International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. X, Issue 1, Jan 2022

http://ijecm.co.uk/

AN INVESTIGATION INTO THE CHALLENGES TO SMEs DEVELOPMENT IN AFRICA

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Abstract

The overwhelming number of people in Africa are unemployed. Under these circumstances, SMEs have been considered as major economic drivers and primary sources of job creations in Africa. The aim of this study, therefore, examines the challenges African SMEs face. To achieve this objective, a mixed-method approach that allows the researcher to carry out a wide-ranging review of the literature on the topic under review was employed. The research identified lack of access to finance, corruption, poor infrastructure, lack of skilled workers/management skills, location and networking, technology, lack of information/knowledge, competition, lack of support services, policies/law, taxes, and regulations, poor recording keeping, political instability, poor products demand, branding and administrative inadequacies to be some of the major challenges African SMEs face.

Keywords: Small and Medium Enterprises, Challenges, African SMEs, Literature

INTRODUCTION

Small and medium enterprises (SMEs hereinafter) have been regarded as the power source of economic growth and for fostering equitable development (Muriithi, 2017; Okewu, 2015). They play a very important role in the economic development of every nation worldwide (Gamage, et al., 2019; Lee, 2016) as they are generally the largest employers (ADA, 2016). SMEs contribute 99% of the business in both developing and develop countries (Fjose, et al., 2010) and act as tools used for generating local and foreign revenue (OECD, 2009). The sector has gained prominence of late and is considered as a catalyst for inclusion as an impetus for broad economic empowerment that targets women, the poor, the unemployed, the disabled, et al in a bid to empower them economically (Okewu, 2015). A vibrant SME sector contributes significantly to any country's economy and gross domestic product by creating meaningful employment, innovation, and others thereby curbing poverty by extension promoting entrepreneurial activities (Sitharam & Hoque, 2016; Beck & Demirguc-Kunt, 2006). SMEs are the keystone of most economies (InternationalTradeCentre, 2018) since they contribute significantly to economic growth and prosperity (Frimpong, 2013) by driving economies from a developing stage to high growth and industrialization (Njanike, 2019). Likewise, these enterprises may be used to revamp any country by redistributing the productive assets, amongst the previously disadvantaged (Sitharam & Hoque, 2016). Thus, governments globally engaged in developing the SMEs sector to foster economic growth (Olawale & Garwe, 2010).

Regardless of the important role that SMEs play in the growth of economies, very few studies have been done on the challenges they face (Alrabeei & Kasi, 2014). African SMEs face varied challenges which have stagnated their growth, lower their profitability resulting in alarming death rates (Fang, et al., 2009; Njanike, 2019). This study, therefore, investigates the challenges to SMEs development in Africa.

AFRICAN SMEs SECTOR-AN OVERVIEW

The SME sector is currently seen as one of the fastest-growing and important sectors in Africa with regards to employment creation and poverty reduction (Parker, et al., 1995). Development and poverty reduction in Africa have been linked to the development of SMEs. This is so because these enterprises have employed millions of Africans who cannot easily seek employment either in the agricultural sector, government services, or in the large enterprises (Kayanula & Quartey, 2000). African SMEs have an important role to play in stimulating economic growth, providing employment, and contributing to poverty reduction. They are seen as the seedbed for entrepreneurship (Biggs, 2003). Hence, Berry (2000, p. 11) pointed out that: "*Recent literature from virtually all parts of the world emphasizes the important contribution which SMEs can make to an economy's strong overall performance. It has been recognized that some of the world's best-performing economies, notably outward-oriented East Asian countries, are very heavily based on small enterprises".*

After independence in the 1960s, policies and research in the African continent were directed to the expansion of large enterprises (Page & Steel, 1984). The aim was to replace products imported from the former colonial countries (Ibid, 1984). Therefore, there is "the received wisdom that developing economies could leap-frog the stage of small firms and embrace modern large businesses in their development process" (Owualah, 1987, p. 10). As a result, priority was given to large enterprises which were considered as an agent for economic development. Along the same line of thought, McCormick (1988), Cherney et al. (1974), and House (1981) found that the unequal distribution of economic growth benefit was widely acknowledged and that large enterprises were partially responsible for this economic benefit.

In the mid-1960s focus on SMEs development became visible as there was less employment in the large enterprises. Even with more favourable policies towards the large enterprises, they were unable to absorb a significant proportion of the rapidly growing labour force (InternationalLabourOrganisation, 1973; Chenery, et al., 1974), especially in the rural areas. Consequently, African governments focused attention on SMEs as a medium to absorb the large numbers of the unemployed (Hart, 1973) to sustain economic growth and improve the livelihood of their citizens (Luetkenhorst, 2004). One could understand the evolution and expansion of the informal SMEs in Africa from three theories put forward by Chen, Sebsatd, and O'Connell (1999) cited in (Alabladejo, 2002). The first theory argued that the lack of economic growth in the continent during the 1990s resulted in a sharp increase of SMEs in Africa. From the point of view of empirical evidence, economic stagnation caused large firms to downsize, resulting in a colossal number of poor entrepreneurs actively doing business in an untaxed sector. The second theory examined changes in the structure of modern wage employment (UNDP, 1993) in Albaladejo (2002). The theory further stated that capital intensive activities caused alarming unemployment in the formal sector prompting most formal sector workers to turn to the informal economy as the last resort of an alternative source of income. Finally, the third theory posits that the impact of structural adjustment in the 1980s and 1990s in the formal sector resulted in the closure of a large number of factories and the reduction of government and parastatal employment. The insufficient wages in the formal sector stimulated the need for most of the formal sector employees to engage in extra income-generating activities. The formal sector employees considered the informal SME sector as the ultimate source of rescue.

The private sector in Africa is made up of more small, informal business activities than can be found in any other part of the world (Tybout, 2000). These enterprises are mostly survivalist by nature and create a subsistence economy (Naude', 1995). However, the survivalist nature of entrepreneurship in Africa is weak (Kesper, 2000). This is evident in a study conducted in Botswana where entrepreneurs lack the managerial, technical, accounting, and sales skills necessary for successful entrepreneurship in a global village (Kaunda & Miti, 1995; Havenga & Ylenpaa, 1998; Human, et al., 1994). This view is shared by Ismael (1995) who maintained that entrepreneurs in the African continent lack the capacity to acknowledge the nature of international competition.

METHODOLOGY

The methodological approach consisted of a mixed-method approach which allows the researcher to carry out a wide-ranging review of the literature on the topic under review. Added to this, it allows the researcher to gather data from a broad spectrum of sources including textbooks, journal articles, working papers, reports, conference proceedings, and documents from websites. The mixed-method data collection approach provided the benefits of using different sources of literature in addition to decreasing the weakness of every single source of the data collection method.

CHALLENGES TO SMEs DEVELOPMENT IN AFRICA

Attempts to promote SMEs often involve helping the sector reduce barriers that prevent their growth and development. To achieve this, it is imperative to know and understand the most serious barriers that African SMEs encounter. Despite the important role SMEs play in the economic empowerment and development of the African economy, they encountered numerous constraints to their development. In most countries, other than those that are flexible, there are barriers to both business entry and development. The significance of this issue in the UK was emphasized in a report by the Federation of Small Businesses with the title Barriers to Survival and Growth in the UK firms (FederationofSmallBusinesses, 2000). If SMEs in the UK, a world power, are facing barriers to their development it is, therefore, more likely for those in Africa to face even more severe barriers to their growth. In the section that follows, the barriers that adversely affect the potential of SMEs in providing employment and, therefore, reducing poverty will be examined.

Lack of Access to Finance

SMEs in Africa, like their counterparts in other continents, face difficulties in accessing finance (Kanu, 2018), which is one of the barriers affecting their survival and development (Mazanai & Fatoki, 2012; Mambula, 2002; Irjayantia & Azis, 2012; Alauddin & Chowdhury, 2015). These enterprises face a substantial financing gap figured to be more than $136 billion annually (InternationalTradeCentre, 2018). Alabladejo (2002), maintained that the problem is not lack of money, but the ways SMEs access finance. Most SMEs inability to provide collateral to minimize the high risks involved and small loan amounts requiring huge transaction costs, complex application procedures, interest rates, loan guarantees; inability to meet collateral requirements are the primary factors influencing the negative opinions of the banks (Shah, et al., 2013; Haider, 2018; De Gobbi, 2003; Steel, 1994). For instance, a study conducted in the Gambia showed that high banking fees, high indemnity requirements, and demanding application processes are the major barriers to SMEs' growth (InternationalTradeCentre, 2018). Correspondingly, the work of Amentie, et al (2016) showed that crippling interest rates on loans were among the major barriers to SMEs development in Ethiopia. Similar to this, a study done by World Bank within ten years in more than 100 countries revealed that lack of access to funds was the outstanding barrier impeding the growth of SMEs in Africa (Beck & Cull, 2014). A study supported by the ECA (2001) in Kanu (2018) confirmed that SMEs' access to finance is a major problem especially in Cameroon, Cote d'Ivoire, Ethiopia, Gabon, Kenya, Namibia, Nigeria, Senegal, and Uganda. Sleuwaegen and Goedhuys (2002), maintained that insufficient financial infrastructure negatively impacts SMEs development in Ivory Coast. Wang (2016) revealed that access to finance is the most important barrier that hinders the SME sector in developing countries including Africa. While Onubedu and Yusuf (2018) claimed that nearly 25% of small enterprises in Sub-Saharan Africa surveyed stated that access to finance is one of their biggest impediments. In the opinion of Herrington et al (2009), access to finance is a key challenge for South African SMEs entrepreneurs. This is because the banks in South Africa are unwilling to deal with SMEs for three main reasons: Firstly, it is seen as too risky, secondly, the costs involved are normally seen as very high and thirdly the profit from SME loans is very low (Nigrini and Schoombee, 2002) in Kanu (2018).

Corruption

Corruption is an enemy that attacks all countries, and its harmful impact is clearly evident (Kanu, 2015). Bribing for licenses and permits does not only hamper the fast growth of SMEs but also drains their resources (Bishara, 2011). Corruption in Africa especially sub-Saharan Africa is alarmingly high as opposed to the other continents (TransparencyInternational, 2021). It is a major challenge facing SMEs in Africa. Kallon (2003), maintained that the rapidly increasing corruption and inflation were also some of the threats presented without strong financial systems to the development of SMEs in Africa. For instance, the escalated volume of corruption in South Africa impacts the survival and growth of SMEs in the country (Xavier et al., 2012) in Sitharam and Hoque (2016). Corruption weakens private investment as a result hampers economic growth (Acs, et al., 1997; Mauro, 1995).

Corruption has become a common culture in African countries and is being committed mostly by government officials as SMEs entrepreneurs are required to grease the wheel before a service is delivered. The study of World Bank (2005) showed that almost 70% of SMEs see corruption as a major barrier to the development of their enterprises contrasted to nearly 60% for larger counterparts. In this sense, corruption decreases the industrial efficiency and leads to illegal business practices largely where a person may have the jurisdiction to issue permits, receive subsidies, or grants contracts and ignore violations of the law (StandardTimes, 2009; Wieneke & Gries, 2011). Implying that SMEs entrepreneurs need to spend additional money to pay for illegal activities which have a negative impact on their finances and business activities (Benzing & Chu, 2012). According to Olawale and Garwe (2010), SMEs do not have the negotiating power as well as the power to resist demands for illegal payments and comparable solicitations. This agrees with Transparency International (2008), who stated that SMEs seem to be powerless in the face of demands for bribes and do not have the financial and human capability to resist corruption and bribery in comparison with their larger counterparts. The study of Fisman and Svensson (2004) in Uganda revealed that corruption negatively impacts the development of SMEs contrary to the payment of taxes. Kallon (2003), in his study in Sierra Leone also found an increase in a firm's investment costs because of corruption which has a devastating effect on small firms as contrasted to large firms. He supported his argument by giving two reasons. Firstly, large firms in Sierra Leone have the potential to pass part of the corruption costs to their customers. Secondly, by buying inputs from large enterprises small firms pay the corruption costs.

Poor infrastructure

The ability of SMEs to fully contribute to any economy is based on the existence of good quality infrastructure (Kessides, 1993). The lack of infrastructure has a major impact on the performance of SMEs (Ndiaye, et al., 2018). The economic performance and competitiveness of African SMEs are improved as a result of good quality basic infrastructures in addition to physical and IT infrastructures comprise among others, a good and maintained road network, airports and seaports, a stable power supply, and an extensive telecommunications network (Alabladejo & Schmitz, 2001). On the balance of this, poor infrastructure has contributed to the poor growth of SMEs in Africa. The development of infrastructures such as good roads, electricity, telecommunications, and transportation is central to the development of SMEs in Africa (Kanu, 2018; Amentie, et al., 2016). However, governments in Africa, in particular, those from Sub-Sharan Africa have been making little or no progress in boosting infrastructural development (WorldBank, 1995). In line with this, Fjose et al (2010) affirmed that SMEs cannot operate at maximum capacity due to lack of electricity or inadequate supply of electricity. For example, the high cost of electricity is among the obstacles affecting the development of SMEs in Ethiopia (Tiruneh, 2011). An unreliable electricity supply in most Sub-Saharan countries is a major barrier to the growth of SMEs. The intermittent supply of electricity is one of the causes of poor sales for most SMEs subsequently reducing their productivity levels (de Lima, et al., 2016). For instance, Mambula (2002) intimated that poor infrastructure which includes bad roads, inadequate water shortage, erratic electric supply, and poor telecommunications system are major obstacles to SME growth in Africa. This is confirmed in a study conducted by World Bank (2010) which showed that unreliable supply of electricity is an outstanding challenge for African SMEs. A study conducted by Albaladejo and Schmitz (2001) examine the infrastructures of thirteen African countries. The result revealed that Nigeria lacks a good road network in the rural areas and only 40% of the population has access to pipe-borne water. In addition, the electricity supply is very poor markedly in the rural areas and telecommunications facilities are hardly present. Furthermore, Uganda SMEs also suffer from undependable telecommunication services. The roads are bad especially in rural areas, and power cuts and power fluxes are the order of the day. Lastly, Cameroon and Gabon suffer from the problem of poor roads and railways, particularly those linking the production centres and markets.

Lack of skilled workers/management skills

Human capital is an additional factor that is positively related to enterprise performance (Ndiaye, et al., 2018). A high-functioning entrepreneurial SMEs need skilled workers (Olafsen & Cook, 2016). Carlson and Gilmore (2000) affirmed that skilled workers and educated SMEs entrepreneurs are vital factors that promote growth and business success. Nevertheless, the study of Martin and Staines (1994) discovered that lack of managerial experience and skills are the principal reasons for the failure of SMEs. The poor management skills amongst SMEs operators can be linked to insufficient education and training (Leboea, 2017). The lack of skilled labour is a far-reaching challenge affecting the growth and development of African SMEs (Kallon, 2003). This can be seen in the manufacturing subsector where they operate in the '3D' sectors: dirty, difficult, and dangerous (Albaladejo, 2002) cited in (Kanu, 2018). What is worth noting is that nearly all African economies lack a consortium of skilled workers with the technical and managerial skills necessary for the growth of SMEs (Alabladejo, 2002). Poverty is partly to blame because poor families have limited financial capability to send their children to school. In addition, cultural factors have a role to play. For example, in Sierra Leone, most of the Mandingoes and Fullahs refuse to send their daughters to school, who are potential entrepreneurs, on the premise that they will be exposed to western culture. In this vein, the educational system cannot produce enough future skilled personnel to run the SME sector (Kanu, 2009). Another remarkable case is South Africa where poverty in education and training reduced the management capacity of new SMEs (VonMarlese. Broembsen & Herrington, 2005).

Location and networking

Location is a significant factor that influences the market potential and growth opportunities of SMEs (Olawale & Garwe, 2010; Yassine, et al., 2016). The location where an SME is situated could determine its access to markets and resources including but not limited to skilled labour, finance, infrastructure et al (Dahlqvist, et al., 2001). Most African SMEs operate in rural areas (Liedholm, 2002). SMEs are more presumably impacted by unexpected environmental changes unlike their larger equivalents (Man & Lau, 2005). Therefore, SMEs' nearness to buyers or suppliers allows them to identify and take advantage of growth opportunities in the market (Olawale & Garwe, 2010). The findings of Liedholm (2002) in his study of Small Firm Dynamics: Evidence from Africa and Latin America showed that firms located in the urban and commercial areas were most likely to survive than those that are in rural settings. Entrepreneurial ventures are generally hindered by a lack of human, informational and financial resources (Jack, et al., 2004). For this reason, networking is a very important precondition for starting a successful new business (Reynolds, 1991). Hite and Hesterly (2001), claimed that start-up SMEs lack the expertise and right to obtain resources via the conventional market system because of their newness and smallness. Consequently, they lean on their networking connections to access the required resources and opportunities for their continued existence (Hite, 2005).

Technological challenges

Technological challenges are a major problem affecting the growth and development of SMEs in Africa as well as their ability to cross national boundaries regardless of the support from the national governments and non-governmental organizations (Arinaitwe, 2006; St-Pierre, et al., 2015). The diffusion of technology is largely low by international standards in Africa (Matambalya & Wolf, 2001). Most African SMEs are technologically challenged, regardless of modern-day technological advancement. That being so, it is extremely challenging for these enterprises to grow and compete nationally and globally (Arinaitwe, 2006). The diffusion of technology extremely becomes difficult due to the characteristics of the SMEs entrepreneurs, cost and return of investment, lack of finance, poor infrastructure, political factors, cost of implementation, lack of awareness, poor skills and training, cultural factors, poor electricity, high dependency on business partners, legal and regulatory barriers (Kapurubandara & Lawson, 2006; Apulu & Latham, 2011; Lal, 2007; Luna, et al., 2018; Poon, 2002; Stockdale & Craig, 2004). In their research, Ilori, et al (2000); Oyelaran-Oyeyinka (2005), argued that the non-availability of technological capabilities is a major challenge affecting African SMEs' profitability especially in Nigeria (Ilori, et al., 2000; Oyelaran-Oyeyinka, 2005).

Lack of Information/Knowledge

SMEs do not have a stable and dependable source of information and market database that are crucial for their success (Alrabeei, 2014). The failure of SMEs to gain access to information has been recognized as of one the major obstacles affecting their growth and development in Africa (Rothwell & Beesley, 1989). The study of Goedhuys and Sleuwaegen (2000) amongst 230 Ghanaian SMEs revealed that the soaring transaction costs and inadequate information in the financial markets resulted in the drifting away of resources from SMEs to larger enterprises. Also important is the fact that information poverty between the SMEs and banks makes it extremely difficult for financial institutions to gain access to the actual value of SMEs as well as estimating their creditworthiness resulting in credit being rationed (Stiglitz & Weiss, 1981; Yoshino & Taghizadeh-Hesary, 2016). The rationing generally goes against SMEs because the inability of the banks to obtain information on SMEs' activities increases the credit risks. In consequence, there is a strong tendency for banks to increase interest rates on borrowed loans which serve as an obstacle to SMEs' access to finance (EconomicCommissionforAfrica, 2001).

Other challenges aside from the those mentioned above that affect African SMEs' growth and development include:

-Competition and poor access to international markets significantly hinder the growth and development of African SMEs (Martinsons, 2008).

-Lack of support services impedes SMEs' ability to improve their management activities for the reason that the consulting organizations lack the appropriate low-cost management solutions (Kim, 2011).

-Policies/Law, taxes, and Regulations: The excessiveness and inflexibility of laws, taxes, and regulations can have a negative impact on the performance of African SMEs. Compliance with complicated laws and regulations consumes much time, money, and effort which SME entrepreneurs are not able to offer. Furthermore, the complicated laws and regulations will discourage SMEs entrepreneurs from even starting a business or registering an existing business (Kanu, 2018).

-Poor recording keeping: The lack of sufficient knowledge of record keeping is a key challenge for African SMEs (Syracus, 1994). The poor record-keeping challenge is amongst the principal reasons for the premature death of entrepreneurial SMEs. Substandard record-keeping makes it difficult for SMEs entrepreneurs to track their ventures, thus restricting their ability to uncover and solve problems promptly (Mphambela, 2017).in (Kanu, 2018).

-Political instability: Most African countries are politically unstable, and this can adversely affect the growth, development, sales, and productivity of SMEs in this continent (Shumetie & Watabaji, 2019; Kouadio, 2015).

-Poor products demand: The ability and desire to buy SMEs' goods and services are seriously affected by weak consumer purchasing power exacerbated by inadequate government and public support of homemade manufactured products (Radda, et al., 2016).

-Branding: African SMEs are susceptible to preventable branding along with marketing mistakes that impact them negatively. Branding makes it easier for an SME to differentiate itself from its competitors and at the same time creates the platform for the organization's business and products to reflect its corporate culture and values (LSEGAfricaAdvisoryGroup, n.d).

-Administrative inadequacies: The inefficiency in government support together with bureaucratic problems dissuades SMEs entrepreneurs (Alwin, 2010).

Table 1: Challenges SMEs face in Africa

Challenges	Supporting resources
Lack of Access to Finance	Albaladejo (2002); Mazanai & Fatoki, (2012); Mambula,(2002); Irjayantia & Azis (2012); Alauddin & Chowdhury (2015); InternationalTradeCentre(2018); Shah, et al., (2013); Haider(2018); De Gobbi (2003); Steel (1994); Amentie, et al (2016); Beck & Cull, (2014); Kanu (2018); Wang (2016); Onubedu and Yusuf (2018); Herrington et al (2009)
Corruption	Kanu (2015); Transparency International (2021); Kallon (2003); Sitharam and Hoque (2016); Acs, et al. (1997); Mauro (1995); World Bank (2005); Standard Times (2009); Wieneke & Gries (2011); Benzing & Chu(2012); Transparency International (2008);

Table 1…

Poor infrastructure	Kessides (1993); Ndiaye, et al (2018); Alabladejo & Schmitz (2001); Kanu (2018); Amentie, et al.(2016); World Bankm(1995); Fjose et al (2010); Tiruneh (2011); de Lima, et al.(2016); Mambula (2002); World Bank (2010); Albaladejo and Schmitz (2001)
Lack of skilled workers/management skills	Ndiaye, et al.(2018); Olafsen & Cook(2016) Carlson and Gilmore (2000); Martin and Staines (1994); Leboea (2017); Kallon (2003); Kanu (2018); Kanu(2009); VonMarlese. Broembsen & Herrington(2005)
Location and networking	Olawale & Garwe (2010); Yassine, et al.(2016); Dahlqvist, et al.(2001); Liedholm (2002);Man & Lau(2005); Olawale & Garwe (2010); Liedholm (2002); Jack, et al.(2004); Reynolds (1991). Hite and Hesterly (2001); Hite(2005)
Technology	Arinaitwe (2006); St-Pierre, et al.(2015); Matambalya & Wolf (2001); Arinaitwe (2006); Kapurubandara & Lawson (2006); Apulu & Latham (2011); Lal ()2007; Luna, et al.(2018); Poon(2002); Stockdale & Craig (2004); Ilori, et al (2000); Oyelaran-Oyeyinka (2005)
Lack of Information/Knowledge	Alrabeei(2014); Rothwell & Beesley(1989); Goedhuys and Sleuwaegen (2000); Stiglitz & Weiss(198); Yoshino & Taghizadeh-Hesary, (2016); Economic Commission for Africa (2001)
Competition	Martinsons (2008)
Lack of support services	Kim (2011)
Policies/Law, taxes, and Regulations	Ndiaye, et al.(2018); Kanu(2018)
Poor recording keeping	Syracus(1994); in Kanu (2018).
Political instability	Shumetie & Watabaji (2019); Kouadio(2015)
Poor products demand	Radda, et al. (2016)
Branding	(LSEGAfrica, n.d).
Administrative inadequacies	(Alwin (2010)

CONCLUSION

Concluding Remarks

The main objective of this study was to investigate the challenges to SMEs development in Africa. SMEs play a significant role in the development of the African continent as they are considered major economic drivers and primary sources of job creations. They contribute majorly to Africa's gross domestic products and are seen as a pathway to grow out of poverty. This being the case, the study revealed that African SMEs face several challenges including lack of access to finance, corruption, poor infrastructure, lack of skilled workers/management skills, location and networking, technology, lack of information/knowledge, competition, lack of support services, policies/law, taxes, and regulations, poor recording keeping, political instability, poor products demand, branding, and administrative inadequacies

In conclusion, while it is difficult to establish and run an SME in Africa, entrepreneurs need to get a problem-solving attitude to help them face challenges head-on and concentrate on creating growth and employment opportunities.

Contributions to Knowledge, limitations, and future research

This study contributes to the research landscape by providing insights into the challenges to SMEs development in Africa supported by evidence-based literature. However, this study is limited considering that it did not take into account empirical justifications. Given this limitation, the study suggests that future research should employ field research methods to obtain original information from African entrepreneurs and SMEs operators regarding the challenges they face.

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