The Challenges of African Entrepreneurship

AiCE Africanism & Pan-African Studies — Capital, infrastructure, and fragmentation

Access to Capital: Africa's Persistent Bottleneck

The single most consistent constraint on African entrepreneurial growth is access to capital. African entrepreneurs — particularly those in the early stages of building businesses, particularly those in the informal sector, particularly women — consistently identify lack of access to affordable finance as their primary obstacle. The formal banking sector in most African countries is risk-averse, collateral-focused, and oriented toward lending to large established businesses and governments rather than to small and medium enterprises.

The reasons for this are structural. African banks face genuinely challenging operating environments: weak legal systems that make it difficult to enforce loan contracts, limited credit information about borrowers (credit bureaux are underdeveloped in most African countries), macroeconomic volatility that makes lending risky, and the high cost of reaching dispersed rural and peri-urban populations. These challenges are real. But they are also used to justify banking sector behaviour that systematically excludes the entrepreneurs who most need capital: interest rates on SME loans in many African countries exceed 25%, and collateral requirements typically demand fixed assets — land, buildings — that most African entrepreneurs do not have formal title to.

The response to this capital gap has come from multiple directions. Mobile lending platforms — M-Shwari in Kenya, Branch in Nigeria and Tanzania, Tala across East Africa — use mobile money transaction data to assess creditworthiness and extend small loans to people with no formal credit history. Development finance institutions — the IFC, the African Development Bank, the European Investment Bank — have established SME lending facilities that reach into the small business market. Impact investors and venture capital funds have provided equity capital to high-growth startups. And the traditional African rotating credit associations — osusu, chama, stokvel — continue to provide informal capital to millions of entrepreneurs outside the formal system.

Infrastructure Gaps: The Hidden Tax on African Business

Every African entrepreneur operates under a cost burden their counterparts in developed countries do not face: the infrastructure tax. Unreliable electricity means running diesel generators at enormous cost. Poor road networks mean transporting goods from farm to market or from factory to customer takes longer and costs more than it should. Unreliable internet connectivity imposes costs on digital businesses. Inadequate water supply forces businesses to make their own arrangements. These infrastructure gaps are not merely inconveniences. They are significant competitive disadvantages that raise the cost of doing business in Africa and reduce the profitability of African enterprises relative to international competitors.

The World Bank's Doing Business reports have consistently found that the cost of starting a business, the number of procedures required, and the time taken to resolve commercial disputes are all significantly higher in Africa than in comparable developing regions. These regulatory and infrastructure burdens fall disproportionately on small businesses, which lack the resources to navigate complex regulatory environments or absorb the costs of infrastructure self-provision that large businesses routinely manage.

Market Fragmentation: The Continental Opportunity Unrealised

Africa is, formally, a single continental economy. In practice, it is fifty-five separate markets, each with its own currency, regulatory system, product standards, import duties, and border procedures. An entrepreneur in Lagos wanting to sell to customers in Accra — a city less than 600 kilometres away — faces import tariffs, different product regulations, currency conversion costs, and border procedures that can take days. The same entrepreneur selling to customers in London faces a smoother commercial relationship than the one they have with their nearest African neighbours.

This fragmentation is the most important structural constraint on African entrepreneurial scale. The domestic markets of most African countries are simply too small to support the scale of production that would make African manufacturing internationally competitive. An Ethiopian garment manufacturer serving only the Ethiopian market will never achieve the economies of scale that allow a Vietnamese or

Bangladeshi manufacturer to compete globally. The same applies across almost every manufacturing sector.

The AfCFTA, examined in an earlier unit, is the most important institutional response to this fragmentation. If fully implemented, it would create the single market African businesses need to achieve scale. But implementation requires more than signing a treaty: it requires harmonising product standards, developing continental logistics infrastructure, building the payment systems that allow cross-border transactions to happen smoothly, and political will from individual governments to open their markets even when domestic industries resist.

Key Takeaways

Access to capital, infrastructure gaps, and market fragmentation are the three most consistent structural obstacles African entrepreneurs face — each raising costs, limiting scale, and disproportionately burdening the smallest businesses. Mobile lending, development finance, and the AfCFTA all represent partial responses, but none is a complete solution on its own. The next lesson examines what a complete response — a genuine entrepreneurial ecosystem — actually requires.