
Curt Carnemark/World Bank

Nairobi city park with the skyline in the background, Kenya.

APPENDIX

A Review of Investment Climate Survey Results for Sub-Saharan Africa and Selected Asian Countries[59]

The essential ingredients of any sound market economy have been described as the "investment climate" (WDR 2005). Several types of surveys have been conducted in recent years to gain the perspectives of firms on the ease or difficulty of working in different settings. Most of these surveys have been conducted with formal (registered) manufacturing enterprises located in urban areas. These firms' responses provide a view of the business environment in which they operate—which comprises conditions pertaining not only to the specific city location and its local government but also, of course, to the country and national government.

As background for the present study, investment climate (IC) surveys completed as of early 2004 were reviewed for six countries in Africa (Ethiopia, Kenya, Mozambique, Tanzania, Uganda, and Zambia) and for four developing countries in East and South Asia (Cambodia, China, Bangladesh, and Pakistan), as comparators. This analysis reveals how the firms surveyed, which are all in manufacturing sectors and related services, rate the various constraints or bottlenecks they face and differentiates between firms located in the capital and/or primate city from those in other cities of the country.

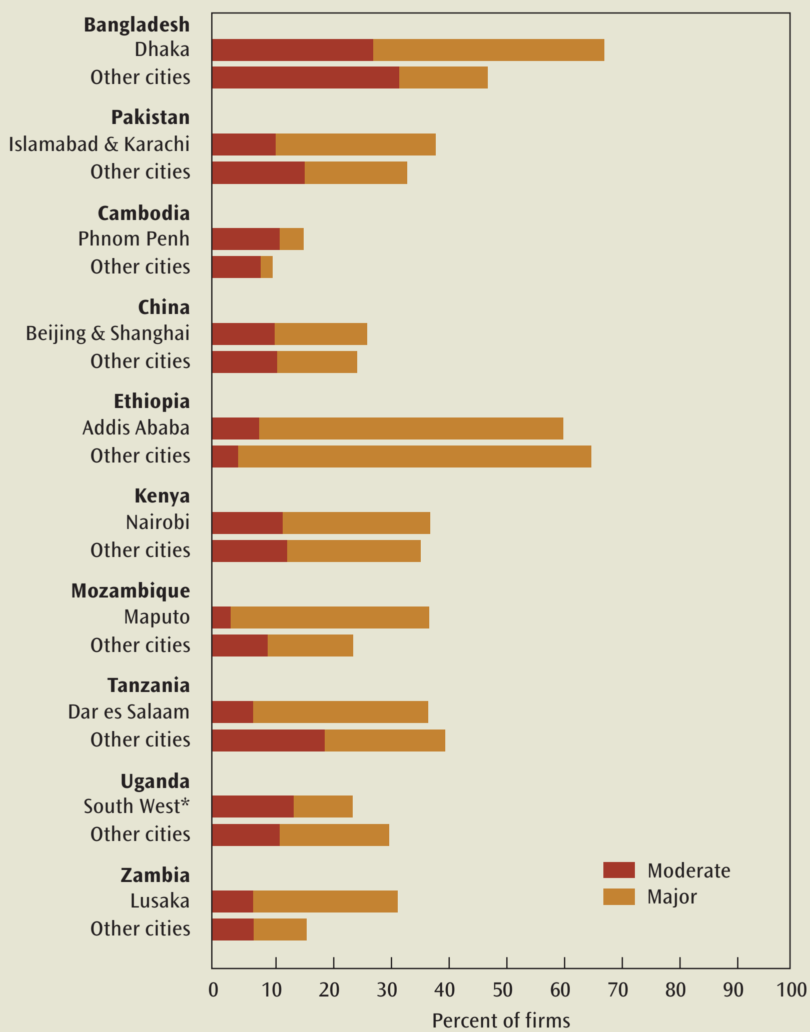
The factors chosen for analysis are those that could shed light on the business environment in the various cities and, to the extent possible, policy implications for the local government. In most cases, the questionnaires were not sufficiently detailed to distinguish the source of policies or practices as between the local government and the national government. Two categories of indicators were examined: (i) *infrastructure, land and labour*—including telecommunications, electricity, transportation, access to land (the only variable in this category largely under the responsibility of local government), and the skills and education of workers; and (ii) *institutional constraints*—including tax administration, customs and trade regulations, labour regulations, business licensing and operating permits, corruption, and crime, theft, and disorder. Of this second set of constraints, customs and trade regulations would be purely national policy, and local governments would share responsibility with central governments for the others (except for business licensing and permitting, which is most likely a local government matter). Responses were recorded as the percentage of firms sampled who rated a particular topic as posing a "moderate" or "major" constraint.

Overall, the main observations from this IC review can be summarised as follows.

Constraints within infrastructure:

- *Electricity* is by far the biggest obstacle cited for all of the African firms, 65 to 90 percent of whom rated it as a moderate/major constraint, as did 90 percent of Bangladeshi firms and about 60 percent of the Pakistani. In the African sample, firms in capital or primate cities cited worse problems, except in Ethiopia and Zambia. The reported objective indicators of electricity quality (days of connection, extent of outages, and so on) in the same surveys do not show a consistent comparison between the two groups of cities, possibly because many firms compensate with their own generators, for example, 74 percent of firms in Nairobi and 67 percent in Dar es Salaam. Still, 10 percent of output is reported lost due to power outages in both cities.
- *Telecommunications* was reported to be a much less serious obstacle than was electricity (except in China). Yet, firms in all urban areas in Kenya and those outside Kampala in Uganda reported losing telecom connections for more than 30 hours at a time, on average.[60] Firms in the capital or primate cities reported most concern with telecoms, possibly because it is more difficult to compensate by getting around for face-to-face meetings.
- *Transportation* was reported to be an obstacle greater than or at least on par with telecommunications in both the African and the Asian samples. Whereas problems in electricity and telecoms were felt more in capital or primate cities, transportation issues were more balanced and actually rated much worse in the secondary city sample in Mozambique, Tanzania, and Zambia. The surveys did not differentiate among types of transportation, but it is likely that the firms in secondary cities are particularly vulnerable to the shortcomings of intercity road or rail access. In Ethiopia, domestic transport costs are estimated as

FIGURE A1. Access to Land as a Constraint in Urban Centres



* Includes Kampala

eight times those of China, four-times those of South Africa, and twice Kenya's. Madagascar has only one road leading to the port, and its disruption can totally block exports (World Bank 2004d). In such circumstances even port cities, which exist from locational advantage, may demonstrate much less economic benefit in reality.

It is worth noting here that whereas these findings concern infrastructure sectors that are largely the responsibility of national authorities and therefore are not "urban" or "local government" issues, they are of great interest in revealing that some of the basic assumed advantages of urban agglomeration—access to inputs and services affording some economies of scale and connectivity to other producers—are simply not being realised in developing country cities, even in those that might be considered relatively favoured. Therefore, a firm locating in such a city gains a much lower productivity advantage than its counterpart elsewhere possesses, all else remaining constant (such as city size, natural resource base, labour supply, and so on).

- *Access to skilled labour* is rated almost as much of a problem as transport by the African firms, while labour is China's biggest reported constraint. In about half the countries, firms in the capital or primate cities rate labour as a bigger concern than do firms in the other cities. Larger cities create higher demand for skilled labour, although they also tend to attract more skilled workers.
- *Access to land,* the last infrastructure variable, is the

TABLE A1. Burdens of Obtaining Land

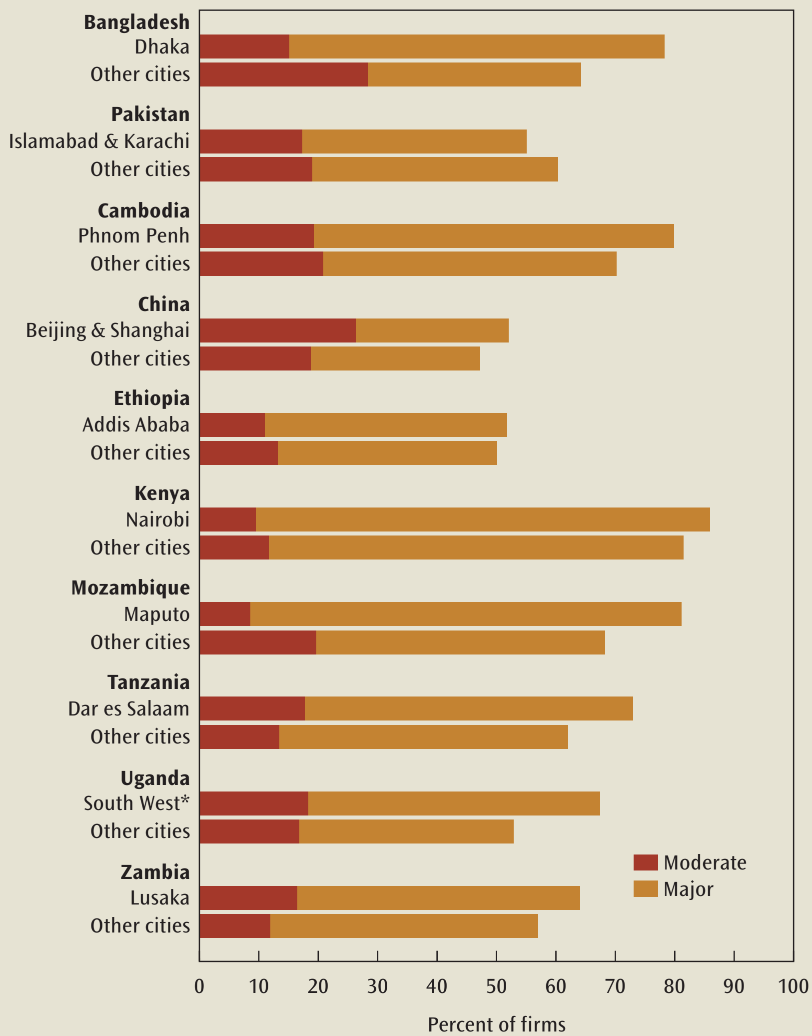
Country	Days for land City	Days from the date of release to the use of the plot, acquisition	average (median)
Ethiopia	Addis Ababa	538.0 (180.)	115.0 (60.)
	Other urban	150.6 (120.0)	58.0 (60.0)
Mozambique	Maputo	38.3 (12.0)	
	Other urban	11.7 (2.5)	
Zambia	Lusaka	232.8 (180.0)	
	Other urban	393.2 (240.0)	

Note: Results are from only about a dozen firms that answered this question in these surveys, so they cannot be taken as representative.

TABLE A2. Firm Responses on Costs Due to Security Problems

Country	City	Security costs (% of total sales)	Protection payments (% of total sales)	Sales loss due to theft etc. (% of total sales)
Ethiopia	Addis Ababa	0.9	0.4	
	Other urban	0.9	1.3	
Kenya	Nairobi	2.7	0.1	3.9
	Other urban	2.9	0.0	4.7
Mozambique	Maputo			
	Other urban			
Tanzania	Dar es Salaam	2.9	0.2	
	Other urban	6.5	0.2	
Uganda	South West (incl. Kampala)	1.8	0.0	
	Other urban	2.1	0.4	
Zambia	Lusaka	4.0	0.1	5.9
	Other urban	1.9	0.0	3.3
Bangladesh	Dhaka		0.6	
	Other urban		0.7	
Pakistan	Islamabad and Karachi	1.6	0.9	0.3
	Other urban	0.9	0.3	0.1
Cambodia	Phnom Penh	16.8	3.4	2.9
	Other urban	12.5	1.8	1.5
China	Beijing	0.7	0.9	0.4
	Other urban	0.9	0.6	0.2

FIGURE A2. Corruption as a Constraint in Urban Centres



* Includes Kampala

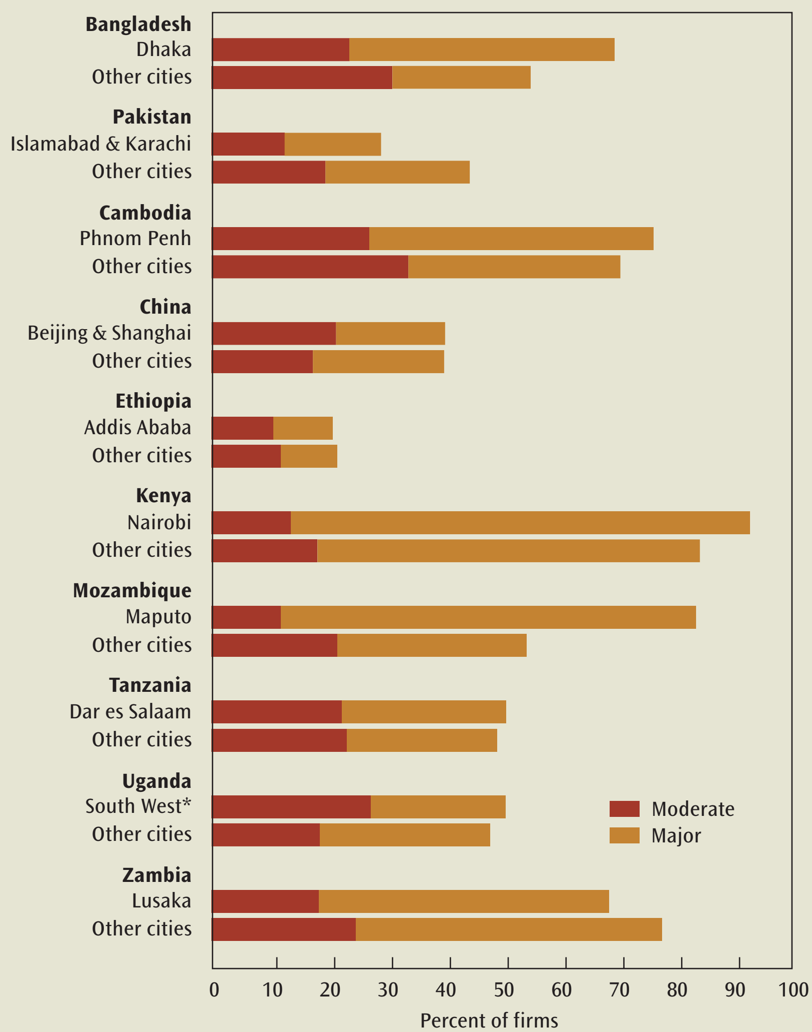
least cited as being a moderate/major constraint in the African sample, in Cambodia, and in China, although it is a big issue in Dhaka and in Ethiopia (with a 65 to 70 percent rating). (See Figure A1.) Land acquisition may be rated less badly in IC surveys because, unlike other factors and services, it is not a frequent expenditure. Reported land acquisition delays are very long in Ethiopia and in Zambia (Table A1). In Mozambique firms pay on average $18,000 in processing fees for land, and in Nigeria they must re-register land to use it as collateral, a process that can take up to two years and cost 15 percent of the land value in official fees, before bribes. Rental costs for private firms in Ethiopia can be about 20 percent of total sales, while government owned firms pay little for rental (Office of the Chief Economist 2004). A FIAS inquiry into investors' views in Senegal elicited strong complaints about real estate as being one of the most serious obstacles; improvements in tax administration, business registration, and customs were said to be overwhelmed by the lengthening of time required to obtain land (World Bank 2003e).

Constraints within institutions:

- *Corruption* dominates the other issues as a major concern for all the African countries (except Ethiopia) and for the Asian countries (except China). Generally, corruption is felt to be a bigger problem in the capital or primate cities, indicating that it may pertain especially to national government officials (Figure A2).
- *Tax administration* is the second most frequently reported constraint for most of the countries, with relatively little variation across them or across the two types of cities. The lack of variation between the city groups (except in Mozambique, where Maputo dominates the concern) may signify that national taxation is the main issue—local taxation being almost trivial in these countries anyway.

- *Crime, theft and disorder* occasion a very large inter-country variation in reported levels of concern (Figure A3). This issue is cited by 80 to 90 percent of firms in Kenya and Maputo, closely followed by other Zambian cities and by Phnom Penh. Surprisingly, firms in capital or primate cities do not claim to suffer this problem more than do those in secondary cities. Firms in other urban areas in Kenya and Tanzania, and in Lusaka, reported incurring the highest levels of costs or sales losses due to security issues, but the African cities did not rate worse in all cases than did the Asian cities (Table A2).
- *Business licensing* had the least negative ratings, although it is cited as a moderate/major constraint by about half the firms in Maputo and Dar es Salaam and by 60 percent in Dacca. The two types of cities did not show a large difference in response on this point.

FIGURE A3. Crime, Theft, and Disorder as a Constraint in Urban Centres



* Includes Kampala
Source: Chakraborty (2005).

Summarising main conclusions by country:

- In Ethiopia, land problems rival electricity as the major constraints, exceeded only by tax administration.
- Kenya shows serious problems in most categories but corruption and crime top the list.
- In Mozambique, Maputo stands out as the problematic location for business.
- For most of the African countries, the institutional and the infrastructural issues are about equal areas of concern, while for Cambodia, China, and Pakistan institutional constraints dominate.
- Bangladesh rivals the African countries in the extent and seriousness of IC obstacles.