



SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

# **The Experience of SA Firms Doing Business in Africa**

**A Preliminary Survey and Analysis**

**Dianna Games**

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## **A Preliminary Survey and Analysis**

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Please note that \$ refers to US dollars unless otherwise indicated.

# The Experience of SA Firms Doing Business in Africa

## A Preliminary Survey and Analysis

June 2003

By Dianna Games<sup>1</sup>

### Executive Summary

A key challenge for Africa in the 21<sup>st</sup> century is to develop an enabling business environment. This is a clear objective of the New Partnership for Africa's Development (Nepad). Business, it is presumed, can provide the necessary impetus to unlock Africa's vast economic potential, allowing it to engage successfully with its many developmental challenges. However, despite the abundance of economic data, there is very little qualitative information available on the structural challenges facing business in Africa.

The experience of South African companies in the rest of Africa provides an important focus to highlight both the problems and challenges of these markets as well as the potential solutions. South African business and investment on the continent is growing apace, diversifying from the traditional business of contracts in construction, mining, vehicle components, timber, and steel, into a variety of businesses including skills training, education, IT and telecommunications, clinics and healthcare, franchising, advertising, property development and waste management. South Africa is beginning to replace Europe and the US as a market for Africans in regard to higher education, shopping and skills training. The modalities of doing business have changed as has the broad business environment following a decade of reform and liberalisation which, fortuitously, coincided with greater political openness in South Africa.

In less than a decade, South Africa has become one of the top 10 investors in, and trading partners of, many African countries, displacing European and American companies which traditionally held the high ground, particularly former colonial powers.

These developments make an examination of the role being played by South Africa, and particularly its business community, important to the unfolding picture of trade and investment in Africa. South Africans believe their commitment to making Africa work is long term. South Africa is tied to the continent both as a regional powerhouse and as key political player, particularly in the Nepad initiative. Despite its sophisticated economy, it suffers from the perception problems that affect the rest of the continent and therefore it is in its best interests to make the continent work. This includes finding solutions to the various conflicts, encouraging good governance, making available its skills and resources to other countries, encouraging regionalism and cross-border trade and working to making countries north of its borders more attractive to investment and a better place in which to do business. In short, South Africa's input is crucial for Africa's renewal.

The South African Institute of International Affairs (SAIIA) has undertaken a three-year *Business in Africa project* to complement its current Nepad good governance project.<sup>2</sup> Sponsored by the Danish government, the project aims to develop practical policy recommendations to policymakers, business (both foreign and local) and academics on the preconditions for the development of a sustainable

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<sup>1</sup> DIANNA GAMES is a Director of Africa @ Work, a conferencing and publishing company focusing on the African market, as well as the Managing Editor of the South African Institute of International Affairs journal, *The SA Journal of International Affairs*.

<sup>2</sup> Inquiries about the project can be directed to Ms Neuma Grobbelaar, Deputy Director of Studies and Head of the Business in Africa project at [grobbeaarn@saiia.wits.ac.za](mailto:grobbeaarn@saiia.wits.ac.za).

business environment in Africa. The project will look at the South African business experience in a select sample of African countries and sectors to extrapolate broader lessons for the continent.

Through this research programme, SAIIA hopes to empower business and governments in Africa through a series of qualitative and quantitative surveys and field research to make the Nepad vision of sustainable growth and development a reality. The programme's findings will be submitted to the Nepad Secretariat, African governments, the SA Department of Trade and Industry, as well as African and South African business chambers to inform economic and political policymaking on the continent in a way that encourages the creation of a sustainable business environment. The study hopes to move the debate about business partnership within the African context to a new, more practical level with the purpose of providing institutional capacity to all stakeholders in the development of business in Africa.

This report, which forms part of the broader project, is a preliminary study of the experience of doing business in Africa of a range of South African companies. It looks briefly at four sectors and four countries, not necessarily linked. The sectors are: Banking, Telecommunications, Retail and Food, and Mining while the countries are Morocco (North Africa), Ghana (West Africa), Mozambique (Southern Africa) and Uganda (East Africa).<sup>3</sup>

The problems as well as the solutions identified by a wide range of South African companies canvassed for the report are mostly in line with those identified by multinationals, donors, civil society and other groups with a political and economic interest in the continent. While it is understood that Africa is not a homogenous entity and that countries have different starting points, it is true to say that there are still many overarching problems and trends that apply to the continent generally.

These are:

- low levels of development and insufficient investment in people;
- political and fiscal risk;
- a weak private sector coupled with a strong government presence in the economy;
- high donor dependency for aid and other financial mechanisms as well as projects;
- the high cost of doing business due to the lack of basic services, facilities, infrastructure, development, competition and resources;
- insufficient air and road links;
- poor leadership and bad governance;
- pervasive corruption at all levels of government;
- high costs of finance due to high risk and weak economies; and
- currency fluctuations.

Suggested potential solutions involve, in the main, several key elements:

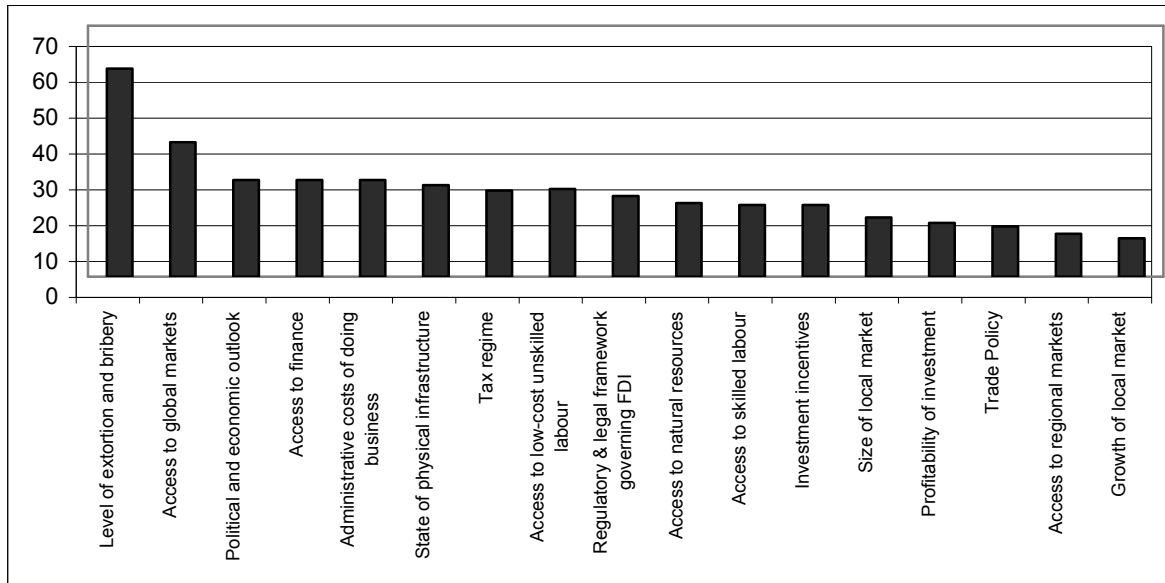
- effective leadership and accountable governance geared to the needs of the population, not the needs of government officials and elites;
- the rule of law, which includes a strong and independent judicial system capable of enforcing contracts and agreements, including those between outside parties and governments;
- the creation of sound and stable macroeconomic environments with strong private sector participation and benign government intervention, where necessary;
- a deepening of democracy where it exists and its restoration where it does not;
- resolving conflicts and thus reducing the political and economic costs they impose;
- increasing competitiveness and diversifying economies as well as encouraging exports;
- reducing dependence on aid and other multilateral financial support systems through domestic growth and development and the fostering of strategic partnerships;
- investing in people to develop skills and build capacity;
- strengthening regionalism to expand markets, bring down the costs and difficulties of doing business across borders and create greater competitiveness; and

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<sup>3</sup> The information was gathered through a variety of means including interviews, questionnaires, research reports, articles in the press and personal research for other projects.

- focusing on success and excellence as examples of what can be done.

### What Multinational Companies Say Dissuades Them from Investing in Africa<sup>4</sup>



<sup>4</sup> This table is taken from the UNCTAD *World Investment Report 2000*. New York: UN, July 2000.

## Overview

In June 2003, the International Monetary Fund (IMF) observed that macroeconomic policies in Africa had improved considerably in recent years though inflation still remained a source of worry in a number of countries such as Zimbabwe, Angola, Somalia and Nigeria. In its April World Outlook, it maintained that the central challenge for Africa remained to put in place the conditions necessary to achieve the Millennium Development Goals, notably, a sustained reduction in poverty. However, to achieve these goals, an overall growth rate of 7% per annum was required. Far from reaching that goal, Africa's economic growth slowed to 3.1% in 2002 compared to 4.3% the previous year.

Growth will only be achieved if there is a substantial improvement in what remains a generally inhospitable climate for private investment on a continent where the return on capital has been estimated by the IMF to be one-third lower than in other regions. The IMF, in a vote of confidence for the New Partnership for Africa's Development (Nepad), said the programme, if implemented properly, could raise Africa's GDP by 80%.

The slowdown in Africa's growth has been attributed in part to the sluggish recovery of the global economy, a decline in oil prices, droughts and ongoing conflicts. Lack of market access in global trade is another factor. But the continent cannot hide behind the external factors that are inhibiting its growth. The fact remains that most countries are not doing enough to help themselves, further entrenching the overall negative picture of Africa as a high-risk, problematic region in which to invest money.

### *What are the difficulties?*

Political risk is the problem most often cited by business people. Unstable and greedy political regimes are on the one end of the spectrum, where the risk is highly visible and companies, particularly those operating in the mining and oil and gas sectors, are able to factor this into their planning. However, there are more insidious risks in some apparently stable states where, for example, conflict over unconstitutional third terms for incumbent presidents has destabilised countries, such as happened in Zambia and Malawi; where the need to hang on to power at all costs has created instability and rapid economic decline such as in Kenya and Zimbabwe; and where new and inexperienced governments are afraid to fail and simply do not perform in line with expectations, such as Ghana. There are many permutations of government risk but there are many specific risks that affect business such as poor political and corporate governance; corruption; ad hoc and short-term economic decisions by governments; a change of government or ministers, which can result in a new playing field; the inability of some governments to keep to investment agreements, which often comes to light once the investment is in place; poorly functioning bureaucracies that affect investment and trade; taxes and tariffs that are not only high but can be changed without notice thus affecting companies' projected costs; currency fluctuations — at least six currencies (the Zimbabwean dollar, the Zambian kwacha, the Ghanaian cedi, the Mozambican meticals, the Nigerian naira and the Algerian dinar) have lost more than 89% or more of their value in 12 years while a further five have depreciated against the dollar by two-thirds or more<sup>5</sup> — and the high costs of raising finance which result from poor governance issues, and many other problems.

These permutations compound the already difficult logistics of doing business, which include long distances, the lack of suitable premises, high rents, weak domestic economies which do not allow for easy local sourcing of requirements, expensive hotels, bad roads, poor infrastructure, unreliable power supplies, a lack of telecommunications, high local taxes, a lack of skilled labour and inefficient banking systems. Other problems are: labour unit costs relative to productivity levels; a lack of basic goods and services which then have to be imported, adding to the cost of doing business; high and often unstable interest rates; a limited number of financing products available locally; a heavy dependence on foreign sources for project funding and trade finance; the high cost of risk insurance; and a lack of effective protection of physical and intellectual property rights. While many countries have legislation in place, the problem is the enforcement of regulations.

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<sup>5</sup> *Business Africa Review*, Economist Intelligence Unit Ltd, 2003.

### *Are things improving?*

There are, however, some indications that the situation is improving:

- There is a high return on equity. In the banking sector, for example, this is around 30% but it can be as high as 50–65% compared with the average 16–20% in South Africa.
- Most countries are working at improving their macroeconomic environments including reducing inflation, lowering interest rates, introducing a higher degree of fiscal discipline and devaluing overvalued currencies.
- Privatisation initiatives are widespread. They offer opportunities for foreign and domestic investment as well as the corollary of increased efficiency and development in successful privatisations. By the end of the 1990s, the majority of parastatals in Africa had been privatised. Many countries are now privatising or corporatising their utilities which has opened up a new front for South African business and parastatals.
- Greater overall predictability of the environment and increased reliability of policy and the regulatory framework are becoming more common.
- There is increased transparency and improved efficiency in decision-making at a policy level. Political decisions are beginning to be communicated to the people and to the investment community.
- Although most governments pay lip service to the fight against corruption, there are a number of countries that are taking it seriously. These include Kenya, Ghana and Zambia.
- South Africa has signed bilateral agreements on issues such as trade, immigration, and even double taxation with a number of countries which offer protection, increased access and the promotion of FDI, among other things. Such agreements have improved FDI frameworks for South Africa and other investing countries.
- Regionalism initiatives are deepening, albeit slowly, which serve to expand the size of the potential market and counter the low purchasing power of most member states. This also includes inter-regional initiatives to promote trade and investment across borders which are changing the regional investment market.
- There is a growing move towards membership of important international bodies such as the World Trade Organisation (which has 40 African countries), the Multilateral Investment Guarantee Agency (MIGA) and the Convention on Investment Disputes Between States and Nationals of Other States (42 countries).

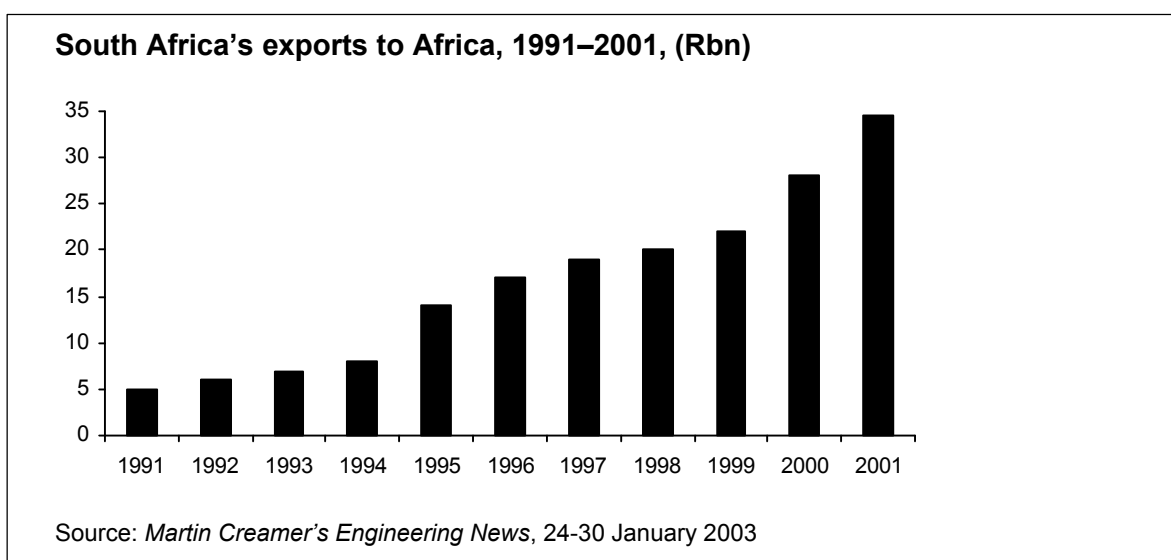
To maximise the benefits of free market activity, governments are looking at ways to attract investment. Tariff structures have been re-examined, customs procedures are being streamlined, large investment incentives have been introduced and 'one-stop-shop' investment centres set up. The effectiveness of the implementation of such benefits in some countries has been questioned by potential investors, however. Investment codes are also constantly being upgraded or changed as circumstances in the country change. Many governments now realise they have given away too much in their efforts to lure investors and, with the encouragement of the World Bank, are reducing incentives in an effort to realise greater benefit from foreign investment. However, the introduction of these measures is undoubtedly a step in the right direction.

But despite these measures, new investment from the rest of the world has been slow to materialise. There are several reasons for this, which include:

- the continued perception of Africa as an unattractive investment destination;
- the tendency to look at the continent as one investment destination rather than a patchwork of different countries with differing economic and political environments;
- the poor state of most assets put up for privatisation following years of neglect — investors have said that many of these assets should have been liquidated, not privatised;
- pervasive corruption through all levels of business and government;
- mistrust in the regulatory environment; and
- the high costs of doing business.

### *South Africa in the continent: Investment and trade*

Despite the problems and risks, South Africans continue to flock into the continent. Investment by South African companies in the rest of the continent has a long history, particularly in the mining and construction sectors, but it has risen significantly since 1994 across a range of sectors and disciplines, including many non-traditional exports. In 2001, South Africa was listed as the second biggest investor in the SADC region with investment of R14.8 billion, trailing multi-state deals at R27 billion with the next highest country investor being the UK at R3.98 billion. In 2002, South Africa was at the top of the list, although at the significantly lower figure of R3.4 billion.<sup>6</sup> Among the big deals in the SADC region in 2001 and 2002 were: a new investment of US\$1.1 billion by Sasol in the Pande & Temane gas fields in Mozambique; a US\$860 million investment by BHP Billiton, the IDC and Mitsubishi in the expansion of Mozal II; a US\$142 million investment by Vodacom in Tanzania and a further US\$139 million investment in the DRC; US\$56 million by Sun International in its hotel in Zambia; US\$53 million by Pretoria Portland Zimbabwe in merger activity in Zimbabwe; US\$6 billion by power parastatal Eskom Enterprises in the Inga project in the DRC; and US\$20 million by South African Airways for its stake in Air Tanzania.<sup>7</sup> Increasingly, South African companies are going into joint ventures with large international companies for big projects on the continent.



South Africa is also among the biggest trading partners of many African countries. One problem in this regard is the fact that the trade balance remains skewed in South Africa's favour in almost all instances.

The timing of economic reform in Africa was in South Africa's favour. As African countries, pressured by the forces of globalisation and the end of the Cold War, were pushed towards liberalisation and reform during the 1990s, so South Africa's political and economic isolation ended with the advent of democratic rule and the presidency of Nelson Mandela. This allowed the South African private sector to actively look for business north of the border. The interest in doing so had been there for many years before that but white South Africans, who at the time completely dominated business, were considered to be political pariahs and were generally reluctant to do more than conduct fact-finding visits to their northern neighbours. Zimbabwe was the one exception since it already had well-established business ties with South Africa.

The push north has been fuelled by stagnation in the local market, curiosity about the opportunities in Africa, the fact that so many South African products are tailor-made for the African market, and regional integration. In addition, many international companies either re-opened their offices in South Africa or opened new ones after the end of apartheid, and are using South Africa as a springboard for their operations into the continent. Nepal will play a role in future in encouraging business in Africa.

<sup>6</sup> The BusinessMap Foundation, *Investment 2002 Report*, 2002.

<sup>7</sup> *Ibid*



<b>Foreign Assets of South Africa in Africa, 31 December 2000 (Rand millions)</b>	
Public Corporations	3,482
Equity capital	854
Reinvested earnings	8
Other capital	2,620
Banking Sector	1,051
Equity capital	705
Reinvested earnings	346
Private Non-Banking Sector	7,717
Equity	3,919
Reinvested earnings	2,272
Other long-term capital	199
Other short-term capital	1,327
Real Estate	15
Total Direct Investment	12,265
Total Portfolio Investment	1,049
Other Investment	
Monetary authorities	73
Long-term loans	73
Short-term loans	—
Forex reserves	—
Gold reserves	—
Public Authorities	
Long-term loans	79
Short-term loans	—
Public Corporations	2,629
Long-term loans	2,629
Short-term loans	—
Banking Sector	5,644
Long-term loans	—
Short-term loans	791
Deposits	4,853
Gold reserves	—
Private Non-banking Sector	2,431
Long-term loans	7
Short-term loans & trade finance	2,424
Total Other Investment	10,856
<b>TOTAL FOREIGN ASSETS</b>	<b>24,170</b>

Source: SA Reserve Bank

In 2003 there is virtually no sector that is not doing business with or investing in the rest of Africa. In November 2002 the South African Reserve Bank, in recognition of the important role South African business has to play in regenerating the continent, eased capital controls on local companies wishing to invest in other African countries or wanting to expand existing ventures. The limit was raised with immediate effect from US\$79 million to US\$216 million.

Companies doing business in Africa have to rely on expensive risk insurance with organisations such as the **World Bank MIGA (Multilateral Insurance Guarantee Agency)** facility, which offers first tier insurance, the **Africa Trade Insurance**, which covers both political and credit risk, and South Africa's government-owned **Export Credit Insurance Corporation**, which deals directly with capital goods

exporters and South African financial institutions, offering supplier credit, project credit and financial credit.

<b>MIGA's exposure in Africa as of 31 March 2003 (R '000)</b>	
Agribusiness	74,512
Financial	12,300
Infrastructure	367,574
Manufacturing	132,946
Mining	157,390
Oil and Gas	72,000
Services	17,713
Tourism	4,626
Total	839,061

Source: MIGA

South Africa is generally regarded as the economic powerhouse of Africa. Its economic infrastructure and environment is far more sophisticated and advanced than any other country in sub-Saharan Africa. It has also by far the most diversified economy on the continent which is not reliant on commodities in the way that most other African countries are. It has a strong manufacturing and industrial base and attracts the largest slice of FDI into Africa outside of the oil and gas majors — Angola and Nigeria.

*Southern Africa* has traditionally been the key region for South African involvement in business north of the Limpopo. This was for the obvious reasons of logistics, culture and proximity. Southern Africa remains the main area for trade and investment, with Zimbabwe and Mozambique still the top destinations for South African money, particularly in terms of trade. Ties with Zimbabwe remain strong despite the rapid decline of that country's economy since 2000. In 2002, however, Mozambique replaced Zimbabwe as South Africa's main trading partner in Africa.

Trade with *East African* countries was the next area of growth given the strong ties between business cultures as well as the relative proximity to the South African market. However, the endemic corruption in Kenya, the biggest market in East Africa — but one of the continent's worst-performing markets — served to push out, or in fact keep out, South African business people who were reluctant to compete in a business sector held together largely by political patronage and corruption. Thus, many companies took the plunge and eyed the West African market. The change of government in Kenya in December 2002 and the new government's much publicised fight against corruption may draw South Africans back to Kenya although the prevailing attitude seems to be one of 'wait-and-see'.

The trickle into *West Africa* began in Ghana. With its more ordered society and business climate, Ghana was an easier place to launch into the West African market than the obvious target in the region, Nigeria. However, the sheer size of the Nigerian market, the lack of goods and services and the large amounts of money in the economy, albeit in relatively few hands, has served to draw South African business into Nigeria, long seen as one of Africa's most chaotic and corrupt countries. Nigeria now ranks as South Africa's biggest trading and investment partner in West Africa followed by Ghana, Côte d'Ivoire and Mali. Until recently, trade between the two countries was dominated by South Africa's imports of crude oil but over the past year, trade and investment has diversified considerably in both directions. The Bi-national Commission between Nigeria and South Africa is one of the more successful of such commissions with African countries.

*North Africa* is a steadily growing market for South African goods and services, particularly Morocco. South African Trade and Industry Department statistics show that exports from SA to Morocco rose more than 43% from 2001 to 2002 and imports rose 250% during the same period. Algeria is the newest

potential market for South Africa with its rapidly liberalising economy and more stable political environment under President Abdelaziz Bouteflika. Ties between the two countries are founded on support for each other's past liberation struggles and there has been a strong push by both governments for closer economic ties. Despite its strong focus on Africa in preference to its Arab neighbours and Europe, Algeria's trade with African countries generally is less than 1% of its total trade. More than 90% of South Africa's exports to Algeria comprise weapons sales. Algerian officials have expressed disappointment that the business relationship has not progressed further given the close political ties.

<b>South African trade with the rest of Africa (main trading partners) (Rand '000)</b>				
<b>Country</b>	<b>2001 Exports from SA</b>	<b>2002 Exports from SA</b>	<b>Rank in overall trade '02</b>	<b>Annual growth 2001-02</b>
Mozambique	5,774,064	6,418,899	11	13.8%
Zimbabwe	5,411,762	7,309,455	8	37.3%
Zambia	4,922,301	5,541,140	13	13.8%
Angola	2,621,496	3,430,398	21	27.4%
Kenya	1,806,923	2,318,347	25	28.0%
Nigeria	1,648,290	2,727,822	22	53.6%
Mauritius	2,064,247	2,685,141	23	33.2%
Malawi	1,902,874	2,380,375	24	25.5%
Madagascar	443,763	434,533	51	-9.8%
Tanzania	1,526,816	2,016,760	27	32.6%
Ghana	678,529	979,975	40	31.3%
DRC	940,274	1,631,139	33	62.6%
Morocco	812,340	1,057,312	36	43.2%
Algeria	537,693	560,419	46	13.3%
Uganda	493,976	612,891	45	29.67%
Cameroon	232,892	369,465	59	70.1%

Source: SA Department of Trade & Industry

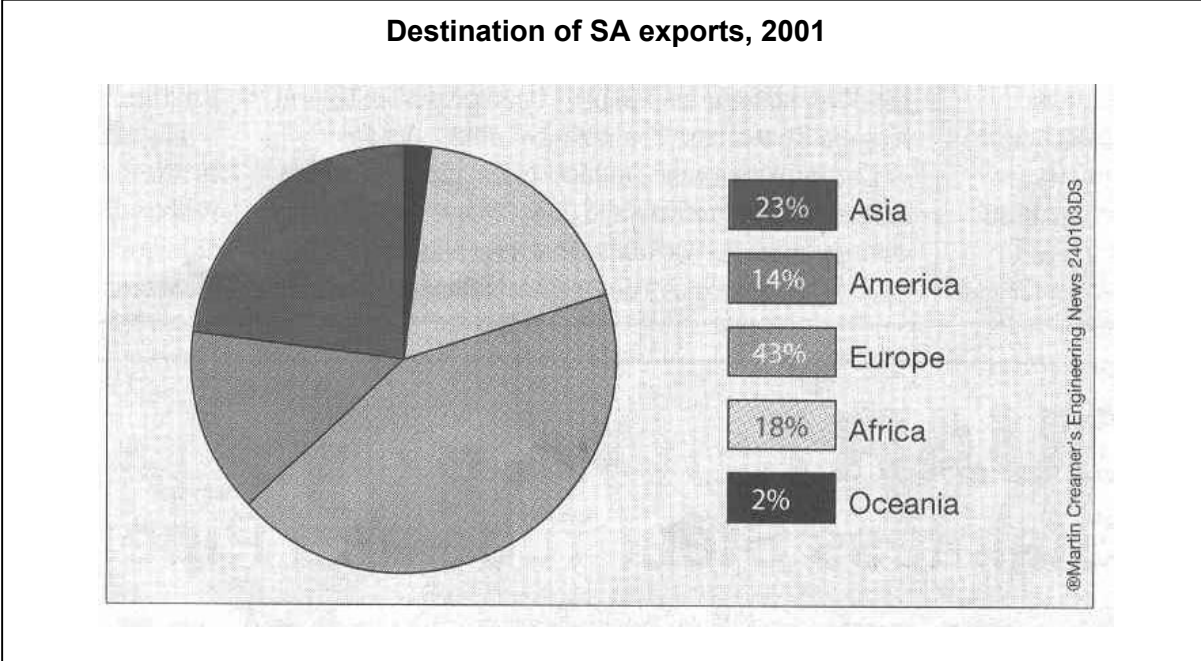
However, business has been slow to take up opportunities for several reasons. These are the enormous logistical problems, Algeria's dependence on one sector (oil and gas), the fact that its economic reform programme has suffered delays and setbacks as a result of the long battle against Islamic fundamentalists and that the private sector is still small and undeveloped after years of state domination of the economy.

*Francophone Africa* has seen a limited amount of trade and investment from South Africa. The domination of business and contracts by French and Belgian companies in these countries as well as the different business culture and legal systems and language problems have presented barriers to business. Côte d'Ivoire has proved to be the exception in Francophone Africa but is rapidly losing favour following the latest violent civil unrest that began in 2002. The same barriers potentially exist in *Lusophone* countries but the proximity of Mozambique and Angola to South Africa has forced companies to find ways around the problems in order to exploit lucrative opportunities in both countries.

With the advent of peace and moves towards democracy, Angola is the market of the future. Already there is significant business being done there by South Africans but apart from the mining sector, investment is slow. The problems of doing business and the cost of operating in the country are still huge. A South Africa-Angola business chamber, which hopes to ease entry into the market and act as a contact point for business in both directions, was launched in the first half of 2003. There is also interest in the DRC, which has been boosted by mobile operator **Vodacom's** entry into the country last year, but the situation is still too volatile for investors. **MIGA** reports that there is great interest in

Angola and the DRC but at this stage it is mainly in the form of inquiries and not actual applications for MIGA coverage.

In terms of applications actually received on projects, MIGA says the most sought-after countries are Nigeria, Mozambique and Zambia, while the most sought-after sectors are commercial and leisure property development, infrastructure (power/telecommunications); agri-business; and the oil and gas sector.



The political lead taken by President Thabo Mbeki, which has dovetailed with the Nepad initiative, has, in some cases, served to deepen business relationships or at least create space for better business relationships. In terms of Nepad, South Africa has formed two main strategic political relationships — with Nigeria and Algeria, both countries with which it has liberation era ties. The ties to Egypt and Senegal through Nepad are based more on strategic interests in the African renaissance vision than on historical ties. In fact, in 2002, South African exports to Senegal and Egypt declined by 18.1% and 43.5% respectively, while import figures remained low.

Despite the South African government's attempts to build relationships with African countries based on the government's own political agenda and the ANC's historical ties, business has indicated that it will not be pressured to follow suit. The cases of Algeria and Morocco highlight this. As mentioned above, trade with Morocco has been steadily growing despite South Africa's low-key political relationship with the country resulting from disapproval over Morocco's handling of the Western Sahara dispute. Business ties with Angola, the DRC and now Kenya are growing despite a somewhat cool political response by the South African government to the governments in these countries.

South African parastatals have moved quickly to take up opportunities in Africa. Key among them is **Eskom Enterprises**, the special purpose vehicle of **Eskom**, Africa's largest power utility. Eskom Enterprises has business links with 32 African countries and is a key player in developing the Southern African Power Pool which it is working to extend across the whole continent. **Spoornet**, the rail transport parastatal, the **Airports Company**, which controls South Africa's state airports, and **Portnet**, in charge of port development, are also providing services, advice and equipment to African countries. **South African Airways (SAA)**, which is pivotal to the increase of business in the rest of the continent, flies to 20 destinations in Africa. Late last year it increased frequencies to eight of these. It aims to develop regional hubs, exploiting its new refuelling stop in Dakar, Senegal as one potential hub in West Africa and possibly Lagos, in Nigeria, probably its busiest African route. It also recently bought a 49% share in **Air Tanzania** which it hopes to build into a strong regional airline. **SAA** says it has the capacity to increase routes and frequencies to preclude South Africans routing through Europe to

African destinations. However, it is hamstrung by the lack of capacity in other African countries and bilateral restrictions, among other problems.

The **JSE Securities Exchange** is working with exchanges in the SADC region to help them improve their operational, regulatory and technical capabilities, increase market liquidity, enhance trading, promote the development of efficient and transparent securities markets and make them more attractive to both regional and international investors. The following SADC countries have stock exchanges: Botswana, Tanzania, Zambia, Malawi, Mozambique, Namibia, Mauritius, Swaziland and Zimbabwe. It also has Memorandums of Understanding with the **Ghana Stock Exchange** and the bourse in Tunisia to help them develop their markets. The South African government has also helped to spearhead several development corridors in the region, such as the Maputo corridor.

On the economic front, the government, primarily through the Department of Trade and Industry, has put in place a number of measures and incentives to encourage SA business into the rest of Africa. A key development in this area has been the establishment of export councils in 20 sectors in partnership with export-orientated firms. Although these are mainly active in developed country markets such as the US, Japan, the UK and European Union countries, Korea, Taiwan and China, they are also looking increasingly at African countries.

However, South African companies wanting to take up opportunities in capital projects in Africa are constrained by the fact that most of these are donor-driven due to the inability of most African countries to provide sovereign guarantees. Donor projects have conditions attached regarding issues such as source of content which are not favourable to South Africa. The best chance South African companies have of getting on board these projects is as a sub-contractor. Growth into this area is therefore dependent on existing export finance from South Africa.

Financing for development projects in Africa is provided locally by institutions such as the **Industrial Development Corporation (IDC)**, a self-financing, state-owned development finance institution and the **Development Bank of Southern Africa (DBSA)** which focus on foreign-exchange driven development projects. While the **DBSA** focuses on the Southern African region, the **IDC** has activities across Africa and into North Africa. It is currently focusing on 11 sectors in 20 countries. Its maximum contribution to projects in the SADC region is 50% of the funding requirements and 25% in the rest of the continent.

South Africa has ratified the SADC Trade Protocol to make substantially all trade duty-free by 2008, with the liberalisation of country-specific products by 2012. If successfully implemented, this could increase intra-African trade, create an easier operating environment for investors and make the region more competitive as a bloc. The Trade Protocol is expected to be complemented by a range of other protocols. Since the 1992 Treaty establishing the regional body came into force until the end of 2000, 20 protocols, designed to provide a legal framework for the policy alignment of member states, were signed. However, only nine of these have been ratified. The slowness in implementation has been attributed to a lack of political will by countries to make the policy changes required as well as an over-abundance of bureaucracy. This process of integration is expected to gain momentum with Nepad as countries align themselves with the initiative and the benefits it is expected to bring.

The SADC region's move towards free trade has been slow and trails that of the Common Market for Eastern and Southern Africa (Comesa), the 20-nation free trade area which has cross membership with some SADC states. It has been somewhat undermined by free trade or preferential arrangements between some African countries and industrialised countries and regions. South Africa's hard fought agreement with the European Union, which came into effect in January 2000, has significantly boosted its exports to the EU. In the first 12 months of the agreement, South African exports to the EU increased by 35% compared to the preceding 12-month period and they have continued to rise each year since then. South Africa is negotiating with the Mercosur countries in South America and looking at possible free trade agreements with India, China and the European Free Trade Area. The US and the five-nation Southern African Customs Union (SACU), in which South Africa is the dominant country, are currently negotiating the formation of a free trade area which could be in place by 2005. South Africa is one of 36 sub-Saharan countries that qualify for preferential access into the US market through the US African Growth and Opportunity Act (AGOA).

South Africa is not a full party in terms of other preferential agreements enjoyed by African countries. In recent years, it has acquired partial, or qualified, membership of Lomé and the Cotonou Agreement, the successor to Lomé. In terms of Lomé, the African, Caribbean and Pacific (ACP) countries received duty-free access into the EU for industrial goods, with the ACP countries being able to impose duties on EU imports so as to protect their infant industries. In terms of South Africa's membership of Cotonou, trade is excluded. Among the economic benefits of membership is being able to tender for projects in ACP countries funded by the European Development Fund, something which is worth millions of dollars.

A number of South African companies have been able to take advantage of the Comesa free trade area by sourcing goods for some of their African operations in Comesa countries from other countries in the trade bloc as well as setting up manufacturing units and other such support structures in Comesa countries. Outside of this arrangement South Africans are hit hard by tariffs in most African countries, with no tariff benefits outside the SACU market at this stage.

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## Sectoral case studies

### Banking

The underdevelopment of the financial services sector in Africa outside South Africa has boosted the opportunities available to companies willing to take the risks. The opportunities presented are not only in the domestic financial services sector but primarily in the exercise of providing services for South African companies taking their business north of the border.

South African banks in these markets have placed themselves in competition with the large multinational overseas banks, some of which have had operations in African countries for decades. They are **Barclays**, **Standard Chartered**, **Citibank** and, to some extent, **Equator Bank**, **Société Generale** and **ABN-Amro**. The multinationals have capitalised on weak local banks to capture the top end of the market — international and blue chip companies as well as large regional and domestic companies.

Local banks in African countries have battled against enormous odds which include over-regulation of the sector, political interference, under-capitalisation, and state control. After independence, there was a tendency for African governments to intervene heavily in the financial sector, nationalising private banks, creating new state banks and non-bank financial institutions, setting interest rates, restricting the allocation of credit and limiting external credit transactions. These actions failed to mobilise capital and undermined the solvency and capacity of financial institutions.

Financial sector reforms in the 1990s tried to correct the problems, removing interest rate controls, privatising state-owned banks and allowing easier entry by private sector banks and non-bank financial institutions, including foreign banks.<sup>8</sup> Reforms were also introduced to strengthen prudential regulation to protect depositors' funds, banking laws governing the supervision of banks were introduced and supervisory capacities were expanded. While reforms have improved the environment, they have not gone far enough to encourage financial deepening in most African markets. The growth of commercial bank lending to the private sector is less than it should be, the spread between lending and deposit rates continues to get wider in many countries and real interest rates remain high.

But there are still risks to the banking system caused by governments directing banks, particularly government-owned banks, to issue non-performing loans to uncreditworthy borrowers or allowing undercapitalised banks to exist because of political connections. Kenya, Nigeria and Cameroon are among those countries where the banking system has been destabilised by the collapse of undercapitalised or underperforming banks. There are still regulatory risks and political interference. A prime example of this was the introduction of the Donde Bill in Kenya in 2001, which proposed pegging interest rates for loans and deposits to force banks to diversify into other non-interest income earning activities. One of the motivations behind the bill was believed to be pressure from government officials wanting to repay their large number of non-performing loans at a reduced rate.

But the advent of South African and other investment in local banking groups, such as **Stanbic Africa's** purchase of **Uganda Commercial Bank**, and **Absa's** takeover of local networks in Tanzania and Mozambique, coupled with new IT systems in local banks (much of them from South Africa or from international companies based in South Africa) has helped to strengthen their competitiveness in terms of product offerings and efficiency. Organisations such as the **International Finance Corporation** and **CDC Capital Partners** are also actively supporting and strengthening local financial institutions.

South African banks have a sizeable competitive advantage in Africa as a result of their capital strength and technological capabilities. They also have a ready-made client base of South African companies operating in African countries, which reduces their client risk. The African market offers attractive growth prospects and profitability relative to South Africa, both of which compensate for the high risks

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<sup>8</sup> Brownbridge, M. id21 insights, AfricaOnline, March 2002.

involved. Banking offers a return on equity of above 30% compared with around 20–23% in South Africa and a return on assets of three to four compared with South Africa's 1.4 to 1.9.

The problems in Africa's banking sector have proved to be a double-edged sword for South African banks. On the one hand, the gaps in the market left by weak domestic systems and the privatisation of government-owned banks have opened up opportunities. On the other, some of the problems that have served to weaken local banks have affected South African companies moving into these markets. They are also facing competition from not only the international banks but also regional banks such as the **African Banking Corporation** and strong local banks such as **Kenya Commercial Bank**, **First Bank of Nigeria** and **Ghana Commercial Bank**.

### *Who are the major South African players?*

**Stanbic Africa**, the Africa division of **Standard Bank**, with assets of R20.7 billion, is by far the biggest South African bank in the African market. Its African expansion took off when it acquired the **Grindlays** network in seven countries in 1992. **Stanbic Africa's** capital base almost doubled from R830 million in 1998 to R1.6 billion in 2002. It is a sizeable operation covering 17 countries which generates more than 10% of **Standard Bank's** earnings, not including the African earnings of **SCMB** and **Standard Bank London** which are reported separately. If its South African operation is included, **Stanbic Africa's** 2002 African earnings were 2.5 times bigger than those of **Standard Chartered** and **Barclays Africa** combined.<sup>9</sup> Since 2000, it has changed its Africa focus from being a niche commercial operation to a retail bank.

The group is looking at 25–30% earnings growth from its Africa division in the medium term and the division is expected to generate 15–20% of total group earnings in this period. A return on equity (RoE) of over 30% is expected in the near term. **Stanbic's** RoE of 27% was well above the group's overall RoE of 20% in 2002. **Stanbic's** loan-to-deposit ratio is just 54% compared to **Standard Bank's** 80% figure overall which reduces its credit risk. It has reduced its reliance on net interest income and is now looking at greater income from areas such as retail deposits and trading operations as well as extending its custodial and trust activities.

**Absa** has been doing business in Africa for a number of years, primarily focusing on transactional business. However, it has significantly increased its footprint through the acquisition of existing banking operations, notably in Mozambique and Tanzania. In Mozambique it took an 80% stake in the troubled **Banco Austral** which was dominated by Mozambique's political elite, and a 55% stake in Tanzania's biggest retail bank, the formerly government-owned **National Bank of Commerce**. It also has a 26% stake in the **Commercial Bank of Zimbabwe** and a 36% stake in a Namibian bank. The contribution of the African operation to total group headline earnings rose from 1.1% in 2001 to 3.1% in 2002.

**Nedcor** has a somewhat risk averse approach to the African market although it does have several operations in Southern Africa. In 2002, **Nedcor** sold its 40% stake in **BNP Mozambique** to **African Banking Corporation** and its 40% of **HSBC Equator** to **HSBC**. But the bank denies it is losing its appetite for Africa, saying the former deal took place because the bank was not doing well and the latter because of **HSBC's** proposed entry into the South African market. It still has stakes in various African banks such as **Commercial Bank of Namibia** (44%), **State Bank of Mauritius** (20%) and the **Merchant Bank of Central Africa** in Zimbabwe (29%). It also has subsidiary companies in Lesotho, Swaziland and Malawi. Its further expansion into the continent will be done 'selectively'. **Nedcor Investment Bank** is active in African markets in the areas of project, trade and commodity finance.

**First National Bank** has focused its operations on three core countries — Namibia, Botswana and Swaziland, all countries in which it is a major player. Its operations include retail banking, corporate banking, HP leasing, card operations and premium credit financing. Although it has found refuge in safe markets close to home, the competition among banks is fierce in these small markets. It is

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<sup>9</sup> Merrill Lynch report on Standard Bank, 24 April 2003.



considering expansion further afield in countries such as Mozambique and Angola as well as East and West Africa.

**FNB Corporate Trade Services**, the only banking institution in Africa to have an ISO9001 accreditation, is also very active in the rest of Africa in cross-border transactions, focusing on mitigating risk. It specialises in letters of credit for exports and imports; foreign bills for collection; guarantees, including international guarantees, for local and foreign business; and structured finance. It has relationships with international banks but also with strong domestic banks in Africa with which it has long-term relationships and which it relies on in the absence of its own banking network.

**Rand Merchant Bank**, also part of the **FirstRand** group, (together with FNB), specialises in project finance and is known for structuring innovative deals in what would otherwise be risky projects. This includes ring-fencing the cashflows of transactions and structuring repayment from potential dollar income streams from the projects themselves. In the case of countries along the west coast of Africa, **RMB** is involved in oil financing, advancing money upfront against future oil production. It structured a similar deal in Congo-Brazzaville for the financing of the dredging of the Point Noire harbour, reducing its risk in a deal with the major oil companies using the port and diverting the future cash flow of the port to repay the finance. It has also financed telecoms deals in Benin and Congo-Brazzaville and fuel in the DRC, among others. **Investec** is also involved in project finance deals in Africa, mainly in commodities, focusing primarily on metals, mining, and oil and gas.

The main problems in the African banking sector (excluding South Africa) have been identified as:

- **Political risk**, as has been evidenced in Côte d'Ivoire recently, although in a country like Zimbabwe, the distortions of the market as a result of the political crisis have served the banking sector well;
- **Overbanking** in small markets such as Botswana and Namibia. In Botswana, for example, Stanbic Africa, Standard Chartered, Barclays and FNB all compete for an estimated workforce of a quarter of a million people;
- **Currency risks**. Foreign banks target hard currency income streams where possible in weak currency countries but where profits are generated in local currencies, such as in retail banking, the challenge for banks is to grow earnings at a faster rate than the depreciation of the currency;
- **Hedging against currency fluctuations** which can add as much as 30% onto trade financing deals year-on-year;
- **A shortage of dollars and hard currency** in many markets because of the high demand which governments cannot meet;
- **Changes of governments** or even ministers, which can mean agreements are not honoured or the playing field is changed at short notice;
- **Weak domestic private sectors** with few creditworthy borrowers. Typically most deals are done with governments or parastatals which are known to be high-risk clients due to their being weak borrowers, as well as being inefficient and bureaucratic, lacking a track record, not applying corporate governance principles, lacking transparency, and not having proper financial records;
- **A lack of capital markets** or small and often illiquid markets, a situation exacerbated by the lack of business confidence in most African countries. This compromises a country's ability to raise finance or at least makes it more expensive, prevents benchmarking and precludes provision of local forward cover;
- **An acute shortage of information** about the viability and creditworthiness of borrowers and contract enforcement problems which increase the risk of loan default;
- **High inflation and exchange rate volatility**, which exacerbate the risks of lending in some countries;
- **Large government deficits** being supported by the banking system, which serves to crowd out private sector borrowers; and
- A low rate of savings and a general **suspicion of banks**.

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## Telecommunications

South African companies have played no small part in the milestone reached by sub-Saharan Africa in 2000 — the achievement of a telephone density of one subscriber per 100 inhabitants. This was achieved primarily because of the growth of mobile telephony. By the end of 2000, there were 17 African countries in which there were more mobile than fixed-line subscribers. Not only has teledensity improved, but the economies of countries in which there are successful mobile telephone operators have had significant benefits from mobile growth as a result of factors such as job creation, particularly through agents selling prepaid cards but also in areas of construction and equipment supply, and through the related improvement of the business operating environment.

All this has been made possible by the liberalisation of the sector over the past few years. As a result of this, at the beginning of 2001, 56% of African countries allowed competition on mobile cellular networks, up from 7% in 1995 and only six African countries did not have a cellular network compared to 28 in 1995. There has also been major growth in the number of mobile operators on the continent: in mid-2001, there were around 200 mobile networks in operation, up from just 33 in 1995.<sup>10</sup>

South African mobile operators **MTN** and **Vodacom** have a wide footprint on the continent and both companies have experienced start-up growth well beyond their expectations. In Tanzania, **Vodacom** projected 36,000 subscribers in the first year; after only eight weeks it had 38,000. MTN started its operations in Nigeria in August 2001 and by July 2002, it already had around 400,000 subscribers. Its target for end-March 2002 had been 173,000 customers. In Swaziland, the **MTN** consortium took two years to accomplish what fixed-line operators did in 80 years. The advent of prepaid cards for mobile telephony has helped to feed this revolution. In the rest of Africa, four out of every five subscribers uses the prepaid option, much higher than in South Africa and almost twice the global average.

During the 2001/02 financial year, **MTN International** had increased its contribution to M-Cell's group revenue from 4.5% to just less than 19%. **M-Cell** (now called the **MTN Group**), which has a 77.5% interest in **MTN Nigeria**, expects it to rise to about 35% over the next two years, driven by the Nigerian operation. **Vodacom's** target is to derive 30% of its revenue from the SADC region, in which it has focused operations mainly for reasons of proximity to the home base, by 2007.

Although the South African operators have not always been the first into a market, they have generally emerged with majority market share in a short time. This has been the case in, for example, Tanzania (where **Vodacom** was fourth into the market and by mid-2003 had more than 50% market share), and Uganda for **MTN**. In terms of competition, there are several players. Key among them at present is Amsterdam-based **MSI** which is increasing its spend in Africa to take on the South African competition — it is expanding its coverage in Tanzania to match **Vodacom's** and gearing up its **Celtel** operation in the DRC to increase its market share after **Vodacom's** entry. **MSI** is also looking at the 50% stake in **Kencell** in Kenya being sold by French operator **Vivendi**. Egyptian company **Orascom** is also playing an increasing role on the continent, particularly in North Africa. On the other hand, several dozen companies or stakes are being sold off by international operators such as **Vivendi** (despite the fact it spent US\$2.4 billion for a 35% stake in **Maroc Telecom** in Morocco in 2000), **France Telecom** and **Telia**, are now looking to unload their African operations primarily because of major debts run up in European markets. In Cameroon, **MTN** faces the prospect of more competitors in the market as the government opens up licences and in Nigeria a mobile licence was issued recently to Nigerian consortium, **Globalcom**.

Challenges now are how to make services more affordable and how to leverage mobile telephony to provide access to the internet. South African companies are well placed in regard to the second point but the first still remains something of a challenge given the high costs of infrastructure and other expenses that mobile companies in markets such as Nigeria and DRC are forced to pay because of the rundown state of the countries.

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<sup>10</sup> International Telecommunications Union, *ITU News*, 2001.

**Vodacom** launched in the DRC, one of Africa's most high-risk markets, in May 2002. Its entry costs were significantly reduced after it secured its licence through its Congolese partner which paid only US\$2 million for it in 1997 when demand was low. But it had a myriad other expenses including building infrastructure, getting equipment into the country — it used 52 Antonov aircraft for this purpose ahead of its rollout — having to install generators at base stations because of a lack of power, security and many other costs which are not necessary in more developed countries. However, the risk it took entering this market has paid off. Within three weeks of operation, it had 50,000 customers including 12,000 taken over from its joint venture partner, **Congolese Wireless Networks** and by October, its subscriber base was at 135,000 customers, growing at 1,200 a day. It went into the market facing competition from seven or eight competitors but it is aiming to capture 50% of the estimated total market of six million people. Despite the fact that the bulk of the population is poor and not formally employed, average revenue per user is nearly three times higher than it is in South Africa.

In another high-risk market, Nigeria, the battle for subscribers continues in earnest between two companies — **MTN** and the South African-based Zimbabwe company **Econet Wireless**. The cellphone market has been conservatively estimated at 10 million over five years and in just two years, the number of subscribers has exceeded the expectations of both operators. Although many of the start-up costs were similar to those of **Vodacom** in the DRC, the operators in Nigeria were hit by the US\$285 million licence fee per operator. These costs have had to be built into their tariffs which have been criticised both by the general public, which compared them to tariffs in South Africa and Europe, and the government which at one time demanded the tariff be reduced by 80%. Operators defend themselves by saying the high costs which influence the tariff are not of their own making. For example, the licence fee was much higher than the US\$25 million paid in South Africa nine years ago; the cost per base station installation is 2.4 times the **MTN** international average; insecurity of electricity supply meant two generators had to be bought for every base station; the unforeseen demand for services which has required an increased investment in infrastructure of around US\$350 million; and the high cost of raising finance because of the high-risk political environment. However, as with the DRC their risk is paying off with subscriber numbers well ahead of expectations despite the low average per capita income of US\$300.

A cost added problem in Nigeria is the failed privatisation of the state-owned fixed line operator, **Nitel**, the planned privatisation of which last year fell through. In most countries the state operator provides the transmission network for mobile companies but in Nigeria this has not been possible because of the poor state of the parastatal and a substantial part of the network had to be funded by the mobile companies at great cost. **Nitel's** lack of capacity has presented other problems as well for the foreign operators such as a lack of transparency and connectivity capacity.

Regulation in Africa, while improving, still lacks capacity which has hindered expansion of both mobile and fixed-line operations. One of the problems is the tendency by the regulator to favour state-owned operators, thus hampering competition. In Mozambique, for example, **Vodacom** has yet to launch its service, despite paying US\$15 million for a licence last year. It is still in negotiations with the government regarding interconnection and tariff problems in relation to the incumbent operator, **mCel**, in which the state-owned monopoly **TDM** has a 74% stake. However, in June 2003, the government announced that **TDM** and **mCel** had now become separate entities which it hoped would facilitate **Vodacom's** launch. **TDM** also has a stake in 11 other subsidiary companies in the telecommunications sector making it difficult for other companies to compete. However, reform of the sector is under way. **Vodacom** has also put on ice plans to operate in Zambia, where it was awarded a licence in March 2002, because of regulatory uncertainty, particularly regarding frequency spectrum which is becoming a headache for regulators with the plethora of new licences being issued across Africa. In Nigeria, certain regulatory requirements make life more difficult. For example, the operators are forbidden from sharing excess capacity on their microwave network or erecting base stations on the same buildings, which would have reduced costs.

The advance of **MTN** and **Vodacom** into the continent has brought with it a wave of business for a myriad support service companies. For example, the telecommunications division of IT company **NamITech**, which supplies GSM-based services to more than 30 African network providers, has trebled its revenues from its African operations north of the border during the 2001/02 financial year compared to the previous year. It expected to boost revenues from R200 million in 2001/02 to R500

million in 2002/03. Wireless communications solutions provider, **Orbicom** is part of the **MTN** rollout into Africa. It also acts as a satellite signal distributor for **MultiChoice**, the provider of DStv and M-Net. It is establishing a platform for Internet Protocol-based services via satellite and developing an electronic funds project to introduce a switching system for a multitude of financial transactions which will be rolled out in several countries, including Nigeria and Uganda in a tie up with **MTN**.

Infrastructure suppliers such as **Siemens Telecommunications** and **Ericsson**, which is an infrastructure partner with **MTN**, have also done good business in Africa. **Siemens Telecoms'** turnover for the 2002 financial year was R5 billion, up from R3.4 billion the previous year, of which 25% came from the rest of Africa.<sup>11</sup> Outside South Africa it supplied **TDM** and the **Botswana Telecommunications Corporation** with infrastructure, it won a contract for equipment in Zambia and for **Vodacom International** in Lesotho and Tanzania. It also supplies infrastructure to five networks owned by **MSI**. The **Development Bank of Southern Africa** has also approved various telecommunications investment in the past two years, including a \$4.7 million infrastructure loan to **Swaziland Posts & Telecom**, a \$3.8 million backbone loan to Mozambique and \$14.2 million for Telecom Network Maputo.

State-owned telecommunications operator **Telkom** is also an active participant in the African market. It has an \$85 million stake in the \$600 million SAT-3/WASC/SAFE undersea cable project that aims to connect Africa to Europe and Asia to reduce the costs of phone calls and to enable the revenue generated from phone calls to remain in Africa.<sup>12</sup> It has played a key role in a number of projects in Southern Africa which include: the digitisation of the Zimbabwe telecommunications microwave route link with South Africa; the installation and management of the Angolan national VSAT network; the digitisation of Lesotho and Swaziland's domestic network for managed data services; and the implementation of Voice over Internet Protocol (VoIP) in conjunction with several carriers.

The main challenges of working in Africa include:

- **Governmental and regulatory difficulties.** Understanding the objectives and constraints of privatisation as well as differing and often uncertain regulatory regimes. Regulators often lack experience and international investors become, unwittingly, part of their learning curve. They are also forced to bid for licences and contracts in uncertain regulatory environments and fight for spectrum.
- **Logistical problems.** This includes getting huge amounts of equipment to countries and a lack of basic infrastructure such as electricity and roads as well as a shortage of decent premises for offices, high accommodation costs for expatriate staff and generally, high costs of doing business.
- **Complaints about tariffs.** This can be highly controversial, as in the case of Nigeria, where populations do not understand the formulas and costs on which tariffs are worked out, a situation exacerbated by high customer expectations.
- **Transmission and interconnect agreements.** These have caused headaches in African operations for a variety of reasons including weak or partisan regulation and the poor state of infrastructure and state-owned operators generally.
- **Rollout and performance obligations.** The above criteria affect the obligations built into mobile telephony companies' contracts. Rollout objectives are often not well researched and not always easily achievable. However, pent-up demand has allowed mobile operators to achieve, and often exceed, their objectives despite these constraints.
- **Project funding and financial challenges.** Problems include acquiring and managing project funding, producing sound business plans in an uncertain regulatory and operating environment, addressing alternative billing and credit vetting strategies, maximising financial concessions for initial network rollout, managing the distribution chain and revenue collection in an unsophisticated business environment with limited banking infrastructure, and overall, trying to raise finance for major operations in high-risk countries.
- **Planning networks for adequate capacity with uncertain market demand.** This proved to be the case for Vodacom in Tanzania and MTN in Nigeria where capacity constraints became a huge

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<sup>11</sup> BusinessMap Foundation, *Investment 2002 Report*, 2002.

<sup>12</sup> Nearly 80% of telephone revenue from calls made in Africa but routed through overseas countries, estimated at about US\$300 million annually, leaves the continent.

problem in meeting demand in the early days of the operations. Accurate market information to this end is also difficult to find. Official GDP figures do not help in countries where most of the economic activity is unrecorded, taking the form of cash transactions in a huge informal sector. Low per capita incomes do not appear to have been a major constraint in the mobile telephony market.

- **Political risk.** This is a factor in all business but in high-risk countries such as Nigeria and DRC, it is worse. Apart from the usual problems, in Nigeria, for example, MTN was hit by fears that Nigeria would renege on its foreign debt which would have the combined effect of devaluing the currency, giving Nigerians less spending power, discouraging financiers from backing MTN's future expansion and make imported equipment more costly. Political problems can also affect the share price.
- **Currency fluctuations.** This can affect a range of costs for mobile operators such as call tariffs, which are dollar based, cost of imports and financing. The latter involves an added problem – foreign currency regulations in South Africa.
- **High investment and operating costs.** In countries such as the DRC and Nigeria, the size of the countries, the rundown state of infrastructure, or complete lack of it, electricity problems, security, high hotel and rental costs, and a myriad other expenses make these very expensive markets to be in. In Nigeria, the high cost of the licence has been an added cost burden as is the fact that because of problems with Nitel, the companies have had to build their own transmission backbones.
- **Competition.** This is being mitigated by the wealth of opportunities opening up and the fact that South African operators have had huge successes in their African markets. But competitive challenges also include creating a culture among competitive operators, establishing equitable and workable interconnect agreements with competitors and dealing with competitive imbalances due to legacy projects with former PTTs.
- **Lack of telecommunications skills and capacity.** This includes a lack of experience in competitive environments by regulators and problems in finding and retaining the technical skills required for operating and maintaining complex telecommunications systems. It is also difficult to find specialised, high-level support for network problem resolution and emergencies. In many cases, experts are flown in but this is difficult in the case of a country such as Nigeria where there are too few flights for the demand and where flights are long.

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## Retail and Food

The retail and food sectors have probably been the most visible and accessible part of the northward trek by South African business into the continent with their wide exposure to local populations in the countries in which they operate.

Shopping centres and malls with luxury features such as good ventilation and glossy shopfronts, and lined with well-known South African brands, increasingly dominate the landscape in African capitals, surviving in juxtaposition with the more usual open markets, informal street traders and rows of tiny shops set along narrow streets.

Most local manufacturers and traders do not have the resources to compete against well-capitalised, established South African chains and their quality goods. This has resulted in local companies going out of business which in turn has resulted in hostility towards South Africans. There have also been allegations of retailers dumping substandard goods into their African operations.

However, South African retailers argue that on the contrary, their standards are uniform across countries and operations. They say that wherever possible, they are working to develop local economies through sourcing from local companies where the quality is high enough, creating jobs, engaging in management and staff training and upgrading standards across the board. Rather than pushing out the 'small guys', companies say they are simply upsetting local monopolies and breaking new ground. Their presence has had the effect of improving quality either to compete or to be considered as a local supplier. It has also, in many cases, had the effect of pushing down prices. One South African retailer said local competitors' prices of food and household goods in one East African city came down by nearly 50% when the chain opened its first store there.

Although there is limited investment from the retail sector in other African countries, the size of the companies in the sector doing business there has forced the issue of transparency in business with governments. In addition, through paying taxes, VAT and duties as well as creating jobs, retail companies are contributing to local economies. The South African presence has also served to bring the retail sector into the tax net by making it a greater part of the formal economy than had previously been the case.

Problems of finding suitable real estate in cities suffering from bad planning and urban sprawl have resulted in South African built and owned shopping centres in Africa. These complexes are being built to suit the needs of South African retailers although most have local tenants as well. **Shoprite** is an anchor tenant in most of these complexes and other South African retailers have been able to 'piggy back' off that arrangement. It has moved into the property business not out of choice but because the group could not get developers and financial institutions interested in the potential of business in areas where it wanted to be. Currently, more than half of the **Shoprite Checkers** stores in Africa are stand-alone stores and the group owns a number of shopping centres in African cities.

**JHI Real Estate** has an ongoing relationship with retailers in the rest of Africa. Its participation includes sourcing sites to develop shopping centres, managing them and finding tenants. Its services are not exclusive to this sector, though, and it also deals with properties for corporates, such as **Vodacom** in Tanzania, valuing properties for South African and other companies in other countries, research for clients, property management and, as in the case of Uganda currently, developing industrial parks. It has recently become involved in medical clinics for South African companies such as **MRI** and **Netcare** on the back of the development of retail commercial precincts, and is looking at business hotels.

Although the retail chains try to standardise the stores and replicate what they have in South Africa, in some cases adjustments need to be made to stock, pricing models and standards, depending on local circumstances. The consumer patterns are different in some countries. Where a retail chain in South Africa might be aiming at the lower income bracket, in African countries the same chain would attract the middle income market.

The **Shoprite** group has been operating in Africa since 1995, spurred on by what it says is saturation in the local market, although analysts say the reason is more likely loss of market share in South Africa. It currently trades in 13 African countries outside South Africa. This business accounts for 12% of the group's turnover. CEO Whitey Basson's vision of growing this to 50% by 2005 has been greeted with some scepticism but the group is scouring the continent for new opportunities in order to realise this vision. Work on the R113 million Shoprite store and Megasave distribution centre in Luanda was due to be completed by mid-2003. New markets and new opportunities in countries in which it is already trading are also being examined.<sup>13</sup>

**Profurn Africa** was one of the first retailers to expand into Africa but its operations have been hit by risk, rapid growth and unprofitable operations. The company was recently taken over by the **JD Group**. As a result, 55 of its African stores were closed down and it has 17 left. The group trades under a variety of brands including **Supreme, Hi-Fi Corporation, Morkels, Bradlows** and **Price 'n Pride**.

Since 1994, **Pep Stores**, which also trades as **Ackermans**, has 60 stores in three African countries — Zambia, Malawi and Mozambique — as well as more than 100 in the Southern African Customs Union countries excluding South Africa ( Botswana, Lesotho, Namibia and Swaziland (BLNS)) out of its total 1,200 stores including South Africa. It recently closed its Ghana operation due to a number of problems, not least of which was the threat posed by the smuggling of goods by local traders evading high duties and the large second-hand market — a major problem for retailers in the formal sector in much of Africa. The Africa operation (ex-BLNS countries) contributes R120 million a year to total group turnover of R3 billion.

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<sup>13</sup> Basson, Whitey, Interview in *Traders African Business Journal*, May – August 2003 issue.

**Pick 'n Pay**, which also trades as **Score**, has had a mixed experience in Africa, selling its Tanzanian operation to **Shoprite** but taking it on again in Mozambique where it is busy setting up two of its brands — **Score** and **Pick 'n Pay**. It also has a stake in the 54-store **TM** chain in Zimbabwe, part of the **Meikles Africa** group, Botswana and Namibia, all of which are success stories, including Zimbabwe where inflation has boosted the operation rather than undermined it. However, the group is focusing its core efforts on the South African market which it describes as still being the most lucrative market on the continent.

**Ellerines**, **Game**, **Makro** and **Metro Cash & Carry** also have retail operations in the rest of Africa while **Woolworths** and **Truworths** have a chain of franchises in some African countries and the Middle East. Franchising is also the terrain of food chains in Africa. Well-known fast food franchises line the streets in many African cities where it is possible to find **Steers**, **Nandos**, **Debonair's Pizza** or **St Elmo's**.

Franchising is increasingly seen as an important way to empower local business people and bring them into the formal economy. Most franchising in Africa is driven from South Africa which itself has seen growth in franchising of at least 17% a year since 1994. **Steers** is probably South Africa's most experienced and prolific franchising company in Africa. It entered the African market in 1988 and currently has licences in 21 countries and over 60 operating outlets in 13 countries with major expansion plans in the pipeline. These are in addition to 470 outlets in South Africa. Its volumes are between 30-50% higher than the average outlet in South Africa and non-South Africa stores contribute 20% of bottom line earnings.

The problems for retailers in Africa are fairly standard. They include:

- **A lack of suitable real estate.** As explained in this chapter, this has led Shoprite to build retail complexes which have South African anchor tenants. However, this is a high cost to the business as the costs of development in other African countries are almost twice as high as they are in South Africa.
- **High rentals.**
- **Bureaucracy, bribery and corruption**, primarily in the supply chain.
- **Long supply chains** which also contributes to stock losses along the chain.
- **Logistical problems**, including transport, in getting supplies to stores in other countries. Some of the retailers have warehouses in Cape Town where goods from the Far East and other overseas countries are unloaded and the goods are then moved north which adds considerably to the time and expense. This is partly a consequence of the feeder routes from the East which do not include countries for which much of the merchandise is destined. The expense of moving goods around Africa is huge. One retailer says it is more expensive to ship goods between Beira and Maputo in Mozambique than from Hong Kong to South Africa. However, retailers are increasingly sourcing goods in the regions in which they operate rather than relying solely on goods from South Africa. This has the added advantage in some cases of benefits through other trade arrangements such as the Common Market for Eastern and Southern Africa (Comesa).
- **The expense of air transport** in a sector where margins are under constant pressure.
- **Volatile currency movements and inflation rates.** However, inflation can also work in favour of retailers as has happened in Zimbabwe which in May 2003 had an inflation rate of nearly 300%.
- **A dearth of qualified local management.** Many companies are training local managers and staff to obviate the need for expatriate management.
- **A lack of quality goods in local markets.** This means a greater reliance on imports which in turns pushes up costs because of high tariffs on imported goods.
- **A lack of local service providers.** This makes it difficult for companies to outsource services such as cleaning, security, plumbing and electricity. As a result, companies have to employ and train staff to provide these services, which pushes up costs.
- **Low disposable incomes.** Some retailers have been caught out by the lure of high population numbers in a particular market and have mistakenly made business assumptions based on potential numbers of consumers rather than a realistic reading of the market. For example, in Dar es Salaam, there are five million people but most of them live on less than \$1 a day.
- **Slow returns on investment and the need for critical mass.** A minimum of five stores up to 50 stores per country is considered to be a best-case scenario for a profitable country operation because of the

high cost of doing business. But difficulties such as expense of setting up, lack of available properties and low income populations preclude most chains from increasing to that number.

- **High duties, taxes, and surcharges on imports** which, combined with high transport costs, can add anything between 40–70% to the price of landed goods. VAT alone in Zambia and Mozambique is around 17% and 20% in Malawi compared to 14% in South Africa. The attractions of the SACU countries is that no duties are payable and proximity keeps costs down.<sup>14</sup>
- **Title for land for property development.** In Africa generally, land is owned by the state and only leasehold options are available on land, not freehold as in South Africa. Also, the large number of stakeholders with rights on land can be a problem when a large site is needed for property development.
- **Problems with long-term tenant contracts for local companies.** Although local companies are mostly used as ‘fillers’ in retail developments, property developers have difficulty in getting them to sign long-term contracts for retail space or to stick to their contracts if they do sign. Among other things, this increases the difficulty of raising finance for such developments.

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## Mining

In Africa the mining sector is generally considered to be a high-risk enterprise. While exploration can be a relatively low-cost operation, most mining projects run more into billions of rands rather than millions once there is a hole in the ground so margins need to be high to justify the costs. The long-term nature of mining increases companies’ exposure to the risks and problems typical of many countries on the continent. Key among these is political risk. Mining operations are long-term ventures which rely on agreements and contracts with governments for their existence and success. While in the developed world, certainty of legal systems, democratic practice and political stability can be assumed, in most African countries companies have to manage the risks inherent in the absence of such principles. There are many examples in Africa where bad behaviour by state and non-state actors or untimely and short-term decisions by governments have created unacceptable risk for mining companies. Bridging the gap between prospecting and investment can be five years or more — a long time in African terms.

The main countries in which mining operations are being conducted outside South Africa are Ghana, Tanzania, Zimbabwe, the DRC, Angola, Guinea, Mali, Mozambique and Namibia. The risk versus reward principle is strong in the mining sector but there are instances where the risk has been too great and companies have been forced to pull out due to civil war, as in the case of Angola and the DRC, or not go in in the first place. One South African gold mining company maintains that even with the advent of political transition and peace agreements in the DRC, it would not mine there even if the gold was ‘sticking out of the ground’.

There need not be outright war to deter investors; simmering unrest can be enough as in the case of countries such as Algeria and Angola. Political instability raises concurrent fears of nationalisation and expropriation either by governments or by rebel armies desperate for resources such as was the case with Unita in Angola and with the Kabila governments in the DRC which issued lucrative mining rights in return for money and logistical support. But there are more insidious risks in countries such as Zambia and Zimbabwe where the governments either keep changing the playing field to solve problems of their own making or renege on undertakings made once investments are in place. Mining companies are forced to spend large sums of money on risk insurance.<sup>15</sup>

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<sup>14</sup> Pep Stores has 49 stores in Namibia, with a population of around 1.6 million people and more than 50 stores in Botswana with a population of 1.8 million while in Zambia, it has 30 stores serving 10 million people.

<sup>15</sup> MIGA, the World Bank’s risk guarantee agency, lists mining as the second biggest sector out of eight sectors, to which it had exposure in Africa as at 31 March 2003. The biggest was infrastructure.



**De Beers** has had a mixed relationship with Angola, facing both massive risk and big rewards. It began prospecting in Angola in the early 1970s in a joint venture with diamond company **Diamang** before it

<b>Global Gem and Diamond Production<sup>16</sup></b>		
<b>Country</b>	<b>Carats (million)</b>	<b>Value (US\$m)</b>
Angola	10.60	1,110
Botswana	24.90	2,125
DRC	16.50	585
Namibia	1.52	420
SA	4.00	740
Tanzania	0.32	46
Lesotho	0.02	5
<b>Southern Africa</b>	<b>58.60</b>	<b>5,000</b>
CAR	0.45	72
Ghana	0.50	13.5
Ivory Coast	0.15	21.8
Liberia	0.17	27.2
Sierra Leone	0.35	87.5
Guinea	0.45	103.5
<b>AFRICA TOTAL</b>	<b>60.00</b>	<b>5,350</b>
Brazil	0.69	29.3
Venezuela	0.35	46
Guyana	0.02	1.7
China	0.16	17
Australia	26.20	360
Canada	2.60	450
Russia	20.50	1,600
<b>GLOBAL TOTAL</b>	<b>110,180</b>	<b>7,900</b>

was nationalised by the MPLA after independence in 1975, thereby transferring the sole rights to Angola's diamonds to the state (the constitution stipulates that all natural resources are the property of the state which will determine how they are used and explored). **De Beers** continued prospecting between 1978 and 1984 under a mining and technical agreement with the new government. It terminated its contract in 1985 after the rebel Unita movement began to threaten diamond mines and disrupt operations. The company then began negotiations to renew prospecting there in the early 1990s. It was awarded prospecting agreements for three concession areas in 1996 in a 50:50 joint venture with **Endiama**, the State Diamond Mining Company of Angola. However, the security situation prevented work from being carried out in two of the areas. In May 2001, exploration was suspended pending negotiations with the Angolan government on the terms applicable to the mining and marketing of diamonds from mines discovered as a result of **De Beers'** prospecting activities.

The talks, which began in October 2002 and which had not been concluded by June 2003, are taking place with a view to resolving disputes and concluding new contracts between the two parties. In the meantime, **De Beers** has had to face international censure in the 'conflict diamonds' campaign as a result of its operations in Angola and allegations that it had bought diamonds directly from Unita, which it has denied. This campaign has the potential to harm its highly successful operations in

<sup>16</sup> Compiled by Greg Mills from *Mining Journal*, 17 August 2001 and private interviews. Industrial diamond production is 1.8 billion carats, of which South Africa manufactures 450 million. The South African diamond industry employs an estimated 40,000 people.

Botswana, South Africa and Namibia and the company has had to spend significant time and effort to counter this negative publicity.

**De Beers** has also, in the past decade, been prospecting in Zimbabwe, through its wholly owned subsidiary **DebZim**; in Guinea where it has exclusive reconnaissance licences for kimberlite prospecting and has entered into two joint ventures with local companies for the exploration of primary deposits; in Gabon, where it has prospecting permits for some 61,000 square kilometres; and in western Mauritania in a joint venture with **Rex Diamond Mining**.

Despite the operational difficulties of operating in Angola, diamond company **Trans Hex** is banking on its Angolan operations to deliver strong growth for the group in the coming year. One potential complication is the fact that Unita owns some of the concessions it was given. At this stage, Unita is agreeable to giving up some of its concessions, which the government took away during the civil war, in return for others. **Trans Hex** has already had to build a 34km road and a bridge on a public road to service one of its operations.<sup>17</sup> **Trans Hex** has two mines in Angola — Luarica, already in production, and Fucuama, with delineated resources of 1.7 million carats. Fucuama is scheduled to start producing by the end of 2003. Because **Trans Hex** mines the concessions as a joint venture with **Endiama**, it will not receive the full benefits of the resource.

**Anglogold** is mining in Mali, Tanzania and Namibia — three countries currently considered to be among the safest for mining investments. Its investment to date is: Mali — indirect investment \$309.4 million, direct \$93.3 million; Tanzania — indirect \$185.3 million, direct \$15.8 million; and Namibia — indirect \$14.6 million, direct \$5.5 million. **Anglogold** announced in mid-May that it was in merger talks with Ghana's **Ashanti Goldfields** which, if successful, will make the merged company the world's largest gold producer. Ashanti has gold mines in four African countries — Ghana, Zimbabwe, Guinea and Tanzania. **Lonmin**, which has a 28% stake in **Ashanti**, is also part of the talks.

Despite the relative political and economic stability of Ghana (see the section on Ghana), the **Ashanti** mines are a coveted government asset in which the government has a 17% stake and a 'golden share' or veto rights on any merger or corporate activity, something that has deterred investors. Several years ago, the government of Jerry Rawlings blocked a merger with **Lonmin** and the company's poor share price performance has been blamed on a perception of undue government influence by Rawlings' government in the company. It remains to be seen how the government of John Kufuor will react to merger talks and whether it will relinquish its veto. It is believed that **Anglogold** is prepared to let the government retain its golden share but it would only be able to invoke it for transactions involving the combined company's Ghanaian assets.

**Gold Fields**, whose major shareholder is Anglo American, has given Ghana a vote of confidence with its announcement in May 2003 that it is to invest more than R1.1 billion, expanding its Tarkwa mine in the country which will increase gold production by 175,000 ounces a year. **Gold Fields** has two mines in Ghana which together provide about 22% of the company's gold production.<sup>18</sup>

The London and Nasdaq listed **Randgold Resources** has exploration activities under way in countries such as Tanzania, Mali, Senegal and Côte d'Ivoire (although political circumstances have led to a temporary suspension of operations there). Its exploration activities led to the discovery of the Morila deposit in Mali which has developed into one of the world's top 10 gold mines with a million-ounce-per year production mark.

Zimbabwe, for all its political and economic problems, is still a market for mining companies, particularly in platinum. Platinum producers have been given special concessions by the government, including allowing offshore accounts. **Anglo Platinum** recently announced that it would go ahead with its \$90 million development of Unki, a small underground platinum mine on Zimbabwe's Great Dyke. Analysts estimate the group has already spent about \$60 million on the prospecting in the region and feasibility studies, bringing the total expenditure to a significant \$150 million. **Impala Platinum** and London-listed **Aquarius Platinum** also recently made large investments in the region.

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<sup>17</sup> Mineweb

<sup>18</sup> *Business Day*, 9 May 2003.

Gold producers in Zimbabwe, on the other hand, have suffered undue hardship because of the metal's importance as a primary source of hard currency. The government now takes half of their hard currency earnings and pays them in local currency despite the fact that up to 70% of their requirements need to be imported using hard currency. Appeals by the industry have wrested a few concessions out of the government but it falls far short of their requirements. In June 2003, two of Zimbabwe's top gold producers — **Falgold** and **Rio Tinto** — warned of widespread mine closures by September due to the inability of the central bank to meet its foreign currency obligations to mining firms.

**Anglo American** has widespread mining and exploration business across Africa, from where it still derives the majority of its earnings, and the world. Its African operations are held through various shareholdings in companies active on the continent such as **Anglogold**, **De Beers**, **Anglo Platinum**, **Anglo Base Metals**, **Anglo Industrial Minerals** and **Anglo Ferrous Metals**. In terms of African operations, **Anglo's** most headline grabbing operation in the past two years has probably been its decision to reinvest in Zambia's copper mines and its subsequent decision a mere 18 months later to disinvest, leaving behind much bitterness in the country about the benefits of privatisation. The case underlines how state control of key assets (Zambia's copper mines were nationalised in 1970 and suffered three decades of poor management, theft and neglect) combined with inadequate political judgement<sup>19</sup> can prejudice foreign investment. What is less known is the amount of money **Anglo** invests in infrastructure, as well as social and health benefits in African countries in which it operates.

**Anglovaal Mining (Avmin)** announced in March 2003 that it planned to sell its 90% stake in its copper and cobalt operation in Zambia, **Chambishi Metals**. The decision was based partly on the costs of the operation which created more risk and reduced return, an equation which proved unviable for the company, and partly on the recent decision by the Zambian government to sell **Ramcoz**, a mine for which **Avmin** had put in a bid because of its potential to add value to the **Chambishi** operation, to little-known Swiss group **J&W**. Delays and technical problems at the start of the smelter project and high dollar-based debt contributed to difficulties which have resulted in the company having to write off R1.4 billion in debt to date with more in the offing. The decision on the sale of **Ramcoz** was the final trigger that led to the decision to pull out of the project rather than incur further costs.

Apart from **De Beers**, as mentioned above, other South African companies have been caught in the net of international disapproval because of their links to African countries. Despite the fact that it withdrew from the Congo many years ago over governance issues, **Anglo** fell victim to international disapproval after being named in a UN report about the plunder of resources from the DRC. The report gave no details about its alleged involvement. The company denied the allegations saying it had had no operations there for a long time.

JSE-listed **African Gem Resources**, which mines the rare tanzanite stone in Tanzania, last year was hit by allegations that US trade in tanzanite was funding terror organisations. This led a number of US stores to end sales of the gem. At the time, **Afgem** had already been hit by difficulties with Tanzanian mining licences and problems with labour and the government. Lawsuits, that have delayed production, were linked to action taken by three Tanzanian mining associations that disputed **Afgem's** rights. The claims have now been dismissed by the high court in Tanzania but the company has nevertheless suffered delays and losses.

**BHP Billiton's** main African operation outside South Africa is the \$1.3 billion **Mozal** aluminium smelter outside Maputo in Mozambique (see chapter on Mozambique). The project, in which the company has the largest share (47%), is the single largest foreign direct investment in the country. The project's

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<sup>19</sup> In 1998, then president Frederick Chiluba turned down an original offer by the Kafue Consortium, a group of foreign base metal companies that wanted to buy a large chunk of the ailing Zambia Consolidated Copper Mines, including the Konkola Copper Mines, on the basis that the price offered was too low. The value of the mines continued to drop, along with the copper price, until a consortium of buyers, led by Anglo, paid a much lower price for the same deal in March 2000. In January 2002, Anglo announced its decision to pull out of Zambia saying that, among other things, it had underestimated the poor state of the mines and the related costs of making the venture a success.

proximity to South Africa was pivotal in the decision to undertake it as it reduced risk, cost and logistics.

Mining codes and investment incentives are potentially a double-edged sword for mining companies in Africa. While most countries now have mining codes, they do not always have the capacity to enforce them, or the political will. A case in point is the nationalisation of US mining company Banro in the late 1990s by the DRC government despite the existence of a mining code protecting investor rights and laying down stipulations for compensation should nationalisation take place 'for reasons of public interest'.<sup>20</sup> Investment codes are also constantly being upgraded or changed as circumstances in the country change. Many governments now realise they have given away too much in their efforts to lure investors and, with the encouragement of the World Bank, are reducing incentives in an effort to realise fuller benefits of foreign investment.

The main problems of doing business in Africa for the mining sector, as identified by companies and analysts, are:

- **Fiscal and macroeconomic risk.** When investments are made, mining companies typically make a detailed assessment of the investment climate and try to negotiate as much fiscal stability protection as possible with the authorities but agreements can be torn up or changed at short notice. Changes in legislation regarding security of mining rights, investment agreements, incentives and other issues that provide comfort to mining and other companies are either taking place in or being considered by several countries.
- **Political risk.** African countries generally have a history of political instability in the form of coups and other sudden changes of government, rigged elections, deterioration of previously sound political systems which initially attracted investors, endemic corruption at the top levels of government and civil wars which can spawn myriad rebel groups and destroy infrastructure and other support structures for foreign investors. Wars can also distort the award of mining concessions as has happened in DRC and Angola. Mining companies need to structure their operations in high-risk areas in ways that best protect them from political interference and instability. Political risk also includes the 'fraud' often perpetrated by governments which renege on agreements once the anticipated investment is in place. This has the effect of decreasing the attractiveness of countries as investment destinations and prevents companies already in place, concerned about repatriation of profits, from making further investments.
- **The cost of risk insurance.** The key risk insurance is provided by MIGA which covers all African countries except Liberia, Guinea-Bissau and Niger. All three countries are in the process of applying for MIGA membership. But many companies cover themselves with several complementary insurance schemes, all of which have an impact on the bottom line.
- **Ownership of mineral rights.** This is key because of the long-term nature of mining investments. Decisions to invest, as well as long-term financial projections, are based in part on the security of such ownership. If this changes, it can have lengthy and damaging repercussions for mining companies. South Africa has introduced a new mining bill which, if implemented, could have major implications for ownership, licences and mineral rights. While the size of mining investments and mining companies means they are in a good position to lobby governments and negotiate, this is not a given.
- **Community expectations.** As mining operations tend to be in fairly remote, rural areas, expectations for benefits from foreign investments often arise within the local, regional and/or national community. Mining companies too often worry about doing deals with the central government but it is equally important for them to get the local community on side and provide for development costs for communities to reduce the risk of future problems.
- **Labour relations.** The economically active community of most countries in Africa is disorganised and unsophisticated in labour relations practices. This can cause problems for mining companies who are often forced to negotiate difficult labour issues with unions who do not always understand the dynamics and normal procedures of such negotiations. However, this is changing in some countries such as Mali and Tanzania.

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<sup>20</sup> The DRC government overnight unlawfully seized Banro's 47 gold mining concessions in Eastern Congo, worth an estimated US\$1 billion, and gave them to a Congolese company.

- **Public and media relations** in most African countries are relatively unsophisticated which can lead to misreporting about mining activities and the benefits of foreign investment. This in turn can affect mining companies' relationships with governments and the community.
- **Lack of supporting infrastructure** such as decent roads, functioning railways and efficient ports makes the logistics for mining companies in remote areas of underdeveloped countries much more difficult. Companies are often forced to put in place their own infrastructure to mining operations. This makes the ability to support operations with goods, materials and services at reasonable cost a continuous challenge.
- **Royalties.** How these are levied and what percentages to be paid are a subject of some debate in Africa. High royalties can have major implications for the bottom line and may damage the international competitiveness of operations and reduce the attractiveness of the country concerned. There is also the question of local communities which can introduce unexpected expenses into mining operations on the question of royalties (see point above on community expectations). The Bafokeng tribe of South Africa is an example. After a battle lasting two decades, the tribe was awarded the rights to royalties from the Phokeng platinum mine near Rustenburg. In 1999 Impala Platinum agreed to cede 22% of its annual mining profits to the Bafokeng as well as one million shares in the company (which annually bring in more than R200 million).
- **Ad hoc government decisions.** In Zimbabwe, for example, the industry has been hard hit by the negative, politically induced macroeconomic climate and ad hoc arrangements made at short notice which are primarily designed to bale out the government's foreign exchange problems.
- **Remoteness of mining deposits** both from South Africa and from urban areas in the countries themselves. This is exacerbated by a lack of basic infrastructure in many countries and can affect the attractiveness for senior staff of such locations. This is also exacerbated by the size of many African countries such as Algeria, Sudan, DRC and Angola.
- **Security.** The remoteness of certain locations presents both security risks and benefits. But mining companies are highly visible and often invest in politically volatile countries. The security risks for staff are great, and many are not easily convinced to relocate to unsafe locations.
- **Licensing arrangements and regulatory regimes.** African governments often use licences as a source of patronage and cronyism. Licences can take years in some cases to be issued. Regulatory enforcement is also often either lax or enforced selectively as a means to get bribes.
- **Currency volatility**, which, coupled with fluctuating commodity prices, has implications for revenue and cost projections.
- **Agreements often need to be renegotiated as governments and circumstances change** (see De Beers in Angola above).
- Due to the location of deposits, **field working conditions** such as deserts, where the nearest fresh water sources can be many kilometres away, or thick rainforest, can present further logistical problems. **Disease** is a corollary of this. Several mining companies such as **BHP Billiton** in Mozambique and **Anglo American** have introduced effective programmes to reduce the incidence of malaria in the countries in which they operate.

# Country Case Studies

## Uganda (East Africa)

In 2002, South Africa was among the top 10 investors in Uganda, with \$17 million invested. Other major sources of FDI included Canada, the US, Switzerland, Sudan, Sweden, Germany Malaysia, Mauritius and Japan. The Ugandan economy has been growing at a rate of around 6% per annum for the past 10 years, aided by the liberalisation of the economy by President Yoweri Museveni who has thrown his support behind private sector investment. Growth has been off a low base and despite subdued commodity prices and lower output in traditional agricultural commodities. Historically, tea and coffee contributed about 70% to export earnings but their combined share dropped to 24% in 2001/02. Solid output in other agricultural activities has largely absorbed the declines and the government, encouraged by donors, is steadily diversifying.

Despite concerns about political tolerance and openness, Museveni has been good for foreign investment. He has presided over 15 years of relative peace and embraced the IMF/World Bank Structural Adjustment Programmes, cutting down on civil service and social services expenditure and sacrificing state parastatals to privatisation. He has also shown great leadership in turning around the HIV/AIDS pandemic. On the downside, however, Uganda still balances its budget with the help of large sums of aid money. Many people believe that Museveni has not done enough to reduce the country's dependence on external assistance and spends too readily on military matters, not least of all the DRC. In 2000, Uganda was 150<sup>th</sup> on the UNDP's Human Development Index which ranks a country's achievements in terms of human development, longevity, knowledge and a decent standard of living. Sierra Leone is at the bottom of the list at 173.

In Uganda, with a population of more than 24 million people, nominal GDP per head in 2001 was US\$259. Agriculture is at the forefront of economic activity and the sector provides employment for around 80% of the labour force and contributes 43% of GDP. Food production, livestock, forestry and fishing as well as the cash crops coffee, tea and cotton make up most of the sector's activity. The mining sector is small with copper, cobalt, gold, tin and limestone mined on a limited scale. Manufacturing is growing (supported by large hydro-electric power resources) and agro-processing, consumer goods and light industries are the main activities in this sector. Services make up 40% of the economy.<sup>21</sup> Uganda has a proactive and efficient investment authority and a range of incentives for investors.

The underdeveloped banking sector has suffered from a spate of bank failures but this has led to a flight to quality which has served **Stanbic Africa** well. In 2002, the banking group acquired 80% of **Uganda Commercial Bank**, the country's largest bank by assets with a 25% market share, as part of its change to retail banking in Africa. It reduced the number of jobs in the operation, introduced its latest BankMaster system into the bank as well as new services. It is now **Stanbic Africa's** second largest profit centre and boasts a return on equity of 47% despite competition in the market from other multinationals such as Citibank and Barclays.<sup>22</sup>

South African exports and imports to and from Uganda (R '000)					
	1999	2000	2001	2002	2003 (Jan-Feb)
Exports	257,990	348,023	493,976	612,891	54,660
Imports	21,570	4,653	18,124	20,713	4,692

Source: SA Department of Trade and Industry

<sup>21</sup> Standard Bank Economic Division, Annual Profile – Uganda, January 2003.

<sup>22</sup> Merrill Lynch report on Standard Bank, *Into Africa*, 24 April, 2003.

Since 1994, 32 South African companies have been licensed to establish investments in Uganda. These investments are mainly in the tourism, mining, energy, construction, agriculture, trade and services sectors. To date, South African companies have total planned investments amounting to \$227.79 million and have created 3,583 jobs. Fifteen of the companies are wholly foreign to Uganda while 17 are joint ventures. Thirteen companies were licensed between 2000 and 2003.<sup>23</sup>

Probably the most high profile investment from South Africa has come from **MTN** which launched in Uganda in 1998 and now holds 67% of the mobile market and 57% of the overall telecommunications market. The total cost of the operation to March 2002 was \$128 million. Apart from foreign funding through international banks, the company raised money for **MTN Uganda's** rural infrastructure rollout through a local note issuance programme through the Uganda Securities Exchange, backed by the Swedish International Development Agency (SIDA). It also uses its substantial cash from operations to fund expansion. By the beginning of 2002, it had rolled out 207,000 lines and covered 34 districts. Both **MTN Uganda** and the incumbent telecommunications operator **UTL** have licence exclusivity until 2005.

Apart from the benefits of increased communications, **MTN Uganda** has introduced fixed wireless terminals which are being used by more than half of Uganda's largest companies to substitute for fixed line services, and Wireless Local Loop has been made available allowing for the provision of voice, fax and high speed data. But in 2001, mobile operators were hit by a new government tax on airtime which has had a negative impact on revenue and has raised concerns about the predictability of the tax environment generally. Although the industry lobbied government, the only concession it made was to reduce the tax.

The fact that Uganda is a landlocked country has been a concern for businesses in South Africa trying to move goods up to East Africa. Road transport over those distances from South Africa is expensive and slow, a situation exacerbated by the poor state of the roads in the region. A law to establish an inland port and customs management is expected to be passed during 2003. This will include additional incentives for Special Economic Zones to foster exports. A South African company involved in the inland port project said while it was a good idea, it had encountered delays because of the lack of willingness by related companies to relocate to it. South Africa's **IDC** is also involved in the project.

Uganda's road and rail connections to Kenya, and the port at Mombasa, are the main routes currently used by South African exporters. However, the port, the largest in East Africa, has suffered a decline of usage in recent times because of both its poor state and its management — mostly political appointees from Moi's era — as well as the poor state of the Mombasa-Nairobi highway which causes freight delays between the port and the hinterland. South Africans have complained about tampering and theft of goods, processing delays and dilapidated facilities and high tariffs. As a result some companies are preferring to use the port in Dar es Salaam in Tanzania although the Kenyan government is cleaning up the port in Mombasa.

A South African businessman, Mark Gordon, came up with an innovative way of countering the delay in getting goods to Uganda with the introduction of a railway service between Johannesburg, through Tanzania, to Kampala. This was made possible by the construction of a special handling facility in Kidatu, south of Dar es Salaam, by the **Trans Africa Railway Corporation** which allows the transfer of goods between two railway lines of different measures — the narrow metric measure in East Africa and the wider imperial measure which the British used in Southern African railways. This problem had previously prevented the movement of goods between the two countries by rail. The service, launched in the late 1990s, cut down the time taken to transport goods from an average of eight weeks through Dar es Salaam or Mombasa to two weeks. Although there was huge interest in the service initially, resulting in the growth of business between the two countries, demand has fallen off because of the poor management of trains from South Africa by transport parastatal **Spoornet**. However, there is still high demand from Zimbabwe and Zambia, two countries through which the railway line passes.

The retail and food sector is represented in Uganda in the form of companies such as **Makro**, **Checkers** and **Steers** as well as the construction industry and many traders. South African companies are also

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<sup>23</sup> *Traders African Business Journal*, May – August 2003 issue.

involved in the building of the Kampala Industrial Business Park at Namanve which is expected to be a Special Economic Zone. It is a joint venture between the Uganda Investment Authority and a consortium of South African companies including **JHI Real Estate**, **iProp**, engineering company **BKS Global** and developers **ADS**. The park, a special project of the president, is designed to attract FDI as well as boost local business wishing to export. The park will be developed to international standards along the lines of the successful industrial park model in South Africa. However, developing property in Uganda is not cheap and the costs are almost twice those of development in South Africa. And, as is usual with most of Africa, the land is leasehold rather than freehold title, which can create problems in raising finance from banks. **JHI** says it has spent years trying to convince local banks, in Uganda and elsewhere in Africa, that property development on the continent is a solid investment and that the associated risks are less than the political risk factor. In addition, land also often has to be leased from the person awarded the concession rather than directly from the government which can cause problems and push up the price.

Corruption is still a big problem in Uganda. In Transparency International's 2002 Corruption Perceptions Index, Uganda rated 93 out of 102 countries surveyed (1 = least corrupt) and scored 2.1 where 10 is regarded as 'highly clean' and 0 is highly corrupt. In 2000, a World Bank report found that more than 80% of businesses in the country reported paying bribes during a typical business year.<sup>24</sup> It said that corruption is perceived by Ugandan businesses to be one of the most serious impediments to conducting business. It also found that the amount of the bribe did not correlate with the favours offered in return. Most firms were reported to be paying more on bribes than on necessities such as security, while 70% of the 176 firms reported higher bribe payments than corporate tax payments. Some 50% reported larger bribe payments than total investment. Most large South African companies have resisted paying bribes but it is unlikely that this has stopped altogether. One businessman said that until the situation is brought under control, not paying bribes will continue to mean loss of business for smaller companies.

Other problems in Uganda cited by South African businesses are irregular power (although the government has recently improved the capacity of available energy), and the cost of air fares — although the regularity of flights has improved with SAA increasing the frequency of flights to Kampala late in 2002.

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<sup>24</sup> *The East African*, October 2000.



## Morocco (North Africa)

Morocco is a long way from South Africa — in fact one of the most northernmost markets on the continent, a distance which belies the increase in business between the two countries. The problems cited most often when speaking of North African countries such as Morocco, Algeria, Libya and Egypt are those of distance, lack of air links, logistics and culture. This applies in all cases, but Morocco, and to a lesser extent, Egypt, are significant markets for South Africa, despite the political coolness between Pretoria and Rabat over the issue of Western Sahara.

Politically, South Africa has proved to be something of a fence-sitter. On the one hand, it has declared its support for the Saharawi cause of self-determination for Western Sahara, fuelled in part by its close relationship with Algeria which also supports the Saharawis. On the other, it has stopped short of formal recognition of the territory. Pretoria has been accused of trying to play both sides, partly because of the potential business fallout which could result from the withdrawal of political recognition of the government.

A deal signed in 2002 which highlights the government's dilemma was that between South African electricity parastatal **Eskom Enterprises** and the Moroccan electricity utility to set up a joint venture company for the implementation of joint projects in the electricity sector. Moroccan officials say South Africa could play a key role in working towards solutions to the political impasse that would be acceptable to both sides, a route South Africa has avoided despite its intervention in other political disputes such as Israel and Palestine. It is also in contrast to South Africa's stated approach to conflict resolution which urges compromise and consultation. Moroccan officials have added that any decision by South Africa to take the side of the Saharawis would 'disturb' the international efforts under way to bring about a negotiated solution to the problem.

Morocco's economic ties are primarily with Europe and the US. The main investors in the country are the US, Spain, the UK, Germany, Switzerland and the Arab countries, particularly the UAE. A great deal of its cultural and social contact is also with Europe. But there has recently been a revival of Moroccan diplomacy in sub-Saharan Africa. King Mohamed has cancelled the debts dating back to the 1970s of a number of countries and tariff barriers have been lifted to encourage more trade with Africa. Morocco played a key role in peace talks last year in the protracted dispute between Sierra Leone, Liberia and Guinea and it has contributed troops to UN peacekeeping missions in Angola, Somalia and the DRC.

Apart from South Africa, its main trading partners in Africa are Nigeria (from which it imports oil), Senegal, Egypt and Tunisia.

Trade between South Africa and Morocco has been rising steadily. Exports from South Africa to Morocco rose by more than 43% from 2001 to 2002 and imports by 250% in the same period, according to the SA Department of Trade and Industry (see table below). Morocco, in terms of development and the functionality of its systems and infrastructure, is considered to be very similar to South Africa and it rates in the same league in the UN Development Report. But there are more differences than similarities when it comes to business.

South African companies doing business in Morocco include **Eskom Enterprises** (as mentioned above); the **Council of Geoscience** (now in its fifth tender in Morocco, which is drawing up maps for regions in the south of the country); **Energy Africa**, which is prospecting for oil in two offshore zones in partnership with an American and a Swedish company; **Anglo American** which is prospecting in the High Atlas mountains; **Yale Security Group Africa**, which exports locks and other security products; **Sybase**, which develops software; and **African Explosives Ltd**, following the mining activity there. In May 2003, **Sun International** was awarded a tender for the development of a resort in El Jadida, about 100kms south of Casablanca, one of five seaside resorts the government wants to create on the 2,000km Atlantic coast. **Legacy Hotels & Resorts** is also in talks with Morocco with a view to possibly setting up hotels. **Nexsa**, formerly the Nuclear Energy Corporation of SA, is also working with the Moroccan Nuclear Institute to build a facility and supply materials for the production of nuclear medicine. The contract came about as a result of a request from Morocco. South Africa is the regional head of the International Atomic Energy Agency and deals with about 15 African countries in this regard.

<b>South African Exports and Imports to and from Morocco (R'000)</b>					
	1999	2000	2001	2002	2003 (Jan–Feb)
<i>Exports</i>	183,137	183,137	183,137	183,137	183,137
<i>Imports</i>	15,012	15,012	15,012	15,012	15,012

Source: SA Dept of Trade & Industry

Morocco's economic reform plan has contributed in no small measure to its current economic success. In the 1980s, when the 10-year reform programme kicked off, Morocco's investment inflows stood at around \$80 million. In the 1990s this had risen to average about \$500 million and over the past five years they have averaged \$1.3 billion — \$3.2 billion in 2001 alone. Most of this has been on the back of large investment in the telecommunications sector as well as privatisation. Tourism, manufacturing, banking and oil refining are also key sectors for investment.

The economic reform programme launched by the World Bank and IMF in 1983, was primarily aimed at bringing all sectors of the economy in line with international standards. It included the passing of new legislation such as a new commerce act, new companies laws, the creation of commerce courts, new laws on competition and pricing, industry and intellectual property. Inflation was reduced from between 10–15% in the early 1980s to less than 1% in 2002, the budget deficit has been reduced from 12% of GDP to less than 3% a year and the economic growth over the past five years has gone from a negative growth to 3% per annum. Foreign exchange reserves have risen from the equivalent of four or five days of imports to one year of imports — around \$10 billion. Foreign debt has been brought down from \$35 billion to less than \$20 billion.

Even though the reform programme has also had social costs because of the concomitant lack of investment in education and health (more than half the population is illiterate), few countries in sub-Saharan Africa can match the success of Morocco's economy. Despite this, it is not an easy place for South Africans to do business for a number of reasons. One of the problems is language — French and Arabic are the main languages and although many people speak some English, it is not widespread and can be a major barrier to business. The business norms and legal codes follow the French example rather than the Anglo-Saxon norms South Africans are used to, cultural differences have been cited as a problem, and there is corruption, although it is said to be not as pervasive as in most African countries and not as obvious.

Other problems cited by South African companies include a lack of transparency in the awarding of contracts or tenders, the red tape common to a relatively archaic business and government structure, the inability of Moroccans to give a 'straight' answer, 'protectionist' legislation which precludes outsiders or which is designed to favour certain countries and parties, and the preference of Moroccans to deal with French or Spanish companies who they know and understand better than they do South Africans. The last point is understandable given the fact that South African business with Morocco in any volume is relatively recent and Morocco's traditional trading partners are those European countries that are close by.

The lack of direct air links also presents a problem. Royal Air Maroc stopped flying to South Africa more than a year ago and air links now are mostly through Europe, although there are links with West Africa, particularly Senegal, and with Egypt.

Two large South African construction companies opened offices in Casablanca some time ago but after a year, they both closed up shop, citing the difficult business climate. The government, still somewhat shackled by its protectionist and conservative, inward-looking past, is trying to simplify administrative procedures involved in investing or doing business in Morocco, and is granting more investment incentives, upgrading the banking system, creating free trade zones and investing in important infrastructure such as a container port. It is also in the process of dismantling tariff barriers with the EU and implementing trade agreements as well reducing taxes. It has three main taxes: a corporate tax of 35%, income tax at a maximum rate of 44% and VAT at around 20% in addition to some local taxes.

## Mozambique (Southern Africa)

Since the end of the civil war, Mozambique has been a key destination for South African trade and investment and the location of a number of major infrastructure and industrial projects. The country's proximity to the industrial heartland of Gauteng is a key factor in the growth of trade and investment that has diluted the barriers to business there such as red tape, language problems, underdevelopment and corruption, among others. In 2002, Mozambique overtook Zimbabwe as South Africa's biggest trading partner on the continent. South Africa is the main destination for Mozambique's exports and main source of its imports. In 2002, 56% of its imports came from South Africa and 26.2% of its exports went there.<sup>25</sup>

Most of the increase in trade and investment has been on the back of several large projects. These are:

- the \$1.3 billion Mozal project which represented the largest single investment ever in the country; **BHP Billiton** in South Africa holds 47% of the project with the rest being held by **Mitsubishi Corp** (25%), South Africa's **Industrial Development Corporation** (24.04%) and the Mozambican government (3.85%);
- the \$1.1 billion **Sasol** gas pipeline;
- \$50 million invested by **SA Breweries** in beer factories in Maputo and Beira;
- South African power utility **Eskom**'s US\$130.5 million project in **Montraco**, a consortium of publicly owned electricity companies which also includes Mozambique (**EDM**) and Swaziland (**SEB**). **Montraco** was formed in 1999 to meet Mozal's power requirements;
- R130 million paid by banking group **Absa** for an 80% stake in Mozambican retail bank, **Banco Austral**;
- **McCormack** developers' US\$15 million investment in Matola Plaza, part of the Maputo Corridor development; and
- US\$15 million paid for the second cellular licence by **Vodacom**.

**BHP Billiton**'s Mozal project, which is now expanding into its second phase, is the largest employer and purchaser in Mozambique. The decision to site it there was based on its proximity to South Africa which significantly reduced costs, logistics, and risk. Much of the outsourcing and buying has been done in South Africa through linkage programmes because of the underdeveloped market in Mozambique, and the benefits to the local economy have been questioned. However, probably the most important role Mozal has played in Mozambique is the example it has provided that the country can successfully deal with a project of this size.

The project is now in its second phase, with the Mozal II aluminium smelter expected to go into full production in the fourth quarter of 2003. The project will double output at Mozal to 506,000 tons a year of primary ingots, making Southern Africa a significant force in global production. The project is more than five months ahead of schedule and the cost to completion is expected to be well below the \$860 million budget. Aluminium has now replaced prawns as the country's biggest export. Electricity is the third largest export, followed by cotton, manufactured products and timber.

Mozambique's 'mega projects' have kept the country's economic growth in double-digit figures for the past five years. Mozal alone has tripled Mozambique's export revenues to \$600 million annually. However, one of the country's main problems remains empowering and developing regions outside Maputo, the area to which most of the investment is flowing. Despite its progress, in the UNDP 2000 Human Development Index, Mozambique was listed 170<sup>th</sup> out of 173 countries rated.

In addition to the major players, there are another 300-odd South African companies operating in Mozambique which represent a diverse spectrum of small, medium and large businesses, many of them working in conjunction with the large projects outlined above. The Maputo Corridor has opened up a flood of new trade and investment, and South Africans, both from government and the private sector, are involved in the development of several other development corridors in the country such as the Beira Corridor and Nacala Corridor.

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<sup>25</sup> Standard Bank Economics Division, *Annual Profile – Mozambique*, South Africa, January 2003.

Many South African retailers and fast-food franchises have opened up premises there or are in the process of setting up, particularly in Maputo. Despite the success of these operations in Mozambique, high tariffs and taxes, which have resulted in high prices for goods, are pushing Mozambicans and expatriates across the border back into South Africa to do their shopping. The town of Nelspruit, a short drive from the Mozambique–South Africa border has become a boom town in the past few years, raking in more than R30 million a month from Mozambicans. By shopping in South Africa, Mozambicans can reduce their monthly grocery bill by up to 50% by not having to pay the high duties and VAT levied on goods back home. Generous duty free allowances (until recently R4,000 worth of goods can be brought in duty free every 30 days) have fuelled this trend but it has implications for Mozambique’s fiscus. Instead of addressing the problem by re-examining its tariff structures and other related costs that have created the situation, in 2003 the Mozambican government reduced the value of duty free goods that could be brought into the country.

A short-term approach has also been taken regarding visas. Despite the close business and political relationship between the two countries, South Africans still need visas to cross the border. The short-term revenue loss that scrapping this costs represents has made the government balk at the prospect of doing so. However, the situation has been compounded by the fact that South Africa, in an attempt to keep out illegal immigrants from its neighbours, has tightened visa restrictions for Mozambicans and Zimbabweans wanting to come to South Africa. The South African visa cost is also much higher than that of the Mozambican visa.

Mozambique’s economy has been buoyed by large amounts of donor and multilateral funding. In 1999, the country registered real GDP growth of 7.5% although this dropped significantly to 2.1% in 2000 after the worst floods in Mozambique’s history, representing the lowest rate in almost a decade. The domestic primary fiscal deficit increased from 3.4% of GDP in 1999 to 6.5% of GDP in 2000. High expenditures, including those for flood reconstruction, were financed with external assistance. Mozambique made a rapid recovery with the help of the international community only to be hit by serious floods again in 2001. The trade balance has recorded large deficits in recent years. Exports have grown but imports have remained at high levels, mainly as a result of inputs for the Mozal project and food imports.

The government has undertaken many economic reforms over a number of years designed to boost trade and investment by opening up its formerly socialist economy. Although in the main this has been successful, investors complain that there is still a closed-mindedness in business and a lack of drive and entrepreneurship that is associated with a thriving private sector. Unemployment is high, legal frameworks are outdated and the local private sector is still weak.

The business environment is, in certain areas, dominated by local monopolies while foreign companies dominate vital sectors such as tourism, banking and construction. Local private capital is virtually non-existent and high operating and transaction costs reduce the competitiveness of small firms and serve as barriers to investment. Telephone calls in and from Mozambique are among the most expensive in the world although the present reform of the ICT sector will allow private sector participation and greater competition. State telecommunications operator **TDM** has a monopoly over most services in the sector and **Vodacom** has been in negotiations with the government for months regarding levelling the playing field before it is prepared to launch its service.

Transport costs are also exorbitant, a situation exacerbated by the poor state of the roads and long distances. One South African retailer says it is more expensive to ship goods from Maputo to Beira than it is to ship them from Hong Kong to Cape Town. Run-down infrastructure and bad roads have contributed to a lack of development north of the capital, particularly in the tourism, ICT and agriculture sectors, and have pushed up costs for businesses which venture north of Maputo.

The issue of land has presented problems for both investors and domestic agricultural enterprises. As all land is state-owned, it cannot be used as collateral. In addition, investors have to negotiate with both the central government and the provincial governments for the occupation of land, a process that can be long and cumbersome. The CPI, Mozambique’s investment promotion centre, says many investors try to short circuit the CPI and make their own deals which creates problems for them. The CPI is attempting to fast-track land issues and to reduce the time it takes to have projects approved.

The average is currently 30 days but because the land issue is more complex, it can take much longer. However, the government announced in May 2003 that it was looking for ways of simplifying procedures for investment purposes in the use of land. In an attempt to promote the building of infrastructure, the government has introduced added incentives for companies that build infrastructure on land in the rural areas.

New management of the port by the **Maputo Port Development Company** will be a major benefit for South African companies which can use the port for exports in preference to, for example, Durban where exporters are affected by the port's congestion. It will be of particular use to agricultural exporters in Mpumalanga province which borders Mozambique. A major upgrading exercise is under way by the **MPDC**, which comprises three European companies – **Mersey Docks** (UK), **Skanska** (Sweden) and **Liscont** (Portugal) as well as the **Mozambique Ports and Railway Company**. It plans to invest US\$70 million in the port over three years.

The Great Limpopo Transfrontier Park, which links South Africa, Mozambique and Zimbabwe, is another major project that is under way. It is hoped this will boost tourism but there are a number of problems that still need to be ironed out which include the different cost tiers of the countries involved. Goods and services in South Africa are much cheaper than those in Mozambique and it is not clear how this will translate in terms of facilities provided in the park such as lodges. A new border post is planned between the two countries to facilitate the movement of tourists.

Although Mozambique has benefited from political stability over the past few years, 2004 is an election year which may cause some ripples. President Joaquim Chissano is due to stand down and the legislative and presidential battles between the ruling Frelimo and opposition Renamo are expected to be hard-fought.

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## Ghana (West Africa)

The administration of President John Kufuor in Ghana has, by and large, managed to keep the goodwill of the international community generated by the smooth transition from the regime of Jerry Rawlings in January 2001. Right from the outset, he declared Ghana open for business and announced a range of economic measures designed to stabilise the economy.

However, Kufuor's government had the misfortune of taking over the reins in the midst of a significant economic downturn. Not only did it inherit a massive external debt and a bloated and inefficient public service, it inherited an economy still trying to recover from a spate of external shocks that, in 1999, reduced real GDP growth to 4.2%, well below the forecast for that year of 5.5%. Ghana's dependence on commodities, notably cocoa, backfired as cocoa receipts halved and oil prices rose. The Rawlings government, with the World Bank, introduced an economic reform programme but its effectiveness was diluted by elements such as high government spending, currency depreciation, erratic monetary policy, a legacy of state control of the economy, a subdued private sector, high imports, a lack of hard currency, major energy problems and a build up to the 2000 elections in which Rawlings stepped down.

Between January 2000 and March 2001, the cedi fell by 112% in nominal terms against the US dollar, one of the highest declines on the continent. This damaged investor confidence, affected the servicing of external debts by the government and the private sector and increased private US dollar holdings as a store of value.

The economy performed well in 2002, although there are still concerns about the government's ability to sustain its macroeconomic policies despite improved stability as a result of greater fiscal and monetary discipline. Ghana experienced 4.5% GDP growth in 2002 and it is expected to hit 4.8% in 2003, boosted by higher output and better prices in the two key export commodities, cocoa and gold, which account for 60% of total foreign exchange reserves. The government's medium-term macroeconomic strategy for 2003–05 is to raise real GDP growth to an average of 5%, reduce inflation to mid-single digits and build up gross reserves to three months of import cover. Government revenue

growth was good and on target but it was undermined by a growth in spending, particularly public sector wages. Government borrowing increased in 2002, and borrowing from the Reserve Bank is close to the statutory 10% ceiling under the Bank of Ghana Act.<sup>26</sup>

Many of the measures put in place by the government have paid off: interest rates dropped from over 50% to the current 26% and inflation is down from 40% to 13.3% at the end of August. The cedi has been relatively stable and has depreciated by about 9% from January – August 2002. It lost only 3% of its value in the first three months of 2003.

Ghana qualifies for debt relief under the Highly Indebted Poor Countries (HIPC) initiative which has given some relief to the new government in its efforts to stabilise the economy. There has also been a concerted effort to strengthen the private sector, to diversify the economy and to increase exports, particularly non-traditional exports. The government has intensified its efforts to secure good harvests and has embarked on farmer training. It has also introduced several presidential initiatives for increasing output and some limited value-added agricultural projects. It is encouraging business in export processing zones and manufacturing and agricultural enterprises generally through generous tax breaks and other incentives.

However, in January 2003, under pressure from the multilateral institutions, it took the politically unpopular step of increasing the pump price of fuel by 90%, a move it had been stalling on for many months. The increase was made necessary by movements in world markets — Ghana is totally reliant on imports for crude oil supplies — and massive losses over several years incurred by the **Tema Refinery**. The refinery losses have been financed by the state-owned **Ghana Commercial Bank** which threatened the solvency of the bank and increased the stock of government debt by the end of 2000 to almost 29% of GDP, 8.5% higher than envisaged.<sup>27</sup>

Kufuor, a lawyer, has kept to the promise made at his inauguration — that his administration would have zero tolerance for corruption, particularly in public life. Since he took power two key ministers and several high ranking officials have been fired for corruption, and inquiries have been launched into various sectors and schemes, including the privatisation programme of the previous government. Ghana was the first country to sign up for the African Peer Review Mechanism and it is working with anti-corruption body Transparency International and donors towards the freer flow of information, particularly from public servants who were prevented by law from disclosing any information under the Rawlings government.

Ghana was the first port of call in the 1990s for many South African companies wanting to explore the West African market, although the real thrust subsequently has been into Nigeria, a much bigger and more lucrative market. Ghana was sold as the gateway to the Economic Community of West African States (Ecowas) but in reality, few South Africans have ventured into the Francophone countries that make up most of the trade bloc, apart from Côte d'Ivoire which is now seeing companies either suspend operations or close them down. And Ghana's political and socio-economic climate is quite different from, and much less complex and problematic than, that of Nigeria. Therefore, doing business in one does not necessarily prepare business people for doing business in the other, although that was the original reason some South Africans chose to do business in Ghana. However, although the transition between political parties and presidents was a smooth one, some companies have suffered the fallout of having close alliances with the government of the day. South African architect **Stauch Vorster** reports that the fall of the Rawlings government led to a change in the boards of state companies. This resulted in the people the company had been dealing with being ousted and, along with them, the company and its contracts, resulting in a loss of R250,000 overnight.<sup>28</sup>

The positive elements of doing business in Ghana are peace and political stability, a relatively easy working and living environment, the fact that it is an Anglophone country with legal and business

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<sup>26</sup> Standard Bank Economic Division, Johannesburg, Quarterly Update: Ghana, December 2002.

<sup>27</sup> IMF Staff Report for the 2003 Article IV Consultation, and requests for a three-year Arrangement under the Poverty Reduction and Growth Facility and for additional interim assistance under the HIPC Initiative, Washington DC, April 2, 2003.

<sup>28</sup> *Financial Mail*, 7 February 2003.

norms that are similar to those in Southern Africa, a relative lack of corruption, good security,<sup>29</sup> its location on the coast (which makes logistics easier), fast turnaround times for imports through ports and clearing agents, the fact that infrastructure is slowly being rebuilt, generous investment incentives and easy access to other markets in West Africa.

But there are also many difficulties. These include a volatile currency, high fuel prices, high banking transaction costs, low skills levels, a small and underdeveloped private sector unable to provide many services to business, strong inflationary pressures, low per capita incomes, high surcharges on finished products, the high cost of imports, high rents, transport costs and infrastructure into the hinterland, slow government decision-making and too much red tape. Kufuor is also reluctant to take decisions, particularly on difficult or controversial issues which can serve to paralyse projects, and to take really effective action as regards the public service.

Unlike the Rawlings’ government, it has a very proactive strategy to boost the private sector. Several of its key ministers are drawn from the private sector and it has a number of technocrats and professionals in its ranks. Kufuor has also established the 30-member Ghana Investors’ Advisory Council, backed by the IMF and World Bank, which includes international private sectors representatives and opened fast-track commercial courts to speedily expedite disputes. But the government’s efforts are being undermined by the public service which has not responded well to exhortations to change its attitude towards the private sector, and against rising anti-privatisation sentiment. Many current public servants served for many years under the Rawlings government, which only opened up the economy under pressure from the multilateral institutions.

The government’s campaign to attract the large expatriate Ghanaian community<sup>30</sup> back to the country is starting to bear fruit. And even where they are reluctant to return anytime soon, many are building homes for themselves to which they can retire. Remittances from the diaspora have become an important source of revenue for the government.

Ghana's major trading partners include Germany, Switzerland, France, the Netherlands, the United Kingdom, Japan and the US, along with neighbouring Nigeria. South Africa is rising in the ranks fairly rapidly.

<b>South African trade with Ghana – exports and imports</b>					
	1999	2000	2001	2002	2003 (Jan-Feb)
<i>Exports</i>	560,435	591,843	678,529	979,975	154,079
<i>Imports</i>	25,372	29,538	28,031	72,105	14,703

Source: SA Department of Trade and Industry

The South African companies operating in Ghana include **Shoprite, Game, Makro** and **Profurn** in the retail sector, **Steers** (fast food), **African Life** (insurance), **Stanbic Africa, SABMiller, MultiChoice, Gray Advertising, JHI Real Estate, NamITech, Orbicom** and **arivia.com** (ICT), **African Explosives Ltd, Gold Fields** and **Anglogold** (mining), **Protea Hotels** as well as parastatals **SAA**, the **Industrial Development Corporation** (mining and petroleum) and the **National Ports Authority**.

The government has put a lot of effort into developing the mining sector, which makes up 40% of the country’s foreign currency income and 6–7% of GDP. Among other things, it has reviewed its legal and fiscal regime regarding mining and it has opened up previously restricted forest areas with large potential reserves. The latter is expected to unlock investments worth hundreds of millions of dollars. International gold companies **Redback, Ashanti Goldfields, Newmont** and **Satellite-Bogoso Gold** have already been granted leases in the reserve.

<sup>29</sup> There has been an 18% drop in the crime rate since Kufuor took over.

<sup>30</sup> The number of diaspora Ghanaians is conservatively put at two million people who, in 2001, were estimated to be contributing around US\$400 million to GDP.

This has already borne fruit in terms of two new developments. One is the decision by **Gold Fields** to invest more than R1.1 billion into expanding its Tarkwa mine which will increase gold production by 175,000 ounces a year. **Gold Fields** has two mines in Ghana, which together provide about 22% of the company's gold production. **Anglogold** is also in merger talks with **Ashanti** which, if successful, will make the merged company the world's largest gold producer. The biggest problem with such a merger, potentially, is the fact that the government, in addition to its 17% stake in the mine, retains a 'golden share' that allows it veto rights on any merger or corporate activity. This has put off foreign investors until now. The Rawlings government previously blocked a merger with **Lonmin** in this way and was accused of political interference generally in the company, Ghana's biggest. Indications in the middle of 2003 were that Kufuor was considering loosening the government's grip on these rights to include only the Ghanaian assets of **Ashanti**.

South Africa's **National Ports Authority**, under its newly formed international expansion division, **Portcon**, recently signed a multimillion rand deal to manage the terminals at Ghana's main port at Tema. This is the first in an ambitious African expansion plan that the ports authority hopes will contribute about 30% of total **NPA** revenue by 2010. The move comes at a time when the South African government is outsourcing port management to the private sector. The contract will give **Portcon** the right to run the clearing and delivery terminal for 25 years, in conjunction with local partners. Business at the port has increased rapidly as a result of huge inefficiencies in Nigeria's ports where it can take up to 45 days to clear cargo through customs (although Benin has absorbed most of the spillover) and the conflict in Côte d'Ivoire. In 1999, the port received 80,000 tonnes of cargo — in 2002 this had jumped to 650,000 tonnes.

In the retail sector, Ghana remains one of the few African countries in which furniture retailer **Profurn** still has operations, following the group's takeover by **JD Group**. The latter has closed 55 stores in the group's African operations, citing unprofitability as a result of political and other risks. The Ghana operation has retained eight out of the 17 stores in Africa that are still in operation. However, clothing retailer **Pepkor** has decided to withdraw from Ghana because of what it said were supply problems and the country's poor economic prospects. The chain has been hit by the large second-hand market that characterises countries in East and West Africa because of previous problems of accessibility and price, as well as by a thriving market in smuggled goods. Retailers' profits have also been undermined by a stronger rand.

A plan by **JHI Real Estate** to change the landscape of Accra with the building of the KBA Tower, a mixed-use commercial tower block in the prime CBD node of the city, failed to take off because of a lack of funding.

Accra was once a developing hub for **SAA**, which entered into a code sharing agreement with **Ghana Airways** in 1998. However, **Ghana Airways** has experienced major problems in the past few years and after the airline body IATA placed it on its list of suspended airlines due to problems with finance and safety, **SAA** ended the agreement. It is now considering hubs in Senegal and Lagos but still flies to Ghana three times a week.



## Conclusion: Building Relationships and Doing Business

*Business on the continent is a relationship, not just a transaction. If you miss the relationship, you will have endless trouble with the transaction.*

Duncan Mbonzana, Eskom Enterprises.<sup>31</sup>

Building relationships in Africa is an important part of doing business, particularly for South Africans who have to work at countering the perception of being the new colonisers, the bully boys who have taken over markets, pushing out local businesses in their wake. The reality is that many inefficient African businesses and monopolies have survived as a result of government protectionism, tariff barriers, patronage and other activities that fly in the face of the free market. Despite unhappiness with the behaviour of some large companies such as **SA Breweries**, which has been accused of dubious practices in some countries in establishing its dominant position, South Africans have improved the quality of goods and services, introduced greater choice, developed skills, encouraged local entrepreneurship to service their businesses in domestic markets, led the telecommunications revolution, built infrastructure, provided world-class expertise and advice and a myriad other things. But the way forward is in the development of partnerships, both with local companies and governments, and for South Africa to provide leadership where it has the capacity to do so.

Trade and investment from South Africa is crucial to the development of the continent and it dovetails neatly with the Nepad imperative that Africans uplift themselves. The high levels of FDI from South Africa into Southern Africa and beyond as well as the concomitant increase in trade are key to development given the comparatively low FDI flows to African countries, particularly to non-oil producing countries. Initiatives such as Agoa and preferential trading relationships with the US (SACU) and the EU (South Africa), are likely to consolidate South Africa's position as a leading recipient of FDI in sub-Saharan Africa. While this has raised concerns about an even greater concentration of power in South Africa over the region, the fact that South Africa is also a leading source of FDI to other African countries means the benefits of a stronger and wealthier South Africa are likely to outweigh the potential costs.

A stronger private sector is key to Africa's upliftment. Wealth creation and a rising middle class are deterrents to conflicts and overall economic growth is the only way to begin the serious eradication of poverty. African governments do not have a good record of wealth creation. The private sector has not always had a positive role to play in Africa. It has been tainted by the relationships some companies and multinationals have had traditionally with governments in Africa, characterised by cronyism and corruption in the pursuit of lucrative contracts and quick profits. Instead of being watchdogs on corrupt governments, such companies fed off their greed. Even now, weak regulation and a lack of corporate governance have led to an overly cosy relationship between some governments and domestic companies, which has blurred the line between business and government. These relationships make it difficult for outside companies that are not large multinationals to compete.

How can the private sector, which has been identified as the engine of growth for the Nepad initiative, be strengthened to play a bigger role in creating stability and growth? There are a number of ways:

- Greater use of public-private partnerships;
- Successful privatisation of utilities which link the interests of the private and public sectors;
- The creation of strong organised business to make key inputs on government policy;
- The development of strong links between the private sector and civil society to promote and strengthen peace and democracy;
- Sharing of the risks and benefits of natural resources;
- Sharing of best practice with governments, seconding of skills, development of capacity, and identification of wealth-creation projects and ways to fund them;
- Strong representation of the private sector in the African Union's Peer Review Mechanism and in the implementation units of the Nepad Secretariat;

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<sup>31</sup> *Financial Mail*, 7 February 2003.

- Pressure on governments and regional organisations to harmonise standards, operating practices, investment processes and other elements that will make regional investment less problematic;
- Strengthening of regionalism to create interlocking economic interests across borders which can play a role in reducing potential conflict. The South African private sector is already creating regional links but is hampered by a lack of political will by politicians to follow suit.

On a broader political level, what needs to be done?

Although the problems identified by the private sector are myriad, the solutions are much simpler and hinge on several key elements needed to change the macro environment of African countries. The success of countries such as Botswana and Mauritius underline what can be done. Instead of hiding behind externally induced problems in the global arena, these countries have chosen rather to exploit their strengths and find creative ways to grow. While it has been argued that Botswana has many advantages such as its proximity to a regional power as well as large diamond deposits, these same factors are, of themselves, not sufficient to create growth and stability. In most African countries where diamonds are present, conflict is rife. In 1961, Botswana and Sierra Leone had a per capita income of about \$1,070. Today, Botswana's per capita income is around \$8,000 while Sierra Leone's is about \$480. Although geo-physical factors played a part in these disparate outcomes, the bigger factor was one of governance.

Suggested potential ways to improve the investment climate and operating environment in African countries north of the Limpopo include, in the main, several key elements such as:

- **Effective leadership and accountable governance geared to the needs of the population, not the needs of government officials and elites.** Stable and constitutional arrangements must be put in place, decision-making must be transparent and government spending must be reprioritised to favour development. Strong leadership will help to counter the risks of external shocks and instability caused by globalisation. Much emphasis has been put on Nepal and peer review as a way of promoting good governance through an incentive-driven approach rather than censure. The effectiveness of this remains to be seen and has got off to a bad start with the inaction over the Zimbabwe problem. Civil society and the private sector need to play a greater role in influencing issues of governance.
- **Abiding by the rule of law.** This includes a strong and independent judicial system capable of enforcing contracts and agreements, including those between outside parties and governments. Investors, in particular, need to have the comfort of knowing they have the support of effective and speedy dispute mechanisms and judicial process, particularly with governments.
- **Improving the macroeconomic environment.** While economic reform in many countries has improved the macroeconomic environment significantly, there are still many problems. For example, there is, overall, more recurrent spending than productive spending, domestic debt remains high, interest rates are still high and volatile, off-budget spending is commonplace and many macroeconomic decisions are still based on politically driven issues rather than on considerations of growth and investment. Most African governments have yet to develop an economic ideology of where they are going and communicate this to the electorate. For instance, few election campaigns debate economic issues. Economic statements and policies drawn up by governments are directed at multilateral institutions rather than the populace. Appropriate socio-economic underpinnings must be put in place to strengthen free market principles and encourage buy-in to the free market system from the population. By moderating exogenous factors, sound policies and strong independent institutions will help to counter the historical influences that have hindered Africa's growth.
- A greater recognition of the importance of FDI has led most countries to put in place investment codes and incentives. These have helped to draw investment and satisfy investor needs for a range of services such as unrestricted foreign exchange and free externalisation of returns, tax holidays, VAT exemptions, import duty exemptions wage stability, and sound labour legislation. However, many countries, encouraged by the World Bank, are reviewing these because of their tendency to undermine the benefits to the local economy of the investments they encourage.
- **Reducing dependence on aid and other multilateral financial support systems.** This can be achieved through domestic growth and development and the fostering of strategic partnerships. Governments must be made more accountable for development outcomes rather than relying on donors to deal with the issue on their behalf. Governments like to blame the IMF and World Bank

for unpopular decisions they take and on a lack of decision-making instead of taking proper responsibility for all matters affecting them. In addition the massive dependency on aid for budgetary support has lessened the urgency for governments to find ways to grow their economies by, for example, proactively encouraging exports, industrialisation and diversification. Although the multilateral agencies have changed their focus towards Africa and are trying to build in more accountability, this has not gone far enough. It has always been easier for governments to rely on loans, grants and aid than to foster export growth, attract investment and to take difficult decisions that would compromise systems of patronage and corruption. Such action by African governments, however, must be accompanied by real commitments from international partners to improve access to Northern markets.

- **Investing in people to develop skills and build capacity.** African governments must reverse the marginalisation of the majority of the population and strengthen their capabilities and capacity. Spending on health and education must improve rapidly. Education spending in poor African countries averages less than \$50 a year, compared with more than \$11,000 in France and the US, while in many of the same countries, military spending and government salaries swallow up the budget. Many Africans are excluded from basic services and from the power to influence the allocation of resources.<sup>32</sup> Africa's productive base is rapidly shifting from natural resources to people and governments must respond accordingly. Countries must also look at ways of attracting back skilled expatriates.
- **Developing SMMEs and harnessing the strength of the informal sector.** Although donors and NGOs are developing schemes to stimulate the growth of SMMEs, this sector, which is crucial to growth, remains hamstrung by a lack of access to finance. Often the projects SMMEs are involved in are too small or do not meet the criteria of funding organisations. They also tend not to get the support of governments which favour the larger projects brought to the table by foreign investors. The growth of franchising, which is seen as the answer to many problems in this sector, is also hampered by the macroeconomic climate and costs of doing business in African countries.
- **Reducing the costs of doing business.** This relates to the improvement of the macroeconomic climate but it is crucial to addressing the problems of doing business in Africa and thus warrants a separate point. High operational costs, which raise the cost of goods and services significantly, are primarily the legacy of bad governance and poor economic policies over several decades. The legacy of socialism has not served the business environment well. Historically, trade and exchange rate policies encouraged firms to produce under non-competitive conditions, for small domestic markets while unstable and capital unfriendly environments contributed to massive capital flight, said to be more than 40% of the continent's GDP. Resources were directed towards inefficient and bloated bureaucracies, although parastatals and utilities were generally neglected which eroded the provision of basic services such as power, water and telecommunications. As a result, access to efficient basic services in these sectors has become very expensive. Telecommunications costs in Africa, for example, are among the highest in the world. Urban sprawl and overcrowding have pushed up the cost of property rentals. Tariffs are still too high, taxes are plentiful despite their dismal contribution to the fiscus in many countries, trade policies still have a somewhat anti-export bias and infrastructure remains a major problem. Governments need to look at the long-term impacts of their policies rather than focusing on addressing short-term problems. New laws need to be considered carefully, to avoid hindering business growth. Policies for productive sectors need to encourage investment, employment and export diversification. The time taken to make decisions about investments need to be drastically shortened. It is not enough to have long lists of investment incentives if investors are looking at months, if not years, for decisions and if there are no dispute resolution mechanisms in place. There needs to be clarity and certainty as regards regulatory frameworks and policies, as well as harmonisation of tariffs and customs regimes with clear instructions to bureaucrats managing them at borders.
- **Greater provision of information about African markets.** Part of the problem investors have in making decisions about investing in Africa is the lack of market intelligence and up-to-date statistics. Some of the risks and challenges are not contained in the statistics and scant information available, but are often learned the hard way. There must be more research and more detailed market information made available and governments must be pushed to speed up the collation of information and to be more transparent and timely in its provision. Companies that fail to do their

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<sup>32</sup> World Bank, *Can Africa Claim the 21<sup>st</sup> Century?*, Washington DC: The World Bank, 2000.

homework before going into a market, or which make assumptions based on insufficient information, can easily fail. Risks cannot always be avoided but they can be managed if they are properly anticipated.

- **Strengthening regionalism.** Regionalism will help to expand markets, bring down the cost and difficulty of doing business across borders and create greater competitiveness. All countries in Africa now belong to regional bodies but the effectiveness of this membership is generally in question. Regionalism has brought limited benefits because of issues such as lack of capacity and political will. Regional markets must be strengthened and harmonisation of factors affecting trade and investment across borders must be speedily dealt with. SADC is moving slowly towards this end despite the establishment of various organisations and forums to deal with harmonisation and standardisation. Visas are still required between many SADC members, for example. Successful bilateral agreements between countries on issues such as trade, immigration and taxation must be extended to more countries to improve FDI frameworks.
- **Deepening financial services.** The financial services sector plays a key role in the overall stability of the business environment. Unstable banking systems in Africa have led to very low savings levels and a general mistrust of banking services. The poor state of most countries also means that it is difficult to finance projects locally and the high risk raises the cost of external finance. A lack of proper financial records both in the government and private sector presents problems for investors, especially those looking for local partners, and a lack of credit information increases risks to lenders. Banks need to diversify their risk in these markets and to focus on good corporate clients, including South African companies. Governments need to encourage the growth of banking lending to the private sector to strengthen the domestic economy. They must avoid financing large fiscal deficits from the domestic banking system, thereby crowding out the private sector. They must improve the institutional environment for bank lending by strengthening the commercial legal system, so that banks can enforce contracts and foreclose on defaulters without long delays. They must also ensure strong, impartial supervision of financial markets, independent of political interference.

Ratings agencies also have a role to play in increasing investment and confidence in African markets. Traditionally only South Africa had a rating but in the past few years, several other well-managed countries have obtained ratings. These include Botswana, Mauritius and Senegal. In April 2002, the US government announced a project to help countries with the ratings process. **Fitch** won the contract which aims to get a sovereign debt rating for up to 20 countries in sub-Saharan Africa. To date, Lesotho was rated B+ in September and The Gambia was rated B- in November. Other countries in line to be rated are Ethiopia, Ghana, Malawi, Mali, Uganda and Zambia.<sup>33</sup> A rating, even a poor one, may be useful for a country trying to attract FDI. If a government co-operates with a ratings agency, it indicates transparency, a wish to attract foreign investment and it will provide much-needed data on countries. It will also potentially be favourable to financing of projects and will allow countries with acceptable ratings to borrow money on the commercial market through bond issues.<sup>34</sup> However, there are potential conflicts with debt relief programmes and other financial programmes with multilateral agencies.

- **Focusing on success and excellence.** African leaders are too quick to cast about for reasons for their failures and find third parties to blame. Africa will only move forward if it stops looking back over its shoulder. Countries need to look for successes and highlight them as examples of what to aim for. Despite the odds, there are many of these to point to. South Africa has many successful policies, institutions and practices that Africa can draw on. This needs to happen not just because these are what South African business is used to but because they work and because South Africans can easily implement them.
- **Speeding up the implementation of Nepad and making it more transparent and accessible to whole populations, not just elites and governments.** Business has shown its support for Nepad but it needs to be a partner with the politicians who are driving it to make it work. How the programme is implemented will play a major role in convincing business of its practical merits but there are concerns that it is too government-focused. The initiative can play an important role in removing

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<sup>33</sup> Economist Intelligence Unit, *Sub-Saharan Africa Regional Overview*, UK, February 2003.

<sup>34</sup> In May 2003, the Botswana government raised 500 million pula for a second bond issue. The government expects that the total issuance of government bonds will be as much as 2.5 billion pula. The country's first bond, launched at the end of March, was oversubscribed by 62%, showing confidence in Botswana's economy.

blockages that hamper business and push forward large regional projects as well as playing a crucial role in improving the political and economic environment generally. Through Nepad, countries must present a more united front in global forums and fight more proactively for market access and greater WTO concessions.

- **Corruption must be dealt with decisively.** Businesses, both local and international, have as big a role to play in fighting corruption, as do governments. Supply-side corruption has played a big part in the development of the pervasive corruption in Africa although this has only been allowed to flourish in a climate of poor governance. International conventions such as the Global Compact and pressure from NGOs will force corporations to clean up their act. But it is ultimately up to the government to find effective ways of fighting it. This could include applying punitive measures on public servants found to be involved in corruption, and exposing bureaucrats and particularly ministers and presidents who are involved in corruption.
- **Implementing corporate governance.** The chief responsibility for good behaviour rests with business itself. Without good corporate governance, the private sector cannot play a sustainable and effective role in economic growth and development. Much of the corruption in Africa is being fostered by business which either initiates it or gives in to it, fearful of damaging relationships with government officials or concerned about losing contracts to less scrupulous companies. Corporate transparency has political benefits in forcing, through disclosure, greater openness in dealings with governments. Although there are corporate governance initiatives in the rest of Africa they are still in their infancy and do not have the pace and sophistication of what South African corporates are becoming used to. South Africa, therefore, has an important role to play in fostering corporate governance across the continent. The Nepad Business Group, a South African-driven business initiative which has a membership of more than 200 companies, has drawn up a corporate governance charter which top South African companies have signed and it aims to get as many African corporates outside South Africa to do so. The Group has also drawn up a Declaration on Accounting and Audit Practices which it aims to use to promote compliance with best practice standards in all African countries through the Eastern, Central and Southern African Federation of Accountants, which is promoting the establishment of an African standard-setting body. Self-regulation by business is necessary but it needs to be complemented by the rigorous enforcement of laws by governments.