



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.



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On behalf of
Federal Republic of Germany
The Federal Government

TOP 10 BUSINESS CONSTRAINTS IN SADC

AN ANALYSIS OF BUSINESS AND INVESTMENT CLIMATE SURVEYS

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Abbreviations and acronyms

BCS	Business Climate Survey
CMA	Common Monetary Area
DRC	Democratic Republic of the Congo
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
GDP	Gross Domestic Product
ICA	Investment Climate Assessment
MFN	Most Favoured Nation
NTB	Non-Tariff Barrier
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SSA	Sub-Saharan Africa

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PROJECT BACKGROUND

MAKING KEY BUSINESS CONSTRAINTS IN SADC TANGIBLE: EXPERIENCES OF THE PRIVATE SECTOR

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.

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 by a variety of organisations. But there has been little follow up or attempts to address the identified constraints by policy makers due to a lack of understanding as to how practical solutions could be found to overcome these constraints. The firm level case studies will undergird the existing generic information from surveys and will make them more tangible for decision makers. The case studies will be made available for utilization in policy dialogue in the SADC region, in order to enable participants from both the public and the private sector to identify policy areas with the most urgent need for change and provide suggestions for concrete solutions.

On behalf of GIZ and SADC, the South African Institute for International Affairs (SAIIA) has implemented the project, which involved the following steps: (i) identification of the Top 10 Business Constraints in SADC region based on a sample of business and investment climate surveys over the last years; (ii) conducting case studies on specific firms operating in the SADC region that are experiencing one or several of the identified constraints; (iii) initiating public-private dialogue on the basis of the case studies in order to develop practical solutions to some of the identified constraints.

Next steps include the systematic mapping of the identified constraints with corresponding policy instruments. This will enable public and private stakeholders to link constraints with existing policy instruments like the SADC Protocol on Trade and identify gaps or areas of not accomplished implementation. Furthermore, GIZ wishes to target selected constraints and to establish partnerships between governments, enterprises and GIZ to work towards jointly developed and implemented solutions.

1. INTRODUCTION

As a region, the Southern African Development Community (SADC) performs poorly in the World Bank's Ease of Doing Business Rankings for 2012, attaining an average rank of 114th – down one percentage point from the 2011 figures. Of the 15 SADC countries, Mauritius earned top honours, coming in at 23th, while the Democratic Republic of Congo (DRC) is the worst performer, ranking 178th.

Table 1: Doing Business 2012 (SADC Countries)

SADC COUNTRY	2011	2012
Angola	171	172
Botswana	52	54
Democratic Republic of Congo (DRC)	176	178
Lesotho	142	143
Madagascar	144	137
Malawi	141	145
Mauritius	21	23
Mozambique	132	139
Namibia	74	78
Seychelles	109	103
South Africa	36	35
Swaziland	123	124
United Republic of Tanzania	125	127
Zambia	80	84
Zimbabwe	168	171

Source: World Bank Doing Business Report (2012)

It is difficult to conduct business in the majority of SADC nations for a variety of reasons which contribute to a regional economic climate that is not conducive to investment or to development in general. Business competitiveness surveys over the past number of years identify the lack of stability and predictability of macroeconomic policy, and the unfavourable investment climate as the primary obstacles behind sustaining and attracting new business investment. After collating the results of several Business Climate Surveys (BCSs) and Investment Climate Assessments (ICAs) in Section 3, Section 4 advances the ten most cited business constraints in SADC based on an application of the developed criteria.

2. CRITERIA FOR REGIONAL CONSTRAINTS

Regional integration offers enormous potential for widening investment scope, increasing trade opportunities between and among SADC member states, and in the ability to move factors of production, including economically active persons, across country borders. The SADC RISDP sketches out the conditions and broad targets for SADC's economic integration. The plan identifies the priority areas of intervention – both sectoral and cross-sectoral.

The cross-sectoral intervention areas are:

- Poverty eradication
- Combating the HIV and AIDS pandemic
- Gender equality and development
- Science and technology
- Information and communication technology
- Environmental sustainability
- Private sector development
- Statistics

The priority intervention areas for sectoral cooperation and integration towards the achievement of a free trade area are:

- Trade/economic liberalisation and development;
- Infrastructure support for regional integration and poverty eradication;
- Sustainable food security; and
- Human and social development.

In identifying the constraints for business at a regional level, the following criteria were used to assess the existing surveys to barriers to investment in SADC:

- There is an alignment between the identified constraint and the priority areas for regional integration as identified in the RISDP.
- The issue has cross-border implications for doing business, such as an impact on trade in goods or services or the movement of people or capital resources.
- The constraint is widely found in countries in the SADC region with it appearing in national level surveys in at least 6 Member States.

3. REVIEW AND ANALYSIS OF LEADING SURVEYS ON BARRIERS TO INVESTMENT IN SADC COUNTRIES

The World Bank has recently released its assessment of the business environment in Southern Africa with specific reference to trade and market integration issues. This report is commonly known as the SADC Investment Climate Assessment 2011 and it identifies some of the following as key issues for the region:

- High trade costs
- Unreliable power supply
- Inadequate access to formal finance
- High business start up costs
- Corruption
- Different tax rates for sectors creating allocative inefficiencies
- Low levels of labour market integration

In addition to the recent World Bank report, six Business Climate Surveys (BCSs) were reviewed, covering the period 2004-2009:

1. 2004 BCS from the Southern African Regional Poverty Network (SARPN)
2. 2005 BCS from SARPN
3. 2006 BCS from SARPN
4. 2007 BCS from the SADC Economic & Business Environment Outlook
5. 2008 BCS from the Association of SADC Chambers of Commerce & Industry (ASCCI)
6. 2009 BCS from Afrika-Verein (German Business Perspective).

Some of the most urgent obstacles to doing business referred to in these reports include:

- Fluctuations of the exchange rate;
- Crime and theft;
- Lack of market information;
- Customs regulations, procedures and bureaucracy;
- Economic and regulatory policy uncertainty;
- Affordable and reliable transportation;
- Trade tariffs and custom charges; lack of transparency of rules and regulations;
- Access to and cost of finance for investors;
- Business licensing and operating permits for foreign investors;
- Business culture;
- Access to land (for foreign investors);
- Legal environment (enforcement of contractual and property rights);
- Communication restrictions;
- Visa regulations;
- Insurance;
- Import/export licensing;
- Domestic Content requirements; and
- Phyto-sanitary and veterinary regulations (in the agriculture sector).

The World Economic Forum's Global Competitiveness report for 2011/12 was also reviewed, listing all the business obstacles from the WEF perspective (based on an annual survey of global business leaders). To calculate the top 10 from a regional perspective, for each of the SADC nations covered, the obstacles were assigned a rank 1 to 15 and then an average score was calculated for each of the 15 obstacles. The most common barriers are shown for each country in Table 2 and as can be seen there are many similarities between the countries that were assessed. According to the WEF report and the calculations done, the most common barriers in the SADC region are:

- Access to financing
- Corruption
- Inefficient government bureaucracy
- Inadequate supply of infrastructure
- Poor work ethic in national labour force
- Restrictive labour regulations
- Inadequately educated workforce
- Tax rates
- Policy instability
- Foreign currency regulations

Table 2: Business Obstacles in SADC Countries

ANGOLA <ul style="list-style-type: none"> ▪ Inadequately educated workforce ▪ Inefficient government bureaucracy ▪ Inadequate supply of infrastructure ▪ Corruption ▪ Access to financing ▪ Poor work ethic in national labour force ▪ Foreign currency regulations ▪ Policy instability ▪ Restrictive labour regulations ▪ Crime and theft 	BOTSWANA <ul style="list-style-type: none"> ▪ Poor work ethic in national labour force ▪ Access to financing ▪ Inadequately educated workforce ▪ Inefficient government bureaucracy ▪ Inadequate supply of infrastructure ▪ Restrictive labour regulations ▪ Corruption ▪ Inflation ▪ Crime and theft ▪ Tax rates 	DRC - not available	LESOTHO <ul style="list-style-type: none"> ▪ Access to financing ▪ Inefficient government bureaucracy ▪ Inadequate supply of infrastructure ▪ Corruption ▪ Poor work ethic in national labour force ▪ Inadequately educated workforce ▪ Tax rates ▪ Crime and theft ▪ Restrictive labour regulations ▪ Tax regulations 	MADAGASCAR <ul style="list-style-type: none"> ▪ Policy instability ▪ Government instability/coups ▪ Corruption ▪ Access to financing ▪ Crime and theft ▪ Inadequate supply of infrastructure ▪ Inflation ▪ Tax regulations ▪ Inefficient government bureaucracy ▪ Tax rates
MALAWI <ul style="list-style-type: none"> ▪ Foreign currency regulations ▪ Access to financing ▪ Tax rates ▪ Inadequate supply of infrastructure ▪ Tax regulations ▪ Corruption ▪ Inefficient government bureaucracy ▪ Inadequately educated workforce ▪ Policy instability ▪ Poor work ethic in national labour force 	MAURITIUS <ul style="list-style-type: none"> ▪ Inefficient government bureaucracy ▪ Inadequate supply of infrastructure ▪ Corruption ▪ Inadequately educated workforce ▪ Poor work ethic in national labour force ▪ Access to financing ▪ Inflation ▪ Restrictive labour regulations ▪ Policy instability ▪ Crime and theft 	MOZAMBIQUE <ul style="list-style-type: none"> ▪ Access to financing ▪ Corruption ▪ Inefficient government bureaucracy ▪ Inadequately educated workforce ▪ Inadequate supply of infrastructure ▪ Restrictive labour regulations ▪ Foreign currency regulations ▪ Tax rates ▪ Crime and theft ▪ Inflation 	NAMIBIA <ul style="list-style-type: none"> ▪ Inadequately educated workforce ▪ Poor work ethic in national labour force ▪ Inefficient government bureaucracy ▪ Corruption ▪ Restrictive labour regulations ▪ Access to financing ▪ Crime and theft ▪ Inadequate supply of infrastructure ▪ Tax rates ▪ Foreign currency regulations 	SEYCHELLES - not available
SOUTH AFRICA <ul style="list-style-type: none"> ▪ Corruption ▪ Inefficient government bureaucracy ▪ Inadequately educated workforce ▪ Restrictive labour regulations ▪ Corruption ▪ Crime and theft ▪ Inadequate supply of infrastructure ▪ Poor work ethic in national labour force ▪ Access to financing ▪ Policy instability ▪ Foreign currency regulations 	SWAZILAND <ul style="list-style-type: none"> ▪ Corruption ▪ Inefficient government bureaucracy ▪ Access to financing ▪ Inadequate supply of infrastructure ▪ Policy instability ▪ Poor work ethic in national labour force ▪ Inadequately educated workforce ▪ Inflation ▪ Poor public health ▪ Restrictive labour regulations 	TANZANIA <ul style="list-style-type: none"> ▪ Access to financing ▪ Corruption ▪ Tax rates ▪ Inadequate supply of infrastructure ▪ Inflation ▪ Inefficient government bureaucracy ▪ Inadequately educated workforce ▪ Tax regulations ▪ Poor work ethic in national labour force ▪ Restrictive labour regulations 	ZAMBIA <ul style="list-style-type: none"> ▪ Access to financing ▪ Corruption ▪ Tax rates ▪ Inadequate supply of infrastructure ▪ Inflation ▪ Poor work ethic in national labour force ▪ Inefficient government bureaucracy ▪ Crime and theft ▪ Poor public health ▪ Tax regulations 	ZIMBABWE <ul style="list-style-type: none"> ▪ Access to financing ▪ Policy instability ▪ Inadequate supply of infrastructure ▪ Government instability/coups ▪ Corruption ▪ Restrictive labour regulations ▪ Inefficient government bureaucracy ▪ Poor work ethic in national labour force ▪ Tax rates ▪ Crime and theft

Source: World Economic Forum 2011-12 --

Similarly, the World Bank Investment Climate Assessments (ICA) reports were consulted in those SADC countries where a national report had been completed. The ICA business obstacles lists contained in these reports are made up of 17 obstacles in total:

- Crime
- Electricity
- Corruption
- Access to Finance
- Anti-competitiveness Practices
- Shortage of Skilled Workers
- Access to Land
- Labour Regulations
- Macroeconomic Instability
- Tax Rate
- Telecommunications
- Transport
- Business Licences
- Political Instability
- Tax Administration
- Customs Regulation
- Court System

The analysis of the World Bank Enterprise Survey results followed a similar procedure as outlined above. The Enterprise Surveys were especially important as respondents were asked to rank the obstacles they considered most important (numbered 1, 2 and 3 from highest to lowest importance). In addition, they were asked what they considered to be the most serious obstacles. In the first query (numbering 1, 2, 3) there were 5, 932; 3,677; and 3,462 respondents and in the query interrogating the most serious obstacle, there were 6,192 respondents. The top 10 obstacles across all categories are highlighted in Table 3 below.

Table 3: List of 15 Obstacles from 4 Sets of Responses

	Highest no. of respondents (most important obstacles)	2nd highest number of respondents (2nd most important obstacles)	3rd highest number of respondents (3rd most important obstacles)	Most serious obstacles
	Electricity	Access to finance	Practices of competitors in the informal sector	Electricity
	Access to finance	Tax rates	Crime, theft, disorder	Access to finance
	Crime, theft, disorder	Crime, theft, disorder	Access to finance	Crime, theft, disorder
	Practices of competitors in the informal sector	Corruption	Tax rates	Practices of competitors in the informal sector
	Corruption	Electricity	Inadequately educated workforce	Corruption
	Tax rates	Practices of competitors in the informal sector	Electricity	Tax rates
	Inadequately educated workforce	Inadequately educated workforce	Corruption	Inadequately educated workforce
	Access to land	Transportation	Transportation	Access to land
	Transportation	Business Licensing and permits	Business Licensing and permits	Transportation
	Political instability	Access to land	Access to land	Political instability
	Business Licensing and permits	Customs and trade regulations	Customs and trade regulations	Business Licensing and permits
	Customs and trade regulations	Labour regulations	Labour regulations	Customs and trade regulations
	Labour regulations	Tax administration	Political instability	Labour regulations
	Tax administration	Political instability	Tax administration	Tax administration
	Court system/ Resolution of disputes	Court system/ Resolution of disputes	Court system/ Resolution of disputes	Court system/ Resolution of disputes

Source: World Bank's Enterprise Survey

The top obstacles from each of the four sets of sources were listed, cross-referenced, and duplication was avoided to result in a list of the main obstacles as represented in Table 4 below.

Table 4: 23 of the Most Significant Obstacles to Doing Business in SADC

Business Climate Studies	World Economic Forum Competitiveness Report	World Bank Investment Climate Surveys	World Bank Enterprise Survey
<ul style="list-style-type: none"> ▪ Fluctuations of the exchange rate; ▪ Crime and theft; ▪ Lack of market information; ▪ Customs regulations, procedures and bureaucracy; ▪ Economic and regulatory policy uncertainty; ▪ Affordable and reliable transportation; ▪ Trade tariffs & custom charges ▪ Lack of transparency of rules and regulations; ▪ Access to and cost of finance for foreign investors; ▪ Business licensing and operating permits for foreign investors 	<ul style="list-style-type: none"> ▪ Inadequately educated workforce ▪ Foreign currency regulations ▪ Poor work ethic in national labour force ▪ Access to financing ▪ Policy instability ▪ Tax rates ▪ Inefficient government bureaucracy ▪ Inadequate supply of infrastructure ▪ Corruption ▪ Restrictive labour regulations 	<ul style="list-style-type: none"> ▪ Crime ▪ Electricity ▪ Corruption ▪ Access to Finance ▪ Anti-competitiveness Practices ▪ Shortage of Skilled Workers ▪ Access to Land ▪ Labour Regulations ▪ Macroeconomic Instability ▪ Tax Rate 	<ul style="list-style-type: none"> ▪ Electricity ▪ Access to finance ▪ Crime, theft, disorder ▪ Practices of competitors in the informal sector ▪ Corruption ▪ Tax rates ▪ Inadequately educated workforce ▪ Access to land ▪ Transportation ▪ Business Licensing and permits

To add depth of understanding of the Southern African context for foreign direct investment, as well as to add the important regional dimension to the study, two additional sources were consulted. The first was a recent study and survey (2011) by consulting firm Ernst and Young and the second was the SADC Regional Indicative Strategic Development Plan (RISDP) originally introduced in 2003.

The report by Ernst & Young of their '*Africa attractiveness survey*' (2011) was consulted to determine African countries' ability to attract foreign investment. In addition, the perceptions of 562 decision-makers from multinational corporations in 38 countries were recorded, specifically their views relating to African countries and how they compared with FDI peer countries. From 170 respondents, Ernst & Young found the following to be the top 10 obstacles to doing businesses and investing in SADC countries:

- Unstable political environment;
- Local companies not positioning appropriately (as FDI partners or suppliers);
- Corruption;
- Weak security;
- Poor transport and logistics infrastructure;
- Inefficient administrative/regulatory environment;
- Customers are inaccessible;
- Poor telecommunication infrastructure;
- Poor access to highly skilled labour; and
- Lack of entrepreneurial culture and entrepreneurship.

4. LIST OF TOP TEN BARRIERS TO INVESTMENT AND DEVELOPMENT IN SADC

Poverty is one of the most important challenges facing the SADC region, and its eradication is an overarching priority in the RISDP. In an investment and economic development context, the elements emphasising upskilling of the workforce; economic and financial integration; appropriate sectoral diversification; value addition and beneficiation are important to address poverty reduction. By applying a process of cross-matching, assigning a weighting of importance to the poverty eradication imperative, and by merging similar categories of business and investment barriers, a working list of the ten most significant barriers was identified as follows (in no particular order):

1. Access to and cost of finance.
2. Tax rates and/or administration (including direct and indirect taxes, double taxation policies and harmonisation).
3. Access to skilled labour (including issues related to the free movement of people in the region).
4. Economic and regulatory policy uncertainty.
5. Fluctuations of the exchange rate/foreign currency regulations, including with respect to remittances.
6. Customs regulations, procedures and bureaucracy.
7. Supply of reliable and efficient infrastructure, including transport, telecommunications, IT and energy.
8. Corruption.
9. Inefficient bureaucracy, including transparency of rules and regulations, business licensing and investment permits.
10. Non-tariff and other trade barriers, including TBT, SPS and SQAM issues.

WAY FORWARD

Based on the above list of the Top 10 Business Constraints in the SADC Region, the project will identify firm-level case studies to cover all the identified constraints. The selection of firms will encompass a variety of sectors and as many SADC member states as possible.