Business Environment Issues in Trade and Market Integration in the SADC Region

A Regional Investment Climate Assessment

The World Bank

April 24, 2012
Harare
Zimbabwe

Objectives of the assessment

1. Evaluate the role of cross country differences in business environment in impeding cross border

- trade flows
- integration of factor markets

2. To inform the policy and business environment harmonization agenda of the Community

Data sources

- Mainly microeconomic data : firm survey and household survey data.
- World Bank Enterprise Surveys covering 13 of 15 member countries.
- Labor force survey and household survey data where available: Botswana, Mauritius, South Africa, Tanzania, Zambia
- World Bank Doing Business Database and Governance Indicators
- World Development indicators
- UN Comtrade

Key issues of reform and harmonization

- Trade policy: import tariffs and non-tariff barriers to trade
- Transport and logistics plus other source of trade costs
- Regional integration of energy markets
- Customs and regulation cross border transactions
- Competition policy
- Regulation of entry and business formation
- Access to finance
- Quality of governance

Trends in trade integration

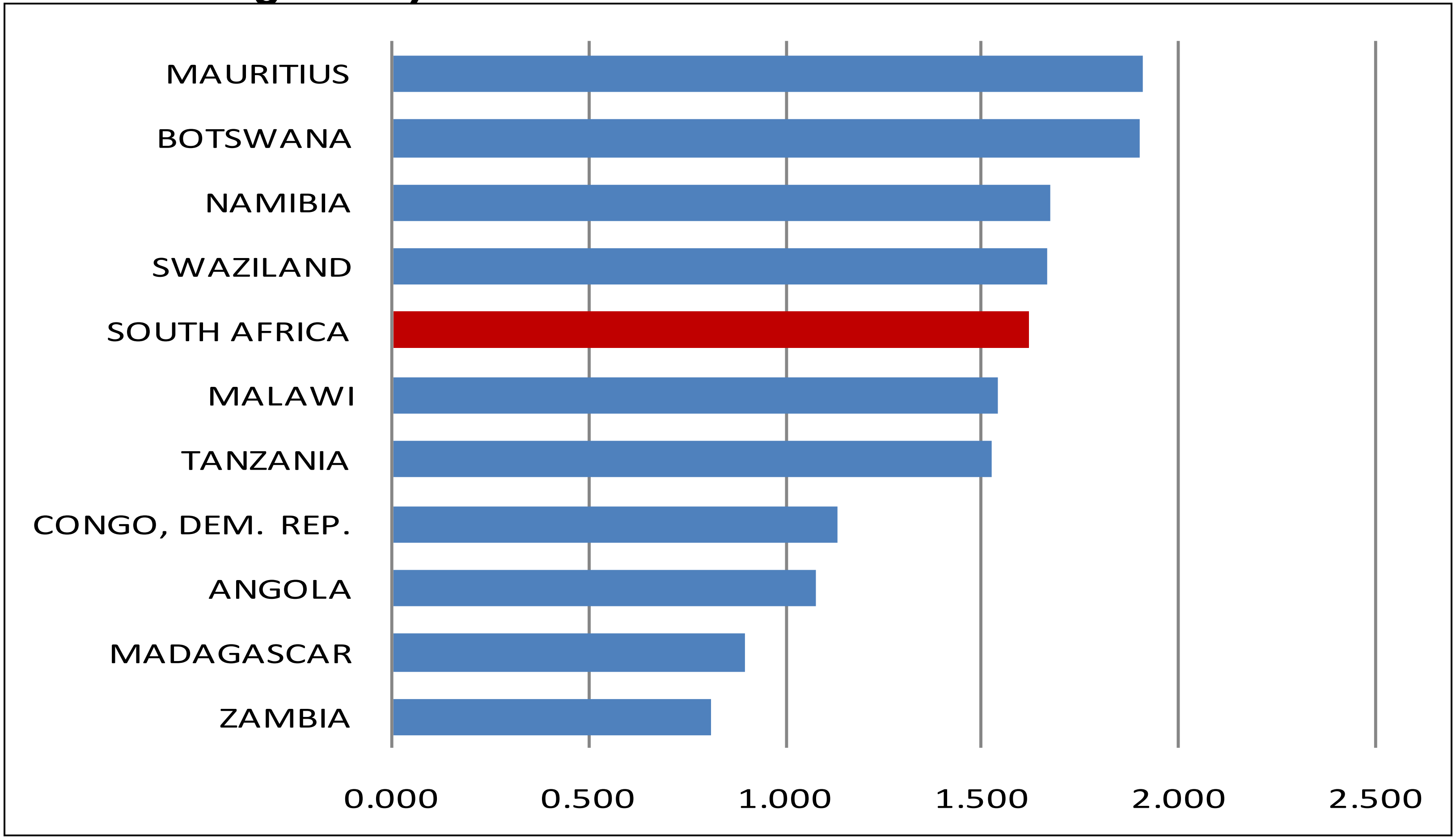
- Greater intra regional and extra regional integration than 20 years ago
- But most of this due to the liberalization measures of the early 1990s
- Progress has stalled since then
- There is also a serious imbalance in trade flows-as trade with SACU members remains dominant
- Also concentration of regional exports in primary commodities in the face of clear imperative to diversify into labor intensive sectors e.g. agro processing, manufacturing and services

Export diversification and productivity

- The diversification imperative : unemployment and inequality
- Relatively successful “diversifiers”: South Africa, Mauritius, Namibia, Swaziland, Malawi
- Not so successful : Angola, DRC, Zambia
- Productivity (TFP) in manufacturing and services is the key point of difference between the two groups

More successful exporters have more productive manufacturing and service sectors …

Aggregate manufacturing and service productivity (TFP in log units)

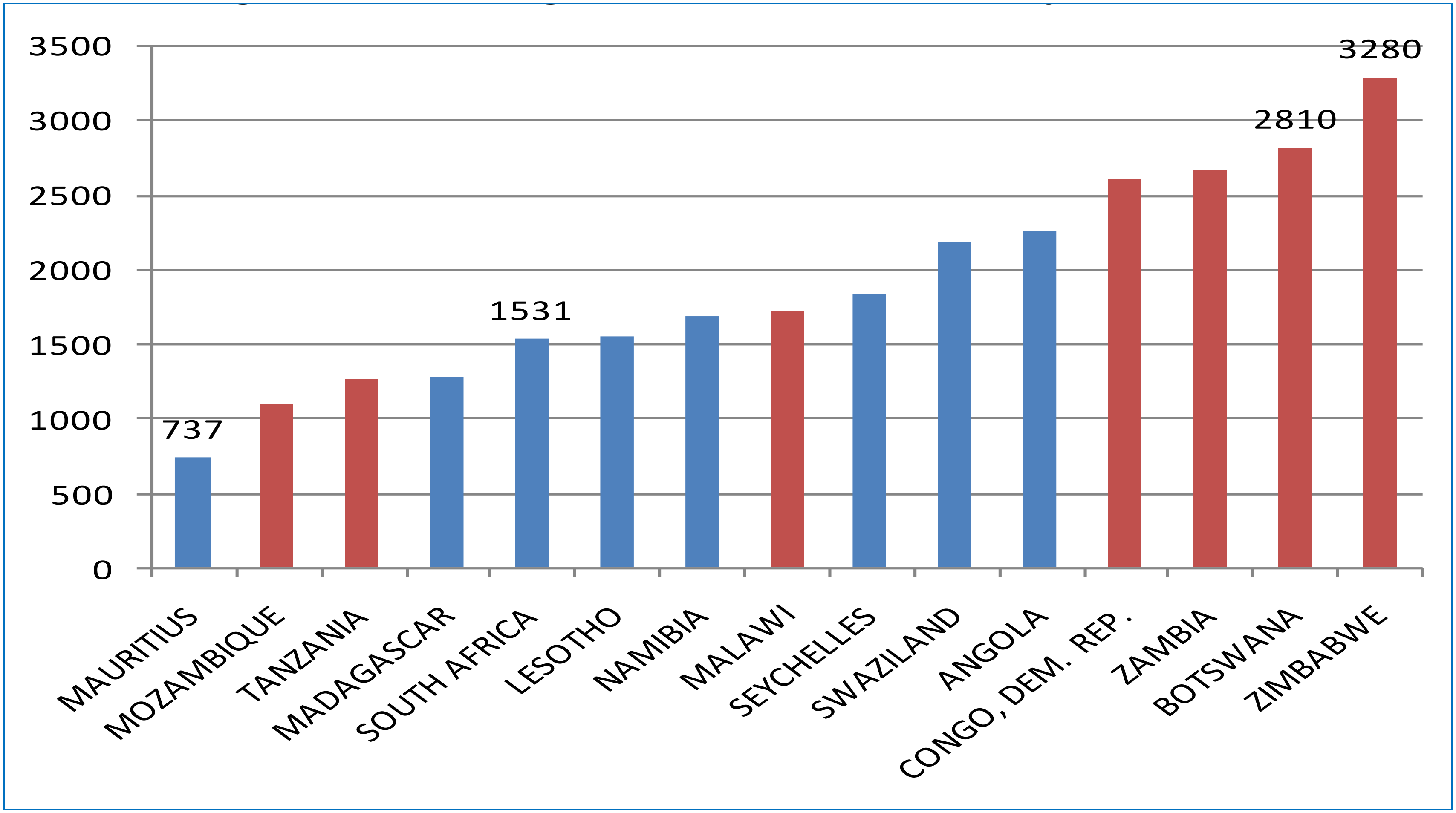


Lower manufacturing and service productivity reflect problems of business environment that reduce technical efficiency

- Sources of high trade costs –high transport costs, poor logistics, and poor customs admin
- Unreliable power supply
- Inadequate access to finance

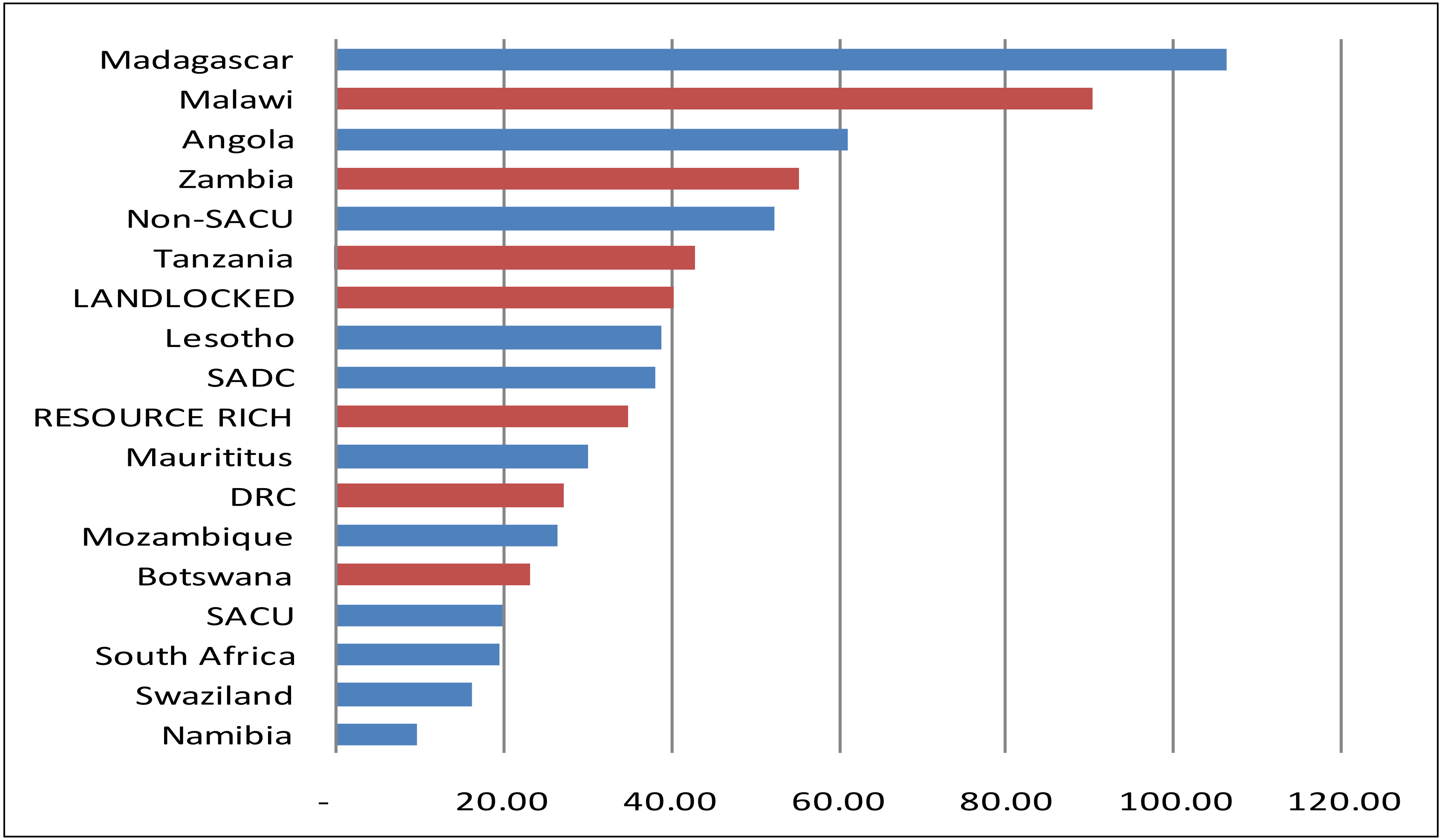
Trade costs are high everywhere but particularly in Angola, Botswana, DRC, Zambia, Botswana and Zimbabwe

Trade costs —exports (US$)-Doing Business 2010



In many countries a new business would take months to get connected to the public grid

Average number of days needed to connect to a public grid

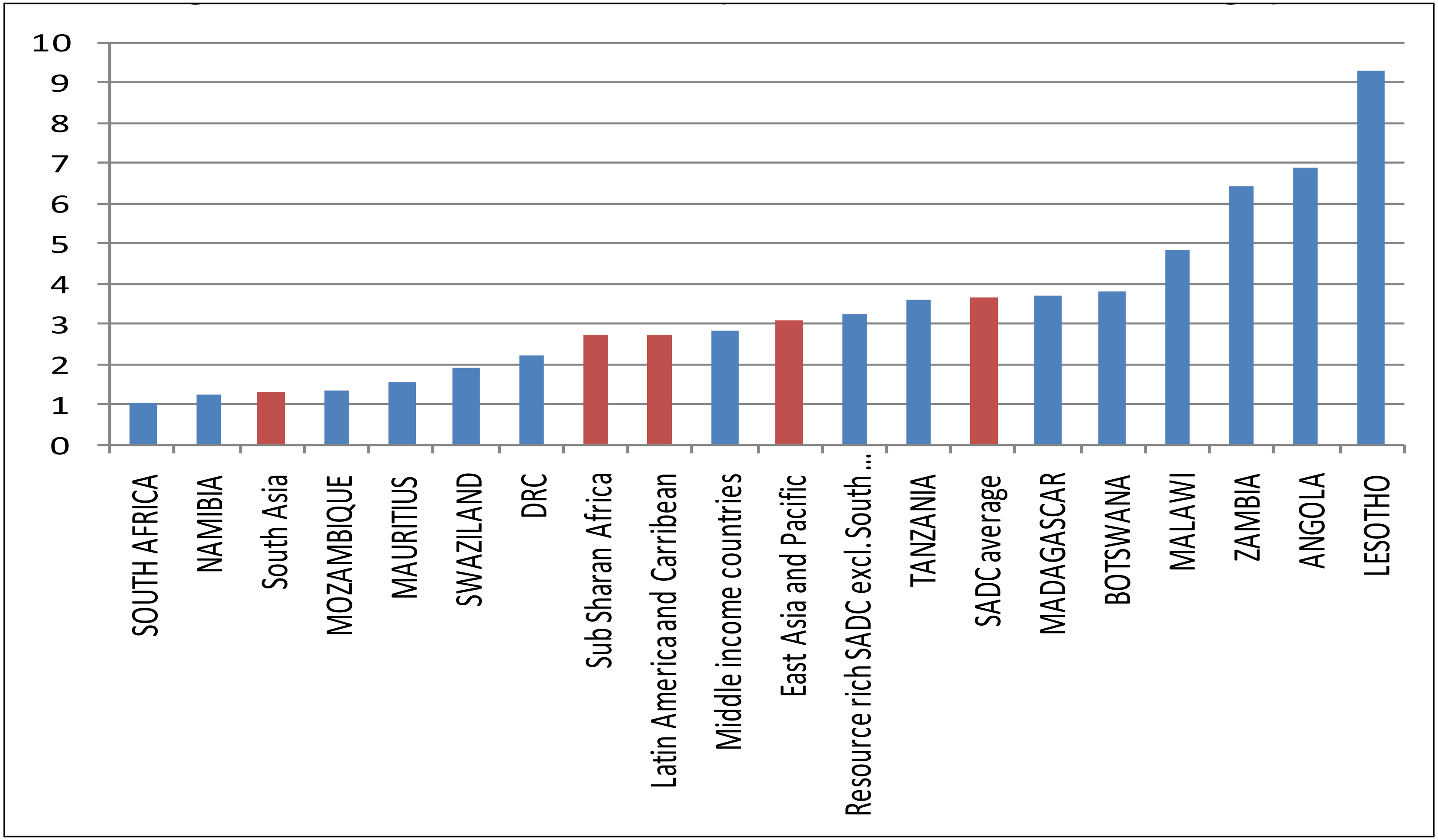


Much of the productivity gap of successful export diversification reflects the allocative inefficiency of local industry arising from

- Problems of business environment listed above
- Because many of these affect (or tax) some sectors/firms more than others
- Many pose barriers to entry
- And deter new investment –domestic as well as FDI
- And therefore lead to concentration of market share
- Which can be aggravated by protection from imports
- Poses issues of competition policy as well as trade policy

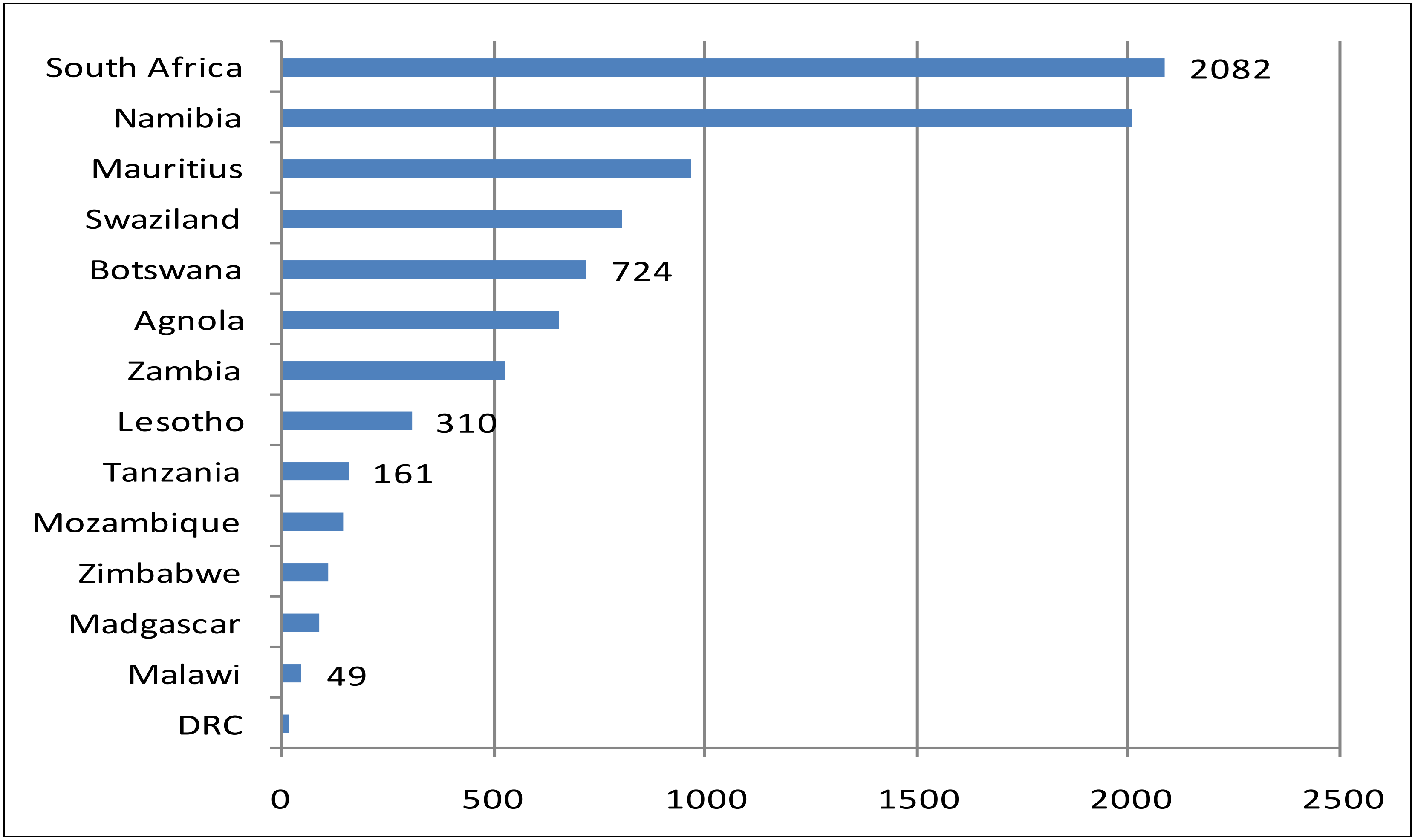
The region has attracted more FDI per capita than other regions over the past two decades

FDI as percentage (%) of GDP (2002–08 annual average)



Most of the inflow is resource seeking but resource poor countries have also attracted more than their share

Stock of inward FDI per capita at current prices (US$) (2007)



Why are high rate of return countries not attracting more FDI?

- Because the high-rate-of-returns countries are also high risk countries.
- A large part of the risk premiums has to do with business environment problems listed above.
- Including high cost of starting a business, political risk (instability), inadequate infrastructure and corruption

List of recommendations

1. Harmonize MFN tariffs and reduce non-tariff barriers to intra regional trade
2. Develop and harmonize competition policies
3. Reduce transport costs
4. Streamline and harmonize customs admin and regulation of cross border transactions
5. Institute regionally harmonized competition policies
6. Improve the provision of power supply
7. Reduce and harmonize business start up costs (in resource rich countries)
8. Greater control of corruption
9. Improve contract enforcement institutions
10. Develop credit information systems
11. Open up the banking industry to greater competition

Instituting and harmonizing competition policies

- (Preferential)liberalization of intra-regional trade and capital flows creates risk of first arrivals in domestic scene creating entry barriers to domestic industry
- Combined with harmonized MFN trade policy well crafted and harmonized competition policy would help guard against this
- At the moment only South Africa has an internationally highly regarded competition policy institutions, but even it has some way to go
- Regional role: the SADC Secretariat should help provide a framework for regional harmonization of national initiatives and policies and peer review mechanisms.

Improving regional power supply

- In the countries where shortages are particularly a problem, root causes include under pricing of electricity, the failure of billing and collection services of poorly managed state-owned operators and absence of a workable legal and regulatory framework for private sector investment
- These have to be fixed nationally
- But there are at least two areas of regional initiatives that would help national effort:
  - The establishment of a regional market in electricity as a component of an integrated regional energy market;
  - Promoting cross border power pooling by extending existing power grid connectivity to cover more, and eventually all, member states.
- The SADC Secretariat could also take the lead in the lead in harmonizing the regulatory and legal framework in which power companies operate and public-private partnerships function in the sector over the short term.

Reducing business start up costs

- Priority in all resource-rich countries and also in Lesotho
- Example 1: in Angola challenge is to build up the capacity of licensing and permit agencies
- Example 2: in Lesotho challenge is one of streamlining procedures of business registration
- SADC's (Secretariat's) role: primarily to provide proactive advisory and peer- monitoring services.

Reducing corruption

- A matter or urgency in many countries including Angola, Mozambique, Zambia and Zimbabwe, all of which have some form of anti corruption agencies that have yet to be effective
- Role of the SADC Secretariat to proactively help members implement its anti-corruption protocol, which requires members to establish, among others,

  a) standards of conduct in public office,

  b) mechanisms of transparency in public sector hiring and procurement and

  c) a system of whistle blowers' protection;

- **Thank You**