SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.

On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON ALUMINIUM AFRICA

MARCH 2012

FIRM OVERVIEW

Name	Aluminium Africa
Nationality	Tanzania
Sector	Manufacturing
SADC countries where doing business	South Africa, Zambia, Malawi, Mozambique, Tanzania, Angola and the Democratic Republic of Congo

BACKGROUND

Aluminium Africa Limited (ALAF) was established in 1960, with its main facilities in Dar es Salaam, Tanzania. They are Tanzania's leading company in the aluminium and steel sector, with a fully integrated facility comprising a cold rolling mill, continuous galvanising line and a tube mill. They have also recently invested in a metal coating line for producing aluminium zinc coated steel coils. They are 76% owned by the Safal Group (based in Mauritius and which is Africa's leading flat and long steel product manufacturer), and 24% by the Government of Tanzania.

Besides trading in Tanzania and the larger East Africa, ALAF also trades with a number of SADC Member States. They buy steel and colour coating for steel, steel coils and zinc from South Africa. They export a number of their products, especially pipes, coated coils and roofing sheets, in Zambia, Malawi, Mozambique, Angola and the Democratic Republic of Congo (DRC).

BARRIERS ENCOUNTERED

The main barriers encountered by ALAF include:

- Lack of infrastructure
- Inefficient Border controls
- Shortages of skilled labour and work permit costs
- Access to forex
- Uncertain regulatory environment

ALAF faces a number of challenges in doing business across the SADC region. Among these is the poor and inefficient infrastructure, especially in terms of energy, which is expensive, inadequate and of a poor quality. For a manufacturing concern, this increases the cost of doing business and makes their products less competitive.

Transport is also a big challenge, both in terms of cost, lack of enough vehicles and poor trade facilitation especially at borders, which have long queues, resulting in time wastage. This is especially a problem at the borders with Zambia and Malawi. It is compounded by insecurity along the transport routes; with cases of theft occasioning further loses.

Although the Port of Dar es Salaam, which they mainly use, is improving its services, it cannot be benchmarked with the best performing ports in the world, or even in the SADC region in terms of the time it takes to clear goods. Additionally, its efficiency gains are lost due to the unharmonised hours with the other agencies involved in the transit route. For example, while the port is now operating on a 24hrs basis, 7 days a week, Customs works only 5 days, excluding weekends and holidays.

There is also regulatory policy uncertainty, with frequently changing policies making the business environment unpredictable and costly. A recent example is that in 2011, Tanzania reintroduced a business license that had been abolished as part of reforms to improve the business climate; and what is worse, introduced it as 4 separate licenses, each with a cost implication. Additionally, regulators in some of the sectors are not delivering on their mandates. For example, the energy regulator has over the years failed to anticipate the increasing demand for energy, which led to the massive power rationing and outages of 2010 and 2011 and the recent increase in cost of power by 40%.

Access to skilled labour, especially middle level management and specialist skills is another key challenge. Tanzania is unwelcoming to foreign labour and even where allowed; it is expensive to get a work permit. In terms of fluctuations of the exchange rate, their main challenge is in countries like Malawi, where there is an acute shortage of foreign currency. This results in long delays in receiving payments, which is a cost to business.

IMPACT OF BARRIERS

The overall effect of the above challenges is that they make doing business expensive, resulting in reduced return on investment and uncompetitiveness of the products, including in ALAFs own home market.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

In terms of interventions, internally the company has invested in state of the art facilities that are efficient and backup power generators to deal with energy shortages.

Externally, ALAF have lobbied through the Confederation of Tanzania Industries to Tanzanian policy makers, raising concerns about these matters. At the SADC level, they have not had any engagement with the SADC Secretariat or other businesses across the region and this exercise to identify business constraints is therefore welcome.

While the government has been receptive in terms of listening to the problem, this receptiveness has not translated into any tangible action to address the problems.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. Improve infrastructure, especially energy and transport, ports and telecommunications. The region should seek to improve the investment climate in order to attract investment in the infrastructure sectors. Further, infrastructure development should be benchmarked with the best performing markets globally.

2. Improve trade facilitation across the region, in terms of streamlining the functions and number of regulatory authorities, harmonising working hours, removing non-tariff barriers and all bureaucratic processes that hinder trade.

3. Free movement of labour and business persons is a key aspect of making integration a reality. Passport, visa and work permit issues and other immigration policies must therefore be reviewed to encourage movement of business persons and labour.

4. There is also a need to build the capacity of the public sector to better manage regional integration. This should start with aligning the objectives of regional integration with national development objectives.

5. And lastly, that the SADC Secretariat / policy makers must maintain constant engagement with the private sector and further, implement recommendations from the private sector.