Challenges of Doing Business in Africa: A Systematic Review

Asongu, Simplice and Odhiambo, Nicholas

May 2018
Challenges of Doing Business in Africa: A Systematic Review

Forthcoming: Journal of African Business

Simplice A. Asongu
Department of Economics, University of South Africa.
P. O. Box 392, UNISA 0003, Pretoria South Africa.
E-mails: asongusimplice@yahoo.com, asongus@afridev.org
Tel: +32 473 61 31 72

Nicholas M. Odhiambo
Department of Economics, University of South Africa.
P. O. Box 392, UNISA 0003, Pretoria, South Africa.
Emails: odhianm@unisa.ac.za, nmbaya99@yahoo.com

1 This working paper also appears in the Development Bank of Nigeria Working Paper Series.
Abstract

This paper provides a systematic review of challenges to doing business in Africa. It complements the extant literature by answering two critical questions: what are the linkages between the ease of doing business and economic development; and what are the challenges to doing business in Africa? In providing answers to these questions, the nexus between the ease of doing business and economic development is discussed in six main strands, namely: wealth creation and sharing; opportunities of employment; balanced regional and economic development; Gross Domestic Product (GDP) and GDP per capita; standards of living and exports. Moreover, challenges to doing business are articulated along the following lines: (i) issues related to the cost of starting a business and doing business; (ii) shortage of energy and electricity; (iii) lack of access to finance; and (v) high taxes and low cross-border trade.

JEL Classification: L59; O10; O30; O20; O55

Keywords: Business; Development; Africa
1. Introduction

This paper is motivated by three main issues in scholarly and policy-making circles, notably: the relevance of doing business in economic development; the challenges to doing business in Africa; and the gaps in the literature (i.e. the absence of a contemporary study that has surveyed contemporary challenges to doing business in Africa). The three points are substantiated in the same order as they have been highlighted.

First, as will be substantiated in Section 2, doing business is relevant for economic development because it is positively associated with a multitude of economic development externalities, *inter alia*: wealth creation and sharing; opportunities of employment; balanced economic and regional prosperity; exports; standards of living, gross domestic product (GDP) and GDP per capita (Adu-Gyamfi, Kuada & Asongu, 2018; Asongu, 2013). Compared to other regions of the world, the African continent is lagging in all these characteristics, which reflects inherent challenges to doing business in the continent that are limiting entrepreneurship and conducive business environments needed for investment and economic prosperity (Tchamyou, 2017; Asongu & Nwachukwu, 2018a).

Second, substantial challenges to doing business in Africa are still apparent in spite of a shift in paradigm towards market-based development, enhanced political and economic governance and a conducive global environment that has set the pace for Africa’s recent economic growth resurgence (Tchamyou, 2018; Asongu, Nwachukwu & Orim, 2018). Whereas the underlying progressive features articulate some avenues of economic prosperity, they nonetheless do not avail sufficient grounds for the type of comprehensive and sustainable development that the continent needs in the post-2015 sustainable development era. Accordingly, businesses in Africa are faced with daunting social, political and economic risks that stifle long-term investment decisions as well as the implementation of sustainable development policies. These are most challenging today because, according to a 2015 World Bank report on the achievement of millennium development goals (MDGs), from the mid-1990s, extreme poverty declined in every region of the world with the exception of Africa, where about 50% of countries in sub-Saharan Africa (SSA) were substantially off-track from achieving the MDG extreme poverty target (Tchamyou, Erreygers & Cassimon, 2018).

Third, the positioning of this study as a systematic review of challenges to doing business in Africa is also motivated by gaps in the extant literature. Accordingly, the literature on the ease of doing business in Africa has predominantly focused on, *inter alia*: the cost of doing business (Eifert, Gelb & Ramachandran, 2008); legal challenges to doing business (Taplin & Synman, 2004); determinants of doing business in East Africa (Khavul, Bruton &
Wood, 2009); the rate at which business cycle synchronization is affected by trade (Tapsoba, 2010); the long-term poverty-mitigation impact of doing business (Mensah & Benedict, 2010); motivations underlying the intentions of students to become entrepreneurs (Gerba, 2012); gender-related factors (Bayraktar & Fofack, 2018; Mannah-Blankson, 2018; Elu, 2018); the relevance of social networks and human capital (Kuada, 2009); role of the knowledge economy in doing business (Tchamyou, 2017); the relevance of doing business in inclusive human development (Asongu & Odhiambo, 2019) and linkages between information technology, openness, governance and entrepreneurship (Asongu, Nwachukwu & Orim, 2018; Asongu & Nwachukwu, 2018a).

To the best of our knowledge, a survey on the challenges to doing business is missing in contemporary African development literature. This study complements the engaged literature by providing a systematic review of challenges to doing business in Africa. Such a review is relevant to both scholars and policy makers. While for the former (i.e. scholars), it provides scholarly trends on the stock of knowledge on issues surrounding the doing of business in Africa, for the latter (i.e. policy makers), valuable insights are provided into policy syndromes that governments should act upon in order to facilitate the ease of doing business and by extension, boost associated positive development externalities.

In the light of the above, this systematic review attempts to answer two main questions: i) what are the linkages between the ease of doing business and economic development and ii) what are the challenges to doing business in Africa? The rest of the study is structured as follows. A methodology of the systematic review is discussed in section 2. Section 3 covers the relationship between the ease of doing business and economic development, while section 4 briefly reviews the extant literature on the challenges to doing business in Africa. Section 5 concludes with future research directions.

2. Methodology of the systematic review

The perusal of papers used for this systematic review was done between January 2018 and May 2018. The following sources were used to select papers and examine the relevant references that are consistent with the problem statement, namely: Science Direct, Economic Literature (Econlit), Google Scholar, Research Papers in Economics (RePEc) and the mainstream search engine of Google. These sources of information have been used in recent literature on systematic reviews (Asongu & Nwachukwu, 2018b).

A one-week pilot study was carried out, upon which, on the one hand, the relevance of doing business in economic development, and on the other hand, challenges to doing business
in Africa were classified into strands. Then a more in-depth round of a systematic review of
the available literature was carried out with the aim of substantiating the selected strands with
attendant contemporary literature. In this process of substantiation, regardless of
methodologies employed for the reviewed studies, the criteria for the selection of papers
were that the selected paper should be consistent with, on the one hand, the scope of this
systematic survey, and on the other hand, the adopted strands pertaining to: (i) the nexuses
between the ease of doing business and economic development, and (ii) the challenges of
doing business. Hence, when perusing the literature, our concerns were that studies should be:
(i) largely peer-reviewed and (ii) consistent with the problem statement as well as attendant
strands in which they are engaged in the study. The former explains why more scholarly
literature, and less grey literature, has been considered.

Consistent with Asongu and Nwachukwu (2018b), in the selection of relevant
references, priority was given to post-2010 publications. Some papers were not considered
because of constraints in the availability of English versions. The systematic review was
carried out within the framework of “conceptual independence” such that we neither left out
studies that employ the same methodological underpinnings and are positioned on different
countries, nor did we leave out studies that focus on different methodological frameworks for
different countries. Moreover, in order to decrease the risk of repetition and recycling of
engaged material, multiple references were used to consolidate harmonious and homogenous
positions in the literature. This is most apparent when both quantitative and qualitative
perspectives are available to inform the study on the problem statement being investigated.

Note should be taken of the fact that, at the time of this study, there was no clear
consensus on the format through which papers in a systematic review are selected. While
some studies have been based on one observation per surveyed paper, another strand of
authors use all available information (see Florax, Travisi & Njikamp, 2003; Asongu, 2015a).
The analytical technique adopted in this systematic review consists of combining the two
underlying strands. This is essentially because the focus of the study is both on direct and
indirect contributions to knowledge pertaining to the two questions motivating this review.
Accordingly, a direct contribution is a reviewed empirical paper that establishes a causal
linkage that informs the study. Conversely, an indirect contribution refers to a paper from
which an inference that is not based on empirical analysis is used.
3. Ease of doing business and economic development

The nexus between ease of doing business and economic development can be engaged in six main strands, in the light of recent entrepreneurship literature (Adu-Gyamfi et al., 2018), notably: exports, living standards, GDP and GDP per capita, balanced development, wealth sharing and creation and opportunities of employment. The points are expanded in the same order as they have been highlighted.

First, an extensive strategy or export-focused economic development strategy is based on market-oriented economic policies that provide enabling conditions for entrepreneurship and the doing of business domestically. The domestic business environment should also be competitive by means of cutting-edge technologies and participation in foreign markets. Foreign reserves that are generated from export surplus are essentially used in stabilizing the economy in times of both monetary and fiscal crises. Such stabilization is necessary in order to attract future investments as well as prevent domestic entrepreneurs and foreign investors already operating in a country on the continent to leave. Accordingly, entrepreneurs and investors have been established to prefer engaging in economic environments that are less ambiguous (Kelsey & le Roux, 2018).

Second, doing business can contribute towards the improvement of living standards in a country because entrepreneurs in the business environment pioneer and tailor innovations that enhance the overall living quality for employees, customers and other stakeholders in the community. Such innovations pertain to goods and services that are environmental-friendly as well as the development of smart cities. The underlying view of positive externalities of doing business in economic development is in accordance with literature on the importance of doing business in the delivery of public goods (Alvarez, Barney, & Newman, 2015) and reduction of poverty (Bruton, Ahlstrom, & Si, 2015).

Third, doing business naturally provides enabling conditions for increased GDP growth and GDP per capita. In essence, doing business improves aggregate investments, consumption and exports which are constituents of GDP. Moreover, the process of doing business employs labour, land and capital that contribute to value-added goods and services which augment national income, national product and by extension, GDP per capita, especially when the national product is equitably distributed across the population. These associated positive economic externalities from doing business are consistent with recent knowledge economy and entrepreneurship literature (Tchamyou, 2017; Asongu & Tchamyou, 2016, 2018).
Fourth, policies of setting-up businesses can be tailored to address concerns of unbalanced regional development in the perspective that entrepreneurs can be provided with incentives to locate and develop their businesses in localities and regions that are less developed. The corresponding positive development externalities associated with the establishment of new businesses which can contribute towards balanced regional economic development include: amelioration of transport infrastructure (e.g. roads, rail linkages and airports), employment avenues, and enhancement of private and public services such as stable electricity, schools, water supply and hospitals. This narrative on the relevance of entrepreneurship in community development (education, healthcare, training and public commodities) is consistent with recent literature (Qian & Jung, 2017).

Fifth, doing business contributes to the creation and sharing of wealth in an economy. This is essentially because, in the establishment of a business, capital is attracted from a plethora of shareholders (i.e. banks, the public and investors) by entrepreneurs. Moreover, the process of creating a business does not exclusively mobilize wealth from the public, but also permits participating investors to share benefits from the transformation of new ideas into production processes with a pool of new capital. Ultimately, the process of business development leads to wealth creation and distribution among shareholders and stakeholders. The positive externality from business development is consistent with the literature on the importance of institutions in boosting conditions for doing business (George, Rao-Nicholson, Corbishley, & Bansal, 2015), especially favourable financial access institutions (Im & Sun, 2015) as well as conducive politico-economic institutions (Autio & Fu, 2015).

Sixth, doing business and entrepreneurship naturally provide an enabling environment for employment because the underlying business operations are associated with human capital which is materialised through job creation. Accordingly, job creation may be direct and indirect. On the direct front, doing business is a means to self-employment, given that at least one worker or the entrepreneur is needed to manage the business operations. With regard to the indirect framework, many job seekers can be taken on board if the newly established business is characterised by complex frameworks of organisation and value creation. Moreover, the people employed are associated with other elements that increase economic development, notably: consumption in the economy and the payment of taxes. The positions in this strand are in line with recent entrepreneurship literature (Brixiová et al., 2015).

In the light of the above, doing business can boost economic development by inter alia: creating opportunities for employment, increasing economic prosperity and GDP per capita, balancing economic development, especially through avenues of the creation and
distribution of wealth accruing from economic prosperity and improving living standards. Unfortunately, there are many challenges to doing business in Africa.

4. Challenges to doing business in Africa

Over the past decades, Africa has gone through unprecedented phases of economic liberalization and implementation of policies designed to improve doing business conditions (Amavilah, Asongu & Andrés, 2017). However, the continent has also notoriously stood out from other regions of the world in doing business, which obviously has consequences on the lofty ambitions of unlocking the continent’s potential in the light of Agenda 2063 and the post-2015 sustainable development agenda (DeGhetto, Gray & Kiggundu, 2016). A weak export sector and a large young population are awaiting opportunities for the creation of new businesses and expansion of existing ones. Accordingly, reforms are needed to address the corresponding challenges to doing business.

In this section, the challenges to doing business are discussed in four main strands, notably: (i) issues related to the cost of starting a business and doing business; (ii) shortage of energy and electricity; (iii) lack of access to finance, and (iv) high taxes and low cross-border trade. The concerns are expanded in chronological order.

First, the costs of starting a business and doing business in Africa are quite high, not only because many procedures are involved, but also because the process of starting a business sometimes entails corrupt practices. Such high start-up costs entail registration and licensing requirements that are many (Abor & Quartey, 2010). This position is also supported by the broad literature on entrepreneurship in Africa (Eifert et al., 2008; Tchamyou, 2017; Asongu, 2017). This concern extends to associated issues with doing business, such as: (i) cost of business start-up procedure; (ii) procedures to enforce a contract; (iii) start-up procedures to register a business; (iv) time required to build a warehouse; (v) time required to enforce a contract; (vi) time required to register a property; (vii) time required to start a business; (viii) time to export; (ix) time to prepare and pay taxes, and (x) time to resolve an insolvency (Asongu, Nwachukwu & Orim, 2018). The underlying issues pertaining to the starting and doing of business can be addressed by improving institutional and economic governance. Moreover, digitalizing the process of creating a business as well as processes

---

2The guiding vision for Agenda 2063 is the African Union’s vision of a peaceful, prosperous and integrated Africa that is driven by its own citizens who are playing dynamic roles in the international arena. It is also a strategic framework (for the economic and social transformation of Africa over the next 50 years) which builds on the imperative to fast-track the implementation phases of existing and past continental economic growth and sustainable development initiatives.
surrounding doing business, will substantially curtail the time needed for the improvement and execution of the business dynamics highlighted above.

Second, the costs of getting electricity as well as procedures required for electrification are daunting. Moreover, even when the electricity is installed, electricity outages, which at times represent several working days, stifle the smooth running of business operations. As recently shown by Asongu, le Roux and Biekpe (2018), the management of energy in Africa has not been effective. According to the authors, the energy crisis is a critical policy syndrome in the post-2015 development agenda because access to energy is still limited to about 5% of the population in sub-Saharan Africa. Furthermore the consumption of energy in the sub-region is below the global average of 17%, which is equivalent to the total energy consumed in a single state in the USA, such as New York. This narrative on shortage of energy and electricity in Africa is consistent with a bulk of studies on energy management and efficiency (Apkan & Apkan, 2012; Asongu, le Roux & Biekpe, 2017). In the light of the underlying literature, encouraging the production and consumption of green energy and discouraging the consumption of fossil fuels (especially through subsidies) are some natural steps in the direction of decreasing incidences of shortages in energy and electricity across the continent.

Third, the lack of access to finance in Africa (such as payments, credit, corporate and private insurances) is traceable to a multitude of factors, _inter alia_: affordability, physical access and information asymmetry between lenders and borrowers (Batuo & Kupukile, 2010). These causes of lack of financial access are consistent with the broad stream of literature on excess liquidity in African financial institutions (Asongu, 2014). As a means of addressing this concern, the institution of information sharing offices or credit reporting agencies has been proposed in order to reduce the underlying asymmetric information, notably: (i) adverse selection on the part of lenders (ex-ante of the borrowing process) and moral hazard from borrowers (ex-post of the lending process) (Kusi & Opoku-Mensah, 2018). Moreover, with growing information and communication technologies, mobile banking services have provided the previously unbanked population with access to finance (Asongu & Odhiambo, 2017).

Fourth, high taxes and low cross-border trade are also major impediments to doing business in Africa. According to Verhagen (2017), almost all fiscal systems in Africa apply high taxation to capital flows leaving the country. This is contrary to Western countries, which restrict taxation at the source to interest, royalties and dividends. While limited economic integration and poor infrastructure, _inter alia_, have severely limited cross-border trade in Africa over the past decades (Akpan, 2014), the Continental Free Trade Area (CFTA: 
a continent-wide trade agreement that was signed by 44 of the 55 member states of the African Union in Kigali, Rwanda in March 2018) is expected to increase cross-border trade. It is relevant to note that the underlying low cross-border trade can be traceable to problems surrounding the diversity of products. Accordingly, if products in neighbouring countries are homogenous, there is less incentive to trade across the border unless neighbouring countries are confronted with issues of scarcity, high prices and poor quality in the underlying products.

5. Concluding remarks and future research directions

This article has provided a systematic review of challenges to doing business in Africa. It has complemented the extant literature by answering two main questions: what are the linkages between doing business and economic development and what are the challenges to doing business in Africa? In providing answers to the questions, the nexus between doing business and economic development has been discussed in six main strands, namely: wealth creation and sharing; the creation of jobs; balanced regional and economic development; Gross Domestic Product (GDP) and GDP per capita; standards of living and exports. Moreover, challenges to doing business have been articulated along the following lines: (i) issues related to the cost of starting a business and doing business; (ii) shortage of energy and electricity; (iii) lack of access to finance, and (v) high taxes and low cross-border trade.

Addressing the challenges of doing business in Africa is of immense contemporary relevance for a plethora of reasons discussed in this study. Most importantly, doing business will provide job opportunities to the rising population which the public sector has been documented not to be able to accommodate in the future (Asongu, 2013). Hence, the relevance of private sector investment, entrepreneurship and doing business, in addressing the unemployment associated with rapid population growth (Brixiova et al., 2015). Accordingly, the population of Africa is projected to double by 2036 and represent about 20% of the population of the world by the middle of this century (Asongu, 2015b). The corresponding rising unemployment from the positive demographic change, which can be absorbed by an enhanced enabling environment for entrepreneurship, is a critical issue confronting policy makers in the continent (AERC, 2014).

The modest survey accomplished by this research is relevant to both scholars and policy makers. Concerning policy makers, the research has summarized insights into challenges that policy makers should take on board when tailoring measures that should improve the business climate in Africa. As for scholars, this research has built on existing
scholarship to summarize the stock of knowledge on contemporary challenges to doing business in Africa. Such a summary is useful for scholars because it saves the time needed by a researcher to summarize trends on challenges to doing business in Africa.

Future studies can focus on assessing how the sharing economy can contribute towards reducing unemployment and boosting favorable conditions for doing business in Africa. Moreover, empirical studies should also be considered in the light of how backward African countries in terms of doing business can catch-up with their frontier counterparts.
References


