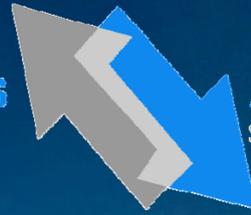


THE BUSINESS



ADVOCACY FUND

Supporting Private Public Dialogue

**BUSINESS LEADER PERCEPTIONS OF
THE INVESTMENT CLIMATE IN
KENYA**

2008



The Business Advocacy Fund
is supported by
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The Business Advocacy Fund supports business member organisations to engage in private public dialogue and to advocate an improved business environment in Kenya by providing grant aid, training and mentoring.

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BUSINESS LEADER PERCEPTIONS OF THE INVESTMENT CLIMATE IN KENYA

1. Introduction

This report has been prepared to highlight priorities for action to improve the business enabling environment in Kenya. It has been commissioned by the Business Advocacy Fund whose role is to support business member organisations (BMOs) to engage in private public dialogue and to advocate change in public policy with an objective to improve the business environment in Kenya.

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 Kenyan business leaders' views of the enabling environment and the government's role in making it easier to do business.

2. Assessments of the enabling environment

The World Bank researches a number of indicators and publishes its "Doing Business" reports annually.¹

The Doing Business reports highlight a small number of indicators. Many countries are responding to the conclusions of the reports and aiming to cut bureaucracy and make a difference. However, it is possible to focus on just two or three of the indicators used by the World Bank – which may make a big difference to their ranking but not make much difference to the overall ease of doing business (that is, to their rating) and so the perception of the private sector may be that not much has happened.

According to Doing Business 2008, Kenya does well on licensing but rather less well on paying taxes.

Table 1: World Bank: Doing Business in 2008 rankings

Ease of doing business	72
Dealing with licences	9
Employing workers	66
Registering property	114
Paying taxes	154
Enforcing contracts	107

Source: World Bank, 2007 (Countries surveyed 178)

Whilst the World Bank's work is incredibly valuable to policy makers in highlighting areas worthy of reform and promoting debate, it does not offer a holistic view. Furthermore, encouraging more people to start in business or encouraging more people to join the formal economy or encouraging more investment will be far more dependent on a broader perception of the ease of doing business rather than on the narrower score reported in Doing Business.

The World Economic Forum researches and publishes assessments of competitiveness, of which the enabling environment is part.²

¹ World Bank, Doing Business: see www.doingbusiness.org

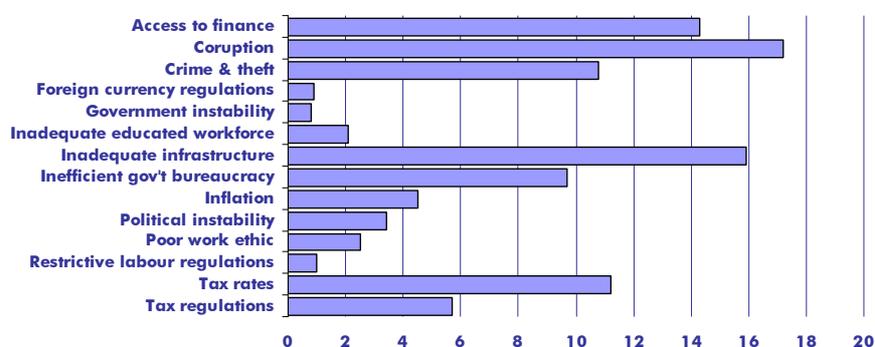
Table 2: Global Competitiveness Index – selected indicators

Global Competitiveness Index 2007/8	
Macro-economic stability	93
Infrastructure	122
Business competitiveness index 2007/8	
Quality of national business environment	62

Source: World Economic Forum 2007 (Countries surveyed 131)

Kenya does quite well for the quality of its business environment generally, though rather less well for its infrastructure.

The World Economic Forum also asks businesses about the most problematic issues that they face. Corruption is the most problematic, followed by infrastructure, access to finance and then tax rates.

Figure 1: WEF: Most problematic factors for doing business

Source: World Economic Forum (www.gcr.weforum.org)

As well as the Doing Business research, the World Bank undertakes other research to seek insights into the way that economies perform. One research series, Enterprise Surveys, reviews, inter alia, the enabling environment.³ The most recent surveys are a little out of date, but the results add to the overall picture. Selected results from the survey for Kenya are shown in table 3.

Table 3: World Bank: Enterprise Survey results

	Kenya	Region	All
Bureaucracy: senior mgt time spent dealing with requirements of gov't regulation (%)	11.7	8	7
Corruption: Unofficial payments for typical firm to get things done (% of sales)	2.9	2.1	1.4
Courts: confidence level in the judiciary system (%)	49	60	59
Infrastructure: number of electrical outages (days)	86	56	27
Infrastructure: number of water supply failures (days)	85	37	16
Jobs: Firms offering formal training (%)	49	34	43
Tax: ave time spent in meetings with tax officials (days)	5.5	5.2	3.8
Trade: ave time to clear exports through customs (days)	4.7	5.2	4.7
Trade: ave time to clear imports from customs (days)	8.9	9.1	7.5

Source: World Bank, 2003

² World Economic Forum – see www.gcr.weforum.org

³ World Bank, Enterprise Surveys: see www.enterprisesurveys.org

Firms in Kenya clearly do well providing training, and Kenya seems good at clearing goods through customs, but the country does not do well on the other scores. It is particularly bad on corruption, power and water. This provides further indications of areas where the government may want to focus effort, but still fails to capture the views of the private sector about where the priorities lie.

3. Rationale for the study

With organisations such as the World Bank and World Economic Forum undertaking research reviewing problems of doing business, it may seem that there is no need for further studies. This study is different, however:

- Perception and reality may well be different, but it is perceptions that 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, particularly where there is a big gap, provide clues to the government about how to communicate messages about reality.
- It has attempted to isolate the factors that are important to specific sectors. There are a wide range of factors which together comprise the enabling environment, though not all are important to every business, and not all make business more difficult. A self-employed consultant, for example, will not be concerned about employment law or the availability of skilled labour, but may be very concerned about taxation and the ease of enforcing contracts. A factor that is important to a business may not necessarily make doing business difficult, though we might expect to see some correlation.
- It has analysed the results by sector and by factor.
- It has not only asked about the factors that are problematic but also, for the first time, asked business leaders to identify the factors where the government is perceived to be making a positive effort to make a difference.
- It has also asked about the factors that will deter future investment. There is a danger that governments just assume that businesses will carry on investing irrespective of the enabling environment, but the results in this survey suggest that may not be the case.
- It has also 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 the government if it wants to make a difference not only to the enabling environment but also to the way that it is perceived by business.

It is intended, funding permitting, to undertake this survey every 12 months enabling us to learn how perceptions are changing and to show trends over time. This will also provide regular feedback to the government.

4. 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. The one factor, more than any other, causing difficulty for all businesses, is the roads. The problem areas, in order of priority, are:

- Roads
- Licensing
- Corruption
- Ports and airports
- Level of taxation
- Contracts
- Employment law

Given that the World Bank views Kenya as being one of the best places for licensing it should be of some concern to the government that licensing is seen by business as an important issue. This could be because licensing also often provides opportunities for corrupt practices, but may also be because the perception is still behind the reality.

Our 'enabling environment priority index' takes into account both how much the factor make business difficult and how the government is perceived to be addressing the issue. This suggests that the issues to be addressed, in priority order, are:

- Roads
- Corruption
- Employment law
- Licensing
- Enforcement of contracts
- Taxation – administration and level

These are the issues that the government should prioritise if it wishes not only to make a difference to the enabling environment but also to the perceptions held by business leaders. Ideally, it would also seek good quality media coverage for any changes to reinforce changes to perceptions. It is worth noting that licensing drops to seventh – still important but not amongst the priorities.

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.

5. Methodology

The survey was administered by Steadman Group, an integrated market information business which provides clients across Africa with research (including market research, social research, media research and opinion polling) information, media monitoring and strategy and training services. They already undertake a six monthly Business Leaders survey in the five countries (Kenya, Uganda, Tanzania, Ghana and Zambia) in which it has an office and agreed to add four investment climate specific questions (shown in full in appendix 1). The survey was conducted between 12 May and 7 July 2008.

Anonymised raw results were provided to David Irwin of Business Advocacy Fund who designed the questions and undertook the analysis for this paper.

6. Results: overview

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.

The results for whether issues were important are shown in figure 2. The main factor, identified by 57 per cent of respondents, is power. This is followed by roads, macro-economic policy, administration of taxation and availability of skilled labour. Taxation is often raised as an issue, but levels of taxation and administration of taxation were deliberately split – and it is interesting that there is less concern over the level of taxation than over its administration – and also interesting that it is seen as important, whereas one might have expected it to be relatively unimportant.

Despite businesses regularly complaining about access to finance, it is 13th of the 15 factors, though this may reflect the composition of the survey sample.

Figure 2: Importance of issues (all respondents)

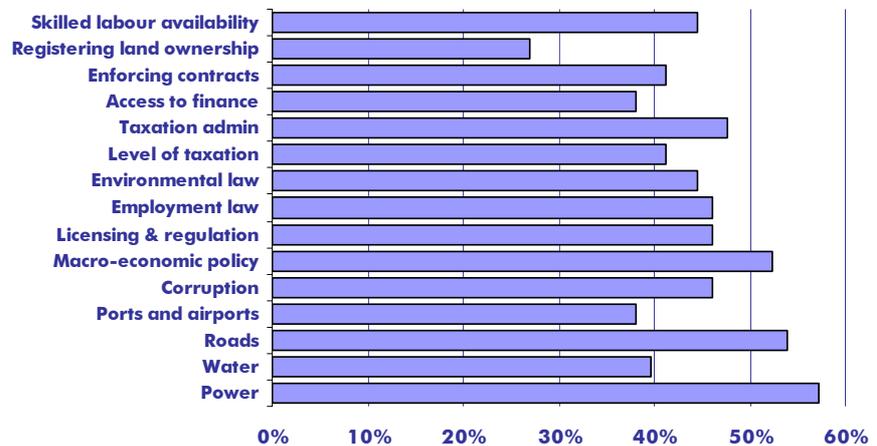
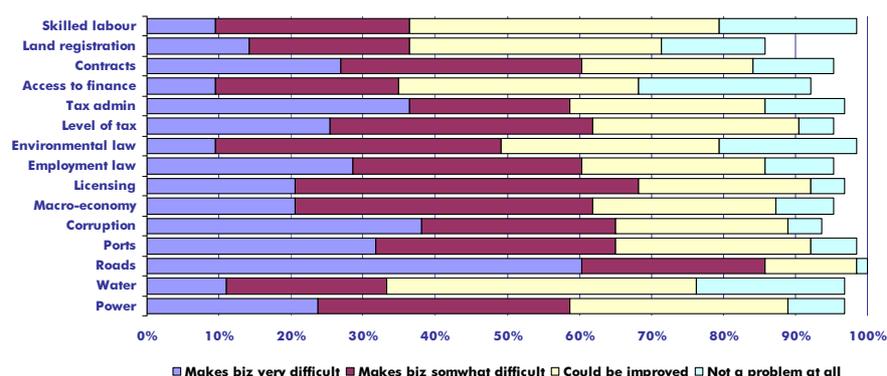


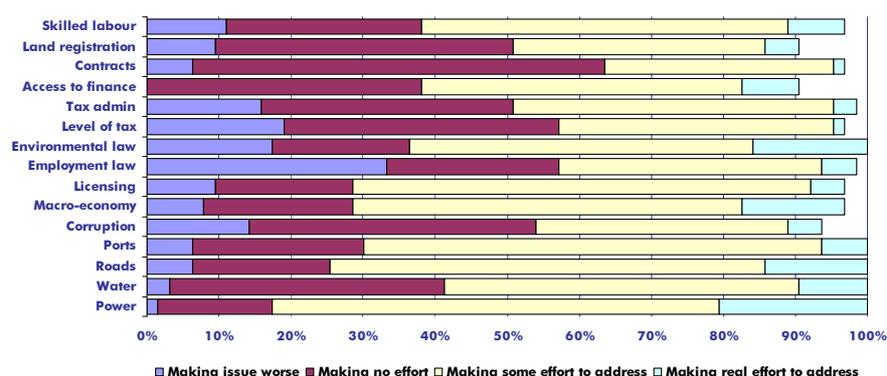
Figure 3 shows the factors that businesses perceive to make life difficult. The factors that 'make business very difficult' are, in order, roads, corruption, administration of taxation, ports and airports, employment law and enforcing contracts. Given its importance, one might have expected power to be top of the list, but it is seen as less of an issue, presumably because of the relative ease with which businesses can make alternative arrangements. However, it is more difficult for individual businesses to do anything about the other factors.

Figure 3: Factors which make business difficult



The second question asked respondents about their perception of what the government is doing 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’. Figure 4 shows the results. Some 33 per cent think that government is making employment law worse, perhaps not surprising given that it is the government that is entirely responsible for employment law.

Figure 4: Government performance in addressing key factors

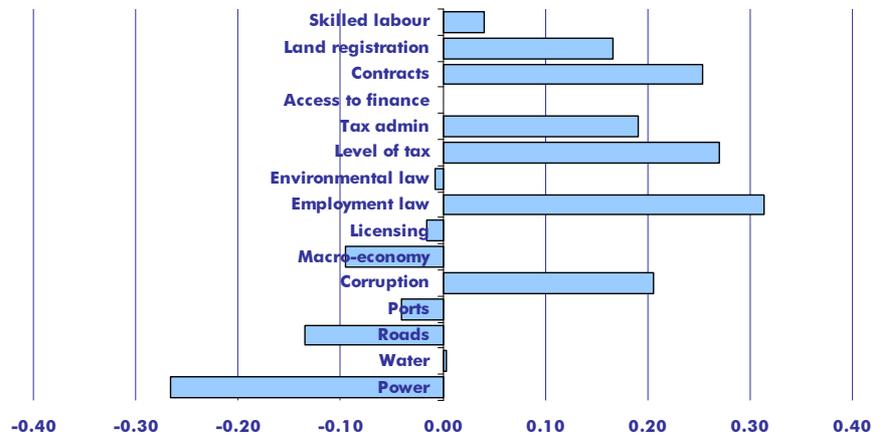


However, some 40 per cent complained that the government is making no effort to tackle corruption; 57 per cent think that it is making no effort to improve the enforcement of contracts; 38 per cent think that it is doing nothing to improve access to finance (though no-one thought that the government was making the situation worse); and 38 per cent thought that it was making no effort to change the levels of taxation. Governments these days are more likely to raise taxes than lower them, but they can aim for simplicity (which keeps down the administrative burden). They can also ensure that they are getting maximum value out of tax receipts – which means eliminating corruption – and provide better communications about expenditure plans and better transparency.

Interestingly there were very few factors where a significant number of respondents thought that the government was making a real effort to make a difference, though a large number thought that the government was making at least some effort. In an effort to seek more insight, an ‘index of perceived government performance’ has been prepared. The results are shown in figure 5. 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).

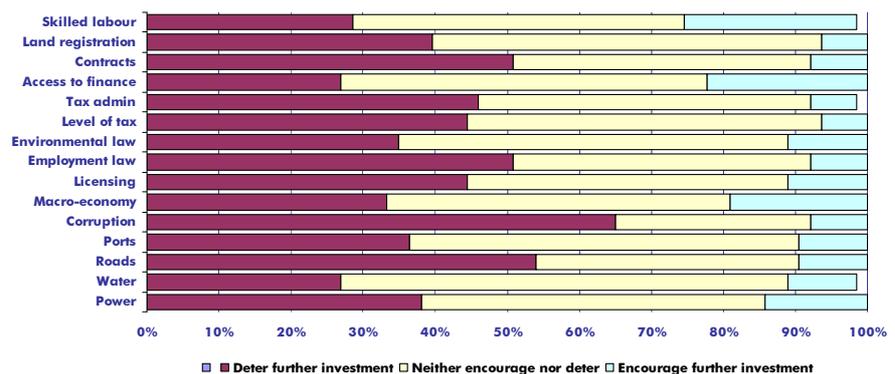
Figure 5: Index of perceived government performance



This suggests that the government should be commended for the effort that it is making to improve power and roads, but needs to make more effort on employment law, level of taxation, enforcement of contracts and corruption.

The third question asked respondents which factors were likely to influence investment decisions and how. Corruption is the biggest deterrent to investment, with 65 per cent of respondents saying that it would negatively affect their investment decision. Some 54 per cent said that the state of the roads was a deterrent; 51 per cent thought that contract enforcement was a deterrent; and 51 per cent stated that employment law was a deterrent (though in time they may realise that employment law often provides an incentive to make capital investments and to reduce reliance on labour).

Figure 6: Factors which affect investment decisions

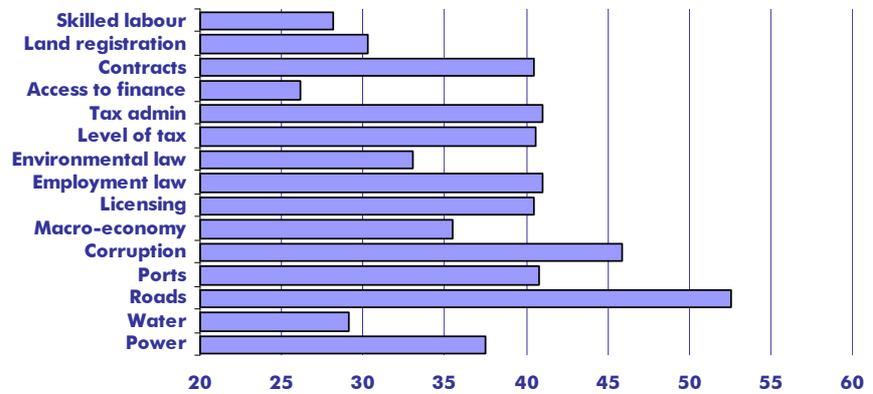


Some 46 per cent are deterred by the administration of taxation and 44 per cent by licensing and regulation.

We have prepared an index based on how the factor makes doing business difficult and on perceptions of how the government is addressing the issue. The results are shown in the figure below. As can be seen, the top issue is roads, followed by corruption, and then five more are very close to each

other: employment law, tax administration, licensing, enforcement of contracts and level of taxation.

Figure 7: Enabling environment priority index



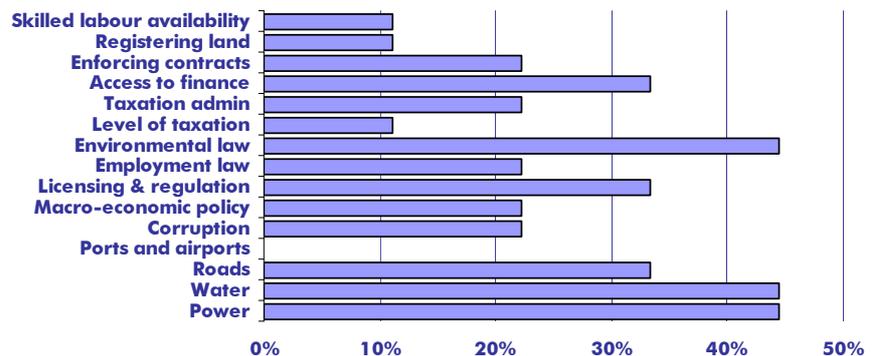
7. Results by sector

In this section, we review the responses for each of the questions on a sector by sector basis

7.1 Hotels & tourism

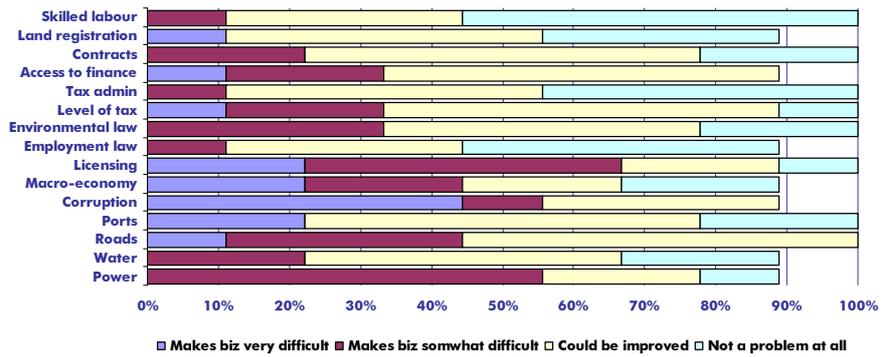
It is not surprising that hotels and tourism businesses see power, water and environmental law as important. It is interesting to note that they see access to finance as important and not surprising that availability of skilled labour is seen to be of low importance. It is worth noting that hotels and tourism do not see ports and airports as being at all important, despite the fact that most tourists arrive by air. They may not cause the same level of difficulty in doing business that they do for, say, manufacturing or agriculture, through poor cargo handling, but they might still have been expected to be important.

Figure 8: Importance of issues to hotels & tourism



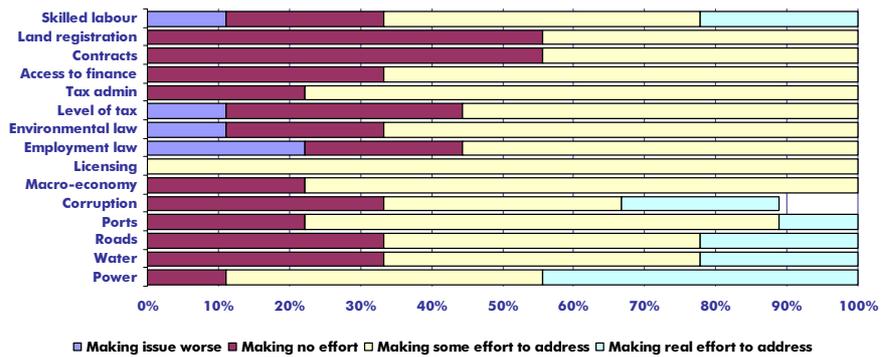
However, ports and airports does feature on the list of factors that make life difficult, though corruption is seen to be a problem by more respondents. If 'very difficult' and 'somewhat difficult' are added, then licensing and regulation is the single biggest issue for hotels and tourism followed by power.

Figure 9: Factors that make business difficult for hotels & tourism



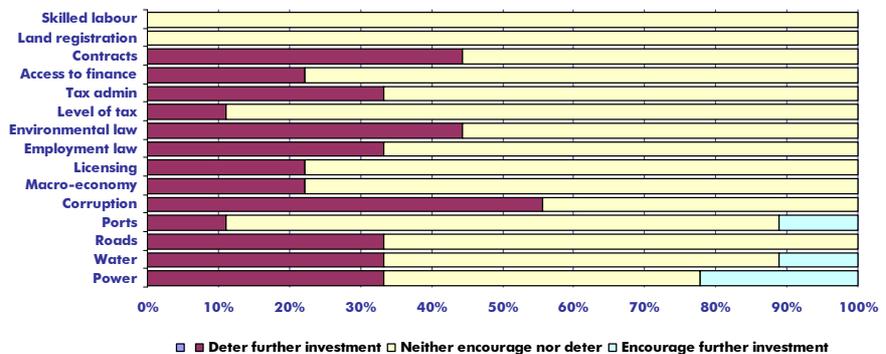
Apart from employment law, the government is not blamed to any great extent for making things worse. However, it is perceived by a majority of respondents to be making no effort to deal with enforcing contracts or land registration.

Figure 10: Government performance in addressing factors



Worryingly, though perhaps not entirely surprisingly, hotel and tourism businesses appear unlikely to be investing any time soon. Corruption deters 5 per cent from further investment; contract enforcement and environmental law each deter 44 per cent.

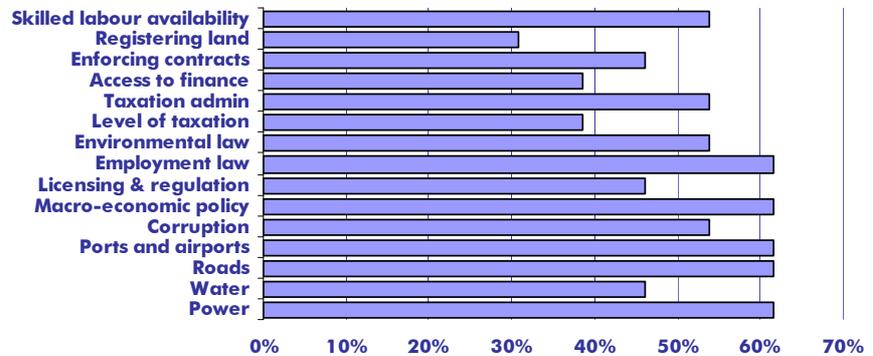
Figure 11: Factors which affect investment by hotels & tourism



7.2 Manufacturing industry

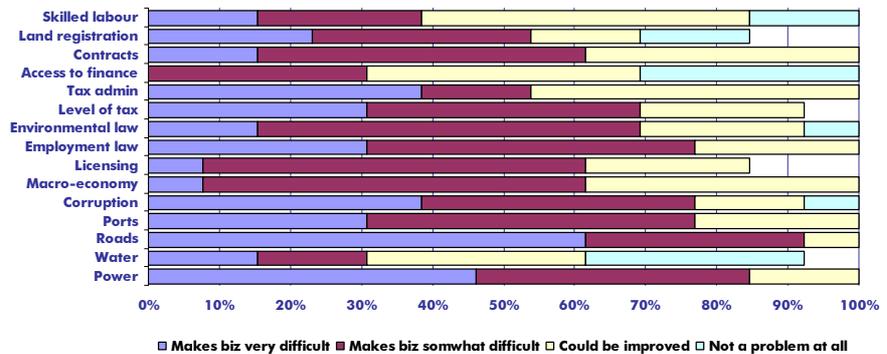
The manufacturing sector appears to consider most factors important, prioritising power, roads, ports and airports, macro-economic policy and employment law with availability of skilled labour following on closely.

Figure 12: Importance of issues to manufacturing sector



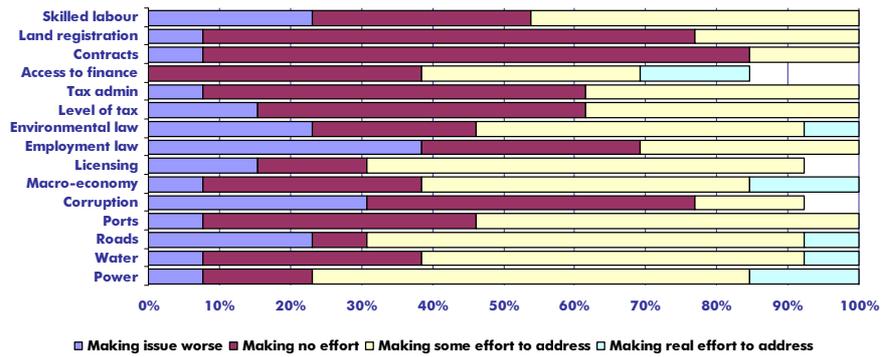
The factors that make business difficult are mainly roads (62%) and power (46%), though corruption (38%) and administration of taxation (38%) are fairly high as well. When the figures for 'somewhat difficult' are added to 'very difficult', roads is worse, followed by power, and then corruption, ports and employment law. Access to finance and water are the only two that have a significant number of respondents (each 31%) who regard it as not a problem at all.

Figure 13: Factors which make business difficult for manufacturing



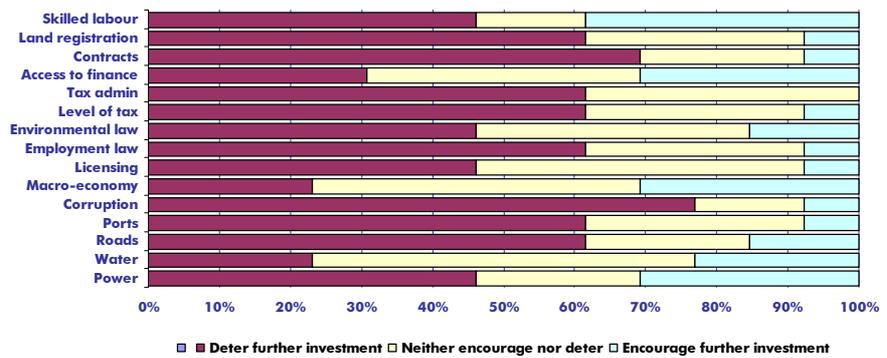
The most significant issues that the manufacturing sector thinks is made worse by government are contracts, land registration and corruption, though employment law is close behind.

Figure 14: Government performance in addressing factors



It seems that almost every factor deters manufacturers from making further investment. It is worth noting that corruption is seen to be the worst followed by contracts, so the manufacturing sector is being consistent in their answers.

Figure 15: Factors which affect investment by manufacturers



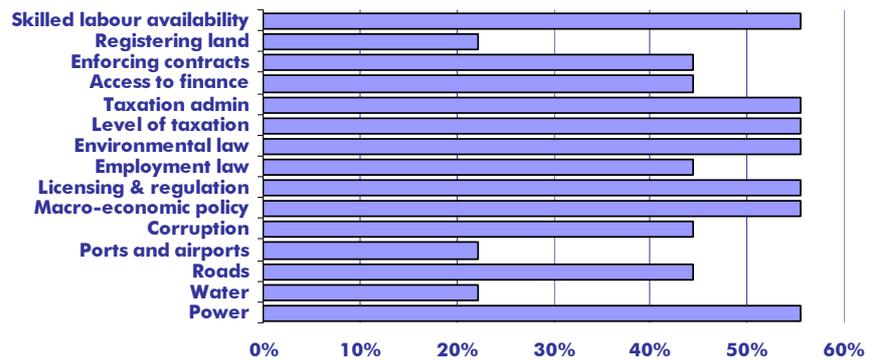
It does seem that some manufacturers are willing to invest in Kenya – Coca-Cola has recently invested \$50m in a new bottling plant and \$10m in new offices.⁴

7.3 ICT

Like manufacturing, the ICT sector sees almost every factor as important, though they give higher priority to the availability of skilled labour and they see tax, both the level and the administration, as important.

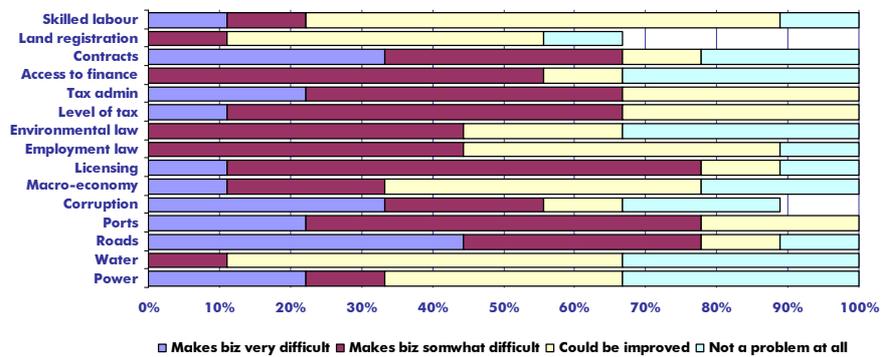
⁴ Economist, 5 Jul 2008

Figure 16: Importance of issue to ICT sector



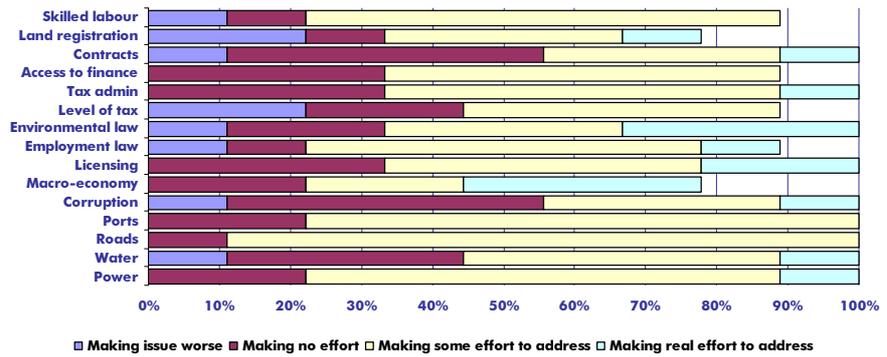
The factor which seems to make life most difficult for ICT businesses is the roads, which probably has more to do with where the businesses are located and their need to visit customers than for reliance on the roads in the way that, say, manufacturers rely on the roads to bring in raw materials or transport finished goods. The next two factors are enforcing contracts and corruption. Adding 'somewhat difficult' to 'very difficult' highlights licensing, ports and roads as making life difficult. Access to finance is not seen as a major problem.

Figure 17: Factors that make business difficult for ICT



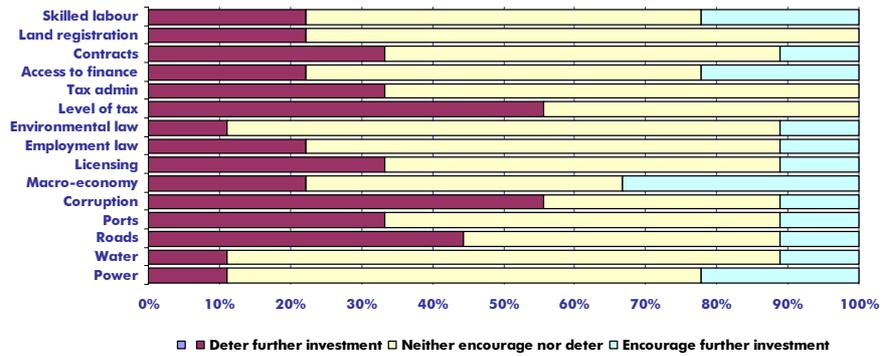
On the whole, the Government is not perceived to be making issues worse, but it is seen to be making no effort on contracts or corruption. It is seen to be making a real effort to address environmental law and macro-economic policy.

Figure 18: Government performance in addressing factors



The factors deterring further investment are corruption and the level of taxation, followed by roads.

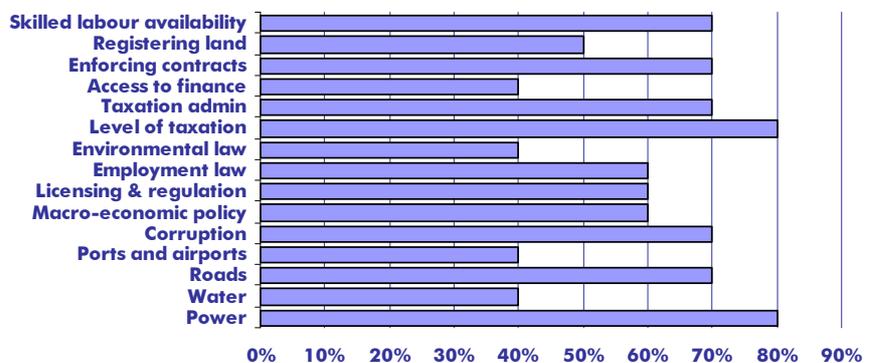
Figure 19: Factors that affect investment by ICT



7.4 Financial services

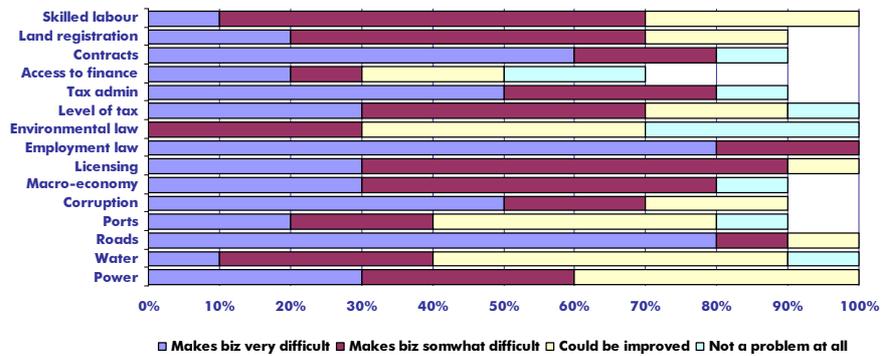
The two most important issues to businesses in financial services are power and the level of taxation, though these are closely followed by availability of skilled labour, enforcing contracts, administration of taxation, corruption and roads.

Figure 20: Importance of issue to financial services



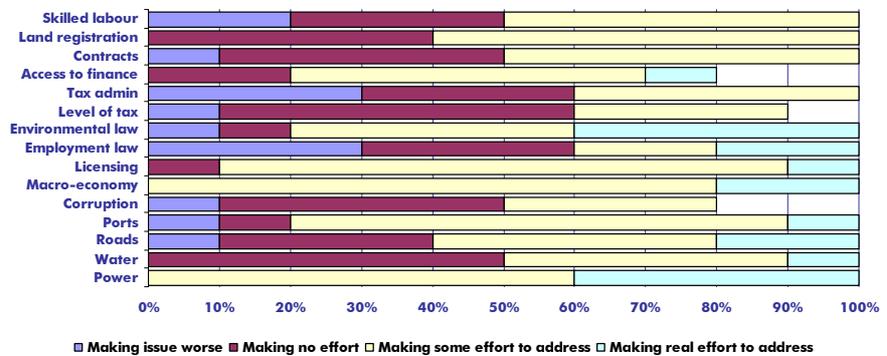
The factors that make business difficult are employment law and roads, followed by enforcement of contracts. Indeed employment law is particularly notable since every respondent sees it as 'very difficult' or 'somewhat difficult'. This is one of only two issues seen by a sector as being 100 per cent difficult. However, licensing and roads are both seen by 90 per cent of respondents to be difficult.

Figure 21: Factors that make life difficult for financial services



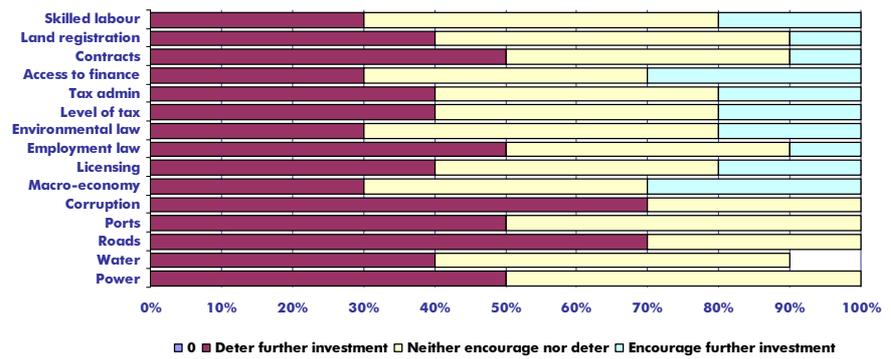
Financial service businesses think that the government is making issues of tax administration and employment law worse, though they are rather more relaxed about the other issues. They are quite positive about the efforts being made to address issues of power and environmental law.

Figure 22: Government performance in addressing issues



Financial services are primarily deterred from investment by corruption and the roads, though no issue goes unmentioned.

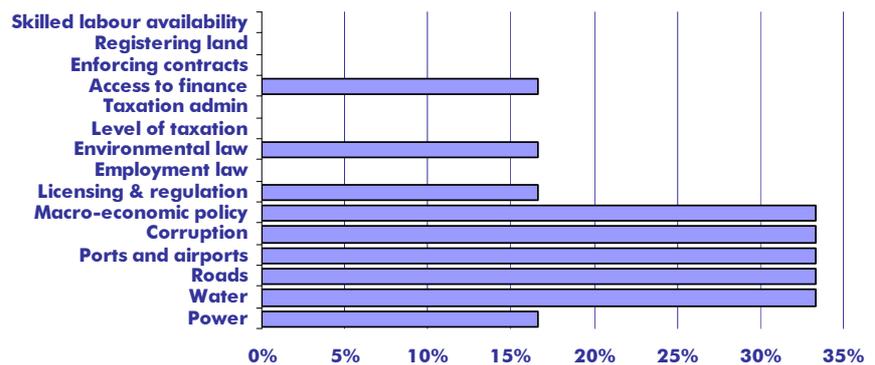
Figure 23: Factors that affect investment by financial services



7.5 Agriculture

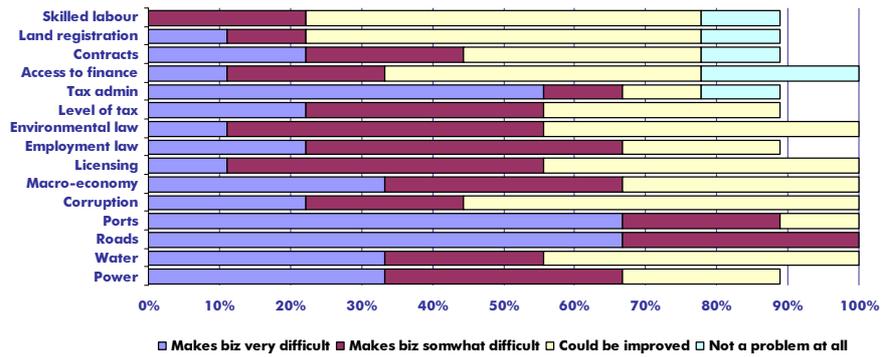
Agriculture has the smallest number of important issues, though still has five priorities: macro-economic policy, corruption, ports and airports, roads and, not surprisingly, water. Indeed, it is the only sector that sees water as important.

Figure 24: Importance of factors to agriculture



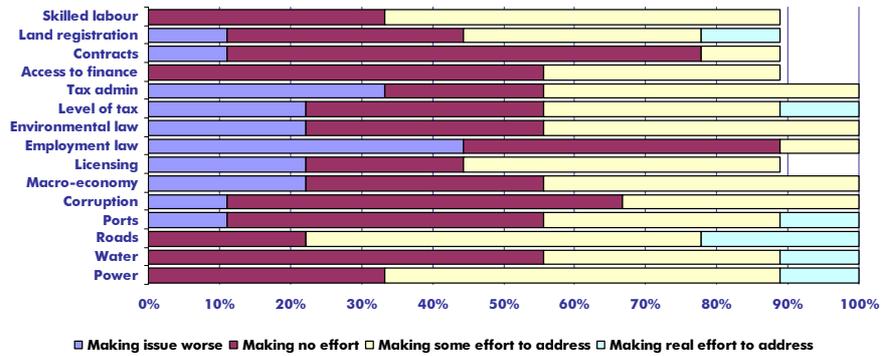
Roads and ports and airports are the seen to the issues which make business most difficult for agriculture. Roads is one of only two issues which are seen by a sector to be 100 per cent difficult, and is seen as such by two sectors. When 'very difficult' is added to 'somewhat difficult', the next priorities are ports, power, macro-economic policy, employment law and tax administration.

Figure 25: Factors that make life difficult for agriculture



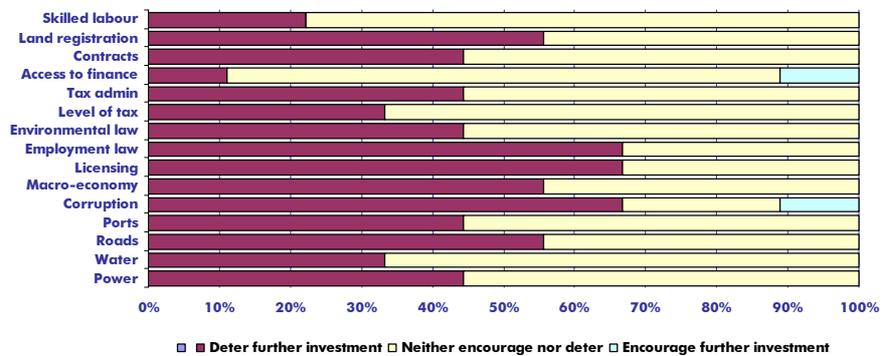
The government is perceived to be making worse employment law and, to a lesser extent, tax administration.

Figure 26: Government performance in addressing issues



With the exceptions of access to finance and skilled labour, all other factors would deter agriculture from further investment. The ones seen as particularly crucial are corruption, licensing and employment law.

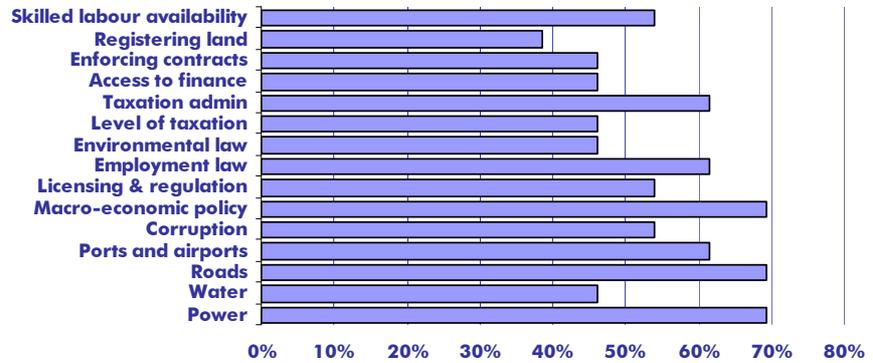
Figure 27: Factors that affect investment by agriculture



7.6 Service sector

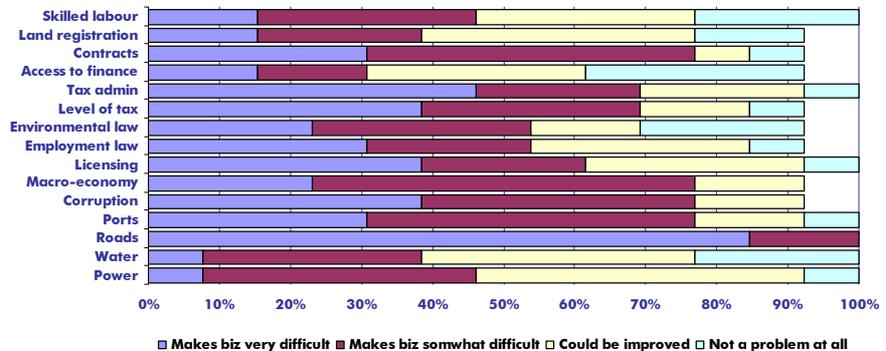
It seems that the service sector sees every factor as being fairly important with no factor scoring less than 38 per cent.

Figure 28: Importance of factors to the service sector



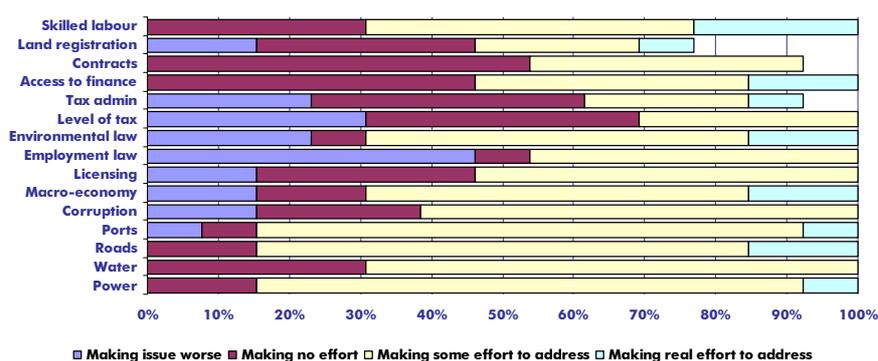
Roads is seen by some 85 per cent of respondents as making life very difficult for the service sector. When 'somewhat difficult' is added, roads is seen to be 100 per cent difficult – one of only two issues which are seen by a sector to be 100 per cent difficult. It is followed by contracts, macro-economic policy, corruption and ports and airports.

Figure 29: Factors that make business difficult for the service sector



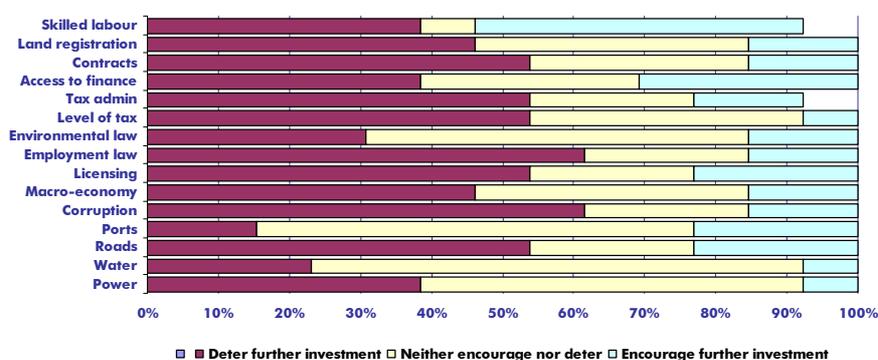
The service sector seems to be the least concerned about government making issues worse. They see the government particularly making employment law worse, and are somewhat concerned about what government is doing to the level of tax. However, for six issues, more than any other sector, they do not believe that government is making the position worse. Rather, they perceive that government is making some effort to address all of the issues.

Figure 30: Government performance in addressing issues



Nevertheless, almost every factor is likely to deter them from further investment, with corruption and employment law leading the way.

Figure 31: Factors that affect investment by the service sector



8. Results by issue

In this section we review the issues, looking at the relative importance to each of the sectors.

Answers to the question on whether factors make business more difficult were coded from 1 (not a problem at all) to 4 (makes doing business very difficult). For the whole sample, and for each sector, the results were averaged, to show which factors impact most on which sectors. In the charts on making business difficult, remember that the higher the score, the more difficult it is for the business.

Similarly, answers to the question on how the government is performing in addressing these factors were coded from 1 (making real efforts to address the issue) to 4 (making the issue worse). In the charts on perceptions of government effort, therefore, the higher the number the less helpful the government.

Answers to the question on investment were coded from 1 (would encourage further investment) to 3 (would deter further investment); so the higher the number in the charts, the more of a deterrent it is to investment.

Note that the scale on the x-axis in all the charts is set so that the maximum on the chart is also the maximum score possible, to ease comparison between

charts. Also note that these charts include a sector called 'agriculture & manufacturing'. This did not have sufficient respondents to prepare a sector analysis, but I have left them as a sector in his section.

It seems that the agricultural and manufacturing sectors are concerned about most factors and, for most factors, it is these two sectors that are the most deterred from making further investment.

8.1 Power

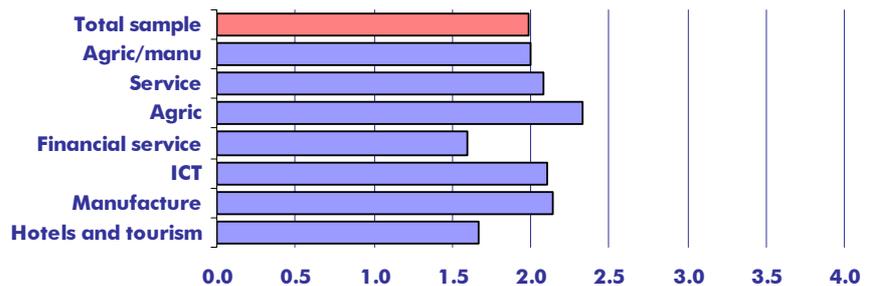
The World Bank's Enterprise Surveys report that there are many more power outages than in the rest of the region – and that the region in turn is worse than the average for all countries. Not surprisingly, the manufacturing sector is the sector most concerned about power. However, financial services are also very concerned.

Figure 32: Makes business difficult for...



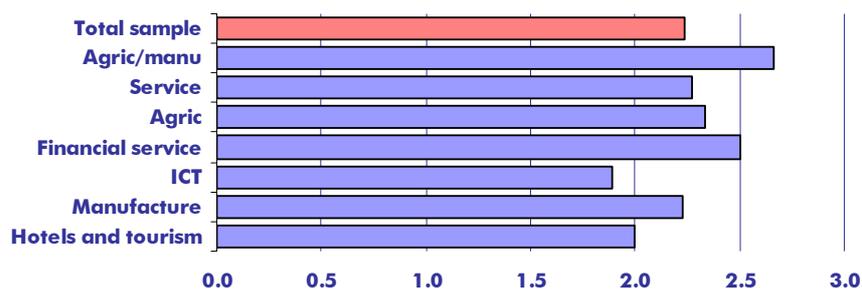
Opinion the perception is that the government is making efforts to address the power issue, though agriculture in particular thinks the government could do more.

Figure 33: Government perceived to be making the issue worse



But every sector says that it would be a big factor in discouraging further investment.

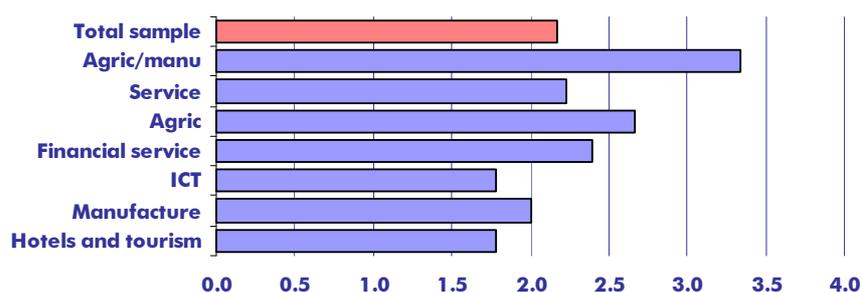
Figure 34: Would deter further investment by...



8.2 Water

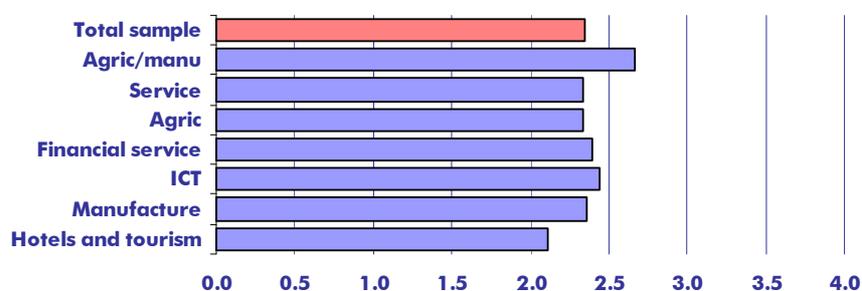
The World Bank's Enterprise Surveys report that there are many more water supply failures than in the rest of the region – and that the region in turn is worse than the average for all countries. Agriculture sees water as the factor that makes business most difficult, though perhaps curiously, it is also seen as important by financial services.

Figure 35: Makes business difficult for...



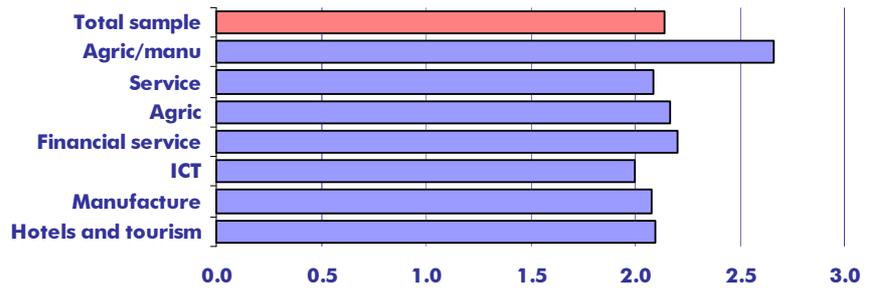
Government is not generally seen to be making this issue worse, though nor is it seen to be making efforts to improve it.

Figure 36: Government perceived to be making the issue worse



Only agriculture with manufacturing sees water as a factor that would deter it from investment.

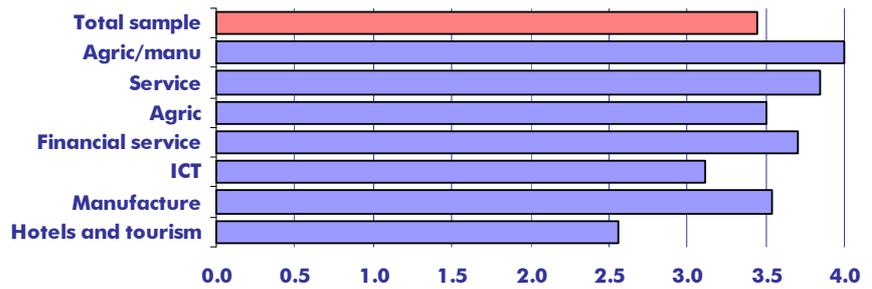
Figure 37: Would deter further investment by...



8.3 Roads

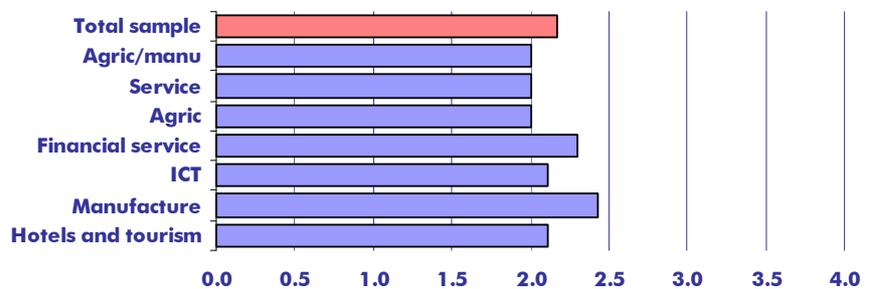
The roads are seen by every sector to make business more difficult. Agriculture with manufacturing gives the government the worst possible score, but the service sector is fairly scathing about the roads as well and financial services are not far behind.

Figure 38: Makes business difficult for...



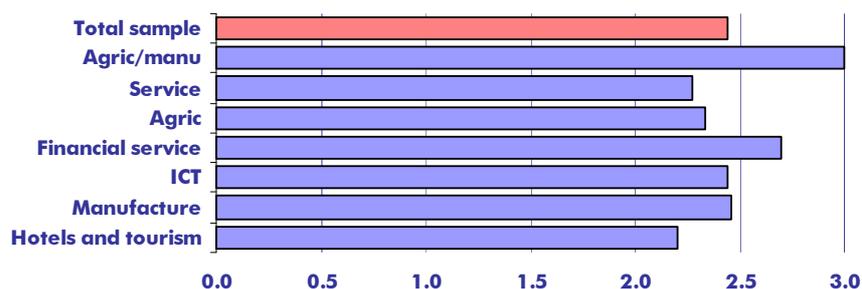
Overall, the government is perceived to making efforts to improve the roads, though manufacturing is keen that it should do rather more.

Figure 39: Government perceived to be making the issue worse



Every sector says that the state of the roads would deter further investment.

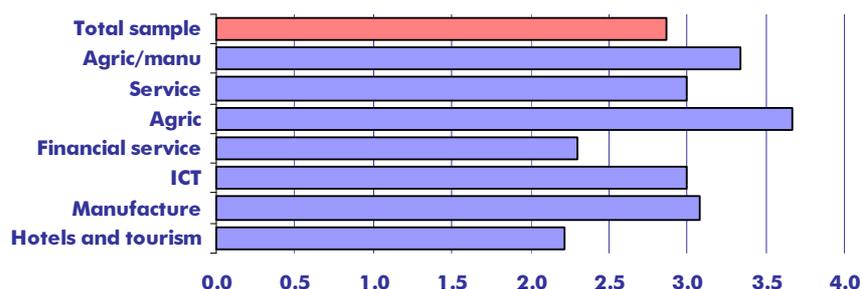
Figure 40: Would deter further investment by...



8.4 Ports and airports

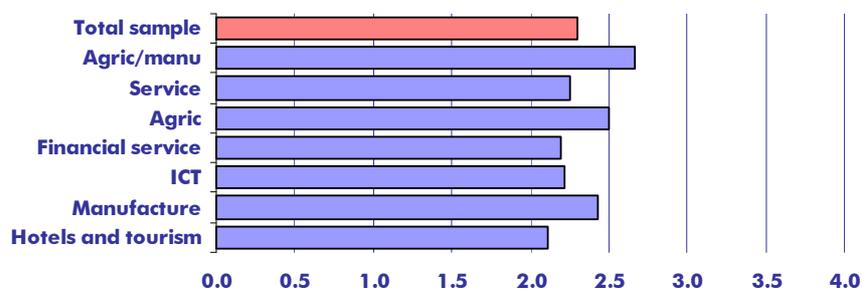
Agriculture is concerned that ports and airports make their business difficult, though manufacturing and ICT are not far behind. As noted earlier, it is surprising that hotels and tourism businesses seem largely unconcerned about their impact

Figure 41: Makes business difficult for...



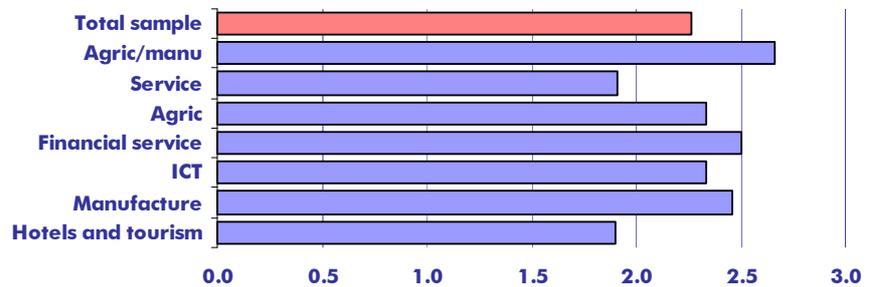
Overall, the perception is that the government is making modest efforts to improve the ports and airports though two big users, manufacturing and agriculture, feel that more could be done.

Figure 42: Government perceived to be making the issue worse



But most sectors say that ports and airports would be a deterrent to further investment.

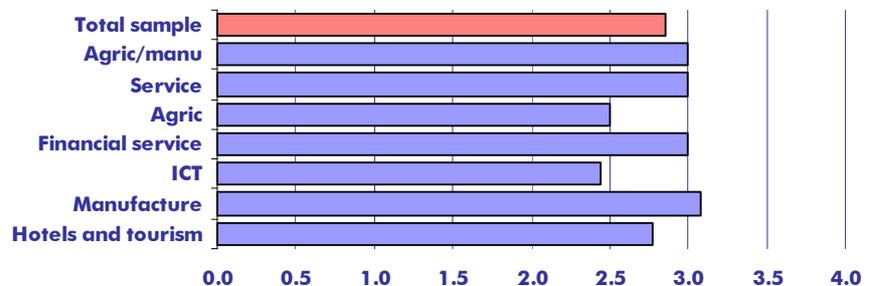
Figure 43: Would deter further investment by...



8.5 Corruption

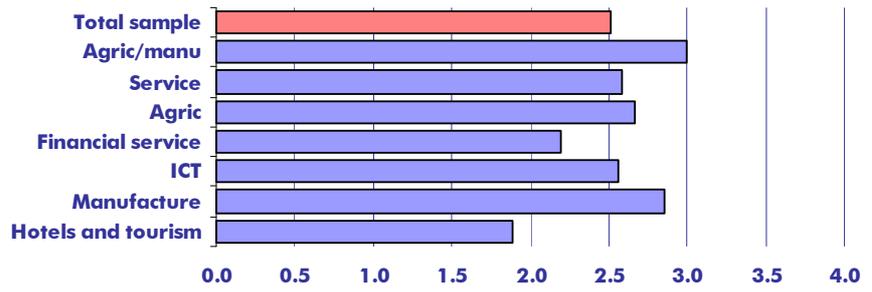
The World Bank's Enterprise Surveys show that corruption is higher in Kenya than the region and much higher than the average for all countries. The World Economic Forum identifies this as the biggest problem in doing business. This is reflected in Transparency International's Corruption Perceptions Index 2007 which ranks Kenya 150 out of the 179 countries survey. Corruption makes business difficult for everybody – and the perceptions survey confirms it.

Figure 44: Makes business difficult for...



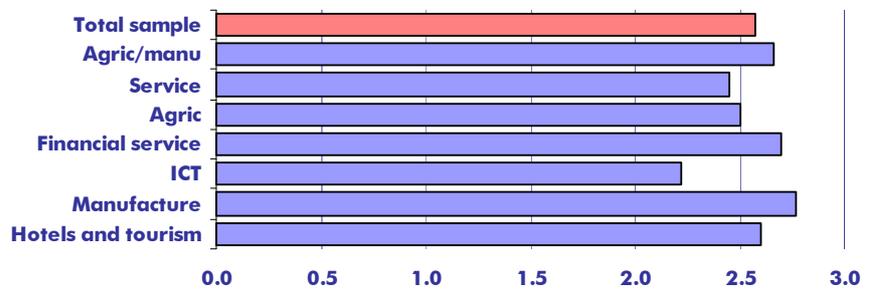
The overall perception is that the government is making the position worse, with no sector other than tourism thinking that the government is attempting to improve this issue.

Figure 45: Government perceived to be making the issue worse



It is also a major deterrent to further investment for every sector.

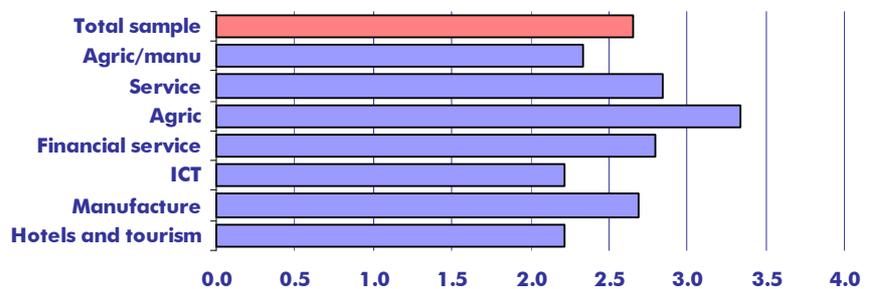
Figure 46: Would deter further investment by...



8.6 Macro-economy

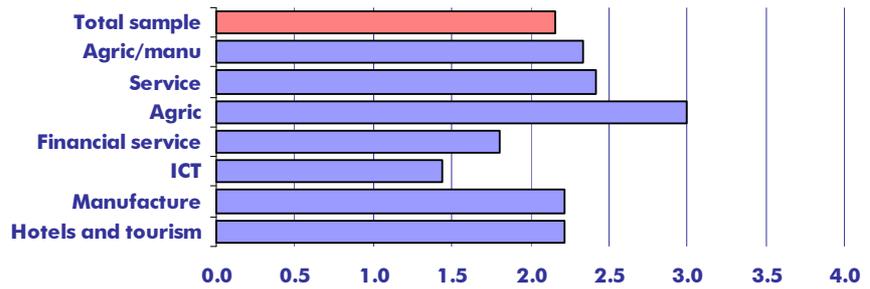
The Global Competitiveness Report ranks Kenya 122 out of 131 countries for macro-economic stability. Most sectors, however, do not see this as a major problem. The agricultural sector thinks that macro-economic policy makes business more difficult, though services and financial services are also concerned.

Figure 47: Makes business difficult for...



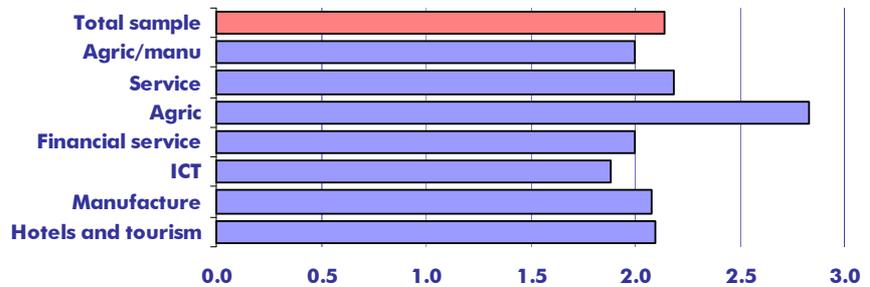
Agriculture thinks that the government is making this issue worse. Though the overall perception is positive.

Figure 48: Government perceived to be making the issue worse



And agriculture is by far the most deterred from further investment by macro-economic policy.

Figure 49: Would deter further investment by...

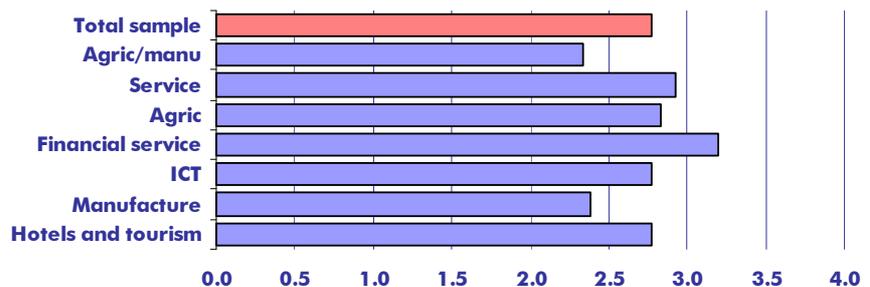


8.7 Licensing

The World Bank's Doing Business survey suggests that Kenya is one of the easiest places to do business in relation to licensing. The Enterprise Surveys, however, suggest that senior management spend more time dealing with the requirements of government regulation than elsewhere in the region or in other countries.

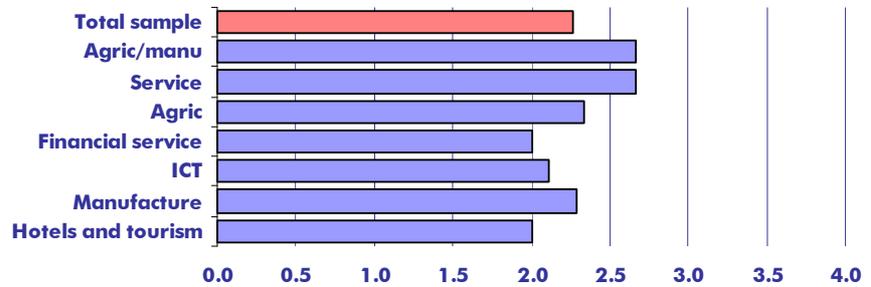
Licensing is particularly seen by financial services as making business more difficult, though the service sector, agriculture and hotels and tourism are also concerned.

Figure 50: Makes business difficult for...



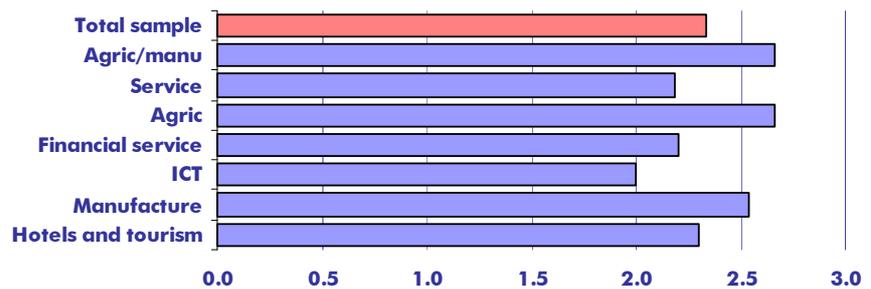
There is only a modest perception that government is making licensing better. And the sample population is likely to be more established businesses with systems and procedures to cope with licensing in place, so this is almost certainly an area where the government should be doing more.

Figure 51: Government perceived to be making the issue worse



Most sectors are deterred from further investment at least to some extent, though the agricultural and manufacturing sectors are particularly deterred.

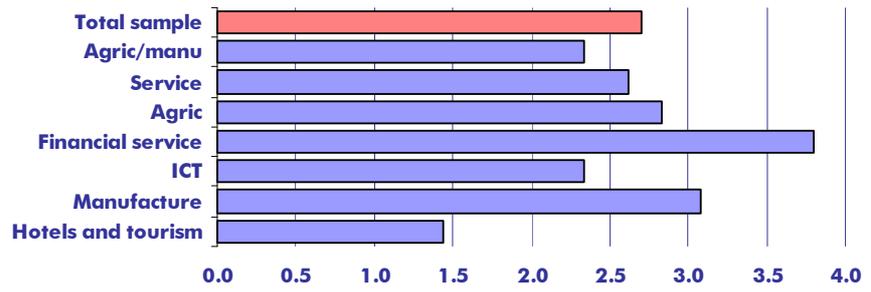
Figure 52: Would deter further investment by...



8.8 Employment law

The World Bank's Doing Business report ranks Kenya 66 out of 178 countries for the ease of employing people. It seems, however, that businesses believe employment regulations are more onerous than that. Financial services are most concerned about the difficulties imposed by employment law on their business, but most sectors are concerned to some extent. It seems only to be hotels and tourism that are not too worried.

Figure 53: Makes business difficult for...



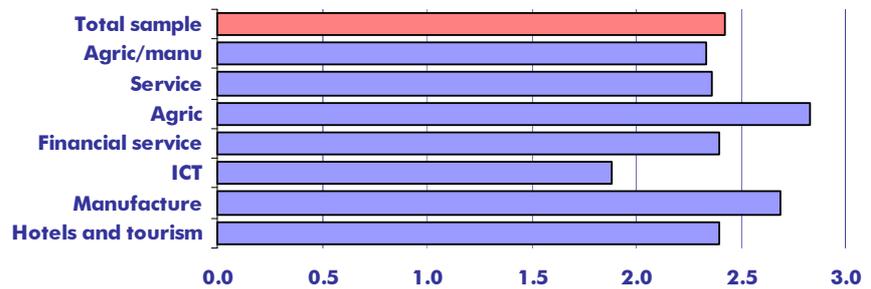
The ICT sector is neutral on this issue, but every other sector thinks that government is making this issue worse. Indeed this issue is ranked as the worst issue for government efforts to improve it.

Figure 54: Government perceived to be making the issue worse



All sectors would be deterred from further investment, though agriculture and manufacturing are the sectors that are most deterred.

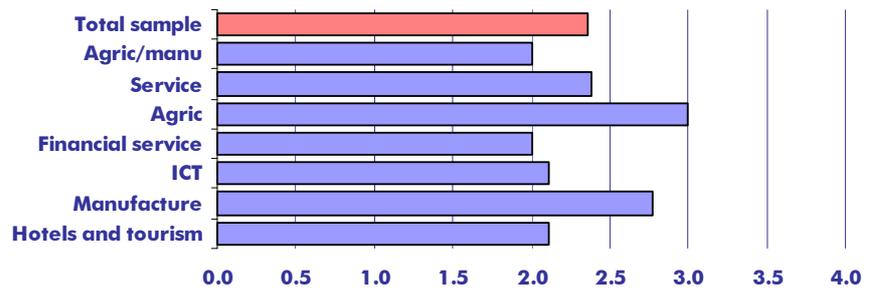
Figure 55: Would deter further investment by...



8.9 Environmental law

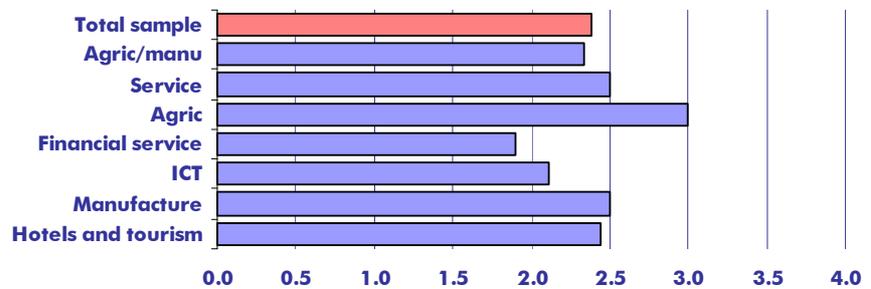
The agricultural and manufacturing sectors are the ones most concerned that environmental law is making doing business more difficult. This is hardly surprising as they are the sectors that will be most affected by new environmental regulations – and it seems that it can only get worse.

Figure 56: Makes business difficult for...



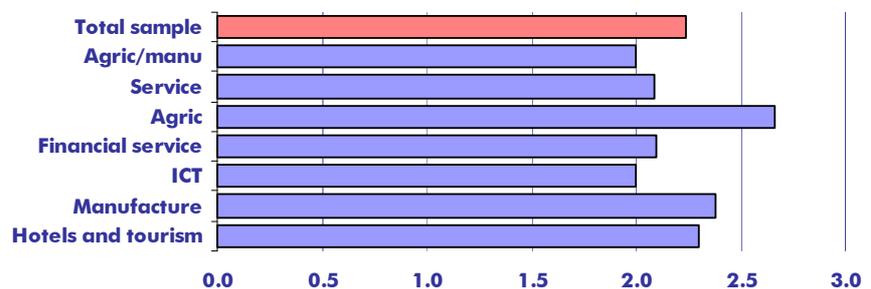
Agriculture sees the government as making this issue worse, but the overall view is modestly positive.

Figure 57: Government perceived to be making the issue worse



Not surprisingly, agriculture and manufacturing are the sectors most deterred from further investment by environmental legislation, though hotels and tourism would also be deterred to some extent, although at present they do not appear to see this as a major difficulty.

Figure 58: Would deter further investment by...



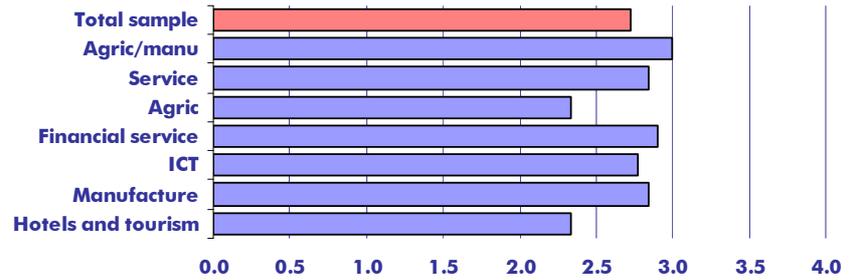
8.10 Level of taxation

The World Bank's Doing Business report ranks Kenya 154 out of 178 countries for paying taxes, suggesting that there is much room for improvement.

Surveys often ask only one question about taxation, so it is never clear whether it is the level of taxation that is the real issue, or the administration associated with it, perhaps because there are several different taxes that need to be paid or because of the complexity of calculating the level of tax that is due. We therefore separated these two issues.

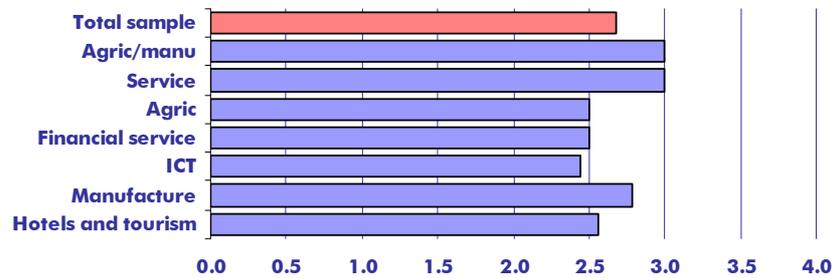
Most sectors complain that the level of taxation makes business difficult – agriculture with manufacturing was most concerned, though agriculture and tourism were rather less concerned.

Figure 59: Makes business difficult for...



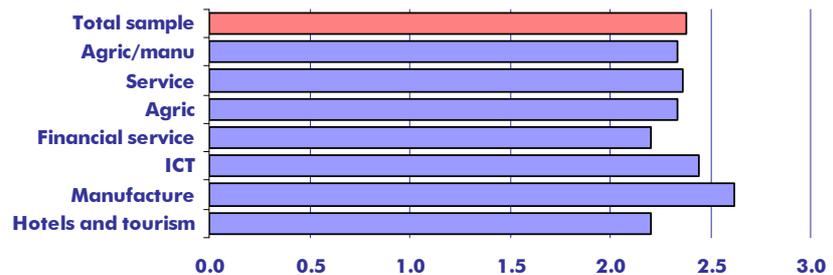
The service sector felt that the government was making this worse; all sectors thought that the government could make more effort.

Figure 60: Government perceived to be making the issue worse



Every sector, at least to some extent, was deterred from making further investment, with manufacturing being the most deterred.

Figure 61: Would deter further investment by...

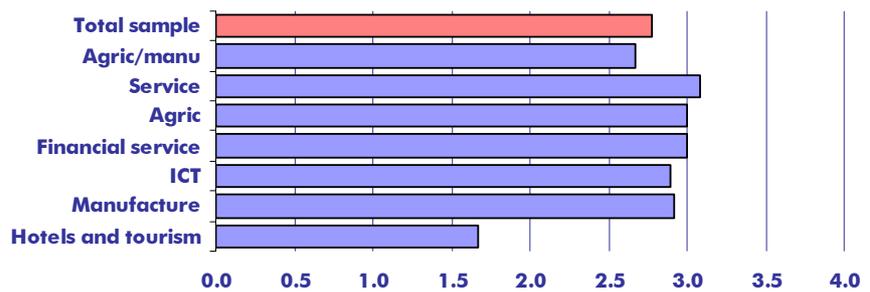


8.11 Administration of taxation

The World Bank's Enterprise Surveys report that businesses spend more time in meetings with tax officials than elsewhere in the region and much more than the average for all countries.

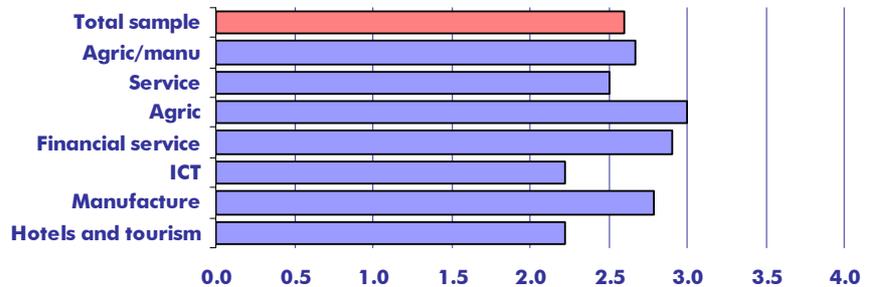
Most sectors were concerned about the administration of taxation, though it is interesting to note that agriculture with manufacturing, whilst finding the level of taxation making business difficult, was rather less concerned about administration. Hotels and tourism was even less concerned about administration of taxation than it was about the level.

Figure 62: Makes business difficult for...



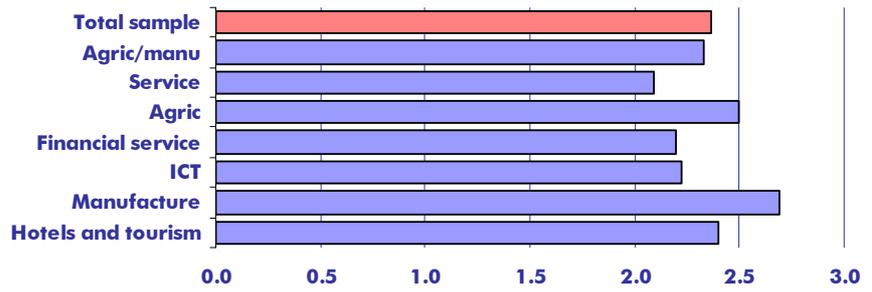
Most sectors felt that the government was making the issue worse.

Figure 63: Government perceived to be making the issue worse



Every sector felt that it would deter further investment, especially manufacturing and agriculture. What is more surprising is the high level of response from hotels and tourism given that they neither really saw this as an issue nor saw the government making it worse.

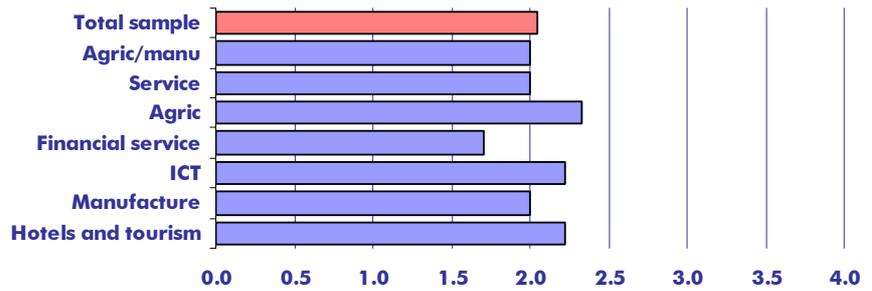
Figure 64: Would deter further investment by...



8.12 Access to finance

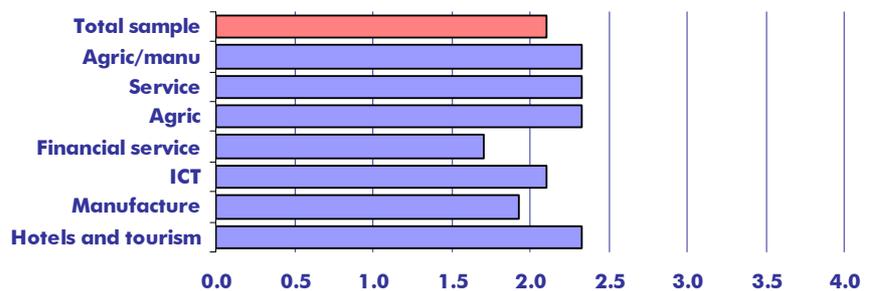
No sector saw access to finance as a factor that makes business difficult, though that probably reflects the sample population. It would be interesting to compare this with a sample of small and informal businesses.

Figure 65: Makes business difficult for...



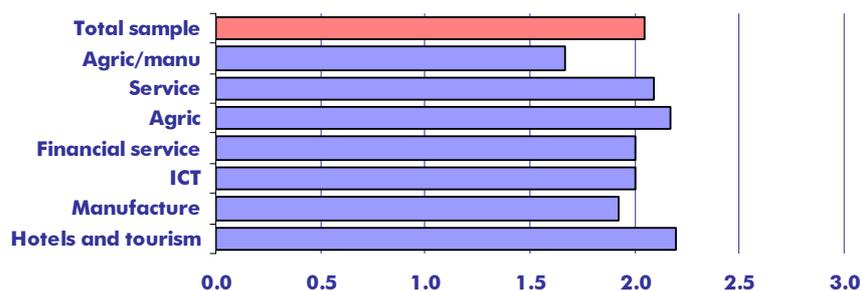
Whilst there is some variation, the overall position is neutral.

Figure 66: Government perceived to be making the issue worse



It is therefore a little surprising that three sectors see this as a small deterrent to further investment.

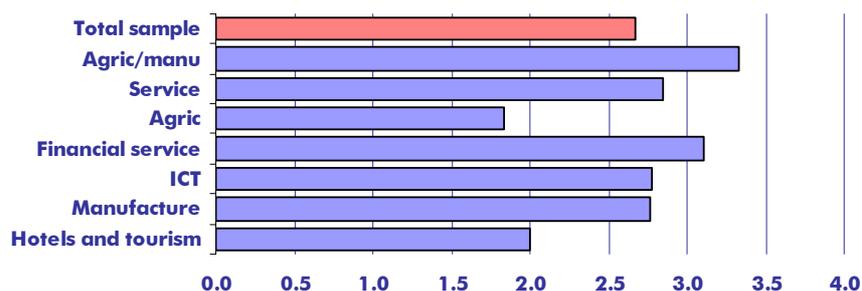
Figure 67: Would deter further investment by...



8.13 Contracts

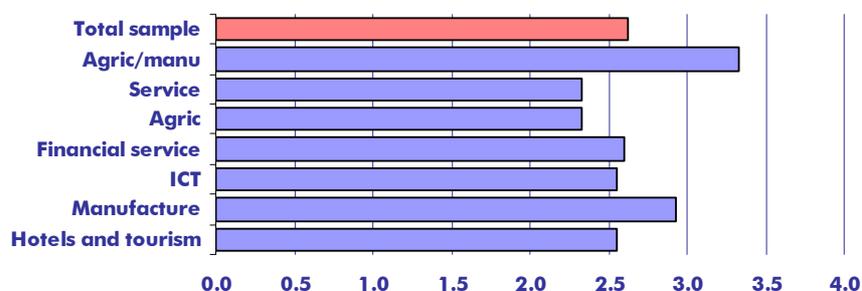
The World Bank's Doing Business report ranks Kenya 107 out of 178 countries for the ease of enforcing contracts. This low ranking is reflected in business leaders' perceptions. Enforcement of contracts is seen to be a factor that makes business difficult by several sectors, with agriculture with manufacturing most concerned, but closely followed by financial services.

Figure 68: Makes business difficult for...



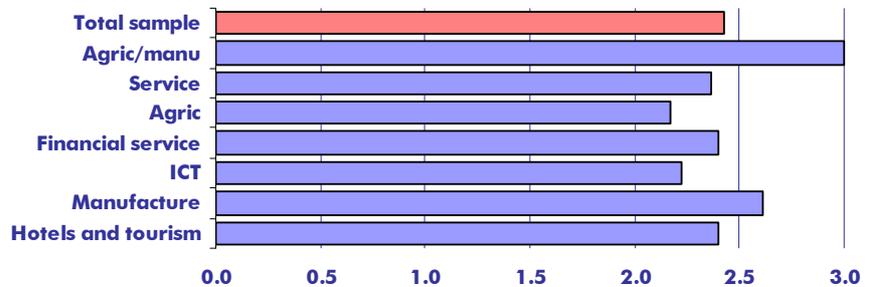
Agriculture with manufacturing and manufacturing, in particular, think that the government is making this worse, but to some extent so does every other sector.

Figure 69: Government perceived to be making the issue worse



Every sector would be deterred from further investment, with agriculture with investment particularly deterred, but manufacturing fairly concerned as well. It is again interesting to note that, despite not being too concerned about contracts making life difficult, the hotel and tourism sector say that contracts would deter them from further investment.

Figure 70: Would deter further investment by...

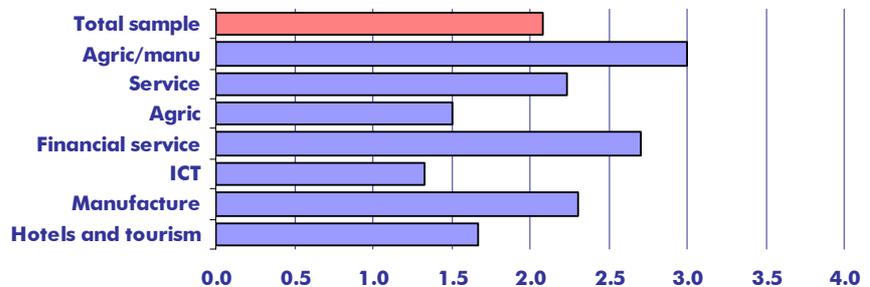


8.14 Land registration

The World Bank's Doing Business report ranks Kenya 114 out of 178 countries for property registration, so there is room for improvement.

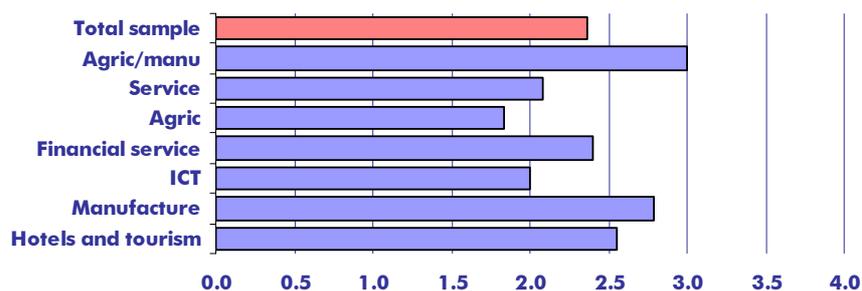
It is interesting to note, however, that only agriculture with manufacturing is particularly concerned that land registration makes business difficult, though financial services are also somewhat concerned about it.

Figure 71: Makes business difficult for...



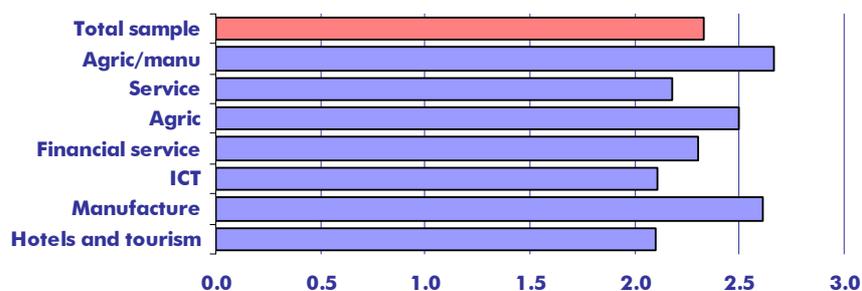
Agriculture with manufacturing thinks that the government is making this worse, but so does manufacturing. The overall position is that government is making this worse.

Figure 72: Government perceived to be making the issue worse



The agricultural and manufacturing sectors would be most deterred from further investment, though financial services would also be deterred to some extent as well.

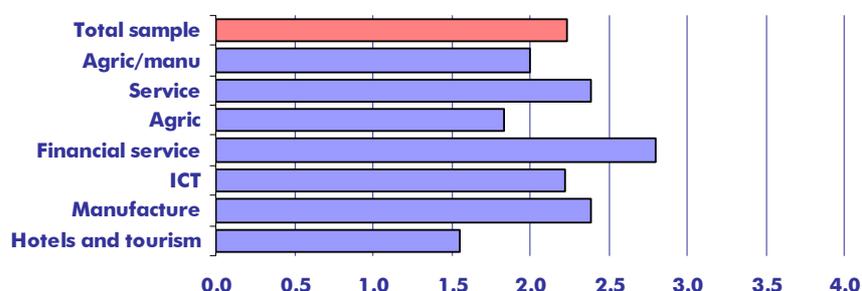
Figure 73: Would deter further investment by...



8.15 Access to skilled labour

It is only the financial services sector that is really concerned about access to skilled labour though manufacturing and services are concerned to some extent. Tourism is not concerned at all.

Figure 74: Makes business difficult for...



On a positive note, the World Bank's Enterprise Surveys suggest that Kenyan businesses offer much more training to their employees than elsewhere in the region and a little more than the average for all countries.

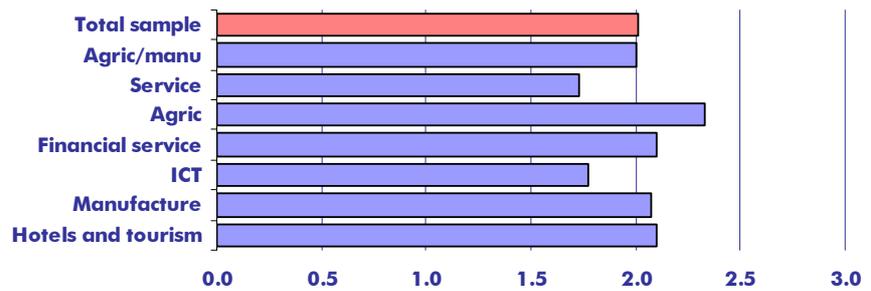
Manufacturing and financial services, in particular, think that the government is making the situation worse.

Figure 75: Government perceived to be making the issue worse



Agriculture would be deterred to a small extent from making further investment, but most sectors do not see this as an issue.

Figure 76: Would deter further investment by...

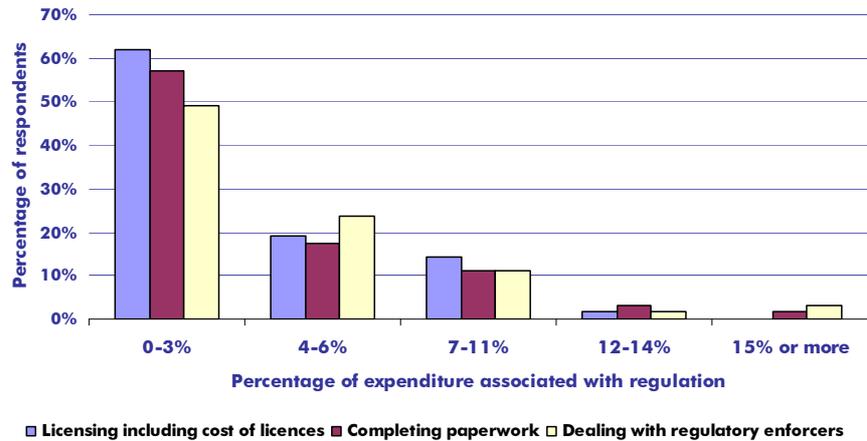


9. Cost of red tape

Respondents were asked about 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. In future surveys, we will aim for greater accuracy by asking respondents to estimate actual percentages.

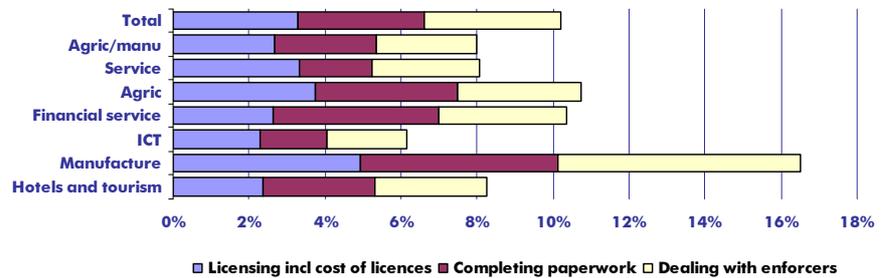
As can be seen from figure 76, most respondents thought that each required expenditure of less than three per cent. This is fairly modest, though when you add the three together they can quickly mount up.

Figure 77: Cost of red tape and regulation



However, we have undertaken some further analysis and looked at each of the sectors. The picture is then rather different, with the manufacturing sector paying a large proportion of its total expenditure coping with the costs of regulation. As can be seen from the figure below, the average across the entire sample is around 10 per cent which, if respondents have answered accurately, is a high proportion of costs to be spending on red tape and regulation.

Figure 78: Cost of red tape and regulation



Getting this down would not only make businesses feel that the government was really trying to make a difference, but would free up a lot of resource that could be invested in business expansion.

Appendix 1: Survey questions

In this appendix, we reproduce the questions that were posed.

There is much talk about the business enabling environment, sometimes known as the investment climate. We are keen to understand what you think about the business enabling environment as it is currently.

1. Please indicate how the current state of each of the following impacts on the ease of doing business.

In this column, please indicate whether each aspect is important to the success of your business

Please tick one cell in each row of these four columns to indicate which statement applies to each aspect.

	Makes doing business very difficult	Makes doing business somewhat difficult	Neither difficult nor good and could be improved	It is not a problem at all
Power				
Water				
Roads				
Ports and airports				
Corruption				
Macro-economic policy (including exchange rates and interest rates)				
Licensing & regulation (including consumer protection, health & safety etc)				
Employment law				
Environmental law				
Level of taxation				
Administration of taxation				
Access to finance				
Ease of enforcing contracts				
Ease of registering ownership of land				
Availability of skilled labour				

2. Please indicate your perception of the government's performance in addressing these aspects of the business enabling environment.

Government is making real efforts to address the issue

Government is making some effort to address the issue

Government is making no effort to address this issue

Government actions are making this issue worse

Power				
Water				

3. In considering these aspects, how does the current situation in your country affect your investment decisions?

They encourage further investment

They neither encourage nor deter further investment

They deter further investment

Power			
Water			
Roads			
Ports and airports			
Corruption			
Macro-economic policy (including exchange rates and interest rates)			
Licensing & regulation (including consumer protection, health & safety etc)			
Employment law			
Environmental law			
Level of taxation			
Administration of taxation			
Access to finance			
Ease of enforcing contracts			
Ease of registering ownership of land			
Availability of skilled labour			

4. Please estimate the proportion of your total expenditure associated with complying with all aspects of regulatory requirements (such as licensing, completing paperwork for government including paperwork associated with taxation, etc) but excluding taxation payments:

	0-3%	4-6%	7-9%	9-11%	12-14%	15% or more
Licensing including cost of licences						
Completing paperwork						
Dealing with enforcers of regulation						
Other						