this. And you're always saying: okay, if I would do this it would be better. But if it's your [own] business you take the risk. You say let's do this. And then you have the control.

Sharon put the point more bluntly with his assertion that "I don't like to work for others". Expanding on the point he described working for someone else as "a situation where I don't know where I'm going". What is especially fascinating about this admission is that he seems to equate an independent entrepreneurial future, with all its attendant uncertainties, as *less* uncertain than being in paid employment, a position that can only be explained if he feels comfortable in taking full responsibility for his own decisions and fully capable of shaping his own future. When he was asked about what it is about running a company that gives him pleasure, his answer demonstrated the value that he places on being in control:

> Number one, taking a decision. When you are running [a] company, you know what to do and how to do it. You know where you are and where you want to go. You know [what will happen] if you do [something], and what [will happen] if you do not do [something]…you plan for yourself - that is what I am meaning. I want to mean that you plan for yourself.

This was clearly in evidence too when talking to Gilbert A, a final year economics student. He revealed that he had already been offered two jobs after graduation, one at a bank and a second at an insurance company, but he had turned down both. Pressing him about the wisdom of turning down the certainty of a regular salary for the uncertainty of running his own business it became clear that he was determined to press on with his own venture, not least because he was aware that the effort expended working for someone else would increase the value of their company, while the same effort expended working for himself might increase the future asset value of his enterprise. The prospect of maintaining his freedom of action and having the possibility of building something of value for himself, outweighed the prospect of well-paid, secure, employment.

In a low-income context like Rwanda, where uncertainty is likely to be heightened, one might expect that there would be a marked preference for the security of a 'safe' job. But the narratives suggested that the interviewees appeared to have a strong preference for the comparative uncertainty that characterises entrepreneurship, over the relative security of a regular salary. It is reflected in the fact that Annette, Christian, Damien and Eric A had all abandoned the relative safety of secure employment in favour of the uncertainty that came with starting a business. An additional four, Akaliza, Gilbert A, Jean and Sharon, had launched straight into starting businesses rather than seeking a regular job in the first place and a further three, Bosco, Jimmy and Jacques were planning to move from wage employment to running their ventures full time as soon as the business had achieved a threshold level of income. The Rwandan entrepreneurs then seemed strongly to be indicating the presence of the internal locus of control trait and that they were uncomfortable in positions where they feel it was being stifled. Instead of being daunted by the uncertainty that following an entrepreneurial course implies, they actually seemed to feel empowered by it.

4.6.3 Need for Achievement

The need for achievement expresses itself as a predisposition for striving to overcome difficult challenges and a desire for personal improvement, and has also been associated with a preparedness to accept negative financial returns.

Sarasvathy (2008: 122) noted too that her experts research sample also frequently commented that “failure is not an option”, to the extent that she identified it as “a dominant theme”. It is highly significant that it also appears to be strongly represented amongst the Rwandan entrepreneurs’ comments.

No fewer than nine of the interviewees made comments during the interviews that would seem to be consistent with its presence. The language they used to describe why they were building their businesses was frequently peppered with expressions that seemed to indicate a strong urge to strive for personal achievement for its own sake. Annette for instance described herself as a “driven die hard” and Bosco had a need for “proving to myself…that I can do it”. Jacques too explained that for him “quitting or stopping was not an option” and that he “had to stay strong and try my best so that I can make the project successful”. When talking to Sharon, he too insisted “my head is full of ambitions. I have much to do”.

Akaliza also betrayed a determination to “go out and do something on my own”. She feels driven especially to move into producing animated cartoons for the African market - cartoons that feature black African characters in place of the stereotypical white characters that dominate the cartoon market. But she feels she is “running out of time” to achieve what she describes as her “duty”. This was no small matter for Akaliza, who was deeply concerned about the subliminal values that the stereotypical images that are used in cartoons communicate to black African children:

> When I was growing up I had friends who would say: oh I wish I had blonde hair…I wish I had blue eyes. Even now in Rwanda I talk to my young cousins, who are like ten years old and they say the same things…I remember, one of my cousins came over to play the Wii…the Nintendo Wii…and you know how you make these little Wii characters of yourself, to play on the game? And when she was designing hers she made it a little white girl, and I kept telling her, this is a ‘me’…this is supposed to be you and she was like: oh, this one’s so pretty. And those kind of things really upset me.

This compulsion to achieve was also obviously felt by Christian who, on the one hand said he feels there is nothing worse than failure, yet simultaneously feels driven to try because he doesn’t want to fail by not trying, as if not trying would somehow represent an even greater level of failure for him.

The clearest revelations though were provided by Jean, who is quite plainly striving to achieve the esteem of others:

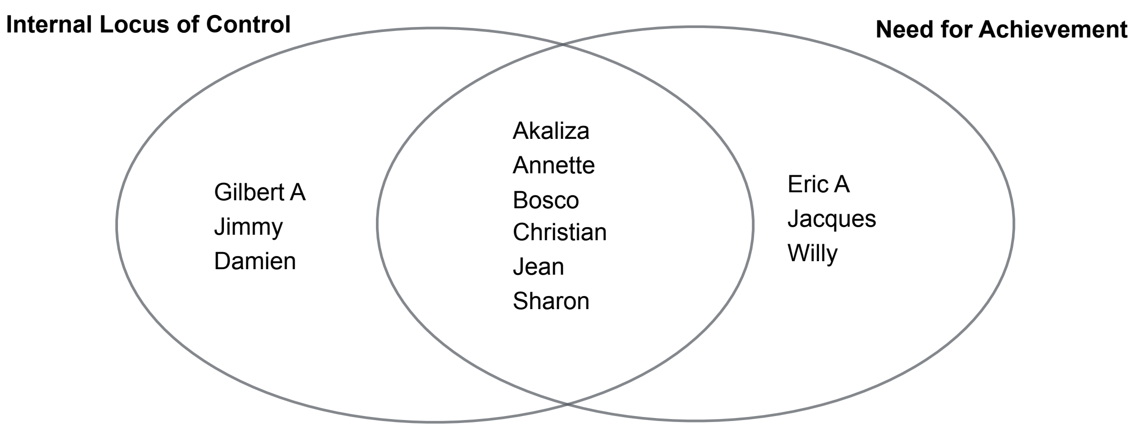
> I don't want people to know me as Jean, just as Jean who creates software; I need people to look at my software and say: oh this software was created by this person.

This would clearly have been a challenge, and friends and family had put it to him that he could make good money by developing applications on third party software, rather than developing his own computer code. But he was adamant that he wanted to be, and now is, known as the person who created the software that runs his own inventory management system. Rejecting safe options he asserted:

> I need excitement. I need something that would really challenge me… pushing me to do something that was going to impress people. That's the whole thing, the whole image that I had.

In section 2.4.1 it was pointed out that there is a problem with treating the Big 3 traits as wholly independent variables and that the internal locus of control and need for achievement traits may covary. Interestingly, the Rwandan entrepreneurs appeared to provide some evidence that corroborates this, with comments made during the interviews that seemed to indicate the need for achievement trait was indeed present alongside the internal locus of control trait. Whilst there was not a perfect correlation between those making comments that seemed to echo the internal locus of control trait and those appearing to show the need for achievement trait, there was a high degree of overlap, as indicated in Figure 4.1.

Figure 4.1 Internal Locus of Control and Need for Achievement



Another aspect that became clear in talking to the interviewees was that they were not short of confidence in their own abilities. Typical assertions that were made during the interviews in relation to starting the business included Akaliza's "I felt so sure. I still feel very confident. I can do it…I can do anything really. Nothing ever feels too impossible", Bosco's "I'm self-confident. Whatever I want to do, I try to do it and I commit to it" and Eric A's "I was very confident". Similarly it was also present in Jean's "I always felt like I had a great potential", Sharon's "we were very confident. I believe in myself" and Damien's "I was confident I will be successful". If such comments were shaped primarily by entrepreneurs' internal locus of control and need for achievement, one might conclude that they indicate a tendency to be overconfident. Indeed that is probably what would normally be deduced by an external observer. However, if they felt that they had identified a viable opportunity, had checked it for validity via sketching as well as mitigating the identified risks, then the comments might well be a realistic reflection of a perfectly justified confidence, rather than overconfidence, and would therefore contradict the argument that entrepreneurs tend to be overconfident (Busenitz, 1999; Salamouris, 2013).

4.6.4 Capacity for Working Long Hours

As the narratives seemed to be confirming the presence of the need for achievement trait, the respondents were also asked about the hours they worked in a typical week, to see if the need for achievement might be reflected in a tendency to work extended hours. This did appear to be the case, with a clear indication that the entrepreneurs were used to working long hours. For some the workload was flexible, depending on whether there was a deadline to meet, but even when the load was relatively light the lower range for the hours worked was still high. Christian and Eric A, for example, might at the lower end of their ranges work only 56 or 54 hours a week respectively, but when there is a deadline to meet, such as preparing a tender, then this would typically rise to 84 or 98 hours a week. A similar variable pattern was also described by both Annette and Willy.

Table 4.3 summarises the typical working week for the entrepreneurs. For those responses where a range was given the table shows the range midpoint.

Table 4.3 Hours Worked by the Entrepreneurs

Entrepreneur	Typical Weekly Hours Worked
Akaliza	70
Annette	77
Bosco	70
Christian	70
Damien	60
Eric A	76
Gilbert A	77
Jacques	67
Jean	70
Jimmy	62
King Victor	68
Sharon	84
Singeras	77
Willy	81
Mean	72
Median	70

The attitude that generally came through the narratives was one of being positively disposed towards working whatever hours might be needed to complete the task in hand. Akaliza insisted “I enjoy it, so it doesn’t always feel like work”, which echoed Jimmy’s “for me [when I finish] work, when I come here I don't feel it like a burden…I like it and there’s no big problem in that”. Jean too explained “I know I can stay night after night trying to solve one problem, or trying to make sure I will meet a deadline” while Christian answered pragmatically that “at the end of the day I think it pays; the long hours pay”.

The comments suggest they did not regard themselves as being coerced into working long hours or exploited in any sense and that they did not appear to see any contradiction between their internal locus of control and the hours worked. Rather, the comments would be consistent with the view that entrepreneurs possess high energy levels, which are expressed as an ability and preparedness to work the long hours required to establish a venture (Begley and Boyd, 1987; Sexton and Bowman, 1985). However, at this stage it is not possible to draw any great conclusions from this observation, as there is no way of knowing whether a capacity for working long hours may be a characteristic of all Rwandans, as opposed to being a tangible aspect of the entrepreneurs' need for achievement. Whether the observation has any significance might become clearer when the next chapter looks at aspiring entrepreneurs and the hours they anticipate working.

4.6.5 The Significance of Role Models

Passing references are occasionally made in the theoretical texts that suggest entrepreneurs could have been influenced by role models, although the comments appear rarely to be developed. The interviews therefore also probed to see whether there was any evidence to suggest that the motive for starting an enterprise was influenced by the entrepreneurs striving to match role models. The responses split into three categories: individual, family and religious references. Individual references included the obvious ones - Nelson Mandela and President Paul Kagame - as well as famous individual entrepreneurs such as Warren Buffet or Steve Jobs. There was little evidence though that the Rwandan entrepreneurs were trying deliberately to emulate anyone in particular and where successful entrepreneurs were mentioned, this was really in the context of providing incidental confirmation that the entrepreneurial track was a good one to pursue.

Three of the entrepreneurs made comments that suggested family backgrounds might have had a minor influence, such as Akaliza's recognition that she had benefitted from a comfortable upbringing which her father had made possible through his own career struggle, and she did seem to want to prove that she could emulate his success. Bosco too had during his school holidays helped his mother with her food trading business and had noticed that compared to his father, who was a teacher, she was able to earn "more, very, more than whatever the father was earning". Sharon's mother had been killed during the genocide when he was only six years old, and it did seem to be the case that he was striving to create a future for himself that his mother, were she alive, would have been proud of.

There was also a minimal suggestion that religious conviction played a support role during times of stress, with both Bosco and Willy making comments that suggested they took comfort from their religious convictions, although there was no real evidence this provided any significant role model that they were following. Taken in aggregate, it was concluded that there was no strong evidence in the interviews to suggest that the entrepreneurs' motives were derived from attempting to follow role models.

4.6.6 Affecting the Lives of Others

When exploring the motives behind starting a business, four of the interviewees made unprompted references to what appeared to be an altruistic desire to have a positive impact on the lives of other people. Akaliza indicated that she "really enjoyed training people", while Bosco took satisfaction from the fact that his enterprises were able to provide incomes for his employees and their families and that he saw this as contributing more broadly to Rwanda's economic development than his previous job as head of retail banking at KCB:

> I'm impacting people and I'm supporting them and I'm supporting the growth of this economy…rather than being in a comfort zone and without making any impact, without helping others.

Willy too appeared to take pride in "impacting as many people as possible", while Jacque's original motive in starting Dream Team was, as already pointed out, quite clearly grounded partially in his altruistic desire to see his former team mates able to earn a living from teaching football skills rather than having to borrow money from him. The desire to impact positively was also seen in his comment "it is my passion [laughs] maybe seeing, supporting, a kid and them become a very good football player in his life".

Although altruism appeared to be present, it figured explicitly in only four of the narratives suggesting that, if anything, it was nothing more then a subsidiary motive. It must be considered too that such expressions of contributing to the greater good of Rwandan society could be shaped to a high degree by the government's positive promotion of entrepreneurship and the role that it is expected to play in building the country's economic success.

4.6.7 Summary

The Rwandan entrepreneurs' narratives consistently downplayed the importance of personal financial gains that might accrue from enterprise ownership. They claimed to be driven instead by a need to determine, for themselves, the course that their lives would take in the future. If true, this represents a departure from the economic theory that entrepreneurs are driven to capture entrepreneurial rents that are on offer. The narratives also suggested that the decision to start an enterprise was an act of volition, rather than being driven by necessity. Even Willy, who had been made redundant, was already operating an informal enterprise in parallel to being employed and took the opportunity to formalise his previous activities. Thus the narratives add weight to the argument, expressed at section 2.2.5, that the GEM opportunity-necessity model is a false construct.

Internal locus of control and need for achievement were both strongly in evidence and appeared jointly to play a role in shaping the entrepreneurs' prioritisation of self-determination over financial gain.

4.7 Conclusion

The interviews with Rwandan entrepreneurs did correspond to aspects of the theoretical literature. However, they also clearly contradicted other theoretical arguments that have come to be closely associated with the development prescription promulgated by the leading global institutions and international aid agencies.

The narratives cast doubt on the view that entrepreneurs seek to capture entrepreneurial rents. Rather they appeared to concur with the arguments advanced by Schumpeter, Baumol and McClelland that entrepreneurs are prepared to accept negative financial returns in exchange for the psychological rewards of running their own business. The preparedness to accept such negative financial returns was suggested in particular when those interviewees who were running a business in parallel to having a full-time job talked about the level of salary they would be prepared to sacrifice in exchange for working full time in their enterprises. This raises an important point. Before they could move across full time it would be necessary for the enterprise to reach a level of income that could support them, even if they were accepting a discount on their existing salary. Clearly too the business would have to be able to generate long-run profits if it were to be viable and deliver the psychological rewards they were seeking. Thus a financial dimension cannot be entirely separated from the primary motive claimed by the successful entrepreneurs. Furthermore the accounts were retrospective in nature and would have been influenced by the interviewees' own subjective recollections and interpretations of their experiences, which, post-facto, may have led to a tendency to underplay the relevance of financial considerations prior to creating their enterprises.

The presence of need for achievement, internal locus of control and tolerance of ambiguity were all observed in the interviewees' narratives. However, the reality was more nuanced than was suggested by the respective theories. The narratives suggested that internal locus of control and need for achievement were both interconnected and appeared to inform the entrepreneurs' desire for self-determination, which then seemed to provide the main motive for the interviewees' decision to set up enterprises.

Although effectuation was indicated, it was only partially observed. The core technique of calculating affordable loss was missing from the accounts. Leveraging 'whom I know' was evident only in Gilbert A's account of how he convinced a friend to put up the risk capital that was needed to get his business stationery enterprise started. Additionally, the principle of creating as opposed to discovering markets was also only observed in a small number of instances. The resulting dilute form of effectuation was seen in the predilection for diving in and developing an enterprise contingently. However, the theory that causation is rejected in favour of effectuation was not supported. Although the entrepreneurs did not use the traditional STP process to create business plans, they did nonetheless use causal reasoning in the form of sketching to reassure themselves about the commercial opportunities that they thought they had identified. Thus although effectuation was present in a diluted form, it was counterbalanced by an entirely rational approach to checking the validity of the enterprise idea.

The popular notion that entrepreneurs are risk tolerant was thoroughly undermined by the interviews. In fact the Rwandan entrepreneurs took measures to assess and then mitigate the risks that they would face. In this they conformed to Sarasvathy's argument that entrepreneurs appear to believe they have the ability to change the rules of the game and thereby to "make success happen" (Sarasvathy, 2008: 17). Although the Rwandan entrepreneurs were prepared to countenance the possibility of enterprise failure and to engage with the uncertainty that is associated with venture formation, the combined evidence indicates that they were far from cavalier in their reasoning and decision making. Rather, they appeared to be acting in a manner that is fully consistent with Tuckett's theory of rational action (2011: 184), which argues that when the standard rational choice model is inapplicable individuals still take action that appears to be rational from their point of view. Thus, despite the inherent uncertainty they faced, the successful entrepreneurs gathered information, assessed their options and attempted to take decisions that would increase their prospects of success, even though the outcome of their actions could not be predicted with any certainty.

When an internal locus of control and need for achievement are combined with the risk-mitigating and sketching techniques that were employed, the entrepreneurs felt empowered to engage in enterprise formation, despite the attendant uncertainties. Hence instead of being a psychological predisposition, the entrepreneur's tolerance of ambiguity appears to be a perfectly logical reaction to having taken the rational steps that they believe will increase the likelihood of their success. Such rational action also appeared to extend to the entrepreneurs' predisposition for acting contingently. Being attuned to the possibility of failure they would readily pursue rational alternatives, rather than clinging on to failed models. As a result their behaviour can be seen to be highly redolent of Tuckett's observation that decision making is "consistently context-dependent and path-dependent and also reversible when contexts change" (Tuckett, 2011: 188).

Most striking, though, was the extent to which the interviews contradicted arguments about the importance of access to credit (OECD, 2004, 2006; IFC, 2010; Beck, 2013). The interviewees did not need nor indeed want credit. They preferred instead to use their own money, which was often derived from wage labour, when starting their enterprises. When this proved to be insufficient or unavailable, they were adept at finding other ways to fund the business that obviated the need for credit. This is clearly at odds with the argument that the low incidence of SMEs in developing economies is the direct result of intending entrepreneurs' difficulties in obtaining credit and therefore calls into question the strategy of increasing access to credit on the pretext that it will automatically be taken up by intending entrepreneurs who will use it to fund enterprise formation.

Actively building a network of weak ties was seen to be employed as a deliberate strategy by the entrepreneurs, but was designed to increase exposure to individuals who may become future customers rather than creating opportunities to leverage resources or provide preferential access to commercial opportunities.

In summary, the narratives indicated that the Rwandan entrepreneurs preferred funding options other than credit, used sketching rather than traditional business planning, acted contingently, identified and mitigated the risks that might be associated with the intended venture, developed social networks that could help deliver future business to their enterprises and could envision what their businesses would look like in the future. These six key characteristics were underpinned by a dominant motive, that of achieving self-determination - a motive that is considerably more important to the Rwandan entrepreneurs than the financial gains that could accrue to them.

The following table summarises the degree to which the dominant motive and the six key characteristics were present in the interviews. While the table indicates the frequency with which these characteristics were evidenced, this is not meant to imply any ranking of importance. As the research was exploratory such ranking or any subsequent assignment of weightings would require further research designed specially to follow up on these insights.

Table 4.4 Motive and Characteristics Displayed by Entrepreneurs in Rwanda

	Self-determination	**Dilute Effectuation**	**Avoidance of Credit at Startup**	**Use of Sketching**	**Envisioning**	**Risk-mitigation**	**Network Building**
Akaliza	x	x	x	x		x	x
Annette	x	x	x	x	x	x	
Bosco	x	x		x	x	x	
Christian	x	x	x	x	x	x	x
Damien	x	x	x	x			
Eric A		x	x		x		x
Gilbert A	x	x	x	x		x	x
Jacques	x	x	x	x	x	x	x
Jean	x	x	x	x	x	x	x
Jimmy	x	x	x	x	x	x	
Sharon	x	x	x	x	x	x	
Willy	x	x	x	x	x		x
Frequency	11	12	11	11	9	9	7
Percentage	92%	100%	92%	92%	75%	75%	58%

The next chapter will examine the extent to which these attributes also appear to be present amongst individuals who *aspire* to create businesses. The degree to which they appear to be replicated may then shed light on the phenomenon under investigation: why it should be that the new class of entrepreneurs and the vibrant SME sector, that were envisaged in *Vision 2020*, are still struggling to emerge in post-genocide Rwanda despite the concerted effort that has gone into building a context that should encourage and support their formation.

Chapter 5 The Interviews with Aspiring Entrepreneurs

This chapter examines the interviews conducted with aspiring entrepreneurs in Rwanda - individuals who intended to create an enterprise or were in the initial stages of setting one up. It seeks to determine the extent to which they appeared to mirror the attributes that it was concluded, in Chapter 4, characterised successful entrepreneurs in Rwanda. The insights gained will then facilitate an assessment of the Rwandan enterprise paradox and its possible explanation, which will be undertaken in Chapter 6.

While Chapter 4 analysed a wide range of themes, in order to identify key characteristics, processes and motives associated with successful entrepreneurs, Chapter 5 will focus more narrowly on these particular attributes as it is looking for evidence for their replication. This will sometimes mean it is necessary to look at the antithesis of a particular characteristic in order to clearly differentiate between the accounts given.

The analysis will again be illustrated throughout with verbatim quotes from the interview transcriptions. As with the previous chapter this may mean that the English is occasionally imperfect, but it does ensure that the interviewees' voices are heard accurately and in context.

5.1 Introducing the Aspiring Entrepreneurs

The author interviewed a total of 21 aspiring entrepreneurs in Rwanda. They are detailed in Table 5.1 along with the types of businesses that they intend to develop. Two of the interviewees, Daniel and Rehema, were collaborating on a joint concept although Rehema was additionally exploring, on her own, the potential for a second enterprise.

One of the interviewees, Augustin, wanted to establish a new tourist centre, which would additionally provide training facilities for those seeking jobs in the tourism industry. He had also previously started a tour and travel agency, which he claimed during the interview employed six people. On closer examination, though, it became apparent this was not actually the case. The agency merely referred business to other tour operators, and income was derived from taking a markup on third-party costs. The claim to be employing six people included the self-employed drivers whose costs Augustin marked up. It was therefore concluded that he should be categorised as an aspiring entrepreneur.

Table 5.1 The Aspiring Entrepreneurs

Name	Age	Gender	Planned Enterprise
Aloys	26	Male	Trading
Aphrodice	28	Male	Medical mobile application
Augustin	42	Male	Tourist centre
Claire	31	Female	Health centre
Claude	28	Male	Undecided
Colette	35	Female	Event management
Daniel	31	Male	Event management
Emile	36	Male	Tour operator
Eric B	22	Male	Business consultancy
Germaine	26	Female	Leather goods manufacturer
Gilbert B	28	Male	Food processing
Janvier	26	Male	Bakery
Jessica	23	Female	Foreign exchange bureau
John	41	Male	Engineering consultancy
Josh	31	Male	Electrical equipment installation
Mark	24	Male	Food delivery service
Queen	22	Female	Fashion design
Rehema	27	Female	Event management
			Direct selling agency
Robert A	25	Male	Import/export
Robert B	46	Male	Guesthouse
Samuel	28	Male	Private school

5.2 Motives for Starting a Business

The theoretical arguments explored in Chapter 2 suggested entrepreneurs are either motivated to capture the entrepreneurial rents on offer, are forced into pursuing an entrepreneurial course because of a lack of realistic alternatives, or are driven by specific psychological traits that predispose them towards setting up enterprises. It was argued at section 4.6 that if entrepreneurs were motivated by the opportunity to capture entrepreneurial rents, or were driven to start an enterprise that could generate an income where none exists, then one might anticipate that monetary concerns would be uppermost when Rwandan entrepreneurs had started their businesses. Chapter 4 concluded, though, that the successful entrepreneurs' narratives diverged from these theoretical positions. They claimed they had not been driven by the financial returns on offer or by necessity and seemed to be primarily motivated by a desire for self-determination. This section will look at the extent to which the aspiring entrepreneurs replicated this orientation.

5.2.1 Is It Just About the Money?

The accounts given by the successful entrepreneurs consistently negated the idea that they had been driven primarily by financial motives. With this in mind, one might have expected that the aspiring entrepreneurs' narratives would also relegate the significance of a financial motive as they were seeking to follow the same path. But this was not found to be the case.

Of the twenty-one aspiring entrepreneurs interviewed, only five - Aphrodice, Colette, Daniel, Eric B and Mark - gave accounts that specifically refuted the idea they were motivated by financial considerations. This lack of concern for material gain was evident when Mark talked about Foodcourt, the food home delivery business he was in the process of developing. Asked to describe what his future success would look like, he declared:

> Me personally? Well, I'm not in it for the money [laughs]…I mean that would be the easiest way to put it…say make a million dollars. No, that's not it for me. I want to do things that matter.

Pressed on the point, he explained he was more interested in seeing "people using tools that I've put in place to make their lives better".

This rejection of a financial motive was also indicated by Colette, who had been organising events as an informal “hobby”. She had also been helping a friend who had a contract for writing reports that were used during events organised by the Imbuto Foundation - a charity set up by President Kagame’s wife. When this friend “got a better job” she handed the contract for report writing onto Colette, who saw it as an opportunity to “expand that business, instead of doing only reports”. She decided to register her own company and wanted to use the Imbuto Foundation contract as a platform for formalising her hobby. When asked what it was that drove her to want to have her own event management business, Colette justified the decision in terms of the wider contribution she felt it would make to the community:

> First, I’d love to offer the best that I can offer for my community. Because I’m sure if I’m working full time in business, I will be very useful to the community. But where I’m working now, I have to do what they tell me to do. I can be of course innovative, but I don’t see really the impact there I think I’m able to offer to the community.

Probed about how she would judge her future success produced the reply “if I have a good number of contracts, and I’m fulfilling the duties - I’m honouring what I pledged for”, and when the author raised the question of the financial performance of the business, it was clear material gain was far from being uppermost in her mind:

> …at the beginning I will not focus more on money. It’s more on the service, quality service that I am offering. Building a name, or a brand, to get more contracts in the future.

Interestingly, Colette’s prioritisation of living up to her clients’ expectations closely resembled the narrative provided by successful entrepreneur Akaliza at section 4.6.1, who also prioritised her clients’ reaction to her work.

Like Colette, Daniel was coincidentally also planning to develop an event management company with his colleague Rehema. He too volunteered comments that were highly suggestive of his being focussed on seeing his concept realised, rather than the material gain that could accrue when stating “I love the idea and I think even if doesn’t bring so much profitability I still believe in the idea”.

It would be wrong, though, to conclude that all five were ambivalent about financial matters. Aphrodice for instance, was endeavouring to start a company that would produce software applications for mobile phones. At the time of the interview he was developing a medical application that provides personalised health advice and remote access to a panel of doctors. He was confident he would “make money, for sure”, despite asserting he was “not focusing too much on money”. Rather, he saw it as a means to an end. He wanted “to work, get money and solve problems with money I worked for”. This was also seen in the account related by Eric B, who planned to create a business services venture called Start Up Rwanda, which could provide consultancy advice to foreign businesses who want to invest in Rwanda. He too was aware the enterprise he wanted to create would need to make money, but when asked whether success would be seen in the profits made by the business Eric B unambiguously replied “no”. Asked to explain, he went on to say:

> …because I think the main thing, although we also need money in our business, the most [important] thing is that we attract more investors into our country. More people getting employment. That will…when we…the company is growing of course, more people will get employment, more investment in our country. Then we will think we have contributed to the welfare of our people.

Thus, although he was aware of the need for the business to produce money to be viable, it appeared to be located within the context of being a means for achieving a more altruistic end. The account he provided suggested that making money was not his main driver.

Ranged against these five instances, though, were thirteen accounts where the motive for starting a business appeared to be quite plainly focussed on the prospect of making money. This was often expressed unambiguously, for instance in Augustin’s “to me money comes first”, Gilbert B’s “I want to be rich” and Jessica’s explanation that she wanted to create her own forex bureau because “it is profitable”. She also went on to imply that it would provide an opportunity to circumvent having to pay income tax that would be due if she were employed. Such candidness was also seen in Claude’s account. He wanted “to make much more money”, a comment that was virtually identical to Janvier, who explained he wished to start a business because he too “wanted to make more money”. In the same vein, Samuel also stated during his narrative "making money is really very good", while Queen insisted "everybody wants to make money".

Asked about his motives for starting his electrical installation business, Josh explained he was seeking to match the personal gains he had seen accruing to others in similar undertakings:

> Okay, the motivation presently, I'll tell you that we have seen other businesses that are like ours and if we see what they are getting we… it just drived us and we have the potential. These people have this, have this. Buildings, they have good vehicles, they have good families, they have money. Meaning that we said: oh, we can also hustle and fight and sweat but we can get this.

Pressed about the balance between financial gains and pride in seeing the business succeed, yielded a reply that diverged from successful entrepreneurs' tendency to prioritise the non-material:

> Well, finance is more better. Finance is more better because getting proud of the company is different. You might be getting proud of the company that is not generating anything.

He expanded on the point by adding that the company had been brought into existence specifically to make money. "So finance is the great, great point that made us go for the business, because what we are looking for is money" he said.

The most extreme case, though, was Robert B, who was aiming to establish a guesthouse on the highway between Kigali and Nyamata, where a new airport is planned. His whole narrative was peppered with overt references to making money. These included his volunteering that he "always thought it's a good idea to be rich, to make money" and "I knew I wanted to make money - much money and real quick". This desire to make quick money had even led him to take some substantial risks. When referring to the website he had once created for the Rwandan Police Force, he freely admitted he had very little idea at the time how to design a website. As a result he had created one that "was a bunch of too many pictures, bundled up to just make a web page". It was so poor "it could not load" properly, so he had to keep deflecting criticism about his work:

> …the speed was too slow. So each time the police would tell me: but your thing is not loading. I'd say: but it's not me, it's your server, it's your speed. I always went round like I didn't know what this was - I was really venturing into an empty world.

But in recounting the experience Robert B was, nonetheless, obviously proud of the amount of money he had made from the project:

> I earned five thousand dollars, which was probably 120 more times the salary I would get a month. It's like I had earned myself 120 months. It was amazing. I didn't think I could do this. That motivated me.

When the author asked him to assess the importance he attached to the monetary reward he could obtain from a business versus the freedom it might afford, he had no hesitation in replying "80 percent I need that money - give me that money, I will get my freedom [laughs]. Give me that money, I will get my freedom", and went on to indicate a clear means-ends rationality when adding "I'm looking at money as being a means to the end".

The interviewees' narratives were at times, though, contradictory. Claire, a qualified radiographer, wanted to establish a health promotion centre that would provide a range of facilities including nutritional advice and health counselling. Her account had initially seemed to imply she was motivated by the prospect of being her own boss and the altruistic opportunity to encourage people to take greater responsibility for their health. But when asked to assess the relative importance of the financial returns versus being her own boss, it was clear she too was more focussed on the fact the planned enterprise "can generate money" and added in confirmation "financial independence for me is the first".

The sense of contributing something that would be of benefit to others was also apparent, initially, when Germaine justified her desire to create an enterprise that would manufacture leather goods:

> And for me it's pleased me because I help others. You see if you run your own business, you don't work alone. You need some other people whom you will work together [with]. So I feel happy because also me I have some people who I help.

But when asked how she would judge her success, the reply indicated her motives were also partly shaped by the financial returns:

> What I do for saying that it is successful, seeming that I have to calculate my expenses and compare to my investment and then see the income. If my balance sheet is okay, and I see the benefit, money, is okay, that's how I see that I am successful.

Similarly, Rehema expressed her view that it "would be nice also [to] empower other people...for them to actually fend for themselves". Pressed to expand on this point and compare it with the financial benefits, she too prioritised the financial - although this was within the context of being able to facilitate helping her family to be "empowered and succeed also in whatever they want". The contradictory nature of these accounts was also evident when Robert A was asked about how he would judge success of his plan to create a business that would import and resell food processing equipment. He initially couched his reply in terms suggesting he was focussed more on the growth of the enterprise than the financial gain he might accrue from it. Asked to assess the relative importance of business growth versus the salary it could provide, he replied "the performance of the business is more". However, in practically the same breath he also made it clear he had a longer range anticipation he would eventually be "arriving at the level which I want to be". Although he was patient about the enterprise's rate of development, he was nonetheless aware "a business can earn much money" in the future and elaborated "as the time is going that's how also the profit will [be] growing, earning more". Thus, while he might not have been overly motivated in the short term by the financial gain that could accrue from a business, he was clearly anticipating it in the longer term.

In the course of the interviews, eleven of the aspiring entrepreneurs also volunteered comments that showed that the decision to start a business was influenced, at last in part, by recognition that the job market in Rwanda was weak and that the government was actively encouraging people to set up businesses as an alternative to wage employment. It was observable, for example, when exploring Aloys's desire to start a trading company that would import consumer goods:

> I wanted to start my own business simply because in Rwanda there is a problem. The job market of Rwanda is not a lot, simply because most people, most graduates are waiting for, are seeking for a job from the government.

This concern about the job market was also shared by Emile, who commented that "to get a job is difficult". Similarly, when Gilbert B was asked why he wanted to start a business he revealed his "purpose to start this kind of business is to be self-employed". Asked to elaborate, he explained he had been unemployed since graduating from university and when pressed further that he had essentially been surviving by "begging from my close relatives". Queen too cited the weakness of the job market and a deeper concern that sprung from it when talking about her wish to develop her own fashion business:

> …in Rwanda there is some risk. When girls come and go to ask for a job there, there's some men [who] tell you if you want a job you got to have sex with us…yourself, to give…to have sex. I think that is difficult to me, if the man asks me to do that. So I think that I can't go to ask him, the man, asking for a job. Because they know we are, the women, we are weak. To the other things. So they think that we will… our wages is low, and they think that we would love to have money and that they think…he think that I will accept if he ask me…that I will accept because I want this job. So I think that I can't go ask for a job for that reason.

When talking to Janvier about his intention to start a bakery, there was also evidence to suggest that this too was linked initially to the need to fashion a job. Delving into his plans for the enterprise revealed he had no personal experience of working as a baker. Questioned specifically about who then would be producing the finished products he intended to sell revealed he was reluctant to employ anyone because "that can cost me". Exploring his plan further, it appeared Janvier intended to exploit a classic Kirznerian arbitrage opportunity. He meant to buy finished products in Kigali and resell them in the village of Nyabugogo. In fact this was a well established pattern for him to earn an income, as Janvier's narrative included a string of past activities that are best described as petty vending. These included hawking clothes and sorghum beer, photography, and reselling beverages. It appeared that what he really had in mind was another petty vending operation, which would initially provide him with an income. In time this might then generate personal savings that he could subsequently invest in building a bakery.

Spontaneous comments that were volunteered by six of the interviewees also appeared to confirm they had been influenced directly by the government's promotion of entrepreneurship as a career choice. This included Aphrodice's explanation that "our President encourages the start up of our business…you have to start your business”, Claude’s “our government are encouraging people [who] want to run their own business, to be entrepreneurs” and was suggested by Jessica’s assertion that “the government has a vision of the country”. Robert A too, while discussing risk, explained that the government “want us to start a big business” and Samuel also asserted “the government has tried to teach people about how they can be job creators”. The clearest explanation though was given by Aloys’s further comments, which placed the government’s SME strategy firmly within the context of a weak labour market:

> Unfortunately Rwanda doesn’t have job market enough. That is why the Rwandan Government always encourages those people who are finished their studies to create their own business through for instance through entrepreneurship like that what we are talking about and other activities that can help them getting income. That’s the reason why the Government of Rwanda encourages you, broadly the students, graduates or other people who have finished their studies to create their own businesses.

In summary, thirteen of the twenty-one aspiring entrepreneurs made comments that appeared to suggest they were financially motivated, which would be consistent with arguments that entrepreneurs are driven to capture entrepreneurial profits that are on offer. Eleven of the interviewees also made nuanced comments that indicated they were responding directly to the government’s invocation to create an enterprise as an alternative to competing in a weak labour market, thereby echoing the view explored at section 2.3.2 that some individuals may seek to start an enterprise in order to create some form of ‘job’ where none exists (Banerjee and Duflo, 2011: 26). Only five of the aspiring entrepreneurs’ accounts seemed to mirror the successful entrepreneurs’ rejection of financial motives.

5.2.2 Internal Locus Of Control

As explored in the second chapter, entrepreneurs are thought to have an internal locus of control. They feel empowered to take measures to control their own destiny (Chell, 2008: 98) and have a fear of being controlled by others (de Vries, 2000: 5). Section 4.6.2 observed that successful entrepreneurs in Rwanda exhibited this internal locus of control trait, in line with the theoretical arguments.

The characteristic was also seen to be present amongst the aspiring entrepreneurs. Fourteen of them made comments during the interviews that suggested an internal locus of control, of which five appeared to indicate a particular antipathy for authority. It was evident in Claude's:

> I want to prepare my own life without the interference of others, and the pressure of others. You know it's very difficult when someone can often command you what to do.

This was also seen in Colette's "where I'm working now, I have to do what they tell me to do". When it was pointed out to her that being employed might be a safer option than starting her own business, she replied "it's always better to work for yourself, instead of working for somebody". The same sentiment was also expressed by Eric B, who felt having his own business would be "better than going in there and working according to what the boss wants", as was the case with Claire who maintained:

> …people who are like me, they do not like bosses giving instructions. Some time when they are giving instruction, you want to do it your own way.

Robert A, meanwhile, bluntly observed "I can't work for someone else" - a comment that was very reminiscent of successful entrepreneur Sharon's "I don't like to work for others".

Four of the interviewees were quite explicit about wanting to feel in control. Germaine volunteered "when you own your own business you control yourself" and Rehema, when talking about a publicity campaign she had managed for a previous employer recounted how she had enjoyed the control she had exerted over the project. Mark too joked that while not being "a control freak" he nonetheless liked situations where he "could be in control [laughs]", and Daniel explained he "would totally love to have control of my life so that I can decide to do what I want". In a comment that bore a remarkable similarity to successful entrepreneur Jean's remarks, Daniel went on to explain that working for someone else would mean he would:

> …not be able to control my life because I will get a particular job to do and I will be stuck there. And all the dreams I've ever had, all I wanted to do for myself, maybe for my future family…I will not be able to achieve. And so for me I think if I can be able to control my life it will make me more happier. I think I will get more happiness from it.

Four of the interviewees' accounts also featured overt references that judged working for someone else as more stressful than the uncertainty they would face when creating their own business. It was seen when Eric B, for instance, claimed working to another's agenda imparted stress, whereas setting up an enterprise would bring freedom from such stress:

> I think the first stress is working on the things you think…you are guided to do. That somebody is the one guiding your thoughts to do this. I think that is the first stress. But when you do the things you have passion to do, I think it's not stress.

A broadly similar point was made by Samuel who felt too that creating an enterprise would free him of the pressure that comes with working for someone else:

> …because sometimes when you have your employers, sometimes they tell you to do things which even you, you are not…maybe with your conscience, you feel you are not supposed to do. But you do it simply because it's your superior you will have to obey. And sometimes you can even do something that you don't like, which…but when you are doing your own business, you are free. You get more freedom. Getting more freedom means that you do something as you want.

The same preference was also seen when Emile recounted "working for others, [that] is where I get stress" and in Aphrodice's "I want to be independent" and his further justification that:

> …if I work for someone all my energy, my intelligence will contribute to the development of the progress of that owner's business.

Josh too explained that he and his partners would rather "drink water and eat one chapati but work for ourselves". For Josh this was preferable "because it's me who makes a decision for myself. No one is on my back".

This preference for the uncertainty of enterprise creation over the relative security of wage employment might seem unusual in a developing economy context, given the absence of social safety nets. Yet it was also seen to be a dominant characteristic in the successful entrepreneurs' accounts. The apparent paradox might be readily explained, though, if these individuals see a qualitative difference between the externally imposed stress of working for someone else, versus the self-imposed stress of creating an enterprise. Having an anti-authoritarian predisposition and a fear of being controlled, individuals with an internal locus of control may feel their natural instincts are severely compromised by being in wage employment, despite its relative security.

When exploring the paradox with aspiring entrepreneurs several of them rationalised their preference for entrepreneurial uncertainty by offering explanations that echoed the comment made by successful entrepreneur Gilbert A: that as an employee the salary one earned was conditional upon enriching one's employer. Like Gilbert A their expressions of internal locus of control had a corresponding monetary dimension, where it was viewed as preferable to engage with uncertainty rather than contributing disproportionately to someone else's financial success. "The way people are giving you a greater amount of salary, it means that they have earned more" commented Robert A, adding further that he wanted to be someone "offering a good salary, not being someone receiving a good salary". Samuel similarly observed "the kind of job I'm doing is generating to my boss, for maybe an example $2 million. And $2 million I'm only getting $100 out of it [laughs]" and added that the realisation one was enriching an employer could have a knock-on effect on one's motivation:

> …it makes you discouraged and you don't even fulfil your duties as you're supposed to do it, because you find that you are not the most beneficiary. He wants to be the most beneficiary in the business, not you. So if you want to be the most beneficiary, start your own business.

Beyond her concerns about the risk of sexual exploitation, Queen too cited the problem of contributing to someone else's enrichment:

> To work with someone is difficult because he…you work with all [your] strengths to give him a company [that will] grow up. I think that in my mind, I think why can't I go and give my own company - why can [should] I give him all…I can work for him for many years for a little thing [money]. And he…that man…he grow with that business, but I no have [don't have] profit for that. So I think that I can't go and ask for a job.

This sense that one's contribution would be undervalued was also present when Josh, in the same vein, asserted "what we have discovered is that what they pay you is not worth what you've done".

Contrasting the fourteen accounts that were suggestive of an internal locus of control with the accounts explored in the previous section revealed that expressions of an internal locus of control could be associated with quite contradictory attitudes towards money. Five of the aspiring entrepreneurs exhibiting an internal locus of control - Aphrodice, Daniel, Mark, Eric B and Colette - had also explicitly rejected being motivated by money, while the remainder had indicated the exact opposite. Claude, Claire, Robert A, Germaine, Rehema, Samuel, Queen, Josh and Emile had all given accounts that showed they were specifically motivated by the money they hoped to make, and that this was often related to trying to create a job in a weak labour market.

The question of how to deal with such linkages and contradictions will be picked up in the final chapter.

5.2.3 Need for Achievement

Section 4.6.3 explored evidence to support the theory that entrepreneurs have a need for achievement. It was seen that this characteristic was present in the successful entrepreneurs' narratives. Nine of the aspiring entrepreneurs also gave accounts that contained references that appeared to match the successful entrepreneurs' need for achievement.

Confiding that his family expected he would fail to make a success of his planned food delivery service Foodcourt, Mark felt he had "to make it" and, in a comment that echoed both the Rwandan entrepreneurs and Sarasvathy's expert entrepreneurs asserted "as far as giving up is concerned, there is no giving up". His desire for success and capacity for perseverance were conveyed in his "I don't mean to boast here, but I think an average guy would have given up a long time ago". The narrative also encompassed his refusal to accept mediocrity. It was plainly apparent when he recounted his decision to abandon his university studies, a decision fuelled in part by the poor quality of the teaching he had experienced:

> …all I expected from certain institutions is thirty percent…I know that I can come up with the seventy percent. But I didn't even get fifteen percent from there, for the three years I was there. And by this I mean lecturers that are interested in building, really smart minds and minds that are going to change…bring about change and, you know, the real change in Rwanda. Like, smart minds, I [laughs] I expected so much from these guys and it was the complete opposite. I mean, they just threw lecture notes at us and at times I felt like…I mean to them it was just another way to get money, a salary. I have a salary, so I can show up to class if I wanted to…I mean I can leave notes behind, let them [students] do exams and then move onto the next level. I mean that's what it looked like to me and…you see, I put up with that, because that's how it was from the beginning, the first year, I put up with that.

However, the teaching input wasn't his only concern. Mark also went on to express his disillusionment with the fact the student body were complicit in the mediocrity he perceived:

> But what really killed me mostly was the students, the environment. I couldn't put up with that. I couldn't put up with people who were okay with mediocrity. I mean, we all see that man this is so mediocre…I mean those guys can do there…we can stand up and ask for…for a better education system but no, everyone was fine with it.

This desire for moving beyond the average was also apparent with John, who was the managing director of Gasabo 3D, an agency that specialised in producing three-dimensional designs for architectural, engineering and industrial clients. "I want to be a great leader and a successful managing director", he announced and embellished the comment that such an achievement would give him confidence he could "be a successful entrepreneur in my own business at any time".

A need to demonstrate one's value was also strongly evident in Eric B's account. When asked where he thought he got his motivation from, Eric B revealed a highly personal experience that had, at the time, caused him considerable distress and appeared to have spurred him on to prove himself. He explained that at the age of 16, while at school, he had been wrongly accused of a misdemeanour. "I was not the one who did it" he recounted, although he "was suspected to be the one because I was stubborn[68]" and was subsequently "thrown out of the school". Despite pleading his innocence, the school principal, a bishop, refused to believe Eric B and told him "you have to

[68] 'Stubborn' is used in Rwanda as a term implying misbehaviour. It was encountered on several occasions.

go out there and suffer. Live a bad life so that others should look at you and you should be an example". Eric B went on to explain:

> Then in my heart…I didn't say anything at that time, but in that time I thought [when] he told me that, I thought that I have to be successful. What you think should not be what should be. Then it's like, I lived some difficult life by that time. But later it started going on well and I think that's the main thing that motivates me. That I have to be successful - at any cost.

The refusal to accept failure also appeared in Augustin's account. He explained he had to abandon university because of the genocide, as he was "on the list of people who must be killed in Butare". Having to quit his studies had obviously left its mark, and Augustin recounted at length that he wanted to return to study and had set his sights on going "back to school because I won't die not having PhD", adding "if I don't do it, it would be a failure". In particular Augustin was keen to prove his worth to his family, especially his mother, because "they were expecting to have in me someone who has studied…who has got far".

Josh's account, although lacking the intensity of the accounts given by Eric B, Augustin and Mark, also included the admission that he wanted to prove to his father that his business would be successful. Jessica similarly explained "I wish to be a strong woman, a strong girl. I wish to be an important person in my family", while for Claire it was important "to have something of your own that is having your name". The account given by Rehema also showed she felt a "need to do something" because she could "create something more" out of her life than the job she currently had. When exploring Daniel's motives the dialogue turned to his natural competitiveness, and although initially talking about his experience of playing basketball, he went on to assert that his desire to win applied more generally to "anything I do".

At section 4.6.3 it was observed that the successful entrepreneurs' need for achievement was accompanied by expressions of confidence in their abilities. Far from being overconfident it was suggested this was a natural reaction to having spotted an opportunity, which had been checked for viability and could therefore be safely exploited. Being at the early stage of their entrepreneurial journey, it would not have been surprising to find that aspiring entrepreneurs would not express this confidence with such clarity. However, the accounts given did, interestingly, reflect the aspiring entrepreneurs' confidence in a small number of cases. "I'm very optimistic" asserted Aphrodice, adding "I think I'm talented". Similarly, when exploring why Colette felt confident she would succeed, she answered:

> I don't know why but I'm not worried about the future of the business. All I need is to start. When I will have started, it will be fine.

Emile too felt sure his business would be successful, Josh said he was "really confident" and Robert B confided "I have confidence" and in amplification "I don't have a confidence crisis".

It was noted in Chapter 4 that a high degree of overlap appeared to exist between internal locus of control and need for achievement for the successful entrepreneurs. For the aspiring entrepreneurs, though, this was much less in evidence with only five of them displaying both characteristics, hence the accounts given by the aspiring entrepreneurs appeared to resolve into a small minority that bore close resemblance to the successful entrepreneurs, and a larger group that appeared to diverge from the characteristics they had exhibited. This divergence also seemed to be supported when the aspiring entrepreneurs were asked about the hours they anticipated working.

5.2.4 Capacity for Working Long Hours

In Chapter 4 it was suggested that the successful entrepreneurs' need for achievement could be reflected in a tendency to work long hours. Comments about actual or anticipated working hours were also identified in fifteen of the interviews with aspiring entrepreneurs, facilitating a direct comparison with the hours worked by successful entrepreneurs.

Table 5.2 Aspiring Entrepreneurs' Estimated Weekly Hours[69]

Aspiring Entrepreneur	Weekly Hours
Aphrodice	48
Augustin	133
Claire	58
Colette	75
Daniel	60
Emile	79
Gilbert B	65
Claude	55
Janvier	45
Jessica	65
John	50
Mark	61
Queen	56
Rehema	70
Robert B	119
mean	71
median	63

Although the mean, at 71 hours, is comparable with that of the successful entrepreneurs' 72 hours, it is skewed by the very high figures quoted by Robert B and Augustin. The median, at 63, is probably more revealing and is lower than that for the successful entrepreneurs' figure of 70 hours. A large proportion of the aspiring entrepreneurs estimated that their weekly working hours would be considerably lower than was the norm for the successful entrepreneurs. For the latter the lowest weekly hours worked was 62, but more than half the aspiring entrepreneurs who quoted a figure anticipated working less than this. Additionally, only three of the aspiring entrepreneurs' estimates matched or exceeded the successful entrepreneurs' median figure of 70 hours. Taken together this might suggest they had a tendency to underestimate what it might

[69] As with the successful entrepreneurs, where a range was given the midpoint was used for the tabulation.

take to develop their businesses. However it would be a mistake to read too much into the difference as the successful entrepreneurs' were revealing actual hours worked, versus the aspiring entrepreneurs' expectations. Had they been asked ahead of starting their businesses, the successful entrepreneurs might also have underestimated what would be required.

5.2.5 Summary

Chapter 4 concluded that the successful entrepreneurs appeared to be motivated by a desire for self-determination, rather than the opportunity for financial gain and that this appeared to be shaped by an internal locus of control and need for achievement. Such claims were also apparent in five of the aspiring entrepreneurs' accounts.

It must be acknowledged, though, that the successful entrepreneurs' accounts were retrospective, while the aspiring entrepreneurs were imagining an entrepreneurial future that may or may not come about. Furthermore, it was noted in Chapter 4 that financial concerns cannot be entirely divorced from the successful entrepreneurs' primary motive[70]. There is consequently no way of inferring, merely from the motives expressed, which of the aspiring entrepreneurs are more likely to be successful - those who claim to be motivated by personal financial gain, those who are seeking to create a job, or the small sub-set of five who appeared to mirror the successful entrepreneurs' relegation of financial motives.

It might be also be argued that the successful entrepreneurs and the subset of aspiring entrepreneurs who appeared to match them might have been influenced by social pressure against acquisition, and that this might have shaped their denial of overt financial motives. Such a phenomenon was observed by Kennedy (1988:140) in Kenya, where kinship or community expectations of wealth redistribution caused individuals to downplay their financial success. However, this would imply a zero-sum context, where one's gain would be at another's expense. This would seem to be far removed though from the Rwandan context, where for sixteen years the government and media have promoted the social and economic benefits of entrepreneurship and

[70] See section 4.6.7.

successful enterprise formation on the basis that it will lead directly to economic growth, poverty reduction, peace and prosperity[71]. The result is a thorough acceptance of the benefits that will be borne out of *Vision 2020* and a context that appears to be a decidedly net-positive one. A zero-sum context would also be at odds with the evidence from the majority of the aspiring entrepreneurs' accounts, where frequent and unprompted comments were made in support of the government's economic strategy and the ease with which the majority of interviewees volunteered their overt financial motives.

In this context, it was also clear that the government's active promotion of the benefits of entrepreneurship over wage employment had also helped shape the aspiring entrepreneurs' aim of creating their own enterprises. Indeed it is clearly feasible that such overt promotion of entrepreneurship, amplified by high levels of media, NGO and international development agency endorsement has narrowed the rhetorical space in Rwanda to such an extent that those competing in a weak labour market would find it difficult to countenance alternatives to setting up an enterprise.

Internal locus of control was well represented amongst the aspiring entrepreneurs' sample, but overlaying this aspect of the narratives onto the financial comments suggested a divergence in attitudes. All five aspiring entrepreneurs who were dismissive of financial motivates exhibited an internal locus of control, in line with the trend observed in the successful entrepreneurs' interviews. But ambiguously, internal locus of control could also be associated with an overtly financial means-ends orientation.

The need for achievement was also indicated in the majority of the interviews. However, it did not carry over to a corresponding expectation about the effort that would be required to realise the goal of developing a business, as displayed by the much lower estimates for weekly hours versus the estimates made in Chapter 4 by the successful entrepreneurs. Of the nine aspiring entrepreneurs who demonstrated the need for achievement, only three anticipated a working week that matched or exceeded the median level for the

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[71] Additionally Kennedy's observations were based on what he referred to as "traditional societies" (1988: 140). It is debatable whether modern day Rwanda, where *Vision 2020* has played out for sixteen years, would be an accurate reflection of the context that Kennedy was writing about.

successful entrepreneurs. However, the variance between successful and aspiring entrepreneurs may simply reflect the latter's lack of experience rather than indicate any significant differences in attitude.

Taken together, although internal locus of control and need for achievement were prevalent in the aspiring entrepreneurs' accounts this did not translate into a correspondingly high representation of the self-determination motive that was observed in the successful entrepreneurs' narratives. Rather the aspiring entrepreneurs' accounts were polarised between a small set that corresponded to the successful entrepreneurs' self-determination motive and a larger set that had financial motives, including the desire to create a job in response to a weak labour market.

5.3 Effectuation and Causation

Sarasvathy's theory of effectuation, explored at section 2.4.2, distinguished between two types of reasoning, the effectual and causal. Her theory holds that effectual thinking enables one to construct possible future scenarios in a context of uncertainty while its inverse, causal thinking, helps individuals to make decisions through the application of deductive logic. The theory holds that entrepreneurs have a preference for effectual thinking over causal thinking when developing new enterprises. Although falling short of the full phenomenon exhibited by her expert entrepreneurs, it was concluded in Chapter 4 that successful entrepreneurs in Rwanda did have a preference for a dilute form of effectuation when they developed their businesses. As was the case with Sarasvathy's expert sample, they were often familiar with causally orientated formal business planning, which sets predetermined fixed end goals and seeks to identify and martial the resources to achieve them, but this classic approach was consciously ignored. Instead the successful entrepreneurs had a predisposition for diving in and developing their enterprises as circumstances dictated, but also used a degree of causal reasoning, termed sketching, to obtain reassurance about the validity of the commercial opportunity they had identified.

This section will explore the extent to which this was also the case with the aspiring entrepreneurs. Although they were only at the early stages of developing a business and had less experience to draw on than the successful entrepreneurs, the interviews nevertheless proved to be rich in content.

5.3.1 Predilection for Effectuation

Broaching the question of business planning with the aspiring entrepreneurs yielded clear evidence that six of them shared the successful entrepreneurs' predilection for diving in without a business plan. It was seen in Aphrodice's narrative when reflecting, philosophically, that "sometimes you…how can I say…you jump in", adding "some times we do things like fools…we don't think, you jump in a…you jump in a business". It is especially interesting that this explanation should virtually paraphrase Keynes' observation that, under conditions of uncertainty, there would be no investment unless certain individuals were prepared to act in a manner that might be judged as irrational (Keynes, 2012: 150).

This lack of concern for formal business planning was also apparent in the account given by Rehema who, in a comment reminiscent of Christian at section 4.3.1, insisted that pausing to write a business plan might mean never getting started with the business:

> …if you wait to complete your business plan you never will. It may take you a whole year to just detail as much as you want. And…yeah, I think I'd just want to take the risk and just actually start.

A similar sentiment was also expressed by Mark when asked whether he had written a business plan for Foodcourt, the food delivery business he was in the process of developing. "No I didn't write a business plan" he replied, adding "I felt like that was too much, that I didn't need a business plan". He went on to explain he saw no value in writing one and "just dived in". Mark justified this conscious decision by asserting he didn't need one "since I was in control", a comment that showed a remarkable resonance with the effectuation theory premise that to the extent one controls the future, one has no need to predict it (Sarasvathy, 2008: 17). When Colette was asked about whether she had prepared a plan for her event management business, she too was comfortable to concede "no, no. No special business plan". As was the case with Akalisa in Chapter 4, Colette had pressed ahead and formally registered her business even though she did not have a plan for it. She just "decided to register a company and start working for myself", she confided. Josh too conceded that he had started developing his electrical installation business without a formal plan and Robert B, when talking about his previous audiovisual production company volunteered "I will tell you something - I didn't have a business model. I didn't have a business plan. But I knew what I wanted".

These interviews with aspiring entrepreneurs also revealed attitudes amongst a minority that mirrored the successful entrepreneurs' technique of developing their enterprises iteratively. It was detected when Aphrodice described how he was developing his medical mobile application. He explained he had first set out to create a website that would provide agricultural information to farmers, but this failed because the farmers "didn't have access on internet". This led him to move on, instead, to explore "giving advice on agriculture by using a mobile". At the time he was working in the Food and Agriculture Organisation's department of nutrition, which made him think about providing nutritional advice. But when he started talking to doctors about the idea, he was surprised to find "every doctor I approached, it seems like he doesn't know about nutrition", so Aphrodice started talking to dieticians. He found, though, that providing appropriate dietary advice depended on having additional information such as age and blood type. From here he started exploring providing medical advice, but found "that a doctor cannot consult you when he is not seeing you. He has to see you physically". Unbowed, Aphrodice "changed the methodology and the strategy". Thus each time an obstacle was encountered he took another incremental step, which gradually but progressively reshaped the commercial concept. Rather than abandoning the idea, Aphrodice doggedly persisted with addressing shortcomings as they became apparent. Such persistence in the face of difficulty was also suggested by Colette's reaction when she was asked how she would feel if her planned venture were to fail. "I would be sad" she said "but I would still go on and start again", while Josh similarly explained that if his business was proving to be unsuccessful he would "sit down again and analyse where the problem came from".

Another, highly informative, account of iteration at work was observed when Mark talked about developing his food delivery enterprise. He described the process he was employing as "more of learning by doing" and went on to explain "I don't expect myself to be successful overnight". Convinced there would be demand for a food delivery service, Mark had originally planned to "build an application that restaurants can use to bring their products and services closer to their customers". But when he went to talk to restaurant owners about the idea, he found it was a concept they simply didn't want. They were perfectly happy with business as usual:

> When I went out there in the world, those guys weren't…they weren't about that [laughs]. They were fine with customers that come in. I mean they weren't even ready to do the delivery.

Undaunted by the lack of interest, and still convinced there would be a market for a food delivery service, Mark considered the reaction and reformulated his concept. In his own words he:

> …thought about it and then decided, okay let me go back and this time I tell them: okay, I will do the delivery for you. I mean I went back with a different idea and… which was more…they were okay with. That is, I did the delivery, I managed the way [laughs]…they're quoted on the application and they…I charge them a small percentage for that. They were fine with that. They were not fine with having to do the whole process.

Instead of seeking to charge restaurants for advertising a home delivery service they did not want to organise themselves, he changed tack and decided to undertake the home delivery himself. Mark negotiated a discount with the restaurants, thereby creating an intermediary profit margin for Foodcourt. He had also set a timescale for formally assessing his progress:

> So I know that by June if I've put, I mean, I've met all these conditions and I've not got a result like I planned for, then yes I can think of, you know, putting Foodcourt aside and start up something else.

This preparedness for confronting and learning from difficulties encountered was also suggested by Claire's account. Discussing the possibility of venture failure, she drew an analogy between developing a business and:

> …a child learning to walk. You start the first step and then you fall. Sometime you get a fracture, injury, but the next day start again to walk. So I…for me, if my business fails, I may for example start another one, or I may see if the error was based on my low experience, for example. If the cause was inside the business, like not performing, like a bad conception, I may go for example to try to change or to qualify…to put more qualification…to put more standard if I may say.

The iterative nature of the journey was also seen in her explanation that “I can’t fail in all. I can try this…if it’s going I continue. If it’s failed, I can change the way I’ve made it or I can go for the next choice”. Eric B’s narrative too appeared to reflect the preparedness to act iteratively, when commenting “if there will be some failures, I will keep persisting”, as did Germaine who, like Mark, planned to review her progress after the business had been running for six months and then to “mitigate where I have done the mistake, where I needed to improve, so that I continue better”.

The interview with another aspiring entrepreneur, Samuel, was initially confusing (to say the least). Asked about the business he wanted to develop Samuel replied “what I am planning to do is, I want to invest in education”. He wanted to set up his own private school. The discussion revealed Samuel had made a previous attempt at teaching, but this had failed. Talking about his previous experience he explained he had tried teaching English, and had called this service the High Knowledge English School. Seeking confirmation about the name of the school produced the surprising reply:

> Yes. It’s just an English school and we were teaching about driving. People who want driving licence, we help them. That’s what we do.

When asked to explain why a service called the High Knowledge English School should have been teaching people how to drive it became clear the attempt to teach English had stalled, so Samuel had switched to teaching people to drive. To rationalise the apparent inconsistency he offered that the “English school is like one department but we have also a department about driving”.

This capacity to change tack was also seen in Augustin’s narrative. Indeed his whole account is of repeated attempts to find the right commercial answer to satisfy his entrepreneurial ambitions. When working as a refugee camp manager for the Irish NGO Concern Worldwide he had tried a whole string of ideas:

> Our businesses really didn't develop well. To tell you briefly, I remember just when I reached the working area I done five kinds of businesses… some services [were] lacking over there. Then I started showing…I bought a video and I started turning films…I think I found an orchestra. So as well as people could come there was a hall…I recruited people from Congo to play Congolese music. Then at weekends there were performances…it was like music performances, dancing. And then during other days I was showing movies for people to pay when they get in. Then when it…that didn't work well I replaced by I think…I started a restaurant. Just food and when I tried to bring in some beer the landlord refused because I was living in a Muslim…in a Muslim area. Then…I decided to build my own property…my own premises. And then whereas I opened it was a kind of bar and restaurant known as La Fraicheur de la Rusizi.

Augustin recalled "that one worked a bit well until I was moved to DRC. Then it started collapsing again", so he started selling "breads and cakes" in order "to make sure that I can make money". He also set up a shop in the city of Kamembe, near the Congolese border, and bought a car to rent out to tourists, which in turn led him to realise:

> …during that period in Ruhengeri there was…a lack of accommodation for tourists coming for gorillas, hiking. Then I said, well I think with the little money I have now I think I can do something to accommodate tourists, to transport them and then provide them with some services… other services like bookings, like contacts.

So Augustin rented a building where he established another bar, as well as letting some rooms as dormitories. But this also struggled and required reconfiguring:

> …at the end tourists were not enough to make me money and I start bringing in some other aspects to attract local people as well including reducing prices. I remember having brought this cultural tourism…and because tourists were much more interested in the drumming or traditional performances, but the local people were looking for other cultures…like Uganda, like... Then I made a group made of Congolese, Ugandans, Burundians and Tanzanians. So, by the time we were doing these other countries performances then some local people could enjoy.

After this venture also collapsed, Augustin set up his current enterprise, the tour and travel agency. But this too appeared to be failing to meet his expectations, leading to the decision:

> …to be involved in consultancy as well. Because I also have these skills and experience I gathered from NGOs that I don't want to lose…I used to help my organisations in designing the strategic plan, conducting surveys…like what you're doing now…I'm very good at doing this as well. Facilitating workshops, facilitating training.

Although Augustin's narrative could be seen to paint a picture of serial failure, it nonetheless illustrates the iterative nature of his entrepreneurial journey, and one that for Augustin is still far from completed. Rather than being daunted by the failures he has encountered along the way, he is determined to keep trying. There is, though, an interesting difference between the approach that was seen in his narrative and that recounted by both Aphrodice and Mark. Although Mark and Aphrodice had also encountered difficulties with developing their ideas, their narratives showed they had stuck with a core concept and had modified it when a major hurdle was encountered. This dogged perseverance was less in evidence though with Augustin who, in the face of difficulties, appeared to be prone to casting around for a new idea for making money rather than assessing and addressing the limitations of the current undertaking.

The successful entrepreneurs' accounts analysed in Chapter 4 gave no indication that they had a history of serial failure before finally hitting on a successful formula, thus it is tempting to speculate that Mark and Aphrodice, in sticking to resolving hurdles as they are encountered, could be more likely to succeed than Augustin. However, as the interviews with the successful entrepreneurs had focussed on their successful businesses and had not specifically explored whether they had a prior history of failure, it would not be appropriate to draw any such inference at this point. The distinction could though be a valuable avenue for future research.

While not expressed as plainly as by Mark and Aphrodice, the accounts given by Claire, Colette and Eric B were also suggestive that any failure would be followed by a period of introspection, in order to find out what had gone wrong with the enterprise idea, followed by an attempt to put it right. What these accounts all illustrated, though, was a high degree of comfort with the process of developing an enterprise 'on the hoof'. Rather than following the traditional STP process and identifying a fixed end goal and then seeking to identify and martial the resources that would be required to achieve it, these aspiring entrepreneurs were happy to dive in and see where their entrepreneurial journeys might take them. If their initial steps faltered they were quite relaxed about changing tack and modifying their approach or, if ultimately necessary, by abandoning the businesses they were endeavouring to set up and trying something else. Germaine, for instance, had identified that if her leather goods business was ultimately unsuccessful she could move to marketing “jewellery and the weaving” products. Similarly, although Mark was committed to his food delivery service, when asked about what he would do if it did not succeed explained he would “close shop [laughs]. Yeah, I’m always thinking up other ideas”. Even though they were persisting with their original ideas, they were aware of the possibility that their iterative journey might ultimately have to include abandoning a failing concept and trying something else.

5.3.2 Sketching

Rather than accepting Sarasvathy’s binary split between effectuation and causation, it was argued at section 4.3.3 that effectuation and causation represented opposite poles on a continuum, with an intermediate space where the successful Rwandan entrepreneurs had employed elements of both effectual and causal reasoning. Thus although they were prepared to dive in without a business plan and to build their enterprises iteratively, Chapter 4 reached the more nuanced conclusion that they had simultaneously employed a degree of causal reasoning in order to gain reassurance about the viability of the commercial opportunity they were intending to pursue. They sought this reassurance by undertaking basic research or checking demand for their products or services, and sometimes committed their key assumptions to paper in the form of a simple concept note. These techniques did not constitute formal business planning based on the traditional principles of segmentation, targeting and proposition development (STP), but did provide a rational counterbalance to the predilection for diving in without a plan, and was seen to provide a degree of confidence about the commercial potential of the intended enterprise. Chapter 4 used the term sketching to describe this proclivity for counterbalancing a dilute form of effectuation with measures grounded in causation. This technique was also found to be present in a small minority of the interviews with aspiring entrepreneurs.

The narratives provided by four of the aspiring entrepreneurs contained comments that indicated they had produced, or were in the process of producing, rough concept notes that contained the key assumptions that had been made about the enterprises they intended to build. Asked about the planning process for the online business services enterprise he wants to develop, Eric B replied “it was not a big business plan. It was like one page”. This one page featured a basic vision of what he imagined the business would do and how it would be promoted, but did not include any financial projections. His justification for this omission was that he “didn’t know when I’m going to get customers, how much they are going to pay”. The rough outline was used by Eric B to garner support from volunteers who could help him develop the enterprise, just as successful entrepreneur Gilbert A had done when seeking the support of a strategic partner for his stationery business. Although the idea for Eric B’s enterprise was contained on a single piece of paper, it would be wrong to conclude that this implied a lack of diligence. When pressed about reducing the scope of the enterprise to just a single page, he insisted “I summarised it, but I thought more than I wrote”.

Mark’s narrative indicated he too had followed a similar approach. He began by looking at a Swiss online planning tool, The Business Model Canvass (Strategyzer AG, 2015), which is designed to lead a prospective entrepreneur through the business planning process. It comprises nine building blocks that broadly follow the standard STP planning logic: customer segmentation, distribution channels, customer relationships, the value proposition, key partners, cost structure, key resources needed and revenue streams. Insisting he did not use it to produce a formal business plan, it did help Mark to define “the value proposition that I had of the customer”, which he wrote on a single page. Armed with this one page customer proposition he felt he “didn’t have to write a business plan” and “went out in the world, real life” to test reactions to his proposition. Mark went on to explain that armed:

> …with that - just a piece of paper, I went out there. And I learned so much. Like I learned from the real world, I didn’t lock myself up and write up a business plan. I learned from the world.

Rehema too had first referred to an online planning template. When trying to use it, though, she “realised it’s so much detail that actually I have to get from outside…to actually put on paper. Like I'm trying to do projections of profit or trying to get the costs and all this". Although she had consequently not completed a full plan and as was seen at section 5.3.1 had concluded "if you wait to complete your business plan you never will. It may take you a whole year to just detail as much as you want", she nonetheless felt she should commit something to paper and had produced a "temporary" outline of her idea for the business. The temporary nature of Rehema's plan was also matched by Aphrodice's narrative:

> Yeah I write down my idea. Every day I tried to revise… to revise…even today I was revising my business idea and I was saying I have to add this, remove that, you see.

For Aphrodice the plan is never finished. It is in a constant state of flux, as he responds to new contingencies and modifies his approach. In this Aphrodice was pinpointing a methodology that is the very antithesis of orthodox planning, which is characterised by defining and then pursuing fixed end goals.

What these narratives appeared to be indicating was a desire to commit something to paper, even if this was not extensive. As with the successful entrepreneurs, even a one-page outline could be used to talk to potential partners or customers, thereby generating a higher degree of confidence in the viability of the idea that was to be pursued. This use of sketching was also apparent in successful entrepreneurs' attempts to assess the potential demand that would exist for their business concepts, and was replicated by a small number of the aspiring entrepreneurs. Aphrodice was a good example of this. He had:

> …approached people and asked them if I give you this service are you ready to use this…and everyone I was…I told the product…the service, was happy and said that business I'll be one of your clients. So like when you ask more than twenty people, and you see their reaction and…from different backgrounds…so I said this business will work.

He had followed this route to get a steer on potential demand "because you know to do market research is not easy. Sometimes it requires a huge amount of money and I don't have…I didn't have, so I just had to do like that". Janvier too had reasoned that there was potential demand for bakery produce in the village of Nyabugogo, as people were having to travel into Kigali to shop:

> …there is a big distance from here, Kigali, to go [to] that environment. The person who are enjoying the product of a boulangerie, they consume the cake or a similar product that come[s] from here, at Kigali city. You can see that there is a lack of a producer in that area.

Mark had also identified potential customer demand for his food delivery service, while working at an advertising agency:

> Two years ago I was working as a receptionist at an outdoor advertising agency and it was located in a place near a residential area. So the restaurants in this place were very…were overpriced. So most of my workmates couldn't afford the place…the food in that place. So they had to move out a long distance…go to town, the city centre, to you know find food they can afford and all that. So I realised that…I'd been working there for over a year, so I realised how unproductive it made them. They spent so much time out on lunch. I…it started coming up… it came up, I mean how could I solve this problem. How could I bring the food, you know, make it easier for them to have their food.

Seeing the potential that existed, he concluded "there's people out there that really need the service, and they're ready to pay for it." But instead of writing a formal plan he visited "four restaurants in person" to test reaction to his initial idea. It is significant that Mark had pre-sold this first idea to potential users - an effectuation tactic that was also observed in Chapter 4. This meant he was able to identify limitations in his original concept and then to modify it.

Six aspiring entrepreneurs' narratives contained references showing that basic research was also undertaken to help shape the enterprise concept. When Emile thought there might be an opportunity for him to enter Rwanda's embryonic tourist industry he:

> …read the books and I checked the internet I have seen how in Rwanda that tourism [was] in third place to make money enter into our country at that time, five years past. But now tourism is now the first sector.

From this he was able to verify the wisdom of his intention to "enter the tourism sector". Germaine's narrative too featured a specific reference to having "done the market research and analysis before I ran the business". This included making four trips to Ethiopia to source leather:

> …because here in Rwanda we don't nowadays, we don't have the leather industry. All raw materials are imported for making leather products. So when I was in Ethiopia I found the type of leather I had not seen here in the East African community. So I thought that it is the potential product here in Rwanda.

Josh's account also included references to having undertaken a limited amount of research that would support the decision to start his electrical installation company. He found that contractors typically guaranteed their work for a year, and concluded he could achieve a competitive advantage by offering an eighteen month guarantee, which would translate directly into a cost benefit for his clients:

> …it works because people say: oh, we are still with you for a long time. So all those months, all those months they maintain us…you know it's six months beyond others. So every one month usually they are supposed to pay to us, they are supposed to pay 150,000…150,000 Rwandan francs for maintenance. So we tell them we are the ones to maintain this machine but we give you a guarantee of one year and a half. So calculate 150 times 6, all that money you are saving, so give us a chance to work for you.

An intention to conduct limited research was also evident in Rehema's narrative, when she claimed she would "try [to get] as much information as is possible before I actually do something". Similarly, Robert A, when asked why he thought his import/export business would be successful, indicated he intended to "capture information on the market".

Colette's narrative featured comments that suggested she too was keen to obtain a degree of reassurance about her intended business. Although referring primarily to wanting to "have a small training online" in order to "refresh and get new hints", embedded within the remarks was the additional comment that she also wanted "to know how other people do it". When asked to expand on what she was thinking about, Colette revealed that she was confident about her abilities, but that she wanted to explore whether she could enhance her level of professionalism.

It is important to recognise the techniques that the sketchers used to gain reassurance do also play a role in traditional business planning. The sequential process of market segmentation, targeting and proposition development also encompasses research and demand assessment. The key difference is the direction of travel. For STP-orientated planning, the customer proposition is the logical conclusion to a deductive process. For the successful entrepreneurs and a minority of aspiring entrepreneurs, though, the proposition was the starting point. Their use of limited research and demand assessment was part of an

inductive process, which sought to verify the preconceived proposition.
It pragmatically tested the proposition for validity and used a feedback loop to modify it where necessary. Thus far from diving in blindly and hoping for the best, these individuals took deliberate steps to test the veracity of their idea. Their action thus conformed to the Keynesian principle that demand leads to supply (Ocampo et al., 2009: 8), rather than the Say's Law principle that mere supply automatically creates demand.

5.3.3 Predilection for Causation

Nine aspiring entrepreneurs recounted narratives that were far more indicative of thinking which was firmly located at the causal end of the effectuation-causation spectrum. Aloys was a prime example of this. He planned to start a company that would import consumer goods into Rwanda. Although he was vague about the type of products he anticipated importing, he was clearly familiar with market segmentation and had identified the market niche he would be targeting:

> First of all I plan to target those lower income customers first of all. Lower income customers, because of Rwandan problems the most lower income customers are many compared to higher income customers. That's the reason why I target those people who have lower income. For instance the villages, those people come from the village, those people who touch lower income for instance teachers who are from primary schools, secondary schools.

It became even more apparent when asking him whether he had calculated how much money he would need to start his business. He did not know, and explained he "must first plan a business plan", and that the money needed would be a logical output from the planning process:

> So after doing a business plan; after doing the structure of business opportunity (pause) so those are the business factors that will frequent me to know how much I will need when I finish my business plan writing.

Aloys also described the wide ranging feasibility assessment he intended to undertake:

> The components of feasibility analysis, the first one is product and service, organisation of feasibility, financial feasibility (pause) as well as industry feasibilities. Those factors are related to proposed venture. If all of the four areas are aligned, proceed [with] the business idea.

Aloys's description of the process he meant to employ also encompassed references to Porter's 'five forces', further exemplifying the causal approach:

> …there are five factors of Porter's. The first one is the traits of new entrants; if you are a newcomer in an industry you will face a problem. Problems will come; you will face problems in terms of differentiation, competitive advantage, you don't have experiences. Those are challenges that you will face in terms of starting business.

Asked how he intended to overcome such challenges to market entry led to a further exposition of typical components of mainstream business planning, encompassing the importance of core competencies, competitive advantage, innovation, cost reduction and marketing. The same preference for causal reasoning was also indicated by Daniel who insisted "we will not set up the business until we have a plan" and went on to elucidate "we wanted to target particular…particular niches in the market. We want to see where the gap is", and added "we intend to do proper research about this"[72]. Other comments suggestive of the intention to engage in formal business planning included Janvier's "I have to do a feasibility analysis…whether the project will be viable" and Queen's "I will write the plan", which "can facilitate you to have the reassurance, the decision, and to organise how you want to continue your business".

It was clear during the interviews that four of the aspiring entrepreneurs derived their trust in traditional business planning from their formal studies. Aloys's monologue about the "five factors of Porter's", for instance, is a classic and widely taught Harvard Business School model for strategic planning developed by Michael Porter. Aloys clearly took comfort from following the orthodox line taught in business studies classes. Jessica too, when asked why she would be successful with her forex bureaux, explained "it matches with my studies", a comment that paralleled Claude's "I have experience from my studies". Gilbert B too, when talking about his plan for developing a food processing business, confided the idea had been the subject of the dissertation he had to write as part of his bachelor's degree in economics. He planned "to fill the gap from the shortage of food" that this dissertation had identified.

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[72] Interestingly this was completely at odds with the views of his putative business partner, Rehema, who had separately shown that she thought it better to dive in and develop contingently (see section 5.3.1).

This trust in the benefits of orthodox business planning was also evident when talking to John about the privatisation of Gasabo 3D, the company he led as managing director. The business plan underpinning the privatisation had assumed the existence of a future flow of design projects, but it turned out "actually they were not there". While the successful entrepreneurs reviewed in Chapter 4 had shown they were adept at reacting to the unexpected, and often had alternative strategies notionally mapped out, this flexibility had not been planned in with Gasabo 3D. Consequently, discovering that reality did not follow the logic mapped out in the business plan meant that things became "very, very stressful" for John, to the extent that he admitted it "almost killed me" - a revelation that contrasts starkly with the attitude expressed by the successful entrepreneurs in Chapter 4, whose contingent behaviour enabled them to cope with the unexpected. The Gasabo 3D problem was addressed by producing another formal business plan, with the help of experts from the Rwanda Development Board. When asked how closely reality matched this new formal plan produced the admission:

> …but we are not achieving our targets as we expected, so we are a bit below the targets. Maybe we are a bit overambitious about the projections. It's like, maybe it's 50 percent.

Thus two formal business plans had successively failed to accurately predict the future, even though Gasabo 3D had a track record and historical data on which to base its forecasts.

As was the case with the successful entrepreneurs, the aspiring entrepreneurs' accounts also contained contradictions. Colette, for instance, had demonstrated the predisposition for a dilute form of effectuation and had registered her enterprise without having produced a business plan. But when talking about the importance of having a business plan she paradoxically insisted "I will do it [laughs], I will do it", and went on to add that she saw it as important "because in…any kind of project, you have to have a plan for it. To see the risks and expectations and so it should be the same with a business". Thus although espousing the benefits of business planning, she had decided to press ahead and register her business without one. When pressed over when she intended to write her plan she replied "I think before I decide to be full time in it, I will have a plan for that". In this her account closely paralleled that of successful entrepreneur Annette, who had been trading for a year before she attempted to write a business plan. The same contradiction was also seen in Josh's account. He too indicated he felt a business plan was important, indeed he and his partners had tasked one of their number with producing one. But when asked specifically if he had ever seen it Josh conceded "not yet, but he told me that he did it" and admitted he and his partners were pressing ahead and starting their business without a business plan anyway.

Another interviewee, Robert A, also espoused the benefits of preparing a business plan, and intended to "have a proper plan" for his new enterprise, because "the plan is what guides you in the business". But he also revealed he had started a business previously without one. Although his first attempt had folded, his comments closely matched those of successful entrepreneur Sharon, who had also started a first enterprise without a plan but then went on to start a second enterprise with one. Samuel also exhibited this apparently paradoxical attitude, insisting he had "just started" a previous enterprise but simultaneously claiming "but now I'm going to plan it…to make a business plan". He justified this by citing his former youth and lack of knowledge about formal planning. "I didn't know that I should even do it anyway", he offered, a comment that bore a very close resemblance to the point made by successful entrepreneur Jacques who similarly admitted to being unaware that "people should have a business plan". Though appearing to be paradoxical, there is a certain logic to Robert A's and Samuel's thinking. Both had tried once without a plan, and failed. They appeared to blame their failure on their lack of formal planning, so now anticipated proper business planning would lead to success.

A more extreme contradiction was observed with Claire. Although it was seen above that she had espoused the virtue of acting contingently when developing an enterprise, citing the analogy of a child learning to walk, her narrative also indicated that she had already written a formal business plan for the enterprise she intended to create. Looking closely at her narrative also revealed three very specific references to the market segmentation and targeting she had undertaken for her business plan. Thus Claire appeared to be simultaneously expressing strong predispositions for a dilute form of effectuation and casual reasoning that went well beyond seeking reassurance via sketching. The oddity of this is to a degree contextualised by the fact, observed at section 4.3.3, that it was common for successful entrepreneurs to seek to develop business planning skills some time after their enterprises had proven themselves. But in Claire's case this sequence was reversed. Consequently, if she were indeed prepared to act in the iterative manner that she appeared to endorse, she would be faced with the prospect of having to abandon the very business plan she had gone to the trouble of writing. Taken in aggregate her narrative appeared to indicate that, on balance, she tended more towards the causal end of the effectual-causal spectrum.

Like Claire, Augustin's account too contained contradictory indications that he favoured following the sequential STP logic, despite his narrative having recounted a highly iterative course. Asked whether he had tended to follow his instincts or to write formal business plans for his enterprises he asserted "I have to write", and amplified this by describing the approach he used:

> What is my objectives, what is my vision, what is my routes, what are my objectives, how can I reach these objectives, what are my activities so what are the requirement, what are they in terms of resources. And then how much may I spend.

In this Augustin appeared to be describing the very causal reasoning that Sarasvathy observed is endemic in business studies classrooms (Sarasvathy, 2008: 73).

5.3.4 Envisioning an Alternative Future

It was noted at section 4.3.2 that three-quarters of the successful entrepreneurs sample expressed a clear longer-range view of what their enterprises might look like even though they were developing their enterprises contingently, rather than pursuing fixed end goals. The same capacity was also seen in the accounts given by five of the aspiring entrepreneurs. Claire, Daniel, Germaine, Aphrodice and Mark were also able to express a clear vision for their enterprises.

For Daniel this view of the future was located in the geographic reach of his planned business, as was seen to be the case with three of the successful entrepreneurs. He believed "that in a short time, in a few years to come, this will be one region, and people will be doing business across the border" and went on to assert he expected in the future he would "do business all around this region". Mark too made comments about wanting to have a wider impact across Africa. He mentioned West Africa and South Africa specifically, and also anticipated that in ten years' time he would have "fifty employees".

For Claire and Aphrodice this future vision was located in the scale of their enterprises. "I have a big dream…I want to build a teaching hospital" claimed Aphrodice, while Claire was able to provide a lengthy description of the vision she had for her "health promotion centre", which would provide a wide range of services including advice on nutrition, exercise, stress management and family planning. Although Germaine's description of the future was more modest, she nevertheless anticipated that "in five years' time" her business would "have the big shaving machine, two Singer machines and sewing machine and carving machine" and that she would be employing five people.

This capacity for enunciating a future vision for the enterprise was, though, very limited. Despite probing, it was not really evident amongst the remaining aspiring entrepreneurs. Jessica for instance, when asked to describe what her forex bureaux might look like five years after its launch, was unable to provide anything beyond the thought she would "be having a computer in my office". Queen's comment too was limited to the thought "I think you will see that my business grow, and I think it would be changed. I don't know".

The fact that only five of the aspiring entrepreneurs were able to volunteer a future vision for the enterprises they intended to create is illuminating. Given the extent to which the benefits of formal business planning had been espoused by the majority of the aspiring entrepreneurs, one might have reasonably expected to see support for such planning to translate into a far greater capacity for enunciating a clear future goal for their intended enterprises. But this was not the case. Only two of those who expressed support for formal business planning - Claire and Daniel - seemed to have a clear notion of what their plans were intended to achieve. It may suggest a tendency amongst the aspiring entrepreneurs to be attracted to the notion of being business owners without having a clearly formed business concept. It might also suggest a tendency to prioritise learning how to write a business plan over investing time and effort in developing a clear commercial idea. The implications of this possibility will be explored more fully in the next chapter.

The fact that the majority of successful entrepreneurs and a small number of aspiring entrepreneurs were able to envisage a longer-range future for their businesses is also important in that it casts at least a shadow of doubt over Banerjee and Duflo's argument that individuals in low-income contexts tend to default into accepting their status quo due to an inability to envision future improvements in the quality of their existence (2011: 229).

5.3.5 Summary

Chapter 4 revealed that all of the successful entrepreneurs had been prepared to dive in without business plans and to build their enterprises iteratively. This dilute form of effectuation was combined with a degree of causal reasoning, termed sketching, through which they were able to derive a degree of reassurance about the validity of the commercial opportunity they subsequently went on to pursue. Sketching was seen to be present in three-quarters of the successful entrepreneurs' accounts. These characteristics were also observed in the aspiring entrepreneurs' narratives, but with a far lower level of consistency.

Five of the aspiring entrepreneurs' accounts included references to both diving in without a plan and acting contingently, three only mentioned acting contingently and a further three only mentioned diving in without a plan, thus yielding a total of eleven accounts that to a greater or lesser extent were suggestive of dilute effectuation. Under sketching, actions that could be clearly described as demand assessment appeared in just three narratives. Eight accounts were indicative of basic research, of which six did not specifically mention demand assessment but might have nonetheless encompassed its evaluation. Additionally, just five of the aspiring entrepreneurs were able to envision and express what their enterprises might look like in the future, although this was a facility that was evident in three-quarters of the successful entrepreneurs' accounts.

Table 5.3 summarises the comments relating to dilute effectuation, sketching and envisioning. The first two columns split dilute effectuation comments into those relating to diving in without a plan and those relating to acting iteratively. Comments relating to sketching are also split between those relating to assessing demand, conducting basic research and producing a rough outline. The table also records where the aspiring entrepreneurs indicated the capacity for envisioning. By combining and summarising these characteristics it is possible to see which of the aspiring entrepreneurs appear to occupy the intermediate space on the effectuation-causation continuum that it was concluded in the fourth chapter was occupied by the successful entrepreneurs.

Table 5.3 Dilute Effectuation, Sketching and Envisioning

	Dilute effectuation		**Sketching**			**Envisioning**	
	Dive in	**Iteration**	**Demand assessment**	**Basic research**	**Rough outline**		**Frequency**
Aphrodice	x	x	x	x	x	x	6
Mark	x	x	x	x	x	x	6
Germaine		x		x		x	3
Josh	x	x		x			3
Colette	x	x		x			3
Rehema	x			x	x		3
Robert A	x			x			2
Claire		x				x	2
Samuel	x	x					2
Augustin		x					1
Eric B					x		1
Robert B	x						1
Emile				x			1
Daniel						x	1
Gilbert B							1
Janvier			x				1
Aloys							0
Claude							0
Jessica							0
John							0
Queen							0

The diffuse pattern revealed suggests that very few of the aspiring entrepreneurs' narratives provided evidence that they were in tune with successful entrepreneurs' occupation of an intermediate space on the effectuation-causation continuum. Aphrodice and Mark certainly seemed to be a close match; Germaine, Josh, Colette and Rehema less so. All six though would add weight to the argument advanced at 4.3.2 that Sarasvathy's theoretical treatment of effectuation and causation as a strict dichotomy is an oversimplification, and that more can be gained by considering a more nuanced interaction of elements of effectuation and causation.

5.4 Financing the Startup

In Chapter 2 it was seen that development policy generally assumes that access to credit for intending entrepreneurs is a fundamental constraint on their prospects, and that its absence is a major cause of low economic growth in developing economies. Chapter 4, though, concluded that successful entrepreneurs in Rwanda neither used nor needed credit to get their enterprises off the ground. This section will examine the extent to which this orientation also appeared to be present in the aspiring entrepreneurs' sample. It will be seen that the interviews revealed a clear separation between one group of individuals who planned to access credit, in line with the received wisdom, and a second group who mirrored the successful entrepreneurs' wish to avoid it.

5.4.1 Drawing on Own Funds

Ten of the aspiring entrepreneurs gave accounts that indicated they planned to use their own money to fund their businesses. This was typified by Colette. When asked about how she intended to fund her event management business Colette explained she was using her job at the National Bank of Rwanda to generate personal savings. Her goal was to save enough money to cover her living expenses for twelve months, so she could then quit her job and devote herself full time to developing her business. Asked specifically about whether she had considered taking a loan to get the enterprise started, she responded:

> I don't like loans that much. I don't know why. Because it's a burden, like for the times that I was obliged to take some loans from my employer - maybe to pay for my school fees when I was still in school - it was really a burden to pay for it every month, every month, you know. So I do not like loans[73].

Colette's preference for avoiding borrowing money was also expressed by Daniel. Acknowledging his personal funds were quite limited, he planned nevertheless "to invest that money". When pushed about the wisdom of putting his limited savings at risk, and whether he had considered taking out a loan, he too made it clear his preference was to deploy his savings and that other alternatives would only be considered if his own money subsequently proved to be insufficient. His partner in this enterprise, Rehema, was also planning to invest her savings. She too revealed a desire to avoid credit when insisting "I'm going to be using up my savings, and I'm not trying to get a loan first".

When discussing Foodcourt, his food home delivery concept, Mark too revealed he was averse to borrowing. When asked where the money was coming from to develop Foodcourt, he explained he was using "just a few small monies I have saved" and that he had not "taken a loan from a bank or anybody". Asked how he felt about taking a loan, Mark answered that he was "not happy with that [laughs]". This preference for building an enterprise out of personal savings was also expressed by John, the managing director of Gasabo 3D. Originally government owned, Gasabo 3D had been privatised and at the time of the interview was dually owned by the Rwanda Development Board (RDB) and the Kigali Institute of Science and Technology (KIST). Although the interview indicated that John anticipated the RDB would eventually sell off its stake in the business, which might provide him with a management buy-in opportunity, his main route to realising his entrepreneurial ambition was to set up his own engineering consultancy. Asked about where the funds for this would come from he too indicated that he planned to "begin consulting from my savings then a consulting business will…can start. To grow and start new businesses. So precisely I can say from my savings".

Germaine, who arrived for the interview wearing an immaculate, striking and perfectly matched combination of green leather jacket, trousers and shoes, was

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[73] It is common for the interviewees to refer to university as 'school'. Thus the loan Colette was referring to was provided by her employer to cover part-time study at university.

in the early stages of developing a leather goods company. Asked whether she had obtained a loan to get her company started, she insisted firmly “no, no it is my own money”. When pressed about whether she had considered taking out a loan to start, her reply made it clear she was uneasy about owing money because any irregularities in her sales revenue could lead to repayment difficulties that might put her in jeopardy with a bank:

> You see nowadays the bank encourages us to borrow money from them, but when you don’t have a market, when you didn’t schedule well your market, it’s become also a challenge. Because at the…depending on the contract you have with the bank, at the end of the month you have to give some money to the bank. If you didn’t have the customers it will create a problem for coming taking also your own products. That is why me, I’m still fearing to borrow money from the bank while I’m not yet getting the big market where I will get the income.

Instead of borrowing, Germaine had managed to save up the Rwf 3 million she needed to start her company. Using savings was also the route preferred by Robert B, who had followed a career in television journalism from 1990 to 2000. Initially based in Uganda, he returned to Rwanda shortly after the genocide to work with the country’s new national television station, where he rose to the position of director of programming and broadcasting. In 2000 he left to set up his own audiovisual production company, the first of several failed attempts at running his own business. His current plan was to open a guesthouse on the highway between Kigali and Nyamata, where the government is planning to build a new airport. Asked about whether he would need a bank loan to develop the guesthouse he insisted “no I’m actually doing it from my own [funds]”. Having “started building it in 2011”, he was putting money into the project piecemeal, as savings became available.

A further three interviewees - Claude, Samuel and Janvier - each indicated they did not yet have sufficient money to invest in a business, but planned to get jobs specifically to produce the savings they felt they would need. At the time of the interview Claude had not decided what type of business he wanted to establish, but planned to “get a job, [and] then I can find [save] money. I can start my own business”. This was also the approach Samuel saw himself following. He wanted to set up a new private school, and saw obtaining employment as a way of producing the savings he would need to invest in the business:

> Yeah, there will be a need to raise money and maybe what I need to think about is where I will have to raise that money. Money [laughs] is the [unclear] and it will always be a need. But the problem is how we get money. Get money in different ways. Now I am planning to get it at least when I get a job. Like now I am doing part-time jobs, I'm not getting as much money as I want. Actually it is very little money I get. But I'm planning that when I complete my master's programme and I get a job at least I will try to save as much money as possible which can help me to start up.

Like Samuel and Claude, Janvier too saw obtaining a job as the route to generating the personal savings he would need to invest in the bakery he wanted to start. Answering a specific question about where the money would come from, he was clear he still had to build up the start-up capital, and thought it would "come from my accumulative salary after finishing my studies".

In total six of the narratives contained explicit comments indicating that the savings to be invested in an enterprise would be derived from wage labour. A further four indicated they would invest their savings, without mentioning specifically how such funds would be accumulated, though in all probability these too would be derived from wage employment.

Taken together, ten of the aspiring entrepreneurs intended to use their own money, rather than taking on credit, which closely mirrored the successful entrepreneurs' aversion to credit.

5.4.2 Seeking Credit

Opposed to these ten interviewees who intended to use their own money were seven narratives that indicated a favourable disposition towards using credit to start a business, in line with orthodox development theory.

Aloys, one of the seven, planned to start a company that would import consumer goods into Rwanda. When asked about where he would find the money to start the business, his reply indicated he anticipated using credit, as "most of businessmen seek funds from banks", which he asserted "is the major source of, the major channel of funds". Accessing bank credit was also the route that Queen envisaged using for the fashion design business she wanted to start. Although initially speculating "maybe my parents will give me money", her account subsequently indicated she expected to "start from a loan", which she “will go to [the] bank” to obtain. When pressed about whether she thought it would be easy to get a bank loan Queen conceded “no, it’s not, because the bank wants collateral for security” and that this might present a difficulty. This problem of providing security against a bank loan was also identified by Jessica, who anticipated that she “will get a loan” for the Rwf 20 million she estimated she would need to start a forex bureaux. She had an ingenious plan, though, to overcome the collateral problem. “The bank will give me money”, she confidently asserted, adding “I tell the bank this is my property, give me…I want a loan”. When the author probed further about the procedure for obtaining the loan, Jessica saw it as a very simple process:

> …I write a letter that I want a loan of 20 million. They ask me what business do you want to form. I tell them I want to make my forex bureau…I show them my collateral. If they feel fine, they give me a loan.

Exploring the question of the collateral she would be putting up to secure the loan revealed, though, that Jessica did not actually own the property she intended to use as security. Rather, she explained that her “fiancé has a house” and that this was going to be put up as collateral for the loan. When asked about how her future husband felt about putting his house at risk, it transpired he was not yet aware of Jessica’s plan:

> He has a house. But that system of telling him: let this house being a collateral - I’m now fearing. But the time will come…by this time my husband, he doesn’t know my plan of working myself. We are still there…we are still there…in that period of working in banks, I will get a job from a bank. He will find maybe a job from MTN company or Tigo companies. But time of working myself it is still secret, my secret.

Jessica’s plan to use her future husband’s house as collateral against the loan that she will need to start her forex business closely resembled the logic that was apparent in Gilbert B’s narrative. Having recently completed a bachelor’s degree in economics, Gilbert B wanted to start his own food processing business, but he did not have the Rwf 100 million he estimated would be required. Like Jessica, he had devised a shrewd plan for obtaining the credit he would need to get his enterprise started. It involved leveraging other people’s money and obviated the need for him to provide any funding himself. Whether the other parties quite realise what he has in mind is a moot point, as are the ethics behind what he is planning to do. Gilbert B had engaged the help of a local administrator and ten of his friends and family, who together had been working at persuading the farmers from his village of Kibungo to put their combined savings into establishing a farmers' cooperative, which would then employ him as its manager. He anticipated raising Rwf 10 million from the farmers and that with this money he would be able to leverage a further Rwf 10 million in bank loans to fund the cooperative. While working as the cooperative's manager he then planned to establish his own enterprise in parallel. This business would process the farmers' raw materials, thus his strategy had two elements:

> …the one part is to mobilise the agriculture, to produce many…to produce a high production of maize. This project, it requires about 20 million [Rwfs]. The second part of our project is processing those results from maize. It requires about 100 millions [Rwfs] because it is required to buy machines and to introduce some machines with ICT.

Once the cooperative is established he anticipated that, as the manager, he would be able to use the profits it generates to invest in building his planned new enterprise:

> After getting money from…as profit from the cooperative, I will set the policies to be a big company. For that time, we are not shared those dividends. We accumulate those dividends as a new capital to start a new good business for growing. For development.

When seeking clarification about where the money would come from to set up the processing factory, and whether it would require bank funding Gilbert B was clear that it would be funded:

> …in two parts. One from the banks and the other from the income profitability of the current activities of our previous productivity.

On the face of it this seems a fairly straightforward strategy if the cooperative is to be a significant shareholder in the processing enterprise, but on probing it became clear that Gilbert B saw the food processing company as his own private business. He planned to set it up initially as an informal enterprise, which would migrate into a formal enterprise two years later. When asked specifically about the shareholding in the formal enterprise he did not anticipate the cooperative being a shareholder, even when it was pointed out that the profits earned by the cooperative, which he intends to use as leverage for his own company, would belong to its members. Rather, he anticipated he "will collaborate with two peoples, as advisors". If his enterprise is successful these two colleagues would subsequently have the opportunity to "become shareholders in [his] company". His whole strategy was predicated on the idea that he could use the farmers' savings to leverage the bank loans that would be needed to set up the cooperative, and that the profits from the cooperative could then in turn be leveraged to obtain the additional credit to facilitate setting up his own processing company.

A predisposition for using credit was also apparent in Augustin's narrative. In the aftermath of the genocide Augustin was employed by Concern Worldwide in a refugee camp in Cyangugu, near the Congolese border. In August 2000 the camp was closed and he was transferred by Concern to work in another camp in Ruhengeri, in Rwanda's northern province. Seeing the potential for tourism in the new location, he obtained a bank loan to buy a car that he used to make money by chauffeuring tourists:

> I remember after only three months over there I applied for a loan from the bank…I bought a car, and the car was taking tourists. Because I had already identified some potentials in tourism industry.

At the time of the interview he wanted to build a tourist centre combined with a training facility for individuals who want to work in the tourism industry, and intended to get a bank loan to fund it. Although Augustin claimed his business plan was well received by the RDB and retail banks, it had not reached fruition:

> …I enter into an enquiry with Cogebank. They were ready to give me a hundred and twenty million [Rwfs] but before that I went to the [Rwanda] Development Bank. They said your plan of building tourist centre in the school is wonderful. We want to help that one. If you are ready and you can get like 15 percent of the investment, we can provide you with the rest. Then I said, no currently I don't have any money. Then they advised me to go to the…those local banks which used to work with me, then choose anyone who could provide me with a loan to buy another facility to make sure that I don't lose contacts and clients I had from the other property. I think…I applied for the loan, everything was processed. By the time of putting money on my account, then they had the other problem of a…a global crisis so the central bank had asked all banks to stop…to suspend long term loans. That's why I didn't get the other loan.

Although Augustin's initial application for the money he needed had stalled, he appeared to believe this was only a temporary problem that had its origins in the global credit crisis.

Robert A was also planning to use credit to start an enterprise that would import and resell food processing equipment. To get the business off the ground he speculated he could "take a loan from the bank…you can take a loan, then you start a business". He too was planning to get a job after completing his studies but instead of using this to generate personal savings that would go into the enterprise, he saw it rather as a way to secure access to the loan he would need:

> If I got a job I may also [be] getting with it a loan from a bank, because it is possible, possible to. Then my job is paying back to the bank, the business is growing, and do it simultaneously.

Thus his consumption sacrifice differed from what was observed in the successful entrepreneurs' accounts. They had sacrificed consumption in order to free up money that could be invested directly into the businesses they were developing. It was not connected to obtaining credit. But in Robert A's case consumption sacrifice was specifically to facilitate ongoing repayment of the loan he intended to take. When probed further about how he felt about obtaining credit, his reply indicated he was prepared to take out a loan despite being aware of the risk of borrowing money:

> …borrowing money from a bank also it is still a problem in this country. Because when you go to borrow money it is dangerous. Interest rates today, it is arrived at 20 percent.

This plan to use consumption sacrifice to facilitate credit repayments, was also replicated by Claire. She wanted to start her own health centre, which would provide a broad range of health orientated facilities encompassing family planning, stress management, nutritional advice and a health food restaurant. Recognising this would require substantial funding, she intended to start by first establishing the health food restaurant. When asked during the interview how she meant to fund the enterprise, her reply also focussed initially on consumption sacrifice:

> …if I have for example the salary of like one thousand dollars, I may say I'll take half for business. It's like I would consider myself my salary a half of it…to try to survive with that, and then the other half I say like if I lost, no problem, I survived.

However it became clear during the interview that she too was not seeking to produce personal savings that could be used to fund her planned business.

At the time of the interview Claire was in the process of getting backing from her employer for a four-year postgraduate course in histopathology, which would facilitate a subsequent move into pathology. She felt this would signal both a longer-term commitment to her by her employer and her intention to stay in Rwanda, which she believed she could use to support her case for a loan application. Probed about how much she would need to borrow, she initially answered that she would need $10,000 but later raised this figure to between $10,000 and $15,000, and explained that she anticipated she would have to make a considerable investment in equipment. Thus her plan was to borrow a substantial amount from the bank and then to use half her salary to make the regular loan repayments. As was the case with Robert A's account, her salary sacrifice was in order to guarantee her ability to make repayments on the bank loan she would need, rather than generating personal savings for direct investment in her business.

5.4.3 Compound Strategies

The narratives given by two further aspiring entrepreneurs, Emile and Eric B, indicated they were intending to pursue a compound strategy involving two or more components. Realising it would be difficult to raise the capital to start his own business, Eric B had decided to "be different and start a business that will require knowledge rather than capital". The result was Start Up Rwanda, which Eric B intended would provide consultancy advice to foreign businesses wanting to invest in Rwanda. It required building and promoting an internet platform for the services on offer. Lacking the money that would be needed to build the website he managed to obtain help from a number of sources who contributed their input for free. He had been able to convince some of his colleagues about the merits of his idea and its potential for generating employment for them in the future:

> They thought it was a good idea because even if you get one customer and he starts his business then at least five people or four people get employment. So they thought it was a very good idea. Then I consulted…I met one of the guys who helped me to create the website, free, volunteering, and I have some others who are helping me to create share-show, create networks on Facebook, Twitter, things like that.

The “guy” who helped him build the website was actually a woman from Israel who had been working in Rwanda, and who Eric B had been helping with translating English into Kinyarwandan. She took Eric’s text for the website and applied it to a free template she was familiar with:

> …I told her about the business. She thought it was a good idea, then she asked me: what are you doing to make up the business. I told her I was raising some money to create a website. By then I was having 100,000 [Rwfs]. I needed two or three thousand…three hundred [thousand], then she told me…she saw that website called Wix which is free - a free website. She told me about the free website called Wix, that she can figure it out. Then I said: are you willing to do it. Yes - she said yes. Then she did it for me. We had become friends because of the translating for her.

This still left Eric B short of the funds he would need for promoting the website, but rather than borrowing money he planned to overcome the shortfall by finding work that would pay him enough to be able to promote it, such as “going [to] serve in hotels, things like that, in restaurants”. Asked whether he had considered applying for a bank loan or microcredit, he was convinced it would be “impossible to go in a bank when you don’t have an asset” to offer as collateral. Questioned further about whether getting support via the government’s Business Development Fund was an option, he was similarly dismissive:

> I went to BDF - they are more like banks. They don’t just give money. You give them the idea [and] they spend three weeks, a month without any…when you go there they tell you that we need viability. They are more like banks.

Eric B’s solution was therefore to combine consumption sacrifice with garnering the support of volunteers, especially individuals who saw the potential of future employment if the venture proved to be a success.

Emile had served in the army for ten years, before returning to school at the age of 28. After finishing secondary school he worked as a tour guide in the volcanic national park, where he saw first-hand the potential that existed in the tourism industry. He decided he wanted to start his own tour operators business so enrolled at the University of Rwanda Tourism College and, at the time of the interview, was nearing completion of his studies. He had estimated what he thought it would take to get the business started, and also intended to use a compound strategy to fund its development. This comprised three elements: savings, family support and credit. He had “started two accounts in the banks” to save money to invest in his business, and even though he recognised his savings were limited, insisted “my money, even if it is small but even those I will put in”. He went on to explain he was also getting help from his family:

> …my family they have even just given me a car now. They have not told me that it is my own car, but they have told me okay if your business will grow maybe you can give back our car when you have your own cars.

Emile anticipated getting the balance of the money that he would need from a bank loan. He calculated he would need something of the order of $10,000 to start the business, of which half would come from a bank loan secured on land he owns:

> …I will show them the land I have because I have only prepared for five millions [Rwfs] - that’s ten thousand US dollars - so that we have only creating a website, paying salaries because I cannot say to workers you will only get paid when we get money, and also office…to rent the office. So that’s why I’ve only prepared for ten thousand US dollars.

The figures Emile quoted during the interview at first looked a little confusing, as the narrative seemed to equate Rwf 5 million with $10,000 when it would in fact be closer to half that amount. On further consideration he seemed to be referring to needing a total of $10,000 of which half would come from the bank. What is clear though is that he anticipated using a compound strategy involving his own savings, a bank loan and the car donated by his family.

Despite the fact that both Eric B and Emile were planning on employing a compound strategy, it is interesting to note the divergence in their thinking. Eric B’s use of a compound strategy was intended to obviate the need for credit. In contrast, Emile included an element of credit in his compound funding plan, and appeared to reflect the compound approach used by successful entrepreneur Bosco, who it was seen in Chapter 4 had combined personal savings, positive cash flow, finding a strategic partner and consumption sacrifice with an element of credit. Furthermore, if an allowance is made for the value of the car that Eric B had been given, the credit element probably reduces to about one third of his start-up capital, as was also the case with Bosco. Thus, even though his funding would include an element of credit it was, like Bosco’s, constrained.

5.4.4 Family Support

The family support that was present in Emile's narrative was also partially in evidence when talking to Germaine and Mark. Germaine revealed that if she ran short of cash, and needed a short-term advance, she would obtain it from her sister. She pointed out that her sister was more relaxed about when she is repaid, unlike a bank, which might take possession of Germaine's stock or machinery if she were unable to meet the bank's repayment terms:

> …she's able to help me without…she's not stressing me. When I say no, you see I didn't gain this month, so I will refund you next month, she says: no problem. While if it were the bank, they could have come to sell my product or my machines.

Mark similarly revealed he occasionally relied on friends or family to help him out financially:

> And at times I talk to a few cousins, friends to get small loans…money they won't miss. Yeah and they understand where I am, so they really don't expect me to give it back but they are always willing to, you know, lend a hand.

In a measure of family support that paralleled Emile's car, Mark also explained that he had been helped by a cousin when referring to "the laptop I'm using, she gave it up for me".

Josh's family went even further. When he and three colleagues decided to start their own business installing electrical equipment, they calculated they would need to raise Rwf 1 million to set up, with each of them contributing a quarter to the start-up capital. Asked about where he had got the money needed to subscribe for shares in the business and whether he had used a bank loan or microcredit, Josh replied that he had not:

> No. Some of us have been working for some time so we tried to gather the money, asked even our parents to support us. So they gave us some little money. I myself, that's how I got the money.

It is worth noting that such 'soft money' is qualitatively different to the 'hard money' that constitutes credit. It was clear Josh and Mark did not regard the money they obtained from family or friends as a loan, as they did not anticipate repaying it. Similarly, although Germaine does repay her sister, her comments made it clear there were no fixed repayment terms or interest rate attached to it.

Indeed the very motive for getting short-term help from her sister is the fact she is flexible about when the money is repaid versus the inflexibility that Germaine associated with formal credit. It was also clear from their comments that these aspiring entrepreneurs' use of soft money resulted directly from a desire to avoid credit. This was seen in Josh's explanation, in answer to a specific question about how he felt about borrowing money:

> I feel it a burden - seriously. I feel it a burden because I don't know what tomorrow will be. I might start up a business, my target is developing the business, but there are some - may I call them external forces that might lead to my business die, or fall. So that means the debt is going to be another problem, in case the business goes down.

It was similarly evident in Mark's "I'm not happy with that [laughs]" and "it's scary borrowing money" as well as Germaine's "I'm still fearing to borrow money from the bank".

5.4.5 Finding a Strategic Partner

At the time of the interview Aphrodice was trying to create an enterprise that would use mobile phones to provide personalised health advice and remote access to a panel of doctors. He had estimated it would require Rwf 15 million to develop the application, but this was money that he did not have. To overcome the problem Aphrodice had followed the same route that was used by successful entrepreneur Gilbert A. He had found a strategic partner, a software developer, who could build the application for him. Aphrodice explained that he "told him you can develop and I give you shares in my business. He accepted". Asked about how the shares in the business would be split, Aphrodice responded that it would be "fifty-fifty". As was the case with Gilbert A, half of the business would belong to Aphrodice, for having the idea, while half would be owned by the software developer who would facilitate its realisation.

5.4.6 Summary

Of the twenty-one aspiring entrepreneurs interviewed, thirteen were following strategies that were intended to circumvent the use of credit, mirroring the funding approach that was employed by the successful entrepreneurs. Of these the majority, ten, planned to use their own funds exclusively. One had found a strategic partner, one had obtained the start-up capital he needed from his family and another was using a compound strategy that combined consumption sacrifice with obtaining the support of volunteers.

Seven interviewees planned to use credit as their sole source of enterprise capital. This included two interviewees who had made comments that initially suggested they planned to sacrifice consumption, but it became clear this was in order to guarantee their ability to make loan repayments rather than generating personal savings to be invested in the business. One further interviewee, Emile, planned to follow a compound strategy that included both personal savings and credit in the mix, which matched the compound method employed by successful entrepreneur Bosco.

For all of these narratives, though, it is worth keeping in mind that the actions the aspiring entrepreneurs intended to take were largely a matter of conjecture. Those planning to use their own funds were making assumptions about their ability to save. Similarly, those planning to access credit were making assumptions about how their plans would be greeted by providers of such credit. It is only at the crunch point of discovering that assumptions made are unfounded, or overstated, that aspiring entrepreneurs would have to countenance alternative ways to bring their enterprise ideas to market. Thus the use of alternative techniques, such as using positive cash flow, would be naturally understated in the narratives versus the successful entrepreneurs' accounts examined in Chapter 4. What is beyond dispute, though, is the fact that there was an observable separation between those aspiring entrepreneurs who matched the successful entrepreneurs' wish to avoid using credit, and those who intended to access it. The implications of this separation will be addressed in the next chapter.

5.5 Social Networks

The theoretical arguments analysed in Chapter 2 concluded that entrepreneurs tend to form broad networks with weak ties. The narratives explored in Chapter 4 indicated that successful entrepreneurs in Rwanda also tended to build networks with loose ties, made up especially of individuals that might become future customers. This section will assess the extent to which establishing such networks also figured in the aspiring entrepreneurs' accounts.

5.5.1 Leveraging Personal Networks

Six of the aspiring entrepreneurs interviewed - Aphrodice, Daniel, Eric B, Josh, Rehema and Robert A - provided evidence for having started to build and leverage social networks.

When talking about his own personal network, Aphrodice claimed his mobile phone contained the details of over 1,500 individuals that could help him develop his business. “I have a lot of friends” he explained, adding, “so if I have a problem I can find out a person who works in the domain and that person he can help me”. He went on to illustrate the point by talking specifically about how his network of contacts had helped him to develop the business concept he was working on. Planning to develop a medical application, but with limited medical knowledge, he had talked first to “a friend of mine who is now finishing his medicine school” about his concept and was able to obtain a list of medical questions he could build into his service. He then approached another individual in his network of contacts who “was working for call centre of MTN and that person directed me to the developer”. It was this software developer who went on to agree to partner Aphrodice and build the operating platform for his medical service. Asked about the time and effort he puts into keeping his network alive, Aphrodice described it as “a gift…something I have in me”.

This ease of building and maintaining a network of contacts was also seen in the interview with Rehema, who described herself as “a really social person.” Probed about whether building her network was something she did consciously or whether it just happened by accident produced the reply “it just happens”. Rehema was very aware, though, of the reciprocal value that existed in her network. Observing she had in the past helped others develop their businesses, she expected now to be helped in return:

> …from the friends I have helped…I’m helping them in their business… why not me…why not the other way also, they can also help me [laughs] yeah? Like we can help each other. Because I’m helping them build their dream, they can also help me build mine.

When she was questioned about whether there was anyone in particular from her social network who could be of help in setting up the business she confirmed that there was, but her answer also indicated a certain reticence in exploiting this contact:

> I realised when I was talking to this guy, earlier in the week, that I feel… like I'm going to take advantage of the relationship I have with someone, trying to get them to buy or to help me sell the services I have. So my conscience is not okay [a] hundred percent in doing that.

But despite asserting "I feel like I'm taking advantage of our relationship to get what I want. So I've been fighting with my conscience a lot [laughs]", Rehema nevertheless went on to acknowledge that she would need to overcome her reticence if she was to get the enterprise moving.

Daniel too was planning to leverage his contacts and mentioned in particular "a friend who works for the Rwanda Development Board" who was "well placed to help personally. If not he will find someone who is in the right place to help". Eric B too had identified a key individual that could help him get his business started. He explained "I told him about the business idea and he said yeah it's okay, I will be forwarding you these [leads]". Probed about whether he would need to make any kind of commission payment for the information, Eric B indicated he would not, and that his friend was "just doing it".

When talking to Josh it was clear that he too had been able to identify and exploit a key individual from his social network. Listening to the impressive richness of Josh's voice during the interview it comes as no surprise that he is a well known Gospel singer:

> I sing base. Yeah. So because of music, and even my church, where we have many big people. I'm an Adventist, so I pray from Kigali English Church. Kigali English Church has many popular people. Some of them who are even ambassadors. And even today we have an ambassador who prays from there. So those people can connect me to others.

He explained further that this meant "people know me" and that through his singing he "made a lot of friends outside here. Big people - Senate Ministers come to that". Discussing how the business had got started, Josh identified that the enterprise's first job came about as a result of his approaching someone from the church where he sings:

> Personally, I'll let you know that the first business it's me who brought it. And I brought it from one official that was a governor in a place - northern part of Rwanda.

Asked how he had persuaded someone to take the risk of giving him his first installation contract, Josh explained:

> …we just talked and I'm like, you know he's an old guy, so I'm like dad, you know, we do ABCD and that's the business that we do - we as young men. So if you have any opportunity please let us know, because we are very well skilled through the profile that we shall show you. Then he was like well, yeah, I'm actually even building up an estate so you can come and install power there. And I'm like: right, why not.

Probed about whether he had to tender for the job, he answered: "no we didn't tender. We didn't tender, we just went direct".

When Josh was asked whether he had set out deliberately to cultivate his network of contacts or whether it was just something that happens naturally, he too thought:

> It happens naturally. Why? Because as I sing they get to know me. As I get up I just greet them like friends, so accidentally I find them where I'm looking for businesses.

Josh put this down to his natural gregariousness. Asked about how his friends might describe him produced a reply that mirrored those of both Rehema and Aphrodice. "They know me that I am first of all very, very, I am very social", he replied.

Robert A's narrative also suggested a certain gregariousness. When asked about his personal characteristics and why he thought he would be successful, Robert A explained "first of all I like to have a collaboration with others". Asked whether he was building this network deliberately, with a view to exploiting it for his business, revealed it had initially started as an accident, but that he had then come to "consider it as something that will be positive to me. Which will increase to me, which help me to achieve what I want to achieve". He had realised that the contacts he was making as a student representative would be valuable to him in the future, and explained he planned to leverage the network he was building "to market my business".

5.5.2 Summary

The pattern observed in the aspiring entrepreneurs' narratives diverged considerably from that seen in the interviews with successful entrepreneurs.

It was seen in Chapter 4 that successful entrepreneurs in Rwanda deliberately set about cultivating a broad network of contacts who might in the future become customers. But this tactic was cited by only one of the aspiring entrepreneurs, Robert A, who had latterly started to cultivate his network in the expectation it could provide future customers but admitted it had started “as an accident”. Developing a network unintentionally rather than by design was also seen in specific comments made by Aphrodice, Rehema and Josh and appeared to be linked to their natural gregariousness.

It was also apparent from the interviews that the aspiring entrepreneurs were more focussed on key individuals, who could help bring an enterprise into existence. This characteristic was not seen in the accounts given by successful entrepreneurs, even though it was probed for specifically. This is perhaps unsurprising. Building a network of potential future customers is clearly critical to long-run success, but takes time to develop. Furthermore, a network of potential future customers can only be exploited once the enterprise has been brought into existence. For the aspiring entrepreneurs finding a first key customer, or someone who can refer customers, is critically important and would therefore be likely to be uppermost in their minds. Without a first breakthrough deal, such as Josh’s first installation contract, the enterprise is a purely hypothetical construct. For the successful entrepreneurs that first customer would have been equally important, but has become merely one of a string of customers and so probably lost significance relative to the necessity for a network of potential future customers. What the divergence is almost certainly describing is the changing priority between the aspiring entrepreneurs’ need to get the enterprise started, versus the successful entrepreneurs’ need to keep it going.

Interestingly, when Sarasvathy’s expert entrepreneurs reflected on how they would go about developing a new enterprise, they too had indicated they would focus on identifying and leveraging the relationship with a key individual who could help develop the enterprise. It is significant that inexperienced aspiring entrepreneurs in a developing economy context should parallel the approach that would be adopted by very experienced, expert entrepreneurs in a highly developed context such as the USA.

5.6 Dealing with Risk

It was seen at section 2.4.1 that the popular discourse tends to regard entrepreneurs as individuals who are predisposed towards taking risks that others would avoid. Section 2.4.3 observed that Kahneman took this theoretical propensity for risk taking a stage further, leading him to position entrepreneurs as foolish gamblers who behave irrationally and wilfully ignore the probability of failure. Chapter 4 concluded, though, that this was not the case with successful entrepreneurs in Rwanda. Instead, their narratives revealed they had taken deliberate action to minimise the risks they would be facing when setting up their enterprises.

This section examines the aspiring entrepreneurs' comments about the risks associated with enterprise creation and will attempt to determine the degree to which they mirrored the successful entrepreneurs' attitude towards and mitigation of risk. To aid the analysis, the narratives could be broadly split into three groups comprising the risk embracers, the risk averse and a third, intermediate group, the pragmatists.

5.6.1 The Risk Embracers

The first group contains the seven aspiring entrepreneurs Gilbert B, Robert A, Daniel, Claire, John, Robert B and Augustin. When talking about the risks they would be facing, all made comments that appeared to be in tune with the popular perception of entrepreneurs as risk takers.

Robert B initially confided risk "makes you feel scared". His subsequent account made it clear though that he was nonetheless ready to take risks and included several references to actions he had taken, which were plainly risky. It was evident when he talked about outsourcing government contacts he had won for building websites. Although the government had a policy of supporting the Rwandan private sector in order to "make sure this money goes to the Rwandans", Robert B was relaxed about subcontracting such contracts. One of these was a major project, for the RDB, which involved migrating 94 individual government websites to a new national standard. This he "outsourced to a company called DRC systems in India", who he judged were "very cheap, very good". Another contract, for the Rwandan Public Procurement Authority, he outsourced to the Ukraine, which he justified on the basis that it cost him “a few thousand dollars”, while he earned “tens of thousands of dollars”. Pressed about the wisdom of the decision he admitted it was risky, but felt very comfortable about the action he had taken. He explained “I’m very okay with that. That’s why I think I’m a good manager”. He added in justification that he felt he was capable of taking “decisions that you think are very good for the company”. His earlier account of how he had built a website for the Rwandan police force and deflected criticism of the work, also spoke volumes about his preparedness to overcome any fears and engage positively with risk.

An interesting variant on this apparent predisposition for risk taking was also seen in the comments given by Gilbert B and Robert A. When asked whether he was concerned about the risks he would be facing, Gilbert B gave an unequivocal “no’’ and went on to explain that when starting a business one had to “expect to meet with risks”. He legitimised his acceptance of risk by asserting “high risk, high returns. For me the risk is not a problem”. He expanded on the point by asserting:

> Because when you start the business with high risk you expect to get a higher profitability from how you react to resolve all those kind of risks.

Similarly, although Robert A had difficulty identifying specific risks he would encounter when starting his planned import/export business, he too asserted “where there is more risk is where there is more return”, adding “I know that where there is a high risk, that is where I can gain more”. This had led him to adopt a thoroughly positive attitude to risk, to the extent that he asserted “I like very much risk”. Diametrically opposed to the successful entrepreneurs’ avoidance of risk, Gilbert B and Robert A both appeared to have internalised an expectation that taking high risks would automatically translate into high returns for them, rather than increasing the probability of failure. It appeared they had both convinced themselves that the normal return versus risk trade-off would work in their favour, rather than against them. While not expressed quite as overtly, this propensity for high risk behaviour was also suggested in the narrative related by Augustin. Although they ultimately failed, he had a history of attempting to develop enterprises in parallel with his employment as a camp manager at Irish NGO Concern Worldwide, even though it was specifically excluded in his contract of employment:

> …it were not allowed to do businesses while you were working with the international organisation…so an humanitarian organisation. But I remember during the four or five years I worked for Concern [World]wide in the refugee camp, I was still doing businesses.

In his pursuit of opportunities to create businesses, Augustin had been prepared to act in a manner that directly contravened the terms of his contract and actually put his full-time employment at risk.

It is significant that Augustin, Gilbert B and Robert A were all seen at section 5.2.1 to be individuals whose motives for starting a business were firmly located in the desire to make money. Robert A "always thought it's a good idea to be rich", while Augustin asserted "to me money comes first", and Gilbert B confirmed "I want to be rich".

Although not expressed in such an extreme way, this preparedness to embrace risk was also suggested in the narratives provided by Daniel, Claire and John. All three made comments that suggested they were stimulated by risk. Daniel positively asserted that facing the risks of starting a business was something he was actually "looking forward to". John similarly, when talking about the risks associated with taking Gasabo 3D from the public to the private sector, claimed that he found the experience "exciting", suggesting he too had a predisposition for embracing risk. This propensity was particularly evident with Claire who claimed "I like to take risks normally in life". Beyond the intention to start a business, it was also seen in other aspects of her narrative, for instance when talking about her decision to learn to play the violin:

> And another risk I've taken, it's…I like classical music. I've been in a choir for long, but I say: ah, people are playing instruments. I say I have to take risk - in Rwanda we are not used to play violin. Now I…after this…I have to play violin. There is some risk that I take even I say it's…I mean I may not reach the high level, but let me try.

She also went on to amplify her attitude to risk by using as an example her decision to become "the first lady to play Taekwondo in Rwanda".

While they had indicated a readiness to embrace risk, this set of aspiring entrepreneurs nevertheless also volunteered comments relating to actions that could have a risk-mitigating effect. It was seen in Chapter 4 that Sharon used a memorandum of understanding to secure commitment to his enterprise, in the expectation it would in due course lead to a formal contract with his client, the local authority. It was an approach that appeared to be echoed in Robert A's belief in the importance of committing an agreement to writing:

> Yeah, you have to make a contract which is clear, defining every issues, how it will be. Then you, after defining that, he agree, you sign a contract then by contract you will follow the contract and he will follow the contract.

Aspiring entrepreneur Robert B's narrative also featured an account that bore comparison with another of the successful entrepreneurs, Annette. Although he was referring to an enterprise that had ultimately failed, the account is interesting inasmuch as it closely paralleled Annette's experience when she set up her film production company. While Robert B was working as communications director at Simtel, a banking consortium, he was approached by one of Simtel's clients about taking on, independently, a project to develop a single electronic payment platform for one of the consortium's banks. Like Annette he perceived the conflict of interest this implied, as the project could have been undertaken by his employer, but he nevertheless teed up the contract while still employed at the consortium. He explained that he then resigned and "signed that contract" for the project "two days later". As was the case with Annette, he had been able to mitigate start-up risk by circumventing the perceived conflict of interest so that he could launch his business on the back of having secured a first major contract that could initially bankroll the enterprise.

The intention to build an enterprise from the comparative safety of having a parallel full-time job was seen in the accounts given by Claire, Daniel and Robert A. Robert B too was using his full-time job to produce personal savings, which he was gradually putting into building the guesthouse he was planning to open. In his case, this was a well-established pattern, as he had followed a similar route when he had tried to develop an audiovisual company while he "was still working" for the national TV station. It was also explicit in Gilbert B's plan to be employed by the farmers cooperative that he planned to establish in his home village and which would provide the platform for his production company. Additionally, the tactic of transferring risk to others, which was observed in Chapter 4, also obviously figured in Gilbert B's highly questionable plan to put the savings of farmers in his village at risk in order to establish his food processing business.

Augustin too had attempted to build an enterprise in parallel to being employed by Concern Worldwide. The paradox with Augustin, though, was that establishing an enterprise while in wage employment was explicitly prohibited by his contract of employment. Thus although he had been able to mitigate risk by setting up businesses in parallel to his job, this put at risk his ongoing wage employment, which was the very thing that enabled him to mitigate risk in the first place.

In summary, being prepared to embrace risk did not preclude taking deliberate steps to mitigate it - a nuance that will be picked up in the final analysis in Chapter 6.

5.6.2 The Pragmatists

Queen, Samuel, Claude, Rehema, Aphrodice, Germaine, Eric B and Mark all gave accounts that indicated a more moderate, or essentially pragmatic, attitude to risk. Their accounts suggested they believed risk was an unavoidable necessity when starting a business, and that they were resigned to accepting it.

This was evident when Queen observed "you can't fight the risk" and Samuel commented "if you are discouraged by the risk, then you are not a good entrepreneur". Similarly, although Claude acknowledged he would prefer to "start a business that is less risky" he also recognised you "have to take risks" otherwise "you cannot start a business". The same sentiment was present too when exploring the question of risk with Aphrodice**.** He too replied levelheadedly that "to start a business is a risk". Asked how he felt about the risks he would encounter, he conceded "it was not easy" but that he nevertheless felt optimistic on the basis of the informal feedback he had received when talking to people about his idea. A similarly balanced attitude towards risk was also evident when talking to Mark. Exploring how he felt about the risks he would be taking he insisted he was "not really afraid of that". Pressed further about whether it made him feel nervous, he conceded “yeah, it does at times, but it doesn’t stop me from waking up the next morning and do it all over again”.

Pragmatism also seemed to be behind Rehema’s “I’m willing to take the risk”, and although Germaine was fully aware of the risk she would be facing she could talk dispassionately about it and claimed to be “relaxed”. Similarly, when Eric B was pressed about whether he was nervous about the risks he might be taking he responded:

> No [laughs]. No I’m not nervous about it. If I get a job I will invest everything in the business, whatever it will take. If it takes a long time, I don’t care. But I have to do it.

As with the previous section, the interviews with these aspiring entrepreneurs also revealed they were acting in a manner that they thought would help limit the risks they might face. The strategy employed by successful entrepreneur Gilbert A - that of putting someone else’s money at risk - was also reflected in the accounts given by Aphrodice. On probing him about the intended venture, it transpired that his business partner was intending to put cash to the tune of Rwf 600,000 into the business “because he’s a rich guy”, while Aphrodice would be investing only Rwf 15,000 to register the company plus the $200 that was needed to obtain an SMS mobile code. Eric B’s use of volunteers also arguably transferred the risk to those colleagues who contributed their help free of charge in the hope it might lead to employment. In reality these jobs would be wholly dependent upon the success of the enterprise, which was by no means a given. Consequently the volunteers were taking on a considerable proportion of the enterprise risk. They were speculating that the business they are helping to establish, free and for someone else, would ultimately succeed and provide them with wage employment.

Developing an enterprise in parallel to having a full-time job was seen in the accounts given by Rehema and Germaine. Rehema explained she thought she would “still keep my job and still do this other one until I make it work”, while Germaine referred to “still doing both jobs”, a reference to running her embryonic enterprise in parallel with working as the manager of a handicrafts cooperative.

5.6.3 The Risk Averse

Only four of the twenty-one aspiring entrepreneurs, Colette, Josh, Janvier and Emile, volunteered comments suggesting they shared the successful entrepreneurs' aversion to risk. When she was asked how she felt about the risks she would be facing, Colette replied "I'm scared, actually. I'm scared - that's why I'm still doing my job". Putting the same question to Josh elicited a similar response. "I was worried" he said. Their discomfort was also seen in Janvier's account, when he was talking about the bakery he wished to create. Although he initially had difficulty enunciating the specific risks he would be facing, he volunteered his judgement that "if it is risky, I can't implement it". Similarly, Emile was confident his enterprise would not entail risk, and maintained "if I feel it, I cannot even open my business".

Clear evidence for risk mitigation measures was only apparent in two of these four accounts. In Colette's case she was planning to develop her business alongside her job at the National Bank of Rwanda, thereby echoing the tactic employed by Bosco, Jimmy and Jacques:

> If I was not sharing that much the risk I would have resigned and be full time in the business. But I'm still doubting to…to start without any capital that I'm sure it's going to help me for the first…the first year. Because I can't be sure that I'm going to get the contracts immediately, so I will have to wait some time, and I still shall expect that risk.

In Josh's case it was clear that a whole range of risk-mitigating tactics had been employed. This included the decision to partner with experienced electrical engineers who were moonlighting from their full-time jobs. Asked specifically about whether his business had been born out of his own work experience revealed that it was rather based on:

> …the experience for our engineers, who I got from a company called Rio Contractors. They work from here - Rio Contractors. So those engineers worked with Rio Contractors in installation of networking, cameras, CCTV - those things, you know.

When discussing dealing with risk Josh also explained that he and his colleagues had "recognised some of the risks" and had taken specific action to offset them. The electrical loads associated with heavy equipment, such as the lifts and office air conditioning systems they were installing, meant that there was a risk that some:

> …materials get burned in the period that we had given the clients. Before they hand over, or we hand over the material, we are like, it might be burnt up.

This specific risk had been addressed by taking out insurance:

> …we said let's go and see the insurance companies outside here. And then we said we shall see how to deal with those issues with these insurance companies.

Additionally, although not able to afford to insure against personal injury, they took the precaution of setting money aside to cover for the eventuality:

> …we know that our people when they are installing, sometimes they might even get an accident and they fall down. We said for that matter we shall be seeing - we ourselves - we shall be holding those cases. We can gather some money to take that person to the hospital.

On the specific question of financial risk, Josh explained that this too had been mitigated "because we are not the ones who pay the money for the machines. Rather the client tells us that I want this material and then we are like: can you pay?". By getting their clients to pay directly for the materials to be installed, such as a lift system, Josh's firm was able to minimise its working capital requirement and thereby reduce its financial exposure. Far from the popular notion that entrepreneurs embrace risk, Josh's approach illustrated a wide ranging capacity for identifying the risks he would be facing and for taking highly rational measures to minimise them.

5.6.4 Tolerance of Ambiguity

With a heightened tolerance of ambiguity, entrepreneurs are thought to be able to cope well with the ambiguous situations that others would find stressful. It has been further argued that they tend to actively seek out and enjoy such situations (Sexton and Bowman, 1985) and "prefer rather than shun uncertainty" (Knight, 2006: 242). Evidence for a heightened tolerance of ambiguity was identified in the Rwandan entrepreneurs' accounts and was connected with their having validated and de-risked the opportunity they intended to pursue. Although the aspiring entrepreneurs were only just starting out on their entrepreneurial journeys, the comments offered by seven of them pointed also to a heightened tolerance of ambiguity. It was apparent when they discussed the possibility that their intended enterprises might fail and the stresses that they thought they would encounter.

Eric B was aware that developing a business would be challenging and at times discouraging, but observed “you have to deal with it. You have to be patient”. Similarly, Daniel explained “I expect a lot of stress and I know that it’s not going to be a problem to have it” and “if it doesn’t work out, it’s still fine, at least I gave it a try”. His attitude towards possible failure was also echoed in Claire’s “but I’ve tried even if I have failed’, a stoicism that was also seen in Germaine’s narrative. When asked what she would do if her business was unsuccessful she showed no sign of being disconcerted by the possibility when replying matter-of-factly “if it become unsuccessful I will close, and sell what I have”, and Jessica, when asked if she was worried about the fact her business might fail, replied forthrightly “no, I can manage”.

Colette’s attitude was also markedly relaxed. Asked whether she felt concerned about the stresses she would be facing when starting her business produced the straightforward answer “no, no. Not that much. No”. Pressed further on the point she insisted:

> I think all I need is to start. When I’ll have started it will be fine. Of course there are always ups and downs and everything. I think I’m ready for that.

The most eloquent account, though, was given by Mark, who explained:

> I don’t expect myself to be successful overnight. I understand that every time I feel like giving up I remind myself that I’m…I know that…the steps I have to go through. The pain I have to go through…I’m not special. And because…and me understanding that, it keeps me in the game [laughs].

He plainly felt able to deal with the stress he would be facing, but it was also clear he was not blasé about it:

> Yeah, stress, this is very stressful because…well, in most cases I've… I mean to start off, right, I don't have the skills…not to…achieve what it is that I want. So I know that I have to build…find and build those skills. That's very stressful, that's… that means learning how to programme from a finance background. This is a whole new territory. It is very scary, you know. But I have to go through that and master the fundamentals and stuff, step by step. Also, the fact that you expect, things to come your way but they just don't because of the environment you're in. At times I feel like I don't belong here [laughs]. Yeah, but then to me that is really a good sign that I'm on the right track.

In fact he went on to echo Germaine's stoicism when adding "I'm not afraid June coming around and I close shop because it didn't work out".

At section 4.4.3 it was suggested that the successful entrepreneurs' tolerance of ambiguity was shaped by the fact they had taken steps to mitigate the risks they would be facing. Five of these seven aspiring entrepreneurs accounts had similarly quoted risk-mitigating actions they could take. The remaining two, Mark and Jessica, gave accounts that demonstrated a tolerance for ambiguity but their narratives did not include any reference to measures that might specifically mitigate risks.

5.6.5 Summary

The majority of the aspiring entrepreneurs, fourteen, made comments that signalled they were favourably disposed towards risk or pragmatically resigned to accepting it. Their accounts were commensurate with or tended towards the perception that entrepreneurs take risks, but were at odds with the conclusion derived from the accounts given by the successful entrepreneurs in Rwanda, who were plainly risk averse. In comparison, a cluster of only four aspiring entrepreneurs' narratives deviated clearly from the argument that entrepreneurs wilfully engage with risk, and corresponded to the successful entrepreneurs' aversion to risk.

Actions that would mitigate risk were observed across the sample. Importantly, it was clear that even individuals who appeared to be more favourably disposed to risk would nevertheless still seek to mitigate the risks they expected to encounter. Nine of the aspiring entrepreneurs intended to develop their businesses in parallel to being in wage employment. The decision to launch from the safety of a parallel job brings two clear risk-reducing benefits. First it means they can bide their time and ensure the new enterprise can support them financially before abandoning income from wage employment. In a developing economy context where social safety nets are typically absent, this obviously makes sense. Second, it means the embryonic enterprise is not loaded with a founder's full salary costs, thus reducing its operating overheads and thereby increasing the likelihood of commercial success. This in turn enhances the probability that an entrepreneur will eventually be able to abandon parallel employment and move safely into the enterprise in the full knowledge that the move has become less risky.

The dominance of parallel employment may be explained in part by the fact that this group were only in the very early stages of enterprise development. They were therefore making assumptions about their ability to put enough money aside, from their future income, to fund launching a business. Additionally, those who were yet to find a job were speculating that they would be able to find employment, despite the weakness of the labour market. If these two assumptions turned out in retrospect to be overly optimistic, then one might expect the balance to shift away from reducing risk through parallel employment towards alternative risk-mitigating measures, or abandoning plans to develop an enterprise altogether.

Only a very small number of the aspiring entrepreneurs, three, intended to use risk-mitigating tactics that did not include a parallel full-time job. This included Aphrodice's putting someone else's money at risk, Eric B's transferring risk to volunteers who hoped success would lead to a job, and the wide range of measures Josh took.

Contradictions were again seen to exist within individual narratives. Robert B for instance had taken actions to mitigate risk by developing an enterprise in parallel to being employed, but had also demonstrated considerable bravado when outsourcing government contracts and producing a website for the police force. Similarly, Augustin had paradoxically put at risk the very thing that underpinned his ability to develop an enterprise. The implications of such contradictions will be addressed fully in the final chapter.

Tolerance of ambiguity, which was present in all of the successful entrepreneurs accounts, was far less evident in the aspiring entrepreneurs' narratives. It was seen in only seven of the twenty-one aspiring entrepreneurs' accounts. Of these seven, all bar two had volunteered corresponding evidence for risk-mitigating action that they would take, which matched with the deduction in Chapter 4 that tolerance of ambiguity is an expression of confidence in the commercial opportunity that is to be pursued and that it has been de-risked.

5.7 Conclusion

Although the sample of aspiring entrepreneurs comprised individuals who were only at the early stage of their respective entrepreneurial journeys, the accounts they gave were nevertheless rich in content. On all the criteria examined in this chapter there appeared to be subsets of aspiring entrepreneurs that resembled the successful entrepreneurs, even though the former were only projecting forward into the future.

When exploring the motives for starting an enterprise, very few of the aspiring entrepreneurs' accounts reflected the successful entrepreneurs' apparent rejection of financial motives. Rather, the majority appeared to be driven in the main by the desire to make money or create a job because prospects were constrained by a weak employment market. There was also evidence that this had been influenced to a degree by government programmes that actively promoted entrepreneurship as a viable alternative to competing for scarce wage employment.

Both internal locus of control and a need for achievement were seen to be present in the aspiring entrepreneurs' accounts, but the high degree of overlap that was observed in Chapter 4 was less in evidence in the aspiring entrepreneurs' accounts. Only five of the twenty-one aspiring entrepreneurs exhibited both characteristics and, unlike the successful entrepreneurs, this did not track across to a clear-cut rejection of being financially motivated. Three of the five - Mark, Daniel and Eric B - did give accounts suggesting they were not financially motivated, but the other two, Claire and Josh, included quite specific reference in their narratives that suggested they were orientated towards the monetary gains that they could accrue.

Chapter 4 also revealed that all of the successful entrepreneurs had exhibited a dilute form of effectuation and that sketching was simultaneously used by three-quarters of them. This level of consistency was far less in evidence though in the aspiring entrepreneurs' accounts. Only eleven of the sample of twenty-one gave comments indicative of either diving in without a plan or acting contingently. The use of sketching was suggested in ten of the aspiring entrepreneurs accounts, which was also considerably lower than for the successful entrepreneurs' sample. Taken together, the combination of sketching, diving in without a plan and acting contingently indicated a further polarisation in the aspiring entrepreneurs' sample. It was exhibited clearly by only five of the twenty-one interviewees. One further interviewee, Robert A, had in his account indicated support for both dilute effectuation and sketching, but also contradicted this by simultaneously expressing strong support for causation.

Importantly too, where the aspiring entrepreneurs indicated a preference for more causally-based formal planning this was rarely matched by comments indicating an ability to envision what their intended enterprise might look like in the future. This was somewhat unexpected, given that the orthodox STP process is concerned with identifying and striving to achieve clearly articulated fixed end goals, indeed the very process of writing a formal business plan hinges on having a clearly defined expression of such a goal and then methodically plotting the resources necessary to achieve it. Taken together the evidence from both samples suggests that the ability to envision a future for the enterprise was more associated with the interaction of dilute effectuation and sketching than with formal business planning.

John's account of the failure of two carefully constructed formal business plans written for Gasabo 3D to match reality is also informative in this regard. If successive formal business plans for a going concern like Gasabo 3D had failed accurately to predict the future, then attempting to write such a formal plan for a new enterprise where there is no historic data and where the future is shrouded in Knightian uncertainty would seem futile. Indeed the formal business plan, with its preordained objectives, strategies and anticipated cash flows would seem to be the very antithesis of the contingent behaviour observed in the accounts given by the successful entrepreneurs and the predisposition expressed by a minority of the aspiring entrepreneurs. It consequently raises questions about the wisdom of teaching formal business planning skills to intending entrepreneurs, which will be addressed in Chapter 6.

On the question of how the enterprise was to be funded, the aspiring entrepreneurs were generally much more in tune with the successful entrepreneurs' aversion to credit. Thirteen of the interviewees anticipated avoiding using credit altogether. Only seven interviewees intended to use credit as their sole source of funds, in line with the orthodox theory that intending entrepreneurs need access to credit. One additional interviewee included an element of credit in his compound funding plan, as had been the case with successful entrepreneur Bosco. This raises serious doubts about arguments, explored at section 2.3.1, that supply of credit is critical to SME development (OECD, 2004: 5) and that its absence in developing economies is "especially worrisome" (OECD, 2006: 11).

Polarisation was also evident when exploring the subject of risk. Only four of the aspiring entrepreneurs, the risk averse, gave accounts that clearly mirrored the successful entrepreneurs' avoidance of risk. A far larger proportion, fourteen, diverged from the successful entrepreneurs' sample and tended rather towards the popular conception of entrepreneurs as risk takers. This larger proportion included individuals who were decidedly pro-risk as well as the pragmatists who saw it as an inescapable and acceptable accompaniment to enterprise formation. It was also clear though that those who were prepared to embrace risk would, nevertheless, still seek to mitigate the risks they would be likely to confront.

A much narrower range of risk-mitigating strategies was in evidence compared to the successful entrepreneurs' sample and was dominated by the preference for developing a business in parallel with being in wage employment. Only three aspiring entrepreneurs intended to use risk-mitigating tactics other than parallel employment. Given that they were only at the early stages of developing their enterprises it is not surprising that this should be the case. The intention to develop an enterprise in parallel to being employed features two levels of assumption. For those without a job it is dependent upon first finding a job in a weak labour market. Having found a job, the aim of developing a business is still dependent upon the aspiring entrepreneurs' capacity for saving money to invest in an enterprise. It is not until such assumptions have been fully tested and possibly found to be wanting that the aspiring entrepreneur would be forced to countenance alternative strategies.

Tolerance of ambiguity was observed in only seven of the aspiring entrepreneurs, whereas all of the successful entrepreneurs indicated they were tolerant of ambiguity. Rather than being an independent psychological trait, it was argued in the fourth chapter that it is a natural expression of confidence in having identified a viable commercial opportunity, which has been de-risked. The low incidence amongst aspiring entrepreneurs may therefore indicate that, for the majority, serious but unexpressed doubts still persist about the viability of the idea that they intend to develop.

Rather than indicating polarisation in the aspiring entrepreneurs' accounts, the comments relating to networking revealed a fundamentally different pattern to the successful entrepreneurs' accounts. The aspiring entrepreneurs were much more fixed on leveraging relationships with key individuals who can help realise the enterprise concept, whereas the successful entrepreneurs were more concerned about building a broad network of potential future customers who can keep the enterprise going.

Chapter 1 observed that the vibrant SME sector envisaged in *Vision 2020* was absent in Rwanda, even though it was seen in the second chapter that the government had created a context consistent with the dominant theories relating to entrepreneurship and SME formation. Chapter 4 identified that the motives and behaviour of successful entrepreneurs in Rwanda diverged from these theories. This chapter, though, revealed that aspiring entrepreneurs' accounts were polarised between those who mirrored the theoretical arguments and those who conformed to the more antithetical characteristics exhibited by the successful entrepreneurs. While these polarisations are of themselves important, they are nevertheless insufficient if the analysis merely points to the existence of clusters of interviewees who appeared to conform to, or diverge from, the individual characteristics associated with the successful entrepreneurs in Rwanda or the theoretical arguments that were explored. Restricting the analysis to an observation of such isolated and disjointed snapshots was identified in the third chapter as problematic. Chapter 6 will therefore attempt to bring together the observations and conclusions drawn from the previous chapters and address the specific research question: why it should be that the new class of entrepreneurs and the vibrant SME sector, which were envisaged in *Vision 2020*, are still struggling to emerge in post-genocide Rwanda despite the concerted effort that has gone into building a context that should encourage and support their formation.

Chapter 6 Resolving the Rwandan Enterprise Paradox

Written in 2000, the Rwandan Government's economic and social development plan, *Vision 2020*, anticipated the emergence of an entrepreneurial class that would create a vibrant private SME sector that will spearhead economic development, generate employment and thereby ensure a stable and secure future for the country's citizens. The core thinking underpinning this strategy is the belief that Rwanda possesses an extensive pool of individuals who have the potential to become entrepreneurs and subsequently deliver entrepreneurially-led economic success, which will enable the country to progress rapidly to its specifically articulated goal of achieving middle-income status by 2020. The strategy is buoyed along by the received wisdom that SMEs in developed economies account for 95 percent of all firms, are responsible for 60 to 70 percent of employment, account for 50 percent of all new jobs created and 55 percent of GDP (Minicom, 2012: 11).

In implementing the plan, the government has established an institutional context that - as orthodox thinking would have it - should favour enterprise development. This is evidenced by the positive ratings achieved in good governance indices, widespread access to credit, human capital investment and commitments to infrastructure development. Programmes designed specifically to support aspiring entrepreneurs have also been implemented, including national business plan competitions, government underwritten business loans and the sensitising of financial managers to the need to advance funds to prospective entrepreneurs. However, in the face of all that has been done, and three-quarters of the way through *Vision 2020's* twenty-year term, the anticipated vibrant SME sector remains conspicuous by its absence and, as observed at section 1.6, the distribution of establishments remains heavily biased towards single-employee micro-enterprises.

Gaining an understanding of the underlying causes of the mismatch between the plan and the current situation is extremely important. With a median age of 18.8 years and 61 percent of its population under 25 (CIA, 2016), post-genocide Rwanda faces a considerable demographic challenge. There is an urgent need to create a large and sustainable volume of employment opportunities - indeed this was an explicit objective of *Vision 2020.* Critically too, the prescription that

Rwanda has followed is widely endorsed and promoted by the main global institutions: that domestic entrepreneurs and SMEs hold the key to the economic progress of developing economies. If the prescription is failing in Rwanda it is important to know why this should be the case, as it could have implications well beyond the context of this thesis.

The methodology outlined in the third chapter argued that comparing attributes of successful entrepreneurs, and the process they employed when forming their enterprises, with the attributes and intended entrepreneurial journey of aspiring entrepreneurs could reveal the extent to which proto-entrepreneurs are present amongst the aspiring entrepreneurs. It was argued that this could then provide insights into the Rwandan enterprise paradox. This led to the decision to use semi-structured face-to-face interviews, designed to explore the narratives of both successful and aspiring entrepreneurs. It facilitated an exploration of themes that were suggested by the literature review, while simultaneously providing scope for uncovering factors that were not suggested by the literature.

The findings from the interviews with successful entrepreneurs were highly revealing and often antithetical to existing theories of development, which were explored in the second chapter. Contrary to arguments advanced in favour of increasing access to credit, the interviews indicated that successful entrepreneurs in Rwanda used funding mechanisms other than credit when starting their businesses. They also preferred sketching and acting contingently to traditional business planning, and departed from the popular perception that they are risk takers. It was also found that they contradicted the mainstream economic view that entrepreneurs are driven to capture entrepreneurial profits that are on offer. Instead it was seen that their decision to establish enterprises was underpinned by a desire for self-determination, rather than the financial gains that could accrue from their enterprises. There was also no evidence in the successful entrepreneurs' narratives to support the GEM position that entrepreneurship in developing economy contexts is driven by necessity rather than opportunity. Instead there was strong evidence that the successful entrepreneurs' decisions to establish enterprises were deliberate acts of volition.

Analysis of the interviews with aspiring entrepreneurs concluded that the characteristics exhibited by the successful entrepreneurs could indeed be discerned amongst the narratives given by aspiring entrepreneurs. This replication was, though, far from universal. For each individual characteristic examined, the aspiring entrepreneurs' accounts were seen to be polarised between a group that suggested a close match to the successful entrepreneurs and those that deviated. This deviation frequently included comments that were diametrically opposed to those encountered in the successful entrepreneurs' accounts.

It was concluded, though, that there was limited value in merely observing the existence of the isolated snapshots that these polarisations describe. Indeed such a restricted approach was criticised specifically in the second chapter when reviewing the existing field of entrepreneurship theory. The individual polarisations and the various contradictions that were exhibited would need to be fully integrated if the Rwandan enterprise paradox was to be addressed properly.

6.1 Integrating the Findings

To provide insights that could answer the research question posed by this thesis, an approach was needed that could facilitate an integration of the isolated characteristics that were observed and thereby identify those aspiring entrepreneurs that had multiple points of similarity with the successful entrepreneurs[74]. This was achieved by revisiting and scoring the NVivo codings that formed the basis of the analysis in the last chapter. The individual components that were seen to be present in the successful entrepreneurs' accounts were all assigned a score of +1 where they were replicated in the aspiring entrepreneurs' narratives. A score of -1 was assigned where their antithesis was observed. A score of zero was applied where there was no evidence in the narrative for the attribute or its antithesis. Thus, a need for achievement and an internal locus of control were scored +1 when exhibited in the aspiring entrepreneurs' narratives. Overt expressions of financial motives, including references to the necessity of creating a job, were coded -1 as they

[74] Multiple, but not universal, as it was seen that the successful entrepreneurs did not all exhibit every characteristic that was identified.

represented the antithesis of the successful entrepreneurs' rejection of financial motives.

Diving in, without a business plan, market creating activities and developing the enterprise contingently were also scored +1 while the opposite, an expressed preference for causally orientated formal business planning, was scored -1. Undertaking basic research, assessing demand, producing a rough outline containing the basic enterprise assumptions and being able to express a clear long-term vision for the enterprise's future were similarly all coded +1.

Risk aversion, risk mitigation and tolerance of ambiguity were also scored +1, while comments indicating a predisposition for risk taking attracted a score of -1. Avoiding using credit when starting a business was also scored +1 and its antithesis, the intention to access credit, was scored -1. Evidence for building a network of weak ties with individuals who could be potential future customers was also assigned a score of +1.

It is feasible that some of the exhibited characteristics might have a greater bearing than others on the decision to set up an enterprise or the subsequent degree of success, but no such inference could be drawn on the basis of the information contained in the interviews. The scores were therefore given equal weighting and then aggregated in order to give a cumulative score that would represent the extent to which the multiple characteristics associated with successful entrepreneurs were replicated in the individual aspiring entrepreneurs' narratives. In addition to drawing together the fragmented polarisations observed in the aspiring entrepreneurs' accounts in Chapter 5, this approach had the advantage that contradictions could be dealt with effectively. For instance it will be recalled that Claire's narrative, in the context of effectual and causal thinking, had included a strong expression of support for developing her enterprise iteratively, which matched the successful entrepreneurs' predilection. However, Claire had also already produced a formal business plan, which was the antithesis of the successful entrepreneurs' rejection of formal planning. Under the scoring system this contradiction would yield a score of +1 for her support for iteration and a score of -1 for her use of formal planning and remove the necessity to make an overly subjective judgement about where Claire would fall on the effectuation-causation continuum. These two contradictory components would, in Claire's case, cancel each other out and leave the evidence from the rest of her narrative to determine the degree of proximity between her account and the characteristics that were seen to be associated with the successful entrepreneurs in the fourth chapter. Table 6.1 summarises how the various components were scored.

Table 6.1 Scoring System

Characteristics	Components	Coding Score
Self-determination	Non-financial motives	+1
	Need for achievement	+1
	Internal locus of control	+1
	Financial gain	-1
	Creating a job	-1
Credit	Avoiding credit	+1
	Seeking credit	-1
Dilute effectuation	Diving in	+1
	Iteration	+1
	Market creation	+1
	Formal business planning	-1
Use of sketching	Demand assessment	+1
	Basic research	+1
	Rough outline	+1
Envisioning	Future vision for the business	+1
Risk	Risk aversion	+1
	Mitigating action	+1
	Tolerance of ambiguity	+1
	Predisposed towards risk	-1
Networking	Potential future customers	+1

Assigning the scores to the aspiring entrepreneurs' accounts produced the results indicated in Table 6.2, which are ranked according to their aggregate score. The full spreadsheet is included in Appendix D.

Table 6.2 Characteristics Observed in Aspiring Entrepreneurs' Accounts

	Self-determination	Credit Avoidance	Dilute Effectuation	Use of Sketching	Risk Aversion	Network Building	Envisioning	Total Score
Mark	3	2	2	3	1	0	1	12
Aphrodice	2	1	2	3	1	0	1	10
Colette	2	1	2	1	3	0	0	9
Eric B	3	2	0	1	2	0	0	8
Germaine	0	2	1	1	2	0	1	7
Josh	1	1	2	1	2	0	0	7
Rehema	0	1	1	2	1	0	0	5
Daniel	3	1	-1	0	1	0	1	5
Emile	0	1	0	1	1	0	0	3
Claire	1	-1	0	0	1	0	1	2
Robert B	-1	1	1	0	0	0	0	1
Samuel	-1	1	1	0	0	0	0	1
Robert A	-1	-1	0	1	0	1	0	0
John	0	1	-1	0	-1	0	0	-1
Janvier	-2	0	-1	1	1	0	0	-1
Claude	0	0	-1	0	-1	0	0	-2
Augustin	-1	-1	0	0	0	0	0	-2
Aloys	-1	-1	-1	0	0	0	0	-3
Jessica	-1	-1	-1	0	1	0	-1	-3
Gilbert B	-2	-1	-1	-1	0	0	0	-5
Queen	-1	-1	-1	-1	0	0	-1	-5
						mean		2.3

The aggregate scores reveal the extent to which each individual aspiring entrepreneur's account replicated the multiple characteristics associated with the successful entrepreneurs, but they do not indicate where a line could be drawn to demarcate those that were a close match to the successful entrepreneurs. The same coding system was therefore applied to the successful entrepreneurs' accounts, so that their aggregate scores could be compared directly with those from the aspiring entrepreneurs.

The results for the successful entrepreneurs are presented in Table 6.3 and are also ranked according to their aggregate score. The full spreadsheet is again included in Appendix D.

Table 6.3 Characteristics Observed in Successful Entrepreneurs' Accounts

	Self-determination	Credit Avoidance	Dilute Effectuation	Use of Sketching	Risk Aversion	Network Building	Envisioning	Total Score
Bosco	3	3	2	3	2	0	1	14
Jean	3	2	3	1	2	1	1	13
Christian	3	1	2	2	2	1	1	12
Sharon	3	3	1	1	2	0	1	11
Jacques	2	2	3	0	2	0	1	10
Jimmy	2	1	3	1	2	0	1	10
Gilbert A	2	1	1	3	2	1	0	10
Akaliza	3	1	2	1	2	1	0	10
Willy	2	1	3	0	2	1	1	10
Annette	2	1	2	1	2	0	1	9
Damien	1	1	3	1	1	0	0	7
Eric A	1	1	2	0	1	1	1	7
						mean		10.3

Comparing tables 6.2 and 6.3 shows a cluster of six aspiring entrepreneurs who have aggregate scores that fall within the range describing the successful entrepreneurs. Although only at the early stage of their respective entrepreneurial journeys, Mark, Aphrodice, Colette, Eric B, Germaine and Josh displayed characteristics that in aggregate would mark them out as proto-entrepreneurs. They are typically more likely to be motivated by self-determination rather than financial gain, to dive in without a formal plan and develop their businesses as circumstances dictate, but reassured by having sketched out and de-risked the commercial concept they intend to exploit.

6.2 The Proto-entrepreneurs

The six proto-entrepreneurs identified above appear to represent the kind of individuals that Rwanda needs if it is to constitute the desired class of entrepreneurs who will form the vibrant SME sector that it is anticipated will catalyse Rwanda’s economic development. Having a close fit with the multiple characteristics associated with successful entrepreneurs in Rwanda, they would appear to be well equipped for the entrepreneurial journey they intend to take. While this does not guarantee them success, it does indicate that their chances of establishing viable businesses are enhanced. They are, however, few in number. Those who are best equipped to deliver against the government’s economic plan constituted less than a third of the aspiring entrepreneurs’ sample. It is not only their low incidence that is significant, though. The characteristics they displayed also have important implications.

It was seen that the successful entrepreneurs typically avoided risk, rejected the use of credit and sought reassurance, via sketching, that their enterprise concepts were viable. It was also seen that this could be a painstaking and time-consuming process that might be measured in years. As the proto-entrepreneurs closely replicate successful entrepreneurs’ characteristics it can be deduced that they too will engage in the same time-consuming process, and will be reluctant to act until they feel they have de-risked the pursuit of the opportunity that has been identified. This delay in getting their ventures to market will be further compounded by the proto-entrepreneurs’ preference for using their own money rather than credit, as it will also take time to accrue the personal savings that will be needed for the risk capital that they intend to invest.

The inescapable conclusion is that the limited number of aspiring entrepreneurs who seem best equipped for success are also the ones who are likely to take the longest to make the transition from enterprise conception to enterprise creation. Taken together this all points to a lengthy gestation period, which will have a damping effect on the rate of SME sector formation and, critically, was not foreseen when *Vision 2020* was written.

A further complication can be found in the unintended consequence of the proto-entrepreneurs’ revealed preference for savings over credit. Viewed from the perspective of orthodox macroeconomics, this preference would appear to be consistent with the theory that savings lead to investment. Indeed this very assumption is made explicit in the Rwandan economic plan update, EDPRS 2, which identifies the need to increase long-term savings that can be recycled to private sector investors (Minecofin 2012: 20). But seen from the Keynesian perspective, savings are made at the expense of consumption and therefore lead to a reduction in investment and employment (Keynes, 2012: 210). Thus during the period they are building the savings that will eventually be invested in enterprises, the proto-entrepreneurs would be unwittingly contributing to a reduction in investment and consequently depressing the very employment that *Vision 2020* assumes they will create.

6.3 The Gamblers

The corollary to the low incidence of proto-entrepreneurs is the observation that the aspiring entrepreneurs' sample is dominated by individuals who deviated from the successful entrepreneurs' core attributes. Unlike the proto-entrepreneurs, they are typically more likely to trust in the benefits of formal business planning, have a heightened acceptance of risk, a greater propensity for using credit to start an enterprise and are motivated to make money or create a job where none exists. This does not mean that failure is pre-ordained for this larger set of aspiring entrepreneurs, any more than proto-entrepreneurs are necessarily assured of success. But being less well equipped for the entrepreneurial journey than the proto-entrepreneurs, their chances of success are, on the basis of the analysis and evidence in this thesis, likely to be lower. If Kahneman's categorisation of entrepreneurs as foolish gamblers has any resonance, it is with this residual set of aspiring entrepreneurs.

To classify them as 'foolish' would, though, be overly pejorative. They are, as was seen in Chapter 5, often responding to the government's active promotion of entrepreneurship, the provision of business training aimed at producing entrepreneurs and enhanced access to credit, which is supposed to help them get their businesses started. In this regard it is significant, as already noted, that all fifteen of this residual set made overt comments about being motivated by money or the need to create a job in the face of a weak employment market. Thus, far from being foolish, they too would seem to be trying to act in a way that they perceive to be rational. They have been convinced that creating an enterprise represents a credible alternative to seeking wage employment in a weak labour market. They are unaware, though, that they are relatively ill equipped for the journey they intend to take and that they will consequently be taking a gamble where the odds are likely to be stacked against them.

The skew towards gamblers is further complicated by a particularly pernicious aspect of development policy advocated by the major global institutions - the presumption that supply of financial and specific human capital inputs will automatically lead to higher levels of entrepreneurship and SME sector formation, with all its attendant benefits.

6.4 The Supply Fallacy

It was seen in the second chapter that calls to increase access to credit are predicated on the argument that it will be taken up by prospective entrepreneurs who will create SMEs, which will then deliver economic growth, employment and poverty reduction. The evidence from the Rwandan interviews does not, though, support this. Neither the successful entrepreneurs nor the proto-entrepreneurs had a desire for credit and all the aspiring entrepreneurs who did intend to use credit to start a business fell outside the proto-entrepreneurs' set. Hence credit advanced is most likely only to satisfy a pre-existing demand amongst those gamblers who are planning to use credit to start businesses, but have a heightened propensity to fail. There is no reason to assume, therefore, that increasing the supply of credit will lead to the formation of SME sector businesses that have long-run viability.

A similar criticism can be levied at programmes designed to equip aspiring entrepreneurs with a range of business planning skills encompassing how to construct a profit and loss account, a balance sheet, cash flow forecasting, marketing, personnel management and strategic planning. It is assumed that what emerges at the end of the process is a cadre of fully formed embryonic entrepreneurs, who will subsequently have an enhanced capability for establishing viable enterprises. But here too, the research evidence from this thesis indicates that proto-entrepreneurs did not want or need such training when conceptualising their businesses. Instead, those who expressed the highest levels of support for such formal planning again fell outside the proto-entrepreneurs' group. Detrimentally, they are also likely to be the very individuals that providers of credit are seeking: aspiring entrepreneurs who can write a business plan and want credit, irrespective of their being less well equipped for creating viable enterprises.

6.5 Ramifications

Failure to recognise the supply fallacy means that resources intended to stimulate creation of a vibrant SME sector are likely to be misdirected and ultimately counterproductive. Taken up by those gamblers who are planning to use credit to start businesses rather than by proto-entrepreneurs, it is likely that enterprise formation will be skewed towards businesses that have a heightened propensity to fail, thereby further exacerbating the problem of the slow gestation period identified at section 6.2.

Worse still, gamblers who have been encouraged to borrow money to set up a business, but fail, are very likely to find themselves much poorer than when they started. Risk capital invested in a failed business is likely to have been dissipated and collateral used to secure credit forfeited. They will also have failed to create the alternative source of personal income, which they had intended would overcome the problem of competing in a weak employment market. Compounding the problem, the absence of a vibrant SME sector and its concomitant employment opportunities means that those gamblers who try and fail will be thrown back into a labour market that cannot support them.

Vision 2020 set a twenty-year timescale for delivering against its aims. With only four years remaining of this term the evidence indicates there is a serious risk that the anticipated vibrant SME sector will not materialise, that the employment opportunities it was expected to create will not occur, and that the desire to move from development dependency to self-sufficiency will not be realised. Failure to deliver against the aims of the economic plan risks leaving behind a large body of well-educated but disillusioned individuals who anticipated being included in an economic success story, which has not come to pass and generated the employment opportunities that were desired.

Policymakers are left facing something of a conundrum: how best to support proto-entrepreneurs, who have a heightened propensity to be successful, when they don't want or need the inputs that supply side thinkers are eager to provide? It also raises questions about what, if anything, might be done to safely bring forward the proto-entrepreneurs' decision to launch their intended enterprises and thereby accelerate their contribution to populating the missing middle. The word 'safely' is chosen advisedly, as it is clearly important that any interventions should avoid prompting an increase in the incidence of enterprise failure. Given the proto-entrepreneurs' observed aversion to credit, such interventions could focus on non-credit alternatives. This could include deferred or preferential taxes, reducing the time to build savings by supplementing personal savings that are destined for enterprise investment with government matched funding, or equity investments via a small enterprise venture capital fund. The latter option would have the key benefit that returns to a venture capital fund would depend upon investments being made in viable businesses, thereby shifting the focus of attention to the validity of aspiring entrepreneurs' commercial concepts rather than their ability to service bank debt or microcredit repayments. Clearly this suggests a basis for further research to identify what proto-entrepreneurs genuinely need, rather than the strategy of offering them what they don't want[75].

The successful entrepreneurs' and proto-entrepreneurs' preference for acting contingently, and resolving challenges as and when they arise, also indicates an area for further research. Specifically, the benefits of moving beyond the orthodox and prescriptive approach to business skills training and providing a more flexible, modular, alternative that could facilitate the acquisition of a specific incremental competence at the point in an individual's entrepreneurial journey where new contingencies dictate that it is needed.

6.6 Validity

The exploratory nature of the research dictated the use of in-depth interviews with relatively small samples. In the case of the successful entrepreneurs, the accounts were by definition retrospective, while the aspiring entrepreneurs were commenting on a future that might or might not be realised. Despite these limitations the narratives provided consistent and convincing explanations of the interviewees' characteristics. They facilitated the identification of a subset of

[75] It also indicates the importance of endogenous factors (motives, characteristics and thought processes) versus the exogenous factors that make up the standard development prescription (access to credit, STP-orientated business plans and opportunities awaiting discovery).

aspiring entrepreneurs who resembled the successful entrepreneurs and may consequently be better equipped for success, although this cannot be predicted with certainty.

Internal validity was ensured through purposive sampling and an interpretive style that gave priority to ensuring the interviewees' voices were heard accurately and in context. The commitment to ensuring internal validity meant, though, that a trade-off between internal and external validity had to be accepted. As the research was located in the narrow realm of successful and aspiring entrepreneurs in post-genocide Rwanda, no overt claims can be advanced about its generalisability to contexts beyond Rwanda.
This does not mean, though, that the findings have no external validity at all. Comparing the research findings with the literature review conducted in the second chapter is suggestive of what Cohen and Manion term "convergent validity" (1995: 281). This is seen in the fact that the successful entrepreneurs and proto-entrepreneurs in Rwanda mirrored certain key aspects of the predilection for effectuation, which Sarasvathy had observed in her expert entrepreneurs' sample in the USA. Similarly, although the thesis took issue with the tendency to focus on individual psychological traits rather than the aggregate picture, the interviews did indicate the presence of internal locus of control, need for achievement and tolerance of ambiguity. Furthermore the covariance that was observed in the interviews between internal locus of control and need for achievement is supported by Rotter's original, though generally ignored, work that suggested such an interaction.

The findings also converged with Tuckett's views on rational action taken under conditions of Knightian uncertainty and conformed to arguments advanced individually by various authors, including Schumpeter, Baumol and McClelland, that entrepreneurs are prepared to accept negative financial returns. Similarly, the risk-mitigating actions that were observed conformed to arguments advanced by Isenberg, McGrath and Sarasvathy.

6.7 Postscript

Finally it is important to note that the government and citizens of Rwanda have, in good faith, followed the theoretical prescription promoted by the major development institutions, and billions of dollars of development aid have been advanced to maintain their commitment to the strategy. Having diligently followed the prescription for sixteen years, the people of Rwanda have every right to demand explanations for why it does not appear to be working, and what refinements or alternatives its promoters might now suggest.

One is also entitled to ask who benefits most from the prescription that has been advanced when the formula is based, at best, on untested extrapolations from developed economy contexts. The evidence presented in this thesis would suggest that the balance is weighed more heavily in favour of those advancing the prescription, rather than those it is meant to help. Whether it is sovereign wealth funds and high-net-worth individuals extorting profits under the fantasy that microcredit catalyses entrepreneurship, or vendors of entrepreneurship training programmes under the Yunus myth that all can be entrepreneurs, there appears to be no shortage of gains to developed nations and their institutions under the guise of supporting the economic development of low-income countries.

Appendix A

Exchange Rate Modal Values

Year	Mode	Minimum	Maximum	No. of Working Days	Percentage Change
2003	523.947401	479.629007	556.543621	255	
2004	560.064215	530.382711	577.501026	259	+6.9%
2005	546.655327	534.634105	556.468503	257	-2.4%
2006	549.392311	536.468778	555.285272	255	+0.5%
2007	546.220436	540.256976	550.576180	255	-0.6%
2008	544.905623	535.842208	556.978642	256	-0.2%
2009	566.044777	554.908529	574.546786	256	+3.9%
2010	582.150605	564.244424	596.569963	258	+2.8%
2011	594.775593	588.006039	602.974671	257	+2.2%
2012	607.549659	593.599733	631.440236	256	+2.1%
2013	649.729260	624.756786	680.451618	255	+6.9%
2014	679.528567	673.006509	691.422024	255	+4.6%
2015	712593814	648.776415	752.875589	256	+4.9%
2016	755.729671	741.001400	766.485683	44	+6.1%

(Source: Fxtop.com)

Appendix B

SME Cluster Strategy

District	
Kicukiro	Weaving-handicrafts
	Meat
	Furniture
	Juice, maize, agro-processing
	Coffee
Nyarugenge	ICT-software development
	BPO
	Restaurant and accommodation
	Furniture
	Welding
Gasabo	Fashion and tailoring
	Furniture
	Maize
	Basket [weaving]
	Bakery
Nyagatare	Milk
	Maize
	Rice
	Wildlife tourism
	Tiles and bricks
Gatsibo	Leather
	Maize
	Rice
	Coffee
	Cassava

Kayonza	Macadamia
	Milk
	Maize
	Fashion and tailoring
	Mushrooms
Rwamagana	Banana wine
	Leather
	Coffee
	Maize
	Fashion and tailoring
Bugesera	Fish farming
	Cassava
	Rice
	Pineapple
	Fashion and tailoring
Ngoma	Pineapple
	Banana wine
	Maize
	Rice
	Coffee
Kirehe	Essential oil
	Banana
	Maize
	Milk
	Fish farming
Muhanga	Pottery
	Fashion and tailoring
	Furniture
	Maize
	Mushrooms

Kamonyi	Pineapple
	Cassava
	Coffee
	Pottery and stones
	Vegetables
Ruhango	Geranium essential oil
	Spices
	Maize
	Cassava
	Weaving
Nyanza	Milk
	Cassava
	Coffee
	Maize
	Silk
Nyamagabe	Pork
	Treated wood
	Honey
	Wheat
	Coffee
Huye	Wine
	Juice
	Fresh milk
	Coffee
	Wood crafting
Gisagara	Pork
	Rice
	Bricks
	Cassava
	Cheese

Nyaruguru	Furniture
	Tea
	Coffee
	Religious handicraft
	Charcoal
Musanze	Rose and geranium essential oil
	Irish potatoes
	Construction materials
	Jewellery-handicrafts
	Eco-tourism
Burera	Fishing
	Irish potatoes
	Silk
	Wheat
	Cassiterite
Gicumbi	Butter-dairy
	Irish potatoes
	Tea
	Wheat
	Mushroom
Gakenke	Passion fruits
	Pineapple
	Coffee
	Fresh milk
	Fashion and tailoring
Rulindo	Spices
	Vegetables
	Wheat
	Eggs
	Tiles and Bricks

Nyabihu	Milk
	Patchouli essential oil
	Irish potatoes
	Tea
	Leather handicrafts
Rubavu	Eco-tourism
	Coffee
	Leather
	Fashion and tailoring
	Tiles and bricks
Rutsiro	Honey
	Coffee
	Fruit and vegetables
	Bamboo furniture
	Cheese
Ngororero	Mining
	Cheese
	Maize
	Wheat
	Coffee
Karongi	Silk
	Coffee
	Tea
	Maize
	Macadamia
Nyamasheke	Indagara-fish flour
	Tea
	Coffee
	Fashion and tailoring
	Treated wood

Rusizi	Furniture
	Coffee
	Fruit and vegetables
	Fishing
	Rice

Appendix C

Interview Guide Sheets

This appendix contains the guide sheets that were used during the interviews. They were used as a reminder of the main themes that featured in the review of entrepreneurship literature. The questions listed were examples only, which could be used to open up a discussion of a particular theme.

Guide Sheet: Entrepreneurs

Introduction			
	Personal	Who I am	
		Background	
		Experience of Rwanda	
	Research	Purpose	
		Why it interests me	
	Methodology	Process we will go through	
		Confidentiality	Anonymity
			Recording
		Transparency	Transcripts
			Corrections
Profile	Age		
	Gender		
	Marital status		
Enterprise	When started		
	Type of business		
	Number of employees		
	Whether registered		

Characteristics	Pointers	Also watch for	Possible questions
Traits			
‘Big Three’			
Risk propensity	Risk aware	Financial risk	What risks do you think you took when you started the business?
	Acceptance of risk	Reputational risk	How did you feel about those risks?
	Calculated risk	Risk reduction	What is the biggest risk you are taking?
		Overconfidence	
Locus of control	Desire to be in control	Opportunity v necessity	What were the reasons for starting your own business
	Dislike of being controlled	Freedom v finance	Why not stay in a ‘safe’ job?
	Anti-authoritarian		
	Non-conformity		
Need for Achievement	Competitive		Which personal qualities help you run the business?
	Goal orientated		How would others describe you?
	Looks for new ways to do things		How would you describe success?
	Innovative		What does success mean for you?

Other			
Tolerance of ambiguity	Not stressed by outcome uncertainty	Impact on health	What sort of things do you find stressful?
		Confidence	How stressful is running your own business?
			Is there anything about the business that you are unsure about?
			How does that make you feel?
High energy levels	Hours worked		On average, how many hours a week do you work?
	Endurance		Will it always be like this?
			Is this always the same, or does it vary?
			What would other people think about the hours that you work?
Self-efficacy	Confidence in own abilities	Overcoming personal shortcomings	How sure were you that you would be successful?
	Overcoming barriers	Accessing finance	What were the main problems you had to overcome?
			How did you overcome them?
Need for independence			How important is being your own boss?

Effectuation			
Internal focus	Who I am	Instinct v planning	How did you decide on the type of business to start?
	What I know	Alternative future	How did you go about planning the business?
	Who I know	Market discovery v creation	
Building stakeholder relationships	Suppliers	Network building	Did anyone help you get that business started?
	Friends	Cultivating contacts	Who are the people who helped you get started?
	Family		
	Potential customers		
Affordable loss	Acceptance of potential loss	Source of funds	How did you fund the business?
	Calculation of amount	Use of microcredit	How did you know how much to invest?
Acting iteratively	Learning from mistakes	Meaning of failure	What would you have done if the business had been unsuccessful?
Causation	Market research	Demand assessment	How did you go about planning the business?
	Financial planning	Competitor assessment	
	Business plan	Instinct	
		Induction v deduction	
		Effectuation v causation	What advice would you give to others who are planning to start a business?

Over-trust	Relative degree of trust	Confidence in others	Starting your own business involves trusting others - how did that make you feel?
		Relative level of trust	How did you know who to trust?
			How trusting do you think others are?
			How trusting do you think people in Rwanda are?
Other			
Negative financial returns	Financial v non-financial	Need for recognition	How do you measure your success?
			What does your business give you?
Role models	Family	Seeking approval	Has anyone in the family set up a business?
	Friends		Who do you admire, or who inspires you?
	Business		

Guide Sheet: Aspiring Entrepreneurs

Introduction			
	Personal	Who I am	
		Background	
		Experience of Rwanda	
	Research	Purpose	
		Why it interests me	
	Methodology	Process we will go through	
		Confidentiality	Anonymity
			Recording
		Transparency	Transcripts
			Corrections
Profile	Age		
	Gender		
	Marital status		
Planned Enterprise	Type of business		

Characteristics	Pointers	Also watch for	Possible questions
Traits			
'Big Three'			
Risk propensity	Risk aware	Financial risk	What risks do you think you will be taking when you start your own business?
	Acceptance of risk	Reputational risk	How do you feel about those risks?
	Calculated risk	Risk reduction	What is the biggest risk you will be taking?
		Overconfidence	
Locus of control	Desire to be in control	Opportunity v necessity	Why do you want to start your own business?
	Dislike of being controlled	Freedom v finance	Why not work for someone else?
	Anti-authoritarian		
	Non-conformity		
Need for Achievement	Competitive		Can you describe the personal qualities that will help you to be successful?
	Goal orientated		How would others describe you?
	Looks for new ways to do things		How will you know if you are being successful?
	Innovative		What will success give you?

Tolerance of Ambiguity	Not stressed by outcome uncertainty	Impact on health	What sort of things do you find stressful?
			How stressful will running your own business be?
			Is there anything you are unsure about?
			How does that make you feel?
High energy levels	Hours worked	Will it always be like this	On average, how many hours a week do you work?
	Endurance		How do you think this will change when you start your business?
Self-efficacy	Confidence in own ability	Overcoming personal shortcomings	What makes you think that you will be successful?
	Overcoming barriers	Accessing finance	What are the main problems you will have to overcome?
			How will you overcome them?
Need for independence			How important is being your own boss?
Effectuation			
Internal focus	Who I am	Instinct v planning	How did you decide on the type of business to start?
	What I know	Alternative future	How will you go about developing the business?
	Who I know	Market discovery v creation	Have you written a business plan?

Building stakeholder relationships	Suppliers	Network building	Will anyone help you get the business started?
	Friends	Cultivating contacts	Who are the people who will help you?
	Family		
	Potential customers		
Affordable loss	Acceptance of potential loss	Source of funds	How will you fund the business?
	Calculation of amount	Use of microcredit	How will you know how much to invest?
Acting iteratively	Learning from mistakes	Meaning of failure	What will you do if the business fails?
Causation	Market research	Demand assessment	How will you go about developing the business?
	Financial planning	Competitor assessment	What will you need to do before starting the business?
	Business plan	Instinct	What advice would you give to others who are planning to start a business?
		Induction v deduction	
		Effectuation v causation	
Over-trust	Relative degree of trust	Confidence in others	Starting your own business involves trusting others - how does that make you feel?
			How will you know who to trust?
			How trusting do you think other people are?
			How trusting do you think people in Rwanda are?

Other			
Negative financial returns	Financial v non-financial	Need for recognition	How will you measure your success?
			What will your business give you?
Role models	Family	Seeking approval	Has anyone in the family set up a business?
	Friends		Who do you admire, or who inspires you?
	Business		

Appendix D

Coding Tabulations

Scores: Aspiring Entrepreneurs

Self-determination						
Interviewee	Non-financial motives	Need for achievement	Internal locus of control	Financial gain	Creating a job	Sub-total
Aloys	0	0	0	0	-1	-1
Aphrodice	1	0	1	0	0	2
Augustin	0	1	0	-1	-1	-1
Claire	0	1	1	-1	0	1
Claude	0	0	1	-1	0	0
Colette	1	0	1	0	0	2
Daniel	1	1	1	0	0	3
Emile	0	0	1	0	-1	0
Eric B	1	1	1	0	0	3
Germaine	0	0	1	-1	0	0
Gilbert B	0	0	0	-1	-1	-2
Janvier	0	0	0	-1	-1	-2
Jessica	0	1	0	-1	-1	-1
John	0	1	0	0	-1	0
Josh	0	1	1	-1	0	1
Mark	1	1	1	0	0	3
Queen	0	0	1	-1	-1	-1
Rehema	0	0	1	-1	0	0
Robert A	0	0	1	-1	-1	-1
Robert B	0	1	0	-1	-1	-1
Samuel	0	0	1	-1	-1	-1

Funding method									
Interviewee	Credit	Savings	Strategic partner	Family support	Volunteers	Cash flow	Consumption sacrifice	Prize money	Sub-total
Aloys	-1	0	0	0	0	0	0	0	-1
Aphrodice	0	0	1	0	0	0	0	0	1
Augustin	-1	0	0	0	0	0	0	0	-1
Claire	-1	0	0	0	0	0	0	0	-1
Claude	-1	1	0	0	0	0	0	0	0
Colette	0	1	0	0	0	0	0	0	1
Daniel	0	1	0	0	0	0	0	0	1
Emile	-1	1	0	1	0	0	0	0	1
Eric B	0	1	0	0	1	0	0	0	2
Germaine	0	1	0	1	0	0	0	0	2
Gilbert B	-1	0	0	0	0	0	0	0	-1
Janvier	-1	1	0	0	0	0	0	0	0
Jessica	-1	0	0	0	0	0	0	0	-1
John	0	1	0	0	0	0	0	0	1
Josh	0	0	0	1	0	0	0	0	1
Mark	0	1	0	1	0	0	0	0	2
Queen	-1	0	0	0	0	0	0	0	-1
Rehema	0	1	0	0	0	0	0	0	1
Robert A	-1	0	0	0	0	0	0	0	-1
Robert B	0	1	0	0	0	0	0	0	1
Samuel	0	1	0	0	0	0	0	0	1

Dilute effectuation					
Interviewee	Diving in	Iteration	Market creation	Causation	Sub-total
Aloys	0	0	0	-1	-1
Aphrodice	1	1	0	0	2
Augustin	0	1	0	-1	0
Claire	0	1	0	-1	0
Claude	0	0	0	-1	-1
Colette	1	1	0	0	2
Daniel	0	0	0	-1	-1
Emile	0	0	0	0	0
Eric B	0	0	0	0	0
Germaine	0	1	0	0	1
Gilbert B	0	0	0	-1	-1
Janvier	0	0	0	-1	-1
Jessica	0	0	0	-1	-1
John	0	0	0	-1	-1
Josh	1	1	0	0	2
Mark	1	1	0	0	2
Queen	0	0	0	-1	-1
Rehema	1	0	0	0	1
Robert A	1	0	0	-1	0
Robert B	1	0	0	0	1
Samuel	1	1	0	-1	1

Sketching					**Envisioning**
Interviewee	Demand assessment	Basic research	Rough outline	Sub-total	
Aloys	0	0	0	0	0
Aphrodice	1	1	1	3	1
Augustin	0	0	0	0	0
Claire	0	0	0	0	1
Claude	0	0	0	0	0
Colette	0	1	0	1	0
Daniel	0	0	0	0	1
Emile	0	1	0	1	0
Eric B	0	0	1	1	0
Germaine	0	1	0	1	1
Gilbert B	0	-1	0	-1	0
Janvier	1	0	0	1	0
Jessica	0	0	0	0	-1
John	0	0	0	0	0
Josh	0	1	0	1	0
Mark	1	1	1	3	1
Queen	-1	0	0	-1	-1
Rehema	0	1	1	2	0
Robert A	0	1	0	1	0
Robert B	0	0	0	0	0
Samuel	0	0	0	0	0

Risk						**Networking potential customers**
Interviewee	Risk aversion	Mitigating action	Tolerance of ambiguity	Predisposed to risk	Sub-total	
Aloys	0	0	0	0	0	0
Aphrodice	0	1	0	0	1	0
Augustin	0	1	0	-1	0	0
Claire	0	1	1	-1	1	0
Claude	0	0	0	-1	-1	0
Colette	1	1	1	0	3	0
Daniel	0	1	1	-1	1	0
Emile	1	0	0	0	1	0
Eric B	0	1	1	0	2	0
Germaine	0	1	1	0	2	0
Gilbert B	0	1	0	-1	0	0
Janvier	1	0	0	0	1	0
Jessica	0	0	1	0	1	0
John	0	0	0	-1	-1	0
Josh	1	1	0	0	2	0
Mark	0	0	1	0	1	0
Queen	0	0	0	0	0	0
Rehema	0	1	0	0	1	0
Robert A	0	1	0	-1	0	1
Robert B	0	1	0	-1	0	0
Samuel	0	0	0	0	0	0

Aggregate Scores

Interviewee	Self-determination	Credit aversion	Dilute effectuation	Use of Sketching	Risk avoidance	Network building	Envisioning	Aggregate score
Aloys	-1	-1	-1	0	0	0	0	-3
Aphrodice	2	1	2	3	1	0	1	10
Augustin	-1	-1	0	0	0	0	0	-2
Claire	1	-1	0	0	1	0	1	2
Claude	0	0	-1	0	-1	0	0	-2
Colette	2	1	2	1	3	0	0	9
Daniel	3	1	-1	0	1	0	1	5
Emile	0	1	0	1	1	0	0	3
Eric B	3	2	0	1	2	0	0	8
Germaine	0	2	1	1	2	0	1	7
Gilbert B	-2	-1	-1	-1	0	0	0	-5
Janvier	-2	0	-1	1	1	0	0	-1
Jessica	-1	-1	-1	0	1	0	-1	-3
John	0	1	-1	0	-1	0	0	-1
Josh	1	1	2	1	2	0	0	7
Mark	3	2	2	3	1	0	1	12
Queen	-1	-1	-1	-1	0	0	-1	-5
Rehema	0	1	1	2	1	0	0	5
Robert A	-1	-1	0	1	0	1	0	0
Robert B	-1	1	1	0	0	0	0	1
Samuel	-1	1	1	0	0	0	0	1

Scores: Entrepreneurs

Self-determination						
Interviewee	Non-financial motives	Need for achievement	Internal locus of control	Financial gain	Creating a job	Sub-total
Akalisa	1	1	1	0	0	3
Annette	1	1	1	-1	0	2
Bosco	1	1	1	0	0	3
Christian	1	1	1	0	0	3
Damien	0	0	1	0	0	1
Eric A	1	1	0	-1	0	1
Gilbert A	1	0	1	0	0	2
Jacques	1	1	0	0	0	2
Jean	1	1	1	0	0	3
Jimmy	1	0	1	0	0	2
Sharon	1	1	1	0	0	3
Willy	1	1	0	0	0	2

Funding method									
Interviewee	Credit	Savings	Strategic partner	Family support	Volunteers	Cash flow	Consumption sacrifice	Prize money	Sub-total
Akalisa	0	1	0	0	0	0	0	0	1
Annette	0	0	0	0	0	1	0	0	1
Bosco	-1	1	1	0	0	1	1	0	3
Christian	0	1	0	0	0	0	0	0	1
Damien	0	0	0	0	0	0	1	0	1
Eric A	0	0	0	0	0	1	0	0	1
Gilbert A	0	0	1	0	0	0	0	0	1
Jacques	0	1	0	0	0	0	1	0	2
Jean	0	1	0	0	0	0	1	0	2
Jimmy	0	0	0	0	0	0	1	0	1
Sharon	0	1	0	0	0	0	1	1	3
Willy	0	0	0	0	0	1	0	0	1

Dilute effectuation					
Interviewee	Diving in	Iteration	Market creation	Causation	Sub-total
Akalisa	1	1	0	0	2
Annette	1	1	0	0	2
Bosco	1	1	0	0	2
Christian	1	1	0	0	2
Damien	1	1	1	0	3
Eric A	1	1	0	0	2
Gilbert A	1	1	0	0	2
Jacques	1	1	1	0	3
Jean	1	1	1	0	3
Jimmy	1	1	1	0	3
Sharon	1	1	0	-1	1
Willy	1	1	1	0	3

Sketching					**Envisioning**
Interviewee	Demand assessment	Basic research	Rough outline	Sub-total	
Akalisa	1	0	0	1	0
Annette	1	0	0	1	1
Bosco	1	1	1	3	1
Christian	0	1	1	2	1
Damien	0	1	0	1	0
Eric A	0	0	0	0	1
Gilbert A	1	1	1	3	0
Jacques	0	0	0	0	1
Jean	0	0	1	1	1
Jimmy	0	1	0	1	1
Sharon	0	1	0	1	1
Willy	0	0	0	0	1

Risk						**Networking potential customers**
Interviewee	Risk aversion	Mitigating action	Tolerance of ambiguity	Predisposed to risk	Sub-total	
Akalisa	0	1	1	0	2	1
Annette	0	1	1	0	2	0
Bosco	0	1	1	0	2	0
Christian	0	1	1	0	2	1
Damien	0	0	1	0	1	0
Eric A	0	0	1	0	1	1
Gilbert A	0	1	1	0	2	1
Jacques	0	1	1	0	2	0
Jean	0	1	1	0	2	1
Jimmy	0	1	1	0	2	0
Sharon	0	1	1	0	2	0
Willy	0	1	1	0	2	1

Aggregate Scores	Self-determination	Credit aversion	Dilute effectuation	Use of Sketching	Risk avoidance	Network building	Envisioning	Aggregate score
Interviewee								
Akalisa	3	1	2	1	2	1	0	10
Annette	2	1	2	1	2	0	1	9
Bosco	3	3	2	3	2	0	1	14
Christian	3	1	2	2	2	1	1	12
Damien	1	1	3	1	1	0	0	7
Eric A	1	1	2	0	1	1	1	7
Gilbert A	2	1	2	3	2	1	0	11
Jacques	2	2	3	0	2	0	1	10
Jean	3	2	3	1	2	1	1	13
Jimmy	2	1	3	1	2	0	1	10
Sharon	3	3	1	1	2	0	1	11
Willy	2	1	3	0	2	1	1	10

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