

DRAFT

**TRADE-RELATED BUSINESS CLIMATE AND
MANUFACTURING EXPORT PERFORMANCE IN AFRICA:
*A Firm Level Analysis***

2008

*Paper presented at the “Trade costs and the business environment: A focus on Africa”
Workshop, 31 May 2008, Entebbe, Uganda*

NEIL BALCHIN

and

LAWRENCE EDWARDS

School of Economics, University of Cape Town

E-mail: Lawrence.Edwards@uct.ac.za

Key words: Business climate, Africa, export, productivity

JEL Classification: F10, F14, C31

Abstract

Africa continues to be marginalised in world trade of manufactured goods, despite reductions in tariffs and non-tariff barriers. To some extent this reflects a comparative advantage in primary products. However, a disadvantageous business environment including high trade costs associated with poor trade-related infrastructure, trade institutions and the regulatory environment are also responsible. This paper investigates the relationship between the business climate and manufacturing productivity and export performance in eight African countries - Egypt, Kenya, Madagascar, Mauritius, Morocco, South Africa, Tanzania and Zambia - using the World Bank’s investment climate surveys. The results of the study suggest that the business climate has an important direct effect on export participation in Africa. Principal-components based indices representing micro-level supply constraints, macroeconomic conditions and the legal environment are all found to be significant determinants of the probability of exporting. At the individual country level, the quality of the business climate is found to matter most for export participation in Mauritius and Zambia. The paper also finds that individual firm characteristics — such as size, age, ownership, use of information technology and managerial education levels — are important determinants of the decision to enter foreign markets. Improvements in domestic policy

DRAFT

may therefore have a considerable positive impact on manufacturing export performance in Africa.

TRADE-RELATED BUSINESS CLIMATE AND MANUFACTURING EXPORT PERFORMANCE IN AFRICA: *A Firm Level Analysis*

1. Introduction

The marginalisation of Africa in world trade has generated a great deal of attention. Early evidence from a World Bank programme of research in the mid-1990s showed that that Sub-Saharan Africa's (SSA) share of world trade declined dramatically from more than 3 percent in the 1950s to less than 1 percent in the early 1990s (Ng and Yeats 1996). Africa's share of manufacturing trade and production has also declined dramatically. Estimates from the UNCTAD Trade and Development Report (2006) using different data show a decline in Africa's share of world manufactured exports from 5.4 percent in 1980 to just 2 percent in 2003. Finally, unlike other developing country regions, especially Asia, Africa has been characterised by an inability to diversify into new high value-added, dynamic products (Lall, 2005). As a consequence, Africa remains highly dependent on a very narrow range of primary products for export earnings, a reality that leaves them highly susceptible to terms-of-trade shocks.

The sources of Africa's decline in world trade are widely debated. These include a comparative advantage in primary products (Wood and Mayer, 2001), high domestic barriers to international trade (Ng and Yeats, 1996), inadequate income growth and poor geography (Rodrik, 1997) and high transport costs associated with poor infrastructure (Venables and Limão, 2001; Elbadawi, 2001; Djankov et al., 2004). More recently, the focus has shifted towards the relatively weak institutional policy and regulatory environment in Africa (Clarke, 2005; Eiffert et al., 2005). Collier and Gunning (1999), for example, argue that distorted product and credit markets, high risk, inadequate social capital, inadequate infrastructure and poor public services are key factors inhibiting investment responses by African firms to opportunities.

This paper focuses on the role of the business climate in influencing export performance in Africa. The business climate can be broadly defined as aspects of the economic environment such as physical infrastructure, the legal and financial systems, features of the micro and macro policy environment, and social factors that are “not under the control of

DRAFT

individual firms but that affect the expense, ease and reliability of doing business in a country” (Carlin & Seabright, 2007: 1).

Conceptually, business climate bottlenecks relating to trade facilitation and trade-related infrastructure may act as informal trade barriers, raising the constraints faced by firms in competing internationally. Similarly, poor infrastructure and trade and transport services can serve to raise transport, production and transaction costs, thereby hindering the ability of firms to compete in price in international markets. These mechanisms point to a direct effect of the business climate on trade.

Additionally, the quality of the business climate may affect export performance indirectly through improvements in firm-level productivity. Empirical evidence from a wide range of enterprise-level studies suggests that a poor business environment has a significant and adverse impact on productivity, growth and economic activity (Escribano et al., 2006; Eiffert et al. 2005). In turn, widespread theoretical and empirical research points to the possibility that firm-level productivity may play an important role in shaping export market performance, both in terms of the selection of firms into the export market and improved productivity growth through learning by exporting.

With these considerations in mind, this paper investigates the relationship between the business climate and manufacturing export performance in eight African countries - Egypt, Kenya, Madagascar, Mauritius, Morocco, South Africa, Tanzania and Zambia - using the World Bank’s Enterprise surveys. The results of the study suggest that the business climate has an important direct effect on export participation in Africa. Principal-components based indices representing micro-level supply constraints, macroeconomic conditions and the legal environment are all found to be significant determinants of the probability of exporting. At the individual country level, the quality of the business climate is found to matter most for export participation in Mauritius and Zambia. The paper also finds that individual firm characteristics — such as size, age, ownership, use of information technology and managerial education levels — are important determinants of the decision to enter foreign markets. Improvements in domestic policy may therefore have a considerable positive impact on manufacturing export performance in Africa.

DRAFT

The remainder of the paper is structured as follows. Section 2 presents a brief overview and critical discussion of the existing literature evaluating the relationship between the business climate, productivity and exports. Section 3 presents a comparative analysis of export performance and the business climate in Africa. The empirical analysis then follows: Section 4 explores the effect of the business climate on enterprise-level productivity, while Section 5 investigates the effect of business climate on export propensity. Section 6 concludes.

2. The Business Climate, Trade Costs, Productivity and Exports: A Brief Review of the Literature

The Direct Effect of the Business Climate on Export Performance

The business climate can be considered a key input in the production process. The transportation of export products requires the use of road, rail and port infrastructure. Administrative requirements related to customs procedures, duty drawback schemes, environmental regulations and standards also have to be complied with. The quality, availability and cost of infrastructure services and services from other trade-related institutions thus have a direct bearing on the cost of exporting.

The empirical evidence suggests that these trade costs have a large impact on export performance in developing economies, including Africa. In a cross-country study of developing countries, Djankov et al. (2004), estimate that each additional day that a product is delayed prior to shipment — due to poor physical infrastructure or administrative hurdles such as numerous customs procedures — reduces trade by more than one percent. The implications for Africa, where transport delays are relatively high, are immense. Their estimates indicate that if Uganda reduced its factory-to-ship time from 58 days to 27 days (the median for the sample), exports would increase by 31 percent. *“If the Central African Republic reduced its factory-to-ship time from 116 days to 27, exports would nearly double. The same effect could be achieved if the Central African Republic cut 6200 km from its distance to the main markets—greater than the distance from Bangui to London”* (Djankov et al., 2004: 4)

These high transport costs related to poor infrastructure, to a large extent explain why Africa is often found to under-perform in terms of trade flows (Limão and Venables, 2001: 41). The manufacturing sector is particularly disadvantaged by high transaction costs

DRAFT

associated with a poor investment climate, as these firms are intensive users of investment climate services (Collier, 2000). High transaction costs may therefore explain Africa's failure to develop a comparative advantage in manufactures. For example, Elbadwi (2001) estimates export functions for a sample of 41 developing countries (11 from SSA) over period 1980-95 and finds that transaction costs (measured by index of corruption, length of paved roads and number of fax machines) are major determinants of manufactured exports and that investing on reducing these costs generates the highest payoff for the capacity to export manufactures. Thus appropriate policies dealing with transaction costs would enable Africa shift out of primary products and into manufactures.¹

Other country-level studies have emphasised the importance of micro-level institutions that affect the cost of exporting (Johnson and others 2007). These include port efficiency, customs environment, regulatory environment, policies affecting cost of entry (registering a new business) and are commonly bundled under the term 'trade facilitation'. Gravity model estimates by Wilson et al. (2004), Wilson et al. (2005) and Finger and Wilson (2006) consistently show that domestic inefficiencies in trade facilitation processes, referring to aspects such as transportation, trade finance, customs administration, and port efficiency, represent a significant barrier to any country realizing its export potential. Simulation exercises by Wilson et al. (2005) show that domestic improvements in port efficiency and the customs environment halfway to the 'world' (their sample) average, would raise SSA manufacturing exports by over 3 percent. Improvements in the regulatory environment and service sector infrastructure (mainly internet related variables) would raise SSA manufacturing exports by an additional 6 percent. Their simulations suggest that policy reform in the area of trade-related infrastructure and trade facilitation may yield greater results than tariff liberalisation (Wilson et al. 2005).

The importance of trade-related infrastructure and institutions is also shown in firm-level analyses. Theoretical literature suggests that decision to enter into the export market for the first time may be associated with fixed entry costs. These entry barriers can be associated with costs to establish marketing relationships, but also costs associated with obtaining the necessary regulatory permits to export and import. In some cases, firms may be required to construct their own infrastructure facilities to substitute for poor infrastructure provided by the state. Bigsten et al. (2004) test for the effect of large entry costs on export propensity

¹ See Wood and Mayer (2001) for an alternative view.

DRAFT

by assessing the effect of past export status on the propensity to export in the current period. They find large effects. For the average firm, entering the export market raises the probability of exporting in the next period from less than one in five to more than one in two (Bigsten and Söderbom, 2006).

Dollar et al. (2006) estimate a probit equation to identify investment climate factors that influence the propensity of a firm to export in a range of developing countries (Bangladesh, Brazil, India, China, Honduras, Nicaragua, Pakistan and Peru). They find that low customs clearance times, reliable infrastructure, and good financial services make it more likely that domestic firms will export. Some of the relationship is driven by within-country differences in the investment climate; a relationship not accounted for in the country-level studies that assume institutions are constant within a country. Local governance is therefore important.

In relation to Africa, Clarke (2005) uses enterprise-level data from eight countries – Ethiopia, Kenya, Mali, Mozambique, Senegal, Tanzania, Uganda and Zambia – and finds that restrictive trade and customs regulations discourage manufacturing firms from exporting. Improvements in these areas can have large effects on trade flows: an improvement in the customs and trade regulations index from the most restrictive country (Tanzania) to the second least restrictive (Zambia) would increase exports as a share of production by over 4 percentage points (or 33 percent) for the average enterprise in the sample.

The Indirect Effect of the Business Climate on Exporting via the Productivity Relationship

The business climate also affects export performance indirectly via its impact on firm-level productivity. Exporters are generally found to be more productive than non-exporters. Mengistae and Patillo (2004) show that export manufacturers have an average total factor productivity premium of 17 percent in Ghana, Ethiopia and Kenya. The average productivity premium is even higher (42 percent) for direct exporters to outside of Africa. This positive relationship can be driven by a combination of self-selection of efficient firms into export markets and learning-by-exporting (Bigsten et al., 2004).

While most international studies find little evidence of substantial learning-by-exporting effects, Bigsten et al. (2004) find very strong effects in the 1990s for various African

DRAFT

countries (Cameroon, Ghana, Kenya, and Zimbabwe). Their estimates imply that exporting is associated with a productivity gain in terms of value added of 20-25 percent in the short-run and up to 50 percent in the long run. This implies that there may be strong productivity gains from Africa orienting its manufacturing sector towards exporting (Bigsten and Söderbom, 2006).

The general consensus for most developing countries is that the positive relationship between productivity and exports largely reflects self-selection of more productive firms into the export markets (see for instance Bernard and Jensen (1999), Delgado et al. (2002), Clerides et al. (1998)). Entry into the export market is characterised by fixed and variable trade costs and only the relatively productive firms are able to cover these costs and enter into the export market.² Thus, relatively productive firms ‘self-select’ into exporting.

There are two possible channels through which an improved trade-related business climate influences the entry of firms into the export market, which in turn raises industry level productivity. The first effect is through a change in the firm composition of the industry. Lower trade costs cause low productivity non-exporting firms to exit in response to greater competition from foreign varieties. The improved profits from lower costs, however, cause high productivity non-exporters to increase their sales through exports as they are now able to overcome the sunk costs associated with exporting (Melitz, 2003; Bernard et al. 2003). The rise in aggregate industry productivity and exports thus reflects the changing composition of firms in the industry.

The second channel is the direct effect of lower trade costs and an improved business climate on productivity of domestic firms. This can occur through increased variety of imported inputs, competitive pressures and foreign technology transfers. The productivity effect raises optimal output for profit maximising exporters and enables new firms to enter into the export market.

Much of the firm-level analysis of the effect of trade costs and the business climate on productivity has focused on firms in Asia and Latin America. The supply of power has been shown to be a particularly important determinant of productivity in Bangladesh (Fernandes, 2005), India, China, Ethiopia and Pakistan (Dollar, Iarossi and Mengistae, 2002; Dollar,

² Studies such as Roberts and Tybout (1997), Bernard and Jensen (2001), Melitz (2003) and Fukunishi (2004) confirm the existence of significant start-up costs associated with entrance into foreign markets.

DRAFT

Hallward-Driemeier and Mengistae, 2003) and several countries in South and Central America (Escribano et al., 2005; Escribano et al., 2006).³ Customs clearance delays are shown to have adverse effects on firm-level productivity in India (Dollar et al., 2002), China and Brazil (Subramanian et al., 2005) and a range of other South and Central American countries (Escribano et al. 2005; Escribano et al. 2006).

Other elements of the business climate such as shipment losses (Escribano et al., 2006; Eiffert et al., 2005), transport service interruptions (Escribano et al., 2006), delays in receiving telephone connections (Dollar et al., 2003) or permits and licences (Escribano et al., 2006), and crime (Fernandes, 2005; Eiffert et al., 2005) have also been shown to have significant effects on firm productivity.

Equivalent studies on the effect of the business climate on productivity in African firms are less widespread. An interesting study is that of Eiffert et al. (2005) who find that the inclusion of indirect costs associated with operating expenses – transport, telecommunication, security, land, bribes, marketing – leads to substantial reductions in productivity in manufacturing firms in Africa. These costs made up over 20 percent of total costs in African sample (Mozambique, Eritrea, Kenya, Tanzania, Uganda and Zambia) and exceeded the direct labour costs. More research in this area is clearly needed.

The evidence that trade costs and the business climate affect firm-level productivity appears to be well established. What has not been explored in much depth is the consequent productivity impact on export participation and export volumes. In a study of firms in Chile, Escribano et al. (2006) find positive marginal effects on exporting. A 10 percent increase in productivity from improved business climate raises the probability of becoming an exporter by 0.3 percent. The indirect effects of the business climate on exporting via improvements in productivity thus complement the direct effects.

3. Data

The Enterprise Surveys Database

This paper uses manufacturing enterprise-level data from eight African countries - Egypt, Kenya, Madagascar, Mauritius, Morocco, South Africa, Tanzania and Zambia – conducted

³ Brazil, Chile, Ecuador, Guatemala, Honduras, Nicaragua and El Salvador.

DRAFT

between 2002 and 2005.⁴ The data are drawn from the Enterprise Surveys database maintained by the World Bank. The surveys were conducted in a uniform way across countries using stratified random samples. An important contribution of the surveys is that they quantify firms' costs relating to business climate bottlenecks as well as the availability and quality of infrastructure and services. The data are therefore useful for an investigation of the effects of the business climate on export propensity and productivity in manufacturing firms.

The African countries selected for this paper provide a wide regional coverage across the African continent: Morocco and Egypt in the north, Tanzania and Kenya in east Africa, South Africa and Zambia in the South and the island nations of Madagascar and Mauritius. These countries were also selected as they contained comparatively few missing observations and had a reasonably high proportion of exporting firms.

Overall, the sample consists of 3 585 manufacturing firms. Egypt (977), Morocco (839) and South Africa (584) collectively contribute 67 percent of the sample. The remaining firms are distributed relatively evenly across Kenya (265), Madagascar (292), Mauritius (184), Tanzania (265) and Zambia (179).

Export Participation in Africa

Table 1 presents the mean characteristics of exporting and non-exporting firms in the sample of African countries. Approximately a third of the manufacturing enterprises are exporters, although there is wide variation across these countries. Over 50 percent of manufacturing enterprises are exporters in Morocco and Mauritius while the proportion for South Africa and Kenya ranges from 35 to 40 percent. Far lower proportions (15 to 16 percent) of manufacturing firms are exporters in Egypt and Tanzania.

Few African enterprises completely specialise in exporting. Instead, the majority of exporters supply both domestic and foreign markets. The average exporting firm across the eight countries exports 64 percent of its total sales. At the country level, the average share of sales exported ranges from over 87 percent for Madagascan and Moroccan exporter to less than 40 percent for South African and Kenyan exporters. The majority of firms therefore apply a dual strategy of supplying the domestic and the foreign market.

⁴ Firms in Zambia were surveyed in 2002, Kenya, South Africa and Tanzania were surveyed in 2003, Egypt and Morocco in 2004, and Madagascar and Mauritius in 2005.

DRAFT

In most cases, the differences between exporters and non-exporting firms are consistent with the ‘stylised facts’ internationally (see Bernard et al. (2007)). Across the eight African countries, the median exporter is four times larger than the median firms that operate exclusively in the domestic market. Value-added per worker of the median firms is also higher than the median non-exporter in the pooled sample and in most countries. Exporting firms are marginally younger, have notably higher shares of foreign ownership (on average more than double the share of foreign ownership for non-exporters), and have marginally higher levels of skill intensity (measured as the ratio of permanent skilled production workers to total employment).

Table 1: Mean characteristics of exporting and non-exporting firms

Export Status	Number of firms (% total in brackets)	Mean Sales exported (% sales)	Median Size (employees)	Mean Age (years)	Mean Foreign owned (% share)	Mean Skill intensity	Median Value added per worker (US \$ ‘000)
Whole Sample							
Exporter	1133 (32.2)		120	19.8	21.3	0.38	5.0
Non-exporter	2390 (67.8)		30	21.6	9.2	0.35	2.8
Egypt							
Exporter	148 (15.2)	46.1	120	20.6	5.8	0.4	2.4
Non-exporter	826 (84.8)		21	20.7	2.2	0.39	1.0
Kenya							
Exporter	83 (36.7)	39.2	81	27.6	21.9	0.32	6.5
Non-exporter	143 (63.3)		27	26.8	7.8	0.32	4.4
Madagascar							
Exporter	81 (27.9)	87.3	150	11.4	64	0.19	6.6
Non-exporter	209 (72.1)		26	19.7	21.8	0.24	5.2
Mauritius							
Exporter	89 (49.7)	64.9	75	21	13.9	0.52	7.0
Non-exporter	90 (50.3)		30	28.1	0.9	0.46	6.7
Morocco							
Exporter	422 (50.4)	89.1	120	15.3	18	0.45	4.3
Non-exporter	416 (49.6)		32.5	22.6	10.9	0.35	5.7
South Africa							
Exporter	224 (38.6)	31.4	147	27.7	21.4	0.34	12.5
Non-exporter	357 (61.4)		75	24.6	11.5	0.32	8.2
Tanzania							
Exporter	41 (16)	64.1	105.5	17.2	29.8	0.26	3.3
Non-exporter	215 (84)		25.5	18.1	12.7	0.37	1.6
Zambia							
Exporter	45 (25.1)	52.3	171	20.6	32	0.22	1.3
Non-exporter	134 (74.9)		70	19.1	21.8	0.22	1.4

Source: Own calculations using World Bank Enterprise Surveys

DRAFT

The Enterprise Surveys provides detailed qualitative and quantitative information on various indicators of the business climate. For a comparative perspective of the business climate in Africa, Table 2 presents data on a selection of business climate indicators for various regions. The values reflect the mean response of all enterprises in the regions and include some services based enterprises. Table 3 presents similar data for manufacturing enterprises in the sample of African countries used in this study.

In many instances, the business climate in Sub-Saharan Africa is relatively poor compared to the best-performing OECD, East Asia & Pacific, and Eastern Europe & Central Asia regions (Table 2). Roughly 23 percent of all enterprises in SSA found customs and trade regulations to be a major constraint to their operations, compared to less than 17 percent in South Asia, Latin America & Caribbean and Eastern Europe & Central Asia. Within Africa, customs and trade regulations were particularly problematic for firms in Kenya (40 percent), Madagascar (32.8 percent), and Egypt (29.2 percent).

The surveys also ask firms the average time it takes imports and exports to clear customs after arriving at the point of entry or exit in their country. On average it takes 8.7 days for firms in SSA to clear imports from customs and 5.1 days for these firms to clear exports through customs. This is higher than in East Asia & Pacific (3.7 - 5 days), Eastern Europe & Central Asia (3.5 - 4.3 days) and OECD (5.4 – 5.7 days), but is lower than in Latin America & Caribbean (7 – 13 days) and South Asia (10.3 – 11.7 days). Within the sample of African countries, customs delays are relatively high in Kenya, South Africa and Tanzania, particularly with respect to imports. Customs delays are lower in Egypt and Morocco (0.9 to 2.6 days).

Differences in infrastructure related variables are particularly stark. Transportation networks appear to be relatively problematic for SSA enterprises and 24.3 of these enterprises find the transportation of goods, supplies and inputs a major obstacle to their operations. The relevant proportion of firms in the other regions range from 5.5 percent (E Europe & Central Asia) to 20.5 percent (Middle East & North Africa).

Delays in excess of 38 days are on average experienced when obtaining an electricity connection, a water connection or a mainline telephone connection in SSA countries. In the Middle East & North Africa, these delays exceed 43 days on average. The delay in these

DRAFT

regions is more than twice the delay in East Asia & Pacific and Eastern Europe & Central Asia. There is enormous variation within the African economies (Table 3). The average delay for electricity, water or telephone connections exceeded 99 days for manufacturing enterprises in Egypt. Delays were far lower in Morocco (4.5 to 8.7 days), Mauritius (23 days) and South Africa (3.9 to 8.2 days).

The implication is a high proportion of firms perceive water and electricity infrastructure to be a major barrier to their operation. For example, 46.7 percent of SSA firms find electricity a major obstacle to their operations. This is similar to the Middle East & North Africa and South Asia, but substantially higher than Eastern Europe & Central Asia (8.5 percent), East Asia & Pacific (24.1 percent) and OECD (6.1 percent) (Table 2).

A further implication is that a relatively high proportion of the value of sales is lost to poor infrastructure. The average SSA enterprise loses close to 6 percent of its sales due to power outages. Within the sample of African firms, this percentage ranges from 0.8 percent in Morocco and 0.9 percent in South Africa to 9.1 percent in Kenya. The proportion for South Africa is expected to have increased given the recent crisis in electricity supply over the past two years. Water availability is also important. Loss of sales in response to insufficient water supply exceeds 4.5 percent for Egypt, Madagascar and Tanzania. Combined, these losses have a disproportionate negative effect on productivity in African countries (Eiffert et al., 2005).

Table 2: Comparative data on business climate indicators

	Sub-Saharan Africa	East Asia & Pacific	Eastern Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	OECD	South Asia
Permits and Licenses							
Delay in obtaining an operating license (days)	15.4	21	-	52.9	31.8	-	30.3
Delay in obtaining a construction permit (days)	54.4	39	72	79	66.7	-	32
Delay in obtaining an import license (days)	14.3	12.8	-	25.4	38.7	-	15.5
Infrastructure							
Value lost due to power outages (% of sales)	5.9	2.6	3	4.1	4.3	2.3	7.4
Delay in obtaining an electrical connection (days)	38.2	21	14.6	34.2	61.9	9.7	49
Electricity as a major constraint (% firms)	46.7	24.1	8.4	37.9	41.1	6.1	47.7
Delay in obtaining a water connection (days)	42.2	17.7	8.5	34.6	43.8	-	28.8
Delay in obtaining a mainline telephone connection (days)	54.1	16.4	15.9	35.6	49.3	9	50.1
Firms using its own website (%)	21.5	22.9	60.1	41.6	37.8	80.2	23.6
Transportation as a major constraint (% firms)	24.3	15.1	5.5	18.4	20.5	7.4	11.4
Corruption and Crime							
Corruption as a major constraint (% firms)	34.4	29.3	19.2	53.5	43.3	8.1	34.5
Crime, theft and disorder as major constraints (% firms)	26.6	18.9	11	34.5	19.6	6.8	14.8
Trade							
% of exporter firms	21.8	40	25.7	20.8	37.1	21.7	31.5

DRAFT

Sales exported (% sales)	9.7	24.9	10.1	7.9	14	7.9	26.7
Inputs of foreign origin (%)*	46.6	20.3	32.2	35.3	43.3	22.2	18.8
Average time to clear direct exports through customs (days)	5.1	3.7	3.5	7	5.4	5.4	10.3
Average time to clear imports from customs (days)	8.7	5	4.3	13	12.3	5.7	11.7
Customs & trade regulations as a major constraint (% firms that trade)	22.8	21.6	12.5	17.1	26.7	6.8	16.4

Source: World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>)

Table 3: Business climate indicators for manufacturing enterprises in selected African countries

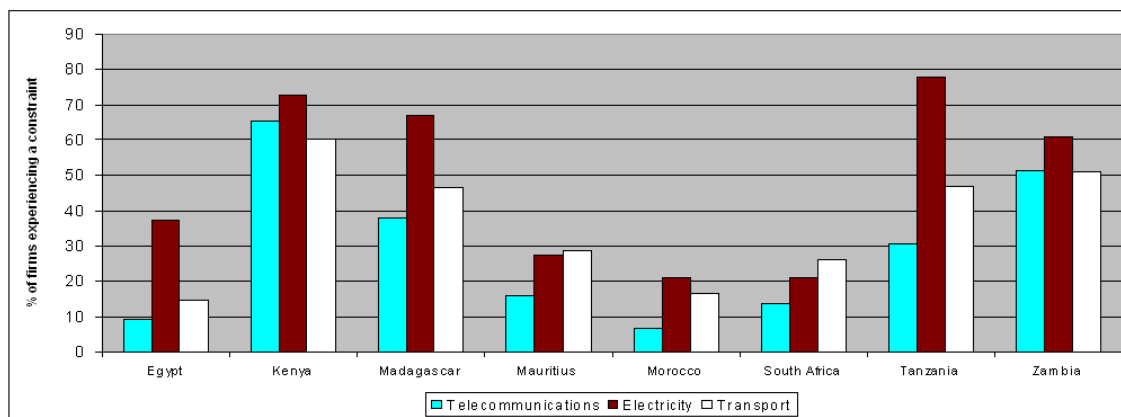
	Egypt	Kenya	Madagascar	Mauritius	Morocco	South Africa	Tanzania	Zambia
Permits and Licenses								
Delay in obtaining an operating license (days)	115.6	11.6	-	-	4.9	5.1	18.0	-
Delay in obtaining a construction permit (days)	92.6	97.7	-	103.1	38.1	8.3	-	34.3
Delay in obtaining an import license (days)	38.2	6.1	17.1	8.2	-	7.1	15.2	10.7
Infrastructure and Services								
% of firms rating government service delivery as efficient	-	11.6	63.7	43.4	47.4	46.7	40.9	19.1
Lost value due to power outages (% sales)	6.1	9.1	7.9	4.1	0.8	0.9	11.0	4.7
Lost value due to insufficient water supply (% sales)	4.8	-	5.3	1.4	0.1	0.5	6.9	-
Days power outages	17.5	80.9	78.3	7.5	7.3	5.9	67.6	40.3
Days insufficient water supply	8.5	85.0	12.6	22.9	1.8	5.1	107.1	25.8
Days unavailable mainline telephone service	-	34.6	12.6	2.7	4.2	6.0	49.6	43.2
Delays in obtaining an electricity connection	99.4	49.6	56.7	23.0	8.4	5.9	54.6	173.7
Delays in obtaining a water connection	99.6	-	-	23.5	8.7	3.9	42.7	26.8
Delays in obtaining a mainline telephone connection	136.9	96.0	63.8	23.0	4.5	8.2	22.7	74.0
Trade								
Average customs clearance time for imports (days)	2.6	5.3	3.5	4.0	2.6	5.3	9.4	3.9
Average customs clearance time for exports (days)	0.9	1.6	1.0	2.3	1.3	2.9	2.9	0.8
Customs & trade regulations as a major constraint (% firms that trade)	29.2	40	32.8	22.7	0.4	16.8	11.6	9.8

Source: Own calculations using World Bank Enterprise Survey data.

Note: '-' indicates that no data was available for that country.

Figure 1 shows that physical infrastructure constraints are particularly problematic for firms in Kenya, Madagascar, Tanzania and Zambia; where over 30 percent of firms, and up to more than 70 percent, find issues relating to telecommunications, electricity and transportation as problematic for operating their businesses. Of the three physical infrastructure constraints, electricity represents the dominant problem for most of the economies, although problems relating to transportation represent greater obstacles for firms in Mauritius and South Africa.

Figure 1: Percentage of firms experiencing constraints relating to Physical Infrastructure



Notes: The results are for all firms that experienced moderate, major or severe obstacle to their operations. In summary, the difference in mean values for the best-performing and worst-performing African countries for the majority of the business climate indicators is startling. Bottlenecks relating to most aspects of the business climate considered here appear to be lowest in South Africa and Morocco; while, at the opposite end of the spectrum, the business climates in Egypt, Kenya and Tanzania rank particularly poorly along most dimensions.

In the following section we attempt to identify whether these differences in the business climate can explain differences in the export propensity across African firms.

4. Productivity, the Business Climate and Export Market Participation

This section investigates the effect of effect of the business climate on export propensity in Africa. The empirical methodology and framework for the analysis is first outlined. This is followed by an analysis of the key determinants of export participation.

Empirical Methodology

The econometric methodology used to estimate the determinants of export participation in this paper borrows from the approaches in Dollar et al. (2006) and Escribano et al. (2006). The theoretical model is based on that of Melitz (2003) where entry of a firm into the export market is dependent on firm level productivity and trade costs associated with exporting. Firms only enter the export market if their productivity levels are high enough to absorb trade costs associated with exporting. This is represented in the following relationship for any producer i :

$$\begin{aligned}
 Export_i &= 1 \text{ if } \pi_{xi}(\theta_i, \tau, f_x) > 0 \\
 &= 0 \quad \text{otherwise}
 \end{aligned}$$

where $\pi_{xi}(\theta_i, \tau, f_x)$ is profits from exporting, θ_i is productivity, τ are variable trade costs and f_x are sunk costs of entry into the export market. There are therefore two channels through

DRAFT

which the business climate can influence export participation (Dollar et al., 2006). Firstly, an improved business climate lowers trade costs and the sunk costs of entry. Secondly, productivity (θ_i) is itself a function of variable trade costs and fixed costs. A positive association between lower trade costs and productivity has consistently been found in Latin American and Asian countries⁵

To estimate the export relationship we follow Dollar et al. (2006) and assume that the profits from exporting, $\pi_{xi}(\theta_i, \tau, f_x)$, can be approximated by the following linear specification:

$$h(\theta_i, \tau, f_x, \varepsilon_i) = a\theta_i + b\tau + cf_x + \varepsilon_i$$

where ε_i is an independent and identically-distributed standard normal random error term orthogonal to productivity and trade costs. The export relationship can then be expressed as:

$$Pr(\text{Export}_i = 1 | \theta_i, \tau, f_x) = Pr[\varepsilon_i > -(a\theta_i + b\tau + cf_x) | \theta_i, \tau, f_x]$$

This probability relationship is estimated using a probit model where ε_i is assumed to be distributed normally with mean 0 and variation 1. We follow two specifications. In the first, $(a\theta_i + b\tau + cf_x)$ is proxied by various business climate variables and firm-specific characteristics such as size, age, foreign ownership, managerial skills. In the second approach, variable trade costs and fixed costs $(b\tau + cf_x)$ are proxied by various business climate variables and firm-specific characteristics, while an estimate of firm-level productivity is used for θ_i . Productivity is calculated as the residual of the estimated Cobb-Douglas production function:

$$\log Y_{ijc} = \alpha_K \log K_{ijc} + \alpha_L \log L_{ijc} + \beta'_D D_j + \beta'_C C_c + v_{ijc}$$

where Y is value-added, K and L are capital and labour inputs respectively for firm i in sector j in country c . D_j and C_c represent dummy variables for sectors and countries, respectively. Escribano et al. (2006) follow a similar approach.

There are some important limitations in this estimate of productivity. Firstly, the productivity shock may itself be related to the choice of inputs. No correction for this correlation is made and the coefficients on capital and labour may therefore be biased. Secondly, the Enterprise Surveys do not provide information on prices of output and

⁵ See for instance Escribano, Guasch and de Orte (2006) for Chile; Escribano and Guasch (2005) for Guatemala, Honduras and Nicaragua; or Dollar, Hallward-Driemeier and Mengistae (2003) for Bangladesh, China and Pakistan.

DRAFT

capital. The value data cannot therefore be deflated to obtain measures of the capital stock and the volume of output. Estimated differences in productivity may therefore reflect differences in prices and not productivities. Country and industry dummy variables are included in the productivity estimates to capture the effect of prices. However, it is unlikely that these will adequately do so. These results will therefore need to be interpreted with some caution.

A further caveat with regards to the study is that it only exploits the cross-firm variation to identify the export propensity relationship. It is therefore difficult to draw conclusions regarding causality. For example, the investment climate variables may not be exogenous. Export firms may self-select into regions characterised by good investment climates. Similarly, high demand by exporters for infrastructure services may result in the perception that the availability of infrastructure is a major constraint to exporting. Our study, at best, identifies the association between the business climate and export propensity.

Variables

To facilitate analysis, the various business climate measures are grouped *a priori* into five categories representing common areas of the business climate: a) physical infrastructure, b) micro-level supply constraints, c) macroeconomic conditions, d) legal environment, and e) trade-related infrastructure and services. Within each of these groupings, the business climate data consists of both quantitative and perception-based variables.⁶ Full descriptions of these variables are presented in the Appendix.

The effect of these business climate variables on export participation are evaluated in two ways. Firstly, principal components based indices are created from the variables within each of the five categories listed above. Secondly, estimates are conducted using the individual business climate measures.

⁶ In terms of the perceptions-based indicators, firm managers are asked to rank the extent to which issues relating to the business climate represent a constraint to the operation and growth of their business on a five-point scale ranging from zero (no problem) to four (very severe obstacle). For the purposes of empirical analysis, these business climate constraint indices are recoded into dummy variables taking on a value of one if the particular issue represents a moderate, major or very severe obstacle to the firm's business operations.

DRAFT

The principal components based variables are constructed using the perceptions-based indicators of business climate constraints to the firm.⁷ Each of the firm responses for each of the individual business climate constraints⁸ are normalized by the sample mean, achieved by dividing each firm's response by the mean response for the entire sample for the variable in question. Country-level factors such as Gross Domestic Product (GDP) and population levels are expected to affect the quality of the business climate. To separate out these effects, the normalized indicators are regressed on a range of country dummies, sector dummies and population and GDP variables.⁹

The new normalized and adjusted business climate variables are then taken as the residual from this regression equation; and these variables are used as the underlying variables in the principal components analysis.¹⁰ The correlations between the first principal components and their underlying business climate variables are presented in Table 4.

Table 4: Correlation between Business Climate Variables and First Principal Components

Physical Infrastructure		Micro-level Supply Constraints	
Underlying Variables	Correlation	Underlying Variables	Correlation
Telecommunications	0.5849	Access to land	0.3350
Electricity	0.5773	Tax rate	0.3667
Transportation	0.5698	Tax administration	0.3832
		Labour regulations	0.2484
		Skills and education of available workers	0.2324
		Business licensing and operating permits	0.3393
		Access to finance	0.4322
		Cost of financing	0.4346
Legal Environment		Macroeconomic Conditions	
Underlying Variables	Correlation	Underlying Variables	Correlation
Corruption	0.5475	Economic and regulatory policy uncertainty	0.7071
Crime	0.5062	Macroeconomic instability	0.7071
Anti-competitive or informal practices	0.4582		
Legal system/conflict resolution	0.4838		

⁷ The large number of missing observations for the majority of the 'hard-data' business climate measures meant that it was not feasible to include these measures as underlying variables in the principal components analysis, since each common factor would be based on only a very small number of observations.

⁸ The actual indices reflecting the severity of the constraint, which range from zero to four are used.

⁹ See Francois and Machin (2007) for a similar approach in their gravity model estimation.

¹⁰ As in Bastos and Nasir (2004), the analysis is restricted to the first principal components. The eigenvalues associated with each of the first principal components are greater than one, while those relating to the second principal component are less than one. This suggests that restricting the analysis to the first principal component adequately characterises the broad dimensions of the business climate and does not result in a substantial loss of information (Bastos and Nasir, 2004).

Empirical Results

Table 5 presents a simple probit model consisting only of firm-specific characteristics. The direct coefficients, and not the marginal effects are presented. The first column of results is for the pooled sample of countries where country dummy variables are included to capture country-level factors such as culture, size of markets and the degree of political stability. The remaining columns present results for the individual country estimates. In the subsequent analysis of results, only variables that are significant at the 10 percent level or above are discussed.

Table 5: Firm-specific Determinants of Export Propensity

	Pooled	Individual Country Analysis							
		<i>Egypt</i>	<i>Kenya</i>	<i>Madagascar</i>	<i>Mauritius</i>	<i>Morocco</i>	<i>South Africa</i>	<i>Tanzania</i>	<i>Zambia</i>
Firm-specific Characteristics									
Size (log)	0.334***	0.386***	0.119	0.514***	0.325**	0.601***	0.187***	0.202*	0.422***
Age (log)	-0.186***	-0.122*	0.190	-0.211	-0.420**	-0.428***	-0.146**	0.024	0.037
Foreign ownership (dummy)	0.169**	0.119	-0.0107	0.245	0.861	0.067	0.277*	0.294	0.209
E-mail (dummy)	0.735***	0.645***	0.666*	0.752***	1.063	0.766***	-	-0.094	-
Website (dummy)	0.206***	0.457***	0.552**	-0.0395	0.314	-0.126	0.260*	0.188	0.418
Skill intensity (log)	0.024	0.057	-0.039	-0.237*	0.308*	0.097	-0.010	-0.148	0.052
Manager has tertiary education (dummy)	0.187**	0.033	0.615**	-0.193	0.348	-0.121	0.567***	0.788*	-0.302
Country Dummies									
Kenya	0.247*								
Madagascar	-0.0453								
Mauritius	0.746***								
Morocco	0.610***								
South Africa	0.0245								
Tanzania	-0.470***								
Zambia	-0.534***								
Number of observations	2953	953	170	223	146	565	524	173	122

*** Significant at 1% level

** Significant at 5% level

* Significant at 10% level

^a Dependent variable is an indicator variable of whether the firm exports or not

^b All regressions estimated with industry dummies

^c Egypt is the omitted country

Firm-specific Characteristics

The results in Table 5 are consistent with the ‘stylised’ determinants of export performance in developing countries including Africa. In the pooled estimates, larger and younger firms are more likely to export. The positive size effect is found in almost all countries. The potential for economies of scale, greater capacity for taking risks, superior opportunities to raise capital at lower costs, and more research and development (R&D) resources available to large firms mean that larger firms are relatively more likely to export (Correa et al., 2007). Furthermore, in the presence of fixed costs of entry into the export market (some of which may be sunk costs), a minimum firm size may be requisite in order to overcome the fixed entry costs and still remain profitable in foreign markets. Larger firms are also more likely to export because of decreasing average costs.

DRAFT

The positive relationship between export propensity and size is consistent with other firm-level research on Africa (Bigsten and Söderbom, 2006; Rankin et al. 2006). One of the reasons for the relatively low export propensity in Africa is that firms tend to be very small and focus primarily on the local market. The focus on the domestic market ensures that, in aggregate, their growth will be limited by the growth of domestic incomes. One of the reasons for the prevalence of small manufacturing firms in Africa is the high cost of transport given the poorly developed infrastructure, which creates localised markets (Bigsten and Söderbom, 2006). Improvements in infrastructure can therefore facilitate the growth of firms and the subsequent entry into the export market.

Another ‘stylised’ relationship is the positive association between foreign ownership and export propensity (Mengistae and Pattillo, 2004; Bigsten and Söderbom, 2006). For example, Mengistae and Patillo (2004) find that foreign equity participation, the holding of foreign licences and access to foreign technical assistance are key features distinguishing exporters from non-exporters in Ethiopia, Ghana and Kenya. Foreign ownership is seen as a mechanism through which productivity enhancing technology flows occur. The pooled results of this study give a consistent relationship between foreign ownership and export participation (Table 5). However, the relationship is only found for South Africa in the country-level estimates. Nevertheless, on average it appears that increased foreign ownership may enhance export participation.¹¹

The quality of management is also expected to influence firm productivity and export participation. To capture these effects, a dummy variable is included in the regressions identifying if the firm’s top management has a tertiary education. The results in Table 5 indicate a higher propensity to export amongst firms whose top manager has some form of tertiary education. For the country estimates, the relationship is only significant for South Africa, Kenya and Tanzania.

Finally, firms that use information technology (e-mail and/or a website) in their interactions with clients and suppliers are more likely to export. The internet presents a powerful and cost-effective means to obtain information on foreign markets (Correa et al., 2007). Internet

¹¹ The positive association may also reflect the purchase by foreign companies of productive domestic firms that export. The lack of panel data implies that this relationship cannot be explored further.

DRAFT

access also provides firms with greater access to information regarding the latest foreign production techniques, procedures and advancements and can lead to improvements in product quality and product differentiation, thereby influencing the global competitiveness of firms (Lal, 2002). The results suggest that these effects may be present. A positive relationship is found in the pooled analysis as well as all countries except for Zambia. This outcome is consistent with the cross country-gravity model estimates of exports by Wilson et al. (2005) where email use is strongly correlated with export performance.

Productivity

The relationship between firm level productivity and export propensity is explored further by including firm-level estimates of productivity in the probit model. The productivity variable is the residual of an estimated Cobb-Douglas production function. The coefficient estimates of the productivity variable are presented in Table 6. The pooled results show that firm-level productivity is positively correlated with export participation across the African sample. This is consistent with widespread theoretical and empirical evidence including similar studies on Africa (Rankin et al. 2006).

There are two possible explanations for the observed positive association between export participation and productivity: the self-selection of relatively more productive African firms into the export market; and learning-by-exporting, in which African exporters are able to learn and become more productive through participation in the export market.

Decomposing these effects is, however, not the focus of this study and we are merely interested in whether the sign of the coefficient is consistent with theoretical expectations.

A consistent result, however, is not found in the individual country estimates and the coefficient is significant and positive only in Egypt. The poor results probably reflect the problems associated with the calculation of productivity given the lack of adequate price deflators.

Table 6: Productivity and Export Propensity

	Pooled	Individual Country Analysis							
		<i>Egypt</i>	<i>Kenya</i>	<i>Madagascar</i>	<i>Mauritius</i>	<i>Morocco</i>	<i>South Africa</i>	<i>Tanzania</i>	<i>Zambia</i>
Productivity (log)	0.063**	0.130**	0.058	0.127	-0.128	-0.040	0.112	0.328	0.228
Observations	2041	603	105	78	78	509	389	62	81

Legend: *** Significant at 1% level, ** significant at 5% level, * significant at 10% level

DRAFT

^a Dependent variable is an indicator variable of whether the firm exports or not

^b All regressions estimated with industry dummies and firm-specific controls; pooled regressions include country dummies

The Business Climate

This section turns to a more detailed analysis of the key business climate determinants of the decision to export. The results based on the four principal components-based indices are presented first in Table 7. Each of these four variables represents constraints to the firm relating to physical infrastructure, micro-level supply constraints, macroeconomic conditions, and the legal environment. Higher values of the index reflect a more severe constraint to business and a negative coefficient is expected.

The results suggest that perceptions regarding the business climate have an important effect on export participation.¹² Significant and negative coefficients are estimated for the principal components representing micro-level supply constraints, macroeconomic conditions, and the legal environment. The coefficient on legal environment component is relatively high. In estimates including the individual variables making up the principal component, crime and anti-competitive behaviour are found to be significant. The macroeconomic principal component is a measure of perceptions regarding macroeconomic instability and economic and regulatory policy uncertainty. If the policy environment is uncertain, firms may be unwilling to invest in export capacity, particularly if there are large sunk costs associated with exporting, as has been found in African economies by Bigsten et al. (2004). High risk also makes firms choose conservative product mixes with lower expected profit rates (Bigsten and Söderbom, 2006).

The micro-economic principal component captures a wide range of effects including access to land, tax rates and administration, labour regulations, business licensing and operating permits and the cost of and access to financing. These variables, particularly access to credit, are often found to be key constraints to growth and investment in African firms (Collier and Gunning, 1999; Bigsten and Söderbom, 2006). The result for micro-economic variable is consistent with these views.

Table 7 Determinants of Export Propensity: Principal Components-based Business Climate Factors

	(1)	(2)	(3)	(4)	(5)
Firm-specific Characteristics					

¹² Once again endogeneity problems are present. Firms that export may have overcome

DRAFT

Size (log)	0.252***	0.337***	0.333***	0.290***	0.297***
Age (log)	-0.134***	-0.187***	-0.193***	-0.130***	-0.169***
Ownership - some foreign (dummy)	0.273***	0.160**	0.138*	0.265***	0.183**
E-mail (dummy)	0.627***	0.727***	0.783***	0.716***	0.710***
Website (dummy)	0.298***	0.199***	0.222***	0.298***	0.188**
Skill intensity (log)	-0.045	0.027	0.009	0.005	0.005
Manager has tertiary education (dummy)	0.369***	0.180**	0.175**	0.302***	0.264***
Country Dummies					
Kenya		0.215*		0.286**	0.824***
Madagascar	-0.889***	-0.049	-0.090	-0.024	0.480**
Mauritius		0.739***	0.758***	0.660***	1.363***
Morocco		0.601***	0.503***		1.137***
South Africa	-0.767***	0.017	-0.030	-0.071	0.672***
Tanzania	-1.379***	-0.469***	-0.509***	-0.564***	0.128
Zambia	-1.491***	-0.551***	-0.577***	-0.662***	
Principal Components Business Climate Factors					
Physical infrastructure	0.054	0.024			
Micro-level supply constraints	-0.020		-0.043**		
Macroeconomic conditions	-0.072			-0.074**	
Legal environment	-0.106**				-0.132***
Number of Observations	1210	2912	2392	2324	1979

Notes: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

^a Dependent variable is an indicator variable of whether the firm exports or not

^b All regressions include industry dummy variables.

^c Egypt is the omitted country

Notably, however, the physical infrastructure factor — representing a combination of business climate constraints relating to telecommunications, electricity and transportation — is not a significant determinant of export participation in either specification. This result is similar to that reported in Correa et al. (2007) who find no significant relationship between infrastructure variables¹³ and export propensity in Ecuador. Similarly, Clarke (2005) finds only weak evidence that the quality of domestic transportation infrastructure affects export participation in Africa.

The lack of significant may arise from the lack of variation in these variables across firms within each country. However, the quality of infrastructure may still be important, but at a country-level. The results give some indication that this is the case. The coefficients on the country dummy variables in Table 5 indicate that export propensity, conditional on all variables included in the regression, varies considerably across countries. Focussing on Column (2) of the results in Table 5, shows that export propensity is large (relative to Egypt) in Mauritius and Morocco. These are also the economies characterised by relatively good infrastructure as reflected in firm responses presented in Table 3. Similarly, export

¹³ They construct a similar infrastructure index using principal components.

DRAFT

propensity is relatively low in Tanzania and Zambia where the quality of infrastructure is relatively poor.

More insights into the effect of infrastructure on export propensity are provided in more disaggregated estimates. The following sub-sections present summarised results based on the individual business climate measures relating to physical infrastructure and infrastructure services and trade-related infrastructure and services. The results are presented in Table 8 and Table 9.

Physical infrastructure and infrastructure services. Table 8 shows that, in the pooled analysis, none of the perceptions-based variables measuring the extent of physical infrastructure constraints faced by firms emerge as important determinants of exporting. Similarly, the results from the individual country analyses suggest that business constraints relating to physical infrastructure are generally not important determinants of exporting in the eight countries. However, obstacles relating to telecommunications represent a significant constraint to export participation in Mauritius. Similarly, transportation constraints significantly reduce the probability of exporting for firms in Zambia.

A limited number of the quantitative indicators of the state of physical infrastructure and infrastructure services in the pooled regressions are found to be significant determinants of the decision to export. For instance, access to a generator increases the probability of exporting across the African sample. The possession of a generator is likely to serve as an effective proxy for the reliability of access to electricity from the public power system, with the ownership of generators expected to be more widespread in areas suffering frequent power outages. Consequently, the result that owning a generator is particularly important for exporting in the African sample suggests that the reliability of power provision is a problem in the African context.

Still focusing on access to electricity, increases in the duration of power outages or surges from the public grid reduce the probability of exporting across the African sample. This result is similar to those found in Dollar et al. (2006) for firms in Bangladesh, Brazil, China, Honduras, India, Nicaragua, Pakistan and Peru; and Escribano et al. (2005) in several countries in South and Central America. In terms of the individual African countries, the reliability of the public power supply appears to be particularly problematic

DRAFT

for firms in Mauritius. Similarly, the average duration of power outages has a negative effect on export participation in the Zambian regressions.

In terms of transportation infrastructure, transport failures — reflected in losses in sales value due to transport service interruptions — have a negative impact on participation in foreign markets in the pooled regressions.¹⁴ Small sample sizes may have contributed to the weak results for the importance of the indicators of the extent of transport failures in the individual country regressions. These results show that an increase in the average duration of transport service interruptions is associated with a reduction in the probability of exporting in South Africa; but transport failures are not significant determinants of export participation in the remaining seven countries.

Finally, the possession of an International Organization for Standardization (ISO) certificate or membership in a business association or chamber of commerce both significantly raise the probability of exporting across firms in the pooled African sample. The latter finding is similar to that in Escribano et al. (2006) who show that belonging to a trade association increases the probability of exporting in several Latin American countries.

These two results are, however, largely country specific. While the possession of an ISO certification raises the probability of exporting in Egypt, Morocco, South Africa and Zambia, no significant relationship is found in the other four countries. Similarly, firms that belong to a business association or chamber of commerce are more likely to export in Tanzania; but this result does not extend to any of the other countries.

Furthermore, it is important to note that the direction of causality between ISO certification and participation in export markets is unclear. For instance, it may be that the possession of an ISO certification is an important requirement for firms wishing to enter the export market, in which case ISO certification would be a consequence of exporting and not necessarily a cause. Nevertheless, the result is consistent with evidence in Ecuador, where Correa et al. (2007) find that firms that possess a quality certification are more likely to export.

¹⁴ However, the negative coefficient on the lost value due to transport failures variable must be interpreted with caution given the small number of observations that enter the probit regression.

Table 8: Business Climate (Physical Infrastructure) Determinants of Export Propensity

	Pooled		Individual Country Analysis															
			Egypt		Kenya		Madagascar		Mauritius		Morocco		South Africa		Tanzania		Zambia	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Physical Infrastructure & Infrastructure Services																		
Firm Constraints	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Telecommunications	0.077	0.028	0.299	0.240	0.297	-0.026	0.259	0.118	-1.207*	-0.617	-0.129	-0.219	-0.147	-0.184	0.451	0.172	1.241**	0.163
Electricity	0.019	0.006	0.014	-0.047	1.012**	0.255	-0.342	-0.138	0.688*	0.688*	-0.002	0.0454	0.069	0.063	-0.225	0.0561	0.116	-0.026
Transportation	-0.047	-0.063	-0.068	-0.036	0.389	0.066	-0.109	0.106	-0.274	-0.274	-0.128	-0.102	-0.071	-0.121	0.755*	0.502	-0.933*	-0.468
Hard-data Measures																		
Generator (dummy)	0.178**		0.222		0.181		0.634*		0.228		0.304		0.052		0.537		1.162**	
Days power outages	-0.0001		0.002		0.00003		-0.001		-0.011		0.0005		0.009		-0.001		0.0001	
Average duration of power outages	-0.004*		0.006		-0.0003		0.022		-0.020*		-0.005		-0.0006		-0.003		-0.088*	
Lost value due to power outages	-0.003		-0.002		0.008		-0.017		-0.022*		-0.127		-0.041		0.007		-0.028	
Delay in obtaining an electrical connection	0.001		0.001		-0.002		-0.120		-0.027		-0.009		-0.017		-0.0008		0.074	
Days insufficient water supply	-0.001		-0.001		-0.0009		-0.002		-0.005*		0.248		0.058		0.002		-0.0004	
Average duration of insufficient water supply	-0.001		-0.019		-0.0003		0.122*		-0.001		-1.458		-0.029		0.013		-0.065	
Lost value due to insufficient water supply	-0.003		-0.012		-		0.008		-0.018		-		-0.061		0.590		-	
Delay in obtaining a water connection	-0.0003		-0.001		-		-		-0.099		0.003		0.087*		0.057		-	
Days unavailable mainline telephone service	0.001		-		0.0005		-0.003		0.010		0.015		-0.007		0.006		0.0008	
Average duration of unavailable mainline telephone service	0.001		-		0.001		0.002		0.012		-0.066		-0.032		1.669		-0.028	
Lost value due to unavailable mainline telephone service	-0.007		-		-		-		-		23.53		-0.049		-		-	
Delay in obtaining a mainline telephone connection	-0.0004		0.00005		-0.002		-0.002		0.009		-0.014		0.012		-0.150*		-0.037	
Days transport failures	-0.003		-		-		-		-		-0.074		0.014		0.071		-0.0009	
Average duration of transport failures	-0.022		-		-		-		-		0.184		-0.052*		-		-0.094	
Lost value due to transport failures	-0.273**		-		-		-		-		4.885		-0.054		-		-	
Cargo lost while in transit	0.006		-0.0005		0.040*		0.029		0.132**		-		-		0.069**		0.008	
ISO certified (dummy)	0.305***		0.744***		-		-0.186		0.076		0.021		0.336**		-0.064		1.580**	
Business association (dummy)	0.138*		-		0.606		-0.318		0.095		0.181		0.104		0.736*		0.206	
*** Significant at 1% level			** Significant at 5% level				* Significant at 10% level											
† Dependent variable is an indicator variable of whether the firm exports or not																		
‡ In specification (1), coefficients estimated together with all business climate constraints in a single regression																		
§ In specification (2), coefficients estimated together with other constraints in the physical infrastructure sub-category only																		
In specification (3), coefficients for each 'hard-data' physical infrastructure and infrastructure services measure estimated in individual regressions																		
¶ All specifications estimated with industry dummies and firm-specific controls; pooled specifications estimated with country dummies																		
** indicates that no data available for the variable or that there were too few observations for the variable to be included in the probit regression																		

Trade-related infrastructure and services. Customs and trade regulations including delays are shown to have a strong negative effect on aggregate trade flows (Wilson et al., 2005; Djankov et al. 2004) and firm level export performance in Africa (Clarke, 2005). We find weak evidence in support of these findings. Firm constraints relating to customs and trade regulations do not significantly affect export market participation in the pooled sample (Table 9). At the country level, a significant negative coefficient is only found for Zambia.

The importance of trade-related infrastructure and services for export market participation is somewhat clearer from the results in Table 9 for the ‘hard-data’ measures. In the pooled regressions, an increase in the share of material inputs and supplies imported directly raises the probability of exporting. This result is consistent with evidence in Correa et al. (2007), who find that Ecuadorian firms that import intermediate inputs are more likely to enter foreign markets. In addition, lengthier customs clearance times for imported goods reduce the probability of exporting. At the country-level, the significant relationships between access to imported intermediate inputs and/or customs efficiency for importing and export market participation are confined to Mauritius, Morocco and Tanzania.

The implication is that transport and trade barriers to the importation of intermediate goods severely constrain manufacturing export performance. Elbadawi et al. (2006:1) find that average exports per establishment tend to be low in Africa, in part because of the regions lower ‘supply access’: “African firms face steeper input prices, partly because of their physical distance from cheaper foreign suppliers, and partly because domestic substitutes

DRAFT

for importable inputs are more expensive.” Weak trade-related institutions effectively raise the distance of these firms from output markets and input markets and hence adversely affect export performance.

Table 9: Business Climate (Trade-related Infrastructure and Services) Determinants of Export Propensity

	Pooled	Individual Country Analysis							
		<i>Egypt</i>	<i>Kenya</i>	<i>Madagascar</i>	<i>Mauritius</i>	<i>Morocco</i>	<i>South Africa</i>	<i>Tanzania</i>	<i>Zambia</i>
<i>Firm Constraints</i>									
Customs and trade regulations	0.051	0.330**	0.312	0.063	-0.388	-0.044	0.098	0.224	-0.536*
<i>Hard-data' Measures</i>									
Imported inputs	0.003***	0.002	-	0.0009	0.011***	0.008***	0.000	-0.008*	-0.002
Average days to clear customs for imports	-0.007	-0.002	0.022	-52.31	-0.049*	-0.013	-0.009	-0.008	0.005
Longest time to clear customs for imports	-0.005**	-0.004	0.004	-0.020	-0.018	-0.016*	-0.003	-0.016*	0.011
Delay in obtaining an import license	0.001	0.002	-0.005	-	-	-	0.013	0.201	0.015
Average days to clear customs for exports	0.007	0.038	0.071	6.366	-0.077	-0.027	0.018	-0.016	-0.106
Longest time to clear customs for exports	0.005	0.027	0.015	3.063	-0.020	-0.005	0.015	-0.007	-0.044

Notes: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

^a Dependent variable is an indicator variable of whether the firm exports or not

^b Coefficients for each 'hard-data' trade-related infrastructure and services measure estimated in individual regressions

^c All specifications estimated with industry dummies and firm-specific controls; pooled regressions include country dummies

^d Samples restricted to firms that trade

^e '-' indicates that no data available for the variable or that there were too few observations for the variable to be included in the probit regression

Testing the Robustness of the Results: Addressing the potential endogeneity of the business climate measures

Many of the current estimates have used perception data of the firm to identify the relationship between business climate and export propensity. An important limitation is that the business climate variables may themselves be endogenous to the decision to export. Efficient firms may find the business environment to be less of a constraint to its operation as they have developed mechanisms to overcome these constraints. That same efficiency may make the firm more likely to export (Dollar et al. 2006).

A potential solution to this endogeneity problem is to replace the individual firm business climate variables with the average business climate measures across firms in a particular location and industry. This is the approach followed by Dollar et al. (2006). It is worth noting, however, that these region-industry averages will only be exogenous to the firm's exporting decisions if its choice of firm location is also exogenous to those decisions. Consequently, using the region-industry average business climate measures does not solve

DRAFT

the endogeneity problem in cases where export-oriented firms self-select into locations characterised by more favourable business climates.

The results using principal components are presented in Table 10. The results are broadly consistent with those presented in Table 7. Macro-economic conditions and the legal environment remain significant determinants of export propensity. Micro-level constraints, however, are no longer a significant determinant. Interestingly, the physical infrastructure has a significant positive coefficient (10 percent level) which is contrary to expectations.

Table 10 Determinants of Export Propensity: Principal Components-based Business Climate Factors based on region by industry averages

	(1)	(2)	(3)	(4)	(5)
Firm-specific Characteristics					
Size (log)	0.280***	0.329***	0.328***	0.287***	0.323***
Age (log)	-0.119***	-0.172***	-0.172***	-0.115***	-0.178***
Ownership - some foreign (dummy)	0.275***	0.194***	0.187**	0.280***	0.193**
E-mail (dummy)	0.719***	0.726***	0.738***	0.676***	0.741***
Website (dummy)	0.274***	0.202***	0.211***	0.292***	0.176**
Skill intensity (log)	-0.008	0.0259	0.0207	-0.009	0.0303
Manager has tertiary education (dummy)	0.311***	0.188**	0.177**	0.288***	0.185**
Country Dummies					
Kenya		0.131	0.125	0.203	
Madagascar	-0.232	-0.0520	-0.0560	-0.0331	-0.244
Mauritius	0.560***	0.742***	0.750***	0.671***	0.659***
Morocco		0.617***	0.611***		0.360***
South Africa	-0.168	0.0230	0.0196	-0.0354	-0.0784
Tanzania	-0.714***	-0.486***	-0.476***	-0.546***	-0.605***
Zambia	-0.811***	-0.553***	-0.554***	-0.639***	-0.675***
Principal Components Business Climate Factors					
Physical infrastructure	-0.0390	0.0435*			
Micro-level supply constraints	0.0308		-0.0269		
Macroeconomic conditions	-0.0700*			-0.0441*	
Legal environment	-0.0533				-0.0574**
Number of observations	1543	2961	2961	2395	2109

Notes: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

^a Dependent variable is an indicator variable of whether the firm exports or not

^b All regressions include industry dummy variables.

^c Egypt is the omitted country

The results based on the region-industry average business measures are summarised in Table A.4 and Table A.5 in the Appendix. There are some important differences from the earlier results. The results using perception indicators (Table A.4) indicate a lower export propensity in firms that find tax rates, macroeconomic instability, anti-competitive behaviour and the legal system a constraint to their business. On the quantitative variables (Table A.5), customs delays to clear imports, value lost to transport failure, days to obtain a

DRAFT

water connection and days of insufficient water supply are found to be significant determinants of export participation. ISO certification, membership of a business association or chamber of commerce, and the average duration of power outages are no longer significant in the semi-aggregated region-industry analysis.

6. Conclusions

This paper investigates the relationship between the business climate and manufacturing productivity and export performance in eight African countries - Egypt, Kenya, Madagascar, Mauritius, Morocco, South Africa, Tanzania and Zambia - using the World Bank's investment climate surveys. The results of the study suggest that the business climate has an important direct effect on export participation in Africa. Principal-components based indices representing micro-level supply constraints, macroeconomic conditions and the legal environment are all found to be significant determinants of the probability of exporting. At the individual country level, the quality of the business climate is found to matter most for export participation in Mauritius and Zambia. The paper also finds that individual firm characteristics — such as size, age, ownership, use of information technology and managerial education levels — are important determinants of the decision to enter foreign markets. Improvements in domestic policy may therefore have a considerable positive impact on manufacturing export performance in Africa.

DRAFT

References

- Bastos, F. and J. Nasir. 2004. Productivity and the Investment Climate: What Matters Most? World Bank Policy Research Paper Working Paper 3335, June 2004.
- Bernard, A.B. and J.B. Jensen. 1999. Exporting and Productivity. NBER Working Paper 7135, National Bureau of Economic Research.
- Bernard, A.B. and J.B. Jensen. 2001. Why Some Firms Export. NBER Working Paper 8349.
- Bernard, A.B., J.B. Jensen, S. Redding and P. Schott. 2007. Firms in International Trade. NBER Working Paper 13054, National Bureau of Economic Research.
- Bernard, Andrew B., J. Bradford Jensen & Peter K. Schott, 2003. "Falling Trade Costs, Heterogeneous Firms, and Industry Dynamics," NBER Working Papers 9639, National Bureau of Economic Research.
- Bigsten, Arne., Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Abena Oduro, Remco Oostedorp, Catherine Pattillo, Måns Söderbom, Francis Teal and Albert Zeufbeck. 2004. "Do African manufacturing firms learn from exporting," *Journal of Development Studies* 4(3): 115-141.
- Bigsten, Arne, and Måns Söderbom. 2006. "What have we learned from a decade of manufacturing enterprise surveys in Africa?" World Bank Research Observer, August: 1-25.
- Carlin, W. and P. Seabright. 2007. Bring Me Sunshine: Which parts of the business climate should public policy try to fix? Annual Bank Conference on Development Economics, Bled Slovenia, 2007.
- Clarke, G. 2005. Beyond Tariffs and Quotas: Why Don't African Manufacturers Export More? World Bank Policy Research Working Paper No. 3617.
- Clarke, G., B. Eifert, J. Habyarimana, W. Kapery, D. Kaplan, M. Schwarz, V. Ramachandran. 2006. South Africa: An Assessment of the Investment Climate.
- Clerides S., S. Lach and J. Tybout. 1998. Is Learning by Exporting Important? Micro-Dynamic Evidence from Colombia, Mexico and Morocco. *Quarterly Journal of Economics*, **113** (3), pp.903-947.
- Collier, P. 2000. "Africa's Comparative Advantage." In H. Jalilian, M. Tribe, and J. Weiss, eds., *Industrial Development and Policy in Africa*. Cheltenham, UK: Edward Elgar.
- Collier, Paul, and Jan Willem Gunning. 1999. Explaining African economic performance," *Journal of Economic Literature* XXXVII (March): 64-111.

DRAFT

- Correa, P., M. Dayoub and M. Francisco. 2007. Identifying Supply-Side Constraints to Export Performance in Ecuador: An Exercise with Investment Climate Survey Data. World Bank Policy Research Working Paper 4179, March 2007.
- Delgado, M.A., J.C. Farinas and S. Ruano. 2002. Firm Productivity and Export Markets: a non-parametric approach. *Journal of International Economics*, **57** (2002), pp.397-422.
- Dollar, D., M. Hallward-Driemeier and T. Mengistae. 2003. Investment Climate and Firm Performance in Developing Economies. Development Research Group, World Bank.
- Dollar, D., M. Hallward-Driemeier and T. Mengistae. 2006. Investment Climate and International Integration. *World Development*, **34** (9), pp.1498-1516.
- Dollar, D., G. Iarossi and T. Mengistae. 2002. Investment Climate and Economic Performance: Some Firm Level Evidence from India. Centre for Research on Economic Development and Policy Reform, Working Paper No. 143.
- Djankov, Simeon, Caroline Freund and Cong Pham. 2006. "Trading on Time." World Bank Policy Research Working Paper 3909. World Bank, Washington DC.
- Eifert, B., A. Gelb and V. Ramachandran. 2005. Business Environment and Comparative Advantage in Africa: Evidence from the Investment Climate Data. Centre for Global Development Working Paper Number 56, February 2005.
- Elbadawi, Ibrahim A. 2001. "Can Africa export manufactures? The role of endowment, exchange rates, and transaction costs." In Augustin Nsouli, Kwasi Fosu, and Aristomene Varoudakis, eds., *Policies to Promote Competitiveness in Manufacturing in Sub-Saharan Africa*. Paris: OECD.
- Elbadawi, Ibrahim, Taye Mengistae, and Albert Zeufack. 2006. "Market access, supplier access, and Africa's manufactured exports: an analysis of the role of geography and institutions." World Bank Policy Research Working Paper 3942, The World Bank.
- Edwards, L. and P. Alves. 2006. South Africa's Export Performance: Determinants of Export Supply. *South African Journal of Economics*, **74** (3), pp.473-500.
- Escribano, A., L Garrido, N. Peltier and H. Singh. 2005. The Impact of Infrastructure on Competitiveness: A Firm Level Analysis Based on ICA Surveys. Presented at the Joint Conference of the Interamerican Development Bank (IADB) and the World Bank, June 6-7, 2005.
- Escribano, A. and J.L. Guasch. 2005. Assessing the Impact of the Investment Climate on Productivity Using Firm-Level Data: Methodology and the Cases of Guatemala, Honduras, and Nicaragua. World Bank Policy Research Working Paper 3621, June 2005.

DRAFT

- Escribano, A., J.L. Guasch and M. de Orte. 2006. CHILE Investment Climate Assessment (ICA) on Productivity and on Allocative Efficiency: Effects on Exports, Foreign Direct Investment, Wages and Employment.
- Fernandes, A.M. 2005. Firm-Level Productivity in Bangladesh Manufacturing Industries. Presentation for Bangladesh: A Strategy for Growth and Employment Workshop, Dhaka, December 12-13, 2005.
- Finger, J.M. and J.S. Wilson. 2006. Implementing a WTO Agreement on Trade Facilitation: What Makes Sense? World Bank Policy Research Working Paper 3971.
- Francois, J. and M. Manchin. 2006. Institutional Quality, Infrastructure, and the Propensity to Export.
- Francois, J. and M. Manchin. 2007. Institutions, Infrastructure, and Trade. World Bank Policy Research Paper 4152.
- Fukunishi, T. 2004. International Competitiveness of Manufacturing Firms in sub-Saharan Africa. Institute of Developing Economies, Discussion Paper No. 2.
- Johnson, Simon, Jonathan Ostry, and Arvind Subramanian. 2007. "The prospects for sustained growth in Africa: Benchmarking the constraints." International Monetary Fund Working paper WP/07/52. IMF.
- Lal, K. 2002. E-business and Export Behaviour: Evidence from Indian firms. World Institute for Development Economics Research (WIDER) Discussion Paper No. 2002/68, July 2002.
- Lall, Sanjaya. 2005. "Is African industry competing? Queen Elizabeth House Working Paper Series no. 122. Oxford University.
- Limão, Nuno, and Anthony J. Venables. 2001. "Infrastructure, geographical disadvantage, transport costs, and trade," *World Bank Economic Review* 15 (3): 451-479.
- Melitz, Marc J. 2003. "The Impact Of Trade On Intra-Industry Reallocations And Aggregate Industry Productivity," *Econometrica*, 71 (6): 1695-1725.
- Mengistae, T. and Catherine Pattillo. 2004. "Export orientation and productivity in Sub-Saharan Africa," *IMF Staff papers* 51 (2): 327 – 353.
- Ng, Francis, and Alexander Yeats. 1996. "Open economies work better: Did Africa's protectionist policies cause its marginalisation in world trade?" World Bank Policy Research Working paper No. 1636. World Bank, Washington DC.
- Rankin, N. Soderbom, M. and F. Teal (2006) "Exporting from Manufacturing Firms in Sub-Saharan Africa", in *Journal of African Economies*, 15(4), pp. 671 – 687.

DRAFT

- Roberts, M. J. and J.R. Tybout. 1997. What Makes Exports Boom? Directions in Development, World Bank.
- Rodrik, Dani. 1997. "Trade policy and economic performance in Sub-Saharan Africa." National Bureau of Economic Research Working paper no. 6562. Cambridge, M.A.
- Söderbom, M. and F. Teal. 2000. Skills, investment and exports from manufacturing firms in Africa. Centre for the Study of African Economies Working Paper WPS/2000-8.
- Subramanian, U., W.P. Anderson and K. Lee. 2005. Measuring the Impact of the Investment Climate on Total Factor Productivity: The Cases of China and Brazil. World Bank Policy Research Paper 3792.
- United Nations Conference on Trade and Development (UNCTAD) Trade and Development Report, 2006.
- Wilson, J.S., C.L. Mann and T. Otsuki. 2004. Assessing the Potential Benefit of Trade Facilitation: A Global Perspective. World Bank Policy Research Working Paper 3224.
- Wilson, John S., Catherine Mann, and Tsunehiro Otsuki. 2005. "Assessing the Benefits of Trade Facilitation: A Global Perspective," *The World Economy* 28 (6): 841-871.
- Wood, Adrian, and Jorg Mayer. 2001. "Africa's Export Structure in a Comparative Perspective," *Cambridge Journal of Economics* 25 (3): 369-94.

DRAFT

Appendix

Table A.1: Variable Definitions – Production Function Variables & Firm-specific Characteristics

Production Function Variables	Market value of production	Used as the measure of output for the production function estimation. Defined as the total number of units produced multiplied by the unit sales price. (Where this figure was missing, the total sales figure was used instead)
	Materials	Total costs of intermediate and raw materials used in production (including fuel, electricity and other costs)
	Capital stock	Net book value of machinery and equipment
	Labour	Sum of the average number of permanent and temporary workers employed
Dependent Variables	Value-added (log)	Total market value of production less raw materials, energy and other costs
	Exporter	Dummy variable that takes a value of 1 if firm is an exporter
Firm-specific Characteristics	Age (log)	Log of years since the firm began operations in the country
	Size (log)	Log of total number of permanent and temporary employees
	Size – small firm	Dummy variable that takes a value of 1 if the firm has fewer than 20 permanent and temporary workers
	Size – medium firm	Dummy variable that takes a value of 1 if the firm has between 20 and 99 permanent and temporary workers
	Size – large firm	Dummy variable that takes a value of 1 if the firm has more than 100 permanent and temporary workers
	Ownership – some foreign	Dummy variable that takes a value of 1 if the firm has some share of private sector foreign ownership
	Location – capital city	Dummy variable that takes a value of 1 if the firm is located in the country's capital city
	Location – large city	Dummy variable that takes a value of 1 if the firm is located in a city with a population of over 1 million people
	Location – medium city	Dummy variable that takes a value of 1 if the firm is located in a city with a population of between 250 000 and 1 million people
	Location – small city	Dummy variable equal to 1 if the firm is located in a city with a population of between 50 000 and 250 000 people
	Location - town	Dummy variable equal to 1 if the firm is located in a city with a population of less than 50 000 people
	Manager has tertiary education	Dummy variable that takes a value of 1 if the firm's top manager has a tertiary education
	More workers with secondary education	Dummy variable that takes a value of 1 if the firm has a greater percentage of workers with secondary education than workers with lower levels of education
	Skill intensity (log)	Ratio of permanent skilled production workers to total number of permanent and temporary workers
	E-mail	Dummy variable that takes a value of 1 if firm regularly uses e-mail in its interactions with clients and suppliers
	Website	Dummy variable that takes a value of 1 if firm regularly uses a website in its interactions with clients and suppliers
Exporter	Dummy variable that takes a value of 1 if firm exports some share of its sales directly	

Table A.II: Variable Definitions – Perception data

Physical Infrastructure	
Telecommunications	Dummy variable that takes a value of 1 if issues relating to telecommunications represent a moderate, major or very severe obstacle to the operation and growth of the business
Electricity	Dummy variable that takes a value of 1 if issues relating to electricity represent a moderate, major or very severe obstacle to the operation and growth of the business
Transportation	Dummy variable that takes a value of 1 if issues relating to transportation represent a moderate, major or very severe obstacle to the operation and growth of the business

DRAFT

Micro-level Supply Constraints	
Access to land	Dummy variable that takes a value of 1 if issues relating to access to land represent a moderate, major or very severe obstacle to the operation and growth of the business
Tax rates	Dummy variable that takes a value of 1 if issues relating to tax rates represent a moderate, major or very severe obstacle to the operation and growth of the business
Tax administration	Dummy variable that takes a value of 1 if issues relating to tax administration represent a moderate, major or very severe obstacle to the operation and growth of the business
Labour regulations	Dummy variable that takes a value of 1 if issues relating to labour regulations represent a moderate, major or very severe obstacle to the operation and growth of the business
Skills and education of available workers	Dummy variable that takes a value of 1 if issues relating to skills and education of available workers represent a moderate, major or very severe obstacle to the operation and growth of the business
Business licensing and operating permits	Dummy variable that takes a value of 1 if issues relating to business licensing and operating permits represent a moderate, major or very severe obstacle to the operation and growth of the business
Access to finance	Dummy variable that takes a value of 1 if issues relating to access to financing represent a moderate, major or very severe obstacle to the operation and growth of the business
Cost of financing	Dummy variable that takes a value of 1 if issues relating to cost of financing represent a moderate, major or very severe obstacle to the operation and growth of the business
Legal Environment	
Corruption	Dummy variable that takes a value of 1 if issues relating to corruption represent a moderate, major or very severe obstacle to the operation and growth of the business
Crime	Dummy variable that takes a value of 1 if issues relating to crime represent a moderate, major or very severe obstacle to the operation and growth of the business
Anti-competitive or informal practices	Dummy variable that takes a value of 1 if issues relating to anti-competitive or informal practices represent a moderate, major or very severe obstacle to the operation and growth of the business
Legal system/conflict resolution	Dummy variable that takes a value of 1 if issues relating to the legal system or conflict resolution represent a moderate, major or very severe obstacle to the operation and growth of the business
Macroeconomic Conditions	
Economic and regulatory policy uncertainty	Dummy variable that takes a value of 1 if issues relating to economic and regulatory policy uncertainty represent a moderate, major or very severe obstacle to the operation and growth of the business
Macroeconomic instability	Dummy variable that takes a value of 1 if issues relating to macroeconomic instability represent a moderate, major or very severe obstacle to the operation and growth of the business
Trade-related Infrastructure and Services	
Customs and trade regulations	Dummy variable that takes a value of 1 if issues relating to customs and trade regulations represent a moderate, major or very severe obstacle to the operation and growth of the business

Table A.III: Variable Definitions – Quantitative measures

Physical Infrastructure and Infrastructure Services	
ISO certified	Dummy variable that takes a value of 1 if the firm has received any kind of ISO certification
Business association	Dummy variable that takes a value of 1 if the firm is a member of a business association or chamber of commerce
Generator	Dummy variable that takes a value of 1 if the firm owns or shares a generator
Days power outages	Number of days that the firm experienced power outages or surges from the public grid
Average duration of power outages	Average duration (in hours) of power outages or surges from the public grid suffered by the firm
Lost value due to power outages	Value of losses due to power outages or surges from the public grid (as a percentage of sales)
Delay in obtaining an	Actual delay experienced to obtain an electrical connection (from the day

DRAFT

electricity connection	the firm applied to the day it received the connection)
Days insufficient water supply	Number of days that the firm experienced service interruptions due to insufficient water supply
Average duration of insufficient water supply	Average duration (in hours) of service interruptions due to insufficient water supply
Lost value due to insufficient water supply	Value of losses due to insufficient water supply (as a percentage of sales)
Delay in obtaining a water connection	Actual delay experienced to obtain an water connection (from the day the firm applied to the day it received the connection)
Days unavailable mainline telephone service	Number of days that the firm service interruptions due to an unavailable mainline telephone service
Average duration of unavailable mainline telephone service	Average duration (in hours) of service interruptions due to insufficient water supply
Lost value due to unavailable mainline telephone service	Value of losses due to unavailable mainline telephone service (as a percentage of sales)
Delay in obtaining a mainline telephone connection	Actual delay experienced to obtain a mainline telephone connection (from the day the firm applied to the day it received the connection)
Days transport failures	Number of days that the firm experienced service interruptions due to transport failures
Average duration of transport failures	Average duration (in hours) of service interruptions due to transport failures
Lost value due to transport failures	Value of losses due to transport failures (as a percentage of sales)
Cargo lost while in transit	Percentage of the value of the firm's average cargo consignment that it lost while in transit due to breakage, theft, or spoilage
Micro-level Supply Constraints	
Efficiency of government services	Dummy variable that takes a value of 1 if the firm rates the efficiency of government in delivering services as somewhat efficient, efficient or very efficient
Cost of electricity	Average cost of a kilowatt-hour (KwH) of electricity from the public grid
Delay in obtaining a construction permit	Actual delay experienced to obtain a construction permit (from the day the firm applied to the day it received the permit)
Delay in obtaining an operating license	Actual delay experienced to obtain an operating license (from the day the firm applied to the day it received the license)
Legal Environment	
Confidence in the judicial system	Dummy variable that takes a value of 1 if the respondent agrees with the statement: "I am confident that the judicial system will enforce my contractual and property rights in business disputes"
Informal payments to government officials	Expenses (as a percentage of the firm's annual sales value) in the form of gifts or informal payments to public officials to "get things done"
Trade-related Infrastructure and Services	
Imported inputs	Percentage of the firm's material inputs and supplies that are imported directly
Average days to clear customs for imports	Average number of days from the time the goods arrived in their point of entry until they could be claimed from customs
Longest time to clear customs for imports	Longest number of days from the time the goods arrived in their point of entry until they could be claimed from customs
Delay in obtaining an import license	Actual delay experienced to obtain an import license (from the day the firm applied to the day it received the license)
Average days to clear customs for exports	Average number of days from the time the goods arrived in their point of exit until the time they clear customs
Longest time to clear customs for exports	Longest number of days from the time the goods arrived in their point of exit until the time they clear customs

DRAFT

Table A.4: Export Propensity Analysis — Region-industry Average Business Climate Constraints

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm-specific Characteristics							
Size (log)	0.276***	0.358***	0.326***	0.329***	0.322***	0.287***	0.329***
Age (log)	-0.123***	-0.200***	-0.174***	-0.174***	-0.179***	-0.115***	-0.175***
Ownership - some foreign (dummy)	0.285***	0.171**	0.194***	0.193***	0.189**	0.278***	0.192***
E-mail (dummy)	0.729***	0.742***	0.734***	0.748***	0.758***	0.682***	0.733***
Website (dummy)	0.284***	0.186***	0.206***	0.212***	0.166**	0.295***	0.214***
Skill intensity (dummy)	0.000493	0.0342	0.0205	0.0215	0.0301	-0.00906	0.0214
Manager has tertiary education (dummy)	0.315***	0.142*	0.178**	0.189**	0.174*	0.290***	0.180**
Country Dummies							
Kenya			-0.177	0.226		0.162	0.179
Madagascar	-0.146	-0.135	-0.187	-0.116	-0.0372	-0.0279	-0.00393
Mauritius	0.501	0.704***	0.673***	0.733***	0.782***	0.599***	0.752***
Morocco		0.454*	0.598***	0.543***	0.590***		0.597***
South Africa	-0.795**	-0.209	-0.0505	-0.000530	-0.278	-0.224	0.00961
Tanzania	-0.563*	-0.559**	-0.551***	-0.474***	-0.620***	-0.640***	-0.448***
Zambia	-1.136***	-0.601**	-0.801***	-0.617***	-0.681***	-0.594***	-0.537***
Business Climate Constraints							
Telecommunications	0.644	0.555	0.584*				
Electricity	-0.716	-0.354	-0.225				
Transportation	-0.495	0.175	0.127				
Access to land	0.438	0.239		0.108			
Tax rate	0.240	-0.647*		-0.519*			
Tax administration	-0.264	0.535		0.294			
Labour regulations	-0.544	-0.221		-0.349			
Skills and education of workers	1.587***	0.226		0.136			
Licensing & operating permits	-0.834	-0.407		-0.189			
Access to finance	-0.230	0.187		0.460			
Cost of financing	0.303	-0.0252		-0.425			
Economic and regulatory policy uncertainty	0.0494					0.0956	
Macroeconomic instability	-0.912*	-0.957***				-0.774**	
Corruption	0.320	0.674**			0.263		
Crime	-0.0294				0.188		
Anti-competitive or informal practices	-1.096***				-1.018***		
Legal system/conflict resolution	0.293	-0.755***			-0.427		
Customs and trade regulations							-0.221
Number of Observations	1543	2774	2961	2961	2109	2395	2961

Notes: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

1 Dependent variable is an indicator variable of whether the firm exports or not

2 Business climate constraints are region-industry averages

3 All regressions include industry dummies for the Leather; Garments; Agro-industry; Food; Beverages; Metals and Machinery;

Electronics; Chemicals and Pharmaceuticals; Wood and Furniture; Non-metallic and Plastic Materials; Paper;

Other Manufacturing; and Auto and Auto Components industries (Textiles industry is the omitted category)

DRAFT

Table A.5: Export Propensity Analysis — Region-industry Average ‘Hard-data’ Business Climate Measures

	coefficient	Number of observations
Average days to clear customs for exports	0.01	2265
Average days to clear customs for imports	-0.01	2265
Average duration of insufficient water supply	0.00	2357
Average duration of power outages	0.00	2760
Average duration of transport failures	0.00	2265
Average duration of unavailable mainline telephone connection	0.00	2928
Business association (dummy)	0.00	2928
Cargo lost while in transit	-0.03	2924
Confidence in the judicial system (dummy)	-0.487*	2920
Cost of electricity	0.00	2723
Days insufficient water supply	-0.003*	1036
Days power outages	0.00	2779
Days transport failures	0.00	2517
Days unavailable mainline telephone connection	0.00	2182
Delay in obtaining a construction permit	0.001*	2121
Delay in obtaining a mainline telephone connection	0.00	2170
Delay in obtaining a water connection	-0.003***	2032
Delay in obtaining an electricity connection	0.00	1030
Delay in obtaining an import licence	0.00	2775
Delay in obtaining an operating licence	0.00	1280
Efficiency of government services (dummy)	-0.38	959
Generator (dummy)	0.00	841
Imported inputs	0.007***	2362
Informal payments to public officials	-0.032*	2202
ISO certified (dummy)	0.39	2333
Longest time to clear customs for exports	0.00	2875
Longest time to clear customs for imports	-0.008*	2875
Lost value due to insufficient water supply	0.004	2928
Lost value due to power outages	0.003	2012
Lost value due to transport failures	-0.065*	2801
Lost value due to unavailable mainline telephone connection	-0.031	2789

Notes: *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

¹ Dependent variable is an indicator variable of whether the firm exports or not

² Business climate measures are region-industry averages

³ All regressions include industry dummy variables.

⁴ All regressions include firm-specific controls for age, size, ownership, use of information technology (e-mail and website), skill intensity, and manager's education (coefficients not reported to conserve space)

⁵ All regressions include country dummies for Kenya, Madagascar, Mauritius, Morocco, South Africa, Tanzania and Zambia (Egypt is the omitted country)