PN-ACC-945

97269

SRI International

COMMERCIAL POLICY ASSESSMENT OF

THE GREATER HORN OF AFRICA REGION

Prepared by

SRI INTERNATIONAL-WASHINGTON
International Policy Center
(5421-070)

with funding from the

PRIVATE ENTERPRISE DEVELOPMENT SUPPORT PROJECT III

Prime Contractor
COOPERS & LYBRAND

JANUARY 1996

1611 N Kent Street • Arlington VA 2... • (703) 524-2053 ...

COMMERCIAL POLICY ASSESSMENT OF THE GREATER HORN OF AFRICA REGION

TABLE OF CONTENTS

COMMERCIAL POLICY ASSESSMENT OF THE GREATER HORN OF AFRICA REGION

I. BACKGROUND

Under the Private Enterprise Development Support Project of the Global Bureau of USAID, SRI International has developed a Commercial Policy Model and database aimed at measuring the commercial policy climate across countries, using a set of objective and quantifiable indicators[1] To support the Greater Horn of Africa Initiative (GHAI), an SRI team has undertaken the application of the Model to examine the commercial policy climate of the ten countries involved in the GHAI, including Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, Sudan, Tanzania and Uganda This exercise has been initiated by the Africa Bureau to complement a private sector constraint analysis focusing on the business environment for the agribusiness sector

The GHA region is one of the poorest in the world The region as a whole has endured a massive economic, political and humanitarian crisis over the last decade Most of the GHA nations have suffered declining national income and living standard for two decades Several of them are still struggling in the throes of civil war, political strife, widespread famine and human suffering While many factors, not the least of which political, have contributed to the current situation, the general commercial policy climate in the GHA region has not been regarded as one conducive to productive economic activities

As an essential step to bring about the region's recovery and an achievable course of economic growth, the fundamental economic environment in many of the GHA

---

[1] **Under the commercial policy methodology, SRI ranks countries' commercial policies in nine different policy categories, and assesses how the policies affect performance variables such as income growth, exports, and investment See Annex C for a brief description**

countries is in great need of improvement Given the importance of a business-friendly commercial policy environment for private sector development, it is imperative to assist policymakers in identifying feasible alternatives to assess their effectiveness Cross-country experiences and data can be useful for conducting policy benchmarking, which is an effective technique for assessing the comparative position of a country's commercial policy regime against its competitors in attracting international investment and trade

This exercise aims to identify the major commercial policies which promote or discourage broad-based sustainable economic growth within the GHA region A diagnostic analysis based on the Commercial Policy Model can provide useful input to the GHAI in identifying issues which USAID can address most effectively from a regional perspective These may include, but are not limited to, regional harmonization in policy reform Given limited USAID resources, it is imperative to identify areas in which USAID is in a unique position to provide leadership, initiate discussion among the region's policymakers, and design the most cost-effective programming of USAID and donor-coordinated activities in the future

II. GHA COUNTRY OVERVIEWS[2]

Burundi

One of the poorest countries in the world, Burundi remains heavily dependent on agriculture It is a landlocked nation and has both fertile land and a climate which allows three growing seasons a year The country's agricultural sector accounts for 80 percent of its export earnings and 90 percent of its employment Its main export crop is coffee However, decreased soil fertility has hurt earnings in recent years

Since 1989, Burundi's economy has witnessed sluggish and then negative growth It has also experienced reductions in the production of key foodstuffs GDP actually declined by 2 4 percent annually from 1990 to 1994 Plagued by civil strife between Hutus and Tutsis, the government has had difficulty maintaining its programs A recent influx of over 500,000 refugees has put a severe strain on the nation's resources and its fiscal deficit has mushroomed

In 1986, Burundi began its first structural adjustment program Since then, it has made significant improvements in its macroeconomic policies Burundi has improved its foreign exchange and pricing policies and has liberalized its trade regime It has altered its labor and banking codes and has plans to improve both its tax code and commercial law Unfortunately, political and social unrest since 1993 has hampered the country's reform efforts Some reforms have been implemented very slowly and others, although legislated, have never been enforced For example, a mandated relaxation of strict controls on agricultural producer price never occurred These recent setbacks have hurt Burundi's economy Burundi needs to improve economic growth by revitalizing its

---

[2] Sources World Bank, Trends in Developing Economies Extracts, Vol. 3 1995 and the U S Department of State

agricultural sector To do so it must first achieve political stability, then continue its reforms

Djibouti

Unlike its neighbors in the Greater Horn, Djibouti does not have an economy dominated by agriculture In fact, agricultural production accounts for less than three percent of GDP The country is small with a harsh climate and few natural resources The government has been trying to improve the nutrition and health standards of the populace, two-thirds of which lives in the capital city

Its location on the Horn of Africa gives Djibouti an important strategic advantage The nation uses its geographic location to its advantage An excellent port facility and railroads provide easy access to other countries, and the country is heavily involved in trade and commerce Services compromises more than 75 percent of Djibouti's GDP

Djibouti has market oriented economic policies, and its trade regime is one of the most liberal in the region However, the country has an inefficient, bureaucratic and large public sector which the government has been attempting to downsize However, from 1991 to 1994, political and ethnic tensions have made policy design and implementation extremely difficult This unrest has hurt the economy Production has fallen by three percent and the nation's external debt has grown

After a peace agreement in late 1994, Djibouti crafted an economic reform strategy Its aim is to stabilize the economy, improve infrastructure, increase investment, overhaul the Ministry of Finance and the Treasury and maintain tight monetary policies The government also plans to develop an export promotion strategy and reduce the size of the public sector

Eritrea

Eritrea officially earned its independence from Ethiopia in 1993 With two major ports and a strategic location on the Red Sea, Eritrea has been a trade center between Africa and the Middle East for decades The country has a varied climate allowing the production of several agricultural commodities Unfortunately, the country recently has suffered from loss of soil fertility, soil erosion, and the drying up of springs Despite declines in productivity due to environmental damage, roughly 70 to 80 percent of the population still depends on the production of some type of agricultural product

When it annexed Eritrea in 1962, Ethiopia imposed a command economy and nationalized most of Eritrea's private assets Ethiopia's statist policies, compounded with the Eritreans long struggle for independence, devastated the economy

When the new government took over in 1993, it instituted its Recovery and Rehabilitation Program This program was designed to completely overhaul Eritrea's economy and recreate a market-based system As part of the program, the government has altered its tax structure, adopted new banking legislation, and improved its exchange rate regime These policy changes have helped to improve the country's growth However, the economy remains weak and inefficient The government still needs to take steps to rebuild institutions and restructure the country's markets

Ethiopia

A long, bloody civil war came to an end in Ethiopia in 1991 Since then, the democratic government has been working to improve political stability and economic performance The civil war devastated both the economy and the country's infrastructure, and the government has instituted major reforms to stimulate the economy

As part of its reform package, the government has decontrolled agricultural marketing It also has eliminated most export taxes and has decontrolled retail prices To eliminate some distortions, it has reduced import duties To facilitate investment, the government has created an investment office to help investors set up operations In addition, it has allowed the private sector to engage in banking activities

After an improvement in GDP in 1993, droughts and pest infestations severely damaged the agricultural sector, especially its major income earner coffee However, Ethiopia's industrial and service sectors have continued to perform well Unfortunately, weak performance in agriculture, which represented 57 percent of GDP in 1994 and accounts for 80 percent of employment, has slowed overall economic growth Nonetheless, the government's current policy changes will most likely improve the nation's economic performance The World Bank predicts that real GDP will grow roughly six percent from 1995 to 1997 if coffee prices rise and the government continues its reforms

Kenya

After highly successful growth in the 1960's, Kenya recently has been experiencing stagnation and deterioration Agriculture, which accounts for roughly a third of Kenya's GDP and employs 70 percent of its labor force, has been declining From 1990 to 1994, production fell by almost three percent In contrast, the contribution of services to income has grown steadily since 1985 Services now compromise more than half of GDP

The early 1990's were characterized by continued decline In addition to the decrease in agricultural production, investment fell and Kenya's external debt rose In 1992, the government undertook a stabilization program under the auspices of the IMF However, the program was halted and was not restarted until 1993 Since then, the government has made concerted efforts to meet targets, liberalize the maize market, remove price controls, liberalize the import regime and remove export taxes Kenya is also looking to expand exports to its neighbors It intends to implement the provisions of the Cross Border Initiative (CBI) by harmonizing its tariff rates with those of its neighbors and simplifying customs procedures

While Kenya has made significant progress in some areas (liberalizing agricultural markets, minimizing the role of marketing parastatal and restructuring the Ministry of

9

Agriculture), it has failed to complete the implementation of its structural reforms The challenge for the government in the future is to finish the changes it began If it does complete its reforms, Kenya could witness growth as high as four percent in the agricultural sector

Rwanda

A small country with a very large population made up of two rival ethnic groups, Rwanda has experienced periodic, bloody, ethnic conflicts for decades This has hurt attempts to alleviate the considerable poverty which exists in this agricultural country More than 90 percent of the population lives in rural areas and agriculture accounts for 80 percent of export earnings

After a severe financial crisis in the 1980s, Rwanda began a reform program in 1990 It devalued the currency, tightened fiscal policy, improved monetary management, removed most export taxes and import quotas and simplified its tariff structure Unfortunately, the civil war which broke out in 1994 ended reform efforts and severely damaged the country's economy Although a new government currently exists in Rwanda, it is still embroiled in civil and political disputes The government first needs to return political stability to the country before embarking on economic reconstruction and reform

Somalia

Somalia relies heavily on agricultural exports Its main income earners are bananas and live animals After years of civil war and vast devastation, Somalia has in effect become two separate countries, marked by contrasts The South is in a state of chaos The region is still plagued by conflict between various factions, and it has two self-declared presidents The formal banking system has collapsed and food aid has distorted internal markets

The North, which is comparatively stable, functions as a separate entity With a port which allows for extensive trade, the North has strong economic and political ties to

Djibouti with which it trades heavily The North also has its own self-declared government The leadership hopes to gain the recognition of other countries as a separate nation from the South and continue to move towards economic restructuring and reform

Sudan

The Sudan has been under military rule since 1989 The regime has not followed prudent macroeconomic policies The economy has been suffering for years from mismanagement, lack of investment and drought Exports of the Sudan's main commodity, cotton, have fallen The government's human rights abuses and associations with Iraq and other countries have resulted in the cessation of most international aid Consequently, the Sudan, one of the richer GHA countries, has been running an increasingly large deficit Currently at war against insurgents funded by most of its neighbors in the Greater Horn region, Sudan has isolated itself from its neighbors

The Sudanese government is not involved in economic reform When and if it begins reform, it will most likely not do so in conjunction with its GHA neighbors The majority of the Sudan's neighbors are openly seeking to topple the military regime Unless the government changes, cooperation between the Sudan and its neighbors is not probable in the near term

Tanzania

With an estimated GDP of about $90 in 1993, Tanzania remains one of the poorest countries in the world Its economy is heavily dependent on agriculture (over 50 percent of GDP), and its diverse ecology supports cultivations of coffee, cotton, tea, cashew nuts, sisal, maize, rice, wheat, cassava, and tobacco In recent years, tourism has emerged as a sector with high growth potential and is increasingly an important source of employment

The Tanzanian Government embarked upon an economic reform program in 1986, which has provided a much-needed boost to economic activities Major reforms include liberalization in trade, foreign, pricing, interest, and investment policies, and macroeconomic reform Official estimates indicate that both GDP and exports grew by more than 4 percent annually between 1987 and 1994 In the agricultural sector, markets for produce and inputs have been liberalized, and the private sector is taking a more important role in the agricultural inputs industry, supplying seeds, fertilizer and veterinary inputs Despite the reform progress, the economy continues to face considerable difficulties Macroeconomic management deteriorated significantly during the past two years Due to its gradualist nature, much of Tanzania's economic reform program has not yet been completed

Compared to several of its neighboring countries, Tanzania has benefited from a relatively stable political environment After three decades of one-party rule, Tanzania has embarked upon a process of political reform, with the first multi-party presidential, parliamentary and local elections held in 1994 and 1995 Since political liberalization has been undertaken so recently, it is not clear whether the elections and potentially increasing political tensions will speed up or delay the implementation of economic reform

Uganda

Uganda was one of the most promising economies in Sub-Saharan Africa in the 1960s before political turmoil, civil war and economic mismanagement brought it onto a declining path since 1972 In 1987, the Government began an economic recovery program aimed at restoring macroeconomic stability and improving the overall environment for economic growth Particularly after 1992, implementation of the reform program has been strengthened, yielding notable achievements such as declining inflation and a stabilized exchange rate The government is also undertaking the politically sensitive tasks of parastatal reform as well as returning properties expropriated under a previous regime

Uganda is heavily dependent on a single crop -- coffee -- for its export revenue The tripling of world coffee prices in June 1994 provided a major boost to the economy However, it is obvious that Uganda's export base needs to be diversified Nontraditional cash crops such as maize, beans, fish, cut flowers, and horticultural products will have good potential

Overall, Uganda is on the right path toward establishing a good foundation for economic growth, and its commitment to structural change is strong To the extent that social and political stability can be assured, no significant downside risk to the economy is foreseen Uganda's real GDP grew at an average 5 4 percent rate between 1987-93, and is forecast by the World Bank to expand at over seven percent in the next two years

III. COMMERCIAL POLICY PERFORMANCE OF THE GHA COUNTRIES

Under the Private Enterprise Development Support Project, SRI has developed an analytical framework within which commercial policies covering a broad range of policy areas can be examined and compared across countries and regions in a systematic and objective manner This framework, the Commercial Policy Model, has 36 policy variables classified under the following nine categories

- import
- export
- tax
- investment
- foreign direct investment
- business start-up
- pricing and interest
- foreign exchange
- labor

The Model has a rating system which assigns summary policy scores to each nation These scores describe the degree to which the commercial policy regimes are business-friendly and competition-based Possible scores range from 0 to 100 with the highest scores earned by the countries with the most investment-friendly policies

Utilizing the Commercial Policy Model, scores for individual policy categories and the total scores for each GHA country were calculated Due to the difficulty in obtaining the complete set of data for all countries in the Horn region, scores for some policy categories could not be calculated in several countries Countries that contain incomplete data are Eritrea, Rwanda, Sudan and Somalia In those countries, the difficulty in collecting comparable data has been exacerbated by civil strifes, border unrest, and the lack of true administrative governments to enforce existing laws and policies In those cases, the total policy scores were extrapolated using scores in categories where data exists [3] The extrapolated total scores, which are noted in the table below, have not been included in the calculation of the average total policy score for the region

An examination of the GHA countries' scores in the different policy categories shows business climates which are not conducive to investment While some of the GHA countries, such as Djibouti and Tanzania, have taken steps to improve their investment regimes, the majority of the GHA nations still need to significantly enhance their policy climates Application of the SRI commercial policy model produced low commercial policy scores for almost all of the GHA countries With the exception of Uganda, Tanzania, and Djibouti, none of the countries scored above 55 This makes the GHA region one of the lowest scoring regions in the world

As one can see from the above figure, across the board the GHA countries have onerous business start-up procedures and restrictive labor policies Almost half of the countries earned zero points in these policy categories The region averaged only three points out of a possible eight for labor policy and two out of a possible eight for business start-up The policy categories with the largest divergence in scores are tax and foreign exchange Scores in this categories ranged from zero to twelve out of a possible sixteen

---

[3] Take Eritrea as an example Due to the lack of data, it was not possible to calculate the import policy score for Eritrea The basis for the total score in Eritrea was thus reduced to 84 (100-16=84, 16 is the highest possible score in the import policy category) The other eight categories in Eritrea yield a combined score of 42, which represents 50% of the points that could be possibly earned in those policy categories Thus, Eritrea was given a total policy score of 50 points out of a basis of 100 points

COUNTRY SCORES BY CATEGORY

Country	Import	Export	Tax	Investment	FDI	Start-up	Pricing	FX	Labor	Total
Burundi	12	8	4	4	6	4	6	4	4	52
Djibouti	16	8	12	4	4	3	9	12	0	68
Eritrea		6	8	2	8	4	6	4	4	50
Ethiopia	0	4	4	6	4	6	6	0	0	30
Kenya	4	8	8	6	6	0	9	4	8	53
Rwanda	4	6	4	4		0	6	8	0	35
Sudan		2	8	4	2	0	3	0	0	23
Somalia		4	8	4		0	3	4		30
Tanzania	8	6	12	8	8	4	6	12	6	70
Uganda	12	6	8	8	8	2	9	8	8	69
Average	*8 0*	*5 8*	*7 6*	*5 0*	*5 8*	*2 3*	*6 3*	*5 6*	*3 3*	57

Overall the GHA countries scored comparatively well in the export, foreign direct investment and investment incentives categories Tanzania, Uganda and Djibouti, have the highest scores This reflects efforts by these countries to improve investment and growth The Sudan and Ethiopia lag behind other countries in the region They have yet to take the steps necessary to create a favorable business climate

Import Policies

Import policy scores vary widely ranging from zero to a perfect score of sixteen Djibouti, which recently removed all customs duties, has a perfect score Uganda and Burundi also scored well as a result of tariff reductions Kenya and Rwanda, which both have four out of a possible sixteen points in this category, maintain prohibitive import duties which can range as high as 60 percent Ethiopia, which has an upper limit of 125 percent tariff on imports, earned a score of zero

Export Policies

The region overall scored well in terms of their export policies, the mean being six of a possible eight points Seven countries received perfect or near perfect scores These

16

seven countries have little or no export restrictions, conditional duty free imports and no export taxes Burundi, Kenya and Djibouti, which all earned a perfect score in this category, offer export income tax exemptions In contrast to the favorable export policies predominating much of the Horn, little impetus to develop export industries exists in Ethiopia and Sudan Not only do both lack export income tax exemptions, each has legislated extensive export restrictions and collects weighty export taxes

Tax Policies

Scores for tax policies range from four to twelve points Some countries have hefty income tax rates and hence scored poorly For most countries, these high rates reflect a weak tax base The collection of taxes from businesses and individuals operating in informal sectors of the economy in GHA countries is virtually impossible Because most people in the Horn of Africa are not part of the formal sector, the few who are must supply the government with the resources needed for all of its operations Consequently, tax rates in the region are high, particularly for individuals in the upper income brackets who typically receive only 50 to 60 percent of their gross income Tanzania and Djibouti represent the exceptions Tanzania has lowered its top tax rates to 35 percent, and Djibouti has eliminated corporate and individual income taxes entirely As for sales tax, every country levies a rather hefty VAT, typically ranging from 10 to 15 percent

Investment Incentives

All countries have adopted policies encouraging investment, albeit to varying degrees For example, with the exception of Eritrea and Kenya, every country offers income tax holidays, and all tender duty exemptions to investors meeting specific requirements Burundi recently has taken steps to increase investment Burundi offers free trade status to non-traditional businesses This status makes investors in Burundi eligible for certain tax considerations and more flexible operational restrictions A few countries go even farther than Burundi Kenya, Tanzania and Uganda provide investment allowances and accelerated depreciation of capital stock, while Ethiopia stands alone in providing research and development incentives

17

INVESTMENT INCENTIVES OFFERED BY THE GHA COUNTRIES

Country	Tax Holiday	Export Income Tax Exemption	Duty Exemptions	Duty-Free Imports	Accelerated Deprec.	Inv. Allowance
Burundi	✓	✓	✓	✓		
Djibouti	✓	✓	✓	✓		
Eritrea			✓	✓		
Ethiopia	✓	✓	✓	✓		
Kenya		✓	✓	✓	✓	✓
Rwanda	✓		✓	✓		
Sudan	✓		✓	✓		
Somalia	✓		✓	✓		
Tanzania			✓	✓	✓	✓
Uganda			✓	✓	✓	✓

Investment Restrictions

In the past, African countries have distrusted foreign investment, and their policies have often reflected this attitude However, several GHA countries have repealed many foreign investment restrictions in the past few years and now have more hospitable climates for foreign investors Tanzania and Uganda scored perfectly in this category Interestingly, Eritrea, which has little investment incentives, obtained eight points out of a possible eight due to its restriction-free investment environment None of these "top scorers" differentiates between foreign and domestic investors

In addition to adopting domestic principles to recognize investor's rights, the GHA nations have begun to recognize international principles governing investment Most countries in the Horn are members of ICID and or ICSID This gives foreign investors the security of knowing that possible future disputes can be settled by accepted international arbitration principles

Business Start-Up Procedures

Although several countries have adopted policies to nurture and expand commercial activity, the bureaucratic red-tape involved in establishing new businesses poses a major hurdle to economic development in the Horn Business start-up procedures are so time-consuming, convoluted, and ill-defined that many potential investors are discouraged from initiating operations The creation of the Investment Office of Ethiopia is a creative solution that other countries might mirror This "one-stop shop" is designed to promote, coordinate, and facilitate foreign investments and offers to approve acceptable proposals within 10 days of their receipt

Pricing and Interest Rate Policies

Pressure from the World Bank and IMF has led to the removal of price controls in many of the Horn countries Djibouti has adopted a free market system, as has Uganda Other countries have opted for mixed systems which control prices on only a few selected goods, usually the prime exports In the case of Burundi and Rwanda, these items are coffee and tea Eritrea has taken major steps towards creating a completely market-based economy It has disbanded both its centralized marketing and its planning systems This will help to reduce price and marketing restrictions

Ethiopia is also moving toward a free market It has eliminated some price distortions and various regulations and restrictions which had been aversely affecting private sector initiatives Kenya is farther along in its liberalization program Today, the private sector plays a much larger role in markets than before

Interest rate controls in the Horn are minimal The few governments that remain involved in the financial sector confine their activities to setting maximum lending rates

Credit allocation is market based through private and public institutions However, available capital is limited, in great demand, and therefore often difficult to obtain

Foreign Exchange Policies

With the exception of Tanzania, which floated its exchange rate in 1994, all of the countries in the Greater Horn strictly manage their exchange rates and restrict foreign exchange Most currencies are pegged to a basket of other currencies and hence, tend to be overvalued Several countries are taking steps to close the gap between the market and the official rates Ethiopia has established a unique system of bi-weekly auctions where merchants holding export licenses can buy foreign exchange at market rates Eritrea uses the Ethiopian Burr as its medium of exchange, although it plans to create an Eritrean currency

Profit and capital repatriation restrictions are prevalent in the region In a dramatic measure, Djibouti and Eritrea have offered foreigners full, unrestricted repatriation, signaling their strong desire to attract foreign investment Some type of concession is available in most countries subject to approval Prime candidates for exemptions are non-traditional exporters

Labor Policies

Labor policy scores across the board are low All of the GHA countries set minimum wages Firing employees is quite difficult, even for substandard performance Djibouti, Eritrea, Ethiopia, and Rwanda still have wage controls Not only does Djibouti have high labor costs, but its antiquated and highly restrictive labor code represents a significant obstacle to investment Rwanda's policies are very burdensome and include a very rigid wage control system Virtually every country has extensive procedures for the hiring and firing of employees Tanzania and Uganda break from the regional norm of cumbersome retrenchment policies and allow a degree of flexibility in personnel decisions

IV. GHA GROUPINGS BY SOCIO-ECONOMIC CRITERIA

A few of the higher income countries scored better on commercial policy than the poorest countries, but there appears to be no connection between scores and wealth For example, Tanzania, which began liberalizing its economic policies in the early 1990s, has the highest commercial policy scores but remains one of the poorest nations in Africa Conversely Sudan, one of the richer nations in the Greater Horn, has very poor policy scores It earned less than four points in six of the policy categories

SCORES AND ECONOMIC PERFORMANCE BY INCOME GROUP[4]

Higher Income			Middle Income			Lower Income		
Country	Total Score	1980-93 GDP Growth	Country	Total Score	1980-93 GDP Growth	Country	Total Score	1980-93 GDP Growth
Djibouti	68	NA	Uganda	69	3 8	Tanzania	70	3 6
Kenya	53	3 8	Burundi	52	NA	Ethiopia	30	1 8

The countries which have made the most progress in improving their investment climates have had the highest growth In the 1980s, Uganda, Tanzania, and Kenya all began macroeconomic reforms which improved their business climates These three countries all experienced average growth rates of more than three percent over the last decade Uganda and Tanzania had investment growth of at least five percent If the other GHA countries take steps to improve their commercial policies, they could witness levels of investment and growth similar to these three countries

4 GHA countries without complete total scores are not included

V. GHA COUNTRIES COMPARED TO OTHER REGIONS

The commercial policies of the GHA countries compare poorly with other regions of the world With the exception of tax and investment incentives, the GHA countries have the lowest scores in every category Business start-up, foreign exchange and labor policies in the GHA region compare very unfavorably with other nations The region earned less than a third of the points possible in each of these categories

SCORES BY REGION

Region	Imports	Exports	Tax	Investment	FDI	Start-Up	Pricing	FX	Labor	Total
E/SE Asia	14	7	11	6	7	7	10	11	6	79
OECD	14	7	5	3	8	8	12	16	4	78
Latin Amer	10	7	11	3	7	5	8	14	4	69
SADC	7	6	7	7	6	5	8	12	5	62
Middle East	12	6	8	5	6	2	6	8	6	59
Greater Horn	*7*	*6*	*8*	*5*	*6*	*2*	*6*	*6*	*3*	57
Other African	7	7	3	6	7	3	5	7	2	

While the GHA region's average total score of 57 is higher than that of Other African nations, it remains one of the worst regional averages The East/South East Asia region averaged 20 points more, and even their neighbors to the South, SADC, scored several points higher Clearly, the GHA countries need to take steps to improve their commercial policies, especially their labor and business start up policies If they do not, they may well lose investment to their neighbors, whose policies, although not exemplary, are much more friendly to businesses

VI. STATUS OF POLICY HARMONIZATION AND REFORM FOR THE COUNTRIES IN THE REGION

Since the late 1980s, GHA countries have made significant progress in aligning their commercial policies with the more market-friendly trends seen in other regions of the world Most of these reforms have been spurred by World Bank/IMF structural adjustment programs launched in the mid 1980s However, the progress has been far from uniform across sectors and among countries

The commercial policy matrix scores indicate that policies vary widely throughout the Greater Horn region Some countries, such as the Sudan, have very unfriendly business policies Others, such as Tanzania, have been trying to encourage investment and economic growth Djibouti, Tanzania, and Uganda lead the region in trying to foster favorable investment climates Burundi, Eritrea and Kenya have taken more moderate steps Burundi, under the guidance of the IMF, has begun an adjustment program In addition to overhauling its foreign exchange system, it is currently liberalizing imports and trying to develop non-coffee exports

STATUS OF POLICY REFORM IN GHA COUNTRIES

Country	Status of Reform
Burundi	Reform is hampered by political and social instability
Djibouti	Recently settled ethnic strife Currently working on an economic reform program
Eritrea	Continuing an economic reconstruction program begun after gaining independence from Ethiopia in 1991
Ethiopia	After years of war, now in the process of implementing major reforms
Kenya	Relatively successful macroeconomic adjustment policy is underway

continued	
Country	**Status of Reform**
Rwanda	Rocked by ethnic conflict which has devastated the economy and halted reform attempts
Somalia	Reform efforts have been hampered severely by civil war
Sudan	Civil strife between the government and insurgents which are funded by Sudan s neighbors Currently, not involved in any reform
Tanzania	Continuing an economic reform program begun in 1980
Uganda	Continuing a macroeconomic reform program begun in 1987

Ethiopia, Rwanda, Sudan, and Somalia have significant work ahead of them In these countries, current political and civil unrest aside, few incentives exist to initiate or expand investment These nations need to follow the examples set by Djibouti and Uganda to improve their business climates, increase investment and foster economic growth This will be difficult because in the Greater Horn civil strife is rampant Ethiopia, Eritrea, Rwanda, Somalia, Sudan and Uganda are all either immersed in civil war or have recently emerged from it This has had a tremendous impact on the establishment and application of government policies Coordination of economic policies is difficult if not impossible in the presence of political and civil instability It may well be one reason why such a wide divergence of policies exists within the region

The promotion of trade has emerged as one of the primary economic goals for many countries in the Greater Horn of Africa Consequently, trade policy is one area in which all GHA countries have begun converging towards more liberal regimes All GHA countries have liberalized their import regimes by lowering tariffs, reducing tariff dispersion, and reducing/eliminating quantitative restrictions Import licenses have been eliminated in all countries but Eritrea, which is undertaking steps to simplify licensing procedures and eventually eliminate them In terms of export policies, most countries maintain little or no export restrictions, offer duty drawback schemes and do not levy export taxes Most governments have established free trade zones, instituted export incentives, offered tax and duty exemptions, and relaxed foreign investment restrictions

Some of the GHA countries have expressed their intention to pursue regional integration In August 1993, leaders from Burundi, Kenya, Rwanda, Tanzania and Uganda met with leaders of other African nations and agreed to implement the Cross Border Initiative (CBI) The CBI's goal is to speed and strengthen economic integration in Africa and create the Common Market for Eastern and Southern Africa (COMESA)[5] a regional integration grouping which replaced the Preferential Trade Area for Eastern and Southern Africa (PTA) [6] To achieve these ends, the countries in the CBI plan to harmonize and liberalize trade laws and regulations, payments systems, and investment policies How successful they will be remains to be seen Unrest in Burundi and Rwanda makes it highly unlikely that these nations will be able to implement sweeping policy changes in the near future

Nonetheless, efforts to further harmonize trade policies by all of the GHA countries will likely continue in most of the GHA countries This will occur under the auspices of COMESA, and the CBI Whereas the PTA was formed to foster trade integration exclusively, COMESA (and the CBI) aims towards creating a common market, i e , a free trade area supplemented with harmonized commercial policies in such areas as taxation, sectoral regulations and investment policies All countries covered in the Greater Horn of Africa study are COMESA members

Legal regulations governing both foreign and domestic investment have improved throughout the Horn over the past decade, and all of the GHA countries' investment regimes include at least some of the practices considered standard in many other regions

---

[5] Bakoup, Bessaha and Errico, IMF Working Paper, Regional Integration in Eastern and Southern Africa. The Cross-Border Initiative and its Fiscal Implications, February, 1995

[6] The PTA was founded in 1984 to promote trade liberalization among over a dozen countries in eastern and southern Africa, but due to its sheer size and internal instability among member countries, it has accomplished few of the liberalization objectives outlined a decade earlier In 1993, PTA members voted to disband the organization and replace it with COMESA

of the world Price and interest rate controls have been lifted in GHA countries as part of Bank/Fund structural adjustment Exceptions to this trend include price controls in Tanzania on sugar, fertilizer and petroleum

Commercial Policy Reform in Ethiopia

Ethiopia intends to implement major reforms in its investment regime It has already eliminated most export taxes, lowered maximum import duties and increased the availability of foreign exchange In the future it will attempt to

- ✓ implement tax reform,
- ✓ change its exchange rate system,
- ✓ enhance the role of its investment office, and
- ✓ eliminate restrictions on imports

Source World Bank, Trends in Developing Economies, Extracts Volume 3, 1995

Progress on policy harmonization is considerably less advanced in the commercial policy areas of foreign exchange, tax policies, and labor policies In particular, foreign exchange and tax policies are areas with the largest divergence in scores Although many GHA countries undertook devaluations during the late 1980s as part of World Bank/IMF sponsored structural adjustment programs, most maintain restrictions on foreign exchange access Tax policies also vary widely by country and exhibit little evidence of policy coordination among countries Again, Tanzania and Djibouti are the most liberal Tanzania's top rates are 35 percent and Djibouti levies no personal income taxes

Business start-up remains problematic in all GHA countries and indicates no evidence of uniform practices among GHA countries Only Ethiopia's business start-up procedures would qualify as demonstrating "relative problems" while all other countries fall below even this threshold In terms of labor policies, all GHA countries maintain minimum wages and support sometimes onerous regulations governing the hiring and firing of labor Most of these rigidities reflect the underlying pressures of organized labor, the still-prevalent role of state-owned enterprises in the domestic economy, and the relatively slow progress in advancing privatization in GHA countries Thus far, labor policies such as migration issues and free flow of labor across borders have not been significantly explored at the regional level

VII. POLICIES WHICH THE G.H A COUNTRIES WILL NEED TO CHANGE TO PROMOTE ECONOMIC GROWTH

The greatest challenge facing the Greater Horn Region today is food security Many of these countries are dependent on one or two crops for foreign exchange and have suffered declining or unpredictable export earnings War, drought, overfarming, soil erosion and inefficient economic policies have hurt productivity This in turn has led to malnutrition and recurrent famines in many Horn Countries

Clearly, increasing productivity and food security is an important goal for the entire region However, while food production is an key part of achieving food security, self-sufficiency is not necessary for food security Several Asian countries, including Japan, Taiwan and Hong Kong, have been able to thrive despite inadequate domestic production of major food crops They have done so because of strong economic growth resulting from efficient commercial policies which facilitated trade and stimulated investment growth Rising incomes in turn allowed the economies to achieve food security by assuring an adequate supply of food imports Thus, an important first step for the GHA region to achieve food security would be to work to improve its commercial policies, especially its pricing, import and export policies If the region implements the recommendations for improving its overall commercial policy environment in conjunction with policies focusing specifically on increasing food production, it will witness increases in economic growth, productivity and standards of living

A. Policy Areas Targeted for Immediate Reform

The Commercial Policy Model identifies three areas (import policy, export policy, investment, price/interest rates) under which GHA countries have achieved relative harmonization and five (import policy, foreign exchange, taxation, labor, and business start-up) towards which progress has been considerably slower Application of the model and comparison to policy harmonization in other regions of the world suggest substantial room for further progress in all of these areas

The Commercial Policy Model has identified export constraints such as export taxes in Eritrea, lack of duty draw-back in Somalia and Sudan, and cumbersome export licensing procedures in Tanzania A more detailed audit of the export regimes in each country may identify additional impediments Given the small size of domestic markets in GHA countries, expanding export opportunities represents a potential source of rapid economic growth Particularly, GHA countries should take advantage of the accelerated growth in world trade expected from the successful conclusion of the Uruguay Round Commercial policies which impede the rapid development of the export sector should therefore be identified and revised

Although at first-blush investment policies in GHA countries appear to comport with international standards, investment in GHA countries has been noticeably lower than in other regions of the world with similar investment codes Aside from the political instability plaguing several GHA nations, one explanation for this is the complicated and often onerous business start-up procedures identified in SRI's initial review of the commercial policy framework All countries examined except Ethiopia scored in the "onerous" to "relative problems" category, implying that business start-up is often stymied by such policies as excessive regulatory obstacles to market entry, licensing requirements which are excessively time-consuming, or inadequate court procedures for addressing commercial disputes Effective business start-up procedures are a *sine qua non* for effectively leveraging a liberal investment code, and therefore Horn countries should focus on liberalizing these start-up procedures as a necessary complement to overall investment regime reform Instability, however, cannot be disregarded Significant business development requires security of one's person and one's assets and certainty that today's policies will be tomorrow's If investors are unconvinced that the current pro-market trend will continue to be supported by government, commercial expansion remains unattractive

Import policies present an important starting point for policy reform, because they provide the link to international prices which discipline domestic firms, induce competition and provide necessary production inputs Relative to the import substitution policies of previous decades, the import regime liberalization described in the previous section represents substantial improvement However, while the general trend has been towards converging on a more liberal regime relative to previous policies, the countries still exhibit some divergence on the degree of liberalization Import duties in most GHA countries remain above the level which would render the countries consistent with international best practices, would provide a disciplining mechanism for domestic firms, and would ensure access to affordable inputs for domestic firms For example, maximum duties in GHA countries are still high 40 percent in Burundi and Tanzania, 50 percent in Eritrea, and 80 percent in Ethiopia Such rates can provide substantial effective protection to inefficient domestic industries and should be reduced

Foreign exchange policies are more complicated to resolve than problems in other policy areas Even though countries should strive to avoid overvalued currencies which often result from pegged rates, such an outcome is more often a function of prudent monetary policy (which are beyond the purview of this study) than of commercial policy reform Absent institutional measures to ensure prudent monetary policies, GHA countries can still progress further towards lifting remaining restrictions on foreign exchange allocation As noted in the previous section, profit and capital repatriation which depend on access to foreign exchange are subject to approval in most GHA countries except for Djibouti and Eritrea Such restrictions represent a significant deterrent to foreign investment, especially given the growing international norm towards immediate access to foreign exchange for profit repatriation

Taxation policies also garnered low scores in GHA countries due to generally high sales and income tax rates, especially those in upper income brackets While in the short run governments may be reluctant to lower tax rates due to the adverse impact on fiscal revenue collections, more reasonable rates may be beneficial in the long-run if designed to broaden the tax base and remove incentives for tax evasion and cross-border smuggling Evidence from several countries such as Chile, Mexico, Colombia and Indonesia suggests that government revenue may increase following reforms which broaden the tax base

Attempts to harmonize the tax base as well as align rates to discourage smuggling and tax evasion are strongly recommended

Labor policies uniformly earned GHA countries low scores due to wage controls and significant restrictions on hiring and firing The issue of labor reform is tied to the broader issue of privatization and reform of the state-owned sector Although this issue has received some attention during structural adjustment programs in the region, it remains an intransigent policy area due to its linkages to privatization and provision of social services in GHA countries Although the issue of labor sector reform deserves concerted attention, it should be addressed within the larger context of rendering the state-owned sector more efficient and providing needed social services which are typically linked to employment USAID has already undertaken several studies concerning the nexus of efficient labor markets and privatization, and recommendations proffered therein would be a useful starting point for examining policy options in this field

B. Necessary Measures and Institutions to Accomplish Policy Reform

In order to successfully implement these policy reforms, GHA members could reinforce domestic reform effort by addressing these problems on the regional level Certainly, regional economic grouping are not new concepts in Africa where all countries have joined regional integration groupings since the 1960s Their appeal is intuitive given the small size of most African economies

Historical experience indicates that reform initiatives often move through regions due to "demonstration effects," such as what has occurred in Southeast Asia A regional approach to policy harmonization also dovetails with several of the reform measures identified earlier in this report Trade liberalization provides a clear starting point As noted previously, import duties are inordinately high among GHA countries relative to the rest of the world and are a prime candidate for further liberalization However, it is understandable that GHA countries might be reluctant to unilaterally reduce duties for fear of opening their markets to international competition without commensurate moves from neighboring countries To reduce this collective action problem, GHA countries should continue to pursue the regional integration strategies initiated under the PTA, COMESA, and the CBI

From a theoretical standpoint, trade integration should yield economic gains such as economies of scale, a greater division of labor, specialization and competition, which allow dynamic comparative advantages to develop However, the potential for growth opportunities resulting from trade liberalization should not be overestimated Previous attempts at regional integration in Africa have produced few of the predicted efficiency gains seen in Europe or North America There are several reasons for this, including the lack of complete implementation of trade liberalization measures among member countries Further, the structure of production among GHA member suggests a lack of complementarily among members, which is a prerequisite for trade gains according to theories of comparative advantage

This is not an argument to abandon trade liberalization, a tenet whose benefits have been well-documented in both theory and practice It is, however, an argument to examine additional policy areas in which regional synergies must be tapped if GHA countries are to realize significant economic growth over the coming decades GHA countries might gain more from regional initiatives which harmonize tax policies to prevent smuggling, from unifying customs procedures to reduce administrative costs, or from pursuing harmonized investment regulations which prevent countries from entering into a "bidding war" with other GHA members to attract foreign investment All these objectives, which hold potential for enhancing the business climate among GHA countries, are best addressed on a regional level to reduce the costs of negotiating bilaterally and capturing the synergies of regionally harmonized policies

In short, regional trade integration is the best starting point for future initiatives given the existing institutional structure of COMESA However, limited trade potential within COMESA suggests that trade liberalization alone is little substitute for broader regional reform in other complementary policy areas such as tax, investment and labor policies

C. Policy Changes to Promote Regional Policy Harmonization and Growth

Given the synergies of regional policy harmonization, the commercial policy model suggests several principal areas under which concerted policy reforms among GHA countries might pursue growth opportunities These include

- taxation policies
- investment policies
- trade policies

These issues would be better addressed at the regional level in recognition of the common interest GHA countries have in pursuing similar reforms and in an attempt to capture the synergies from regionally harmonized policies

The high and variable tax rates among GHA countries have been cited as a major incentive to evade taxes, store financial capital abroad, and smuggle goods between countries with large tax discrepancies Given that this problem is common to all GHA countries and that certain consequences such as smuggling involve a regional component, regional harmonization would be a preferred means of addressing the issue of tax policy reform Harmonized rates and tax collection procedures would not only broaden the tax base, but also reduce the administrative costs involved in tax collection

A regional approach to investment policy could also prove effective (once political stability is restored) In the competition to attract international capital, countries might feel compelled to offer increasingly attractive tax and financial incentives to companies, thus instigating a "bidding war" which GHA countries could ill afford Regional standards on investment policies (i e a regional guarantee of national treatment, foreign ownership, etc) would not only preclude unnecessary competitive bidding for investors, but also raise the visibility of the entire region as one hospitable to foreign investment

The Commercial Policy Model indicates that GHA countries score low in import policies due to high tariff rates, despite significant progress thus far in dismantling some of the import substitution policies of the past three decades Clearly, countries could realize greater efficiency gains from further liberalization, even if these gains might be somewhat limited by the lack of complementarily among goods markets in GHA countries Further efforts to increase exports include the elimination of export taxes and removal of price controls

In tandem with intra-regional trade liberalization should come tariff reduction vis-a-vis non COMESA members Theory and practice show that despite the predicted gains from regional integration, countries might still suffer a net welfare loss if trade diversion (shift of trading partners from the best available to member countries due to differential tariff rates) exceeds trade creation from integration To minimize the potential for trade diversion, GHA countries would be advised to continue the process of tariff reduction versus non-GHA countries who are the region's major trading partners Only aligning internal prices in the region with world prices would bring about the predicted gains from trade liberalization In a larger regional trading bloc such as COMESA, GHA countries would have increased negotiating leverage to pursue such liberalization measures in international fora, such as the WTO, in exchange for increased access to European markets In the case of small countries such as those in the GHA where tariff revenue is a major source of government revenue, governments will initially be reluctant to pursue tariff reduction for fear that doing so would lead to revenue shortfalls While this may occur in the short run, the long run benefits in terms of efficiency and growth of export markets would outweigh the revenue loss from trade liberalization

Finally, the important role which social and political stability plays in a country's economic development must not be overlooked A government which cannot implement its programs or enforce its rules and regulations is incapable of achieving successful macroeconomic reform Many of the nations in the Greater Horn region are plagued by ethnic strife and political instability With the exception of Tanzania and Kenya, all of the GHA countries have experienced some form of civil strife within the last decade Four of them (Burundi, Rwanda, Somalia and the Sudan) currently have political and/or social conflict within their borders Not only has this unrest severely damaged these nations' economic and physical infrastructures, but it has also undermined their political and social structures and has hurt their governments' credibility in the business community Before the GHA nations can make the economic policy changes necessary to create a more hospitable investment climate and to achieve regional growth, they first must settle the ethnic and political strife within their countries

VIII. REGIONAL OPTIONS TO STIMULATE RAPID ECONOMIC GROWTH

This report has already discussed several problematic policy areas which will require future revision in order to improve the long-term growth prospects of GHA countries Some of the necessary policy reforms can be achieved by legislative action in GHA countries The three programs described below will require more concerted and intensive technical assistance programs which aim to build capacity within the GHA policymaking community to design and implement a long-term economic growth strategy that effectively leverages regional institutions and common interests SRI recommends initiatives to strengthen the weakest commercial policy linkages identified in the commercial policy audit The programs described below incorporate the strengths of regional programs such as economies of scale in resource utilization, design, administration and evaluation We identify three specific proposals (I) taxation policy review and harmonization program, (ii) investment climate/business start-up review and regional promotion program, and (iii) export policy review and support program

1 Taxation Policy Review and Harmonization Program

GHA countries vary substantially in their respective taxation policies While taxation policies traditionally focus on revenue generating capabilities for the Treasury, policymakers should not ignore the distortional impacts of taxes on economic decisionmaking Excessively high corporate taxes may discourage investment and encourage capital flight, especially when more favorable investment climates and less stringent tax rates are available elsewhere In addition, widely disparate tax rates in neighboring countries may serve as a primary incentive for smuggling

Given the international dimension to tax reform, GHA countries should investigate the possibility of harmonizing policies at a regional level Such a review might involve benchmarking GHA tax rates against those of other regions of the world, examining the tax reform efforts of other countries, exploring options for improving the administration and collection of taxes, and investigating alternative formulas for tax levying which engender fewer economic distortions than the present system The experience of other developing countries such as Chile and Argentina, for example, has shown that tax reform is a key component of achieving fiscal stability and promoting efficient decisionmaking by economic actors

Adopting a regional approach to tax policy harmonization is not uncommon In the European Union, for example, tax policies are harmonized as an integral part of the overall creation of a common market Policymakers have realized that once trade barriers are lowered, significant divergence in tax rates across countries can still lead to distorted flows of goods and capital to areas where they are sub-optimally used More consistent intra-regional tax polices can reduce these distortions, improve tax collection and reduce incentives for cross-order smuggling

2. Investment Climate/Business Start-up Review and Regional Promotion Program

Investment is universally recognized as one of the primary ingredients for fostering greater economic growth by building the productive capacity Whether the source of investment is foreign or domestic, this function of resource mobilization for productive use is central to the overall growth strategy of any country Although GHA countries already have adopted some of the liberalizing measures to promote investment, an initial review of investment flows to developing countries shows that sub-Saharan Africa and the Horn in particular lag other developing regions of the world in attracting both foreign capital and retaining domestic capital There are numerous reasons for this, not the least of which are previous policies limiting investment in "strategic" or state-owned sectors and chronic political instability in the region, which increases the risk of any potential investment

Another force which discourages investment is the business start-up procedure, a natural complement to investment law reform Even given sufficient investment incentives or *de jure* access to enter all domestic markets, investors (both foreign and domestic) will be unwilling to proceed with new ventures if start-up procedures governing licensing, zoning, permits, etc are onerous and represent a considerable source of time and resource expenditures Business start-up is particularly problematic when the international investor community can avail itself of more hospitable environments in the developing regions of East Asia or Latin America

GHA countries, already disadvantaged by a less-than-favorable perception in the international business community, would benefit from establishing reputations as investor-friendly It is therefore recommended that a comprehensive evaluation of business start-up procedures and investor approval facilities be undertaken in Horn countries to assess the extent to which legal provisions diverge from actual practice It has been the experience of past commercial policy audits that actual business start-up can be significantly more time consuming and onerous than what is suggested by an initial review of a country's investment code Streamlining these processes would be a necessary complement to the investment liberalization measures already undertaken by GHA governments

Once GHA countries have established internationally competitive investment climates, they can begin marketing their product to the international community by leveraging regional institutions Given scarce resources and small internal markets, GHA countries might more efficiently accomplish this task by developing regional promotional materials, and beginning investment promotion programs to stimulate investment in the region as a whole

3. Export Policy Review and Support Program

Export promotion is typically thought of as complimentary to investment promotion in that both serve to link domestic producers to international markets, provide the disciplining effects of international competition, give access to technology transfer and generate foreign exchange receipts for the home country Progress in removing onerous export provisions such as licenses and taxes has been noted earlier in this report

Establishing competitive exchange rates is obviously another key feature of efforts to eliminate anti-export biases

The reasons for continuing an export-oriented growth strategy are numerous Past performance prior to the disruption of normal economic activity due to civil strife suggests that most GHA countries were involved in international markets and thus produce goods and supply primary products which are demanded by international markets, especially in Europe Secondly, most GHA countries face small internal markets and thus have little choice but to produce for larger international markets if they hope to realize the efficiency gains from scale economies Finally, decades of war have deprived GHA countries of the necessary infusion of new technology and skills, so openness to international markets could be a channel for technological improvement

The GHA governments have already initiated several measures to promote exports through policy reforms such as pursuing a competitive exchange rate, lowering trade taxes and dismantling restrictions on exporter Additional measures should be taken to gear export promotion into the medium and long term These include the rationalization of export licensing, further improvements in foreign exchange allocation systems, and the elimination of remaining legal and regulatory obstacles which constrain firms from investing

USAID can complement these efforts through several additional programs Perhaps the two biggest challenges to exporters lie in developing competitive products for the international market and obtaining export financing After civil war and the disruption of normal trade flows, many local merchants are unfamiliar with international markets, export procedures, packaging and safety norms in export markets, and distribution channels Workshops and technical assistance programs which would convert small, local enterprises into exporters provide one of the most cost-effective and sensible means of promoting long-term economic growth in the Horn

Again, a regional approach would be useful in this regard Exports should focus on two markets COMESA and the rest of the world Given the existence of regional trade promotion institutions such as COMESA to which all GHA countries belong, exporters would be well served by a concerted effort to harmonize customs procedures, safety requirements and packaging norms throughout COMESA in order to reduce disincentives to intra-regional trade Although packaging and safety norms are atypical non-tariff barriers, the European Union has experience has shown that harmonizing such practices can be mutually advantageous to all countries involved and can encourage exporters to market their products beyond their immediate borders Similarly, COMESA could serve as a means for promoting the region's exports into other areas such as Europe which represent naturally export markets

ANNEX A

REGIONAL CLUSTER COMPARISONS

Regional Cluster Comparisons

	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
GHA Members Ranked by Total Score															
Tanzania	8	6	12	8	8	4	6	12	6	70	3 6	-0 4	2 5	5 6	0
Uganda	12	6	8	8	8	2	9	8	8	69	3 8	-1 4	N/A	7 1	N/A
Djibouti	16	8	12	4	4	3	9	12	0	68	N/A	N/A	N/A	N/A	N/A
Kenya	4	8	8	6	6	0	9	4	8	53	3 8	3 3	3 8	-0 7	0 3
Burundi	12	8	4	4	6	4	6	4	4	52	3 6	5 6	4 4	3 2	0 9
Eritrea		6	8	2	8	4	6	4	4	50	N/A	N/A	N/A	N/A	N/A
Rwanda	4	6	4	4		0	6	8	0	35	1 1	2 5	0 6	0	-1 2
Ethiopia	0	4	4	6	4	6	6	0	0	30	1 8	-2 2	N/A	N/A	N/A
Somalia		4	8	4		0	3	4		30	N/A	N/A	N/A	N/A	N/A
Sudan		2	8	4	2	0	3	0	0	23	N/A	N/A	N/A	N/A	N/A
Average	8 0	5 8	7 6	5 0	5 8	2 3	6 3	5 6	3 3	57 0	3 0	1 2	2 8	3 0	0 0
SADC Members Ranked by Total Score															
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Zambia	12	6	8	8	4	4	12	16	2	72	0 8	-3 2	0 9	0 2	N/A
Malawi	8	6	12	8	8	6	6	12	4	70	2 9	5 8	3 5	-0 9	-0 1
Tanzania	8	6	12	8	8	4	6	12	6	70	3 1	-1 2	2 2	5 6	0
Namibia	4	8	4	8	8	6	9	12	8	67	1	N/A	-1 1	-6 2	-1
Botswana	4	6	8	6	6	8	9	12	6	65	10 1	N/A	10 1	N/A	6 1
Lesotho	4	6	8	6	8	6	9	12	6	65	5 4	N/A	8 5	9	-0 5
South Africa	4	6	4	6	6	8	12	12	6	64	1 1	0 7	-0 1	-4 4	0 1
Zimbabwe	16	6	4	6	4	4	6	8	6	60	2 8	-0 8	1 9	1 8	-0 9
Swaziland	4	6	8	8	6	4	9	12	4	57	N/A	N/A	N/A	N/A	1 6
Mozambique	4	6	4	8	6	0	9	12	4	53	0 4	N/A	-0 4	3 1	-3 6
Angola	8	2	8	4	4	0	3	8	4	41	N/A	N/A	N/A	N/A	N/A
Average	7	6	7	7	6	5	8	12	5	62	3 0	0 9	2 7	1 0	0 2
Selected Latin American Countries Ranked by Total Score															
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Paraguay	16	6	16	4	8	4	6	16	2	78	2 7	12 2	0 2	0 3	-0 8
Costa Rica	12	8	12	6	8	6	9	12	4	77	3 1	4 6	2 9	4 4	0 7
El Salvador	12	8	12	4	8	4	6	16	6	76	1	-2 7	1 6	2 3	-0 3
Chile	12	8	4	2	8	8	12	12	6	72	2 2	5 2	3 6	5 1	1 6
Bolivia	16	8	12	0	4	2	9	16	2	69	0 3	4 5	-0 8	-8	-2
Argentina	8	8	8	2	8	6	9	16	2	67	-0 4	2 1	-1 4	-6 9	-1 5
Colombia	4	8	8	2	6	8	9	16	6	67	3 7	12	4 8	-0 2	1 2
Mexico	12	6	12	2	4	6	9	12	4	67	1 2	3 5	1 3	1 8	1 2
Uruguay	8	6	8	4	8	4	9	12	4	63	0 6	3 1	0	-5 9	-0 4
Venezuela	0	6	16	4	4	6	6	12	2	56	1 5	0 1	2 1	-3 9	-1 3
Average	10	7 2	10 8	3	6 6	5 4	8 4	14	3 8	69 2	1 59	4 46	1 43	-1 1	-0 16

Regional Cluster Comparisons

				Other African Nations Ranked by Total Score											
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Morocco	8	8	0	6	8	8	9	12	6	65	4 2	5 9	3	2 5	1 6
Ghana	8	8	8	8	6	4	6	8	0	56	3 2	5 2	3 7	9	-0 3
Senegal	12	8	4	8	8	6	3	0	4	53	3 1	5 6	3 8	3 7	0 1
Uganda	12	4	8	4	8	4	3	8	2	53	2 5	2 3	4 6	11 9	-2 4
Kenya	0	8	4	6	8	4	9	8	4	51	4 2	2 9	4	0 6	0 3
Cote D'Ivoire	12	6	4	4	8	0	3	8	0	45	-0 5	4 5	-1 6	-1 7	-4 6
Bangladesh	0	6	4	4	6	0	3	8	0	31	4 3	7 2	4 9	-1	1 9
Zaire	4	6	0	4	4	0	3	8	2	31	1 8	-11 2	2 3	-4 5	-2 2
Average	8 25	7 65	5 35	5 88	7 83	3 93	5 93	9 25	2 73	56 8	3 049	3 36	3 27	1 94	-0 576

		Selected Countries in East/Southeast Asia Ranked By Total Score													
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Singapore	16	8	12	6	8	8	12	12	8	90	6 6	8 9	5 8	4 3	5 3
Hong Kong	16	8	16	2	6	8	12	12	8	88	6 9	4 4	N/A	4 4	5 6
Korea	16	8	12	8	8	8	9	8	4	81	9 6	12 2	12 1	13	8 7
Taiwan	16	8	12	6	4	8	12	8	6	80	8	13 4	N/A	5 5	6 5
Japan	12	6	8	6	8	8	12	16	2	78	4 2	3 9	4 9	6	3 6
Malaysia	12	6	8	8	6	4	9	12	8	73	5 7	10 9	7 7	4 4	2 9
Thailand	8	6	12	8	6	4	6	12	4	66	2 9	14 4	9 6	9 8	5 9
Average	**13 7**	**7 1**	**11.4**	**6 3**	**6 6**	**6 9**	**10 3**	**11 4**	**5 7**	**79 4**	**6 3**	**9 7**	**5 7**	**6 8**	**5 5**

				Selected Countries in the Middle East											
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Saudi Arabia	16	8	12	4	8	4	9	8	8	77	-0 2	-4 2	-2 9	N/A	-3 4
Egypt	8	4	4	6	4	0	3	8	4	41	4 8	2 8	4 2	-0 1	1 9
Average	12	6	8	5	6	2	6	8	6	59	2 3	-0 7	0 65	-0 05	-0 75

			Selected OECD Countries Ranked by Total Score												
	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
U S A	16	6	12	4	8	8	12	16	6	88	2 6	4	2 9	3 3	1 7
U K	16	6	8	4	8	8	12	16	4	82	2 9	2 6	1 3	5 3	2 6
New Zealand	16	8	4	2	8	8	12	16	6	80	1 5	3 6	1 3	2 9	0 7
Japan	12	6	8	6	8	8	12	16	2	78	4 2	3 9	4 9	6	3 6
Australia	12	6	4	4	8	8	12	16	6	76	3 1	4 6	3	2 2	1 6
Germany	16	8	0	4	8	8	12	16	4	76	2 3	4 1	0 9	2 6	2 2
Ireland	16	8	0	4	8	8	12	16	4	76	3 5	7 1	N/A	0	3 3
Norway	16	8	4	0	8	8	12	16	4	76	2 7	7 4	5 2	-0 2	2 3
Canada	8	8	8	4	6	8	12	16	4	74	3 1	5 7	3	4 5	2
Netherlands	16	8	0	2	8	8	12	16	4	74	2 1	4 4	N/A	2 4	1 6
Average	14 4	7 2	4 8	3 4	7 8	8	12	16	4 4	78	2 8	4 74	2 25	2 9	2 16

ANNEX B

COMMERCIAL POLICY SCORES FOR SELECTED COUNTRIES

Commercial Policy Scores for Selected Countries

Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
Singapore	16	8	12	6	8	8	12	12	8	90	6 6	8 9	5 8	4 3	5 3
Hong Kong	16	8	16	2	6	8	12	12	8	88	6 9	4 4	N/A	4 4	5 6
U S A	16	6	12	4	8	8	12	16	6	88	2 6	4	2 9	3 3	1 7
U K	16	6	8	4	8	8	12	16	4	82	2 9	2 6	1 3	5 3	2 6
Korea	16	8	12	8	8	8	9	8	4	81	9 6	12	12 1	13	8 7
New Zealand	16	8	4	2	8	8	12	16	6	80	1 5	3 6	1 3	2 9	0 7
Taiwan	16	8	12	6	4	8	12	8	6	80	8	13	N/A	5 5	6 5
Japan	12	6	8	6	8	8	12	16	2	78	4 2	3 9	4 9	6	3 6
Paraguay	16	6	16	4	8	4	6	16	2	78	2 7	12	0 2	0 3	-0 8
Costa Rica	12	8	12	6	8	6	9	12	4	77	3 1	4 6	2 9	4 4	0 7
Saudi Arabia	16	8	12	4	8	4	9	8	8	77	-0 2	-4 2	-2 9	N/A	-3 4
Australia	12	6	4	4	8	8	12	16	6	76	3	[illegible]6	3	2 2	1 6
El Salvador	12	8	12	4	8	4	6	16	6	76	1	2 7	1 6	2 3	-0 3
Germany	16	8	0	4	8	8	12	16	4	76	2 3	4 1	0 9	2 6	2 2
Ireland	16	8	0	4	8	8	12	16	4	76	3 5	7 1	N/A	0	3 3
Jamaica	12	8	12	4	8	6	6	16	4	76	1 6	0 8	2 6	3 6	0
Norway	16	8	4	0	8	8	12	16	4	76	2 7	7 4	5 2	-0 2	2 3
Canada	8	8	8	4	6	8	12	16	4	74	3 1	5 7	3	4 5	2
Haiti	12	6	16	4	8	4	6	12	6	74	N/A	N/A	N/A	N/A	-2 4
Netherlands	16	8	0	2	8	8	12	16	4	74	2 1	4 4	N/A	2 4	1 6
Malaysia	12	6	8	8	6	4	9	12	8	73	5 7	11	7 7	4 4	2 9
Chile	12	8	4	2	8	8	12	12	6	72	2 2	5 2	3 6	5 1	1 6
Zambia	12	6	8	8	4	4	12	16	2	72	0 8	-3 2	0 9	0 2	N/A
Malawi	8	6	12	8	8	6	6	12	4	70	2 9	5 8	3 5	-0 9	-0 1
Tanzania	8	6	12	8	8	4	6	12	6	70	3 1	-1 2	2 2	5 6	0
Bolivia	16	8	12	0	4	2	9	16	2	69	0 3	4 5	-0 8	-8	-2
Uganda	12	6	8	8	8	2	9	8	8	69	3 8	-1 4	N/A	7 1	N/A
Djibouti	16	8	12	4	4	3	9	12	0	68	N/A	N/A	N/A	N/A	N/A
Argentina	8	8	8	2	8	6	9	16	2	67	-0 4	2 1	-1 4	-6 9	-1 5
Colombia	4	8	8	2	6	8	9	16	6	67	3 7	12	4 8	-0 2	1 2
Mexico	12	6	12	2	4	6	9	12	4	67	1 2	3 5	1 3	1 8	1 2
Namibia	4	8	4	8	8	6	9	12	8	67	1	N/A	-1 1	-6 2	-1
Thailand	8	6	12	8	6	4	6	12	4	66	2 9	14	9 6	9 8	5 9
Botswana	4	6	8	6	6	8	9	12	6	65	10 1	N/A	10 1	N/A	6 1
Lesotho	4	6	8	6	8	6	9	12	6	65	5 4	N/A	8 5	9	-0 5
Morocco	8	8	0	6	8	8	9	12	6	65	4 2	5 9	3	2 5	1 6
Cyprus	8	6	12	6	6	6	6	12	2	64	5 8	6 6	N/A	N/A	4 7
S Africa	4	6	4	6	6	8	12	12	6	64	1 1	0 7	-0 1	-4 4	0 1
Uruguay	8	6	8	4	8	4	9	12	4	63	0 6	3 1	0	-5 9	-0 4
Barbados	16	8	4	8	8	8	6	0	4	62	N/A	N/A	N/A	N/A	N/A
Zimbabwe	16	6	4	6	4	4	6	8	6	60	2 8	-0 8	1 9	1 8	-0 9
Indonesia	4	6	12	2	6	4	9	12	4	59	5 6	4 5	5 9	6 9	3 9
Tunisia	4	8	8	4	8	4	9	12	2	59	3 7	5 6	2 9	-1 1	1 1
Philippines	4	6	12	2	4	2	9	12	6	57	1 1	3 3	-0 5	-1 8	-1 2
Swaziland	4	6	4	8	6	4	9	12	4	57	N/A	N/A	N/A	N/A	1 6
Turkey	4	8	0	6	8	6	9	12	4	57	5	7 2	6	2 8	2 9
Ghana	8	8	8	8	6	4	6	8	0	56	3 2	5 2	3 7	9	-0 3
Hungary	12	6	4	4	8	6	6	8	2	56	0 6	2 2	-1 6	-1 6	0 7
Venezuela	0	6	16	4	4	6	6	12	2	56	1 5	0 1	2 1	-3 9	-1 3

44

Commercial Policy Scores for Selected Countries

Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV	gGNP/Cap
PNG	16	6	8	4	4	4	3	8	2	55	2	6 8	2 4	-0 9	-0 6
DR	4	6	12	0	8	4	6	8	6	54	1 7	-1 5	1 6	4 5	-0 2
Guatemala	12	6	12	6	4	0	6	4	4	54	1 1	-0 7	-0 2	-0 7	-1 8
Kenya	4	8	8	6	6	0	9	4	8	53	3 8	3 3	3 8	-0 7	0 3
Mozambiq	4	6	4	8	6	0	9	12	4	53	0 4	N/A	-0 4	3 1	-3 6
Senegal	12	8	4	8	8	6	3	0	4	53	3 1	5 6	3 8	3 7	0 1
Burundi	12	8	4	4	6	4	6	4	4	52	3 6	5 6	4 4	3 2	0 9
Sri Lanka	8	6	4	8	8	4	6	4	4	52	4	6 3	4 7	1 2	2 5
Eritrea		6	8	2	8	4	6	4	4	50	N/A	N/A	N/A	N/A	N/A
Cambodia	8	4	8	4	4	6	6	4	4	48	N/A	N/A	N/A	N/A	N/A
Cote D'Ivoire	12	6	4	4	8	0	3	8	0	45	-0 5	4 5	-1 6	-1 7	-4 6
Pakistan	0	8	4	6	8	4	3	8	4	45	6 1	9 9	7 5	5 6	3 2
India	0	8	4	4	6	0	6	12	4	44	5 4	7 4	6 3	5 1	3 2
Angola	8	2	8	4	4	0	3	8	4	41	N/A	N/A	N/A	N/A	N/A
Egypt	8	4	4	6	4	0	3	8	4	41	4 8	2 8	4 2	-0 1	1 9
Cameroon	12	8	4	4	4	4	3	0	0	39	1 4	-1 3	2 2	-5 4	-1
China (PRC)	8	4	12	4	4	2	3	0	0	37	9 4	12	11	12 4	7 8
Brazil	0	6	8	4	2	2	3	8	2	35	2 5	4 3	1 7	-0 1	0 5
Rwanda	4	6	4	4	4	0	6	8	0	35	1 1	2 5	0 6	0	-1 2
Bangladesh	0	6	4	4	6	0	3	8	0	31	4 3	7 2	4 9	-1	1 9
Zaire	4	6	0	4	4	0	3	8	2	31	1 8	-11	2 3	-4 5	-2 2
Ethiopia	0	4	4	6	4	6	6	0	0	30	1 8	-2 2	N/A	N/A	N/A
Somalia		4	8	4		0	3	4		30	N/A	N/A	N/A	N/A	N/A
Sudan		2	8	4	2	0	3	0	0	23	N/A	N/A	N/A	N/A	N/A

ANNEX C

COMMERCIAL POLICY SCORING SYSTEM

COMMERCIAL POLICY RESEARCH METHODOLOGY

SRI has developed a methodology to allow cross-country comparisons of overall commercial policy regimes through summary country policy scores, which describe the degree to which commercial policies are business-friendly as well as competition-based One can easily assess the comparative position of a country's commercial policies vis a vis its global or regional competitors SRI designed a rating system which assigns summary policy scores to each nation These scores describe the degree to which the commercial policy regime of a country is business-friendly and competition based

Under this system, both quantitative and qualitative information is converted into a set of policy scores For each policy variable, a numerical value -- variable score (VS) -- is assigned to a specific policy condition For variables that are not strictly quantifiable, other means of measurements are utilized For example, duty exemptions for machinery, raw materials, and other production imported inputs are an important factor in attracting investment The variable "Duty Exemptions" is assigned a VS of "1" if duty exemptions exist, and "0" if otherwise The scoring system is describe in detail as an appendix to this report

The scores of the policy variables within the same policy category were then summed and harmonized according to a conversion scale to yield Policy Category Scores (PCSs), which fall into a range of 1-4 This is to ensure that the scoring system will not be biased towards the policy categories in which more data and information are available The PCSs are then given weights which reflect their relative importance in forming the overall commercial policy environment (see the appendix for the weights assigned to each policy category)

The Total Score (TS) for each country was obtained by summing the weighted scores from all the policy categories The maximum achievable TS for a country is 100 TSs can be compared across countries as a summary description of the commercial policy environment In addition, comparisons and benchmarking can be conducted in each policy category by comparing the Policy Category Scores across all countries or groups of countries Perhaps more importantly, the correlation between the Total Scores, Policy Category Scores, and economic performance across countries can be observed and analyzed

It should be noted that this scoring system is designed to indicate attractiveness to investors, and not necessarily policy mixes that would be recommended from a purely economic standpoint For example, for certain policy variables, higher scores are assigned to countries that have adopted special incentives specifically to encourage investment or trade, such as income tax exemptions for exporters, or income tax holidays for investors In many countries, such special incentives are often provided to investors and exporters to counteract the restrictive commercial policies in other areas Thus, economies like Hong Kong whose laissez faire policy practices most closely resemble the textbook free market approach only achieved a score of 88

COMMERCIAL POLICY SCORING SYSTEM

1. IMPORT POLICIES

		POLICY VARIABLE	RANGE	SCORE
A	Mean Tariff	(TWTMEAN)	$0 \leq \% \leq 15$	4
			$15 < \% \leq 25$	3
			$25 < \% \leq 30$	2
			$30 < \% \leq 40$	1
			$40 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
B	Tariff Variance	(TWTMAX)	$0 \leq \% \leq 5$	2
		(TWTMIN)	$5 < \% \leq 10$	1
			$10 < \%$	0

		POLICY VARIABLE	RANGE	SCORE
C	Non-tariff Barriers	(ALLNTBS)	$0 \leq \% \leq 15$	4
			$15 < \% \leq 25$	3
			$25 < \% \leq 35$	2
			$35 < \% \leq 50$	1
			$50 < \%$	0

TOTAL SCORE

(_________)

Total Score	Raw Score	Grade
(9 - 10)	4	A
(7 - 8)	3	B
(5 - 6)	2	C
(3 - 4)	1	D
(0 - 2)	0	E

Weight for this category 4

2. *Export Policies*

		POLICY VARIABLE	RANGE	SCORE
A	Export Taxes	(XTAXES)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
B.	Export Restrictions	(XRESTR)	No	3
			Minimal	2
			Selective	1
			Ex ~nsive	0

		POLICY VARIABLE	RANGE	SCORE
C	Export Income Tax Exemption	(XYTAXX)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
D.	Duty free imports	(DUTYFREEM)	Yes	1
			No	0

Total Score	Raw Score	Grade
(5 - 6)	4	A
(3 - 4)	3	B
(2)	2	C
(1)	1	D
(0)	0	E

Weight for this category 2

3. *Tax Policies*

		POLICY VARIABLE	RANGE	SCORE
A	Minimum Corporate Income Tax Rates	(CORPTAXL)	0 ≤ % ≤ 20	3
			20 < % ≤ 30	2
			30 < % ≤ 40	1
			40 < %	0

		POLICY VARIABLE	RANGE	SCORE
B	Top Corporate Income Tax Rates	(CORPTAXH)	0 ≤ % ≤ 20	3
			20 < % ≤ 35	2
			35 < % ≤ 45	1
			45 < %	0

		POLICY VARIABLE	RANGE	SCORE
C	Minimum Personal Income Tax Rates	(PYTAXL)	0 ≤ % ≤ 10	3
			10 < % ≤ 20	2
			20 < % ≤ 30	1
			30 < %	0

		POLICY VARIABLE	RANGE	SCORE
D	Top Personal Income Tax Rates	(PYTAXH)	0 ≤ % ≤ 35	3
			35 < % ≤ 45	2
			45 < % ≤ 50	1
			50 < %	0

		POLICY VARIABLE	RANGE	SCORE
E	Sales Tax + VAT Rates	(SALESTAX + VAT)	0 %	3
			0 < % ≤ 10	2
			10 < % ≤ 15	1
			15 < %	0

Total Score	Raw Score	Grade
(13 - 15)	4	A
(11 - 12)	3	B
(8 - 10)	2	C
(5 - 7)	1	D
(0 - 4)	0	E
	Weight for this category	4

4. *Domestic Investment Incentives*

		POLICY VARIABLE	RANGE	SCORE
A	Income Tax Holidays	(YTAXHOL)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
B	Duty Exemptions	(DUTYEXEMP)	Yes	1
			No	0

		POLICY VARIABLE	RANGE	SCORE
C	Other Incentives Accelerated Depreciation, Investment Allowance, and R&D Incentives	(ACCDEP, IALLOW, RDINCENT)	Two or more	2
			One	1
			None	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category 2

5. *Foreign Investment Restrictions*

		POLICY VARIABLE	RANGE	SCORE
A	FDI Restriction	(FDIRESTR + EQURESTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
B.	Expatriate Employment	(EXPATRTR)	Standard	2
			Moderate	1
			Restrictive	0

		POLICY VARIABLE	RANGE	SCORE
C.	Differential Treatment	(DIFFTREAT)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
D	Dispute Settlement	(DISPTRMT)	ICSID	2
			ICSIDNR	1
			-	0

Total Score	Raw Score	Grade
(6 - 7)	4	A
(5)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category 2

6. *Business Start-up Procedures*

		POLICY VARIABLE	RANGE	SCORE
A.	Business licensing, registration and approvals	(LICENSING, APPROVALS)	Efficient	4
			Relative Problems	2
			Onerous	0

Weight for this category 2

7. *Pricing and Interest Policies*

		POLICY VARIABLE	RANGE	SCORE
A	Price Control	(PRICECONT)	None	2
			Selective	1
			Extensive	0

		POLICY VARIABLE	RANGE	SCORE
B	Price System	(PRICESYST)	Market	2
			Mixed	1
			Administered	0

		POLICY VARIABLE	RANGE	SCORE
C	Interest Control	(INTCONTR)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
D	Credit Allocation	(CREDITALL)	Market	2
			Mixed	1
			Administered	0

Total Score	Raw Score	Grade
(7)	4	A
(5 - 6)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category 3

8. *Foreign Exchange Policies*

		POLICY VARIABLE	RANGE	SCORE
A	Exchange rate System	(FXSYST)	Free Float	3
			EMS	2
			Pegged to Basket of Indicators	2
			Pegged to Basket of Currencies	2
			Managed Float	1
			Pegged to US$, FF, or SDR	0

		POLICY VARIABLE	RANGE	SCORE
B	Foreign Exchange level	(FXLEVEL)	Market	1
			Overvalued	0

		POLICY VARIABLE	RANGE	SCORE
C	Foreign Exchange Restriction	(FXRESTR)	None	3
			Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
D	Profit Repatriation Restriction	(PROFRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

		POLICY VARIABLE	RANGE	SCORE
E	Capital Repatriation Restriction	(CAPRESTR)	None and Minimal	2
			Moderate	1
			Restrictive/Prohibitive	0

Total Score	Raw Score	Grade
(10 - 11)	4	A
(8 - 9)	3	B
(6 - 7)	2	C
(4 - 5)	1	D
(0 - 3))	0	E

Weight for this category 4

9. *Labor Policies*

		POLICY VARIABLE	RANGE	SCORE
A	Hiring/Firing Flexibility	(HIFIFLEX)	Flexible	2
			Moderate	1
			Inflexible	0

		POLICY VARIABLE	RANGE	SCORE
B	Minimum Wage:	(MINWAGE)	No	1
			Yes	0

		POLICY VARIABLE	RANGE	SCORE
C.	Wage Controls	(WAGECONTR)	No	1
			Yes	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category 2

10. *Suggested Weighting for Policy Categories*

	Score Range	Weight	Maximum Weighted Score
Import Policies	0 - 4	4	16
Export Policies	0 - 4	2	8
Tax Policies	0 - 4	4	16
Investment Incentives	0 - 4	2	8
FDI Restrictions	0 - 4	2	8
Business Start-Up Procedures	0 - 4	2	8
Pricing/Interest Policies	0 - 4	3	12
Foreign Exchange Policies	0 - 4	4	16
Labor	0 - 4	2	8
			100