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Abstract

While both foreign direct investment (FDI) and entrepreneurship have been regarded as important to African development, guidance on the balance between the two as well as the type of entrepreneurship needed (necessity vs. opportunity) at different stages of development remains relatively unclear. This article develops propositions for how policymakers in Africa should invest in (1) a balance of FDI and entrepreneurship and (2) which type of entrepreneurship to support at different stages of development on the African continent. Practical implications derived from these propositions are discussed.

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Article

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While both foreign direct investment (FDI) and entrepreneurship have been regarded as important to African development, guidance on the balance between the two as well as the type of entrepreneurship needed (necessity vs. opportunity) at different stages of development remains relatively unclear. This article develops propositions for how policymakers in Africa should invest in (1) a balance of FDI and entrepreneurship and (2) which type of entrepreneurship to support at different stages of development on the African continent. Practical implications derived from these propositions are discussed.

INTRODUCTION

African development research indicates that entrepreneurship is instrumental to the continent's development (e.g., Adusei, 2016). As such, non-profit and non-governmental organizations have heavily promoted increasing entrepreneurship in Africa. Like entrepreneurship, foreign direct investment (FDI) has also been found to boost development (Borensztein, De Gregorio, & Lee, 1998). The African continent, however, continues to face issues that impede development such as infrastructure deficiencies, inadequate transportation networks, unstable electricity, limited financing, and political instability (Odeyemi et al., 2024). The persistence of these issues emphasizes the importance of policymakers making optimal choices in advancing initiatives to boost development.

Both entrepreneurship and FDI can serve as engines of development, however, with limited resources, governments in Africa may be faced with finding optimal investments in either initiative. Further complicating this strategic decision, entrepreneurship can be categorized into either necessity or opportunity entrepreneurship, and thus, if African policymakers elect to invest in entrepreneurship, they must also understand the optimal balance of opportunity vs. necessity entrepreneurship. Necessity entrepreneurship occurs when entrepreneurs have no other ways of generating income and opportunity entrepreneurship occurs when the entrepreneurs have other options for income but participate in entrepreneurial activity for better opportunities (Huang, Li, Chen, & Wang, 2023). The balance between these two forms of entrepreneurship is known as the opportunity-to-necessity entrepreneurship ratio (Huang et al., 2023). In this domain, this current article seeks to provide guidance to African policymakers by posing 2 questions:

1. What is the optimal balance of FDI and entrepreneurship in African countries to boost development?
2. What is the optimal opportunity-to-necessity ratio in African countries to boost development?

FDI AND DEVELOPMENT

Research finds evidence for the linear and positive effect of FDI on development. In a study of FDI flows from industrialized to developing economies, Borensztein et al. (1998) found that FDI is crucial to technology transfers, which contributes more to economic growth than domestic investments. Further, these researchers found that the capacity of human capital within the host country enhances these effects. In studies specific to FDI and development in African countries, scholars have also found the beneficial and linear effects of FDI, highlighting its utility in employment generation, the facilitation of access to foreign markets, efficiency spillovers to local firms, and its service as a source of capital (Ajayi, 2006).

There is evidence that FDI may have positive influences on development, however, the capacity of human capital may be crucial not only to attract FDI, but also to enhance its positive effects.

ENTREPRENEURSHIP AND DEVELOPMENT

Unlike FDI, the influence of entrepreneurship on development remains rather ambiguous, particularly concerning developing countries. Though many studies support a positive effect, most of the studies on this topic are conducted in developed countries, as emphasized by Neumann's (2021) systematic review. This may be problematic since the type of entrepreneurship differs between developed and developing countries. In developed countries, there are higher rates of opportunity entrepreneurship, which often stem from the entrepreneurs' need to fulfill a passion or to seek higher income in comparison to other available

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jobs (Huang et al., 2023). Conversely, in developing countries, with fewer jobs available for their citizens, necessity entrepreneurship is more prominent, driven by needs for survival and a lack of options (Huang et al., 2023). Practically, to understand the relationship between entrepreneurship and development, it is essential to distinguish between these two types of entrepreneurial activity. The following section develops propositions regarding FDI and the opportunity-to-necessity ratio as they pertain to African development.

PROPOSITION DEVELOPMENT

Since development levels may influence the opportunity-to-necessity ratio, it is important to consider the varying levels of development in Africa. According to the Human Development Index (HDI), out of the fifty-four African nations, thirty are classified a low human development, sixteen are classified as medium human development, seven are classified as high human development, and one is classified as very high human development (UNDP, 2024). Table 1 displays the countries and HDI classifications.

The thirty countries in the low development classification experience infrastructure deficiencies, inadequate transportation networks, unstable electricity, limited financing, and political instability, which have hindered entrepreneurs from growing their enterprises (Odeyemi et al., 2024). Within these countries, necessity entrepreneurship is more prevalent than opportunity entrepreneurship (Amorós, Ramírez, Rodríguez-Aceves, & Ruiz, 2021). These countries experience minimal market opportunities and inefficient entrepreneurial infrastructures. Since FDI increases employment generation, access to foreign markets, and efficiency spillovers (Ajayi, 2006), this current article proposes that these economies should invest more in FDI than entrepreneurship.

However, entrepreneurship may still be needed to complement FDI inflows. Supporting this point, research (i.e., Amorós et al., 2021) finds that necessity entrepreneurship reduces poverty in developing countries and may influence longer term economic growth. Therefore, it is proposed here that although low development African countries should invest more in FDI than entrepreneurship, investments in supporting necessity, rather than opportunity entrepreneurship, is needed to complement FDI inflows.

> **Proposition 1**: For low-development African countries, there should be more investments in FDI than entrepreneurship, with investments in entrepreneurship focused more on necessity rather than opportunity entrepreneurship.

The sixteen countries in the medium development classification may have more market opportunities than the low development countries, however, they still face challenges that may impede development. For example, although Zimbabwe is a medium development economy, it has been known to have infrastructure challenges such as power cuts, water shortages, and poor transport infrastructures, which impede entrepreneurial growth and ultimately development (Bonga & Sithole, 2020). Within such economies, though FDI inflows may be greater than those within low development economies, investments in FDI inflows are still needed for growth to reach higher development. Concurrently, investments in entrepreneurship are also needed within such economies to complement FDI. Since there is established FDI (though not at sufficient levels to reach high development), opportunity entrepreneurship should be promoted to take advantage of the benefits of FDI such as access to foreign markets and efficiency spillovers to local firms. Therefore, within such economies, policymakers should invest equally in FDI and entrepreneurship to continue attracting FDI yet also provide support for opportunity entrepreneurs as growth in FDI brings more market opportunities.

> **Proposition 2**: For medium-development African countries, there should be equal investments in FDI and entrepreneurship, with investments in entrepreneurship focused more on opportunity rather than necessity entrepreneurship.

The seven African countries in the high development category along with the one country in the very high development category have industrialized economies that are optimal for growth. Within such economies, opportunity entrepreneurship is more common than necessity entrepreneurship (Amorós et al., 2021). Such countries have ample FDI and market opportunities for entrepreneurs to embark on. Therefore, policymakers in such African economies should invest more in entrepreneurship than FDI and focus solely on opportunity rather than necessity entrepreneurship so entrepreneurs may take full advantage of their market opportunities.

> **Proposition 3**: For high- and very high-development African countries, there should be more investments in entrepreneurship than FDI, with investments in entrepreneurship solely focused on opportunity rather than necessity entrepreneurship.

Figure 1 displays a model of the propositions.

PRACTICAL IMPLICATIONS

Understanding the balance of FDI and entrepreneurship along with the appropriate opportunity-to-necessity ratio for African countries is only valuable if it can be applied practically within the context of African economies. With this stated, it is important to note that the continent largely lacks institutional frameworks and governance structures that are important for attracting FDI as well as promoting economic integration efforts, such as the proposed African Continental Free Trade Agreement (AfCFTA). Further, issues such as corruption and currency exchange fluctuations not only contribute to instability that impedes FDI, but also the difficulty for entrepreneurs to grow their enterprises (Gizaw & Myrland, 2025). However, despite such issues, lower, medium, and higher developed African countries have opportunities for growth and development.

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Table 1. African Countries and Development Classifications

Very High Development	High Development	Medium Development	Low Development
Seychelles	Algeria	Angola	Benin
	Botswana	Cameroon	Burkina Faso
	Egypt	Cape Verde	Burundi
	Libya	Comoros	Central African Republic
	Mauritius	Equatorial Guinea	Chad
	South Africa	Eswatini	Democratic Republic of the Congo
	Tunisia	Gabon	Djibouti
		Ghana	Eritrea
		Kenya	Ethiopia
		Morocco	Gambia
		Namibia	Guinea
		Republic of the Congo	Guinea-Bissau
		São Tomé and Príncipe	Ivory Coast
		Uganda	Lesotho
		Zambia	Liberia
		Zimbabwe	Madagascar
			Malawi
			Mali
			Mauritania
			Mozambique
			Niger
			Nigeria
			Rwanda
			Senegal
			Sierra Leone
			Somalia
			South Sudan
			Sudan
			Tanzania
			Togo

For low-development African countries, where policymakers should invest in FDI more than entrepreneurship, and that investments in entrepreneurship should skew towards necessity rather than opportunity, this article recommends that policymakers should invest in attracting FDI in sectors that largely impede entrepreneurial growth. For example, many of Africa's lowest developed countries suffer from power outages, which may impede necessity entrepreneurs from growing their enterprises. In such cases, FDI inflows from more developed countries in the energy or utilities sectors may provide symbiotic growth for both investors and the nation.

For medium developed African countries, where this current article proposes that policymakers invest equally in FDI and entrepreneurship, and the emphasis should be more on opportunity rather than necessity entrepreneurship, it is recommended here that policymakers in such countries invest in educating local entrepreneurs on opportunities that FDI may have brought to their given economy. FDI brings benefits such as access to foreign markets and efficiency spillovers; thus, making the switch from a focus on necessity to opportunity entrepreneurship requires exploiting such advantages, and to exploit such advantages, policymakers should educate entrepreneurs on what the advantages are and how to use them for growth.

For higher developed African countries, governments should enable reforms to better encourage private equity investments in their markets since it is proposed here that such countries should place more emphasis on opportunity entrepreneurship rather than FDI. Recent research indicates that private capital plays an important role in financing development throughout the world (Mohieldin & Fulga, 2024). Specific to the African continent, private equity investments have contributed to growth in sectors such as healthcare, energy, and education and there have been increases in private equity emphasis on the African continent in recent years. For example, the investment firm Ciwara Capital, which is entirely owned by the African diaspora, was established in 2022 to invest in startups and small and medium enterprises (SME) in Mali and boost innovations

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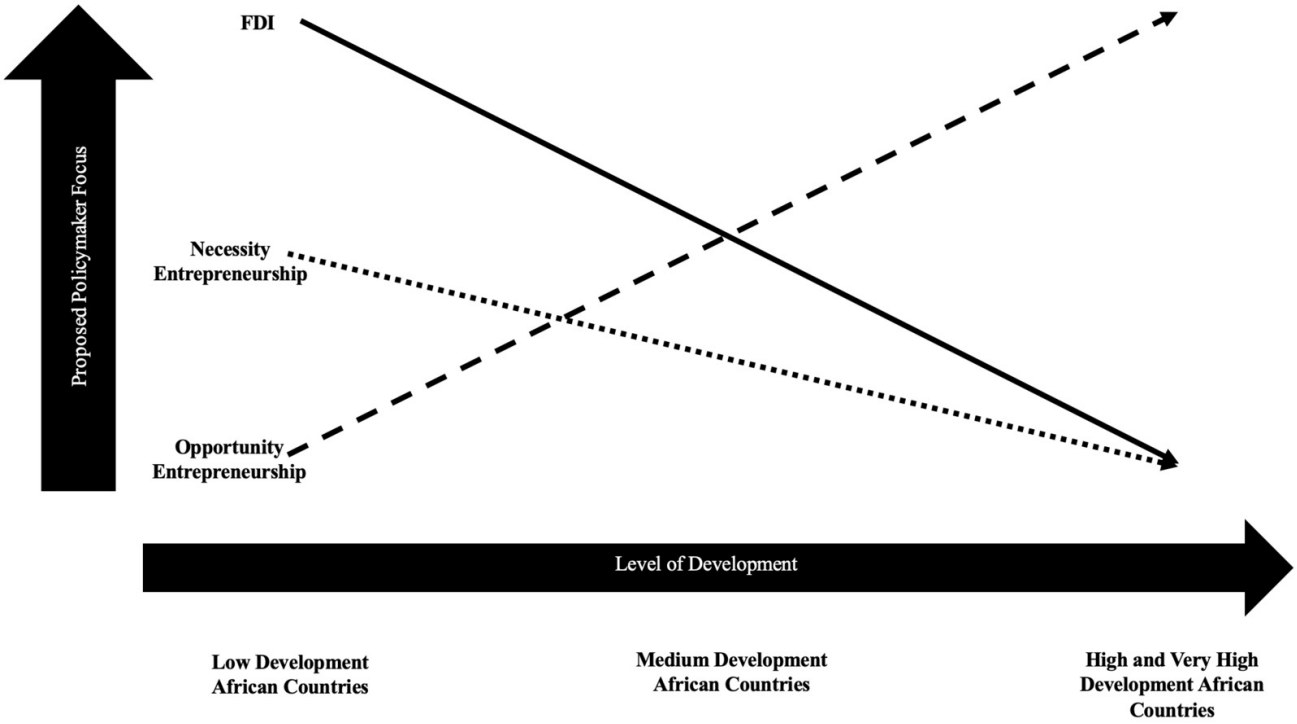


Figure 1. Model of the Propositions

in Africa (I&P, 2024). Such initiatives in private equity not only provide financing for startups and SMEs but also mobilizes the African diaspora to invest in the development of African economies. Further, private equity can serve to fill the financing gap that remains in underdeveloped areas of the world and can play a large role in advancing sustainable development goals for Africa (Mohieldin & Fulga, 2024). Thus, higher developed African economies should leverage their better developed institutional environments to increase private equity investments that boost entrepreneurship, innovations, and global competitiveness.

CONCLUSION

The African continent includes fifty-four countries with varying levels of economic development. There is not a uniformed solution to boost development on the continent, however, an understanding of the optimal balance of FDI and entrepreneurship across various levels of development is important to policymakers seeking growth. Africa is on the rise, and the decisions governments make regarding the important roles of entrepreneurship and FDI may be crucial in determining how high it rises.

ABOUT THE AUTHOR

Arilova A. Randrianasolo, PhD, is an Assistant Professor of Marketing at Loyola University Chicago's Quinlan School of Business, where he is also the Director of diversity, equity, inclusion, and belonging. Prior to his post at Quinlan, He was the chair of the marketing department at Butler University's Lacy School of Business, where he was granted tenure and promotion to Associate Professor. His research focuses on international marketing strategy and development, particularly in the African context.

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