

**ZAMBIA TRADE AND INVESTMENT ENHANCEMENT PROJECT
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**The Cost of Doing Business in Zambia Compared With Other
Regional Countries: Is Zambia Competitive?**

Prepared

By

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OVERVIEW

The goal of this report is to present an overview of the cost of doing business in Zambia as compared to other countries in the region. The focus is on the relative competitiveness of Zambia as a place to do business. Therefore, things such as infrastructure and investment incentives—or a lack thereof—are included in this “cost analysis.” Furthermore, there is an attempt to focus on factors, such as fuel and electricity costs, that affect entire sectors of the economy or the economy as a whole. The countries that are juxtaposed with Zambia are South Africa, Zimbabwe, Tanzania, Mozambique, Malawi, and Kenya. Namibia is used to compare rent and Botswana is included in the section on tourism. The report is broken up into different parts that highlight a specific piece of the overall cost of doing business. Part I looks at general input costs that impact the entire economy as a whole including transport costs, legal constraints regarding labor, utilities, and telecommunication cost and accessibility. Part II delves into input costs for three individual economic sectors: Agriculture, Manufacturing, and Tourism. Part III briefly provides comparative operating costs as a percent of turnover for Holiday Inn in Zambia and three other countries. Part IV provides an overview of taxes and tariffs for each country. Part V contains just one important comparison: Imports of goods and services. The amount that inputs need to be imported is important here because of the additional cost of transportation, tariffs, ordering delays, and uncertainty about the necessary amount of stock. Part VI offers several measures of inflation, as well as past and present exchange rates. Inflation is an especially important aspect of the cost of doing business as it raises the cost of inputs bought in foreign currency and reduces profit when goods are sold in the local currency. Perhaps more importantly, one must take comparative exchange rates into consideration since they can distort prices once they are converted into US dollars, as all the data is. Part VII presents the main general incentives for investors and exporters. Part VIII presents a gauge of the overall economic freedom in each country by examining various factors including the fiscal burden of the government, the degree of government intervention in the economy, monetary policy, wage and price interference by the government, impediments to foreign investment, among others. This analysis was conducted by the Heritage Foundation in its annual Index of Economic Freedom report. Only the overall scores are presented in this report. Additional information, such as an in depth look at each indicator and the components of the overall score, can be obtained by visiting the website sourced. Part VIII concludes the report with a glimpse at firms’ opinions regarding the overall ease of doing business in each country. The data for this section comes from surveys that were administered by the World Economic Forum to assess the competitiveness of selected countries. Although all the responses are quantified for the purpose of comparison, this section is intended to offer a qualitative view of firms’ mentalities of what the real problem areas are for investment in Zambia.

As I’ve suggested above, some cost differences may be misleading due to exchange rate fluctuations. Additionally, different companies face different costs for the same product due to buying power. Moreover, certain costs may affect one country more than the other. Every attempt was made to control for these issues and to keep the data reliable. Exchange rates were calculated at the time the prices were extracted. Many times data for a certain

factor was taken from a single firm operating in all or most of the countries so that information was not as biased by extreme firm differences. Also, data for the same item was taken from relatively the same time. For example, the taxes for all countries were taken for the year 2003--with the noted exception of income taxes for Mozambique, which is from 2002. Finally, an effort was made to choose factors that are important to all countries in the study. Another issue is that certain factors may be counted twice such as fuel by itself and then again when looking at transport costs. Nevertheless, this issue does not affect the reliability of the data, but is something the reader need be aware of.

This report covers a wide range of costs for investors in Zambia and other regional countries. However, it is not meant to explain these costs. The causes of the reality of the investment climate in and around Zambia are beyond the scope of this report and are up for interpretation.

METHODOLOGY

This report is intended to be very simple in order to make broad comparisons. Therefore, most factors are not broken down into their subcomponents and examined in every detail. Most of the data is in the form of prices converted into US dollar terms. The conversion rate at the time that the data was extracted was used. The following rates were generally used:

Zambia: 1 US\$ = 4,650-4,800 ZMK.

Tanzania: 1 US\$ = 990-1019 TSH.

Kenya: 1 US\$ = 74-77.5 KSH.

Malawi: 1 US\$ = 84-86.64 MK.

Mozambique: 1 US\$ = MZM 23,400-23,700.

South Africa: 1 US\$ = 6.5-8 SAR.

Zimbabwe: 1 US\$ = 4500-6000 ZIMS

For each item in Zimbabwe, the street exchange rate at the time that the current price was collected was used. Occasionally, indicators were indexed in order to make comparisons easier to interpret.

The data was gathered from a variety of sources. Within Zambia much of it was obtained through phone calls and personal visits to various companies, government offices, and information centers such as the Central Statistical Office (CSO). Due to lack of funds, information outside of Zambia was acquired by email and research on websites. Very few comparative studies similar to this one were found. Furthermore, most of the studies that contained the desired information were incomplete, outdated, or simply unreliable. Therefore, data collection was very limited.

LIMITATIONS ON THE REPORT

Most people have agreed that data collection in Zambia is very difficult. It is especially cumbersome to get information from other countries without traveling there and meeting with people. Calling other countries proved too costly at 2 US\$/minute. Frequently making international phone calls was not even an option as the connection was poor at best. Moreover, people rarely responded to emails. As mentioned before, most of the sources that covered the topics in this report could not be used because they were either outdated, incomplete, or unreliable. One example of this last problem can be seen in a document produced by the World Bank called “Zambia: The Challenge of Competitiveness and Diversification.” It claims that the cost to call the US from Zambia is less than 1US\$/minute, although at the time it was researched, the cost was above 2 US\$/minute. In addition, it gives a table on access to sanitation facilities and clean water for the date range 1993-1997, but does not specify which data is from which year. Due to such problems, data was only used if it could somehow be corroborated. Also, data was not used if no source was provided for it or if it was sloppy and confusing. In terms of data being incomplete, one of the biggest challenges was finding information over all of these countries. Most of the time, sources could not be used if data only covered a few countries because in order to fill in the blanks only data obtained through the same method and for the same time period would be reliable. Many times data for the Southern African region would be grouped together without disseminating the information for individual countries. Suffice to say, the process was arduous and tricky, and the overall coverage of this report was very limited.

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Part I: GENERAL INPUT COSTS

<u>ENERGY & UTILITIES¹</u>		Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Diesel Fuel (US\$/liter)		.73	.32	.55	.65	.59	-----	.59
Petrol (US\$/liter)		.89-.96	.45-.50	.77	.65-.73	.69-.75	-----	.65
Electricity Rates for General Businesses Per Monthly Consumption (US\$/kwh)	450 kwh/mo:	.041	.080	.013	.076	.094	.105	.066
	900 kwh/mo:	.035	.065	.011	.081	.092	.114	.062
	2500 kwh/mo:	.031	.048	.010	.084	.091	.125	.060
	5000 kwh/mo	.030	.041	.009	.085	.090	.132	.059

¹ “Zambia: The Challenges of Competitiveness and Diversification.” Jaffe et al. World Bank. Jan. 2003; Factor Cost Questionnaire 2002/2003. RIFF. Obtained from COMESA; “Electricity Prices in Southern and East Africa,” April 2003. SAD-ELEC (Pty) Ltd; and personal surveys conducted with contacts in selected countries.

TRANSPORTATION¹	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Total Road Network (km) 1995-2000	66,781	362,099	18,338	88,200	63,942	30,400	28,400
Paved Roads As a % of Total Roads	18.0	41.5	47.4	4.2	12.1	18.7	19.0
Average Time to Cross Borders (hrs.)	Chirundu: 24	Martins Drift: 6	Beit Bridge: 36	Tunduma: 17	-----	Ressano Garcia: 6	-----
	Vic. Falls: 36					Namaacha: 4	
External Road Transport Route From Capital Into Major City (US\$/ton/km)	Beira: .099	Beira: .086	Beira: .057	Na ^a	Na ^a	-----	Beira: .066
	Durban: .064	Durban: .03	Durban: .056	Na ^a	Durban: .03 ^d	-----	Durban: .043
	Dar es Salaam: .085	-----	Dar es Salaam: .065	Na	Dar es Salaam: .13	-----	Dar es Salaam: ----
Air Freight Charges to Botswana (US\$/kg for cargos 0-100kg)	1.59	1.45	1.43	2.88	-----	-----	1.71
Rail Bulk Haulage Cost (US\$/container^b/km)	1.63	-----	.68	.70	-----	.96	-----

Rail & Road Transport Cost to Gauteng: 1999/2000 (Maize, US\$/ton)	Rail:	71.6	56.8 ^c	55.5	142.1	-----	18.6	73.7
	Road:	73.2	53.4	55.6	155.3	-----	24.2	97.7

¹ Jaffe et al.; AMI-SDV Shipping; and SATN: Comparative Transit Transport Cost Analysis. September 2001.

^a These routes are covered by sea freight not road transport.

^b A 12m container with a payload of 20 tons was taken as a standard for comparison purposes.

^c From Cape Town

^d This is the cost for Sea Freight

FACTORS AFFECTING LABOUR PRODUCTIVITY		Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
% of Firms that Rank AIDS Epidemic as Having a Moderate or Major Impact on Different Business Costs.¹	Time lost to sickness:	67.7	40.7	72.8	31.82	54.8	50.0	83.6
	Healthcare Costs:	51.5	40.7	54.7	27.9	54.2	66.6	63.2
	Time lost due to employees attending funerals:	60.6	30.0	72.5	15.9	37.2	47.6	88.2
	Reduction in skill level of workforce	66.1	28.1	50.8	28.5	35.1	45.4	78.0
	Increase in training cost:	56.2	34.0	49.5	25.5	31.1	63.6	68.7
% of Urban and Rural Population With Access to Improved Water Source^a (2000)²	Urban:	88	92	100	80	87	86	95
	Rural:	48	80	77	42	31	43	44

% of Urban and Rural Population With Access to Improved Sanitation Facilities^b (2000)	Urban:	99	99	99	98	96	69	96
	Rural:	64	73	51	86	81	26	70

<u>LABOUR COST INDICES</u>¹	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
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¹ The Africa Competitiveness Report 2000/2001. World Economic Forum.

² World Development Indicators 2002. The World Bank.

^a “Improved water source” refers to an adequate amount of water (20 litres/person/day within 1km of dwelling) from a source such as a household connection, public standpipe, borehole, protected well or spring, or rainwater collection. Unimproved sources would be vendors, tanker trucks, and unprotected wells and springs.

^b “Improved sanitation facility” refers to adequate excreta disposal facilities (private or shared, but not public) that can effectively prevent human, animal, and insect contact with excreta. These range from simply but protected pit latrines to flush toilets with a sewerage connection. To be effective, facilities must be correctly constructed and properly maintained.

¹ Comparative Data: Doing Business 2003. The World Bank Group. <http://rru.worldbank.org/DoingBusiness/SnapshotReports/>

Flexibility of Hiring Index^a	33	42	33	57	33	73	33
Conditions of Employment Index^b	64	36	22	77	53	85	68
Flexibility of Firing Index^c	40	30	26	49	16	64	54
Employment Laws Index^d	46	36	27	61	34	74	52

<u>ACCESS & COST OF TELECOMMUNICATIONS & INTERNET¹</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
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^aIndex with value from 0-100, with higher values indicating more rigid regulation. Covers the availability of part-time and fixed term contracts.

^b Index with value from 0-100, with higher values indicating more rigid regulation. Covers working time requirements, including mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, restrictions on weekly holiday, mandatory payment for nonworking days, (which includes days of annual leave with pay and paid time off for holidays), and minimum wage legislation. The constitutional principles dealing with the minimum conditions of employment are also coded.

^c Index with value from 0-100, with higher values indicating more rigid regulation. Covers workers' legal protections against dismissal, including grounds for dismissal, procedures for dismissal (individual and collective), notice period, and severance payment). The constitutional principles dealing with protection against dismissal are also coded.

^d Index with value from 0-100, with higher values indicating more rigid regulation. This is a simple average of the other three indices.

¹ Jaffe et al.; World Development Indicators; Factor Cost Questionnaire. RIFF; The Africa Competitiveness Report; and African Development Indicators 2002. World Bank.

Telephone Mainlines (per 1000 persons)	8	114	18	5	10	4	4
Telephone Mainlines (per Employee)	26	113	54	47	16	37	9
Waiting Time For Telephone Mainline (years)	6.7	1.1	>10	1.3	8.1	3.2	9.1
Internet Service Providers (per 100,000 persons)	.031	.20	.15	.04	.05	.031	.029
Internet Hosts (per 10,000 persons)	.86	43.12	2.61	.16	.32	.10	0.0
Cost of Call to RSA-Landline (US \$/minute)	1.70	n.a.	.45	2.11	1.64	-----	.50
Cost of Call to U.S.-Landline (US \$/minute)	2.10	-----	.45	2.55	2.00	-----	1.20
Cost of Local Call-Landline (US \$ per 3 minutes)	.06	.06	.04	.08	.05	.06	.03

<u>COST OF CAPITAL</u>¹	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Interest Lending Rate	48.57%	14.33%	30.75%	16.84%	19.11%	25.5%	52%

¹ Zambia Revenue Authority (ZRA); HSBC; and Citibank.

(1st quarter, 2002)							
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<u>TIME & COST OF REGISTERING A BUSINESS¹</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
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¹ Jaffe et al.; and Center for International Private Enterprise (CIPE). www.cipe.org/programs/informalsector/redtaperanking/.

Total # of Days	40	38	122	35	61	153	45
Minimum Capital (% of GNI per Capita)^a	137.8	0	0	0	0	30.2	0
Total Cost/GDPPC	.61	.08	.13	3.35	.57	1.11	.13

RENT	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Namibia	Malawi
Rental Charges For Commercial Premises in Capital Cities	10-15	-----	-----	1.5-2.1	4.1-5.2	9.45	5.77

^aMinimum Capital represents the amount the entrepreneur needs to deposit in a bank account in order to obtain a business registration number. Typically specified in the Commercial Code or the Company Law.

(US\$/sq. meter) ¹							
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Part II: INDUSTRY SPECIFIC INPUT COSTS

<u>AGRICULTURE</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Avg. Wage: Unskilled	27	85	35	-----	-----	17	18

¹ Factor Cost Questionnaire. RIFF; and Namibia Investment Centre. www.mti.gov.na/

Agricultural Labor(US\$/month)¹							
Avg. Wage: skilled Agricultural Labor (US\$/month) ¹	45	280	50	-----	-----	45	38
Agriculture value added per worker 1998-2000 (in 1995 \$)¹	214	3,866	366	189	225	134	140
Tractor Prices-Massey Ferguson 82 Horse Power MF 440 2 Wheel Drive (US\$)²	23,000	22,375 ^a	24,186 ^b	27,020	-----	-----	-----
Fertilizer Cost for LAN Used in Maize Production-Peak Season (US\$/ton)	347	-----	280	250	250	305	280
Maize Seeds (US\$/KG)³	1.87	2.82	-----	1.75	1.94	-----	1.10

^aThe Rand was valued at 8 SAR/US\$ when this price was quoted.

^bAn exchange rate of 6000 Zim\$/US\$ was used.

¹World Development Indicators 2002. World Bank.

²Power Equipment. No taxes have been added to the prices.

³Pannar Seed Limited. 2003-2004 Season Pricelist.

<u>MANUFACTURING</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Labor Cost per worker in Manufacturing (US\$/year)^a	4,292	12,709	<i>3,422</i>	-----	810	-----	-----
Benefits, Percent of Base Wage (industrial Sector)	75-300	9-20	10	-----	-----	30-50	15

^a figures in italics are from 1990-1994.

Cement (US\$/50kg)^b	5.87	5.50-5.87	-----	5.15	5.23	-----	-----
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TOURISM¹	Zambia^d	South Africa	Zimbabwe^e	Tanzania	Kenya	Mozambique	Botswana
Inbound Tourists (in Thousands)	574	6,001	1,868	459	943	-----	843
International Tourist Receipts (US\$-in millions)	91	2,526	202	739	304	-----	234
Application Fee for a Tourist Enterprise	450	-----	Negligible	2,000	-----	-----	200

^b prices exclude taxes and shift with exchange rates.

License (US\$)							
Renewal Fee (US\$)	550	-----	Negligible	0	-----	-----	-----
Vehicle License (US\$)	146	-----	Negligible	-----	-----	-----	36
Boat Cruising Fees (US\$ per year)	6000	-----	Negligible	-----	-----	-----	200
Hotel License (US\$)		-----	Negligible	1,000	-----	-----	-----
Liquor License (US\$)	315	-----	-----	-----	-----	-----	200
Guide License (US\$)		-----	Negligible	200	-----	-----	-----
Tourism Price Competitiveness Index^a	39.72	15.17	11.19	60.39	26.80	10.59	-----
Hotel Price Index^b	37.11	12.42	14.03	43.32	18.55	6.28	-----
Infrastructure Index^c	50.06	65.65	49.25	47.03	-----	30.51	-----

¹The World Development Indicators, 2002; and The World Travel & Tourism Council (WTTC). Data from 2003. <http://www.wttc.org/compMon/infraDev.htm>

^a The Tourism Price Competitiveness Index shows the tourism price index across countries where the index value of '0' shows the least price competitive country and '100' represents the most price competitive. It is computed using the Hotel Price Index and Purchasing Power Parity Index.

^b The Hotel Price Index compares the average rate of 4 star hotels on a scale with 0 representing the least expensive and 100 representing the most expensive.

^c The Infrastructure Index measures the level of infrastructure development, as the combination of three quantities: (1) the total length of roads in a country (2) percent of population with access to improved drinking water and (3) the percent of population with access to improved sanitation facilities. An index value of '0' represents the country with the least infrastructure while the value of '100' is for the country with the highest infrastructure.

^d There are some miscellaneous costs that Zambian operators face that aren't faced by operators in other countries such as a mandatory Environmental Impact Assessment Survey costing no less than \$2,500 as noted by the Livingstone Tourism Association.

Part III: COUNTRY COMPARISONS FOR HOLIDAY INN

<u>HOLIDAY INN COSTS¹</u>	Zambia	Tanzania	Kenya	Mozambique
Pay Roll Burden/Labor Cost (Cost as a percent of turnover)	23.8%	20.51%	28.2%	19.9%
Water/Heat/Energy (Cost as a percent of Turnover)	.26%	.57%	.43%	.20%

^c Zimbabwe hardly collects any money in the form of licenses and permits for tourism enterprises. However, it collects a two per centum levy on the gross bill, less sales tax or any other tax or duty.

¹ Mr. Bruce Chapman: General Manager of Holiday Inn. Lusaka, Zambia.

Part IV: TAXES, TARIFFS, & RESTRICTIONS

<u>TAXES AND TARIFFS¹</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Corporate Tax Rates (as of 2000)	35% (33% if listed in ZSE)	30%	30%	30%	30% (25% if listed on NSE)	35%	38%
Capital Gains Tax/Property Transfer Tax	3% of total value of property	0%	20%	10%	0%	-----	30%
Dividends Tax	15%	12.5%	20%	10%	10%	-----	0%
VAT/Sales Tax	17.5% VAT	14% VAT	Luxury goods/office equipment: 25%	20% VAT	18% VAT	17% VAT	20% VAT

			Consumables/ passenger motor vehicles/services/hotel accommodation: 15%				
			Large omnibuses/ commercials/ industrial vehicles: 10%				
Tariffs on Raw Materials	0-5%	-----	-----	0%	2.5-5%	-----	5-10%
Tariffs on Intermediate Goods	15%	-----	-----	10-20%	15%	-----	-----
Tariffs on Capital Goods	0-5%	-----	-----	5-10%	5%	-----	0%
Taxes on Income & Profit (as % of gov't revenue)	32.5	52.2	50.4	37.8	29.9	13.5	39
Income Tax % For Different Income Levels (in US \$ per Annum)	In Excess of \$404: 30%	First \$10,000: 18%	First 180,000ZIM\$^a: 0%	First \$589: 0%	First \$1,480: 10%	In excess of \$640: 20%^b	First \$416: 0%
		Next \$5,715: \$1,800+25%	Next 80,000ZIM\$^a: 20.6%	Next \$1,531: 18.5%	Next \$1,368: 15%		Next \$208: 10%

		Next \$4,285: \$3,288+30%	Next 80,000ZIM\$^a: 25.75%		Next \$1,368: 20%		
		Next \$5,715: \$5,228+35%	Next 80,000ZIM\$^a: 30.9%	Next \$2,120: 20%	Next \$1,368: 25%		Next \$208: 20%
		Next \$10,714: \$6,514+38%	Next 80,000ZIM\$^a: 36.05%	Next \$2,120: 25%	Excess: 30%		Excess: 30%
		Excess: \$10,586+40%	Next 80,000ZIM\$^a: 41.2%	Excess: 30%			
			Excess^a: 46.35%				

¹Zambian Revenue Authority, Zimbabwe Investment Centre, Tanzania Revenue Authority, Investment Promotion Centre (Kenya); RIFF Factor Cost Study.

^a As there have been a variety of exchange rates being used in Zimbabwe, the equivalent in US\$ would have to be calculated on a case-by-case basis. I assume the tax bands reflect the official government rate, which went from 54.95 in January 2003 to over 700 in February. Around the time that this report was completed the Zim\$ has hovered around 815 to the US\$.

^bThere are tax bands in Mozambique, but only the highest marginal tax rate was available. This data is obtained from the World Development Indicators, 2002 and for the year 2000.

Part V: Import Dependence

<u>IMPORTS</u>¹	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Imports of Goods and Services as a % of GDP	45.1%	26.6%	21.8%	24.4%	31.6%	51.3%	48.4%

¹ African Development Indicators 2002. World Bank.

Part VI: INDICATORS & FACTORS OF INPUT COSTS

<u>INFLATION, PRICES & EXCHANGE RATES¹</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Consumer Price Index Average Annual % Growth (1990-2000)^a	80.8	8.7	27.0	20.9	15.1	34.9	16.9
Food Price Index Average Annual % Growth (1990-2000)^b	73.0	10.0	34.1	56.7	15.2	-----	36.0
Purchasing Power Parity Index (2003)^c	17.83	13.99	7.75	35.66	21.38	14.80	4.24
Purchasing Power Parity Conversion Factor (Local Currency to	1,150	2.2	9.6	410.4	.3	.5	.3

international \$). 2000^d							
Changes in Regional Currencies vs. the US Dollar (28/02/2002- 30/04/2003)	-28%	39%	-1300%	-6%	4%	-1.5%	21.5%

Part VII: Incentives for Investors

¹ World Development Indicators, 2002. World Bank; and African Development Indicators, 2002. World Bank

^a This reflects the changes in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or change at specified intervals, such as yearly. The Laspeyres formula is generally used. This is basically a reflection of inflation over time.

^b This is a subindex of the consumer price index and focuses on a fixed basket of food items.

^c Compares the comparative price level for a fixed basket of goods across these countries. Unlike the other two cost indexes, this one expresses the latest price comparisons rather than their change over time.

^d This yields the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as a U.S. dollar would buy in the U.S.

INCENTIVES¹	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
General Incentives For New Investors	15% income tax for non-traditional exports; one-seventh of normal 35% corporate tax in 1 st 5 yrs for rural business. Duty free for agriculture and mining machinery, chemical, iron, steel, rubber and plastic imports. 100% profit repatriation.	Entrepreneurial wholesale and consortium finance and econ. Empowerment plan; Midi projects; financial grants through cost sharing competitive fund., several additional incentive schemes	Exemptions from surtax and customs duty on equipment and machinery imported for productive purposes. 25% initial allowance on cost of commercial buildings and machinery granted as rebate for 1 st 4 years.	Deferment of VAT on project capital assets, import duty drawback on raw materials, indefinite carry-over of all business losses against future profits. Can transfer 100% of foreign exchange earned, profit, and capital out of country.	investment allowance of 70% for hotel buildings, and 70% for buildings and machinery in manufacturing sector.	Custom duties waived for: Building materials and equipment for approved investment project, and cars for company representation. 100% tax deduction for investments in operating venture.	Duty free imports of raw materials for manufacturing, duty free import of heavy commercial machinery, 40% tax allowance on new buildings, 50% allowance for qualifying training costs.
Incentives For Companies Operating in Export Processing Zones and Designated	No zones but 15% income tax on export earnings. Reduced corporate tax to 15% for	No zones, but low cost loans, reduced transport/shipping rates, custom & excise duty	Exemption from income tax for 1 st 5 yrs. Then a 15% tax; exemption from capital gains tax,	10 yr. Tax holiday and duty exemptions on imports of raw materials and capital equipment. ^a	10 yr. Tax holiday, 25% tax thereafter. Exemptions on imports of raw	80% reduction in corporate and complementary taxes for 1 st 10 yrs, 50%	corporate tax, withholding tax, value-added tax, duty on capital equipment and raw materials,

Areas	exporters of non-traditional products.	refunds and rebates for foreign currency earners.	shareholder's taxes; duty free imports, refundable sales tax on goods and services.		materials and intermediate inputs. Exemption from VAT and Stamp Duty. Operate on 1 license only.	reduction for next 6 yrs. ^b 65% reduction in corporate & Supplementary tax 1 st 10 yrs, 40% reduction for next 3 yrs. ^c	excise tax on raw materials and packaging materials all waived.
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¹Zambia Investment Centre, Zimbabwe Investment Centre, Kenya Investment Promotion Centre; and the official government websites for Mozambique, Malawi, Tanzania, and South Africa.

^aEnterprises that export more than 80% of their output qualify for EPZ status even if they operate outside of the designated zones.

^bRefers to investment in Niassa, Cabo Delgado and Tete provinces.

^cRefers to investment in Sofala, Manaica, Zambezia and Nampula provinces.

Part VIII: THE HERITAGE FOUNDATION'S INDEX OF ECONOMIC FREEDOM

<u>INDEX OF ECONOMIC FREEDOM</u>^{1a}	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
Overall Score	3.5	2.65	4.4	3.35	3.1	3.25	3.65
Trade Policy	4	3	5	5	4	4	4
Fiscal Burden of the Government	4	4.5	4	2.5	3.5	3.5	4
Government Intervention in the Economy	2	2	3	2	3	3	3
Monetary Policy	5	2	5	3	1	3	5
Capital Flows and Foreign Investment	3	2	5	3	3	2	3
Banking/Finance	3	2	5	3	3	2	4
Wages/Prices	3	2	4	3	2	3	3
Property Rights	3	3	5	4	3	4	3
Regulation	4	3	4	4	4	4	4
Black Market	4	3	4	4	4.5	4	3.5

Overall Rank (out of 156 countries)	119	44	153	104	85	94	131
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¹ 2003 Index of Economic Freedom. The Heritage Foundation.

^a In general, higher scores mean lower degrees of economic freedom and lower scores mean higher degrees of freedom. Description of Indicators: **Trade Policy:** looks at tariff and non-tariff barriers to trade such as quotas or bans. **Fiscal Burden of the Government:** Looks at tax rates and gov't expenditures as % of GDP. **Government Intervention in the Economy:** looks at net purchases of goods, services, and structures (such as bridges/buildings); wages paid to gov't employees; net purchases of fixed assets; and inventory changes in gov't enterprises. **Monetary Policy:** looks at the weighted average annual rate of inflation. **Capital Flows and Foreign Investment:** looks at presence of a foreign investment code defining the country's laws and procedures; restrictions on foreign ownership of business; restrictions on the industries and companies open to foreign investors; restrictions and performance requirements on foreign companies; foreign ownership of land; restrictions on repatriation of earnings; and the availability of local financing for foreign companies. **Banking and Finance:** looks at gov't ownership of banks; restrictions on the ability of foreign banks to open branches and subsidiaries; gov't influence over the allocation of credit; gov't regulations; freedom to offer all types of financial services, securities, and insurance policies. **Wages and Prices:** looks at minimum wage laws; freedom to set prices privately without gov't influence; gov't price controls and the extent to which gov't price controls are used; gov't subsidies to businesses that affect prices; gov't role in setting wages. **Property Rights:** looks at freedom from gov't influence over the judicial system; commercial code defining contracts; sanctioning of foreign arbitration of contract disputes; gov't expropriation of property; corruption within the judiciary; delays in receiving judicial decisions; legally granted and protected private property. **Regulation:** looks at licensing requirements to operate a business; ease of obtaining a business license; corruption within the bureaucracy; labor regulations, such as established work weeks, paid vacations, and parental leave, as well as other selected labor regulations; environmental, consumer safety, and worker health regulations; regulations that impose a burden on business. **Black Market:** looks at smuggling; piracy of intellectual property in the black market; agricultural production supplied on the black market; manufacturing supplied on the black market; services supplied on the black market; transportation supplied on the black market; labor supplied on the black market. For more information about the indicators in detail or methodology, visit the Heritage Foundation website at <http://ef.heritage.org/index/indexoffreedom.cfm>

Part VIII: A COMPARISON OF FIRM CONCERNS REGARDING COMPETITIVENESS & COST

<u>QUESTIONS & VIEWS^{1a}</u>		Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
What Percentage of Senior Management's Time is Spent With Officials Negotiating or Obtaining Licenses, Regulations, Permits, or Tax assessments?	Avg. response:	13.92%	7.63%	9.76%	14.4%	10.47%	14.1%	7.8%
	Rank out of 24:	13	4	8	15	9	14	5
Payroll Tax Contribution by Employer	Avg. response:	5%	0%	3%	10%	5%	4%	0%
	Rank out of 24:	12	3	7	16	9	8	2
How Long Does it Take to Transfer Money to Supplier via Financial System	Avg. # of days:	25.9	12	18.3	21.2	23	28.5	23.9
	Rank out of 24:	22	3	6	11	14	24	18
Uncertain Rules, Laws, or Government	Avg. response:	2.57	3.02	2.36	2.42	2.25	2.37	2.87

Policies Impose Significant Costs on Businesses (1= strongly agree 6=strongly disagree)	Rank out of 24:	15	7	21	18	22	19	9
I Have Full Confidence in my Country's Financial System to Provide Financing to Firms Like Mine (1=strongly agree 6=strongly disagree)	Avg. response:	4.07	2.04	4.04	4.12	3.8	3.3	3.7
	Rank out of 24:	19	4	18	20	15	11	14
How Would you Rate the Overall Quality, Integrity and Efficiency of Public Security Services (police)? (1=very good 6=very bad)	Avg. response:	4.35	4.3	3.9	3.6	4.8	4.1	4.3
	Rank out of 24:	21	20	13	11	24	17	19
How Would you Rate the Cost of Air	Avg. response:	4.0	2.7	4.1	3.4	3.1	4.2	4.1

Transportation in your Country (1=very good 6=very bad)	Rank out of 24:	19	4	21	14	8	23	22
Level of Import Tariffs or Quotas as Barrier to Trade (1=adverse/restrictive 6=favorable/flexible)	Avg. response:	3.16	3.97	2.06	2.44	3.02	3.00	2.41
	Rank out of 24	12	8	24	20	14	15	21

<u>The Following Scale will Now be Used:</u>	Zambia	South Africa	Zimbabwe	Tanzania	Kenya	Mozambique	Malawi
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Average Response. 1=strongly disagree 6=strongly agree								
Foreign Exchange for Importing is readily Available at the Official Exchange Rate	Avg. response:	4.7	5.3	3.8	4.6	5.2	4.73	4.74
	Rank out of 24:	17	6	21	18	7	16	15
You Country's Export Position is Set as a National Priority	Avg. response:	2.64	3.74	2.39	3.45	3.0	3.0	3.5
	Rank out of 24:	22	14	24	16	20	19	15
When There is an Industry-Wide Problem, Government Officials do Little to Help	Avg. response:	3.6	3.23	4.6	3.2	3.7	3.4	3.5
	Rank out of 24:	17	12	24	10	19	14	15
Government Regulations are Fully Enforced	Avg. response:	3.6	4.3	3.9	3.7	3.3	3.6	3.5
	Rank out of 24:	15	5	11	13	22	17	20
The Legal System in Your Country is not Effective at Enforcing Commercial Contracts	Avg. response:	3.6	2.2	2.8	3.5	4.1	4.4	3.52
	Rank out of 24:	17	3	8	14	22	23	15
Illness and Disease Among	Avg. response:	2.8	4.0	3.08	3.7	3.36	3.13	2.36

the Employees of Your Firm do not Impose Significant Costs on Your Business	Rank out of 24:	23	4	22	12	19	21	24
The Exchange Rate of Your Country is Not Expected to be Volatile in the Next Year	Avg. response:	2.8	3.4	1.9	4.6	2.9	4.7	3.0
	Rank out of 24:	23	16	24	7	22	6	21

¹The Africa Competitiveness Report 2000/2001. World Economic Forum. Jeffrey Sachs et al.

^aMore than 1800 surveys were collected from all countries between May 1999-February 2000. 80% of sample was received from large firms (50+ employees) and 20% from small and medium-sized enterprises (less than 50 employees). Firms in major cities are represented more than ones in rural areas as well. Furthermore, sectors that are more important to the economy tended to respond more and, therefore, have a greater representation in this study. The 24 countries included in this study are Botswana, Burkina Faso, Cameroon, Cote d'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Morocco, Mozambique, Mauritius, Namibia, Nigeria, Senegal, South Africa, Swaziland, Uganda, Tunisia, Uganda, Zambia, Zimbabwe.