The South African Institute
of International Affairs

Business in Africa Research Project

The Experience of South African Firms Doing Business in Africa

A Preliminary Survey and Analysis

Dianna Games

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Executive Summary

A key challenge for Africa in the 21st 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. These include 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 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 partner of, many African countries, displacing those companies from Europe (particularly in countries that are former colonial powers) and

America, which have traditionally retained their economic links with Africa.

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 a 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 its skills and resources available to other countries, encouraging regionalism and cross-border trade, and working to make countries north of its borders more attractive to investment and better places in which to do business. In short, South Africa's contribution is crucial for Africa's renewal.

South Africans believe their commitment to making Africa work is long-term.

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.[1] Sponsored by the Danish government, it aims to develop practical policy recommendations on the preconditions for the development of a sustainable business environment in Africa to policymakers, business (both foreign and local) and

[1] Inquiries about the project can be directed to Ms Neuma Grobbelaar, Deputy Director of Studies and Head of the Business in Africa project, at *grobbelaarn@saiia.wits.ac.za*.

academics. 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 to make the Nepad vision of sustainable growth and development a reality through a series of qualitative and quantitative surveys and field research. The programme's findings will be submitted to the Nepad Secretariat, African governments, the South African Department of Trade and Industry, and African and South African business chambers. The aim is 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, in the hope of helping to strengthen the development of business in Africa.

This report, which forms part of the broader project, is a preliminary study of the experience of a range of South African companies that are doing business in Africa. It looks briefly at four sectors and four countries, not necessarily linked. The sectors are: Banking; Telecommunications; Retail and Food; and Mining. The countries are Morocco (North Africa), Ghana (West Africa), Mozambique (Southern Africa) and Uganda (East Africa).[2]

The problems as well as the solutions identified by the wide range of South African companies canvassed for the report mostly correspond with those identified by multinationals, donors, civil society and other groups with a political and

[2] The information was gathered through a variety of means including interviews, questionnaires, research reports, articles in the press and personal research for other projects.

economic interest in the continent. While it is understood that Africa is not a homogeneous 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*** as resources;
- ***political and fiscal risk***;
- a ***weak private sector***, coupled with a strong government presence in the economy;
- ***high dependency on donors*** and other financial mechanisms for aid and the funding of projects;
- ***high business costs*** owing to the lack of basic services, facilities, infrastructure, development, competition and resources;
- ***insufficient air and road links***;
- ***poor leadership and bad governance***;
- ***corruption*** at all levels of government;
- ***high costs of finance*** due to high risk and weak economies; and
- ***currency fluctuations***.

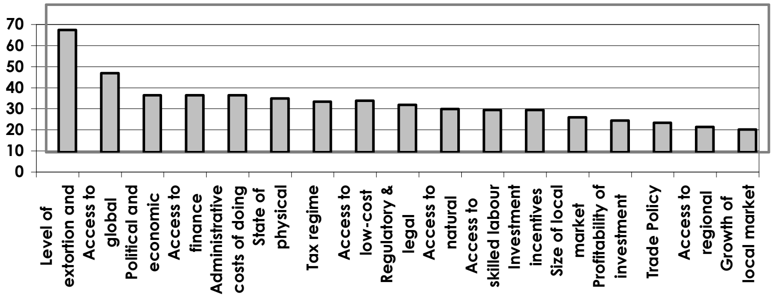
Suggested potential solutions involve, in the main, several key elements:

- ***effective leadership and accountable governance*** geared to the needs of the population rather than those of government officials and the political elite;
- ***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;
- the ***resolution of conflicts***, thus reducing the political and economic costs they impose;
- an ***increase in competitiveness and diversification***, and the ***encouragement of exports***;
- a ***reduction in dependence on aid*** and other multilateral financial support systems through domestic growth and development and the fostering of strategic partnerships;
- ***investment in the education and training*** of people to develop skills and build capacity;
- the ***strengthening of regionalism*** to expand markets, bring down the costs and difficulties of doing business across borders, and create greater competitiveness; and
- a ***focus on success*** and excellence ***to provide examples of what can be done***.

What multinational companies say dissuades them from investing in Africa[3]



[3] 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, although inflation remained a source of worry in a number of countries such as Zimbabwe, Angola, Somalia and Nigeria. In its April World Outlook, the IMF maintained that the central challenge for Africa remained the establishment of those conditions necessary to achieve the Millennium Development Goals, most notably a sustained reduction in poverty. However, to achieve these goals, an overall growth rate of 7% per annum is required. Far from reaching that goal, Africa's economic growth slowed to 3.1% in 2002, compared with 4.3% the previous year.

Growth will be achieved only 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 that of other regions. However, 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, drought and ongoing conflicts. Lack of market access to 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 investors abroad have of Africa as a high-risk, problematic region.

What are the difficulties?

Political risk is the problem most often cited by business people. Unstable and greedy political regimes are at the one end of the spectrum. There the risk is highly visible, and companies, particularly those operating in the mining, oil and gas sectors are able to factor this into their planning. However, there are more insidious risks in some apparently stable states. For example, conflict over unconstitutional third terms for incumbent presidents has destabilised countries, such as happened in Zambia and Malawi. The determination of rulers to hang on to power at all costs has created instability and rapid economic decline in states such as in Kenya and Zimbabwe. In other cases, new and inexperienced governments are afraid to fail, yet simply do not perform as well as expected, as in Ghana. There are many permutations of government risk, but many that affect business in particular. Examples are poor political and corporate governance; corruption; ad hoc and short-sighted economic decisions by governments; changes of government or ministers, which can result in a new set of economic conditions; the inability of some governments to keep to investment agreements (which often comes to light once the investment has been made); and poorly functioning bureaucracies. There are also taxes and tariffs that are not only high but can be changed without notice, affecting companies' projected costs and the high costs of raising finance which result from poor governance. One of the most serious risks is currency fluctuations. At least six currencies (the Zimbabwean dollar, the Zambian kwacha, the Ghanaian cedi, the Mozambican

One of the most serious risks is currency fluctuations.

meticais, the Nigerian naira and the Algerian dinar) have lost more than 89% of their value in 12 years, while a further five have depreciated against the dollar by two-thirds or more.[4]

These permutations compound the already difficult logistics of doing business. These include great 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 already have appropriate legislation, it is seldom adequately enforced.

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 of 16–20% in South Africa.
- Most countries are working at improving their macroeconomic environments. This includes reducing

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[4] *Business Africa Review*, Economist Intelligence Unit Ltd, 2003.

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, with 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 businesses and parastatals.
- The economic environment has become more predictable overall, resulting in more reliable regulatory frameworks and policies.
- There is increased transparency and improved efficiency in decision-making at the policy level. Political decisions are beginning to be communicated to the public 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.
- Regional initiatives which aim to expand the size of the potential market and counter the low purchasing power of most member states, are deepening, albeit slowly. These also include inter-regional efforts to promote trade and

investment across borders. Both are changing the regional investment market.

- There is a growing move towards gaining membership of important international bodies such as the World Trade Organisation (WTO — which has 40 African member countries), the Multilateral Investment Guarantee Agency (MIGA) and the Convention on Investment Disputes Between States and Nationals of Other States (to which 42 countries belong).

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 alter. 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 improvements, new investment from the rest of the world has been slow to materialise. The reasons for this include:

- the continued perception that Africa is 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 of 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 other African countries. 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 goods. In 2001, South Africa was listed as the second biggest investor in the SADC region with investment of R14.8 billion, with multi-state deals leading at R27 billion. The next highest country investor was 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.[5] Among the biggest deals done in the SADC region in 2001 and 2002 were investments of $1.1 billion by **Sasol** in the Pande & Temane gas fields in Mozambique; $860 million by **BHP Billiton**, the **IDC** and Mitsubishi in the expansion of Mozal II; $142 million by **Vodacom** in Tanzania and a further $139 million in the DRC. Also, $56 million was spent by **Sun International** on

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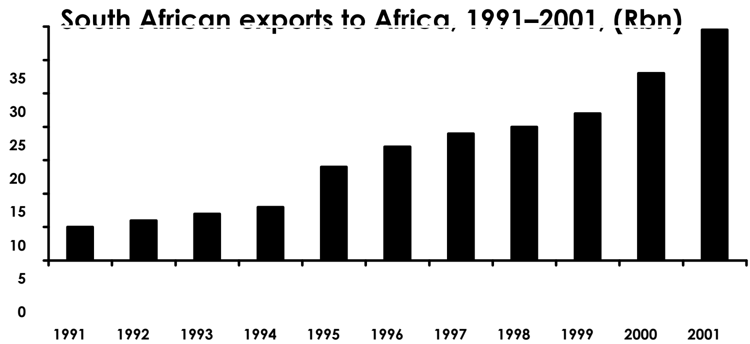
5 The BusinessMap Foundation, *Investment 2002 Report*. Johannesburg, 2002.

its hotel in Zambia; $53 million by **Pretoria Portland Cement** Zimbabwe on merger activity in Zimbabwe; $6 billion by power parastatal **Eskom Enterprises** on the Inga project in the DRC; and $20 million by **South African Airways** for its stake in **Air Tanzania**.[6] Increasingly, South African companies are going into big projects on the continent as joint ventures with large international companies.

South Africa is also among the biggest trading partners of many African countries. However, the trade balance remains skewed in South Africa's favour in almost all instances.



Source: *Martin Creamer's Engineering News*, 24–30 January 2003.

As African countries were pushed towards liberalisation and economic reform during the 1990s under pressure from the forces of globalisation and the changes brought about by the end of the Cold War, so South Africa's political and economic isolation ended with the advent of democratic rule and the

[6] *Ibid.*

presidency of Nelson Mandela. This allowed the South African private sector to look actively for business north of the border. The interest in doing so had existed for many years, 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 make 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 Africa offers, the fact that so many South African products are tailor-made for the African market, and regional integration. In addition, many international companies either opened or re-opened offices in South Africa after the end of apartheid, and are using South Africa as a springboard for their operations elsewhere in the continent. Nepad will play a role in encouraging business in Africa.

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In 2003 there is virtually no sector in South Africa 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 from $79 million to $216 million with immediate effect. This limit was raised again in 2003 to R2 billion per project for investment in Africa and R1 bilion per project for investment outside of Africa.[7]

Foreign Assets of South Africa in Africa, 31 December 2000 (R million)	
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	—

7 See *www.reservebank.co.za.*

Foreign Assets of South Africa in Africa, 31 December 2000 (R million) (continued)	
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
Total foreign assets	**24,170**
Source: South African Reserve Bank	

Companies doing business in Africa have to rely on expensive risk insurance with organisations such as the **World Bank Multilateral Insurance Guarantee Agency** (**MIGA**) facility, which offers first-tier insurance, **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, project and financial credit.

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

MIGA's exposure in Africa as of 31 March 2003 (R '000)	
Agribusiness	74,512
Financial services	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	

Southern Africa has traditionally been the key region for South African involvement in business north of the Limpopo, for 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 for a brief period 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 their 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 —

served to push out, or rather keep out, South African business people, who were reluctant to compete in a business sector largely held together by political patronage and corruption. Thus, many companies started to eye the West African market instead. 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'.

South Africa's 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, long seen as one of Africa's most chaotic and corrupt countries. However, the sheer size of the latter's market, its need for goods and services and the large amounts of money in the economy, albeit in relatively few hands, have served to draw South African business into Nigeria. That country 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 have diversified considerably in both directions. The Bi-national Commission between Nigeria and South Africa is one of the more successful of such arrangements between South Africa and other African countries.

North Africa, and particularly Morocco, is a steadily growing market for South African goods and services. South Africa's Department of Trade and Industry (DTI) statistics show that exports from South Africa to Morocco rose more than 43% from 2001–02 and imports rose 250% during the same period. Algeria, with its rapidly liberalising economy and more stable political environment under President Abdelaziz Bouteflika, is the newest potential market for South Africa. Ties between the two countries are founded on support for each other's past liberation struggles, and consequently there has been a strong push by both governments for closer economic ties. However, despite its strong focus on African trading partners in preference to European countries and its Arab neighbours, Algeria's trade with other African countries generally is less than 1% of its total trade. More than 90% of South Africa's exports to Algeria at present comprise weapons sales. Algerian officials have expressed disappointment that the business relationship has not progressed further, given the close political ties between the two countries. South African business has been slow to take up opportunities in Algeria for several reasons. There are enormous logistical problems; Algeria's economy depends on one sector (oil and gas) alone; its economic reform programme has suffered delays and setbacks as a result of the long battle against Islamic fundamentalists; and the private sector is still small and undeveloped after years of state domination of the economy.

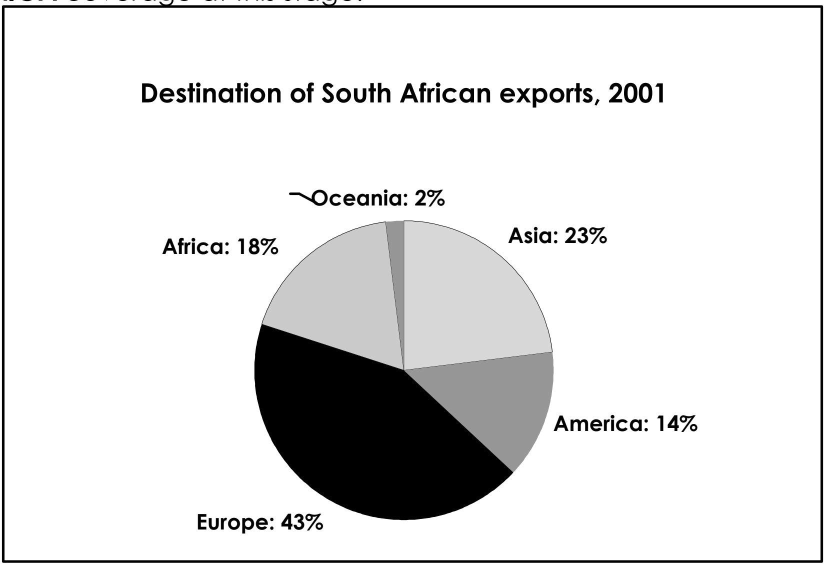
South African trade with the rest of Africa (main trading partners) (R '000)

Country	*2001 exports from South Africa*	*2002 exports from South Africa*	*Rank overall trade 2002*	*Annual growth 2001–02 (%)*
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

South African trade with the rest of Africa (main trading partners) (R '000) (continued)				
Country	***2001 exports from South Africa***	***2002 exports from South Africa***	***Rank overall trade 2002***	***Annual growth 2001–02 (%)***
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	70.10
Source: South African Department of Trade & Industry				

Francophone Africa has seen a limited amount of trade and investment from South Africa. The domination of business and contracts by the French and Belgian companies in these countries; the differences in business culture and legal systems; and language problems have all presented barriers to business. Côte d'Ivoire has proved to be the exception in Francophone Africa, but is rapidly losing favour with South African business following the latest violent civil unrest, which began in 2002. The same barriers potentially exist in *Lusophone* countries, but the proximity of Mozambique and Angola to South Africa has forced South African companies to find ways around the problems in order to exploit lucrative opportunities in both countries. With the advent of peace and its moves towards democracy, Angola represents the market of the future. Already significant business is being done there by South Africans. However, investment is slow in every sector other than mining. The problems of doing business and the cost of operating in that 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.

South African firms also show interest in the Democratic Republic of Congo (DRC). This has been boosted by the entry of mobile operator **Vodacom** into the country last year, but the situation is still too volatile for most investors. **MIGA** reports that the interest shown in Angola and the DRC by business mainly takes the form of enquiries and not actual applications for **MIGA** coverage at this stage.



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 oil and gas.

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 a space for better association between business sectors. In terms of Nepad, South Africa has formed two strategic political relationships — with Nigeria and Algeria, both countries with which it has liberation-era ties. In contrast, South Africa's links with Egypt and Senegal through Nepad are based more on the African renaissance vision than on historical ties. Despite the political bond between South Africa and these countries, South African exports to Senegal and Egypt declined by 18.1% and 43.5% respectively in 2002, while import figures remained low.

Notwithstanding 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 forced into following suit, as the cases of Algeria and Morocco show. As mentioned above, trade with Morocco has been steadily growing, despite South Africa's low-key political relationship with the country because of its disapproval of Morocco's handling of the Western Sahara dispute. Again, business ties with Angola, the DRC and now Kenya are improving, although the South African government shows a somewhat cool political attitude to the governments in these countries.

South African parastatals have moved quickly to take up opportunities in Africa. Prominent 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 other 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 the frequency of flights to eight of these. **SAA** aims to develop regional hubs, exploiting its new refuelling stop in Dakar. Senegal is one potential hub in West Africa, as is Lagos in Nigeria, on what is probably **SAA**'s busiest African route. The company 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 having to travel to African destinations via Europe. However, **SAA** is hamstrung by the lack of capacity in other African countries, bilateral restrictions, and other problems.

The **JSE Securities Exchange** (**JSE**) 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. Nine other SADC countries (Botswana, Tanzania, Zambia, Malawi, Mozambique, Namibia, Mauritius, Swaziland and Zimbabwe) have stock exchanges. The **JSE** has Memorandums of Understanding with the **Ghana Stock Exchange** and the bourse in Tunisia, to help them develop their markets. The South

Ten countries in SADC have stock exchanges.

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 DTI, has introduced a number of measures and incentives to encourage South African business to expand into the rest of Africa. A key development has been the establishment of export councils in 20 sectors to act in partnership with export-orientated firms. Although these are mainly active in developed country markets such as the US, Japan, the UK and EU 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, owing to the inability of most African countries to provide sovereign guarantees. Donor projects tend to carry conditions regarding issues such as source of content, which are not favourable to South Africa. The best chance South African companies have of participating in these projects is as sub-contractors. Growth in this area is dependent on 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 focuses on foreign exchange-driven development projects. While the **DBSA** specialises in the Southern African region, the **IDC** has interests across Africa, including 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 (as compared with 25% in the rest of the continent).

South Africa has ratified the SADC Trade Protocol to make all trade substantially duty-free by 2008. The liberalisation of country-specific products will have been completed 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. Between the time the 1992 Treaty establishing the regional body came into force and 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 both to a lack of political will to make the policy changes required and an over-abundance of bureaucracy in member countries. This process of integration is expected to gain momentum as countries align themselves with the Nepad initiative and the benefits it is expected to bring.

The SADC region's move towards free trade has been slow, and trails behind 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. The SADC initiative has been somewhat undermined by free trade or preferential arrangements between some African countries and industrialised countries and regions. For example, South Africa's hard-fought agreement with the EU, which came into effect in January 2000, has significantly boosted its exports. In the first 12 months after the agreement was reached, South African exports to the EU increased by 35% over the preceding 12-month period. They have continued to rise each year since then. South Africa is also 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 by 2005. South Africa is also 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 the Lomé and the Cotonou Agreements, the latter being the successor to Lomé. In terms of the latter, the African, Caribbean and Pacific (ACP) countries received duty-free access into the EU for industrial goods, while the ACP countries were able to impose duties on EU imports so as to protect their infant industries. Trade is excluded from the terms of South Africa's membership of Cotonou, but the economic benefits include being able to tender for projects worth millions of dollars in ACP countries funded by the European Development Fund.

A number of South African companies have been able to take advantage of the Comesa free trade area by obtaining goods for some of their African operations in Comesa countries from other members of the trade bloc. They have also been able to set up manufacturing units and other such support structures in Comesa countries. South Africans are hard hit 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 local companies willing to take the risks. The opportunities presented are partly in the domestic financial services sector, but primarily in 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 other 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 general capacity of financial institutions.

Financial sector reforms to correct the problems began in the 1990s. Interest rate controls were removed, state-owned banks privatised and easier entry given to private sector banks and other financial institutions, including foreign banks.[8] Other reforms strengthened prudential regulation to protect depositors' funds, introduced banking laws governing the supervision of banks and expanded supervisory capacities. While these 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 widen in many countries; and real interest rates remain high.

But the banking system is still at risk of 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 in which the banking system has been destabilised by the collapse of undercapitalised or underperforming banks. Regulatory risks and political interference remain an obstacle to banks. A prime example of this is 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 a large number of non-performing loans at a reduced rate.

Regulatory risks and political interference remain an obstacle to banks.

But the advent of South African and other investment in local banking groups, such as **Stanbic Africa**'s purchase of **Uganda**

[8] Brownbridge M, 'id21 insights', *AfricaOnline*, March 2002.

Commercial Bank, and **Absa**'s takeover of local networks in Tanzania and Mozambique, coupled with new IT systems in local banks (many of them from South Africa or from international companies based there) 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's, both of which compensate for the high risks 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 1.4–1.9.

South African banks have a sizeable competitive advantage in Africa as a result of their capital strength and techno-logical capabilities.

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 those 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 and 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.[9]

Since 2000, **Stanbic** has changed its Africa focus from being a niche commercial operation to a retail bank. In the medium term, the group is looking at 25–30% earnings growth from its Africa division, which 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. Its loan-to-deposit ratio is just 54%, compared with **Standard Bank**'s 80% figure overall, which reduces its credit risk. **Stanbic** has reduced its reliance on net interest income and is now looking at

[9] Merrill Lynch report on Standard Bank, 'Into Africa'. Johannesburg, 24 April 2003.

greater income from areas such as retail deposits and trading operations. It is also extending its custodial and trust activities.

Absa has been doing business in Africa for a number of years, focusing primarily on transactional business. However, it has significantly increased its footprint through the acquisition of existing banking operations, most 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 'selective'. **Nedcor Investment Bank** is active in African markets in the areas of project, trade and commodity finance.

First National Bank (FNB) has focused its operations on three core countries — Namibia, Botswana and Swaziland, where it is a major player. Its operations include retail and corporate banking, HP leasing, card operations and premium credit financing. Although FNB has tended to focus on safe markets close to home, the competition among banks is fierce in these small markets. It is considering expansion further afield into 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. Its main area of operations is 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 on which it relies in the absence of its own banking network.

FNB Corporate Trade Services is the only banking institution in Africa to have an ISO9001 accreditation.

Rand Merchant Bank (RMB), also part of the **FirstRand** group (as is 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 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 port's future cash flow to repay the advance. It has also financed telecoms deals in Benin and Congo-Brazzaville and fuel deals in the DRC, among others. Investec is also involved in project finance deals in Africa, mainly in commodities (primarily metals, mining, oil and gas).

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

- **Political risk.** This has been experienced 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**. This occurs 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 currency depreciates.
- **Hedging against currency fluctuations**. This can add as much as 30% to trade financing deals year-on-year.
- **A shortage of dollars and hard currency**. This occurs in many markets because of a higher demand than governments can meet.
- **Changes of government**. Changes in the ruling regime, or even in ministers, can mean agreements are not honoured or the economic environment is altered at short notice.
- **Weak domestic private sectors**. In such situations there are few creditworthy borrowers. Typically most deals are done with governments or parastatals, which are known to be high-risk clients. This is because they are weak borrowers, inefficient, bureaucratic, lack a track record, do not apply

corporate governance principles, avoid transparency, and do not keep proper financial records.

- **A lack of capital markets or small and often illiquid markets**. This type of situation is exacerbated by low business confidence in most African countries. It compromises a country's ability to raise finance or at least makes it more expensive. It also prevents the creation of accepted standards of performance and precludes provision of local forward cover.
- **An acute shortage of information**. The information required concerns the viability and creditworthiness of borrowers. Lack of it leads to contract enforcement problems, which increase the risk of loan default.
- **High inflation and exchange rate volatility**. These exacerbate the risks of lending in some countries.
- **Large government deficits supported by the banking system.** This state of affairs tends to crowd out private sector borrowers.
- **Suspicion of banks in general**. This leads to a low rate of savings.

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 primarily attributable to 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 the proportion of the population using telephones improved, but the economies of countries in which mobile telephone operators have been successful have enjoyed significant benefits. The growth in mobile telephony has contributed to job creation (particularly through agents selling prepaid cards), construction and equipment supply, and an improvement in the business operating environment.

By the end of 2000, there were 17 African countries in which there were more mobile than fixed-line subscribers.

All of this has been made possible by the liberalisation of the sector over the past few years. At the beginning of 2001, 56% of African countries allowed competition on mobile cellular networks, up from 7% in 1995. Only six African countries did not have a cellular network in 2001, compared with 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.[10]

South African mobile operators **MTN** and **Vodacom** have a wide footprint on the continent. Both companies have experienced start-up growth well beyond their expectations. In Tanzania, **Vodacom** anticipated 36,000 subscribers in the first year: after only eight weeks it had 38,000. **MTN** started its operations in Nigeria in August 2001. By July 2002, it already had around 400,000 subscribers, whereas its target for end-March 2002 had been 173,000 customers. In Swaziland, the **MTN** consortium took two

In Africa four out of every five subscribers use the prepaid option for mobile services — almost twice the global average.

[10] International Telecommunications Union, *ITU News*. Geneva, 2001.

years to accomplish what took fixed-line operators 80 years. The advent of prepaid cards for mobile telephony has also helped to feed this revolution. In the rest of Africa, four out of every five subscribers use the prepaid option, a much higher proportion than in South Africa, and almost twice the global average.

During the 2001–02 financial year, **MTN International** increased its contribution to **M-Cell**'s group revenue from 4.5% to just under 19%. **M-Cell** (now called the **MTN** Group), which has a 77.5% interest in **MTN** Nigeria, expects revenue 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 by 2007. The company has focused its operations mainly on SADC countries for reasons of proximity to the home base.

Although the South African operators have not always been first into an African market, they have generally emerged with majority market share within a short time. This has been the case in Uganda for **MTN**, and in Tanzania where **Vodacom** was fourth into the market and by mid-2003 had more than 50% of market share. In terms of competition, there are several players. Key among them at present is Amsterdam-based **MSI**, which is increasing its spending 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**. The Egyptian company Orascom is also playing a bigger 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 its having spent $2.4 billion for a 35% stake in **Maroc**

Telecom in Morocco in 2000), **France Telecom** and **Telia**, who are now looking to unload their African operations primarily because of major debts run up in the European markets. In Cameroon, **MTN** faces the prospect of more competitors in the market as the government opens up licences. In Nigeria a mobile licence was recently issued to the Nigerian consortium **Globalcom**.

Current challenges are how to make services more affordable and how to enable mobile telephony to provide access to the Internet. South African companies are well placed to do the latter, but the former remains problematic, given the high costs that mobile companies in markets such as Nigeria and the DRC are forced to pay because of the rundown state of infrastructure in these countries, and numerous other expenses associated with doing business there.

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

In another high-risk market, Nigeria, the battle for subscribers continues between two companies — **MTN** and **Econet Wireless Nigeria**. The cellphone market has been conservatively estimated at 10 million potential users over five years. In just two years, the number of subscribers has exceeded the expectations of both operators. Although many of the start-up costs for these companies were similar to those of **Vodacom** in the DRC, the operators in Nigeria were hit by the $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 by the government, which at one time demanded that it be reduced by 80%. Operators defend themselves by saying that the high costs behind the tariff are not of their own making. The reasons they give include: the licence fee was much higher than the $25 million paid in South Africa nine years ago; the cost per base station installation is 2.4 times the **MTN** international average; the unreliability of the electricity supply, which meant that 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 $350 million; and the high cost of raising finance because of the high-risk political environment. However, as happened in the DRC, the operators' risk is paying off. Subscriber numbers are well ahead of expectations, despite Nigeria's low average per capita income of $300.

A cost-added problem in Nigeria is that the privatisation of the state-owned fixed line operator, **Nitel**, fell through last year.

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 network. A substantial part of its reconstruction had to be funded by the mobile companies at great cost. **Nitel** has presented other problems for the foreign operators: these include technical weaknesses such as insufficient connectivity, and managerial short comings such as lack of transparency.

Regulation in Africa, while improving, remains weak, which has hindered the expansion of both mobile and fixed-line operations. One of the problems is the tendency of the regulator to favour state-owned operators, thus hampering competition. In Mozambique, for example, **Vodacom** only launched its service at the end of 2003, despite paying $15 million for a licence in 2002. The delay was caused by interconnection and tariff problems with the incumbent operator, **mCel**, in which the state-owned monopoly **TDM** has a 74% stake. In June 2003, the government announced that **TDM** and **mCel** had become separate entities, in a move to facilitate **Vodacom**'s launch. **TDM** also has a stake in 11 other subsidiary companies in the telecommunications sector, which makes it difficult for other companies to compete, although reform of the sector is under way. Although **Vodacom** was awarded a licence to operate in Zambia in March 2002, it has put these plans on ice because of uncertainly about regulations. In Nigeria, certain regulations make life more difficult for mobile companies. For example, the operators are forbidden from sharing excess capacity on their microwave network and from erecting base stations on the same buildings, both of which would have reduced costs.

The advance of **MTN** and **Vodacom** into the continent has brought with it a wave of business for myriad support service companies. For example, the telecommunications division of the 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 with those of the previous year. It expected to boost revenues from R200 million in 2001–02 to R500 million in 2002–03. **Orbicom**, a wireless communications solutions provider, 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 in the process of establishing a platform for Internet Protocol-based services via satellite, and is developing an electronic funds project to introduce a switching system for a multitude of financial transactions. These will be launched in several countries, including Nigeria and Uganda, in a tie-up with **MTN**.

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

[11] BusinessMap Foundation, *Investment 2002 Report*. Johannesburg, 2002.

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, which aims to connect Africa to Europe and Asia. In this way the costs of phone calls will be reduced and the revenue generated from phone calls will remain in Africa.[12] Telkom has played a key role in a number of projects in Southern Africa. These 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's and Swaziland's domestic networks for managed data services; and the implementation of the Voice over Internet Protocol (VoIP), in conjunction with several carriers.

The main challenges of working in Africa include the following:

- **Governmental and regulatory difficulties.** Understanding the objectives and constraints of privatisation as well as the differing and often changeable regulatory regimes is a complex task. Regulators often lack experience and international investors become, unwittingly, part of their learning curve. Foreign companies are also forced to bid for licences and contracts in uncertain regulatory environments.
- **Logistical problems**. These include transporting huge amounts of equipment to other countries. Also, many African countries lack basic infrastructure such as electricity and

[12] Nearly 80% of telephone revenue from calls made in Africa but routed through overseas countries, estimated at about $300 million annually, leaves the continent.

roads. Adequate premises for offices are in short supply; accommodation costs for expatriate staff are high; and generally, doing business is extremely expensive.

- **Complaints about tariffs**. The tariffs charged can be highly controversial, as in the case of Nigeria, where subscribers do not understand the formulas by which tariffs are worked out. The situation is 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 regulations 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 targets.
- **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**. Capacity constraints became a huge problem for **Vodacom** in Tanzania and **MTN** in Nigeria in meeting demand in the early days of the operations. Accurate market information on the likely number of

subscribers is also difficult to find. Official GDP figures do not help in countries where most of the economic activity is unrecorded, instead 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 the DRC, it is much greater. Apart from the usual problems, in Nigeria, for example, **MTN** was seriously affected by fears that Nigeria would renege on its foreign debt. This would have meant a devaluation of the currency, giving Nigerians less spending power, and in turn discouraging financiers from backing **MTN**'s planned expansion. It would also make imported equipment more costly. Political problems can also affect the share price.
- **Currency fluctuations.** These can affect a range of costs for mobile operators. Examples are call tariffs, which are dollar-based, the 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 the infrastructure (or complete lack of it), electricity problems, security, high hotel and rental costs, and myriad other expenses make these very expensive markets to be in. In Nigeria, the high cost of the licence and the fact that because of problems with **Nitel**, the companies have had to build their own transmission backbones, have been added cost burdens.
- **Competition**. The disadvantages of competition are being mitigated by the wealth of opportunities opening up and the

huge successes that South African operators have had in their African markets. But challenges also include creating a culture among competing operators that will allow for equitable and workable interconnect agreements to be established between them and deal with competitive imbalances created by projects inherited from former PTTs (posts, telecommunications and telegraphs).

- **Lack of telecommunications skills and capacity.** Regulators often lack experience in competitive environments. Also, operators have problems in finding and retaining staff with the technical skills required for operating and maintaining complex telecommunications systems, and providing specialised, high-level support for network problem resolution and emergencies. In many cases, experts are flown in, but countries like Nigeria offer too few flights for the demand, and journeys are long and time-consuming.

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 because of their wide exposure to the local population in the countries in which they operate.

Shopping centres and malls with luxury features such as good ventilation and glossy shopfronts, lined with well-known South African brands, increasingly dominate the landscape in African capitals. These occur 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 caused local companies to go out of business, which has resulted in hostility towards South Africans. Allegations have also been made that retailers dump substandard goods on 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 buying from local companies where the quality is high enough, creating jobs, engaging in management and staff training and improving standards across the board. Rather than pushing out the 'small guys', these companies argue they are simply upsetting local monopolies and breaking new ground. Their presence has meant a raising of quality in local products whether these companies wish to compete or to be considered local suppliers to them. It has also, in many cases, pushed down prices. One South African retailer said local competitors' prices for food and household goods in one East African city came down by nearly 50% when the chain opened its first store there.

The entry of South African retailers has also pushed down prices.

Although there is limited investment by the retail sector in other African countries, the size of the companies in the sector doing business there has made transparency an issue between foreign business and governments. 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 previously.

Problems of finding suitable real estate in cities suffering from bad planning and urban sprawl have meant that many shopping centres in Africa have been built and are owned by South African companies. 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. **Shoprite** has moved into the property business, not out of choice but because it could not get developers and financial institutions interested in assisting the group to establish itself in the areas it had selected. Currently, more than half of the **Shoprite Checkers** stores in Africa are stand-alone stores. The group also 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 identifying sites to develop as shopping centres, managing them and finding tenants. Its services are not exclusive to this sector, though. It also deals with properties in other countries for companies like **Vodacom** in Tanzania, and for others as well. **JHI Real Estate** values property; does research for clients; manages property; and, as is currently the case in Uganda, develops industrial parks. It has recently become involved in finding premises for 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 their 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 could 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 to be loss of market share in South Africa. The group currently trades in 13 African countries outside South Africa. This business accounts for 12% of the group's turnover. CEO Whitey Basson's aim to increase this to 50% by 2005 has been greeted with some scepticism, but the group is scouring the continent for new opportunities to realise this goal. New markets and business opportunities in countries in which it is already trading are being examined, and work on the R113 million **Shoprite** store and Megasave distribution centre in Luanda was completed by mid-2003.[13]

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, with 17 remaining. 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 had 60 stores in three African countries — Zambia, Malawi and Mozambique — as well as more than 100 in the Southern African Customs Union (SACU) countries excluding South Africa (Botswana, Lesotho, Namibia and Swaziland — BLNS). Its total

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[13] Basson W, Interview in *Traders African Business Journal.* Johannesburg: Trades Publications, May–August 2003.

number of stores, including those in South Africa, is 1,200. It recently closed its Ghana operation because of a number of problems, including the smuggling of goods by local traders to evade high duties; and competition from the large second-hand market — a major problem for retailers in the formal sector in much of Africa. The Africa operation (not counting the BLNS countries) contributes R120 million a year to a total group turnover of R3 billion.

Pick 'n Pay, which also trades as **Score**, has had a mixed experience in Africa. It sold its Tanzanian operation to **Shoprite** but took 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 (as part of the **Meikles Africa** group), Botswana and Namibia. All of these have been successful, including those in 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 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** and **St Elmo's**.

Franchising is increasingly seen as an effective 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 a 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 its 470 outlets in South Africa. Its volumes are between 30–50% higher than those of the average outlet in South Africa, while non-South Africa stores contribute 20% of bottom line earnings.

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

- **A lack of suitable real estate.** As explained above, 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.** These are most evident in the supply chain.
- **Long supply chains**. These also contribute to stock losses along the chain.
- **Logistical problems**. One of these is the transportation of 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. The goods are then moved north, which adds considerably to the delay and expense. This is partly because the feeder routes from the East 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 buying in goods produced in the regions in which they operate rather than relying solely on goods from South Africa. In some cases retailers benefit through other trade arrangements such as the Common Market for Eastern and Southern Africa (Comesa).

- **The expense of air transport**. This is a constant concern in a sector where margins are under constant pressure.
- **Volatile currency movements and inflation rates.** Although these create difficulties for retailers, inflation can also work in their favour, as has happened in Zimbabwe, which in May 2003 had an inflation rate of nearly 300% and in December 2003 just over 600%.
- **A dearth of qualified local managers.** Many companies are training local managers and staff to obviate the need to bring in expatriate management staff.
- **A lack of quality goods in local markets.** This means a greater reliance on imports, which in turn pushes up costs because of the high tariffs imposed on imported goods.
- **A lack of local service providers.** This makes it difficult for companies to subcontract 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. They 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 and a maximum of 50 stores per country is considered to be the best model for a profitable country operation, because of the high cost of doing business. But difficulties such as the expense of setting up, lack of available properties and low-income populations preclude most chains from reaching as many as 50 outlets.
- **High duties, taxes, and surcharges on imports**. These, combined with high transport costs, can add anything between 40–70% to the price of landed goods. In Zambia and Mozambique VAT is around 17%; and is 20% in Malawi, compared to 14% in South Africa. The attraction of the SACU countries is that no duties are payable, and proximity keeps costs down.[14]
- **Title for land for property development.** In Africa generally, land is owned by the state. Only leasehold options are available on land, whereas freehold options are possible in South Africa. Also, the large number of stakeholders with rights to a particular piece of 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 both in getting them to sign long-term contracts for retail space, and in sticking to their contracts afterwards. This

[14] 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.

increases the difficulty of raising finance for such developments.

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 into billions of rands once there is a hole in the ground. Margins therefore need to be high to justify the costs. The long-term nature of mining increases companies' exposure to the risks and problems endemic to many countries on the continent. Key among these is political risk. Mining operations rely on agreements and contracts with governments for their existence and success. While in the developed world, the absoluteness of legal systems, democratic practice and political stability over time 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 badly timed and short-term decisions by governments have created unacceptable risk for mining companies. Also, bridging the gap between prospecting and investment can take 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 because of civil war (as has been the case of Angola and the DRC), or not venture in at all. One South African gold mining company maintained that in spite of 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 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, 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 legislative environment to solve problems of their own making, or renege on undertakings made once investments have been made. Mining companies are forced to spend large sums of money on risk insurance.[15]

Global gems and diamond production		
Country	***Carats (million)***	***Value ($ million)***
Angola	10.60	1,110.0
Botswana	24.90	2,125.0
DRC	16.50	585.0
Namibia	1.52	420.0
South Africa	4.00	740.0
Tanzania	0.32	46.0
Lesotho	0.02	5.0
Southern Africa	**58.60**	**5,000.0**
CAR	0.45	72.0
Ghana	0.50	13.5
Ivory Coast	0.15	21.8

[15] MIGA, the World Bank's risk guarantee agency, lists mining as the second biggest sector out of eight, to which it had exposure in Africa as at 31 March 2003. The biggest was infrastructure.

Global gems and diamond production (continued)		
Country	***Carats (million)***	***Value ($ million)***
Southern Africa (continued***)***		
Liberia	0.17	27.2
Sierra Leone	0.35	87.5
Guinea	0.45	103.5
Africa total	**60.00**	**5,350.0**
Brazil	0.69	29.3
Venezuela	0.35	46.0
Guyana	0.02	1.7
China	0.16	17.0
Australia	26.20	360.0
Canada	2.60	450.0
Russia	20.50	1,600.0
Global total	**110,180.00**	**7,900.0**
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.		

De Beers has had a mixed relationship with Angola, facing massive risk and earning big rewards. It began prospecting in Angola in the early 1970s in a joint venture with diamond company **Diamang** before the latter was nationalised by the MPLA after independence in 1975, thereby transferring the sole rights to Angola's diamonds to the state. (Angola's constitution stipulates that all natural resources are the property of the state, which will determine how they are to be used and explored.) **De Beers** continued prospecting between 1978–84 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 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 these areas. In May 2001, exploration was suspended pending negotiations with the Angolan government on the terms applicable to the mining and marketing of diamonds retrieved 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 the time of writing, have the purpose of 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. Allegations, which it has denied, have been made that it bought diamonds directly from Unita. This campaign could harm **De Beers**' highly successful operations in Botswana, South Africa and Namibia. 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 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. The company 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 2003 that it was in merger talks with Ghana's **Ashanti Goldfields**. The completion of the merger has made the merged company the world's second largest gold producer. **Ashanti** has gold mines in four African countries — Ghana, Zimbabwe, Guinea and Tanzania.

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' (that is, veto rights on any merger or corporate activity), which has deterred investors. Several years ago, the government of Jerry Rawlings blocked a merger with **Lonmin**, which has a 28% stake in **Ashanti**. The company's poor share price performance has been blamed on a perception that Rawlings' government had an undue influence over the company. **Anglogold** is prepared to let the government retain its golden share, but only for transactions involving the company's Ghanaian assets.

Gold Fields, whose major shareholder is **Anglo American,** has given Ghana a vote of confidence by announcing in May

2003 that it is to invest more than R1.1 billion, expanding its Tarkwa mine in the country to 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.[16]

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 in the latter). Its exploration activities led to the discovery of the Morila deposit in Mali, which has been 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, among them permission to hold 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 prospecting and feasibility studies in the region, bringing its total expenditure to $150 million. **Impala Platinum** and London-listed **Aquarius Platinum** have also made large investments in the region recently.

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, although up to 70% of their requirements need

[16] *Business Day*, 9 May 2003.

to be imported, using hard currency. Appeals from the industry have wrested a few concessions out of the government, but these fall far short of their requirements. In June 2003, two of Zimbabwe's top gold producers — **Falgold** and **Rio Tinto** — warned that there would be widespread mine closures by September because of the inability of the central bank to meet its foreign currency obligations to mining firms.

Anglo American has widespread mining and exploration interests across Africa (from where it still derives the majority of its earnings) and the rest of the world. Its African operations are held through various shareholdings in companies active on the continent. These include **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, followed by a subsequent decision a mere 18 months later to disinvest. This caused much bitterness in Zambia, and doubts about the benefits of privatisation. This example 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,[17] can prejudice foreign investment. The

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[17] In 1998, then president Frederick Chiluba turned down an 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

amount of money **Anglo** invests in infrastructure as well as social and health benefits in African countries in which it operates is not as well advertised as its more controversial actions.

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 returns, an equation which proved unacceptable to the company) and partly on the recent decision by the Zambian government to sell **Ramcoz** to little-known Swiss group **J&W**. **Avmin** had put in a bid for **Ramcoz** because of its potential to add value to the Chambishi operation. Delays and technical problems at the start of the smelter project and high dollar-based debt contributed to the difficulties which have caused the company to write off R1.4 billion in debt to date, with more in the offing. The government's decision on the sale of **Ramcoz** was the final straw, leading to **Avmin**'s decision to pull out of the project rather than incur further costs.

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

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had underestimated the poor state of the mines and the related costs of making the venture a success.

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

BHP Billiton's main African operation outside South Africa is the $1.3 billion Mozal aluminium smelter outside Maputo in Mozambique (see the section on Mozambique). This project, in which the company has the largest share (47%), is the single largest foreign direct investment in that country. The proximity of the Mozal smelter's location to South Africa was pivotal in the decision to undertake the project, 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 or the political will to enforce them. 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'.[18] Investment codes are also

[18] The DRC government unlawfully seized Banro's 47 gold mining concessions in Eastern Congo, worth an estimated $1 billion, overnight, and gave them to a Congolese company.

constantly being upgraded or changed as circumstances in a particular 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 from foreign investment.

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

- **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. However, 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 or being considered in several countries.
- **Political risk.** African countries generally have a history of political instability. This takes the form of coups and other sudden changes of government; rigged elections; deterioration in sound political systems which 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 awarding of mining concessions, as has happened in the DRC and Angola. Mining companies need to structure their operations in high-risk areas in ways that 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 has been agreed. This has the effect of decreasing the attractiveness of those countries as investment destinations, and prevents companies already committed, who are concerned about the repatriation of profits, from making further investments.

- **The cost of risk insurance.** Risk insurance is mainly 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 their bottom lines.
- **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 mineral rights 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 serious implications for ownership, licences and mineral rights. While the size of the mining investments made by mining companies means the latter are in a good position to lobby governments and negotiate, this is not always the case.
- **Community expectations.** As mining operations tend to be situated in fairly remote rural areas, expectations of benefits from foreign investments often arise within the local, regional and/or national community. Mining companies too often devote their whole attention to doing deals with the central government: it is equally important for them to get the local community on their side and to provide for development costs, to reduce the risk of future problems with the local population.

- **Labour relations.** The labour relations practices of the economically active communities of most countries in Africa are disorganised and unsophisticated. This can cause problems for mining companies, which are often forced to negotiate difficult labour issues with unions who do not always understand the dynamics of, and normal procedures followed in, such negotiations. However, this is changing in countries such as Mali and Tanzania.
- **Public and media relations**. These are relatively unsophisticated in most African countries, which can lead to misreporting of mining activities and the benefits of foreign investment. This in turn can affect mining companies' relationships with governments and the community closest to the mine.
- **Supporting infrastructure**. Lack of infrastructure such as usable roads, functioning railways and efficient ports makes the logistics for mining companies working in remote areas of underdeveloped countries much more difficult. Companies are often forced to supply their own infrastructure to mining operations, making it a continuous challenge to support operations with goods, materials and services at reasonable cost.
- **Royalties.** How these are levied and what percentages should be paid and to whom are the subject of some debate in Africa. High royalties can have major implications for the bottom line; they 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 add unexpected expenses to mining operations in terms of royalties. For example, the Bafokeng tribe of South Africa, after a battle lasting two decades, 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 bring in more than R200 million annually).

- **Ad hoc government decisions.** In Zimbabwe, for instance, the industry has been hard hit both by the negative, politically induced macroeconomic climate and by ad hoc arrangements made at short notice, which are primarily designed to solve the government's foreign exchange problems.
- **Remoteness of mining deposits**. Mines tend to be located at a distance from both South Africa and urban areas in the countries in which they are situated. Remoteness is exacerbated by a lack of basic infrastructure in many countries, and can affect the attractiveness of such locations to senior staff. The enormous size of many African countries, such as Algeria, Sudan, the DRC and Angola also contributes to the difficulty of persuading staff to live so far away from home.
- **Security.** The remoteness of certain locations presents both security risks and benefits. Mining companies are highly visible and often invest in politically volatile countries, so the security risks for staff are great. Many staff members are not easily persuaded to accept jobs in unsafe locations.
- **Licensing arrangements and regulatory regimes.** African governments often use licences as an opportunity for patronage and cronyism. Licences can take years to be issued in some cases. Regulatory enforcement is also often either lax or selectively used to get bribes.

- **Currency volatility**. Rapid changes in the value of the local currency, coupled with fluctuating commodity prices, affects revenue and cost projections.
- **Agreements often need to be renegotiated as governments and circumstances change**. (See the example given of **De Beers'** experience in Angola above.)
- **Field working conditions**. The location of deposits, 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 hostile working conditions. 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. Aided by the liberalisation of the economy by President Yoweri Museveni, who has thrown his support behind private sector investment, the Ugandan economy has been growing at a rate of around 6% per annum for the past 10 years. Growth has started from a low base, and has occurred 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 encouraging diversification in agriculture.

Despite raising concerns in commentators 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 down side, however, Uganda still balances its budget with the help of large amounts 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, especially on Uganda's involvement in the DRC. In 2000, Uganda was 150th on the UNDP's Human Development Index, which ranks a country's achievements in terms of its populations' development, longevity, knowledge and 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 $259. Agriculture is at the forefront of economic activity. 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), with agro-processing, consumer goods and light industries the main activities. Services make up 40% of the economy.[19] Uganda has a proactive and efficient investment authority, and provides a range of incentives for investors.

Uganda has a proactive and efficient investment authority, and provides 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 towards 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

[19] Standard Bank Economic Division, South Africa, Annual Profile — Uganda, January 2003.

number of jobs in the operation and introduced new services and its latest BankMaster system. 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**.[20]

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					

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 2000–03.[21]

Since 1994, 32 South African companies have been licensed to establish investments in Uganda.

Probably the most high profile investment from South Africa has been that of **MTN**, which launched operations in Uganda in 1998. It now holds 67% of the mobile and 57% of the overall telecommunications markets. The total cost of the operation

[20] Merrill Lynch report on Standard Bank, *Into Africa*. Johannesburg, 24 April, 2003.

[21] *Traders African Business Journal*. Johannesburg, May–August 2003.

up to March 2002 was $128 million. Apart from getting foreign funding through international banks, the company raised money for **MTN Uganda**'s rural infrastructure rollout by means of a local note issuance programme through the Uganda Securities Exchange, backed by the Swedish International Development Agency (SIDA). It also uses the substantial cash earned by its 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 improved communications, **MTN Uganda** has introduced fixed wireless terminals which are being used by more than half of Uganda's largest companies as substitutes for fixed line services. Wireless Local Loop, which allows for the provision of voice, fax and high speed data, has been made available. However, in 2001 mobile operators were hit by a new government tax on airtime which has had a negative impact on revenue and raised concerns about the predictability of the tax environment generally. Although the industry lobbied the government, the only concession it made was to reduce the tax.

The fact that Uganda is a landlocked country has been a source of concern for businesses in South Africa trying to move goods up to East Africa. Road transport to and from South Africa is expensive and slow, a situation exacerbated by the long distances and poor state of the roads in the region. A law to establish an inland port and better customs management was expected to be passed by the Ugandan government during 2003, but at the time of writing was still under review. 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 companies had been unwilling 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 it has been neglected, badly managed — mostly by political appointees from Moi's era — and is serviced by the Mombasa–Nairobi highway, which is in very poor condition, causing delays in the carriage of freight between the port and the hinterland. South Africans have complained that goods have been tampered with or stolen, that there are delays in processing them, dilapidated facilities and high tariffs. Even though the Kenyan government is cleaning up the port in Mombasa, some companies prefer to use the Dar es Salaam port in Tanzania.

A South African businessman, Mark Gordon, suggested an innovative way of countering the delay in getting goods to Uganda by introducing 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. This facility allows the transfer of goods between two railway lines of different gauges — 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 on 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 the 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** and many traders. South African companies are also involved in the construction industry, for example 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**, the engineering company **BKS Global** and **ADS** developers. The park, a special project of the Ugandan president, is designed to attract FDI as well as boost local businesses wishing to export. It 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 when the developers are attempting to raise finance from banks. **JHI** says it has spent years trying to persuade local banks, in Uganda and elsewhere in Africa, that property development on the continent is a solid investment and that the associated risks are mild compared with the political risk factor. Another potentially costly factor is that land often has to be leased from the person awarded the concession rather than directly from the government, which can cause complications and additional expense.

Corruption is still a big problem in Uganda. In Transparency International's 2002 Corruption Perceptions Index, Uganda rated 93rd 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.[22] It said that corruption is perceived by Ugandan businesses to be one of the most serious impediments to conducting business, and 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 canvassed reported that they were paying more in bribes than in corporate tax. 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 electrical power (although the government has recently improved the amount of available energy), and the cost of air fares — although the regularity of flights improved when **SAA** increased the frequency of its flights to Kampala late in 2002.

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[22] *The East African*, October 2000.

Morocco (North Africa)

Morocco is a long way from South Africa, being one of the northernmost markets on the continent. The distance is belied by the increase in business between the two countries. The problems cited most often when business people speak 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.

Moroccan officials say South Africa could play a key role in finding solutions to the political impasse over the Western Sahara issue that would be acceptable to both sides. South Africa has avoided taking this route, despite its intervention in other political disputes such as that between Israel and Palestine and its declared approach to conflict resolution, which urges compromise and consultation. Moroccan officials have warned 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.

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, which has resulted in Pretoria's being accused of trying to play both sides. One reason that South Africa has not formally recognised the

Western Sahara is that such recognition would have a serious impact on South African–Moroccan business dealings.

A deal signed in 2002 which illustrates the government's dilemma was the joint venture company that was set up between the South African electricity parastatal **Eskom Enterprises** and the Moroccan electricity utility to implement joint projects in the electricity sector.

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. Morocco played a key role in peace talks last year to settle the protracted dispute between Sierra Leone, Liberia and Guinea. It has also contributed troops to UN peacekeeping missions in Angola, Somalia and the DRC. 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. Apart from South Africa, Morocco's 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 2001–02, and imports by 250% in the same period, according to the South African DTI (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

Exports from South Africa to Morocco rose by more than 43% from 2001–02, and imports by 250% in the same period, according to the South African DTI.

the same league in the UN Development Report. But there are more differences than similarities when it comes to business.

South African exports and imports to and from Morocco (R '000)					
	1999	***2000***	***2001***	***2002***	***2003 (Jan–Feb)***
Exports	183,137	183,137	183,137	183,137	183,137
Imports	15,012	15,012	15,012	15,012	15,012
Source: SA Department of Trade and Industry					

South African companies doing business in Morocco include **Eskom Enterprises** (as mentioned above); the **Council of Geoscience** (now fulfilling its fifth contract in Morocco, which involves 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. It is one of five seaside resorts the government wants to create on Morocco's 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 working with the Moroccan Nuclear Institute on a contract to build a facility and supply materials for the production of nuclear medicine, in response to a request from Morocco. South Africa is the regional head of the International Atomic Energy Agency, and works with about 15 African countries on similar projects.

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 began, Morocco's investment inflows stood at around $80 million. In the 1990s this had risen to average about $500 million, and over the last five years they have averaged $1.3 billion — $3.2 billion in 2001 alone. Most of this has been carried on the back of large investment in the telecommunications sector and privatisation. Tourism, manufacturing, banking and oil refining are also key sectors for investment.

Morocco's investment inflows have averaged $1.3 billion over the last 5 years.

The economic reform programme launched by the World Bank and IMF in 1983 was primarily aimed at bringing all sectors of the economy into line with international standards. It included the creation of commerce courts and the passing of new legislation such as a commerce act, company laws and 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 economy's growth over the past five years has gone from negative 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, and foreign debt has been brought down from $35 billion to less than $20 billion.

Even though the economic reform programme has 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 African can match the success of Morocco's economy. However, it is not an easy place in which South Africans can do business, for a number of reasons. One of the problems is language. French and Arabic are mainly spoken and although many people speak some English, use of the language is not widespread. This can be a major barrier to business. The business norms and legal codes used in Morocco follow the French example rather than the Anglo-Saxon norms South Africans are used to. Cultural differences have also been cited as a problem, and there is corruption, although it is said to be neither as pervasive as in most African countries nor as obvious.

Other barriers to business reported by South African companies include a lack of transparency in the awarding of contracts or tenders; the red tape inseparable from a relatively archaic business and government structure; the inability of Moroccans to give a 'straight' answer; 'protectionist' legislation which excludes outsiders or is designed to favour certain countries and parties; and the preference that Moroccans show for dealing with French or Spanish companies because they know and understand them better than they do South African companies. The last point is understandable given that Morocco's traditional trading partners are those European countries that are close by, and that South African business relationships with Morocco are relatively recent.

The lack of direct air links also presents a problem. Royal Air Maroc stopped flying to South Africa more than a year ago. Morocco is now reached via Europe, although the country does have air links with West Africa (particularly Senegal) and with Egypt.

Two large South African construction companies opened offices in Casablanca some time ago, but closed their operations after a year, giving the difficult business climate as the reason. The government, still somewhat shackled by its protectionist and conservative, inward-looking past, is trying to simplify the 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, implementing trade agreements, and 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%. There are also 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. It is also the location of a number of major infrastructural and industrial projects. The country's proximity to the industrial heartland of Gauteng is a key factor in the growth of trade and investment. It has diluted the barriers to business in Mozambique, which include red tape, language problems, underdevelopment and corruption. In 2002, Mozambique overtook Zimbabwe as South Africa's biggest trading partner on the continent for a brief period. South Africa is the main buyer of 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.[23]

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

- The $1.3 billion Mozal project represents the largest single investment ever in the country. **BHP Billiton** in South Africa

[23] Standard Bank Economics Division, *Annual Profile — Mozambique*. South Africa, January 2003.

holds 47% of the project, while the rest is 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.
- The $50 million invested by **SA Breweries** in beer factories in Maputo and Beira.
- The $130.5 million invested by South African power utility **Eskom** in **Motraco**, a consortium of publicly owned electricity companies which includes Mozambique (**EDM**) and Swaziland (**SEB**). **Motraco** was formed in 1999 to meet Mozal's power requirements.
- The R130 million paid by banking group **Absa** for an 80% stake in the Mozambican retail bank, **Banco Austral.**
- The $15 million investment by McCormack developers in Matola Plaza, part of the Maputo Corridor development.
- The $15 million paid for a 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. Its location was chosen because of its proximity to the South African border. In this way the costs of logistical support and the risks were significantly reduced. Much of the subcontracting and buying has been done in South Africa through linkage programmes because the market in Mozambique is underdeveloped. This has led to complaints that the local economy has not benefited as much as was expected. Probably the most important role Mozal has played in Mozambique is in demonstrating 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 of primary ingots a year, making Southern Africa a significant force in global production. The project is more than five months ahead of schedule, and the final cost is expected to be well below the $860 million budget. Aluminium has now replaced prawns as Mozambique'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 into which most of the investment is flowing). Despite the progress made, Mozambique was listed 170th out of 173 countries rated in the UNDP 2000 Human Development Index.

Apart from the major players, there are another 300-odd South African companies operating in Mozambique. They 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 working in both the government and private sectors, are involved in the development of several other development corridors in the country such as those at Beira and Nacala.

Mozambique's 'mega projects' have kept the country's economic growth in double-digit figures for the past five years.

Many South African retailers and fast-food franchises have opened up premises or are in the process of setting up business, particularly in Maputo. Despite the success of these operations in Mozambique, high tariffs and taxes, which have resulted in high prices, are pushing Mozambicans and expatriates across the border into South Africa to do their shopping. 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 avoid paying the high duties and VAT levied on goods back home and therefore reduce their monthly grocery bills by up to 50%. 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 the tariff structures and other related costs that have created the situation, the Mozambican government in 2003 reduced the value of duty free goods that could be brought into the country.

A short-term approach to the issue of visas has also been taken by the Mozambican government. Despite the close business and political relationship between the two countries, South Africans still need visas to cross the border. Because scrapping the visa requirement would result in revenue loss in the short term, the government is reluctant to change its current arrangement. The situation has been compounded because South Africa, in an attempt to keep out illegal immigrants, has tightened visa restrictions for Mozambicans and Zimbabweans wanting to come to South Africa. The cost of a South African visa is also much higher than that of the Mozambican visa.

Mozambique's economy has been buoyed by large amounts of funding from donors and multilateral institutions. In 1999, the country registered real GDP growth of 7.5%, although this dropped to 2.1%, the lowest rate in almost a decade, in 2000 after the worst floods in Mozambique's history. The domestic primary fiscal deficit increased from 3.4% of GDP in 1999 to 6.5% of GDP in 2000. High expenditure, which included the costs of reconstruction after the floods, was financed with external assistance. Mozambique made a rapid recovery with the help of the international community, only to be hit again 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 goods required for the Mozal project and food imports.

The government has undertaken many economic reforms over a number of years. These have been designed to boost trade and investment by opening up its formerly socialist economy. Although in the main this reform has been successful, investors complain that in business circles there is still a closed-mindedness, and a lack of the drive and entrepreneurship that is normally 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 dominated by local monopolies in certain areas, 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 deter investment. Telephone calls in and from Mozambique are among the most expensive in the world, although the reform of the ICT sector that is currently under way will allow private sector participation and greater competition. State telecommunications operator **TDM** has a monopoly over most services in the sector. **Vodacom** has been in negotiations with the government for months, to ensure that it can compete with **TDM** on an equal basis before it is prepared to launch its service.

Transport costs are also exorbitant, a situation exacerbated by the poor state of the roads and the long distances between towns. Run-down infrastructure and bad roads north of the capital have contributed to a lack of development, 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 it and make their own deals, which creates additional problems. 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 complex, approval can take much longer. However, the government announced in May 2003 that it was looking for ways of simplifying procedures to make land available for investment purposes. In an attempt to promote the building of infrastructure, the government has introduced added incentives for companies that build roads, bridges and so on in the rural areas.

A major upgrading exercise for Maputo Port is under way. The work has been undertaken 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**. Plans are to invest $70 million in the port over three years. The port will be managed by the **Maputo Port Development Company**, and will be a major benefit to South African businesses. They will be able to use the port for exports in preference to harbours such as Durban, which is perennially congested. Maputo Port will be of particular use to agricultural exporters in Mpumalanga province, which borders on Mozambique.

The Great Limpopo Transfrontier Park, which links South Africa, Mozambique and Zimbabwe, is another major project under development. It is hoped this will boost tourism, but at present there are a number of problems that need to be ironed out before the project is completed. These 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 disparity 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. President Joaquim Chissano is due to stand down, and the legislative and presidential contests between the ruling Frelimo and opposition Renamo parties are expected to be hard-fought.

Ghana (West Africa)

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

However, Kufuor's government had the misfortune to take 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 the spate of external shocks that, in 1999, reduced real GDP growth to 4.2%, well below the forecast of 5.5% for that year. Ghana's dependence on commodities, notably cocoa, also 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 high government spending, currency depreciation, an 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 the 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.

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 its two key export commodities, cocoa and gold. These 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 in 2002, but it was undermined by a growth in spending, particularly on public sector wages. Government borrowing increased, and borrowing from the Reserve Bank is close to the statutory 10% ceiling under the Bank of Ghana Act.[24]

Many of the measures introduced by the government have paid off: interest rates have dropped from over 50% to the current 26%, and inflation was down from 40% to 13.3% at the end of August 2002. The cedi has been relatively stable and depreciated by about 9% between January and 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 lightening to the new government's load 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 of non-traditional goods. 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 introducing some limited value-added agricultural projects. It is encouraging business in export processing zones and

[24] Standard Bank Economic Division, Quarterly Update: Ghana. Johannesburg, South Africa, December 2002.

manufacturing and agricultural enterprises generally through generous tax breaks and other incentives.

However, in January 2003, under pressure from the multilateral institutions, Ghana took the politically unpopular step of increasing the pump price of fuel by 90%, a move it had been stalling 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**. These losses, which were financed by the state-owned **Ghana Commercial Bank,** threatened its solvency and increased government debt by the end of 2000 to almost 29% of GDP, 8.5% higher than envisaged. [25]

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. It is working with the anti-corruption body Transparency International and donors towards the freer flow of information, particularly from public

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[25] 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.

servants, who under the Rawlings government were prevented by law from disclosing any information.

Ghana was the first port of call in the 1990s for many South African companies wanting to explore the West African market, although since then the most aggressive thrust 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). However, few South Africans have ventured into the Francophone countries that make up most of the trade bloc apart from Côte d'Ivoire, but companies that started businesses in that country are now either suspending operations or closing them down.

Ghana was the first country to sign up for the African Peer Review Mechanism.

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 operate in Ghana. However, although the transition between political parties and presidents was a smooth one, some companies have suffered the fallout of having had close alliances with the previous government. South African architects **Stauch Vorster** report that the fall of the Rawlings government led to a change in the boards of state companies. As a result, the people the company had been dealing with were ousted, and, the company's contracts cancelled, resulting in a loss of R250,000 overnight.[26]

[26] *Financial Mail*, 7 February 2003.

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 norms similar to those in Southern Africa, a relative lack of corruption and good security.[27] Its location on the coast makes access easier. There are fast turnaround times for imports through the ports and clearing agents. The country's infrastructure is slowly being rebuilt, and the government offers generous investment incentives. Most important of all, Ghana offers 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; heavy transport costs for carrying goods 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, and to take really effective action as regards the public service. This characteristic can paralyse projects that require a more rapid and positive response.

Unlike the Rawlings' government, Kufuor's has a proactive strategy intended 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

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[27] There has been an 18% drop in the crime rate since Kufuor took over.

international representatives of the private sector, and has opened fast-track commercial courts to settle disputes speedily. But the government's efforts are being undermined both by the public service, which has not responded well to exhortations to change its attitude towards the private sector, and by rising anti-privatisation sentiment. Many of today's public servants served for many years under the Rawlings government, which opened up the economy only under pressure from the multilateral institutions.

Unlike the Rawlings' government, Kufuor's has a proactive strategy intended to boost the private sector.

The government's campaign to attract the large expatriate Ghanaian community[28] back to the country is starting to bear fruit. And even where they are reluctant to return at any time 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 UK, Japan and the US, along with its neighbour Nigeria. South Africa is rising in the ranks fairly rapidly.

[28] The number of Ghanaians living abroad is conservatively put at two million people. In 2001 they were estimated to be contributing around $400 million to GDP.

South African exports and imports to and from Ghana (R '000)					
	1999	***2000***	***2001***	***2002***	***2003 (Jan–Feb)***
Exports	560,435	591,843	678,529	979,975	154,079
Imports	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** and the 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. Mining products make up 40% of the country's foreign currency income and 6–7% of GDP. Among other things, the government has reviewed its legal and fiscal regime for mining, and opened up previously restricted forest areas that are thought to contain large gold 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. This has already borne fruit. Two new developments are planned. One is the decision by **Gold Fields** to invest more than R1.1 billion in 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** recently merged with **Ashanti**. As has already been discussed, the merger allowed the government to retain a 'golden share' that allows it veto rights on any merger or corporate activity, in addition to its 17% stake in the mine. This has put off foreign investors until now. The Rawlings government previously blocked a merger with **Lonmin** in this way, and was subsequently accused of political interference in the company, Ghana's biggest. However, the government's grip on these rights was loosened to include only the Ghanaian assets of **Ashanti**.

South Africa's **National Ports Authority (NPA)**, 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 stage in an ambitious African expansion plan that the Ports Authority hopes will contribute about 30% to total **NPA** revenue by 2010. The move comes at a time when the South African government is subcontracting 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 Tema port has increased rapidly as a result of the conflict in Côte d'Ivoire. It has also profited indirectly through the chronic inefficiency at Nigeria's ports, where it can take up to 45 days to clear cargo through customs (although Benin has absorbed most of the spillover). In 1999, Tema received 80,000 tonnes of cargo, compared with 650,000 tonnes in 2002.

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, on the grounds that they had become unprofitable 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 undercut by the large second-hand market that grew up in countries in East and West Africa because clothes were difficult to get and expensive, and by the 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 materialise because of a lack of funding.

Accra was once a development 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 owing to problems with finance and safety, **SAA** ended the agreement and turned its attention to developing hubs in Senegal and Lagos. However, **SAA** 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 Mbonyana, Eskom Enterprises.[29]

Building relationships in Africa is an important part of doing business, particularly for South Africans who have to work at countering the perception that they are the new colonisers, the bully boys who have taken over markets, pushing out local businesses. 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 causing unhappiness due to the behaviour of some large companies (such as **South African Breweries**, which has been accused of having used dubious means in some countries to establish its dominant position), South Africans have improved the quality of goods and services, introduced greater choice, developed skills, encouraged local entrepreneurs to service their businesses in domestic markets, led the telecommunications revolution, built infrastructure, provided world-class expertise and advice and 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 can.

[29] *Financial Mail*, 7 February 2003.

Trade and investment from South Africa is crucial to the development of the continent. It also dovetails neatly with the Nepad doctrine that Africans should uplift themselves. The high levels of FDI from South Africa into Southern Africa and beyond, and the concomitant increase in trade are key to development, given the comparatively low FDI flows to African countries, particularly to those that do not produce oil. 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 the leading recipient of FDI in sub-Saharan Africa. While this has raised concerns that this will bring an even greater concentration of economic power to South Africa, the fact that South Africa is also a leading source of FDI to other African countries means that the benefits of a stronger and wealthier South Africa are likely to outweigh the potential costs.

South African trade and investment is crucial to Africa's development.

A stronger private sector is essential to Africa's upliftment. Wealth creation and a rising middle class are deterrents to conflict, and overall economic growth is the only way to begin the 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 because it has been tainted by the relationships some companies and multinationals have traditionally had with governments. These have been 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 could be made of ***public-private partnerships***.
- ***Utilities*** which link the interests of the private and public sectors ***could be privatised***.
- A ***strong organised business sector*** which contributes to government policy could be created.
- Strong ***links between the private sector and civil society*** should be developed to promote and strengthen peace and democracy.
- The ***risks and benefits of natural resources should be shared***.
- The ***private sector could assist government*** by sharing ***best practice*** criteria, seconding ***skills***, helping to develop capacity, and identifying ***wealth-creation projects*** and ways to fund them.
- The ***private sector should be strongly represented in the African Union's Peer Review Mechanism*** and in the ***implementation units of the Nepad Secretariat***.
- Pressure could be brought to bear on governments and regional organisations to ***harmonise standards, operating practices, investment processes*** and other elements that will make regional investment less problematic.
- The private sector should strengthen ***regionalism*** to create interlocking economic interests, which can play a role in reducing potential conflict. The South African business sector

is already creating regional links, but is hampered by the reluctance of 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. They hinge on several key elements that, if provided, could change the macro environment of African countries. The success of countries such as Botswana and Mauritius underline what can be done. Instead of blaming foreign influences, and especially globalisation, for their economic failure, 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 found, 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 geophysical factors played a part in these disparate outcomes, the bigger factor related to governance.

Ways to improve the investment climate and the operating environment for business in African countries north of the Limpopo include several key elements.

- **Ensuring effective leadership and accountable governance geared to the needs of the population, not those of government officials and the political elite**. All arrangements made by governments should be consistent and in accordance with their countries' constitutions. Decision-making should be transparent, and government spending 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 Nepad and peer review as a way of promoting good governance through an incentive-driven approach rather than censure. The effectiveness of this move remains to be seen. So far it has got off to a bad start because of Nepad's 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 when the disputes are with governments.
- **Improving the macroeconomic environment.** While economic reform in many countries has improved the macroeconomic environment significantly, many problems remain. For example, overall there is 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 direction, so they cannot communicate it to the electorate. For instance, few election campaigns contain any debate on economic issues. Economic statements and policies drawn up by governments are directed at multilateral institutions rather than the populace. The government must put in place the necessary socio-economic framework that addresses

developmental issues, thus encouraging acceptance of the free market system by the population and hence strengthening free market principles. By moderating exogenous factors, sound policies and strong independent institutions will help to counter the influences that hindered Africa's growth in the past.

A greater recognition of the importance of FDI has led most countries to introduce investment codes and incentives. These have helped to draw investment and satisfy investors' needs for a range of services. These include 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, instead of relying on donors to deal with issues on their behalf. Governments like to blame the IMF and World Bank for unpopular decisions they take, instead of taking proper responsibility for all matters affecting them. In addition governments' massive dependency on aid for budgetary support has enabled them to put off finding ways to grow their economies by, for example, proactively encouraging exports, industrialisation and diversification. Although the multilateral agencies have changed their approach towards Africa and are trying to insist on greater accountability in government, 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 compromise systems of patronage and corruption. Such action by African governments, however, must be accompanied by real commitment from their international partners to improve access to Northern markets.

- **Investing in people to develop skills and build capacity**. African governments should reverse the marginalisation of the majority of the population and instead strengthen their capabilities. Spending on health and education should be improved as a matter of urgency. 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 most of the budget. Many African households lack basic services, and ordinary citizens are denied the power to influence the allocation of resources.[30] Africa's productive base is rapidly shifting from natural resources to people, and governments should respond accordingly. Countries must also look at ways of persuading skilled expatriates to return.
- **Developing small, medium and micro-enterprises (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 be supported by governments, which favour the larger projects

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[30] World Bank, *Can Africa Claim the 21st Century?,* Washington DC: The World Bank, 2000.

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 the 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 also crucial to addressing the problems of doing business in Africa and thus warrants a separate point. High operational costs, which raise the price of goods and services significantly, are primarily the result 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, and parastatals and utilities were generally neglected. This 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. For example, telecommunications costs in Africa 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 impact of their policies rather than focusing on addressing problems in the short term. 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 needs to be drastically shortened. It is not enough to have long lists of investment incentives if investors are looking at months, if not years, before decisions are made, and there are no dispute resolution mechanisms to assist them. Regulatory frameworks and policies should be clearly framed and consistently applied; tariffs and customs regimes should be harmonised; and clear instructions given to the bureaucrats implementing 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 do not appear in the statistics and information available, but instead are learned the hard way. More research and more detailed market information should be made available and governments should be pushed to speed up the collation of accurate and comprehensive information, and provide it promptly. Companies that fail to do their homework before going into a market, or that 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 can 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 has been generally questioned. Regionalism has brought limited benefits because of issues such as lack of capacity and political will.

Regional markets should be strengthened and factors affecting trade and investment across borders must be speedily harmonised. SADC is moving slowly towards this end, aided by the establishment of various organisations and forums to deal with harmonisation and standardisation. Visas are still required between many SADC countries, for example. Bilateral agreements between countries on issues such as trade, immigration and taxation should 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 the private sectors also presents problems for investors, especially those looking for local partners, and a lack of credit information increases the 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, because this means crowding out the private sector. Governments should 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 should also ensure strong, impartial supervision of financial markets that is independent of political interference.

Ratings agencies also have a role to play in increasing investment and confidence in African markets. In the past only South Africa had a rating, but in the last few years several other well-managed countries have obtained them. These include Botswana, Mauritius and Senegal. In April 2002, the US government announced a project to help countries fulfil the requirements of the ratings process. **Fitch** won the contract, which aims to get a sovereign debt rating for up to 20 countries in sub-Saharan Africa. Lesotho was rated B+ in September 2002 and The Gambia was rated B- in November the same year. Other countries in line to be rated are Ethiopia, Ghana, Malawi, Mali, Uganda and Zambia.[31] 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 a willingness to open its dealings to scrutiny and a wish to attract foreign investment. The process also provides much-needed data on countries. It could also assist in financing projects. Countries with acceptable ratings are able to borrow money on the commercial market through bond issues.[32] However, there are potential conflicts between ratings and debt relief programmes and other financial arrangements with multilateral agencies.

- **Focusing on success and excellence.** African leaders are too quick to cast about for third parties to blame for their failures.

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[31] Economist Intelligence Unit, *Sub-Saharan Africa Regional Overview*, UK, February 2003.

[32] 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 a s 2.5 billion pula. The country's first bond, launched at the end of March, was oversubscribed by 62%, showing great confidence in Botswana's economy.

Africa will move forward only if it stops looking back over its shoulder. Countries need to look for successes and publicise 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 use of successful models is already current in South African business. It is effective and could easily be carried by South Africans into other African countries.

- **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 enter a partnership 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. Concern has been expressed that Nepad is too government-focused. The initiative can play an important role in removing obstacles that hamper business, pushing forward large regional projects and playing a crucial role in improving the political and economic environment generally. Through Nepad, countries will be able to present a more united front in global forums, and fight more proactively for market access and greater concessions from the WTO.
- **Dealing decisively with corruption.** 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 making corruption pervasive in Africa, although this has happened only in countries with 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 governments to find effective ways of fighting corruption. This could include

enforcing exposure and punitive measures on public servants, bureaucrats and particularly ministers and presidents found to be involved in corruption.

- **Implementing sound 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 disclosure has political benefits in forcing 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 sophistication that South African corporates are used to.

  South Africa, therefore, has an important role to play in fostering better 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 leading South African businesses have signed. It aims to get as many African corporates outside South Africa to become signatories as well. The Group has also drawn up a Declaration on Accounting and Audit Practices to promote compliance with best practice standards in all African countries. It will do this through the Eastern, Central and Southern African Federation of Accountants, which is hoping to establish 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.