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Is trade, not aid, the answer for Africa?

Donors are now focusing less on charity and more on the continent's small entrepreneurs

Alex Duval Smith in Cape Town

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After years when billions have been spent on aid projects in Africa, donors are now picking up on a new trend to put money on the continent's entrepreneurs. Next month, a meeting of the World Economic Forum on Africa in Cape Town is set to reinforce the message that "trade not aid'' represents salvation for a continent whose average 5% growth in the past five years is projected to fall to 1.5% this year amid the global economic downturn.

Now entrepreneurship is being presented as a panacea. Earlier this month, the Africa Commission, an initiative by the Danish government, launched a "guarantee facility" worth $3bn to mobilize loans for small businesses. Until now, such entrepreneurs - typically street vendors wishing to own a shop but with needs exceeding the scope of micro-credit - have been ignored by local banks. Donald Kaberuka, a commission member and president of the African Development Bank, said the move was "the most innovative initiative launched in Africa in decades, which will create millions of productive and decent jobs".

A bestselling book by the Zambian economist Dambisa Moyo called Dead Aid argues that western assistance has given rise to a dependency culture in developing countries. It has sparked a furious response from aid organisations angered by the attention given to the former Goldman Sachs strategist, named this month by Time Magazine as one of the top 100 most influential people in the world.

But the question is: what should aid be replaced by? Aid experts, businesspeople and civil society groups warn that unless the new social entrepreneurs, as they are being called, must be helped not only to get on their bikes but to stay on them.

The world financial crisis has increased protectionist tendencies among rich countries, worsening Africa's access to markets. The crisis has set back efforts such as Gordon Brown's Business Call to Action, which last year asked corporations to help to achieve the United Nations Millennium Development Goals by 2015.

It is estimated that 60% of Africa's population is aged under 25. Only one in four children go into secondary education and, of those, only 5% enter vocational training courses. Business studies are mostly absent from curriculums and apprenticeships often mask child exploitation.

African business people welcome the Africa Commission's move. But Sudanese-British entrepreneur Mo Ibrahim - who made his fortune in Africa through the Celtel mobile phone company - said supporting small business was only part of the solution. Ibrahim, 63, said: "Africa has no venture capital industry - the kind that supported the Googles and Microsofts of this world. So the guarantee facility is helpful, but what we really need are local funds to become involved. We need local investors whose motivation is profit. The Africa Commission must not become another handout industry."

He also welcomed the move to raise the glass ceiling of micro-credit, but said African governments must not be let off the hook. "The World Bank should refuse to fund any project which is not regional. African governments must be pressed to regionalise their economies and stop being 53 little countries, each with their flag, jealously watching each other."

Microsoft Africa chairman Cheick Diarra, 57, warned that encouraging entrepreneurs will build wealth only if bureaucratic obstacles are removed. "Politicians are doing very little to dynamise their economies or empower their people. Governments should be dealing with infrastructure development, such as electrification."

Diarra, from Mali, who made his name as an interplanetary navigator for Nasa, also believes "bad aid" is responsible for many of the continent's ills. "In 2002, I ran the Virtual University in Nairobi, providing distance-learning by internet. But dealings with most of the donors were a frustration because they set rigid terms and would rarely adapt to the rapidly-changing conditions on the ground."

African business development does not represent a threat to rich countries. The continent has 20% of the world's population but only a 2% share of its trade. Nevertheless, even before decolonisation in the 1960s, rich countries have behaved as though they wished to keep Africa poor. The one exception to the rule is Coca-Cola, which since 1928 has been fostering entrepreneurship on the continent.

Critics of the Africa Commission say its focus on entrepreneurs implies that it will help urban businesses, but that 65% of Africa's people are rural. Danish development minister Ulla Tornaes said farmers need to become businesslike and added: "We cannot dictate to African countries on agriculture."

In African civil society - where western-funded lobby groups and welfare organizations have had sharp budget cuts as a result of the downturn - there are fears that the focus on entrepreneurship is a creeping privatisation of aid. Vuyiseka Dabula, spokesman for the South African Treatment Action Campaign, said: "HIV is not in recession and we are not a business. About 80% of our funding comes from international donors and most of them have had 25% budget cuts."

Oxfam's head of research, Duncan Green, said the move to promote entrepreneurship smacked of repackaging. "Suddenly people are saying that social entrepreneurship is going to get millions of people on to solar energy and that kind of thing. It's interesting, but it must not be seen as the new magic bullet."

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