

## **The Barriers to High-Growth Enterprises: What Do Businesses in Africa Experience?**

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### **Abstract**

This study examines the challenges that micro, small and medium enterprises (MSMEs) face and provide insights on African business environment and entrepreneurial ecosystem. In the context of growth-oriented entrepreneurship, good policies and favourable institutional environments supports firms' growth, productivity and development, while adverse formal and informal institutions constrain business development and growth. Secondary data from World Bank Enterprise Survey (WBES) was used to capture barriers to entrepreneurship and high-growth opportunities which include five major challenges – lack of finance, lack of innovation and technology, low skilled workforce, poor infrastructure, taxation, regulations and more pervasively corruption. These barriers are evident in the micro, meso and macro environments. These has implications on unemployment rate, poverty rates and economic growth of African region.

**Keywords:** Entrepreneurial Ecosystem; Institutional Barriers, African Entrepreneurship; African Business Environments.

### **Introduction**

Research into the contribution of micro, small and medium enterprises (MSMEs) to the growth of developed and developing economies have taken centre stage (Santos, Roomi & Liñán, 2016; Igwe, Madichie & Newbery 2019; Igwe et al., 2018; Sheriff and Muffatto, 2015; Nsengimana, Tengeh & Iwu, 2017). While evidence from empirical research acknowledged MSEs importance, it also raises alarm on its high rate of failure and underperformance (Kellermanns et al., 2016; Goedhuys & Sleuwaegen, 2010). Therefore, this article examines the barriers that entrepreneurs face starting up MSMEs and the difficulty that confronts those who are already engaged in MSMEs and want to grow their businesses. Entrepreneurial dynamism in Africa is gradually evolving in the face of global economic, political, technological and socio-cultural changes sweeping the continent (Jones et al., 2018). Also, social entrepreneurship is emerging (Igwe, Icha-Ituma & Madichie, 2018; Jaki & Siuta-Tokarska, 2019) where entrepreneurs focus on the creation of economic, environmental and social values (Dembek, Singh, & Bhakoo, 2016; Porter & Kramer, 2011; van der Have & Rubalcaba, 2016).

The context being examined is a typical African business environment. Research has shown that the number of micro businesses with fewer than 10 workers in the developing countries context are disproportionately more than what is observed in the developed world contexts (McKenzie, 2015; Hsieh & Olken, 2014). Furthermore, most of these businesses are generally informal and/ or family-run ventures (López-Fernández et al., 2016). As a result, every 8 out of 10 work informally and businesses in the regions tend to be limited to sole-trading and informal businesses with low growth rates according to International Labour Organization (ILO, 2018). The attributes of this informality and family-orientation include having fewer than five employees, being unregistered, usually unlicensed, and typically do not pay taxes (Khavul et al., 2009). More so, MSMEs are disadvantaged in markets for entrepreneurial resources when compared to large enterprises. If this is indeed the case, there is a “business case” for more research on discourses of African business environment.

The Global Entrepreneurship Monitor (GEM) program initiated by Babson College and the London Business School measures the differences in the level of entrepreneurial activity between countries. GEM data have been used in a variety of studies to highlight the disparity in the Total Entrepreneurial Activity (TEA) between developed and developing countries. On the surface, entrepreneurship looks healthier in Africa compared to other regions, according to the GEM reports. However, there are two important caveats to this. First, it is suggestive of the ‘necessity versus opportunity’ argument where the quality of the opportunity and corresponding value that can be extracted may be lower in the African context. Second, majority of the activities are ‘necessity driven’. ‘Opportunity entrepreneurs’ refers to those who start a business because they spot an opportunity in the market which they want to pursue and the necessity entrepreneurs refers to those who start a business as they do not have another means of generating income (Igwe, Madichie & Newbery, 2019).

There is evidence from past studies that barriers to MSMEs growth exist. Therefore, Isenberg (2010 & 2011) model of entrepreneurial ecosystem is used to examine the barriers to MSMEs based on a cross regional and countries analysis. The African regions and countries examined include Mozambique (South), Egypt (North), Chad (Central), Kenya (East) and Gambia (West). Entrepreneurship greatly depends on the ecosystem, which is created by a virtuous cycle of entrepreneurship (Maroufkhani et al., 2018). Entrepreneurial ecosystems are defined as the interacting components of entrepreneurial systems, which foster new firm creation in a specific

regional context (Mack & Mayer, 2015). Some studies reveal the main effects of institutions on firm performance (Zoogah, 2018). Institutions (formal and informal) govern individual behaviour (North, 1990) and, together with social and cultural elements, determines own behaviour (Anggadwita, Ramadani & Ratten, 2017; Igwe et al., 2018).

The main questions explored in this study include: What is the entrepreneurial ecosystem in which MSMEs operate? What kind of policies and institutional environments hinder entrepreneurship? How does the entrepreneurial ecosystem in African vary across the regions and countries? By examining these questions, we hope to contribute to knowledge about African entrepreneurship research. While many studies focus on barriers that hamper small medium enterprises (SMEs) growth in general, studies focusing on micro enterprises are few or almost limited. Also, there is a paucity of research about entrepreneurship in Africa (George et al., 2016; Jones et al., 2018). Hence, Ratten and Jones (2018) call for more research that understands the diversity of Africa and its distinct entrepreneurial practices. We hope to examine the difference of the entrepreneurial ecosystem across African major regions and make recommendation towards how to support MSEs to grow and contribute better towards socio-economic development of the continent.

The remainder of this article is structured as follows: First, we review the entrepreneurial ecosystem model, followed by an exploration of African entrepreneurship and business environment. Next, we describe the research method and data source, followed by the analysis and discussion. Finally, we conclude with some recommendations, in addition to the limitations and implications for future research.

## **Literature Review**

### ***Entrepreneurial Ecosystem***

The Global Entrepreneurship Monitor (GEM, 2014) defined entrepreneurship – in the context of understanding its role in economic growth as follows: “any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business (GEM, 2014, p.17). Majority of firms around the world fall into the category of MSMEs with more than 95% falling into this category (Meghana, Demirguc-Kunt & Maksimovic, 2011). The Organization for Economic Co-operation and Development (OECD, 2012, p.3, Eurostat Manual on Business

Demography Statistics) defines a high-growth enterprise as “all enterprises with average annualized growth greater than twenty percent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period. Therefore, growth is measured by the number of employees and by turnover”.

Previous entrepreneurship researchers have explored in-depth the determinants of entrepreneurial venture performance (Gundry & Welsch, 2001; Goedhuys & Sleuwaegen, 2010; Kellermanns et al., 2016). Some studies attribute lower levels of MSMEs in growth-oriented entrepreneurship to differences in access to key resources such as human capital, social capital, and financial capital (Menzies et al., 2004; Terjesen, 2016). Isenberg (2010 & 2011) presented a model of entrepreneurial ecosystems to analyse the factors that support or hinder entrepreneurial growth (Sheriff & Muffatto, 2015) in many regions. The model consists of six main elements which are: Policy, Finance, Culture, Support, Human Capital and Markets (Isenberg, 2011). This model has been adopted in many studies (Mack & Mayer, 2015; Maroufkhani et al., 2018).

In the context of growth-oriented entrepreneurship, there is a consensus that good policies (regulations, taxation, exporting and importing conditions, etc.) foster firms' growth, productivity and development, while adverse business policies constrain business development and growth (Herrera & Kouamé, 2017). Access to finance has been cited as the most crucial factor and impediment to the growth of MSEs firms (Robb, Coleman & Stangler, 2014), where MSEs raise smaller amounts of finance and are reliant on personal sources of financing (Coleman & Robb, 2014). Arguably, access to capital depends heavily on the institutional structure prevalent in an environment.

Another major challenge that have impeded sustainable entrepreneurial growth is the culture. Culture is directly associated with institutions in the sense that culture, as an informal institution as defined by North (1990), govern individual behaviour (see for example, Boettke and Coyne 2009; Ajekwe 2017; Anggadwita, Ramadani & Ratten, 2017). Cultural context specific to a group or society can motivate individuals to behave in certain ways (Miao, Qian & Ma, 2017). The problem of corruption appears embedded in the culture (Faleye, 2013; Keeper, 2012; Hechavarría et al., 2017). Aidis, Estrin and Mickiewicz (2012) argue that corruption constrains entrepreneurship by deterring entrepreneurs unwilling to engage in corrupt practices and encouraging unproductive forms of entrepreneurship. Among these economic development constraints is human capital related to lack of skilled labour and low levels of education (World

Bank, 2008). Aikaeli (2010) maintains that education allows people to adapt more easily to both social and technical changes in the economy and to changes in the demand for labour. Also, lack of market information, poor access to market and weak demand for goods and services due to widespread poverty – which leave SMEs at a competitive disadvantage in the global market place according to International Finance Corporation (IFC, 2008).

The effect of the nature of ‘support’ in the entrepreneurial ecosystem model has many dimensions. Several studies cite efficient transport system region as the most important factor in the entrepreneurial ecosystem (Nsengimana, Tengeh & Iwu 2017; Madichie & Hinson 2014; Starkey & Njenga 2010). These studies support the idea that under the right conditions, infrastructure development play a major role in increasing productivity and promoting economic growth. For example, a study by Onyeiwu and Liu (2011) found that in Bangladesh, a one percent increase in households with access to electricity and paved roads in the villages led to 0.8 percent increase and 33 percent in total per capita income respectively.

Many African countries are still at an early stage of economic development and this process is held back by several socio-economic, political and environmental constraints (GEM, 2014; Santos et al., 2016). Zoogah (2018) provide analysis of the effect of corruption and informal regulations on firm performance. Zoogah (2018) maintain that the control of corruption focuses on the extent to which corruption behaviors are regulated or tempered in a country. It refers to the regulatory mechanisms that limit self-interested behaviors or misuse of public office for personal gain. In that regard, it affects not only consumer confidence but also firm confidence (Zoogah, 2018). Also, gender issues have long been a major concern in recent years in the light of the role of women towards new businesses venture creation for economic growth (McGowan et al., 2015).

The World Bank (2013) maintain that after decades of progress towards the equality of women, almost 90 percent of countries continue to have laws or regulations that prevent women from fully participating in economic life as entrepreneurs. Jamali (2009) maintains that for many women entrepreneurs in Africa, the choice of self-employment may reflect the restricted structure of opportunities in the labour market, labour market discrimination or glass ceiling career problems, with self-employment often perceived as a survival strategy, or as means of providing flexibility in work scheduling and reconciling multiple roles.

### *African Entrepreneurship and Business Environment*

Research focussing on African entrepreneurship is less prominent, especially within international journals (Jones et al., 2018). Given the paucity of research about entrepreneurship in Africa (George et al., 2016) and the increasing interest in African entrepreneurship (Jones et al., 2018) in academic and policy domain, we set out to close the gap between what we know and what we don't know about African entrepreneurship and the challenges facing MSEs. Economically, African continent general economic performance continues to improve. Gross domestic product reached an estimated 3.5 per cent in 2018, about the same as in 2017 and up from 2.1 per cent in 2016 (African Development Bank, ADB, 2019). Africa's GDP growth is projected to accelerate to 4.0 per cent in 2019 and 4.1 percent in 2020 (ADB, 2019). However, the phenomenon of jobless growth combined with the world's youngest population threatens progress according to African Development Bank (ADB, 2012).

The economic outlook shows that the African continent is experiencing youth's jobless growth with around 60 per cent of the continent's unemployed aged 15 to 24 years – and more than half of these, mainly women, have abandoned finding work (ADB, 2012). In the ADB report, cited in the European Centre for Development Policy Management (ECDPM, 2014), North Africa was highlighted as the region where the unemployment rate is among the highest in the world. ECDPM (2014) report revealed that Mali, Liberia and Malawi more than two-thirds of young people cannot find a stable job. Also, half of the unemployed youth in Africa are women and gender gaps in employment opportunities remain exceptionally high (ECDPM, 2014). To accelerate growth rates, International Fund for Agricultural Development (IFAD, 2012, p. 7) posit that many governments in Africa, development organisations and aid donors have made the promotion of small-scale enterprises a major policy concern.

Arguably, majority of the TEAs found in African economics are necessity entrepreneurship (GEM, 2014 & 2015; Igwe, Madichie & Newbery, 2019). For example, GEM (2015) survey of young Nigerians found that the proportion who could be classified as “potential entrepreneurs” – those who believe that they have the relevant skill set to become entrepreneurs and who also can identify business opportunities – is very high at 82 per cent, irrespective of gender. However, only half as many (40%) say that they intend to start a business themselves, and half as many again (22%) are actually in the process of setting up on their own (GEM, 2015). This is a result of the adverse entrepreneurial ecosystem that exist in many African environment and prevent those who

want to become entrepreneurs and entrepreneurs who want to grow their businesses. Table 1 presents key findings from previous studies on the nature, opportunities, challenges and barriers to African entrepreneurship. African government faces major challenges in policy making and implementation of its economic reform agenda. Those challenges include limited evidence-based policy, weak institutions, weak entrepreneurial ecosystem, lack of innovation, research and development (World Bank, 2015).

Table 1. The Opportunities, Challenges and Barriers to African Entrepreneurship

Authors and Year	Methods	Findings
Griffin-El & Olabisi (2019)	Conceptual	The authors postulate that the motivation for forming trans-local networks to pursue business opportunities – mediates the relationship between the habitus of diasporic entrepreneurs and the market-orientation of their venture creation.
Igwe, Madichie & Newbery (2019).	Mixed Methods	Artisanal activities constitute a high proportion of small businesses and artisans in Nigeria, yet it is an overlooked area of entrepreneurship. Also, majority of young people of the age 20-45 years are self-employed due to high rate of unemployment as young people are pushed or see opportunities in the form of self-employment.
Kimmit, Muñoz & Newbery (2019)	FsQCA of changes in life circumstances of 166 farm households in rural Kenya	Their findings reveal that strong entrepreneurship-enabled future prosperity expectations result from three combinations of enabling conversion factors shaping up three varieties of entrepreneurial endeavours: <i>family-frugal</i> , <i>individual-market</i> , and <i>family-inwards</i> , which show a much more diverse and counterintuitive reality.

Akinyemi, & Adejumo (2018)	Descriptive statistics & Principal Component Analysis (PCA) based 1200 questionnaires	This study reveals some variations exist in the policy implementation approaches of both economies and the efficacies and shortcomings associated with the policies impacted entrepreneurial activities.
Igwe, Onjewu & Nwibo (2018)	Secondary data	The factors identified as affecting investment and productivity include education of the labour force, access to infrastructure, access to finance and corruption.
Igwe et al. (2018)	Qualitative	The findings revealed lack of institutional supports for entrepreneurship in eastern Nigeria. As a result, the entrepreneurial behaviours are influenced by extended family which provides a safe environment for risk-taking, creativity and innovation and informal apprenticeship system provides entrepreneurial learning that prepares the younger generation to take to business.
Ratten and Jones (2018)	Literature Review	The study emphasises that institutions are important in Africa for giving stability to entrepreneurship and as a foundation for business development.
Mustafa and Hughes (2018)	An exploratory case study approach	It reveals that individual and firm-level networks and social capital, as well as deregulation and government support initiatives, were identified as important factors in facilitating corporate entrepreneurship among SMEs in Kenya.

Uzuegbunam & Uzuegbunam (2018)	Two samples of new ventures in Nigeria and Ghana	The findings showed that Women entrepreneurs in emerging economies face significant constraints in operating their businesses and are confronted by significant resource challenges.
Guma (2015)	Qualitative	The findings suggest women have a relatively higher competitive urge in the informal sector as compared to men. Also, while Ugandan women entrepreneurs have increasingly penetrated the market to become dominant players in the urban informal economy, they are still hindered by key barriers.
Sriram & Mersha (2010)	Survey data	The findings showed that most African entrepreneurs believe that they have the requisite passion, energy, and determination needed to start and manage new businesses. However, they are constrained by scarcity of adequate start-up capital, stiff competition, lack of employees with the right skills, and difficulty in finding adequate facilities to start their business.

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## Research Method

This paper adopts secondary data and desk research approach. Secondary analysis of existing data has become an increasingly popular method of enhancing the overall efficiency of enterprise research (Cheng & Phillips, 2014). This approach involves using information gathered through other sources. One of the advantages is that the information already exists and is readily available (that is quick to use & low cost). Another advantage is that it can provide the basis and focus of future primary research. The limitation of this method comes with lacks specificity of the information and some secondary data may be of suspect quality or outdated, etc. Mostly, the data used for this study comes from the World Bank Enterprise Survey (WBES). WBES is a firm-level survey of a representative sample of an economy's private sector. It covers a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures based on 135,000 firms in 139 countries.

The data and findings are presented in country highlights and profile which is published and can be used by researchers. The highlights and profiles provide a quick glance at a subset of performance and business environment indicators. The accompanying figures include comparisons such as: changes over time, indicator differences with the country's geographic region and to other countries with similar income levels, and differences between a country's subnational locations. We have employed data from the WBES to provide a cross regional and countries analysis based on Southern region (Mozambique), North (Egypt), Central (Chad), East (Kenya) and West (Gambia).

## **Analysis & Discussion**

### ***The Economy Overview***

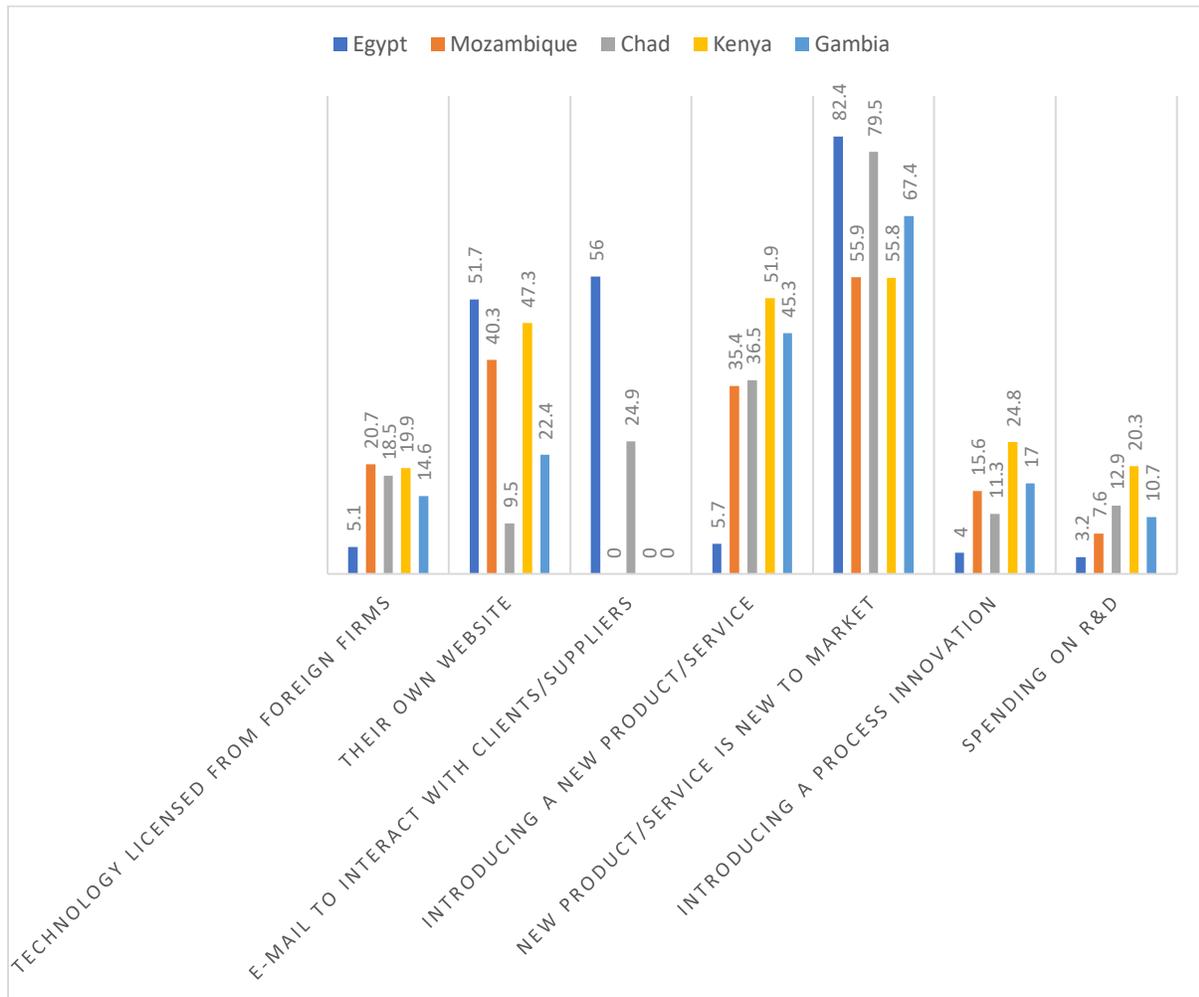
The five countries captured in this study are mainly lower middle income and low-income countries. The World Bank classifies the world's economies into four income groups – high, upper-middle, lower-middle, and low. World Bank base this assessment on Gross National Income (GNI) per capita (current US\$). The classification is updated each year on July 1st. As of July 1, 2019, the new thresholds for classification by income according to World Bank (2019) are: Low income (< 1,025); Lower-middle income (1,026 - 3,995); Upper-middle income (3,996 - 12,375); and High income (> 12,375). For the 2020 fiscal year, majority of African countries are classified within the low-income and middle-income countries, while only three countries (South Africa, Algeria and Namibia) were classified as upper-middle income countries and no African country made the list for high-income economies category. As revealed in Table 2, Egypt and Kenya are the two out of the five selected countries that have above US\$1000.00.

Table 2. Overview of the Study Regions/Countries

Countries	Region	Income Category	Population	GNI PER CAPITA (US\$)	Number of Firms Surveyed	Year
Egypt	Middle East & North Africa	Lower-middle income	97,553,151	3,010	1,814	2016
Mozambique	Southern Africa/Sub-Saharan	Low-income	29,668,834	420	601	2018
Chad	Central Africa/Sub-Saharan	Low-income	14,899,994	630	153	2018
Kenya	East African/Sub-Saharan	Lower-middle income	49,699,862	1440	1001	2018
Gambia	West Africa/Sub-Saharan	Low-income	2,100,568	450	151	2018

Another feature is that most African countries fall into factor-driven economies. According GEM (2018) classification, the factor-driven economies are dominated by subsistence agriculture and extraction businesses, with a heavy reliance on (unskilled) labour and natural resources. Whereas the efficiency-driven economies have become more competitive with more-efficient production processes and increased product quality. As development advances into the innovation-driven phase, businesses are more knowledge-intensive, and the service sector expands (GEM, 2018). As revealed in Figure 1, Egypt has the lowest ranking related to percent of firms using technology licensed from foreign companies (5.1%), per cent of firms that introduced a new product/service (5.7%) of firms that introduced a process innovation (4.0%) and per cent of firms that spend on research and development (R&D) (3.2%).

Figure 1. Application of Innovation and Technology (percent of firms using or introducing)

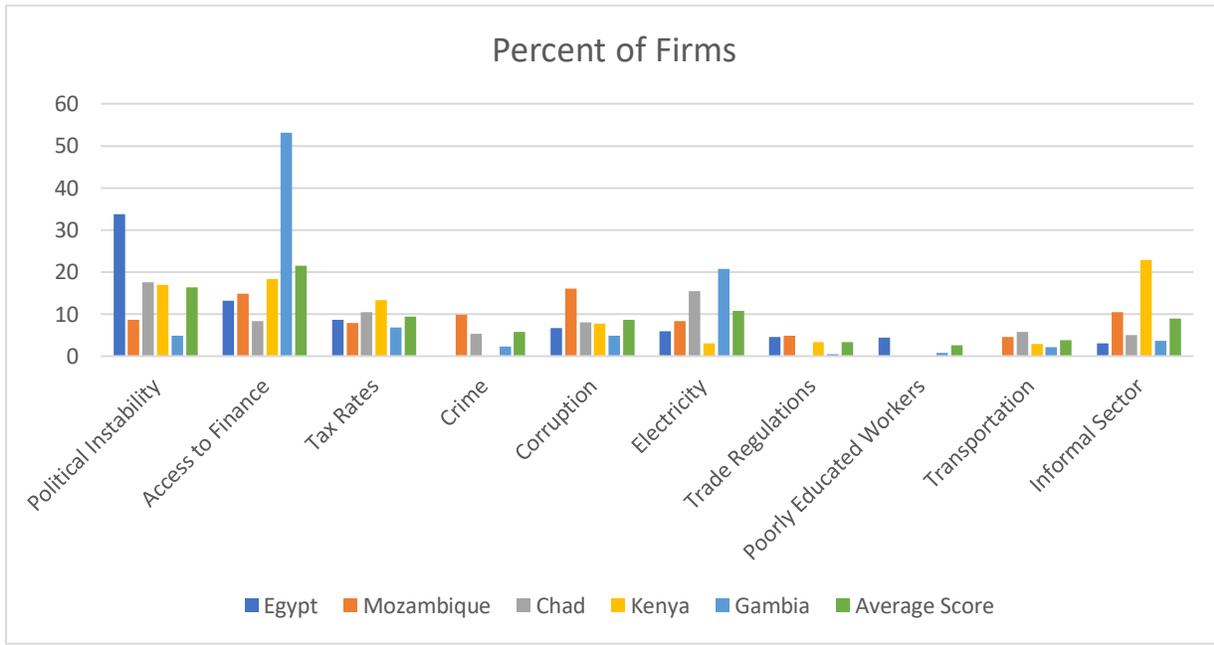


### ***Business Environment***

Data from GEM (2018) reveal that entrepreneurship ecosystem is strongest overall in the innovation-driven economies. The result further reveals that in factor-driven economies, research and development (R&D) transfer, entrepreneurship education at school age, government entrepreneurship programs and government policies on taxes and bureaucracy are highlighted as areas constraining entrepreneurship. While in efficiency-driven economies, the constraining components are internal market burdens or entry regulations, R&D transfer, entrepreneurship education at school stage, government programs, government policies on taxes and regulation and relevance of government policies. From a regional perspective, North America has the most supportive entrepreneurial framework conditions while Africa as well as Latin America and the

Caribbean struggle with the least favourable entrepreneurship environment. Obstacles to business environment varies from one country to another as reveal in Figure 2.

Figure 2. Top Business Environment Obstacle for Firms (% of firms choosing the obstacle)



Take the case of Nigeria, young Nigerians consider that starting a business is difficult; when they encounter the reality and find it worse than they had anticipated, they are often dissuaded from becoming entrepreneurs (GEM, 2015). In the WBES, business owners and top managers were presented with a list of 15 business environment obstacles and were asked to choose the biggest obstacle to their business (Figure 2). On the average, financial issues top the list of disincentives, followed by political instability and electricity across the five countries measured by percentage of business owners choosing the obstacle.

Financial exclusion refers to a situation where majority of the population are unable to access formal financial services, owing to their perceived vulnerability (Mishra et al., 2015). For example, the financial service landscape of Nigeria is one that shows a lack of access to credit and financial services (Igwe, Newbery & Icha-Ituma, 2018). The Central Bank of Nigeria (CBN, 2005) indicate that about 65 percent of the economically active population are excluded from access to financial

services in Nigeria. As a result, households have traditionally patronized informal credit lenders some of whom charge higher interest rates and give short-term small credit. The problem of lack of access to finance and its implication has been summarized by Khavul (2010) who reveal that traditional financial institutions find serving the poor risky and expensive. More so, majority of owners of MSEs are poor and often illiterate, thus, have limited collateral and no official credit histories, and are often dispersed across a rural geography. Also, they operate in the informal economy. This leads to agency and transaction cost problems that traditional banks have a hard time overcoming (Khavul, 2010).

Education is often the key determinant for the pursuit of opportunities in new business and employment (World Bank, 2008). Aikaeli (2010) maintains that education allows people to adapt more easily to both social and technical changes in the economy and to changes in the demand for labour. Previous studies on reveal that a major employability challenge and reason why there is high rate of graduate unemployment is the lack of skills (Okunuga & Ajeyalemi, 2018; Pitan, 2016 & 2017). Data from WBES reveal that percent of firms identifying an inadequately educated workforce as a major constraint vary from 19.1% (Gambia), 19.0% (Egypt), 10.3 (Chad), 9.7% (Mozambique) and 8.2% (Kenya).

There are two contrasting views in the literature regarding the effect of corruption on business performances. Some studies argue that corruption has negative effects on investment, economic growth and sustainable development (Aidt 2009; Méon & Sekkat 2005). The clear result is that corruption significantly enhances rather than harms annual sales, employment and productivity growth rates (Williams & Kedir, 2016). By contrast, some studies suggest that corruption could have a positive impact on investments and economic growth when it (corruption) is at modest levels, institutions are inefficient, and governance is weak (Méndez & Sepúlveda 2006; Méon & Weill, 2010). Examining institutional risk and firm performance in Africa: the moderating role of corruption control (Zoogah, 2018) maintain that control of corruption is thus the regulatory mechanism that defines the dynamic influences of corruption and socioeconomic conditions. Zoogah (2018) explain that the dimensions of informal institutions coexist side by side and mutually reinforce and support each other (i.e., complementary), substitute for each other in the sense of being functionally equivalent to each other, and/or conflict such as when the two systems of rules are incompatible.

Corruption is another major factor that impede entrepreneurship and business growth. The outcome is to re-theorize participation in acts of corruption as beneficial for the individual firms engaged in such activity, while recognizing the wider evidence that this is not an optimal strategy at the aggregate country level and to advance knowledge about how corruption needs to be tackled (Williams & Kedir, 2016). There are many ways that corruption affects firm's performance according to Zoogah (2018, p.406). First, control of corruption may interact with corruption such that in countries where corruption is reduced, firms are likely to have lower cost given that firms can still achieve contracts or resources without bribery. However, in countries where corruption is not controlled, firms are likely to have higher cost. Second, control of corruption is likely to interact with socioeconomic conditions (Zoogah, 2018). Socioeconomic conditions represent general pressures that fuel social dissatisfaction or government action. As shown in Table 3, bribery incidence is highest in Kenya (23.2), followed by Chad (27.4), Mozambique (21.1), Egypt (15.2) and Gambia (9.2).

Table 3. Corruption (Percentage of firms)

	Egypt	Mozambique	Chad	Kenya	Gambia
Bribery incidence	15.2	21.1	27.4	23.2	9.2
Bribery depth	13.6	14.9	22.5	17.6	6.7
Give gifts in meetings	13.2	13.5	21.0	20.9	5.6
Give gifts to secure contract	14.2	25.9	33.0	34.0	12.8
Value of Gift (% of the contract value)	0	1.0	3.5	3.2	0.3
Give gifts to get operating License	20.7	12.4	20.1	10.1	7.4
Give gifts to get an import license	20.9	10.7	3.2	14.4	0
Give gifts to get a construction permit	27.9	34.8	69.4	30.0	20.9
Give gifts to get an electrical connection	2.0	30.2	35.8	33.7	0
Give gifts to get a water connection	25.6	21.1	23.2	21.9	NA
Give gifts to public officials "to get things done"	19.0	14.1	38.0	26.3	12.8
Corruption as a major constraint	68.2	32.4	39.6	41.6	15.8
Courts system as a major constraint	24.0	8.0	25.4	9.4	7.4

Socioeconomic conditions constrain business performance. For example, high unemployment and poverty affect economic activity, industrial outlook, and firm sales (Zoogah, 2018). Other socioeconomic elements such as crime, state of infrastructure, taxes and trade regulations also impact on firm performances. WBES data reveal that the percentage of firms identifying crime, theft and disorder as a major constraint as follows: 27.8 (Chad), 25.2 (Mozambique), 10.3 (Egypt), 8.2 (Gambia) and 7.9 (Kenya) (see Appendix Table A). A dynamic perspective has recently emerged regarding institutions in Africa (Zoogah, 2018). It is argued that the dynamics of the African environment do not seem to support linear effects of institutions; rather, informal (and formal) institutions interact endogenously or exogenously with other factors to influence firm performance (Igwe, Madichie & Newbery, 2019).

Zoogah (2018) suggest that the interaction of institutions and resources can affect performance of firms in Africa. Percent of firms experiencing electrical outages from WBES showed 93.2 (Gambia), 82.8 (Kenya), 70.2 (Chad), 52.8 (Mozambique) and 38.0 (Egypt) (see Appendix Table B). From the WBES data the percentage of firms identifying business licensing and permits as a major constraint vary from 34.1 (Egypt), 15.4 (Kenya), 14.0 (Chad), 11.2 (Mozambique) and 10.1 (Gambia), (see Appendix Table C). While percentage of firms identifying tax rates as a major constraint 47.8 (Egypt), 45.6 (Chad), 43.3 (Gambia), 36.1 (Kenya) and 17.9 (Mozambique) (see Appendix Table 3). Finally, the percentage of firms identifying customs and trade regulations as a major constraint 27.4 (Chad), 20.1 (Egypt), 19.4 (Gambia), 17.4 (Kenya) and 10.2 (Mozambique) (see Appendix Table D). The factors have resulted in low real annual sales growth (%) 6.9 (Gambia), 5.7 (Egypt), 1.6, (Mozambique), 1.5 (Kenya) and -3.2 (Chad), and negative annual labor productivity growth.

### **Conclusion, Implications, Recommendations and Limitations**

Entrepreneurship is regarded as an important mechanism across regions for economic development and as a means for generating employment and poverty reduction. This article contributes to understanding the barriers that MSMEs face and the nature of the entrepreneurial ecosystem and business environment in Africa. The economy of majority African countries has been improving in the last decade, however, African countries fall into lower income and lower-middle income when compared to the rest of the world according to World Bank Enterprise Survey. More so, majority of African countries fall into factor-driven economies, hence advances in innovation and

technology is low (GEM, 2014 & 2015). This has impact on businesses given the globalization and internationalization of firms.

Although, entrepreneurship and business activities are high in African region, these activities reflect necessity entrepreneurship (see, Igwe, Madichie & Newbery, 2019) due partly to the high unemployment rate, high poverty rates, low education, lack of adequate business support such as finance, infrastructure, unfavourable regulations, etc. Also, this article illustrates the impact of institutional arrangements, as well as the entrepreneurial ecosystem and their impact on entrepreneurship, business performance and growth. Among the top barriers to entrepreneurship and MSMEs growth include finance, corruption, political instability, unskilled workforce, crime, taxation, customs and trade regulations.

The promise of microfinance is that it spurs entrepreneurship and empowers borrowers to help themselves (Khuvul, 2010). Access to finance is a major barrier reflected in the lack of access to credit to many MSEs by financial institutions and lending banks. Typically, owners of micro and small enterprises lack information, credit history and collateral required by the traditional lending institutions. Although, microfinance has been developed by many governments to improve access to financing and credit, however, microfinance agencies have not been well developed to cater for many (see, e.g. Khavul, 2010, Mishra et al., 2015). Some research has focused on how microfinance delivers on this promise (Khuvul, 2010). Many low income and poor are excluded from formal financial arrangements and credit and they must rely on informal lenders (Mishra et al., 2015). Another barrier is the knowledge and competence of the workforce. Arguably, in many African countries, inadequate educational workforce is still a major constraint.

Culture is part of informal institution that determine individual behaviour and affect entrepreneurship. Corruption is a major factor in this regard (Faleye 2013; Keeper 2012; Hechavarría et al. 2017). Although, there are two contrasting views regarding the effect of corruption on firms performance (Méndez & Sepúlveda 2006; Méon & Weill 2010; Williams & Kedir, 2016; Zoogah, 2018), the consensus is that corruption increases business transaction costs and deter some people who do not want to engage in corruption from doing business (Igwe, Madichie & Newbery, 2019; Igwe, Onjewu & Nwibo, 2018; Igwe et al., 2018). Other business obstacle and barriers include crime rates, access to infrastructure (such as electricity, transport, water, telephone and internet services), tax rates, custom and trade regulations. These have not been well developed in many African countries resulting in low annual sales and low productivity.

In this study we, argue that policy efforts aimed at providing enabling entrepreneurial ecosystem will increase entrepreneurship and improve the growth of micro and small enterprises. This will act as an engine for (1) innovation and growth (given that most economies in the region fall into factor-driven) and (2) they help reduce unemployment and poverty rates. Across African countries, studies, show that these are the two most crucial elements to African socio-economic development. Given the importance of MSMEs in the development process of Africa economy (Naudè & Havenga, 2005), we recommend that government to take necessary steps to address many of the barrier affecting entrepreneurship and business growth.

First, access to finance will require reducing some barriers that traditional banks have as conditions for lending to borrowers (especially low-income people). Also, more microfinance banks should be in rural areas and traditional banks should be encouraged to open rural branches. Most of the poor and low-income business owners live in rural areas in Africa without access to banking services and formal credit (Mishra et al., 2015). Secondly, we suggest reforms in taxation, import and export regulations in the context of globalization to enable African entrepreneurs compete favourably globally. Third, government and private sector should focus on improving infrastructure such as road, rail, air, electricity and internet services. These will reduce the cost of doing business and encourage productivity and investment.

Finally, previous research has traditionally focused on examining SMEs, partly driven by the availability of firm-level panel datasets, both on the national as well as on the international level. This is not the case in African entrepreneurship research due to lack of available database and the difficulty in collecting data. Hence, this study contributes to knowledge of African entrepreneurship and barriers to business growth. However, one of the major limitations is the reliance of secondary data. However, the data from WBES and GEM which we have used for the analysis are robust and credible data sources, hence, another contribution of our study. Therefore, our study provide foundation for future studies using panel-data or interview data for quantitative and qualitative analysis respectively.

## Appendix

### Table A. Crime

	Egypt	Mozambique	Chad	Kenya	Gambia
% of firms paying security	30.9	64.7	58.0	79.6	33.1
If establishment pays for security, average security costs (% of annual sales)	3.3	9.1	7.3	4.4	6.3
% of firms-losses due to theft & vandalism	6.1	22.4	25.9	22.7	29.3
If there were losses, average losses due to theft and vandalism (% of annual sales)	17.0	8.0	9.5	4.9	7.0
Products shipped to supply domestic markets that were lost due to theft (% of product value)	0.5	0.7	2.8	1.0	1.7
Percent of firms identifying crime, theft and disorder as a major constraint	10.3	25.2	27.8	7.9	8.2

### Table B. Infrastructure

	Egypt	Mozambique	Chad	Kenya	Gambia
Percent of firms experiencing electrical outages	38.0	52.8	70.2	82.8	93.2
Number of electrical outages in a typical month	1.8	1.6	4.5	3.8	21.1
If there were outages, average duration of a typical electrical outage (hours)	1.3	5.4	8.5	5.8	5.8
If there were outages, average losses due to electrical outages (% of annual sales)	4.3	3.2	9.8	5.4	14.2
Percent of firms owning or sharing a generator	6.4	29.0	67.7	65.6	55.7
If a generator is used, average proportion of electricity from a generator (%)	13.6	16.8	18.5	17.8	41.1
Days to obtain an electrical connection (upon application)	76.9	18.1	69.6	78.9	30.1
Percent of firms identifying electricity as a major constraint	18.8	26.5	34.8	21.0	69.0
Percent of firms experiencing water insufficiencies	4.5	12.5	13.9	32.8	11.5
Number of water insufficiencies in a typical month	0.4	0.4	1.7	3.3	1.7
Proportion of products lost to breakage or spoilage during shipping to domestic markets (%)	2.2	1.2	3.3	2.6	3.4

Percent of firms identifying transportation as a major constraint	17.8	17.1	25.1	14.3	20.9
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**Table C. Regulation and Taxes**

	Egypt	Mozambique	Chad	Kenya	Gambia
Senior management time spent dealing with the requirements of government regulation (%)	7.0	6.5	13.3	8.6	2.5
Percent of firms visited or required to meet with tax officials	84.6	76.7	82.0	60.1	85.9
If there were visits, average number of visits or required meetings with tax officials	3.2	2.7	3.2	2.7	4.4
Days to obtain an operating license	31.9	24.9	34.1	11.4	5.4
Days to obtain a construction-related permit	103.3	32.2	48.4	23.5	85.7
Days to obtain an import license	10.3	19.1	17.1	13.6	3.6
Percent of firms identifying tax rates as a major constraint	47.8	17.9	45.6	36.1	43.3
Percent of firms identifying tax administration as a major constraint	29.4	9.2	42.2	22.1	19.3
Percent of firms identifying business licensing and permits as a major constraint	34.1	11.2	14.0	15.4	10.1

**Table D. Trade**

	Egypt	Mozambique	Chad	Kenya	Gambia
Days to clear direct exports through customs	7.5	39.3	n.a.	9.7	4.8
Percent of firms exporting directly or indirectly (at least 10% of sales)	9.2	15.4	10.8	16.3	12.5
Percent of firms exporting directly (at least 10% of sales)	7.8	12.2	8.0	12.2	6.2
Proportion of total sales that are exported directly (%)	4.5	5.6	2.6	5.5	3.0
Days to clear imports from customs*	12.3	27.5	23.8	22.6	10.7
Percent of firms using material inputs and/or supplies of foreign origin*	38.2	38.7	73.8	63.0	54.6
Proportion of total inputs that are of foreign origin (%)	20.7	24.4	49.7	36.1	34.8
Percent of firms identifying customs and trade regulations as a major constraint	20.1	10.2	27.4	17.4	19.4

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