PARADIGM

The Compounding Imperative

Why Sub-Saharan Africa's fastest-growing firms are running out of cash

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A STUDY OF 60 BUSINESSES IN 8 MARKETS

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THE FINDING

Two in three profitable firms in the sample did not keep what they earned. Not the failing ones. The winning ones.

60 businesses, 8 Sub-Saharan markets, 80+ reconstructed analyses, 2020–25. Preliminary; not a random sample.

Africa is described as capital starved. The description is half true, and the half that is false is the expensive one. Much of the liquidity the continent seeks already sits inside its own companies. It is trapped in unnegotiated supplier terms, idle inventory and uncollected invoices.

Expansion consumes capital before it yields returns. Each additional dollar of revenue demands inventory, trade debtors and payroll long before the cash clears. Successful enterprises quietly become lenders to their own customers, and their founders become lenders of last resort.

In corporate Africa, failure comes from a shortage of customers. Success comes from a shortage of cash.

What the accounts show

Between 2020 and 2025 Paradigm rebuilt the accounts of 60 businesses across 8 Sub-Saharan African markets, more than 80 analyses in total, each reconstructed until every dollar could be followed.

Among the profitable businesses in that sample, roughly one in three kept its cash cleanly. One in five earned profit that never became operating cash at all. Nearly half converted profit into cash and then lost it through spending nobody gated.

Figure 1. Allocation and leakage of profit across Sub-Saharan enterprise

% of profitable businesses in sample, 2020–25

Source: Paradigm. Preliminary finding, 60 businesses, 8 markets, 80+ reconstructed analyses, 2020–25. Operating cash flow basis. Not a random sample.

Figure 2. Points of cash entrapment in the operating cycle

Schematic of the working-capital chain

SUPPLIER	STOCK	PRODUCTION	DEBTORS	BANK
Terms nobody negotiated	Bought, not yet sold	Capacity paid in advance	Booked, not yet collected	What survives the journey
	CASH LOCKED		CASH LOCKED	

Source: Paradigm. Schematic. The two marked stages hold most working-capital cash in the businesses analysed.

Two gaps, not one

THE DISTINCTION

Two very different diseases produce the same symptom. Treating one as the other wastes the year.

A falling bank balance is a symptom of one of two conditions. The first is a conversion gap: profit that never became cash. It lives inside the operating cycle. Collection speed, inventory days and the structure of financing determine it.

The second is an allocation gap: cash that converted and was then deployed without a gate. Allocation is not itself a fault. A business that converts profit and buys capacity to plan is doing its job. Allocation becomes a disease when nobody governs it. Drawings ahead of free cash. Long-lived assets funded on short money. No forum asking whether this cash should leave, now, for this.

Conversion establishes whether the machine works. Allocation reveals what management did with the output.

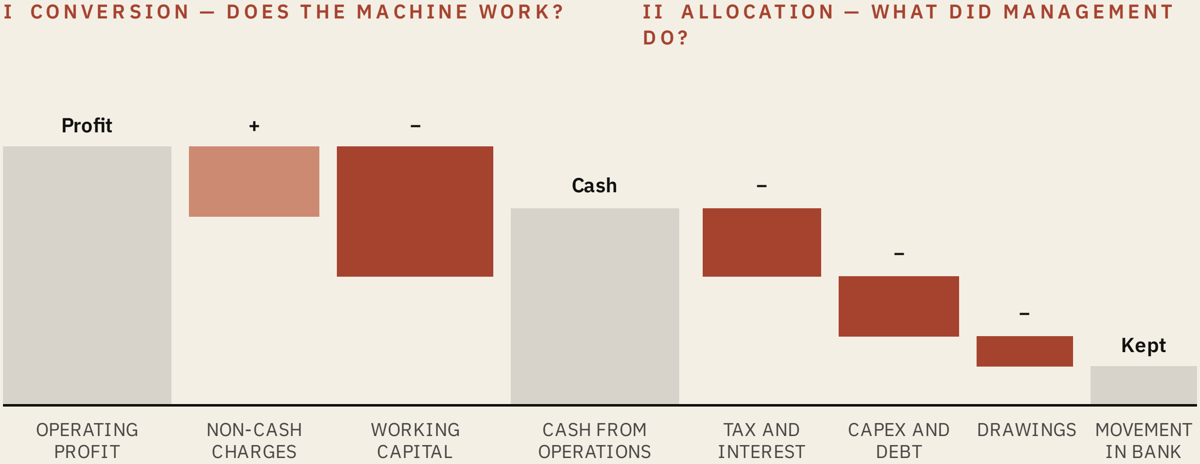
A serious investor asks both questions within the first hour of diligence. Most owners cannot answer either from memory. Profit is a report that arrives months late; cash moves today. Managing a firm by the profit-and-loss statement is navigation by the wake of the ship.

The two stages are separated deliberately. Conversion ends at cash generated from operations, the line defined in IAS 7. Everything after that line is an allocation decision, and each has an owner who can be named.

Firms that recover cash without governing allocation release it once. Firms that govern both compound it.

Figure 3. Conversion and allocation, from operating profit to bank balance

Schematic. Conversion ends at cash generated from operations, IAS 7



Source: Paradigm. Schematic; magnitudes vary by enterprise. Terminology follows IAS 7. Paradigm measures are derived from, and reconciled to, the financial statements.

What the market is actually pricing

FRAGILITY, NOT RISK

Capital does not flee risk, which can be priced. It flees fragility, which can only be discounted.

An enterprise whose judgment, relationships and controls sit inside one person is not risky. It is fragile. Risk can be measured and charged for. Fragility can only be discounted, and it is discounted at every transfer.

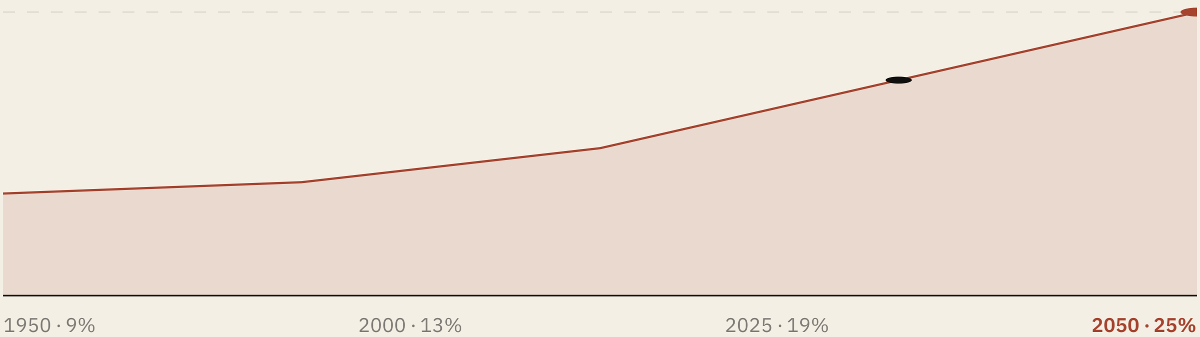
The generation that built modern African enterprise is handing over. Every transfer is a valuation event, and valuation events price institutional weakness without mercy. Whether an owner harvests what was built depends on the institution presented, not the business remembered.

The African Continental Free Trade Area binds 54 signatories into the largest free-trade area since the founding of the WTO. The World Bank puts the income gains at up to $450bn by 2035. But a contract economy awards contracts to the firm a stranger can trust: audited, governed, legible across a border. Integration rewards the most institutional operator, not the largest.

By 2050 roughly one person in four on earth will be African. Serving that population falls largely to mid-market companies, which carry a financing gap measured in hundreds of billions. More capital is hunting African assets than at any point in a generation. What it cannot find is a sufficient supply of institutions fit to hold it.

Figure 4. Africa's share of world population

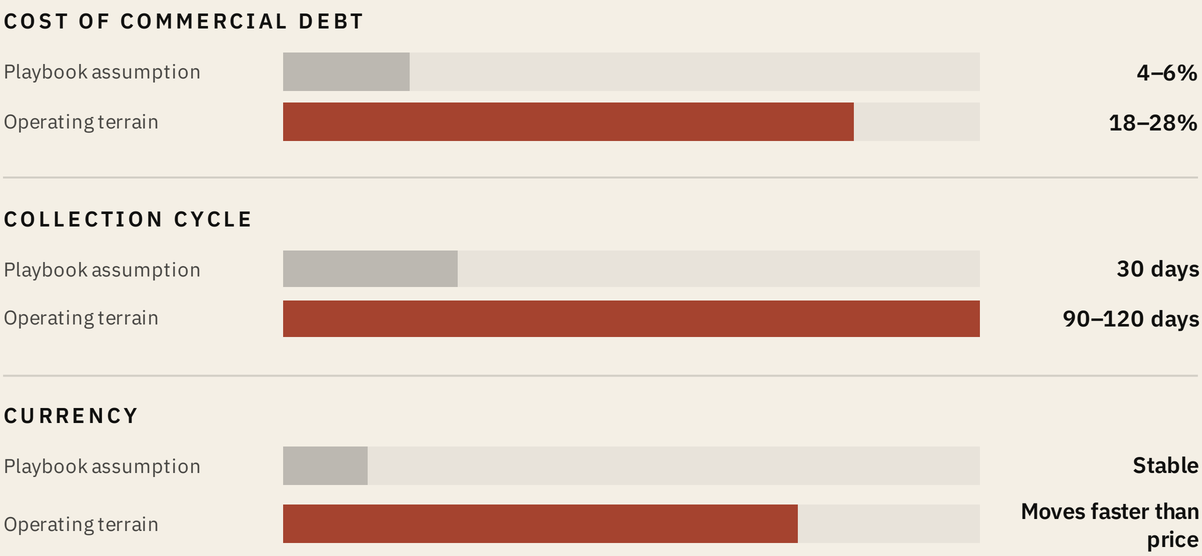
%, 1950–2050, UN medium projection



Source: United Nations, World Population Prospects. Shares rounded.

Figure 5. Imported operating assumptions against Sub-Saharan trading terrain

Cost of debt, collection cycle, currency stability



Source: Paradigm practice observation across Sub-Saharan African mid-market engagements, 2020–25. Ranges, not point estimates.

What a compounding enterprise is

THE PRIZE

Recovering the institutional gap requires no new customers and no new capital. It requires an institution.

A compounding enterprise converts strategic intent, through closed-loop execution, into verified economic outcomes, cycle after cycle, so that each cycle raises its capacity for the next.

Four links carry the chain. Clarity locates the value. Decision yield converts it, through decisions that are owned, priced in cash and closed on dates. Verification proves it, in cash a finance director will sign and an auditor can trace. Compounding accumulates it.

The result can be audited against four marks, and the marks apply to any business.

First. Growth becomes retained cash. The firm funds its next move without emergency debt or dilution.

Second. Consequential decisions close at the right level, on agreed dates, with named owners and documentary evidence. Nothing waits for the founder.

Third. Governance survives a stranger's diligence. The market prices the evidence, not the personality.

Fourth. Value outlasts the founder. The firm is worth more than the person who built it, and buyers can see why.

The evidence on this soil

THE RECORD

Institutional endurance is not an imported habit. It was engineered on African soil, in four markets, across 180 years.

Old Mutual was established in Cape Town in 1845 as South Africa's first mutual life insurance company. It has since outlasted a colonial administration, two world wars, an apartheid state and its dismantling, several currency regimes and every executive who has run it.

Delta Corporation traces its origins to a foundation stone laid in Salisbury in August 1898 for the Salisbury Lager & Beer Company. It took its present name in 1978. It has outlasted the country's name, its currency and many generations of its own management, and it remains listed in Harare.

Jubilee Holdings, founded in 1937 and listed in Nairobi, has paid dividends across generations of shareholders and leadership cycles. That is what accumulation looks like when it survives its founders.

Equity Group offers the sharper lesson, because it was nearly lost. In 1993 the regulator rated it technically insolvent: a small building society ranked last among the country's financial institutions. Those who rebuilt it did not simply refinance it. They institutionalised it, treating the rescue as a design problem.

A strategy ordinary branches could execute. Systems independent of any single manager. Governance able to face a regulator. Then a public listing, which placed the discipline where anyone could weigh it. Within a working generation a dying provincial society became one of Africa's most valuable listed banks.

None of these firms is offered as a perfect model. Each is offered as a documented fact. Benjamin Graham observed, in the line Warren Buffett made famous, that the market votes in the short run and weighs in the long run. For these institutions the weighing has already happened, and the verdict is a premium.

Method, and its limits

Paradigm reads an enterprise through five lenses: strategic clarity, standing on its own; then people and leadership; cash and data; execution and closure; governance. The reading returns a position, a weakest lens and an order of moves. Compounding is a chain, and chains fail at the weakest link, not the average.

One standard governs the reading, and it governs the reader first. If it cannot be evidenced, it does not count. Unsupported scores default downward. Optimism is not data.

That standard applies to this report. The central finding is published as preliminary, with its method and its limits stated, until the full workbook stands behind it. The sample is 60 businesses in 8 markets. It is not random, and it should not be read as a population estimate for Sub-Saharan Africa. It is what a practitioner found in the accounts he was given.

The category counts, the classification rules and the underlying workbook publish with *Paper Profits* in 2026. A firm that measures its clients must accept the same instrument pointed at itself.

The obligation

Paradigm is bound to one measurable outcome: one billion dollars of verified, on-balance-sheet cash released across African enterprises by 2036. Each dollar measured against an agreed baseline. Each signed by the client's own finance executive. Governed by a published verification standard, and reported annually, in good years and bad.

The question was never whether African businesses will grow. It is whether they keep what they earn, and whether what has been built outlasts the people who built it.

CORRESPONDENCE

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Paradigm. Sub-Saharan Africa. Enquiries regarding the method, the workbook or the underlying analyses are welcome.

Sources. Paradigm study: 60 businesses, 8 Sub-Saharan African markets, 80+ reconstructed analyses, 2020–25; operating cash flow basis; preliminary; not a random sample. World Bank, *The African Continental Free Trade Area: Economic and Distributional Effects* (2020; update 2022). United Nations, *World Population Prospects*. Old Mutual corporate history. Delta Corporation corporate heritage record. Jubilee Holdings annual reports. Equity Group corporate history; Harvard Business School and Stanford GSB case studies. Terminology follows IAS 7, where conversion ends at cash generated from operations; Paradigm measures are derived from, and reconciled to, the financial statements.