

## **WHAT MATTERS TO AFRICAN FIRMS? The Relevance of Perceptions Data**

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### **ABSTRACT**

Can perceptions data help us understand investment climate constraints facing the private sector? Or do firms simply complain about everything? In this paper, we provide a picture of how firms' views on constraints differ across countries in Sub-Saharan Africa. We find that reported constraints reflect country characteristics and vary systematically by level of income—the most elemental constraints to doing business (power, access to finance, ability to plan ahead) appear to be most binding at low levels of income. As countries develop and these elemental constraints are relaxed, governance-related constraints become more problematic. As countries move further up the income scale and the state becomes more capable, labor regulation is perceived to be more of a problem—business is just one among several important constituencies.

Turning to the concept of “binding constraints”, the investment climate surveys do not generally suggest one single binding constraint facing firms in difficult business climates. However, there do appear to be groups of constraints that matter more at different income levels, with a few elemental constraints being especially important at low levels and a few regulatory constraints at high levels, but a difficult range of governance-related constraints at intermediate levels. Adjusting to a constraint does not mean that firms then do not recognize it—generator-owning firms are not distinguishable from other firms when ranking electricity as a constraint. Overall, firms do appear to discriminate between constraints in a reasonable way. Their views can provide a useful first step in the business-government consultative process and help to prioritize more specific behavioral analysis and policy reforms.