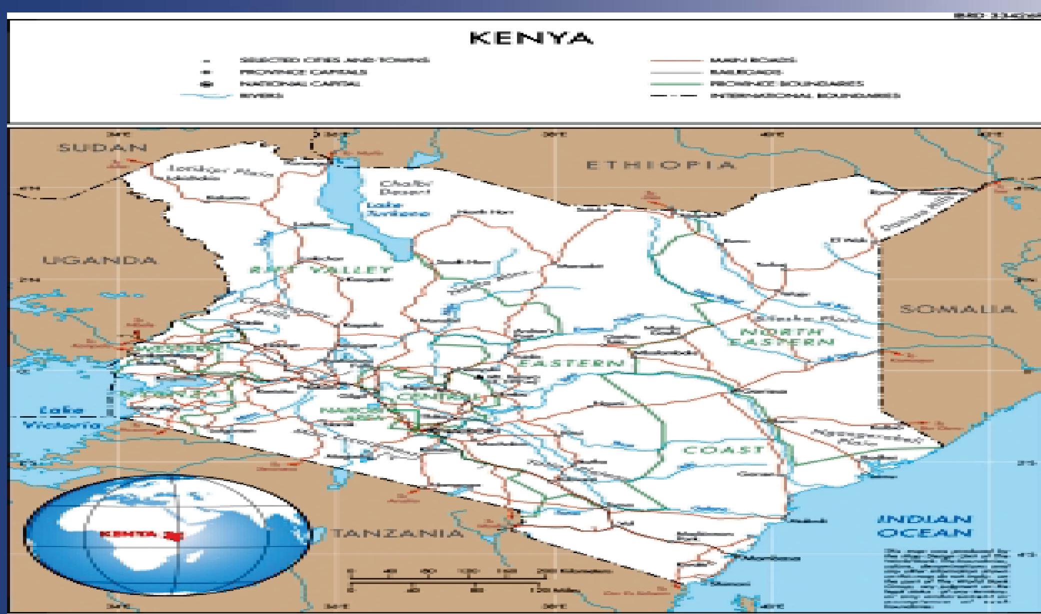
THE WORLD BANK

International Finance Corporation
World Bank Group

Kenya
Country Profile 2013



Region: Sub-Saharan Africa
Income Group: Low income
Population: 43,178,141
GNI per capita: US$840.00

Enterprise Surveys

Enterprise Surveys

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Introduction

Enterprise Surveys

The Enterprise Surveys focus on the many factors that shape the business environment. These factors can be accommodating or constraining for firms and play an important role in whether a country will prosper or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity—key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. In contrast, a poor business environment increases the obstacles to conducting business activities and decreases a country's prospects for reaching its potential in terms of employment, production, and welfare.

The Enterprise Surveys are conducted by the World Bank and its partners across all geographic regions and cover small, medium, and large companies. The surveys are administered to a representative sample of firms in the non-agricultural formal private economy. The sample is consistently defined in all countries and includes the entire manufacturing sector, the services sector, and the transportation and construction sectors. Public utilities, government services, health care, and financial services sectors are not included in the sample.* The Enterprise Surveys collect a wide array of qualitative and quantitative information through face to face interviews with firm managers and owners regarding the business environment in their countries and the productivity of their firms. The topics covered in Enterprise Surveys include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, finance, innovation, labor, and perceptions about obstacles to doing business.

The qualitative and quantitative data collected through the surveys connect a country's business environment characteristics with firm productivity and performance. The Enterprise Survey is useful for both policymakers and researchers. The surveys are repeated over time to track changes and benchmark the effects of reforms on firms performance.

Country Profiles

The Country Profiles produced by the Enterprise Analysis Unit of the World Bank Group provide an overview of key business environment indicators in each country, comparing them to their respective geographic region and group of countries with similar incomes.** Breakdowns by firm size are presented in the Appendix of the document along with all indicators used to make the graphs. The same topics are covered for all countries with slight variations in indicators, subject to data availability. This format allows cross country comparisons. All indicators are based on the responses of firms.

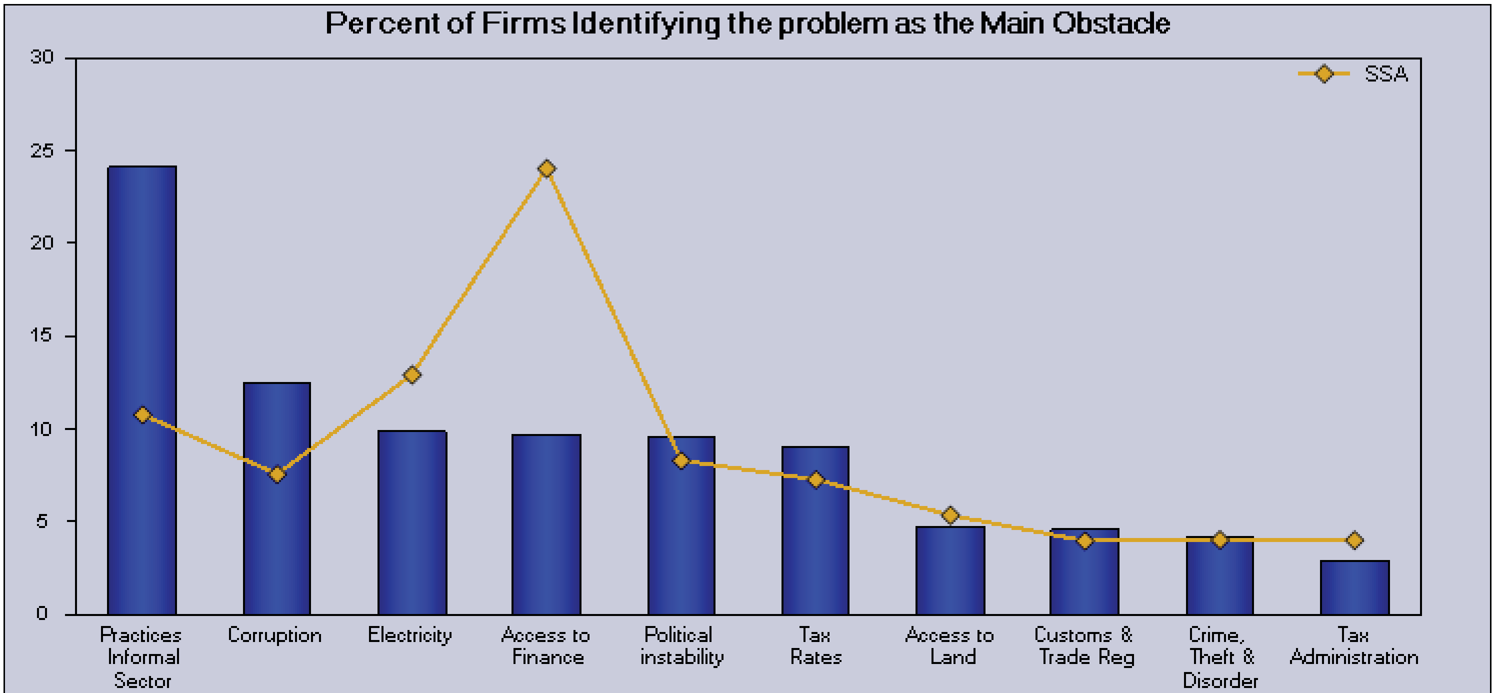
To learn more about the firms sampled for this Country Profile, tabulations for these and other indicators presented by firm size, industry, national region, etc., or to obtain profiles of other countries, please visit www.enterprisesurveys.org.

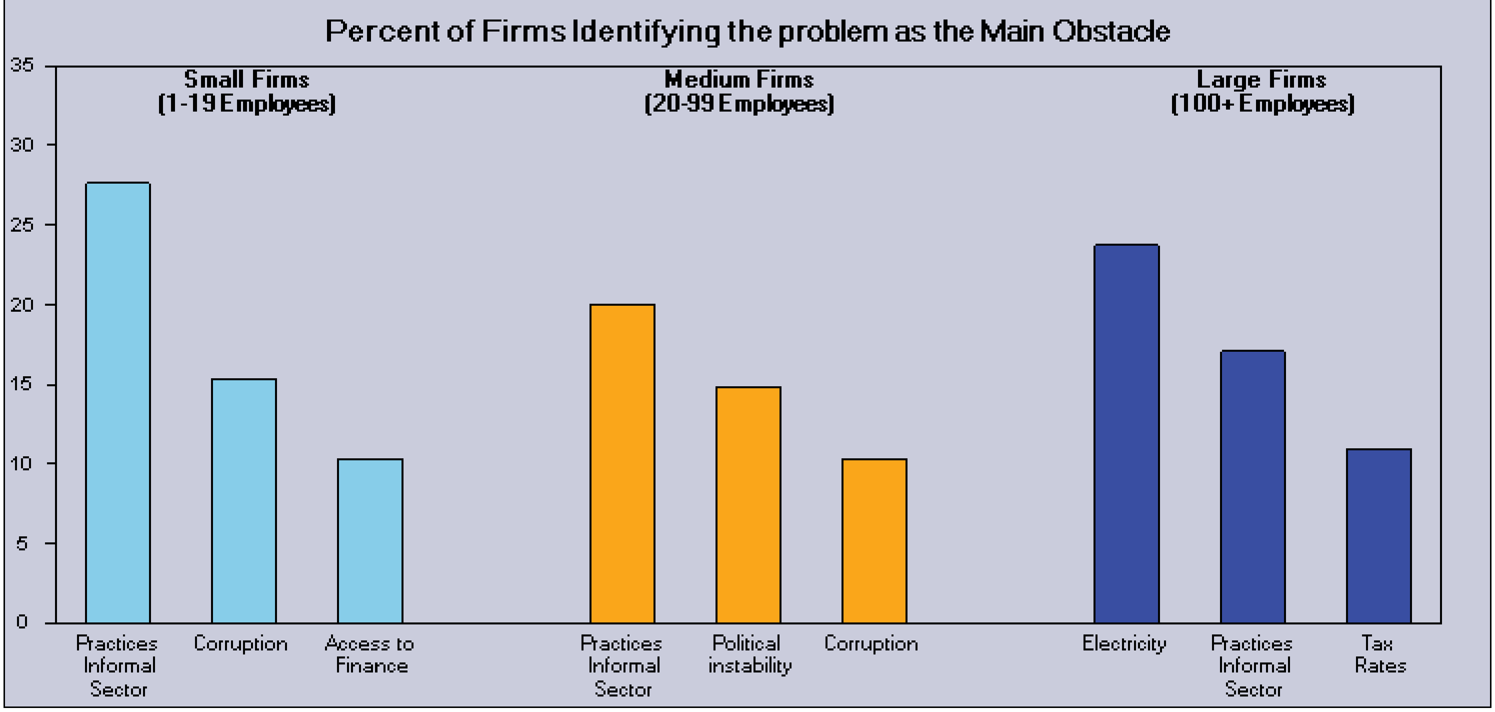
Business Environment Obstacles

The Country Profile for Kenya is based on data from the Enterprise Surveys conducted by the World Bank. The benchmarks include the averages for the group of countries in Sub-Saharan Africa and the Kenya income group.

Below is a snapshot of the biggest business environment obstacles as perceived by firms. The first graph presents the top 10 constraints as identified by firms in Kenya benchmarked against the regional average. The second graph shows the top 3 constraints broken down by large, medium, and small firms in Kenya.

Snapshot of the Business Environment in Kenya





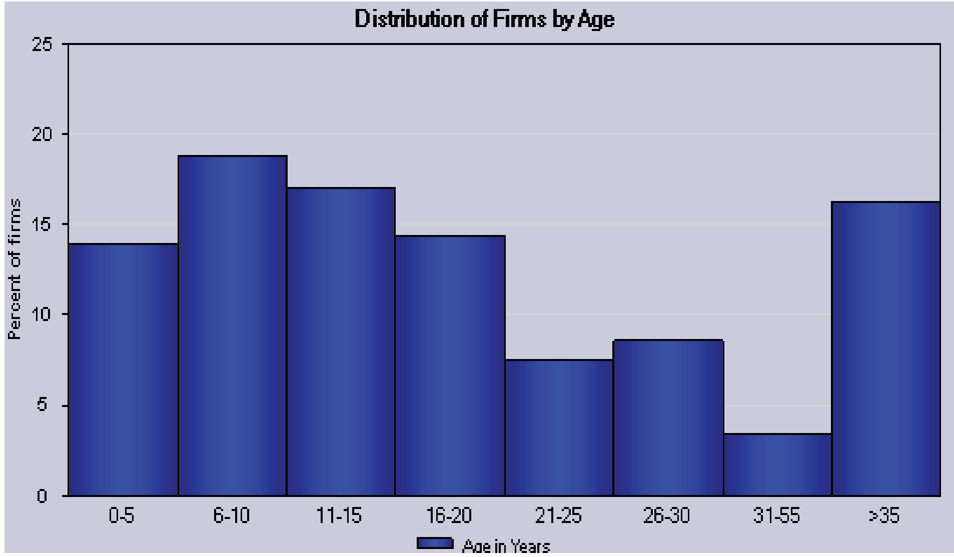
Average Firm

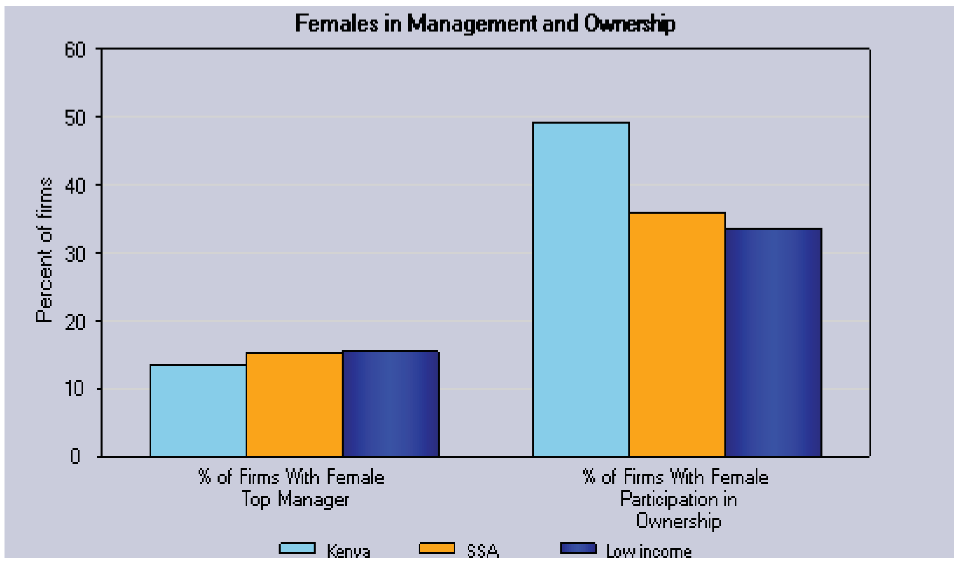
The Enterprise Surveys collect information from a representative sample of the non-agricultural formal private economy. In addition to collecting information on the business environment the surveys collect information on the characteristics of the firms interviewed. Consequently, the data collected provides a description of the representative private firm in the country and also an estimate of how some of the attributes of the average firm are distributed across the population of firms.

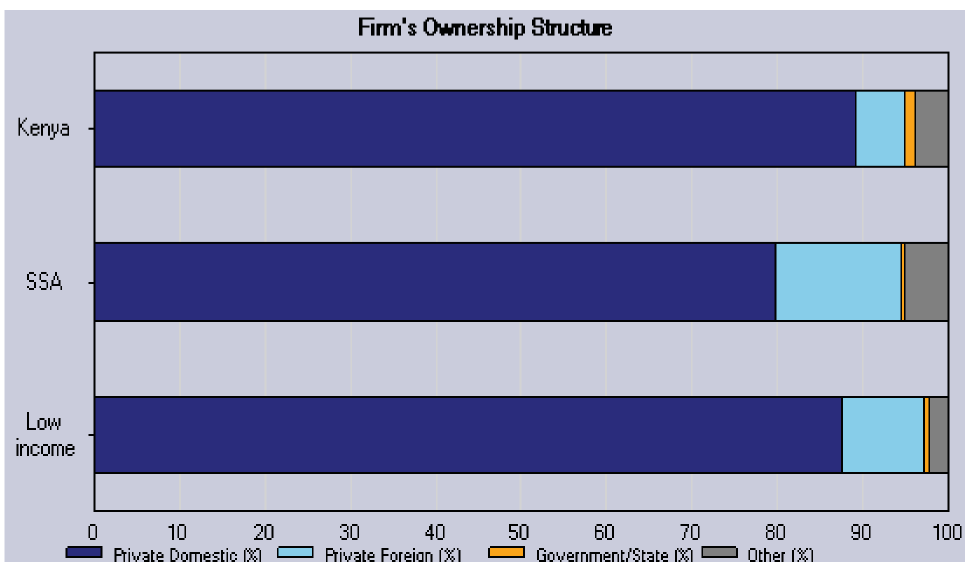
The first indicator shows the distribution of firms according to their age measured by the number of years they have been in operation. The effect the business environment can have on the private sector may depend on firms' experience and longevity. Seasoned firms and young firms may differ in their ability to successfully navigate the business environment.

The second set of indicators provides an illustration of female participation in management and firm ownership. These indicators can help assess whether gender can a determinant of the effect of regulations on the firm and the level of exposure of the firm to external factors, such as corruption, access to finance, and technology.

The third indicator shows the participation of the domestic private sector, the government, the foreign sector and other sectors in the ownership of the typical firm. The distribution provides insight into their levels of equity in the private sector of the economy.







Infrastructure

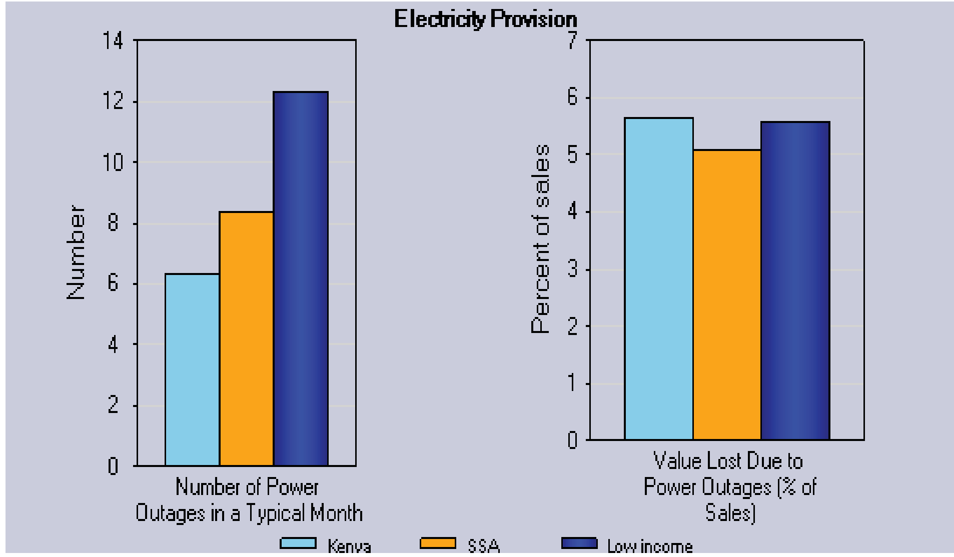
A strong infrastructure enhances the competitiveness of an economy and generates a business environment conducive to firm growth and development. Good infrastructure efficiently connects firms to their customers and suppliers, and enables the use of modern production technologies. Conversely, deficiencies in infrastructure create barriers to productive opportunities and increase costs for all firms, from micro enterprises to large multinational corporations.

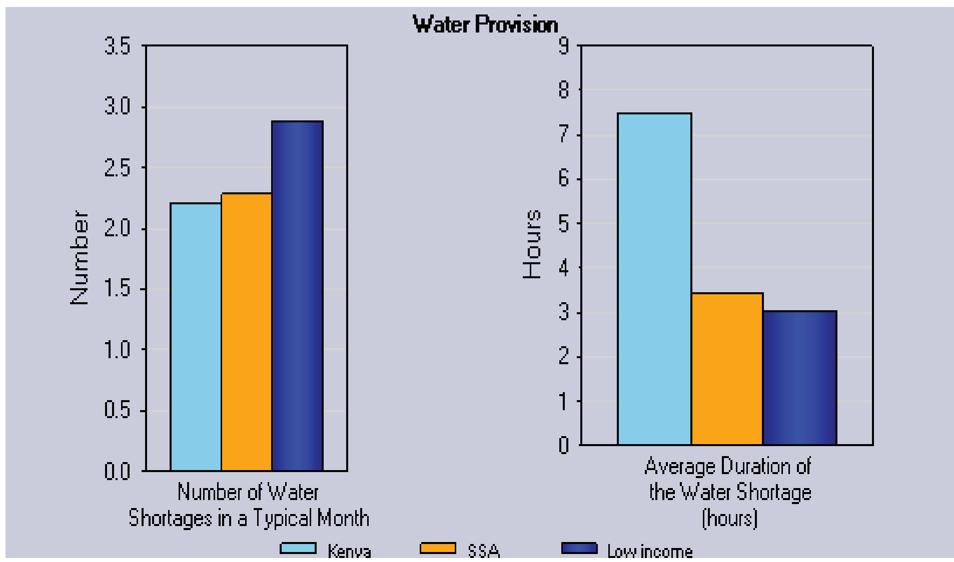
The Enterprise Surveys capture the dual challenge of providing a strong infrastructure for electricity, water supply, telephone connections, etc., and the development of institutions that effectively provide and maintain public services.

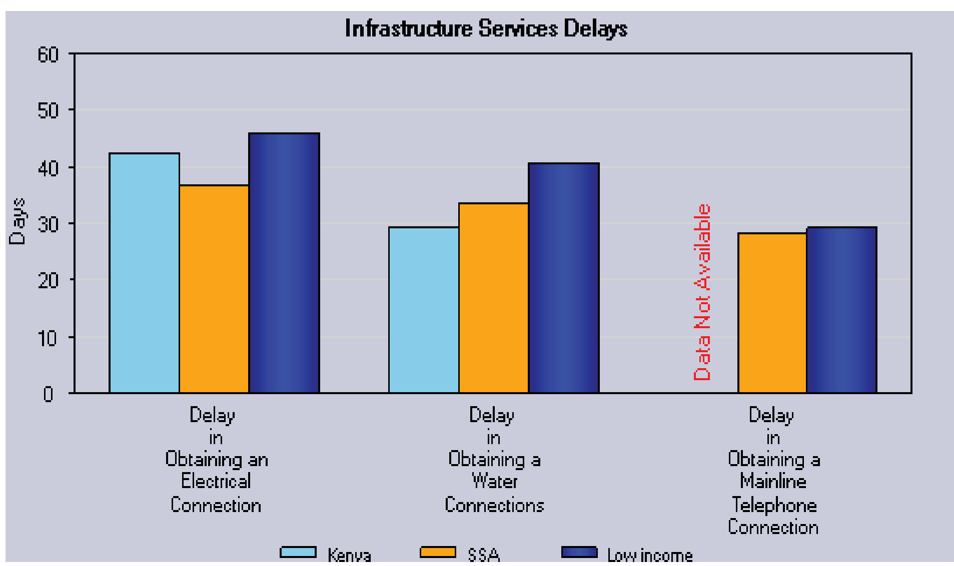
The first set of indicators shows the extent to which firms are faced with failures in the provision of electricity and the effect of these failures on sales. Inadequate electricity supply can increase costs, disrupt production, and reduce profitability.

The second set of indicators measures the efficiency of the water supply for the manufacturing sector.*** Many manufacturing sectors depend on reliable and efficient sources of water for their operations.

The third set of indicators evaluates the efficiency of infrastructure services by quantifying the delays in obtaining electricity, water, and telephone connections. Service delays impose additional costs on firms and may act as barriers to entry and investment.







Trade

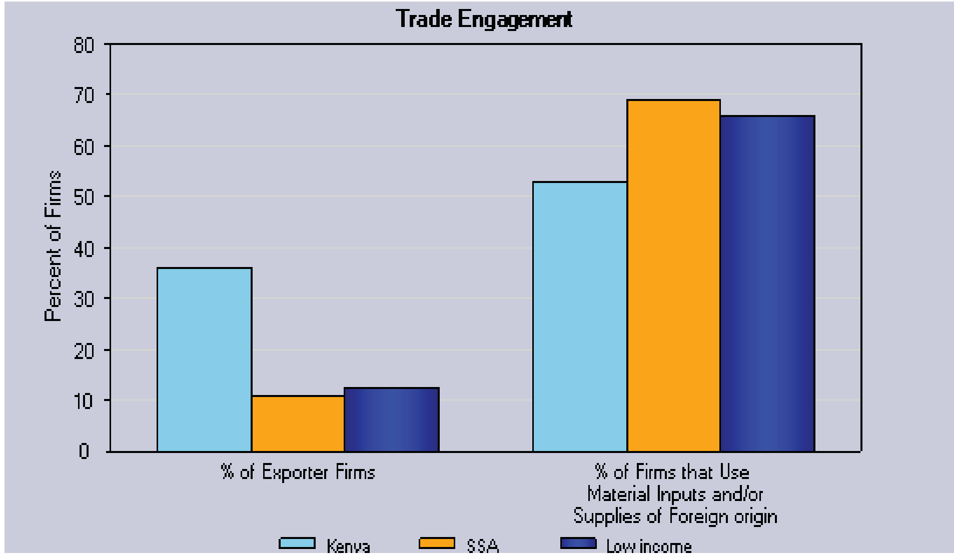
Open markets allow firms to expand, raise standards for efficiency on exporters, and enable firms to import low cost supplies. However, trading also forces firms to deal with customs services and trade regulations, obtain export and import licenses, and in some cases, firms also face additional costs due to losses during transport.

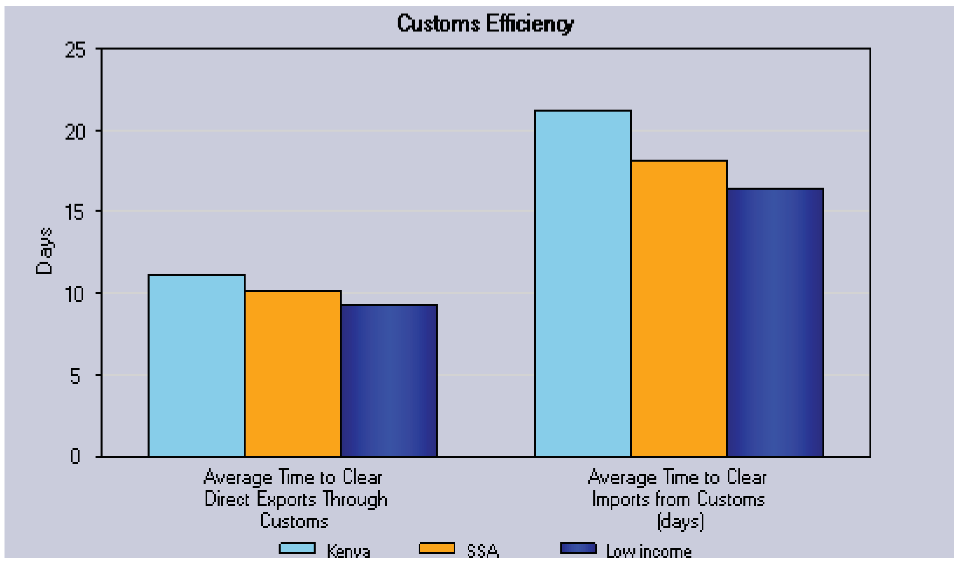
The Enterprise Surveys collect information on the operational constraints faced by exporters and importers and also quantifies the trade activity of firms.

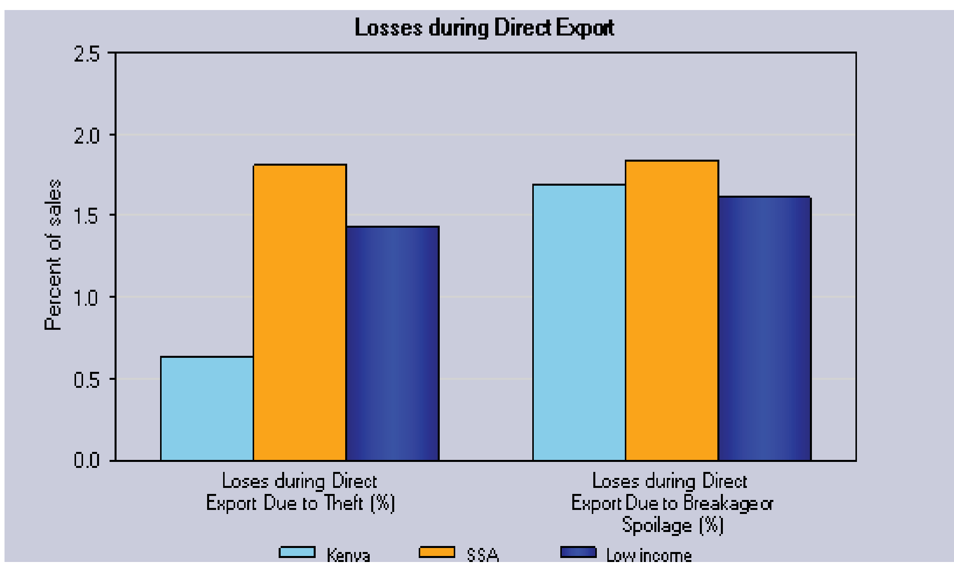
The first set of indicators provides a measure of the intensity of foreign trade in the private sector. The first graph shows the percentage of firms who export directly or indirectly, i.e. using an intermediary. The second panel shows the percentage of manufacturing firms who use inputs or supplies of foreign origin.***

The second set of indicators measures the average number of days to clear customs for imports*** and exports. The delay in clearing customs for imports or exports creates additional costs to the firm, can interrupt production, interfere with sales, and result in damaged supplies or merchandise.

The third set of indicators shows the percent value of exports lost during transport due to merchandise theft, and breakage or spoilage, reflecting the transport risks firms face during the export process.







Regulations, Taxes, and Business Licensing

Good economic governance in areas such as taxation, regulations, and business licensing is a fundamental pillar for the creation of a favorable business environment.

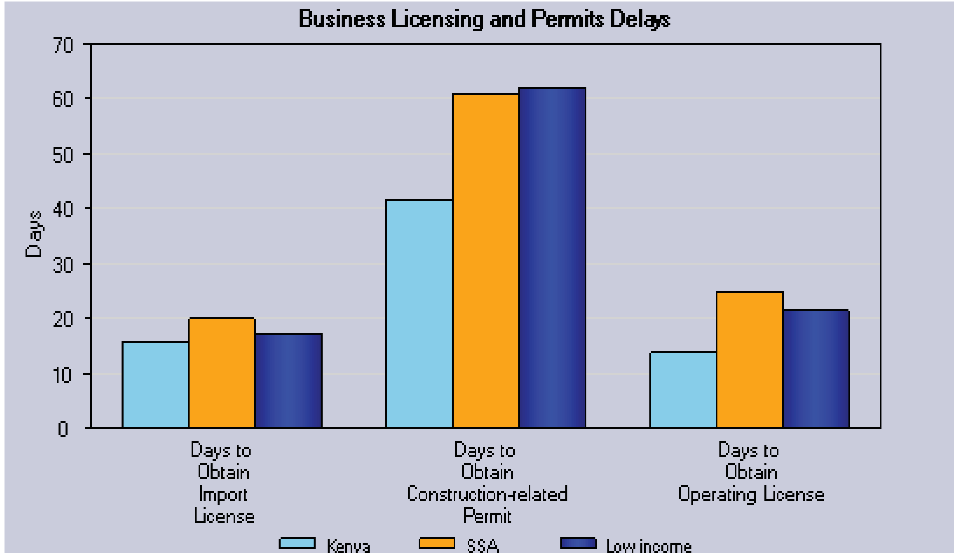
Effective regulations address market failures that inhibit productive investment and reconcile private and public interests. The number of permits and approvals that businesses need to obtain, and the time it takes to obtain them, are expensive and time consuming. The existing legislation of a country also determines the mixed of legal forms private firms take and determines the level of protection for investors thus affecting the incentives to invest.

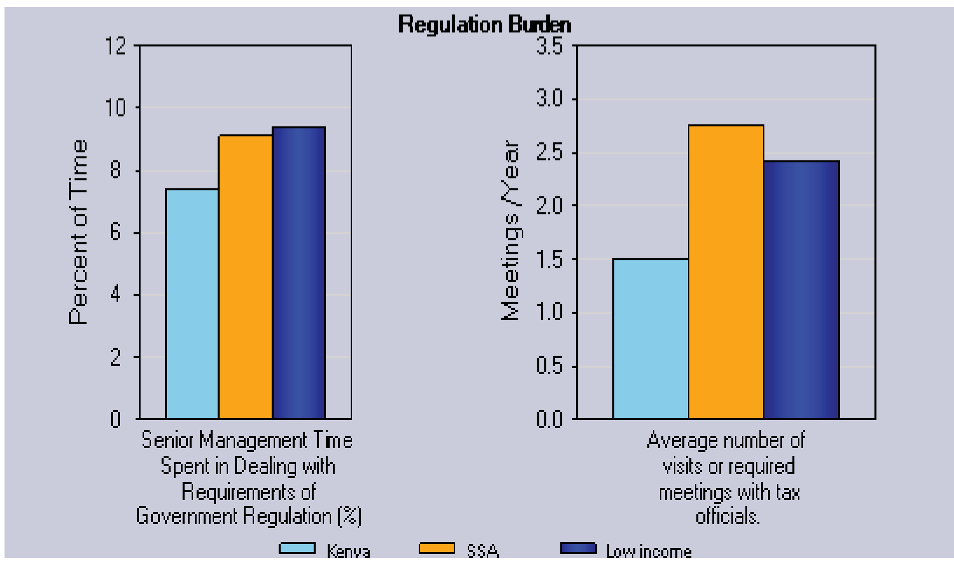
The Enterprise Surveys provide qualitative and quantitative measures of taxation, regulations, and business licensing.

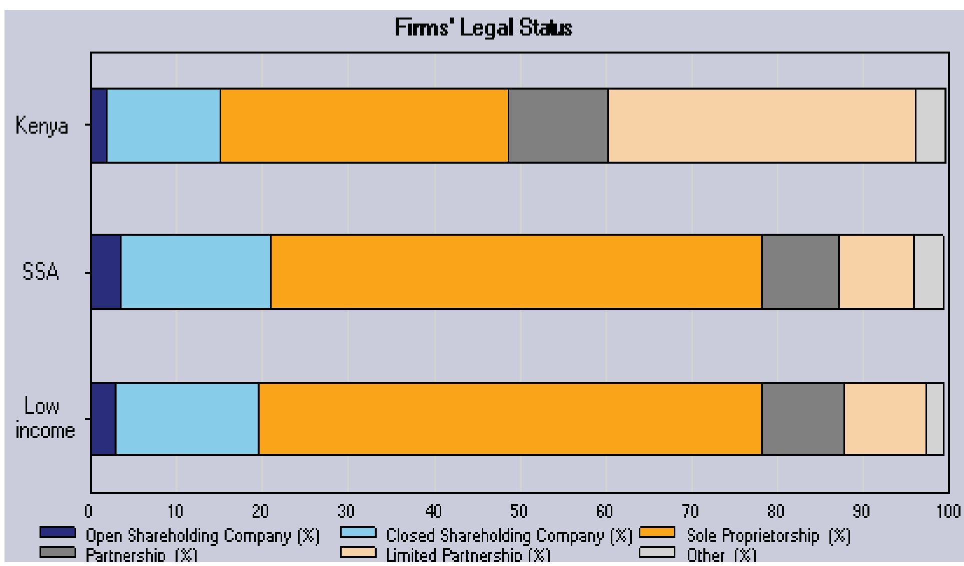
The first set of indicators focuses on the efficiency of business licensing and permit services. The indicators evaluate the delays faced when demanding these services.

The second set of indicators first approximates the "time tax" imposed by regulations: it measures the time spent by senior management in meetings with public officials. Second, it measures the average number of tax inspections or meetings with tax inspectors in a given year.

The third indicator shows the relative use of the different legal forms in the private sector. Most legal forms around the world can be classified into shareholding companies with shares traded privately or non-traded at all (closed), shareholding companies publicly traded (open), sole proprietorships, partnerships, and limited partnerships. A residual category is included to capture legal forms not easily classified into the other categories.







Corruption

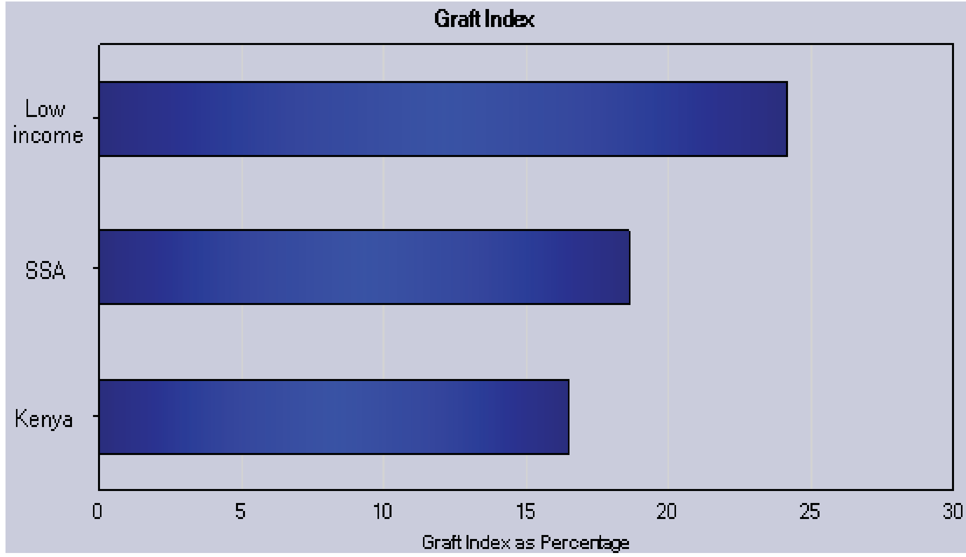
Corruption by public officials may present a major administrative and financial burden on firms. Corruption creates an unfavorable business environment by undermining the operational efficiency of firms and raising the costs and risks associated with doing business.

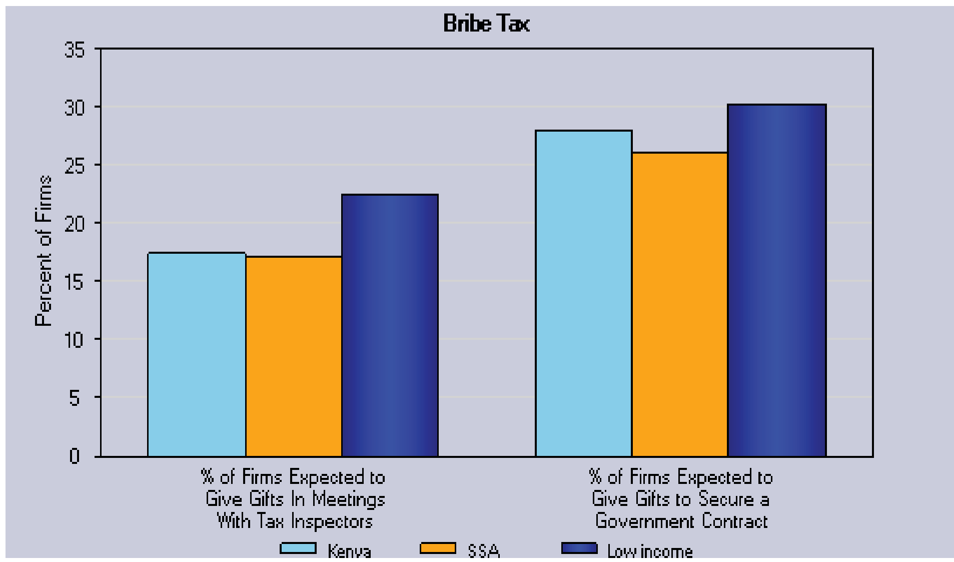
Inefficient regulations constrain firm efficiency as they present opportunities for soliciting bribes where firms are required to make “unofficial” payments to public officials to get things done. In many countries bribes are common and quite high and they add to the bureaucratic costs in obtaining required permits and licenses. They can be a serious impediment for firms’ growth and development.

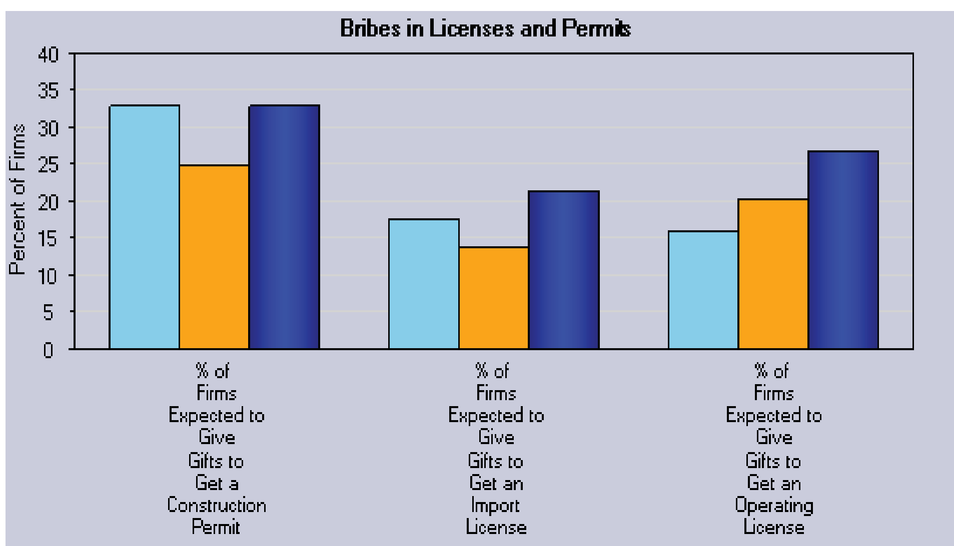
The first set of indicators measures a composite index of corruption, the Graft Index****, that reflects the proportion of times a firm was asked or expected to pay a bribe when soliciting six different public services, permits or licenses.

The second set of indicators identifies the extent to which specific regulatory and administrative officials require bribe payments during meetings with tax inspectors or in order to secure a government contract.

The third set of indicators focuses on bribes to obtain specific licenses or permits, and shows the share of firms that are expected to make informal payments to secure import and operating licenses and to obtain a construction permit.







Crime and Informality

Crime imposes costs on firms when they are forced to divert resources from productive uses to cover security costs. Both foreign and domestic investors perceive crime as an indication of social instability, and crime drives up the cost of doing business. Also, commercial disputes between firms and their clients occur regularly in the course of doing business. Resolving these disputes can be challenging when legal institutions are weak or non existent.

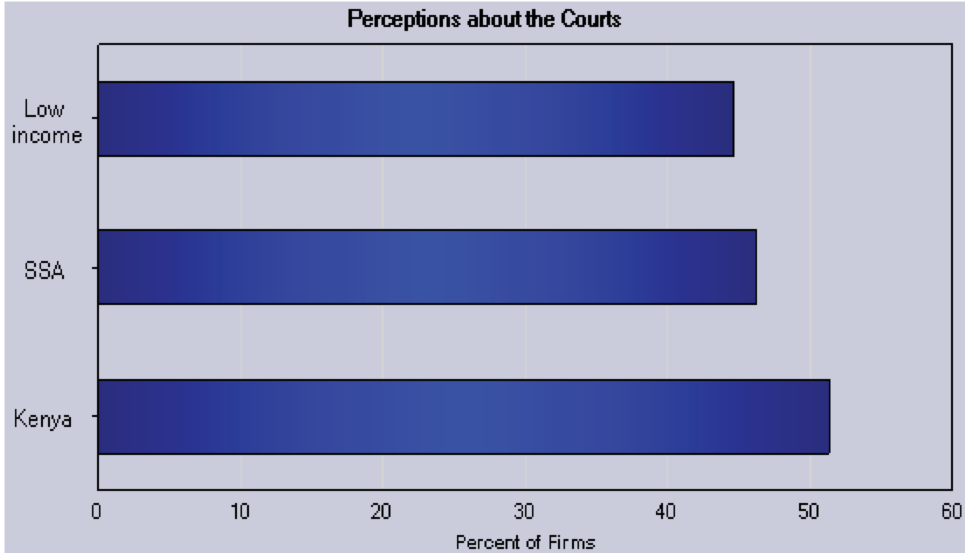
Similarly, a large informal sector has serious consequences for the formal private sector. The informal sector may pose unfair competition for formal firms.

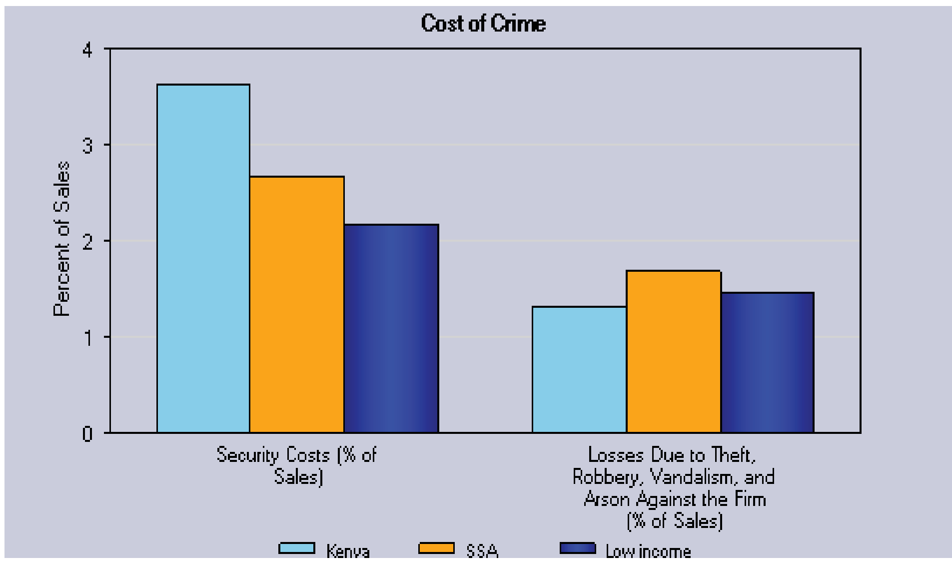
The Enterprise Surveys capture key dimensions of the effect of crime on firm sales, the extent to which entrepreneurs identify courts as fair, and the degree of informality in an economy.

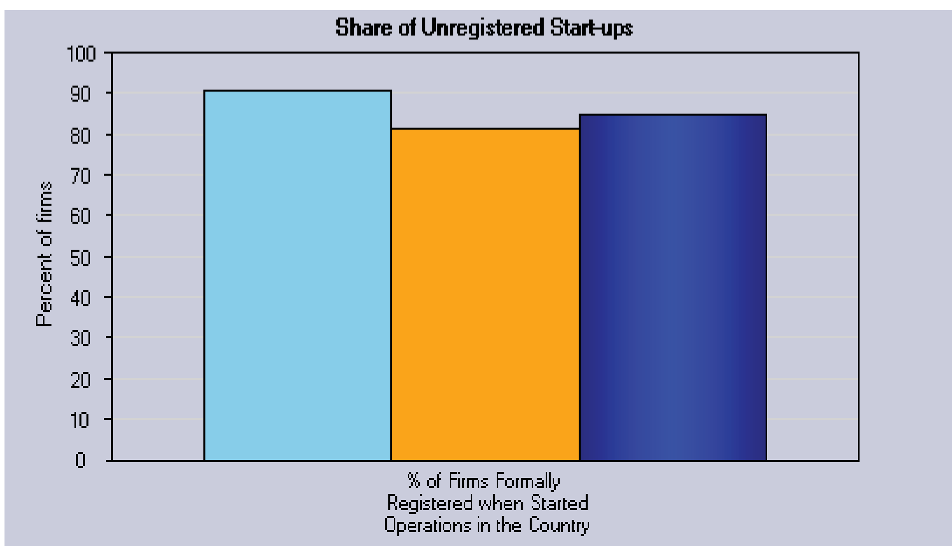
The first indicator shows the share of firms that recognize the functioning of the courts as being fair, impartial, and uncorrupted.

The second set of indicators measures the direct costs of security incurred by firms as well as their direct losses due to crime. These resources represent an opportunity cost since they could have been invested in productive activities.

The third set of indicators shows the percentage of firms that started operation without begin formally registered. It is an approximation to the prevalence of informality in the private economy.







Finance

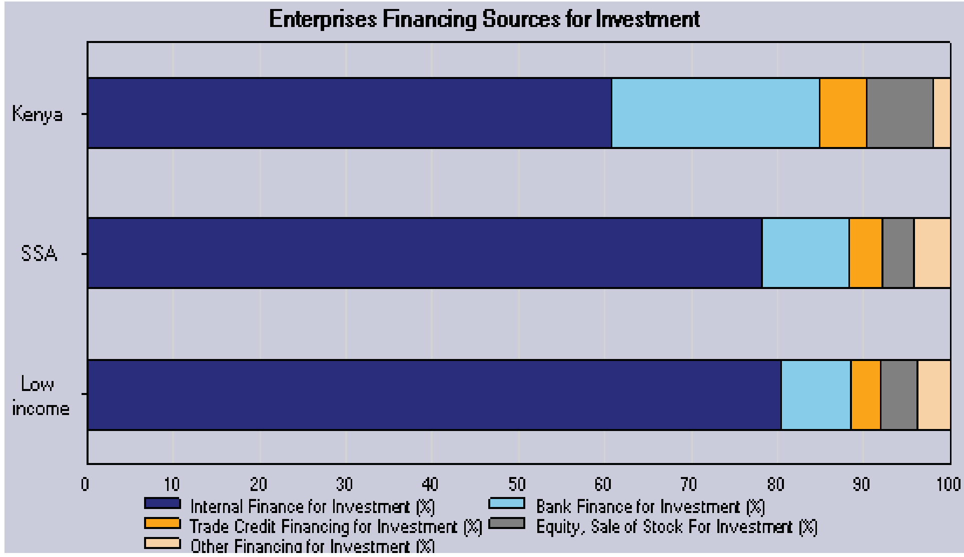
Developed financial markets provide payment services, mobilize deposits, and ease investment financing. Efficient financial markets reduce the reliance on internal funds and on money from informal sources such as family and friends by connecting firms to a broad range of lenders and investors.

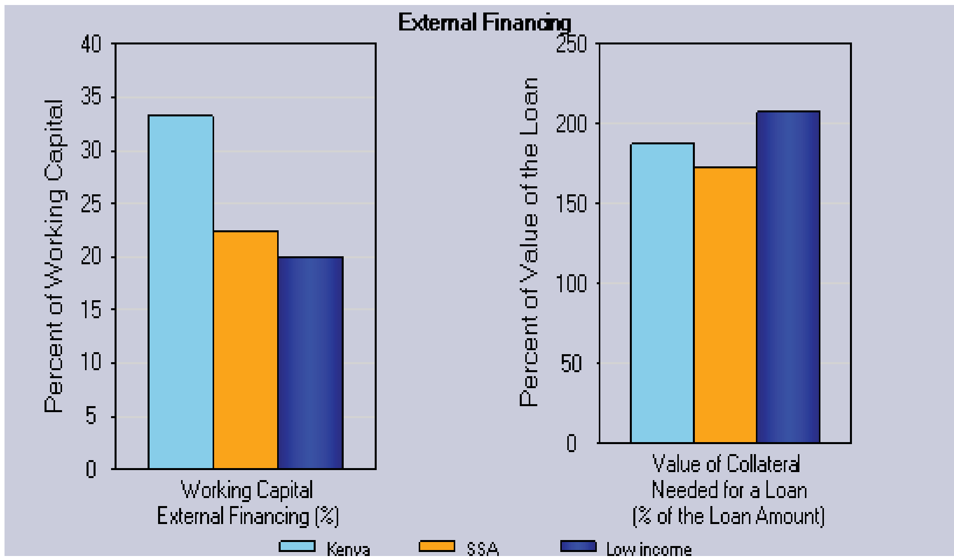
The Enterprise Surveys provide indicators of how firms finance their operations and of the characteristics of their financial transactions.

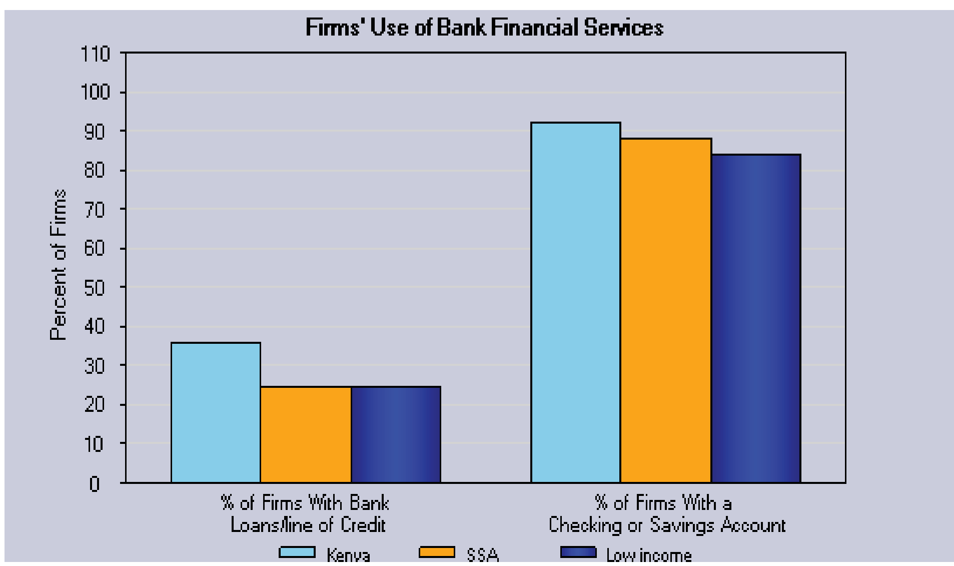
The first set of indicators compares the relative use of various sources to finance investment. Excessive reliance on internal funds is a sign of potentially inefficient financial intermediation.

The second set of indicators measures the use of financial markets by individual firms. It presents the percentage of working capital that is financed by external sources to the firm, and a measure of the burden imposed by loan requirements measured by collateral levels relative to the value of the loans.

The third set of indicators focuses on the use of financial services by private firms both on the credit side, by measuring the percentage of firms with bank loans or lines or credit, and on the deposit mobilization side, by measuring the percentage of firms with checking or savings accounts.







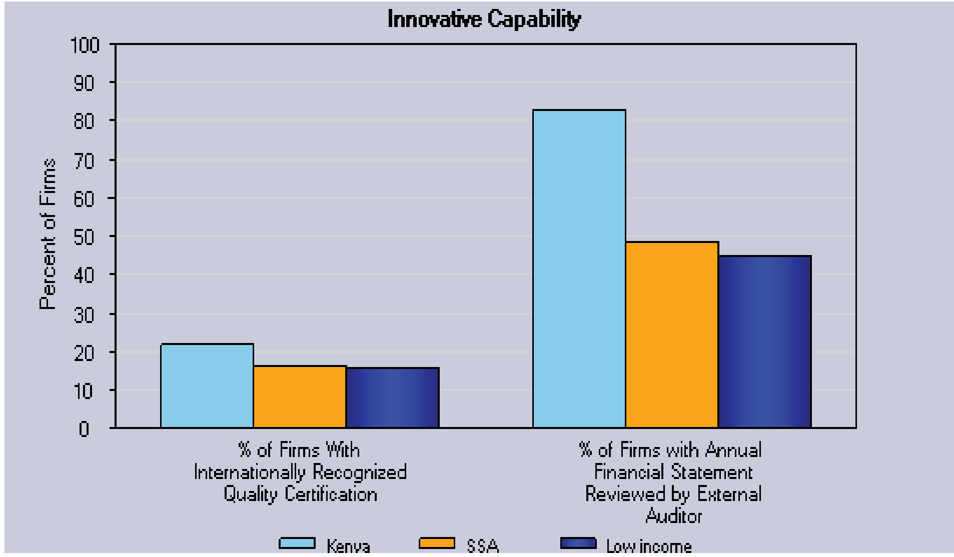
Innovation and Workforce

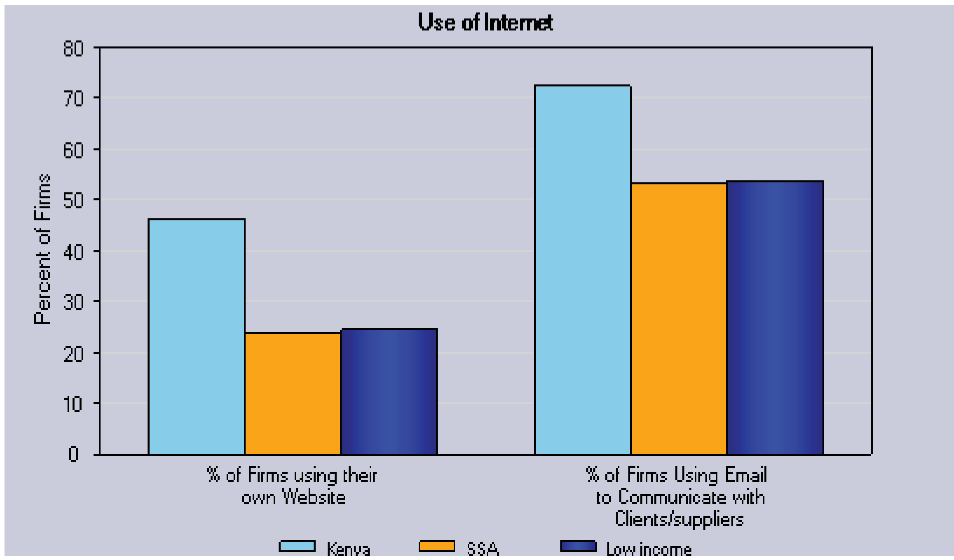
The Enterprise Surveys provide indicators that describe several dimensions of technology use and innovation. They also collect information on the characteristics of the workforce employed in the non-agricultural private economy.

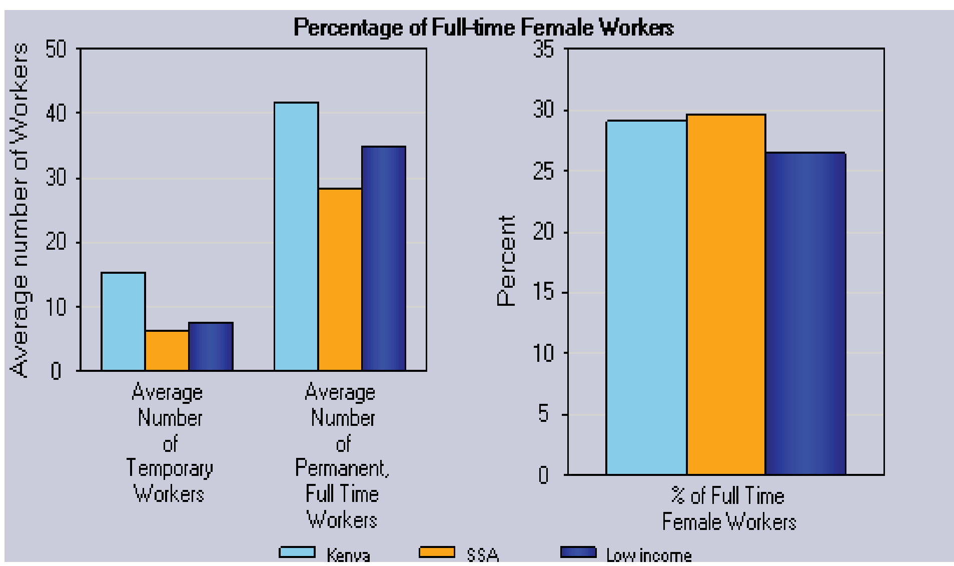
The first set of indicators measures the extent to which firms invest in obtaining recognized certificates of production and accounting practices. Obtaining international quality certifications can open doors to technology and innovation and they also provide a sign of high quality that may open markets.

The second set of indicators demonstrates the use of information and communications technologies (ICT) in business transactions. ICT, such as the Internet, are important tools for all firms because they provide even the smallest of enterprises with the ability to reach national and international markets at low cost.

The third set of indicators presents the composition of the firm's workforce by type of contract and gender. Labor regulations have a direct effect on the type of employment favored by firms and they may have a different impact by gender. The first two indicators present the composition of the workforce classified into temporary and permanent workers. The last indicator reflects the participation of women in regular full-time employment.







Summary of Enterprise Survey Indicators

	Kenya	Small Firms (1-19 Employees)	Medium Firms (20-99 Employees)	Large Firms (100+ Employees)	Sub-Saharan Africa	Low income
Corruption Indicators						
Incidence of Graft index	16.5	14.2	22.0	13.0	18.6	24.2
% of Firms Expected to Give Gifts In Meetings With Tax Inspectors	17.4	17.1	20.6	11.1	17.1	22.4
% of Firms Expected to Give Gifts to Secure a Government Contract	28.0	31.0	35.6	5.1	26.0	30.2
% of Firms Expected to Give Gifts to Get a Construction Permit	32.9	40.8	34.7	13.8	24.9	32.9
% of Firms Expected to Give Gifts to Get an Import License	17.6	16.9	20.1	16.2	13.7	21.5
% of Firms Expected to Give Gifts to Get an Operating License	15.8	13.6	21.4	11.8	20.3	26.8
Regulations, Taxes, and Business Licensing Indicators						
Days to Obtain Import License	15.9	14.2	19.4	15.3	20.0	17.2
Days to Obtain Construction-related Permit	41.7	70.7	25.3	49.2	60.8	62.0
Days to Obtain Operating License	13.8	14.7	13.5	10.2	24.9	21.6
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	7.4	6.8	8.0	8.5	9.1	9.4
Average number of visits or required meetings with tax officials.	1.5	1.3	1.7	1.9	2.8	2.4
Open Shareholding Company (%)	1.9	0.3	3.1	6.2	3.5	2.8
Closed Shareholding Company (%)	13.2	11.4	13.8	20.3	17.4	16.8
Sole Proprietorship (%)	33.6	42.4	22.9	16.8	57.3	58.6
Partnership (%)	11.6	13.1	9.4	9.4	8.9	9.5
Limited Partnership (%)	35.9	29.5	46.4	41.2	8.9	9.6
Other (%)	3.4	3.3	2.8	5.8	3.3	2.1
Average Firm Indicators						
Age (years)	20.3	16.8	21.4	34.4	14.2	14.1
% of Firms With Female Top Manager	13.4	18.5	7.9	2.4	15.2	15.4
% of Firms With Female Participation in Ownership	49.2	51.1	48.1	42.6	35.8	33.5
Private Domestic (%)	89.2	92.6	87.3	76.8	79.7	87.5
Private Foreign (%)	5.7	3.9	6.5	12.8	14.7	9.7
Government/State (%)	1.2	0.7	2.0	1.6	0.6	0.5
Other (%)	3.8	2.7	4.1	8.8	5.0	2.3
Finance Indicators						
Internal Finance for Investment (%)	60.8	63.0	58.0	60.7	78.2	80.5
Bank Finance for Investment (%)	24.1	22.5	26.2	24.3	10.0	8.0
Trade Credit Financing for Investment (%)	5.3	5.0	5.1	7.3	3.9	3.4
Equity, Sale of Stock For Investment (%)	7.7	8.1	8.0	5.8	3.7	4.3
Other Financing for Investment (%)	2.0	1.4	2.7	1.9	4.1	3.8
Working Capital External Financing (%)	33.2	32.2	32.3	40.3	22.3	20.0
Value of Collateral Needed for a Loan (% of the Loan Amount)	187.7	150.9	232.9	187.7	172.7	207.6
% of Firms With Bank Loans/line of Credit	35.9	30.3	42.0	46.6	24.3	24.3
% of Firms With a Checking or Savings Account	92.3	90.9	94.8	92.3	88.2	83.8

Summary of Enterprise Survey Indicators

	Kenya	Small Firms (1-19 Employees)	Medium Firms (20-99 Employees)	Large Firms (100+ Employees)	Sub-Saharan Africa	Low income
Infrastructure Indicators						
Number of Power Outages in a Typical Month	6.3	6.6	5.8	6.5	8.3	12.3
Value Lost Due to Power Outages (% of Sales)	5.6	5.3	5.6	7.2	5.1	5.6
Number of Water Shortages in a Typical Month***	2.2	2.5	2.0	2.0	2.3	2.9
Average Duration of the Water Shortage (hours)***	7.5	12.7	4.6	2.4	3.4	3.0
Delay in Obtaining an Electrical Connection	42.4	47.0	41.2	29.9	36.7	46.1
Delay in Obtaining a Water Connections	29.3	34.2	24.1	27.3	33.6	40.6
Delay in Obtaining a Mainline Telephone Connection	N/A	N/A	N/A	N/A	28.3	29.2
Trade Indicators						
% of Exporter Firms	36.1	25.8	39.6	78.0	10.7	12.5
% of Firms that Use Material Inputs and/or Supplies of Foreign origin***	52.7	41.4	52.2	72.8	69.0	65.8
Average Time to Clear Direct Exports Through Customs	11.1	2.7	13.7	10.2	10.2	9.3
Average Time to Clear Imports from Customs (days) ***	21.2	26.3	16.3	22.0	18.1	16.4
Loses during Direct Export Due to Theft (%)	0.6	1.1	0.3	0.8	1.8	1.4
Loses during Direct Export Due to Breakage or Spoilage (%)	1.7	1.8	2.6	1.0	1.8	1.6
Crime and Informality Indicators						
% of Firms Believing the Court System is Fair, Impartial and Uncorrupted	51.3	50.8	52.0	52.2	46.3	44.6
Security Costs (% of Sales)	3.6	3.7	4.0	2.2	2.7	2.2
Losses Due to Theft, Robbery, Vandalism, and Arson Against the Firm (% of Sales)	1.3	1.0	1.2	2.8	1.7	1.5
% of Firms Formally Registered when Started Operations in the Country	90.8	88.5	92.3	98.0	81.5	84.8
Innovation and Workforce Indicators						
% of Firms With Internationally Recognized Quality Certification	21.8	15.5	22.3	53.8	16.4	15.6
% of Firms with Annual Financial Statement Reviewed by External Auditor	82.8	74.6	93.3	96.8	48.8	45.0
% of Firms using their own Website	46.1	32.1	63.1	72.2	23.8	24.5
% of Firms Using Email to Communicate with Clients/suppliers	72.4	60.7	87.7	91.1	53.4	53.8
Average Number of Temporary Workers	15.4	2.9	12.8	84.3	6.2	7.7
Average Number of Permanent, Full Time Workers	41.8	8.3	37.3	223.4	28.4	35.0
% of Full Time Female Workers	29.1	30.7	27.2	25.3	29.6	26.5

Notes:

* The sample for each country is stratified by industry, firm size, and geographic region. The level of detail of the stratification by industry depends on the size of the economy . Stratification by size follows the three levels presented in the text: small, medium, and large. Regional stratification includes the main economic regions in each country. Through this methodology estimates for the different stratification levels can be calculated on a separate basis while, at the same time, inferences can be made for the non -agricultural private economy as a whole. For more details on the sampling strategy, review the Sampling Note available at www.enterprisesurveys.org .

** Regional and income group indicators are calculated as the averages of country -level indicators in the respective region and income group using country data available at the time of publication.

*** These indicators are computed only for the manufacturing sector.

**** The Graft Index is the proportion of instances in which firms were either expected or requested to pay a gift or informal payment when applying for six different public services.

***** SSA-Sub-Saharan Africa

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