The Cash Retention Gap

Why profitable African businesses run out of cash

PRELIMINARY FINDINGS

60 businesses / 8 markets

80+ reconstructed analyses, 2020-2025

SECOND EDITION / CURRENT PUBLIC ARCHITECTURE

PARADIGM.AFRICA

Two in three profitable firms in the sample did not keep what they earned.

Africa is described as capital starved. The description is half true - and the half that is false is expensive. Much of the liquidity enterprises seek already sits inside their own operating systems, trapped in supplier terms, inventory, uncollected invoices and spending that nobody gates.

66%

OF PROFITABLE BUSINESSES

either failed to convert profit into operating cash

or converted it and then lost it through ungated allocation.

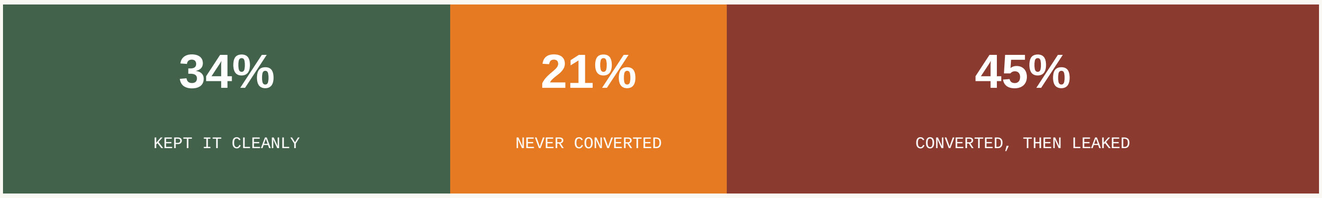
The problem is not always insufficient profit.

It is an economic system that cannot retain what it creates.

Source: Paradigm analysis. Preliminary, non-random sample; operating cash-flow basis.

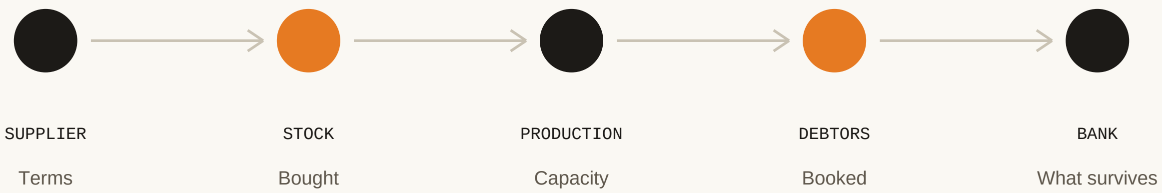
Profit reached three different destinations.

Between 2020 and 2025 Paradigm reconstructed more than 80 analyses across 60 businesses in eight Sub-Saharan African markets, following the movement from operating profit to cash and then through allocation.



One in five profitable firms earned profit that never became operating cash. Nearly half converted profit into cash and then lost it through spending that was not governed against a capital-allocation rule.

POINTS OF ENTRAPMENT



The same symptom can come from two different diseases.

01

The conversion gap

Profit does not become cash. The cause lives inside the operating cycle - collection speed, inventory, supplier terms, margin, mix and financing structure.

02

The allocation gap

Cash converts and is then deployed without a gate. Drawings precede free cash, long-lived assets use short money, and capital leaves without an explicit return test.

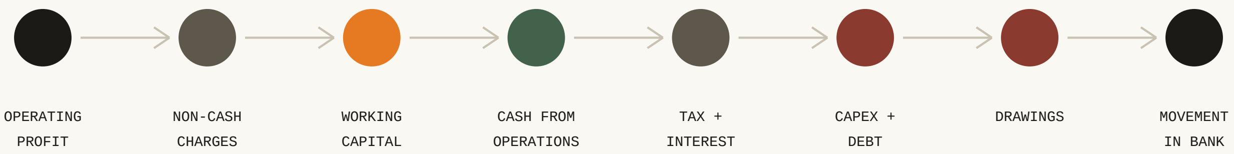
Conversion establishes whether the machine works.

Allocation reveals what management did with the output.

Treating one as the other wastes the year. A business can release cash once and still fail to retain it. The operating answer must govern both.

Follow the money before prescribing the work.

Conversion ends at cash generated from operations. Everything after that point is an allocation decision with an owner who can be named.



THE MANAGEMENT QUESTION

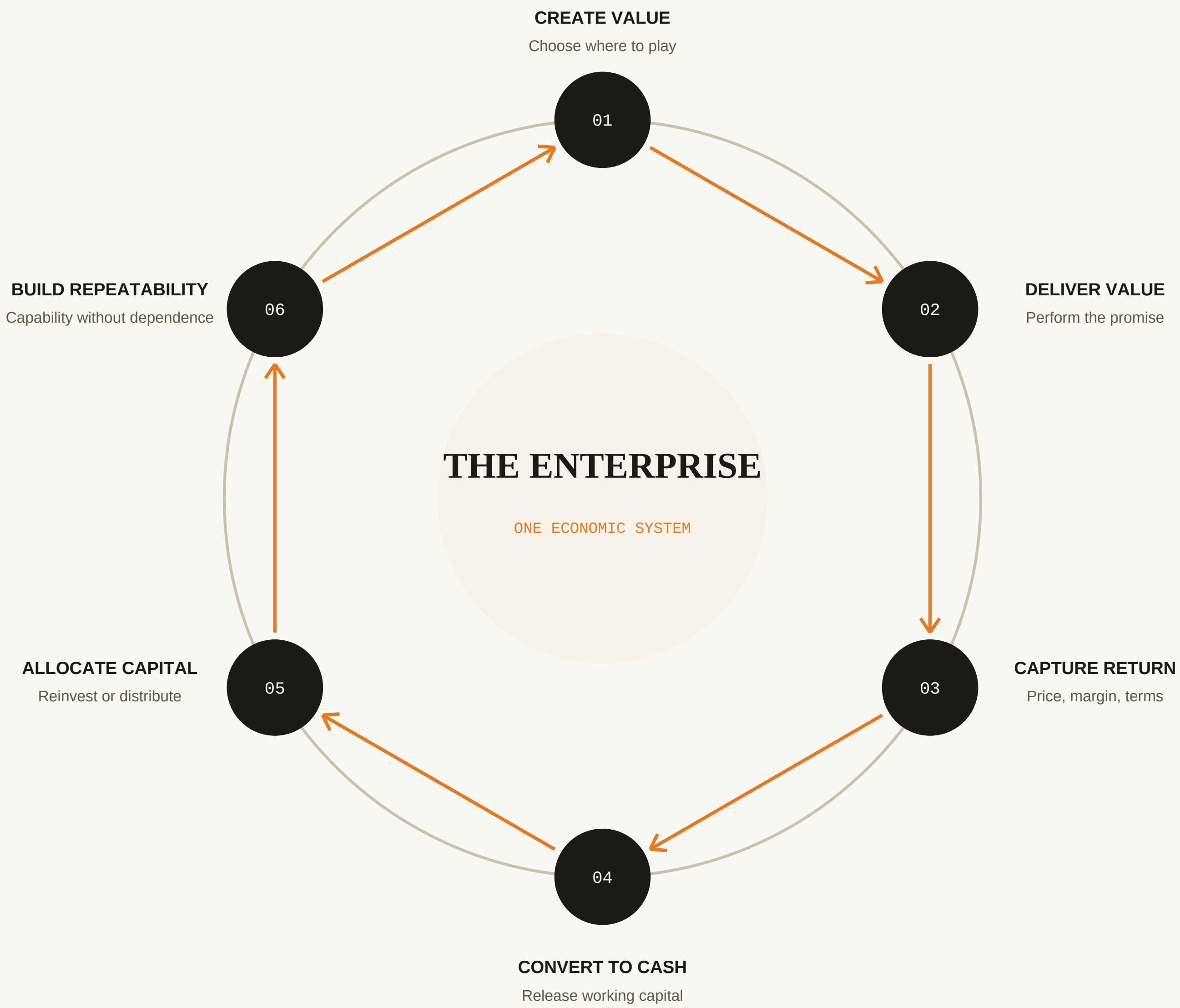
Where did the cash stop - and who owns the next decisio

A serious diagnosis does not begin with a workshop agenda. It reconstructs the economic movement, identifies the binding constraint and names the decisions required to change it.

Terminology follows IAS 7. Paradigm measures are derived from and reconciled to the financial statements.

Cash is one movement in a larger cycle.

An enterprise creates value, delivers it, captures a return, converts that return into cash, allocates the capital and makes the cycle repeatable. Weakness anywhere constrains the whole.



Repeatability strengthens the next cycle of value creation.

Capital can price risk. It discounts fragility.

An enterprise whose judgment, relationships and controls sit inside one person may be profitable, but it is difficult to transfer. Every financing, succession or ownership event asks the same question: **does the result belong to the institution, or to the individual?**

THREE TESTS OF TRANSFERABILITY

01

Legibility

Can a stranger understand the economics?

02

Governance

Can decisions close without one person?

03

Repeatability

Can performance survive the handover?

The market does not value remembered performance.

It values performance that can be examined and repeated.

Imported assumptions fail when the terrain changes.

Global principles matter. Their application must reflect the financing, collection, currency and institutional conditions in which African enterprises actually operate.

ASSUMPTION	IMPORTED PLAYBOOK	OPERATING TERRAIN
COST OF COMMERCIAL DEBT	4-6%	18-28%
COLLECTION CYCLE	30 days	90-120 days
CURRENCY	Stable	Moves faster than price

The answer is not to abandon enduring management wisdom. It is to apply it with better evidence, sharper cash discipline and explicit adaptation to the economic system on this soil.

Source: Paradigm practice observation, 2020-2025. Ranges, not point estimates.

The evidence earns only the claim it can carry.

SAMPLE

60 businesses in eight Sub-Saharan African markets.

ANALYSES

More than 80 reconstructed financial analyses, 2020-2025.

BASIS

Operating cash flow, reconstructed and reconciled to available statements.

CLASSIFICATION

Kept cleanly; never converted; converted and then leaked.

LIMIT

The sample is not random and is not a population estimate for the continent.

STATUS

Preliminary practitioner research pending publication of the supporting workbook.

If it cannot be evidenced, it does not count.

The question is not only whether the business grows.

It is whether the enterprise keeps what it earns.

Paradigm exists to enable African enterprises to retain more of the value they create and become durable, transferable institutions. We read the whole economic system, isolate the binding constraint, close the required decisions and verify what moved.

REVISION NOTE

First published in August 2026 as The Compounding Imperative. This second edition retitles and revises the public architecture. The dataset, preliminary status and stated limitations are unchanged.

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