



Constraints to business growth in low- and medium-income countries

Huma Haider

Independent consultant

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Question

What evidence exists that scarcity of capital is a major constraint on business growth in low and middle income countries? How does this differ depending on business size? What other factors constrain business growth in the developing world and how do these factors (including scarcity of capital) rank in terms of relative importance?

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1. Overview

Limited access to finance is cited in much of the literature reviewed as a significant constraint to the growth and performance of businesses in low and middle income countries. Firms in these countries, particularly small and medium enterprises (SMEs) experience financial constraints due to high interest rates; complex application procedures; inability to meet collateral requirements; and/or insufficient financial records. While the financing gap is a problem throughout the developing world, countries in Africa are often less financially developed than countries in other regions (Fowowe, 2017; Quartey et al., 2017). Women-owned SMEs may experience greater challenges in accessing finance, particularly in the case in Sub-Saharan Africa (Lutz and Lutz, 2017). This may be a factor of size, however. Larger businesses often have better access to external finance rather than smaller companies, which are more likely to be run by females (Aterido et al., 2013). Studies on other regions, such as South Asia, do not necessarily exhibit a financial bias against women-owned enterprises (see Wellalage and Locke, 2017).

There is a vast amount of literature that finds that smaller size firms are more likely to experience financial constraints than larger size firms, which in turn, may affect SME performance. SMEs comprise a dominant share of the private sector in developing countries, accounting for over 50 percent of jobs in their respective economies (Kumar, 2017, 2; Lorenz and Pommet, 2017). The growth of SMEs is important for employment and broader economic growth.

Access to finance may be necessary for firm growth and broader economic growth, but may not be sufficient on its own (see Olafsen and Cook, 2016). While financial barriers are more commonly discussed in the literature, studies show that there are also often a range of non-financial barriers that affect the growth of businesses. These include:

- Human capital: limited knowledge and skills to manage finances, utilise financial services, and manage the consumer market can undermine firm growth.
- Technology and innovation: firms lacking innovation risk becoming uncompetitive. Financing constraints can have a significant negative impact on firm innovation (Lorenz and Pommet, 2017).
- Competition: strong competition in the markets is a high barrier for the growth of small and medium business.
- Regulatory framework: burdensome regulations and taxes can constrain firm growth.
- Political instability and corruption: they can adversely affect sales and productivity.
- Infrastructure: the status of roads, telecommunications, transport and electricity have an impact on the growth of businesses. An unreliable electricity supply, in particular, is considered a serious obstacle.

Analysis based on World Bank Enterprise Survey (WBES) data finds that managers of SMEs across all countries surveyed consider access to finance to be the biggest obstacle to business growth, followed by competition from the informal sector and then taxation (Kumar, 2017). When grouped by firm size, the top constraints for the small firms remains the same. The top three constraints for medium and large firms also includes access to finance and informality. However, they consider political instability to be a greater constraint than taxation (ibid).

There is a considerable body of literature concerning financial and non-financial constraints in Africa. The literature consists of peer-reviewed journal articles, policy papers and book chapters. Evidence on other regions is much more limited. Where literature on South Asia exists, it is often focused on gender aspects. The vast majority of the studies reviewed also focus on small and

medium enterprises, with reference to larger firms for the limited purposes of comparison to SMEs. Studies considered in this report rely on qualitative and quantitative methods. They include objective data and subjective data, based on perceptions. These two sets of data often reveal similar findings as firms that are credit constrained in reality, for example, are more likely to report access to finance as an increasing obstacle (Kuntchev et al., 2012). The vast majority of studies rely on World Bank Enterprise Survey data.

The literature itself notes various gaps in research and evidence on firm performance, in the context of low and middle income countries. This includes gaps in literature on: the relationship between finance and firm-level productivity (Onubedo and Yusuf, 2018); issues related to high growth firms (Olafsen and Cook, 2016); factors that turn firms' access to finance to higher growth outcomes (Adomako et al., 2016); and information on innovation in developing contexts (Cirera and Maloney, 2017).

2. Scarcity of capital

Access to finance is essential for the growth of firms in the private sector, yet there is often a firm-financing gap in developing countries, particularly for small and new firms (Fowowe, 2017; Amentie et al., 2016; Olafsen and Cook, 2016). Much of the literature cites limited access to finance as the most important constraint to the development of businesses, which can greatly affect the performance of firms (Ndiaye, 2018; Kumar, 2017; Quartey et al., 2017). Relying on data from the World Bank Enterprise Survey database, Wang (2016) finds that access to finance is the most significant obstacle that constrains private sector growth in developing countries, particularly in high growth firms. Based on an analysis of existing lessons and evidence on access to finance interventions, Kumar (2017, 22) observes that traditional bank financing sources are available to only 17-32 percent of small firms in low and middle income countries. This is in contrast to more than 50 percent of small firms in high income countries.

The difficulties that firms requiring external financing often face is due largely to the existence of high interest rates; complex application procedures; inability to meet collateral requirements; lack of records; and the perception of SMEs that the application would be rejected (Wang, 2016). In Ethiopia, for example, high interest rates on loans was rated by a selected sample of enterprises as the second highest barrier faced by small and medium business (Amentie et al., 2016).

Relying on data from the WBES, Kuntchev et al. (2012) finds that firms in Sub-Saharan Africa, East Africa and Pacific, and South Asia are more likely to be fully credit constrained (meaning they have no external credit and are actively seeking credit) than in other regions. While the financing gap is a problem throughout the developing world, countries in Africa are generally less financially developed than countries in other regions (Fowowe, 2017; Quartey et al., 2017).

The majority of available studies concerning financial constraints in the private sector centre on Africa, particularly Sub-Saharan Africa. A recent study on the effect of access to finance on productivity, based on cross-sectional firm-level data, finds that lack of access to finance adversely affects the labour productivity and total factor productivity of firms in Africa (Onubedo and Yusuf, 2018). Approximately 25 per cent of firms in Sub-Saharan Africa surveyed reported that access to finance is one of their biggest obstacles (ibid, p.6). The study also finds that: 69 per cent of firms in the sample reported not having access to an overdraft facility and 75 per cent of firms did not have a credit line or loan facility (ibid, p.8). This was primarily because the firm did not need a loan or was deterred by unfavourable interest rates and complex loan application

processes (ibid). Another study, also based on data from WBES, finds that inadequate finance has an inhibiting effect on growth of African firms and, conversely, that participation in financial markets promotes firm growth (Fowowe, 2017).

A study on entrepreneurship in the informal sector in Ghana, based on participatory methods, finds that insufficient capital is the biggest constraint confronting local artisans and entrepreneurs in five districts of the Volta Region. This is followed by lack of market, high cost of inputs and lack of tools/equipment (Amegashie-Viglo and Bokor, 2014, 30-32). It also finds that businesses are established primarily through personal savings or start-up capital, rather than through banks and other lending agencies. Only 45 entrepreneurs had ever applied for bank loans, of which only 12 were granted. Established firms looking to expand their businesses also experience limited access to bank financing. Of 158 entrepreneurs that expanded their businesses, only 3.8 percent achieved this through a bank loan (ibid).

A study investigating the accessibility of microfinance for small businesses in Mogadishu, Somalia, based on survey data, finds that the majority of small businesses are unable to access microfinance (Ali et al., 2013). This is due to the inability to meet the various requirements (individual collateral, repayment capacity, security deposit or guarantor). The lack of finance, in turn, results in the closure of many small businesses (ibid). A study based on surveying owners and managers of small, medium and micro-enterprises in Thulamela Municipality in the Limpopo Province (one of the less developed provinces in South Africa) finds that access to finance is considered to be the main barrier for business (Donga et al., 2016). The study also finds that the access issues are due in large part to the lack of collateral security, insufficient credit records, lack of tax records, unregistered businesses and failure to draft proper business plans (ibid). A study analysing factors affecting the start-up and growth of SMEs in Tanzania finds that SME owners have difficulties accessing loans from financial institutions due to complex procedures and collateral requirements (Anderson, 2017). Working capital is thus one of the major concerns of SME's start-up and growth (ibid).

In the Middle East and North Africa, the financial and banking sectors are relatively large. However, credit is highly concentrated, provided mainly to a small number of large firms. Other firms have access to little or no credit (de Lima et al., 2016). The inability to meet collateral requirements have contributed to young firms disengaging from the banking sector (ibid).

There is some available evidence on South Asia. A study on the impact of different types of funding sources on the growth of small and medium enterprises in Pakistan, based on Enterprise Survey Data, finds that banks play a positive role in the growth of SMEs, yet most SMEs rely on informal finance (Khan, 2015). This is in part due to the inability to meet formal financing requirements, such as collateral and borrowing costs (ibid). The average interest rates for informal finance (e.g. wealthy farmer moneylenders), however, are often higher than for banks (ibid). A study on the influence of bank facilities on new firm creation in Indian districts, based on data from surveys of informal firms over two periods, finds that banking development has a positive and significant effect on growth in the number of firms in the Indian informal manufacturing sector (Raj et al., 2014). The effect is most pronounced for firms that employ hired labour, indicating that banking development plays a bigger role with larger enterprises than in the informal sector (ibid).

Women-owned enterprises

Women-owned SMEs may experience greater challenges in accessing finance. They are often more likely to cite access to finance constraints as the first or second barrier to business than their male counterparts (Kumar, 2017). They are less likely to receive a loan and receive a very small percentage of venture capital and equity funding, in contrast to men (ibid). There is evidence that this is particularly the case in Sub-Saharan Africa and some of the countries in MENA (Lutz and Lutz, 2017). A study on firms' access to finance in Barbados, Jamaica, and Trinidad and Tobago, based on survey data from the Inter-American Development Bank, also finds that women-led businesses are more likely to be financially constrained than other comparable firms (Presbitero et al., 2014).

Since women in developing countries tend to be less educated and less financially literate, they face greater constraints in accessing formal finance (Lutz and Lutz, 2017). There is also the general perception that women lack the financial capability to manage finances, in contrast to male owners or managers, who are more likely to be granted loans (Onubedo and Yusuf, 2018). These financial constraints appear to be a key factor in limiting the performance of female-owned firms in MENA (Lutz and Lutz, 2017). A study on the Dodoma region in Tanzania, based on cross-sectional data from surveys of SMEs run by women, finds that poor attitude and support from husbands and other society members has significant negative effects on the performance of these businesses (Maziku and Mashenene, 2014). In contrast, the presence of positive role models were important factors in promoting the performance of women SMEs (ibid).

A cross-country study on gender differences in access to and use of financial services in Sub-Saharan Africa finds that firms with female ownership participation are unconditionally less likely to use formal bank credit than firms with male ownership (Aterido et al., 2013). This gap disappears, however, when controlling for other firm characteristics (e.g. size and age). As such, it may be more the size of the firm that explains the differential, rather than gender-specific factors. Larger businesses systematically have better access to external finance rather than smaller companies, which are more likely to be run by females (ibid).

A recent study on access to credit by SMEs in South Asia, relying on data from the Enterprise Survey, finds that female-owned firms are on average 3 per cent less likely to be credit constrained compared to their male counterparts (Wellalage and Locke, 2017, p. 336). It finds that only in Nepal and Pakistan are female SME more credit constrained, with female SME owners in Pakistan approximately three times more highly credit constrained than their male counterparts (ibid, p. 341).

Variations based on business size

There is a vast amount of literature that finds that smaller size firms are more likely to experience financial constraints than larger size firms, which in turn, may affect SME performance. Based on WBES data on a wide range of developing countries, Wang (2016, 172) finds that small and medium enterprises are 23.1 percentage points more likely to perceive access to finance as their largest obstacle to growth than large firms. As the size of the firm increases, the less likely they are to perceive access to finance as a key problem (ibid). Kumar (2017, 22) observes that on average, a small firm's probability of access to a bank loan in low income countries is less than half of what it is for a medium sized firm and about a third compared to a large enterprise in the same environment. While medium sized firms are also constrained compared to larger enterprises, they are subject to less barriers (ibid).

A global study on developing countries in Sub-Saharan Africa, MENA, East Asia and Pacific, South Asia and Central Asia, relying on data from various micro-level studies, finds that small firms are more likely to be credit constrained than medium and large sized firms (Lorenz and Pommet, 2017). A study on Africa, relying on subjective and objective data, including from the Enterprise Survey, finds that capital constraints decrease as the size of the firm increases (Fowowe, 2017). In their study on SME access to finance in sub-Saharan Africa, Kuntchev et al. (2012) find a strong correlation between the size of a business and access to credit: smaller businesses are more likely to be credit constrained than large firms. For example, 28.3 per cent of small firms are fully credit constrained, in contrast to 10.1 per cent of large firms (Kuntchev et al., 2012, 13). Smaller firms are also more likely to finance their growth through informal sources of finance. A study focused on West Africa, also relying on subjective and objective measures of access to finance, including Enterprise Survey data, finds that firm size is a major determinant of access to finance (Quartey et al., 2017). In the case of East Africa, data from the Enterprise Survey also indicates that SMEs in the region are much more affected by financing constraints (Kira, 2013). Similarly, in the Middle East and North Africa, SMEs are more likely than large firms to report that inadequate access to finance is a constraint on their firms (de Lima et al., 2016).

The literature provides several reasons for smaller firms experiencing greater financial constraints. Onubedo and Yusuf (2018)'s recent study on productivity in Sub-Saharan Africa reveals that small firms are more likely to be affected by unfavourable interest rates and burdensome collateral requirements. Large firms do not face such challenges as they have adequate collateral and are more able to prove their creditworthiness to secure external funding (Ndiaye, 2018; Quartey et al., 2017). Small firms are also less likely than larger firms to have transparent information on past performance and current operations, which increases the perception of riskiness (Onubedo and Yusuf, 2018; Kumar, 2017; Quartey et al., 2017). It can be costly for small firms to solve these informational problems and to meet the information requirements of lenders (Ndiaye, 2018; Onubedo and Yusuf, 2018). As firms become larger, they usually are required to maintain more detailed financial records and the financial sector is more willing to undertake the risk of providing finance to such firms (Ndiaye, 2018; Kumar, 2017).

3. Non-financial constraints

While financial barriers are more commonly discussed in the literature, studies show that there are also often a range of non-financial barriers that affect the growth of business (Wang, 2016; Haselip et al., 2015). The particular barriers present depend on the conditions of specific markets and vary from country to country (Wang, 2016). It is necessary to address non-financial barriers in addition to exploring financial constraints to firm development (Haselip et al., 2015).

A study on Ethiopia, for example, based on cross-sectional survey data, finds that the main barriers to growth of small businesses are high cost of electricity, poor communication facilities, lack of market information, the procurement processes for financial loans and grants, inadequate business services and high interest rates (Amentie et al., 2016). The study on Thulamela Municipality in South Africa observes that in addition to lack of finance, other perceived barriers to the development of small, medium and micro-enterprises are: access to market (competition), out-dated equipment and technology (absence of innovation), poor infrastructure and lack of training (human capital constraints) (Donga et al., 2016). Anderson (2017)'s study of SMEs in Tanzania identifies competition; inadequate finance; a complex regulatory framework; inadequate technology, human and social resources, and management skills; poor physical infrastructure and unreliable electricity as factors adversely affecting the growth of such

enterprises. An earlier study also exploring factors affecting the growth of SMEs in Tanzania find inadequate business training, insufficient capital and anti-entrepreneurial culture to be significant constraints (Mashenene and Rumanyika, 2014). The study on local artisans and entrepreneurs in Ghana finds the key constraints they face include capital shortages; insufficient patronage; high cost of inputs; lack of tools and equipment; low levels of education and business training; and low level of technology (Amegashie-Viglo and Bokor, 2014).

A study, presenting the results of the MENA Enterprise Survey from 2013 and 2014 (covering Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and the Republic of Yemen) finds that the key constraints to business in the region are: political instability, corruption, unreliable electricity supply, and inadequate access to finance (de Lima et al., 2016).

The following sections explore some of these non-financial constraints in greater detail.

Human capital

Human capital is often positively associated with firm performance (Ndiaye, 2018). A well-functioning entrepreneurial venture requires skilled employees and managers (Olafsen and Cook, 2018). A key necessary skill is financial literacy. This entails the knowledge and skills to manage finances (e.g. budgeting), utilise financial services (e.g. debt acquisition and payment), and manage the consumer market effectively to achieve the financial objectives of a firm (Adomako et al., 2016). Lack of financial management skills places significant constraint on SME growth, and makes it difficult for SMEs to compete with larger firms (ibid). The 2014 World Bank Global Development Report on financial inclusion showed that SMEs and particularly informal businesses or SMEs in emerging markets face significant financial management constraints that undermine their contribution to employment, productivity growth and innovation (see Adomako et al., 2016). Msoka (2013) focuses on women entrepreneurs in Tanzania and finds that they need training in business planning, budgeting and inventory control in order to effectively conduct their businesses.

Olafsen and Cook (2016) point to a growing evidence base that explores the differential impacts of managerial capacity and management practices on firm growth. For example, a survey of heads of entrepreneurial companies in Uganda and Kenya found that human capital increases (including management and technical training) is considered a significant need. In Mexico, a randomized experiment found that SME access to consulting services generated an 80 percent increase in sales and a 120 percent increase in profits (see Olafsen and Cook, 2016).

Various studies point to insufficient human capital, which in turn can constrain firm growth and development. The study of Thulamela Municipality in South Africa finds that the majority of entrepreneurs surveyed did not have any formal business training prior to establishing their small businesses. This was evidenced by inadequate financial management, unavailability of business plans and inappropriate human resource management (Donga et al., 2016). The majority of these same entrepreneurs strongly believed that training is an important factor in driving small business growth (ibid). The study of local artisans and entrepreneurs in Ghana observes that while most of the interviewees were aware of the existence of relevant formal training programmes and were keen to take part, only 28 percent had participated in skills upgrading courses. This was due in part to not meeting the academic entry requirements (Amegashie-Viglo and Bokor, 2014, 29). Another study of owner-managers of SMEs in Accra, Ghana finds that the majority surveyed do not participate in formal training programmes for

various reasons, including: lack of capital to take part, lack of awareness of the programmes, unavailability and inaccessibility of training programmes, and doubts about the value of the programme (Damoah et al., 2017). Management training firms tend to target large firms and/or multinational companies, to the neglect of SMEs when designing training programmes (ibid).

Linkages between human capital and access to finance

There is a need for greater attention to and understanding of the role of financial literacy in converting access to finance to improved growth outcome. Adomako et al., (2016)'s study of SMEs in Ghana seeks to address this gap. It finds that the relationship between access to financial resources and firm growth is more positive for those with high, as opposed to low, financial literacy. Those with high levels of financial literacy or entrepreneurial capability tend to convert access to finance to improved outcomes. Conversely, venture capitalists may be more likely to provide funding to businesses with sound business models and financial projections, which require manager and employees with financial literacy (ibid).

A study on international expansion of SMEs in Latin America finds that SMEs with access to relevant knowledge and skills, alongside access to funding from private sources, are more likely to be able to expand their operations outside of their home country (Cardoza et al., 2016).

Linkages between human capital and innovation

The MENA enterprise study finds that better-managed firms are more likely to benefit from innovation, whereas poorly managed firms are more likely to benefit first from improving their management practices (de Lima et al., 2016). A study on Mexico also finds that investments in research and development have a greater impact on innovation in better-managed firms than the same investment in a poorly managed firm (Iacovone and Pereira-López, 2017, unpublished report cited in Cirera and Maloney, 2017).

Technology and innovation

Developing countries tend to have much lower levels of innovation related investment than high-income countries (Cirera and Maloney, 2017). Yet, innovation is crucial for businesses to be competitive with firms locally and elsewhere in the world. Firms that do not incorporate innovation in its business strategy and practice risk becoming uncompetitive due to their obsolete products and processes (Nassar and Faloye, 2015).

The study of small, medium and micro-enterprises in Thulamela Municipality in South Africa finds that while technology is considered by enterprise respondents as essential for increased profitability and development of the business sector, access to appropriate technology remains a problem (Donga et al., 2016). Similarly, in Tanzania, there is a lack of effective business incubators and resource centres for transferring technology (Anderson, 2017). The study of SMEs revealed a lack of creativity and innovation, required for growth, among owner-managers (ibid). A study on manufacturing and service sector firms in Ghana, relying on data from the African Science, Technology and Innovation Indicator survey observes that firms engaged in innovation activities employed more people compared to non-innovative firms. It also finds that innovation is more prevalent in small firms compared to medium and large firms (Tetteh and Essegbey, 2014).

Linkages between inadequate innovation and lack of finance

Tetteh and Essegby (2014)'s study on Ghana also reveals that firms considered the biggest factor constraining innovation to be lack of finance. This was followed by high cost for innovation, lack of qualified personnel and lack of information on technology. A study on barriers to innovation in southwestern Nigerian, based on a randomised sampling of SMEs, finds that key barriers include: inadequate financial resources and venture capital companies to sponsor new innovation, inadequate government assistance, poor infrastructural facilities, small size of company and market, lack of motivation for new innovation, inadequate research and development facilities within the firm, and lack of opportunities for cooperation with other firms and research institutions (Nassar and Faloye, 2015).

A study of the links between innovation and financial system characteristics, based on a sample of 36 developing nations in Sub-Saharan Africa, MENA, East Asia and Pacific, South Asia and Central Asia, demonstrates that financing constraints have a significant negative impact on firm innovation (Lorenz and Pommet, 2017). The study focuses in particular on constraints linked to the national banking system. Since small firms are more likely to be credit constrained than medium and large size firms, they find that small firms are more likely to face disadvantages in innovation (unlike in the study on Ghana above).

Competition

Competition and access to markets can also be a significant barrier to the growth and development of small and medium businesses. In Thulamela Municipality, South Africa, respondents in small, medium and micro-enterprises indicated that they faced tough competition in the market from established enterprises and were unable to acquire adequate market share (Donga et al., 2016). Similarly, in Ethiopia, Amentie et al. (2016) finds that strong competition in the markets is a high barrier for the growth of small and medium business.

Regulatory framework

Regulations and taxes can have a negative impact on firm performance (Ndiaye, 2018; Amentie et al., 2016). Overly burdensome regulatory frameworks often serve as binding constraints to firm growth, including lowering the rate of new firm entry (Olafsen and Cook, 2016). A strong environment for SME entry and growth is associated with low administrative burden, sound contract enforcement mechanisms, effective property rights, strong creditors' rights protections, low tax burden on new and small firms, and more flexible labour markets (see *ibid*). A study on SMEs in Tanzania finds that respondents perceive the legal and regulatory framework, in particular multiple levies and taxes, corruption, and bureaucracy in the local government authorities or offices, as a constraint to the start-up and growth of SMEs (Anderson, 2017).

Political instability and corruption

Political instability is the leading concern for firm managers and CEOs in MENA, according to a study based on the Enterprise Survey. It has a negative impact on sales and productivity growth (de Lima et al, 2016). Corruption also stands out as a key concern of firm managers and CEOs in the region. High perceived corruption is associated with reductions in sales, lower growth in employment growth, and less labour productivity. There is also evidence that corruption deters firms from interacting with public authorities, undermining their ability to take advantage of relevant opportunities (*ibid*).

Infrastructure

Infrastructure, such as the status of roads, telecommunications, transport and electricity, have an impact on the growth of businesses (Amentie et al, 2016). Problems with electricity is a frequently cited issue. The study on SMEs in Tanzania finds that unreliable and overpriced utilities are a key barrier for SMEs. The vast majority of respondents interviewed expressed concerns about high rents that make physical premises unattainable for many businesses (Anderson, 2017). As a result, SMEs have transformed into informal, mobile enterprises (e.g. street vendors or roadside sellers). In addition, troubles with electricity and other utilities have resulted in losses for businesses (ibid). In Thulamela Municipality, South Africa, infrastructure utilised by small, medium and micro-enterprises are also considered by respondents to be sub-standard, which can hinder firm development. A study on Ethiopia also reveals that key barriers to growth of small businesses are the high cost of electricity and poor communication facilities (Amentie et al., 2016).

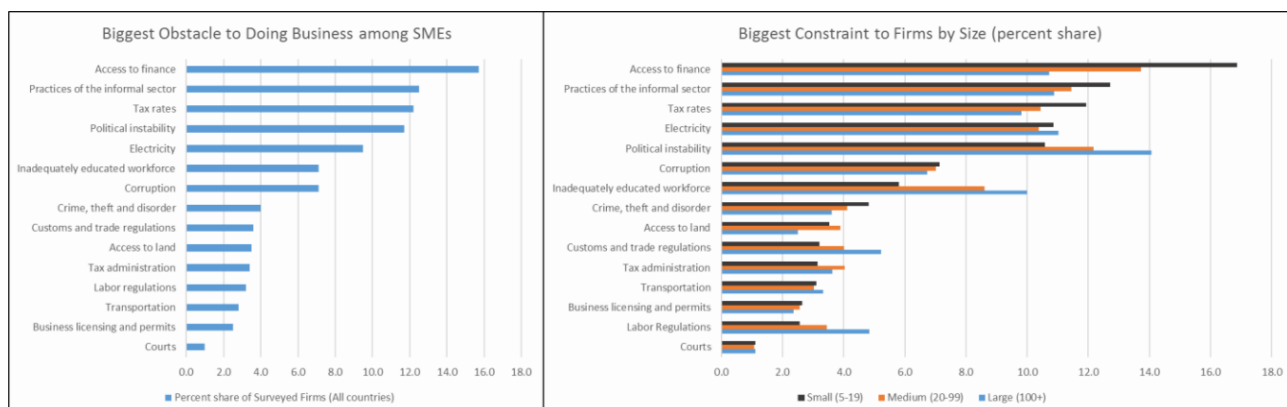
An unreliable electricity supply is similarly a serious obstacle for firms in several economies in MENA (e.g. Egypt, Lebanon, the West Bank and Gaza, and the Republic of Yemen) despite efforts by some governments to tackle this problem. An irregular power supply accounts for a significant loss of sales for many firms, and is associated with lower productivity levels (de Lima et al., 2016).

4. Ranking of constraints

According to analysis, based on WBES data, managers of firms across all countries surveyed consider access to finance the biggest obstacle to business growth, followed by competition from the informal sector and then taxation (Kumar, 2017). When grouped by firm size, the top constraints for the small sized firms remains the same: access to finance, informality and tax rates. The top three constraints for medium and large sized firms also includes access to finance and informality. However, they considered political instability to be a greater constraint than taxation (ibid). See Figure 1. Similarly, Wang (2017)'s study, also based on Enterprise Survey data, finds that the five most significant obstacles perceived by SME managers are: access to finance; tax rate; competition; electricity; and political factors. SMEs are more likely to perceive access to finance as the biggest obstacles to their growth than large firms, followed by competition; whereas SMEs are less concerned about political issues than large firms (ibid).

In the case of Sub-Saharan Africa, approximately 25 per cent of firms surveyed reported that access to finance was one of the biggest obstacles they face. Access to finance is considered an essential element for firms' productivity in Africa (Onubedo and Yusuf, 2018, 6). In the case of South Asia, averages for the region find that firms perceive electricity to be the biggest obstacle. See Figures 2 and 3 for data on Sub-Saharan Africa and South Asia.

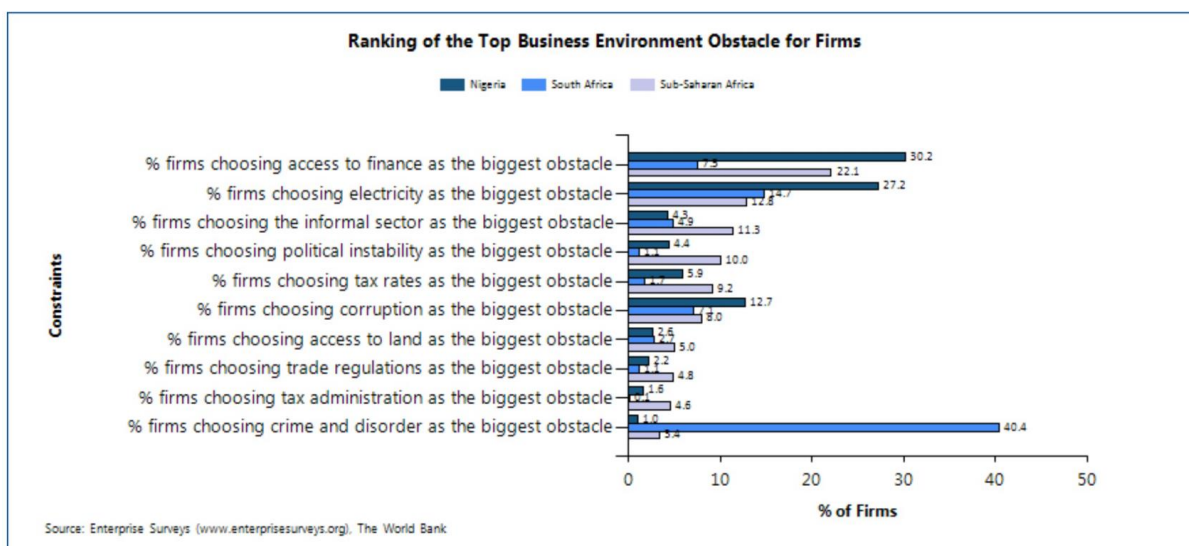
Figure 1: Constraints to doing business for SMEs across all countries surveyed (WBES)



Source: World Bank Enterprise Surveys (2010-2016), Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

(From: Kumar, 2017, p. 17)

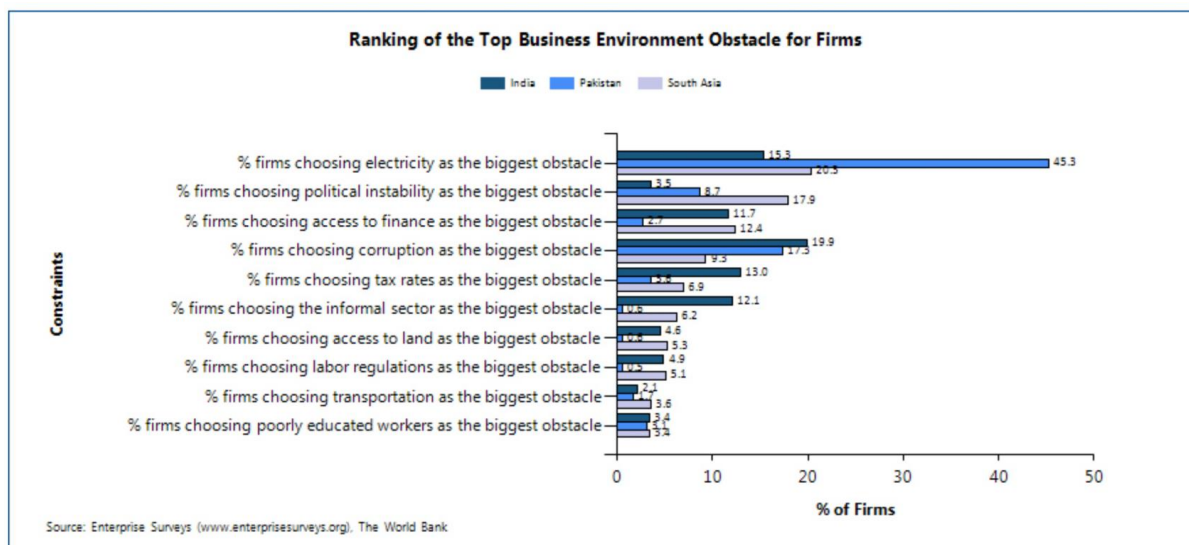
Figure 2: Biggest Obstacles faced by firms in Sub-Saharan Africa (%), with individual data on Nigeria and South Africa



Notes

* This indicator is computed using data from manufacturing firms only.

Figure 3: Biggest Obstacles faced by firms in South Asia (%), with individual data on India and Pakistan



Notes

* This indicator is computed using data from manufacturing firms only.

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Key websites

- World Bank Group Enterprise Surveys: <http://www.enterprisesurveys.org/>

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