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Appendix A1
Review of Taxation Policies and Government Revenue

Richard Hess

This appendix describes the tax and revenue frameworks of SADC members. It is based on information as at the first half of 1998. Data reported in this appendix are from Imani Development and other private sector sources (Deloitte Touche, 1997), SADC government publications, and IMF and World Bank publications.

A1.1 Comparative analysis of common patterns and trends in the tax base

There are large divergences between the various SADC countries in their taxation policies. Whilst there are some similarities in terms of the types of taxes levied, albeit with varying rates, there are also a number of variations in types of taxes applied in the different countries.

However there are some commonalties and similar trends:

Small tax base

The tax base for direct taxes is very small, since in all the SADC countries except Mauritius, only a relatively small proportion of the population is in formal employment and paying income tax. Although there are often large informal sectors in all the countries, it is always very difficult for governments to tax people engaged in this sector adequately. The number of corporate bodies is also generally small, so corporate taxation is also usually only from a small base. Although indirect taxes have a broader base, given the low levels of consumption by large proportions of the populations in many SADC countries, the base is again relatively small. High levels of taxation as in many SADC countries will traditionally cause people to find ways of tax evasion and avoidance.

High tax evasion

It is very difficult to quantify the levels of tax evasion in each country, but recent exercises in Zimbabwe by the Department of Taxes and by the Department of Customs and Excise to increase collection have shown interesting results. 'Operation Tax Net' in 1997 in Zimbabwe, under which tax officials made spot calls on many businesses to check on tax payments, collected Z$30 million in three weeks in Kariba, Z$300 million in Harare in four weeks and Z$126 million in Bulawayo in a similar time period. Furthermore, it has been revealed that only 50 per cent of the companies on the Registrar of Companies records are on the records of the Department of Taxes. The Department of Customs and Excise in Zimbabwe, under 'Operation Bhadharai' (meaning Operation Pay) during the period October–December 1997 is believed to have netted Z$200 million in additional revenue through closer examination of goods.

Another example of large-scale tax evasion is evidenced by a recent study (TechnoServe, 1997) commissioned by USAID in Tanzania which monitored the level of informal unrecorded cross-border trade between Tanzania and its neighbours. This study estimated that the overall value of informal cross-border trade with Tanzania's neighbours was worth US$270 million in the year 1995/6, of which the total value of unrecorded imports was around US$100 million. In relative terms the informal trade could be equivalent to the formal cross-border trade. This study 'concludes that substantial trade occurs unofficially along Tanzania borders with far reaching policy implications on GDP, government revenue and regional food security. The existence of unofficial trade on a significant scale implies that the government are not reliably informed about their trade situation, and that the revenue loss to the exchequer could be enormous.'

Broadening the tax bases and greater dependency on indirect taxes

Most SADC countries are trying to broaden their tax bases both for direct and indirect taxes. Measures include introducing value added taxes to replace sales taxes, since a VAT covers a broader section of the economy and is not so easily evaded as sales tax. As countries reduce their levels of direct taxation, especially corporate taxes, there has been a tendency to increase the base for indirect taxes and to increase the rates being charged on such taxes.

Lowering of direct tax and customs duty rates

In an effort to stimulate greater economic activity and reduce the incidence of tax evasion and avoidance, several countries in the region have been reducing their marginal rates of direct tax. Most countries are also reducing their levels of customs duties, both in terms of bands and in actual rates. In some cases this is being done in terms of WTO requirements (e.g. South Africa and Mauritius) whilst in most other countries (Malawi, Tanzania, Zambia and Zimbabwe) it is being done as part of structural adjustment. Whilst this sometimes results in lower absolute levels of duty collection, this is not always the case, since collections sometimes increase with lowering the rates because of increased levels of imports and greater compliance.

Special incentive schemes

Several SADC countries have established a number of special schemes with incentives which may reduce or remove liability for corporate taxation. Mauritius has the largest number of such schemes, which include Export Processing Zones, Export Services Zones, Free Port; Pioneer Industry Status, and Offshore Business Activities. Of these, EPZs are the most common in the SADC

Table A1 Percentage of total government revenue by type of tax

	Customs revenue			**Direct tax**			**Indirect tax**		
	1990	**1995**	**1996**	**1990**	**1995**	**1996**	**1990**	**1995**	**1996**
Angola	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Botswana	13.1	16.4	15.4	38.5	31.7	21.0	1.6	4.2	4.5
Lesotho	43.6	49.1	45.0	8.7	15.0	13.4	16.0	12.9	11.1
Malawi	17.0	22.1	22.0	33.5	27.8	45.0	8.6	28.5	26.1
Mauritius	45.7	34.0	33.5	23.4	24.1	26.5	20.6	23.9	25.6
Mozambique	n/a	24.0	22.2	n/a	16.6	14.1	n/a	47.8	50.9
Namibia	25.3	27.9	29.8	33.3	27.2	26.4	23.9	31.2	32.0
South Africa	4.0	1.8	1.8	54.7	54.2	56.1	38.0	40.8	38.6
Swaziland	45.3	47.8	49.4	29.6	31.9	27.2	13.0	13.6	14.4
Tanzania	n/a	n/a	27.6	n/a	n/a	21.9	n/a	n/a	26.2
Zambia	17.1	11.8	11.6	39.7	32.8	36.4	37.6	47.8	43.7
Zimbabwe	13.8	16.1	17.2	36.0	43.1	42.3	20.7	24.5	26.5

Notes: 1. SACU countries have customs and excise revenue figures combined.
2. Botswana government revenue includes mineral revenue, which is not included under any of the above sections. Mineral revenue accounted for the following percentages of total government revenue: 1990 – 54%; 1995 – 53%; 1996 – 47%.
3. Customs revenue for South Africa is net of SACU payments.

region, with several countries having introduced such schemes or planning to so introduce.

The percentage of total revenue raised by each type of tax is given in Table A1. This table shows that there is no real pattern or trend in proportions of government revenue from the different tax types.

The percentage of tax revenue raised by each type of tax is given in Table A2. Customs revenue as a proportion of tax revenue appears to be relatively constant, with no trend apparent throughout SADC. However there are some exceptions, such as Mauritius, where the proportion from customs revenue is noticeably declining. The percentage of direct tax is falling in a few countries, which indicates a shift from direct taxation to indirect taxation, although in some countries there is a significant increase in this proportion. The only real trend is with indirect tax, which shows that this proportion of tax revenue is generally increasing in most SADC countries, although not very significantly.

South Africa is by far the most dominant source of customs revenue on SADC imports for the non-SACU SADC countries, as shown in Table A3. South Africa accounts for between 70 and 98 per cent of customs revenue on SADC imports for each country. Revenue from other SADC sources is relatively insignificant, except for the SACU countries themselves, for which Zimbabwe is the dominant source.

Table A4 shows there is also no consistency in trends in total government revenue. Over the period 1990–6/7 the level of government revenue as a proportion of GDP has noticeably increased in some countries, such as Lesotho and Zambia, whilst in some countries it has noticeably decreased, such as in

Table A2 Percentage of tax revenue by type of tax

	Customs revenue			**Direct tax**			**Indirect tax**		
	1990	**1995**	**1996**	**1990**	**1995**	**1996**	**1990**	**1995**	**1996**
Angola	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Botswana	24.7	31.3	37.7	72.3	60.6	51.3	3.0	8.1	11.0
Lesotho	63.6	63.8	64.7	12.7	19.4	19.2	23.3	16.8	16.0
Malawi	17.0	22.1	22.0	33.5	27.8	45.0	8.6	28.5	26.1
Mauritius	50.8	41.4	39.1	26.0	29.4	30.9	22.9	29.1	29.9
Mozambique	27.9	26.3	24.1	15.7	18.2	15.2	53.7	52.3	55.3
Namibia	30.6	32.0	33.8	40.2	31.1	29.9	28.9	35.7	36.3
South Africa	4.1	1.9	1.8	56.6	56.0	58.1	39.3	42.2	40.0
Swaziland	50.5	50.8	52.5	33.0	34.0	28.7	14.5	14.5	15.3
Tanzania	25.9	21.6	30.4	n/a	n/a	29.0	39.8	31.5	24.2
Zambia	18.1	12.8	12.7	42.1	35.6	39.9	39.8	51.6	47.5
Zimbabwe	15.3	18.9	19.3	39.8	50.5	47.4	22.9	28.7	29.7

Notes: 1. SACU countries have customs and excise joined together, probably a nominal impact.
2. Botswana government revenue includes mineral revenue – this is not included under any of the above sections.
3. Customs revenue for South Africa is net of SACU payments.
4. In addition to the taxes as given, there are often miscellaneous other taxes which are not stated in the table, hence the totals may not add up to 100 per cent.

Table A3 Percentage shares of customs revenue from SADC imports by country, 1995

Imports by: **from:**	**Malawi**	**Mauritius**	**Mozambique**	**Tanzania**[1]	**Zambia**	**Zimbabwe**	**SACU**
Angola[2]	0.00	0.00	0.00		0.00	0.00	0.01
Botswana	1.00	0.08	0.03		0.90	0.63	
Lesotho	0.00	0.00	0.00		0.05	0.00	
Malawi		0.00	0.23		0.69	0.04	4.95
Mauritius	0.00		0.00		0.14	0.18	0.37
Mozambique	0.10	0.04			0.54	0.15	1.21
Namibia	0.20	0.14	0.65		0.41	0.12	
South Africa	70.80	96.76	83.25	90.0	86.29	98.40	
Swaziland	7.10	1.12	6.08		1.30	0.14	
Tanzania	0.20	1.26	0.00		1.14	0.02	1.68
Zambia	0.90	0.00	0.15			0.30	4.66
Zimbabwe	19.60	0.60	9.61		8.54		87.12
Total	100.00	100.00	100.00		100.00	100.00	100.00

Notes: [1]Data for Tanzania not available. Estimates made based on 1996 import data.
[2]Data for Angola not available.

Table A4 Total government revenue as a percentage of GDP

	1990	1995	1996/7
Angola	40.0	37.6	n/a
Botswana	55.0	42.9	37.4
Lesotho	49.3	58.1	69.3
Malawi	22.6	18.9	17.3
Mauritius	18.1	21.3	19.0
Mozambique	n/a	13.1	7.1
Namibia	34.1	36.1	36.1
South Africa	25.4	25.3	26.4
Swaziland	44.7	35.0	34.7
Tanzania	n/a	n/a	20.0
Zambia	10.7	29.6	34.2
Zimbabwe	39.3	33.1	29.6

Table A5 Tax revenue as a percentage of GDP

	1990	1995	1996/7
Angola	28.0	24.8	n/a
Botswana	29.7	18.2	15.0
Lesotho	33.8	44.8	48.1
Malawi	19.6	16.2	16.0
Mauritius	16.3	17.5	16.3
Mozambique	n/a	12.0	6.6
Namibia	28.2	31.5	31.5
South Africa	24.6	24.7	25.6
Swaziland	38.5	33.8	33.1
Tanzania	19.7	14.2	18.1
Zambia	10.1	27.4	31.5
Zimbabwe	35.5	28.2	26.4

Botswana and Zimbabwe, whilst in others it has stayed around the same level or shown an inconsistent pattern. Furthermore there are very large variations in the actual proportions of GDP accounted for by government revenue, ranging from a high of over 60 per cent in 1996/7 in Lesotho to levels of less than 20 per cent in Malawi, Mauritius and Mozambique.

Tax revenue as a percentage of GDP also does not appear to have any particular trend in the SADC countries. This percentage has been significantly increasing over the period 1990–6/7 in Lesotho and Zambia, whilst it has been falling in Botswana, Mozambique, Swaziland and Zimbabwe. Again there are large variations in the percentage of GDP accounted for by tax revenue, ranging from over 40 per cent in 1996/7 in Lesotho to less than 10 per cent in Mozambique.

A1.2 Comparative review of current tax policies

This section looks at the range of taxes for each significant section of tax in the SADC region.

A1.2.1 Corporate tax

Normal corporate tax for most companies in SADC is between 30 and 40 per cent. The highest taxes are in mining with around 70 per cent for diamond mining companies in Angola, 55 per cent for diamond mining companies in Namibia and 42 per cent for petroleum mining in Namibia. The highest normal tax for domestic companies is 45 per cent for service and trade companies in Mozambique, followed by 39.375 per cent for all domestic companies (and 47.775 per cent for foreign branches) in Zimbabwe. Botswana has the lowest corporate tax at either 15 per cent or 25 per cent, although a number of countries have established Export Processing Zones that offer beneficial rates to companies that can meet their criteria. The following table provides a summary of corporate tax rates across SADC members. The structure of tax rates is inevitably complicated by, for example, export and investment incentive schemes. More detailed descriptions can be found in later in this appendix (in the country-by-country analysis) and in Appendix A3.

A1.2.2 Individual tax

The marginal rate for normal income tax for individuals in SADC is predominantly between 30 and 35 per cent. Income tax in all the countries varies according to the income bracket of the individual. The number of bands varies from two in Lesotho to 12 bands in Tanzania. The highest taxation on the top bracket is in South Africa at 45 per cent, followed by Zimbabwe at 42 per cent (including a 'development levy'). Angola has the lowest rate of taxation at 15 per cent. The levels of individual income tax are seen to act as disincentives to people in terms of work, in the countries with higher rates of individual taxation. The high rates of taxation also encourage high levels of tax evasion.

A1.2.3 Withholding tax

Payments out of the country to non-residents attract some form of taxation in most SADC countries. Taxation levels for different methods of earnings often vary in the different countries. Withholding taxes in the SADC countries are generally between 10 and 20 per cent. The highest rate is that on services in Mozambique which attracts 30 per cent and Lesotho which places 25 per cent withholding tax on payments going out of the country. Mauritius and South Africa do not apply a withholding tax.

A1.2.4 Capital gains

In some countries capital gains taxes are viewed as being income tax, therefore the rate of capital gains tax varies according to the benefit. In other countries, capital gains are taxed separately. The rates vary between 0 per cent (in Namibia, South Africa, Swaziland, Tanzania and Zambia) and 40 per cent in Mozambique.

Table A6 Corporate tax

Country	Normal company tax	Mining	Non-resident companies	Manufacture	Other
Angola	Profit <US$5m 25% >US$5m <US$30m 35% Profit >US$30m 45%	Diamonds: 7.5% on gross value of sales and 65% tax on annual profits Other 3–10% of gross value	See normal company tax	40% Additional 10% for income > US$200	
Botswana	Basic tax 15%; additional tax 10% (the additional tax may be offset against 15% withholding tax on dividends)	The government has a large shareholding in all the major mining companies	25%	See normal company tax	
Lesotho	35%	See normal company tax	35% + 25% of repatriated profits	15%	
Malawi	38%	See normal company tax	43%	See normal company tax	Life assurance 24%
Mauritius	35%	See normal company tax	See normal company tax, unless double taxation agreement	15%	Listed co. 25% Investment co. 15% Offshore banks 15%
Mozambique	Trade & services 45% Agriculture 35%		See normal company tax	40%	
Namibia	35%	Other 57% Diamond mining 55% Petrol mining 42%	See normal company tax	See normal company tax	

Table A6 (*Continued*)

Country	Normal company tax	Mining	Non-resident companies	Manufacture	Other
South Africa	35% Secondary tax 12.5%	Gold $51-(255/x)$, $x=$ ratio of taxable to gross income	40%	See normal company tax	Long-term insurers 30–35% Retirement funds (gross interest and net rentals) 17%
Swaziland	37.5%	27%	15%	See normal company tax	
Tanzania	35%	See normal company tax	20% on remittance of profits	See normal company tax	
Zambia	35%	See normal company tax	See normal company tax	See normal company tax	Agriculture 15% Banks 35–45% Listed co. 30%
Zimbabwe	39.375%	See normal company tax	47.775%	See normal company tax	

Table A7 Individual tax

	Normal income tax		**Payments to non-residents**	
Angola	K0–2,500,000	0%	See normal income tax	
	K2,500,000–10,000,000	4%		
	K10,000,000–25,000,000	K400,000 + 6%		
	K25,000,000–50,000,000	K1,300,00 + 10%		
	K50,000,000 +	K3,800,000 + 15%		
Botswana	P0–20,000	0%	P0–35,000	5%
	P20,000–35,000	5%	P35,000–50,000	P1,750 + 10%
	P35,000–50,000	P750+10%	P50,000–65,000	P3,250 + 15%
	P50,000–65,000	P2,250 + 15%	P65,000–80,000	P5,500 + 20%
	P65,000–80,000	P4,500 + 20%	P80,000+	P8,500 + 25%
	P80,000 +	P7,500 + 25%		
Lesotho	M0–30,000	25%	25%	
	M30,000 +	M7,500 + 35%		
	A personal tax credit of M2,640 was introduced in April 1996.			
Malawi	K0–6,000	0%	See normal income tax	
	K6,000–18,000	16%		
	K18,000–42,000	K1,920 + 27%		
	K42,000 +	K8,400 + 38%		
Mauritius	Rs0–15,000	5%	See normal income tax	
	Rs15,000–35,000	Rs750 + 15%		
	Rs35,000–55,000	Rs3,750 + 25%		
	Rs55,000 +	Rs8,750 + 30%		
	The bands refer to gross taxable income, which excludes, among other items, a range of personal reliefs.			

Table A7 (*Continued*)

	Normal income tax		**Payments to non-residents**
Mozambique	Mt0–390,000	6%	30%
	Mt390,000–1,170,000	Mt23,400 + 15%	
	Mt1,170,000+	Mt140,400 + 30%	
	The bands refer to monthly income; taxpayers with remuneration less than Mt340,000 are exempt; this amount acts as a floor for disposable income		
Namibia	N$0–15,000	0%	See normal income tax
	N$15,000–20,000	10%	
	N$20,000–30,000	N$500 + 15%	
	N$30,000–40,000	N$ 2,000 + 20%	
	N$40,000–50,000	N$ 4,000 + 25%	
	N$50,000–80,000	N$ 6,500 + 30%	
	N$80,000+	N$ 15,500 + 35%	
South Africa	R0–30,000	19%	See normal tax
	R30,000–35,000	R5,700 + 30%	
	R35,000–45,000	R7,200 + 32%	
	R45,000–60,000	R10,400 + 41%	
	R60,000–70,000	R16,550 + 43%	
	R70,000–100,000	R20,850 + 44%	
	R100,000+	R34,050 + 45%	
	There is a tax rebate of R3,215		
Swaziland	E0–13,000	0%	See normal income tax
	E13,000–16,000	12%	
	E16,000–20,000	E360 + 16%	
	E20,000–24,000	E1,000 + 20%	

	E24,000–28,000	E1,800 + 24%	
	E28,000–32,000	E2,760 + 28%	
	E32,000–36,000	E3,880 + 32%	
	E36,000–40,000	E5,160 + 36%	
	E40,000 +	E6,600 + 39%	
Tanzania	Shs0–20,000	0%	See normal tax
	Shs20,000–50,000	7.5%	
	Shs50,000–80,000	Shs2,250 + 10%	
	Shs80,000–110,000	Shs5,250 + 12.5%	
	Shs110,000–140,000	Shs9,000 + 15%	
	Shs140,000–200,000	Shs13,500 + 17.5%	
	Shs200,000–300,000	Shs24,000 + 20%	
	Shs300,000–400,000	Shs44,000 + 22.5%	
	Shs400,000–500,000	Shs66,500 + 25%	
	Shs500,000–600,000	Shs91,500 + 27.5%	
	Shs600,000–700,000	Shs119,000 + 30%	
	Shs700,000 +	Shs149,000 + 35%	
Zambia	K0–1,200,000	10%	See normal income tax
	K1,200,000–1,800,000	K120,000 + 20%	
	K1,800,000 +	K240,000 + 30%	
	There is a tax rebate of K60,000 deducted from tax payable as above		
Zimbabwe	Z$0–9,000	0%	See normal income tax
	Z$9,000–15,000	20%	
	Z$15,000–30,000	Z$1,200 + 25%	
	Z$30,000–45,000	Z$4,950 + 30%	
	Z$45,000–60,000	Z$9,450 + 35%	
	Z$60,000 +	Z$14,700 + 40%	

Table A8 Withholding tax

Angola	15% for dividends
Botswana	15% for dividends, interest, royalties, consulting fees. Entertainers and sportsmen are subject to 10% and contractors to 25% although this is negotiable
Lesotho	25% for dividends, interest, royalties, natural resource payments, management charges and trustee's fees. All other payments to non-residents attract 10%
Malawi	15%
Mauritius	No withholding taxes, with the exception of payments on interest which is dependent on the country
Mozambique	Dividends 18%, service fees attract 30% for salaries and 15% for the balance
Namibia	Dividends 10%, royalties 10.5%
South Africa	No withholding taxes
Swaziland	Dividends 15%, interest and construction fees 10%, entertainers and sportsmen 15%
Tanzania	20% on profit remitted
Zambia	15% on dividends, interest, royalties, rent, management and consultancy fees
Zimbabwe	Dividends 20%, dividends from listed companies 15%, interest 10%, fees, remittances and royalties 20%

Table A9 Capital gains tax

Angola	15%
Botswana	25% for companies
Lesotho	Treated as income tax
Malawi	Treated as income tax
Mauritius	Almost non-existent
Mozambique	40%
Namibia	None
South Africa	None
Swaziland	None
Tanzania	None
Zambia	None
Zimbabwe	20% on marketable securities or disposal of immovable property. 10% on listed securities.

A1.2.5 Inheritances and donations

Again, there is a wide variation between what individual countries charge in the field of inheritances and donations. Namibia, Swaziland, Tanzania and Zambia do not charge taxes in these areas, with Mauritius not charging estate duty and having nominal charges on donations. Lesotho and Mozambique have taxes

Table A10 Taxes on inheritances and donations

Angola	n/a
Botswana	Companies 12.5% Individuals 5%
Lesotho	0%–33.5%
Malawi	0%–10%. Donations are subject to income tax in the hands of the donor
Mauritius	No estate duty. Donations of land attract 10% paid by the donee
Mozambique	1%–30%
Namibia	None
South Africa	25%
Swaziland	None
Tanzania	None
Zambia	None
Zimbabwe	20%

Table A11 Transaction charges

Angola	1.5% to 150%
Botswana	General sales tax varies from 5%–15% with a mode of 10%. Transfer duty on non-agricultural land is 5%, on agricultural property is 30%
Lesotho	General sales tax 10%, immovable property 3%–4%, share transfers 1%
Malawi	VAT 20%, transfer of immovable property 3%
Mauritius	Sales tax 8%, immovable property 12%
Mozambique	Building transfer tax 7.25%–14.5%, consumption tax 5%–150% with most taxes from 5%–30%, circulation tax 5%–20%, share transfers 0.4%
Namibia	General sales tax 8% on goods, 11% on services, share transfer 0.2%
South Africa	VAT 14%
Swaziland	General sales tax 12%, transfer of immovable property 6%, share transfers 1%
Tanzania	Sales tax 10%, stamp duty 1.5%
Zambia	VAT 17.5%, property and share transfer 2.5%
Zimbabwe	Immovable property 6%, sales tax 17.5% on normal, 27.5% on luxury, share transfer 0.35%

varying from zero to 33.5 per cent and one to 30 per cent respectively. South Africa has the highest flat charge of 25 per cent and Zimbabwe has 20 per cent.

A1.2.6 Transaction charges

Transaction charges are made up of either sales tax or value-added taxes, taxes on sales of shares and taxes on sales of immovable property. Angola and

Table A12 Summary of taxation by country

	Corporate tax	Individual tax	Withholding tax	Capital gains	Inheritances and donations	Transaction taxes
Angola	Diamond mining, +/−70% Others by value 25–45%	0–15%	Dividends 15%	15%	–	1.5%–150%
Botswana	25%	Residents 0–25% Non-residents 5–25%	15%	25%	Individuals 5% Companies 12.5%	General sales tax 10%
Lesotho	Manufacturing 15% Other 35%	Residents 25–35% Non-residents 25%	25%	As income tax	0–33.5%	General sales tax 10% Transfer 4% Shares 1%
Malawi	Residents 38% Life assurance 24% Non-residents 43%	0–38%	15%	38%	10%	VAT 20% Imm. property 3%
Mauritius	Offshore banks, investment co. & manufacturing 15% Listed co. 25% Others 35%	5–30%	–	Nominal	Nominal tax on donations	Sales tax 8% Transfer 11%
Mozambique	Manufacture 40% Agriculture 35% Trade and services 45%	Residents 6–30% Non-residents 30%	Dividends 18% Services 30%	40%	1–30%	Consumption 5–150% Buildings 7.25–14.5% Shares 0.4%

Namibia	Non-mining 35% Diamond mining 55% Petroleum mining Other mining 57%	0–35% 42%	Dividends 10% Royalty 10.5%	0%	0%	General sales tax 8% on goods, 11% on services
South Africa	Resident 35% Non-resident 40% Secondary tax 12.5% Gold mining +/− 50%	19–45%	0%	0%	25%	VAT 14%
Swaziland	Residents 37.5% Mining 27% Non-residents 15%	0–39%	10–15%	–	–	General sales tax 12% Imm. property 6% Shares 1%
Tanzania	Residents 35%	0–35%	20% on profit remitted	–	–	Sales tax 10% Imm. property 1.5%
Zambia	Agriculture 15% Banks 35–45% Listed co. 30% Other 35%	10–30%	15%	–	–	VAT 17.5% Property 2.5%
Zimbabwe	Residents 39.375% Non-residents 47.775%	0–42% (including development levy)	10–20%	20%	20%	Sales tax 17.5% Shares 0.35% Imm. property 6%

Note: This table is intended as a summary of the key features of the tax systems in SADC. For further details see the earlier tables in this section and later in this appendix.

Mozambique have consumption taxes that vary between 0 and 150 per cent. Most other general sales taxes are between 5 and 15 per cent, with Malawi (20 per cent) and Zimbabwe and Zambia (17.5 per cent each) providing the exceptions. Taxes on share transfers vary between 0 and 3 per cent, with taxes on immovable property varying between 0 and 6 per cent.

A1.2.7 Double taxation agreements

There is a large variation between the countries in terms of double taxation agreements. Some countries, such as Mauritius have a very large number of such agreements, whilst others, such as Angola, do not have any. There are also differences in the ways in which these agreements impact on taxation.

A1.3 Comparative review of taxation and government revenue by country

This section provides information on the tax systems in SADC on a country-by-country basis.

A1.3.1 Angola

Corporate tax

In the case of mining, royalties vary between 3 per cent and 10 per cent of gross value of minerals produced depending on type of mineral and the importance of the project.

A production tax, which is payable monthly, on the gross value of diamond sales is set at 7.5 percent. In addition to that a revenue tax of 65 per cent is levied on the year's profit. This tax is payable in four instalments, i.e. January, April, June and October.

Other corporate tax is levied as follows:

- 25 per cent of net profit up to US$5 million
- 35 per cent of net profit up to US$30 million
- 45 per cent of net profit above US$30 million

Withholding taxes on dividends is levied at 15 per cent and a capital gains tax (CGT) of 15 per cent. The CGT can be reduced to 10 per cent on some projects.

For the petroleum producing areas the following taxes are applicable:

- For Cabinda Province a 20 per cent tax is levied,
- Other provinces a basic tax of 12.5 per cent and an additional tax of 4.33 per cent is levied,
- Petroleum transaction taxes are 70 per cent,
- Petroleum profit tax – a basic tax of 50 per cent is levied plus an additional tax of 15.75 per cent.

Other taxes

- Conveyance tax – 10 per cent,
- Income tax on residents and non-residents (if work more than 183 days p.a. in Angola) – 10–15 per cent,

- Capital transfer tax – 10–30 per cent,
- Production and consumption tax on goods produced in Angola or imported – 1.5 per cent to 150 per cent depending on type of good,
- Export tax varies and averages around 4 per cent,
- Stamp duty – 0.5 to 1 per cent,
- Employers' contribution to social security 5 per cent of salary and additional remuneration paid. Employees pay 2 per cent of their salary and additional remuneration paid.

Angola does not have a double taxation agreement with any country.

The right to repatriate capital, dividends and other distributions of profit is guaranteed by law. In terms of the Foreign Investment Act 1994, an investor is permitted to remit abroad dividends up to 100 per cent of net profits after taxes and reserves have been paid. The percentage of profits that can be remitted as dividends depends on the investment's importance to national development, its location and the length of pay-back period. (Formerly, dividends remitted could not exceed 25 per cent of invested capital.)

The investment legislation grants the following rights to investors:

- exemptions or reductions in taxes for set periods,
- exemptions or reductions in import and export duties,
- permits the remittance abroad of dividends of up to 100 per cent of net profits after taxes,
- permits the borrowing from domestic and foreign sources subject to certain conditions,
- guarantees that proceeds from liquidation of an investment can be repatriated,
- indemnifies investors in the event of expropriation.

There are no export incentives.

Tariffs

The tariffs indicate a high variance around the average tariff of 21.1 per cent. There does appear to be a cascading element to the tariff structure as machinery and vehicles are grouped towards the lower end of the spectrum, whilst some of the more luxury items such as fur skins and artificial fur with a maximum tariff, pearls and precious stones and special woven fabrics attract higher tariffs. Tariffs on textiles and clothing are generally around 30 per cent, whilst agricultural products show no distinct pattern.

A1.3.2 Botswana

Income tax

The source basis of taxation is applied in Botswana, although citizens and some companies may be subject to tax on their income from foreign sources.

The following income tax rates are applicable irrespective of whether an individual is married or single, male or female. Individuals will be considered to be a resident for tax purposes if they are physically present in Botswana for more than 183 days in any tax year. Individuals are also taxed on the value of any benefit or advantage arising from employment, whether in cash or otherwise.

Table A13 Income tax for residents

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
P0	P20,000	P0
P20,000	P35,000	P0 + 5%
P35,000	P50,000	P750 + 10%
P50,000	P65,000	P2,250 + 15%
P65,000	P80,000	P4,500 + 20%
P80,000 +		P7,500 + 25%

Table A14 Income tax for non-residents

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
P0	P35,000	5%
P35,000	P50,000	P1,750 + 10%
P50,000	P65,000	P3,250 + 15%
P65,000	P80,000	P5,500 + 20%
P80,000 +		P8,500 + 25%

Corporate tax

Table A15 Corporate tax

	Basic	**Additional**	**Total**
Resident companies	15%	10%	25%
Non-resident companies	25%		25%

As can be seen from Table A15, the company tax in Botswana is in two tiers. The basic tax is paid by all companies which have any taxable income. The second tier of company tax is also payable, but may be offset by the 15 per cent withholding tax on dividends paid by the company. If the company manages to pay the correct dividends, so that the withholding tax on the dividends equals the additional company tax (ACT), then the company ends up paying only basic tax. Thus the company tax rate actually paid varies according to the amount of dividends paid to the shareholders.

There are a number of payments made to non-residents that are subject to withholding tax of 15 per cent, these include: dividends, interest, royalties, consulting fees. Entertainers/sportsmen are subject to 10 per cent withholding tax and contractors to 25 per cent although this is negotiable to 0 per cent.

These taxes are final taxes (i.e. the recipients of the dividends do not declare the after-tax dividend on their tax assessment forms) and apply to payments made to a foreign address.

Botswana has double tax agreements with Mauritius, South Africa, Sweden and the United Kingdom. These withholding tax rates are not reduced by the double tax agreements, other than in the case of the agreement with Mauritius.

Capital gains tax

Table A16 Capital gains tax

	Taxable gains as exceed:	**But does not exceed:**	**Tax payable:**
Resident & non-resident individuals	P0	P10,000	P0
	P10,000	P35,000	P0+5%
	P35,000	P50,000	P1,250 + 10%
	P50,000	P65,000	P2,750 + 15%
	P65,000	P80,000	P5,000 + 20%
	P80,000 +		P8,000 + 25%
Companies	P0 +		25%

Inheritances and donations

The value of inheritances and donations is subject to capital transfer tax.

Table A17 Capital transfer tax rates

	Taxable value as exceeds:	**But does not exceed:**	**Tax payable:**
Resident & non-resident individuals	P0	P100,000	P0 + 2%
	P100,000	P300,000	P2,000 + 3%
	P300,000	P500,000	P8,000 + 4%
	P500,000 +		P16,000 + 5%
Companies	P0 +		12.5%

Transaction taxes

The basic rate of sales tax on goods and professional services is 10 per cent although this varies from 5 to 15 per cent on certain goods. Transfer duty on non-agricultural property, value above P20,000, is 5 per cent and on agricultural property is 30 per cent.

Government revenue

As can be seen from Table A18 the mineral (diamond) revenue for the government is substantial, 47.42 per cent of income in 1995/6. The significant

Table A18 Government revenue (P m)

	1993/4		1994/5		1995/6	
Tax revenue	**3,677.2**	**68.62%**	**3,629.5**	**81.15%**	**4,016.9**	**73.51%**
Customs and excise	822.3	15.34%	711.8	15.92%	829.4	15.18%
Mineral revenue	2,278.7	42.52%	2,349.4	52.53%	2,591.4	47.42%
Non-mineral income tax	420.5	7.85%	386.9	8.65%	356.9	6.53%
Other taxes	155.6	2.90%	181.4	4.06%	238.3	4.36%
Export duties	0.5	0.01%	0.4	0.01%	0.5	0.01%
Taxes on property	6.3	0.12%	4.1	0.09%	6.0	0.11%
Taxes on motor-vehicles	4.2	0.08%	6.6	0.15%	7.3	0.13%
Business & professional licences	7.4	0.14%	4.2	0.09%	9.6	0.18%
General sales tax	137.2	2.56%	169.2	3.78%	185.7	3.40%
Non-tax revenue	**1,495.6**	**27.91%**	**767.3**	**17.16%**	**1,411.2**	**25.83%**
Interest	204.0	3.81%	200.5	4.48%	231.6	4.24%
Other property income	1,116.5	20.83%	452.5	10.12%	1,063.5	19.46%
Fees charges & reimbursements	127.7	2.38%	95.9	2.14%	102.7	1.88%
Sale of fixed assets and land	47.5	0.89%	18.4	0.41%	13.3	0.24%
Grants	**186.2**	**3.47%**	**75.7**	**1.69%**	**37.1**	**0.68%**
Recurrent	1.2	0.02%	40.3	0.90%	5.1	0.09%
Development	185.1	3.45%	35.3	0.79%	32.0	0.59%
Total revenue	**5,359.1**	**100.00%**	**4,472.5**	**100.00%**	**5,464.4**	**100.00%**

proportion of non-tax revenue is also indicative of an economy that is well managed.

In the financial year 1995 Botswana earned US$290 million from the total Common Customs Pool. This was 20 per cent of total tax revenue. The amount of revenue earned on direct imports from SADC countries was approximately US$1 million, which is 0.3 per cent of the total Customs Revenue, and 0.06 per cent of total government revenue. It was confirmed by Botswana Government officials that the amount was of minimal significance to government revenue.

A1.3.3 Lesotho

Income tax

The source basis of taxation is applied in Lesotho, although residents are also subject to tax on their income from foreign sources.

Residents earning under M30,000 are taxed at 25 per cent, with those earning above this limit being taxed at 35 per cent + M7,500. Non-residents are taxed at 25 per cent. These tax rates are applicable irrespective of whether an individual is married or single, male or female. In the case of interest income earned by a resident individual, there is a final withholding tax of 10 per cent. The tax on fringe benefits granted to employees is payable by the employer at the corporate tax rate and is not subject to tax in the employee's hands. Individuals will be considered resident for tax purposes if they are present in Lesotho for more than 182 days in any consecutive 12-month period, or have their normal place of abode in Lesotho and are present in Lesotho for any part of the year of assessment.

Manufacturing companies are taxed at a rate of 15 per cent p.a. Income derived from other sources is taxed at 35 per cent. The corporate rate of tax of 35 per cent applies to all income of a Lesotho branch of a non-resident company. In addition, a 25 per cent branch profits tax is payable on after-tax income which is repatriated.

The following payments made to non-residents are subject to 25 per cent withholding tax: dividends, interest, royalties, natural resource payments, management charges and trustees' fees. All other payments to non-residents are charged 10 per cent withholding tax. No tax is withheld on dividends paid out of manufacturing income. These rates are reduced by the double taxation agreements Lesotho has with South Africa and the United Kingdom. An agreed revised agreement with the United Kingdom has not yet been ratified in Lesotho.

Capital gains tax

Capital gains are treated as ordinary income and are subject to income tax.

Inheritances and donations

The value of a deceased estate is subject to estate duty at progressive rates of duty of 0 per cent to 33.5 per cent. There is a M600 abatement on the dutiable value of an estate. Donations are taxed as ordinary income in the recipient's hands.

Transaction taxes

Table A19 Transaction taxes

	Rate
Sales tax	10%
Transfer duty – immovable property	3%–4%
Marketable securities tax – share transfers	1%

The general sales tax is 10 per cent, however a new Sales Tax Act was introduced with effect from 1 August 1996. In terms of this Act, certain vendors may now claim input tax credits. There is a bilateral agreement between Lesotho and South Africa within which each country collects GST/VAT on purchases made within its borders and transfers the monies to the other country's treasury.

Lesotho is in the process of moving from GST to VAT. Sales tax is levied on electricity and telecommunications at the rate of 5 per cent and on liquor at 20 per cent. The transfer duty on immovable property is 3 per cent and 1 per cent on share duties.

Government revenue

Table A20 Lesotho government revenue 1996/7 (M m)

Total revenues and grants	**2,019.4**	**100.0%**
Customs receipts	1,006	49.8%
Income tax	301	14.9%
General sales tax	235.5	11.7%
Other	476.9	23.6%

The customs receipts of M1,006.0 million, in 1996/7 account for 49.8 per cent of total revenues and grants, reflecting Lesotho's continued reliance on SACU receipts in their finances.

The 1995/6 budget had a surplus of M156.3 million. This surplus expressed as a percentage of GNP was estimated at 33 per cent. The surplus was mostly due to increased revenue from sales tax due to improved tax collection measures and also from Customs Union receipts resulting from the continuing implementation of the Lesotho Highlands Water Project (LHWP). Customs receipts alone accounted for 53.8 per cent of total revenue in that year.

Of all SACU member countries, Lesotho is the most fiscally dependent on remittances from the SACU revenue pool; during the period 1990/6, receipts from SACU averaged 50.2 per cent of central government recurrent revenue. However, Lesotho does not trade extensively with SADC, hence the advent of a SADC free trade area will have very little impact on Lesotho's SACU customs revenue. Customs revenue earned on direct imports from SADC countries is negligible.

A1.3.4 Malawi

Income tax

The source basis of taxation is applied in Malawi. All dividends are tax-free in the hands of individuals or corporate shareholders.

Table A21 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
K0	K6,000	K0
K6,000	K18,000	K0 + 16%
K18,000	K42,000	K1,920 + 27%
K42,000 +		K8,400 + 38%

People earning less than K6,000 do not pay income tax; those in the band between K6,000 and K18,000 pay 16 percent; the next band up to K42,000 pays 27 per cent and above this the charge is 38 percent.

A married woman's income is generally taxed separately from her husband's income. The same set of income tax rates is applicable irrespective of whether a person is married or single, male or female. Individuals are also taxed on the value of any benefit or advantage arising from employment. Individuals are considered to be resident for tax purposes if they are resident in Malawi for 183 days or more in any tax year to 31 March. Non-resident individuals are subject to a 15 per cent withholding tax on gross income.

Corporate tax

The following annual rates of taxation are applied to the various types of corporations.

Table A22 Corporate income tax

	Rate
Normal company tax	38%
Branches of foreign companies	43%
Companies in an export processing zone	15%
Life assurance companies	24%

Payments made to non-residents are subject to withholding tax of 15 per cent. The rates of withholding tax are not reduced by any double taxation agreements. Malawi has double taxation agreements with France, The Netherlands, Norway, South Africa, Switzerland and the United Kingdom.

Capital gains tax

Capital gains are treated as ordinary income and are subject to income tax. No capital gain is recognised on the disposal of a taxpayer's principal residence.

Inheritances and donations

The value of a deceased estate is subject to estate duty at progressive rates of duty of 0 per cent to 10 per cent. Donations are subject to income tax in the hands of the donor.

Transaction taxes

Table A23 Transaction taxes

VAT	20%
Stamp duty – share transfers	–
Stamp duty on transfer of immovable property	3%

Value-added tax is levied at 20 per cent on goods and services. There is no taxation on share transfers. Transfer of immovable property attracts a stamp duty of 3 per cent.

Central government revenue

Table A24 Government revenue (K m)

	1995/6		1996/7	
Taxes on income and profits	1,390.00	31.91%	1,845.00	32.21%
Taxes on goods and services	1,414.71	32.48%	1,924.14	33.59%
Taxes on international trade	1,100.00	25.25%	1,472.00	25.70%
Import duties	*749.00*	*17.20%*	*1,000.00*	*17.46%*
Export duties	*347.00*	*7.97%*	*450.00*	*7.86%*
Miscellaneous duties	*4.00*	*0.09%*	*22.00*	*0.38%*
Stamp duties, trade marks, patents	9.00	0.21%	10.00	0.17%
Non-tax revenue	442.13	10.15%	477.00	8.33%
Total revenue	**4,355.84**	**100.00%**	**5,728.17**	**100.00%**

Two countries accounted for 90 per cent of Malawi's customs revenue on SADC imports in 1995: South Africa (70.8 per cent) and Zimbabwe (19.6 per cent). The SADC countries contribute approximately 50 per cent of all import duty revenue as well as surtax. Import duty has ranged around 17 per cent of government revenue over the period from 1994–6. Given that import duties on SADC imports constitute around 50 per cent of all duty collections, revenue on SADC imports accounts for approximately 8 per cent of total government revenue.

The products which account for the largest proportion of customs revenue on imports from SADC include motor vehicles, fuel, wheat flour, chemicals, and food and beverage products.

Tariffs

The Malawian tariff structure is multifaceted as there are four categories: a full rate (the base rate), an MFN rate (by default 5 percentage points less than the base rate), a COMESA rate (substantial reductions across the board with few rates above 12 per cent), and a zero Zimbabwe rate (based on the bilateral agreement). Malawi offers a 70 per cent reduction on COMESA imports. The Malawi tariff follows a cascading structure with capital goods and raw materials being zero-rated (mostly), intermediate goods with rates at between 10 and 30 per cent, and finished goods with rates up to the maximum MFN rate of 45 per cent.

Very few imports from the SADC countries come in at high tariff duties. A bare 0.2 per cent of SADC imports come in at a nominal duty of greater than 30 per cent Most of the SADC imports are concentrated at the lower end of the duty spectrum. 59.3 per cent of all SADC imports come in at duty rates below 5 per cent. Prominent commodities coming in at very low duty rates are salt, sulphurs and earths (1.7 per cent), cereals (0.1 per cent), and fertilisers (0 per cent).

Malawi has no charges of equivalent effect.

A1.3.5 Mauritius

Income tax

Residents are taxed on world-wide income, except for earned income derived from outside Mauritius which is only taxed in Mauritius if it is received there. Non-residents are only subject to tax in Mauritius on income derived from a source in Mauritius. All dividends are tax-free in the hands of individual or corporate shareholders.

Table A25 Income tax rates for individuals

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
Rs0	Rs15,000	5%
Rs15,000	Rs35,000	Rs750 + 15%
Rs35,000	Rs55,000	Rs3,750 + 25%
Rs55,000 +		Rs8,750 + 30%

Individuals earning below Rs15,000 p.a. are subject to 5 per cent income tax; in the band below Rs 35,000 p.a. it is 15 per cent; below Rs 55,000 it is 25 per cent; and above this 30 per cent. These above income tax rates are applicable irrespective of whether a person is married or single, male or female, resident or non-resident. Individuals are also taxed on the value of any benefit arising from employment. Individuals will be considered resident for tax purposes if:

- they are domiciled in Mauritius, unless their permanent place of abode is outside Mauritius,
- they have been present in Mauritius for 183 days or more in that income year; or,
- they have been present in Mauritius for 270 days or more in that income year and the two preceding income years.

In general, companies have a June year-end for tax purposes. Companies are assessed and pay tax annually in arrears, i.e. income earned in the year ended 30 June 1997 (year of income) is used to determine the taxable income and hence the tax liability for the June 1998 year (year of assessment).

Corporate tax

Table A26 Corporate tax

	Rate
Incentive scheme companies, unit trusts and approved investment trust companies	15%
Manufacturing enterprises	15%
Listed companies 60 per cent of which are held by the public (other than incentive companies)	25%

Table A26 (*Continued*)

	Rate
Listed incentive companies	25%
Freeport and international companies	Exempt
Offshore banks, trusts and companies registered prior to 1 July 1996	0%
Offshore banks, trusts and companies registered after 1 July 1996	15%
All other companies (including resident trusts)	35%

Withholding tax rates: Non-residents

There are, in general, no separate withholding taxes. However where a payment is made from Mauritius to someone who is absent from Mauritius at the date of payment, income tax at the normal rates must be withheld from such payment. Royalties and dividends payable to non-residents are exempt from tax.

The tax withheld on any interest where a double taxation agreement is applicable, is at an agreed rate levied in lieu of the normal tax rate. Mauritius has double taxation agreements with Belgium, Botswana, China, France, Germany, India, Indonesia, Italy, Kuwait, Luxembourg, Madagascar, Malaysia, Mozambique,

Table A27 Withholding tax rates on interest in terms of double taxation agreements

Recipient's country of residence	**Rate**	**Recipient's country of residence**	**Rate**
Belgium[1]	10%	Mozambique[1]	8%
Botswana	12%	Namibia[1]	10%
China	10%	Pakistan	0%
France[1,2]		Russia	0%
Germany[1,2]		South Africa	0%
India[1,2]		Singapore	0%
Indonesia	10%	Sri Lanka[1]	10%
Italy[1,2]		Swaziland	5%
Kuwait[3]	0%	Sweden[1]	15%
Luxembourg[1]	0%	United Kingdom[1,2]	
Madagascar	10%	Zimbabwe[1]	10%
Malaysia	15%		

Notes: 1. Where interest is paid by banks it is exempt.
2. Interest payable other than by banks is taxed only in source country.
3. Where the beneficial owner of the interest carries on business through a permanent establishment (PE) or performs independent personal services from a fixed base and the debt claim is effectively connected with the PE or fixed base, the tax charged shall not exceed five per cent.

Namibia, Pakistan, Russia, Singapore, South Africa, Sri Lanka, Swaziland, Sweden, United Kingdom and Zimbabwe. Treaties in the pipeline include Canada, Lesotho, Oman and Vietnam.

Capital gains tax

Capital gains tax applies only to land held for less than 15 years which is subdivided by the owner into five or more lots for sale. The rate up to five years is 30 per cent, from five to ten years it is 25 per cent and from ten to 15 years 20 per cent. A land development tax also exists.

Inheritances and donations

There is no estate duty. Donations tax is payable at the rate of ten per cent on any gratuitous transfers of property during the donor's lifetime. This tax is payable by the donee.

Transaction taxes

Sales tax is levied at 8 per cent but is not applicable to services other than a telephone service or electricity services supplied to a commercial customer. The sales tax system is to be replaced by VAT on both goods and services during 1998. Hotel and restaurant tax of 10 per cent is charged on gross receipts arising from the supply of goods and services in respect of accommodation (including the letting of a hall), food and drink and catering. This tax is likely to be replaced by VAT when it is introduced. The transfer duty on immovable property is 10 per cent if the consideration is Rs100,000 or less and 12 per cent thereafter. A surcharge of 10 per cent of the duty paid is also levied. Exemptions are available on the first purchase. The transfer of immovable property within a family may be exempt from duty in certain circumstances. This duty does not apply where the transfer has been subject to donations tax. The tax rate is 10 per cent for transfers effected within five years of acquisition. Otherwise the rate is 5 per cent.

Government finance

Taxes on international trade still constitute a major source of revenue for the Government. Levies on imports represented 36.0 per cent of total revenue and grants in 1995–6. The other major component of indirect taxes, namely taxes on domestic goods and services (comprising amongst others, excises and sales tax), accounted for 26.9 per cent of total revenue and grants during the same period. Individual income taxes, corporate taxes and taxes on properties, capital and financial transactions provided 7.3 per cent, 7.4 per cent and 6.4 per cent respectively, of total revenue and grants.

Individual income tax revenue increased by 12.4 per cent in 1995–6, corporate tax revenue increased by 4.7 per cent in the same period. Import duties went down by 6.5 per cent in 1995–6 and by 6.0 per cent in 1994–5.

Mauritian customs revenue receipts from SADC country imports indicate a somewhat one dimensional pattern, in that 97 per cent of all revenue is gathered on imports from South Africa. There are two reasons for this. First, South Africa is Mauritius's dominant trading partner in the SADC region, and second, as South Africa is not a part of COMESA, the tariff rates levied on her products are commensurately higher than those levied on the products from COMESA countries. Customs revenue based on imports from SADC countries in 1995 amounted to US$37.6 million. In this year, duty collected on imports from SADC countries accounted for 13 per cent of total import duties. In 1995 import duties on SADC imports accounted for around 5 per cent of government revenue.

There are two significant products that account for a large degree of Mauritian customs revenue from SADC, namely petroleum products and vehicles. These two categories alone accounted in 1995 for 30.2 per cent of all revenue gathered from SADC imports.

Tariffs

The tariff structure, which consisted of 60 different tariff rates, was reduced to eight rates in 1994. The maximum MFN tariff was reduced from 600 per cent to 80 per cent. In fact, 4,400 products were subject to a significant tariff reduction then. Other tariffs and charges of equivalent effect were then combined into a single customs tariff. Mauritius offers a 70 per cent reduction on COMESA imports. The present tariff structure applies eight different rates ranging from 0 per cent to 80 per cent. An additional 20 percentage points is applied to non-preferential sources. The rates are, however, not classified according to large categories of products. In fact, there are anomalies, whereby, in some cases, inputs are taxed at a higher rate than the imported finished products. More than 60 per cent of the tariffs have a tariff equal to or less than 20 per cent. The most common tariffs are 0 per cent, 15 per cent and 20 per cent. The number of products subject to 80 per cent is quite high and covers about 15 per cent of total products.

Main products which are taxed at zero include food items such as live animals, preserved foods, fruits and vegetables, and raw materials and other inputs for the textile industry. Medicaments, chemical products, machinery, paper and inputs for iron and steel products are the main products bearing a tax of 5 per cent. The other tariff rates cover a wider range of products. However, products in the 55 per cent and 80 per cent range include products such as cars, spirits, luxury items and some products which are locally produced.

The weighted tariffs indicate a very high variance around the mean of 21.8 per cent. Only 2.4 per cent of goods (by value) enter the country at tariff weights exceeding 50 per cent. The six chapters with the highest tariffs show miniscule trade with SADC, with only 0.04 per cent of total trade entering under these chapters. At the bottom end of the scale 12.8 per cent of goods by value enter the country at tariff rates lower than 2 per cent.

Excise duties, which are applicable both for local and imported products, sometimes have differential rates on imports. There are some differences in the way excise duties are calculated on imported and locally produced items, which thereby cause a discriminatory effect on imported goods. They therefore constitute a charge of equivalent effect.

A1.3.6 Mozambique

Income tax

The source basis of taxation is applied in Mozambique. Income tax is withheld from residents at source in accordance with the applicable table of rates on remuneration (earned income), investment and other types of income. These withholding taxes represent final taxes. An individual's year of assessment is the calendar year from 1 January to 31 December.

Table A28 Individual income tax

Monthly income as exceeds:	**But does not exceed:**	**Tax payable:**
MT0	MT390,000	6%
MT390,000	MT1,170,000	MT23,400 + 15%
MT1,170,000 +		MT1,140,400 + 30%

The same set of personal income tax rates are applicable irrespective of whether a person is married or single, male or female. Individuals are also taxed on the value of any benefit or advantage arising from employment. Individuals will be considered to be resident for tax purposes if they reside in Mozambique for more than 180 days in a tax year, or if resident for a shorter period and on 31 December (being the last day of the tax year) they occupy a residence under circumstances indicating an intent to continue occupancy on a regular basis. Freelance work is subject to tax at a flat rate of 30 per cent. Residents or non-resident expatriates paid in a foreign currency may elect to be taxed at a flat rate of 30 per cent (refer to withholding taxes below).

Corporate tax

Manufacturing firms are taxed at 40 per cent, companies involved in agriculture are taxed 35 per cent and those in trade and services are taxed 45 per cent. Certain payments made to non-residents are subject to withholding tax. The rates are set out in Table A29.

Table A29 Non-residents (companies & individuals)

	Rate
Dividends	18%
Service fees	15%–30%

Withholding tax rates

Dividends are taxed 18 per cent. For service fees 30 per cent applies in respect of the salary component of the fee and 15 per cent in respect of the balance. These taxes are final taxes.

Mozambique has signed a double taxation agreement with Portugal. It has signed an agreement with Mauritius which has not yet been ratified.

Capital gains tax

Capital gains are taxed at a flat rate of 40 per cent.

Inheritances and donations

Estate duty/donations tax is paid by the beneficiary/recipient. The rate varies from 1 per cent to 30 per cent and is dependent upon the amount and the relationship between the donor and recipient.

Transaction taxes

Table A30 Transaction taxes

	Rate
Building property transfer tax – first/subsequent disposal[1]	7.25%; 14.5%
Consumption tax[2]	5% to 150%
Circulation tax (sales tax)[3]	5%; 10%; 20%
Marketable securities tax – share transfers	0.4%

Notes: 1. All land is owned by the Government. The property transfer tax is therefore based on the property value excluding the value of the land.
2. Consumption tax is levied on imports and on goods at the production stage. The rates vary from 10 per cent to 150 per cent for luxury goods and 5 per cent to 30 per cent for other goods.
3. The rate is 5 per cent on imported goods and services and manufactured goods; 10 per cent on wholesale and retail trade and services and the tourism industry (hotels, restaurants, etc.); and 20 per cent for public telecommunication services.

Government revenue

Table A31 Government revenue 1996 (US$ m)

Total revenue	**3,479**
Tax revenue	3,193
Taxes on income and profits	*633*
Taxes on goods and services	*1,732*
Taxes on international trade	*688*
Other taxes	*140*
Non-tax revenue	286

Taxes on international trade accounted for 19.8 per cent of the government's total revenue in 1996. It is anticipated that this revenue should increase as the collection of taxes on international trade is privatised.

It is estimated that revenue on SADC imports accounted for approximately 5.1 per cent of total revenue in 1995. Unfortunately, the data are not available to calculate the actual customs revenue earnings on imports from the SADC countries. We therefore have to estimate the revenue. The bulk of duties collected by Mozambique would be on imports from South Africa, due to the fact that the largest proportion of Mozambique's imports from SADC countries in 1995 were drawn from South Africa. The only other significant sources of revenue receipts from SADC countries in 1995 were Swaziland (6.08 per cent of the total) and Zimbabwe (9.61 per cent of the total).

Mozambique collects a large proportion of revenue on imports from SADC countries from a relatively small number of goods. In 1995, the 20 largest categories (at the four-digit level) accounted for approximately half of Mozambique's estimated revenue receipts from SADC countries. While the number of goods accounting for a large portion of Mozambique's revenue collection from SADC countries is relatively narrow, the range of goods making up the most important categories is diverse, with the largest category – passenger motor vehicles – accounting for 5.91 per cent of Mozambique's estimated revenue receipts from SADC countries in 1995.

Tariffs

Import duties were lowered towards the end of 1996 in Mozambique, in an attempt to reduce the volume of smuggling that was occurring, as well as in an attempt to stimulate the economy. Although it has been claimed that tariffs are now in bands as prescribed by the WTO, with raw materials and capital goods receiving the lowest tariffs and finished goods the highest, this does not always seem to be the case. The tariff book still has a mixture of tariffs for similar goods. The new tariff book that was issued towards the end of 1996 has however grouped tariffs into finished products, intermediate products, capital goods and raw materials.

Mozambique's maximum tariff is 35 per cent, though few SADC products come in at these high levels. Only 0.7 per cent of Mozambique's SADC imports enter at duty rates in excess of 30 per cent; 18.5 per cent of Mozambique's imports enter the country at duty rates below 5 per cent. The balance of imports from SADC are spread amongst the other two digit categories although two chapters capture most of this trade. These are vehicles, which have a duty rate of 6.9 per cent and account for 24.5 per cent of all SADC imports, and machinery, which has a duty rate of 5.2 per cent and accounts for 9.4 per cent of total SADC imports.

A1.3.7 Namibia

The source basis of taxation is applied in Namibia.

Income tax

There is one set of income tax rates for all individuals irrespective of whether a person is married or single, male or female, resident or non-resident. Married persons are taxed separately. There are no abatements or rebates. Individuals are taxed on the value of any benefit or advantage arising from employment.

Table A32 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
N$0	N$15,000	0%
N$15,000	N$20,000	N$0 + 10%
N$20,000	N$30,000	N$500 + 15%
N$30,000	N$40,000	N$2,000 + 20%
N$40,000	N$50,000	N$4,000 + 25%
N$50,000	N$80,000	N$6,500 + 30%
N$80,000+		N$15,500 + 35%

Corporate tax

Non-mining organisations are taxed at 35 per cent. Diamond mining attracts 55 per cent, petroleum mining 42 per cent and other mining an equation of $60-(480/x)$, where x is the ratio expressed as a percentage of taxable income from mining operations to gross income from mining operations. The minimum applicable rate is 25 per cent.

Withholding tax rates

Table A33 Withholding tax rates

Non-residents	**Rate**
Dividends	10%
Interest	–
Royalties	10.5%

The withholding tax on dividends of 10 per cent is a final tax. The withholding tax on royalties of 10.5 per cent may be credited against the final assessed income tax liability. These rates may be reduced by double taxation agreements. Namibia has agreements with Germany, Mauritius, South Africa, Sweden and the UK. Negotiations have been completed with France, Malaysia and Romania. Renegotiations of existing agreements are underway with South Africa and the UK.

Capital gains tax

There is no capital gains tax.

Inheritances and donations

There is no estate duty or donations tax.

Transaction taxes

Sales tax on goods is 8 per cent and on taxable services (other than medical and transport) is 11 per cent. Additional sales levy is raised on goods at the point of import or manufacture and is in addition to the sales tax. Rates are 0 per cent for essentials, and 5 per cent, 10 per cent or 15 per cent for specified items. The importation and sale of goods used directly in a manufacturing process may, in certain circumstances, be exempt from the additional sales levy. Share transfers are subject to 0.2 per cent.

Table A34 Land transfer duty (individuals and companies)

Taxable value as exceeds:	**But does not exceed:**	**Transfer duty:**
N$0	60,000*	1%
N$60,000*	250,000	600+5%
N$250,000+		10,100+8%

*N$24,000 if unimproved land.
Stamp duty, at a flat rate of 1 per cent is also payable on the value of land transferred.

Government revenue

Table A35 Total revenue and grants from the 1996 Budget (N$ m)

Total revenue and grants	**4523**
Tax revenue	3,987
Direct taxes	*1,192*
Personal taxes	*695*
Company taxes	*458*
Other taxes on income and profits	*39*
Indirect taxes	*2,795*
Domestic taxes on goods and services	*1,360*
Taxes on property	*47*
Taxes on int. trade and transactions	*1,348*
Other	*40*
Non-tax revenue	490
Entrepreneurial and property income	*294*
Fines and forfeitures	*10*
Administrative fees and charges	*186*
Other non-tax revenue	*11*
Grants	35

During the period 1990–6, receipts from SACU averaged 27.6 per cent of central government recurrent revenue. Customs revenue earned on direct imports from SADC countries is negligible.

A1.3.8 South Africa

South Africa has principally a source base of taxation. However, in addition, residents (individuals and corporate entities) are taxed in South Africa on their world-wide investment income.

Income tax

Table A36 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
R0	R30,000	19%
R30,000	R35,000	R5,700 + 30%
R35,000	R45,000	R7,200 + 32%
R45,000	R60,000	R10,400 + 41%
R60,000	R70,000	R16,550 + 43%
R70,000	R100,000	R20,850 + 44%
R100,000 +		R34,050 + 45%

The tax rates shown in Table A36 apply to all individuals irrespective of whether a person is married or single, male or female, resident or non-resident.

Corporate tax

Table A37 Corporate income tax rates

Companies and close corporations (other than gold mining)	
Normal income tax (other than long-term insurers)	35%
Normal income tax – local branch of foreign company	40%
Normal income tax – Long-term insurers (dependent on type of policy)	30–35%
Secondary tax on companies (STC)	12.5%
Gold mining companies – those not subject to STC	
Gold mining income – normal tax	51–(255/*x*)
'*x*' is the ratio of taxable income to gross income from gold mining expressed as a percentage	
Other income – normal tax	42%
Retirement funds	
Tax on gross interest and net rentals	17%

Corporate entities are required to make a first provisional tax payment six months into their financial year and a second provisional tax payment at the end of their financial year.

Capital gains tax

There is no capital gains tax in South Africa.

Withholding tax rates

No withholding tax is levied on dividend or interest payments made to non-residents.

Double taxation agreements

Table A38 Countries with which South Africa has comprehensive double taxation agreements

Austria	Hungary	Netherlands	Switzerland
Botswana	Israel	Norway	Thailand
Canada	Korea	Poland	Uganda
Denmark	Lesotho	Republic of China (Taiwan)	Tanzania
Finland	Malawi	Romania	United Kingdom*
France	Mauritius	Swaziland	Zambia
Germany	Namibia	Sweden	Zimbabwe

*The treaty with the United Kingdom was extended to the following countries: Grenada; Seychelles; Sierra Leone.

Table A39 Countries with which South Africa has double taxation agreements in respect of sea and air transport only

Belgium	Greece	Italy	Portugal
Brazil	Ireland	Japan	Spain

Inheritances and donations

Estate duty is payable on the dutiable amount of a deceased estate. In general, the estate of a person who was ordinarily resident in South Africa at the date of death includes all assets irrespective of where they are situated. In addition, an asset which is located in South Africa may be subject to estate duty even though the owner was not ordinarily resident in South Africa at the date of his death.

The estate duty is 25 per cent.

Value-added tax

VAT is levied at the standard rate of 14 per cent on both goods and services. In general, exports of goods or services are free of VAT (they are zero-rated), whilst imports of goods or services attract VAT. The VAT accounted for by a vendor is effectively the VAT charged on his supplies (output tax) less the VAT incurred on his inputs (input tax). A person making standard or zero-rated supplies of more than R150,000 p.a. is obliged to register as a vendor.

A1.3.9 Swaziland

Income tax

The source basis of taxation is applied in Swaziland.

Table A40 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
E0	E13,000	0%
E13,000	E16,000	E0 + 12%
E16,000	E20,000	E360 + 16%
E20,000	E24,000	E1,000 + 20%
E24,000	E28,000	E1,800 + 24%
E28,000	E32,000	E2,760 + 28%
E32,000	E36,000	E3,880 + 32%
E36,000	E40,000	E5,160 + 36%
E40,000 +		E6,600 + 39%

The above income tax rates are applicable irrespective of whether a person is married or single, male or female, resident or non-resident. Individuals are also taxed on the value of any benefit or advantage arising from employment. Dividends in excess of the E2,000 exemption are taxed at a flat rate of 10 per cent if they are from companies listed on the Swaziland Stock Exchange and 20 per cent if they are from other companies.

All companies are subject to a tax rate of 37.5 per cent, with mining companies with a taxable income up to E20,000 attracting 27 per cent.

Withholding taxes

Dividends are taxed at 15 per cent, unless they are paid to companies incorporated in Botswana, Lesotho or South Africa, which are not subsidiaries or branches of companies registered elsewhere the rate is then 12.5 per cent. Interest and construction fees attract 10 per cent, with entertainers and sportsmen having 15 per cent. These taxes are final taxes, but may be reduced by applicable double taxation agreements. Swaziland has agreements with Mauritius, South Africa and the United Kingdom.

Capital gains tax

There is at present no capital gains tax.

Inheritances and donations

No estate duty or donations tax exists.

Transaction taxes

Goods and services attract 12 per cent sales tax with the exception of alcoholic beverages and tobacco products for which the sales tax is 25 per cent. Transfer duty on immovable property worth more than R60,000 is 6 per cent, with lower rates for property valued at lower than that. Share transfers attract 1 per cent duty.

Table A41 Transaction taxes

		Rate
Sales tax		12%
Transfer duty – immovable property	first E40,000	2%
	E40,001 to E60,000	4%
	E60,001+	6%
Marketable securities tax – share transfers		1%

Government revenue

Table A42 1997/8 Budget (E m)

SACU receipts	1,006	56%
Company tax	232	13%
Sales tax	224	12%
Individual tax	184	10%
Property income	13	1%
Other revenue	142	8%

The SACU receipts represent a 3 per cent increase in representation from the last Budget period. Company tax has fallen slightly due to legislation reforms. Sales tax revenue is marginally up, due to increased economic activity and inflation.

During the period 1990–6, receipts from SACU averaged 44.8 per cent of central government recurrent revenue. Customs revenue earned on direct imports from SADC countries is negligible.

A1.3.10 Tanzania

Income tax

Residents (including short-term residents) are taxed on world-wide income. Non-residents are only subject to tax in Tanzania on income derived from a source in Tanzania. Dividends paid to residents and non-residents are subject to a final withholding tax.

These tax rates are applicable irrespective of whether an individual is married or single, male or female. However, if a wife's income is derived from her husband's business, then their income tax is assessed jointly. Non-resident individuals are subject to tax using the same tax rates as for residents. Individuals will be considered to be resident for tax purposes if they have a permanent home in Tanzania and are present in Tanzania in any one tax year, or alternatively, if they do not have a permanent home in Tanzania either for 183 days or more in the tax year or an average of 122 days p.a. over a three-year period. The tax on certain benefits granted to employees is payable by the employee.

Table A43 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
Sh0	Sh20,000	0%
Sh20,000	Sh50,000	Sh0 + 7.5%
Sh50,000	Sh80,000	Sh2,250 + 10%
Sh80,000	Sh110,000	Sh5,250 + 12.5%
Sh110,000	Sh140,000	Sh9,000 + 15%
Sh140,000	Sh200,000	Sh13,500 + 17.5%
Sh200,000	Sh300,000	Sh24,000 + 20%
Sh300,000	Sh400,000	Sh44,000 + 22.5%
Sh400,000	Sh500,000	Sh66,500 + 25%
Sh500,000	Sh600,000	Sh91,500 + 27.5%
Sh600,000	Sh700,000	Sh119,000 + 30%
Sh700,000 +		Sh149,000 + 35%

Corporate tax

Companies are taxed at 35 per cent.

Withholding tax

There is a 20 per cent withholding tax payable when a local branch of a foreign company remits its profits.

Certain other payments are subject to a withholding tax. The withholding tax rates differ according to whether the payment is to a resident or a non-resident.

Table A44 Withholding taxes

	Payments to residents	**Payments to non-residents**
Dividends	15%	20%
Interest	2%	15%
Royalties	2%	30%
Management or professional fees	2%	30%
Rents	2%	40%
Commercial transport	4%	4%
Other goods and services	2%	2%

The withholding tax is a final tax. Withholding taxes on payments made to non-residents in respect of dividends, interest and royalties on imported technology by companies approved by the Investment Promotion Centre are subject to reduced rates. A 3 per cent royalty is charged for mineral exports and 5 per cent for diamond exports. Payments made to non-resident companies holding more than 25 per cent of the share capital of a Tanzanian company will be treated as a payment to a resident. The withholding tax rates may be reduced by an applicable double taxation agreement.

Tanzania's double taxation agreements and the withholding tax rates in terms of these agreements are with the following countries: Canada, Denmark, Finland, India, Italy, Norway, Sweden and Zambia. All of these tax treaties (except the treaty with Italy), provide that no withholding tax can be levied on branch profits.

Capital gains tax

Capital gains tax was abolished with effect from 1 July 1996.

Inheritances and donations

There is no donations tax or estate duty.

Transaction taxes

A sales tax is imposed on locally manufactured goods, most imports and services at the point of providing them. The rate is 10 per cent on services rendered but varies in relation to goods, according to the item. Sales tax is to be replaced by Value-Added Tax on 1 July 1998. Stamp duty is payable on a sliding scale, up to a maximum of 1.5 per cent of sales value.

Government revenue

Table A45 Government revenue 1995/96 (Shs m)

Total revenue	**448,373**
Tax revenue	383,744
Taxes on imports	*121,243*
Sales and excise on local goods	*94,712*
Income taxes	*103,871*
Other taxes	*63,918*
Non-tax revenue	64,629

Taxes on imports accounted for 27 per cent of the government's revenue in 1995/6.

Because of data problems, it has been impossible to get a breakdown of import duty actually collected on imports from SADC countries for any one recent year. However, it was possible to get some data on actual duty collections for the first six months of 1996. We have, therefore, analysed the collections for the first half of 1996 and made estimates for annual collections on the basis of doubling the figures for the first half-year. This assumes an even distribution of imports over the year, which we know is not necessarily the case, but is as good an estimate as can be made. This gave an estimated collection of customs revenue on SADC imports for the year of US$8.6 million. Imports from SADC accounted for approximately 12 per cent of total import duty collected in 1996.

The duty collected on imports from SADC countries amounted to 2 per cent of total recurrent revenue.

The products imported from SADC in 1996 accounting for significant customs revenue include food preparations, newsprint, sugar, soya bean oil, wine, beer, glass bottles, wheat flour, Kraft paper, iron and steel products.

Tariffs

A new customs tariff was introduced in June 1996 based on the HS system, at the 8-digit level, as transposed nationally. The tariff structure included six rates: 5 per cent, 10 per cent, 20 per cent, 25 per cent, 30 per cent and 40 per cent. No products are zero-rated. In June 1997 the maximum rate was reduced to 30 per cent. They follow a cascading structure.

Tanzania is far behind the agreed timetable for reduction of COMESA tariffs. The position is that, although a new tariff book was issued in October 1996, which included preferential COMESA rates, these tariffs were not in force, pending government ratification of these rates. The published COMESA rates generally are 20 percentage points below the MFN rates, which means that on average the COMESA rates are 77 per cent lower than the MFN rates. In the June 1997 budget the old COMESA rates which were operative were suspended. This means that currently no preferential rates are applied to regional imports.

Tanzania applies excise duties to certain domestic and imported products. There are often differential rates applied to local products compared to imported goods, with local products often being excise duty free. This therefore constitutes a charge of equivalent effect.

A1.3.11 Zambia

Income tax

The source basis of taxation is applied in Zambia. Interest income earned by residents of Zambia is subject to income tax regardless of the source of the interest.

Table A46 Individuals income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
K0	K1,200,000	10%
K1,200,000	K1,800,000	K120,000 + 20%
K1,800,000 +		K240,000 + 30%

There is a rebate of K60,000 p.a. which is deducted from tax payable as calculated above. The same set of income tax rates is applicable irrespective of whether a person is married or single, male or female, resident or non-resident. A married woman's income is taxed separately from her husband's income. Individuals are taxed on the value of any cash benefit, or any benefit capable of being converted into cash, arising from employment. The deemed value of non-cash benefits (e.g. company cars and accommodation) are disallowed as a deduction in the employer's hands and such tax cost is therefore borne by the employer. An individual is resident for tax purposes if he is present in Zambia for at least 183 days in any tax year, or has entered the country with a view to establishing residence.

Corporate tax

Table A47 Corporate tax

	Rate
Companies listed on the Lusaka Stock Exchange	30%
Banks – first K100 million profit	35%
– balance	45%
Farmers and exporters of non-traditionals products	15%
Manufacturers and others	35%
Large scale mining – minimum rate	35%

Withholding tax rates

Certain payments (whether to residents or non-residents) are subject to withholding taxes. Where these payments are made to non-residents, though, the withholding taxes are final taxes. Individuals will be regarded as resident for tax purposes if they are present in Zambia for at least 183 days in any tax year, or have entered the country with a view to establishing residence.

The rate of withholding tax is 15 per cent on dividends, interest, royalties, rent, management and consulting fees.

These rates may be reduced by applicable double taxation agreement. Zambia has agreements with Canada, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Poland, South Africa, Sweden, Switzerland, Tanzania, Uganda and the United Kingdom.

Capital gains tax

There is no capital gains tax.

Inheritances and donations

Estate duty has been abolished with effect from 1 April 1996. No donations tax exists.

Transaction taxes

VAT on goods and services is 17.5 per cent with exemptions on health, education, domestic house rentals, water, transport, books and newspapers and financial services. Many basic foodstuffs and exports are zero-rated. Property transfer tax, of 2.5 per cent, is payable on transfers of shares and land. An exemption is available in respect of certain group organisations.

Government revenue

Table A48 Zambia's budgeted revenue for 1997 (K billion)

Company income tax	55.2
Pay as you earn	193.1
Other income tax	58.1
Trade taxes	277.7
Excise duties	152.7
Domestic VAT	150.0
Mineral revenue	20.0
Non-tax revenue	93.5
o/w: fuel levy	*13.0*
Privatisation receipts	5.2
Fees and fines	75.3
External assistance	488.9
o/w: Project support	*358.9*
Non-project support	*130.0*
Total revenue	**1,489.1**

Trade taxes were budgeted to account for 18.6 per cent of the government's revenue in 1997.

Duties collected by Zambia on imports from SADC countries amounted to US$38.2 million in 1994, US$29.7 million in 1995, and US$37.0 million in 1996. The sources of revenue closely reflects Zambia's import structure, with the bulk of revenues being collected on imports from South Africa. In 1996, for example, 83.56 per cent of Zambia's duties from SADC countries were received from South Africa. The only other significant source of duties from SADC countries is Zimbabwe, which contributed 11.59 per cent of duties collected by Zambia from SADC countries in 1996. The duty collected on SADC imports in 1995 represented 46 per cent of total customs revenue that year.

Duties collected by category closely reflect Zambia's import structure. Capital equipment and heavy industry goods, such as vehicles, machinery, structures of iron and steel, fuels, and so on feature amongst Zambia's most important sources of revenue on imports from SADC. The 20 most important sources of revenue still, however, accounted for no more than one-quarter of duties collected by Zambia in 1994 and 1995.

Tariffs

In recent years, Zambia has been rationalising its tariff structure. In the 1996 budget, the Zambian authorities adopted an integral package of customs duty reductions and removal of most exemptions to address the issues listed above. This resulted in a moderate cascading tariff structure ranging from 0 per cent to 5 per cent for most capital goods and raw materials; 15 per cent for intermediate goods; and 25 per cent for finished products. Zambia offers a 60 per cent reduction on COMESA imports.

The Zambian tariff structure reserves high duties for two categories of products, namely clothing and textiles and certain food products. All of these chapters face a duty of 25 percent. Zambia's tariffs have a low variance and seem to be concentrated around the upper end of the tariff rates despite the low ceiling of 25 percent. This is indicated by the average tariff which is 16 percent, which is almost two-thirds the value of the highest nominal tariff. At the bottom of the tariff scale there is a diversity of manufactures, indicating lower tariff rates for manufactured goods, although cereals and vegetable extracts also enter under these codes.

The maximum tariff rate of 25 per cent applies to more than 56 per cent of the tariff lines in the agriculture and fisheries sector. Food, excluding cereals, is subject to relatively high rates of 15 per cent or 25 per cent. The average applied rate for agricultural imports is 18.2 per cent. Imports of food products bear an average rate of just over 20 per cent. These rates compare to an average rate in manufacturing of 13.5 per cent. As with the tariff rate on imports of cereals, the rate on maize was set at 5 per cent in 1996. The maximum rate (25 per cent) applies, *inter alia*, to prepared food, fruit and a certain category of processed food crops.

Zambia has a 5 per cent Import Declaration Fee, which constitutes a charge of equivalent effect.

A1.3.12 Zimbabwe

Income tax

The tax year-end in Zimbabwe has changed from 31 March to 31 December. The change is effective from 1997 resulting in the following 1997 tax years:

12 months from 1 April 1996 to 31 March 1997;
9 months from 1 April 1997 to 31 December 1997.

Thereafter the tax year will run from 1 January to 31 December of each year.

The source basis of taxation is applied in Zimbabwe.

Table A49 Individual income tax

Taxable income as exceeds:	**But does not exceed:**	**Tax payable:**
Z$0	Z$9,360	0%
Z$9,360	Z$15,000	Z$0 + 20%
Z$15,000	Z$30,000	Z$1,128 + 25%
Z$30,000	Z$45,000	Z$4,878 + 30%
Z$45,000	Z$60,000	Z$9,378 + 35%
Z$60,000 +		Z$14,628 + 40%

There is one set of income tax rates for all individuals irrespective of whether the person is married or single, male or female, resident or non-resident. Married persons are taxed separately. In respect of tax years commencing on or after 1 April 1995, there is also a 'Drought Levy' or 'Development Fund Levy' surcharge of 5 per cent of the net tax payable after the deduction of the credits. Foreign individuals who come to Zimbabwe to work are considered to be ordinarily resident for tax purposes from the date of arrival. In the case of all other individuals, questions of residence are decided on the facts. Short-term work such as a consultancy assignment or employment on an installation contract is unlikely to cause the individual concerned to be regarded as ordinarily resident. Employees are taxed on the value of benefits received by virtue of their employment.

Corporate tax

Table A50 Income tax rates for companies

	Rate
Local companies	39.375%
Foreign companies' branches	47.775%

Local companies are taxed at 39.375 per cent and foreign companies' branches at 47.755 per cent. These rates include the 5 per cent 'Drought Levy' or 'Development Fund Levy' which has become a permanent feature of the Zimbabwe tax structure. The foreign companies' branches tax rate includes the additional 8.4 per cent tax on branch profits earned, which may be reduced where a double taxation agreement exists.

Withholding taxes

Certain payments to non-residents are subject to withholding taxes.

Table A51 Withholding taxes

Dividends	20%
Dividends distributed by a company listed on the Zimbabwean Stock Exchange	15%
Interest	10%
Certain fees and remittances	20%
Royalties	20%

These are final taxes, but may be reduced by an applicable double taxation agreement. Zimbabwe has agreements with Bulgaria, Canada, France, Germany, Malaysia, Mauritius, Netherlands, Norway, Poland, South Africa, Sweden and the United Kingdom. Negotiations are underway with Namibia.

Capital gains tax

This tax is imposed at the basic rate of 20 per cent on any gain arising from the sale or disposal (including donation) of immovable property and marketable securities. However, a lower rate of 10 per cent applies to gains on the disposal of listed securities and on the disposal by an individual over 59 years of age of his principal private residence. Capital gains aggregating less than Z$5,000 in any one year are not taxable.

Inheritances

Estate duty at a flat rate of 20 per cent is payable on the net value of an estate which exceeds Z$250,000 (where there is a surviving spouse) or Z$125,000 (no surviving spouse).

Transaction taxes

Table A52 Stamp duty – transfer of immovable property (individuals and companies)

Value of property as exceeds:	**But does not exceed:**	**Duty payable:**
Z$0	Z$5,000	0.7%
Z$5,000	Z$15,000	Z$35 + 3%
Z$15,000	Z$100,000	Z$335 + 5%
Z$100,000+		Z$4,585 + 6%

The rate of sales tax is 17.5 per cent on services and basic goods; 27.5 per cent applies to listed luxury goods. Share transfers are taxed at 0.35 per cent.

Government revenue

Table A53 Percentage share in government revenue

	1996/7	**1997/8**
Personal income tax	28%	29%
Company tax	12%	13%
Sales tax	19%	20%
Excise duty	4%	4%
Customs	16%	16%
Other	21%	18%

Practically all of Zimbabwe's customs revenue on imports from SADC comes from imports from South Africa (98.4 per cent in 1995). This is not surprising given the high proportion of imports from that country and the fact that imports from most of the other SADC countries enter under preferential arrangements. The total revenue received on SADC imports in 1995 amounted to US$361.8 million. Total duty collections on SADC imports represented 31 per cent of total duty collections. Revenue from total customs duties accounted for

16 per cent of recurrent government revenue in 1995. Duty on SADC imports therefore accounted for 5 per cent of total government revenue.

Zimbabwe's pattern of revenue receipts by product traded shows remarkable stability over the 1993–5 period with the same products appearing in each ranked list. Prominent tariff items are, *inter alia*, motor vehicles (diesel and petrol), fossil fuels, chemical products (polypropylene, polyethylene, anhydrous ammonia, etc.), personal effects and clothing.

Tariffs

The new tariff regime announced in February 1997 is of a cascading nature. There was a major reduction in duty on raw materials – defined as goods which have not been subjected to any form of transformation in production – from a range of 0 to 40 per cent – to a flat rate of 5 per cent. Tariff rates on merit goods comprising educational goods, medical goods and goods for the blind were also slashed. Educational goods now attract a flat duty of 5 per cent compared to 0 to 40 per cent previously; customs duty on medical goods was unchanged at 0 to 20 per cent, while the duty on goods for the blind was abolished from the existing 0 to 10 per cent range. Tariffs on capital goods which ranged from 0 to 25 per cent were abolished as well. Customs duty on tools was also lowered from 0 to 20 per cent to 5 to 15 per cent while a flat tariff rate of 15 per cent would be applied to spares. This compares favourably to a rate of 0 to 56 per cent which was in existence. The duty on partly processed goods – defined as those goods that have significant value added – was reduced to a flat rate of 15 per cent from high rate of 0 to 55 per cent. Intermediate goods and consumables now attract a duty of 20 to 50 per cent in contrast to the previous rate of 0 to 35 percent. Finished goods attract a duty of between 40 and 85 per cent, with the highest duty imposed on batteries, electrical goods, luggage-ware and textiles and clothing. Specific duties are additionally levied on a number of tariff lines. Zimbabwe offers an 80 per cent reduction on COMESA imports. There is currently a surtax on finished goods and some intermediary goods of 10 per cent, which constitutes a charge of equivalent effect.

A1.3.13 SACU

Gross duty and surcharge receipts by SACU countries from non-SACU SADC countries fell by 95.9 per cent between 1993 and 1995. This dramatic fall is principally due to the collapse in duty receipts from Zimbabwe over 1993–4. Substantial declines in duties received from Angola, Tanzania and Zambia were also recorded over the period 1993–5, although these declines all took place off low bases. Similarly, the considerable increase in duties received from Mozambique took place off a low base. Total revenue received on SADC imports in 1995 was US$8.2 million, a decline from US$179.7 million in 1993. In 1995 revenue on imports from Zimbabwe accounted for 87.12 per cent of total revenue on SADC imports.

Gross revenue data for 1994 and 1995 reveal two significant features. First, more than one-half of gross duty and surcharge revenues are derived from the 20 largest product categories. In both years trunks, suitcases etc. accounted for more than 10 per cent of gross revenues. Second, the major product categories are dominated by consumer-oriented products, such as furniture and appliances; clothing and footwear; and foodstuffs.

There is only a very indirect relationship between the value of imports from SADC and the duty collected therefrom, and the share of the SACU customs revenue which each SACU member country receives. This is because of the nature of the Customs Union, whereby customs revenue is pooled. There is a stabilisation factor, whereby the BLNS countries each receive a minimum pay out from the SACU of 17 per cent of the value of their imports (irrespective of source) and South Africa retains the residual amount. The most important thing for the SACU countries in general is the proportion of SADC duties collected compared to total duties collected, for this will give an indication of the revenue forgone by the formation of an FTA. It is clear that SADC revenues are such a small proportion of the overall customs pool as to be almost insignificant. For example, in 1995 only 0.83 per cent of duties collected for the revenue pool were sourced in non-SACU SADC countries.

SACU tariffs

The SACU tariff very much reflects the South African need to protect industry and agriculture. The highest tariffs (83 per cent) are on clothing. Generally, high tariffs are on finished products; lower rates on raw materials and capital goods. Under the GATT offer, the highest rate will come down to 40 per cent (clothing and textiles). The new structure follows a more clearly defined cascading structure with a maximum rate of 30 per cent except for key sensitive products.

Table A54 SACU tariff reductions and timetable – GATT offer

Commodity	**New tariff (%)**	**Phase-down period (years)**
Consumer goods	20–30	5
Intermediate/capital goods	10–15	5
Raw materials	0–5	5
Clothing	max. 45	12
Textiles	max. 25	12
Assembled motor vehicles	max. 50	8
Motor vehicle components	max. 30	8

Appendix A2
Constraints on Foreign Direct Investment by Country

Richard Hess

This appendix describes the constraints on foreign direct investment in SADC. It is based on information available in the first half of 1998.

A2.1 Angola

A2.1.1 Investment climate

Since 1991, Angola has been pursuing a policy of restoring market mechanisms and liberalising prices and foreign trade. Trade has been opened up to the private sector and several measures have been taken to encourage foreign investment. Notwithstanding these measures, because of the war, implementation has been slow. However, with the return of peace it is the Government's intention to encourage small enterprises and create a competitive and more stimulative business environment. In this context, the Government proposes the following course of action:

- to reform the legal, regulatory and institutional system governing the private sector so as to provide greater incentives for the promotion of small enterprises;
- to simplify the procedures for setting up and registering businesses;
- to introduce measures to encourage small and medium size enterprises such as tax reforms and other incentives;
- to revitalise the National Institute for the Promotion of Small and Medium-sized Enterprises (IMAPEM) in an effort to promote and modernise the domestic industrial sector;
- to abolish import licences so as to permit the demonopolisation of the consumer goods supply channel.

With the implementation of the above steps it is hoped that a competitive environment avoiding price distortions and aimed at stimulating domestic investment and productivity and attracting direct foreign investment will be created.

Whilst, on the one hand, the Government is committed to creating an enabling environment for the development of a strong private sector, the bureaucracy, corruption, red tape and administrative costs induced by compliance with regulations in Angola, some of which date back to the socialist regime and others that have remained unchanged since the late 1800s, tend to inhibit such development.

Because the Government, during its first ten years of independence, adopted a policy towards the private sector very much in keeping with its Marxist-Leninist philosophy which was aimed at transforming Angola into a socialist state, very little encouragement was given to the private sector. In fact, the opposite course of action was adopted in that all land, transport, communications, private medicine, schools and legal practices were nationalised. Foreign investment was also dissuaded by the presence of Eastern European management of key industries except for the petroleum industry. Notwithstanding, in 1979 the Government passed a bill to attract foreign investment. Understandably this had little success.

Angola announced in October 1990 that it was to introduce market reforms and in April 1991 it privatised 100 companies that it had nationalised in 1975 at independence. This process involved attempting to persuade the former owners, most of whom had fled to Portugal, to return to Angola to resume business. The sale of the Cimangola cement company to a Scandinavian group in 1992 and the signing of trade agreements with South Africa, Portugal and Zimbabwe are seen as significant steps in recent years, but there is a long way still to go. Little, if any, transparency exists. The press, radio and TV are all controlled by the Department of Revolutionary Orientation which is run by the ruling party.

Angola is a member of SADC, COMESA, the Multilateral Investment Guarantee Agency (MIGA) and the World Trade Organisation (WTO). Although the government of Angola has declared itself willing to be involved in regional economic integration, this is dependent on the successful conclusion of the civil war and reconstruction of the economy. It has not signed the SADC protocol on trade.

The Angolan economy rests on two pillars, namely, oil and diamonds, and revenue from these funded the long civil war. The peace agreement between the two major protagonists is by no means secure, and peace is an obvious necessity if the country is to ever to break out of the poverty that is a way of life for so many Angolans. The challenges which the Angolan Government faces are legion, many of them war-related, such as demining the main roads and caring for the war wounded. Others are more economic in nature, such as infrastructural rehabilitation and civil service reform.

A2.1.2 Infrastructure

An estimated 32 per cent of Angolans have access to safe water and 16 per cent have adequate sanitation facilities. Angola has the installed capacity to meet the demand for electricity, however with so few operational assets, this is minimal. The road and railway infrastructure are in need of extensive rehabilitation – many of the roads are mined and a great number of bridges were destroyed or are unsafe because of the war. Foreign aid has slowly begun to address these infrastructural problems. The ports and airports are also in a state of disarray. Telecommunications require extensive upgrading, with most large organisations and institutions relying on VHF communications.

A2.1.3 Production

Angola's industrial production has experienced a downward trend and is now estimated to be about half of what it was before 1975. This is due to the difficulties of importing raw materials, equipment and spares, the disruptive supply of power and water, the destruction of infrastructures and the shortage of skilled manpower. Since independence the only sector which has expanded has been the oil sector.

Since the resumption of the civil war in 1992, economic performance has been mainly hampered by high levels of money supply and inflation, economic controls, damaged infrastructure and the lack of productive performance by the non-oil economic sectors.

A2.1.4 Economic indicators

See Chapter 2.

A2.1.5 Investment incentives

See Appendix A3.

A2.1.6 Capital markets

No money market has been created. The main reason for this is the shortage of liquidity by commercial banks.

Whilst there are no money or capital markets at this stage, a survey has been conducted by an American consultancy into the formation of a stock market and a task force has been formed to advise Government on the best method of implementation. This task force consists of members from BNA (the central bank), commercial banks, Ministry of Finance, Ministry of Justice, Sonangol (petrol company) and the Ministry of Industry. Based on their findings, a stock exchange will be established, but before anything can be done, a Bill will have to be formulated and presented to Parliament and suitable personnel found and trained.

Foreign investment will not be allowed on the stock exchange.

A2.1.7 Impediments to investment

The following are the main constraints facing investors moving into the Angolan market:

- bureaucracy
- corruption
- the cost of doing business, e.g. registration procedures
- difficulty and cost of obtaining visas
- outdated legislation
- high taxation for non-incentive scheme investors
- lack of access to credit and poor banking facilities
- poor telecommunications and infrastructure
- Frequent power cuts
- lack of technology
- language barrier
- war-torn infrastructure
- difficulty of acquiring land

- in the event of obtaining a company in terms of the privatisation policy, most equipment is either unserviceable or obsolete
- difficulty in travelling from one point to another, when engaging in agriculture, mining or forestry projects, due to landmines.

A2.2 Botswana

A2.2.1 Investment climate

The Botswana Government is viewed by the international community in a good light – it must be considered as one of the best examples within the region of how to facilitate private sector activity. It has one of the oldest Investment Programmes which is administered by the Botswana Development Corporation, which encourages private sector development and foreign investment. The private and public sectors are well monitored by an active Public Accounts Committee and a free press.

Botswana – unlike many other members of SADC – has never experimented with socialism and accordingly has always encouraged private sector participation in areas that in many other SADC countries were reserved for state control.

A2.2.2 Infrastructure

In spite of Botswana's arid climate, 93 per cent of the population have access to safe water and 55 per cent have adequate sanitation. Some electricity is produced by Botswana and the rest is imported from South Africa, Zambia and Namibia.

Botswana has a well-developed transport network to the east and efforts are currently underway to link the western areas of Botswana and Namibia with the rest of Botswana. There is a limited railway system, but there are links with the other Southern African countries. Air services also exist between the main centres in Botswana and with the neighbouring countries. Telecommunications routes are being expanded, the Internet is available and there is a cellular telephone network.

A2.2.3 Production

Some 80 per cent of the population are still involved in the agricultural sector. The formal economy is dominated by mining, although the absence of further diamond deposits militates against this being a source of further growth. The small manufacturing sector is agro-based, consisting mainly of meat processing. The Government continues to encourage manufacturing diversification, but this is unlikely to produce the soaring growth rates that the diamond mining investment produced. The Botswana economy is heavily dependent on South Africa for many of its imports.

A2.2.4 Economic indicators

See Chapter 2.

A2.2.5 Investment incentives

See Appendix A3.

A2.2.6 Capital market

All the necessary infrastructure is in place for the further development of the capital market. This includes the one stockbroking firm, which currently handles both the local stock exchange and the money market.

The level of development of the capital market is low for two reasons. First, the bond market for domestic issuers is in its infancy, because the Botswana Government had previously supplied the market with as much long-term finance as it needed. Second, investment institutions in Botswana tend to hold on to the shares and other assets they have bought, for several years at a time. There is thus a rather low turnover in the secondary market for shares, and there could equally be a low turnover for the forthcoming Botswana Development Corporation bond once it has been issued.

A2.2.7 Impediments to investment

The constraints for investors include:

- government bureaucracy and inefficiency in dealing with investors
- a very small domestic market
- the economy is dominated by diamond mining and cattle, as such there are very few linkages in the economy for other industries to develop in a meaningful way
- the arid climate does not attract large-scale commercial farming, whereas 80 per cent of the population are involved in agriculture
- there is no legislation in Botswana which deals specifically with investment. Regulations governing investment are contained in the Companies Act, the Factories Act, the Employment Act, the Income Tax Act, and the Financial Assistance Act amongst others

A2.3 Lesotho

A2.3.1 Investment climate

Lesotho has experimented with some fairly weak forms of socialism since independence. However since King Moshoeshoe II died, private sector development has been encouraged, particularly through the Lesotho National Development Corporation, which acts as a facilitator and investor. Foreign investment is encouraged and the country has attracted a number of Hong Kong-based investors in the garments industry. Privatisation is encouraged, but there is not much to be done in this area. The trade union movement however is pressuring the state to move away from privatisation. Corruption has existed for a long time, but not necessarily any worse than in most other countries of the region.

Lesotho has a constitutional monarchy with an elected government. However, it is politically unstable, with South Africa playing a restraining role on various political entities at different times. Despite this, growth performance and economic management since independence have been one of the best in Africa. Economic stability has been helped through the membership of SACU and the Common Monetary Area (CMA). Land pressure has been eased through the export of labour to South Africa. Lesotho has little commercial agriculture but has attracted some industry. The major development project is the Highlands Water Project with South Africa.

A2.3.2 Infrastructure

Lesotho has a reliable source of power, mostly supplied by Eskom in South Africa. The government is pursuing a policy to exploit Lesotho's largely untapped hydroelectric potential in a bid to achieve self-sufficiency in energy by the early part of the 21st century – once operational, the hydroelectric scheme of the Lesotho Highlands Water Project should meet all foreseeable requirements.

Lesotho's mountainous terrain makes access to many areas difficult and Lesotho relies heavily on its domestic air network for transport. The road network has been developed considerably to facilitate easier access to and from the more remote areas, and there are roads linking Lesotho directly with South African export ports. Inland port and container facilities are also available.

With regard to air travel, the national airline and private companies provide charter flights to the 31 airstrips around the country, and Lesotho is directly linked with Johannesburg International Airport.

The telephone system has been extensively modernised and expanded in recent years with connections growing by an average of 13 per cent per year. There is direct dialling both locally and overseas.

Basic health care facilities are provided throughout the country and most of Lesotho's inhabitants have access to health care.

A2.3.3 Production

Despite the fact that agriculture only contributes 13.2 per cent to GDP, the majority of the population practises subsistence agriculture. In the formal economy manufacturing depends largely on farm products to support the milling, canning, leather, and jute industries; other industries include textile, clothing, and construction. There has been an impressive increase in manufactures, driven by foreign investment especially from South Africa and Hong Kong, although this was from a very low base. In 1992 light manufactures constituted 80 per cent of all exports. Lesotho is still heavily dependent on South African remittances. Migrant earnings constitute approximately 50 per cent of Lesotho's GNP and allow imports worth more than 1.5 times the value of domestic production.

A2.3.4 Economic indicators

See Chapter 2.

A2.3.5 Investment incentives

See Appendix A3.

A2.3.6 Capital markets

Lesotho does not have a sophisticated financial structure nor a developed financial market. The only participants in the money (short-term) and capital (long-term) markets are the Government with its issue of treasury bills and 5-year, 3-year and 2-year government bonds, and, as the major investors in these securities, the commercial banks. The Central Bank supplemented the supply of treasury bills by introducing commercial paper in December 1994. The intention was that this would deepen the money market as well as mop up excessive liquidity in the commercial banking sector. This facility was withdrawn in 1996 in an effort to encourage commercial banks to be less risk averse and to lend more directly to the private sector. In April 1992 the Central Bank established an auction market for treasury bills. This was initially done on a quarterly basis but since December 1993 the auctions take place monthly. The effect of these auctions has been the liberalisation of interest rates. With the exception of savings deposit rates, all interest rates in Lesotho are now determined by market forces and are positive in real terms.

A secondary market in the money and capital market securities does not exist, thus reflecting the underdeveloped and shallow nature of these markets.

A2.3.7 Investment impediments

The impediments for investors include the following:

- unstable political environment, with the ruling political party recently having split over the leadership of the party. In addition the relationship between the Government and the King is often uneasy,
- bureaucracy, for example, import licences are only issued to licensed traders and manufacturers resident in Lesotho and will only be issued for quantities not in excess of local demand,
- high price of utilities,
- poor banking facilities,
- individuals and companies are unable to purchase land, they may only rent it,
- poor transport infrastructure and mountainous terrain making access to areas difficult, this is particularly impacting on the tourism industry. Much of Lesotho is unspoilt dramatic mountainous terrain.

A2.4 Malawi

A2.4.1 Investment climate

With no socialist leaning, Malawi has encouraged private sector development. However, prior to the multi-party elections, most of the economy was controlled by the Malawi Development Corporation and Press Holdings, both of which had strong ties with the then ruling party, the MCP and the former President. In recent years, with the move towards a more democratic government and multi-party elections, the country has seen an increase in foreign investment and the reinstatement of aid programmes. Malawi has embarked on a privatisation programme designed to divest control in the numerous organisations set up during the 30-year reign of Dr Banda. The process started only a couple of years ago, so not many operations have yet been privatised. Nevertheless there is a comprehensive programme for privatisation, which is well underway.

There is a free press which ensures that almost every scandal receives publicity, with government dealings being relatively transparent. This, together with an opposition in Parliament, a Public Accounts Committee and the office of the

Auditor General, acts as an excellent watchdog to uncover any impropriety on the part of Government or its officers.

Bureaucracy is still a major problem and things move slowly. Political tensions also exist as the country learns to become democratic for the first time.

After 30 years of a one-party political system, in 1994 Malawi went through a successful election process in which a democratically elected government was put in place. A national unity government has since been installed in which the second vice-president comes from the opposition party. Malawi is a member of both SADC and COMESA. Malawi has bilateral trade agreements with South Africa and with Zimbabwe.

A2.4.2 Infrastructure

The Department of Water in the Ministry of Works is responsible for overall national water resources management. Connections are carried out by the local water board in each particular area. About 47 per cent of Malawi's population have access to safe water, and 53 per cent to sanitation.

Malawi has developed a number of hydroelectric schemes since independence which have enhanced electricity-generating capacity. The rural electrification programme has not progressed as well as expected, and at present about 3 per cent of rural households have access to electricity.

Being a landlocked country, Malawi is heavily reliant on its road, rail and air routes. The majority of Malawi's international freight traffic is moved by road through the country's 14,000 km road network. In recent years, priority has been assigned to the upgrading of roads, particularly to Tanzania, to open up the route to the port of Dar es Salaam, and the road between Lilongwe and lake Malawi to facilitate easy access for tourists. Rail freight links have also been bolstered by the improvement of railways. Air Malawi has a modern fleet of aircraft and offers services to regional and domestic destinations. The airports at Lilongwe and Blantyre have good cargo capacity as well as bonded and refrigerated warehouse facilities.

A2.4.3 Production

The Malawian economy is predominantly agricultural with approximately 90 per cent of the population living in the rural areas. Agriculture accounts for 40 per cent of GDP and 90 per cent of export revenues. Its main exports are tobacco, tea, sugar, coffee and other agricultural products. Manufactures account for a mere 15 per cent of GDP.

A2.4.4 Economic indicators

See Chapter 2.

A2.4.5 Investment incentives

See Appendix A3.

A2.4.6 Capital markets

The money and capital markets in Malawi are served by the Malawi Stock Exchange. The Malawi Stock Exchange (MSE) is effectively a sub-committee of the

Reserve Bank of Malawi and is regulated by the Stock Exchange Committee (SEC). The SEC comprises nine diverse representatives from the private and public sectors of the economy. The MSE is seen to be the main facilitator of the Government's privatisation campaign. Increased activity in the equity market has been and is expected to continue to be spurred by the Government's privatisation programme.

The commencement of the stock market in March 1995 was a significant milestone in Malawi's financial sector reform process. Historically, negative real interest rates and the absence of or access to inflation-hedged investments have contributed to a very low savings rate and savings culture in the country. Investment into property or assets was seen as one of the few ways of preserving ones wealth against inflation. The high-profile divestiture of profitable state-owned enterprises is set to create a savings environment more conducive to real returns.

The MSE is not expected to fulfil the traditional role of raising significant amounts of new capital for the private sector in the short to medium term due to the lack of demand, but is expected to increase efficiency, raise revenue for the Government and broaden the shareholder base of disposed state owned enterprises.

A2.4.7 Investment impediments

Impediments for investors include:

- the high rate of corruption,
- the landlocked nature of Malawi means that 90 per cent of the goods are transported by road and these are often of a poor standard,
- there is a lack of law and order in many of the cities,
- Malawi has a shortage of skilled labour and temporary employment permits can take up to 12 months to process,
- political tension following the replacement of Dr Banda as the president,
- bureaucracy.

A2.5 Mauritius

A2.5.1 Investment climate

Mauritius has always encouraged the private sector. The Export Processing Zones were established in the 1970s but only really took off in the 1980s. Appropriate legislation and good market access caused a large number of investors to invest in the EPZ. This has been the backbone of recent development. The other two pillars of the economy are sugar and tourism, both of which are also in private hands. The government, however, is cautious of foreign investment in certain sectors of the economy, especially retail, other service industries and manufacturing for the domestic market. But there is an openness to foreign investment in the offshore sectors, which is being encouraged currently. This includes offshore financial and insurance services and freeport operations.

Given the previous small role of the state in the economy, privatisation has been limited. Nevertheless the national airline has been partially privatised and there are plans to privatise the national telecommunications body.

There is a reasonably high level of transparency, nevertheless there is room for improvement. The press is very open, but the state runs the TV and radio.

Mauritius became independent in 1968 and a Republic within the Commonwealth in 1992. The political situation is stable with a vibrant democracy and does not effect the economy.

One of the main priorities of the Mauritian Government has been trade liberalisation. Import and export permits are no longer required except for a few specific products.

A2.5.2 Infrastructure

There is a regular supply of water in Mauritius and practically all Mauritians have access to clean water and sanitation. The whole country is served with electricity, which is essentially thermal. The remaining power is either supplied by hydro-electric stations or produced from bagasse (a by-product of sugar cane). There are, however, frequent power cuts and not infrequent water stoppages, requiring private back-up systems to be installed. Adequate storage facilities ensure a regular supply of petroleum.

The road network is 1,830 km long and provides easy access to all parts of the country. A highway links the Sir Seewoosagur Ramgoolam International Airport, situated at Plaisance, in the south-east of the country through the main towns in the centre of the country, including the capital Port Louis, to the north of the country.

Port Louis harbour includes a container terminal and terminals for the handling of bulk sugar, oil, wheat and cement. As part of its strategy to develop the island as a Regional Trade Centre, the Government has established a free port and an airport zone. The airport has recently been modernised, and there are plans to expand it further. Mauritius has air links with Europe, India, the Far East, Southern Africa and other Indian Ocean islands. Freight rates are negotiable with carriers based on bulk frequency.

The island's telephone network is fully digitised with computer-controlled electronic exchanges. The system provides International Direct Dialling facilities to all subscribers and automatic telex and facsimile links to most parts of the world. A Packet Switched Data Service for high speed transfer of data and cellular telephone systems are also available.

The public health service is free and all Mauritians have adequate access to health services. There are 11 private clinics on the islands, 12 public hospitals and a large number of health posts and dispensaries.

A2.5.3 Product standards and quality

The Mauritius Standards Bureau (MSB) was originally established by the Standards Act in 1975 as a division of the Ministry of Commerce and Industry. The Bureau became a corporate body in July 1993 and the earlier legislation was replaced by the Mauritius Standards Bureau Act 1993. This catered for an expanded role of the Bureau in the future industrialisation of the country and also gave more flexibility and autonomy for its activities. MSB has adopted an integrated approach to standardisation and quality. It establishes national standards which take into account the requirements of customers and the capability of manufacturers. Consistent compliance with these regulations is ensured through the use of third party quality assurance. This approach to standardisation and quality makes the MSB responsible not only for standards formulation and quality assurance but also for testing and metrology. The MSB has been certifying companies to ISO 9000 since January 1995.

A2.5.4 Production

The Mauritian economy is diversified into tourism, agriculture (mainly sugar), and manufactures (mainly clothing and textiles). The possible weaknesses of the economy stem from the lack of diversity within each category. The agricultural sector is dominated by sugar and the manufacturing sector by clothing and textiles. Furthermore, the industrial growth of the past decades has been built on drawing the population fully into the labour market, quantitatively mobilising resources, rather than qualitatively improving them. This growth path appears to be at an end, and further gains will have to come via improved labour productivity.

A2.5.5 Economic indicators

See Chapter 2.

A2.5.6 Investment incentives

See Appendix A3.

A2.5.7 Capital markets

The Stock Exchange Act 1989 institutionalised the more than century-old informal capital market into an effective stock market. To date there are 40 officially listed companies and eight officially listed debentures. There are also three foreign listings while 61 companies are listed on the over the counter market.

Market capitalisation currently stands at around Rs36 billion (US$1.8 billion) representing 45 per cent of GDP. Foreign participation as measured by the ratio of foreign turnover to yearly turnover currently stands at 23.5 per cent up from 2.2 per cent in 1995, the first year during which foreign nationals were allowed to invest freely in the stock market. The increase in market capitalisation is mainly due to two additional debenture listings. With a view to encourage companies to be listed on the stock exchange as well as encourage investment in the stock exchange at the individual and company level, the Government introduced a series of tax-related incentives.

A2.5.8 Investment impediments

Impediments for investors include:

- the small domestic market,
- high transport costs,
- there is relatively full employment in the country, which has driven wages up and required the country to import labour.

A2.6 Mozambique

A2.6.1 Investment climate

Since the adoption of the Structural Adjustment Programme in 1987, the environment for business development has improved significantly owing mainly to the gradual liberalisation of prices, exchange rate, foreign exchange market and credit; the introduction of new investment regulations, incentives and export processing zones; and the privatisation of state enterprises.

However, the industrial sector has been mired in a severe depression, which has its roots in a host of mutually reinforcing factors: lack of capital, weak managerial and technological capacity, low productivity, and lack of competitiveness in open, liberalised markets. To revitalise and modernise the sector, Government policies are directed towards privatisation, support to private domestic and foreign investment, competitive exports and import substitution and closer integration with regional and world markets, in particular, to take advantage of Mozambique's abundant natural and energy resources (e.g. cash crops, fisheries, agro-industry, mining products, hydro-electric power, natural gas). Government strategy emphasises a promotional approach rather than a regulatory one. Constraints that still affect industrial, export and private sector investment growth are being addressed. The investment code and incentive scheme were recently revised and the investment process was streamlined and simplified. With donor assistance, the Government also renders support to small-scale enterprise through the provision of foreign exchange for a range of industrial and commercial activities as well as business development and assistance services.

The Government is committed to creating an enabling environment for the development of a strong private sector. However the bureaucracy, corruption, red tape and administrative costs, induced by compliance with regulations, tend to inhibit such development. As with Angola some of the active legislation dates back to the late 1800s.

As an example, a foreign company entering the country for the first time without the proper contacts can spend six months and up to 10 per cent of its initial investment in fees to get itself incorporated. Predictably, after their first investment experience in Mozambique, companies hire expert advice from ex-functionaries, lawyers or consultant companies who will carry all necessary steps quite expeditiously for a price. The main problem with incorporation of companies is fees, which between notary and registry end up being about 5–6 per cent of capital, and the delays created by the Impressa Nacional (National Printing Press) – which has been known to take several months to produce Articles of Association. As many as 65 separate steps could be involved in setting up a business, which could take over a year in administrative procedures.

Extensive South African and Portuguese investment is evident throughout the country with the control of previously state-run enterprises, such as the breweries and cement factories, now being in the hands of external interests with their headquarters in either Lisbon or Johannesburg. Privatisation has now reached the point where even the Customs Department has been handed over to the private sector to run – this was also an effort to reduce corruption.

The Investment Centre in Maputo is a hive of activity. It also has a branch in Beira and is continually updating its investment guidelines in an effort to attract further investment. The Government has also adopted a policy to sell 20 million hectares of land it nationalised, although it appears that much of the land is going to members and friends of Frelimo, the ruling party, rather than to the peasant farmers who are presently working it. In another related measure in an agreement between Presidents Chissano and Mandela, which did not pass through Parliament, 1,000 Afrikaner farmers have been given land in northern Mozambique's sparsely populated Niassa Province.

The press is to some extent free. However, the daily newspapers in both the major centres of Maputo and Beira are controlled by the ruling party. There are two TV stations, one of which is independent, in addition excellent reception of TV broadcasts from South Africa can be received in the south and from Zimbabwe in the central region of the country.

A2.6.2 Infrastructure

Mozambique has copious water resources including more than 60 rivers and many lakes. The Government has undertaken to supply water for domestic and industrial purposes in urban centres. About one-third of Mozambicans have access to safe water.

Mozambique has the potential to provide the country with cheap electricity with a substantial surplus for export. The Cahora Bassa Dam, originally built by the Portuguese to supply electricity to South Africa, will produce 2,200 megawatts of power following completion of an ongoing rehabilitation project. In addition, further exploitation of the hydro-power resource along the Zambezi river basin is being analysed.

The shortest and most cost-effective route to the sea for many of the exports of landlocked Southern African countries is through Mozambique, with Maputo and Beira being the closest ports for Zimbabwe, Swaziland and parts of South Africa, Zambia and Malawi. During the war, however, the country's road and rail transport routes to its ports were constantly targeted for destruction by the rebel forces. Mozambique's transport system is thus the focus of many new infrastructural projects, the most significant being the Maputo, Beira and Nacala development corridor projects.

Traffic on all the major railway lines linking the ports has risen since the early 1990s, as peace returned to the country, rehabilitation of the rail system commenced and port facilities were improved.

Around 60 per cent of the road network is in bad condition and many of the rural roads are still dotted with land mines. A number of road rebuilding projects are currently underway.

Maputo is one of the largest ports in Africa, and there are harbours at Beira, Matola and Nacala. Management of the ports has improved dramatically. The national air carrier, Linhas Aereas de Moçambique services nine provincial capitals, as well as Johannesburg and Harare. Light aircraft services are also available.

Mozambique has telephone, telex, facsimile, e-mail and package switching facilities in place. A cellular phone network (GSM) is in operation as from July 1997, covering Maputo province in its initial phase.

A2.6.3 Production

Mozambique's economy is almost completely dependent on primary products. The agricultural sector is the largest employer with many small-scale and subsistence farmers. Agriculture accounts for 50 per cent of GDP and 90 per cent of exports. The agricultural sector has still not recovered from the civil war: output is currently at 75 per cent of its 1981 level, and grain has to be imported. Industry operates at only 20–40 per cent of capacity. The economy depends heavily on foreign assistance to keep afloat.

A2.6.4 Economic indicators

See Chapter 2.

A2.6.5 Investment incentives

See Appendix A3.

A2.6.6 Capital market

No money market has been created yet. Nevertheless, external assistance (the Banco de Portugal) has been contracted to assist the Central Bank in dealing with this matter.

There is no capital market functioni2ng in Mozambique, however a stock exchange is due to be opened in late 1999. Foreign investment will not be allowed on the stock exchange. Initially, there will only be four counters trading.

A2.6.7 Investment impediments

Impediments for investors include:

- bureaucracy,
- corruption.
- registration procedures and fees,
- outdated legislation,
- high taxation for non-incentive scheme investors,
- lack of access to credit and poor banking facilities,
- poor telecommunications and infrastructure,
- frequent power cuts,
- lack of technology and language barrier,
- difficulty in acquiring land.

A2.7 Namibia

A2.7.1 Investment climate

The press in Namibia is seen to be free. Namibia is considered one of the most stable and dynamic economies within the region and a protagonist of private sector development. The private sector plays a strong role and foreign investment is encouraged. Export Processing Zones legislation has recently been enacted to encourage foreign investment.

The Namibian political situation is that of a stable democracy. In December 1994, general elections resulted in a two-thirds majority for the government.

A2.7.2 Infrastructure

At present, Namibia is a net importer of energy; it could however become an important exporter, should the plans to expand the hydro-power along the Kunene river and/or commercial development of the large Kudu gasfield become a reality. Water is a scarce resource in Namibia and the country is negotiating with neighbouring countries to share access to rivers, in order to meet future demand.

Walvis Bay has a deep-sea port with excellent berth and wharf facilities. The port handles most of the country's fish exports and is linked with Windhoek through rail and road. Two major trans-continental highway construction projects are underway to improve Namibia's link with neighbouring countries: the Trans-Kalahari linking Namibia with Botswana, and the Trans-Caprivi linking Namibia with Botswana and Zambia. The former will considerably improve transport linkages between Namibia and South Africa's core industrial and economic centre, the Gauteng province. Namibia's railway company, TransNamib, covers more than 2,382 km of track with the main line running from the South African border via Windhoek to Tsumeb in the north, connecting with important centres such as Luderitz, Swakopmund and Walvis Bay.

Air Namibia operates domestic, regional (Angola, Botswana, South Africa, Zambia, Zimbabwe) and international (Frankfurt, London) scheduled passenger and freight services. Namibia has 28 licensed and some 300 unlicensed aerodromes and airstrips.

Telecommunications are well developed and a rapidly expanding mobile telephone network covers the country's main 10–15 centres.

A2.7.3 Production

The Namibian economy is resource-based. The 'traditional' exports have been minerals (diamonds, uranium and base metals) and commercial agriculture (sheep and cattle ranching). Only about 400,000 Namibians out of population of about 1.6 million can be classified as being fully in the formal economy, with the balance being rural and engaged in subsistence agriculture. The challenges facing the Namibian Government revolve around bringing the bulk of the population into the formal sector and extending the services enjoyed by the majority of urban residents to the countryside.

A2.7.4 Economic indicators

See Chapter 2.

A2.7.5 Investment incentives

See Appendix A3.

A2.7.6 Capital market

The Namibian Stock Exchange (NSE) was established in 1992, and must be counted as a success story. With a capitalisation of N$168 billion, it ranks as one of the largest stock exchanges in Africa after the Johannesburg Stock Exchange (JSE). The volume in trading in the first six months of 1997 exceeded the 1996 year mark. The stipulation that 35 per cent of pension funds must be invested locally has led to a growth of dual listings on the NSE and JSE. The total number of listings in 1997 was 32, many of which are also listed on the JSE.

There are four stockbroking firms, three of which trade under the names of large South African members, and there are close links between the NSE and the JSE. A Memorandum of Understanding was signed with the JSE in August 1997, which means that the two exchanges will work closely together. The NSE obtains technical assistance from its Johannesburg counterpart which, in turn, benefits from dual listings. The NSE is relatively dependent on South Africa with regard to dual listings, and this has enabled it to grow rapidly in the five years of its existence.

The most popular sources of funding for companies listed on the NSE are equity financing, short-term loans, and issues of debentures and bonds.

The capital market is becoming an increasingly important source of funds for long-term financing. This is evidenced by the growing number of listings on the NSE and the rising amount of funds raised through public offerings. The Government believes that its development strategy requires a dynamic and innovative capital market in order to meet new and expanded funding demands for capital investment.

There is a lack of liquidity in the bond market. Asset managers have to wait for the maturity date before they can sell government bonds, and therefore a secondary market needs to be established in order to increase liquidity.

A2.7.7 Investment impediments

The small number of people in the private sector, means that some skills need to be imported, e.g. in information technology.

A2.8 South Africa

A2.8.1 Investment climate

The first democratic elections in the history of the country were held in April 1994. A Government of National Unity under the leadership of Nelson Mandela replaced the previous Apartheid Government which had been in place since 1948. A peaceful political transition was effected.

After the unbanning of the ANC in February 1990, management of the economy slipped as the crisis of credibility suffered by the then regime prevented it from taking the fairly difficult decisions which were necessary to implement a credible macroeconomic strategy. During this time the economy essentially moved sideways, waiting for clear direction. After the elections of April 1994 the economy began to recover, and has since moved on to a 3–4 per cent p.a. growth path. In addition, the restoration of international funding and the credibility of the new Government have restored investor confidence somewhat. South Africa faces enormous challenges, in particular extending services into black areas, increasing the labour absorption capacity of what is a capital-intensive economy, overcoming the housing deficit, meeting the expectations of the majority of its people, and eradicating once and for all the culture of non-payment of services.

The new Government, when it came to power, claimed that it was moving away from the traditional ANC line of nationalisation of the economy, and would follow a mixed economy approach. In practice this has happened, and privatisation of some key industries is underway, thereby demonstrating commitment to this approach.

The press is relatively free.

Investment South Africa was launched in February 1997 as the country's investment promotion agency. Its core functions are to promote South Africa as a destination for investment and to facilitate the needs of investors that invest in South Africa.

A2.8.2 Infrastructure

South Africa is largely semi-arid and prone to erratic, unpredictable droughts and floods. Many large storage dams have been constructed to regulate the naturally variable flow of rivers, and to ease water transfers between catchments. An important hydroelectric scheme is the Lesotho Highlands Water Project, a joint venture with Lesotho.

South Africa is committed to increase access to electricity from the present 50 per cent to 72 per cent of households by the year 2000. Currently, South Africa supplies more than half of all electricity generated in Africa.

South Africa's modern transport system plays an important role in the national economy and in the economies of several other African states. Several countries in Southern Africa use the South African transport infrastructure to move their imports and exports. The national road system connects all the major centres in the country to one another and to neighbouring countries. The system covers approximately 7,000 km of roads, of which about 660 km are toll roads. Road transport accounts for roughly 8 per cent of all freight being transported by land in South Africa. The railway system is well developed, covering about 36,000 km of track, of which almost half is electrified.

Seven of the 16 biggest ports in the greater Southern Africa region are located in South Africa. The ports of Durban, Port Elizabeth and Cape Town provide large container terminals for deep-sea and coastal container traffic.

The Airports Company operates nine state airports, three of which (Johannesburg, Durban and Cape Town) are classified as international airports. The national airline, South African Airways (SAA), serves both domestic and international routes. Privately run airlines compete with SAA.

South Africa has nearly 90 telephone lines for every 1,000 inhabitants. Telkom, South Africa's major telecommunications company, offers telegram services, telex and teletex services, public e-mail and electronic data interchange, enhanced facsimile services, a telephone conference facility, and a nationwide network of microwave channels to link the South African Broadcasting Corporation and M-Net television studios and transmitters. Optical-fibre networks carrying voice and data have been established in and between all major centres. There are two cellular telephone networks in South Africa, and in March 1997 South Africa had approximately 800,600 cellular phone subscribers. Projections for the year 2000 currently stand at 3 million.

A2.8.3 Product standards and quality

South Africa has the most advanced systems of standards and quality assurance in the region. This is implemented though the South African Bureau of Standards (SABS). There is also the South African Council for Certification of Quality System Auditors (SACCQA) which is a counterpart of the IRCA in UK. SACCQA have a written examination to assess suitability of Quality System Auditors for registration.

A2.8.4 Economic indicators

See Chapter 2.

A2.8.5 Investment incentives

See Appendix A3.

A2.8.6 Capital markets

The South African money and capital markets are the most developed in the SADC region. The Johannesburg Stock Exchange (JSE) is one of the larger stock exchanges in terms of market capitalisation – in 1996 it was ranked 16th in the world. It is governed externally by the Stock Exchanges Control Act of 1985, and internally by its own rules and regulations. In 1984, the JSE established a development capital market similar to Britain's unlisted securities market. Some of the other financial institutions and mechanisms include finance companies, participation mortgage bonds, unit trusts and insurance companies.

A2.8.7 Investment impediments

- the degree of violent crime is one of the highest in the world, especially in the major business centres,
- the labour unions are strong and reasonably militant, making strikes, sit-ins and shut-outs reasonably normal,
- the retirement of President Mandela has created some uncertainties,
- wage costs are relatively high.

A2.9 Swaziland

A2.9.1 Investment climate

The Swaziland National Development Plan, the eighth in a series of 'rolling' plans recognises that the surge of investment into Swaziland in the period 1987–91 arose mainly because of trade sanctions against South Africa. International companies, then based in South Africa realised that their best interest would be served by relocating elsewhere and as a result Swaziland secured many foreign investments including that of Coca-Cola and Fridgemaster. Pressure against South Africa began to ease in early 1990 after the Nationalist Party accepted the need for political reform and the release of Nelson Mandela. Sanctions were lifted against South Africa in 1993. Since then foreign investment from all over the world has been encouraged by the new Government in Pretoria resulting in a decline in interest in Swaziland. Whilst some existing companies such as Usutu Pulp, Mhlume Sugar, Cadbury's and Fridgemaster have launched expansion plans, no new substantial investors have been attracted to Swaziland since 1991. Employment creation is extremely low and unemployment is expected to increase. The Development Plan predicts that foreign direct investment will decline in real terms and growth will lose momentum. It concludes that the need to stimulate labour-intensive investment is becoming increasingly urgent.

The Swaziland Government falls under an absolute monarchy with the King as the Head of State, it has, however, full autonomy. There is continued pressure for further democratisation from modernists which include the intelligentsia and unionists.

Swaziland has always had an open policy to the private sector. A new anthracite mine was opened at Maloma in April 1995, which was a joint venture between Carbon Ex and the Swazi Government. Whilst Swaziland enjoys a relatively high per capita income, the Government is concerned over the lack of expansion in the private sector. To this end, a major plan to stimulate investment was unveiled in June 1995. Its aim is to liberalise the economy, cut out bureaucracy and to adopt a policy flexible, particularly towards tax incentives.

Swaziland has a free press, with numerous weekly and daily newspapers. It also has, apart from its national television service, three radio stations, two of which are private concerns.

A2.9.2 Infrastructure

Swaziland produces some electricity, but the bulk is imported from South Africa.

The country has a railway system covering 300 km, connecting it with Mozambique and South Africa. The system moves close to 4.5m tonnes of freight p.a. and provides an important link for imports and exports. The road system is in good condition, and the main route between Mbabane and Manzini is being upgraded to accommodate the heavy flow of traffic on that route. The telecommunications system has been upgraded during the recent years and a feasibility study on the viability of a cellular network has been conducted.

An inland dry port, located at the Matsapha Industrial Estate, saves time and expense for Swaziland's importers and exporters using the Durban port. The recent investments in the upgrading of Mozambique's road, rail, and port in Maputo for exports, especially sugar which is freighted through this port, has been beneficial to Swaziland.

Royal Swazi National Airways operates domestic and regional flights from Matsapha International Airport. Airlinks between Swaziland and other regional capitals are frequent and well developed.

A2.9.3 Production

The traditional economy is based on subsistence agriculture, which absorbs more than 60 per cent of the population. The formal economy is still dominated by agriculture, despite the increasing importance of manufactures, principally because it provides inputs for the growing agro-industry. The principal agricultural industries are commercial forestry (mainly pine) and sugar cane.

Mining has declined in importance in recent years; high-grade iron ore deposits were depleted by 1978, and health concerns cut world demand for asbestos. Swaziland is heavily dependent on South Africa, from which it receives 90 per cent of its imports and to which it sends about half of its exports.

A2.9.4 Economic indicators

See Chapter 2.

A2.9.5 Investment incentives

See Appendix A3.

A2.9.6 Capital market

There is only one firm of stockbrokers, which also runs the Swaziland Stock Exchange (SSE). The reason for this is that there is insufficient turnover to support several firms of stockbrokers and a separate SSE management. The intention, however, is to split the two functions as soon as circumstances allow.

The development of the stock market will be affected by two important pieces of legislation, namely, the Securities Bill and the amendment to the Company Act. The latter should be enacted in 1998, but the Securities Bill has had a chequered career for the last few years. The present version is considered to be unsuited to the needs of an emerging market and is consequently being revised in consultation with other African stock exchanges. In the meantime the SSE is self-regulating.

The establishment of closer links between Southern African stock exchanges is being investigated under the auspices of SADC. The idea is to stimulate intertrading by linking the stock markets through the Johannesburg Stock Exchange (JSE). The emerging stock markets would be able to use the JSE's technology, and the SSE would benefit if exchange control were to be removed.

Although activity on the SSE is relatively dormant, there is clearly potential in Swaziland for longer-term investment which could be captured by the capital market. This has been demonstrated by the success of the first unit trusts in mobilising funds in the domestic money market. Moreover, long-term contractual savings institutions have continued to grow. At the end of the 1996/7 financial year the contractual savings institutions held 54 per cent of longer-term government stock and the commercial banks the balance.

A2.9.7 Investment constraints

- with South Africa now being accepted by the international community, there are few reasons to use Swaziland as an alternative,
- there is low domestic demand,
- the movement towards democracy could bring about some upheaval.

A2.10 Tanzania

A2.10.1 Investment climate

Tanzania's first president, Julius Nyerere pioneered the belief in a unique African vision of socialism. The country continues as one of the continent's last 'one-party states', though the present Government has entered into dialogue with groups with a view to encourage the development of multi-party democracy.

The country is a member of COMESA, SADC and the East African Community.

Tanzania has embarked on an aggressive programme to encourage private sector investment after 30 years of disastrous experiments with African socialism. The donor community has made it clear that unless transparency and corruption within the Civil Service is eliminated they will once more withdraw support. The setting up of the Tanzania Revenue Authority to replace the Tax and Customs Department was seen by most in the private sector as a step in the right direction. Transparency is now improving.

Tanzania has moved away from total state control to a policy of privatisation, with almost all Government enterprises being sold to the private sector.

The press in Tanzania is now free, resulting in daily critical reports, in all but those publications controlled by the Government or Party, of misconduct in handling public or private moneys or affairs.

The country has extensive unexploited natural resources in minerals, arable land and sea and freshwater fish. It has relatively cheap labour. The Tanzania Investment Centre (TIC) is there to facilitate investment applications into the country.

Tanzania is one of the poorest countries in the world with an estimated GNP per capita of US$90 in 1993. It has a population of about 28.7 million growing at approximately 2.5 per cent p.a.

A2.10.2 Infrastructure

The national Urban Water Authority administers urban water supply, and regional water engineers service the rural systems through local/village governments. All district headquarters have water systems.

Wood-based energy resources accounted for approximately 90 per cent of energy needs in 1993. Petroleum met 9 per cent of energy needs, while hydroelectricity and coal provided the balance. Petroleum has to be imported, thus absorbing large amounts of the country's foreign exchange. There is great potential for developing alternative sources of energy, notably hydroelectric power, coal natural gas and solar energy.

Tanzania is well served by international, land, sea and air transportation routes. In most parts of the transport sector, major rehabilitation works are being undertaken. The size of the country and its low population density make maintenance and expansion of the transport infrastructure very costly. A road network connects Tanzania with Kenya, Malawi, Zambia, Uganda, Burundi and Rwanda, and any part of the country can be reached by the existing comprehensive road network of almost 54,000 km, of which 3,200 km are asphalt. Many roads are currently in poor condition and a major rehabilitation project began in 1990.

Tanzania Railways Corporation runs the 2,600 km system linking Dar es Salaam with the central and northern regions. The Tanzania–Zambia Railway Authority (TAZARA) operates 1,860 km of track, 976 km of it in Tanzania, which links Dar es Salaam with Kapiri Mposhi in Zambia. It is mainly used to transport Zambian copper to Dar es Salaam port and Zambian imports in the opposite direction. The principal coastal ports are Dar es Salaam, Tanga, Lindi, Mtwara and Zanzibar. They are managed by the Tanzania Harbour Authority.

International airlines operate in and out of Tanzania through Dar es Salaam and Kilimanjaro airports. There is a third international airport on Zanzibar. There are also several regional airports and numerous landing strips for use by charter planes. Air Tanzania operates regular services to most regional towns and has scheduled flights to neighbouring countries and to the Middle East.

Telecommunication facilities are available in most parts of the country. The telephone system in Dar es Salaam is being rehabilitated. Telephone, fax, telex, expedited mail service, private couriers and cellular phones are available. Tanzania has two earth satellite stations in Dar es Salaam with a total capacity of 420 channels.

A2.10.3 Production

The Tanzanian economy is primarily agricultural in that 90 per cent of the population are employed in this sector, which in turn is responsible for 58 per cent of GDP. The manufacturing sector accounts for only 8 per cent of GDP and consists mainly of light manufacturing.

A2.10.4 Economic indicators

See Chapter 2.

A2.10.5 Investment incentives

See Appendix A3.

A2.10.6 Capital market

After an intensive public education campaign by the Capital Markets and Security Authority (CMSA) potential investors have come to accept that there is a need to have a stock exchange in Tanzania. A number of potential local investors have shown enthusiasm to buy shares in firms through the Dar es Salaam Stock Exchange (DSE) in a bid to diversify their investment portfolio and spread risks with a possibility of reaching higher returns for other investments. The Dar es Salaam Stock Exchange was launched in February 1998. In the past, most financial institutions have invested their money in treasury bills and bonds, and in real estate to the detriment of the productive sectors of the economy. The government intends to spread ownership of shares to as many people as possible in privatised state enterprises. In January 1997 the Capital Markets and Securities Act of 1994 was amended to include a provision for establishment of collective investment schemes such as unit trusts.

A2.10.7 Investment impediments

- the TIC approval process is very time-consuming, because of poorly trained staff and slow decision-making by those in authority,
- the Tanzania Revenue Authority (TRA) concentrates more on revenue collection than on ensuring investment project equipment and material is released speedily,
- customs bureaucracy can delay the release of goods for up to 90 days,
- the infrastructure throughout the country is poor, especially in the provision of water and electricity for industrial and domestic use. Many roads are in a state of disrepair. The telecommunications network has been badly installed,
- the labour force is described as unskilled, unmotivated, unimaginative and unproductive,
- the poor economy has led to reduced health levels and rampant diseases such as cholera, AIDS and malaria,
- the financial services are poor,
- institutionalised savings to mobilise resources for investment in infrastructure do not exist and the existing financial institutions are dominated by commercial banks that are very risk-conscious.

A2.11 Zambia

A2.11.1 Investment climate

After nearly 30 years of one-party rule, Zambia changed its political landscape by emerging with a multi-party democratically elected government in 1991. The new government has since embarked on economic liberalisation, privatisation of the parastatal companies and creation of a market-oriented economy. The Zambian Government has probably one of the most progressive privatisation programmes in Africa and has recently been praised by the IMF and the World Bank for the progress made in this regard.

The relative ease of obtaining residence and work permits, is encouraging would-be Zimbabwean investors (amongst others) to invest in Zambia.

Transparency – both the Government and donor agencies are seen to be making efforts to ensure that investor confidence is generated and maintained. An independent Revenue Authority has been established to take over customs and tax administration.

Though a highly urbanised economy with close to 60 per cent of its people living in the cities, mainly in the Copperbelt, Zambia is still heavily dependent on agriculture. The market-oriented reforms that the Government has carried out include the liberalisation of the financial markets, interest and exchange rates, and prices which are are now market determined. Agriculture, which traditionally had been subject to comprehensive controls, has been freed. Import restrictions have been removed, customs duties lowered and virtually all restrictions on current and capital transactions eliminated. It now has probably the lowest tariff regime in SADC.

A2.11.2 Infrastructure

The Government of Zambia has embarked on the process of rehabilitating the road network, which covers 35,168 km.

The rail network is also in need of urgent rehabilitation. Historically, Zambia has been served by a rail line running south to South Africa via Zimbabwe and north through the Zambian Copperbelt to Kinshasa in DR Congo. Zambia Railways is responsible for this rail line. In the mid-1970s another rail line linking Zambia and Tanzania became operational. This is jointly run by Zambia and Tanzania through Tanzania–Zambia Railway Authority (TAZARA). Other promising rail routes are Zambia–Mozambique (Beira line), Zambia–Malawi (Mchinje line), Zambia–Namibia and Zambia–Angola. Construction of the Zambia–Malawi line has reached an advanced stage.

Lusaka International Airport is Zambia's main airport connecting Zambia with other African countries and Europe. A number of local and neighbouring countries' airlines serve the regional market. British Airways operates flights between Lusaka and London. Lusaka International Airport is assisted by three small airports in Ndola, Livingstone and Mfuwe, as well as secondary airfields in Chipata, Kitwe, Kasama, Mongu and Solwezi.

Zambia has vast water resources and coal reserves for hydroelectric power generation. This renders electricity relatively inexpensive in Zambia. Although most of the electricity is supplied from major hydro stations, there are also small diesel power stations in rural areas. The distribution of electricity is however mainly concentrated to Lusaka and the Copperbelt.

Over 97 per cent of the telephone exchanges are automatic, and the country enjoys direct dialling facilities, fax, e-mail and television links with the rest of the world. In the main urban centres public telephones and independently operated cellular telephone networks are in place. The government is currently reviewing the process of privatising the Zambia Telecommunications Company.

A2.11.3 Production

Over 85 per cent of the people are involved in agriculture. Most of these are subsistence farmers as agriculture accounts for a mere 12 per cent of GDP. Zambia's main exports are copper, zinc, cobalt, lead and tobacco, although copper dominates the export picture.

A2.11.4 Economic indicators

See Chapter 2.

A2.11.5 Investment incentives

See Appendix A3.

A2.11.6 Capital market

The capital market in Zambia is currently developing and can best be described as emerging.

The introduction of the Lusaka Stock Exchange has marked a step forward, but to date only seven companies have sought listing on the stock exchange. The moneys raised through the stock exchange so far amount to K664.7 billion. The performance of the shares on the stock exchange has bettered returns of treasury bills, government bonds and bank deposits and, should this continue, the Stock Exchange should prove to be a valuable contributor to the raising of long-term capital.

Corporate income tax for companies on the Lusaka Stock Exchange is reduced to 30 per cent, against the norm of 35 per cent. There are no restrictions with regard to foreign ownership and share holding levels. There is no capital gains tax.

A2.11.7 Investment impediments

- The political turmoil since Mr Chiluba was democratically elected to power has included an attempted coup,
- international aid to the country has been stopped on a number of occasions for prolonged periods of time as donors have protested about political developments,
- the extensive liberalisation of the economy has meant that domestic industry has little protection from imported products,
- the road and rail networks are old and in a poor state of repair,
- the economy's heavy reliance on copper has meant that the impact from the drop in the price of copper has been significant.

A2.12 Zimbabwe

A2.12.1 Investment climate

Zimbabwe has had a stable political environment by regional and international standards. Though multi-party elections are held every five years, the ruling party ZANU PF has been in power since independence in 1980, with very little challenge from the opposition parties. However there have been recent nationwide strikes that have been supported by the majority of the working population against decisions made by the Government regarding the increase of taxes and prices of basic commodities. The Government has responded aggressively to these protests with a number of people being shot and tear-gas being widely used. The designation of 1,500 commercial farms to be removed from the owners for nominal sums of money has led to a withdrawal of foreign aid and loss of investor confidence. With Zimbabwe being an agriculturally based economy, the economy as a whole has also been affected, with the farmers holding back on capital investments and the ripple effects on agro-industry have been tremendous. It is still to be seen whether this move will effect the ability of the country to feed itself. At the time of writing most of the owners of the designated farms are in the process of appealing against the Government's ruling.

Zimbabwe has always had a strong private sector, which has continued in spite of attempts since independence to move to a socialist-type economic structure. Government has now committed itself to a mixed economy, but still has certain socialist principles.

The State is viewed as not yet keen to privatise, despite pressure from the donor community, rather it prefers commercialisation of parastatals. The Government has also been accused of lacking transparency in some of its dealings with the private sector, for example in the Hwange Power Station deal and in the development of cellular phone systems.

Whilst there is good legislation which supports foreign investment, and the approval process has been simplified considerably in recent times, political statements are disconcerting and show less than whole-hearted commitment to foreign investment.

A2.12.2 Infrastructure

Generation and distribution of electricity is undertaken by the Zimbabwe Electricity Supply Authority. Hydroelectric power is generated from the Zambezi river at Kariba, and there are four thermal power stations. Zimbabwe is on the regional power grid linking it to sources in Zambia, D.R. Congo and South Africa.

Zimbabwe has an extensive rail and road transport network linking it to principal ports in Mozambique and South Africa, and to all neighbouring countries. The rail network, supplemented by the National Railways of Zimbabwe's Road Motor Services and a thriving privately run trucking industry, handles the bulk of imports and exports. The railway company is administered as a parastatal.

There are 18,435 km of designated state roads, of which 8,710 are surfaced and 9,725 gravelled. Another 61,630 km in rural areas are maintained by local and district authorities.

The national airline, Air Zimbabwe, is a commercial body administered by the Government. It provides regular internal connections to Bulawayo and the principal tourist destinations of Victoria Falls, Hwange and Lake Kariba. It also provides direct services to various African destinations, Australia and the United Kingdom. Several established regional and international carriers have scheduled flights to Harare. Affretair, the national cargo airline, handles specialised cargo for destinations worldwide. Facilities include a 200-tonne cold room at Harare Airport.

Zimbabwe is in the process of introducing a modern digital telephone system to replace the aged electro-mechanical exchanges. A fibre-optic cable network is being laid throughout the country. For international traffic there are two earth satellite stations serving the Atlantic and Indian Oceans. Cellular telephones have been introduced.

A2.12.3 Production

Zimbabwe is a primary product exporter. The economy is primarily agricultural in that three-quarters of the labour force is employed in agriculture which also supplies 35 per cent of the commodity exports (30 per cent tobacco, 5 per cent other). The manufacturing sector is based on the processing of primary products, and contributes approximately 30 per cent to GDP. Though mining only accounts for 5 per cent of GDP and employment, it accounts for 40 per cent of exports.

A2.12.4 Economic indicators

See Chapter 2.

A2.12.5 Investment incentives

See Appendix A3.

A2.12.6 Capital market

The present stock exchange opened in 1946, and the Zimbabwean Stock Exchange (ZSE) now has a market capitalisation of some Z$65.7 billion (US$4.4 billion). Although small by international standards, the ZSE is one of the most developed and active markets in Africa. There are two indices, mining and industrial. Of the 64 listed companies, seven fall under the mining index. Private investors account for approximately 15 per cent of equity trading and an increasing foreign involvement is evident with foreigners accounting for about 70 per cent of turnover since June 1993. The opening of the market to foreign investors has also increased liquidity, which historically has been low.

In addition to the equity counters, government stocks, municipal stocks and Zimbabwe Electricity Supply Authority (ZESA) stocks with approximately an aggregate face value of Z$10 billion are in issue. The bond market is underdeveloped and most stocks are held to maturity. Foreign investors' participation in the bond market is limited to 40 per cent of primary bond issues (5 per cent per individual investor) and to an amount not exceeding 15 per cent of the total funds they invest in Zimbabwe. Unit trusts are also in existence, but these are not protected by specific legislation and foreign investment is not permitted at present.

The performance of the ZSE has been characterised, overall, by growth but with droughts causing major adjustments.

Government finances have remained problematic despite the progress achieved in reforming key areas of the economy. A notable problem of the reform programme has been the failure to bring down the budget deficit from 10 to 5 per cent of GDP as envisaged under ESAP. Government has failed to substantially reduce expenditure with falling revenues and the deficit was financed by expensive domestic borrowing.

The budget reliance on domestic bank sources of finance has increased the interest burden on the budget. Interest payments on domestic debt accounted for 24 per cent or Z$2.8 billion of total central government expenditure in the first half of the 1995/6 fiscal year. Unbudgeted expenditures have to be contained if high domestic borrowing and the associated high debt servicing are to be brought under control. Details of government measures to address the current budget deficit problem are awaited. These, it is hoped, will include revenue enhancement and accelerated privatisation and sale of state assets.

A2.12.7 Investment constraints

- recent industrial unrest has had a significant impact on the country, with large numbers of workers not reporting for work and some shops and factories being damaged by the riots,
- lack of transparency regarding Government decisions,
- political instability,
- at the time of writing, the exchange rate is volatile, making it very difficult to predict costs and profit.

Appendix A3
Export and Investment Incentives by Country

Nora Hill

This appendix describes the export and investment incentive frameworks of SADC members. It is based on policies and related information as at June 1998.

A3.1 Angola

A3.1.1 Investment incentives

Foreign investment is considered crucial to Angola's reconstruction process and the promotion of foreign investment is considered a priority. The following are a few of the current investment incentives:

- Foreign companies are guaranteed equal treatment.
- Nearly all sectors of the economy are now open to foreign investment.
- Special fiscal incentives are offered to foreign investors who employ a high proportion of Angolans and provide them with professional training and benefits equal to foreign employees.
- Foreign investors may transfer profits, dividends and the proceeds from the sale of investment abroad.
- Investments less than US$5 million no longer need prior government approval.
- An industrial tax exemption is available for a limited period if the income is related to new industries whose products are not produced in the country or goods that already exist but whose business dimension, investment, technological procedures, quality of the products, value of local resources, local employment are larger than those already in existence.
- Fifty per cent of the tax rate to companies who establish in specified regions or who use local raw materials.

A3.1.2 Export incentives

Angola has one of the highest volumes of exports in the SADC region, largely due to exports of oil. There is much underutilised potential in other areas however, such as diamond mining, coffee and fishing. The promotion and diversification of exports have been recognised by the Government as ways to facilitate production and growth. Any company developing a project in Angola which fulfils any of the investment criteria, or which increases export activity in the country, may apply for tax exemptions or benefits. As a member of the WTO, Angola may not support exports with incentives which contravene WTO rulings.

A3.2 Botswana

A3.2.1 Investment incentives

The Financial Assistance Policy (FAP) is a system of tax-free grants available to businesses engaged in import substitution, export promotion, employment creation, selected ‘linking’ services (those which provide a marketing or collection function for their productive activities, including associated repair and maintenance facilities) and tourism. Applications are considered on a case-by-case basis. The value of the grants will differ according to whether the business is classified as a small, medium or large-scale enterprise. In the case of a medium or large-scale project, three different grants are available:

Capital grant: This is intended for the purchase of plant and machinery. It assists with the initial project investment through the purchase of fixed assets. If the project is 100 per cent citizen-owned, P1,500 (US$420) is granted for each job created. If the project is owned by non-citizens or is a joint venture, the amount of P1,000 (US$295) is granted per job created.

Training grant: This covers 50 per cent of citizens’ off-the-job training costs incurred over the first five years of the project (including the costs of tuition, board and lodging, travel, materials and wages). The value of the grant is tied to improvements in productivity. Reimbursements are made at three-monthly intervals.

Unskilled labour grant: This is a partial reimbursement of the wages paid to unskilled employees over the first five years of the project where those wages are close to the statutory minimum. Eighty per cent of wages paid during the first two years are reimbursed, declining to 20 per cent in the fifth year. Reimbursements are made at three-monthly intervals.

Brewing or distilling operations are not eligible. New projects and expanding productive businesses can apply for assistance but only those which raise the national income and have a reasonable chance of becoming financially viable will receive assistance.

Small-scale projects (fixed scale capital investment of less than P25,000): FAP assistance in this category is restricted to citizens. Assistance is in the form of grants, with amounts determined by location, ownership by women and number of jobs created. Industrial projects which qualify are administered by the Department of Industrial Affairs in the Ministry of Commerce and Industry.

Medium-scale projects (fixed capital investment of between P75,000 and P2 million): Non-refundable grants are awarded to expanding and some new productive businesses. As the emphasis of FAP is on job creation, labour-intensive enterprises are favoured. Projects must also have a minimum economic rate of return of 6 per cent. Industrial projects which qualify are administered by the Department of Industrial Affairs in the Ministry of Commerce and Industry.

Large-scale projects (fixed capital investment in excess of P2 million): The Ministry of Finance and Development Planning administers large scale projects.

In addition to the FAP incentives, investors located in the Priority Development Centre (Selebi-Phikwe) receive a nominal corporate tax of 15 per cent for the first five years of project life and exemption from withholding tax on dividends paid for the first ten years of project life on the share of profits derived from exports.

A3.2.2 Export incentives

Production for the export market is encouraged, with the following export incentives in place:

- Duty drawback facility in the procurement of raw materials needed for the production of exportable merchandise.
- In some cases rebates are available on import duties on raw materials and/or capital goods, as an incentive to manufacturers to produce for the export market.
- No surcharge on the importation of machinery and equipment required in the production for exports.
- A Bureau of Standards has been established to help facilitate exporters obtaining quality and standards certificates and also the receiving of advice on maintaining high quality.
- The Botswana Export Credit Guarantee Company has been established with assistance from the Botswana Development Corporation to address the pre- and post-shipment credit problems faced by exporters.

A3.3 Lesotho

A3.3.1 Investment incentives

Lesotho offers incentives packages specifically designed to minimise start-up costs, increase operating profits, which in turn will boost return on investment, and increase shareholders' value. Incentives are:

- free repatriation of profits,
- a non-repayable skills training grant which covers 75 per cent of the wage bill during the initial training period for a newly-established manufacturing company,
- unimpeded access to foreign exchange,
- loan guarantees for loan finance provided to clients of the LNDC by other financial institutions,
- equity participation (in selected cases) by the LNDC, in the absence of a private investor,
- provision of serviced industrial plots, customised factories, commercial and residential properties for lease,
- no withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders,

- General sales tax (GST) exemption on capital machinery and equipment for manufacturing industries,
- a permanent maximum tax rate of 15 per cent on profits earned by manufacturing companies,
- Double Tax Avoidance treaties with South Africa, Mauritius, the USA and the UK.

A3.3.2 Export incentives

- manufacturers receive a full rebate on imported raw materials or components for use solely in the processing or manufacturing of goods for the export market,
- a comprehensive export finance facility to support exporters with working capital on concessionary credit.

Lesotho developed its Export Finance Scheme in 1987 to: (i) encourage and assist Lesotho exporters to execute their export orders with greater ease by providing pre-shipment and post-shipment export credit; (ii) strengthen the competitive ability of Lesotho exporters in international markets; and (iii) enable Lesotho exporters to penetrate new markets at a comparative advantage. The main components of the scheme are:

Credit guarantee scheme: The exporter's bank applies for export finance on behalf of its client to obtain an export credit from the LNDC. This guarantee may be used to provide pre- and/or post-shipment finance to an exporter.

Pre-shipment credit scheme: The scheme is designed to assist exporters to execute their production for external markets by financing their working capital needs on the basis of confirmed export orders.

Post-shipment credit scheme: This is a loan which enables an exporter to start a new manufacturing cycle and covers working capital requirements from the day of shipment until payment from the foreign buyer is received. This enables companies to offer favourable credit terms to their customers without straining their working capital requirements.

Refinance arrangement: A special re-lending facility is granted by the Central Bank of Lesotho to commercial banks to provide concessionary export finance to exporters. It encourages commercial banks to assist exporters timeously, thus contributing to improved export performance.

Counter-guarantee arrangement: LNDC is also supported by a counter-guarantee issued by the Central Bank to assume 95 per cent of the risk associated with guarantees.

Central Export Development Fund: The refinance operations and counter-guarantee activities get financial backing from the CEDF which is organised on a revolving basis. The fund is managed by the Central Bank of Lesotho.

A3.4 Malawi

A3.4.1 Investment incentives

Investment opportunities in Malawi have been put in place to catalyse incremental investments in productive sectors such as manufacturing, agriculture, tourism and mining. The *Investors Guide* outlines a range of incentives designed to attract productive investments:

- corporate tax rate of 35 per cent,
- an additional 15 per cent allowance for investments in designated areas of the country,
- an allowance up to 20 per cent for used buildings and machinery,
- 40 per cent allowance on new buildings and machinery,
- 50 per cent allowance for certain training costs,
- allowance for manufacturing companies to deduct all operating expenses incurred up to 24 months prior to the start of operations,
- zero duty on raw materials used in manufacturing,
- 100 per cent deduction for manufacturing company operating expenses in the first 18 months,
- indefinite loss carry-forward to allow companies to take full advantage of tax allowances,
- Duty-free importation of heavy commercial vehicles with payloads of at least 10 tonnes,
- agreement for the reduction of withholding taxes on remittances and payments,
- a five-year tax holiday or 15 per cent corporate tax rate for new investments of US$5–10 million, and up to ten years' tax holiday for new investments in excess of US$10 million.

Investors have free access to foreign exchange in Malawi, both for paying for imports and transferring financial payments abroad. This free access includes:

- no licensing requirements for importing foreign exchange,
- full repatriation of profits, dividends, investment capital and interest and principal payments for international loans,
- local and foreign investors have unrestricted access to local financing facilities,
- interest rates are market-based and there are no direct government controls on credit.

A3.4.2 Export incentives

An important aspect of the Investment Promotion Act was the establishment of procedures for setting up Export Processing Zones (EPZ) in 1995. Incentives for establishing operations in an EPZ or manufacturing in bond for export include:

- corporate tax rate of 15 per cent for EPZs,
- no withholding tax on dividends,
- no duty or capital requirements on capital equipment and raw materials,
- no excise taxes on purchases of raw materials and packaging materials made in Malawi,
- no surtaxes (VAT),
- transport tax allowances equal to 25 per cent of international transport costs.

Incentives for manufacturing in bond include:

- export tax allowance of 12 per cent of export revenues for non-traditional exports,
- transport tax allowance equal to 25 per cent of international transport costs, excluding traditional exports,
- no duties on imports on capital equipment used in the manufacture of exports,
- no surtaxes,
- no excise taxes or duties on purchases of raw material and packaging materials,
- timely refund of all duties (duty drawback) on imports of raw materials and packaging materials used in the production of exports.

Incentives for horticultural producers:

- For those exclusively engaged in horticultural production for export: 100 per cent duty-free importation of equipment and raw materials.

A3.5 Mauritius

A3.5.1 Manufacturing incentives

Export Processing Zone: Available to those involved in the production of manufactured goods for export or deep sea fishing (including fresh or frozen fish) for export. Benefits are:

- corporate tax rate: 15 per cent for life,
- dividends: tax-free for 20 years,
- no customs duty, import levy or sales tax on raw materials, machinery, equipment and spare parts, except for motor vehicles,
- remission of 60 per cent of the duty payable on the purchase of vans with a seating capacity between 15 to 25,
- free repatriation of profits, dividends and capital without the payment of capital transfer tax,
- electric power at preferential rates,
- finance available at preferential rates from the Development Bank of Mauritius.

Strategic local enterprise: Local industry manufacturing for the local market and engaged in an activity likely to promote the economic, industrial and technological development of Mauritius. Benefits are:

- corporate tax rate: 15 per cent for life,
- dividends tax-free for 20 years.

Modernisation and expansion enterprise: There are two broad categories: (i) investment in production machinery and equipment, such as automation equipment and processes, and computer applications to industrial design, manufacture and maintenance (CAD/CAM); and (ii) investment in antipollution and environment protection technology to be made within two years of date of issue of certificate. Benefits are:

- no customs duty on scheduled production equipment,
- income tax credit of 10 per cent (spread over three years) of investment in new plant and machinery, provided at least Rs10 million (about US$550,000) is spent and this occurs within two years of the date of issue of the certificate (this is in addition to existing capital allowances which amount to 125 per cent of capital expenditures),
- enterprises in Category 2 benefit from a further incentive, i.e. an initial allowance of 80 per cent for expenditure incurred on antipollution machinery or plant (against 50 per cent in most other cases).

Industrial building enterprise: Construction for renting of industrial buildings or levels thereof, provided floor space is at least 1,000 sq. metres. The applicant needs to be a company intending to build for leasing to the holder of a certificate (other than an industrial building enterprise certificate) issued under the Act or to an enterprise engaged in the manufacture or processing of goods or materials except the milling of sugar. Benefits are:

- corporate tax rate: 15 per cent for life,
- dividends: tax-free for ten years,
- registration dues for land purchase: 50 per cent exemption,
- Landlord and Tenant Act: rent control is not applicable.

Pioneer status enterprise: Activities involving technology and skills which are likely to enhance industrial and technological development. Applicant companies may come under one of three broad categories: (i) new technology; (ii) support industries; and (iii) service industries. The applicant will not be considered if the qualifying activity was already operational before 1 July 1993. Benefits are:

- corporate tax rate: 15 per cent for ten years, 35 per cent thereafter,
- dividends: tax-free for ten years,
- no customs duty, import levy or sales tax on scheduled equipment or materials.

Small and medium-scale enterprises: Any manufacturing activity, including repair, packing and assembly of inputs into finished or semi-finished goods, provided the aggregate c.i.f. value of production equipment does not exceed Rs5 million. Benefits are:

- no customs duty and no import levy on production equipment,
- corporate tax rate: 15 per cent for life.

Offshore business: Conducting of business with non-residents and in currencies other than the Mauritian rupee. Activities include: offshore banking, offshore insurance, offshore funds management, international financial services, operation headquarters, international consultancy services, shipping and ship management, aircraft financing and leasing, international licensing and franchising, international data processing and other information technology services, offshore pension, international trading and asset management and international employment services. Benefits are:

- no tax on profits and free repatriation,
- complete freedom from exchange control,
- concessionary personal income tax for expatriate staff,
- complete exemption of taxes on imported office equipment,
- complete exemption from import duty on cars and household equipment for two expatriate staff per company,
- no withholding tax on interest payable on deposits raised from non-residents by offshore banks,
- no withholding tax on dividends and benefits payable by offshore entities; no estate duty or inheritance tax is payable on the inheritance of shares in an offshore entity; no capital gains tax.

Export service zones (at least 70 per cent local participation is required): Export-oriented service companies such as accountancy, law, medicine, international marketing, quality testing, pre-shipment services, civil engineering, management consultancy, reinsurance, entry port trade and transshipment. Benefits are:

- corporate tax rate: 15 per cent for life,
- dividends: tax-free for 20 years,
- free repatriation of capital, profits and dividends,
- no import levy or customs duty on machinery, equipment, spare parts and goods destined for re-export.

Free port: Transhipment and re-export trade, e.g. warehousing and storage, breaking bulk, sorting, grading, cleaning, mixing, labelling, packing and repacking, minor processing and simple assembly. Benefits are:

- complete exemption from payment of customs duty, import levy and sales tax on all machinery, equipment and materials imported into a free port zone for exclusive use in the free port, as well as on all goods destined for re-export,
- access to offshore banking facilities,
- warehousing and storage fees at preferential rates.

A3.5.2 Agriculture incentives

Agriculture Development Scheme:

- Payment of a nominal rate of 15 per cent corporate tax throughout the lifetime of the company,
- Exemption from payment of income tax on dividends for the first 20 years,
- Free repatriation of capital, profits and dividends,

- Complete exemption from payment of customs duty on machinery, equipment and spare parts,
- Exemption from payment of 50 per cent of the normal registration fee on land and buildings purchased by the new enterprise.

A3.6 Mozambique

A3.6.1 Investment incentives

Investors are offered exemption from customs duties and consumption and circulation tax on:

- equipment needed for the implementation of project feasibility studies,
- building materials and equipment necessary to carry out an approved investment project,
- light passenger cars for company representation, provided that the relevant value does not exceed 1 per cent of the value of the total project investment,
- raw materials, intermediate products and packaging materials for production of export goods, medicines, educational materials and foodstuffs,
- raw materials, intermediate products and packaging materials for producing other articles (exempted only for the first production cycle),
- 50 per cent reduction of the normal customs handling fees,
- foreign investors' and expatriate technical staffs' personal belongings.

Tax incentives are offered for new or paralysed undertakings.

- During the period of recovery of investment expenditures (ten years maximum), the Industrial Contribution Tax (corporate tax) and Supplementary Tax rates are reduced by: (i) 80 per cent for investments in Niassa, Tete and Cabo Delgado; (ii) 65 per cent for investments located in other provinces, outside the respective capitals; (iii) 50 per cent for investments located in other provinces, within the provincial capitals.
- For investments in operating ventures, a deduction from taxable income of 100 per cent of investments made in new equipment and construction of plant and infrastructure is provided for up to five years.
- Additional incentives for investments located in less-developed provinces are provided through an extension of the reduction of Industrial Contribution Tax by: (i) 50 per cent for six more years in cases of investments made in Niassa, Tete and Cabo Delgado; (ii) 40 per cent for three more years for investments made in Sofala, Manica, Zambezia and Nampula (excluding provincial capitals); (iii) 25 per cent for three more years in cases of investments made in Inhambane, Gaza and Maputo (excluding provincial capitals).

The expenditures accountable as losses for taxation purposes are those made in: (i) construction or rehabilitation of public infrastructure; (ii) the purchase of works of art for private property ownership or other actions undertaken which contribute to the development of Mozambican culture; (iii) training of Mozambican workers (up to 5 per cent of taxable profits).

A3.6.2 Export incentives

The cornerstone of Mozambique's push to expand its export markets are the Industrial Free Zones (IFZs). If an export industry is located in an IFZ, it will enjoy full exemption of customs duties, import or export taxes on construction material, machinery and equipment. IFZ enterprises will also be exempted from tax on dividends for ten years. The proposed sites for the development of IFZs are at the Industria Ceramica de Moçambique site in Maputo Province, Sofala Province near to the port of Beira, Nampula Province and the port of Nacala.

A3.7 Namibia

A3.7.1 Investment incentives

To encourage investment into Namibia, the Government offers tax and non-tax incentives to foreign investors, with an emphasis on export-oriented manufacturing:

General incentive regime:

- Corporate income tax: 35 per cent,
- Mining companies tax: 25–55 per cent (diamond companies 55 per cent),
- Petroleum producing companies tax: 42 per cent plus additional profits tax,
- Manufacturing companies tax: 17.5 per cent with additional deductions (i.e. 50 per cent abatement for five years),
- Exporters tax (manufactured exports except meat and fish): 7 per cent on export profits (i.e. 80 per cent exemption),
- Export Processing Zones: zero tax regime,
- Personal income tax: 35 per cent maximum marginal rate,
- Non-resident shareholders tax: 10 per cent.

Certificate of status investment: Investors may obtain a Certificate provided they fulfil certain criteria regarding the size and nature of the investment. The holder of a Certificate is entitled, *inter alia*, to buy foreign currency to service foreign loans, transfer net profits, dividends, proceeds of sales and remittances, and retain currency gained from exports. They are also granted exemption from restrictions regarding categories of business reserved for Namibia residents.

Special incentives for manufacturing enterprises: These incentives introduced in 1993 apply equally to local and foreign manufacturing companies:

- 50 per cent tax abatement for five years – phased out over ten years,
- new investment relocation package – further negotiated tax rates,
- accelerated depreciation on buildings – ten years,
- exporters' deduction (promotion costs) – 125–75 per cent tax deductible,
- training cost deduction – 125 per cent tax deductible,
- direct production wages deduction – 125 per cent tax deductible,
- concessional loans for industrial studies – 50 per cent of real cost,
- exporter's grants/loans – 50 per cent of approved promotional expenses.

A3.7.2 Export incentives

Export Processing Zones: In order further to boost the local manufacturing and the export industry, the Namibian Government announced an EPZ in Walvis Bay, Arandis, near Swakopmund, a special incentive zone in 1991. Act 9, of 18 April 1995, provides for an EPZ in Walvis Bay and any other 'zone' or 'enterprise' appointed by the Minister. Eligible activities include all export-manufacturing activities, value added processing in agro-industry and mineral beneficiation, storage and warehousing, break-bulk activities and business services. The incentives include:

- exemption from corporate income tax, general sales tax, additional sales duty, stamp duties, transfer duties and import duties (for exports out of SACU),
- guaranteed currency conversion (offshore banking legislation to follow),
- liberal labour and customs regulations,
- conditional reimbursement of up to 75 per cent of EPZ personnel training costs.

The institutional structure of the EPZ is: (i) Offshore Development Company (ODC) Pty Ltd (minority government shareholding); (ii) EPZ management companies (for each EPZ zone); and (iii) EPZ enterprises – under jurisdiction of EPZ management companies, or as single-factory enterprises.

A3.8 South Africa

A3.8.1 Investment incentives

Tax incentives – Research and development: Scientific research operating expenditure and approved scientific research capital expenditure:

- 25 per cent of the cost of capital expenditure for scientific research approved on a yearly basis by the Council for Scientific Industrial Research may be deducted annually. The research, if discontinued, will be liable for the deductions allowed.

Employee housing:

- erecting a house for an employee – 50 per cent of expenditure limited to R6,000,
- amount donated or advanced to an employee to build a house – 50 per cent of the expenditure/advance/donation, with a limit of R6,000,
- erection of at least five residential units to house full-time employees or to let to a tenant. Allowances initial 10 per cent of cost and annual 2 per cent of cost limited to cost.

Accelerated depreciation: To encourage investment in manufacturing and expansion of existing plants. Available countrywide to local and foreign firms establishing new manufacturing plants or expanding existing plants.

Plant and machinery:

- manufacturing or similar process – 20 per cent p.a.,
- hotel equipment – 2 per cent,
- farming – 50 per cent, 30 per cent, 20 per cent over three years.

Buildings:

- industrial (manufacturing or similar process) – 5 per cent,
- hotels – 5 per cent,
- hotel refurbishments – 20 per cent.

Non-manufacturing fixed assets – various (normally 10–20 per cent)

Double tax agreements: No double tax payments with the following countries Botswana, Denmark, Finland, France, Germany, Hungary, Israel, Korea, Lesotho, Malawi, Namibia, Netherlands, Norway, Poland, Repub. of China, Romania, Swaziland, Sweden, Switzerland, Tanzania, Thailand, United Kingdom (Grenada, Mauritius, Seychelles, Sierra Leone), Zambia and Zimbabwe.

A3.8.2 Industrial financing incentives

Multi-shift scheme: For the expansion of production capacity and creation of employment. It provides low interest rate finance to independent industrialists and groups with total assets of R1 million or more for projects which add at least one eight-hour shift leading to greater employment. Total assets $\geqslant$R1 million; no application <R150,000.

Finance to improve international competitiveness: For manufacturers whose total nominal ad valorem import tariff will decrease by at least 10 per cent over the period 1995–9 (WTO ruling). This scheme is for manufacturers who need to improve their international competitiveness through the acquisition of fixed assets (following the change in tariff protection policy). Finance is available at a low interest rate for three years after which prevailing normal IDC variable rate will apply.

Bank indemnity scheme: Small or medium enterprises where contribution and collateral must total at least 50 per cent of facility granted. The scheme provides indemnity to banks against 60 per cent of loss. There is a maximum of R400,000 per client.

Eco-tourism scheme: Institutions which provide additional accommodation in conservation areas under control of conservation authorities and in national game reserves of 10,000 ha or larger. The owner must finance at least 40 per cent of the value of total assets. Loans are at IDC rates or by risk participation

General tourism scheme: Institutions which are developing tourist accommodation suitable for foreign tourist or upgrading or improving existing facilities; also selected new developments. Turnover from accommodation (including meals) should be at least 70 per cent of total turnover. Owners' equity must finance at least 40 per cent of total assets. Facility must be suitable for accommodating foreign tourists. Loans at IDC rates; maximum funding at R10 million per project; full range of support services.

Low interest rate scheme for employment creation job scheme: Creation of additional production capacity which in turn will result in the creation of additional employment opportunities. The scheme provides low interest loans to any company creating at least ten new jobs. Employment must be created at a capital cost not exceeding R100,000 per job with total assets less than R100 million. Loans are granted at low interest rates for the first three years, then at the normal prevailing interest rate for the following years.

Standard leased factory building scheme: To make it possible for industrialists to utilise capital for more productive purposes and to increase their borrowing powers and cash flow. The IDC makes general purpose factory building available for lease.

Accelerated depreciation: To encourage investment in manufacturing and expansion of existing plant. Available countrywide to local and foreign firms establishing new manufacturing plants or expanding existing plants. Provides for the depreciation of plant and machinery over three years, and land and building over five years.

A3.8.3 Incentives for the small, medium and micro-enterprises (SMMEs) business sector

Seed loans for retail financial intermediaries (RFIs): To provide capacity-building support and initial capital to new organisations to initiate a loan portfolio to fund operational expenses over a predetermined period. Less experienced RFIs must demonstrate credible plans for operations, management, credit policy guidelines and operational sustainability within 60 months. Experienced RFIs must be in position to self-fund the envisaged programme for a minimum of the first two months of implementation and must indicate operational sustainability within five years. To qualify, an RFI must: be legally constituted; have clearly defined SMME target markets; have sound accounting and financial systems; have sound internal organisational guidelines, policies and procedures; have capacity to carry out current and proposed projects; have clear and achievable short and medium term objectives; have matching funds of at least 15 per cent of envisaged operating expenses.

Loan amounts for less experienced RFIs range from R1 million to R10 million. Loan amounts for experienced RFIs range from R5 million to R100 million. Seed loans are converted to grants once mutually agreed upon performance criteria are met.

Small business development loans: Limited to entrepreneurs with enterprises whose gross assets are less than R10 million. Provision of finance, premises and training.

Competitiveness fund: To encourage South African firms to be competitive, both as exporters and in defence of their local marketplace. The fund is particularly designed to assist small, medium and micro-enterprises (SMMEs) in improving their competitiveness since 60 per cent of the available funds will be allocated to these firms. SMMEs will also receive limited free consulting services from highly skilled professionals employed at technikons, universities and private consulting firms. Available to all South African private firms of all sizes. Funds allocated on a first come, first served basis. Firms should submit a realistic plan for the development of its business activities. The Fund will support the introduction of technical and marketing know-how and expertise to firms. The scheme will insist on a 50 per cent contribution by the firm itself and grants will be paid on a reimbursement basis.

Venture capital finance: To stimulate the development of various products or the establishment of new ventures for products with good growth potential through small and medium-sized industrialists. For entrepreneurs starting a business or high technology industry or requiring further permanent capital to finance growth or the commercialisation of new technology. Low interest rates on loans from IDC.

Standard credit guarantee scheme: To increase access to finance for SMMEs through banks. Accessible to SMMEs that are independently owned, with assets of less than R2 million before financing. SMMEs must meet the bank's normal lending criteria. To enable an entrepreneur to access funding from his/her bankers for the establishment, expansion or acquisition of a new or existing business. The maximum facility is R600,000.

Emerging entrepreneur scheme: All criteria are the same as above but the maximum indemnity is 60–70 per cent and the maximum facility is R75,000.

Economic empowerment scheme: To assist entrepreneurs from the historically disadvantaged communities. Manufacturing businesses usually require owners' funding of at least 33–40 per cent of the total funding to ensure long-term viability. The scheme provides for a reduced contribution with the IDC providing a larger than normal contribution of the project funding.

A3.8.4 Export incentives

Export marketing and investment assistance (EMIA): To compensate exporters registered with the Department of Trade and Industry for certain costs incurred in respect of activities aimed at developing export markets under the following schemes:

- Primary Export Market Research,
- Outward Selling Trade Missions,
- Inward Buying Trade Missions,
- Exhibition Assistance,
- Assistance to Industry Specific Sectors,
- Outward Investment Recruitment Missions,
- Inward Investment Missions,
- Foreign Direct Investment Research.

Benefits:

- A portion of specified costs relating to travel, daily subsistence, exhibition costs, and market research is refunded on trips and trade exhibitions and fairs. Matching grants up to a maximum of R400,000 in the first year and R200,000 in the second for the establishment of an export council for specific industries.
- Available to all exporters, but with special terms for SMMEs.

A3.8.5 Sector-related export incentives

Sector partnership fund: To form linkages and promote competitiveness and productivity. Available to any partnership of five or more organisations within South African manufacturing that puts forward a qualifying programme. To support sub-sector partnerships in preparation of technical and marketing programmes with the aim of improving competitiveness and productivity of firms. Up to 65 per cent of costs of projects up to R1.5 million are covered.

Steel rebates and steel concessions: Exporters of fabricated steel products where 25 per cent value has been added may claim a rebate of R94 per ton on the purchased raw material based on the value of exports.

Motor industry development programme (MIPD): To increase competitiveness and productivity. Available to motor vehicle assemblers, component manufacturers and exporters. MIDP enables local vehicle and component manufacturers to increase production runs and encourages rationalisation of the number of models manufactured by way of exports and complementing imports of vehicles and components. Benefits:

- reduced import duty (now 54 per cent) on fully built up vehicles to reach 40 per cent by 2002,
- duty-free allowance of 27 per cent of wholesale turnover of vehicles sales for CKD manufacturers,
- duty-free imports based on the equal value of local content of vehicles and 75 per cent for exported components,
- small vehicle incentive, additional duty-free allowance for vehicles <R40,000 net ex-factory selling price (nsp) based on a formula of 0.3 per cent of ex-factory selling price x R40,000 – (nsp),
- excise duty on completely built-up vehicles.

Duty credit certificate scheme for exporters of textiles and clothing (DCCS): To exporters of certain prescribed textile and clothing products. To improve the export awareness, productivity and training with a view to achieving international competitiveness. Benefits:

- exported prescribed textile and clothing can earn duty credit certificates based on the local or full duty paid on raw material used in the exported products,
- benefits of 30 per cent on clothing, 20 per cent on textiles, 15 per cent on textiles, and 10 per cent on yarn are offered.

World player scheme: For improvement of international competitiveness. The scheme is made available to textile, clothing and footwear manufacturers and motor vehicle component manufacturers whose import tariff on competitive products will fall by at least ten percentage points. Finance available to manufacturers for the acquisition and modernisation of fixed assets or establishment and expansion of existing industry.

Export credit and foreign investment reinsurance scheme: To promote trade with countries by making provision for reinsurance for insurance contracts for export transactions and export credit loans for undertakings registered with the Department of Trade and Industry. Facilities and policies available through private sector Credit Guarantee Corporation of Africa Ltd are:

- short-term insurance – pre-shipment cover, post-shipment cover and consignment stock cover,
- medium/long-term insurance – contractors cover, cover against unfair calling of bonds, financial credit cover, foreign exchange risk cover, investment guarantees,

- export finance for capital goods or projects. To cover tenders for capital projects requiring offers of export credit facilities at fixed interest rates over the amortisation period of the contract, repayable over ten years,
- foreign investment guarantees. To provide South African investors in foreign countries cover against political risk such as expropriation, confiscation and nationalisation,
- export finance guarantees for SMMEs – 90 per cent of the value of the export order not exceeding R1 million and not less than R50,000 may be advanced to exporters for transactions not exceeding six months for pre-shipment loans and 12 months for post-shipment loans,
- export credit loans denominated in US dollars – for export credit loans up to and including seven years, 7.0 per cent fixed. For export credit loans over seven years, 7.25 per cent fixed. The above rates include a foreign exchange premium of 0.5 per cent,
- export credit loans denominated in rand, 16 per cent floating. Provides foreign exchange risk cover. Financial institutions may offer loans to exporters of capital goods at a range of forward exchange rates instead of a single predetermined export exchange rate as previously.

A3.8.6 Financing

Medium-term loan financing: To encourage establishment and/or expansion of existing industries. Available to all independent industrialists or groups with assets not exceeding R120 million. The scheme is available for the establishment of new industries or the expansion of existing industries at interest based on medium-term capital market rates.

Normal finance: To promote growth. Available to small and medium-sized industrialists. Designed to assist the smaller and medium-sized industrialist in the growth phase of their development.

Import finance: To promote growth. Available to small and medium-sized industrialists. Provides credit and guarantee facilities to local industrialists for the importation of capital goods and services.

Finance for export of capital goods and services: Promotion of exports of a capital nature. Facilitation of extended repayment terms at world market related interest rates denominated in US dollars. Available to industrialists/exporters who are able to execute the particular project of a capital nature. Credit facilities for capital goods and services exported from South Africa enable exporters to offer competitive terms to foreign purchasers.

Low interest rate finance for export promotion: Industrialists with total assets of at least R1 million expanding capacity to serve export markets. This expansion should also create employment opportunities. Maximum of R40 million. Low interest rate loan for the first three years if 60 per cent of expected sales are intended for export. If less than 60 per cent of sales are exported, only half the loan will be at the low rate, with the balance being advanced at the current rate on ordinary IDC loans.

Rebate provisions: Promotion of manufacturing and exportation of goods. Available to all manufacturing industries. Provision exists for rebate or drawback of certain duties applicable to imported goods, raw material and components used in manufacturing, processing or for export.

A3.8.8 Research and development incentives

Support programme for industrial innovation (SPII): For all private sector companies in the manufacturing industry. 50 per cent subsidy on the expenditure incurred in developing new products and technology. Maximum of R1 million.

A3.8.9 Regional industrial development finance

Tax holiday scheme (replaces the Regional Industrial Development Programme): To encourage investment in manufacturing, assist local manufacturers in improving their international competitiveness and facilitate a higher degree of labour absorption. Available to entities incorporated after 1 October 1996, with assets greater than R3 million. Approval must be given for the tax holiday between 1 October 1996 and 30 September 1999. The entity must be a manufacturing concern in terms of Major Division 3 of the Standard Industrial Classification.

Tax levied at 0 per cent on taxable income for a maximum of six consecutive years. The tax holiday must be utilised within ten years of approval. A two-year tax holiday is awarded for each criterion met: (i) the product being manufactured is on the approval list; (ii) the plant is situated in one of the designated locations; (iii) the human resource remuneration to value added ratio exceeds 55 per cent.

A3.8.10 Small/Medium manufacturing development programme (SMMDP)

To encourage investment in manufacturing, encourage small and medium-sized manufacturing and facilitate a higher degree of labour absorption. Available countrywide to local and foreign firms investing not more than R3 million in land, buildings, plant and equipment. Legal entities as well as sole proprietors and partnerships (excluding trusts), incorporated after 1 October 1996 and engaged in new, secondary manufacturing processing. Same applicability as for the tax holiday scheme, except that it is for enterprises with assets of less than R3 million.

A tax-free grant from government for a maximum of six years in all areas of South Africa. The grant is divided into three components:

1. **Establishment grant**: first three years calculated at 10.5 per cent of qualifying assets with a maximum of R315,000 (about US$70,800). The equity percentage has to be greater than 10 per cent.
2. **Profit/output incentive**: the next three years are based on 25 per cent of profit before tax but is limited to the establishment grant. To qualify for the fifth and sixth year, the labour remuneration as a percentage of value added has to be maintained at 55 per cent.
3. **Foreign investment grant**: there will be a grant for companies with a foreign shareholding greater than 50 per cent which will reimburse the local company for costs incurred for importing new machinery. The grant is limited to US$50,000.

A3.8.11 Work place challenge

Launched by NEDLAC as a capacity-building programme to enhance co-operation between workers and management in order to improve the country's competitiveness and employment creation by improving industrial performance and productivity. The programme is being implemented in three phases regionally. The first has incorporated informative workshops highlighting: productivity and competitiveness; the development of sectoral strategy; an exchange of views, problems and solutions; and to deal with specific workplace issues (skills formation and training, world class manufacturing, services and workplace organisation). Phase two will follow the outcome of the workshop in the regions along broad sectoral industry divisions. Phase three includes trainers and facilitators to implement the programme. It is proposed to introduce the programme through the identified clusters in the regions.

A3.8.12 Technology and human resources for industry programme (THRIP)

THRIP is aimed at enhancing the competitiveness of South Africa through the development of appropriate skilled people and of technology and encourages long-term strategic partnerships between industry, research and educational institutions and government. Research groups in the natural sciences, engineering and technology within educational institutions can participate in collaboration with any private company or consortium of companies. Contributions provided by industry and government to finance the research efforts of academic partners provided that such research projects involve the training of students. R1 for every R2 from industry, and if certain criteria are met, R1 for every R1 from industry could be granted.

A3.9 Swaziland

A3.9.1 Investment incentives

Swaziland has an extensive investment incentive package, with an important role played by the Swaziland Industrial Development Company Limited (SIDC), the principal development finance agency. SIDC finances private sector projects in manufacturing, mining, tourism, commerce and service sectors and also provides assistance on business requirements and procedures. Highlights of the incentives include:

- a trading licence is required and obtained from the Ministry of Commerce and Industry,
- business sites for industrial operations are available from the Ministry of Commerce and Industry and SIDC. Ongoing expansion of the Matsapha Industrial and other sites is being carried out, along with the upgrading of the country's infrastructure,
- corporate tax rate is 37.5 per cent. Further tax incentives are presently being considered. Swaziland guarantees against nationalisation of private enterprise,
- dividends, interest and profits are freely repatriated from Swaziland,
- an employee training programme allows for expenses incurred in training personnel to be deducted for tax purposes,
- assessed losses may be carried forward and offset against future profits,
- an initial depreciation allowance of up to 50 per cent on plant and machinery may be claimed in the first year or spread over several years,

- a 10 per cent local preference on public tenders is allowed,
- an allowance is granted for the cost of building houses for employees,
- double taxation agreements exist with South Africa, Mauritius and the United Kingdom.

A3.9.2 Export incentives

- the Central Bank operates an export credit guarantee scheme established in 1991. The scheme includes pre- and post-shipment loans granted by commercial banks, which receive guarantee bonds from the scheme as risk cover.
- there is an export finance guarantee scheme,
- five-year tax exemption for new manufacturing companies involved in exports. Further tax incentives are presently being considered.

A3.10 Tanzania

A3.10.1 Investment incentives

Investment is treated favourably under Tanzania's corporate tax system. Many tax incentives relate directly to capital outlays, from full write-off for clearing and planting of agricultural land in the year of investment, to extensive depreciation allowances. The National Investment (Promotion and Protection) Act 1992 offers the following incentives:

- first-time investors receive a five-year tax holiday, followed by a reduction in tax rate up to five percentage points below the standard rate,
- exemption from import duties on all capital equipment and raw materials,
- exemption from sales tax on imports of capital equipment, materials etc.,
- a five-year tax exemption applies to withholding tax on dividends, royalties, and interest payments, followed by reduced rates,
- depreciation allowed for in profit calculations.

A3.10.2 Exchange control

The Foreign Exchange Act (1992) and Foreign Exchange (Bureau de Change) Order 1992 have been removed. People can now hold and transact in foreign exchange freely, which should serve as an incentive to local and foreign prospective investors.

A3.10.3 Repatriation of capital and earnings

Investors are allowed to retain up to 50 per cent of their net foreign exchange earnings for purposes of remittance of dividends, profits and settlement of external obligations.

A3.10.4 Export incentives

- liberalisation of export licensing,
- export guarantee run by the Central Bank,
- duty drawback scheme,
- a 'one stop shop' is to be established for customers, central bank services, etc.

A feasibility study for the establishment of EPZs in Tanzania was carried out during 1996, and the draft regulations and organisation of EPZs are under preparation. An EPZ is however already in place in Zanzibar. Companies established in the EPZ are offered ten years corporate tax holiday and duty exemption on imports of raw materials and capital equipment.

A3.10.5 Guarantees

Extensive guarantees are provided to investors under the Investment Promotion Centre's Certificate of Approval, such as guarantees regarding ownership of properties, dispensation of assets, repatriation of income of others.

A3.11 Zambia

A3.11.1 Investment incentives

Zambia has been implementing package incentives aimed specifically at establishing a profitable environment for increased domestic industrial growth, export promotion, the development of market-oriented production management and private sector development. The Investment Act of 1993 offers a range of incentives. Investors who qualify for special incentives under the Act are entitled to:

- exemption from customs duty and sales tax on all machinery and equipment required for establishment, rehabilitation or expansion of that enterprise,
- duty-free exemption for agriculture and mining machinery,
- 5 per cent customs duty on other capital machinery,
- duty exemptions on: raw material imports of goods of organic and inorganic chemicals, iron and steel, rubber and plastics,
- 5 per cent duty on other raw materials,
- 15 per cent duty on intermediate goods,
- 25 per cent duty on final products,
- 15 per cent income tax on non-traditional exports,
- tax on companies listed on the Lusaka Stock Exchange is 30 per cent, compared with the normal 35 per cent corporate tax,
- deductible allowances of between 5 and 50 per cent,
- 100 per cent profit repatriation,
- no foreign exchange controls,
- guarantee against compulsory acquisition of property,
- expenditures on research, on technical education, or any further training related to a company's specific business activity.

Additional incentives for agricultural enterprises include:

- dividends payable to farmers are tax exempt for the first five years of operation,
- 15 per cent income tax on farming profits,
- full tax allowance for outlay on land development, conservation and other costs,

- capital expenditure on farm improvements qualify for an allowance of 20 per cent per annum for each of the five first years,
- substantial rate of depreciation allowing farm machinery to be rapidly written off against tax,
- special development allowances for growing certain crops: tea, coffee, banana plants, citrus fruit trees or other similar plants or trees,
- repatriation of a proportion of after-tax profits.

General incentives are offered to investment certificates holders including:

- In a rural area, the enterprise pays one-seventh of the normal 35 per cent corporate income tax rate in its first five years of operation.

Incentives relating to investments on the LuSE include:

- no restrictions on foreign ownership and shareholding levels; and
- no capital gains tax.

Miscellaneous:

- Where a double taxation agreement exists between Zambia and another country, the foreign tax payable by the investor to the other country, in respect of any foreign income, shall be allowed as a credit for that investor against Zambian tax in respect of the foreign income.

A3.11.2 Export incentives

Special incentives, which are additional to general incentives are offered to investors who specialise in: rural enterprises; export of non-traditional goods and agricultural products; and import substitution activities.

Special incentives are offered to exporters of non-traditional products, such as:

- reduced corporate tax to 15 per cent,
- special exemption from duty and sales tax on imports,
- machinery is offered to exporters of non-traditional products with net foreign exchange earnings,
- tourism investment with foreign exchange earnings in excess of 25 per cent of the gross annual earnings,
- agro-related products for export.

A3.12 Zimbabwe

A3.12.1 Investment guarantees

The Zimbabwe Government offers investors the following guarantees:

- repatriation of original capital investment in case of divestment,
- no restrictions on local borrowing for working capital,
- repatriation of foreign currency,
- imports and import licences.

Incentives for investors include:

- 25 per cent special initial investment allowance in the year of purchase of industrial and commercial buildings and machinery is granted as a rebate for the first four years,
- special mining lease entitles the holder to specific incentive packages, to be negotiated with the Ministry of Mines with income tax of 35 per cent,
- dividend remittance threshold for companies established prior to 1979 has been increased from 25 to 50 per cent of net after-tax profits, through the inter bank market,
- dividend remittance for companies set up after 1 May 1993 is now 100 per cent and payment is effected through the inter-bank market,
- foreign investors may hold up to 100 per cent equity in companies operating in preferred sectors of the economy, i.e. those sectors other than specified in S1108 of 1994,
- foreign investors may hold up to 25 per cent equity in companies which are in reserved areas as specified in S1 108 of 1994,
- in construction and specialised services, foreign investors may hold up to 70 per cent equity,
- individuals are entitled to retain 100 per cent of overseas proceeds with authorised dealers in Foreign Currency Accounts (FCAs),
- investment inflows and capital transfers are eligible for 100 per cent deposits into FCAs,
- surtax has been reduced from 15 to 10 per cent,
- for foreign-owned companies, local borrowing is permissible on a 1:1 ratio to the shareholder's funds,
- flexibility in recruitment and engagement of expatriate personnel with maximum contract periods of up to five years,
- investors investing significant sums in projects approved by the Zimbabwe Investment Centre (ZIC) are eligible to acquire permanent residency, depending on amounts involved,
- exemptions from import tax (sales tax), surtax and customs duty on equipment and machinery imported for Zimbabwe Investment Centre (ZIC) approved projects.

Incentives for setting up in Growth Point Areas:

- new manufacturing operations located in a growth point qualify for a concessionary rate of 10 per cent income tax,
- infrastructural projects qualify for 15 per cent income tax for the first five years of operation.

A3.12.2 Export incentives

The Export Processing Zones Act passed in 1994 allows for the establishment of EPZs in specifically designated towns, areas or companies. Incentives for EPZs:

- exemption from withholding taxes on dividends, royaltie, fees, etc.,
- exemption of duty for goods imported into EPZs,

- exemption from capital gains tax, surtax and sales tax on goods and services,
- exemption from fringe benefits tax for employees of EPZ companies,
- five-year tax holiday and 15 per cent corporate tax thereafter,
- permission for foreign companies to borrow locally.

In addition to these incentives, exporters may benefit from a duty drawback system whereby import dues will be reimbursed upon exportation of the qualifying goods in an unused state or as inputs in export goods.

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