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.

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On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON SUMARIA GROUP

MARCH 2012

FIRM OVERVIEW

Name	Sumaria Group
Nationality	Tanzania
Sector	Diverse – manufacturing and export
SADC countries where doing business	Mozambique, Democratic Republic of Congo, South Africa. Zambia, Malawi, Tanzania and Swaziland

BACKGROUND

Sumaria Group (T) Ltd is a family business established in the 1940s in Kenya. It has grown across the East, Central and Southern African region, India, United Kingdom and UAE, with headquarters in Dar es Salaam, Tanzania. They employ over 3000 employees across 7 companies and have four broad areas of operations – manufacture of plastics, pharmaceutical products, agro-processing specifically in cotton ginning and in beverage bottling.

Many of their businesses are in partnership with others. Recent partnerships of note include Aspen Pharmacare, the largest pharmaceutical company in Africa (listed on the JSE), who took a stake in their pharmaceutical business in 2008; and with DPI Plastics (previously owned by Sasol and Group 5, now part of Dawn, listed on the JSE), with whom they formed a plastics joint venture in 2001. In 2011, they partnered with Dutch SimGas BV to bring new bio-gas technology to the East African market; production is expected to begin in late 2012.

About 10% of their total production across the various lines is exported to the SADC region. The Group exports plastic products to Mozambique, Democratic Republic of Congo (DRC) and to South Africa. Their pharmaceutical products are exported to DRC, Zambia, Malawi and Mozambique. They have also imported products from South Africa and from Swaziland. In Mozambique, they have a cement manufacturing company that has been in operation for over 7 years.

BARRIERS ENCOUNTERED

The Group has encountered a wide range of challenges in doing business in the SADC region. Those which are of particular concern include:

- Standards harmonization
- Bureaucratic burden and regulatory environment
- Infrastructure deficiencies
- Access to finance and foreign exchange
- Skilled labour shortages

The key challenge relates to pharmaceutical product exports – the pharmaceutical boards from the countries where Sumaria exports come and inspect the factories, which is time consuming and dependent on availability of funding. This means there is no harmonisation of standards or mutual recognition of standards that have been certified by the Tanzania Bureau of Standard.

From a general perspective, the company is faced with all the key challenges facing other businesses, such as poor, inadequate, unreliable and expensive infrastructure networks, from roads, rail, energy and ports. Power especially impacts Sumaria very negatively given they are a manufacturing business. Investment is needed to improve the efficiency of the infrastructure. While the ICT infrastructure has improved, the networks have poor connectivity and quality as well as being costly.

The regulatory environment especially in Tanzania is also not predictable, a recent case being that of introduction of 4 different business licenses that were originally 1 license that had been removed as part of improving the business climate. There are many other examples of changes in policy without any consultation with the business community or assessment of the impact of the policy change on the business community.

Access to skilled labour is also a problem especially in Tanzania, which is compounded by refusal to grant work permits and where granted, they are expensive.

In terms of fluctuations of the exchange rate, their main challenge is in countries like Malawi, where there is a lack of foreign currency.

IMPACT OF BARRIER

These challenges impact negatively on the bottom line of any company by increasing the cost of doing business, resulting in less return on investment and uncompetitiveness of products against imports from more efficient markets. Overall, there is too much bureaucracy and time wasted on administrative issues.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

Most of the challenges need to be addressed by the public sector and not internally. However, the firm has invested in stand-by generators, which though a solution, further increases the cost of production.

As a Member of the Confederation of Tanzania Industries, Sumaria has lobbied the Tanzanian government on the key challenges affecting businesses in Tanzania. They have not had any engagement with the SADC Secretariat, but they welcome the initiative to listen to business.

There have not been many positive actions from government although they are willing to listen. In some cases, the government has made positive steps – like the removal of business licenses, or improving the efficiency of the ports after too much outcry from businesses, however, these results are often short-lived. Overall businesses are forced to absorb costs associated with these barriers as normal costs of doing business.

ADDITIONAL COMMENTS AND SUGGESTIONS

Sumaria made the following suggestions with regards to improving the business environment:

1. Provision of adequate and affordable infrastructure - energy, roads, rail, ports and telecommunication must be prioritised, including in terms of mobilising the resources needed for such investment.

2. In energy, the region should pursue joint development of electricity generation resources and power pools. The Zambia interconnector that the EAC region has been pursuing should be finalised soon to address the acute power shortage in the region.

3. Enhanced trade facilitation, in terms of streamlining functions of various agencies, removing burdensome business regulations, removing non tariff barriers and encouraging a mindset of business facilitation in public sector.

4. Engage constantly with business – this is the only way for government to understand issues impacting negatively on doing business and what needs to be done to address them.