

Successful entrepreneurship in a developing country

A case study in Cotonou, Benin

by

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Table of Contents

Index of Maps, Tables and Figures.....	4
Preface.....	5
Abbreviations.....	6
Introduction.....	8
CHAPTER 1: THEMATIC-THEORETICAL FRAMEWORK.....	14
1.0 Introduction to the Chapter.....	14
1.1 What is entrepreneurship?.....	14
1.2 Entrepreneurship and Economic Development.....	15
1.3 Success factors.....	18
1.4 Entrepreneurial Traits and Qualities.....	20
1.5 Adopting the Sustainable Livelihoods Framework.....	22
1.6 Access to key capitals.....	24
1.7 Human and Social Capital.....	25
1.8 Natural Capital.....	27
1.9 Physical Capital.....	27
1.10 Financial Capital.....	28
1.11 Summary.....	29
CHAPTER 2: COTONOU, BENIN.....	31
2.0 Introduction to the Chapter.....	31
2.1 Introduction to Benin.....	31
2.2 Social context.....	34
2.3 Key Points in History.....	37
2.4 Characteristics of the setting: Cotonou.....	40
2.5 The Beninese Economy.....	44
2.5.1 Informal Sector.....	47
2.5.2 Regional linkages.....	48
2.6 Private sector constraints.....	49
2.7 Government Related Efforts to Improve the Business Climate.....	56
2.7.1 The Law of Finances of 2009.....	57
2.7.2 What is being done to channel informal sector activities?.....	57
2.7.3 What is being done to improve administrative deficiencies?.....	58
2.7.4 What is done to help new business start-up?.....	59
2.7.5 What business areas are being fomented?.....	59
2.7.6 Industrial free-trade zone.....	60
2.7.7 Access to financial capital.....	61
2.7.8 Access to physical capital.....	62
2.7.9 Access to human resources and training.....	62
2.8 Conclusions.....	63
CHAPTER 3: METHODOLOGY.....	66
3.0 Introduction to the Chapter.....	66
3.1 Research Objectives.....	66

3.2 Research Questions.....	67
3.3 Operationalization of Key Concepts.....	69
3.4 Data collection methods.....	71
3.5 Sample population.....	74
3.5.1 Characteristics of the entrepreneurs.....	75
3.5.2 Education.....	76
3.5.3 Firm characteristics.....	78
3.5.4 Ownership.....	80
3.6 Data processing methodology.....	81
3.7 Limitations to the study.....	83
CHAPTER 4: DATA COLLECTED: Firm Characteristics and Access to Assets.....	85
4.0 Introduction to the Data Collection Chapters.....	85
4.1 Success Factors.....	85
4.2 Firm-level success factors.....	87
4.3 Access to human capital factors.....	89
4.3.1 Health.....	89
4.3.2 Education.....	89
4.3.3 Factors favoring education.....	90
4.3.4 Languages spoken.....	92
4.3.5 Travels.....	93
4.4 Social capital factors.....	94
4.4.1 Participation in organizations.....	95
4.4.2 Trust.....	95
4.4.3 Organizations.....	97
4.5 Financial capital to start a business.....	101
4.5.1 Access to private and public funding.....	102
4.6 Natural capital.....	103
4.6.1 Natural resources.....	104
4.7 Physical Capital.....	104
CHAPTER 5: DATA COLLECTED: Individual Characteristics and Success Strategies.....	106
5.0 Introduction.....	106
5.1 Entrepreneurial traits.....	106
5.2 Entrepreneurial qualities.....	108
5.3 Strategies for growth.....	109
5.4 Ratings on the environment.....	112
5.5 Key success factors.....	112
CHAPTER 6: CONCLUSIONS.....	118
Final Remarks.....	123
Appendix.....	124
Acknowledgements.....	125
References.....	126

Index of Maps, Tables and Figures

1.5 Livelihoods Framework Figure.....	23
2.1 Geographical Data for Benin.....	32
2.1.2 Map of Benin.....	34
2.2 Demographics, Society and Human Development Table.....	36
2.5.0 Economy Overview Table.....	45
2.6.0 Corporate taxes in Benin compared to neighboring countries.....	52
2.6.1 Taxes for individuals in Benin compared to neighboring countries.....	53
3.5.1 Ages of entrepreneurs in sample.....	75
3.5.1.2 Map of places of origin for entrepreneurs in sample.....	76
3.5.2 Years of working in the company for non-owners.....	77
3.5.3 Characteristics of Firms Table.....	79
3.5.3.1 Industries Represented Pie Chart.....	80
4.1.0 Table of Firms and Success Requisites.....	86
4.1.1 Classification of Success and Industry.....	87
4.2 Correlation between annual income and number of employees.....	88
4.3.3 Accessing Education Table.....	90
4.3.4 Amount of languages spoken.....	92
4.4.4 Success and Trust.....	100
5.1 Success and Locus of Control.....	107
5.4 Ratings on the business environment.....	112

Preface

This study is based on a three-month research conducted at Cotonou, Benin between February and May 2011. It has been part of the MSc Program International Development Studies of Utrecht University in the Netherlands and was carried out under the supervision of Dr. August Van Westen and of Mr. Pierre Zanou of *Conseil National du Patronat* in Benin. The main objective of the study was to identify success factors of Cotonou's local entrepreneurship. This was done in order to contribute to the existing sources of literature and to have solid recommendations to key actors on what can be done to stimulate entrepreneurial and business growth. It seeks to identify what activities permit overcoming the obstacles present in the environment for formal business entrepreneurship.

This MSC thesis is the result of literature research carried out in the Netherlands, data collected during the fieldwork at Cotonou, and seven months of pondering the issues discussed. It could not have been carried out without the guidance of Van Westen, who always found an angle to solve the problems encountered and always provided a fresh view on how to structure ideas properly. The process of writing this has been a blossoming full of new knowledge and experiences. I am also thankful for my interpreter in Benin, Dassi Casimir, who sometimes drove me crazy with his questions, but that resulted as a useful guide in the process of conducting the interviews required for this work. I would also like Pierre Zanou, of CNP-Benin, for the hospitality and guidance through the tricky processes of arrival in a new country and for the fatherly support throughout the three-month stay. Finally I would like to thank Raoul Chao of CNP-Benin, who without the help of Google Maps knew the location of every business of the Membership and give the directions for them in a country where streets rarely have names.

I sincerely hope that this project may be of use to the local businesspeople that opened their offices and gave me of their time to answer my extensive questionnaire and provided

their life stories and the circumstances in which they have operated. Their openness and sincerity has proved to be full of valuable lessons that have shown me how essential hard work and persistence is needed to achieve success. Their stories have been the source of dynamism to write this thesis.

Abbreviations

AEO	African Economic Outlook
AFACEB	Association des Femmes d'Affaires et Chefs d'Entreprises du Bénin
APCE	Agence Pour la Création d'Enterprises
BBC	British Broadcasting Company
CGA	Centre de Gestion Agréé
CCIB	Chamber of Industry and Commerce Benin
CCR	Conseil Consulate Regional
CEBAC-STP	Coalition des Entreprises Béninoise et Associations Privés contre le SIDA, la tuberculose et le Paludisme
CFA	Communauté Financière Africaine
CGA	Centre de Gestion Agréé
CIPB	Conseil de Investisseurs Privé au Bénin
CNP	Conseil National du Patronat du Bénin
CNSS	Caisse Nationale de Sécurité Social
DFID	United Kindom's Department for International Development
DGID	Direction Générale des Impôts et Domaines
EU	European Union
EUR	Euro
FANAF	Fédération des Sociétés d'Assurances de Droit National Africaines
GDP	Gross Domestic Product
IDS	International Development Studies
IFU	Fiscal Identity Number
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development
INSB	L'Institute National de la Statistique Benin
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
NGO	Non Government Organization
OHADA	Organization for the Harmonization of Business Law in Africa
PADME	Association pour la Promotion et l'Appui au Développement de Micro-Entreprises
PRAFIDE	Programme Régional d'Appui à la finance Décentralisée
REFAE	Réseau des Femmes Africaines Economistes
SAP	Structural Adjustment Program
SPSS	Statistical Package for the Social Sciences
SME	Small and Medium Enterprises
WTO	World Trade Organization
UNDP	United Nations Development Program
UNESCO	United Nations Education, Scientific and Cultural Organization
UN-NGLS	United Nations Non-Governmental Liaison Service

US	United States of America
USDC	United States Department of Commerce
USAID	United States Agency for International Development
USDS	United States Department of State
WAEMU	West African Economic Monetary Union
WB	World Bank
ZFI	Zone Franche Industrielle

Introduction

Over the years the development perspective has shifted from focusing on development aid and helping out the poor to facilitating the process of development. This development process is done by transferring the skills and knowledge used by developed nations, so that underdeveloped countries –using strategies classified as proven- may be able to use their geographical and natural advantages by integration within the world economy.

The case study takes place in Cotonou, Benin, West Africa. Originally an important kingdom during the slave-trade, it became a French colony, then an independent republic guided by Marxist-Leninist principles until 1989 and since the 1990s has been participative of Structural Adjustment Programs (SAPs). The SAPs began both as a result of local disappointment with the few development achievements under a socialist state and as part of the wave of the Bretton Woods influence that spread over the world's poorest countries in the late 1980s. The SAPs can be considered as loans provided by the World Bank and IMF whose purpose is to reform the national economies to become more market oriented; this includes the removal of trade barriers. This investigation is about assuming this perdurable paradigm and seeing how it is put into application in a developing country.

In 2011, Benin remains one of the world's poorest countries, but continues to carry out a free-market approach to economic growth. Rooted in the assumptions that economic growth can be achieved through an increase of private sector activity and output, this investigation focuses on private sector entrepreneurship in Cotonou. The private sector operating in the formal economy is small, just 1.02% of the labor force. The greater part of national economic activity and contributions to the GDP occurs at the margin of the law. This investigation focuses on private sector businesses that represent rare cases of how entrepreneurship can contribute to economic development. Specifically, the objective of this thesis is to identify success factors for these businesses: What characteristics do these entrepreneurs have and how is that linked to innovative processes of capital making? What are key activities that aid in business formation? What are

the difficulties encountered within the business environment? What strategies are put to work to maintain a business up and running?

The goal of the investigation is to contribute concrete answers about what sort of businesses succeed in Cotonou and help other existing and emerging businesses and entrepreneurs get a better idea of what they can do to continue expanding their activities, whether by dominating more parts of their value chains or by providing employees with incentives like commissions. It is the result of a year long literature research and redaction process and a field investigation carried out in Cotonou for three months. In the Netherlands it took place under the supervision of Dr. Guus Van Westen of the International Development Studies Department at Utrecht University and in Cotonou under the supervision of Mr. Pierre Zanou of Conseil National du Patronat du Benin (CNP-Benin).

Main objectives

The objectives of this investigation are to

1. Gather success factors of formal entrepreneurship
 - a. At the individual
 - b. At the firm level
2. Identify how the business environment is perceived and what types of obstacles are present and how they are overcome

Research Questions

The main research question is:

What are the factors that permit the success of formal business entrepreneurship in Cotonou, Benin?

In order to answer it, the following research questions have been formulated:

What characteristics and assets facilitate business innovation and creation opportunities?

How are businesses integrated into social and business networks and what are the advantages of these connections?

and

To what extent and how does the Government and its institutions cooperate for business creation and growth?

Data-collection methods

Central to the investigation is designing a method to group success factors. This has been done by conducting interviews to local entrepreneurs with the purposes of collecting their entrepreneurial history in order to try and identify what *individual* and *firm characteristics*, *assets* and *strategies* have been proved to aid the creation and expansion of business. For practical purposes of organizations, levels of success are measured and compared. For this, two variables were chosen. The first requisite for success was the ability to pay employees on time and according to the established contracts. The second requisite referred to growth through the last three years (2009-2011). Companies could either have experimented negative growth, no growth or positive growth over the past three years.

In order to have a vision on how to identify success factors during the interviews a questionnaire was created. This question looked at psychological traits and qualities (characteristics) of the entrepreneurs. The questionnaire was also guided by an assets-based approach. Trying to identify which access to the assets of human, social, physical, financial and natural capital has been present and have aided to the process of entrepreneurship and business development was one of the objective dimensions of the questionnaire and the research. The questionnaire also focused on the process of business creation and looked at the characteristics of the businesses.

In the case of a business being deemed outstandingly successful, further questions were made to see what strategies had been employed or what *strategies* had made this possible. According to the requisites, around nine businesses were labeled as outstandingly successful; the majority of these were involved in the financial sector (banks, insurance, auditing, etc.). What could be characterized as more traditional businesses, such as automobile retailers and the manufacture and distribution of foods for local consumption, were generally just successful, which meant that they had the capacity to sustain a relatively steady income and recover from shocks, but with a diminished capacity for expansion and growth.

This investigation aims understanding how difficulties, both perceived and experienced, affect businesses, while focusing on what are the distinguishing features of entrepreneurs (individually and in the domain) that allow them to achieve business success.

Setting of the study

This investigation took place between February and May 2011 in Cotonou, Benin. Cotonou is characterized by a strong tradition of business and workers unions. Many local business organizations currently form part of debates between the public and private sector, which is small in size but still influential. The economy of Cotonou is mostly informal. The informal sector represents about two-thirds of the GDP of Benin. The agricultural sector, which is also a big part of the GDP, is almost not formalized. In terms of employment, the informal sector represents some estimates up to 95% of employment. In a population of working age of 3.2 million people, 30,000 are employed in the public sector and 35,000 in the modern private sector (CCIB 2008). Only 7% of companies in the city and 9% in rural areas are entered in the commercial register. Since formal business activities are very few, it is important to identify what characteristics, assets and strategies can lead to success. Among the industries represented in the sample were: automobile industries, manufacturing, banking, insurance, agriculture and security. Not much reliable information can be found on Cotonou's private sector. Finding

successful businesses is almost just as rare. This investigation focuses on entrepreneurship topics not previously researched in this location.

Structure of the study

This thesis is divided into 6 chapters. The first chapter provides the theoretical background in which the research was based. The second chapter provides the characteristics of the setting, along with an illustration of its business environment. The second chapter also explains the efforts taken by government to improve the business climate. The third chapter provides the methodology for the investigation and presents the data on the sample population. The fourth and fifth chapters present the data collected. This is done by revealing the responses and results to the questions made in base of the literature review. The final chapter presents the conclusions of the research by establishing overall success factors through the answer of the research questions.

Chapter 1: Thematic-Theoretical Framework

1.0 Introduction

The objective of this investigation is to identify success factors for formal/private business entrepreneurship in Cotonou, Benin. In order to do so it is important to clearly define what an entrepreneur is and its role in the theme of economic growth and development. It is also necessary to review some of the investigations have been done on business success factors and establish what are the theoretical references that helped frame the way these success factors were identified. The purpose of the chapter is to discuss the theoretical framework that was used to approach entrepreneurs during interviews and to understand the circumstances that influence the relations of their business affairs.

This chapter does a literature review on the types of relationships that have been said to exist between entrepreneurship as a human activity and economic growth in order to review how entrepreneurship has become an important focus of attention in the two decades. It moves on to review what other researches have identified as success factors for business entrepreneurship, followed by an explanation on the importance of looking at entrepreneurial traits and qualities, an aspect that has been widely discussed in the academic literature. Hopefully this will help understand what focuses should be taken when analyzing success factors at the individual level. Then it seeks to situate the entrepreneur and its economic activity within a context or environment, and elaborates on the theoretical tools that have been developed to explain access to resources and successful opportunity recognition. In order to have a tool for measuring an access to capitals, there will be a brief discussion of how the assets-based livelihoods framework has been modified to serve as a checklist to fit the purposes of this research.

1.1 What is entrepreneurship?

Entrepreneurs bring new products and ideas, identify unknown needs, create jobs and in a market

economy are the people responsible for wealth creation. An entrepreneur is defined in this investigation as a leader of a business that is in charge of the risks and outcomes, and manages the labor and the direction of the pursuit of profit. An entrepreneur is someone who is both able to identify opportunities and have the drive to transform those ideas and opportunities a reality. Entrepreneurship is sometimes used a synonym of innovation as it is also the process of introducing and developing new ideas. There are many different types of entrepreneurs, like social and art entrepreneurs, but here the focus will be on business and corporate entrepreneurs. This may be someone who created a new idea or product, was able to develop an already existing one or those that with innovation establish themselves in a high management position. Focus on business and corporate entrepreneurs will allow for an analysis of private sector activities.

The entrepreneurial aspect of human action is the prime catalyst for economic growth. (Boettke & Coyne 2003)

Entrepreneurs are considered to play a vital role in the global economy although a solid body of academic literature linking entrepreneurship (innovation) and economic growth did not emerge until the 1990s. The work of researchers such as Boettke et al 2009 and Wennekers and Thurik 1999, points out that economic growth cannot be understood if the true “agents of change” – the entrepreneur – is dismissed from the process. The development of business entrepreneurship has become a global phenomenon since it is perceived as the sure-way solution out of poverty. Entrepreneurialism is an attractive theme of study because it serves as a link between human and economic development since people with a greater variety of life choices allowing for an improvement of their skills are able to contribute more to their society. To begin explaining this, the concepts of economic development and economic growth must be introduced.

1.2 Entrepreneurship and Economic Development

Economic development and economic growth are two complementary concepts with different implications. The Gross Domestic Product (GDP) is the final market value of all products and services produced in a country within a period. While economic growth relates to the growth of

GDP, output or changes in the economy, economic development refers to the increase in well being of a country's inhabitants, possibly as a result of economic growth. Economic growth is defined by increases of GDP. Economic development encompasses social measurements such as literacy and life expectancy.

The relationship between entrepreneurship and economic growth has been elaborated by numerous authors and in varying perspectives. Schumpeter described entrepreneurs as self-centered, rational beings who have "a will to conquer, an impulse to fight, and a need to succeed for the sake of succeeding" (Ehrenworth 1993). Schumpeter 1911 work of five cases that promoted economic development is one of the first focuses on innovation as a creator of economic growth. These cases were: the introduction of a new good or new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials or half-manufactured goods and the carrying out of the new organization of any industry, like the creation or breaking up of a monopoly position (Alfaro et. al. 2010). For Schumpeter 1911, the entrepreneurs direct the means of production in innovative ways, and done effectively can secure the success of a business. These cases introduced by Schumpeter 1911 are now the classic example of how entrepreneurial or innovative economic activity leads to economic growth.

For Wennkers and Thurik 1999, economic growth is attributed to entrepreneurship through three main processes or entrepreneurial activities: enhanced competition, innovations, and employment growth through firm start-ups (Dejardin 2000). Equally, Audretsch and Thurik 1999 showed that an increase of the rate of entrepreneurship defined as number of business owners per labor force, led to lower levels of unemployment in 23 OECD countries in the period 1984 through 1994 (Wennekers & Thurik 1999). This sort of research is the base for Boettke 2004 to argue that the evidence accumulated as a result of research on the foundations of economic development points unambiguously toward the importance of institutions that enable entrepreneurship, define and enforce property rights, and create the political capacity to see that reforms are sustained. The existence of an environment favorable to the process of making new ideas rentable is one of

the current paradigms for the promotion of economic development. Boettke 2004 affirms that entrepreneurship is the sole productive solution to combating unemployment and providing individuals with the means to raise themselves out of poverty; and that entrepreneurship, given the proper institutional foundation, begets entrepreneurship, and so becoming self-sustaining. Or as Karlsson et al 2004 explain: entrepreneurship creates changes, and changes lead to more opportunities for entrepreneurship.

The possibilities to turn ideas into rentable forces are influenced by a society's characteristics and rules. The process of developing businesses and business ideas are influenced by access to finance, access to education and skills, by overall attitudes favoring innovative behavior and by formal rules such as the legislation on the establishment of a business, just to name a few examples. When factors like these influence entrepreneurship positively, it permits the creation of many new economic activities. This goes along with the Polèse 1998 concept of regional development as a local matter, in which the success of a region depends upon its autonomous capacity to take matters in hand, to organize various actors around common goals, to adapt and to successfully adjust to outside pressures. An organization of many aspects of life is necessary to develop entrepreneurship.

While looking to understand how economic growth can lead into economic development, some have pointed that a society's cultural and institutional -rules of the game- characteristics will be the main influences of economic growth. It is argued that local social conditions play an important role in the genesis and assimilation of innovation and its transformation into economic growth and that geographic localities that are characterized by a culture that is conducive to entrepreneurship may have higher start-up rates and more innovation, which may influence economic growth (Beugelsdijk & Noorderhaven 2004). According to Wennekers & Thurik 1999 p. 46, entrepreneurship is a behavioral characteristic of persons and linking entrepreneurship to economic growth means linking the individual to the aggregate level, although there is a need for intermediate variables or linkages -like innovation, entry and exit of firms and competition- to explain this influence. Institutions as well as market and organizational structures do not create

change in the absence of human actors. It is the unique knowledge, perceptions and goals of individuals equipped with the drive to take action accordingly that initiate novelty (Braunerhjelm 2007).

“The sources of development lie in the region itself, in its people, its institutions, its sense of community, and, perhaps, most important of all, in the spirit of innovation and entrepreneurship of its population” (Polèse 1998)

This “spirit of innovation” has been a constant source of interest for researchers on entrepreneurship, such as Beugelsdijk & Noorderhaven 2004. It has led to a discussion on whether entrepreneurs have different characteristics from others that allow them to lead the process of wealth creation. There is a good body of research on entrepreneurial traits and characteristics, which prove a good way to begin analyzing where success factors for business entrepreneurship can be found.

One can see the link between the private sector and economic development occurs when private businesses, formally registered, contribute to the government’s tax base which in turn uses those taxes to fund national development projects. Private business growth also means job creation and knowledge transfer in more advanced industries, things that are very much needed in developing countries. This leads to the importance of knowing which sort of businesses succeed in an environment such as Cotonou. Although the description of the context takes place in the following chapter, this theoretical chapter continues to identify what have been some of the approaches taken by other studies on success factors, especially those that have taken a multi-faceted approach.

1.3 Success factors

Success is defined as the accomplishment of an aim or purpose, in any part of life where goals have been made. In business studies, the concept of success is often used to refer to a firm’s

financial performance (Alam et al 2011) although there it can take on different forms like survival, profit, return on investment, also on happiness and satisfaction, reputation, number of employees and stability, depending on the focus of the study. The definition of business success here used entails two requisites: (1) that the company is able to pay its employees on time and according to the established contracts and (2) having experienced financial growth in the past three years. In the literature, success has generally been operationalized in using indicators such as income, employment that is either steady or growing, revenue growth, or more frequently years in business (Modh d.u.). Being able to classify a venture as successful is important for determining who are the strong players in the nation's formal business context. For this investigation success factors are divided into (1) the entrepreneurs -owners and managers- characteristics and their access to assets that lead to business creation and growth. (2) And the firm characteristics, its access to assets and strategies that lead to business creation and financial growth.

Grégoire et al 2001 identified five main themes that most entrepreneurship research undertakes. They were research (1) on personal characteristics of the entrepreneur, (2) on factors affecting new venture performance, (3) on venture capitalist's practices and their impact on entrepreneurship, (4) on the influence of social networks, and (5) research drawing from a resource-based perspective (Grégoire et al 2001).

A study on business success factors that looked at entrepreneur and firm characteristics was Alam et al 2011, focused on SMEs in Bangladesh. Alam et al 2011 showed that SMEs that have operated during a longer period have been more successful in comparison than the firms that have been in operation for shorter periods. This is a success factor identified at the firm level. Brush and Hirisch 1991 pointed out in a study on women entrepreneurs that previous experience in the field, financial skills, idea generation and market opportunity motivation are key factors toward business success (Lee et al 2009). In this case, success factors are identified at the individual level. Moore and Buttner 1997 on the other hand concluded that more successful business owners had more networking opportunities as well as more relevant previous work experience

(Lee et. al 2009). This research puts the importance of networks into perspective, which is also important to take into account when looking at success factors. Raduan et al 2006 found for Malaysia that the entrepreneurs educational level, working experience and if parents were also business owners are positively correlated with success. Raman 2004 in his study in Kerala found that motivational factors such as initiatives, third party assistance, encouragement by family and friends, skill and experiences and “independentness” leads to the success of the entrepreneurs. Raduan et al 2006 and Raman 2004 focus on entrepreneurs as the principal axis that steers business actions while Kalleberg 1991 concluded that business survival and success depended on industry differences, organizational structure, and attributes of their owners-operators (Modh d.u.) which focuses more on firm characteristics. Another interesting study carried out by Ernst & Young of 685 entrepreneurial leaders in firms asked these “What specific forms of education or sources of learning provided you with the skills needed to build successful businesses?” The top answers were experience as an employee (32%), followed by higher education (30%), mentors (26%), family (21%), co-founders (16%), secondary education (13%), colleagues (12%), c-level executives/board (11%), friends (9%) and investors (5%). All of these different conclusions can somehow be framed into the livelihoods framework where education and experience account for human capital and networking counts as social capital which is why looking at which access to assets was present was a fundamental part of identifying success factors during interviews, even if the conclusions –the success factors itself- are not grouped according to these categories but representatively of the results of the entrepreneurs’ answers.

Success factors are found both at the individual level in qualities such as passion, vision and perseverance and at the environmental level: policy, access to information and training, financing, etc. This investigation seeks to have a comprehensive view of what are the determining success factors for both firms that meet just the basic requirements that ensure its continuity and success factors for companies who, even in unfavorable circumstances, are able to expand their activities. The following discussion explains the theoretical background for identifying success factors.

1.4 Entrepreneurial traits and qualities

Through entrepreneurial literature review, the entrepreneur, one of the key actors of innovative economic activity, is imbued with certain psychological characteristics and entrepreneurial qualities. This session deals with some of these traits and qualities found at the individual level. Some of the empirical researches that have documented the psychological dispositions of entrepreneurs are Brockhaus 1982 and Begley & Boyd 1987 (Gadar & Yunus 2009). Noorderharven & Beugelsdijk 2004 study of values that characterized the self-employed identified through 54 European regions determined three attributes that have been consistently associated with entrepreneurial behavior. These were need for achievement, internal locus of control and risk-taking propensity. Need for achievement can be understood as a disposition to strive for success and excellence. It is characterized by setting difficult, yet attainable goals and consistently working to achieve them. Locus of control, on the other hand, was first identified by Rotter 1966 as a characteristic of entrepreneurs. This concept refers to the perceived control over events; internal locus of control implies the individual's belief of influencing outcomes through ability, effort or skills. External locus of control means that the individual believes that forces outside his or her control determines outcomes. And risk-taking propensity refers to the attraction to partake in ventures where the results are uncertain, as opposed to remaining in a familiar set of circumstances where outcomes are more predictable. Questions to determine the presence of these entrepreneurial traits were made in the questionnaire in order to see if entrepreneurs in Cotonou also had these traits that have been consistently associated with entrepreneurship. Doing so helped expose the drives and motivations of entrepreneurs, which are important factors to consider when looking for success factors at the individual level.

Another factor that was looked at when searching for success factors at the individual level were entrepreneurial qualities. Concepts such as vision, passion, drive and integrity have been identified as some of the most important qualities of entrepreneurial leaders (Ernst & Young 2011) and play an important part in entrepreneurship development. Prices may be right and laws may enforce the rule of market, but without such characteristics found in entrepreneurs,

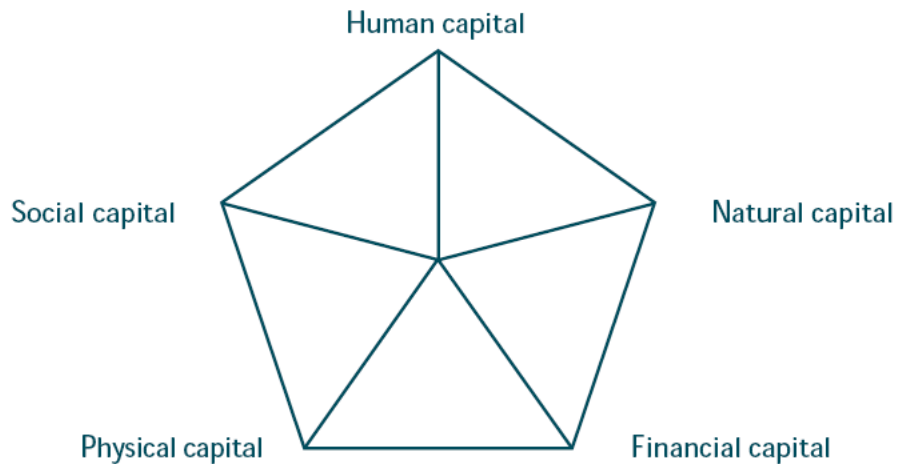
innovation will rarely take place. These qualities are important to investigate since depicting people solely as economically rational and strategic actors does not do justice to other aspects that inform human behavior (Kaag et. al. 2004). It also helps avoid the structuralist trap of just viewing entrepreneur as the result of their environment or context and failing to see him or her as an agent of change.

Entrepreneurs are said to have certain [homogeneous] characteristics that form part of the factors that influence entrepreneurial activity although it is not the only factor counted for when looking for entrepreneurial and business success factors. Since the importance of the figure of the entrepreneur in the context of economic development has been reviewed, along with some of the perspectives taken by different sorts of investigations on success factors, the following sections highlight the perspective that helped situate entrepreneurial activity within a context of access to capitals or resources. Many of these have proven to be crucial for business success.

1.5 Adopting the Sustainable Livelihoods Framework

The livelihoods framework approach was used in this investigation as a way of organizing the obstacles and assets faced in business creation and development. It was originally formulated by the British Department for International Development as a methodological tool to assess the vulnerability of livelihoods. It is adjusted for the purposes of this investigation in order to survey business entrepreneurship's success factors, therefore deviating from its original purpose of alleviating vulnerabilities and risks linked to poverty. It is used as a flexible tool since it is practical for pinpointing valuable assets in firm creation and development, such as possession of lands or special financial grants.

Figure 1.5 Livelihoods Framework



Source: DFID 1999

The DFID Sustainable Livelihoods approach is one of a number of conceptual frameworks which takes an asset/vulnerability approach to analyze livelihoods of the poor by looking at the five types of assets that people draw upon to implement a livelihood strategy (Dearden et. al. 2002). It is originally focused on the livelihoods approach, which emerged as a critical response emerged to World Bank and IMF policies in the 1980s and converged with development policy in the early 1990s (UNDP 1990, OECD 1996, Kaag et al 2004). The livelihoods approach seeks to gain an accurate and realistic understanding of people's strengths (assets or capital endowments) and how they endeavor to convert these into positive livelihood outcomes (DFID 1999). It can be used to address a whole range of policy issues relevant to the poor like health and education and issues of access to finance, markets and personal security. It emphasizes understanding the vulnerability context and the organizational and institutional environment of different types of assets which poor people draw upon to implement a livelihood strategy (Dearden et al. 2002). Chambers and Conway 1992 definition of a livelihood comprises the capabilities, assets and activities required for a means of living. A livelihood is considered sustainable when it can cope and recover from stresses and shocks, and maintaining or enhancing present and future capabilities and assets while not undermining the natural resource base. Basically, the approach has to be understood as a tool, or checklist, to understand poverty in responding to poor people's

views and their own understanding of poverty (Gamper & Kollmair 2002). These capitals examined by the SL approach are human, social, natural, physical and financial capitals. As the purpose of this investigation is the identification of success factors for formal business entrepreneurship and not assessing livelihoods, this framework is just used as a kind of checklist to identify access to key assets and how these might have been used for business success.

1.6 Access to key capitals

One of the most-widely used definitions of entrepreneurship relates to its capacity to expand the boundary of economic activity by finding new ways to use resources and better allocate existing ones. In other words, it refers to the entrepreneur's ability to find new assets and use existing ones, another important aspect of identifying success factors. Casson 1982 calls the entrepreneur the market maker, who coordinates market activities and who specializes in taking judgmental decisions about the coordination of scarce resources (Bhattacharyya 2010). For Senges 2007, entrepreneurship is developed as a fundamental human practice based on a mindset, and further facilitated through an infrastructure. The entrepreneurial activity or the management of organizational change is not seen as a straightforward, rational process but as a jointly analytical, educational and political process where power chance and opportunism are influential in shaping outcomes, as are design, negotiated agreements and master plans (Walsham, 1993 in Senges 2007). Having these master plans in mind may aid the understanding of how a person develops entrepreneurial activity; strategies such as specializations on certain areas help in the formation of a new business. The same thing goes for entrepreneurs who coordinate their action to succeed and move upwards at a given enterprise. Ehrenworth 1993 mentions that although some individuals may be more entrepreneurially inclined than others, entrepreneurship is more than a set of personality traits and is created by a combination of personality, motivation and context. These characteristics come together with market opportunities, environmental conditions and access to resources. Access to financial capital is always one of the major setbacks for business entrepreneurship.

In the following section, we continue the discussion of the taken approach on entrepreneurship by reviewing how the sociologically originated perspectives on human and social capital can account for business success. It is understood that those with more access to assets have a greater range of options and an ability to switch between coping strategies (DFID 1999). Furthermore the concepts of financial, physical and natural capital are introduced order to finish discussing the theoretical focuses that are taken when analyzing business success both at the individual and firm level.

1.7 Social and Human Capital

One perspective that is widely discussed in the literature is the relationship of entrepreneurship development with social and human capital. Although this investigation departs from the classical formulation of social capital in its conceptions of linking trust networks and reciprocity norms to successful collective action, it still remains one of the aspects for business success to be explored since it is impossible to account for the structure and functioning of the social world unless one reintroduces capital in all its forms and not solely in the one form recognized by economic theory (Bourdieu 1986). Social capital can be understood as the benefits accruing to individuals by virtue of their ties with others (Portes 1990). Some of the sources for analyzing the social capital concept include family, associations, informal links, links in the work place and State (Castano 2007).

The diversity of business and social circles to which one belongs provides the opportunity to access multiple domains that may provide unique sources for information, financial funding and political support, among other desirable resources that increase the propensity for innovation (Dakhli & De Clercq 2010). For Coleman 1988, social capital is defined as a variety of different entities, with two elements in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors -whether personal or corporate actors- within the structure (McNeill 2004). Social capital is said to lower the costs of individuals working together, since there is mutual trust and reciprocity, thus having impact upon other types of

capital, like financial assets (DFID 1999). Davies 2003 analysis of Burt 2000 explains two different ways of viewing networks, one focuses on the interconnection between members seen as the basis of trust and the other as individual members' own particular linkages beyond the network that allow "brokering" access to influences or resources between the network and the wider world. Optimum networks according to Bhagavatula 2010 are neither sparse nor closed and should have "the formal training and education aimed at updating and renewing one's capabilities in order to do well in a society. In this review three types of specific (firm, industry, individual) human capital are distinguished. Like in this research, the focus here is also on individual-specific human capital, which refers to broad knowledge of firms and industries, including general managerial and entrepreneurial experience, level of academic education, vocational training and age. Based on this we arrive at the entrepreneurial history, which in some cases is synonymous to career development. It is the process of developing skills by education, experience in the workplace and in an industry; as so, it can be considered to fit in the definition of human capital. Human capital is repeatedly a factor that plays an important part in the process of business entrepreneurship development. Kilkenny et al 1999 discussed a human capital model for success and suggested that business success is positively related to one's level of training, overall business experience and total income (Dakhli & De Clercq 2010). Experience running a business is another human capital factor that needs to be accounted for. Knowledge of languages has a positive influence on opportunity recognition, meaning the more languages the entrepreneur speaks, the more opportunities he can identify (Bhagavatula 2010). In addition, Dakhli & De Clercq's 2004 study tested a theoretically grounded model that examined human and social capital within a given country, using the World Values Survey, to innovation at the societal level across 59 different countries. They found strong support for the positive relationship between human capital and innovation, and partial support for a positive effect of trust and associational activity (social capital) on innovation. Health is also considered an indispensable element for workers to develop activities appropriately (Barro 2003, Galindo 1998 in Castano 2007). Health expenditure can also be a way to correct market failures since the main reason why employees are absent from work is illness (Kleynhans 2006).

1.8 Natural Capital

Natural capital is of particular importance for businesses that derive their incomes from resource-based pursuits, such as fishing, agriculture, forestry or mining. There is a wide variation in the resources that make up natural capital, from intangible public goods such as the atmosphere and biodiversity to divisible assets used directly for production like trees and land (DFID 1999). While natural capital here is not examined to identify livelihood vulnerabilities such as those faced by forest fires and floods, it forms an important part in viewing a nation's economical circumstances as it is directly linked to the natural resources available. Among the examples of natural capital are land, forests, marine/wild resources, water and air quality. Access to such resources can prove decisive in business entrepreneurship and formation as natural capital assets can be turned into financial capital, especially in the context of developing countries whose economies might be based on the extraction of primary products. Possession of lands can be decisive in processes of constructing buildings or obtaining collateral for loans. Natural capital like biodiversity endowment can also help enhance certain sectors like tourism.

1.9 Physical Capital

Physical capital refers mainly to infrastructure: affordable transport, tools, machinery, equipment, secure shelter and buildings, adequate water supply and sanitation, clean, affordable energy and access to information communications (DFID 1999). The transportation infrastructures are crucial to the movement of people and goods (port, roads, etc.) form important assets that need to be analyzed especially in the context of Benin's role as regional transportation and trade hub. The development of a dense network of infrastructure and business-related services is one of the prerequisites of production systems in industrialized and industrializing economies (Pedersen & McCormick 1999). For example, without transport infrastructure, fertilizer cannot be distributed effectively, agricultural yields remain low and it is then difficult and expensive to transport limited produce to the market creating an increased cost (in terms of all types of capital) in the production and transportation process that puts

producers operate at a comparative disadvantage in the market (DFID 1999). Lack of access to infrastructure by entrepreneurs because of costly construction or habilitation permits are problems that need to be reviewed, along with the transportation infrastructure that permits the expansion of economic activity. It also hinders when there is a lack of modern machinery of equipment that put the nation at a competitive disadvantage in primary product processing, such as the one currently experienced in Benin in the cotton industry. The technologies used in African production are supplied by the developed world (Lindani 1996). Because of such disadvantages, access to physical capital is a main concern, as long with identifying what elements available facilitate entrepreneurship. Physical access to neighboring markets and to links of the global economy allow for the expansion of the economic activity and for the inflow of materials and even ideas.

1.10 Financial capital

Among the five categories of assets, financial capital is probably the most versatile as it can be converted into other types of capital, be used for direct achievement of livelihood outcomes and even transformed into influence (DFID 1999). When talking about financial capital and business, it is not only having savings and stocks but also access to banking, credit and investment protection. After all, most small enterprises are started on the basis of their owners' savings (Pedersen & McCormick 1999). In order to create an income-generating venture, one must first have possession of financial capital that is used to cover the start-up expenses. It is then important to identify what are the initial financial resources available, whether it was provided through a family or business network, loans or incentive programs. It is necessary to identify key actors or strategies in the allocation of resources in order to understand the process of establishing successful businesses. Financial capital for a firm start-up most often comes from debt capital, from the entrepreneur himself, from "business angels" or from venture capitalists (Marshall & Samal 2006). The aspects of financial capital that will be principally looked at refer to the startup capital of the businesses studied and the access to financial aid from private banking and public institutions, which can be examined through the entrepreneurial history.

Availability of financial capital to meet the venture's need is one of the definitive requisites for success since greater access means being able to "buy" more time to learn and make mistakes and expand the business activity to higher levels of production, marketing or distributing chains. Initial resources may act as a buffer against the liabilities of newness and smallness (Cooper et. al. 1994). According to Noorderhaven & Beugelsdijk 2004, people who are self-employed distinguish themselves from the general population because they have a higher socio-economic status, which in turn indirectly reflects the educational status (human capital) of an individual. Others have proposed that entrepreneurs are driven by economic needs: to earn a living and to get rich quick. While it is necessary to have a range of assets to achieve their self-defined goals, financial capital can be easily converted into human, social, natural or physical capital. The grounds that permit access to financial capital for business creation and development are important to be examined in order to see how the creation of formal enterprises can be linked to accumulation of other capitals, innovation and the structures that give shape to the business environment.

1.11 Summary

This theoretical chapter has served as an overview of some of the theories that have guided this research into identifying success factors. Without relying heavily on one approach, the theoretical contributions mentioned help understand key processes that aid in entrepreneurship development. Examining the literature on the topic also allows to establish the importance of these activities in the national development context. The research methodology, although influenced by the assets-based approach and through an entrepreneur-centered analysis, continues to be flexible in order to get a wide range of success factors that are used to overcome the difficulties of doing business. Having seen what will be the areas of analysis for identifying success factors, the following chapter relates the contextual aspect of entrepreneurship development in Benin, which includes a description of the environment and the fluctuations found in it. It will allow the reader an in-depth understanding of what are the circumstances in which entrepreneurs operate, in order to continue with the objective of this investigation, which

is to point out what are the success factors used to overcome the existing difficulties.

Chapter 2: Cotonou, Benin

2.0 Introduction

The goal of this chapter is to contextualize the environment of entrepreneurship in which business in Benin develops. It should be used as a brief guide to understand the geographical, historical, social, political and economic context in which this investigation took place. These are important dimensions to review since it helps understand the culture at hand. The first part of this contextual chapter seeks to introduce the reader to Benin's geographic location, to Cotonou – where the research took place–, and to explore what have been some of the turning points in Benin's trajectory that have made the country what it is today. The second part of the chapter deepens on the economic context. This first begins with an overview of the historical trajectory of the economy, in order to move on to review the institutional features that have been signaled by this study as affecting the healthy development of a private sector in Benin. As businesses are formed and operated in a specific environment (Pedersen & McCormick 1994), the description of these conditions is a significant part of identifying success factors. The discussion leads to the final objective of this chapter: by summing up the efforts by government institutions to ameliorate the structures of doing business as identified through the review of policy documents and by an interview with the directors of the PME ministry, it may be possible to answer the research question on how the government and its institutions cooperate for formal business creation and growth.

2.1 Introduction to Benin

Benin, in West Africa, has the Gulf of Guinea in the Atlantic Ocean to its south and its meeting place with the sea was a crucial point of economic transactions for centuries before colonial rule. It is in front of this ocean that Cotonou, Benin's *de facto* capital and location of this investigation, lies. To the east of Benin lies the giant Nigeria, famous for its oil deposits that have made it a strong emergent economy and with who Benin shares close ethnical and economic

ties with. At the mountainous north famous for its nature reserves and biodiversity, Benin borders the landlocked countries of Burkina Faso and Niger. To the west the Atacora mountain range extends itself into bordering Togo.

In its southern part we find a low and sandy coastal plain, accompanied by marshes, lakes and lagoons that connect with the Atlantic Ocean. These bodies of waters were used in ancient times to facilitate exchanges with neighboring and foreign agents as the people and goods were transported in canoes. Above this region, we find plateaus of forest-savanna, split by valleys running from north to south along the rivers Couffo, Zou and Ouémé. Rocky hills and flat lands then extend themselves to the northwest and reaching its highest point, Mont Sokbaro in Atacora. There is a saying in Benin referring to this point that is used in public rallies. When someone says “Atacora” the crowd spiritedly answers “800 meters!” Although the bulk concentration of the country’s activity is found in the South, the North has historically always been a strong force, as many important movements, politicians and leaders have come from this region.

Table 2.1 Geographical Data for Benin

Country	Benin
Latitudes	6° - 13°N
Longitudes	0° - 4°E
Area	112,622 Km ² / 43,484 square miles
Highest Point	558 meters / 2,159 feet
Capital	Porto-Novo
Largest City	Cotonou (Latitude 6.2°-6.3° N and Longitude 2.2°-2.3° E)
Rivers	Atakora, Couffo, Mono, Mékrou, Niger, Oti, Ouémé
Average Maximum Temperature	31 °C / 87.8 ° F
Average Minimum Temperature	24 °C / 75.2 °F
Climate	Hot and humid in the South, semiarid in North
Soils	Quaternary to Tertiary sediments that range from sandy to clayey in the South; pre-Cambrian basement in the Center and North
Terrain	Mostly flat to undulating plain; some hills and low mountains

The northern part of the country is characterized by an agricultural “village” lifestyle and marked poverty; it is not as densely populated as the South. The south in contrast is more developed, less poor and more connected to the rest of the world than the Northern periphery (Van Westen 2010) since for centuries it was emphasized as a place of economic exchange, a feature expanded in the times of French colonial rule. This creates marked differences between the North and the South. The country is administratively divided into 12 departments subdivided into 77 communes. Although there are around 52 ethnic or linguistic families in Benin, it seemed clear that this was not a current source of tension and that people to a good extent have learned to regard themselves and others as Beninese instead of basing their identities on their ethnic lineage. For example, during the election campaigns, there was a message to not let Benin be divided by politicians that wanted to create divisions by appealing to ethnicity; a *béninoise* sense of identity seemed to be the order of the day. This was heightened by a sense of national pride on the country’s aversion to political violence.

Figure 2.1.2, Map of Benin



Source: Mappery.com

2.2 Social context

The social context of Benin has had an important impact on the national economic context and on the activities of the private sector. For example, the average population growth rate remains at a 3.2% while the annual GDP growth stands at 1.02%. This will create an even greater pressure on resources and exacerbate the need for employments. And with the urbanization rate is at 7.7%, there are still to be any clear plans or strategies for dealing with present and future poverty. The

emergence of slums is another problem that comes with this urbanization. As discussed by UNDG 2003, the poor living conditions of slum dwellers may also be explained by Beninese traditional, sociological and cultural practices. There exists a strong desire to live in a home of one's own despite low incomes and resources so many Beninese build houses in unhealthy locations. Slum dwellers comprise 75 per cent of informal sector workers (UN-NGLS 2007). Still, there is an optimistic view on the ability to reduce the amount of slum dwellers, as unlike many other African countries that lack various of the deprivations that define a slum -lack of access to improved water, lack of access to sanitation, non-durable housing, insufficient living area, and security of tenure (UN-NGLS 2009). Benin's slum dwellers suffer generally from only one of the deprivations. This means that a program specifically tackling the lack of improved water, sanitation or housing can contribute significantly to improving the lives of slum dwellers (UN-NGLS 2009). Slum prevalence is expected to remain at a very high 70% (UN-NGLS 2011) and is concentrated in the city of Cotonou.

It is nonetheless evident that human development is a pressing issue for Benin. Literacy stands at 44% general rate, although there is a marked difference between the literacy rates for men and women (48% and 23%, respectively). Even while in the country there are several NGOs and women's associations to represent the sectors' defense and promotion, such as *Femmes pour la Paix*, a patriarchal society is still evident. Men hold most positions of power and women have a more limited amount of roles to play in society. The labor force participation for the adult male population is at 85.7% while the female labor participation stands at 58.5% (UNDATA 2011). Only 7.2% of Parliament members are women. Poverty tends to be more female than male. Primary education is free and there have been significant efforts to enroll girls in school, such as the campaign "Toute les filles à l'école", sponsored by the Dutch Embassy, USAID and other international and local donors. Schools face lack of appropriate infrastructure and materials such as books and desks. This is further severed by the high teacher to student ratio, which in 2008 was 44.6 to 1 -we can suppose this ratio has only increased- and the lack of proper compensation for teachers (for example public teachers do not receive any salary the first six months after being hired) leads some of these to ask for financial donations to the parents for

materials and even sometimes to grade tests!

The so-called corruption in schools reflects the problems of the government's role as a developmental state and the need to expand its income base to be able to have higher expenditures for education and health. The public spending in 2009 for education represented 3.6% of the GDP and 15.9% of government expenditure (Trading Economics 2011). The health expenditure on the other hand represented 2.5% of the GDP and 10.7% of government expenditure. Better access and facilities for health is a pressing issue for Benin, especially seeing as the MDG of "improving maternal health" is lagging way behind and labeled "off-track" along with "eradicate extreme poverty and hunger". There is one doctor for every 15,937 inhabitants in a population of approximately 9 million. Malaria is still a common cause of death in the region and diseases considered preventable and treatable in other parts of the world are often proved fatal. The average life expectancy is only around 62.3 years. Interestingly, the average age for the entrepreneurs interviewed stood at 50.45. Viewed in these terms, it is possible to understand why such human capital factors as health and education are an essential factor for healthy economic development. Benin is ranked 134 out of 169 countries in the HDI, with a value of .435.

Table 2.2, Demographics, Society and Human Development

Demographics	
Population	9,325,032 (July 2011 est. CIA WF)
Infancy Mortality Rate	75 out of 1,000 (MDG NR 2010)
Literacy Rate	44% (2008 USDS): men 48%, women 23%
Average Life Expectancy	62.3 years
Maternal Mortality Rate	397 per 100,000
Religions	Christianism 42.8%, Islam 24.4%, Voodoo 17.3%
Main Languages Spoken	French (Official), Fon, Yoruba, Ogun
Ethnicities	There are around 52 ethnic (or linguistic groups). Some of the most common are Fon, Yoruba, Goun, Mahi and Mina.
HDI Rank	163/177
HDI Value	.4

2.3 Key points in history

Benin wasn't always called Benin. The base of this nation-state was once the Kingdom of

Dahomey, the last of the African kingdoms to submit to European colonization. The stories and feats of the kings of Dahomey are still remembered to this day. The traditional date of the founding of the local dynasty is AD 1625, when three brothers of the Dahomey people rule adjacent territories along the lower reaches of the Mono river (Gascoigne 2011). What is now Benin took this name in 1975, as it was a politically and ethnic-sensitive name for the country, referring to its position in the Bight of Benin. The coast which the Bight of Benin forms part of was once referred to as the Slave Coast, where millions of people were exported as slaves from this part of the world and shipped to the Americas. Cotonou means *mouth of the river of death* in Fon. Portuguese merchants reached the town of Ouidah, around 41 kilometers from Cotonou, in 1580, with a fort established for the slave trade in 1721. It is now a UNESCO World Heritage Site with several monuments honoring the memory of those removed from their lands through the slave trade. Throughout the 16th and 17th centuries, regional commerce through the West African coastline was facilitated by the presence of lagoons.

For almost 300 years the slave trade, initially resisted by the leaders of Dahomey, flourished, beginning in 1472 with a trade agreement with Portuguese merchants (BBC 2011). The French and the Dutch also established trading posts along the coasts and traded weapons for slaves (USDS 2011). By 1750, the King of Dahomey was earning an estimated £250,000 per year by selling Africans to the European slave-traders (BBC 2011). In the mid-nineteenth century, Dahomey started to lose its status as the regional power, which enabled the French to take over the area in 1892. In 1851, King Ghézo had signed the first commerce and friendship treaty with France. King Glélé and King Toffa also signed similar treaties that established French protectorates in the main cities and ports. In a meeting with King Toffa the IX (he is a sort of tourist attraction at the nation's official capital) he recalled how King Toffa I crushed at battle one of the kings that opposed the French presence. As retold, King Toffa I really admired the French might and civilization and is remembered as the one who brought education and lively commerce to the region.

In 1899 the French included the land called French Dahomey within the French West Africa

colony. King Glélé's successor conceded the territory of Cotonou to the French, where the latter set up big commercial enterprises (CCIB 2010). During World War I, local troops were sent to fight in the European front. After the end of the war, the development of the colony began. This included communication infrastructure, structuring agricultural practices and the educational system. By December of 1958 the region was known as the *Republique du Dahomey*, a self-governing territory under the French community only to obtain its independence in 1960. For the seventy years of colonial rule, the people of Dahomey were almost powerless to use the state for their own economic ends (Manning 1992). The French influence permeates through Beninese culture not only in the language, which is the common denominator for communication between different ethnicities and regions (although in some of the more remote villages French may not be spoken) but also in the design of its law and educational system.

After independence in 1960 until the definitive rise of Major Kérékou in 1972, there were several ethnically based coups that brought abrupt changes in government. Kérékou, an important figure in Beninese politics, came to power as the president after a coup. This figure proclaimed only nationalism and is remembered for saying that “the Dahomean Revolution would not burden itself by copying foreign ideology. We do not want communism or capitalism or socialism. We have our own Dahomean social and cultural system.” In 1975, Kérékou proclaims that the state would now be Marxist-Leninist. It also became a one-party state. Nearly all business and economic activity became controlled by the state: the petroleum industry and the banks were expropriated. During this time, Benin was overcome with profound economic crises due to the rampant corruption and mismanagement of the planned economy (Morrison 2008). The country experimented disequilibrium and internal and external distortions in the domains of public financing, credit and the repartition of investments that slowed down the growth of GDP and the deterioration of the socio-economic infrastructure. Investment was controlled and needed government approval, with the costs resulting very high (Lindani 1996). In 1989, the Marxist-Leninist ideology was dropped and in this context the government decides to engage in a structural adjustment process (SAP) with the support of the Bretton Woods institutions and the international community. The *Conference des Force Vives de la Nation* held in February 1990 in

Cotonou marked the end of this ideology and marked the beginning of a new experience based on political pluralism. Benin entered a phase of restructuring its economy characterized by a progressive and selective disengagement of the state from the productive sectors; this included a number of measures, notably the reform of public finances, the restructuring and privatization of public enterprises and the improvement of its rules and legal environment in order to make the private sector the economy's engine of growth.

In 1991 elections took place and Kérékou became the first black African president to step down after an election (Wikipedia) setting an example for other African nations and making the country popular among donors. After 1990, many measures were put to work in order to reduce the role of the state in the economy for a market economy. In 1996 and 2001 Kérékou won two other terms for President (the 2001 elections were accused of irregularities) but could not run again as it was now against the Republic of Benin's 1990 Constitution. In 2001, Yayi Boni, a former president of the West African Development Bank, was elected president. The country since then has moved on to adopt measures and reforms that have made been perceived favorably by donors and by the standards of the Bretton Woods institutions. The state nonetheless continues to operate over its real budget and a need for a better quality of life is still evident. A disjunctive exists between the intended efforts of the state and the ability to reach efficient and real efforts to eradicate poverty and spur economic development.

Since the convening of the National Conference, the Republic of Benin can justifiably boast of showcasing one of the rare and best democracies in Africa (CCIB 2006). In the two decades that have passed since then, Benin has lost much of its shine as the first African country to embark on these [SAP] reforms, but continues to be a relatively free and democratic country by the standard of its part of the world (Van Westen 2010).

2.4 Characteristics of the setting

Cotonou is Benin's economic and *de facto* capital. Here it is possible to find the key elements for

understanding the national economy. It was the region emphasized during colonial times, as it proved to be less hostile to colonial powers than the more centralized Porto-Novo, the official capital of the country. Government and diplomatic offices, along with the headquarters of the major businesses are found in Cotonou. It is the urban center of Benin, better connected to the world than the rest of the country in terms of infrastructure, communications technology and the inflow of products and ideas. As the center of these activities, Cotonou was an ideal location for investigating success factors of private business entrepreneurship in a developing country since it is where most of them are based. As some studies have signaled that 95% of Benin's active population is employed in informal economic activities, with the other 5% employed in the public and private sector, Cotonou was the obvious choice investigating the few entrepreneurial activities taking place within the framework of legality and business formality. What follows intends to characterize the city and the dynamics of its economic life.

Benin is divided into 12 regional departments. The smallest yet most densely populated department with an area of 74 km², divided into six administrative zones and 138 sub-zones is Cotonou, the setting of this investigation, in the southern Littoral department. It is a colorful city of sandy streets and shadowy trees. Originally built to create a harbor close to the only waterway between the Gulf of Guinea and Lake Nokoué (Wang et al 2006), this waterway divides Cotonou into an eastern and western part. The coastal commercial area is considered as the centre, the lakeside areas are considered as periphery and in between are the intermediate/residential areas. It forms part of the Ibadan-Lagos-Accra urban corridor, spanning roughly 600 kilometers across four countries, and considered the engine of West Africa's regional economy (UN-NGLS 2011). The city is the center of the national economy.

Its inhabitants are estimated to be somewhere around 719,900 (INSB 2002) although the reality is that it may be closer to a million. The population is young and growing, as a result of the high birth rate of 38.11 per thousand, and as it is the place where people from other parts of the country usually migrate. Its political stability also makes it a popular refuge for people from neighboring countries running away from national conflicts. Being the major city, it bustles with

economic activity. Noisy *zémidjans* (taxi-motorcycles) pour through the city's streets. Oil for the *zémidjans* can be purchased in side-street tables that sell inexpensive gasoline smuggled from Nigeria, that is a sometimes a *mélange*, in used liquor bottles. Mobile vendors and shacks cover all the key points, selling all sorts of goods. One can find mobile vendors selling brooms, toothpicks, cutlery, tissues, mirrors, water boilers, posters, belts, sunglasses and even exotic animals. Women can often be seen selling fruits like avocados, pineapples and mangoes and preparing sandwiches with sauce or settling tables in which to sell typical foods like pate and sauce. In shacks one can find such articles as toothpaste, dried foods, the traditional *gari*, nuts, powdered milk, candy, soap and cigarettes. Fragmented concentrations of retailers typically cluster in marketplaces (USDC 2009) and Cotonou holds one of the largest markets in the West African region, the Dantokpa market. It is considered a hub of formal and informal international trade with an estimated average monthly earning of 1.5 million EUR, a figure thought to be vastly underestimated (Prag 2010).

At a first glance in Cotonou, one sees that it is buzzing with activity and economical transactions are always taking place as all sorts of goods and services are exchanged in a system where bartering is a necessity. Most of the activities encountered form part of the informal economy, which accounts for 95% of the employment and two-thirds of the GDP (CCIB 2008). The economical activities that take place within the formality of the law are not as evident and visible as the informal ones and at first one may be able to identify phone companies, restaurants and supermarkets as the most proliferous sectors. According to a CCIB 2008 report, only 7% of companies in the city are entered in the commercial register. In practical terms, the reduced size of the formal business sector leads to an increased pressure on these, especially in the form of tax burden since the tax from the private sector are used both to finance the administration and for development projects. According to a local businessman involved in trade supervision, 80% of the government's budget arrives through taxation. The healthiness of the formal and private business sector is therefore of crucial importance to the nation's overall economic and human development.

Another aspect to take into account is that wholesale market network in Cotonou is dominated by Lebanese, Indian, Pakistani and Chinese businesses (USDC 2009). Indian populations concentrate a lot on selling fabrics while the Lebanese are involved in the used car trade and sales and are the owners of many of the hotels and restaurants found in the city. Seeing as many businesses and market niche areas are dominated by these groups of expatriates and that most of the local Beninese population is employed in the informal sector, we can begin to understand the size of our investigation focus and the reasons why so many reforms have been made and discussed to target this sector, considered as the engine of the creation of wealth. The country's political-economic trajectory also helps explain the reduced size of the formal sector. During colonial times, firms created were owned by the French, whose economic interests came before the economic interests of the people of Dahomey. Most of the French businesses in West Africa were import-export companies (Huillery 2011). After independence, French businesses left Benin. The state took over many of these businesses as part of its socialist policy and Beninese individuals or groups bought the others at relatively low prices. Overall it could be said that there were very few private businesses during the socialist era. After the SAP reforms begin in 1990, the state privatizes most of its industries yet with 21 years since those reforms began, the formal business sector still forms a very small part of the national economy, both in numeric terms and in contribution to the GDP.

The best available way to illustrate the number of private businesses -an exact account is not available- is by looking at the statistics from CNSS, the agency in charge of social security for private sector employees. In 2008 there were around 221,793 active and inactive accounts for employers registered. These numbers account for employers ascribed to the *régime général* (18,576), house workers (1,861) and individuals voluntarily registered for the social security benefits (1,356). The monthly wages in the trade sector for employees and First Class Workers A is 20,300 CFA francs or 30.95 euros per month (APCE 2011). The number of private sector workers is around 181,763. CNP-Benin had around 50 firms active in its membership while CIPB, an association also created to work for the private sector's improvement, has around 40. The largest and prominent businesses of Benin, both local and foreign owned, are present in these

memberships. Most of these firms are involved in either the trade and logistics sectors, telecommunications, insurance, finance and manufacturing. Looking at the CNSS data, there were 533 companies registered in January 2010. The trade and services sector predominate in the companies registered with a 78%, followed by the industry and construction sector with a 19.9% and a 2.1% for agriculture, livestock and fisheries. Agriculture accounts for 70% of Benin's GDP, showing a large contrast between the economic forces formally and informally employed. CNSS data makes the distinction that two out of five businesses registered do not register employees and an 85% of companies registered have only one employee. It makes evident that it is only a few major players, many found in a weak state, that compose the formal and private business sector in Benin.

Cotonou, the nation's economical center, emphasized since the colonial era was West Africa's fifth biggest town in the 1900s (Huillery 2011) and to this day it continues to grow and urbanize. The national population growth has led to a surge towards the city, largely catalyzed by the development of a western consumerist society and creating a clear saturation of urban areas hardly prepared for this situation in terms of social amenities, sanitary infrastructure and urban planning (CCIB 2006). An estimated 40% of the population in Benin lives in urban areas, most of them concentrated in Cotonou. Currently, an important issue discussed is the availability of employment for young people. There are not many jobs available; many students after graduating from the university end up working as *zémidjan* drivers because of a lack of jobs in their domain. This is characteristic of Cotonou, as people tend to work in zones and market areas that are "proven". Many street vendors for example sell recharge cards for mobile phones, as it is something that is always a necessity. Some even establish fixed selling shacks. The lack of opportunities also creates a mindset in which people sometimes take the first opportunity that appears to make a quick profit; you will try and resell whatever is sold to you at a price you can get. In a way it is representative of a culture of traders. The city has a dynamic of people with a strong drive to work and make a living but whose activities can hardly be considered innovative. Only with a moderate amount of capital accumulation, is it possible to start

entrepreneurial activity -as described in Schumpeter's 1911 model of innovation¹- that may create a new area for the creation of profit. And even if this innovative activity takes place, since formal businesses are an exception to the panorama and the amount of people working in the private sector is a very reduced number, it would most likely take place in informality, unable to expand its scale. Although there have been several reports on the informal economy and the need to be channeled into the formal economy, the difficulties of formalizing these activities have proven to be many.



Women selling fried and sugary pastries in Haie Vive, Cotonou

2.5 The Beninese Economy

The purpose of this session is to continue the discussion on Benin's economy. This session focuses on the macro aspects of the national economic setting and tries to establish the importance of Cotonou within the region as a transportation hub. It also discusses the business-related conventions to which it is a member of in order to better understand the efforts made for regional integration, as this is part of understanding the potential factors inside the economy that

¹ The introduction of a new good or new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials or half-manufactured goods and the carrying out of the new organization of any industry, like the creation or breaking up of a monopoly position (Alfaro et. al. 2010).

if developed properly may lead it to prosper.

Table 2.5.0, Economy Overview

GDP (PPP)	13.993 billion US\$ 2010 estimate
GDP (nominal)	\$6.649 billion US\$ 2010 estimate
GDP Annual Growth Rate	5.7% (2009)
Per Capita	689 US\$
GNI	774.9 US\$ (2008)
Main Exports	Cotton, crude materials (textiles and oil seeds), food (nuts, fruits and vegetables), mineral materials (cement).
Main Imports	Food and live animals, mineral fuels and lubricants, machinery and transport equipment (electrical apparatus and vehicles), telecommunications equipment

The CFA Franc is the common currency of twelve former French colonies, Guinea Bissau and Equatorial Guinea. Since the creation of the CFA Franc in 1945, it was pegged to the French Franc at a steady rate of 50 CFA Francs until 1994. Because of economic crisis faced in this monetary zone, as the result of a massive overvaluation of the real exchange rate caused by an unfortunate combination of inappropriate domestic economic policies and major external shocks, the heads of State of CFA countries (Powo Fosso 2000) changed the parity to 100 CFA Francs per 1 French Franc. During this period, there were about 27 bank failures throughout the whole zone (Ouattara 1998). Since 1999, it has been pegged to the euro, where 1 euro equals 655.957 CFA francs. Membership of the CFA franc zone offers reasonable currency stability (USDS 2011) although for Benin it creates complications in trade with neighboring Nigeria whose currency is the naira.

Benin's economy is based on two main sources of income: cotton production and the re-export of imported commodities from the world market to neighboring countries (EIU 2007).

It can first be characterized by a high dependence on agriculture, specifically in cotton, which accounts for 40% of GDP and around 80% of official export receipts. Other main exports also

consist of products like cashews, shea butter, textiles, palm products and seafood. Appendix 1 shows the main imports and exports. By looking at the check balance from 2002 to 2006, exports of Benin decreased on average by 1.8 percent each year amounting to 224.6 million US\$ while imports increased on average by 8.5 percent each year and reached over 1 billion US\$ resulting in a trade deficit of 778.7 million US\$ (UN COMTRADE). A comparison between its imports and exports evidently show that the economy is still exporting primary products and importing processed goods, a characteristic of underdeveloped economies; For example, cotton is sold to buyers from China, India and Pakistan for the textile and garment industry. Cotton is also sold to Nigeria, where many textiles used in traditional clothing are made and then imported back to Benin and sold in the markets. Benin currently does not have the capacity to process cotton into the final product, which would allow it to replace its textile imports. It is at a disadvantage, producing primary materials only to import the finished product. It is also necessary to add that although Benin depends to a considerable extent on cotton, it is but a small player in the world market with all of West Africa accounting for 5% of world output and enjoys no special advantages of quality, productivity or market access (Van Westen 2010). Deteriorating world market prices of cotton have had a negative impact in this sector in recent years, along with deterioration in the local productive capacity due to outdated machinery and uncoordinated and poorly shaped actors along the value chain. Contrastingly, agriculture accounts for 70% of employment in the Republic of Benin (CCIB 2007) with most of the farmers and producers producing outside the formal sector.

Yet agriculture, even though it accounts for most of the GDP, is not seen as the potential focus factor that can improve the economic situation of the country. Many of the studies of Benin's economy emphasize its role as an important economic/transport hub in West Africa. It is viewed as a transit economy or an *état entrepôt*, with Cotonou and its port a central focus point for receiving and transporting goods to neighboring countries. The port's potential, "the lungs of the national economy", has not been developed to its fullest and faces competition from Togo's Lomé port. It offers a handling capacity superior to Nigeria's ports (Van Westen 2010) but is marred by the inefficiency of bureaucratic procedures, permits and lack of modern equipment. It

is a port whose current function is primarily for import rather than for export.

In West Africa, Benin, Togo and Gambia represent the best examples of *états entrepôts*, since they live almost exclusively of the rents derived from re-exportation (Ogunsola & Soule). The need to channel these rents can be seen through the legislation and the efforts to improve taxing procedures, port infrastructure, storage facilities, equipment, and create new transit routes in order to sustain the transit and storage activities. Benin is a beneficiary of the United States' Millennium Challenge Account with a compact of US \$307 million. Four projects were designed for these funds in order to increase investments and private sector activity (MCC 2011). One of the projects funded by this grant focuses on improving performance and security, expand capacities and reduce costs of the Port of Cotonou (MCA 2011). US\$169,450,000 have been destined to the project of "access to markets" and include infrastructure improvements and constructing a new South Wharf container terminal. The fact that the MCC decided to target private sector activity and that the private sector and doing business topics seem to be a big issue of international input, reflects the reality of Benin's regional strategic position. The importance of the economy as a re-exporter of commodities translates into re-exporting activities taking place in both formal and informal sectors, many times the boundaries between these two blurred.

2.5.1 Informal sector

The informal sector, which makes up 2/3 of the GDP and 95% of employment, can be divided into two types. The first is the "small business", doing minor retail sales and the "underground economy" which has to do with illegal exchanges over the border and contraband. Knowing how this sector contributes to the GDP, it is important to consider how to make it work to contribute to the national creation of wealth. The government has a very narrow tax base that indirectly aids the growth of informal business activities. There is a high correlation between the percentage of total GDP comprised by the unofficial economy and countries with stringent and excessive tax regulations (Boettke et. al. 2004). If it is more cost efficient to do things on the margin of the law, many people will choose to do so. Making the informal sector an instrument of state-led

economic development requires not only the organization of many uncoordinated actors and institutions to enforce the application of the law, but also a better policy that can provide visible benefits to actors who wish to move from informal to formal economic activities. Inflows from illegal trade with Nigeria can clearly be seen in the country; the way the economy is arranged to provide a quality of goods and services in an efficient, legal and productive is disorganized and uncoordinated. The need to develop the national economy taking into account its principal economic actors is the way to become a stronger regional player able to effectively manage and take advantage of its linking position. It is especially important in this context factors that influence entrepreneurship and facilitate doing business. Exposure to foreign ideas helps people understand potential gaps in the market for entrepreneurial activity.

2.5.2 Regional linkages

Benin is a member of all international trade conventions under the WTO, the UN Conference on Trade and Development and the ACP trade agreement (Commercial guide US Embassy). The country is also a member of regional economic unions of ECOWAS and WAEMU. Being a member of WAEMU signifies that the monetary policy is established by the union's central bank, the Central Bank of West African States. The Central Bank's monetary policy is to maintain satisfactory cover rates and promote economic growth within the union with no inflationary pressure (AEO 2010). Benin's fiscal system is a legacy of France's custom and fiscal administration. The WAEMU union was created as a result of the devaluation of the common currency, CFA Franc, of member countries. The WAEMU members share a single currency and a common monetary policy, and the regional integration process is far more advanced than elsewhere in Africa (IMF 1998).

It is also part of ECOWAS, the Economic Commission of West African States, a regional group of fifteen West African countries whose mission is to promote economic integration in all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters

(ECOWAS 2010). Article D of the ECOWAS Treaty establishes the base for its trade policy: “The establishment of a common market through the liberalization of trade, by abolition, among Member States, of customs levied on imports and exports, and the abolition among Member States, of non-tariff barriers in order to establish a free trade area at the community level”. This matters greatly to Benin in view of the importance of trade with Nigeria as it includes conflict resolution mechanisms (economic, political, security) and in principle guarantees free movement of goods, people and capital among member countries (Van Westen 2010). This group has two sub-institutions known as The Fund, which are designed to implement policies and carry out development projects.

The country is also a member of OHADA, the Organization for the Harmonization of Business Law in Africa, created in 1993 as a legal-tool for regional integration and economic growth by securing a legal environment through the harmonization of business law. Any member State of the African Union may join and benefit from: "a single, modern, flexible, and reliable business law, adapted to each country's economy; arbitration as an appropriate and trustworthy way to settle disputes; and an opportunity for training judges and judiciary staff" (OHADA 2011). The laws issued by OHADA cover such issues as general commercial law, corporate law and rules considering different types of joint ventures, secure transactions, debt recovery and enforcement, bankruptcy, arbitration, accounting and laws regulating contracts for the transportation of goods by roads. Membership shows Benin's commitment to regional integration in the spheres of trade, customs and the legal framework to regulate these processes effectively.

2.6 Private sector constraints

The importance of Cotonou’s location in the regional economy has made “doing business” topics particularly popular in the region and a priority government policy. Especially, the administration has strongly focused on the criteria of the World’s Bank Doing Business Report and on improving its standing in this ranking. Nonetheless, the Doing Business report takes a very quantitative approach that may fail to grasp some of the more casual aspects of doing

business although it is a good starting point to begin understanding the difficulties of succeeding in a delicate business environment. After briefing the factors identified as constraining in this Doing Business report, this investigation then takes on a qualitative aspect of private sector difficulties. What is the hardest part of doing business in Benin? and what are the difficulties faced by business to keep their operation up and running? What follows is a discussion of some of the factors mentioned by the doing business report and more importantly, the answers of the local entrepreneurs interviewed to these two questions.

The 2011 ranking for ‘ease of doing business’ in Benin is 170 out of 183 economies. The Doing Business reports looks at quantitative indicators, measuring the regulations that affect 9 stages of doing business. These are starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business (IBRD 2011). The report identifies a difficult business environment, where companies complain mainly about the tax burden, complex business start-up procedures and insufficient investor-protection provisions (AEO 2010). For example, the country ranks 167 in the area of paying taxes, with a number of 55 payments per year requiring an effort of 270 hours per year and with the amount paid accounting for around 66% of profits. Benin also ranks 177 in enforcing contracts as there are 42 procedures needed to enforce a contract, requiring around 825 days and consuming around 64.7% of the claim’s cost. Most of the constraints highlighted in this report were also identified by the entrepreneurs, mainly on the high taxation rate and on the complexity of bureaucratic procedures. Still, descriptive answers reveal a complex and fluid environment for doing business, which encompasses political and social dimensions that quantitative reports lack to acknowledge. As the purpose of this investigation is to identify success factors for formal sector entrepreneurship in Benin, it is important to establish what are the hindrances that those same entrepreneurs identify.

The responses that will be described came from twenty entrepreneurs operating in Benin, men and women that had either started or acquired their own company –by themselves or with a group- or occupied high administrative strata of a company operating in the formal and private

business sector. After asking these entrepreneurs to detail what were the hardest parts of doing business and maintaining a business open, the answers can be grouped in six general categories: administration (bureaucratic procedures and politics), market (competition from the informal sector and illegal trade), taxation (rates and procedures), access to financial and physical capital (funding, building-acquisition and equipment), lack of competent human resources and corruption.

The market-related set of difficulties emphasize on competition from the informal sector as it hinders the development of formal structures and may lead to the avoidance of laws in order to insure business continuity. Companies who decide to follow the law end up paying heavy taxes while smugglers who go around the law get an upper hand on the prices they can offer. Goods exported to Mali, Niger and Burkina Faso do not pay custom fees while trade with neighboring Nigeria, one of the ‘next eleven’ economies that has a high potential for becoming one of the world’s largest, is heavily regulated with 35 checkpoints during the day between the Lagos-Benin border at Sèmè and 50 checkpoints during the night. Not being able to trade with Nigeria with such barriers is a common difficulty that affects regional integration processes. Another specific difficulty within the insurance market is “bad competition”, explained as companies offer products and services without the guarantee of actually being able to provide it. These market constraints reflect that customers sometimes make their buying decisions based on price and not on the reliability of the product or the company offering it. This in turn affects the role of the developmental state, as avoiding the payment of taxes is the rule of day for the majority and the tax burden falls on the private sector that only represents a slight part of the GDP but a big part of the government’s budget.

The fiscal system is another major difficulty identified by entrepreneurs. Excessively high rates of taxation can generate negative effects such as undermining capacity to save and finance expansion. The tax on imports for individuals is at 38%, which is significantly above the standard for other WAEMU countries. A 2009 private sector platform on propositions (CCIB 2008) to improve the fiscal system and its regulatory body emphasized that the OHADA fiscal

and legal framework is available for application, but Benin, even if it is a member, fails to do so. Tables 2.6.0 and 2.6.1 show a comparison between taxes in Benin and select countries of the region for businesses and individuals. Furthermore, it is not only the high rate of taxation that constraints entrepreneurship development but also the process of paying the taxes. The transparency of the tax-collection process is frequently questioned: “sometimes you are obliged to pay for something you don’t recognize”. This translates to what the CCIB 2008 Report describes as the necessity of simplifying the legal system and adapting taxation rules to a company’s results. Various entrepreneurs stated that the constraining fiscal system leads to business closures, informal activities and corruption. Another important point mentioned on how taxation affects business activities negatively, is that there is no industrial taxation of energy. This is because electricity in Benin is very expensive. The country does not produce enough to satisfy the demand and is dependent mostly on Ghana to provide it.

Table 2.6.0, Corporate taxes in Benin compared to neighboring countries

Taxes for corporations	Tax
Benin	38%
BIC	55% (hydrocarbons)
Côte d’Ivoire	27%
BIC	
Senegal	25%
Tax on business societies	
Ghana:	
Companies exporting non-traditional products	8%
Other activity sectors	32.5%
Hotel sector	25%
Institutions specialized in financing the agricultural sector	20%
Leasing sector	20%
Companies listed on Ghana’s stock exchange	30%
Industrial companies settled in the capital	24.375%
Industrial companies settled out of the capital (Accra and Téma)	16.25%

Source: CCIB 2008

Table 2.6.1, Taxes for individuals in Benin compared to neighboring countries

Taxes on Individuals	Tax Rate
Benin For taxpayers subject to real and real simplified BIC or BNC	35% (BIC/BNC) + IGR
Senegal For taxpayers subject to the real	Proportional: 25% + Progressive
Côte d'Ivoire For taxpayers subject to the normal real earnings	25% (BIC/BNC) + IGR or 35% without IGR (the person who chooses to pay BIC or BNC at a 35% does not have to declare an IGR).
For taxpayers subject to the real simplified earnings	27% (BIC) + IGR

Source: CCIB 2008

Corruption was another difficulty mentioned, although, compared to difficulties related to administration, taxation or the market, was the one less talked about. Corruption is highlighted principally in two ways. The first criticized the government, stating that government contracts are awarded on a proximity basis, not permitting enterprises to equally compete in this process. One entrepreneur alleged that after Yayi Boni was elected for the first time, the happiness that followed his election was quickly shadowed by a sense of disenchantment after only 5 companies were contracted by the government for projects, these companies taking 90% of the total budget. Another interviewee also mentioned the need for the decentralization of contract-awarding processes. Businesses close to political personalities receive this information first and other businesses, perhaps better qualified to the job, do not get a chance to compete in the bidding process because the communication of these announcements is hardly present. Corruption was secondarily explained in relation to the performance of administrators in power. As another interviewee said: “The laws are good but people don’t apply them. No one wants to obey them. Good enterprises are the ones that find the most problems since they are pressured not to follow the law. Wanting to follow the law is not always viewed favorably.” According to Global Integrity, the main area of weakness is effectiveness and transparency of the administration and civil service. This lead to discuss what was perhaps the main point of agreement between

entrepreneurs on what was the biggest difficulty of doing business: the administration.

Administration difficulties relate first and foremost to administrative formalities and processes. Some of these difficulties mentioned include the long delays taken to certify documents and the procedures undertaken to create a business. One entrepreneur even mentioned that “dealing with the civil service is the most difficult part of doing business in Benin.” Justice and tribunals also take very long and it is very costly to take a case to court; not all judges are knowledgeable on business law so the cases take very long to resolve. It is also difficult to dismiss employees sometimes, as the article 53 of the workers’ code seems to leave all power to judges in fixing the quantity of damages that can be supplied to the employee in case of dismissal. Such thing gives way to an abuse of power; referrals to judges are frequently done and these attribute large indemnities for dismissal that are not proportional to the salary and to the financial state of the enterprise (Transtec 2010).

Finally, most answers that fall under the category of administration can be summed up in the phrase “politics and business don’t mix” with one entrepreneur even going as far as mentioning that a business success is partially dependent on not mixing in political affairs. Disquieting examples of this were mentioned by two separate interviewees. They recalled that the government had recently interfered with the operations of their companies –one by having its entrance locked and the other by a blockage on its imports– just because they had been mistakenly accused of supporting the opposition party. Although the truth of these claims cannot be verified, there was a sense during many of the interviews that businessmen could get in trouble by talking about the government’s actions, with some entrepreneurs even refusing to answer questions that seemed to be related to the political environment. Solving disputes related to administrative procedures such as tax collection is often done on a personal basis, creating an environment lacking transparency and parity. It is a major problem affecting the country’s economic development seeing as in the end, the private and public sector indirectly compete with each other, being the government’s budget, which includes the payments of its administrators, based on taxation.

The last categories of difficulties pertain to access to capitals and in specific, access to financial and physical capital and access to human resources. A complaint mentioned was the lack of commercial banks in Benin and that the local established banks charge very high rates. This is further severed by the fact that sometimes people who wish to start their businesses and seek loans may be refused by all of the local banks since many times credit decisions are based on local committee evaluations and for big business loans the banks tend to have consensus on their decisions (interview with bank manager). Access to infrastructure was also noted as obtaining a building is difficult, landlords charge a lot and sometimes the person who you pay the rent to may change without notice. It must be mentioned that even though there are a lot of documents that discuss the difficulty of acquiring a land or structure to establish a business, hardly any of the entrepreneurs recalled any difficulties related to this when relating how their businesses began. This building acquisition process is perhaps more difficult for foreign companies who wish to settle in Benin rather than for the local entrepreneurs who are familiar with the nature of transactions in the country.

The last element that was established by interviewees as a difficulty of doing business had to do with the lack of human resources and human capital. To name an example mentioned by an entrepreneur in the general commerce sector, paying farmers in checks presents a difficulty since many of them are illiterate and it is impossible for them to sign or fill out the paperwork needed to open a bank account. Having good and trustworthy personnel was another issue mentioned on three separate interviews as one of the difficulties of running a business. Finding and keeping good and trustworthy employees was also sometimes hard, along with having “a clear commitment of the business partners”. The success factors that will be identified in Chapters 4 and 5 will demonstrate how the obstacles discussed are overcome.

Looking at the real obstacles that formal businesses face, at least those organized under CNP-Membership, has allowed identification of five general categories of difficulties. The ones most frequently mentioned in descending order were: administration (bureaucratic procedures and politics), market (competition from the informal sector and illegal trade), taxation (rates and

procedures), access to financial and physical capital (funding, building-acquisition and equipment), lack of competent human resources and corruption. The perspective of the entrepreneurs interviewed on how the government aided in the process of establishing and running a business was more negative than positive. 45% of the entrepreneurs interviewed considered that the government, its laws and institutions were generally unfavorable to the growth of their enterprises. 30% of entrepreneurs found the government's laws and institutions favorable for business growth and 20% considered it to be neither favorable nor unfavorable. A common response to explain this last answer was that the government "neither helps nor hinders". One refused to answer. The next session discusses what are the government related efforts to improve the climate of private business in Benin.

2.7 Government Related Efforts to Improve the Business Climate

Today the business policy priority, as declared in a 2006 document by the Ministry of Industry and Commerce is to establish the best possible conditions for growth to make Benin more attractive for both national and foreign investors. This includes reforming the fiscal system, reorganizing the administration, restructuring the finance and banking sector, new measures to guide the judicial, judiciary and administrative domains and the privatization of most of public and semi-public enterprises. The strategic government documents on the development of the private sector focus on (1) judicial and legal reforms to secure investments and (2) laws to make easy the creation of an enterprise. Empirical evidence on entrepreneurial environments suggest that societies that keep rules and

The will to ameliorate the business climate was very evident during the interview with the Ministry of Small and Medium Enterprises and Private Sector Development. First of all, the Ministry answered relatively quickly to the request for an interview. When the day came, four of the Ministers came to talk and answer the questions. They thought I was Dutch and clearly demonstrated an enthusiasm to strengthen cooperation links between Benin and the Netherlands.

regulations at minimum, offer tax incentives, provide training and counseling services to start-up entrepreneurs, increase the likelihood of new venture creation (Dana, 1987 in Aina Modh d.u.). The Law of Finances of 2009 is the main policy document to date that makes a significant effort

to make the business favorable to new businesses. It is based on the recommendation of private sector actors. By looking at policy documents and through an interview with the Ministers of the Small and Medium Enterprises and Private Sector Development, the actions partaken by the government are and its legislation and policy documents are reviewed in order to find out on how it cooperates for formal business creation and growth.

2.7.1 The Law of Finances of 2009

The Law of Finances of 2009 was created as the result of a *cadre de concertation* between the Ministry of Economy and Finances and representatives of professional private-sector organizations. It adopts 19 out of 30 propositions proposed by the private sector representatives. It reduces BIC taxes from 38% to 25% for corporations engaged in trade², from 40% to 30% for other corporations³, and from 35% to 25% for individual enterprises⁴. It also extends the exemption from BIC tax for the members of the Centre de Gestion Agréé (CGA) for 4 years instead of 1 year and reductions of 40% tax on BIC in the first 4 years. This is part of a management policy for the informal sector and its integration into the formal economy and the formal sector (EU 2010). For a comprehensive review of the incentives for the different regimes of business and the advantages of the investment law, see APCE 2011.

2.7.2 What is being done to channel informal sector activities into the formal economy?

Although the competition from the informal sector and the illegal trade was identified as a difficulty for the growth of private businesses, overall there is not much being done to tackle this evident problem. Reforming informal sector activities is a long-term task, which may not produce desired short term results; many countries have implemented policies in advance and have had to wait for several years for a transition from a disorganized informal sector to a real economic base

² *Soit une baisse de 13 points*

³ *Soit une baisse de 10 points*

of companies (CCIB 2008). Still, the Law of Finances 2009 creates incentives for ‘economic agents’ to register for a unique fiscal identity number (IFU) by establishing that entities who have an IFU number pay only a 1% preliminary assessment of revenue while those without are charged a 5% (Van Westen 2010). This measure has made some 52,000 agents to register for an IFU, a good result that can be seen as good starting point for organizing this sector. As long as it remains more cost-efficient to operate avoiding taxes, it will remain this way. A *Conseil Technique de Secteur Informel* has also been formed to discuss the problems present in this sector.

2.7.3 What is being done to improve administrative deficiencies?

In order to tackle the administrative/bureaucratic difficulties, such as the permits to start a business or obtain patents, several measures have been taken. Partially as a reaction to the Doing Business Report, the time and processes needed to start a new business has been reduced from one month (31 days) to a week (7 days), and all the work needed can be done in one point, the *Guichet Unique des Formalisation des Entreprises* (interview with SME Ministry, June 2011) although the most recent World Bank Report still states it as taking 31 days with seven procedures. The creation of this *Guichet Unique* has been possible through the support of the Millenium Challenge Account and makes it possible for new investors to avoid having to go from office to office to get the necessary paperwork. Here you get a paper with clear instructions of all the documents needed to start a business and do not have to go anywhere else to submit these documents. The Ministers of the SME believe this strategy may also be helpful to reduce the general corruption found in the system.

This corruption occurs in part because the responsibility for formalities for business activities are distributed through several different ministries of government and there is a lack of harmony between these that does not facilitate an effective supervision of staff. During the interview, the SME ministers mentioned that a proposition was currently up for debate that might help reduce these problems. As different duties relating to the private sector are distributed across different

ministries and branches of government (like the Ministry of Industry, Ministry of Economic Affairs, Ministry of Export Promotion, the Ministry of Small and Medium Enterprises and Private Sector Development to name a few examples) the current intention is to be able to center formalities, investments and export activities in just one building so that for everything having to do with doing business can be done in one place and checks could be more in place, another *guichet unique* for all private sector activities. This measure is still a long way from being put into place but shows promise. The success of this measure might in great part be dependent of the approval of current administrators to be willing to participate in a more centralized bureaucracy, with less transactions taking place at the personal level, more accountability and more transparency. Having one strong administrative branch for doing business is better than having several weak offices whose limited budget and lack of coordination with other agencies does not help it fulfill its rightful function.

2.7.4 What is done to help new business start-up?

One of the benefits for new businesses is not paying taxes the first three years and not having the pay patents for first two years. Businesses that are more than three years old may receive BIC reductions and most of the enterprises can get their import tax reduced from 35% to 25% although WAEMU considerations recommend 17% for taxes. The cost of business licenses has also been reduced for the two year-period of 2011 and 2012 from 25,000 CFA Franc to 5,000. Benefits for new businesses during the first year include exemption from the BIC, exemption from the patent of the AIB (*suppression de l'acompte sur impôts assis sur les bénéfices*) and from employer paying the VPS, a payment done based on the employees salaries. The VPS rate is also halved from 8% to 4%, and there is an exemption for the first two years. It is not necessary to pay the BIC and the AIB patent during the first year of a business regularly constituted. The hope is that these measures will help companies save revenues for investment and increase the national purchasing power by reducing the tax burden (DGID 2009).

2.7.5 What business areas are being fomented?

Interviews with bank officials showed that priorities for commercial loans are given to businesses that help industrialize the country. The government is focused on the development of industrial and/or processed products for exportation, specifically to the European market. Benin is ready to host industries such as canning, bottling and the processing of primary products (like shea butter) into secondary ones. The characteristics of the industrial free-trade zone show which are the business development priorities for Benin.

2.7.6 Industrial free-trade zone

An industrial free-trade zone is an example of how tax incentives are used to promote foreign direct investment, promote industrial and technological development and create jobs (Villela 2002). Benin has its own industrial free-trade zone located in sèmè-Podji, east of Cotonou, located about twenty kilometers from the port and airport; the transportation infrastructure is well connected. This road, which you can take from Cotonou to Porto-Novo or from Cotonou to Nigeria lies along the beach. It was set up in 1999 but has only been in function since 2005. This zone targets industries whose principal aim is export, and this should be at least 65% in order to qualify (CCIB 2010). Another requisite is the commitment to give recruitment priority for permanent jobs to Beninese nationals and participate in knowledge transfer. Local raw materials and supplies must also have priority (AEO 2010).

In the presentation of the economic zone, special emphasis is given to information and communication technology companies, along with call centers, financial institutions and banks. The majority of companies that are already set up belong to the international agro-industrial sector. Benefits for settling in this zone include exemption from incoming fees and taxes (exceptions apply), exemption from the tax on the BIC during 10 to 15 years, successive reduction of the tax by 20% over 5 years starting from the 11th, 12th or 16th year. There are also VAT exemptions and reductions on the employer's remission on the salaries, and 10-year-exemptions for construction and for trading license fees. The zone holds a strategic position since it can be used as an important point in trade between Benin and Nigeria but it is evident

that it is a long way from becoming that developmental tool aspired for the economy. Some of the companies that can be seen in the area include bottling companies and new and used car sales lots. Some real estate development, specifically mansions, are also an outstanding feature of the road. The industrial free-trade zone currently has nine businesses settled, belonging to the sectors of industrial carpentry, shrimp, canning and textile industry. Only one of the businesses is owned by Beninese nationals while one other is a Beninese-Dutch company. The rest are French, Lebanese, Indian and Chinese (ZFI 2011).

2.7.7 Access to financial capital

It is common to hear that it is very hard to get loans for businesses from commercial banks, especially for small businesses are elusive and whose guarantees are more limited (APCE 2011). The Central African Bank is involved in the direct supervision of private banks in Benin. Commercial banks found in Cotonou have specified loan/development priorities. Ecobank is supposed to be involved in the financing of industry sectors and crafts, Bank of Africa and Continental Bank Benin finance the trade and tourism sectors, and Financial Bank funds the development of social sectors. The difficulty of obtaining loans through these banks is difficult as they usually do not give out loans for medium and long-term plans, and guarantees must be clearly present, something not too common in a country where hardly anyone has credit. As mentioned by the SME minister, “the problem of banks is that they want to make money in a short time”. Credit is given based on the evaluations of committees working for the bank that have strong communication links with the other local banks.

The availability of public funds for private business venturing is also practically non-existing, although the country has a strong and growing microfinance sector. The microfinance sector is subject to supervision through the Central Bank as well as the responsible Ministry for Microfinance and Employment of Youth and Women and is expanding, lively and diversified. In 2006 the Ministry of Microfinance and Employment of Youth and Women counted 762 organizations with 1308 branches, including Cooperatives, NGOs, Savings/Credit Associations

and government projects. Programs for strengthening the sector are carried out on national and regional levels, such as the PRAFIDE (Programme Régional d'Appui à la finance Décentralisée). There are also several microfinancing projects aimed directly at women such as PADME, a microfinancing institution that began in 1993 through an initiative of the government and World Bank funding. They provide credit, counseling and loans to men and women with low income. PADME and other microfinancing institution are useful tools for poverty alleviation, yet it does not distinguish or favor formal from informal economic activities. Its function limits itself to teaching accountancy methods. Microfinancing institutions may be used to get loans for formal business activities and can be considered more open to fund business projects. PADME for examples provides loans ranging from CFA Franc 20,000 to 10 million (from 30 to 15,000 euro).

2.7.8 Access to physical capital

Based on conversations with local people, the road infrastructure has been better developed over the past couple of years. Many roads have been built connecting important parts of the countries and connecting with neighboring countries. The presence of new constructions was conspicuous through the southern part of the country, especially in Cotonou. Chinese investors have played a big role in the development of the infrastructure. There has also been a considerable effort in land-titling reforms although there are still many disputes needed to be solved; the MCA has channeled funds into providing technical assistance to judges and court procedures to help reduce the problems that occur when ownership of land or building is disputed. In order to decrease the high cost of electricity, new plans are being redacted which include the building of a new dam and searching for oil in the country. Electricity cuts are common in Cotonou. Finally, the access to machinery and equipment is tackled by an incentive to new enterprises investing more than 500 million CFA and creating at least twenty new job for Beninese nationals. Importing production plant, machinery and spare parts is duty-free (Deloitte 2011).

2.7.9 Access to human resources and training

The National Agency for SME of the Ministry is a branch that provides problem-specific training to businesses that request it. Many times businesses only seek help when they are already facing many problems. Training is also provided through other non-government business organizations, such as CNP and CCMB, this last one being an organization created by one of the entrepreneurs interviewed. There are also several firms specialized in providing training for employees that work on a for profit basis. Another way the government cooperated for access to human resources is by making exemptions for employers from paying the tax based on their employees' salaries for the first two years of business creation.

2.8 Conclusions

After 1990, Benin has moved away from the one party rule with a State-centered economy to political pluralism in a market economy. Based on the meeting with the Ministers of the SME and private sector development, it was clear that the government is more than willing to reform the rules that influence the business environment but their capacity had serious limitations. The ministers mentioned that the government has to change and/or reform investment laws but have difficulties in three aspects. They explained the first difficulty was the implementation process because of a lack of financial and human resources. The second was lack of help of partners in the area of good management of existing resources and the good management of these funds. The last aspect mentioned to hinder reform implementation was "resistance from customers because it breaks that corruption that has been established." For example, they mentioned the need to be able to produce primary products up to standards that may allow them to enter the EU market, but that they lacked the necessary technical (knowledge and equipment) assistance to develop it correctly. Because of this, they were currently looking for partners and hoped that cooperation for this could be received from the Netherlands.

The Law of Finances of 2009 marks a good step forward in making a more favorable environment for doing business and so is the creation of the *guichet unique* for the creation of new firms. Still, there are many more problems to tackle than cannot be solved through short-term strategies. The

informal sector activities are still far away from being under the supervision of government institutions and will continue competing and affecting private sector development. In addition, the taxation rate is likely to remain as one of the major obstacles for business development. Almost everything that is not produced locally is quite expensive as a result of the high taxes which doesn't make it easy neither for buyers or sellers to make business. In the meeting with the SME ministers they explained that "the taxes shouldn't be so high but the government depends on taxes and if you reduced them too much, the system would collapse." Striking a balance between being the government's ability to operate while increasing the spending and saving capacity of economic actors should be one of the main goals on the national economical agenda for the upcoming years.

Overall, there are some good efforts being on the part of the government and its institutions to spur business development and growth but are still not enough. One of the positive aspects of the scenario is that at least a good part of private sector businesses are organized under a variety of organizations that participate in multi-sectoral dialogue platforms with the government. The Presidential Investors Council meets two times a year with the President to discuss obstacles and propositions. In other words, their voices and complaints are commonly heard and the importance of private sector activities for economic development is undoubtedly acknowledged. Problems of competing interests between the government and private sector actors can begin to find a solution through these dialogue mechanisms. This is good since it means that the government and its institutions do not have only one source for feedback on how they are doing to ameliorate the business climate. Other than looking at what the World Bank reports, it is possible to hear the voices of entrepreneurs and businessmen that are very well organized. Being part of associations such as CNP and CCIB creates an advantage in the process of defending a company's interests; it could be said that the voice of companies that are not members' of these associations go largely unheard. The importance of professional networks is strategic. It is the main instrument of dialogue between government and private business.

Government policy shapes the institutional environment in which entrepreneurial decisions are

made and hence, can influence the allocation of entrepreneurial activities (Baumol 1990; Bowen & De Clercq, 2008; Minniti; 2008 in Modh d.u.). The question of unfavorable environments continues to this day and will continue to require much effort from all the different actors involved the matter.

Chapter 3 Methodology

3.0 Introduction

In this chapter the methodology used in this study of *Successful Entrepreneurship in a Developing Country: a case study in Cotonou, Benin* will be presented. First, the research objectives and the research questions will be introduced followed by the operationalization of the concepts entrepreneur, success, entrepreneurial traits and qualities, access to assets and strategies in order to narrow down the possible interpretations of such concepts. After this, the data collection methods will be introduced, followed by the data on the sample research population. The chapter ends with the limitations to the study.

This investigation is the result of a 1-year MSc program on International Development Studies at Utrecht University in the Netherlands. Part of the requisites for the program is undertaking research in a developing country, usually by completing an internship, and writing a thesis based on the results of the investigation. The field research for this investigation took place in Cotonou, Benin from February to May 2011. The methodology is mainly a qualitative approach.

3.1 Research objectives

Based on the idea that entrepreneurial activities can help improve social and economic development, the objectives of this investigation are to:

1. Gather success factors of formal entrepreneurship
 - a. At the individual level
 - b. At the firm level
2. Identify how the business environment is perceived and what types of obstacles are present and how they are overcome.

3.2 Research questions

The objective of this study is to identify success factors for business entrepreneurs in Cotonou, Benin. To identify these success factors, it was necessary to create a framework for defining, identifying and classifying success.

The guiding question of this research is:

What are the factors that permit the success of formal business entrepreneurship in Cotonou, Benin?

In order to identify these factors, three other research questions are created focused on the different aspects of entrepreneurship: personal characteristics of entrepreneurs, access to resources, use of social and business networks and by a review of existing legislation that shows how the environment for doing business works.

In order to identify what assets lead to business success, we look at (1) characteristics; (2) access to assets and (3) strategies. This approach is used to identify success factors during the semi-structured interviews with entrepreneurs. Later, the different “success formulas” are categorized for a practical understanding of such processes. Success factors will be discussed through 4 categories, the asset-based discussion being the most extensive. Success factors are identified (1) at the firm level (2) by looking at the characteristics of the entrepreneurs (3) in the access to livelihoods assets relevant to the formation of business and (4) at the strategies employed for financial growth.

The first research question is formulated specifically to understand the conditions that make possible the establishment of a new business and/or the expansion of an existing one. It will be answered in Chapters 4 and 5.

What characteristics and assets facilitate business innovation and creation opportunities?

Characteristics and access to assets are looked at both the individual entrepreneur-level and at the firm-level. At the individual level it includes whether the traits typically associated with entrepreneurship are present and by looking at what are the qualities that the entrepreneurs believe are the ones conducive to business success. Access to assets refers to access to human, social, financial, physical and natural capital. How these facilitate business innovation opportunities is determined by a review of the entrepreneur's and the firm's history, from the moment of its creation to any other important hallmark present when the expansion or growth of business activities has occurred.

The next question investigates how the connections between entrepreneurs and their social contacts facilitate or constraint their businesses, which has become a dominant concept in explaining the phenomenon of entrepreneurship (Johannison 2000 in Bhagavatula 2010). Associational activities may foster innovation through membership in multiple organizations, which increases one's exposure to different ideas and provides different sources of information (Dakhli & De Clerq 2004).

How are businesses integrated into social and business networks and what are the advantages of these connections?

Finally, in order to have a better understanding of the business environment and what efforts are made to improve it, it is asked:

To what extent and how does the Government and its institutions cooperate for business creation and growth?

This question has been answered in the Chapter 2, sections 2.7 and 2.8, based on a review of policy documents and an interview the Ministry of Small and Medium Enterprises and Private

Sector Development, which allowed for an in-depth understanding of the obstacles found in the environment and what are the efforts of the government and its institutions to favor private sector growth.

Looking at all of these questions and their answers, these success factors will be grouped. But first, we will clearly define some of the key concepts relevant to this investigation.

3.3 Operationalization of Key Concepts

Based on the literature review, practical definitions have been chosen for the following concepts. Although these concepts have been very broadly defined in academic literature, a more singular definition is done here focusing on those aspects associated with doing business that might be favorable to success. These are not static definitions of the concepts, and such focus is done here only for operationalization purposes. It is in part a transformation of the livelihoods framework for the identification of access to assets that can lead to business formation but also focuses on such things like characteristics and strategies.

For practical purposes, this investigation narrows down certain concepts. During the interviews, one or two questions are made relevant to the topic of the question and so the answers to the questions are the only ones that are relevant to the discussion. What follows is an outline of the questions made to fit the key concepts of the investigation

Entrepreneur

An entrepreneur can be understood as a leader of a business or an organization. The entrepreneur is in charge of the risks and outcomes, and manages the labor and the direction of the pursuit of profit. An entrepreneur is someone who is both able to identify opportunities and have the drive to transform those ideas and opportunities a reality. This may be someone who created a new idea, business or product, was able to develop an already existing one or those that with innovation establish themselves in a high management position inside a private company.

Firm characteristics

The firm (business-level) characteristics that are presented are industry, years in business, number of employees, net income, if they have expanded their products and services and if they have experienced financial growth over the past 3 years. The variables of years in business and employees are correlated with our definition of success using SPSS.

Success

A successful business is defined as a business that is able to pay its employees on time and has experienced financial growth over the past 3 years.

Non-expansive

A non-expansive business is defined as a business that is able to pay its employees on time but has not experienced financial growth over the past 3 years.

Unsuccessful

An unsuccessful business is defined as a business that is not able to pay its employees on time and/or has an annual zero or negative net income.

Personal characteristics of entrepreneurs

The personal characteristics of the entrepreneurs are the psychological traits associated with entrepreneurship (1) risk-taking (2) internal locus and (3) need to achieve and the characteristics that the entrepreneurs identified themselves that are important to be a good business leader.

Human capital

Human capital factors investigated include health, languages spoken, how travel facilitates business and access to higher education.

Social capital

Social capital is looked at by evaluating trust and by the amount of business and social

organizations the entrepreneurs have membership in and the reasons for participation in the organizations.

Financial capital

Financial capital is focused exclusively on the annual income of the firms at the moment of the interview and on knowing how the entrepreneurs who started businesses obtained the initial financial capital to establish it. It also includes the perception of the entrepreneurs on access to private and public financing. The discussion on financial capital is linked directly to the access needed to start a business.

Natural capital

Natural capital is discussed in the context of the businesses that are based on access to the country's natural resources. Problems mentioned by a lack of access to natural capital are mentioned.

Physical capital

Physical capital focuses exclusively on access to buildings and road infrastructure.

Strategies

Strategies are defined as deliberate actions taken by a company to expand their economic activities. The strategies discussed are those identified by the entrepreneurs working at "successful" businesses that helped achieve present growth conditions.

After presenting these results, they will be grouped in order to know (1) what were the most important assets and characteristics for business start-up and (2) what are the strategies that permit success.

3.4 Data collection methods

The research undertakes primary and secondary data collection. The secondary data includes academic literature reviews, documents by international organizations such as the UN and the World Bank, information published on the business environment by local and foreign commissions (CIPB, EU) and policy documents published by different entities of the Beninese government. The primary data collection refers to in-depth interviews with businessmen and women, and government officials. This section explains the process of primary data collection.

Data was collected during a three-month stay at Cotonou, Benin between February and May 2011 under the direction of Mr. Pierre Zanou, Executive Director of the Conseil National du Patronat du Benin (CNP-Benin), a local NGO working primarily in this city. Any privately owned business can request membership into CNP-Benin, a linking organization of propositions, negotiations and dialogue between the Public and Private Sector. They provide information for the managers on establishing, administrating and formally legalizing their businesses; they also work with the workers' unions during negotiations. CNP-Benin was the facilitator of this research; interviewees are limited to their membership.

At the beginning of this research mid-February 2011, a letter was circulated by CNP-Benin to its membership asking for their time to participate in an investigation titled "*Facteurs de la Croissance Économique*". E-mails were also sent to the membership. Some of the participants in the research replied immediately to the requests, some needed subsequent phone calls to be reminded of the request. The phone calls were made with the help on an interpreter. Out of 50 businesses of an array of sectors that were given on that list that had membership with CNP-Benin, 22 were interviewed or 44% percent. The interviewees were usually the founders of the company or another individual who did not have ownership of the venture, but occupied high administrative strata. The only requisite for participation in the research was to represent a business that is formally and officially registered.

The questionnaire originally started with 97 items and ended up with 106 items as certain issues that seemed relevant as the interviews progressed seemed worthy of additional questions. It was mostly based on the literature review based entrepreneurial traits and access to assets, especially those of human and social capital. It also tried to see if the environmental weaknesses like the ones highlighted in the Doing Business report were actual difficulties affecting the development of the private sector. The questionnaire was divided into three parts.

The first part was on personal characteristics, which included questions like age, ethnicity, known languages and level of education. It also looked into matters of trust when dealing with others, along with the three sets of questions to determine whether there was an inclination to risk taking behavior, internal locus of control and a propensity towards achievement. The second part was on access to key capitals, and it included questions to know what type of assets led to education, career development and the process of the business formation. This part also set to determine how international linkages, like studying in a foreign university, traveling to many countries and participating in local and international organizations could be conducive to business formation. It also asked about the initial access to capitals to start a business, like receiving exclusive information or just plain idea recognition, along with the sources of initial financial capital. In the case that the entrepreneurs interviewed were not the founders of the business, the questions were changed to understand how the individual had gotten to that managing position in the enterprise. It also asked about the facility of access to buildings and transportation infrastructure. The third part concentrated on information on the firm and on technical aspects like years in business, number of employees, whether the business was able to satisfy the entrepreneurs' life expenses, if the businesses had any debt, annual income and whether it had experienced any growth. Then it moved to ask what were the difficulties of doing business in Benin and ended with a scale of 10 items where the following aspects were rated.

1. The ease of creation of a formal business
2. Access to public funds for the creation of a business
3. Ease of registering a formal business
4. The facilitation of doing business by government

5. The level of protection of investments
6. The investment climate in Benin
7. The availability of private sector financing by banks and other private institutions
8. The clarity of procedures for establishing a business
9. The clarity of business laws
10. The clarity in government requirements

The questionnaire was elaborated in a semi-structured manner. It had both open and closed questions although during interviews time was allowed to talk about any issue that was relevant to the entrepreneur in the answering of a particular question. This allowed for a more in-depth discovery of what were the true problems and success factors. At the end of the interview, it was asked if there was anything in particular that could help answering the research questions, which generated many answers on the issues that were particular important to the interviewed. Most of the interviews lasted around an hour. Many of the entrepreneurs spoke some English, which made the communication process easier. As the number of interviews progressed, understanding the language also became much easier although the interpreter remained present to take care of the aspects of transportation and setting up appointments. He was paid 10,000 CFA Francs (15 euros) a day.

3.5 Sample Population

The success factors identified for formal business entrepreneurship in Benin is based on a singular sample of the private sector, those associated through CNP-Benin, the organization that supervised this investigation. The sample population is only representative of a small group of entrepreneurs that participate in the CNP organization and cannot be considered representative of the whole of private sector activities in Cotonou. Since there are not many businesses in Benin, CNP was able to provide the knowledge needed to get around and provide the sample needed for the research. The answers are only representative of a small group of actors in Cotonou's private sector. The characteristics of the sample population are divided into the

personal characteristics of the entrepreneurs and on the firms' characteristics.

CNP-Benin had a role of facilitator between this investigation and the local entrepreneurs. CNP is a local organization that serves as a syndicate to represent the private sector and private sector employees. In order for a business to form part of the membership, it must attend three requisites: to be listed in the national registry of enterprises, to have employed at least one employee in compliance with the legislation in force and be registered with the social security organism, CNSS.

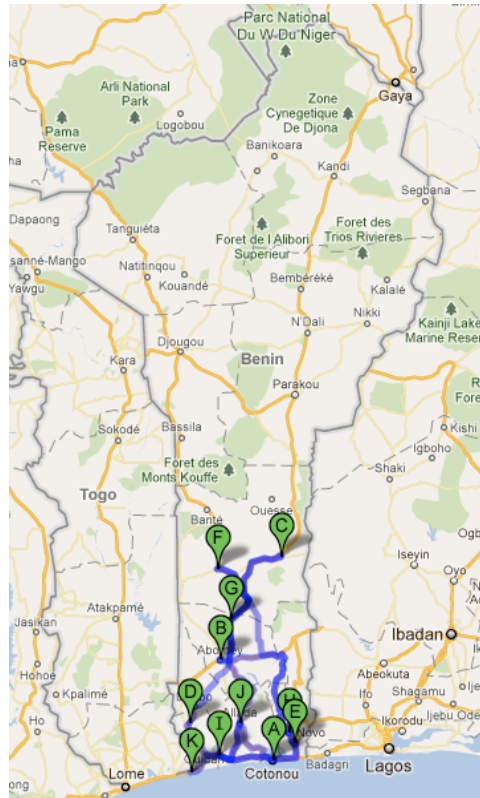
3.5.1 Characteristics of the entrepreneurs

The research took place in Cotonou, the nation's *de facto* and economic capital, between February and May 2011. A total of 22 entrepreneurs were interviewed belonging to CNP-Benin. The ages of the entrepreneurs ranged from 32 to 66 in which the mean average was 49.7 years, the median 51.5 years and the mode 53 years.

Figure 3.5.1 Ages of entrepreneurs in sample

32	35	37	37	41	44	45	46	46	48	51
52	53	53	53	54	56	56	62	62	66	66

A total of 19 male entrepreneurs and 3 female entrepreneurs were interviewed. 45% of the entrepreneurs' ethnicity was Fon (10 people), 9% was Nago (2 people), 9% were European, 9% were Goun, and there was one each (4.5%) of Wlha, Yoruba, Mina and Oyeme ethnicity. One of the interviewees declared himself both Fon and Mahi. The Fon ethnicity is more prominent in the southern and central parts of the country, including Cotonou. Six of the entrepreneurs were born in Cotonou, three were born in Porto-Novo and the rest come from smaller towns, mostly concentrated close to the southern part of the country and some in the middle of the country. Fon ethnicity is the most represented due to the concentration of entrepreneurs coming from the south and central areas.



Map 3.5.1.2, Places of origin for entrepreneurs

3.5.2 Education

All of the entrepreneurs possessed higher education. Eight of out 22 or 36% held at most a Bachelor's Degree, 11 or 50% had at least one Master's Degree and 3 or 14% had a PhD. The education level for the 8 owners or co-owners interviewed was that two had Bachelor's, three had Master's and two had PhDs. Although in the first interviews there wasn't a question to ask what their specialization had been, this question was later added. For the 18 entrepreneurs whose subject of specialization is available, the list of subject studied is: Finance, management, accountancy (2), management and engineering, business economy, logistics & transportation, biomedical engineering, banking, business management, law, finance and management, politics & economics, sociology, applied mathematics, physical sciences and economics & auditing. All of the subjects studied are currently relevant to the entrepreneur's position in the company.

Eight of the interviewees were the owners or co-owners of the business. The other 14 occupied high administrative strata. These positions were: Chief Executive Officer, Managing Director, Finance Manager, Chief of Mission, Human Resources Manager, Chief of Agency, Head of Retail Banking, Commercial Director, General Administrator, Training Manager and Director of Operations. In many cases, the functions were overlapping, ex. Financial and Administrative Manager, etc. 43% started working in the company at its beginning, whether being hired for a job, being in the employer's network since the beginning or by beginning in a lower position and advancing in time. 9 were hired for the position or a similar one, and 5 worked their way up the administrative scale.

The years of work in the company for those that started working from the beginning of the business start-up ranged from 6 to 29, with an average mean of 18.42 years and a median of 23 years. Years of working there for those who had not been in the company from the beginning ranged from 5 to 17, with an average mean of 9.7, a median of 8 and a mode of 10. 5 of these entrepreneurs had worked for less than half of the company's years in business in the country and 4 had worked for more than half of the company's years.

Table 3.5.2 Years of working in the company for non-owners

6 beginning	16 beginning	29 beginning	6 / 12 years, 50%	10 / 18 years, 55%
13 beginning	23 beginning		8 / 19 years, 42%	12 / 20 years, 60%
15 beginning	27 beginning	5 / 35 years, 14%	10 / 45 years, 22%	17 / 109 years, 15%
5 / 35 years, 14%	8 / 19 years, 42%	12 / 20 years, 60%	16 beginning	27 beginning
6 beginning	10 / 18 years, 55%	13 beginning	17 / 109 years, 15%	29 beginning
6 / 12 years, 50%	10 / 45 years, 22%	15 beginning	23 beginning	

Overall, the years worked in the company for all non-owner entrepreneurs was 14 years, with a median of 12.5 years and modes of 6 and 10.

3.5.3 Firm characteristics

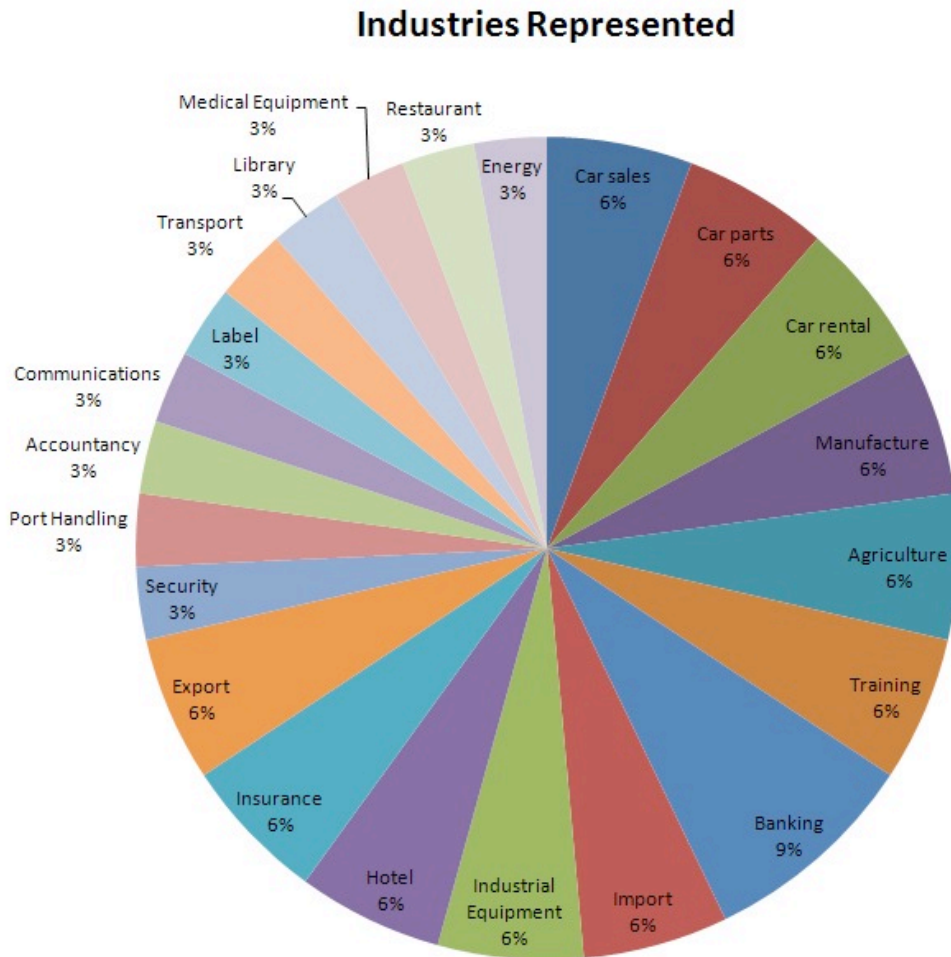
Considering the industries that were represented in the interviews is also important to understand the specifics of the population. Most of the businesses were involved in more than one sector of commerce or industry. The industries represented by the entrepreneurs include: cars (sales, parts and rental), manufacture (bottling, agricultural products), agriculture (export), insurance, banking, hotel, training companies, port handling, label providing, industrial equipment (sales, import, export to region), security, accountancy, communications, transport, library, restaurant, medical equipment and energy.

Industry refers to the type of businesses affairs that the company is involved in. In the case that it covers two different domains, related or unrelated, all of them are noted. Annual income in the following table refers to the businesses' final annual revenue, after paying all expenses and requirements. Growth refers to either financial growth or an expansion of the economic activity, like starting different branches of the same business or another type of venture under the supervision of the same society of owners. Growth here is not equated for success, as the definition that has been adopted also included being able to pay employees on time. Just because a company has expanded its activity, it does not mean that is doing so at a margin that permits it to fulfill its responsibilities as a patron.

Table 3.5.3, Characteristics of Firms

Industry	Years in Business	Number of employees	Annual Income	Experienced growth?
Car parts / Labeling	19	18	5 million CFA	Yes
Manufacture / Agriculture	15	250	10 billion CFA	No
Training / Accountancy	6	10	50,000 US\$	No
Insurance	13	91	800 million CFA	Yes
Assembly / Import / Export	28	15	N/A	No
Accountancy	35	32	450-500 million CFA	Yes
Industrial equipment / Import	45	300	2 to 3 billion CFA	Yes
Transport	20	50	2 million US\$	Yes
Insurance	16	13	200 million CFA	Yes
Banking	19	195	N/A	Yes
Security / Banking	12	70	80 million CFA	Yes
Car rental / Hotel / Communications	23	40	456 million CFA	Yes
Manufacture/ bottling	9	51	Negative income	Yes
Training	21	8	5 to 7 million CFA	No
Car sales / Import / Industrial equipment	109	65	10 million US\$	No
General commerce / Import	22	30	Negative income (-\$209,000)	No
Car sales / Library	28	N/A	200 million CFA	No
Car rent / Port handling / Medical equipment	18	46	500,000 million CFA	No
Hotel / Restaurant	29	240	4,000,000 CFA	No
Banking	6	110 permanent, 43 temporary	7 billion CFA	Yes
Port handling / Labeling	18	60	3,600,000,000 CFA	Yes
Energy	20	20	500,000 euros	No

Figure 3.5.3.1



3.5.4 Ownership

A total of 8 businesses in the sample were foreign owned. The places of origin known for the foreign businesses are Côte d'Ivoire, Nigeria, France, Denmark and Belgium. Beninese nationals own the other 14. One of the companies came at first as a foreign security company in the region, but now its operations in the country are owned by Beninese. The sectors of insurance and one of the banks established themselves in the 1990s when the government sold its shares of the national bank and let go of its monopoly of insurance contracts. The hotel in the sample was also bought from the government who had the ownership of the grounds in which another hotel had been built. Three of the businesses used to be French and Beninese nationals bought two of them after independence. The three examples of former French businesses encountered were not

doing very well. One used to be a motorcycle assembly plant that stopped being in function after the devaluation of the CFA Franc; the owners maintained secondary affairs –cashew exports- to remain in business. The second former French company was involved in general commerce, importing and reselling goods, and was doing quite bad too. Its annual income was negative and the owners were trying to reform what was left in order to try and make it productive. The third example sold new cars and this particular branch was not doing good. They sold luxury cars whose prices are only increasing in the world market. This business kept open also through secondary affairs, as the owners also had a library. Although the entrepreneur interviewed in this last business was not the owner, he mentioned that the owners were French. After independence, many of the businesses owned by the French were sold at low prices. It seems that the lack of flexibility to adapt to changes in local demands has not allowed many of these businesses to progress. This ability to adapt to change in circumstances is a factor present in some of the businesses that are not failing. The first two examples were categorized as unsuccessful since one had no income and the other had negative income. The last example was categorized as non-expansive since its income was not negative and it was able to pay its employees on time.

3.6 Data processing methodology

Central to this investigation is designing a method to group success factors. This has been done so by conducting interviews to local entrepreneurs with the purposes of collecting their entrepreneurial history in order to try and identify what *characteristics*, *assets* and *strategies* have been proved to aid career development, business creation, remaining in business and experiencing growth. Subsequently, to have a reference on how to measure levels of success between the different entrepreneurs and businesses interviewed in an overall level, two variables were chosen. The first requisite for success was the ability to pay employees on time and according to the established contracts. The second requisite was to have experienced financial growth through the last three years (2009-2011). Companies could either have experimented negative growth, no growth or positive growth over the past three years. Although the variable

of having no outstanding debts was as first considered as requisite for success, it was later abandoned as it was recalled by many of the entrepreneurs “that all businesses have debts”. Discarding this factor also gave more coherence to the grouping process of unsuccessful, successful and outstandingly successful entrepreneurs. The first questions made to the staff of CNP-Benin about which businesses were doing well and successful, the answer was that none of them were; narrowing the requisites for success simplified the identification and categorization process. And although, according to the requisites, around nine businesses were labeled as outstandingly successful, the majority of these were involved in the financial sector (banks, insurance, auditing, etc.). What could be characterized as more traditional businesses, such as automobile retailers and the manufacture and distribution of foods for local consumption, were generally just successful, which meant that they had the capacity to sustain a relatively steady income and recover from shocks, but with a diminished capacity for expansion and growth.

Guided by the literature review, a questionnaire was created in order to identify success factors during interviews. It looked at *characteristics*, *assets* and *strategies* that were present during the stages of career development, business creation, remaining in business and experiencing growth. The questionnaire tried to identify which access to the assets of human, social, physical, financial and natural capital have been present. In the case of a business being deemed outstandingly successful, further questions were made to see what strategies had been employed or what favorable conditions had made this possible. This investigation had the objective of understanding how difficulties affected businesses. This objective was established in order to know what were the distinguishing features and strategies of entrepreneurs and their businesses that allowed to overcome the difficulties.

During the creation of the questionnaire, questions were created to identify characteristics (1) of the individual who head the business, (2) the firms created (3) the process by which they started and experienced growth and (4) the environment surrounding the firms. Identifying these success factors was guided by the literature reviewed on entrepreneurship, access to capitals and business success factors.

The data collected has been grouped into: (1) firm characteristics (2) access to capitals (3) access to capitals for firm creation (4) personal characteristics of entrepreneurs (5) strategies (6) perceptions on the environment and (7) overall success factors.

3.7 Limitations to the study

At the time of this investigation, between February and May 2011, presidential elections were taking place in the country. Although since Benin became a multi-party democracy, results of elections have always been respected making the country a sort of example for its neighbors on good governance in this sense and in which the Beninese take great pride on, there was a natural tension in the environment. “We are not Côte d’Ivoire” someone once said to me, referring to the recent coup d’état taking place in this neighboring country. Benin enjoys a political stability not common in the region. Throughout the period previous to the election, propaganda from all sorts of sectors (especially the religious ones) flooded the media in a call for peace, appealing to the people with the message that Benin has always been a peaceful country and should remain so. During this election period, heightened security and armed forces in the country could be seen throughout the city of Cotonou. These events had a certain influence on this investigation, as many businessmen and entrepreneurs were not available since some were traveling through the country supporting candidatures. It also created a subtle tension, as some of the entrepreneurs interviewed reflected a certain aversion to talking about government. It also made interviews with key government offices more difficult as they were involved with the election processes and the permanence of the current state of affairs was not guaranteed. It was only after the definitive announcement of President Yayi Boni’s reelection to a second term that it was possible to seek an interview a government agency.

In addition to this, there was also a communication bias since the working language of Cotonou is French. The questionnaire needed translation and an interpreter was used to facilitate communication. Overall, communication was effective and it was possible to arrange 22

interviews with local businessmen and businesswomen, a good number considering that elections were taking point at that time, and many entrepreneurs were not available. A list with 50 phone numbers of businesses and their respective directors was provided, so it had a 44% response rate. It is important to acknowledge that some of the private business sectors whose presence is notable in the country are absent or underrepresented in the sample; this includes restaurants, pharmacies, supermarkets and mobile phone companies. The questionnaire also faced some changes –additional questions- during the three-month fieldwork, since new areas of interest for narrowing down success factors became more evident.

This case study has to be primarily viewed as an illustration, limited to the definitions that have been created for practical purposes. The results are only valid within the investigation's framework. The correlations for success can only be found valid within the strict definition of success that has been created, and only valid for this sample.

Furthermore it is necessary to acknowledge that the discussion on access to physical and financial capital is very much incomplete, as the problems of access to these did not seem evident at the moment. I regret not making more and better questions on these topics.

Chapter 4 Data Collected: Firm Characteristics and Access to Assets

4.0 Introduction

The results of this investigation are divided into Chapter 4 and Chapter 5. Chapter 4 identifies success factors at the firm level. In session 4.1, the characteristics and the classifications of success are presented. Session 4.2 analyzes firm-level characteristics and success, specifically number of employees and years in business. Sessions 4.3 to 4.7 groups the finding of the assets-based approach to identifying success factors. Session 4.3 deals with the answers to the human capital question asked: health, access to education, lessons learned in a foreign setting and languages spoken. Session 4.4 deals with two social capital factors: the amount of organizations and trust. The assets of financial and natural capital are then integrated into an explanation of success factors for business start-up in Session 4.5. Through this combination of approaches, Chapter 4 tries to identify success factors (1) at the firm level characteristics (2) in human capital assets (3) in social capital assets and (4) business start-up assets.

4.1 Success Factors

Success for the purposes of this investigation has been defined specifically as a business that

- (1) Has experienced financial growth in the past 3 years (2009-2011)
- (2) Is able to pay its employees the established amounts on time

When asking for the annual revenues of the business, some people gave a range. In the case, for example, that an entrepreneur said “between 50 and 100 CFA Francs” for practical purposes the amount is averaged into “75 francs”. Table 4.1.0 shows the data collected for the industries.

Table 4.1.0, Firms and Success Requisites

Industry	Years in service for businesses	Number of employees	Able to pay its employees on time?	Experienced financial growth over the last 3 years?	Expanded products or services?	Annual revenues
Car parts / Labeling	19	18	Yes	No	Yes	5,000,000 CFA
Manufacture / Agriculture	15	250	Yes	No	No	10,000,000,000 CFA
Training / Accountancy	6	10	Yes	No	No	22,879,780 CFA
Insurance	13	91	Yes	Yes	Yes	800,000,000 CFA
Assembly / Import / Export	28	15	Yes	No	No	0 (Has not been operating assembly plant)
Accountancy	35	32	Yes	Yes	No	475,000,000 CFA
Industrial equipment / Import	45	300	Yes	Yes	Yes	2,500,000,000 CFA
Transport	20	50	Yes	Yes	No	915,191,206 CFA
Insurance	16	13	Yes	Yes	Yes	200,000,000 CFA
Banking	19	195	Yes	Yes	Yes	N/A
Security / Banking	12	70	Yes	Yes	Yes	80,000,000 CFA
Car rental / Hotel / Communications	23	40	No	No	Yes	456,000,000 CFA
Manufacture/ bottling	9	51	No	No	Yes	Negative income
Training	21	8	Yes	No	No	6,000,000 CFA
Car sales / Import / Industrial equipment	109	65	Yes	No	Yes	6,559,570,000 CFA
General commerce / Import	22	30	Yes	No	No	Negative income, -95,637,481 CFA
Car sales / Library	28	N/A	Yes	No	No	200,000,000 CFA
Car rent / Port handling / Medical equipment	18	46	Yes	No	No	500,000,000 CFA
Hotel / Restaurant	29	240	Yes	No	No	4,000,000 CFA
Banking	6	110 permanent, 43 temporary	Yes	Yes	Yes	7,000,000,000 CFA
Port handling / Labeling	18	60	Yes	Yes	Yes	3,600,000,000 CFA
Energy	20	20	No	No	Yes	327,978,500 CFA

Table 4.1.1 shows how each of the companies interviewed has been classified

UNSUCCESSFUL -inability to pay on time and/or -negative or zero income	NON-EXPANSIVE -payments arrive on time -not experienced financial growth over the past 3 years	SUCCESSFUL -payments arrive on time -experienced financial growth over the past 3 years
Manufacture/bottling	Hotel	Banking
Energy	Training	Banking
Assembly/ export	Training	Transport
General commerce / import	Port handling/medical equipment/ cars	Import/Industrial equipment
Car rental / Hotel / Communications	Label/car parts	Insurance
	Cars/ industrial equipment	Insurance
	Cars/Library	Security/Banking
	Manufacture/agriculture	Port Handling / Labeling
		Accountancy

4.2 Firm-level success factors

Presenting the businesses by classification of success and industry, at least two patterns evidently emerged. The first pattern is that business involved in the automotive industry (selling and renting cars, selling car parts) are not doing so well. This can be explained by the fluctuations of cars (and parts) in the world economy and the increase of oil prices. The car industry is very saturated in Benin, and used cars are possibly more popular than new ones. The second evident pattern is that businesses linked directly to financing the economy (insurance and banking) are doing successfully well. Insurance companies and banks accumulate wealth more or so the same way, the security/banking business in the sample provides the security for banks and handles the matters of currency authenticity. It also linked to finance. An accountancy company, the oldest of its kind in Benin, is also linked to supervising projects intended to finance the economy and to the insurance and banking sectors. The other two companies in the successful category are a Denmark-based company, and a business with Beninese owners, which dedicates itself to selling industrial equipment in Benin and the region.

In order to determine if there are any firm-level characteristics correlated with success, the variables of success, income, number of employees and years in business were correlated.

There was no statistical significance for the correlation between number of employees and years in business with success.

There was no statistical significance for the correlation between income and the definition of success.

There only correlation found at the firm level, showed statistical significance at the .05 level between annual income and number of employees.

Figure 4.2, Correlation between annual income and number of employees

Correlations			
		VAR00002	Income
VAR00002	Pearson Correlation	1.000	.533*
	Sig. (2-tailed)		.016
	N	21	20
Income	Pearson Correlation	.533*	1.000
	Sig. (2-tailed)	.016	
	N	20	21

*. Correlation is significant at the 0.05 level (2-tailed).

4.3 Access to human capital factors

The human capitals accounted for are health, education, travels and languages.

4.3.1 Health

Since all 22 entrepreneurs affirmed that they were healthy while growing up and mentioned no

current health problems, it is a given that a good health is indispensable for business development.

4.3.2 Education

It was also unarguable that part of being an entrepreneur in Cotonou includes obtaining higher education, as the entrepreneurs' education levels show levels of higher (university) education for all 22. Only 300 students per 100,000 people in Benin get higher education (WB 1999). Seeing what characteristics and assets have facilitated education are important to understand how the entrepreneurs worked their way to starting their own business (or to become employed in one). Since one of the research questions of this investigation asks what are the characteristics and assets facilitate business innovation and creation opportunities, education must be taken into account.

How the education levels are achieved is important, since education is directly linked to career development, and in all cases, education and career development are very important factors that lead to business creation and to obtaining high management positions. All entrepreneurs in the sample had higher education. Obtaining higher education in general is not an easy thing to do in Benin; paying university fees requires favorable and rare sets of circumstances.

4.3.3 Factors favoring education

The factors recollected that permitted the levels of education can be grouped under the following conditions:

1. Will-driven
2. Influence and support of parents and family
3. Foreign setting
4. Connections in the workplace
5. Connections in government

The following table illustrates the factors that the entrepreneurs identified as the primary conditions that made their levels of education possible. This information was obtained through an open question in order to reflect better the opinions of the interviewed and later organized according to the types of responses.

Table 4.3.3, Accessing Education

Level of education	Will-Driven	Family Setting	Foreign Setting	Government	Workplace
BA			X		
BA					X
BA	X				
BA			X		
BA	X				
BA	X				
BA	X				
BA					X
MA		X			
MA			X		
MA				X	
MA		X			
MA	X	X			
MA			X		
MA	X	X			
MA			X		
MA	X				
MA				X	
MA					X
PHD		X			
PHD	X	X			
PHD	X	X		X	

Education goes hand in hand with career development. The first set of factors that permitted education relate to will, drive, determination and goals to succeed. It includes studying and working hard in order to achieve personal goals. It is driven by personal aspirations to succeed. Will-driven type of answers that do not include other factors show that the entrepreneurs didn't necessarily come from a family background especially conducive to education, but that ambition

and hard work were the driving factors of the educational process. Two entrepreneurs mentioned that they were the only members of their family that obtained high levels of education. Two of the female entrepreneurs recalled that it was their will that permitted them to achieve education.

Family setting factors include responses that mentioned that education was an important practice encouraged by the entrepreneurs' family and/or parents. In one case, an entrepreneur (owner) came from a family of professors, so education was of particular importance in that setting. In another case, the entrepreneur had started school at a very late age, and it was an uncle who finally brought him to school. Another entrepreneur mentioned that his parents provided him with support to finish all of his studies, while another one related that his parents were always talking about education and his family provided a clear vision of how to have a good future.

Foreign setting factors refer mainly to entrepreneurs who were raised out of Benin, specifically in France. This includes the non-Beninese entrepreneurs of the sample and two that were raised in France, where going to school and getting higher education is a common practice. These last two eventually returned to their home country to develop their respective businesses. In another case, an entrepreneur had once the opportunity to travel to Switzerland. He arrived in Switzerland without money or knowing anybody, and recalled how someone helped him open a bank account even when he had no money. Living in Switzerland allowed this entrepreneur to receive an education and to be exposed to ideas that would help in the formation of the business and "to understand the importance of such things as the respect for the law".

Government connections and help factors relate specifically to three cases. One of the entrepreneurs used to work at the Ministry of Finance, which required him to continue his studies as a work requisite. In another case, the entrepreneur also worked for a branch of the government, and he mentioned "the people he helped while working for government suggested he studied a specific domain and gave him financial support". His area of specialization relates directly to the domain of his business. Finally, one entrepreneur mentioned that he received scholarships from the government. The scholarships allowed him to obtain a high level of

education and to study in foreign universities.

Workplace connections that favor education refer to cases in which the entrepreneur obtained their highest level of education while working for a company. In one case, an entrepreneur working at a bank had received his education when the bank he formerly worked for sponsored his studies. The other two cases of workplace connections refers that the entrepreneur specialized to the needs of the business they worked for, and received support to study, financial or otherwise.

4.3.4 Languages spoken

Bhagavatula 2010 study of entrepreneurship in India’s handloom industry concluded that knowledge of languages has a positive influence on opportunity recognition, meaning the more languages the entrepreneur speaks, the more opportunities he can identify. Since there are many languages spoken in Benin and in the West African region, a question was asked to know how many languages the entrepreneurs spoke. The answers ranged from 2 to 10 with an average of 4.36 languages, a median of 4, and a mode of 4. This number of languages includes both local (Fon, Mina, Ogun for example) and international languages like English, Arabic and French. The data was correlated with success using SPSS. It did not show any statistical significance between the amount of languages spoken and business success. This does not mean that speaking many languages does not help in business development, just that with this sample population and the definition of success used there was no statistical relationship.

Table 4.3.4, Amount of languages spoken

2	2	2	3	3	3	3	3	4	4	4
4	4	4	4	5	6	6	6	6	8	10

4.3.5 Travels

In the questionnaire, it was asked how many countries other than Benin have been visited, if the

entrepreneurs had ever resided out of Benin and if there were any particular lessons learned in this voyages that helped the formation of business. Most of the entrepreneurs had visited many countries. The exact numbers of countries were always difficult to number for the entrepreneur, but generally most had visited various countries in the West African region (Senegal, Cameroon, Nigeria, Côte d'Ivoire, Togo, Ghana). The number of countries visited ranged from 3 to over 30. Half of the entrepreneurs studied in foreign universities, both in Africa and in places such as France, Switzerland and the United States. Many others also received training in other countries. These travels were important for the development of business entrepreneurship, as explained by 18 of the entrepreneurs.

In some cases, the voyages were important because they were specifically done to participate in training and business formation seminars. One entrepreneur recalled that the training received during 3 months in the United States helped strengthen her performance and competence. Establishing new business contacts and partners in these voyages was also a stated advantage. Three entrepreneurs (from the manufacturing/bottling, energy and industrial equipment industries) mentioned that contacts established in travels helped facilitate the access to machinery needed for their business. Travels also help establish partnerships. One of the successful firms relates that traveling in the West African region permitted the establishment of new partners to sell their equipment to, an element that has been crucial in the growth experimented by the business. Another mentions that the countries he visits are the countries he sells his products to. New projects for the energy engineering business in the sample were also discovered through travels. Another entrepreneur also related that in his travels he met investors that helped him with his education.

Finally, travels also help in a more abstract way to aid the process of entrepreneurship and business formation. Traveling helps people open their minds to new ideas and find fresh ways to look at their country. "You discover what other people are doing." "One learns while traveling and seeing other people that there is something to learn from everywhere" and that "if you travel you must learn. I first started traveling for leisure and ended up being exposed to other ways of

life.” The reason why one of the entrepreneurs continues to work for Benin, even if he’s traveled to over 15 countries, is that in his voyages he learned that “everything is here”. He explained that even though he’s lived in France, he has learned that in place like Europe his knowledge is not needed, that they already have everything. This of course creates a greater sense of loyalty to one’s country and instills a sense that one’s skills are needed and that you can be important for the development of your country. Two of the entrepreneurs who were raised primarily in France and then moved to Benin to start their business, recalled thinking that they feel it is important for them to help. Helping to develop Benin is one of the reasons why many entrepreneurs start businesses and engage in social and business organizations.

4.4 Social capital factors

Now that human capital factors and how they are associated with success have been discussed, factors that have been related to social capital will be presented. As DFID 1999 mentions, levels of social capital are hard to gauge from the outside and may be discernible only after lengthy analysis with results that are difficult to quantify. Looking at numbers of associations does not embrace the group nature and quality. The entrepreneurs in the sample were asked how many organizations they were members of and what were their reasons for participation in the organizations. And since it is said that there are higher levels of social capital in societies where people trust each other, two trust-based questions were made in the questionnaire to gather perceptions.

4.4.1 Participation in organizations

The number of organizations entrepreneurs had membership in ranged from 0 to 4. This does not include CNP-Benin, of which all were members. It included business, social and religious clubs, groups and organizations. The questionnaire asked how many social and business organizations they were members of, what was the role of the organizations and what were the reasons for participation in them. Many of the members were also the founders and/or presidents of some of

the organizations. They will first be mentioned. Then based on the responses of the sample, we mention the types of organizations by group: (1) professional guilds (2) international organizations (2) local business organizations (3) socially oriented association and (4) religious associations.

4.4.2 Leaders of organizations

Three entrepreneurs from Benin were the founders and leaders of organizations. Two entrepreneurs from France also headed local organizations.

The first example by locals is an organization called CCMB founded between the entrepreneur interviewed and his business acquaintances. The purpose of this organization is to give support to members when they are in need of financing, by helping them guarantee their loans and help them with mutual financing. The founder of this organization explained that he has a big database of contacts that are producing products in Benin, products that may later be labeled and sold through his company. Allegedly his list of contacts is more thorough than the one the government has. During the interview, this entrepreneur explained that the process of starting his own business was a long one, in which he moved on from field to field developing individual projects. This explains his interest in providing a base for local businesses to expand, since he didn't have any particular help other than his education and a sharp sense for opportunity recognition.

The second organization founded by one of the entrepreneurs is a development organization based on the entrepreneur's hometown, Segboroué. This organization is focused on integral human development. He recalls that "knowledge is light" and it has to be shared. The entrepreneur participates in this association because he wants to help the poor, but also by making them understand that poverty is not only material and that "there is no fatality". He explains that development is to make life better and growth is what develops a society. But if 80% live in ignorance, then the other 20% that work every day are not growth factors.

The third organization founded by one of the interviewed was called *Cotonou d’Affaires* and was founded along with his friends. The purpose is to help poor people by building hospitals and infrastructure. Lately they had helped an orphanage. The reason for creating this organization is “that not everything should be done in a for profit basis, that it is important to help”. He explained that he was lucky to travel to many countries and has to make use of his knowledge here (in Benin).

One of the French entrepreneurs was the President of CIPB, *the Conseil des Investisseurs Privé au Bénin*, an organization similar to CNP-Benin. He explained CIPB is a sort of think tank and an instrument of dialogue between the private and public sector. The official objectives of the organization are the promotion of good governance, the adaptation of human resources to the world of work, tax reform with emphasis on the informal sector and the optimization of local resources. A CIPB brochure states, “Our country’s fate is in our hands. Take off can only happen if we work selflessly, use our strengths and resources wisely and fight for the eradication of bad practices that stifle development.” The President explained that they try to change people’s mentalities of the environment and that his reason for participating was to change the business environment. He also participated in CEEF, a structure within the French embassy. CIPB was also one of the organizations in which many of the entrepreneurs interviewed had membership. One person explained that CIPB assisted the employees on issues of human resource management while another explained that it helps “to go ahead”.

The other French entrepreneur was the President of the *Conseillers du Commerce Exterior de la France* in Benin, an organization dedicated to represent French economic presence in the world. It is a position appointed by decree of the Prime Minister upon proposal of the Minister of Foreign Trade. Among the reasons given for participation is that it helps to act. This same entrepreneur was also a member of the European Economic Circle.

Looking at the Presidents and founders of local organizations, it is possible to get an idea on why people from different background become involved in different types of organizations. The

following sessions details other types of organizations encountered along with the reasons for participation.

4.4.3 Organizations

CCIB, the Chamber of Commerce and Industry, was mentioned by most since when you start a private business you also become a member of the Chamber of Commerce. The Chamber of Commerce represents, protects and assures the promotion of commerce, industry, and the provision of services to public authorities. Among the reasons for participation in CCIB was reflecting on the problems of corporations, defending one's interests, finding strength in numbers and the promotion of enterprise.

There are other types of organizations that also group local businesses like *the Groupement des Entreprises Commerciales et Industrielles du Bénin* whose role was also to defend business interests. Organizations like *Conseil Consulate Regional* that work to secure regional integration and to reflect on the problems of West African enterprises. CCR believes in regional integration in terms of taxation rates and the free circulation of people and goods.

Professional guilds group people of a same profession or industry. Some mentioned were the *Association National de Comptrollers e Conseil de Gestion, Expert Comtables du Bénin*, FANAF (Fédération des Sociétés d'Assurances de Droit National Africaines), ASA-BENIN (Association of Insurance Companies) and *Association des Industrielles de la Filière Oléagineux des Pays Membres de l'UEMOA*, which groups companies that produce oil. The accountants' organization (*Expert Comtables du Bénin*) serves to define the interests of the profession and its legal authority, is a structure of quality control and is a middle-man for problem solving between actors. The insurance company that participates in the two insurance associations explained that "together they are strong". And an entrepreneur's university class created the comptrollers' organization, since they were the first to graduate from that specialization and wished to have a professional association and "to promote good management ideas."

Local business organizations means organizations like CNP-Benin. A local business organization is AFACEB, *Association des Femmes d'Affaires et Chefs d'Entreprises du Bénin*, whose role is the promotion of female leaders and participation in development projects. Another local organization, the Association of Private and Independent Consultants, is a non-profit association interested in developing the private sector. Companies are usually referred to them when they are not doing well and they provide team-building, coaching and free training. One of the entrepreneurs volunteers his knowledge to help other enterprises. CNT Benin was also mentioned. It is a branch of CNP-Benin but specifically for *travailler* or workers' issues.

There are other organizations of a more international quality. This includes the International Chamber of Commerce, the International Chamber of Youth, the International Organization of Aquarists, ABBAP and REFAE (*Réseau des Femmes Africaines Economistes*). Out of these, the role of the Chamber of Youth was highlighted on two occasions as a good facilitator of contacts and ideas for doing business. The International Youth Chamber facilitates “networking, to develop ambition with responsibility and discovering the world.” For the International Organization of Aquarists, their function was counseling and the reason for participation was “exchange of experiences”. Participation in ABBAP, an Academy for Peace was explained as a way to contribute to different spheres of life.

There were also more socially oriented organizations of an international nature. This is exemplified by the Lions Club whose motto is “to serve”. One of the entrepreneurs had the highest honor that can be awarded in the Lions Club. He associated to them for humanitarian reasons. Two other entrepreneurs were also members of the Lions Club for the same reason, “developing humanism”. CEBAC-STP was also an organization operating on social principles. This organization, *Coalition des Entreprises Béninoise et Associations Privées contre le SIDA, La tuberculose et le Paludisme*, checks the health of the employees to solve the three main pandemics (HIV, tuberculosis and malaria). This is important since “good employees have good health”.

The other organizations that merit discussion are religious organizations, which were mentioned by 3 entrepreneurs. The 3 mentioned referred to Catholic associations. One of this is the movement of Catholic Actors Entrepreneurs which “makes use of Catholic virtues to share information, exchange and know what are good practices”. Another reason for participation in Catholic organizations was to evangelize and to promote the gospel. Bosch 1991 discussed that in South Africa, churches are the second most respected institutions after trade unions. Having seen a great deal of the entrepreneurs’ offices with religious -Christian- symbols, it is possible to say that a similar phenomenon also occurs in Cotonou.

4.4.4 Trust

Since trust has been considered as an element necessary for fostering innovation, for effective networking and as one of the “creators” of social capital, two trust-based questions were asked. The first one asked if “generally speaking, would you say that people can be trusted or that you should pay them close attention?” 17 out of 22 or 77% answered that people can be trusted and 5 or 23% answered that it is necessary to pay them close attention. The second question asked “do you believe it is necessary to know a person well before doing business?” The responses generated were interesting. Although 77% answered in the first question that people can generally be trusted, only 8 or 36% affirmed that it wasn’t necessary to know a person well for doing business, showing that trust in these relationships is generally not abundant. 14 entrepreneurs or 64% affirmed that to do business it was necessary to know a person well.

Some of the reasons given to explain the distrust were that: “many people are not honest”, “what if the person disappears?”, “it is important to know a person’s ethics and competence before establishing a business relationship” and “it is important for precaution, especially when picking business partners.” Some of the entrepreneurs that picked the trust-based answer on the second question, that it was not necessary to know a person well also gave some interesting explanations for their answer. 56% of the entrepreneurs that selected the trust based answer worked in businesses classified as “successful”. This means 5 out of 9 entrepreneurs heading successful

business in the sample trust others more. Among these successful entrepreneurs, one mentioned that “nobody can really know somebody by engaging in business” while another one said that “to really know somebody raises suspicion and one should not begin business with suspicion. Business means trust.” Two other entrepreneurs, this time one from an enterprise classified as “not successful” said that “it is not necessary to know a person well but a guarantee is needed” and a manager at a “non-expansive” business said that “you should know the person well but without taking too much time”.

The following table shows the answers on the two-trust based questions, divided by the levels of success of the businesses. The numbers show what percents of the sample divided into success levels answered positively the trust-based questions.

Category	Answers	Q. 1	Q. 2
Unsuccessful			
	Trust	60%	40%
	Distrust	40%	60%
Non-expansive			
	Trust	88%	12%
	Distrust	12%	88%
Successful			
	Trust	78%	56%
	Distrust	22%	44%

Table 4.4.4 Success and Trust

While the first question asked if people can generally be trusted, most entrepreneurs related this situation to the supervision of employees. The second question was better understood in its literal sense. The results show that entrepreneurs in successful businesses may tend to waste less time knowing a person well. The total responses of trust by classification show that unsuccessful and non-expansive entrepreneurs trust more or less the same, but that “successful” entrepreneurs are at least more trusting when it comes to doing business.

4.5 Financial capital to start a business

Financial capital was focused on seeing what were the types of initial capital that helped to start the enterprises. The results are presented from the 8 owners interviewed. It first describes the initial type of financial capital (loan, personal savings) and if anybody had helped in the formation of the business (person(s), or organization).

Car rent / Port handling / Medical equipment

Type of initial capital: Personal savings

Facilitators: A friend [in France] helped him with the idea and financially.

General commerce / Import

Type of initial capital: Personal savings. Acquired by a group in 1989. It used to be a French company and “it was not too expensive”.

Facilitators: The former owners aided in the process.

Assembly / Import / Export

Type of initial capital: Loan. Acquired with partner in 1983. It used to be a French company.

Facilitators: Bought with partner/husband

Car parts / Label

Type of initial capital: Personal Savings.

Facilitators: Helped by CVSFEB, a producer of products.

Training

Type of initial capital: Personal Savings

Facilitators: Nobody helped to establish business, but the idea came from interaction in business networks.

Training

Type of initial capital: Personal Savings

Facilitators: None.

Manufacturing / Bottling

Type of initial capital: Personal Savings and Family's

Facilitators: His family helped him.

Energy

Type of initial capital: Personal savings + capital of 2 shareholders

Facilitators: The other two shareholders.

4.5.1 Access to private and public financing

The entrepreneurs interviewed were also asked to rate “the availability of private sector financing by banks and other private institutions” on a Likert-scale from 1 to 5, where 1 was very poor and 5 was excellent. Owners rated it an average of 2.375, with a mode of 3. The overall average rating given by all entrepreneurs, owners and non-owners, was 2.59.

They were also asked to rate the “access to public funds for the creation of a business”. All owners gave it a 1. It received an average of 1.14 from the whole sample population.

4.6 Natural Capital

Access to natural capital was important in 4 of the firms interviewed. How natural capital is important for their business activities is discussed below in a case-by-case basis, since each of the examples that make use of the available natural resources is very different.

Manufacture/bottling

The manufacture/bottling company bottles water and has recently begun making soda drinks. The owner's family had lands where there was an aquifer. The plant was constructed in these grounds.

Assembly/export

This company used to assemble motorcycles before the devaluation of the CFA Franc. Now it "survives" through the export of cashews to Indonesia.

Car parts/Label

The newest branch of the company has dedicated to providing a label for mostly agricultural products from Benin and selling them in a shop. This company has a relationship with local producers. There are also plans to begin exporting.

Manufacture/agriculture

This is a French company dedicated to manufacturing pure refined cottonseed oil, vegetable oil, soybean oil and shea.

4.6.1 Natural Resources

Entrepreneurs were also asked if the access to natural resources was favorable or unfavorable to their business. Out of the 21 entrepreneurs who answered the question, 5 or 24% found it unfavorable. Two of the entrepreneurs discussed above considered access to natural resources unfavorable. Both explained their reasons. In the case of the cashew export, the entrepreneur mentioned that raw materials are insufficient. In the case of the oil manufacturing business, the amount of cotton produced was also considered insufficient. Other entrepreneurs who considered the access to natural resources unfavorable, mentioned that neither oil nor gold have been found, so government continues to be based on taxation. Another one mentioned –from the training sector- that with "so little resources you cannot do business". Other comments made on

the matter emphasized that it is difficult to get wood and that the agricultural sector has a great potential, but needs to be properly developed.

16 or 76% of the respondents found the access to natural resources favorable for their business. The manufacturing/bottling company mentioned they benefit from access to biggest aquifer in Benin.

4.7 Access to physical capital

The only view taken on access to physical capital was an assessment of the road infrastructure and on physical infrastructure like buildings.

During this part of the interview, electricity problems were also mentioned. Although the area of electricity was not investigated, the problems were noticed since there were frequent power cuts in Cotonou. Also mentioned was the lack of communications infrastructure, a problem that is being quickly solved through the growth and expansion of mobile phone companies.

Having good transportation infrastructure is important in Benin, especially for transport and trade between the neighboring countries. It is also important since there are parts of the countries that are not well connected. 13 out of 22 or 60% found the state of the road infrastructure unfavorable for their business. One entrepreneur who sells cars stated that the poor state of the roads makes it hard to sell cars, since guarantees cannot be given on new cars. An entrepreneur from the security industry recalls that they since they work transporting too, they have to spend a lot of money in car repairs. Another from the hotel industry mentions that for their clientele the road infrastructure does not present a problem, but not so for the employees and staff who live far. Traveling to the “inside” is a problem. The CEO of the manufacturing/agriculture company mentioned that several of the factories were far and the roads to get there were not good. The entrepreneur from the manufacturing/bottling company also mentioned that they only have one factory that is 45 kilometers away and the road is very bad. The roads were called

“dangerous” by one of the entrepreneurs. Traffic jams (along with a disregard for traffic laws) are very common in the city.

40% of entrepreneurs considered the road infrastructure favorable for their business. Some of them added that “the roads are not fantastic but are good compared to other countries.” Another said that “infrastructure has improved but there is still much left to do”, while one described the roads as “acceptable” and “average”.

Clearly, there is still much work to do be done in this aspect of road infrastructure, although the results achieved so far are good for the region.

When it comes to physical infrastructure like buildings, 71% found the current state of buildings favorable for their business. The other 29% mentioned that there were not enough. One entrepreneur mentioned that there are many good projects underway to construct more buildings. Many active constructions could be seen in the city of Cotonou. Nobody in the sample recalled any difficulties acquiring a building, land or structure for their business.

Chapter 5: Data Collected: Individual Characteristics and Success Strategies

5.0 Introduction

Chapter 4 has reviewed success factors for firms, and answered some questions about how access to the 5 capitals relate to career development and starting a business. Chapter 5 continues identifying success factors. It first does so by looking at the personal characteristics of entrepreneurs in Session 5.1. This includes the psychological traits associated with entrepreneurship and the qualities that are important for entrepreneurialism. Session 5.2 then focuses specifically on the businesses classified as successful and knowing what are the strategies they have used to expand their income. Session 5.3 then gives an overall picture of the businesses sampled and tries to identify which sort of characteristics and assets and characteristics have made them succeed or remain in business. Session 5.4 presents the results on the ratings of the business environment.

Chapter 5 will identify success factors for individual entrepreneurs, and mention the strategies that successful businesses do. It will then identify the most important characteristics, assets and strategies, in order to draw the final conclusions in Chapter 6.

5.1 Entrepreneurial Traits

This first part that analyzes the personal characteristics of entrepreneurs focuses on the psychological traits of entrepreneurs as identified by Noorderharven & Beugelsdijk 2004.

Do the entrepreneurs have a propensity to risk-taking behavior?

Yes, 21 out of the 22 entrepreneurs or 95% interviewed declared that they like to take risks, as opposed to trotting in known territory. The only entrepreneur who affirmed preferring known-territory worked in the banking sector. Rules of good banking in developing countries include not

taking many risks, so the response can be understandable and justified.

Did the entrepreneurs score positively on the questions to determine need for achievement?

Yes, 19 out of 22 entrepreneurs or 86% scored 3 out of 3 in the questions posed to determine need for achievement. The other 3 scored 2 out of 3.

Did the entrepreneurs show an internal locus of control?

Five questions were asked to determine the locus of control. None of the entrepreneurs showed an external locus of control –where conditions are attributed to external circumstances instead of on the self. Some did score halfway between internal and external locus of control, which shows a balance between ways of perceiving the environment and is not necessarily a bad thing. What it shows is that the three psychological traits associated with entrepreneurship (risk-taking behavior, need for achievement and internal locus) are also prevalent in the Cotonou sample.

5 or 23% scored 5 out of 5, showing an internal locus of control.

10 or 45% scored 4 out of 5, showing an internal locus of control, and

7 or 32% scored 3 out of 5, showing both an internal and external locus of control.

Table 5.1 compares the type of locus of control with the levels of success of the firms.

Category	Answers	Distribution
Unsuccessful		
	5 out of 5 internal	1, 20%
	4 out of 5 internal	2, 40%
	3 out of 5 internal/external	2, 40%
Non-expansive		
	5 out of 5 internal	2, 25%
	4 out of 5 internal	3, 37.5%
	3 out of 5 internal/external	3, 37.5%
Successful		
	5 out of 5 internal	2, 22%
	4 out of 5 internal	5, 56%
	3 out of 5 internal/external	2, 22%

Table 5.1, Success and Locus of Control

The results show that entrepreneurs in Cotonou have a balanced perception. A very strong internal locus of control is not necessarily a good thing, and the fact that most scored 4 shows that they understand that most changes can be influenced by one's actions, but that there are also circumstances that cannot be controlled. When the results are distributed in Table 5.1.0, it is also seen that entrepreneurs in successful businesses were more inclined to score 4 or 5 on the internal scale although the pattern was more or less the same for all groups. Most of the entrepreneurs scored a 4 in all categories.

5.2 Entrepreneurial Qualities

In order to identify what qualities of entrepreneurs were associated with successful business entrepreneurship, it was asked: What are the qualities of a business leader (*Quelles sont les qualités d'un chef d'entreprise?*) This generated interesting answers that merit discussion.

The results will be organized according to the qualities mentioned in a decreasing rate of recurrence.

The first quality associated with successful entrepreneurship was **competence**. It was mentioned a total of 9 times. Competence can be defined as the ability to set objectives and achieve them through good planning. **Rigor**, or being thorough, was mentioned a total of 8 times. **Leadership** was mentioned 7 times. Leadership can be understood as the ability to direct and organize a team. **Good communication skills** were also important as they were mentioned 6 times. This includes being a good listener and communicating with others effectively, "when the leader is not a good listener, it creates frustration". 6 entrepreneurs identified **vision** as an important quality, with 2 of the interviewees making an emphasis on the ability to foresee problems and 1 on identifying opportunities. Having **integrity**, morality and character were also mentioned by 4 entrepreneurs, concepts that are grouped together. 4 entrepreneurs explained that **good human management** was important, which included being attentive to personnel problems and knowing how to treat and value people. **Organization** was mentioned 3 times, as

well as **courage**. **Perseverance**, which can also be grouped with the quality of patience and determination, was mentioned 4 times as well. 3 entrepreneurs also emphasized the need for **enthusiasm** and to be able to motivate others. Two of the female entrepreneurs coincided on two characteristics they find important in a business leader: **honesty** or sincerity and **humility**. Being **profit oriented** was mentioned 2 times, as was being a **risk-taker** and being a **strategist**. Knowing how to **channel and coordinate resources** was also mentioned twice.

Other singular responses to what are the qualities of a business leader were knowing how to delegate and to work in different cultural settings. Singularly mentioned were being a good collaborator, a quick learner, to serve others, and have knowledge, experience, imagination and an open spirit.

The five qualities most frequently mentioned by entrepreneurs working in businesses classified successful were:

1. Leadership
2. Communication skills
3. Competence
4. Rigor
5. Vision

5.3 Strategies for growth

This session highlights the strategies mentioned by the entrepreneurs that have permitted financial growth over the past 3 years. The strategies have to do specifically with the management and organization of the business and its activities.

Insurance

- (1) From 2004 to 2005, the company turnover grew around 13%. After that it grew around 10% per year. The difference has been that we have motivated employees to take the

challenge. They all have yearly targets and budgets they must meet and there are incentives for reaching those targets. In this company, you are always in training. The competence of employees through training and organization is a big success factor. Everybody knows its role in the company and does it well.

- (2) In the last three years, the company has had the opportunity to get some great contracts through dialogue with other enterprises. We are a pure commercial enterprise. We search for clients until we are tired. We work on commissions based on the contracts achieved.

Industrial equipment / Import

- (1) This company has experimented growth over the past 3 years thanks to partnerships in other countries of the region. They are able to identify new opportunities, get more information, buy services and even offer their services for government contracts from other countries. In order to improve, they are open to others.

Security / Banking

- (1) This company succeeds because it takes great risk. They transport money from the banks to the Central Bank. "We make no mistakes". They also do private security, install electronic surveillance systems and have a division to verify the authenticity of the currency. Professionals, mostly ex-military officers, carry out their work. The entrepreneur interviewed claims their success to be in part because they partner with a marketing company that makes media publicity and selects potential customers. Satisfied customers usually recommend them to others.

Transport

- (1) This company has experimented a 5% growth over the past 3 years. The growth was attributed as the result of working very hard. They are performance-driven and everyone is working hard to be the best. They do yearly evaluations of everyone's work and they have clear fixed objectives and targets. Everyone tries to meet and surpass these targets. It was also explained that they see what business rivals are doing in order to be more competitive and get their "piece of the cake". The entrepreneur interviewed also

explained that at times when the economy hasn't been so good, laying off employees has reduced costs and financial growth has continued.

Port handling / Label

- (1) This international company supervises many of the port activities in the country. They work for transparency and control the price of goods. The company has recently experimented a 14% growth. They are in many domains (construction, industry, international commerce, inspection, certification) and there is a balance in each of the domains. This company is a fusion of other big groups and companies. They are attentive to areas of the economy that are doing well and can quickly move to acquire such areas. The company has a very dynamic staff and an ability to quickly identify good employees.

Banking

- (1) This bank claims the growth experimented has been the result of internal reforms. They have expanded their agencies to different parts of the country. They have also expanded their products. They used to offer only 3 and now have over 100 products. They also offer e-banking and have used marketing strategies to promote the bank.
- (2) This bank has also experimented growth. The entrepreneur interviewed explained that the bank is trying to cover the 9 countries of the West African region. The success is also attributed to the Board of Directors, who are "good managers that acknowledge the effort of good employees". Employees also have fixed goals with benefits promised for reaching them.

Accountancy

- (1) This accountancy firm attributes their success to the quality of their service on the market and their reputation. They work hard to make old clients stay and their clients are loyal. If they learn of an arrival of a new enterprise, they offer their services. The company has projects in other countries and has begun a new department linked to the insurance and

banking sectors. They are also the only company auditing the company that is searching for oil in Benin.

5.4 Ratings on the environment

Some questions were also made on the business environment. Table 5.4 shows the results of these questions, where 1 was very poor and 5 was excellent. The responses show that the process of starting an enterprise is the area perceived most favorably while the access to funds and investment climate are viewed less favorably.

Table 5.4, Ratings on the business environment

The ease of creation of a formal business	2.59
Access to public funds for the creation of a business	1.14
Ease of registering a formal business	2.77
The facilitation of doing business by government	2.23
The level of protection of investments	2.09
The investment climate in Benin	2.00
The availability of private sector financing by banks and other private institutions	2.60
The clarity of procedures for establishing a business	3.41
The clarity of business laws	2.77
The clarity in government requirements for business	2.54

5.5 What were the key success factors of all the enterprises of the sample?

In order to draw conclusion on what are the success factors for formal business entrepreneurship in Cotonou, success factors for each of the businesses interviewed will be presented. The discussion is divided into success-levels. It tries to establish what have been the most important characteristics, assets and strategies for the companies that have allowed them to remain in business.

Success factors for “unsuccessful” business: what are the personal characteristics that facilitated the creation of business or obtaining the position, and what allows the business to remain open.

Assembly / Export

- Personal: Receiving an education in France.
- Business: This is a former French business. Its assembly plant is no longer in function. Maintains business through secondary affairs, cashew export.

Energy

- Personal: Education, experience and contacts in foreign settings.
- Business: Projects respond to actual needs, energy and water are needed. Has projects in other countries of the region.

General Commerce / Import

- Personal: Education and had access to information about the business opportunity
- Business: This is a former French business. Considering that it has been “failing” for the past 8 years, it is hard to identify success factors. The entrepreneur mentioned that what keeps the business running is “hope”.

Manufacture/Bottling

- Personal: Family background helped achieve high levels of education. Family helped in starting the business. They provided the lands for the company.
- Business: A group now owns the business. The business maintains its operation due to the fact that clean, potable water is a necessity in Benin. They have also begun to sell carbonated drinks.

Car rental / Hotel / Communications

- Personal: Education and experience in foreign settings
- Business: Operates in various domains. The entrepreneur mentioned that employing

young people is one of the factors that allows them to remain business, along with “passion”.

Success factors for the “non-expansive” group: what are the personal characteristics that facilitated the creation of business and/or obtaining a high management position and what allows the business to remain open.

Car sales / Industrial equipment

- Personal: Born and educated in France. Has been working for the company for 34 years.
- Business: Business is an international company that has been 109 years in Benin. They have the flexibility to adapt to the changing needs of the market, and import products depending on their demand.

Hotel

- Personal: Education
- Business: It is the only 4-star hotel in Benin. Owners are also involved in the cotton sector.

Training

- Personal: Education and participation in international organizations.
- Business: Transferring skills through training permits their clients to increase their revenues.

Training

- Personal: Educated in France.
- Business: Being solution-oriented allows for solving problems quickly.

Port Handling / Medical Equipment/ Cars

- Personal: Education, career and business development facilitated by personal contacts and

contacts in government.

- Business: 3 different domain areas. Has established many international partnerships.

Label / Car Parts

- Personal: Education. Good at identifying opportunities and building a network. Wide base of contacts of local partners.
- Business: Two domain areas. Products get media exposure.

Car sales / Library

- Personal: Education. Has been in the company since its start. Owners are French.
- Business: Two domain areas. Secondary domain (library) maintains the company afloat.

Manufacture / Agriculture

- Personal: Born and educated in France. Has been working in the company since it first established in Benin. Strong leadership skills.
- Business: A French group owns the business. There is a government policy that protects local manufacturing industries. Business also advertises itself well.

Success factors for successful businesses: since none of the entrepreneurs in this category were owners, personal characteristics and assets that have favored career development. The most important success factors at the firm-level are mentioned.

Banking

- Personal: Education and career development facilitated through contacts in the banking industry.
- Business: Bank is originally from Côte d'Ivoire. Banking industry is expanding. They have more agencies and offering more products. Establishing goals with fixed rewards for employees.

Banking

- Personal: Education and career development.
- Business: United Bank of Africa is the owner after government sold its shares. Bank has expanded agencies throughout the country, has diversified products and uses e-banking.

Insurance

- Personal: Education, specializing in insurance.
- Business: Insurance sector is strong. This company is a middleman between insurance companies and clients. There are many insurance companies in Benin. All the staff works on commissions according to the contracts they reach.

Insurance

- Personal: Education.
- Business: Company originally from Equatorial Guinea. Bought the existing contracts after the government stopped being the main insurer. Company establishes clear targets that must be met, with incentives for those who reach the targets.

Security / Banking

- Personal: Education and ambition.
- Business: Company is linked directly to the banking sector. Business involves the high-risk activity of transporting funds. Bank security is a need. Professionalism has allowed them to maintain old clients and get new ones. They also work with a marketing firm to find new clients.

Port handling / Label

- Personal: Education and career development.
- Business: International company came to Benin as a requirement of the World Bank and the International Monetary Fund. Company is in many domains. They tend to buy other groups and businesses that do well and integrate them. They react quickly to

opportunities and “move forward with confidence”.

Industrial equipment / Import

- Education. Career development facilitated by strong interpersonal skills.
- Business: Establishing direct partnerships outside Benin in the West African region. This way they have more access to opportunities, information and to buy and offer services.

Chapter 6: Conclusions

This investigation had the objectives of gathering success factor for formal business entrepreneurship in Cotonou, Benin. This has been done so at both the individual entrepreneur and at the firm level.

At the *individual level*, the most important success factors for managers and owners were: (1) a good education, (2) good career development and (3) experience in a foreign setting. All the entrepreneurs had higher university education. This forms part of their career development. Most of the entrepreneurs who were not owners of the company studied subjects related to finance and management. Usually after graduating, they looked for jobs in the private sector and were hired. Then they worked hard in the company and expanded their skills with the tools available. Company sponsored trainings, especially those in another country, were very important. Studying, being trustworthy and working hard seem to be the most important elements for career development. Experience in a foreign setting was also a notable success factor at the individual level. People who have experience, education and travels in a foreign country, have an evident advantage, especially when it comes to starting their own business. There they are exposed to new ideas and skills that influence entrepreneurial and innovative behaviors. Some entrepreneurs are able to get equipment, partners and contracts during their travels.

The *firm characteristics* that were success factors were also identified. They were: (1) being an international company and (2) working in the finance sector. Being a foreign-owned business increased the chances for success. Foreign-owned businesses typically fell under the categories “non-expansive” and “successful”. Foreign-owned businesses also offered more opportunities for trainings abroad. On the other hand, business that were originally French, but then sold to local entrepreneurs fell under “unsuccessful”. Another success factor was to be in the financing sector. 5 out of the 9 businesses labeled “successful” were financing firms (banks, accountancy insurance companies and money transport and verifying services). This shows that the financing

firms are the strongest player in Cotonou's economy or at least in the sample. It shows that if you want to make money, you have to go where the money is.

Among the successful *strategies* that firms can do to succeed are (1) setting fixed goals (2) offering incentives and commissions to employees and (3) expanding to other countries in the region. Many of the successful entrepreneurs related that in their companies they had fixed goals. The constant evaluation of business goals helps maintain a focus on economic growth and motivates a team. So is offering incentives and commissions to employees. It makes people work harder and be more committed to the company's goals. These sorts of strategies allow the companies to be more alert to new opportunities. Finally, expanding their services to other countries in the West African region also proved to be a fruitful strategy. It is important not to limit the business vision to Benin and be open to different opportunities in nearby countries. A few of the Beninese-owned businesses had obtained some of their best contracts in other countries.

The other objective of this investigation was to identify how the business environment was perceived, what types of obstacles were present and how they are overcome.

In Session 2.6, the factors mentioned to be affecting entrepreneurial activity were discussed. Those obstacles that can be considered as part of the environment included administrative/bureaucratic difficulties, the high taxation rate and the competition from the informal sector. Throughout the Chapters 4 and 5, strategies to overcome both internal and external business difficulties were presented, which allowed for the fulfillment of this objective. Quantitative ratings for different aspects of the environment were also gathered in Session 5.4.

A company is in control of its domain and its strategies, but is usually not in control of the rules and law that regulate business. In Cotonou, this is not the case. The entrepreneurs in the sample participated in many of local business organizations. The purpose of being part of these organizations is to have strength in numbers. Entrepreneurs in Cotonou organize themselves

very well in order to pressure and influence the government and its institutions to implant policy favorable for their businesses. This is the main way the private sector overcomes the difficulties of the environment. So even though the environment for doing business is certainly not the best in the world, entrepreneurs from the private sector do their best efforts to change it through dialogue with the government. This has made “doing business” a popular topic in government policy.

Being able to influence policy has given results in many occasions, although some may argue that this does not occur often enough. The Law of Finances of 2009 is an example of the ability of local business organizations. One business in particular has benefited from good government policy for its sector. Influencing the environment seems to be an important task for many entrepreneurs, but more than being able to do, what equals success is expanding activities and growing fast enough so that the environmental conditions do not affect your business. This is a difficult thing to do in Cotonou, especially considering the high taxation rate but at least the government offers some incentives for companies that are starting out. In order to overcome environmental obstacles, the most important thing may be, as one of the entrepreneurs mentioned is “to move forward with confidence” (and competence). The environment can be influenced, but most importantly is becoming a strong player.

Becoming a strong player is a requisite for success in Cotonou. Almost all economic activities form part of the informal economy. Therefore, it is necessary to undertake business activities that the informal sector is incapable to do (such as offering security for banks, for example). This is where exposure to foreign ideas also helps. Most people in Cotonou work in the informal sector, usually in activities whose earnings are proven. This means that having different ideas and concepts on how to do business can be a great advantage for success. In order for a business to not become too negatively affected by competition from the informal sector, it is also important to really master the domain. In places like Cotonou, the quality of goods and services is not very good. Excellence in a domain creates a loyal base of clients.

The first research question to identify success factors for formal business entrepreneurship was: what characteristics and assets facilitate business innovation and creation opportunities? As mentioned before, the first asset needed to start a business is a good education. In most cases, access to education was mediated by a will to learn and succeed. Other factors such as family influence and workplace links also mediate education, although having a strong will seemed to be the most important. In order to start a business, it is also important to have the initial financial capital. As seen in Session 4.5, most owner entrepreneurs interviewed began their business through personal savings. Although one person's personal savings may not be enough for start-up, what seemed to make a difference was having a business partner. This business partner was usually a friend or a family member. In Session 5.3, the strategies used for business growth were presented. These activities can be considered innovative, since they change the structures of production. The most important strategy for business growth was to expand into other parts of the country and into neighboring countries. Some of the characteristics that favored expansion were ambition and vision. Successful companies had clear visions of how they planned to continue growing. Furthermore, access to social capital proved important for innovation and creation opportunities. This can be illustrated by the examples of companies who have had ideas and found new partners through participation in international business organizations and international clubs.

The other question that helped identify success factors for formal business entrepreneurship was: how are businesses integrated into social and business networks and what are the advantages of these connections? The discussion of business organizations took place in Session 4.4. The types of organization that the entrepreneurs were members of and their reasons for participations were recalled. The organizations were grouped into (1) professional organizations (2) local business organizations (3) international organizations (4) socially-oriented organizations and (5) religious groups. Participating in the first three kinds of organizations provided evident advantages for business. In the case of professional organizations, interests of professions and industrial sectors are defined. These type of organizations help provide a common set of rules in which the profession operates. They are good for communicating information on new business

opportunities and strategies. Some organizations within this category also help solve disputes between members. Having this ability is good. In Cotonou most of business is still done on a personal basis. Professional organizations may be able to generate trust and confidence between its members.

Local business organizations also help to defend interests, and in many of these cases, are also able to influence their environment. Local business organizations usually form part of public-private dialogue and they do their best to pressure the government into ameliorating its regulations. International organizations serve as good platform to learn of ideas that are developed in other places, as well as facilitating contacts and travels for meetings. As was seen in one case, participation in an international organization facilitated the idea to start a training business. International organizations can inspire people, provide knowledge and teach how to develop ideas. Socially-oriented organizations are used to strengthen disadvantaged groups such as women and are used by entrepreneurs to give back to their community. Religious organizations help provide a moral foundation on how to lead life.

Finally, the last research question was to what extent and how does the Government and its institutions cooperate for business creation and growth? This question was answered extensively in Session 2.7. Benin's government and its institutions are willing to reform the rules that influence the business environment but their capacity to do so had serious internal limitations. Many good efforts have been made already. The Law of Finances of 2009 marks a good step forward in making a more favorable environment for doing business and so is the creation of the *guichet unique* for the creation of new firms. The private sector in Cotonou has the advantage of being well organized. Therefore they are a constant source of propositions for policy. Still, there are many more problems to tackle than cannot be solved through short-term strategies. The informal sector activities are still far away from being under the supervision of government institutions and will continue competing and affecting private sector development. In the meeting with the SME ministers, they explained that "the taxes shouldn't be so high but the government depends on taxes and if you reduced them too much, the system would collapse." Striking a

balance between being the government's ability to operate while increasing the spending and saving capacity of economic actors should be one of the main goals on the national economical agenda for the upcoming years.

Final Remarks

Doing this investigation was an incredible experience full of unexpected lessons. The conceptions of entrepreneurship that were held before the fieldwork changed significantly during the stay at Cotonou. Entrepreneurs in Cotonou were not people that had all of a sudden made it big with a single idea. They were people who had studied hard in school, gone to university and worked hard in a business or worked for a long time to develop a business idea. They knew that Cotonou wasn't the best place in the world to do business, but they still had hope for their country and saw a lot of potential.

What seemed most important wasn't to worry about environmental factors, but keeping the eye on the prize. It is important both for individual and for business development to be constantly establishing goals and evaluating the progress. The most successful businesses are those that are the most active and dynamic in pursue of profit. Employing young people and offering incentives for employees, are ways to keep that dynamism alive. Good human management skills is a factor of excellence that goes hand in hand with success. The only completely Beninese-owned company in the "successful" part of the sample had a very efficient management structure. All of the employees had frequent meetings discussing their issues. This company was also part of an organization that checked employees' health.

Entrepreneurs in Benin operate in very difficult conditions, but they are doing it right. They know the importance of good communication skills and transparency, and have a lot of passion to succeed. They do not give up easily. Transforming the passion to succeed in life and business into a constant and conscious effort to improve, is the most important activity that entrepreneurs in Cotonou can do to succeed.

Appendix

Benin Imports and Exports by Production Section in US Dollars-Yearly



Benin Imports by Product Section in US Dollars - Yearly

Section	2001	2002	2003	2004	2005
0 - Food and live animals	\$111,797,000	\$152,377,000	\$175,796,000	\$183,295,000	\$235,402,000
1 - Beverages and tobacco	\$7,423,000	\$11,582,000	\$16,648,000	\$19,105,000	\$17,192,000
2 - Crude materials, inedible, except fuels	\$35,766,000	\$44,681,000	\$47,554,000	\$40,772,000	\$43,720,000
3 - Mineral fuels, lubricants and related materials	\$104,122,000	\$126,615,000	\$178,780,000	\$205,579,000	\$183,665,000
4 - Animal and vegetable oils, fats and waxes	\$3,327,000	\$7,787,000	\$20,563,000	\$15,593,000	\$15,377,000
5 - Chemicals and related products, n.e.s.	\$67,080,000	\$97,543,000	\$83,407,000	\$83,180,000	\$60,213,000
6 - Manufactured goods classified chiefly by material	\$146,945,000	\$152,664,000	\$170,930,000	\$156,381,000	\$170,800,000
7 - Machinery and transport equipment	\$97,838,000	\$97,789,000	\$147,233,000	\$142,722,000	\$109,187,000
8 - Miscellaneous manufactured articles	\$27,580,000	\$34,088,000	\$40,648,000	\$41,304,000	\$56,590,000
9 - Commodities and transactions not classified elsewhere in the SITC	\$7,000		\$10,419,000	\$5,898,000	\$6,547,000

Source: [International Trade Center - UNCTAD / WTO](#)



Benin Exports by Product Section in US Dollars - Yearly

Section	2001	2002	2003	2004	2005	
0 - Food and live animals	\$28,066,000	\$99,489,000	\$28,088,000	\$25,439,000	\$34,619,000	All countries
1 - Beverages and tobacco	\$3,248,000	\$7,155,000	\$10,504,000	\$19,557,000	\$19,664,000	All countries
2 - Crude materials, inedible, except fuels	\$129,002,000	\$142,143,000	\$193,895,000	\$210,209,000	\$179,046,000	All countries
3 - Mineral fuels, lubricants and related materials	\$19,000	\$1,102,000	\$282,000	\$428,000	\$1,942,000	All countries
4 - Animal and vegetable oils, fats and waxes	\$615,000	\$1,838,000	\$5,262,000	\$3,318,000	\$9,338,000	All countries
5 - Chemicals and related products, n.e.s.	\$1,390,000	\$2,227,000	\$2,294,000	\$4,513,000	\$2,693,000	All countries
6 - Manufactured goods classified chiefly by material	\$6,633,000	\$18,319,000	\$14,172,000	\$23,969,000	\$22,764,000	All countries
7 - Machinery and transport equipment	\$1,816,000	\$3,621,000	\$4,148,000	\$3,428,000	\$9,305,000	All countries
8 - Miscellaneous manufactured articles	\$862,000	\$1,549,000	\$1,709,000	\$2,855,000	\$1,256,000	All countries
9 - Commodities and transactions not classified elsewhere in the SITC	\$10,186,000	\$26,544,000	\$11,171,000	\$4,591,000	\$7,558,000	All countries

Source: [International Trade Center - UNCTAD / WTO](#)

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-Stephanie I. Anderson-Morales

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