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.

SAIIA African Perspectives. Global Insights
giz
On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON MOHAMMED ENTERPRISES TANZANIA

FEBRUARY 2013

FIRM OVERVIEW

Name	Mohammed Enterprises Tanzania
Nationality	Tanzania
Sector	Diverse – manufacturing, services, trading
SADC countries where doing business	DRC, Mozambique, South Africa, Malawi, Tanzania and Zambia

BACKGROUND

Mohammed Enterprises Tanzania Ltd (MeTL) Group was established in the 1970s and is one of the largest companies in the country, with branches in over 30 regions in Tanzania and an extensive distribution network; employing over 24,000 persons and contributing (2011 estimates) 2.5% of Tanzania's GDP. They have 25 companies across 11 different sectors, including beverages, edible oils, soaps, agriculture and agro-processing; textile; energy and petroleum; financial services; mobile telephony; infrastructure; real estate; transport and logistics, distribution and trading. MeTL import commodities such as rice, sugar, wheat, maize, cement, fertilizers; liquid products; consumer goods and sundries from all over the globe. Their annual imports are over 500,000 tonnes and they have over 200 products under their trading portfolio.

Exporting is an important aspect of their portfolio, with exports not only to Africa, but to Middle East, Europe, USA, Pakistan, Sri Lanka and Saudi Arabia, to name a few. Specifically to the SADC region, they export textile products in the form of gray cloth, drill material (textile pages) and finished product to the DRC and Mozambique; processed cashew nuts to South Africa; bicycles and oil to DRC; and consumables like maize, maize flour, wheat flour, soap and oil.

MeTL also offer transport services across Africa, including to DRC, Malawi, Zambia and Mozambique. MeTL believes in investing in countries where it works. In 2007, they purchased the textile parastatal Novatexmoque from the government of Mozambique and have injected over USD 4 Million to modernise the plant. Expected capacity upon completion is 1 million running metres of fabric per month. Their business across the SADC region is set to grow as MeTL are now aggressively targeting SADC markets.

BARRIERS ENCOUNTERED

MeTL has experienced a wide range of barriers in its diverse operations across the SADC region:

- Infrastructure challenges – especially access to power
- Border delays
- Corruption
- Exchange rate fluctuations and access to forex
- Economic and regulatory policy
- Taxation

Given the firm's extensive manufacturing businesses, one of their key challenges is the poor quality, unreliable and very expensive power. This makes locally manufactured goods uncompetitive especially when faced by goods produced in countries with efficient and low energy costs and sometimes subsidised power costs. The Confederation of Tanzania Industry, in their Policy Paper of July 2011 (challenges of Unreliable Electricity Supply to Manufacturers in Tanzania), estimated the overall income loss to businesses at approximately USD 19.6M annually, resulting from power supply interruptions. Other impacts are machinery damage, loss of competitiveness in markets due to upward price adjustments especially for those using emergency generators.

Other aspects of infrastructure – especially roads, rail and ports – are also inadequate and inefficient, coupled with poor trade facilitation with duplicated functions by agencies and long queues especially at border posts.

In terms of fluctuations of the exchange rate, the main challenge is in Malawi and Mozambique, where there is an acute shortage of foreign currency, especially in Malawi, and a high difference in official bank rates and 'black' market rate. This disadvantages those firms (like MeTL) who transact through formal channels as the cost of goods is higher than those who use the black market for accessing foreign exchange.

Economic and regulatory policy uncertainty is also a challenge as the government of Tanzania and many of the governments across the SADC region do not engage adequately with the business community to understand the key challenges facing them. For example, Tanzania has introduced as 4 separate licenses, a business license that had been abolished as part of reforms to improve the business climate. This was done with no consultation to the private sector and with no justification for reintroduction.

Although currently not a problem, MeTL foresee the issue of double taxation being a problem in the near future especially when we begin operations in Mozambique as there currently exists no policies regarding transfer of dividends.

IMPACT OF BARRIERS

Corruption is a major problem, often caused by inefficient systems and unscrupulous businesspersons who evade paying customs duties. This not only creates an uneven playing field, but it is cost to business in terms of lost time and resources. All constraints impact on business negatively, increasing the cost of doing business and making MeTL products uncompetitive. It also discourages further expansion as the return on investment is low. This explains why Tanzania and the SADC region is an overall net importer even for products that can be produced locally.

In 2011, MeTL were unable to meet its obligations as a supplier of maize, which it was sourcing from Malawi for export to Kenya, due to the very poor condition and congestion of the road and rail network between Nakala in Malawi and Dar es Salaam. This is an example of the impact of poor transport infrastructure on the business of MeTL.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

Part of what MeTL Group has and is intending to do is invest in infrastructure. Already, they have invested in a one-stop container depot located near the Port of Dar es Salaam, which has a railway siding facility that eases the diversion of heavy container traffic from road to rail. In energy, they are planning to invest in electricity generation from sisal waste biogas. They have 7 decorticators capable of producing 6-12 MW of energy.

In Tanzania they have lobbied the government through the Confederation of Tanzania Industries, where they are a member. They have also directly engaged specific ministries and agencies. In Mozambique, they are also working directly with the relevant Ministries in regard to the textile mill. Until now, they have not had any engagement with the SADC policy makers at a regional level. On some issues where they have directly engaged the governments, the results have been positive, but these are on firm level issues as opposed to sector wide issues. Generally the policy maker is receptive, but this has not often translated to positive results.

ADDITIONAL COMMENTS AND SUGGESTIONS

MeTL made the following suggestions with regards to addressing barriers to business in SADC:

1. As a company that has heavily invested in the region, their key recommendation is that the country and the region as a whole must put in place policies that encourage local industries to grow and expand if our region is to have sustainable growth. Rather, each country must have an industrialisation policy that seeks to grow strategic industries; and by implication, these industries should be protected from competition by countries with more efficient systems like India and China.

2. Tanzania and the SADC region must also improve infrastructure, especially power, rail, road and ports. SADC region should identify the infrastructure needs of the region and then jointly mobilise the needed resources. Additionally, Public Private Partnership (PPP) in infrastructure development must be encouraged, firstly through putting in place a PPP framework at the regional level and also a growth oriented infrastructure needs assessment.

3. The private sector in the SADC region involved in the textile manufacturing should develop a harmonised position paper aimed at growing the textile industry in the region and enhancing intra-SADC trade in textiles.