Regional Business Climate Survey for SADC Countries 2005

Executive Summary

The SADC Regional Business Climate Survey (RBCS) is now in it's second year of implementation. The success of the first year, in terms of interest by national, regional and international private sector businesses, media, governments and international organisations serves to show the necessity and usefulness of the RBCS as a tool for advocacy, dialogue and decision-making.

We are happy to note that 2005, unlike 2004 where only nine countries responded, all fourteen countries of SADC responded to the RBCS. In addition, the newest member of SADC, Madagascar, was also part of the RBCS and this allowed for respondents to give their perceptions on Madagascar as an export and import market. The 2005 RBCS also recognizes the impact that HIV/AIDS epidemic is having on business in the SADC region and thus HIV/AIDS has been included in the 2005 RBCS.

We are very encouraged by the results of the 2005 RBCS, which are positive and show the optimistic view that the private sector has of doing business in the SADC region. This follows from similar perceptions of 2004. This optimistic and positive view is crucial in attracting investors to the region and accelerating regional integration.

The 2005 Business Climate Survey for the SADC region reveals a broad- based optimistic and stable market. The SADC regional firms participating in this survey remain optimistic about economic expectations over the ensuing twelve months, for the period-ending 31 March 2006.

Over 500 companies responded this year from all 14 SADC member countries. The respondents were drawn mainly from the manufacturing sector, with over 20% from the primary and service sectors.

An upbeat market is anticipated over the next twelve-month period. Current performance for all sectors is positive, with the best performance seen in the metal, machinery, vehicles and precision manufacturing sector within SADC countries

Respondents expect employment in the next twelve months to remain mostly unchanged or to increase marginally. Sectors with good current performance expect to conduct most of the recruiting.

Investors and entrepreneurs are still more "confident" in developing their businesses domestically than in other SADC countries.

Overall, respondents anticipate earning more from the rate of export revenue earning from countries within the SADC region. Export revenues to countries outside the SADC region are expected to grow more, comparatively speaking.

The survey results fro both 2004 and 2005 have been utilized to develop a Regional Business Confidence Index (RBCI).

Amongst the 19 identified challenges to business activities within SADC, fluctuations in exchange rates remain the biggest challenge within the region.

Madagascar is perceived as an attractive market for selected manufactured goods, notably Chemicals, Pharmaceuticals and Plastics. However, most of the respondents are not yet familiar with this market's opportunities and potential.

41.2% of respondents have an HIV/AIDS workplace programme in place, whilst 62% recognize a current impact on their organizations.

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List of abbreviations

Table 1: Abbreviations

ASCCI	Association of SADC Chambers of Commerce and Industry
ASPB	Advisory Service Private Business
BCS	Business Climate Surveys
BMZ	German Ministry of Cooperation and Development
EOI	Employment Outlook Index
EPI	Expected Performance Index
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
IOI	Investment Outlook Index
NEPRU	Namibian Economic Policy Research Unit
RII	Regional Integration Index
PSO	Private Sector Organisation
SADC	Southern Africa Development Community
RBCI	Regional Business Confidence Index
RBCS	Regional Business Climate Survey
VAT	Value Added Tax

1 Introduction

A business climate survey (BCS) is a measure of the business climate as perceived by business people in a specific market sector and within a specified period. Business climate surveys have proven to be useful tools in many countries, both for the operational needs of the private sector and for public-private sector dialogue. Indeed, the private sector has frequently used the qualitative data contained therein to make investment and market access decisions, and has furthermore used the information gathered in the BCS as a means of lobbying the political authorities. In most developing countries, whilst reliable official data is either released with a time lag or is non-existent, BCS's provide unique information in respect of current business conditions, investor confidence levels and consequently about investment and employment conditions. Private sector organisations notably Chambers of Commerce and Industry, by conducting Business Climate Surveys, thus contribute to providing adequate and reliable tools for rational decision-making both in the business environment and macroeconomic policy.

During April 2004, the Association of SADC Chambers of Commerce and Industry (ASCCI), embarked on a process to conduct Regional Business Climate Surveys (RBCSs) in the SADC region. The pilot survey was carried out during June and July 2004, with the financial assistance provided by Advisory Services for Private Business (ASPB), a project of the GTZ based in Johannesburg. ASPB also assisted with co-ordination services during this exercise. The Namibian Economic Policy Research Unit (NEPRU) provided scientific assistance.

In 2005 the second survey was conducted to also include the primary and tertiary sectors. The following private sector organisations conducted the survey, namely:

- Chambers of Commerce and Industry South Africa (CHAMSA)
- Industrial Association of Mozambique (AIMO)
- Lesotho Chamber of Commerce and Industry (LCCI)
- Malawi Confederation of Chambers of Commerce and Industry (MCCCI)
- Mauritius Chamber of Commerce and Industry (MCCI)
- Namibia Chamber of Commerce and Industry (NCCI)
- Swaziland Chamber of Commerce & Industry (SCCI)
- Zambia Association of Chambers of Commerce & Industry (ZACCI)
- Tanzania Chamber of Commerce, Industry & Agriculture (TCCIA)
- Madagascar Chamber of Commerce, Industry & Agriculture

Market research firms supported the survey in Botswana, Lesotho, Namibia, Tanzania, South Africa, Zambia and Zimbabwe. The Catholic University conducted the survey in Angola and a GTZ project carried out the survey in the DRC.

The RBCS primarily aims too:

- Strengthen public-private sector dialogue at SADC and national level, with dialogue issues resting on empirical evidence;
- Strengthen the relationship between private-sector organisations and their members, through the former providing value-added services to the latter;
- Monitor the business climate across the SADC region, to facilitate the policy decision-making process by both political authorities, private investors and entrepreneurs;
- Improve business opportunities in SADC countries; and
- Develop a sustainable business climate survey model for the SADC region, to ensure follow-up and the development.

2 Conclusions

- Exporting companies expect their exports to non-SADC countries to increase more than to SADC countries.
- A cautious approach to employment is expected in the next 12 months.
- Current performance for all sectors is positive, with the best performance experienced in the services sector.
- Exchange rate fluctuations continue to have a significant effect upon all three categories of challenges, namely macroeconomic, business environment and cross border issues.
- 21% of the respondents consider Madagascar attractive as an export market and 10.7% as a source for imports.
- 74.7% of large companies surveyed, with a staff complement of more than 251 people had an HIV/AIDS policy in place.
- The furniture and wood sector is the worst affected sector in terms of challenges when doing business within the region.
- The 2005 survey, with its increased sample of 541 respondents clearly indicates consistency of results and confidence seen during the “pilot survey” of 2004.
- The introduction of Primary and Services sectors in the 2005 survey, has added more perspective to the Manufacturing sector in respect of comparable performance. This will lead to a better understanding of common areas of opportunities and constraints;
- The Metal/Machinery cluster reflects more optimism both in home and other SADC countries. Whilst highly mechanized this important cluster is a key indicator for industrial growth in the construction and new plant sub-sector;
- The inclusion of the six new business climate indices now provides a valuable measurement, with the two principle benefits being the degree of regional integration and the relationship between of performance, investment and employment levels.

3 Methodology

Participating private sector organisations (PSOs) administered a common questionnaire to all respondents (see appendix). Companies were sampled from the membership list of participating PSO's and other sources such as municipalities; ministries of trade and industry or commerce; company registrars; yellow pages; ministries of labour, social security commission or similar institutions; ministries of finance or receiver of revenues; and pension funds.

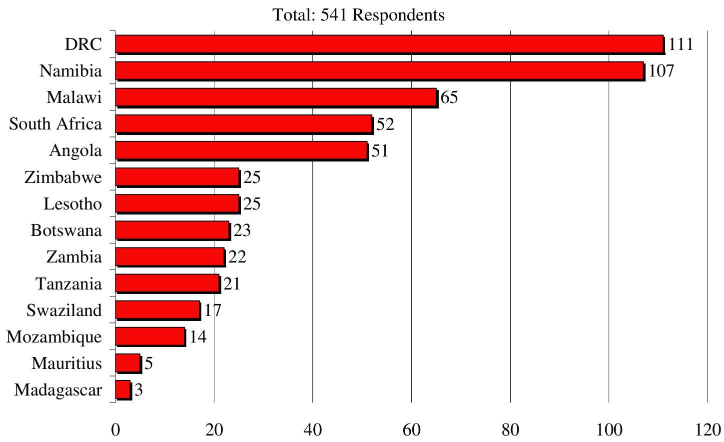
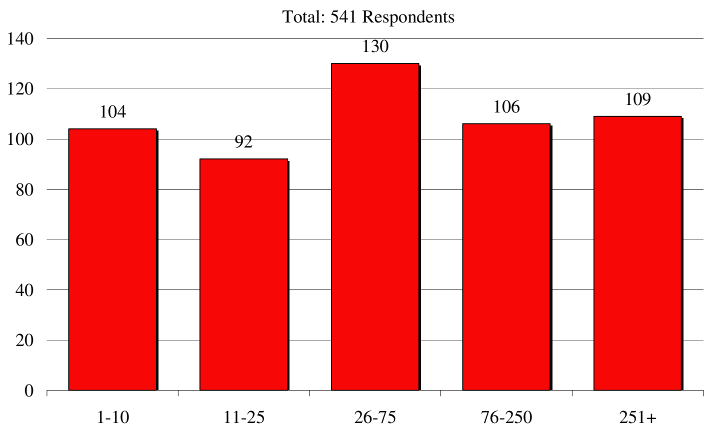


Figure 1:

The procedure by which the questionnaires were administered was left to the participating PSO's. Possible options included mail, email, face-to-face interviews and telephone interviews. This allowed for PSO's in countries where businesses had confidentiality concerns to make use of an anonymous mail survey, while other PSOs could use the most cost effective or most practical method, including direct contact and personal interviews.

Figure 2:

The response rates differed from country to country. In total 541 companies responded, 409 manufacturing companies, 97 from the service sector and 34 from the primary sector took part in the survey. About 20.5% of responding companies were from the Democratic republic of Congo, 20% from Namibia, 12% from Malawi, about 9.5% each from South Africa and Angola. Respondents from other SADC countries were below 5%. The large majority of responding firms were Pty Limited companies (46.5%). Close Corporations (10.35%), Sole Proprietors (26.8%), Partnerships (9.8%) and Other (10%) classifications accounted for the minority of respondents.



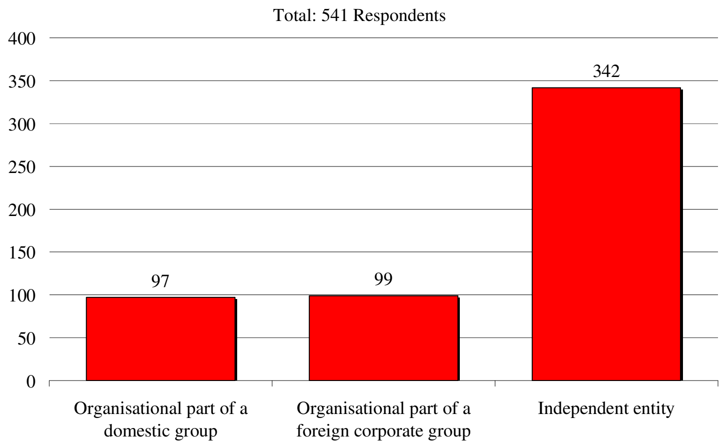


Figure 3:

Table 2: Sub-Sector Clusters

Manufacturing: Food, Beverages & Tobacco	Manufacture of food products, beverages and tobacco
Manufacturing: Metal, Machinery, Vehicles	Manufacture of fabricated metal products, machinery, apparatus, equipment, basic metal, radio, television, communication equipment, transport equip ment, medical instruments, precision instruments optical instruments, watches, clocks, motor vehicles, trailers.
Cluster 3: Textile, Apparel & Leather Manufacturing	Manufacture of textiles, wearing apparel; dressing and dyeing of fur, tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear.
Manufacturing: Chemical, Pharmaceu ticals & Plastic	Manufacture of chemicals and chemical products, coke, refined petroleum products, nuclear fuel, rubber products, plastic products, paper, paper prod ucts and other non-metallic mineral products
Manufacturing: Furni ture & Wood Products	Manufacture of wood, products of wood, cork, furniture, articles of straw and plaiting materials
Other Manufacturing	Manufacture of all other goods that do not fall into any of the other manufac turing categories.
Primary Sector	Agriculture, forestry, fishing, mining.
Service Sector	All services including transport and most construction activities.

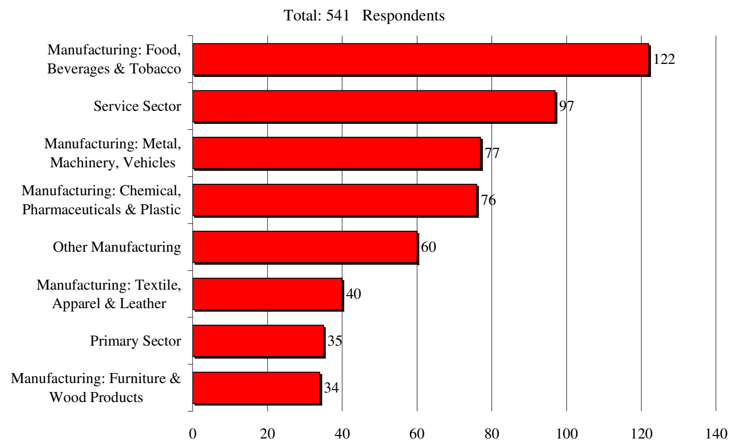


Figure 4:

Firms with between 26 and 75 employees made up the largest group of respondents. Of responding businesses a large majority act as independent entities (63.2%) while the rest act as a part of either a domestic (17.9%) or foreign corporate group (18.3%).

Due to a low response rate it was necessary to group respondent companies into sub-sector clusters. The composition of these clusters is given in the table above. The greatest percentage of respondents came from food, beverages and tobacco cluster with 22.6,3%, followed by Service cluster with 18% and the metal, machinery, and vehicles cluster with 14.2% of respondents. Textile, apparel, and leather, chemical manufacturing and other manufacturing accounted for 7.4%, 14.1%, and 11.1% of respondents, respectively. Wood and furniture manufacturing as well as respondents from the primary sector made up just over 6%.

Responses to the business climate questions were translated into scores that vary between –100 and +100. The responses for the business climate section are converted into scores by multiplying the number of responses with the values specified in the table below, then summing the results up and divide the sum by the number of responses. For example, the current performance score takes the value +100 if all businesses rate their current business performance as very good and it would take the value of -100 if all business would rate their current performance as very bad. A value above zero indicates a positive climate on average, a value below zero a negative one.

Table 3: Business Climate Score Multiplier for various categories

Current performance	Expected performance	Employment plans	Investment plans	Multiplier
Very good	Very good	Much more	Increase a lot	+ 100
Good	Good	More	Increase	+ 50
Fair	Fair	Same	Same	0
Poor	Poor	Less	Decrease	- 50
Very poor	Very poor	Much less	Decrease a lot	- 100

It can be concluded, following a successful second survey that the inclusion of the primary and services sector was timeous and appropriate. Furthermore the catalytic effect of these sectors on the manufacturing sector, whilst not measured in specific terms this year should be included in future.

When measuring the rate of change between sectors, within the change year, it became apparent that the subjective intervals were too general in expression. A system of measurement needs to be considered.

Clearly the higher redemption rate of questionnaires this year reflected a consistency in the results, which confirmed the confidence levels during the “pilot survey” of 2004.

4 Business Climate

The private sector - SMEs, large businesses and multinational corporations - are at the heart of the development process. Sustainable economic growth can only be private sector driven, with the role of the public sector being to create an enabling environment, in which entrepreneurs can explore opportunities and thus increase productivity, contribute to economic growth and create jobs. Nicholas Stern (2002) describes in his book titled, "A Strategy for Development" the two pillars which form the foundation for a sustainable strategy, namely:

- Building an investment climate that facilitates investment and growth; and
- Empowering poor people to participate in that growth.

Stern (2002) points out that the private sector is not only the main engine for aggregated growth, but it is also the principal provider of economic activity for poor people. He describes the improvement of the business climate, with the improvement of the symbiotic relationship between sowing and reaping the gains of these investments. The ASCCI White Paper (2001) refers to investor confidence in this context: "If we want investment in the region, whether from national sources or from non-national ones, we have to establish a climate of investor confidence." Stern (2002) classifies aspects of public and private activities that influence the investment climate, into three broad categories, notably:

- Macroeconomic stability and openness;
- Good governance and strong institutions: This includes the effectiveness of the government in providing sound regulatory structures for the promotion of a competitive private sector and effective provision of public services. This category further includes strong financial institutions, the rule of law and the enforcement thereof; and
- Quality of infrastructure, including public utilities such as water, electricity and transport/telecommunications.

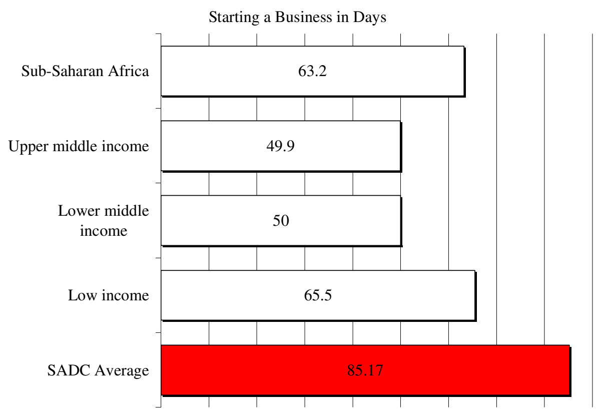
Stern (2002) also points out that where the investment climate is favourable, strong growth and poverty reduction is likely, but this should not be taken for granted. The second pillar for development must therefore focus on questions on how educational/health services and social inclusion can enable poor people to take part in the process of growth and development. What are the conditions under which the private sector flourishes? Some guiding principles are well established, namely:

- Firstly, the easier it is to start a business or close a business, the easier and less costly it will be to test potential opportunities;
- Secondly, the lower the costs are for doing business the more investment opportunities will be profitable and hence realized. Costs of doing business include taxes, cost of capital, costs of contract enforcement, indirect costs of crime/corruption, opportunity and hidden costs. Waiting for a telephone line to be installed or an import permit, translates into costs for businesses; and

- Thirdly, competition is good, though businesses prefer to face less competition in its formative years. Lack of competition allows businesses to make more money, however the more money made translates into higher costs for other businesses or consumers. Competition hence leads to productivity increases and lower costs.

Regional institutions and national governments have several intervention points at their disposal to improve the investment climate and these would include, amongst others:

- Removal of barriers to competition: One aspect is to reduce barriers to entry for new businesses, in terms of regulatory requirements and access to land / capital. A further measure would be to accelerate the process of allowing SADC to become a "free trade area";
- Reduction of risks: Businesses face multiple risks. These would include risk in terms of the response time and intensity of customers and competitors; factor input costs and resulting inflation or foreign exchange movements. Governments play an important role in safeguarding a stable economic and political environment that mitigates risks to a minimum. Furthermore the protection of property rights, political predictability/consistency and stable bilateral and multilateral relations are critical for limiting risks in the commercial sector.
- Containing the costs of doing business: The two above-mentioned points, i.e. removing barriers to competition and reducing risk levels both lead to lower operating costs. Limiting corruption in public institutions to a minimum and improving the service delivery of government services, i.e. delivering better and more relevant services for less, is key to reducing costs of doing business.



The World Bank runs a project that measures the conduciveness of the business climate for investments called: "Doing Business in 2004/5/6." Project (Worldbank 2005b). This project measures obstacles to doing business around the world.

Figure 5: Starting a business (Worldbank 2005a)

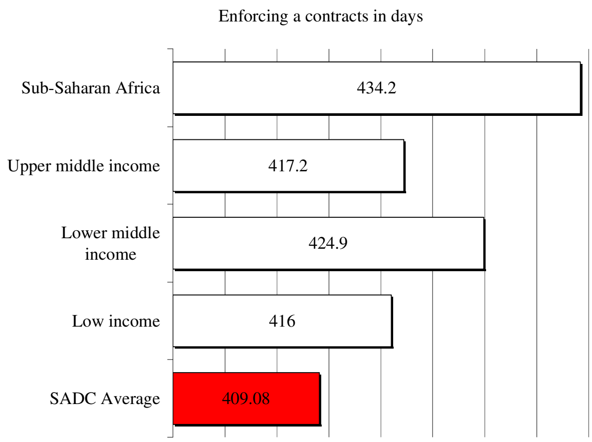


Figure 6: Enforcing contracts compared (Worldbank 2005a)

Figures 5, 6 and 7 compare the average of SADC countries to the averages for sub- Saharan countries, upper-middle income, lower-middle income and low income countries, being selected indicators derived from this project.

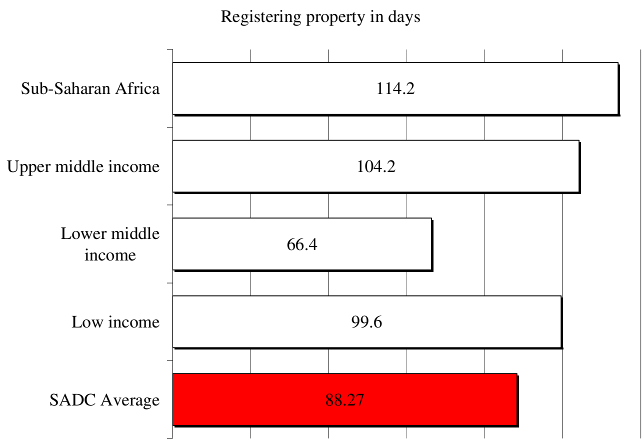
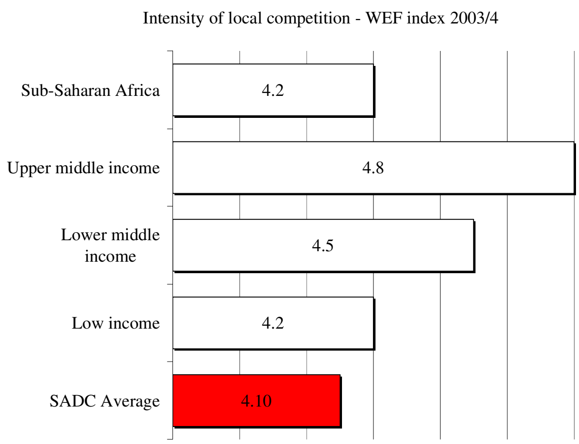


Figure 7: Registering property compared (Worldbank 2005a)

Figure 8: Intensity of local competition compared (Worldbank 2005a)



Generally, the SADC region fares less well when it comes to days required to start a business, when compared to the average of sub-Saharan countries. The SADC region surpasses its important yardstick, the sub-Saharan region when it comes to days required to enforce contracts or register property. This reveals high degree implementation efficiency and a well-regulated legal/financial environment.

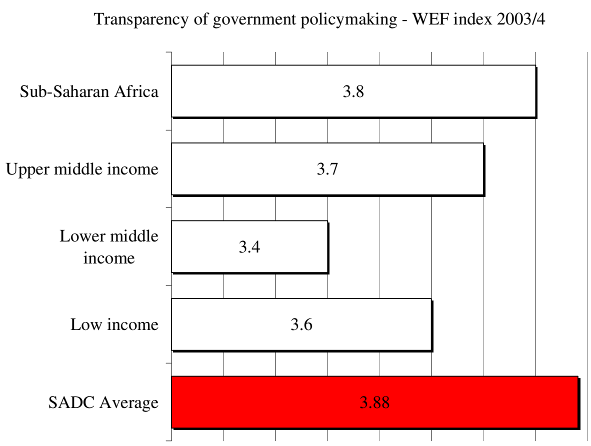


Figure 9: Transparency of policy making compared (Worldbank 2005a)

The World Economic Forum approaches obstacles for doing business from a different perspective. Each year chief executives of leading companies around the world are being asked what their perceptions and evaluations in terms of the competitiveness of their economies and countries are (Executive Opinion Survey - EOS). Figures and compare the SADC region in terms of intensity of local competition and transparency of policy making within the country to average results for sub-Saharan countries, upper-middle income, lower-middle income and low income countries.

4.1 Business Confidence Index

The business climate is measured by the RBCS project when using business climate indices, which are based on nine questions:

1. Please rate your current business performance:
2. Please rate your expected business performance for the next 12 months:
3. Over the next 12 months will you employ...?
4. Over the next 12 months will the capital expenditure of your company in your country...?
5. Over the next 12 months will the capital expenditure of your company in the SADC region...?
6. How do you expect your export revenue from other SADC countries to change over the next 12 months?
7. How do you expect your export revenue from outside of the SADC region to change over the next 12 months?
8. How do you expect your expenditure for imports from other SADC countries to change over the next 12 months?
9. How do you expect your expenditure for imports from countries outside of the SADC region to change over the next 12 months?

The business climate indices allow the monitoring of business climate continuously over time. The four climate scores are calculated, each based on a single question and measure the business climate throughout the SADC region:

- Current Performance (P), based on question 1;
- Expected Performance (EP), based on question 2;
- Employment Outlook (EO), based on question 3; and
- Investment Outlook (IO), based on questions 4.

Additionally, two scores are compiled that measure the rate of regional integration within SADC. Intra SADC Trade score (IST) score is determined by four questions based, on exports and imports (questions 6-9). The Intra SADC Investment Index (ISI) score is formulated based on questions 4 and 5.

The Intra SADC Investment score (ISI) is calculated by dividing the index value for capital investments in other SADC countries by the index value for capital investments in the home country, expressed as a percentage. Above 100% means that businesses plan to increase their investments in other SADC countries more than they do in their home country. An ISI reading below 100% means that responding businesses intend to increase their investments in their home country more than in other SADC countries.

It should be borne in mind, that the above-mentioned climate questions do not draw any conclusions regarding the magnitude of investments made. Whether it is a large or small company responding, all respondents carry the same weight. One therefore cannot deduce whether more or less is invested in other SADC countries in real terms compared to the home country. The responses only indicate whether the corresponding investments will increase or decrease, but not by indicating which one is higher.

Table 4: Business Climate Scores

	2004 (Pilot)	2005	Change
Regional Current Performance (RCP)	24.7	24.2	same
Regional Expected Performance (REP)	38.5	42.3	up
Regional Employment Outlook (REO)	14.1	19.6	up
Regional Investment Outlook (RIO)	28.6	31.3	up
Intra SADC Investment (ISI)	51.79%	73.8%	up
Intra SADC Trade (IST)	88.66%	96%	up

The Intra SADC Trade score (IST) is derived by dividing the sum of index values for importing and exporting to and from other SADC countries by the sum of importing and exporting to and from countries outside the SADC region, expressed as a percentage. An IST reading above 100% means that responding businesses intend to trade more with other SADC countries relative to their trade with non-SADC countries. It does not mean that they are in effect trading more with other SADC countries, than with non-SADC countries.

Table 5 reflects the composite index values for the business climate indices for both the "pilot survey" of 2004 and the recent 2005 survey. The results of these surveys are strictly speaking not comparable by virtue of the following. Firstly, not all SADC countries where covered during the "pilot survey". Secondly, the 2005 survey included companies from the primary and tertiary (service) sector, whilst the "pilot survey" was limited to manufacturing companies. Variability in results will occur due to different companies responding from one survey period to the next.

The 2005 data is being used to calculate a Regional Integration Index (RII), which commences with 2005 set 100 (base year) index points. It is calculated by adding up the Intra SADC Investment (ISI) score and the Intra SADC Trade (IST) score and dividing the aggregate by the same value for 2005, times 100. For ensuing years the same divisor will be used, which allows the effective monitoring of regional integration.

$$RBCI_t = \left(\frac{P_t + EP_t + EO_t + IO_t}{RBCI_{2005}}\right) \times 100$$

$$RII_t = \left(\frac{ISI_t + IST_t}{(ISI_{2005} + IST_{2005})}\right) \times 100$$

Table 5 displays the RII for both 2005 and 2004. It should be borne in mind that the 2004 index value has only been included for demonstrative purposes and that a definitive comparison is not valid.

Table 5: Regional Index (RII)

	2004	**2005**	**Change**
Regional Business Confidence Index (RBCI)	90.2	100	Up
Regional Intergration Index (RII)	82.7	100	Up

Additionally, the survey results were used to derive at a Regional Confidence Index (RBCI) based on the current and expected performance the employment outlook and the nvestment outlook scores.

4.2 Business Performance

Overall, respondents in the SADC region describe current business performance favourably. The overall current and expected business performance reflect an average response of between fair and good. Businesses further expect to perform better during 2006 than during 2005.

Current performance for all sectors is positive, with the best performance seen in the service sector. Businesses from the primary sector are the most optimistic ones when it comes to the expected performance for 2006. This optimism might have it origins in expectations of a stronger US$ during 2006.

Businesses from the textile, apparel and leather manufacturing cluster were the least optimistic for their current and expected performance. This can partly be explained by the closures of textile businesses in Lesotho, Namibia and Mauritius, that primarily produced garments for the US market under the AGOA 2 agreement.

Respondents from the Food, Beverages and Tobacco cluster were equally optimistic about their performance in 2006. The “doubling-effect” in this sector is indicative of a strong regional capability to produce and supply “fast moving consumer goods”.

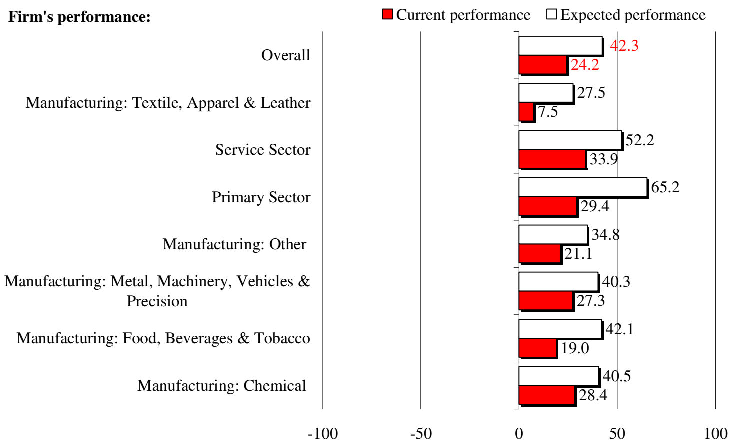
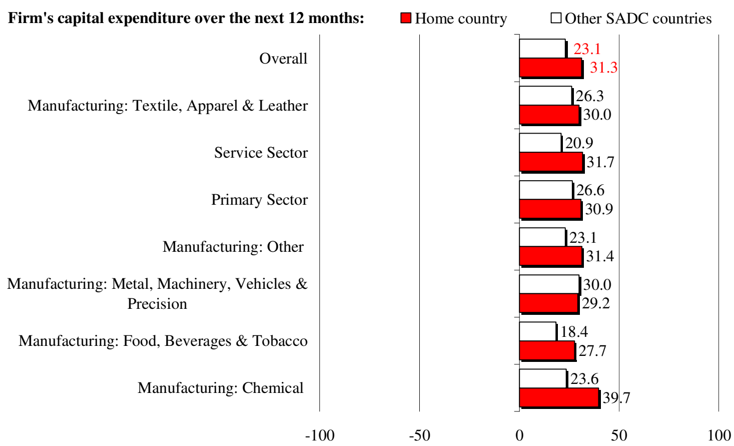


Figure 10:

4.3 Capital Expenditure

Responses regarding future capital expenditure in both respondents' home countries and the SADC region as a whole were positive. When asked how the capital expenditure of their business would change in other SADC countries, respondents expected a slight increase overall, however a smaller increase compared to planned investments in their home country. Businesses in most clusters expect to increase investments in their home countries more than their investments in other SADC countries, except for the Metal and Machinery cluster. The Chemical Manufacturing cluster expects to increase investments in their home country to the greatest extent, when compared to all other sectors. The weakest home market capital expenditure result is in the Food/Beverage sector, which is well established. The greatest potential to grow within the home market remains in the services sector. The rate of regional integration over the ensuing three years toward the SADC Free Trade Area should see a progressive improvement in the capital expenditure trend.



4.4 Exports & Imports

Overall, respondents expect to earn more from exports to both SADC and non- SADC countries in the next twelve months, than they do currently. Export revenues to countries outside the SADC region, supported by traditional exports to the US and EU markets are expected to grow the most, with responses in both categories being positive.

Interestingly, the same cluster expects an increase for imports from non-SADC countries to increase more than those from SADC countries. This could be due to metal and machinery manufacturing businesses importing production equipment from outside the SADC region for their expansion plans into other SADC countries.

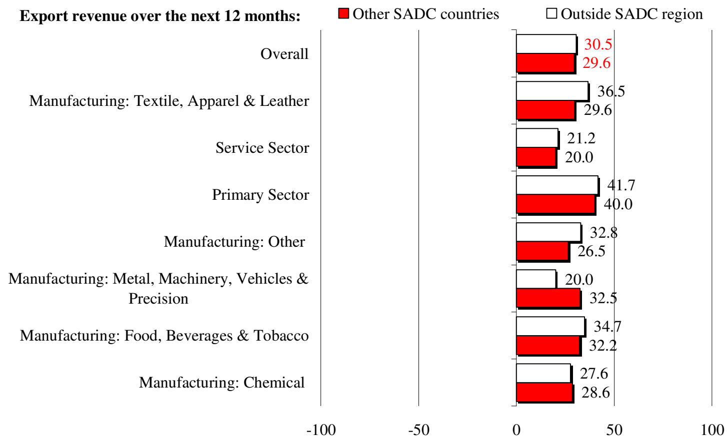


Figure 11:

The Intra SADC Trade score (IST) reading of 73.8% for 2005 indicates more investment in one's home market as opposed to the SADC regional market. 2004 showed a even greater tendency to invest in one's home market.

The cluster of Metal and Machinery manufacturing is expected to earn more from SADC than from non-SADC exports. Businesses from this cluster also expected to increase their investments in SADC countries more than in non- SADC countries (see Figure 11). It is clear that the Textile/Apparel and Chemical Manufacturing sectors are relatively self-reliant of importation of raw materials, however in case of the Chemical sector, export revenue reflects a strong domestic demand for chemical products within SADC

The close alignment between the apportionment of export revenues for both SADC and non-SADC markets in Figure reflects a SADC region "in transition". Expected increase in import expenditure for SADC countries for the ensuing 12 months implies greater value-addition processes and better output increase, given the increase in expected capital expenditure over the same period in SADC countries (i.e. cross-border investment).

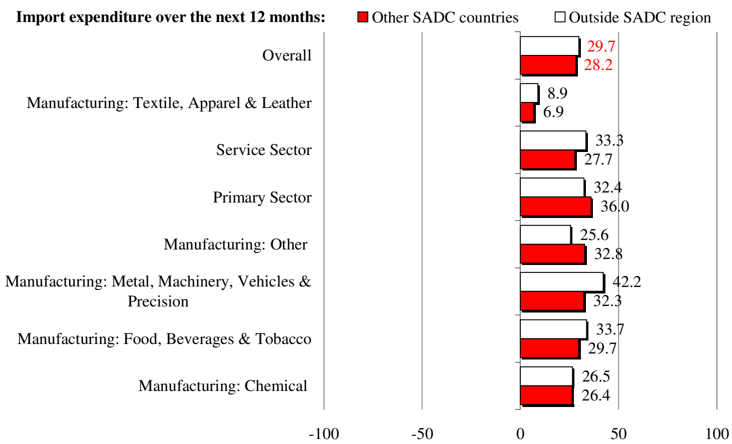
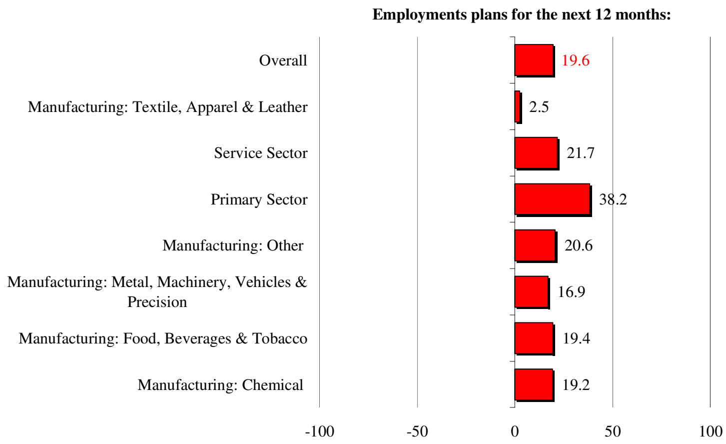


Figure 12:

4.5 Employment

Respondents expect employment to remain mostly unchanged or to increase very slightly in the next twelve months, except for the primary sector. The primary sector expects to increase employment most over the next 12 months, with a 38.2 point rating, this matched with the positive expected performance for 2006 (refer to Figure 13).

Figure 13:



The lowest reading is in the Textile/Apparel cluster, where the overall reading is moderately positive. Clearly the impact of the now concluded Multi-Fibre Agreement (December 2004) and less expensive foreign apparel imports have had a dampening effect on employment potential in this cluster. With the future advent of the UNIVISA travel document, mobility of labour within the region should increase.

5 Challenges to doing business in SADC

Businesses were asked to what extent they perceived several issues as challenges to their business activities in other SADC countries. They were asked to rate potential challenges as “no problem”, “minor problem”, “major problem” or “not applicable”. The table below displays the average scores for these potential challenges, with a 0 reflecting “no problem”, a 5 “minor problem” and a 10 “major problem”. The challenges which businesses were asked to rate in terms of severity were based on the ones highlighted in the ASCCI White Paper of 2001 (see Table 6).

Table 6: SADC Business Operators Ranking of Non-Tariff Trade Barriers in SADC

Priority	Non Tariff Barrier	Importance
1	Customs Procedures	Very High
2	Lack of Market Information	Very High
3	Bureaucracy	Very High
4	Border Restrictions and Procedures	Very High
5	Receptions	Very High
6	Customs Charges	High
7	Import/Export Licensing	High
8	Business Culture	High
9	Lack of Transparency of Rules and Regulations	High
10	Communications Limitations	High
11	Lack of Trade Finance	High

Table 7 displays the average ratings of manufacturing businesses for 2004 and 2005. The 2005 data set also contained businesses from the primary and tertiary (services) sector, however they were excluded from this comparison. The limitation of this comparison needs to be kept in mind, when considering the sample distribution between 2004 and 2005. Although the average ratings changed to some extent from 2004 to 2005, the changes were quite modest and changed the ranking of challenges in a few cases.

Table 7: Rating of constraints when doing business in SADC for 2004 and 2005, (for manufacturing companies)

Obstacle	2004	2005
Fluctuations in the exchange rate	7.49	7.38
Crime, theft and corruption	7.41	6.68
Economic and regulatory policy uncertainty	6.60	6.00
Customs regulations, procedures and bureaucracy	6.83	5.94
Affordable and reliable transportation	6.08	5.57
Lack of market information	6.67	5.27
Legal environment (enforcement of contractual and property rights)	4.90	5.19
Lack of transparency of rules and regulations	5.48	5.19
Trade tariffs & custom charges	5.87	5.14
Access to and cost of finance (for foreign investors)	5.27	5.00
Business culture	5.06	4.73
Access to land (for foreign investors)	5.07	4.67
Business licensing and operating permits (for foreign investors)	5.03	4.48
Insurance	4.00	3.92
Import/export licensing	3.80	3.80
Visa regulations	3.95	3.73
Communication restrictions	4.60	3.72
Domestic content requirements	2.95	3.46
Phyto-sanitary and veterinary regulations (etc.)	2.77	3.17

A business perspective of each of the nineteen challenges highlighted in Table will consider the following, namely:

- The relevance of these challenges in respect of intra SADC trade development;
- Some typical examples when addressing these challenges; and
- Private sector actions to reduce the impact of these challenges on regional trade development.

It is encouraging to note that there has been an easing in degree of severity in the top five challenges within the survey period, with the legal environment, domestic content requirements and phyto-sanitary regulations worsening on the previous year's rating. Furthermore it is interesting to note that cross-border challenges generally- speaking have a lower rating than macroeconomic or business environment factors, which augers well for smoother regional integration.

5.1 Fluctuation of the Exchange Rate

One of the main challenges to further regional integration and more economic growth are the macroeconomic disparities within the SADC region (see ASCCI White Paper 2001). Inflation and GDP growth differentials within the SADC region result in exchange rate fluctuation and macroeconomic uncertainty, which further hinders regional integration.

The fluctuation in exchange rates is an asymmetrical problem in SADC. Exporters in SACU countries suffer under the relatively strong South African Rand versus the EURO and US$. The strong Rand has put the mining and the fishing industry under particular pressure. Other SADC countries on the other hand suffer from weak and volatile currencies, specifically those not linked to the US$. Volatility in particular is of concern to further regional integration since it makes it difficult to enter into long-term business relationships. The degree of volatility will vary from country to country and each sector and/or commodity will need to determine it's own upper and lower limits, where either import expenditure or export revenues remain sustainable or not in the short-term.

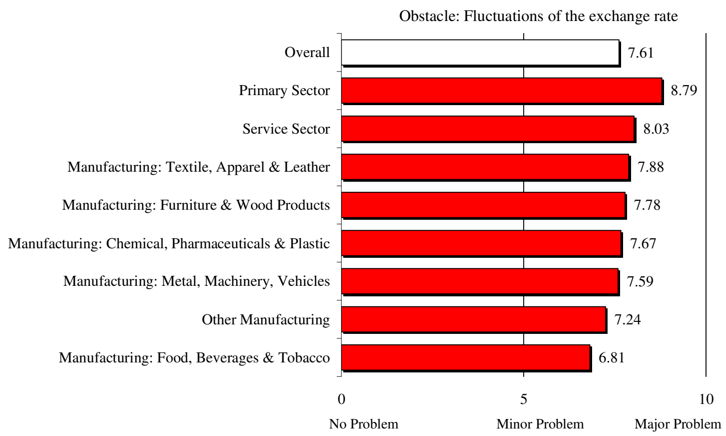


Figure 14: Exchange rate fluctuations as obstacles to doing business in SADC

Most regional markets transact in SA Rands or alternatively US Dollars, which in essence will cushion price movements and trading losses. In many cases emerging economies prefer to transact in US$, when shortages occur in client countries.

With the SA Rand being legal tender (convertible currency) in most SADC countries, the impact of exchange rate fluctuations on intra SADC trade should be limited, however where imported raw materials or "knock down" kits sourced

Through US$/Euro denominated markets are either brought in through a SACU country or SADC member state and “re-exported” the effect on landed cost in the debtor country would be significant, apart from the “profit taking” aspect by the creditor country.

The primary sector is most affected by fluctuations in the exchange rate, given that world commodity prices are fixed in US$ or Euro terms. However, all clusters perceived these fluctuations as more than a minor problem. In fact, exchange rate fluctuations are rated as the most severe of all challenges to doing business in SADC.

It is noteworthy that “fast moving consumer goods (food/ beverage/tobacco cluster) is least affected, by virtue of an extensive regional manufacturing capability and distribution network. This suggests that further regional integration and macroeconomic convergence would be favourable for business confidence and lead to increased intra SADC trade. In most instances taking “forward cover”/hedging, with better insight into exchange rate movements would be an obvious first step, based on shipping dates and production planning for the importer, based in the SADC region

Conversely exporters within the region would need to be mindful of either country /political risk or availability of US Dollar risk. Invoice prices either FOB or C&F would be fixed at time of final negotiations, with shipment time kept to a minimum.

5.2 Crime, Theft and Corruption

Clearly ongoing crime of this nature undermines the ability of trading partners to realise full convergence of trade and benefits that should accrue to both or more countries. Apart from affecting transfer pricing with hidden costs of doing business, it undermines the ability to remain competitive both from timeous market access and operating margins

The existence of syndicates, cartels and triad structures and their effects on legitimate trade is difficult to assess. Their ability to stockpile products in strategic border locations, which is counterproductive to domestic trade, cannot be stressed enough.

The ASSCI White Paper (2001) pinpointed corruption as the most important challenge to the development of business in Africa. Crime, theft and corruption were also seen by most businesses as a serious problem. The only exception are businesses within the service cluster, which usually work within a more secure environment in a central business district, being less exposed to crime, other than intellectual property /industrial espionage related crimes.

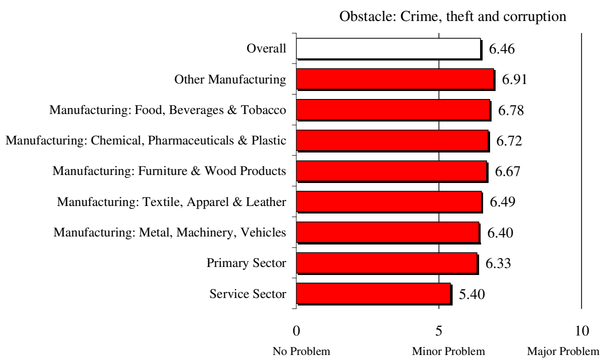


Figure 15: Crime, theft and corruption as obstacle to doing business in SADC

Reliable business partners and well defined inter-trade agreements using independent transport companies should be encouraged, with independent "inspection services" collaborating with agencies such SGS and Crown Agents.

One of the difficult areas to manage is "parallel trade" regarding "bonded products" that re-enter the domestic market, where the exporting company is situated and undermine the "duty-paid" sub-market.

Most Ministries of Trade second staff to border areas to collaborate with their counterparts across the border. This initiative is usually operates under the auspices of Joint Monitoring Commissions of neighbouring countries. In certain countries single-entry visas are issued with limited visitation rights, which can limit crime activities to a lesser extent, however also hampers the ability of legitimate businesses to operate effectively.

The National Chambers of Commerce through their Standing Committees on Trade & Investment regularly meet with senior Government officials either on an operational level or through Parliamentary Standing Committees to resolve trade related crime issues.

Transparency International enjoys a presence in certain SADC countries, which also collaborate with the various Law Societies and other law enforcement agencies. New satellite technology to monitor container movements regionally is now operational and will become a requirement for traffic to the North West continent. The cost impact for use of such technology in regional SADC trade would be excessive at present, however would be ultimately generate cost savings with improved traffic volume.

5.3 Economic and Regulatory Policy Uncertainties

Economic and regulatory policy uncertainties generally affect all sectors, which is further complicated by bilateral trade agreements, WTO regulations, industry protection issues, legislation "in progress" and other policy-related limitations. In particular the Economic Partnership Agreement (EPA) negotiations between the European Union and various configurations of SADC countries has increased this uncertainty in terms of sentiments of some member countries on timing of implementation of this agreement and other SACU agreements.

The timing of reduction of import tariffs, signing and ratification of bilateral agreements can take up to 3 years to implement, which in itself delays the integration process in the short-term.

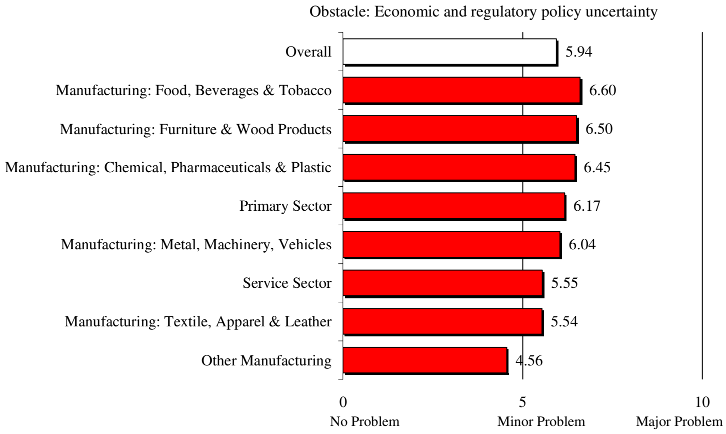


Figure 16: Economic and regulatory policy uncertainty as obstacle to doing business in SADC

Here one needs to stress the importance of harmonizing Industrial and Trade Policy within member states and in the interim to ratify any outstanding trade agreements that are pending soonest, which will assist trade flows before implementation of the SADC-FTA during 2008.

The SADC Inter-parliamentary forum, through the various desk officers, should support the submission and reading periods of new legislation through respective parliaments, specifically with larger and active trading partners.

Ongoing lobbying and chamber Standing Committee submissions through counterpart Parliamentary Standing Committees should be intensified, with ASCCI supporting these initiatives.

Generally, the business community through either the National Chamber, manufacturer's association assist in preparing sections of draft legislation where their respective interests are best served, apart from being in the national interest. Commentary on draft Bills' are vital before the second and third readings of both the upper/lower houses of Parliament or regional government.

Additionally, the private sector has often assisted with product listings for addendum to bilateral agreements, where domestic content requirements for example were specified. In many instances this input also forms part of the Annual Review for National Development Plans.

5.4 Customs Regulations, Procedures and Bureaucracy

A harmonized “seamless” goods declaration form and accompanying procedures is in existence for SACU countries, with all relevant tariff data works well and could be replicated within the SADC grouping.

A classic case of procedures and bureaucracy is trying to improve “turnaround” times of containers between trading countries, either through EPZ or “dry port” facilities. In this case a lot would depend on the preparedness of the consignee and their working relationship with the customs authorities.

A effective way to limit the impact of this challenge is to work through a recognized trade association, which includes in an “ex-officio” capacity individuals from the customs authority, Chamber of Commerce & Industry, SGS representative and freight forwarders/haulers. This can be further expanded through the bilateral “Joint Commissions” between countries.

The ASCCI White Paper (2001) stresses the urgency to remove the major impediments to investment and economic activity, which often inefficient and/or non- empowered governmental bureaucracies can represent. Custom regulations, procedures and bureaucracy are top on the list of challenges that businesses face in the SADC region during 2005.

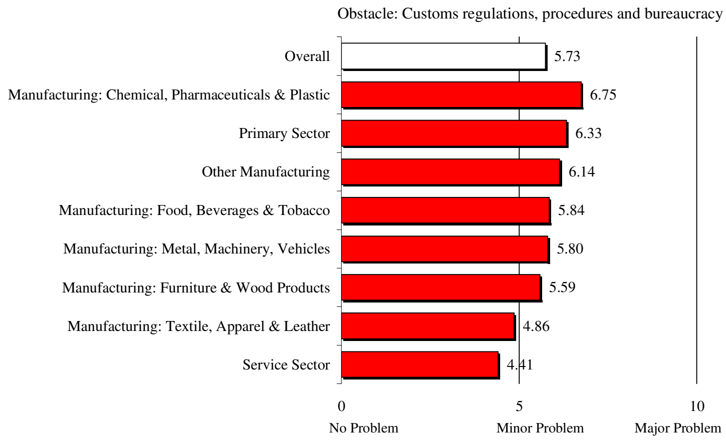


Figure 17: Customs regulations, procedures and bureaucracy as obstacles to doing business in SADC

It is little surprising that companies from the chemical and pharmaceutical industry see customs regulations, procedures and bureaucracy as more of a problem then, for example, the service sector. New developments where CD-ROM loaded cross-border consignments and a standardised declaration form for the SACU countries and Angola now ease the procedures burden. Several other SADC countries are working on simplifying custom procedures.

5.5 Affordable and Reliable Transportation

With the “open market” transport rates in existence, this challenge had an overall moderate rating, however affects the high-value and “break bulk” transactions that are characterised in the Wood and Textiles sectors. In the former, difficulties would arise for matching the type of transport required for south bound bulk traffic to ports and in the latter, the cost impact of declining regional production volumes. Reliable transport originating within the new, emerging SADC economies is a key limiting factor and tends to only partly service it's own national transport requirements. Inbound transports from a neighbouring country will effectively only service border areas and perhaps the near interior of the consignee country, where their national fleet would assume responsibility.

A regional rail grid, with linkages to the key ports of Cape Town, Durban, Maputo, Walvis Bay and Benguela is undergoing improvement, which in turn will lead to spatial development along these corridors serving industrial, transport, tourism and local community needs.

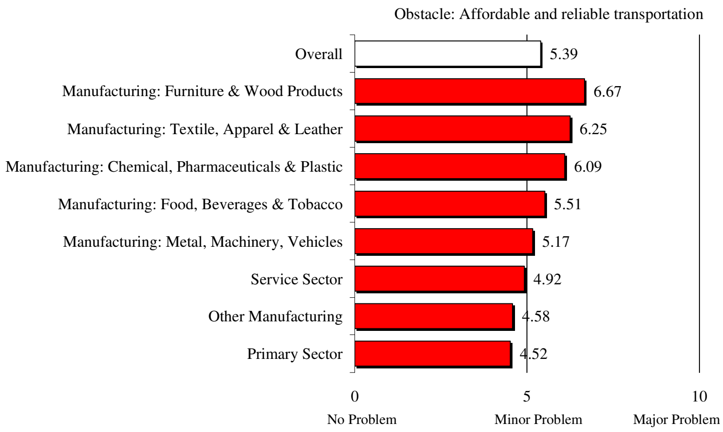


Figure 18: Limitation in affordable and reliable transportation as obstacle to doing business in SADC

The problem of a partly integrated road & rail network within SADC to assist with containing transport costs is a matter that requires attention, especially at important border crossings for landlocked countries.

Three clusters saw affordable and reliable transportation as more than a minor problem, notably the wood, textile and chemical clusters. Clearly this is a limiting factor for emerging highly competitive sectors, with high consignment values since costs accrue from long transit times and the “locked in” capital.

A need exists for a SADC-wide road haulers database on transport rates, especially state-owned enterprises, that operate both rail and road facilities. Corridor development has progressed well in trying to address this challenge, with fixed road-user charges on certain high-density routes. A common challenge is one where an exporting company wishes to supply a given centre within a neighbouring country, where either the transport rate is excessive and /or no return loads are offered where the transport rate may be more competitive than the former outbound load.

A common trend is where exporters now join a consortium of companies and order groupage containers, share costs and negotiate more effective transport rates. Container and vehicle recovery times also improve, with obvious benefits to both client and contractor.

Corridor groups are starting to work together, involving the national ports authority, private sector haulers, customs and excise officials, and dairy producers, amongst other stakeholders. This grouping takes a holistic view of efficiency, tollgate rates, border-in and border-out issues, administrative matters, amongst other issues and ultimately represents its members in all national areas.

5.6 Lack of Market Information

The ASCCI White Paper of 2001 mentions the lack of market information as a major impediment to intra-regional trade. The paper states that this can have several sources:

- “Non-existence of formalized data on import-export procedures, potential sellers, potential buyers,
- Non-updated ness or incompleteness of existing data,
- Data stored on support not easily accessible,

- Lack of coordination between national TSI's, leading to duplication and waste of scarce resources, and
- Absence of networking among TSI's regionally, leading to non-tapping of existing data."

Lack of market information posed on average a minor problem for businesses responding to the 2005 business climate survey. Companies from the furniture and wood cluster also saw the lack of market information as a major challenge generally speaking, while other clusters saw this as a minor challenge. The dominance of small business respondents in this cluster influenced this high reading, where lack of information about their home market and their export markets abounds. Pricing strategies and market segmentation exercises would be difficult without relevant trade data.

Whilst this challenge does not present a major problem overall, the wood products sector and to a lesser extent the chemical sector experience some difficulty. The relevance here to regional trade is again ultimately lack of market access and the error of entering wrong market segments.

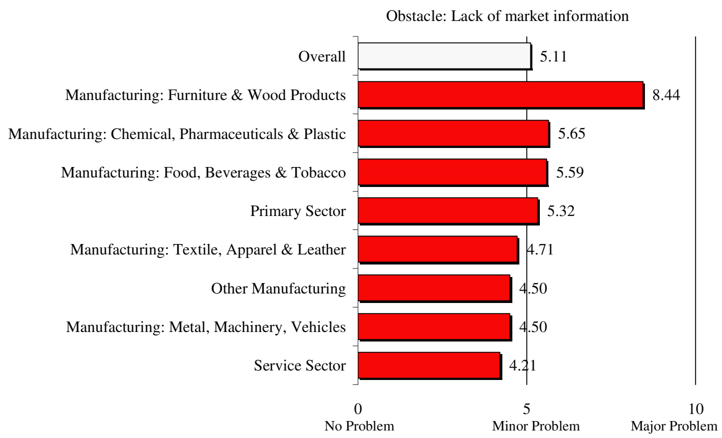


Figure 19: Lack of market information as obstacle to doing business in SADC

In the wood sector case information required is not readily forthcoming from an emerging market, where inventories and woodland production yields are not readily known.

Here the Ministry of the Environment through the Department of Forestry needs to establish a marketable database, setting quality measurements, yields and pricing standards, amongst other requirements. Usually saw-mill are independently owned and are a good point to start one's enquiries, as most are vertically- integrated companies, with own transport. An efficient way of accessing information is either through the International Trade Centre and their various products, namely "trade maps" and "country profiles", apart from approaching National Herbariums, who will be able to assist with technical data.

Often NGO's and independent trade consultants recognised by their member associations have good access to market information, apart from such institutions such as national development banks and Central Statistics Bureaus. Appropriate websites are in abundance either directly or through hyperlinks and are always a first step in search of market information.

5.7 Legal Environment

Here one finds the difficulty in addressing the challenge primarily lies with two categories of company size, namely the small emerging and mid-size company experiencing a high rate of growth and trying to meet clients expectations.

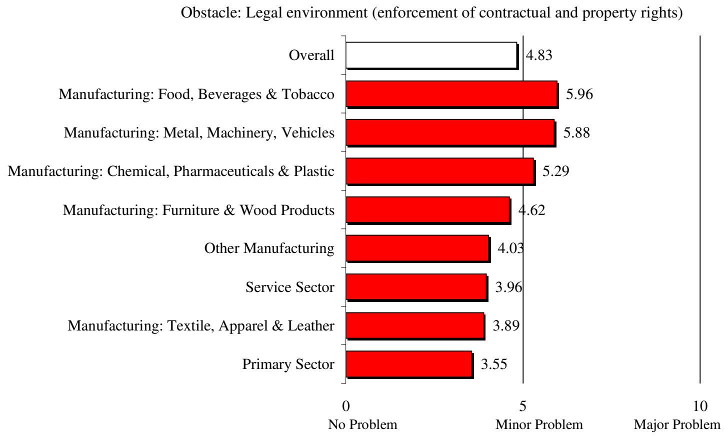


Figure 20: Legal environment as obstacle to doing business in SADC

5.8 Lack of Transparency of Rules & Regulations

This limitation has the effect of raising illicit and irregular trade and legal exploitation. Additionally, this has the danger of allowing entry by opportunistic businesses that will create an anti-competitive environment.

Ultimately challenging authorities to upgrade or apply rules is at times a time consuming, but necessary process. Special mention here concerns the wood products sector, which is influenced more by the products, as opposed to the furniture component of this sector, with many small company entries not acquainted with rules, that may be incomplete and/or limited.

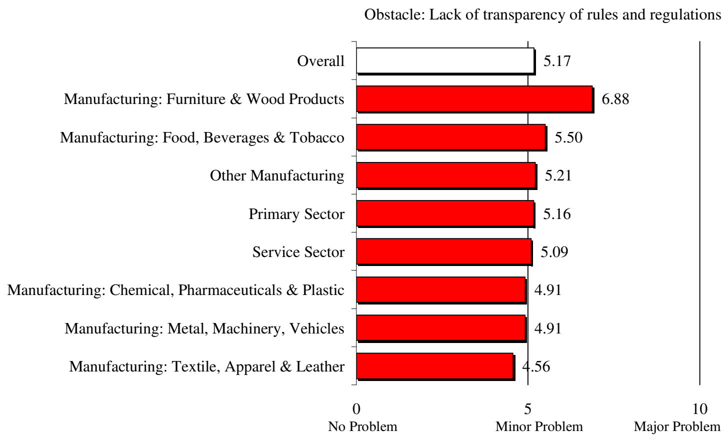


Figure 21: Lack of transparency of rules and regulations as obstacle to doing business in SADC

Lack of transparency of rules & regulations is seen as a minor problem on average and was pronounced in the furniture and wood products cluster, by virtue of the intrinsic value of this natural resource (exotic woods) and the informal nature of this sector's development. Another factor is that the furniture and wood cluster had the highest share of small business respondents with 53% of responding businesses having less than 11 employees. Small businesses are usually less well informed about rules and regulations compared to larger companies and hence are more likely to perceive them as not transparent.

Lack of transparency of rules and regulations is also seen more than a minor problem by the Food, Beverage and Tobacco cluster. The tobacco industry is partly influenced by new WHO health regulations.

It is important that all private sector stakeholders ranging from the Banker's Association, the Law Society and Chambers of Commerce are involved in periodic review and assistance with regulating authorities.

Foreign investors interested in working with local/regional partners take a critical view of operating environments, including rules and regulations. Usually, many of the trade and investment enquiries are dealt with effectively by the country Investment Centres, from an information perspective, however without sufficient private sector lobby groups and legal drafters at government level the momentum and competitive edge is lost.

Here the private sector through trade associations works tirelessly to positively influence transparency, where Standing Committees in several SADC countries hold bi-annual forums with State House and the National Assembly, particularly on pending and dated legislative matters. The direct, one stage approach through trade associations is preferred by both parties.

5.9 Tariffs and Custom Charges

Here the relevance of said challenge applies to sectors where "sin-tax" for high value luxury goods is applied, the trade in sensitive products and varying qualities of wood products, attract higher duties.

In the short-term it is important that exporting companies of these sensitive commodities sell into appropriate markets that can bear the tariffs and charges. Ministries of Trade need to continuously assess the relevance of tariffs and charges in relation to the performance of their home markets both domestically and regionally.

Tariffs and custom charges as hindrances for intra SADC trade for all but service and textile cluster can be explained by the export orientation of, for example, textile towards non-SADC countries and the limited extent of "trade-in-services" within SADC.

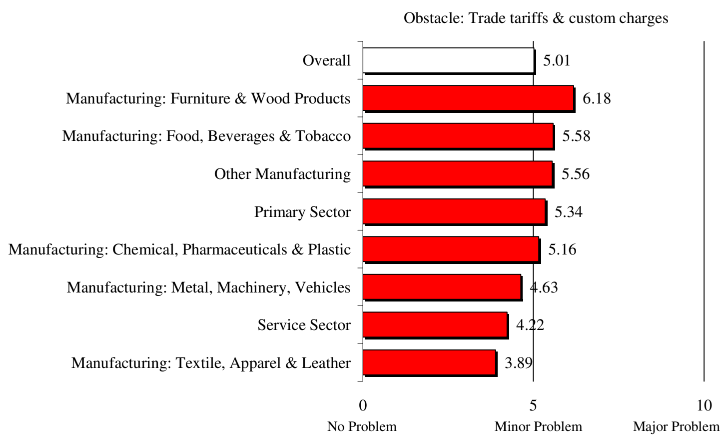
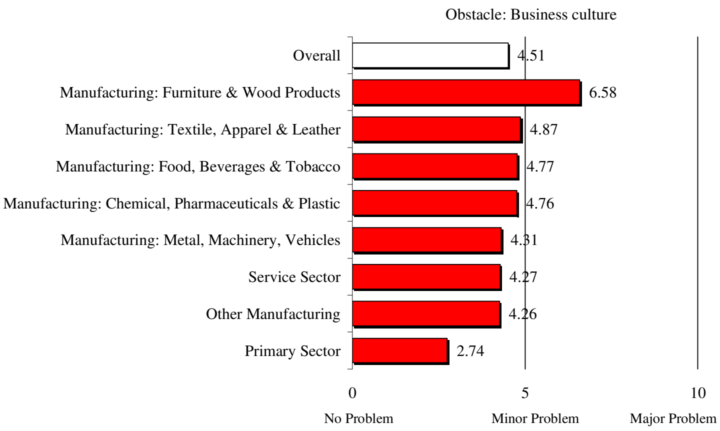


Figure 22: Trade tariffs and custom charges as obstacles to doing business in SADC

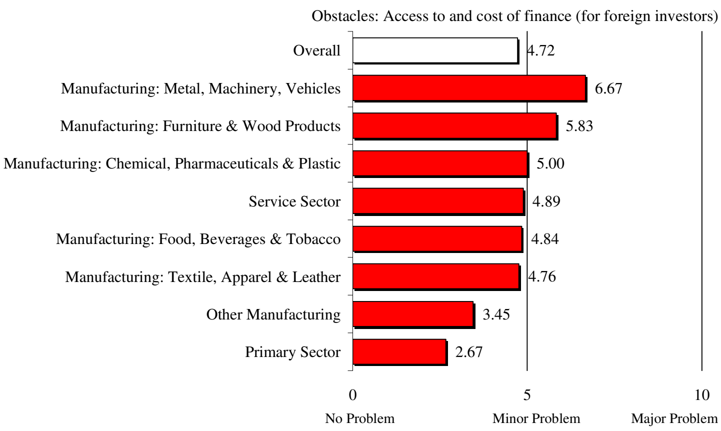
5.10 Access to and Cost of Finance

Access to finance is not a major problem for most SADC investors in general, since indigenous and regional banks largely control the financial sector. The Metal and Wood clusters have the highest share of small businesses. Consequently access and the cost of finance is seen as a bigger problem on average by these clusters. The cost of finance in terms of interest rates and bank charges is higher in the SADC region compared to other developing countries such as Brazil, Thailand and Malaysia.



In this case the Metal/Machinery and Furniture/Wood product sectors find it relatively difficult to gain access by virtue of high capital input costs and the local content programme requirements.

Figure 23: Access to and cost of finance as obstacle to doing business in SADC



This challenge is manageable and is essentially a developmental matter. Essentially cost of finance with offshore borrowings should not be a limiting factor, however access by a local business partner may prove to be a short-term challenge.

The formation of strategic business alliances, based on mutual trust and a common vision, without onerous borrowings (both local and offshore) should be undertaken. The European Investment Bank provides access to all investors, at times at less preferential rates than for local entrepreneurs.

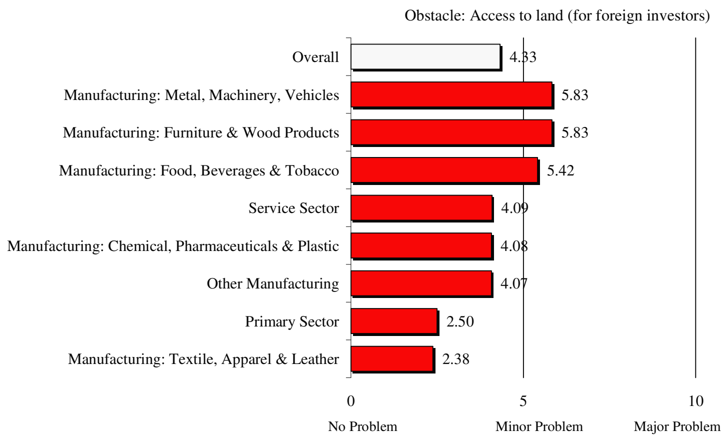
The private sector leads the way when it comes to structured finance for varying project types and is in a position to influence banks strategic lending policies, primarily on new, medium-risk ventures within the regional context. Venture Capital companies are now competing in the mid-range, high-risk market sector, where the new entrants require support.

The general approach is to try and get traditional lending institutions and venture capital companies to work “in-tandem”, despite the fact that compete at all levels.

5.11 Business Culture

Regional variations in business culture, which may hamper open trade, would be limited to existing inter-trade agreements, historical relationships based on language and business ethics. This in essence does not limit trade, but merely precludes market access to other entrepreneurs.

Figure 24: Differences in business culture as obstacle to doing business in SADC



Equally, business culture in other SADC countries, apart from their own was seen as more of an challenge by the Wood/Furniture cluster, because of their company size and limitations and advantages this brings.

A practical approach in networking with emerging markets with unique business cultures is to make use of project brokers that have an intimate knowledge of language, management styles, and trading mentality. Language translators play an important role by virtue of their insight into high-level negotiations and key participants involved.

Etiquette and understanding of local custom is a prerequisite for commencing mutually beneficial relationships. This will vary from country to country and is an important part of market access strategy and exit plans where applicable.

5.12 Access to Land

Here the relevance is to have some insight into the respective Government land reform programmes. This has a particular bearing on transport corridors and the spatial developments alongside these areas, especially within rural communities and commercial farmland.

One way of trying to address this challenge, is by incorporating private sector initiatives within National Developmental Plans, such as land use planning, understanding land valuation policy and the work of Land Tribunals, when price determinations are required. This will assist the process of public-private dialogue and project implementation.

Access to land posed a challenge for two clusters groups regarding their business activities in other SADC countries. In the case of the Metal/Machinery sector, this limitation could be by virtue of size and scale of plant needed in premium priced industrial locations, near major port and rail facilities, amongst other reasons. In the case of Wood/Food sector physical locations, the limitation would be ascribed to rural or peri-urban land, which in terms of low-cost housing and emerging, indigenous farming needs would take precedence.

Figure 25: Access to land for foreign investors as obstacle to doing business in SADC

Various approaches can be used, varying from direct access to Municipal authorities, property brokers and Ministries of Trade in respect of access to border industrial parks and EPZ areas. In most cases access to industrial land operates outside the ambit of the Ministry of Lands and commercial/communal farmland. Land reform initiatives, which are well managed, tend to attract interest and in turn encourage investment, primarily by local entrepreneurs.

5.13 Business Licensing and Operating Permits

This challenge is not considered a problem in itself, other than for small emerging businesses, however should not present difficulties from an operating cost perspective.

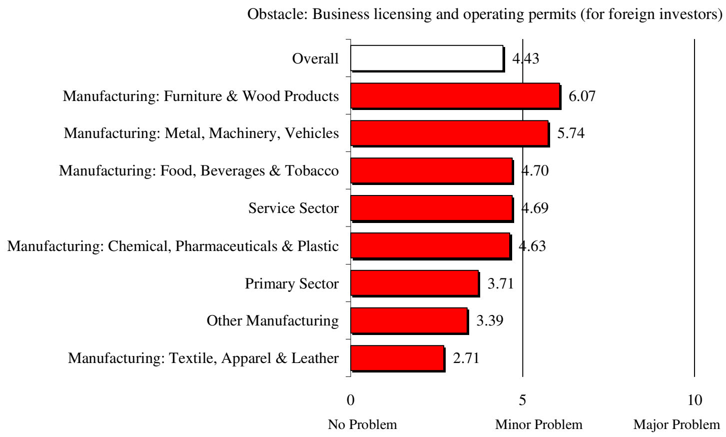


Figure 26: Hurdles in business licensing and operating permits as obstacles to doing business in SADC

Some SADC countries still require business and operating limits. In most, these type of licenses are limited to specific activities such as wood cutting, mining, fishing, selling liquor and second-hand goods. Figure 26 highlights this obstacle as being pertinent to high-value products, with inherent royalty/loyalty and franchise fees.

A more pragmatic approach could be used where the SME sector would qualify for reduced rates of licensing, to assist market entry and enterprise growth. Restrictive, high cost licensing is considered a non-tariff barrier, however these localised practices are diminishing, under pressure from the business community.

5.14 Lack of Adequate Insurance Cover

The relevance of this challenge in promoting intra SADC trade is effectively the cost of appropriate cover for small companies, when considering other operating expenses, specifically hidden costs of doing business. Ultimately this challenge is not considered an issue.

The lack of adequate insurance was perceived as a problem mainly in the primary sector. This is understandable given that few insurance policies cover commodity price risks as a result of drought, flooding and other natural disasters.

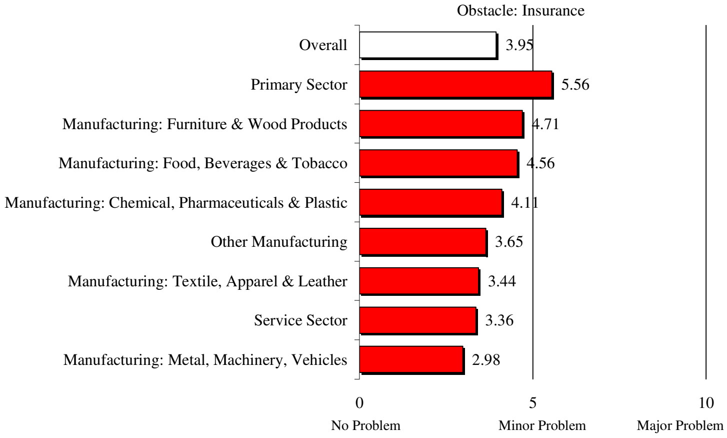
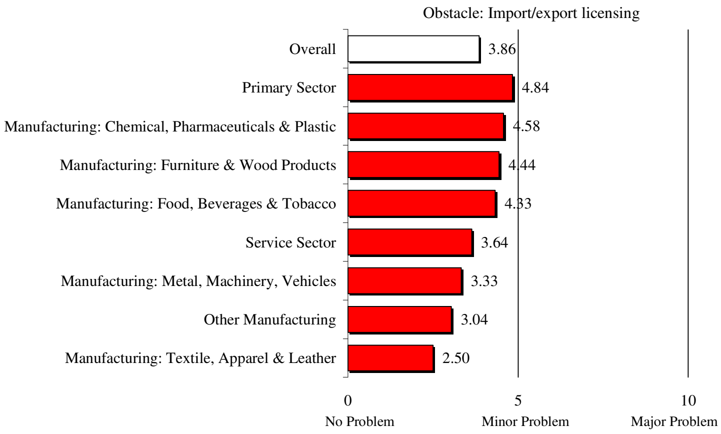


Figure 27: Limited availability of insurance cover as obstacle to doing business in SADC

The business community have numerous, well structured insurance packages to select from, covering a multitude of scenarios. One area that requires some insight and explanation for small exporters is the matter of earning export credits and appropriate export insurance.

5.15 Import and Export Licensing



This challenge whilst not significant can be problematic where insufficient provision has been made for market demand fluctuations within a given year. There is inflexibility by the authorities to provide additional interim licensing cover, which again would only be limited to a specific commodity. As with all business planning and transactions, timeous submissions, understanding one's market and careful lead-time planning are critical.

No real problems exist, as November is usually the deadline month for annual licences renewals, with under utilised import capacity not being carried forward.

The licence fee is fixed for a commodity type, however is not dependent on value or volume of imports planned for.

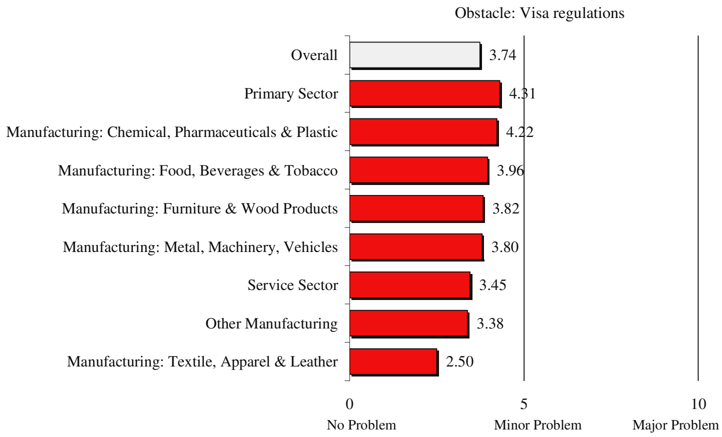
Figure 28: Import and Export license requirements as obstacles to doing business in SADC

5.16 Visa Regulations

ASCCI noted in its White Paper of 2001 that a facilitated movement of persons is a fundamental component of a business-friendly environment. “This enabling environment cannot be realized without the possibility for potential investors to circulate fairly freely, for entrepreneurs to freely access a labour force and for labour, skilled or not, to access the labour market. In this respect, visas can still be hard and time demanding to obtain, work and residence permits difficult to access and processes for these, long and non-transparent.”

Limitations still exist with the lack of multiple-entry and business visas for certain countries, which can be more of a nuisance in the short-term. This challenge will diminish further once the new UNIVISA programme is implemented during 2008/9.

Chambers of Commerce continue to lobby their respective Governments for an easing of these restrictions.



Today, visa regulations do not seem to present much of a challenge businesses in the SADC region.

Figure 29: Visa regulations as obstacles to doing business in SADC

But this does not imply that less should be done in terms of visa regulations that promote investment and economic growth. The proposed UNIVISA system in SADC countries will contribute significantly to that.

5.17 Communications Restrictions

All clusters saw communications restrictions as a minor issue to no relevance. Cell phone usage has grown rapidly over he past couple of years in the SADC region, alleviating communications restrictions experienced in earlier years. Investments across the SADC region in fibre optics and satellite technology further contributed to lower prices and better quality of communication facilities.

This challenge has certainly diminished with a high rate of competition and affordable rates being offered. In certain SADC countries single mobile phone providers still enjoy a monopoly, however this situation will change in due course.

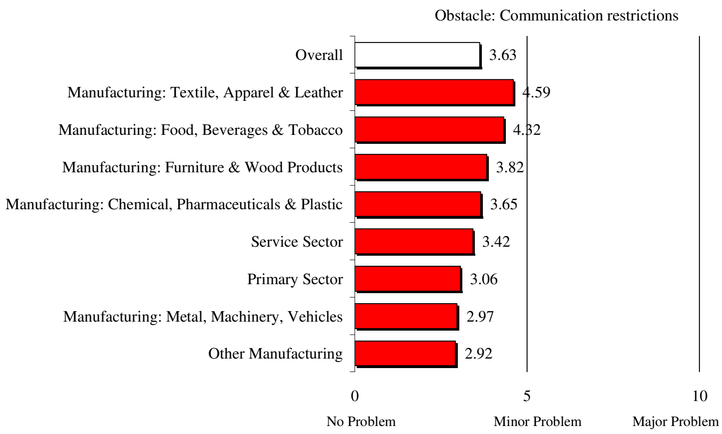


Figure 30: Communication restrictions as obstacle to doing business in SADC

5.18 Domestic Content Requirements

This challenge whilst a legal requirement is well understood and always conducted in the national interest of a given country. This should ultimately enhance trade as domestic economies become more efficient and results-driven.

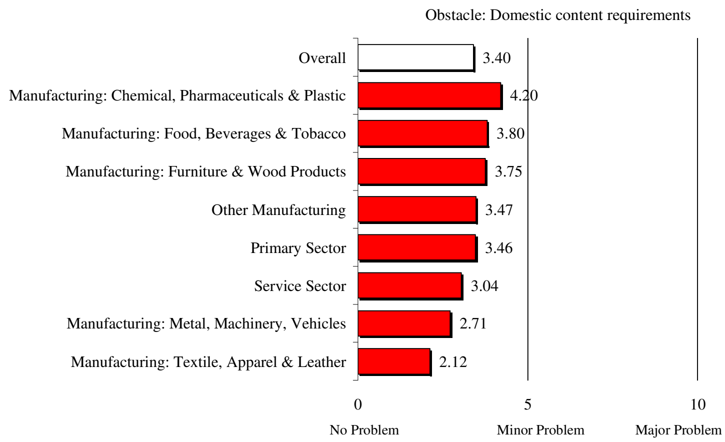


Figure 31: Domestic content requirements as obstacles to doing business in SADC

One way of reducing this challenge further is to invite companies to participate in EPZ parks, with all the inherent benefits and rebates. This will obviate the cost of local content programmes where the real benefit is better utilization of labour resources. Domestic content requirements and Phyto-sanitary/veterinary regulations do not pose a major challenge to intra SADC trade. As expected, the primary sector has one of the highest ratings, with the wood products sector surprisingly lower.

The private sector is in a strong position to plan local content programmes close to sources of raw materials and within close proximity to the national transport grid. Sub-assembly production facilities whilst concentrated in few SADC countries operate under strict international quality standards, which in turn sets a benchmark for other opportunities.

5.19 Phyto-sanitary and Veterinary Regulations

A particular challenge, especially when one deals with emerging economies, is the issue of suitably qualified personnel acting as counterparts to their colleagues in neighbouring countries.

Usually this requires private sector intervention by the effected company and the government department concerned, not necessarily through the Chamber of Commerce.

An example of trying to resolve a phyto-sanitary issue, is where a natural resource, say Lucerne is required in a neighbouring country for fodder purposes, however the consignment cannot be vetted and endorsed by the consignor country. Additionally, quality standards and nutritional values need to be established by both the exporting country and an independent laboratory in the consignee country. The importer needs to first obtain a temporary clearance certificate by the importing country and an endorsement before the samples are forwarded to a third country for testing and assessment. The Ministry of Agriculture is the appropriate institution foe providing clearance and recommendations for such a case.

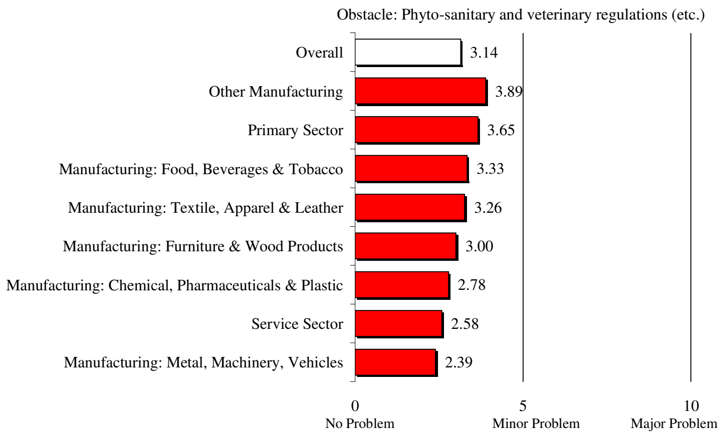


Figure 32: Phyto-sanitary and veterinary regulations as obstacles to doing business in SADC

6 Additional Topics

Two additional topics were chosen for the 2005 Regional Business Climate Survey (RBCS), the new entrant to SADC - Madagascar and HIV/AIDS. For ensuing years different, relevant themes will be addressed.

6.1 Madagascar

21% of the respondents consider Madagascar attractive as an export market and 10.7% as a source of imports. The relatively high "negative/don't know" response is by virtue of Madagascar not being a traditional trading partner of SADC countries.

In particular, the SADC Primary Sector sees Madagascar as a potential source for both imports and exports. The Chemical cluster reported the highest interest in Madagascar as an export market.

The Food/Beverage cluster has reasonably high potential for exports of "fast moving consumer goods", despite the strong presence of French retail groups in Madagascar.

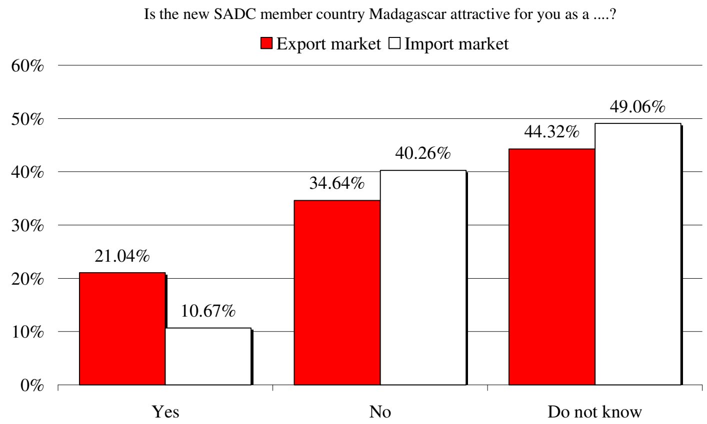
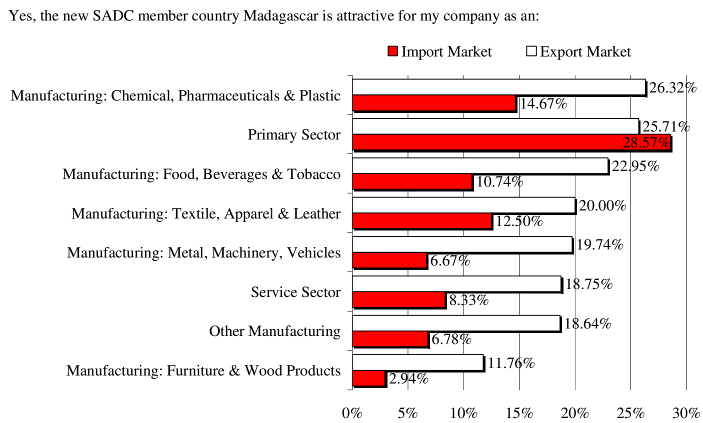


Figure 33: Madagascar as import source and export destination

Figure 34: Madagascar as import source and export destination by sectoral cluster



6.2 HIV/AIDS

The ASCCI White Paper (2001) stresses a concerted and integrated Public Sector - Private Sector - Civil Society approach to fight the HIV- AIDS affliction. Two questions were asked to what extent companies are affected by HIV/AIDS and whether formal approaches are undertaken to combat the disease and the negative consequences on businesses.

In excess of 60% of responding companies consider HIV/AIDS to have an impact on their company (Figure 35). The biggest impact is felt in the labour intensive clusters, namely the Primary, Textiles/Apparel and Services sectors.

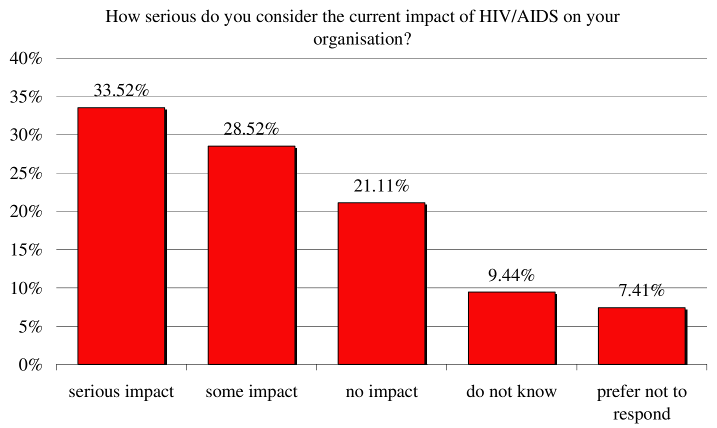


Figure 35: Impact of HIV/AIDS

Approximately 41% of respondents have an operational HIV/AIDS work programme or policy. Larger companies are more likely to have an HIV/AIDS work programme or a policy in place, compared to smaller ones. There is a high correlation between well-regulated and automated industries and a low current impact rating on these types of organizations. Of significance is also the relatively high impact rating of companies in the services sector, where a higher enrolment rate of "white collar" staff is to be found. (Figure 35).

Sub-Saharan Africa has more than 10% of the world's population, home to approximately 70% of all people living with HIV/AIDS. Adults and children with HIV/AIDS in the world today number 37 million, of which some 25 million live in Southern Africa, being the world's worst affected area. (Source: UNAIDS 2003).

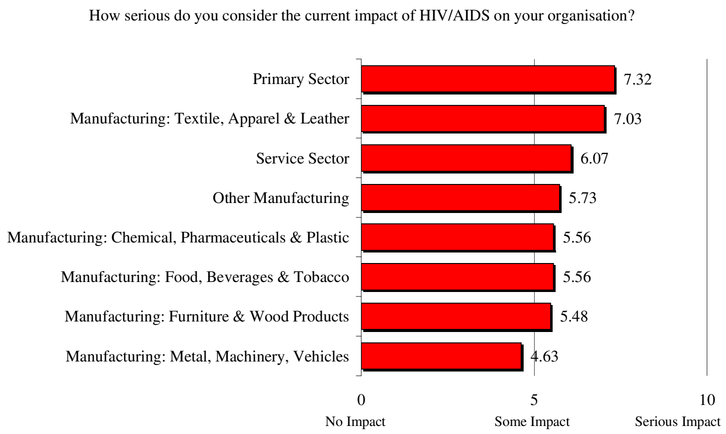
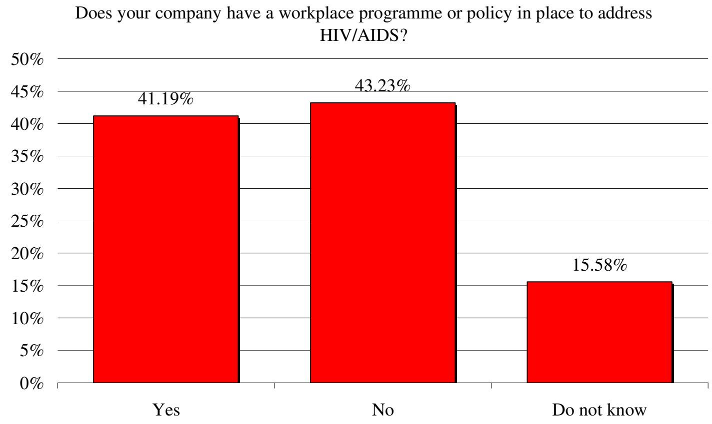
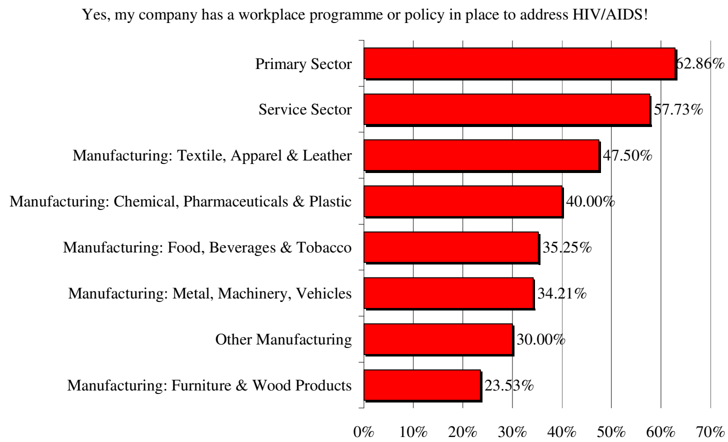


Figure 36: Impact of HIV/AIDS by cluster



HIV/AIDS is undoubtedly a "bottom-line" issue for business, as it impacts on production costs and consumer markets. It has a noticeable impact on the production side of any business. (Source: UNAIDS 2003).

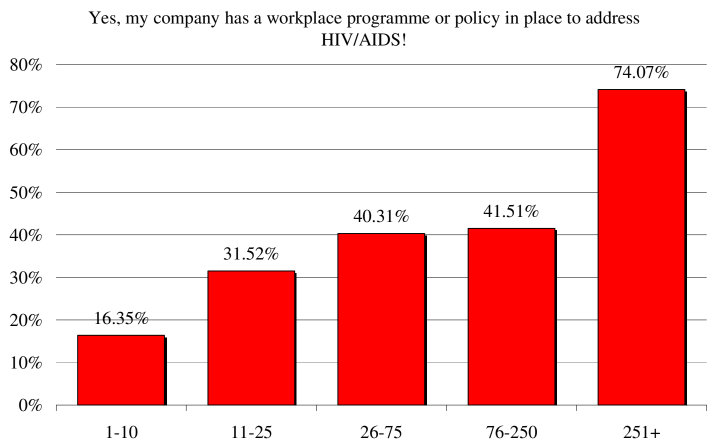
This figure is indicative of the more pronounced impact in the manufacturing sector, with the less formal and emerging sectors bearing the burden of this affliction.



Historically the biggest impact has been in the manufacturing sector. More than half the companies surveyed said this challenge lead to lower labour productivity or increased absenteeism and some 40% reported reduced profits. More than a third of the companies surveyed, indicated that HIV/AIDS has raised the cost of employee benefits. Approximately 30% reported labour turnover rates, 27% said they had lost experience and skills, while 24% incurred recruitment and training costs due to the epidemic.(Source: UNAIDS 2003).

In less than 15% of all companies surveyed, it was reported that they were investing in machinery to reduce their dependence on labour (Source: UNAIDS 2003).

It is significant that small to mid-range companies have a relatively high rating for maintaining a work-place programme, where the company size is at a vulnerable level. A 10% infection rate could mean temporary closure or re-tooling.



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