

Regional Business Climate Survey for SADC Region

September 2004

Table of Contents

Table of Contents.....	iii
List of Tables.....	iv
1. Introduction.....	1
2. Methodology.....	3
2.1. Sector Classification.....	4
3. Business Climate: Findings and Comments.....	7
3.1. Business Performance.....	8
3.2. Employment.....	9
3.3. Capital Expenditure.....	10
3.4. Export Revenues.....	11
3.5. Import Expenditure.....	12
4. Enhancing Business environment in SADC Region.....	14
5. Conclusion.....	16

List of Tables

Table 1: Sub-Sector Clusters.....

Table 2: Business Climate Score Multiplier

Table 3: What external factors (such as exchange rates etc.) are affecting your
business?

List of Figures

Figure 1: Employees.....

Figure 2: Share of responding manufacturing companies by sector-cluster.....

Figure 3: Business performance scores

Figure 4: Employment scores

Figure 5: Capital expenditure scores

Figure 6: Export revenue score outside SADC.....

Figure 7: Import expenditure scores

Figure 8: Obstacles to business activities in the SADC region

1. Introduction

In many countries, Business Climate Surveys (BCS) have proved to be a useful tool not only for private sector development, but also for Government-Private Sector dialogue. In most developing countries, while reliable official data is either released with a time lag or is non-existent, business climate surveys provide unique information about current business conditions as well as about investor confidence level and, consequently, about investment and employment forecasts. Private sector organizations like Chambers of Commerce and Industry, by conducting Business Climate Surveys, thus contribute to providing adequate and reliable tools for rational decision-making in business and economic policy.

The Association of SADC Chambers of Commerce and Industry (ASCCI) embarked on a process to conduct Regional Business Climate Surveys (RBCS) in the SADC region. The pilot surveys were carried out during June and July 2004 with the financial assistance of the Advisory Services for Private Business (ASPB) in Johannesburg and the technical assistance of the Namibian Economic Policy Research Unit (NEPRU). The pilot focused on the manufacturing sector in the SADC region and was conducted by the following private sector organisations:

- Industrial Association of Mozambique (AIMO)
- Lesotho Chamber of Commerce and Industry
- Malawi Chamber of Commerce and Industry
- Mauritius Chamber of Commerce and Industry
- Namibian Chamber of Commerce and Industry
- Swaziland Chamber of Commerce & Industry
- Zambia Association of Chambers of Commerce and Industry

Market research firms carried out the survey in Botswana and South Africa.

The surveys deliberately focused on manufacturing firms because empirical evidence has largely demonstrated the unique capacity of this particular sector to provide activities with high value-addition, growth and employment potential. In this sense, the mood of the manufacturing sector is highly reflective of “investor mood” in transient and developing economies such as those in the SADC region.

The main objectives of the RBCS are:

- Strengthening public-private sector dialogue on SADC and national level with such dialogue resting on empirical evidence;
- Strengthening the relationship of private sector organizations and their members through the former providing value-adding service to the latter;

- Monitoring the business climate across the SADC region to facilitate the policy decision-making process by both political authorities and private investors and entrepreneurs;
- Developing a sustainable business climate survey model for the SADC region to ensure follow-up and the development of a dynamic vision of the region; and
- Empowering national business umbrella organizations to develop business climate surveys for domestic advocacy purposes.

2. Methodology

Participating private sector organisations (PSOs) administered a common questionnaire to all their members from the manufacturing sector and as many other manufacturing businesses as possible. The member lists were complemented by addresses from 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.

The method in which the questionnaires were administered was left to the participating PSOs. Possible options included: mail, email, face-to-face interviews and telephone interviews. This allowed for PSOs 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.

The response rate differed from country to country and varied between 5% and 15%. In total 333 manufacturing companies took part in the survey. About 42,3% of responding companies were from South Africa, 16.2% from Namibia, 13.5% from Mauritius, 12.3% from Botswana, 5.7% from Malawi, 3.9% from Lesotho, 3.3% from Swaziland, 2.1% from Zambia and less than 1% from Mozambique.

The large majority of responding firms were Pty Limited companies (64.6%). Close Corporations (11.4%), Sole Proprietors (7.2%), Partnerships (6.9%) and Other (9.9%) classifications accounted for the minority of respondents.

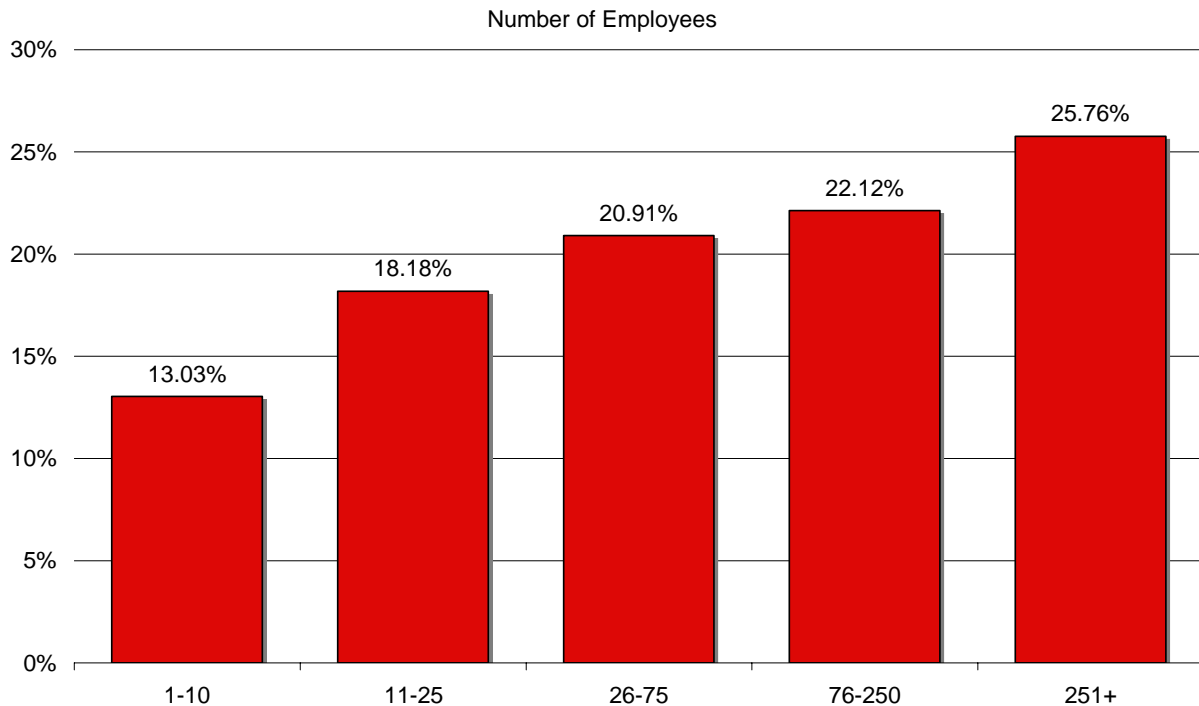


Figure 1: Employees

Firms with more than 251 employees made up the largest group of respondents while the smallest firms, those with one to ten employees, made up the smallest group of respondents. The size distribution of the responding firms, with many of the firms having large numbers of employees, reflects the larger numbers of employees needed for most types of manufacturing. Additionally, members of participating chambers are usually larger or medium-sized businesses and, to a lesser extent, small ones.

Of responding businesses a large majority act as independent entities (61.2%) while the rest act as a part of either a domestic (22.2%) or foreign corporate group (16.6%).

The fact that firms with more than 251 employees made up the largest group of respondents definitely adds to the reliability of the survey results, due to the simple fact that these “large” companies are the ones that operate on a regional level and are more prone to invest and to recruit personnel with regional expansion perspectives in mind.

2.1. Sector Classification

The questionnaire used the ISIC categories for the classification of sub-sectors of the manufacturing sector. Due to a low response rate it was necessary to group the ISIC categories into five sub-sector clusters. The composition of these clusters is given in Table 1.

Respondents were spread evenly between the **clusters**. The greatest percentage came from the **Other Manufacturing**, with 27% of respondents, followed closely by Metal, Machinery, Vehicles, and Precision Manufacturing, which accounted for 24% of respondents. Textile, Apparel, and Leather Manufacturing; Food and Tobacco production; and Chemical Manufacturing accounted for 19%, 17%, and 13% of respondents, respectively.

Table 1: Sub-Sector Clusters

Cluster 1: Food, Beverages & Tobacco	Manufacture of food products and beverages
	Manufacture of tobacco products
Cluster 2: Metal, Machinery, Vehicles & Precision Manufacturing	Manufacture of fabricated metal products, except machinery and equipment
	Manufacture of basic metals
	Manufacture of machinery and equipment NEC (not elsewhere classified)
	Manufacture of office, accounting and computing machinery
	Manufacture of electrical machinery and apparatus NEC
	Manufacture of radio, television and communication equipment and apparatus
	Manufacture of other transport equipment
	Manufacture of medical, precision and optical instruments, watches and clocks
	Manufacture of motor vehicles, trailers and semi-trailers
Cluster 3: Textile, Apparel & Leather Manufacturing	Manufacture of textiles
	Manufacture of wearing apparel; dressing and dyeing of fur
	Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear
	Manufacture of chemicals and chemical products
	Manufacture of coke, refined petroleum products and nuclear fuel
	Manufacture of rubber and plastic products
	Manufacture of paper and paper products

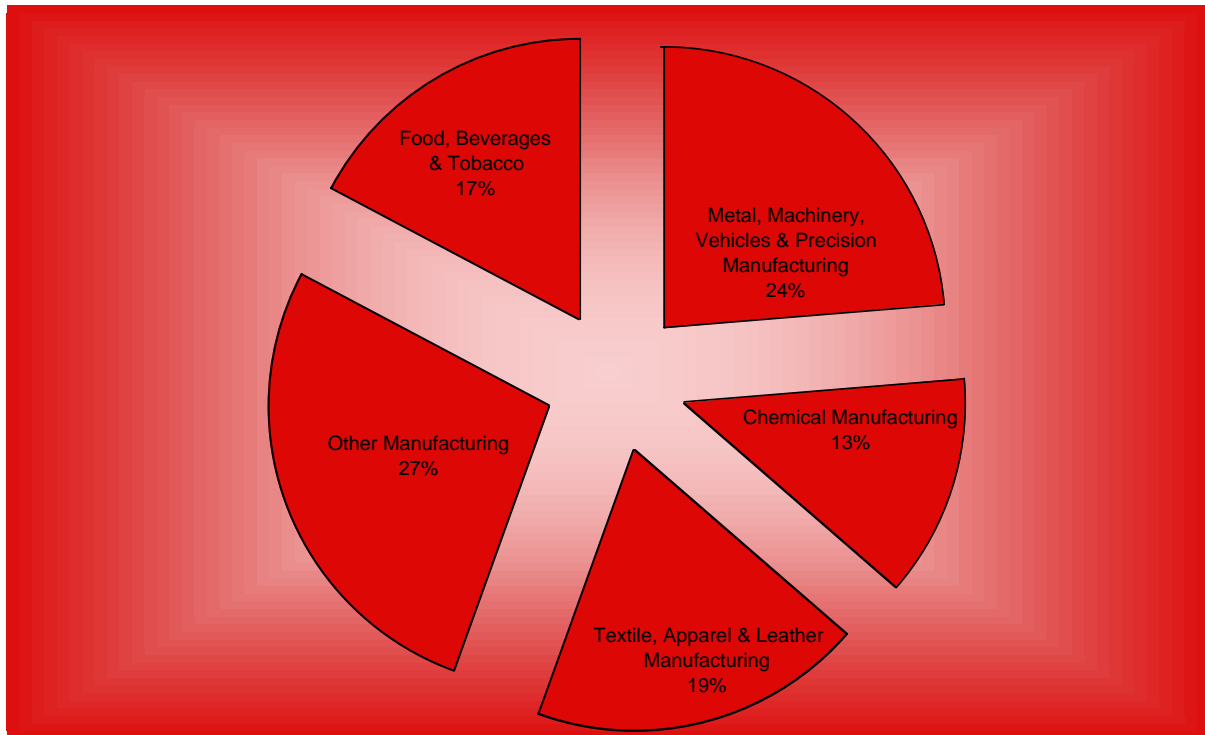


Figure 2: Share of responding manufacturing companies by sector-cluster

3. Business Climate: Findings and Comments

Nine questions regarding the business climate were asked. These questions were:

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

The responses to these questions are translated into scores that can vary between –10 and +10. The responses for the business climate section are converted into scores by multiplying the share of responses with the values specified in Table 2 and then summing the results up.

Table 2: Business Climate Score Multiplier

Category for current performance	Category for expected performance	Category for employment plans	Category for investment plans	Multiplier
Very good	Very good	Much more	Increase a lot	+10
Good	Good	More	Increase	+5
Fair	Fair	Same	Remain the same	0
Poor	Poor	Less	Decrease	-5
Very poor	Very poor	Much less	Decrease a lot	-10

For example, the current performance score takes the value +10 if all business rate their current business performance as very good and it would take the value of -10 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.

3.1. Business Performance

Overall, respondents in the SADC region describe current business performance favourably. The overall business performance score of 2.4 in Figure 6 reflects an average response between fair and good. Current performance for all sectors is positive with the best performance seen in the Metal, Machinery, Vehicles, and Precision Manufacturing **cluster** and the Food, Beverages, and Tobacco **sector**.

The surveys have noted that the overall positive rating of business performance is valid throughout the region – although one might argue that the weight of South Africa's manufacturing sector has influenced the general inclination of this performance perception. It is true that the recent upward trend in consumer consumption patterns in South Africa have given manufacturing concerns in that country to be both satisfied and optimistic – it also remains nevertheless a fact that the business performance perception across SADC is quite positive.

As shown in Figure 7, firms are optimistic about their performance in the next twelve months too. All sectors expect to be performing better next year with Other Manufacturing, and Textile, Leather, and Apparel Manufacturing expecting the largest increases. Sectors with the best current performance expect the highest level of performance in the coming year.

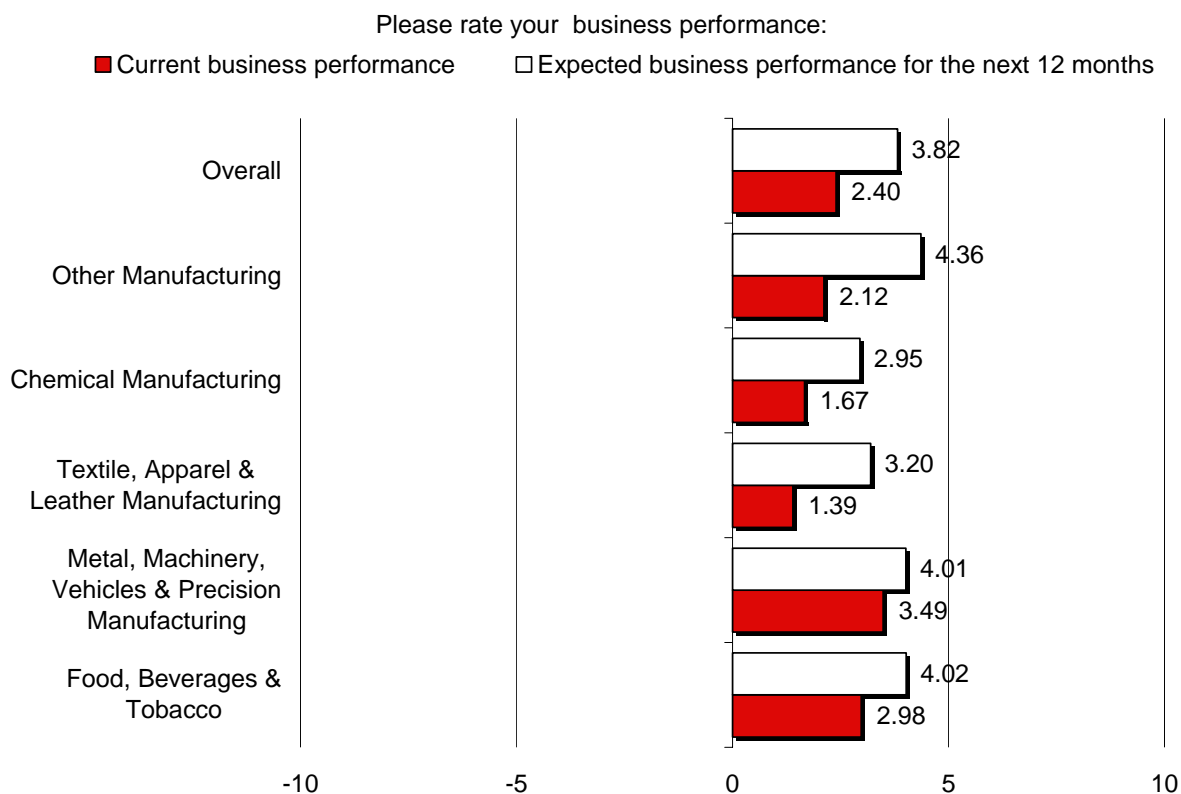


Figure 3: Business performance scores

3.2. Employment

Respondents expect employment in the next twelve months to remain mostly unchanged or to increase very slightly. Sectors with good current performance like Metal, Machinery, Vehicles, and Precision Manufacturing and Food, Beverage and Tobacco Production expect to do the most hiring, but scores in the range of 1.67 to 1.73 reflect expectations that employment will mostly remain at current levels.

This non-plus assessment of short-term employment growth prospects does not necessarily reflect a negative or mitigated view. It is rather a cautious approach to forecasting which is quite understandable, especially in view of the immediate competition challenges which the ongoing process of globalisation will pose to the regional manufacturing sector. Indeed, as in the case of the Textiles, Apparel and Leather industry, the lapse of the Multi Fibre Agreement at the end of the year and the prospect of facing competition from giants like China, India and Indonesia, with the resulting necessity to drastically increase productivity and yield to reduce costs and remain competitive, do not warrant more than a guarded optimism as regards short term employment prospects.

We should however bear in mind that the objective of employment creation is also intimately linked to that of poverty-reduction and in this respect, the prospect of a jobless growth or even that of a growth with low employment generation capacity can be a cause for concern.

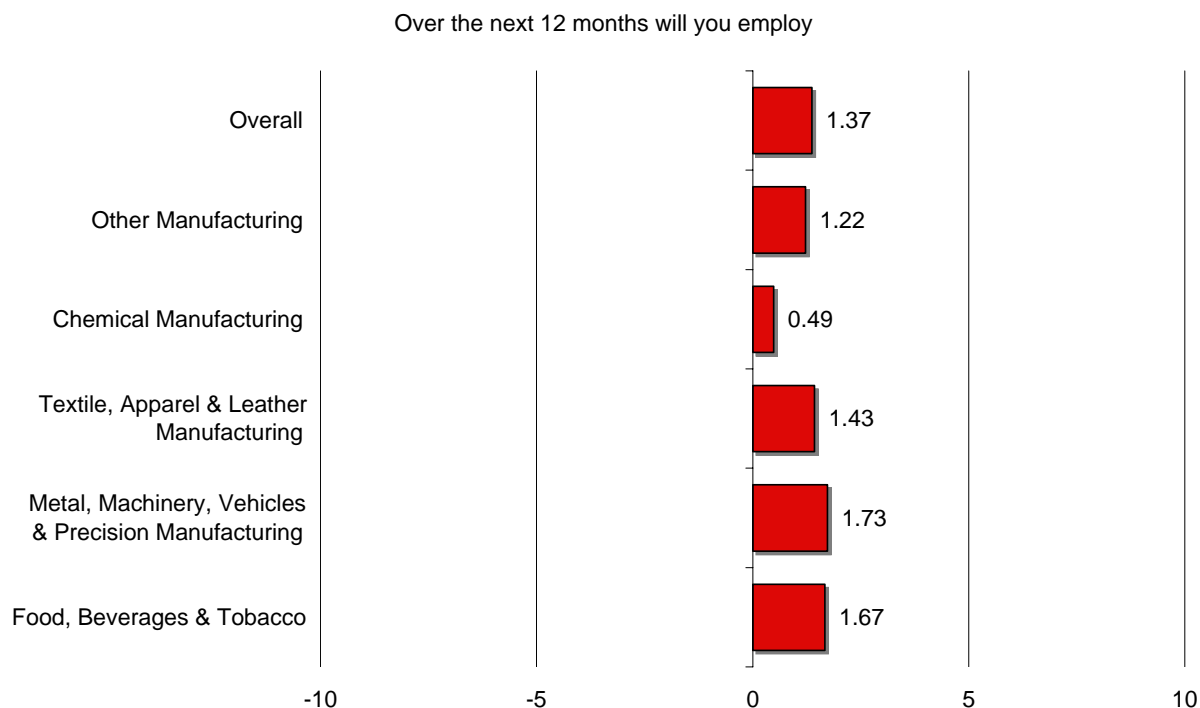


Figure 4: Employment scores

3.3. 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, reflected by an overall score of 1.53. The Food, Beverage, and Tobacco **sector** expects a larger increase than others with a score closer to "increase" than "stay the same."

Responses regarding expected capital expenditure in the respondents' own countries indicated a higher level of expected capital expenditure. The overall score of 2.84 reflects an average response between "same" and "more" expenditures, but tending toward "more." Responses from all sectors indicated a higher level of expected capital expenditure in their own country than in other SADC countries. Again, Food, Beverage and Tobacco Production had the strongest responses.

The situation described above reflects quite adequately the present frontiers of the process of economic integration in SADC. Investors and entrepreneurs are still more 'confident' in developing their business locally than in other countries within SADC. This can be construed as a highly understandable attitude when we consider the numerous constraints, as identified by the respondents, which hinder cross-border business activities in SADC. See Section 4 below.

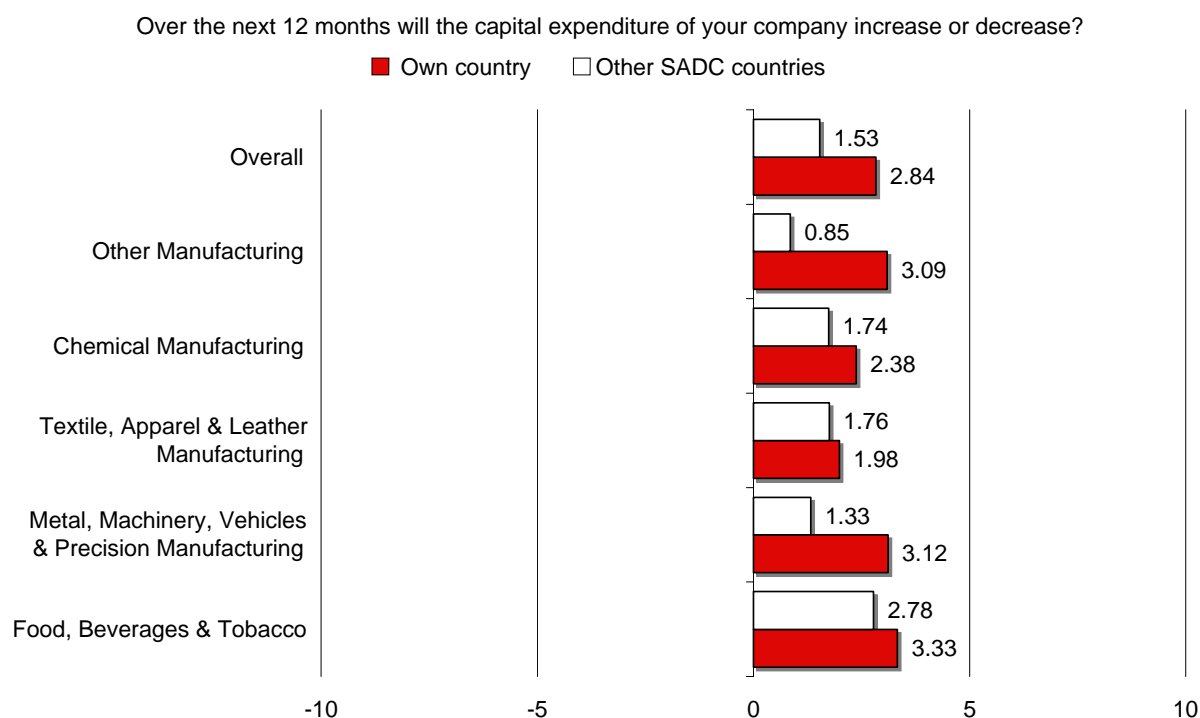


Figure 5: Capital expenditure scores

3.4. Export Revenues

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 are expected to grow the most, but responses in both categories are positive.

Expectations for export revenues from countries outside the SADC, in all sectors except Chemical Manufacturing, have scores that fall closer to an average response of “increase” than to “stay the same.”

Export revenues from SADC countries are also expected to increase, with Textile, Leather, and Apparel Manufacturing expected to increase less.

It is interesting to note that in overall expectations of increase in export revenues, increase expectations from ‘outside the SADC region’ are higher than increases ‘from other SADC countries’. Again, as under Capital Expenditure Forecasts, this shows the present frontiers of the process of economic and trade integration within SADC. Furthermore, this perception confirms the assessment previously made by ASCCI’s White Paper on Major economic Issues in the SADC Region, August 2000, that most of the barriers to the development of intra-SADC trade flows are still in place and need to be addressed in the most earnest way to kick-start regional trade.

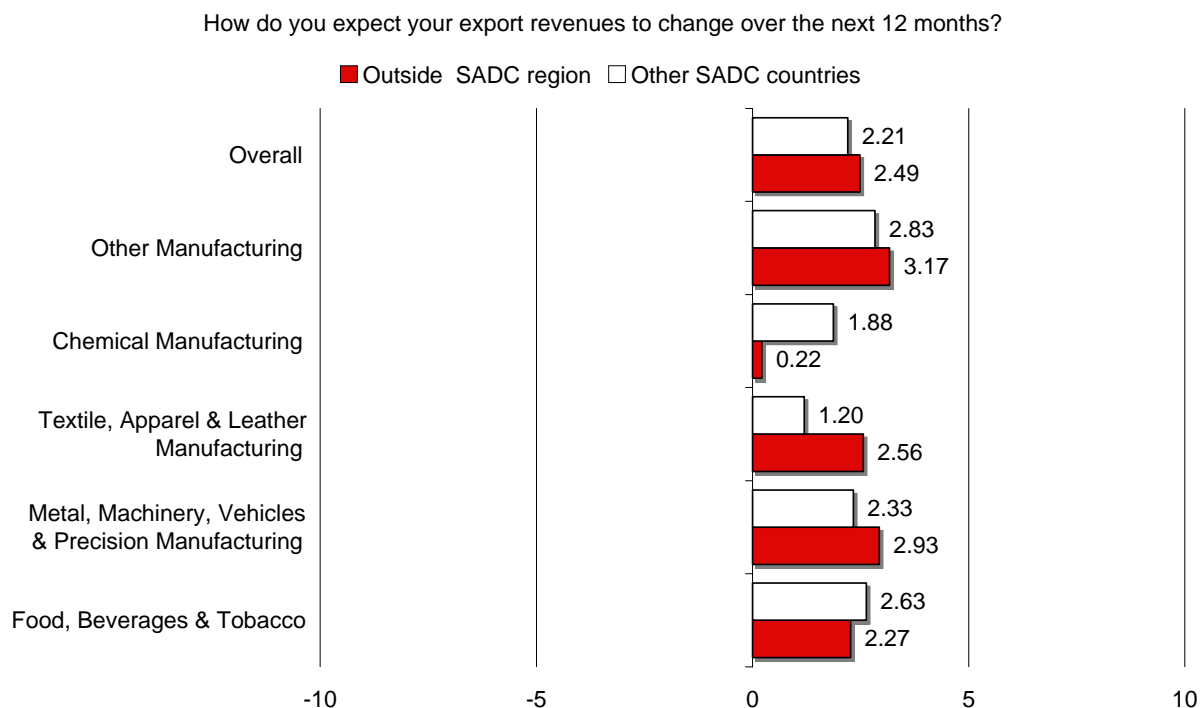


Figure 6: Export revenue score outside SADC

Only respondents of the chemical manufacturing clusters expect their export revenues from other SADC countries to increase stronger than their export revenues from outside the SADC region. This is most probably linked to the regional export of agriculture-related chemical products like fertilisers and other chemical agriculture inputs.

3.5. Import Expenditure

High export revenues in SADC may be offset by high import expenditures. Overall scores show that respondents expect expenditures on imports from both SADC and non-SADC countries to increase.

The overall score of 2.39 puts expectations for changes in import expenditures from non-SADC countries halfway between “remain the same” and “increase.” Other Manufacturing; Food, Beverage, and Tobacco production; and Metal, Machinery, Vehicles, and Precision Manufacturing expect import expenditures to increase the most while Chemical Manufacturing, which also had the lowest expected increase in export revenues, had the lowest expected increase for import expenditures.

Increases in expenditures on imports from countries inside SADC are also expected, but to a lesser extent. Sectors expecting to experience the impact the most are Food, Beverage, and Tobacco Production, and Chemical Production.

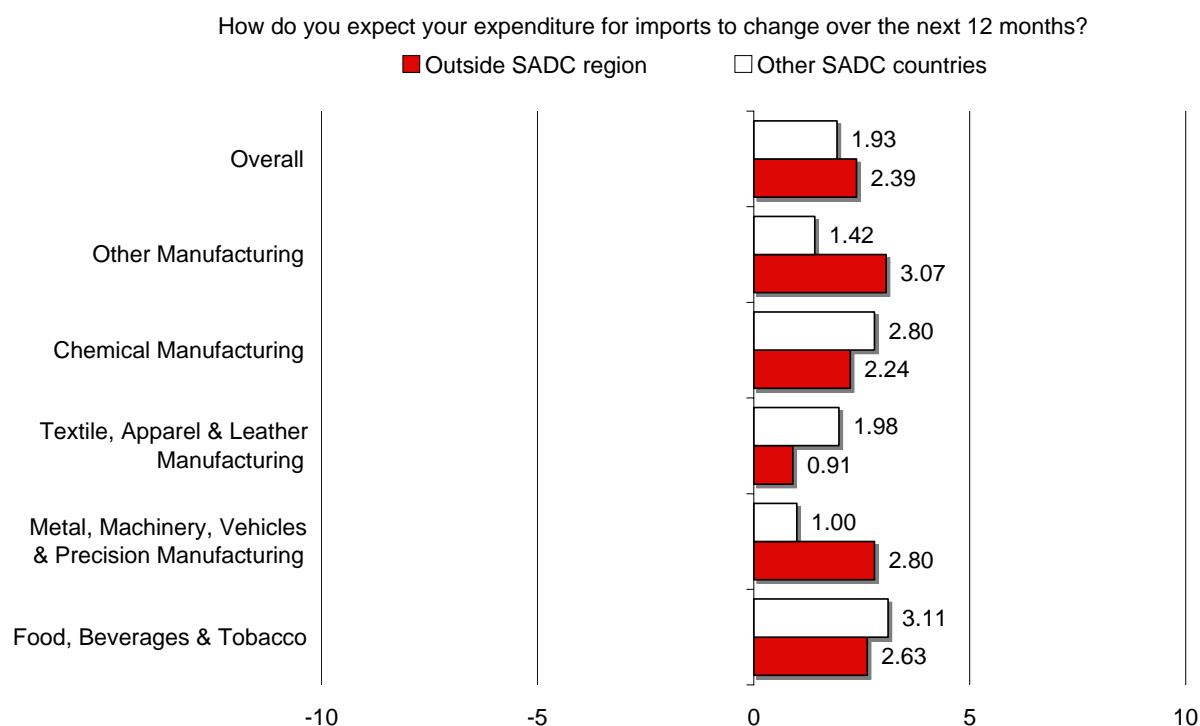


Figure 7: Import expenditure scores

Three clusters expect their expenditure for imports from other SADC countries to increase more than their import expenditure from countries outside the SADC regions. These clusters are chemical manufactures, textile, apparel and leather producers and food, beverage and Tobacco companies.

Responding metal, machinery and vehicle manufactures expect a stronger increase of import expenditure from countries outside the SADC region. The higher expected import expenditure can have two reasons: expected devaluation of own currency or an increase in the demand for the manufactured products.

Whilst the forecast of overall higher import expenditure is quite understandable for most of the economies of the region because of their weak currencies and the latter's regular depreciation vis-à-vis both the US\$ and the Euro, it is less so for South African industry – whose imports are facilitated by a very strong Rand.

4. Enhancing Business environment in SADC Region

Manufacturing businesses were asked how far they perceive several issues as obstacles to their business activities in other SADC countries. They were asked to rate potential obstacles as “no problem”, “minor problem”, “major problem” or “not applicable”. The table below displays the average scores for these potential obstacles, with a 0 reflecting “no problem”, a 5 “minor problem” and a 10 “major problem”. Fluctuations in exchange rates scored on average 7.49, which is just above midway between minor and major problem.

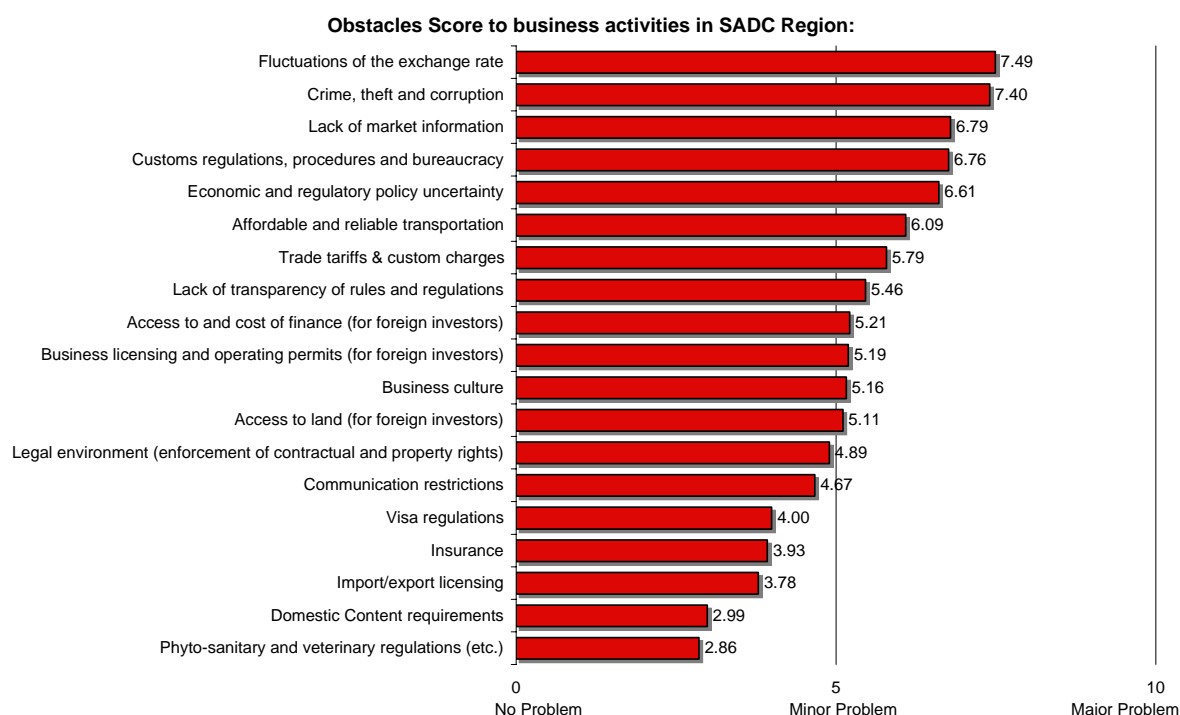


Figure 8: Obstacles to business activities in the SADC region

Crime, lack of market information, customs procedures, and economic and regulatory uncertainty scored similarly high.

That fluctuation in the exchange rate scored highest is little surprising given the complaints aired over the last six months by manufacturing businesses complaining about the strong Rand.

Macro-economic stability is as much a condition as it is an outcome of increased regional integration. The strength of the South African Rand might weaken export revenues to Europe and the US but it might also strengthen trade relationship, at least for those countries that are either part of the common monetary area or that are pegged to the South African Rand.

It is noteworthy that the constraints listed as the most important, namely, exchange rate fluctuations, uncertainty about the regulatory environment, crime, theft and corruption, lack of market information, the lack of infrastructure, echo the concerns raised by the private sector in developing countries worldwide. Indeed, in its annual World Development Report for 2005, launched on 28th September 2004, the World Bank draws attention to constraints such as policy-related risks [including macro-economic instability, arbitrary regulation and weak

protection of property rights], shortage of infrastructure [including electricity shortage], crime and corruption, and barriers to competition, which represent major hindrances to economic development.

The results of the survey in as far as obstacles to business within SADC are concerned, it seems very clear that SADC political authorities should focus on improving the basic foundations of a proper investment climate to foster the development of business in the region. This involves addressing such issues as:

- Stability of the macro-economic environment and security, including both physical security and security of investments,
- Rationalisation of regulation and taxation, and
- Provision of finance and infrastructure.

Table 3: What external factors (such as exchange rates etc.) are affecting your business?

	Share of Mentionings
Black Economic Empowerment (BEE) regulations	1.33%
Corruption	1.33%
HIV/AIDS	1.33%
Crime	1.66%
Lack of skilled and qualified staff	1.99%
Inflation	1.99%
Political stability	2.66%
Cheap imports	4.65%
Transport cost or difficulties	4.98%
Access and/or cost of finance	6.31%
Cost of raw materials	7.31%
Import or export duties and regulations or difficulties with customs	8.31%
Exchange rate	33.89%

5. Conclusion

The authors of this very first ever SADC-wide Business Climate Survey commend the professional and objective view taken by the business concerns which have been the respondents to the survey.

Indeed, whilst the respondents have expressed satisfaction at the current performance of their activities and expressed optimism for the short-term, they have also pointed out their areas of concern, which have been listed above, under Section 4, Obstacles to Business in SADC. It should be borne in mind that one of the major objectives of this Business Climate Survey is to provide empirical data on which the dialogue between the political authorities and the private sector should be based. Among these empirical data, this report has listed areas of concern to business in the region, which areas need to be urgently acted upon.

The structural difficulties which may constitute barriers to setting up a healthy investment environment are numerous and not easy to tackle. But numerous examples worldwide have shown that incremental policy measures do pay: for example, the improvement of property rights and the measures passed to ensure the security of investment in China have launched a process that has lifted 400 million people out of poverty; and the setting up of dedicated institutions for engaging stakeholders and reviewing constraints has enabled Turkey and Vietnam to maintain a high rate of growth for the past 8 years.

One of the aims of this Regional Business Climate Survey is to call upon all stakeholders in the economic development process in the region, on the basis of the findings presented in this report, to engage in such a dialogue as will lead to a betterment of the region's economy and of the condition of its peoples.