

A COMPARATIVE ANALYSIS OF START-UPS WITHIN EASTERN AFRICA ECONOMIC BLOCK

Mallinguh E., Zéman Z.*

Abstract: Using World Bank “Doing Business” report for the period 2004-2018, the study examines similarities and dissimilarities within the East African Economic block based on four variables for start-ups. The study employed the Kreskas-Wallis non-parametric technique of data analysis for the study. Based on the findings, the number of procedures undertaken before starting a business and the recovery rates linked to the resolution of insolvency are statistically different in these economies. Still, there is no significant difference in the number of days required to open a business or cost (captured as a percentage of income per capita). The recovery rate for insolvency resolution has the highest ESS (91.4%). The findings are essential for policymakers charged with the formulation of standard rules and regulations geared towards governing start-ups and SMEs in the region.

Keywords: Start-ups, Procedures, Duration, Insolvency resolution

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Introduction

Startups and SMEs in Africa significantly spur economic growth while contributing to the creation of most employment opportunities. Economic integrations offer African entrepreneurs a rare opportunity to grow their business beyond national borders. The operations of SMEs support the economic and social progress of economy’ regions by influencing improvement in the living standard of locals and lower unemployment rates (Bondareva and Zatrochová, 2014). However, although economic integration offers entrepreneurs with numerous opportunities for expansion, there are many hurdles to be overcome by SMEs in Africa.

One hurdle faced by SMEs in Africa relates to weaknesses in the infrastructure. Whereas SMEs are continuously improving on their capacities and capabilities, the infrastructure in many parts of Africa is not the best. Bad roads, frequent electricity outages, and unreliable transportation system can hamper a firm’s ability operational ability. Regional advancements are strongly associated with institutionalisation, political processes, strategies, and financial apportionment. Thus, factors like institutional structure, domestic or regional leadership play a crucial role in complementing attempts aimed at economic and social progress, minimising the significant gap between developed and developing block members.

* **Edmund Mallinguh**, School of Economics and Social Sciences, **Professor of Finance Zoltán Zéman**, Institute of Business Studies, Szent Istvan University-Godollo, Hungary

✉ Corresponding author: mallinguh.bwire.edmund@phd.uni-szie.hu

✉ zeman.zoltan@gtk.szie.hu

Sound institutions, better governance, and leadership are necessary ingredients in supporting the growth efforts of an economy or region (Talmaciu, 2014). Regional residents play an essential part in the development through investment, while stable institutions and leadership are meant to ease the process of starting a business or assisting in resolving financial distresses by removing unnecessary obstacles.

East African economic block member states have different levels of economic growth or status. Each country has its institutions regulating economic affairs domestically since different countries need varying institutions to secure long-term economic growth advancement (Nawaz, 2015). Moreover, during Economic integration, a country may have a competitive edge over others. In all, each country endeavours to exploit economically areas where it has a competitive advantage entirely. Using data from World Bank-Doing Business report, Hamplová and Provazníková, (2014) explored the business environment in the Czech examining the county's rating about other European Union member states. The current study closely mirrors their study but on a different focus.

Bruhn (2011) describes how advancing simplified entry regulation is an effective policy for promoting entrepreneurial actions and making clients well off by boosting job opportunities and lower prices. Micro, small and medium enterprises are a solution to rising levels of unemployment in the region; this is in addition to the significant contribution to the gross domestic product. Strict regulations negatively impact investment levels whereas deregulation tends to improve increasing investment levels both public and private. Therefore, regulatory reforms aimed at considerably lowering entry barriers catalyse investment (Alesina et al., 2005). Doruk and Söylemezoğlu (2014) examined 61 developing economies concluding that bureaucratic obstacles and costs remain major drawbacks for start-ups in the emerging countries.

The most pressing challenge facing startups in Africa is limited funding opportunities. SMEs numbers keep growing and not so for funding. Wang (2016) highlights how micro and small entities have more significant growth constraints and limited access to formal providers of external credit. However, the development of financial and related institutional minimises SMEs' growth constraints increasing their chances of accessing external financier (Beck and Demirguc-Kunt, 2006). Inconsistencies in regulations by most in Africa government remains a challenge. Many African economies or economic blocks still have widespread disorientation associated with laws on politics, regulation, and trade that are ever changing.

For Blazy, Martel, and Nigam (2014), the primary goal of an insolvency structure is to offer quick, precise, and cost-effective results for resolving financial distresses and providing a synergetic environment well enough for the generation of fresh debt repayment habits, enhanced trust between creditors and debtors, and an improved survival rate for promising businesses. Enterprises resolve distress through the formal process (legal/court procedure) or private agreements (out of the courts) settlements. Most countries have positively changed their bankruptcy

ranking through empowering creditors, accelerating court procedures, advocating for out-of-court processes, and regulating the insolvency profession (Nigam and Boughanmi, 2017). Firms prefer the private process is against formal due to cost implications.

Therefore, the study aims at examining the extent of similarities or dissimilarities associated with: the number of procedures, duration (days) it takes to start, the cost of capital, and resolution of insolvency recovery rate in the East Africa economic block. The findings are essential for policymakers charged with harmonising business regulations, scholars and entrepreneurs/managers.

Literature Review

Studies exist highlighting factors influencing entrepreneurial activities from a regional point of view. Holienka, Jančovičová, and Kovačičová (2016) studied the determinants of women engaged in entrepreneurial undertakings in Vinegar countries namely the Czech Republic, Hungary, Slovakia, and Poland. This study aimed at differentiating between opportunity and necessity focused approaches. Geda and Seid (2015) also investigated the chances of promoting regional economic integration using trade. The study proposes reconciliation of macroeconomic strategies, empowering trade facilitating institutions, improving trade promotion and a regionally centred diversification arrangement. Entrepreneurs have to make appropriate investment decisions more so if the geographical location is a factor. Quite several factors come into play influencing the decision such as the ease of starting the business, political and macroeconomic stability (Ruiz et al., 2018).

Kaplan, Piedra, and Seira (2011) appraised the ramifications on new start-ups of a plan that significantly accelerates up business registration procedures in different municipalities in Mexico. The finds that new start-ups grew by about 5 per cent every month. Bird and Wennberg (2014) examined regional impacts on the predominance of the family against non-family new businesses. Their study finds that economic elements such as local income per capita are significant for non-family start-ups. In contrast, non-economic elements like desirable community mindset toward small entities are crucial for family start-ups. Nisar, Boateng, and Wu (2018) analysed the relationship between the selected mode of entry in a foreign market and the growth of small and medium-sized businesses in Norway using a sample of 146 firms. The findings show that SMEs attributes such as; size and industry of enterprise, significantly affect performance (Hollender et al., 2017). Bondareva and Zatrochová, (2014) find the growth of small and medium enterprise being influenced by the European Union, more in respect of the creation of a conducive business climate which is hampered by the regulations binding only within Slovak. Although economic blocks are viewed almost entirely from an economic point of view, political goodwill is critical. The goodwill is necessary some concessions require political consideration in addition to the economic wellbeing. Flachaire, García-Peñalosa, and Konte (2014) emphasise that regime

membership depends on political institutions which do not affect growth; however economic systems impact growth within these regimes and are vital for states with feeble political establishments.

Kumar, Sen, and Srivastava (2014) establish that foreign capital mobility attributable to these regional agreements marginally increased. Basnet and Pradhan (2017) findings support justification and optimism for broader economic integration.

Financing a new venture or even operations of an existing business remains a dilemma for budding entrepreneurs. In most cases, finance or credit providers are risk-averse to funding start-ups or risky ventures with uncertain prospects. Rangel González and Torre Cepeda (2015) state that entry deregulation and regions' financial power lead to a decline in the cost of starting a new business, whereas higher intensities of crime and bigger GDP per capita expand it. Kent Baker, Kumar, and Rao (2017) details how formal businesses go for internal funds, bank financing in the form of long-term loans and finally funding from government and other financial entities. Conversely, the informal sector prefers trade credit, support from friends, family, and moneylenders. Equally, external equity is a less pleasant way of financing businesses. Most SME fails to handle working capital efficiently, while information asymmetry exists between fund providers and SMEs hampers credit facility application or approval progress. Also, undeveloped capital markets hinder SMEs prospective growth opportunities (Oke et al., 2017).

Listing on the securities market relieves to relieve small and medium enterprises against bank-backed funding constraints. Gupta and Gregoriou (2018) show that the likelihood of financial distress and bankruptcy to be significant for unlisted SMEs as compared to listed SMEs. Furthermore, the average marginal effects of elements influencing SMEs failing are more substantial for unlisted businesses. Hasan, Jackowicz, Kowalewski, and Kozłowski (2017) argue that a stable position for domestic cooperative financial institutions aids access to bank credit, reduces financial costs, facilitates investments, and speeds expansion SMEs. Equally, regions, where these cooperative banks have a robust position, are defined by high rates of new firm creation. Decreases in cross-border credit results in worsening of the borrowing conditions of small businesses. Still, in economies with more significant contractions in cross-border credit mobility, the chances of an increase in firms' external financing costs hiked (Bemus and Neugebauer, 2018)

Quartey, Turkson, Abor, and Iddrisu (2017) explain that for Africa in general, at the sub-regional stage, accessing credit is strongly influenced by determinants like entity size, ownership, the degree of legal rights, and extent of credit information, entity's export strategy, and the management skills. Businesses whether large or small tend to face periods of financial distress that can result in bankruptcy or insolvency. Successful resolution of such distress or bankruptcy is essential for the survival of SMEs. Small SMEs are more susceptible to the said factors as compared to large SMEs. More so, by analysing distress from a multi-country perspective, regional vulnerabilities were exposed. Nonetheless, higher levels of

debt as a proportion of debt-to-turnover negatively impacts all measures of an entity's performance, particularly on investing, job creation and indexes of financial distress (Lawless et al., 2015).

An entity's lifecycle comprises of birth, growth, maturity and decline stages. The lifecycle of a firm's characteristics influences distress restructuring strategies choices. Distressed businesses in early lifecycle stages prefer reducing the number of employees. Equally, mature entities in distress tend to engage in asset restructuring while lessening investment has a positive relationship with recovery. Where firms pursue less, as compared to more strategies is linked to recovery (Koh et al., 2015). Any economic integration must have an impact in the region, but then the question is whether it is measurable. Rekiso (2017) developed a framework that can be utilised to check if or not a given is a specific regional economic integration agreement is developmental and transformative.

The study has four hypotheses for testing as shown below;

H₁: The distribution of No. of procedures is the same across categories of Economy

H₂: The distribution of Duration in days is the same across categories of Economy

H₃: The distribution of Cost (% of income per capita) is the same across categories of Economy

H₄: The distribution of Resolving Insolvency-Recovery Rate is the same across categories of Economy

Research Methods

The study utilised the *Doing Business Report* by the World Bank data. The Doing Business report offers unbiased measures of business control for domestic entities in 190 markets and chosen cities at the subnational level. Male gender is the selection basis for data from the five member states of the East African economic block. Our data starts from 2004 to 2018 for five economies namely Kenya, Rwanda, Tanzania, Uganda, and Burundi. We perform a comparative analysis of the performance of each of the five economies based on each of the four variables. We purpose to find points of convergence or divergence about the study variables in the region. To perform the comparative analysis, the researchers use Kruskal-Wallis or 'One-way ANOVA on Ranks'. The Effect Size Score (ESS) was incorporated to capture the magnitude of the similarities or dissimilarities in the study variables. The study examined four variables which are: one, the number of procedures undertaken before starting a business; which entails the number of activities (procedures) an investor undertakes before starting a business. Some of these procedures relate to business/premise permits, electricity, tax compliance among others. Two, the number of days it takes to complete all the necessary procedures. Three, the cost (as a percentage of the capital) required to finance a start-up. Four, recovery rates in the resolution of insolvency (as cents per dollar).

Analysis and Findings

Empirical Findings

Table 1. Effect Size Score

Test Statistics ^{a,b}	No. of Procedures	Duration in Days	Cost (% of income per capita)	Resolving Insolvency - Recovery rate
Kruskal-Wallis H	61.049	59.855	14.54	72.183
Df	4	4	4	4
Asymp. Sig.	0	0	0.006	0
Effect Size Score	0.773	0.758	0.184	0.914

Note: a. Kruskal Wallis Test; b. Grouping Variable: Economy

Table 1 shows that the four variables are statistically significant. Effect Size Score quantifies the disparity between two groups under comparison. The recovery rate of resolving insolvency has the highest effect size score (at 91.4 per cent) out of all the four variables considered. Still, the effect size score for the number of procedures and the number of days is also high at 77.3 per cent and 75.8 per cent respectively. Thus, the outcome of these three factors depends on the economy chosen by an investor, therefore warranting careful consideration by an investor. On the flipside, effect size score for the cost of capital is the lowest at 18.4 per cent. Omnibus post hoc test is executed to expose differences as shown in Table 2.

Post Hoc Test

Omnibus post hoc test is comparing each country against the other economies singled out economies with or no significant differences about the study variables.

Table 2. Pair-wise Comparison

Test Statistics ^{a,b}		No. of Procedures	Duration in Days	Cost (% of Income Per Capita)	Resolving Insolvency
Burundi / Kenya	Kruskal-Wallis H	17.859	23.877	0.513	23.311
	df	1	1	1	1
	Asymp. Sig.	0	0	0.474	0
	<i>Effect Size Score</i>	<i>0.576</i>	<i>0.77</i>	<i>0.017</i>	<i>0.752</i>
Burundi / Rwanda	Kruskal-Wallis H	2.165	0.563	0.364	0.208
	df	1	1	1	1
	Asymp. Sig.	0.141	0.453	0.546	0.648
	<i>Effect Size Score</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

Burundi / Tanzania	Kruskal-Wallis H	24.251	24.067	0.818	23.333
	df	1	1	1	1
	Asymp. Sig.	0	0	0.366	0
	<i>Effect Size Score</i>	0.782	0.776	0.026	0.753
Burundi / Uganda	Kruskal-Wallis H	24.32	23.913	0.411	23.311
	df	1	1	1	1
	Asymp. Sig.	0	0	0.522	0
	<i>Effect Size Score</i>	0.791	0.771	0	0.752
Kenya / Rwanda	Kruskal-Wallis H	17.076	23.427	0.205	23.667
	df	1	1	1	1
	Asymp. Sig.	0	0	0.651	0
	<i>Effect Size Score</i>	0.551	0.756	0	0.763
Kenya / Tanzania	Kruskal-Wallis H	6.864	2.416	22.551	23.311
	df	1	1	1	1
	Asymp. Sig.	0.009	0.12	0	0
	<i>Effect Size Score</i>	0.221	0	0.727	0.752
Kenya / Uganda	Kruskal-Wallis H	7.429	3.859	8.206	23.29
	df	1	1	1	1
	Asymp. Sig.	0.006	0.049	0.004	0
	<i>Effect Size Score</i>	0.24	0.124	0.265	0.751
Rwanda / Tanzania	Kruskal-Wallis H	23.698	23.61	4.455	23.69
	df	1	1	1	1
	Asymp. Sig.	0	0	0.035	0
	<i>Effect Size Score</i>	0.765	0.762	0.144	0.764
Rwanda / Uganda	Kruskal-Wallis H	23.765	23.462	0.46	23.667
	df	1	1	1	1
	Asymp. Sig.	0	0	0.497	0
	<i>Effect Size Score</i>	0.767	0.757	0.015	0.763
Tanzania / Uganda	Kruskal-Wallis H	21.892	6.033	3.006	23.311
	df	1	1	1	1
	Asymp. Sig.	0	0.014	0.083	0
	<i>Effect Size Score</i>	0.706	0.195	0	0.752
Note: a. Kruskal Wallis Test; b. Grouping Variable: Economy					

Table 2 presents present that Rwanda and Burundi have no statistically significant differences for all of the four variables considered. Additionally, on the cost required to start a business, there are statistically significant differences in

Kenya/Tanzania, Kenya/Uganda, and Rwanda/Tanzania pairings. Burundi/Uganda pairing has the highest effect size score on the number of procedures undertaken before starting a business at 79.1%. Comparing Kenya, Tanzania, and Uganda to both Rwanda and Burundi shows a high effect size score of over 70 per cent. However, comparing the three economies (Kenya, Tanzania, and Uganda) against each reveals low ESS of less than 20 per cent on average. Again, the ESS for the cost of starting a business is meagre at less than 5% for all comparisons except Kenya/Tanzania which stands at 72.7%. For the recovery rate on the resolution of insolvency, the country of choice is equally important. The ESS is above 70% for all comparisons, as such insolvency resolution is the only variable with such a high consistent score.

Study Hypotheses

The authors had four hypotheses which are:

Table 3. Hypotheses Testing Summary

Null Hypothesis	Test	Sig.	Decision
1. The distribution of No. of procedures is the same across categories of Economy	Independent - Samples-Mann Whitney U Test	.000 ¹	<i>Reject the Null Hypothesis</i>
2. The distribution of Duration in days is the same across categories of Economy	Independent - Samples-Mann Whitney U Test	.014 ¹	<i>Retain the Null Hypothesis</i>
3. The distribution of Cost(% of income per capita) is the same across categories of Economy	Independent - Samples-Mann Whitney U Test	.086 ¹	<i>Retain the Null Hypothesis</i>
4. The distribution of Resolving Insolvency-Recovery Rate is the same across categories of Economy	Independent - Samples-Mann Whitney U Test	.000 ¹	<i>Reject the Null Hypothesis</i>
Asymptotic significances are displayed. The significance level is .05			
The exact significance is displayed for this test			

Table 3 presents the decision on each of the four hypotheses.

Discussion

Hypothesis 1: The distribution of the number of procedures is the same across categories of Economy; the alternative hypothesis is rejected.

The number of procedures undertaken by a business owner before starting an enterprise is significantly different in the five economies. For example, both

Rwanda and Burundi are not as developed as the economies partly to the political turmoil of the 1990s. Nonetheless, Rwanda and Burundi have been continuously improving their business environment aimed at stimulating and attracting domestic, regional and global investment. The situation explains why the two have high scores in ease of starting a business as per the Doing Business survey (2019) by World Bank at (94.84%) and (91.39%) respectively as compared to Kenya (82.41%), Tanzania (72.65%) and, Uganda (72.25%). Kenya, Tanzania, and Uganda share a common geographical border, and the spillover effect cannot be overruled. The favourable domestic business climate is a significant determinant of a country's competitiveness in an economic block.

Hypothesis 2: The distribution of Duration in days is the same across categories of Economy; the null hypothesis fails to be rejected.

In general, there is no significant difference in the duration/number of days it takes to start a business within the five economies. The spread of the duration is more or less the same in all these economies. The possible explanation for this outcome is that the country is under one economic block and the efforts to harmonise business regulations and requirements could be bearing fruits.

Hypothesis 3: The distribution of Cost (% of income per capita) is the same across categories of Economy; the null hypothesis fails to be rejected.

From a broader perspective, the capital (as a percentage of per capita income) needed to start a business is mostly the same in the region. These economies generally operate in the same economic environment which may also explain minimal differences in their annual economic growth.

Hypothesis 4: The distribution of resolving insolvency-recovery rate is the same across categories of Economy; the alternative hypothesis is rejected.

Uganda has a better insolvency resolution mechanism as evidenced by the higher recovery rate per dollar. The country performs much better compared to Kenya which is the most developed economy in the region with a robust financial framework.

Conclusion

Two factors are essential for investment decision making; the number of procedures it takes before starting a business and the resolution of insolvency recovery rate. Consequently, the other two factors are significant if considered on a country by country basis. The findings are relevant to managers of MSMEs within the economic block keen on expanding their operations. For instance, it is easier for an enterprise to be started or grow into the Rwandan and Burundian market. In these two markets, the number of procedures to be undertaken are few when one is setting up a business. Again, Uganda performs better in insolvency resolution. The other two factors are inconsequential in the decision-making process. Nevertheless, other economies such as Kenya and Tanzania have well developed and robust financial markets or institutions than the other three countries. Therefore, an

entrepreneur or manager must consider other factors in addition to the ones discussed above before making an investment decision.

Our study, indeed, has limitations, which may offer opportunities for future research directions. For example, the study duration was a medium-term and explored four out of eleven factors considered in Doing Business; future studies can expand the duration and the scope. Despite the limitation, the authors feel that the findings paint a real picture of the business scenario in the block.

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ANALIZA PORÓWNAWCZA STARTUPÓW W BŁOKU GOSPODARCZYM AFRYKI WSCHODNIEJ

Streszczenie: Wykorzystując raport „Doing Business” Banku Światowego za lata 2004–2018, badanie analizuje podobieństwa i różnice w bloku wschodnioafrykańskiej gospodarki oparte na czterech zmiennych dla nowych przedsiębiorstw. W badaniu wykorzystano nieparametryczną technikę analizy danych Kruskal-Wallis do badania. Na podstawie ustaleń liczba procedur podjętych przed rozpoczęciem działalności gospodarczej oraz wskaźniki odzysku związane z rozwiązaniem niewypłacalności są statystycznie różne w tych gospodarkach. Mimo to nie ma znaczącej różnicy w liczbie dni potrzebnych do otwarcia firmy lub kosztu (ujętego jako procent dochodu na osobę). Stopa zwrotu z tytułu

niewypłacalności ma najwyższy ESS (91,4%). Odkrycia są niezbędne dla decydentów odpowiedzialnych za formułowanie standardowych zasad i przepisów ukierunkowanych na zarządzanie nowopowstającymi firmami i MŚP w regionie.

Słowa kluczowe: Rozpoczęcia działalności, Procedury, Czas trwania, Rozwiązanie niewypłacalności

东非经济区块初创企业的比较分析

摘要：本研究利用 2004-2018 年世界银行“营商环境报告”，根据初创企业的四个变量，考察了东非经济区块内部的异同。该研究采用 KreskasWallis 非参数数据分析技术进行研究。根据调查结果，这些经济体在开展业务之前开展的程序数量和与破产解决方案相关的回收率在统计上有所不同。尽管如此，开展业务所需的天数或成本（按人均收入的百分比计算）并无显著差异。破产解决的回收率具有最高的 ESS（91.4%）这些调查结果对负责制定适用于该地区的初创企业和中小企业的标准规则和法规的政策制定者至关重要。

关键词： 初创企业，程序，期限，破产解决方案