

Investment for African Development: Making it Happen

Investment Climate Assessments in Africa

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What is an Investment Climate Assessment?

- A core tool of the World Bank to measure investment climate conditions in a country
- Allows comparison of conditions across countries
- Quantified analysis of the dimensions of a country's business environment at the firm level

Why an Investment Climate Assessment?

- To understand the business environment
- Identify conditions that affect firm-level productivity and competitiveness
- Help governments develop policies and programmes that support productivity growth
- Provide private sector with facts to support dialogue with government and other partners

SURVEYS

Enterprise surveys have been (and are to be) undertaken in:

- Angola (2006)
- Benin (2005)
- Burundi: 1993
- Bhutan: 2001
- Burkina Faso (2005)
- Cameroon: 1993 to 1995 (2006)
- Cape Verde: (2006)
- Cote d'Ivoire: 1995 and 1996
- Ethiopia: 2002
- Eritrea: 2002
- Ghana: 1992 to 1994 (2005)
- India: 2000
- Kenya: 1993 to 1995, 2003
- Lesotho: 2005
- Madagascar (2005)
- Malawi (2006)
- Mali: 2003
- Mauritius: (2005)
- Mozambique: 1998 and 2002
- Niger (2006)
- Nigeria: 2001 (2006)
- Senegal: 2003
- South Africa (2005)
- Tanzania: 1993, 1994, 1996, 2003
- Uganda: 1998, 2002
- Zambia: 1993 to 1995 and 1998, 2003
- Zimbabwe: 1993 to 1995

A Typical Survey

- The survey work begins with a pilot survey of a dozen firms
- The survey form, to be conducted with a sample of 400 selected companies, is similar in structure to the forms used in the other countries
- Questionnaire specifically tailored for each country, but also enables comparisons with other countries.

Survey Team

- World Bank team:
 - RPED staff
 - Research Department staff
 - Private Sector Specialists
 - Country economist
- Survey and analysis carried out in collaboration with local manufacturing associations and/or research institutes

Benefits – for the Private Sector

- Allow identification of the root causes of issues facing companies, such as:
 - lack of competitiveness – domestic and export markets
 - low level of exports
 - transaction costs
 - supply chain issues
 - access to finance and credit
- Enable government and private sector to prioritise and target most important issues for policy advocacy

Benefits – for the Client

- Better understanding of issues at the company level
- Identify whether current policies are appropriate or need revising
- Use of data as a basis for improving the operating environment for business
- Identify planning priorities

Benefits – for the World Bank

- Understand the dynamics of African business
- Make comparisons with other countries
- Identify the root causes of issues from data analysis
- Improve use of borrowed funds

Practical Applications

- **Shaping future policies: improving the economic environment and providing more targeted assistance**
 - ✓ Defining a more appropriate education policy: to raise quality of labor force and improve human capital
 - ✓ Help prioritize investments in infrastructure
 - ✓ Help to create a better institutional environment to foster the next generation of African entrepreneurs
 - ✓ Aid the evolution of a more equitable tax system: raising revenues but minimizing distortionary impact on firms.

More Practical Applications

■ Tracking the impact of policies.

- ✓ In 1994, the CFA franc was strongly devalued.
- ✓ Firm level data allowed assessment of the impact of devaluation on manufacturing firms.

Change in Total Output: Cote d'Ivoire 1993-95

Markets

Furniture	9.7
Other Agroindustries	9
Wooden planks and plywood	24.7
Clothing industries	12
Vegetable oil and other similar products	-9.1
Crude textile products	-5.8
Primary products for human consumption	47.6
Metalwork	26.4

Trade Orientation

Non exporters	0.7
Exporters	24.7

Process and Feedback

- Expected Completion within 8 months of launch
- Reports reviewed by Bank and client
- Followed by presentation to private sector and others
- Opportunity to then examine specific aspects in greater detail

ORGANISATION OF THE SURVEY

- Stratified sample of up to 400 enterprises from:
 - ✓ manufacturing,
 - ✓ construction,
 - ✓ tourism and
 - ✓ commercial agriculture.
- Survey teams meet each company after arranging appointment;
- Interviews with:
 - ✓ the General Manager or the Owner;
 - ✓ the Head of the Financial Department;
 - ✓ the Head of the Human Resources Division, and
 - ✓ a selection of employees from all occupations.

CONFIDENTIALITY OF THE DATA

- The results of the interview will be kept strictly confidential ;
 - ✓ When an interview is completed, the questionnaire is immediately entered into a computer database
 - ✓ Once entered, forms are shipped to the World Bank for safekeeping
 - ✓ Inside the database, no names of firms appear. Each company is identified with a unique number.
 - ✓ The collected data will be analysed and results published - but these **will NOT include any name of company.**

QUESTIONS ASKED

First, questions will be directly asked to the **general manager or the owner of the firms**, about:

- ✓ Company background, development and ownership structure
- ✓ Sales, raw materials and investment, Credit and finance
- ✓ Labour and training
- ✓ Acquisition and use of technology
- ✓ Infrastructure
- ✓ Trade, Business environment

QUESTIONS ASKED

Information will also be requested from the Financial Department of firms. It will be related to:

- ✓ data on the price/quantity of the major inputs and outputs and core financial information for the last fiscal year (structure of sales and costs and taxes)
- ✓ relations between the firm and the financial sector.

QUESTIONS ASKED

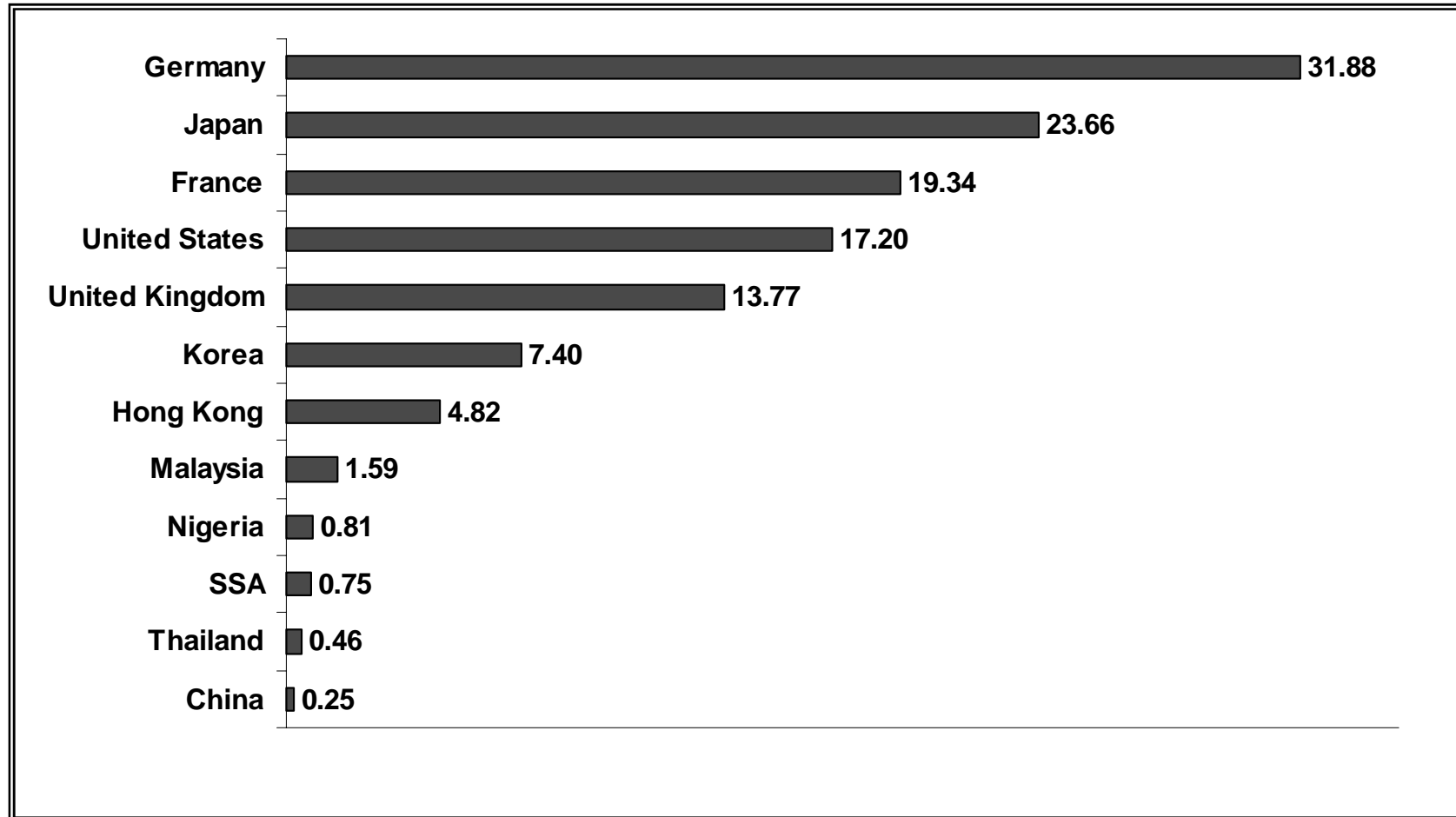
The final step involves a conversation with the Head of the Human Resources Department and a selection of workers about:

- ✓ Employment structure and employees turn over
- ✓ Training and skills of the workforce
- ✓ Health aspects and benefits granted to employees
- ✓ Characteristics of employees through personal interviews.

What our surveys have told us

- Ghana: identified need for a technology promotion centre
- Kenya and Senegal: pilot programmes for building technical capabilities in export industries
- Zambia: identified need to improve ways of acquiring technology
- General: exporters are more competitive than purely domestic market players, but often lack capacity to meet orders obtained

Manufacturing hourly wages in 2000 (US \$).



- Nominal hourly wages in Africa are low,
- BUT, is this enough to overcome the structural deficiency of low productivity in manufacturing?

- ✓ The cost of labor is high in Africa compared to other regions, especially South East Asia.

Labor Cost – Ratio of Wages to Value Added.

Africa - 1990s		Asia - 1960s-1970s	
Botswana	0.39	Indonesia	0.21
Cameroon	0.40	South Korea	0.26
Cote d'Ivoire	0.33	Malaysia	0.27
Ghana	0.36	Singapore	0.35
Kenya	0.35	Taiwan	0.16
Nigeria	0.26	Thailand	0.24
Tanzania	0.39		
Zimbabwe	0.42		
Zambia	0.35		

- ✓ Productivity is low, economies are more inward oriented and the share of manufacturing is smaller.

Average Values 1990-1999	Exports	Manufacturing	Value Added per Workers (Cst 1995 US\$)
	% of GDP	% of GDP	
Cameroon	22.4	11.8	9 656.0
Cote d'Ivoire	38.6	19.1	1 122.0
Ghana	24.7	9.2	1 304.0
Kenya	30.5	10.8	3 337.0
Tanzania	16.0	7.8	1 862.0
Uganda	9.8	7.1	931.6
Zambia	32.1	12.8	2 962.0
Zimbabwe	33.9	21.7	3 999.0
Sample Average	26.0	12.5	3 146.7
East Asia and Pacific	54.9	21.5	12 604.0

SYNTHESIS

- ✓ African manufacturing faces relatively high labor cost combined with low productivity of workers
- ✓ Research also suggests that capital productivity is low
- ✓ This has several explanations: shortage of skilled workers, poor regulatory environment, poor enforcement of contract and property rights, deficiencies in the allocation of credit, inefficient tax systems,...
- ✓ To remedy this, precise data are needed to take further action, this is the purpose of the surveys currently undertaken in Africa