

## Entrepreneurship and Economic Change in a Developing Region: Opportunities and Challenges in Africa

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### Abstract

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Opportunities and challenges of entrepreneurship in Africa are examined. Opportunities include abundant resource endowments, vast human resources, and entrepreneurial spirit. Indigenous entrepreneurial talents are required to exploit the resources and add value them. Globalization offers opportunities for African entrepreneurs to capitalize on low-cost advantage to penetrate global and market their products to the burgeoning global consumers. Challenges facing African entrepreneurs include bureaucratic hurdles demonstrated by unfriendly business climate and discouraging procedures of doing business. Access to credit and poor physical infrastructure militate against business start-ups, growth, and expansion in the region.

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**Keywords:** Entrepreneurial opportunities, Entrepreneurial challenges, bureaucratic hurdles, access to credit, infrastructure, globalization.

### 1. Introduction

Evidence from decades of cumulative empirical research demonstrates that entrepreneurship and micro, small, and medium enterprises (MSMEs) account for much of the economic growth in industrialized countries (Acs et al., 2005; Audretsch & Thurik, 2001; Audretsch & Keilbach, 2008; Carree & Thurik, 2003; Gatewood & Boko, 2009; UNCTAD, 2005; Verhuel et al., 2001; Wennekers & Thurik, 1999). The World Bank (1993) had analyzed data on the rapid growth of the Republic of Korea, Taiwan, Singapore, Hong Kong, Japan, Indonesia, Malaysia, and Thailand during 1965-1990. These high-performing Asian economies (HPAEs) recorded an average growth of real GNP per capita of 5.5%, more than twice that of the OECD countries during the period. The superior growth has been attributed to entrepreneurship (see Wennekers & Thurik, 1999). Yet, "entrepreneurship has been downplayed in many African countries over the past 30 years" (Marsden, 1990:1). Past neglect of entrepreneurship in Africa has contributed to its poor economic performance, symbolized by protracted unemployment and high level of absolute poverty.

In its 1989 report, the World Bank (1989) had emphasized that "Africa needs its entrepreneurs" for sustainable growth. Emphasis on the need for Africa to develop its own entrepreneurs resonated in the Global Entrepreneurship Monitor (GEM) report which affirmed that there are no countries with high levels of entrepreneurship and low levels of economic growth (Reynolds *et al.*, 2002:7, 24). "Entrepreneurial talent is not...a rare commodity...it is common in most populations" (Spring & McDade, 1998:2). A 2012 GEM study of sub-Saharan Africa found that "without exception, entrepreneurship is seen as a good career choice; more so than in any other regions except Latin America and the Caribbean" (Herrington & Kelley, 2012:8). Thus, underdevelopment of Africa is not due to an insufficient supply of entrepreneurs.

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In recent years, policymakers have embraced “entrepreneurship paradigm” as an efficacious strategy for “economic renaissance in Africa” (Edoho, 2015). Contributing to this shift in orientation have been the IMF-inspired Structural Adjustment Program in the 1980s (NBS & SMEDAN, 2010; Evbuomwan et al., 2012); the rapid growth of the private sector and entrepreneurship in several emerging economies, such as Brazil, China, and India, dubbed the “southern engine of growth” (Mohapatra et al., 2007:163); and the recognition of the private sector as critical to jumpstarting the economies of “fragile and failed states, such as Somalia, DRC, and others” (Naude, 2007).

Policy shift towards entrepreneurship and heightening interest in MSMEs in Africa have garnered broad support by the international development community. Multilateral agencies, such as the IBRD/World Bank and IMF, have proposed entrepreneurship and MSMEs as critical anchors for economic growth in Africa. These multilateral entities have financed a number of entrepreneurship and MSME development programs (Nelson & Johnson, 1997). Utilizing their international development agencies, Sweden (SIDA), Germany (GTZ), Great Britain (DFID), and the U.S. (USAID) have redirected their foreign aid programs towards promoting entrepreneurship and MSME development in Africa.

The UN agencies, such as ILO, UNCTAD, UNIDO, and UNDP have implemented various programs to support entrepreneurship and MSME development in the region. EMPRETEC was established in 1988 by UNCTAD's Division of Investment and Enterprise to “promote the creation of sustainable, innovative and internationally competitive Small and Medium sized Enterprises” (UNCTAD, 2012). Local EMPRETEC centers, supported by UNCTAD, now operate in 34 developing countries. EMPRETEC centers have been established in at least 17 African countries, among them: Nigeria (1989), Ghana (1990), Zimbabwe (1992), Botswana (1997), and Ethiopia (1999).

This study examines the opportunities and challenges of entrepreneurship in Africa. The central objective is how Africa can mobilize and institutionalize entrepreneurial paradigm for sustained economic development and structural change. To achieve this objective, the study, first, explores the reservoir of entrepreneurial opportunities in Africa. Indigenous entrepreneurs need to tap into the prevalent opportunities to reposition the region and enhance its competitiveness in the global marketplace. Second, the study identifies the challenges facing entrepreneurs who invariably are the operators of MSMEs in Africa. Evaluation of entrepreneurial environment is crucial to understanding how the challenges could be better addressed to enable the region take full advantage of the entrepreneurial opportunities to drive sustained economic growth.

## **2.0 Conceptual and Theoretical Perspectives of Entrepreneurship**

There is a vast body and diversity of knowledge on entrepreneurship (Audretsch & Keilbach, 2008; Naude, 2008; Verheul et al., 2001). The vastness and diversity of perspectives of entrepreneurship contribute to the lack of unanimity on its conceptualizations and operationalization (Lumpkin & Dess, 1996; Naude & Havenga, 2005; OECD, 1998). This explains why entrepreneurship “defies easy measurement” (Naude & Havenga, 2005). It also reflects the multidimensionality of entrepreneurship as a construct (Audretsch & Keilbach, 2008; Verheul et al., 2001; Wennekens & Thurik, 1999). The reason is that entrepreneurship has been studied “in virtually all disciplines ranging from social anthropology to organizational theory to mathematical economics” (Henrekson, 2007:717).

Notwithstanding the diversity in conceptual perspectives of entrepreneurship, however, common threads are evident in much of the work in the field: exploitation of opportunity (Kayne, 1999); taking calculated risks (Hisrich & Peters, 2002); combination of resources (Slightler, 2001; Coulter, 2003; Kuratko & Hodgetts, 2004); and organization of efforts (Stevenson & Jarillo, 1990). Thus, the key economic activities commonly associated with entrepreneurial phenomenon include innovation, exploitation of opportunities, coping with uncertainty, and assumption of risks as well as mobilizing and organizing resources.

Theories of entrepreneurship also abound. Verheul et al. (2001:7) summarized them from different fields: psychology, sociology, economics, technology, and demography. Early theories focused on the personal attributes of successful entrepreneurs. As Storey (1994) pointed out, such studies centered on the role of personality, human capital, and ethnic origin of entrepreneurs. Personality studies associate entrepreneurship with vision, alertness to business opportunities, proactivity, and family tradition (Chell et al., 1991). Nelson and Johnson (1997) delineated six vital traits or characteristics of entrepreneurs: self-confidence, originality, people-oriented, task-result-oriented, future-oriented, risk-taking (Table 1). The notion is that these traits differentiate entrepreneurs from non-entrepreneurs, and successful ones from their non-successful counterparts.

**Table 1: Traits of Entrepreneurs**

Characteristics of Entrepreneurs	
Self-Confidence	<ul style="list-style-type: none"> <li>• Confident</li> <li>• Independent, individualistic</li> <li>• Optimistic</li> <li>• Leadership, dynamic</li> </ul>
Originality	<ul style="list-style-type: none"> <li>• Innovative, creative</li> <li>• Resourceful</li> <li>• Initiative</li> <li>• Versatile, knowledgeable</li> </ul>
People-Oriented	<ul style="list-style-type: none"> <li>• Gets along with others</li> <li>• Flexible</li> <li>• Responsive to suggestions/criticisms</li> </ul>
Task-Result-Oriented	<ul style="list-style-type: none"> <li>• Need for achievement</li> <li>• Profit-oriented</li> <li>• Persistent, perseverance, determined</li> <li>• Hard-worker, drive, energy</li> </ul>
Future-Oriented	<ul style="list-style-type: none"> <li>• Foresight</li> <li>• Perceptive</li> </ul>
Risk-Taker	<ul style="list-style-type: none"> <li>• Risk-taking ability</li> <li>• Likes challenges</li> </ul>

**Source:** Nelson and Johnson (1997:13)

Literature is inundated by studies that link entrepreneurship to economic growth (e.g., Carree et al., 2002; Naude, 2008; Reynolds et al., 2002; Wennekers & Thurik, 1999). Entrepreneurship and MSMEs have driven innovation that stimulated economic growth, created wealth, and generated high-skilled jobs in industrialized countries and many of the emerging economies. The multiplier effects of entrepreneurship and MSMEs on the economy include innovations and human resource development. These are better sources of “competitive advantage than other natural resources, which can be depleted” (Oteh, 2010:18). Porter (1990:195) posited that “Invention and entrepreneurship are at the heart of national competitive advantage.” Invention and innovation which epitomize entrepreneurship often bring about structural changes and economic transformation and development. Innovation occupies center-stage in Schumpeter’s (1934:75) theory of entrepreneurship as “the fundamental phenomenon of economic development,” framing entrepreneurship as a dynamic process.

In contrast to the neoclassical thinking that economic growth occurs in the state of economic equilibrium, Schumpeter (1942) theorization on innovation interjected dynamism into the entrepreneurial process of “creative destruction.” He averred that an entrepreneur “creatively destroys” the status quo in the process of exploiting opportunities and strenuously seeking better ways of combining activities and resources to create values, fill the void in the marketplace, and satisfy consumers (Schumpeter, 1942:431). Schumpeter casts entrepreneurs as disruptive forces that upset the equilibrium and destroys the status quo, and they are catalysts of the new market order. According to him (1942:83), an entrepreneur “incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating new one.” Greenfield and Strickon (1986:5) noted that Schumpeter made entrepreneur “the focal point and key to the dynamic of economic development and growth.” From this perspective, entrepreneurs are the catalysts who create disequilibrium, destroying the old order and enthroning a new order. In many developing countries, entrepreneurship is commonly manifested in the establishment of MSMEs.

Business must either adopt or adapt to the new order to survive. Entrepreneurship introduces dynamism into static economy to promote innovations and facilitate regenerative economic growth. A study by Audretsch and Thurik (1999) shows that an increase in the rate of entrepreneurship (number of business owners per labor force) leads to lower levels of unemployment in 23 OECD countries. In their studies on linking entrepreneurship to economic growth, Wennekers and Thurik (1999:30) theorized that because “there is not usually a direct link between entrepreneurship and economic growth...we need *intermediate variables or linkages* to explain how entrepreneurship influences economic growth.” They identified innovation and competition as intermediate variables and provided a model that is useful for understanding the determinants of entrepreneurship from three distinctive levels of analysis: the individual, the firm, and macro levels. Based on this model, they analyzed the role of individual entrepreneurs, small and large businesses, and the national economy in the development process.

Evidence indicates that MSMEs contribute to over 95% of firms, 60-70% of employment, 55% of GDP and create larger portion of new jobs in OECD countries (Evbomwan et al., 2012). In the UK MSME sector, SMEs account for 99.9% of firms providing over 56% of jobs and over 50% of the country’s annual GDP (NBS & SMEDAN, 2010). In Morocco, 93% of industrial firms are MSMEs and they account for 38% of production, 33% of investment, 30% of exports, and 46% of jobs. In Bangladesh, firms with less than 100 employees represent 99% of firms and 58% of jobs. SMEs in Tanzania contribute 30-36% to the GDP (Hamisi, 2011). In Ecuador, 99% of all private firms have less than 50 employees and account for 55% of jobs (Evbomwan et al., 2012; Oteh, 2010; WBCSD, 2004). It is imperative to note that not all MSMEs are in the formal sector; a large proportion of them operate in unofficial market or informal sector which varies in size from 4-6% in industrialized countries to over 50% in developing countries (Evbomwan et al., 2012; Oteh, 2010; WBCSD, 2004).

### **3.0 Contextualization of Entrepreneurship Paradigm and MSME Development**

Understanding the need for entrepreneurship in Africa requires juxtaposing the opportunities with the challenges in the region. The vast opportunities in Africa require entrepreneurial strategy to exploit them. Africa needs to mobilize entrepreneurial talents to exploit its natural resources to drive regenerative growth. As both African Development Bank (AfDB, 2007, 2013a, 2013b) and UN ECA and AU (2013) have asserted, Africa’s abundant natural resources are the key to drive economic transformation of the region.

#### **3.1 Socioeconomic Context of Entrepreneurship**

Africa is characterized by multidimensionality, complexity, paradoxes, and contradictions. These characteristics are exemplified and amplified simultaneously by the vastness of its population size, enormous ethno-heterogeneity, expansive geopolitical territory, impressive natural resource endowments, and dehumanizing absolute poverty. Africa comprises 54 recognized sovereign states that straddle over 20 percent of the global land space. With an aggregate population of over one billion (*World Population Review*, 2013), Africa is the world’s second most populous region after Asia. The region is also afflicted by grinding poverty.

In the 1980s and 1990s, virtually all Africa suffered from debilitating economic conditions, exacerbated by natural disasters, civil wars, and political instability. Compounding this dismal picture of woes were crushing foreign debt and servicing burden and diversion of Western foreign aid/assistance from Africa to Eastern Europe. All this triggered capital flight and systematic deindustrialization of the region (Edoho, 1997). African political economy was in such disarray that the 1980s and 1990s were dubbed “African lost decades” (UNECA & AUC, 2010). Consequently, Africa was nicknamed “never to be developed world” (Pirages, 1990:2); the “lost continent” (Odera-Straubb, 1993:2); “the hopeless continent” (*The Economist*, 2000:7; Crewe and Aggleton, 2003:142); and “the shackled continent” (Guest, 2004).

These negativisms captured the severity of economic crisis that worsened unemployment, escalated abject poverty, and threatened African social fabrics (Adedeji, 2002; Bewayo, 2005; Naude & Havenga, 2005; Round, 2007; UN ECA & AUC, 2013). Although extreme levels of poverty have declined in other regions since the 1980s, the proportion of Africans living in abject poverty nearly doubled in two successive decades (Moyo, 2009). The number of poor in Africa who lives on US\$1 a day surged from 164 million in 1981 to 313 million in 2001 (Round, 2007). In 2007, the incidence of poverty in Africa hit 46 percent—the highest in the world. African countries still dominate the list of the UN least developed countries—33 out of 50 countries.

Since 2000, growth in Africa has improved significantly. *The Economist* reported that in a decade, six of the ten fastest-growing countries were African, and in eight of the past ten years, growth rates surpassed those of East Asia, including Japan (*The Economist*, December 3, 2011). During 2002-2008, growth rates in Africa averaged 5.6 percent. Although it fell to 2.2 percent in 2009, as a result of the global financial crisis, Africa rebounded with 4.6 percent growth rate in 2010 and 5.0 percent in 2012 (UN ECA & AUC, 2013). From all indications, Africa's medium-term growth opportunities remain strong and promising. For example, 4.8 percent and 5.1 percent, respectively, were projected for 2013 and 2014 (UN ECA & AUC, 2013).

Because economic development outlooks in Africa were previously considered bleak and gloomy, the remarkable growth performance since 2000 has been touted as a miracle. Equally, the previous pessimistic projections have yielded to optimistic trajectories, such that Africa "has been hailed as the next frontier for opportunity and a potential global growth pole" (UNECA & AUC, 2013:4); a "new frontier for emerging markets" (Santiso, 2007); next emerging giant; "the next frontier" (Ahmed, 2008); or the new "'frontier' markets" (Nellor, 2008). There are ample opportunities for Africa to adopt entrepreneurial paradigm to institutionalize the growth momentum and reengineer regenerative development that would generate jobs, alleviate poverty, and create wealth on a sustained basis.

### **3.2 Resource Base and Entrepreneurial Opportunities**

Africa's vast resources provide developmental potential to anchor entrepreneurial paradigm. The region's resources are equal to, or in certain cases surpass, those of other regions (World Bank, 1989; AfDB, 2007, 2013a, 2013b). The region boasts about 12% of the global oil and about 8% of global gas reserves, 42% of gold, 80-90% of chromium and platinum group metals, and 60% of arable land in addition to significant timber resources (UN ECA & AUC, 2013). Guinea alone accounts for 13% of the global bauxite; Zaire (45%) and Zambia (10%) jointly account for 55% of the world's cobalt as well as 6% and 8%, respectively, of global copper; Algeria has 16% of the global mercury; Gabon accounts for 8% of the world's manganese (Fernie & Pitkethly, 1985). Zaire has copper reserves sufficient to last for 40 years, and has the world's richest undeveloped copper deposits at Tenke and Fungerume (World Bank, 1989). Mineral wealth of the DRC is valued at US\$24 trillion (Morgan, 2009).

However, much of the region's resources remain undiscovered and barely harnessed. Africa holds significant position in the world in certain agricultural products. According to the Food and Agricultural Organization statistics, Cote d'Ivoire, Ghana, Nigeria, and Cameroon rank first, second, fourth, and fifth, respectively, among the top 10 world's cocoa producers. Nigeria, Niger, and Mali rank second, third, fifth on millet production. Nigeria, Sudan, and Ethiopia rank second, fourth, and fifth on sorghum production. Nigeria and DRC rank first and fifth on cassava production; and Nigeria ranks second on sweet potato, while Tanzania, Kenya, and Madagascar rank second, third, and fourth, respectively, on global sisal production (FAOSTAT, 2014).

But as African Development Bank aptly observed, although Africa has over 40 percent of the global natural resource endowments, the region ranks the poorest on virtually all economic and social indicators (Mudamburi, 2012:9). While the 21st century has witnessed increased demand and renewed scrambles for Africa's natural resources, the region lacks entrepreneurial ability and technical skills to effectively exploit and manage them in a sustainable manner. Much of African natural resources, including agricultural products, are still exported as raw materials for processing overseas and reimported to the region as finished products. This is the crux of pervasive abject poverty in Africa. How could a continent be so rich, yet so poor? This phenomenon has been dubbed the "paradox of plenty" (Karl, 1997). It has been argued that "Africa is not poor because it is poor but that it is poor because it is rich" (Edoho, 1994:35).

### **3.3 Globalization and Entrepreneurship**

Globalization describes changes in societies and the world political economy. Central to globalization have been the revolution in information and communication technologies (ICTs). ICTs have engendered shrinkage of the world; integration of national economies; and interdependence, facilitating cross-border trade as well as flows of goods, capital, and of labor (Edoho, 1997). Naisbitt (1994) posited that globalization presents a paradox in that the larger the world economy is becoming, the more powerful its smallest players.

According to him, "The more the economies of the world integrate, the less important are the economies of countries and the more important are the economic contributions of individuals and individual companies" (Naisbitt, 1994:298). As a result, Acs et al. (2009:123) noted that "globalization provides a cornucopia of opportunities for entrepreneurs and SMEs."

The intersection of globalization, ICTs, and entrepreneurship is a major theme in the literature (e.g., Audretsch and Sanders, 2008; Quresh et al., 2009; Karmal et al., 2010). Audretsch and Sanders (2008) argue that globalization has engendered a shift in developed countries from industrial to entrepreneurial economy. The key dynamic in this transition is entrepreneurial capitalism. ICTs play a central role in the transition. Ajayi (2003) stated that globalization offers new opportunities, including expanded markets and the acquisition of new technologies, knowledge, and ideas. The application of ICT fosters globalization by facilitating access to new markets, technology, knowledge, and increasing competitiveness. Studies indicate how poor populations have been able to take advantage of ICT to access new markets, enhance their competitiveness, and achieve lower costs and higher returns through administrative efficiencies (Qureshi et al., 2009; Karmal et al., 2010). Edoho (2013) identified key sectors to which African countries should apply ICTs to foster sustainable development in the age of globalization.

ICTs should enhance interconnection and collaborations for African entrepreneurs. This should facilitate their competitiveness and help to lower cost of entry to the global marketplace. Globalization provides opportunities for African entrepreneurs to leverage ICTs to access global markets, promote their products, identify the global consumers, and sell their products. ICT-enabled access to global market will enable African entrepreneurial firms to assess the needs of burgeoning global consumers. This would expose African firms to global competition, which would motivate them to improve the quality of their products in order to compete to meet the needs of global consumers. African entrepreneurs should be engaged in activities that have high value-added contents and skill intensity to become integrated in the global production value chain. African entrepreneurs need to explore different uses for and add value to the natural resources in the region. Globalization offers opportunities for African entrepreneurs to use ICTs to penetrate global market with high quality value-added low-cost products.

Due to the lack of indigenous entrepreneurs to exploit local materials, Africa is grossly undermined and shortchanged economically, financially, and psychologically by foreign firms who develop the region's raw materials into finished products. Worse still, poor Africans engaged in the bottom of the global production pyramid and value chain do not benefit from the finished products that come from the raw materials they produce. For example, farmers in M'batto in Cote d'Ivoire have been producing cocoa beans all their lives, and their country is the world's leading producer of cocoa beans—the primary ingredient in chocolate. Ironically, cocoa farmers in M'batto only had the privilege of ever tasting chocolate bar in 2014, as reported in an online *Huffingtonpost* (2014).

A corresponding dilemma is the gross underutilization of local raw materials by MSMEs. The World Bank Enterprise Survey data indicate that in Ghana, a mere 10% and 30% of small and medium firms, respectively, export their products. By sharp contrast, 59% and 81% of small and medium firms use material inputs and or suppliers of foreign origin. Similarly, exporter firms in Nigeria are 23% and 22% for small and medium enterprises, respectively, while 26% and 36% of small and medium firms use material inputs and or suppliers of foreign origin (World Bank, 2014). Part of the reasons is that only a few exporter MSMEs in Africa are able to compete in the global marketplace. For example, the same World Bank surveys data indicate a mere 6% and 7% of small and medium firms in Nigeria and 5% and 13% of small and medium firms in Ghana, respectively, boast internationally recognized quality certification.

The conundrum of wealth and poverty is partly attributable to the pervasive absence of indigenous entrepreneurial strategies to add value to local raw materials to meet the evolving needs of the global market. Drucker (1997) explained that there is no such thing as resources until man finds use for them and endows them with economic value. Due to the lack of entrepreneurship, much of the resources in Africa are still exported as raw materials to industrialized countries where economic value is added. The entrepreneurial opportunities in Africa require building the capacity and designing entrepreneurial strategies to transform its natural resources to fuel growth and to turn a resource curse into resource catalyst and blessing.

#### 4.0 Environmental Challenges for Entrepreneurship

Literature considers the effect of environmental conditions on entrepreneurs (Gartner, 1985; Dubini, 1989; Gnyawali & Fogel, 1994). In their study of environments for entrepreneurship, Gnyawali & Fogel (1994:44) used “entrepreneurial environment” to capture the combination of factors critical to entrepreneurship. First is the general environment encompassing “the overall economic, sociocultural, and political factors that influence people’s willingness and ability to undertake entrepreneurial activities?” Second is the “availability of assistance and support services that facilitate the start-up process.” In a study that contrasted motivations and environment with the rate of firm start-ups, Dubini (1989) identified three types of environments that have ramifications for the rate of new venture creation: munificent environments, characterized by efficient infrastructure, established capital markets and the availability of incentives to start business; supportive environments, in which the creation of an infrastructure specifically aimed at encouraging new firms could lead to a significant boost in entrepreneurship; and sparse environments, in which both infrastructure and capital availability are lacking. Many African entrepreneurs operate in sparse environment. This section considers the following specific challenges: business climate, access to credit, and physical infrastructure.

##### 4.1 Challenges of Business Climate to Entrepreneurship

Gatewood and Boko (2009:127) state that in “many developing countries, budding entrepreneurs are discouraged by the mound of regulations and the costs in time and money necessary to start and register a business.” The rankings of the *Doing Business Index* by the World Bank (2005) show that the highest cost of starting a business in the Democratic Republic of Congo (DRC) is 487%, compared to a mere 0.7% in the U.S. It takes almost a year to complete the licensing processes in Benin and DRC, compared to 40 days in the U.S. The costs of obtaining licenses are almost 3000% in Niger; 2000% in the DRC; and about 1000% in Mali, but just 13.4% in the U.S. (Gatewood & Boko, 2009).

For ease of doing business, the *2011 Doing Business Index* puts Nigeria at an aggregate of 137; Sierra Leone, 143; Gambia, 146; Burkina Faso, 151; Senegal, 152; and Benin, 170 out of 183 countries (World Bank, 2011). A 2015 World Bank study ranked 189 countries on ease of doing business (see Table 2). Countries are ranked from 1-189 (1 the highest, 189 the lowest). A high ease of doing business ranking means the regulatory environment is conducive to starting and operating a local firm. The table shows comparative rankings of five African and five other countries. First, the table shows aggregate score for each country as well as rankings for eight sub-categories. Singapore ranks the highest (1) out of 189 countries on ease of doing business.

**Table 2: Ease of Doing Business, 2015**  
Source: World Bank (2015)

	South Africa	Rep. of Korea	Ghana	Brazil	Kenya	Mexico	Nigeria	Peru	Eritrea	Singapore
Ease of Doing Business Rank	43	5	70	120	136	39	170	35	189	1
Starting a Bus.	61	17	96	167	143	67	129	89	183	6
Registering Property	97	79	36	138	136	110	185	26	176	24
Getting Credit	52	36	36	89	116	12	52	12	185	17
Dealing with Const. permit	32	12	106	174	95	108	171	87	189	2
Getting electricity	158	1	71	19	151	116	189	86	113	11
Protecting Investors	17	21	43	35	122	62	62	40	166	3
Paying Taxes	19	25	56	177	102	105	179	57	174	1
Trading across Borders	101	3	101	128	153	44	159	55	172	1

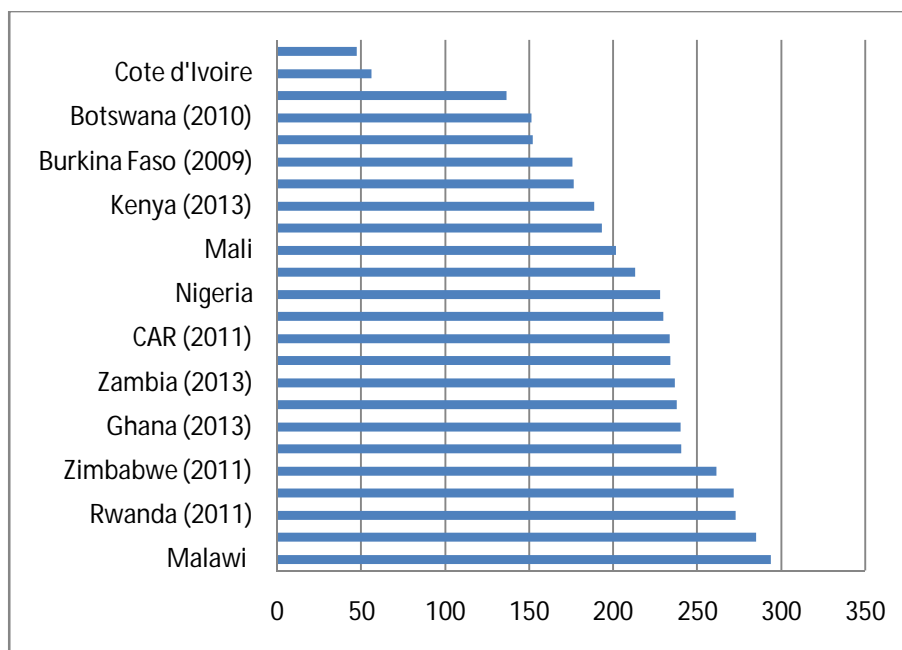
As the table also shows, except South Africa (43) and Ghana (70), the other three African countries rank in three digits. In fact a majority of African countries are at the bottom of the list. No African country compares to the Republic of South Korea (5), Mexico (39), and Peru (35) on the aggregate ease of doing business index. This suggests that business environments in many African countries are not conducive to entrepreneurship and MSME development.

Because business environments in African countries discourage efforts, they account for the low level of entrepreneurial activities. Burdensome taxations penalize entrepreneurial efforts. The World Bank data shows that African entrepreneurs pay, on average, 57.1% taxes on their profits (AfDB, 2012a:2).

#### 4.2 Challenges of Access to Credit and Entrepreneurship

Sustained entrepreneurship requires supportive and accessible financial institutions, such as commercial banks, development finance institutions, microfinance banks, credit bureaus, and money deposit banks. In most African countries, financial institutions are underdeveloped, and access to credit is limited. Data from the World Bank Enterprise Surveys indicate that one of the key impediments to firms in Africa is lack of access to credit (World Bank, 2014). Financial institutions demand outrageous collaterals as *conditio sine qua non* for extending investment loans. Figure 1 shows that compared to developing countries in other regions, African countries rank poorly with regards to accessibility of entrepreneurs to credit.

Figure 1 Access to Credit, 2015



Source: World Bank (2014)

In Ghana, collateral is 240% of the value of the loan amount. However, collateral requirements vary from microenterprises to large firms: 260% for microenterprise; 213% for small enterprises; 213% for medium enterprises; and 216% for large enterprises. Nigeria had an aggregate of 228%, while collateral required for microenterprises, small, medium, and large firms are 223%, 228%, 286%, and 207.4%, respectively (World Bank, 2014). Developed and efficient financial systems minimize the dependence of entrepreneurs on internal funds or personal and informal sources, such as family and friends. Excessive dependence on internal funds for investment is an indication of potentially inefficient financial intermediation (World Bank, 2014). Due to underdeveloped and inefficient financial markets to serve the needs of MSMEs, entrepreneurs commonly resort to internal or personal funds for investment. In Nigeria, 53% of firms depend on internal funds for investment, while it is 76% in Ghana, 61% in Kenya, 85% in Tanzania, and 72% in Senegal (World Bank, 2014).

Weak financial institutions hamper business operations and expansion, stifle the ability of entrepreneurs to take advantage of potential market opportunities, and also discourage start-ups.

#### 4.3 Challenges of Physical Infrastructure and Entrepreneurship

A strong national physical infrastructure is critical to the competitiveness of economy (World Bank, 2015). Agboli and Ukaegbu (2006) emphasized the critical nature of physical infrastructure for Nigerian entrepreneurs.



Physical infrastructure include: transportation (roads and highways, seaports, airports, and railroads), telecommunications, and electricity power generation. The presence of infrastructure helps to create an environment not only conducive to locating business, but also supportive of start-ups, growth, and expansion. Physical and efficient infrastructure, such as transportation, helps to link MSMEs to their customers, suppliers, and markets. In virtually all African countries, deficient infrastructure remains the bane of new venture start-ups, growth, and expansion.

*Transportation/Logistics.* The critical nature of logistics for MSMEs lies in creating value for customers and suppliers. As Hamisi (2011:1269) pointed out, value in logistics is expressed in time and place: "Product and services have no value unless they are in the possession of the customers when (time) and where (place) they wish to consume them." According to UNCTAD (2008), firms, particularly MSMEs, in developing countries are unable to benefit from the opportunities offered by global value chains because of their low connectivity to global transportation networks and their weak productive capacity.

Entrepreneurs and MSME operators in Africa face physical infrastructure challenges. Compared to other developing countries, African countries fared poorly on the 2012-2013 Global Competitiveness rankings of 142 countries on the infrastructure. On the quality of overall infrastructure, the leading high performers were Namibia, 40; South Africa, 58; Botswana, 64; and Zambia, 84. These stood in sharp contrast to Ethiopia, 100; Uganda, 110; Malawi, 116; Nigeria, 117; and Angola, 138 (Herrington & Kelley, 2012). The World Bank Logistics Performance Index (LPI) shows that African countries ranked poorly out of 160 countries (World Bank, 2014b). Compared to other developing countries with higher scores, such as South Korea (21), Malaysia (25), and Taiwan (19), only eight African countries rank among the first 100 countries, ranging from South Africa (34) to Ghana (100). This demonstrates "higher logistics costs borne by SMEs as a source of missing the opportunities of globalization" (Hamisi, 2011). Due to deficient transportation systems in many African countries, "[m]oving of goods from one point to another exacts high costs" (Edoho, 2015:140).

*Electricity Power Generation:* In sub-Saharan Africa, the cost to get electricity as a percentage of income per capita is 4,747%, compared to 1,895% in South Asia (Herrington & Kelley, 2014). Unreliable power situation adds to start-up and production costs. A 2005 survey by Manufacturing Association of Nigeria found that the costs of generating power accounted for about 36% of the production costs (Moyo, 2012). Based on the World Bank Surveys, the Global Entrepreneurship report indicates that, among 142 countries captured, the rankings for the quality of electricity for certain African countries are: Ethiopia, 112; Ghana, 116; Malawi, 128; Uganda, 129; Angola, 135; and Nigeria, 138 (Herrington & Kelley, 2014).

Poor quality power supply affects labor productivity and output. A study found that poor quality electricity supply is the infrastructure element that has the strongest negative impact on firm productivity, especially in poor African countries (Escribano et al., cited in Scott et al., 2014). Arnold et al. (2006) used World Bank Enterprise Surveys data for over 1,000 firms in 10 sub-Saharan African countries to show that an unreliable electricity supply has a significant negative effect on a firm's total factor productivity. Moyo (2012) examined the impact of power disruptions on firm productivity in Nigeria's manufacturing sector and found that power outage variables (measured by hours per days without power and percentage of output lost due to power disruption) have negative and significant impact on productivity. Power outages and disruptions have created undesirable phenomenon in Africa as entrepreneurs resort to back-up generators to meet their business needs. As Africa increasingly becomes a dumping ground for individual power generating plants, the severity of noise and air pollutions has intensified.

Overcoming the challenges of infrastructure in Africa would significantly enhance the level of entrepreneurship and improve productivity. Enhanced infrastructure will foster the prospects of MSME viability and success. For example, the Manufacturing Association of Nigeria attributed the closure of 820 manufacturing companies in the country between 2000 and 2008 and of a further 834 in 2009 alone to the high costs of infrastructure (Akuru & Okoro, 2011). Besides being critical to entrepreneurs, improved infrastructure will help make economies of African countries more competitive and attractive for foreign investment.

## 5.0 Conclusion

Africa can claim the 21<sup>st</sup> century by institutionalizing entrepreneurial paradigm as a motive engine to drive its economy and as a pathway to participation in the globalization process. Entrepreneurship should enable Africa develop innovative capabilities to add values to its abundant raw materials, diversify its economic base, and compete in the global market. Its abundant raw materials and vast labor pool should give Africa low-cost competitive advantage to drive sustained growth. Building viable institutional structures and infrastructure to leverage African potential and galvanize entrepreneurial energy should create a momentum for self-renewing wealth creation, employment generation, and poverty alleviation. The absence of such synergies means that, hitherto, the vast resources in the region have not done much to extricate Africa from the clutches of dehumanizing abject poverty.

To participate meaningfully in the contemporary world economy driven by ICTs and globalization, Africa has opportunities to focus on facilitating entrepreneurship predicated on new venture creation and promoting innovation to ignite growth. At present, Africa is uncompetitive and marginalized in the global economy because of its lack of innovative skills, low labor productivity, and limited industrial production capacity. This is why Africa ranks very low on global competitiveness index. The lack of technology-based entrepreneurship means that Africa is still dependent on raw materials as primary producer for participation in the global market, while other regions participate by producing high skill-intensity and technology products for the global market.

Although Africa has the requisite resources and opportunities that are critical for its economic transformation, challenges abound. The obvious challenges that militate against entrepreneurship in the region include unfriendly business environment characterized by regulatory burden and bureaucratic procedures, inaccessibility to credit, and poor physical infrastructure. While there is a high propensity toward entrepreneurship in Africa, these challenges constitute major impediments to actualization of creative efforts. For example, because the process for starting a business is highly bureaucratized, prospective entrepreneurs in Botswana would have to scale through 10 procedures to start a business. How can a prospective entrepreneur in Ghana or Nigeria afford collateral requirements that amount to 260% or 223% of the loan amount needed to launch a microenterprise? Poor infrastructure and inaccessibility to credit continue to cripple entrepreneurial efforts in Africa.

It is not enough for African governments to embrace entrepreneurship as a viable route to development. It is very critical for them to revamp and streamline the bureaucratic procedures to encourage entrepreneurship and MSME development. It is also important for African governments to formulate explicit entrepreneurial policy to rein in collateral requirements and break the credit logjam for investment loans. African governments need to realize the importance of efficient logistics and electrical power supply to their economic future. Dependable transportation systems and power supply will enhance productivity and boost economic development in the region.

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