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
BAKHRESA GROUP

MARCH 2012

FIRM OVERVIEW

Name	Bakhresa Group
Nationality	Tanzania
Sector	Diverse – agro-processing, services and trading
SADC countries where doing business	South Africa, Malawi, Mozambique, DRC, Zambia, Tanzania

BACKGROUND

The Bakhresa Group currently brings together 19 companies, with operations in 8 broad areas, including grain milling and storage, food products, packaging, plastic recycling, logistics and transport, telecommunications, real estate and petroleum. Their annual turnover is over USD 300milion and they employ over 2000 employees. They have invested in several of the SADC Member States, including grain milling companies in both Malawi and Mozambique and they are in the process of setting up a plant in the DRC. Additionally, they have a food products distribution company in Zambia and export processed wheat flour and fruit juices to DRC and ice cream and juices to Mozambique and Zambia. Although they are also major importers, especially of grains, their imports from the SADC region are limited to chemicals and flavouring, sourced from South Africa.

BARRIERS ENCOUNTERED

The Bakhresa Group encounters many barriers in the operation of its diverse businesses in the SADC region. Among the most challenging are:

- Poor and inadequate infrastructure;
- Lack of harmonised taxation regimes;
- Regulatory uncertainty;
- Corruption;
- Bureaucracy; and
- Non tariff barriers.

In infrastructure, the quality, quantity and cost of electricity is a key challenge for the firm as almost all their operations are power intensive. Tanzania and indeed the other countries where they are operating have costly power, which increases the cost of doing business. Transport is also a major issue as the rail network is poor and they have to rely on road transport and a number of roads, especially in Zambia, are in very poor condition, mostly due to overloading, which has been allowed to happen due to corruption. Tanzania Port is congested, with a 14-18% annual increase in cargo, which has not been matched by investment to handle the increased cargo. Currently, only 1 berth is handling bulk cargo, which results in delays in clearing goods and resultant demurrage charges.

Another key challenge for the firm is the multiplicity of regulatory authorities, especially in the food industry. For example, to import grain, they have to deal with 9 different agencies and getting approval from each takes time and costs money and needlessly overburdens the business community. Additionally, it is an opportunity for rent seeking by some authorities. And the case is not different when they want to export, especially dairy products, where they need at least 4 different approvals from Tanzanian government. And this is separate from the regulatory requirements of the targeted export market.

IMPACT OF BARRIERS

The main impact of the barriers outlined above is to increase the costs of doing business in the region. This is a direct result with regards to the lack of efficient, affordable infrastructure but is also indirect with regards to the time taken to comply with regulatory requirements for import and export.

The barriers impact on the companies negatively by increasing the cost of doing business, resulting in less return on investment, less contribution to the exchequer and less availability of capital for reinvestment. And this is true across all sectors – the more the cost of doing business, the less the return on investment, the less willing investors are to expand and the less the income taxes payable to government to provide public services.

Taxation regimes in the SADC region are not harmonised and Tanzania does not have double taxation agreements with a number of the SADC countries – this negatively affects their companies and increases costs.

In countries like Malawi, there is an acute shortage of foreign currency and also significant difference between official bank rates and the rates in the forex bureaus, which creates an uneven playing field.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

In terms of own interventions, Bakhresa Group has cultivated close relationships with the Ministries and agencies such as Tanzania Revenue Authority who have encouraged working relationships with the tax payers/business community. For example, they have dedicated officers dealing with large tax payers such as Bakhresa and others. They have also established good relationships with port authorities in Mozambique, where Bakhresa have a special clearance area due to volume of their imports. They are also looking to invest in a grain handling facility at the Port of Dar es Salaam and are in discussions with relevant authorities on the same matter. In DRC, they are working closely with the governor of Lubumbashi to open up a milling plant.

The group also lobbies through their Membership organisations such as the Confederation of Tanzania Industries and East African Business Council to the Tanzanian policy makers. They have not had any direct engagement with the SADC Secretariat, but are happy to see effort is being made to engage with businesses.

There are some successes of such lobbying, especially in terms of improved engagement with revenue authorities and ports, but in critical areas like power, they have not seen any positive feedback.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. Improve infrastructure, especially energy, road and rail network and the ports. The region should jointly mobilise resources to develop infrastructure as this is critical to how competitive we are as a business / country / region. Additionally, public private partnership in areas like modern bulk grain handling facilities at the Port should be encouraged.

2. Improved trade facilitation, in terms of streamlining the functions and number of regulatory authorities and reducing non-tariff barriers like weighbridges and police roadblocks will also reduce the cost of doing business and facilitate trade. The concepts of risk management, authorised economic operators and One Stop Border Posts should be embraced and implemented.

3. The region must develop strategic industries, including in agriculture. As a country and region, we are net importers of grain, especially wheat, yet the region has vast arable land that can be utilised.

4. Regular engagement with the business community in order to keep appraised of the problems affecting us in doing business is important and will allow for timely response.