China Ethics 3

Yuan Wang and Yating Luo

# China Business Perception Index

## Survey on Chinese Companies' Perception of Doing Business in Kenya

对外经济贸易大学
国际经济伦理研究中心
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Globethics.net China Ethics No. 3

Globethics.net China Ethics
Series editor: Christoph Stückelberger. Founder and Executive Director of Globethics.net and Professor of Ethics, University of Basel

*Globethics.net China Ethics 3*
Yuan Wang and Yating Luo, *China Business Perception Index*
*Survey on Chinese Companies' Perception of Doing Business in Kenya*
Geneva: Globethics.net, 2015
ISBN 978-2-88931-061-6 (online version)
ISBN 978-2-88931-062-3 (print version)
© 2015 Globethics.net

Managing Editor: Ignace Haaz

Globethics.net International Secretariat
150 route de Ferney
1211 Geneva 2, Switzerland
Website: *www.globethics.net/publications*
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All web links in this text have been verified as of June 2015

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# ACRONYMS

| | |
|---|---|
| **BPI** | Business Perception Index |
| **KPMG** | Klynveld Peat Marwick Goerdeler |
| **KRA** | Kenya Revenue Authority |
| **M/C** | Manufacturing and Construction Sector |
| **POEs** | Privately-owned enterprises |
| **SACEF** | Sino-Africa Centre of Excellence Foundation |
| **SOEs** | State-owned enterprises |
| **WBES** | World Bank Enterprise Survey |
| **VAT** | Value-Added Tax |

# 1

# EXECUTIVE SUMMARY

## 1.1 BPI Survey Introduction

The Business Perception Index (BPI) has been developed to understand the Kenya-based Chinese companies' characteristics, to understand the business and investment climate faced by Chinese enterprises, and how these conditions affect productivity and growth of Chinese companies in Kenya. More specifically, the research focuses on the following three major questions:

- What are the characteristics of Kenya-based Chinese enterprises?
- What are the problems and obstacles faced by Chinese companies when doing business in Kenya?
- What kind of policy support do private and state-owned companies need respectively?

The BPI Survey-Kenya is a *firm-level descriptive survey of Chinese private and state-owned enterprises in Kenya*. The questionnaire includes the following ten major sections: basic firm characteristics, regulation and taxes, crime and safety, informality, gender, finance, infrastructure, trade, workforce, corruption and obstacles analysis. We reached out through email and telephone to 184 Chinese establishments in Kenya, and *75 companies accepted the survey*. *Table 1* illustrates some characteristics of the companies surveyed.

| EMPLOYEES | MANUFACTURING / CONSTRUCTION | SERVICE SECTOR | TOTAL |
|---|---|---|---|
| Micro <5 | 4 | 6 | 10 |
| 5<= Small <=19 | 7 | 15 | 22 |
| 20<= Medium <=99 | 6 | 9 | 15 |
| Large >=100 | 21 | 7 | 28 |
| TOTAL | 38 | 37 | 75 |

Table ES1: Categories of Chinese establishments in BPI survey in Kenya

## 1.2 BPI Methodology and Score

To compare the business climate across African countries, the BPI score for each surveyed economy will be calculated, which consists of four major categories of potential obstacles that Chinese enterprises may encounter in doing business in African countries: legal environment, workforce, operational facilities, and sociopolitical environment. The resulting BPI is based on companies' perception towards the degree of significance of 18 obstacles: Tax rate, Tax administration, Business registration and permits, Corruption, Court system, Crime, Theft and Disorder and Personal Safety, Practices of competitors in the informal sector, Access to finance, Electricity, Water shortage, Transportation, Customs and trade regulations, Labour management, Obtaining work permits, Inadequately skilled workforce, Access to land, Investment Information and Political instability. To calculate the BPI, the median rating of all company respondents is selected for each obstacle, then the average of the median ratings for obstacles in each category is calculated and summed up to represent the country's BPI. Kenya's 2014 BPI Score for Chinese companies is 7.3.

## 1.3 BPI Discussion

### 1.3.1 Obstacle Analysis

Corruption claimed the top ranking with 53% of the companies labelling it as "a very significant obstacle" and 15% as "a significant obstacle". Crime, theft and disorder and personal safety comes next with 63% of these companies perceiving it to be "significant" or "very significant". The two obstacles remain in the first two places across all industries, firm sizes and shareholding nature. The top ten perceived obstacles are detailed in *Figure 2*.

### 1.3.2 Legal Environment

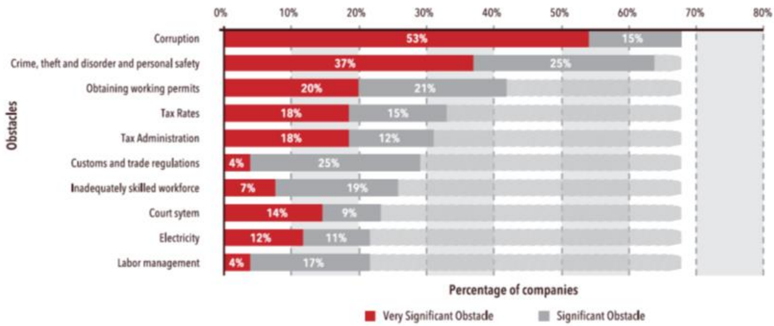
Legal environment is measured by the tax rate, tax administration, business registration and permits, customs and trade regulations, and the court system in the country. In Kenya, tax administration is complicated by frequent tax inspections and bribery requested by tax officials. Lack of efficiency and transparency in customs clearance also troubled import-intensive Chinese companies. The court system is largely perceived negatively as well. However, professional agents and the practice of tipping make business registration and obtaining permits relatively easy. Some key findings:

- 53% of companies were inspected by *tax officials* in 2013, 60% of which were asked for *bribery* in the meeting or inspection.
- 85% of companies have *regular import business,* on average 59%, of whose total purchase are imported and the average import customs clearance takes 16.5 days.

- 20% of the companies have *regular exports* which accounts for 7% of their total sales, on average. The average export customs clearance takes 10 days.
- 93.3% of companies *formally registered* in Kenya before starting operation.

- 70% of companies perceived the *court system* to be unfair, partial or corrupt.

Figure ES1: Top 10 obstacle analysis




### 1.3.3 Workforce

Workforce was investigated by assessing the difficulty in labour managing the ease of the perceived qualification of the workforce and obtaining work permits for Chinese companies. First of all, Chinese companies currently hire more local employees than those of Chinese origin. Informal employment is more common with local employees although work permits are hard to obtain for Chinese citizens. The protection and training of local employees is widespread but far from sufficient. Some key findings:

- 78% full-time employees in Chinese companies are locally hired while 95% of part-time workers are locally hired.
- 21% of companies do not have formal contracts with local workers.

- 59% of companies provide insurance for all local employees.
- 60% of companies provide formal training programmes to their local employees.
- On average, the ratio of female, full-time staff to all full-time staff is 0.05.

To better communicate with the international society and build the positive image of Chinese activities in Kenya, and address to the problems Chinese companies are facing in their workforce localization process, Chinese policy makers are recommended to work on the following two areas:

- Create a Pool of Skilled Workforce: Through the interview in Kenya, Chinese companies, especially construction-related companies expressed their strong need for local skilled workforce. For various types of skills needed, it would be very helpful to create a talent pool of skilled local workforce, with training certificates, for Chinese construction companies to consider for employment.
- Better Public Relations and improved transparency: The misperception on Chinese companies not hiring local employees could be addressed through better public relations strategy, improving the transparency of Chinese companies' operation in Kenya will greatly help reducing the misperception and creating positive image for Chinese companies.

### 1.3.4 Crime and Safety Concerns

To address the above-mentioned challenges faced by Chinese companies in Kenya in terms of crime and personal safety, the following policy support could be provided:

- As for small theft incidents, the practice of establishing labour contracts with local employees should be enforced, which help build mutual trust and strengthen the bonding between the Chinese employer and local employees, thus increasing both formal and informal control on employees' behaviour. Also, more skill transfer programmes can be devised to reduce the local employee turnover rate by specializing local workforce to fit the company's unique needs and making job-hopping more costly for local employees.

- Then to address employee personal safety issue, introducing more comprehensive social security and insurance system would be beneficial to overseas Chinese companies. For example, state-funded policy- oriented insurance companies focusing on off-shore Chinese property and personal safety insurance could be set up to support Chinese companies in Kenya. The China Export & Credit Insurance Corporation is a successful example in supporting Chinese export business.
- Finally, travel and business alert information system can be developed to help Chinese nationals avoid potential dangerous areas. Technologies, such as creating an App or a Wechat public page for official information distribution, offer good channel options.

### 1.3.5 Trade and Customs

To achieve a more sustainable trading model for Chinese companies, the following policy support could be recommended:

- Strengthening Chinese companies' manufacturing arms in Kenya and supporting input localization are recommended, which can be achieved by providing policy-oriented financing and adjusting the tax refund policy, for examples.
- Export business to other African countries can be encouraged by improving access to investment information. Sino-Africa busi-

ness exchange forums and expositions are great platforms for companies to identify business opportunities and build up channels of distribution in other African countries.

### 1.3.6 Corruption

To alleviate Chinese companies' situation regarding harassment from local government functionaries, the following policy support can be provided:

- Chinese companies' awareness against bribery should be improved and detailed information on business- related regulations and rules should be also disclosed and disseminated.
- More training on Kenyan laws and regulations would help Chinese companies better identify their own flaws and wrongful accusation from government officials.
- Informal channels for information dissemination, like non-governmental Chinese organizations, can also help advise Chinese companies on proper conduct in terms of tax, labour administration, and intellectual property, etc.

### 1.3.7 Operational Facilities

Operational facilities consist of electricity, water supply, transportation, access to land and access to finance. Electricity and water supply interruption prove to be frequent and long in duration but can be mitigated by self-owned generators and ground water supply. Access to finance is inadequate but most companies do not have the need locally so far. Some key findings:

- All companies experienced power outages in 2013, with an average frequency of 8.9 times per month and an average length of

4.7 hours. As a result 81% of companies own or share a generator.

- 42% of companies have experienced insufficient water supply in 2013, with an average frequency of 8.4 times in a typical month and an average length of 22.8 hours.
- 35% of the companies have credit facilities in Kenya, but more than half of the companies do not need loans due to sufficient capital.

### 1.3.8 Sociopolitical Environment

Sociopolitical Environment is measured by crime, theft and disorder and personal safety, political instability, informal competitors, investment information and corruption. Property and personal safety issues are prominent with material losses reported. Corruption has been a major obstacle that prevails in every stage of doing business in Kenya. But competition from the informal sector was deemed to have a low impact.

- 60% of the companies reported loss related to theft, robbery, vandalism or onsite arson and 30% in transportation, despite the fact that 71% of all the companies paid for security services in 2013.
- Competition from unregistered or informal
- entities is recognized by 24% of companies.
- Traffic police, Nairobi City Council, and Kenya Revenue Authority are deemed the most corrupt government functionaries with most companies claiming to have been asked for gifts or informal payment.

## 1.4 Conclusion and Next Steps

The Kenya 2014 BPI survey covered 75 Chinese establishments in Kenya, identified the top ten major obstacles perceived by Chinese companies in doing business in Kenya. Corruption, safety and obtaining work permits were perceived to be the top three obstacles. It also looks into four major areas that might directly influence the business operations of Chinese companies: the legal environment, workforce, operational facilities and sociopolitical environment of the host country.

As the first stage, the BPI Survey Kenya was launched in February 2014 and completed in June 2014. The second stage will be from mid-2014 to 2015, when it will take place in five more African countries – Angola, Ghana, Nigeria , South Africa and Tanzania – before taking place in more African countries during the third stage. The five countries were chosen due to the prevailing existence of Chinese business activities and they are also the next target markets for the SACEF Internship Programme. We will conduct the BPI Survey bi-annually in each of the six countries to measure the business development trend over time.

# 2

# INTRODUCTION

Kenya currently hosts more than 40,000 Chinese people and around 400 Chinese State-owned and Privately-owned enterprises (SOEs and POEs). Chinese businesses in Kenya are spread across every sector in a significant way, especially in the construction business. What are the characteristics of Chinese enterprises in each sector? What obstacles do they face when doing business in Kenya? What kind of policy support do private and state-owned companies need respectively? There is no holistic study that could provide answers to these questions.

The Business Perception Index (BPI) is a firm- level descriptive survey of Chinese companies in Kenya of various sizes, sectors and shareholding nature. The research focuses on the following three major objectives:

- To map the characteristics of Kenya-based
- Chinese enterprises.
- To identify the problems and obstacles faced by Chinese companies when doing business in Kenya.
- To provide policy recommendations on the support needed for various types of Chinese companies.

The BPI Survey was launched in Kenya in February 2014 and completed in June 2014. During this period we interviewed 75

Chinese establishments in Kenya. The second stage of BPI will take place from mid-2014 to 2015, when the BPI Survey will be conducted in five more countries in Africa - Angola, Ghana, Nigeria, South Africa and Tanzania - before it takes place in more countries in Africa during the third stage. The five countries were chosen due to the heavy existence of Chinese business activities and the fact that they are also the next target markets for the SACEF Internship Programme. BPI Survey will take place bi-annually in each of the six countries to measure business development trends over time.

The Business Perception Index Survey was initiated by the Sino-Africa Centre of Excellence Foundation (SACEF), which was established in February 2013 as a legal entity in Mauritius, with representation in Kenya, South Africa and China. The SACE Research Hub is an applied research think tank that focuses on building knowledge and creating awareness on Sino Africa engagements in commerce, education, culture and political interactions through literature and empirical research. The research hub has received support and acknowledgement from the Chinese Embassy in Kenya, China-Africa Development Fund and several research institutes based in China.

## 2.1 Survey Instruments

The Business Perception Index Survey-Kenya is a firm-level descriptive survey of Chinese private and state-owned enterprises in Kenya. The questionnaire includes the following ten major sections: basic firm characteristics, regulation and taxes, crime and safety, informality, gender, finance, infrastructure, trade, workforce, corruption and obstacles analysis. There are detailed questions under each section, with a total of 115 questions in a full survey questionnaire.

The Survey was conducted on both Chinese privately- owned enterprises and state-owned enterprises in Kenya of various sizes: micro enterprises (with less than 5 employees), small enterprises (with between 5 and 19 employees), medium-sized enterprises (with between 20 and 99 employees), and large-sized firms (with 100+ employees). We focus on two major sectors of activities: the manufacturing and construction sector and the service sector. The questionnaires for the two sectors are slightly different (refer to Annex 2).

This BPI Survey questionnaire is modelled on the World Bank Enterprise Survey (WBES) of 2007. The BPI Survey adopted many of the questions asked in the WBES, but also included some questions closely related to issues constantly brought up in discussions of China's investment in Africa, such as questions on Chinese workers and the composition of the workforce, firms' annual Corporate Social Responsibility budget and projects, etc. Moreover, the WBES do not survey government owned firms while considering that more than half of the Chinese companies in Kenya and in other countries of Africa, are state-owned enterprises, we also include SOEs into our survey.

In this survey, Chinese company in Kenya is defined as an establishment which has formally registered in Kenya and more than 50% of shares are owned by Chinese nationals. 75 Chinese companies in Kenya accepted the survey. 29 establishments were visited in person for the survey, and 4 companies answered through email and 42 establishments replied through telephone.

As shown in Table 1, among the 75 companies surveyed, 25 are state-owned enterprises and 50 are private establishments. Companies from the manufacturing, construction and service industries were surveyed; among the 75 Chinese companies, 38 are in the manufacturing, construction or energy sectors and 37 are in the service sector, including trade, hotels, restaurants and travel agencies. In total, we surveyed 10 micro, 21 small, 16 medium and 28 large Chinese establishments in Kenya. The establishment date of the companies surveyed varies from 1982 to 2014.

**Table 1**: Categories of Chinese establishments in BPI survey in Kenya

| EMPLOYEES | MANUFACTURING / CONSTRUCTION | SERVICE SECTOR | TOTAL |
|---|---|---|---|
| Micro <5 | 4 | 6 | 10 |
| 5<= Small <=19 | 7 | 15 | 22 |
| 20<= Medium <=99 | 6 | 9 | 15 |
| Large >=100 | 21 | 7 | 28 |
| TOTAL | 38 | 37 | 75 |

### 2.1.2 BPI Methodology and Score

As shown in Figure 1, the Business Perception Index (BPI) consists of four major categories potential obstacles Chinese enterprises may encounter in doing business in African countries: legal environment, workforce, operational facilities, and sociopolitical environment.

Under each column, there are three to five specific obstacles that respondents were asked to rank on a scale from zero to four, with 0 representing “Not an Obstacle”, 1 representing “A Minor Obstacle”, 2 representing “An Average Obstacle”, 3 representing “A Significant Obstacle”, and 4 representing “A Very Significant Obstacle”.

There are a total of 18 different obstacles under the four categories; Tax rate, Tax administration, Business licensing and permits, Corruption, Court system,

Crime, theft and personal safety, Practices of competitors in the informal sector, Access to finance, Electricity, Water shortage, Transportation, Customs and trade regulations, Labour management, Immigration, Inadequately skilled workforce, Access to land, Investment Information and Political instability.

To calculate the Business Perception Index, the median ratings within each category was averaged, then the averages were summed to represent the country's BPI. See Figure 2 for the score breakdown for each BPI category and specific obstacles.

In Figure 2, in the median rating from all the companies interviewed is shown. The higher the score, the more significant the obstacle is. Legal environment scored 1.8, workforce 2.0, operational facilities 1.1, and sociopolitical environment 2.4. Kenya's 2014 BPI Score for Chinese companies is 7.3, which is the sum of the score of all four categories.

**Figure 1**: Business Perception Index

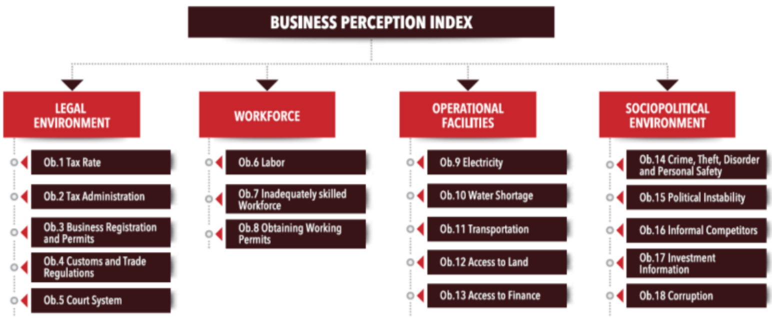
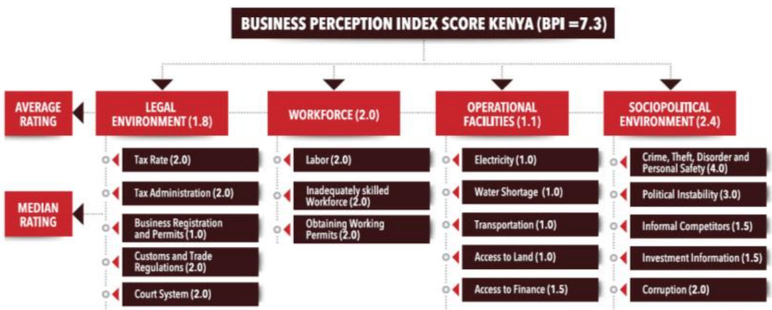



**Figure 2**: Breakdown BPI Score for Chinese Companies in Kenya 2014



## 2.2 Obstacle Analysis

The Obstacle Analysis is based on the same 18 categories of business obstacles as the calculation of the BPI Score. The top ten obstacles were selected based on the number of companies perceiving the obstacle to be “A significant obstacle” (3) or “A very significant obstacle” (4). This section provides a general picture of the obstacles faced by Chinese companies. Details of each obstacle will be discussed in the following sections of this report.

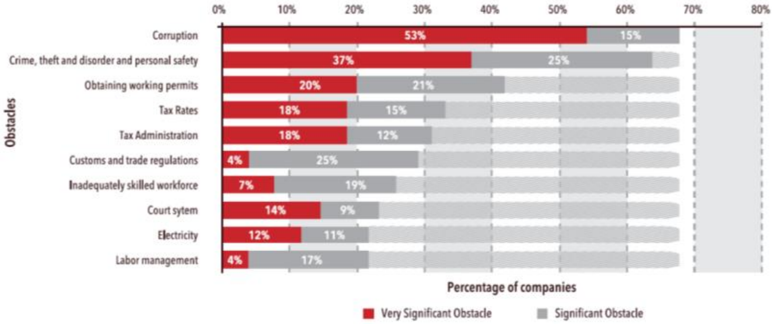
As Figure 3 shows “Corruption” claimed the top ranking among all obstacles, with 40 out of 75 companies (53%) judging it as “a very significant obstacle” and 11 others (15%) as “a significant obstacle”. “Crime, theft and personal safety” comes second, with 28 (37%) responding “very significant” and 19 (25%) responding “significant”. These two obstacles were ranked most important across all industries, firm sizes and shareholding structures.

Furthermore, for more labour-intensive manufacturing and construction companies, “Obtaining work permits” is the third most significant obstacle perceived while for companies from the Service Sector, “Customs and trade regulations” took third place (refer to Table 7 in Annex 1).

Results were similar across different firm sizes with a few exceptions. Micro companies have more difficulty in “Access to finance”, while small firms perceived more threats from “Competitors in the informal sector”. For large corporations, problems like “Court system”, “Inadequately skilled workforce” and “Labour management”, were more noticed (refer to Table 6, Annex 1).

As with shareholding nature, Privately-owned companies are more troubled by “Tax rates”, “Customs and trade regulations” and “Inadequately-skilled workforce” while state-owned companies are more bothered with “Access to finance” and “Practices of competitors in the informal sector” (refer to Table 5 in Annex 1).

**Figure 3**: Top 10 Perceived Obstacles (All sectors)




## 2.3 Survey Results

In this section, we will look at the detailed results from the BPI Survey. The results will be presented in four sub- sections that are closely related to the everyday-business of Chinese companies in Kenya: legal environment, workforce, operational facilities and sociopolitical environment.

# 3

# LEGAL ENVIRONMENT

The Legal Environment as analysed in this section is measured by the tax rate, tax administration, business registration and permits, custom and trade regulations and the court system in Kenya.

## 3.1 Tax Rate

Tax rate is perceived to be the fourth major obstacle for Chinese companies doing business in Kenya. For companies in Kenya, 30% for the Company Tax is required for resident corporate, slightly higher than the 28.6% African average as of 2013, according to KPMG ("Corporate tax rates table"). The Value-added Tax (VAT) rate is 16% which is again slightly higher than the African average of 14.7% (KPMG, "Indirect tax rates table"). Individual income is taxed on a withholding tax basis, ranging from 0% to 30% for both residents and non-residents, which is similar to the African average of

29.8% (KPMG, "Individual tax rates table").

## 3.2 Tax Administration

In the survey, 40 out of 75 Chinese companies (53%) reported that they have been visited or inspected by tax officials from Kenya Revenue Authority (KRA) in 2013, as indicated in Figure 4 below. Among them, the average number of tax inspections or meetings required is 3.1, compared to 2.2 for Kenyan companies in general according to the WBES 2014 Kenya Survey, indicated in Table 2. It is reasonable to assume the figures to be higher, since some companies are cautious in disclosing negative information about the government to avoid trouble. Some companies also explained that tax officials requested were bribes when regulatory violations were spotted.

**Figure 4**: Percentage of Chinese Companies visited by KRA and Asked for Bribes

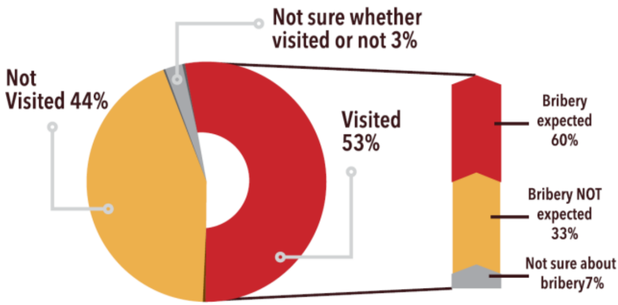


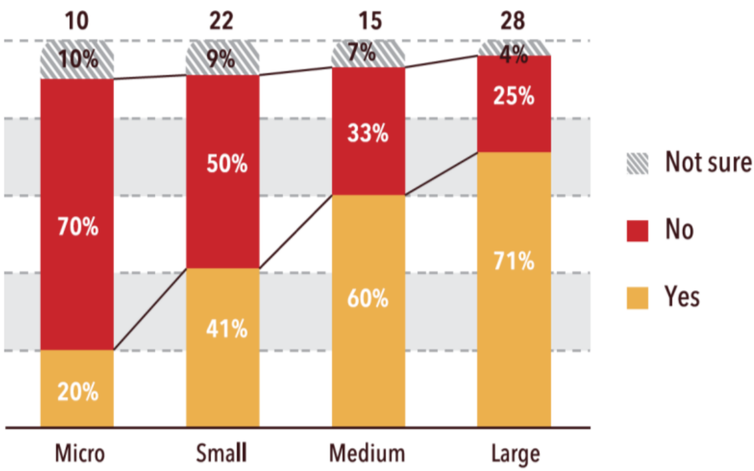

**Table 2**: Difference in Tax administration for Chinese Companies and All Companies in Kenya

| FY2013 | CHINESE COMPANIES | ALL COMPANIES IN KENYA |
|---|---|---|
| Average times of tax Inspections | 3.1 | 2.2 |
| % of firms expected to bribe tax officials | 39% | 17.4% |
| % of companies perceived Tax administration as a significant obstacle | 31% | 13.3% |

Among the companies visited by Kenya Revenue Authority, 60% of them were asked for informal payments or gifts, while 33% of them indicated that bribery was not expected. Overall, 32% of Chinese companies surveyed were asked for bribes by the Kenya Revenue Authority, while only 17% of Kenyan companies in general reported having been asked for bribes, according to the WBES 2014 Kenya Survey. The depth of corruption could be more serious since some Chinese companies were unwilling to speak against the government to avoid getting into trouble.

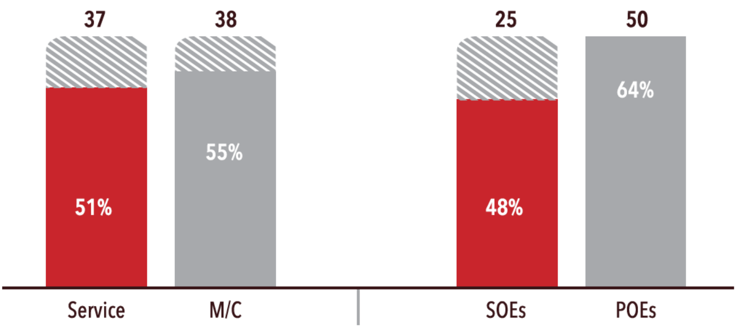
With regards to firm size, as shown in Figure 5 below, larger firms are more likely to be visited or inspected by tax officials. According to Kenyan laws, a company is allowed to declare taxes within 12 to 18 months after their establishment in Kenya, and thus, newly established companies are unlikely to be visited by Kenya Revenue Authority for tax inspection. This is one factor lowering the percentage of total companies visited and micro companies visited.

**Figure 5**: Percentage of Companies Visited by KRA (Sorted by Firm Size)



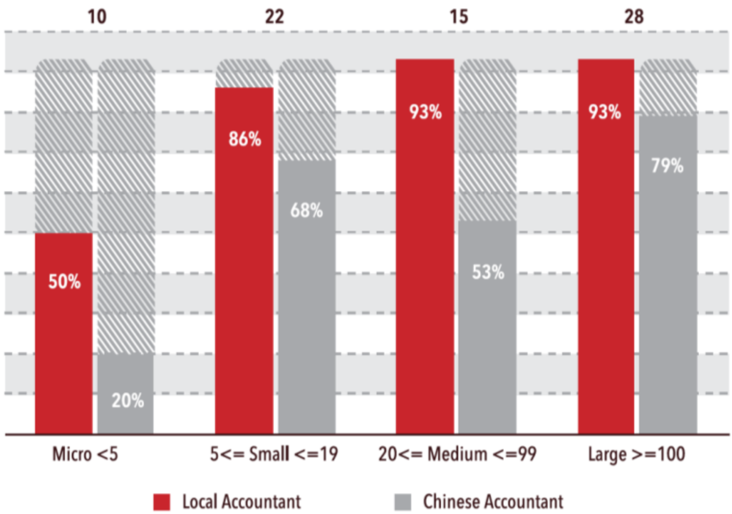
In terms of industries, restaurants and hotels were reported to be the most visited: 51% of the companies from the service sector and 55% of companies from the M/C sector reported being visited. This may partly result from the varying accessibility of the companies' physical sites, like stores, factories and offices. Regarding the shareholding nature, SOEs were more likely to be visited than POEs, with 64% compared to 48%, as indicated in Figure 6 below.

**Figure 6**: Percentage of Chinese Companies Visited by KRA (Sorted by business sector and Shareholding Nature)




A number of companies indicated that hiring local accountants greatly helped them in dealing with KRA because local accountants are believed to be more familiar with related regulations and better at dealing with tax officials. 64 out of 75 companies (85.3%) surveyed claimed to have at least one local accountant, while 47 companies (62.7%) claimed to have at least one accountant of Chinese origin. As is shown in Figure 7, most companies with more than five employees have at least one local accountant, and the percentage of firms hiring local accountants is higher than Chinese accountants across all firm sizes. Most companies hire local accountants for external audit and Chinese accountants for internal audit. Some companies expressed noticeable distrust towards local accountants, but they also admitted that local accountants are better at dealing with tax officials.

**Figure 7**: Percentage of Chinese Companies with at least one Local/Chinese accountant




## 3.3 Business Registration and Permits

Business registration and permits are the very first requirements Chinese companies encounter when they start operation in Kenya. In general, it is deemed relatively easy by most companies. According to the survey, 93.3% of the companies have formally registered in Kenya before starting operations.

A varying percentage of the 75 companies confirmed that they hire a local professional agent, such as a lawyer or an accountant, to handle the registration process on their behalf. 50% for Business Registration, 48% for obtaining a Tax Number, 40% for the Operational Permits and 32% for other Business-related Certificates.

Among those registering by themselves, a varying percentage of companies indicated that a gift or informal payment was expected or requested by the government functionaries. Business registration is the worst at 50%, followed by 46% for operational permits, 36% for Tax Number, and 20% for other Business-related Certificates. Most of them explained that the gift or tips were for accelerating the registration process.

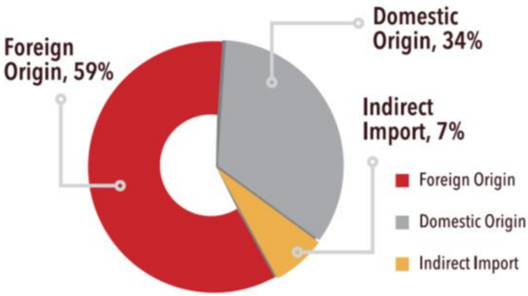
In summary, business registration and obtaining permits poses minimal barriers for Chinese companies' business development in Kenya, mainly because registration-related issues in Kenya can be easily dealt with by spending a small amount of money on either hiring professional agents or tipping the government functionaries to speed up the process.

## 3.4 Customs and Trade Regulations

"Customs and trade regulations" were perceived as the sixth most significant concern for Chinese companies operating in Kenya. Among the 75 Chinese companies interviewed, 64 of them (85.3%) have regular imports and 15 companies (20%) have regular exports. The breakdown of raw materials by origin can be seen in Figure 8.

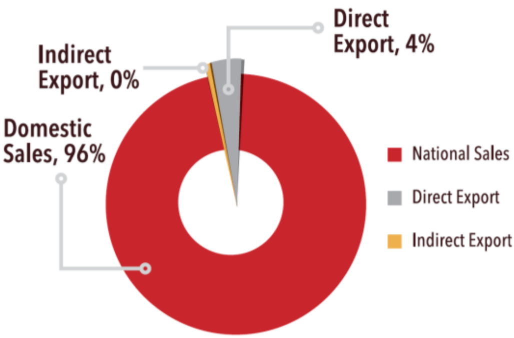
The material inputs or supplies of Chinese companies rely largely on imports from China. 59% of the total purchases of Chinese companies surveyed in fiscal year 2013 were directly imported, and another 7% supplies were indirectly imported (acquired from local suppliers). Imported goods include building materials and machinery for construction companies; metal products, vehicles and clothes for trading companies; and spices for Chinese restaurants.

**Figure 8**: Origin of Raw Material Inputs or Supplies in Fiscal Year 2013, by Value




Export business is mostly auxiliary for Chinese companies in Kenya. As shown in *Figure 9*, on average, 96% of the total sales were for the Kenyan domestic market in fiscal year 2013, while for general Kenyan companies the percentage of domestic sales was78%. Only 4% of Chinese companies' sales went to other countries, mainly neighbouring countries like Tanzania and Uganda.

**Figure 9**: Sales Distributed in Fiscal Year 2013, by Value

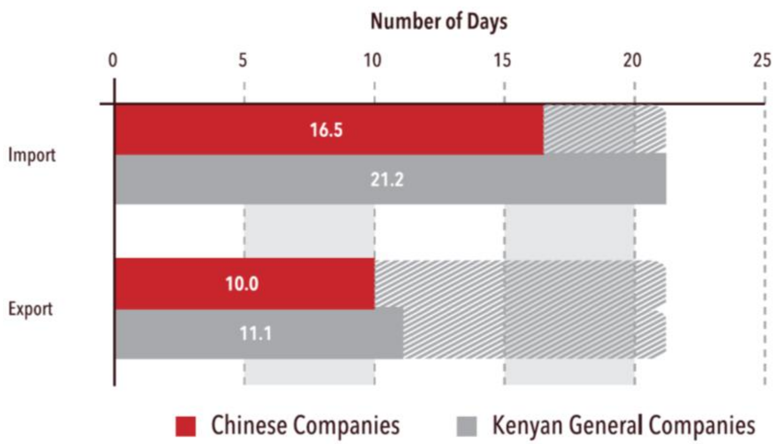



Based on comparison with the 2014 WEBS data, the customs clearance period for Chinese companies is on average shorter. For the imports, it takes Chinese companies 16.5 days to clear customs while general Kenyan companies take 21.2 days, as shown in Figure 10.

A majority of interviewees claimed that they have professional clearance agents. For exports, the time required depends mainly on the export destination rather than Kenyan customs. On average, export clearance takes Chinese companies 10 days and general Kenyan companies 11.1 days.

Corruption by custom officers is also a problem trading companies need to deal with. Among the 64 companies that have regular imports, 52% of them have experienced explicit requests for informal payment or gifts when they are undergoing the customs clearance. Another 14% reported not being asked for bribes asked for bribes and 34% of companies did not answer, partly because they hire professional agents to deal with clearance. Among the 15 companies that have regular exports business, 7 of them, (47%) also claim to have been asked for bribery.

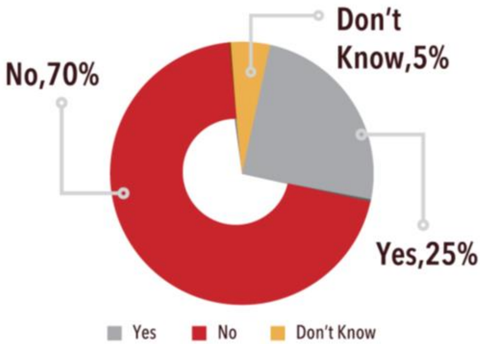
**Figure 10**: Import & Export Customs Clearance Time for Chinese Companies and Kenya General Companies (Number of Days)




## 3.5 Court System

The court system is where Chinese companies turn to for dispute resolution after all other mediating efforts are exhausted. When asked, "Do you think the court system is fair, impartial and uncorrupted?", 70% of Chinese companies surveyed answered "No", as shown in Figure 11. For one thing, companies complained about prolonged legal process. Some lawsuits about simple theft could last for as long as two years, according to the interviewees. For another, arbitrary judgment also bothered the companies. They reported that judges made implied or explicit requests for informal payment from the plaintiff for sentences given to the defendant.

**Figure 11**: Do you think the Court System is Fair, Impartial and Uncorrupted? (% of Respondents)



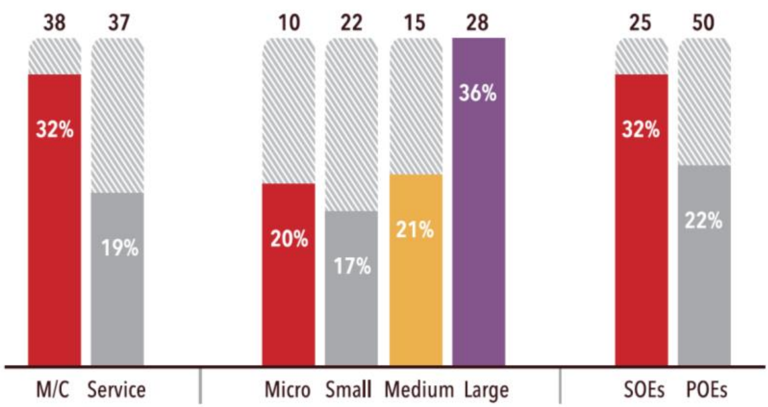

Companies from the manufacturing and construction sector are more likely to perceive the court system positively, with 32% feeling the Kenyan court system is fair and just, versus 19% from the service sector. With regard to firm size, there is no evident correlation between the size of companies and whether they have a positive impression. However, it is clear that large companies tend to deem the court system as fair, impartial and uncorrupted. With regards to the shareholding nature, SOEs have a more positive view of the Kenyan court system:

32% of SOEs, compared to 22% of POEs, perceive the court system positively. In summary, companies which are from the manufacturing and construction sector, are large and or are SOEs, are more optimistic about the court system in Kenya.

Though the interviews and desk research, the following reasons were identified as contributing factors to the different perceptions towards the Kenyan court system with regards to business sector, firm size and shareholding nature:

- Manufacturing and construction, large and state-owned companies tend to get involved with lawsuits of larger significance and influence, in which corruption plays a smaller role compared to smaller lawsuits dealing with theft or small crimes.
- Manufacturing and construction, large and state-owned companies have more financial and legal resources to win the lawsuits. Therefore, their opinions might be biased.
- Legal knowledge also plays an essential role in dealing with the court; large and state-owned companies tend to have longer presence in Kenya and thus have a more comprehensive understanding towards local laws and regulations.

**Figure 12**: Do You Think the Court System is Fair, Impartial and Uncorrupted? (Sorted by Business Sector, Size and Shareholding Nature) (% of Respondents)



# 4

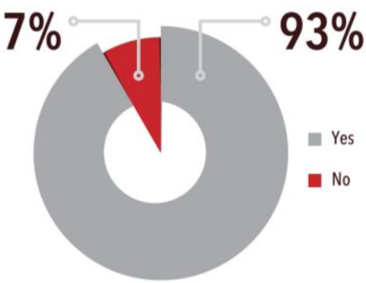
# WORKFORCE

## 4.1 Labour Management

### 4.1.1 Workforce Composition and Comparison

Of the 75 companies interviewed, 70 gave an affirmative answer when asked whether the establishment hires local employees, i.e., 93% of Chinese companies surveyed hire Kenyan employees, as shown in Figure 13. This number rose to 98% for privately- owned Chinese companies, while 84% of State-owned companies surveyed hire local staff, i.e., more POEs than SOEs hire local employees. Taking into account the size of the establishment, micro enterprises with less than 5 employees in total are less likely to hire local employees: 40% of micro enterprises, hire local workers, while 100% of small, medium and large companies surveyed hire local employees.

**Figure 13**: Do You hire Local Employees? (Percentage of Respondents)



Workforce domestification for Chinese companies in Kenya is higher than commonly perceived: 78% full-time employees among all surveyed companies are locals and

95% of part-time employees are locals. As shown in Figure 14, the 75 companies interviewed on average hire 360 local employees, among which 252 are part-time and 108 full-time, plus 42 Chinese employees, among which there are 11 part-time employees and 31 full-time.

**Figure 14**: Full-time / part-time and nationality of employees in Chinese companies in Kenya. (Average number of employee per firm)

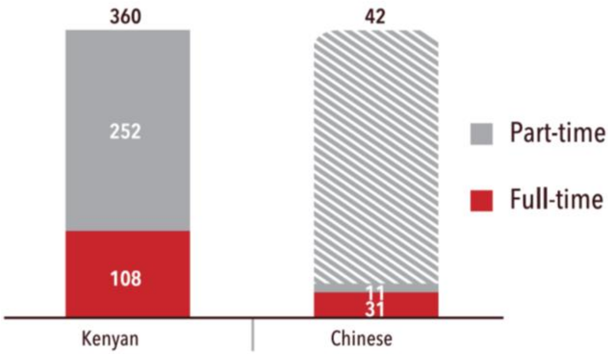



Figure 15 below shows the full-time and part-time employment picture with regards to the business sector and share-holding nature of the Chinese company. Manufacturing and construction companies are usually bigger in size, hiring more Chinese and local workers than companies in the service sector. The average number of employees in a Chinese construction or manufacturing company in Kenya is 762, while in the service sector, the average number of employees is 45. In the service sector, 71% of employees are full-time, compared to 3% in the construction / manufacturing sector. However, 90% of employees of manufacturing / construction companies are locally hired, compared to 82% in the service sector.

In terms of share-holding nature, Chinese state-owned enterprises in Kenya hire more employees, both full-time and part-time, and of both nationalities, than privately- owned companies: the average number of employees in an SOE is 847, where the average number in a POE is 181. The percentage of full-time workers in SOEs is 37%, higher than the 28% in POEs.

93% of POE workers are locally hired, compared to 88% in SOEs.

**Figure 15**: Full-time and part-time employment in regards of business sector and share-holding nature of the Chinese company

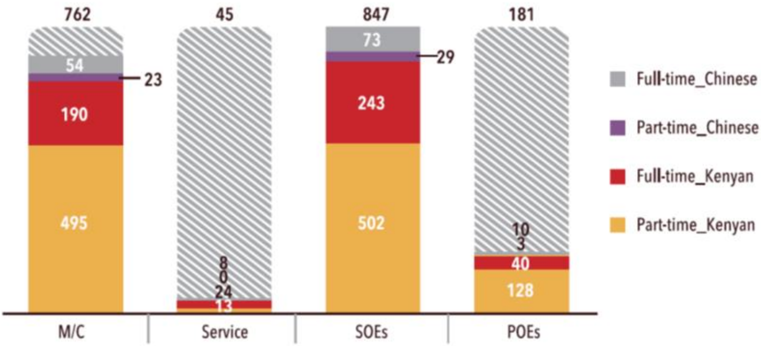
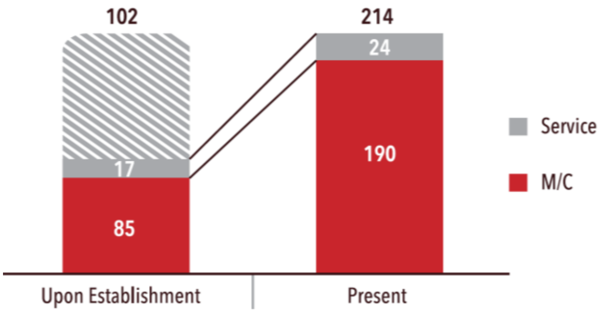


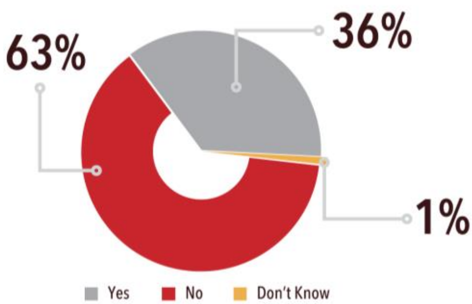

Figure 16 shows a clear trend that Kenya-based Chinese companies hire more local employees than when they first started in the country. When Chinese corporates start operating in the country, on average they hire 102 local full-time employees, while at the time of the survey, on average Chinese companies hire 214 local full-time employees, more than double that of when they now first started operations. In terms of firm- size, manufacturing and construction companies' local full-time employees grew from 85 to 190, a growth bigger than in the service sector, which grew from 17 to 24 employees.

**Figure 16**: Number of full-time local employees in Chinese company over time




When asked "Is there an active policy to eventually replace Chinese workers with locals?", 63% responded in the affirmative "yes", as shown in Figure 17 below.

**Figure 17**: Is there an active policy to eventually replace Chinese workers with locals? (% of respondents)




Interestingly, POEs expressed more willingness to replace Chinese workers with locals than SOEs:

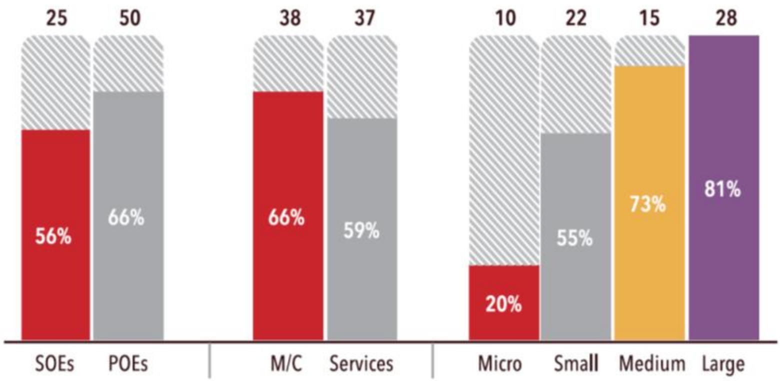
66% of the 50 private enterprises gave an affirmative answer when asked whether they have an active policy of replacing Chinese with local employees; while among the 24 SOEs interviewed, 56% indicate that they are thinking of replacing Chinese workers with locals.

Companies in the manufacturing and construction sector expressed more willingness to localize their workforce: 66% of the 38 manufacturing and construction companies interviewed indicate that they have an active policy of replacing Chinese workers with locals, compared to only 59% of companies in the service sector.

Moreover, larger firms are more willing to replace Chinese workers with locals. As shown in Figure 14, 20% of micro firms,

55% of small firms, 73% of medium-sized firms, and 81% of large Chinese companies have an active workforce localization policy.

**Figure 18**: Percentage of Companies with Active Policy of Workforce Localization, by Share-Holding Nature, Business Sector and Firm Size




### 4.1.2 Local Employees in Chinese Companies

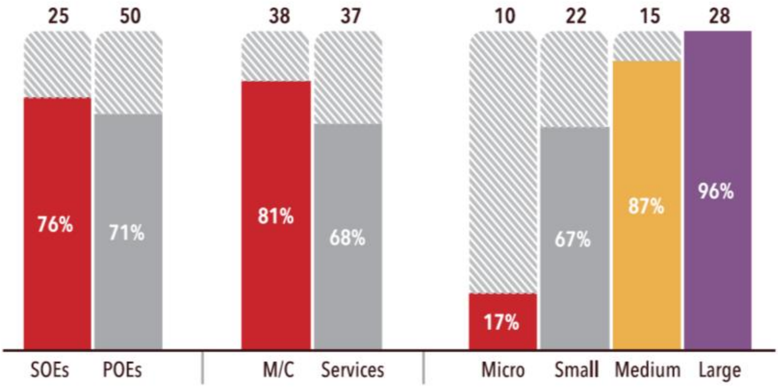
*4.1.2.1 Formal Contracts with Local Employees*

There are 70 companies that answered the question on whether they have formal working contracts with their employees, 40 companies have signed contracts with all local employees, 15 have contracts with full-time employees only and 15, i.e. 21% of the Chinese companies surveyed do not have contract with local workers.

In terms of firm size, larger Chinese companies tend to provide contracts with local employees: 17% of micro enterprises, 67% of small companies, 87% of medium companies and 96% of large companies signed formal contracts with local workers.

Moreover, survey data also indicates, as shown in Figure 19 below, that SOEs (76%) are a slightly more likely to provide formal contracts with local workers than POEs (71%); and Chinese companies in the manufacturing and construction sector (81%) are more likely to provide formal contracts with local employees than companies in the service sector (68%).

**Figure 19**: Percentage of Chinese Companies Providing Formal Contracts with Local Employees, By Shareholding Nature, Business Sector and Firm Size.



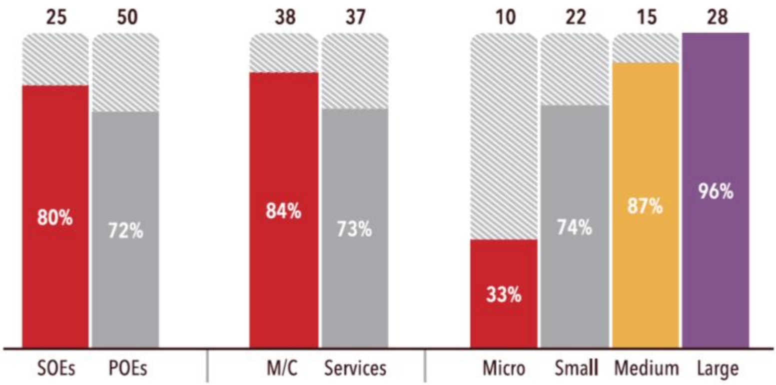

*4.1.2.2 Insurance for Local Employees*

And among the 68 Chinese companies who answered the survey question on whether the company purchased basic insurance for local employees, 44 companies 59% have insurance for all local employees, 12 (16%) provide insurance for full-time local workers, while 12 (16 %) do not have insurance coverage for local workers.

Larger Chinese firms are more likely to provide basic insurance for local workers: 33% of micro enterprises, 74% of small companies, 87% of medium companies and 96% of large Chinese establishments in Kenya that answered this question provide insurance for their local employees.

As shown in Figure 20, compared with POEs (72%), SOEs (80%) are more likely to provide insurance for local employees. Manufacturing and construction companies (84%) have a higher tendency of purchasing basic insurance for local employees than the service sector (73%).

**Figure 20**: Percentage of Chinese Companies Providing Insurance for Local Employees (Sorted by Shareholding Nature, Business Sector and size)

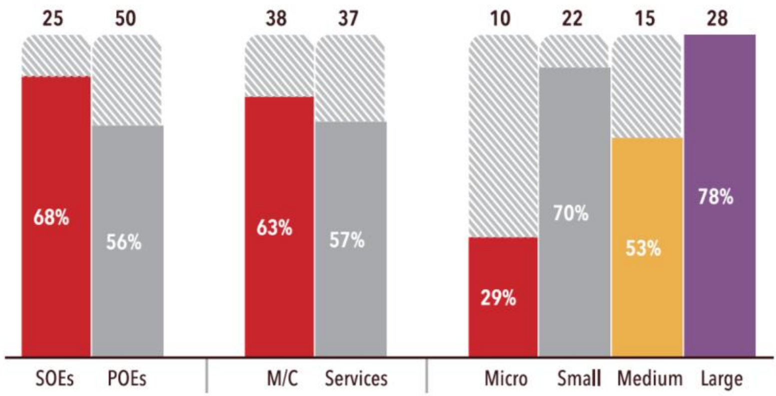



*4.1.2.3 Formal Training Programmes for Local Employees*

For all the companies interviewed, we also asked whether they provide formal training programmes for local employees, and 60% of Chinese companies surveyed indicate that they have formal training programmes, and the programmes provided include skills, safety and hygiene training. Figure 21 below shows the percentage of Chinese companies providing formal training broken down by share-holding nature, business sector and firm size.

SOEs (68%) and companies engaging in the manufacturing and construction business (63%) are more likely to provide formal training programmes than POEs (56%) and the service sector (57%). Even though there exists no correlation between firm size and the likelihood of providing formal training to local employees, 78% of large enterprises provide formal training programmes, which is the highest level among all categories.

**Figure 21**: Percentage of Companies Provide Formal Training Programmes to Local Employees in Terms of Share-Holding Nature, Business Sector and Firm Size

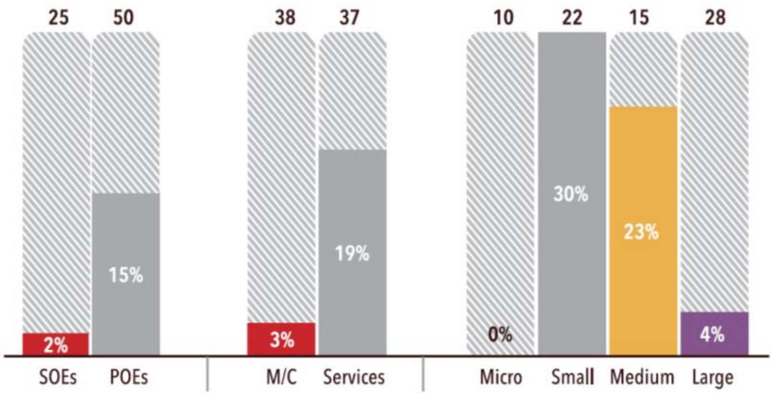



### 4.1.3 Gender

Another interesting fact is that Chinese firms hire very few female employees. As shown in Figure 22, on average, in Chinese establishments in Kenya, the proportion of female, full-time staff is 5%. The World Bank Enterprise Survey across all companies in Kenya found the proportion of permanent full-time workers that are female to be 29%, significantly higher than the proportion in Chinese companies.

The service sector hires more female full-time employees than the manufacturing and construction sector: 19% compared to 3%.

**Figure 22**: Proportion of Female Full-Time Workers in Chinese Establishments in Kenya




POEs (15%) hire more female employees than SOEs (2%) in Kenya. No correlation was found in terms of firm size. 13 Chinese companies surveyed have no female full-time workers at all. Among the 58 Chinese companies that have female employees, 55 companies (95%) have at least one female manager.

## 4.2 Inadequately-skilled Workforce

Inadequately-skilled workforce is perceived to be the seventh biggest obstacle for Chinese companies in Kenya. Chinese companies that engage in labour-intensive businesses, such as construction and manufacturing, are the major contributors to local employment; yet during interviews, they also complained that it has been hard for them to find qualified and trustworthy Kenyan workers.

Chinese companies have also started developing training programmes for their local employees (refer to section

2.1.2). There also exist Chinese projects specifically focusing on skills transfer to Kenyans, such as AVIC International's Technical and Vocational Education and Training Project.

## 4.3 Immigration and Obtaining Working Permits

Chinese companies rank immigration and obtaining working permits as the third most significant obstacle for doing business in Kenya. When asked the percentage of Chinese full-time workers that have work permits, 57 (76%) out of the 75 surveyed companies provide work permits to all its Chinese staff. The average percentage of Chinese employees with working permits in Kenya is 90%. However, it is reasonable to assume that the actual number is lower than this because getting employed in Kenya without a working permit is illegal, which might contribute to surveyed companies providing higher than actual numbers when asked this question.

The length of contracts for Chinese employees to stay in Kenya varies from 12 months to 36 months, depending on the project length, with most companies' projects being 24 months. On average, Chinese employees go back to China for vacation once every three months. 52% of all companies interviewed have their Chinese employees work for 11 months in a year with one month of vacation.

# 5

# OPERATIONAL FACILITIES

Chinese companies' perception of infrastructure (electricity, water and transportation) in Kenya in the construction and manufacturing industries, and hotel and restaurant establishments is also collected in the Survey. In total, there are 38 manufacturing & construction companies and 10 hotels & restaurants accepted the survey, 48 establishments in total. Companies in trade businesses usually rent an office building, which usually provides generator and water storage, included in the office management fee; and thus trade companies are not asked about infrastructure-related questions.

## 5.1 Electricity

### 5.1.1 Power Outage

All 48 companies indicated that their establishments have experienced power outage over financial year 2013. On average, 8.9 power outages are experienced in a typical month in FY2013, and the maximum is 30 times per month, while the minimum is once a month. On average each power outage lasts about 4.7 hours, and the maximum is 24 hours, minimum 0.5 hours. The average length of power outage for manufacturing and construction companies is 5.6 hours with 8.4 times per month; and for hotels and restaurants, the average length is 2.1 hours with 10.8 times per month. The electricity depends largely on the location of the factory/construction sites or hotels/restaurants.

### 5.1.2 Generator

Majority of the Chinese construction / manufacturing and hotel / restaurants own or share a generator in Kenya. 35 out of 48 Chinese companies (73%) owned or shared a generator over the course of FY 2013. On average, 13.8% of the companies' electricity came from a generator or generators that the establishment owned or shared in FY2013 and the minimum is 0% and maximum 60%.

### 5.1.3 Electrical Connection application

Among the 48 establishments we surveyed on this question, 28 companies (58%) have submitted an application to obtain an electrical connection for construction & manufacturing or their hotel or restaurant over the past two years. The question on the duration from the day of the application to the day the service was received and the minimum is 7 days, with maximum is 180 days.

## 5.2 Water Supply

### 5.2.1 Water Shortage

The water supply condition Kenya is perceived to be relatively better than electricity. When asked the kind of water supply used by the establishment, majority of the companies indicate city water supply or a combination of city water, water from the well or water cart. This is also because most companies we surveyed were located in Nairobi, the Capital city, with better infrastructure than companies in remote areas.

Over fiscal year 2013, 42% of the companies surveyed indicated that they have experienced insufficient water supply for construction, manufacturing or daily operation. On average, in a typical month in FY2013, entities suffer from 8.4 times of water supply shortage, with a maximum of 30 times. Average number of water shortages in a month for manufacturing and construction is 6.4 per month and 16 times per month for hotels and restaurants.

Each time the water shortage lasts for 22.8 hours on average, with a maximum of 60 hours and minimum of 1 hour. The average length of each water shortage for Manufacturing and construction companies is 23.6 hours, and for hotels and restaurants is 20.3 hours.

### 5.2.2 Water Connection Application

Among the 39 companies that answered this question, 18 companies submitted a water connection application in the last two years, and the number of days it takes to obtain water supply from the day of the application to the day of service-received varies from 7 to 45 days.

**Table 3:** Power Outage and Water Shortage.

| | Power Outage | | Water Shortage | |
|---|---|---|---|---|
| | Average # of occurrence per month | Average length each time (hours) | Average # of occurrence per month | Average length each time (hours) |
| All-Sector Average | 8.9 | 4.7 | 8.4 | 22.8 |
| Manufacturing / Construction | 8.4 | 5.6 | 6.4 | 23.6 |
| Hotel / Restaurant | 10.8 | 2.1 | 16.0 | 20.3 |

## 5.3 Transportation

Transportation is not listed in the top ten business obstacles for Chinese companies in Kenya. During the survey interview, Chinese companies usually hire professional transportation companies to move cargo and supplies in between cities; in-city transportation, especially in Nairobi, has become a huge problem: traffic jam is severe in rush hours in Nairobi and the unsafe road conditions in the evening -- cars could be hijacked when driving in the evening.

## 5.4 Access to Land

Access to land is also not listed in the top ten business obstacles for Chinese companies in Kenya. When asked about this question, respondents explain that it is easy to get cheated by local land dealers. As long as Chinese companies can find good and reliable lawyers to check the land, there is not big problem in renting or purchasing land within government regulations.

## 5.5 Access to Finance

Based on the survey, as shown in Figure 23 and 24, 95 % of all the Chinese companies in Kenya who participated in this research indicate that they have a local bank account, yet only 26% of all the companies interviewed have obtained a loan or line of credit from a financial institution in Kenya. Compared with companies in Kenya as reflected by the World Bank Enterprise Survey (WBES) 2014 data, 92% of the companies in Kenya have local bank accounts which is lower than the Chinese company percentage; while 36% of companies have a local bank loan or line of credit, much higher than the Chinese companies.

**Figure 23**: Percentage of Chinese Companies with local Checking/Saving Account

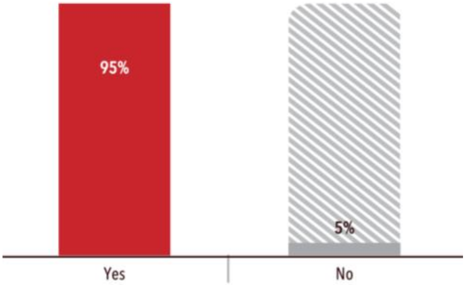
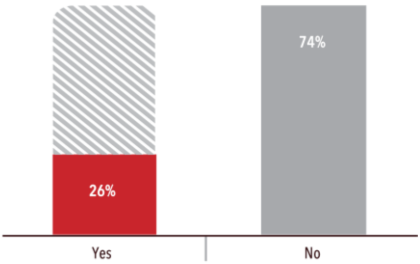



**Figure 24**: Percentage of Chinese Companies with Local Loans / Credit




Relative to the business sectors, as indicated in Figure 25 below, 37% of Chinese companies in manufacturing and construction obtain local loans or line of credit, which is higher than companies in the service sector (16%). The larger the firm, the more likely it is to obtain local loans or line of credit. None of the micro enterprises have obtained local loans or line of credits; 9% of small Chinese companies; 13% of medium companies and 57% of large companies have loans or line of credit from financial institutions in Kenya. There is no significant difference identified in terms of the shareholding nature of the firm. The types of loans taken by Chinese companies from banks in Kenya are usually mortgage loans and project loans.

**Figure 25**: Percentage of Chinese Companies in Kenya with Local Loans / Credit in Terms of Sector, Size and Nature

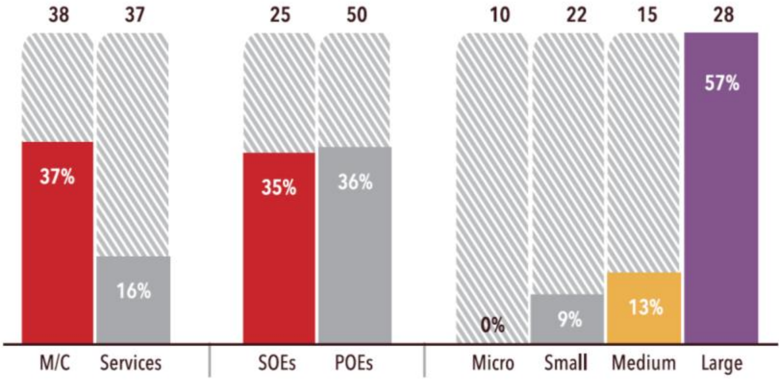
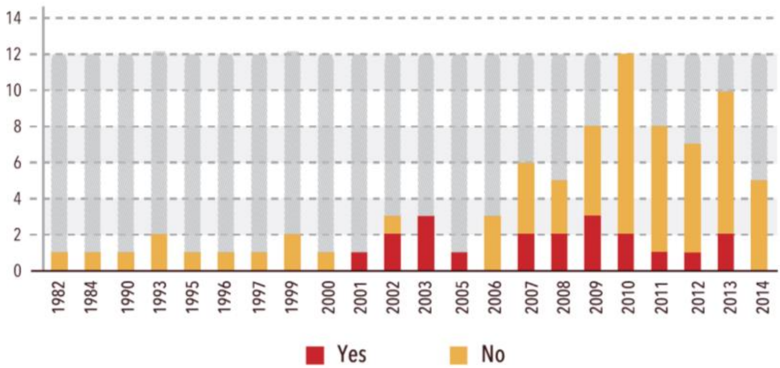



Figure 26 shows the number of companies obtaining local loans or credit facilities in regards to the time of establishment in Kenya. None of the companies established before 2000 have obtained local credit facilities and taking local loans or credit began with Chinese companies established after 2001.

**Figure 26:** Number of Chinese Companies with Local Loans/Credits in Terms of Establishment Time

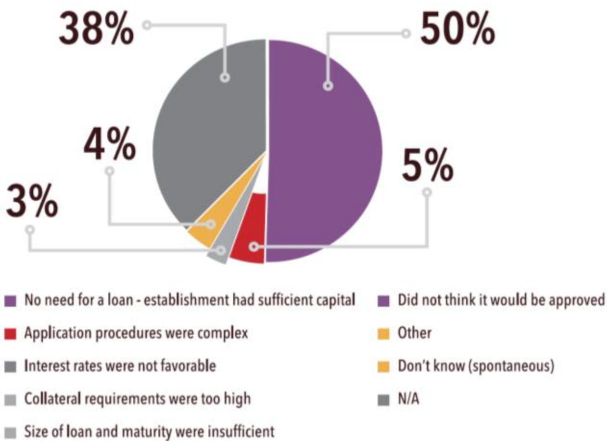



When asked the reason for not obtaining local loans or credits, 51% of Chinese companies interviewed indicate that they do not need a loan and that the establishments have sufficient capital. The Survey also listed other reasons for not obtaining loans or line of credit such as: the application procedures were complex (5% of Chinese companies chose this), interest rates were not favorable (3%), collateral requirements were too high (0%), size of loan and maturity were insufficient (0%) did not think it would be approved (0%), and other (4%).

Compared with locally owned companies in Kenya based on the WBES 2014, 49% of the companies interviewed indicated that they did not apply for a loan in the last fiscal year because they did not need a loan. Most Chinese companies in Kenya indicated that they source their finances from their headquarters back in China, or through savings and borrowing from family and friends.

More reasons for Chinese companies not taking loans from banks in Kenya, based on our interview with the loan suppliers, is that, many Chinese companies in Kenya, especially SOEs are branches of their headquarters in China and the headquarters do not grant their local branches the right to take local loans, with financing usually sourced from the headquarters; moreover, the loan rate in Kenya is not incentivizing enough for Chinese companies to obtain loans here; and finally, Chinese companies are not quite familiar with the procedures of obtaining loans or credits in a foreign country.

**Figure 27**: Justification for Kenya-based Chinese Companies not Obtaining Loans / Credits



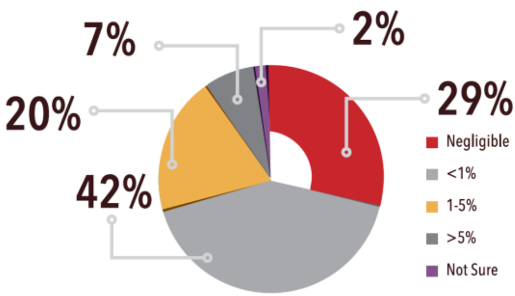
# 6

# SOCIOPOLTICAL ENVIRONMENT

## 6.1 Crime, Theft and Disorder and Personal Safety

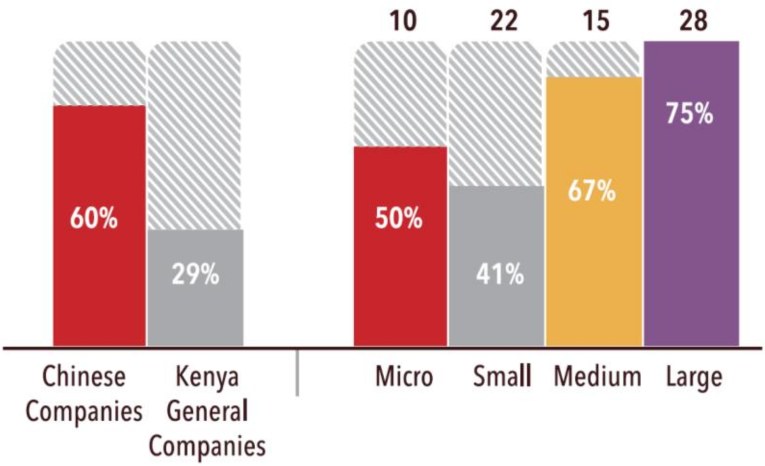
According to our survey, Chinese companies are more susceptible to theft, robbery, vandalism and on-site arson compared to general companies in Kenya. 60% of the Chinese companies surveyed experienced losses as a result of the mentioned crimes in fiscal year 2013, compared to 29% of the general Kenyan companies, according to the WBES 2014 in Kenya.

**Figure 28**: In fiscal year 2013, what were the estimated losses due to theft, robbery, vandalism or arson on the company's premises as a % of total annual sales?




Among Chinese companies, there was no significant correlation between susceptibility to crime and firm sizes, yet large firms are more likely to suffer from aforementioned crimes. 75% of large companies with over 100 employees and 67% of medium companies with 20 to 99 employees experienced losses due to the mentioned crimes, compared to 50% for micro companies with fewer than 5 employees and 41% for small companies with 5 to 19 employees. However, the situation stays similar across industries.

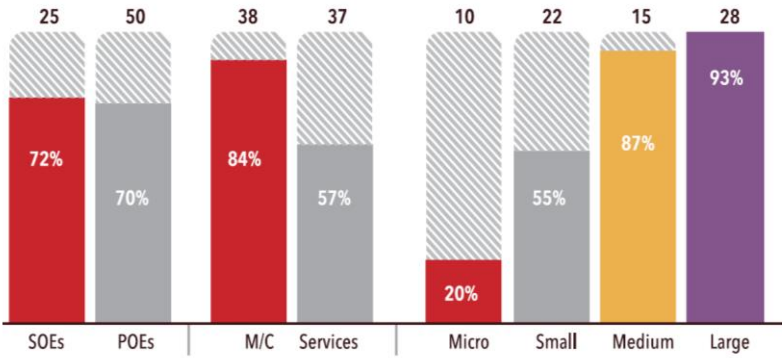
**Figure 29**: In Fiscal Year 2013, How Many Establishments Experience Losses as a Result of Theft, Robbery, Vandalism or Arson On-Site?




Nevertheless, the survey indicates that Chinese companies are paying less for security, such as equipment, personnel, or professional security services, compared to general companies in Kenya. 71% of Chinese companies surveyed paid for security in fiscal year 2013, in comparison to 82% of general Kenyan companies. The average security expense of general Kenyan companies is 4.5% of total annual sales, more than three times that of Chinese companies' 1.27% of total annual sales. The lower attention paid to security facilities, personnel and services may partly contribute to the poorer conditions for Chinese companies compared to general companies in Kenya.

Among Chinese companies, the firm size is positively correlated to the percentage of companies paying for security expenses. The larger the company is, the more likely it has security-related expenses. In terms of industry, 84% of manufacturing and construction companies paid for security expenses in fiscal year 2013 while only 57% of service sector companies did. However, the shareholding nature is not directly related to the payment of security expenses.

**Figure 30**: In fiscal year 2013, how many companies paid for security, for example equipment, personnel, or professional security services?



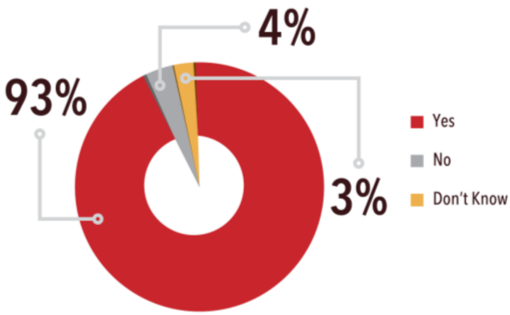

## 6.2 Political Instability

Some companies complained about interruption of business during the election period in Kenya, while more affirmed Kenya's relative stable political situation compared to other countries in Africa.

## 6.3 Informal Competitors

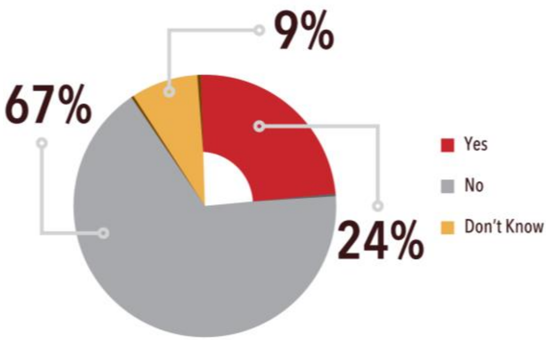
From the Survey, as shown in Figure 31, 93% of all Chinese companies interviewed registered at the local authority before starting operations. The business registration process is perceived by Chinese companies as easy and cheap compared to other African countries or in China.

**Figure 31**: Formal Registration before Operation




When asked whether there is competition from unregistered or informal entities, only 24% of the companies across all sectors surveyed gave a positive answer while a majority of companies suggested otherwise, as shown in Figure 32. With regard to the discussion on Business Registration and Permits in the Legal Environment part, it could be partly attributed to the easiness of business registration and obtaining permits in Kenya.

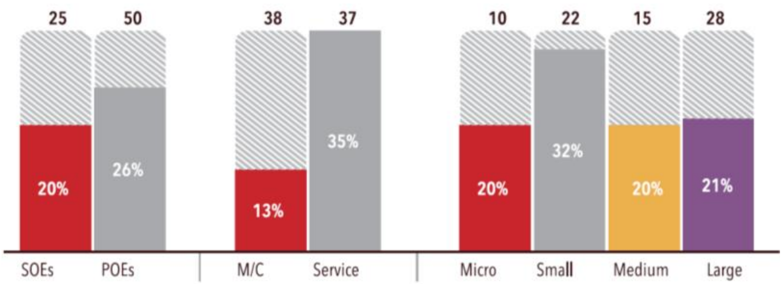
**Figure 32**: Perception of Informal Competitors




In more detail, 35% of the companies from the service sector surveyed acknowledged the existence of the informal sector while only 13% of the construction or manufacturing companies confirmed. It is believed that public biddings can screen and filter unregistered or informal entities from the construction or manufacturing market competition.

Furthermore, 26% of private companies were concerned about the informal competition compared to 20% of state-owned companies. Admittedly, it is hard for a company to tell whether the competitors are registered or not and therefore, the actual situation could be worse than perceived

**Figure 33**: Informal Competition in Terms of Business Sector, Size and Shareholding Nature




## 6.4 Investment Information

Investment information is considered as one of the least significant obstacles observed by Chinese companies. It may be due to the fact that most Chinese companies have their established channel of obtaining investment investment project information rather than relying on public investment information.

## 6.5 Corruption

To measure the depth of corruption, Chinese companies involved with different government functionaries were surveyed on whether informal payment or gifts were sought. In summary, Nairobi City Council, Kenya Revenue Authority and the Import Customs are widely perceived to be the most corrupt by the interviewees.

Among those 48 companies with accessible commercial or industrial sites, 60% of them have been visited by the Nairobi City Council and asked for bribes. Most of them were asked for bribery when the officials found misconduct in their business practices, like absence of some business certificate display, while there are also cases when the officials took advantage of the companies' ignorance of regulations and asked for bribery with wrongful conviction.

**Figure 34**: Percentage of Firms Identifying Corruption as a Major Constraint

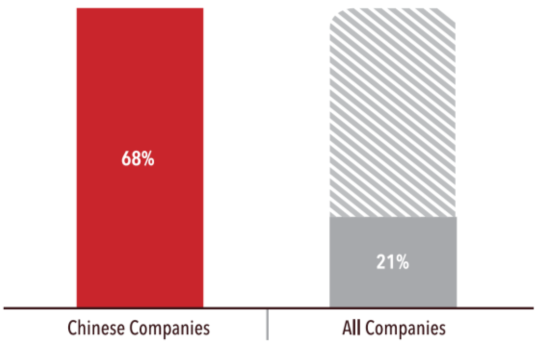
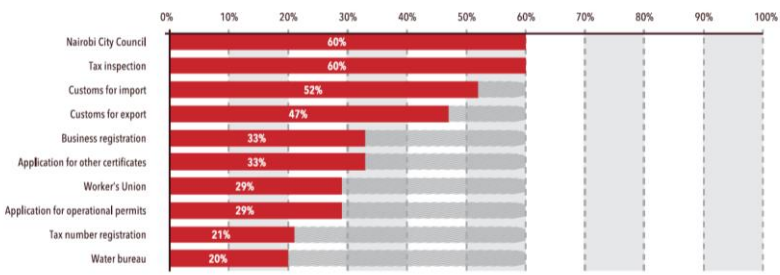



**Figure 35**: Measuring Corruption Depth



# 7

# CONCLUSION AND TOPIC ANALYSIS

The Kenya 2014 Business Perception Index survey covered 75 Chinese establishments in Kenya and had identified the top ten major obstacles perceived by Chinese companies when doing business in Kenya. It also looks into four major areas that might directly influence the business operation of Chinese companies: the legal environment, workforce, operational facilities and sociopolitical environment of the host country.

## 7.1 Conclusion on the Findings

### 7.1.1 Obstacle Analysis

- Kenya 2014 BPI Score is 7.3
- The top three obstacles for Chinese companies in Kenya are: Corruption, safety and obtaining work permits.

### 7.1.2 Legal Environment

- 59% of the total purchases by Chinese companies surveyed are directly imported. The import customs clearance takes 16.5 days on average.
- Professional agents and the tipping practice make business registration and obtaining permits relatively easy.

- Most companies especially smaller firms from service sector deem the court system unfair, partial or corrupt.

### 7.1.3 Workforce

- Chinese companies in Kenya hire more locals than Chinese employees;
- Chinese State-owned Enterprises in Kenya on average are bigger in size, hiring much more employees, both full-time and part-time, than private ones;
- Privately-owned companies are more willing to replace Chinese workers with locals than State-owned Enterprises;
- Chinese companies in Kenya have very limited female employees;
- Chinese employees are away from home long for a long time and vacation is relatively short.

### 7.1.4 Operational Facilities

- Power outage is common in Kenya, yet companies own or share generators; thus electricity has not been an unbearable problem for Chinese companies.
- Water shortage is not a severe problem for companies in big cities like Nairobi.
- Almost all Chinese companies operating in Kenya have a local saving or checking account; only very limited companies have obtained loans or credit. And majority of the companies do not feel the need to take local loans or line of credit.

### 7.1.5 Sociopolitical Environment

- Most companies reported loss related to theft, robbery, vandalism or arson despite security expenses incurred.
- Competition from informal sector is deemed to have low impact.
- Corruption has been a major obstacle that prevails in every stage of doing business in Kenya for Chinese companies; and the most frequent occurrence of corruption happens with traffic police, Nairobi City Council, and tax authority.

## 7.2Analysis on Topics and Policy Recommendations

### 7.2.1 Workforce

Many accusations on China's engagement in African countries is the lack of skill-transfer and hiring more Chinese than locals. However, as we discovered through this BPI Survey, 90% employees in Chinese companies in Kenya are locally hired. It is discovered that Chinese companies in Kenya have strong incentive to localize their workforce, and apart from altruistic reasons for the destination country's development, workforce localization could help Chinese companies reduce cost and better access to local market.

- Skill-transfer for Local Development: From a policy's perspective, Chinese development cooperation with Africa believes in "giving the fish and teaching fishing" at the same time. Hiring local workers in Chinese companies and provide skill-transfer to local employees is the way to help African countries cultivate the ability of self-reliance and development.
- Stringent migration policy: Since the summer of 2013, Kenyan has narrowed its immigration policy, and it is more expensive to bring in Chinese workers to Kenya. It costs about KES 400,000 (US$ 4597) for a foreign employee to obtain a working permit of

two years. Obtaining work permits is ranked as the third most significant obstacle for Chinese companies doing business in Kenya.

- Better engage with local community: During our interview, many Chinese companies expressed their interest in hiring local employees, especially in the position of sales managers and accountant, due to their connections with local community in terms of people connections and language.

During the workforce localization process, Chinese companies also encountered many problems:

- Skilled-labour Availability: Lack of skilled labour- force ranks number seven among all obstacles for Chinese companies doing business in Kenya, and for manufacturing and construction companies, lack of skilled labour ranks even higher as the fifth most significant obstacle.
- Communication Problem: Many Chinese employees in Africa cannot communicate with local people through English, and thus Chinese employees tend to stay in their own circles and do not engage with the local community.
- Working Culture: Chinese employees in African countries are usually perceived as “prisoners”, working very long hours, with low payment (compared with expats from other countries) and with very limited personal life and entertainment due to safety concerns. While Chinese employees’ perception towards local workers is usually lazy, strong unwillingness to work overtime, and not trust-worthy, as expressed to us during our interview with Chinese managers in Kenya.

To better communicate with the international society and build the positive image of Chinese activities in Kenya, and address to the problems Chinese companies are facing in their workforce localization process, Chinese policy makers are recommended to work on the following two areas:

- Create a Pool of Skilled Workforce: Through the interview in Kenya, Chinese companies, especially construction-related companies expressed their strong need for local skilled workforce. For various types of skills needed, it would be very helpful to create a talent pool of skilled local workforce, with training certificates, for Chinese construction companies to consider for employment.
- Better Public Relations and improved transparency: The misperception on Chinese companies not hiring local employees could be addressed through better public relations strategy, improving the transparency of Chinese companies' operation in Kenya will greatly help reducing the misperception and creating positive image for Chinese companies.

### 7.2.2 Crime and Safety Concerns

The poor situation related to crime and safety brought several challenges to Chinese companies:

- High turnover rate for local employees, reducing companies' incentives to for skill transfer and raising labour costs: Most interviewees complained about prevailing small theft incidents committed by local employees, and replacing the suspects has been the most common method to reduce theft incidents and avoid the hassle of dealing with the local police. The consequent high employee turnover rate prevents companies' human capital investment and workforce localization at a higher management level. It also increases costs in training and handover as well as some-times incurring harassment from the Worker's Union. However, replacing employees does not always serve a lesson for the delinquents since most local employees in Chinese companies are unskilled labour, who can easily change to another company without any opportunity cost.

- "Take employees prisoners": Some companies in order to reduce these incidences, closely monitor the daily life of their Chinese employees and their getting around is highly prohibited if the trip is not organized by the company. The practices worsened the labour relationship and greatly increased the related company expenses. Furthermore, most Chinese employees are concerned about their personal safety issue, leading to many resignations before the end of the contracts, which discourages the companies from obtaining work permits for Chinese employees.
- Costly and chronic remedial responsibilities left for Chinese companies: Several cases involving the murder of employees by thugs or left paralyzed were reported in the interviews. The medical and transportation expenses, in addition to the emotional aftermath and impacted company reputation, are always huge burdens for companies.

To address the above-mentioned challenges faced by Chinese companies in Kenya in terms of crime and personal safety, the following policy support could be provided:

- As for small theft incidents, the practice of establishing labour contracts with local employees should be enforced, which help build mutual trust and strengthen the bonding between the Chinese employer and local employees, thus increasing both formal and informal control on employees' behaviour. Also, more skill transfer programmes can be devised to reduce the local employee turnover rate by specializing local workforce to fit the company's unique needs and making job-hopping more costly for local employees.

- Then to address employee personal safety issue, introducing more comprehensive social security and insurance system would be beneficial to overseas Chinese companies. For example, state-funded policy- oriented insurance companies focusing on off-shore Chinese property and personal safety insurance could be set up to support Chinese companies in Kenya. The China Export & Credit Insurance Corporation is a successful example in supporting Chinese export business.
- Finally, travel and business alert information system can be developed to help Chinese nationals avoid potential dangerous areas. Technologies, such as creating an App or a Wechat public page for official information distribution, offer good channel options.

### 7.2.3 Trade and Customs

The trade statistics unveiled three problems for Chinese companies:

- Excessive reliance on imported inputs: companies are hence susceptible to additional business risks such as maritime transport interruption, change in customs regulations and currency exchange rates.
- Shrunken positive impact on the local community: companies provided fewer job opportunities to the community and less invested in tangible assets in Kenya. So their contribution to local economy and communication with the community were significantly reduced.
- Victim and unconscious promoter of corruption: companies implied that bribery facilitates and fastens the customs clearance

process, so many companies see paying tips as a common practice, unconsciously encouraging corruption.

Localization of input materials or purchases is promising and there are already some companies trying to acquire downstream and upstream assets in Kenya.

To achieve a more sustainable trading model for Chinese companies, the following policy support could be recommended:

- Strengthening Chinese companies' manufacturing arms in Kenya and supporting input localization are recommended, which can be achieved by providing policy-oriented financing and adjusting the tax refund policy, for examples.
- Export business to other African countries can be encouraged by improving access to investment information. Sino-Africa business exchange forums and expositions are great platforms for companies to identify business opportunities and build up channels of distribution in other African countries.

### 7.2.4 Corruption

The rampant corruption has been troubling both Chinese and Kenyan companies, but the situation that Chinese companies face is more serious according to the survey. The dissonance can be attributed to:

- Chinese companies tend to avoid trouble by paying the government officials, rather than arguing for the right course or accepting the lawful punishment.
- Lack of communication or miscommunication compounded the conflicts created by the mentioned misperception, mainly because of language barriers and cultural difference.

To alleviate Chinese companies' situation regarding harassment from local government functionaries, the following policy support can be provided

- Chinese companies' awareness against bribery should be improved and detailed information on business-related regulations and rules should be also disclosed and disseminated.
- More trainings on Kenyan laws and regulations would help Chinese companies better identify their own flaws and wrongful accusation from government officials.
- Informal channels for information dissemination, like non-governmental Chinese organizations, can also help advise Chinese companies on proper conduct in terms of tax, labour administration, and intellectual property, etc.

# 8

# ANNEX 1: CHARTS AND TABLES

## 8.1 Obstacle Analysis

**Table 4**: Top ten Obstacles Faced by Chinese Companies in Kenya

| Rank | Total | POE | SOE |
|---|---|---|---|
| **1** | Corruption | Corruption | Corruption |
| **2** | Crime, Theft and Disorder and Personal Safety | Crime, Theft and Disorder and Personal Safety | Crime, Theft and Disorder and Personal Safety |
| **3** | Obtaining working | Tax Rates | Obtaining working permits |
| **4** | Tax Rates | Obtaining working permits | Tax Administration |
| **5** | Tax Administration | Customs and trade regulations | Access to finance |
| **6** | Customs and trade regulations | Inadequately skilled workforce | Tax Rates |
| **7** | Inadequately skilled workforce | Tax Administration | Court system |
| **8** | Court system | Court system | Practices of competitors in the informal sector |
| **9** | Electricity | Electricity | Electricity |
| **10** | Labour management | Water shortage | Customs and trade regula-tions |

**Table 5**: Top Ten Obstacles Faced by Chinese Companies in Kenya. (By Firm-Size)

| Rank | Large | Medium | Small | Micro |
|---|---|---|---|---|
| 1 | Corruption | Corruption | Corruption | Crime, Theft and Disorder and Personal |
| 2 | Crime, Theft and Disorder and Personal Safety | Crime, Theft and Disorder and Personal Safety | Crime, Theft and Disorder and Personal Safety | Corruption |
| 3 | Obtaining working permits | Tax Rates | Obtaining working permits | Tax Rates |
| 4 | Tax Rates | Obtaining working permits | Practices of competitors in the informal sector | Obtaining working permits |
| 5 | Tax Administration | Tax Administration | Tax Administration | Access to finance |
| 6 | Court system | Electricity | Electricity | Customs and trade regulations |
| 7 | Inadequately skilled workforce | Transportation | Customs and trade regulations | Tax Administration |
| 8 | Customs and trade regulations | Customs and trade regulations | Labour management | Practices of competitors in the informal sector |
| 9 | Labour management | Court system | Tax Rates | Transportation |
| 10 | Political instability | Inadequately skilled workforce | Water shortage | Inadequately skilled workforce |

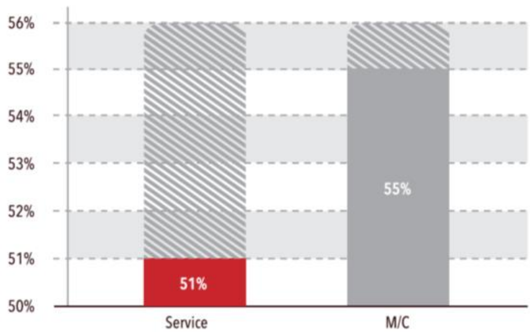
**Table 6**: Top Ten Obstacles Faced by Chinese Companies in Kenya. (By Sector)

| Rank | Service Sector | Manufacturing & Construction |
|---|---|---|
| 1 | Corruption | Corruption |
| 2 | Crime, Theft and Disorder and Personal Safety | Crime, Theft and Disorder and Personal Safety |

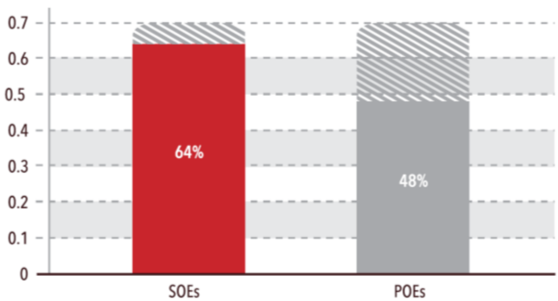
| | | |
|---|---|---|
| **3** | Customs and trade regulations | Obtaining working permits |
| **4** | Tax Rates | Tax Rates |
| **5** | Tax Administration | Inadequately skilled workforce |
| **6** | Obtaining working permits | Court system |
| **7** | Inadequately skilled workforce | Water shortage |
| **8** | Court system | Customs and trade regulations |
| **9** | Labour management | Tax Administration |
| **10** | Practices of competitors in the informal sector | Practices of competitors in the informal sector |

## 8.2 Survey Results

Percentage of Companies Visited by KRA (Sorted by Business sector)




Percentage of companies visited by KRA. (Sorted by shareholding nature)



## 8.3 More Figures and Tables on Legal Environment

**Figure 36**: Have you been visited or inspected by tax officials from Kenya Revenue Authority over the year of 2013? (Sorted by industry)

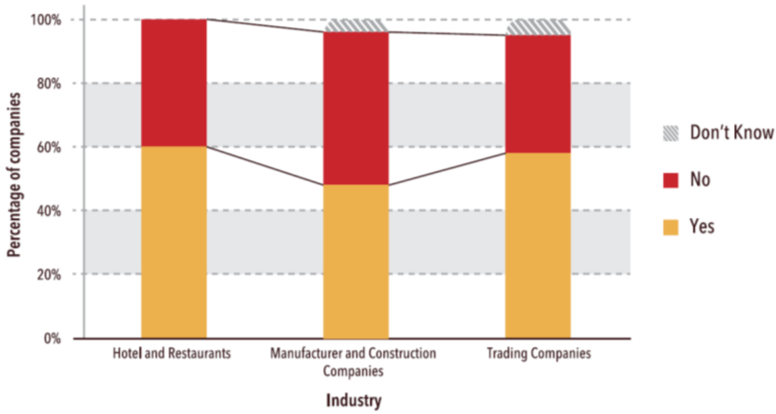



**Figure 37**: Have you been visited or inspected by tax officials from Kenya Revenue Authority over the year of 2013? (Sorted by industry)

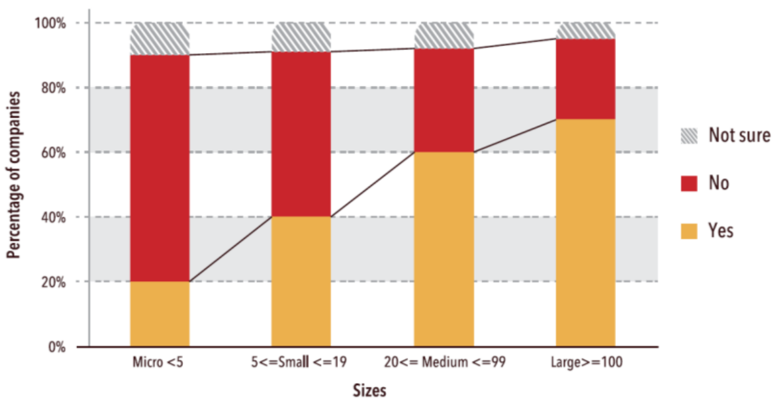


**Figure 38**: Have you been visited or inspected by tax officials from Kenya Revenue Authority over the year of 2013? (Sorted by shareholding nature)

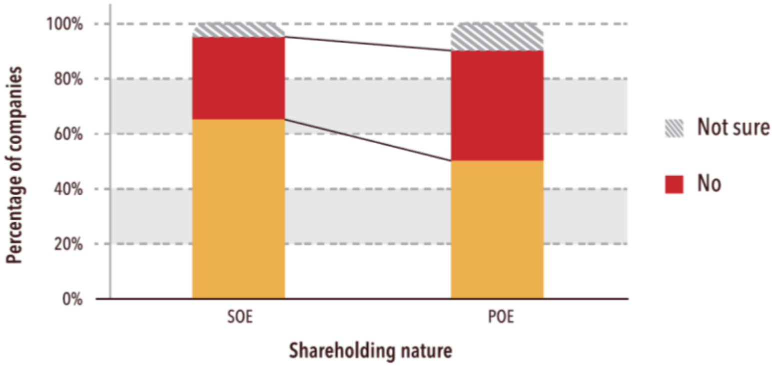



**Table 7**: Over the last year, how many times was this establishment either inspected by tax officials or required to meet with them? (Sorted by industry)

| Service Sector | | Manufacturing & Construction |
|---|---|---|
| Restaurant / Hotel | Trading & Others | |
| 2 | 4 | 2.9 |

**Table 8**: Over the last year, how many times was this establishment either inspected by tax officials or required to meet with them? (Sorted by firm size)

| Micro <5 | 5<= Small <=19 | 20<= Medium <=99 | Large >=100 |
|---|---|---|---|
| 3 | 1.9 | 2.6 | N/A |

**Table 9**: Over the last year, how many times was this establishment either inspected by tax officials or required to meet with them? (Sorted by shareholding nature)

| State-owned | Privately-owned |
|---|---|
| 2.7 | 2.4 |

**Figure 39**: Was Professional Agents Hired For the Registration/Application Process?

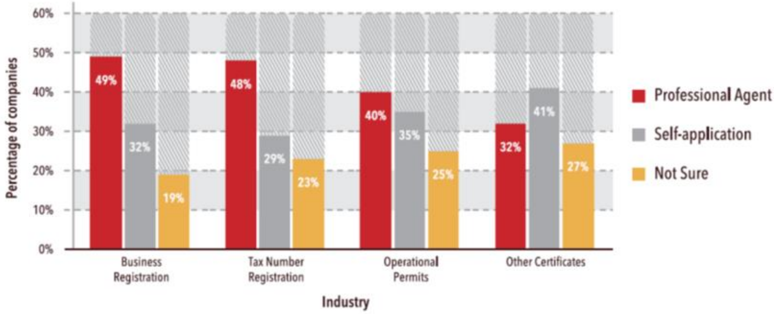



**Table 10**: Do you think the court system is fair, impartial and uncorrupted? (sorted by industry)

| Industry | Yes | No | Don't know |
|---|---|---|---|
| **Service Sector** | 19% | 76% | 5% |
| **Manufacturing & Construction** | 32% | 63% | 5% |

**Table 11**: Do you think the court system is fair, impartial and uncorrupted? (Sorted by size)

| Size | Yes | No | Don't know |
|---|---|---|---|
| **Micro <5** | 20% | 70% | 10% |
| **5<= Small <=19** | 17% | 78% | 4% |
| **20<= Medium <=99** | 21% | 71% | 7% |
| **Large >=100** | 36% | 61% | 4% |

**Table 12**: Do you think the court system is fair, impartial and uncorrupted? (Sorted by shareholding nature)

| Shareholding Nature | Yes | No | Don't know |
|---|---|---|---|
| **State-owned Enterprises** | 32% | 68% | 0% |
| **Privately-owned Enterprises** | 22% | 70% | 8% |

## 8.4 More Figures and Tables on Workforce

**Figure 40**: Do Chinese SOE hire local workers

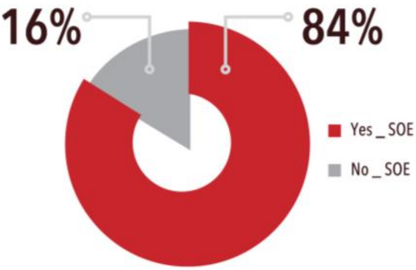



**Figure 41**: Do Chinese POE hire local workers?

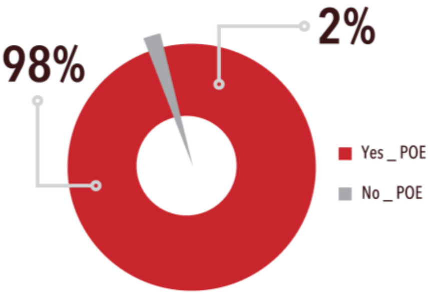



**Table 13**: Local Employees' Contract, Insurance and Training

| | Yes | No | Total Answered |
|---|---|---|---|
| Do these local employees have formal working contract? | 79% | 21% | 70 out of 75 |
| Did you purchase insurances for local employees? | 82% | 18% | 68 out of 75 |
| Over fiscal year 2013, did this establishment have formal training programs for its permanent, full-time local employees? | 65% | 35% | 69 out of 75 |

## 8.5 More Figures and Tables on Sociopolitical Environment

**Table 14**: In fiscal year 2013, did the company pay for security, for example equipment, personnel, or professional security services? If yes, what is the percentage of annual sales?

| Industry | Yes | No | Average Percentage of Annual Sales |
|---|---|---|---|
| Service Sector | 57% | 43% | 1.19% |
| Manufacturing & Construction | 84% | 16% | 1.35% |
| All Sectors | 71% | 29% | 1.27% |

**Table 15**: In fiscal year 2013, what were the estimated losses due to theft, robbery, vandalism or arson on the company's premises as a percentage of total annual sales?

| Industry | Negligible | <1% | 1-5% | >5% | Not Sure |
|---|---|---|---|---|---|
| Service Sector | 32% | 45% | 23% | 0% | 0% |
| Manufacturing & Construction | 26% | 39% | 17% | 13% | 4% |
| All Sectors | 29% | 42% | 20% | 7% | 2% |

**Table 16**: In fiscal year 2013, what were the estimated losses due to theft while the products were shipped to domestic market suppliers as a percentage of total annual sales?

| Industry | Negligible | <1% | 1-5% | >5% | Not Sure |
|---|---|---|---|---|---|
| Service Sector | 45% | 45% | 0% | 9% | 0% |
| Manufacturing & Construction | 73% | 9% | 0% | 9% | 9% |
| All Sectors | 59% | 27% | 0% | 9% | 5% |

**Table 17**: Does an unregistered or informal entity compete with your company? (Sorted by industry)

| Percentage | Yes | No | Don't Know |
|---|---|---|---|
| **Service Sector** | 35% | 57% | 8% |
| **Manufacturing & Construction** | 13% | 76% | 11% |
| **All Sectors** | 24% | 67% | 9% |

**Table 18**: Does an unregistered or informal entity compete with your company? (Sorted by size)

| Percentage | Yes | No | Don't Know |
|---|---|---|---|
| **Micro <5** | 20% | 60% | 20% |
| **5<= Small <=19** | 32% | 64% | 5% |
| **20<= Medium <=99** | 20% | 60% | 20% |
| **Large >=100** | 21% | 75% | 4% |

**Table 19**: Does an unregistered or informal entity compete with your company? (Sorted by shareholding nature)

| Percentage | Yes | No | Don't Know |
|---|---|---|---|
| **State-owned** | 20% | 68% | 12% |
| **Privately-owned** | 26% | 66% | 8% |

# 9

# ANNEX 2: QUESTIONNAIRE

## Purpose of the Chinese Enterprise Survey

To construct a business environment perception index for Chinese companies that can be comparable across all of the African economies;

To map the characteristics of the Chinese firms in Kenya, and the constraints to their growth and performance;

To stimulate policy dialogue on the business environment and to help shape the agenda for reform to help Chinese enterprises better perform in Kenya.

## Survey Description

This Business Perception Index (BPI) is built upon the World Bank Enterprise Survey in 2007. The BPI uses many of the questions asked in the WBES, but also included some questions closely related to issues constantly brought up in China's investment in Africa topic, such as firm's annual Corporate Social Responsibility budget and projects, questions on Chinese workers and the composition of the workforce, etc. Apart from Manufacturing and service sectors that are surveyed in the WBES, the BPI also broadened the target sectors to construction and real estate (which is the major business of China in Kenya), energy, Manufacturing, wholesale and retail trade, hotel and restaurant, etc. Moreover, the WBES do not survey on firms owned by governments, while considering that more than half of the Chinese companies in Kenya, and in other African countries, are state-owned enterprises, we also include SOEs into our survey.

Questionnaires include the following sections: basic firm characteristics, regulation and taxes, crime and safety, informality, gender, finance, infrastructure, trade, workforce, corruption and obstacles analysis.

The survey is conducted to both Chinese Privately-owned enterprises and state-owned enterprise in Kenya of various size. The sampling methodology was designed to generate a sample representative of the whole Chinese enterprises in Kenya working in construction, real estate, energy, service, and other sectors in the economy.

## Survey Questions

- Manufacturing and Construction Sector: M/C
- Hotel and Restaurant: H/R
- Other Service Sectors: O/S

| Questions | | Answer Type | Sectors Asked |
|---|---|---|---|
| **General Information** | | | |
| **s.1** | Your major business types in Kenya? | **Choose** | **All** |
| **s.2** | How many projects are currently undergoing in Kenya? | **Number** | **M/C** |
| **s.3.a** | Among the projects of your company, how many are initiated by the Government of Kenya? | **Number** | **M/C** |
| **s.3.b** | Number of projects not initiated by the Government of Kenya? | **Number** | **M/C** |
| **s.4.a** | How many full-time employees does this firm currently have in total? | **Number** | **All** |
| **s.4.b** | Among the full-time employees, how many are Chinese? | **Number** | **All** |
| **s.4.c** | Among the full-time employees, how many are from Kenya? | **Number** | **All** |
| **s.5.a** | How many part-time/contracted employees does this firm currently have in total? | **Number** | **All** |

| | | | |
|---|---|---|---|
| **s.5.b** | Among the part-time/contract employees, how many are Chinese? | **Number** | **All** |
| **s.5.c** | Among the part-time/contract employees, how many are from Kenya? | **Number** | **All** |
| **s.6** | What kind of firm is this?<br>• A private for-profit establishment _1<br>• A government-owned establishment _2<br>• A partially government owned establishment _3<br>• A community-owned establishment _4<br>• A cooperative _5 | **Choose 1 / 2 /<br>3 / 4 / 5** | **All** |
| **s.7** | Is this establishment part of a larger firm? | **Yes/No** | **All** |
| **s.8** | How many establishments are part of the firm globally? | **Number** | **All** |
| **s.9.a** | What type of establishment is this?<br>• Headquarter _1<br>• Establishment physically separated from HQ in China and other establishments of the same firm _2<br>• Establishment physically separated from HQ outside China and other establishments of the | **Choose 1 / 2 / 3** | **All** |
| **s.10** | Are financial statements of this establishment kept separate from financial statements that cover activities at headquarters? | **Yes / No** | **All** |
| **s.11** | Are financial statements of this establishment kept separate from financial statements that cover activities of other establishments of the same firm? | **Yes / No** | **All** |
| **Q. No.** | **Questions** | **Answer Type** | **Sectors Asked** |
| **Tax and Regulations** | | | |
| **r.1** | Over the last year, was this establishment visited or inspected by tax officials? | **Yes / No** | **All** |
| **r.2** | Over the last year, how many times was this establishment either inspected by tax officials or required to meet with them? | **Number** | **All** |
| **r.3** | In any of these inspections or meetings was a gift or informal payment expected or requested? | **Yes / No** | **All** |
| **r.4** | Does the company have a local accountant? | **Yes / No** | **All** |
| **r.5** | Does the company have a Chinese accountant? | **Yes / No** | **All** |
| **r.6** | Does the company hire a local lawyer? | **Yes / No** | **All** |

| | | | |
|---|---|---|---|
| **r.7** | Does the company hire a Chinese lawyer? | **Yes / No** | **All** |
| **Crime and Security** | | | |
| **cr.1** | In fiscal year 2013, did this establishment pay for security, for example equipment, personnel, or professional security services? | **Yes / No** | **All** |
| **cr.2** | In fiscal year 2013, what percentage of this establishment's total annual sales was paid for security, or what was the total annual cost of security? | **%** | **All** |
| **cr.3** | In fiscal year 2013, did this establishment experience losses as a result of theft, robbery, vandalism or arson on-site? | **Yes/No** | **All** |
| **cr.4** | In fiscal year 2013, what were the estimated losses as a result of theft, robbery, vandalism or arson that occurred on this establishment's premises either as a percentage of total annual sales or as total annual losses?<br>• Negligible _1<br>• < 1% _2<br>• 1% < 5% _3<br>• >5% _4<br>• Do not know _5 | **Choose 1 / 2 /<br>3 / 4 / 5** | **All** |
| **cr.5** | In fiscal year 2013, did you suffer from loss due to theft while the products this establishment shipped to supply domestic markets was lost? | **Yes/No** | **All** |
| **cr.6** | In fiscal year 2013, what percentage of the value of products this establishment shipped to supply domestic markets was lost while in transit because of theft? | **Choose 1 / 2 /<br>3 / 4 / 5** | **All** |
| **Informality** | | | |
| **ifm.1** | In what year did this establishment begin operations? | **Year** | **All** |
| **ifm.2** | Was this establishment formally registered when it began operations in this country? | **Yes/No** | **All** |
| **ifm.3** | In what year was this establishment formally registered in this country? | **Yes/No** | **All** |
| **ifm.4** | Did you hire a professional agent to go through the registration process? | **Yes/No** | **All** |
| **ifm.5** | If you conducted the application for registering for business corporation,<br>was an informal gift or payment expected or requested? | **Yes/No** | **All** |

| | | | |
|---|---|---|---|
| **ifm.6** | Did you hire a professional agent to apply to the Tax number at the KRA? | **Yes/N0** | **All** |
| **ifm.7** | If you conducted the application for T number by yourself at the KRA, was an informal gift or payment expected or requested? | **Yes/N0** | **All** |
| **ifm.8** | Did you hire a professional agent to apply to the operation permit? | **Yes/N0** | **All** |
| **ifm.9** | If you conducted the application for operation permit by yourself, was an informal gift or payment expected or requested? | **Yes/N0** | **All** |
| **ifm.10** | Did you hire a professional agent to apply to the other certificates related to your business? | **Yes/N0** | **All** |
| **ifm.11** | If you conducted the application for operation permit by yourself, was an informal gift or payment expected or requested? | **Yes/N0** | **All** |
| **ifm.12** | Does this establishment compete against unregistered or informal firms? | **Yes/N0** | **All** |
| **Gender** | | | |
| **g.1** | Currently how many permanent, full-time individuals worked in this establishment are female? Please include all | **Number** | **All** |
| **g.2** | Is there full time managers of this establishment is female? | **Yes/No** | **All** |
| **Finance** | | | |
| **f.1** | At this time, does this establishment have a local checking or savings account? | **Yes / No** | **All** |
| **f.2** | At this time, does this establishment have a line of credit or a loan from a financial institution? | **Yes / No** | **All** |
| **f.3** | Where did you obtained the loans from?<br>• Chinese Banks in China _1<br>• International Banks' Kenyan Branch _2<br>• Local banks in Kenya _3<br>• China Development Bank _4<br>• Other (please specify) _5 | **Choose 1 / 2 / 3 / 4 / 5** | **All** |

| | | | |
|---|---|---|---|
| **f.4** | Referring only to this most recent application for a line of credit or loan,<br>what was the outcome of that application?<br>• Application succeeded _1<br>• Application rejected _2<br>• Applicaton in process _3<br>• Don't know _4 | **Choose 1 / 2 / 3/ 4** | **All** |
| **f.5** | What was the main reason why this establishment did not apply for any line of credit or loan from a local bank?<br>• No need for a loan - establishment had sufficient capital _1<br>• Application procedures were complex _2<br>• Interest rates were not favorable _3<br>• Collateral requirements were too high _4<br>• Size of loan and maturity were insufficient _5<br>• Did not think it would be approved _6<br>• Other _7<br>• Don't know (spontaneous) _8 | **Choose 1 / 2 / 3<br>/ 4 / 5 / 6 / 7<br>/ 8** | **All** |
| **Infrastructure** | | | |
| **i.1** | Over fiscal year 2013, did this establishment experience power outages at<br>your construction site? | **Yes/No** | M/C, H/R |
| **i.2** | In a typical month, over fiscal year 2013, how many power outages did<br>this establishment experience? | **Number** | M/C, H/R |
| **i.3** | How long did these power outages last on average? | **Hour** | M/C, H/R |
| **i.4** | Over the course of fiscal year 2013, did this establishment own or share a<br>generator? | **Yes/No** | M/C, H/R |
| **i.5** | In fiscal year 2013, what percentage of this establishment‘s electricity came from a generator or generators that the establishment owned or shared? | **%** | M/C, H/R |
| **i.6** | Over the last two years, did this establishment submit an application to<br>obtain an electrical connection for construction? | **Yes/No** | M/C, H/R |
| **i.7** | In reference to that application for an electrical connection, approximately how many days did it take to obtain it from the day of the application to the day the service was received? | **Days** | M/C, H/R |

| | | | |
|---|---|---|---|
| **i.8** | Did you hire a professional agent to apply to the electricity connection from the electricity bureau? | **Yes/No** | M/C, H/R |
| **i.9** | In reference to that application for an electrical connection, was an informal gift or payment expected or requested? | **Yes/No** | M/C, H/R |
| **i.9** | What kind of water supply is used by this establishment currently?<br>• Well _1<br>• City Water supply _2<br>• Water by cart _3<br>• All of above _4<br>• Other _5 | | M/C, H/R |
| **i.10** | What kind of water supply is used by this establishment currently?<br>• Well _1<br>• City Water supply _2<br>• Water by cart _3<br>• All of above _4<br>• Other _5 | **Choose 1 / 2 / 3 / 4 / 5** | M/C, H/R |
| **i.11** | Over fiscal year 2013, did this establishment experience insufficient water supply for construction? | **Yes / No** | M/C, H/R |
| **i.12** | In a typical month, over fiscal year 2013, how many incidents of insufficient water supply did this establishment experience? | **Number** | M/C, H/R |
| **i.13** | How long did these incidents of insufficient water supply last on average for the construction sites? | **Hours** | M/C, H/R |
| **i.14** | Over the last two years, did this establishment submit an application to obtain an water connection for construction? | **Yes / No** | M/C, H/R |
| **i.15** | In reference to that application for a water connection, approximately how many days did it take to obtain it from the day of the application to the day the service was received? | **Days** | M/C, H/R |
| **i.16** | Did you hire a professional agent to apply to the water connection? | **Yes / No** | M/C, H/R |
| **i.17** | In reference to that application for water connection, was an informal gift or payment expected or requested? | **Yes / No** | M/C, H/R |

| | | | |
|---|---|---|---|
| **i.18** | If you have applied to digging a well in the construction site in the past two years, was an informal gift or payment expected or requested? | **Yes / No** | M/C |
| **Q. No.** | Questions | **Answer Type** | Sectors Asked |
| | **Trade** | | |
| **t.1** | Does this firm has import businesses? | **Yes / No** | **All** |
| **t.2** | Does this firm has export businesses? | **Yes / No** | **All** |
| **t.3** | In fiscal year [insert last complete fiscal year], when this establishment imported material inputs or supplies, how many days did it take on average from the time these goods arrived to their point of entry (e.g. port, airport) until the time these goods could be claimed from customs? | **Days** | **All** |
| **t.4** | At the custom claim for import, was an informal gift or payment expected or requested? | **Yes / No** | **All** |
| **t.5** | In fiscal year [insert last complete fiscal year], when this establishment exported goods directly, how many days did it take on average from the time this establishment's goods arrived at their main point of exit (e.g., port, airport) until the time these goods cleared customs? | **Days** | **All** |
| **t.6** | At the custom claim for export, was an informal gift or payment expected or requested? | **Yes / No** | **All** |
| **t.7.a** | In fiscal year 2013, as a proportion of all material inputs or supplies purchased that year, what percentage of this establishment's material inputs or supplies were: Material inputs or supplies of domestic origin? | **%** | **All** |
| **t.7.b** | In fiscal year 2013, as a proportion of all material inputs or supplies purchased that year, what percentage of this establishment's material inputs or supplies were:Indirect imports (material/supplies are produred from a local provider but these have actually been imported and are being on-sold)? | **%** | **All** |

| | | | |
|---|---|---|---|
| **t.7.c** | In fiscal year 2013, as a proportion of all material inputs or supplies purchased that year, what percentage of this establishment's material inputs or supplies were:Material inputs or supplies of foreign origin? | **%** | **All** |
| **t.8.a** | In fiscal year 2013, what percentage of this establishment's sales were: National Sales? | **%** | **All** |
| **t.8.b** | In fiscal year 2013, what percentage of this establishment's sales were:<br>Indirect exports (sold domestically to third party that exports products)? | **%** | **All** |
| **t.8.c** | In fiscal year 2013, what percentage of this establishment's sales were: Direct exports? | **%** | **All** |
| **WorkForce** | | | |
| **w.1** | Does this firm hire local workers? | **Yes/No** | **All** |
| **w.2** | How many full-time local employees did this establishment employ when<br>it started operations in this country? | **Number** | **All** |
| **w.3** | Do these local employees have formal working contract? | **Choose** | **All** |
| **w.4** | Did you purchase insurances for local employees? | **Choose** | **All** |
| **w.5** | For the permanent Chinese workers in this establishment, how many percent has work permits? | **%** | **All** |
| **w.6** | What is the average length of contract for Chinese employees to stay in Kenya? | **Years** | **All** |
| **w.7** | Is there an active policy to eventually replace Chinese workers with locals? | **Yes/No** | **All** |
| **w.8** | How often does Chinese employees go back to China for vacation? | **Months** | **All** |
| **w.9** | Over fiscal year 2013, did this establishment have formal training programs for its permanent, full-time local employees? | **Yes/No** | **All** |
| **w.10** | Did you recruit any Kenyan students graduated from Chinese universities? | **Yes/No** | **All** |
| **Corruption** | | | |

| | | | |
|---|---|---|---|
| **c.1** | Over the last year, has this establishment secured or attempted to secure a government contract? | **Yes/No** | **All** |
| **c.2** | When establishments like this one do business with the government, what percent of the contract value would be typically paid in informal payments or gifts to secure the contract? | **%** | **All** |
| **c.3** | Do you think the “The court system is fair, impartial and uncorrupted? | **Yes/No** | **All** |
| **c.4** | Have you ever stopped by a traffic police and requested for an informal gift or payment? | **Yes/No** | **All** |
| **c.5** | Have you ever been visited by the Worker’s Union to requested or implied for informal gift or payment? | **Yes/No** | **All** |
| **c.6** | Have you ever been visited by the Nairobi City Counscil to requested or implied for informal gift or payment? | **Yes/No** | **All** |
| **c.7** | Have you ever been visited by the Water bureau to requested or implied for informal gift or payment? | **Yes/No** | **All** |
| **Other** | | | |
| **o.1** | What is the budget per year for the public relations of this firm? | **USD** | **All** |
| **0.2** | What is the budget per year for the Corporate Social Responsibilities of this firm? | **USD** | **All** |
| **Obstacle Analysis** | | | |
| **oa.1** | As I list some factors that can affect the current operations of a business, please look at this card and tell me the degree to which you think each factor is an obstacle to the current operations of this establishment: Tax Rates?<br>• No obstacle _1<br>• Minor Obstacle _2<br>• Moderate obstacle _3<br>• Major obstacle _4<br>• Very severe obstacle _5<br>• Do not know _6<br>• N/A _7 | **Choose 1 / 2 / 3 / 4 / 5 / 6 / 7** | **All** |
| **oa.2** | Obstacle analysis:Tax Administration | **Choose** | **All** |

| | | | |
|---|---|---|---|
| **oa.3** | Obstacle analysis: Business Liscensing and Permits | **Choose** | **All** |
| **oa.4** | Obstacle analysis:Corruption | **Choose** | **All** |
| **oa.5** | Obstacle analysis:Court | **Choose** | **All** |
| **oa.6** | Obstacle analysis:Crime, theft and disorder and personal safety | **Choose** | **All** |
| **oa.7** | Obstacle analysis:Practices of competitors in the informal sector | **Choose** | **All** |
| **oa.8** | Obstacle analysis:Access to finance | **Choose** | **All** |
| **oa.9** | Obstacle analysis:Electricity | **Choose** | **All** |
| **oa.10** | Obstacle analysis:Water shortage | **Choose** | **All** |
| **oa.11** | Obstacle analysis:Transportation | **Choose** | **All** |
| **oa.12** | Obstacle analysis:Customs and trade regulations | **Choose** | **All** |
| **oa.13** | Obstacle analysis:Labour regulations | **Choose** | **All** |
| **oa.14** | Obstacle analysis:Immigration | **Choose** | **All** |
| **oa.15** | Obstacle analysis:Inadequately skilled work-force | **Choose** | **All** |
| **oa.16** | Obstacle analysis:Access to land | **Choose** | **All** |
| **oa.17** | Obstacle analysis:Investment Information | **Choose** | **All** |
| **oa.18** | Obstacle analysis:Political instability | **Choose** | **All** |
| **oa.19** | Obstacle analysis: other | **Choose** | **All** |

# 10

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