



**BUSINESS LEADER PERCEPTIONS OF
THE INVESTMENT CLIMATE IN EAST
AFRICA**

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Reports for Kenya and Tanzania are available at www.businessadvocacy.net and at www.businessadvocacy.org for Kenya and www.best-ac.org for Tanzania.

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BUSINESS LEADER PERCEPTIONS OF THE INVESTMENT CLIMATE IN EAST AFRICA

1. Introduction

This review of business leader perceptions of the investment climate in East Africa has been published both to compare perceptions of business leaders in Kenya, Tanzania and Uganda and also to highlight priorities for action to improve the business enabling environment. in Kenya.

Country reports have been commissioned – by the Business Advocacy Fund in Kenya and by Business Environment Strengthening in Tanzania (BEST) Advocacy Component (AC) in Tanzania. Steadman, who administered the surveys, also surveyed business leaders in Uganda, enabling the preparation of this three country comparison.¹

The World Bank asserts that improvements in the enabling environment lead to greater levels of investment by the private sector, more wealth and job creation, and ultimately more poverty alleviation. The best way for government to understand how to improve the enabling environment is to involve the private sector through consultation and dialogue.

This report provides a snapshot of East African business leaders' views of the enabling environment and the government's role in making it easier to do business.

2. Rationale for the study

Organisations such as the World Bank and World Economic Forum regularly undertake research to review the problems of doing business, so it may seem that there is no need for further studies. This study is different, however:

- Perceptions influence the way that people act. Having an understanding of perceptions may not only convince policy makers that more needs to be done but also provide clues to the government about how to communicate messages about reality.
- It aims to isolate the factors important to specific sectors.
- It has analysed the results by sector and by factor.
- It has not only asked about the factors that are problematic but also asked business leaders to identify where the government is perceived to be making a positive effort to make a difference.
- It has asked about the factors that will deter future investment.
- It has attempted to quantify the costs to business of meeting the regulatory requirements imposed on them.

This first study has results that are revealing, identifying priority areas for action by governments if they want to make a difference not only to the enabling environment in each of their countries but also to the way that they are perceived by business.

¹ Note on methodology: Steadman undertook the surveys, of Chairmen and CEOs, during May and June 2008. There were 63 respondents in Kenya, 60 in Tanzania and 104 in Uganda.

3. Priorities

Business leaders were asked about

- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- Their perception of whether and, if so, how, government is addressing each factor;
- Their view of whether each factor would be likely to deter future investment; and
- An assessment of the costs involved in meeting the requirement of regulation and red tape.

Most factors were seen to be important by most sectors. Furthermore, most factors were seen to be causing difficulty for business. There were considerable differences between the three countries. However, the two factors that, more than any other, are causing difficulty for all businesses are power and roads.

If one takes into account both the difficulties cause for businesses by each factor and whether governments are perceived to be making the issue worse, then the three issues affecting businesses throughout the region are power, roads and corruption.

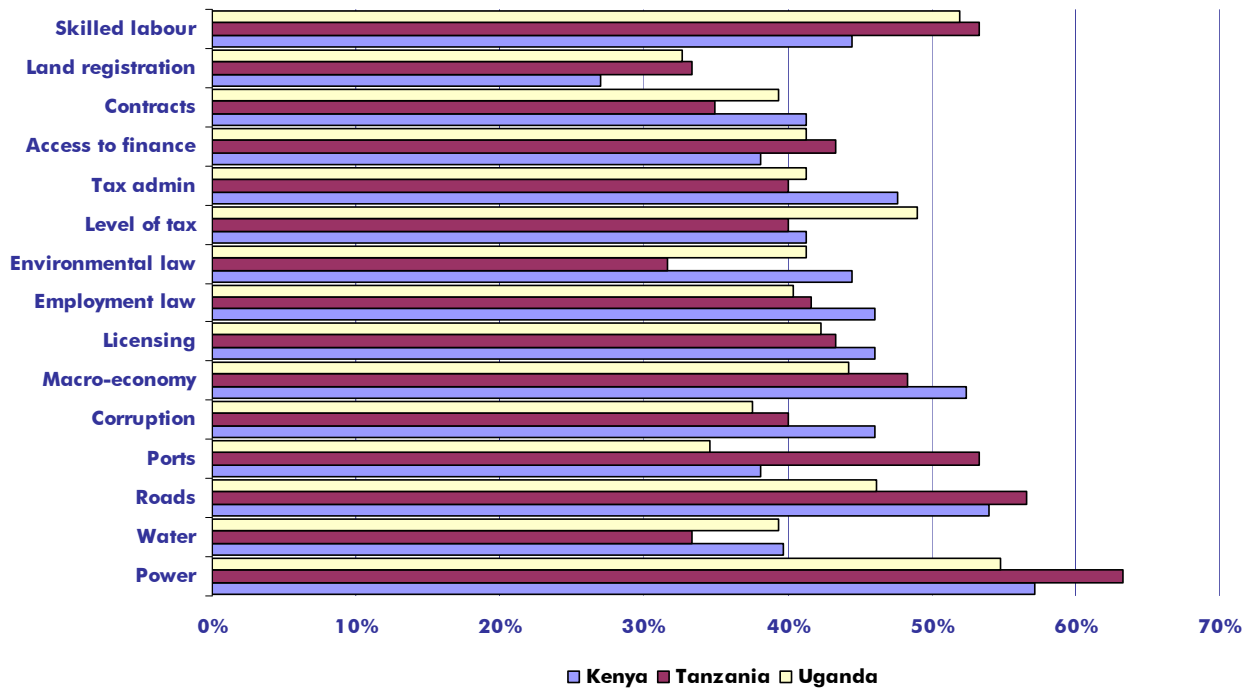
It should be noted that the cost of complying with regulation takes a high proportion of businesses' expenditure. If it were possible to reduce this, then it would free up resources – both financial and managerial – which the businesses could then use for investment. So this should also be a priority for governments.

4. Results

4.1 Factors important to business

In the first question, respondents were asked to indicate which of a range of issues were important to the success of their business and were then asked to indicate whether that factor made doing business very difficult, somewhat difficult, had room for improvement or was not a problem at all.

Figure 1: Importance of issues (all respondents)

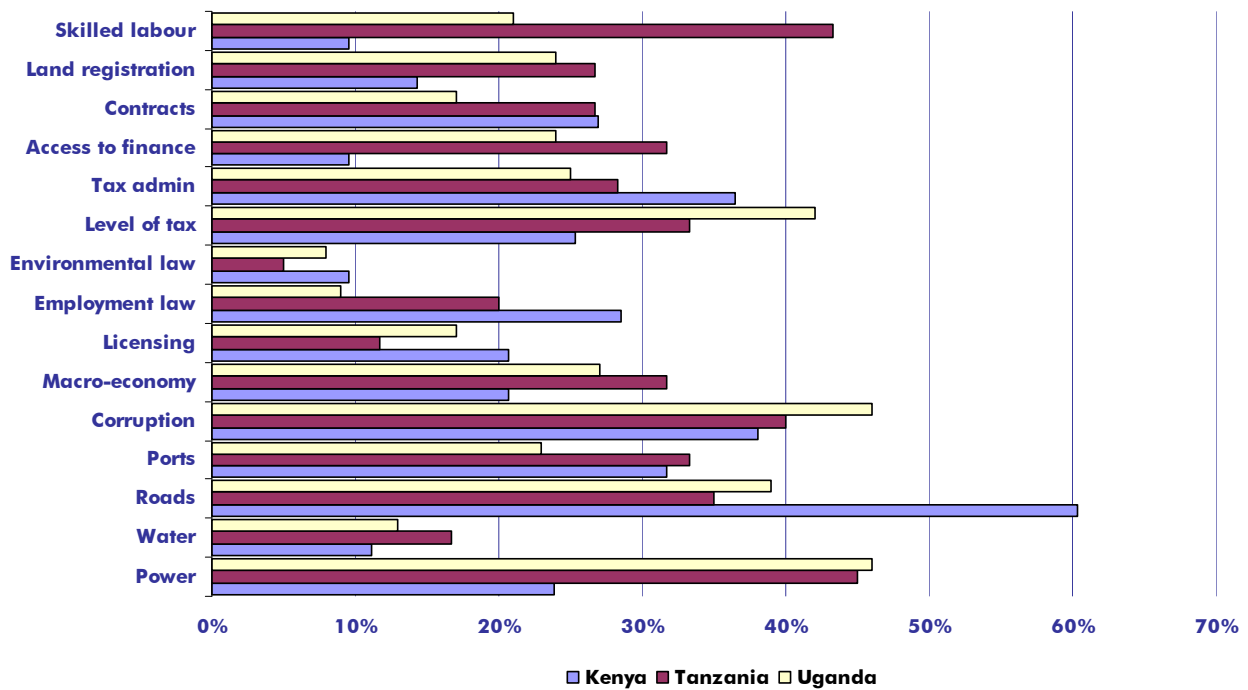


The results for whether issues were important are shown in figure 1. The main factor in all three countries is power, followed by roads and availability of skilled labour.

4.2 Factors which make doing business difficult

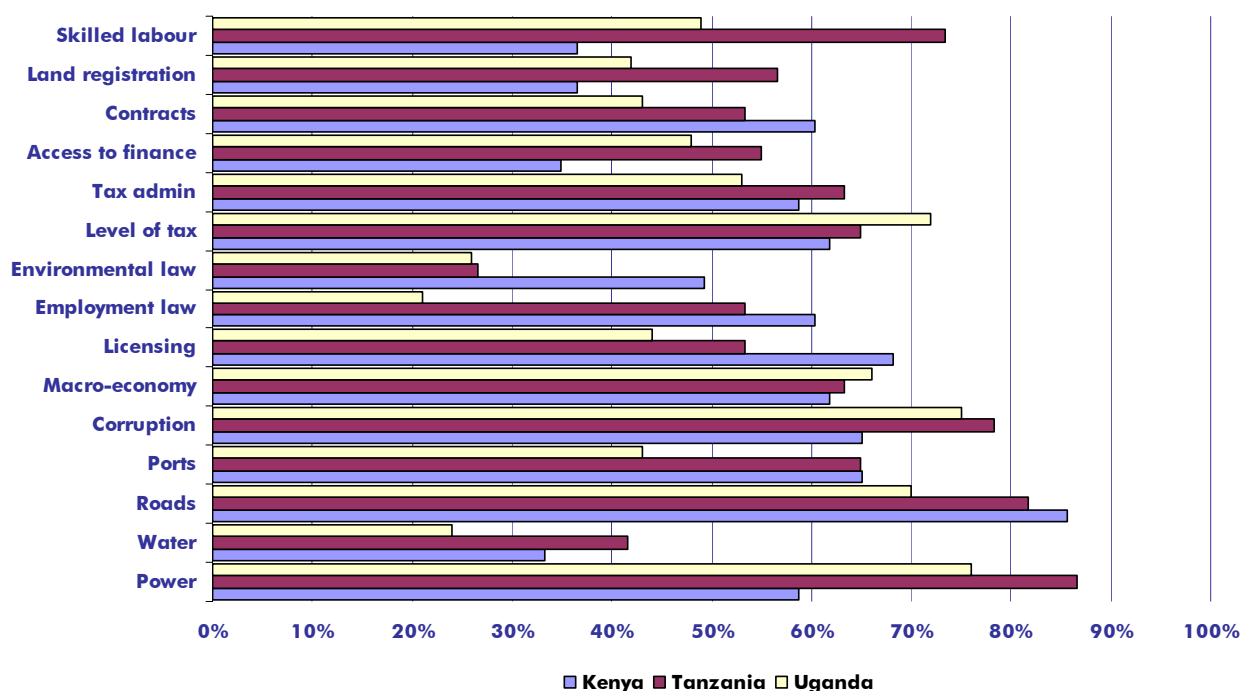
Businesses were then asked to say which factors make business 'very difficult', 'somewhat difficult', 'could be improved' or are 'not a problem'. Figure 2 shows the comparative results for the factors that make doing business very difficult. As can be seen, there is some variation, though some common themes: in Kenya, the factors are roads, corruption and tax administration; in Tanzania, the factors are power, availability of skilled labour and corruption; and in Uganda, the factors are corruption, power and level of taxation.

Figure 2: Factors which make business very difficult



When responses for 'somewhat difficult' are added to 'very difficult', the differences become narrower (figure 3) though there are also some differences in key issues, presumably because some factors such as licensing cause difficulties but businesses are able to put in place systems and procedures to cope with them. In Kenya, the top factors are roads, licensing, corruption and ports; in Tanzania, they are power, roads, corruption and availability of skilled labour; and in Uganda, they are corruption, power, level of taxation and the roads.

Figure 3: Factors which make business very difficult or somewhat difficult



4.3 Perceptions of government performance

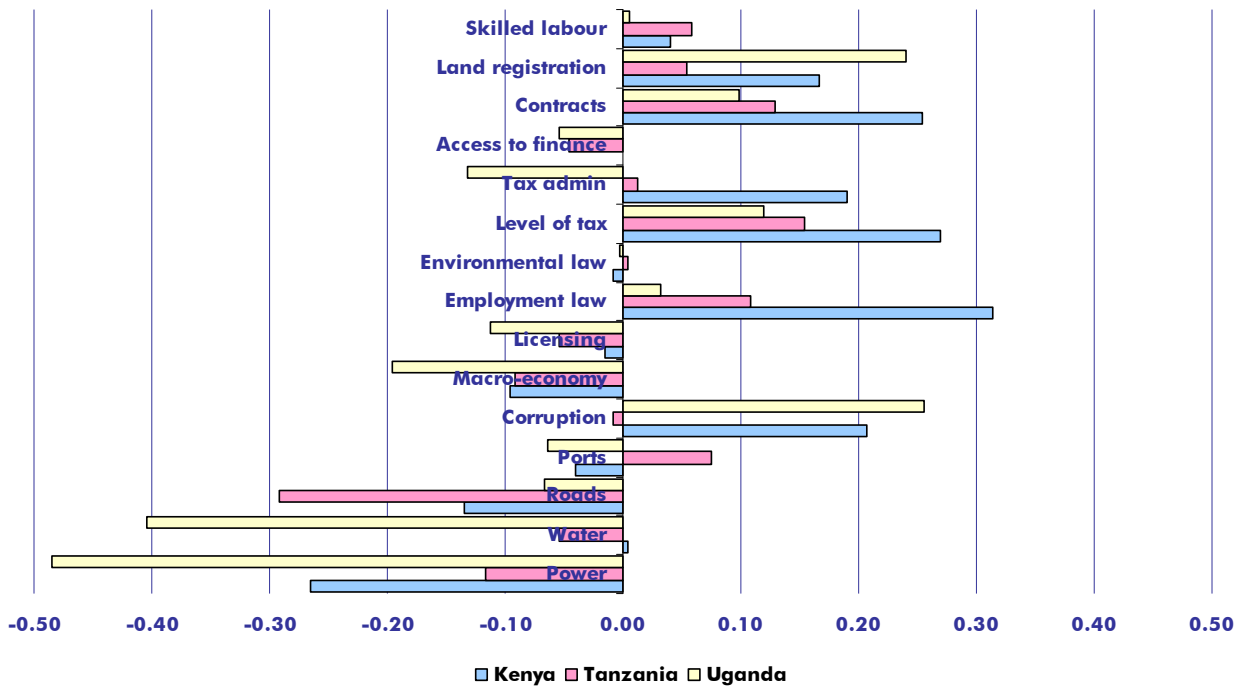
The second question asked about respondents’ perception of government efforts to address these aspects of the enabling environment. Answers ranged from ‘the government is making real efforts to address the issue’, through ‘some effort’ and ‘no effort’, to ‘government actions are making this issue worse’.

In Tanzania and Kenya, there were few factors where respondents perceived that the government was making a real effort to address the issue, though most respondents felt that the government was making at least some effort for most factors. There were a small number of factors where respondents felt that the government was making the situation worse. Detailed results are available in the country reports. In Uganda, however, business perceptions of government efforts were generally far more positive, with 42 per cent thinking that the government was making a real effort in relation to power and 42 per cent thinking that it was making a real effort in relation to water. For 10 factors, out of the total of 15, more respondents felt that that the government was making a real effort than thought it was making the position worse. This compares with 5 in Kenya and 9 in Tanzania, though the differences are closer in Tanzania.

To seek more insight, an ‘index of perceived government performance’ has been prepared, which takes into account all the responses to this question. The results are shown in figure 4. Note that the scale runs from -1 (every respondent thinks that the government is making a real effort) to +1 (every respondent thinks that the government is making the issue worse). Whilst there is considerable variation between countries, it seems that all governments are perceived to be making efforts to address power, roads, the macro-economy and licensing.

The issues where it is perceived that governments are making the position worse or else doing nothing are employment law, level of taxation, enforcement of contracts. Availability of skilled labour does not score well. Lack of government effort to address corruption features highly in Kenya and Uganda, but not in Tanzania, though this does not mean that it is not a big problem for business. Conversely, the ports are seen as an area where government should do more in Tanzania, but does not feature highly in Kenya or Uganda.

Figure 4: Government performance in addressing key factors



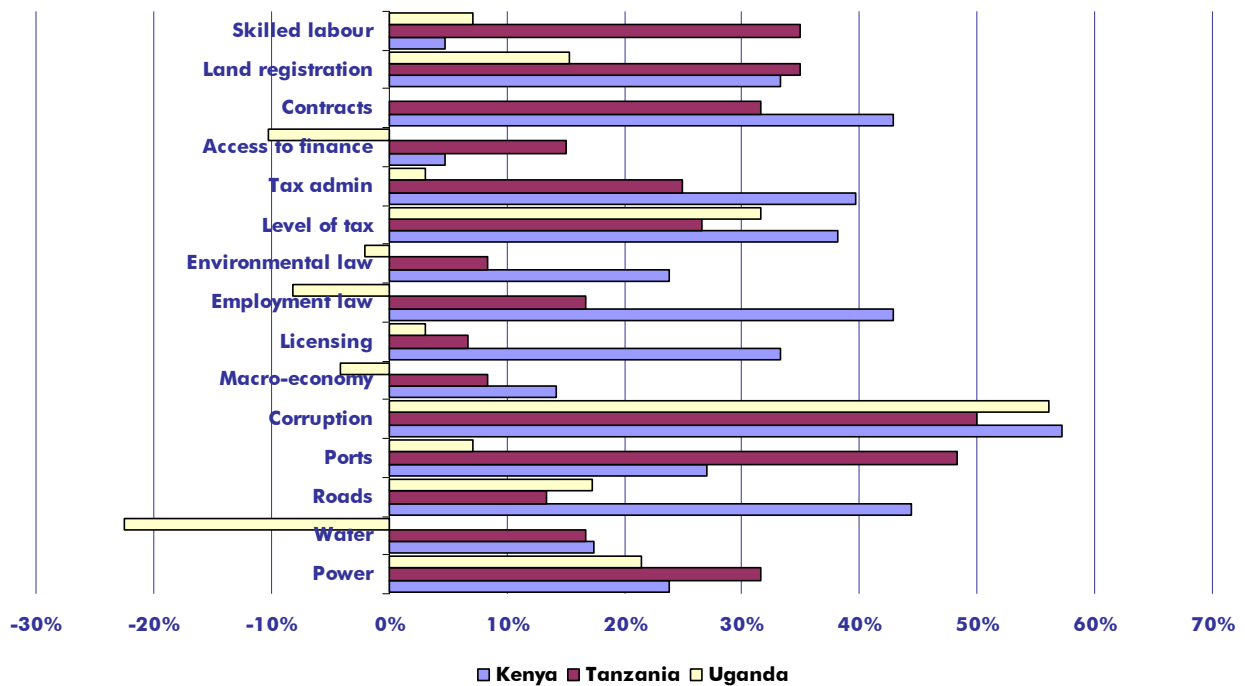
4.4 Investment prospects

The third question asked respondents which factors were likely to influence investment decisions and how. Respondents were asked whether each factor would deter, would have no impact on or would encourage further investment. In the chart below, a simple index has been prepared by subtracting the 'encourage' responses from the 'deter' responses. Note that the further a bar extends to the right, the more businesses would be deterred; the further it extends to the left, the more businesses would be encouraged.

In Kenya and Tanzania, every factor deterred rather than encouraged further investment. In Uganda 'encourage' outweighed 'deter' in five factors and in most other factors, the overall level of deterrence was much less. Only in corruption and level of taxation was Uganda perceived to be as bad as Kenya and Tanzania.² Whilst this may ultimately not make a big difference to investment by existing firms, it suggests that footloose investors, looking for a base in east Africa, may be more inclined to choose Uganda in preference to its neighbours.

² Detailed results are available in the country reports: see www.businessadvocacy.net

Figure 5: Factors which affect investment decisions

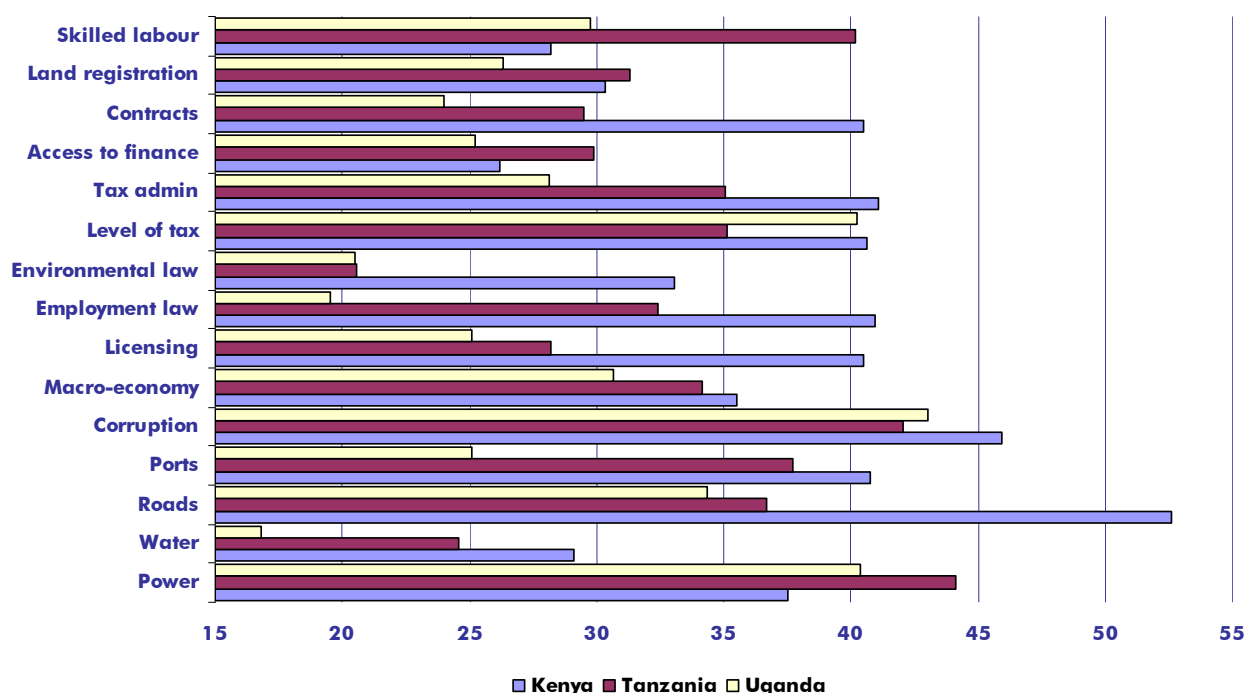


4.5 Enabling environment priority index

To help both private and public sectors identify the factors which should, perhaps, be prioritised for action, we have prepared an ‘enabling environment priority index’, based on level of difficulty that the factor imposes on doing business difficult and on the perceptions of how government is addressing the issue. To ease comparison, this index has been designed always to be positive, with the worst being 100 (that is every respondent says that the issue makes doing business very difficult and every respondent thinks that the government is making the situation worse). A result of 13 or less indicates that the issue is not really a problem at all.

The results are shown in figure 6. In Kenya, the priority issues are roads, corruption, employment law, licensing, enforcement of contracts and taxation (both administration and level). In Tanzania, the priority issues are power, corruption, availability of skilled labour, ports and airports and roads. In Uganda, the priority issues are corruption, power, level of taxation and roads.

Figure 6: Enabling environment priority index

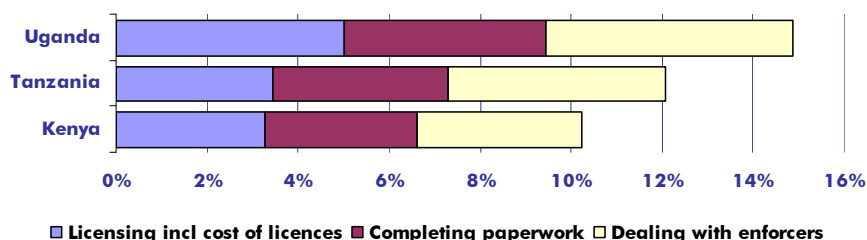


5. Cost of red tape

The last question that respondents were asked related to the costs of red tape and regulation – with costs split into three groups: the direct cost of licensing including the cost of the licences themselves, the effective cost through the staff time required to complete paperwork associated with regulation and the effective cost through staff time of dealing with the enforcers of regulation. Respondents were asked to say in which of a number of bands they believed that each of these categories of cost fell.

Most respondents thought that each required expenditure of less than three per cent, though it seems that few respondents thought that expenditure was less than three per cent in all three categories. The consequence is that businesses, if they have answered accurately, appear to be spending 10 per cent of turnover or more on regulation and red tape.

Figure 7: Costs of red tape and regulation



Even if one allows for some exaggeration, it is clear that businesses spend too much on dealing with red tape and regulation. Reducing this expenditure would not only make businesses feel that the government was really trying to

make a difference, but would free up a resource that business could invest in expansion. So this, too, should be a priority for governments who really want to make a difference to the enabling environment and encourage more investment – which will in turn lead to more jobs, more wealth creation and greater poverty alleviation.