SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.

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On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON
CAPRICORN INVESTMENT HOLDINGS (CIH)

FEBRUARY 2013

FIRM OVERVIEW

Name	Capricorn Investment Holdings (CIH)
Nationality	Namibian
Sector	Financial Services
SADC countries where doing business	Namibia, Botswana, Zambia

BACKGROUND

CIH is a financial services and banking group based in Namibia. It is the majority shareholder in Bank Windhoek, Namibia's only fully locally owned bank. CIH also has interests in the insurance and asset management markets through various subsidiaries as well as strategic shareholding in underwriters like Santam and Sanlam Namibia. Facing a momentarily saturated market from 2002 onwards, CIH embarked on a regional strategy to accomplish growth and looked for markets with similar dynamics and stability as Namibia. This resulted in the acquisition of a 44 percent share in the Cavmont Bank in Zambia in 2007 and the start of a Greenfield operation - Bank Gaborone - in Botswana in 2004. In 2010 the Bank of Namibia blocked a majority takeover of the Namibian outfit by ABSA (Barclays). Since then CIH has resumed its original strategy of looking for growth in the region, while also facilitating South African companies that use Namibia as a launch pad into the continent. "Companies find that to enter Africa as a Namibian player is easier and arouses less suspicion."

BARRIERS ENCOUNTERED

Tax: While working in different tax regimes can be expected from a regional player, it requires balancing on the part of the company. CIH singled out withholding tax as a barrier. While there is an agreement between Namibia and South Africa as well as between Namibia and Botswana to prevent double taxation, there is none with Zambia, which adds to cost of doing business. For example, the agreement with Botswana has made it possible for CIH to claim back the with-holding tax paid on interest or dividends on preferential shares in Botswana from the Ministry of Finance in Namibia.

CIH identified a number of barriers relating to **regulatory and economic policy** uncertainty in Namibia itself, arguing that Zambia and Botswana (the other countries in which it has business interests) seem to know where they are heading. "Zambia's new president Michael Sata has published a very clear manifesto which indicates the way forward. Botswana, when presenting its ideas abroad, convincingly lays out its blueprint to become a regional financial and health services hub. This gives confidence to investors. Namibia is less clear on where it stands; although the country is developing an industrial policy it is still ambiguous for investors." The example of Walmart was mentioned, where Namibia faces the danger of being bypassed in favour of Angola or Zambia. Different approaches to empowerment or increasing local ownership can cause uncertainty. In Botswana and Zambia such claims are de-politicised and realized through requirements on 'citizen' participation or restrictive capital requirements for wholly foreign owned entities. "The aim is the same, but the countries employ different strategies."

CIH identified Namibia's **skill-shortage** as a constraint, with relatively low number of graduates with relevant skills available. This is in part still due to the historical context where Nambia did not have an education system that encouraged development of skills for all. Related to this are Namibia's **restrictive work permit regulations** and procedures, which make it hard to recruit staff from the region. CIH is keen to have staff with skills in the areas of technology (innovation and programming), risk and compliance management, organisational development and business modeling as well as investment banking. In contrast the company has little problem placing qualified staff in Zambia and Botswana or traveling to these countries. Although the higher cost of living for expats in Lusaka or Gaborone was mentioned as a barrier for investment.

SACU was seen as a stabilizing factor, while the currency peg in the Common Monetary Area greatly enhances the ease of doing business. A **common monetary area** on SADC level, it was felt could bring the same advantages. "We should go to a regional currency. Look at a country like Zimbabwe that uses US dollars. You don't have to worry about fluctuations or other restrictions. It's easy to lose money when you move funds around different countries and the differences between the Nam dollar, Kwacha and Pula force us to constantly make a plan."

Again on **bureaucracy** CIH explained that in Namibia applications can take a long time to be processed although corruption is merely 'on the periphery'. With regards to IT, the group recently moved its operations from South Africa (which it had hoped would be more efficient) to Namibia as it found the VSAT infrastructure in Namibia better, with more reliable data lines into the payment systems of Zambia and Botswana being possible. All card payment systems are based in Namibia with an integrated solution (through Phoenix inter-banking systems) to the other two countries. The Customer Contact Centre in Windhoek also caters for all three countries. CIH noted that while all card services where hosted from Namibia some countries demand duplication on the ground (within their Central Bank jurisdiction) in order to have unlimited access to the financial data. Such duplication can be costly. The compulsory localisation of IT systems of South African owned banks in Namibia (Standard Bank, Nedbank and FNB) cost each bank N$400 million, with no discernable benefit for the customer.

Some countries, most notably Namibia, were slow in trademark and company registration which can lead to having unprotected assets. It's also important that title deeds are electronically secured to prevent fraud and electronic filing of tax statements should be facilitated. Lastly there should be synergy between the institutions in the Ministries of Finance, Trade and Industry and Home Affairs that deal with the private sector.

IMPACT OF BARRIERS

The barriers listed above mainly add to the cost of doing business and the complexity of finding the right skills for running of the company. The signal it sends is that firms have to be prepared to deal with the cost of avoidable double taxation, duplication of systems, bureaucracy and the demands of local empowerment.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

In most cases the firm factors in the additional cost. The effect for the customer is higher costs for the services offered. In some cases barriers forced the relocation of operations to another country (i.e. payment IT infrastructure and Customer Contact Centre) in order to achieve efficiency.

The response of the firm has resulted in better efficiency and reduction of costs, although much more can be done.

Inter-banking issues have been, and continue to be, addressed in the SADC Banking Association. CIH participates in all associations national, regional, continent-wide and international. CIH believes that having operations in three different regulatory and currency regimes helped interpret local challenges when they arise and approach them from a regional context.

ADDITIONAL COMMENTS AND SUGGESTIONS

CIH had a number of suggestions for improving the business environment in SADC:

1. Take note of trends in Europe where banks consolidate and use technology to grow market share. The impact of technology on the regional banking sector deserves urgent attention.

2. Regional integration is a dream. There are no equal partners in the region as exemplified by the dominance of South Africa, the independent route of Botswana etc. Integrated thinking is needed. Countries have more in common than they are different and the region should look at how it can be a hub for products and services, with each country specializing in what it is good at.