Note from the Editor

Papi Molotsane
CEO Telkom

It is a pleasure to be the guest editor of this month’s edition of Traders, especially since the publication is focusing on Telecommunications. In this edition, we focus on Fixed and Mobile telecommunications in Africa.

Telkom SA Ltd, being the largest telecommunications service provider in Africa, has to look at the opportunities now starting to emerge, with the African market starting to liberalise telecommunications industries, new licenses offered for a second network operator, and stakes in incumbent telecommunications companies. Our focus is really on the African continent.

Also included in this issue is a supplement highlighting the forthcoming Export Africa Trade Exhibition and an interview with Septi Bukula, Director of Export Africa.

We also take a look at India/SA Trade Relations, Angola’s financial market and an article on managing the risk of African operations.

Index of complete Traders Journal issue 26

1.6 MB

Index of individual articles

DISCLAIMER

Whilst every reasonable care is taken to ensure authenticity and factual content of articles published in Traders Journal, neither the publisher or editor accept responsibility for inaccuracies in content or opinions which are entirely those of the submitting contributors.
With a rapidly changing regulatory environment the telecommunications giant now faces competition in the form of a Second National Operator in South Africa, Voice over Internet Protocol and Private Telecommunication Networks, but Molotsane says these are challenges that can be tackled.

Molotsane was appointed as Telkom's CEO in September last year and launched his new vision and strategy for the Company in November. Eager to deal with the challenges he is faced with, Molotsane places tremendous emphasis on the Company's vision, which is to be customer and employee-centric.

"Telkom will follow a dual approach: retaining current customers and acquiring new customers. In the light of competition being on the horizon, the Company stands to lose between 10% to 15% of its market share in the next five years. That is the reality, but we will come up with innovative ways to ensure that we do not lose out on revenue," says Molotsane.

The Company recently announced that it plans to spend R30 billion on capex over the next five years of which approximately 50% will be spend on its network infrastructure and customer centricity. This includes upgrading the existing network and investing in a Next Generation Network (NGN). The NGN will enable Telkom customers to enjoy fully converged services through a variety of new products and services.

Mindful of Telkom's customer-centric focus, Molotsane says: “Improving on customer satisfaction is key to this Company. While no one can deny that the competitive landscape will change the telecommunications sector in South Africa, a loss in the market share will not necessarily mean reduced revenues. This is why it is crucial for us to focus on investing in technology that would enhance our customers’ experience,” says Molotsane.

Telkom is a heavyweight in the telecommunications sector worldwide and, being listed on the JSE Limited as well as the New York Stock Exchange, it is essential for the Company to keep up with global trends in the telecommunications market. Molotsane is currently spearheading this process to ensure that Telkom remains a global player.

At the announcement of the Company’s Interim Results in November last year, Molotsane indicated that the service provider would focus on the development and improvement of broadband services and set a goal of reaching a broadband penetration level of 15% to 20% of the fixed-line telephone base by 2010. This goal
has become one of the CEO’s main priorities and resulted in the appointment of a Broadband Officer who will be responsible for meeting that target.

“Broadband technology is definitely the way forward in telecommunications and Telkom will look at all the worldwide trends to ensure that South Africans can embrace the technology. We are currently trialing Internet Protocol Television (IPTV), which will provide video-on-demand services and other features on television via a broadband connection. These are things, which are happening elsewhere in the world, and if we are world class, then we need to explore these trends.”

But, Telkom has also turned its head closer to home. The Company’s strategic focus includes focusing on opportunities in larger, under-developed markets in Africa and elsewhere. Molotsane says Telkom is determined to turn its attention to the African continent and beyond to other emerging markets, so much so that it is willing to put pressure on the governments of these countries to speed up processes such as greater market liberalisation, but the Company will not pay prices that prejudice its shareholders.

Bearing in mind that the Company must keep its shareholders satisfied, Molotsane emphasised that each opportunity in Africa would be considered on a case-by-case basis and will only be implemented once it has met stringent criteria.

“Many African countries are in the process of liberalising their telecommunications industry, as we are seeing in South Africa. This creates new opportunities and provides for competition, which is healthy for consumers at the end of the day,” says Molotsane.

Whether it’s extending Telkom’s footprint on the continent or dealing with an increasingly competitive environment within his country, Molotsane seems the ideal person to lead Telkom into the future. Dubbed as “a model CEO for the new South Africa” Telkom looks set to reach new heights with its charismatic CEO at the helm.
Bridging the digital divide is the driving mission for Siemens

Fuelled in large measure by President Thabo Mbeki’s African Renaissance initiative and the infrastructural priorities for Africa as identified by Nepad (New Partnership for Africa’s Development), telecommunications is one of the major growth areas on the continent – an area in which Siemens Communications is making notable headway.

In an interview with Traders, Mark van Vuuren, Divisional Managing Director, Fixed Networks for Siemens Communications, discusses some of the company’s achievements in southern Africa to date and the priorities ahead in its mission to help bridge the digital divide on the continent.

Within the South African fixed line market – and with an eye on the increasing number of business opportunities opening up in the sub-Saharan region in particular – Siemens Communications is one of the dominant players and suppliers.

“We are always trying to grow our market share and to expand wherever possible,” says Van Vuuren. “In South Africa, we are the majority supplier to the current South African fixed line operator, Telkom – and we are also exploring opportunities with the Second National Operator (SNO), with a view to becoming one of their suppliers”.

He adds: “The South African market for telecommunications is starting to expand with the arrival of the Second National Operator, but we never lose sight of the fact that a crucial part of our growth strategy is to ensure that we provide telecommunications services to the SADC region as well”.

Siemens Communications comprises three key divisions – Mobile Networks, Fixed Networks and Enterprise Networks – operating in South Africa and the SADC region. As a dominant player in each of these categories, Siemens Communications is one of the largest business contributors to the coffers of Siemens South Africa.

The South African office of Siemens Communications, based in Centurion, Gauteng, is also responsible for operations within the SADC region. The company is committed to using its technical expertise and first-hand knowledge and experience of working in Africa over many decades, to help bridge the digital divide on the continent.

A number of African countries have recently emerged from civil conflict – or are in the process of doing so – and a viable and efficient telecommunications network is seen as one of the key planks in re-building the damaged or destroyed infrastructure of these war-ravaged countries.

Countries in the rest of Southern Africa to which Siemens is presently supplying fixed line telecommunications services and equipment include Mozambique, Zimbabwe, Botswana, Namibia and Angola. To cite just one example, Siemens Communications was recently successful in securing a fixed line installation contract (worth some R300-million) with Angola Telekom. Angola, racked by civil war for most of the second half of the 20th century, is now offering exciting potential for investors after decades of internal strife.

As part of its fixed network bouquet of services, Siemens Communications assists its customers – amongst other service offerings – in migrating to the new generation IP networks and provides essential infrastructure such as core networks, transport layers and backbone links – including long haul – as well as access capability (what Siemens Communications refers to as “the last mile, the local loop”).

Africa is being seen by the world’s major telecommunications players as the next great area of business opportunity. So in addition to its traditional competitors such as Nortel, Lucent, and Alcatel, Siemens faces competition from emerging economic giants such as Huawei – a situation which Siemens views as being good for the market, Van Vuuren says, as it brings downward pressure on operators to reduce prices. If they are truly competitive, they are then able to offer competitive rates to their end customers.

The biggest challenge to fixed line operators has always been the advance of mobile phone technology, Van Vuuren says, although the two are not necessarily mutually exclusive. “It’s easier to access the market and to provide service to the end customer via mobile technology,” Van Vuuren points out.

“However, I firmly believe that there is a place for the fixed line operator in Africa. And with the ongoing developments in fixed-mobile convergence, end customers are not unduly concerned about which operator provides the service – they just want an efficient and reliable service that enables them to conduct conversations and to have a seamless data service available at their fingertips – whether they are operating on a fixed or mobile network. The key criterion is best quality service at the best possible price”.

Africa is no different to the European market, Van Vuuren notes, in that voice transmission revenues have stagnated, or to a certain extent declined, at the expense of mobile phone operators in recent years. This does not mean that fixed line operators are now redundant or part of a by-gone generation. On the contrary, as Van Vuuren observes, fixed line technology is constantly evolving, particularly
“If South African companies are moving into Africa to do business, it is really critical that they have a decent telecommunications network in place”.

given the move to new generation networks.

After a period in the doldrums, the global fixed line market is showing signs of recovery, Van Vuuren says. Internationally, the revival in demand for new fixed line equipment began in 2003, and had clawed back lost ground by as much as 4% in 2005. Growth is expected to continue at between 4%-6% a year until 2010 - with indications of a similar trend emerging in SA, he says.

With regards to data and bandwidth, fixed line operators are able to provide higher bandwidth to end customers than mobile operators are currently able to offer. For example, the latest HSDPA mobile technology offers anything between about one megabyte to 1,8 megabytes per second, while the fixed line operator – using European standards as the benchmark – is already providing two to three megabytes per second, which can certainly be provided in African conditions, Van Vuuren observes.

The major question revolves around the ability to roll out the infrastructure - mobile versus fixed - with the minimum of difficulty, Van Vuuren contends. New technologies such as Wimax are putting the focus not on mobility as such - but on wireless access. “So where you are able to provide that type of bandwidth to end customers, mobility is not necessarily a critical factor in the African environment - unlike in the European market, where consumers travel to work on high speed trains, for example, where they need the benefit of mobility”.

The truth is that there is enormous potential for wireless technology in Africa, Van Vuuren argues. And this is one of the areas where fixed line operators could effectively begin to compete against mobile operators in bidding for marketshare.

Voice transmission – provided the quality of service is acceptable – is a “given” today, says Van Vuuren. But in the field of data services, wireless technology is where fixed line operators can make a meaningful difference.

The fact remains that there is a place under the sun for all these types of technologies - whether they embrace fixed line or mobile networks – which places Siemens Communications in an ideal position to tap into and reap maximum advantage from the rapidly expanding telecommunications market in Africa.

As part of its roll-out strategy for southern Africa, Siemens has developed long-term partnerships with key players in the local market – among these Vodacom, Telkom and Cell C – providing the platform for Siemens Communications to make significant investment in the local market.

Complementing its substantial investment in fixed line networks, Siemens has become the global leader in software packages for prepaid mobile systems, switching software as well as wireless modules.

When assessing levels of market penetration in telecommunications, Africa still lags behind the rest of the world, says Van Vuuren, but is rapidly catching up. “The digital divide has still to be bridged, so if South African companies are moving into Africa to do business, it is really critical that they have a decent telecommunications network in place.

“This is essential to enable them to remain in contact with their regional office or headquarters in South Africa, or to undertake basic everyday business functions such as transferring e-mails or data, or simply talking to a customer on the phone”.

Difficulties in operating in Africa can still be daunting, though, and will not be eliminated overnight. “The biggest problem lies in rolling out the infrastructure to ensure that a good quality service can be provided,” Van Vuuren says, “and for this, funding is obviously a pre-requisite”.

From a fixed network perspective, governments are generally involved. With the roll-out of mobile phone technology, private entrepreneurs are usually the driving force and in both cases financing is often an issue.

And in many African countries – even where the necessary telecommunications infrastructure is available – the physical constraints and challenges to building networks can be extremely inhibiting.

These include transportation stumbling blocks, such as impassable gravel roads for example, necessitating the flying in of equipment – all of which makes access difficult and pushes up implementation costs.

The hazards of doing business in Africa provide pitfalls for the unwary-which, is why doing one’s homework in advance becomes so essential. Siemens Communications, with hands-on experience of African conditions going back almost 150 years, is able to provide a comprehensive and informed consulting service to customers, to help prepare them for venturing into other parts of Africa.

“Siemens experience is invaluable,” Van Vuuren says, “because not only do we have offices in South Africa, but regional offices in the SADC region – ranging from Tanzania and Namibia to Zimbabwe and Mozambique.

The company is underpinned by an extensive research and development unit, which gives Siemens a cutting edge and distinct business advantage in the highly competitive African market. In fact, South Africa is one of Siemens’ five software development centres for telecommunications around the world, which provides the company with a firm base from which provide information and investment expertise to South Africa and the wider region.

Van Vuuren adds: “Furthermore, what is important is that we don’t just look at building a telecommunications network, we look at it from a customer perspective and try to understand the customer’s business plan and to establish what the particular needs are for the specific set of circumstances in which that customer will be operating.

“The business plan has to be viable for our customers... because if our customers are successful, then ultimately Siemens will end up being successful as well.

“If business people in the telecommunications arena want to know more about doing business in Africa and to learn from some of Siemens experiences in SADC countries, we are willing to discuss these issues with them and to provide relevant and useful information,” Van Vuuren says.

For further information contact:
Silvia Bayerl
Tel: +27 11 652 2000
Email: silvia.bayerl@siemens.com
Leapfrogging the communications divide

The mobile phone revolution in Africa has resulted in the cellphone becoming the pre-eminent means of communication on the continent, opening up new possibilities for business-to-business contacts, which were undreamed of a little over a decade ago.

At the other end of the economic scale, innovative community projects are helping to increase tele-density in poorer rural areas.

The MTN Group’s CEO, Phuthuma Nhleko, outlines the organisation’s role in providing telecommunications facilities on the continent - and the positive economic spin-offs that these are bringing.

To what extent has mobile phone technology made a meaningful difference in business-to-business contacts in Africa over the past decade?

There is a demonstrable link between the current exponential growth of telecommunications and the rates of economic growth on the continent. The lack of infrastructure on the continent has provided MTN with the opportunity to introduce world-class systems and technologies, resulting in rapid growth and the ability to ’leapfrog’ the communications divide.

Leapfrogging is a theory of development in which developing countries skip inferior and more expensive technologies and move directly to more advanced ones. An example in this context is where MTN has helped countries in which it operates to move directly from having no telephones, to having cellphones, so skipping the stage of fixed line telephones.

Telecommunications in Africa differs from the global market in one important respect. In the ’First World,’ cellular phones, e-mail and the Internet are supplementary methods of communication. In Africa, a lack of functioning alternatives means that the cellular phone has become the dominant means of communication.

The MTN Group continues to strengthen its leadership in Africa, recently recording strong subscriber growth across all its operations. As such, MTN continues to make a meaningful contribution to the increase in mobile penetration rates in its countries of operation.

The Group continues to successfully introduce an array of innovative products and services, which further increases access to communication and contributes to increased productivity for its users. For example, these include the introduction of GPRS, MMS and MVPN in Nigeria and GPRS, MM, CDMA and WiMAX in Uganda.

Furthermore, MTN has roaming agreements with 402 partners in 174 countries across the globe. Our vast roaming capabilities enhance our global aim of establishing a more efficient platform for international commerce and communication.

What difference has these technological advances made for other African countries in the quest to bridge the digital divide?

The MTN Group’s positive economic impact across Africa is manifest in creating direct and indirect employment, stimulation of entrepreneurship, skills development and contribution to the fiscus in countries of operation.

Examples of MTN’s use of technology to bridge the digital divide and boost economic growth include:

• In partnership with the Grameen Foundation USA, MTN established the VillagePhone initiative in Uganda in 2004. The project has rapidly increased tele-density in rural areas, offering connectivity to poorer communities. Innovative phone bureaus have been installed in areas where electricity is unavailable. These set-ups rely on power from a car battery or solar panels, connected to the MTN network with a booster antenna. The phones are purchased and operated by entrepreneurs who rely on loans from micro-finance institutions. MTN intends installing up to 5 000 such phones.

• MTN Rwanda successfully introduced the power of mobile communication to Rwandan communities in remote areas through its Tuvugane (‘we can all talk”) community payphone initiative which was launched in March 2004. At inception 600 payphones were rolled out in rural Rwanda and today more than 1 600 payphones have been distributed by MTN. The Tuvugane service offers the most affordable rates for mobile and international calls in the country and is available where MTN has coverage, putting telecommunications within reach of 95% of the population living in rural areas. These community payphone initiatives have provided access to telecommunications to people in remote areas as well as those who would otherwise not afford personal handsets.

The ITU (International Telecommunications Union) reports that community payphones can generate more than three times the monthly revenue of a conventional handset user. With little start-up capital required, entrepreneurs operating these payphone businesses can generate income and provide communication services to communities in remote areas.

MTN has seen the power of mobile technology spawn many new and vibrant employment possibilities in its operations. Examples of this are the prepaid card sellers and mobile phone resellers in Nigeria. MTN Nigeria goes to market through some 270 appointed distributors. However, there is a significant second tier of 7 700 distribution points and a third tier of as many as 30 000 informal distribution points.

MTN also supports the Eastern Africa Submarine Cable System (EASSy), an initiative to connect countries along the east coast of Africa, including landlocked countries, via fibre optic cable to the rest of the world. MTN recognises the importance of the EASSy project as a critical driver in the economic success of the region.
The EASSy ’Closing the Final Link’ project also has substantial support from the World Bank, the Development Bank of South Africa (DBSA), African Development Bank (ABD) and the New Partnership for Africa’s Development (NEPAD).

How significant has MTN’s role been in this communication evolution? Has the company met or exceeded expectations in the roll-out of mobile phone technology – and what is the prognosis going forward?

As a leading multinational telecommunications operator, MTN’s decision to focus on developing markets is based on the opportunity to provide first-class telecommunications services on the continent.

MTN currently has more than 23 million subscribers across its 10 operations on the continent. MTN operates in South Africa, Nigeria, Rwanda, Uganda, Swaziland, Cameroon, Congo Brazzaville, Zambia, Botswana and Ivory Coast. In addition, the MTN Group will launch commercial operations in the Republic of Iran by September this year.

To date MTN has invested over R23 billion in infrastructure and other developments across its operations on the continent.

While the Group’s first mandate is to ensure economic sustainability through infrastructure investment and securing meaningful returns for shareholders’ investments, MTN understands and accepts its developmental role as a responsible corporate citizen in the countries in which it operates. The Group achieves long-term sustainability in its operating countries through the following activities:

- Our payments to regional governments and regulatory bodies support infrastructure development and social services.
- We stimulate regional economies directly and indirectly by supporting local SMEs, generating opportunities for new entrepreneurs and utilising local suppliers.
- We employ local citizens wherever possible and ensure knowledge is transferred from expatriates in local operations to local employees.
- In addition, we channel our CSI spend toward developmental priorities on the African continent, such as education, HIV/AIDS awareness programmes, rural development and entrepreneurship training. For the year ended 31 March 2005, MTN spent R92 million in corporate social investment projects across six operations – Cameroon, Nigeria, Rwanda, South Africa, Swaziland and Uganda.

MTN has demonstrated its ability to successfully manage operations in extremely challenging conditions – such as lack of infrastructure, currency fluctuations and uncertain political/regulatory environments. These challenges have provided an opportunity for MTN to be highly innovative and to manage risk effectively.

In addition, MTN has proven that it is capable of operating both mobile and fixed communication services, as it does in Uganda.

The MTN Group has managed to overcome a number of obstacles. For example, building the GSM network in Nigeria presented MTN with a number of unique challenges, including the need to construct its own nationwide transmission infrastructure (MTN Y’elloBahn). In addition, to meet the network’s energy requirements, MTN Nigeria has built its own extensive grid of generators (MTN YelloWatts), which supplements the national energy supply.

Infrastructure roll-out is a challenge and an enormous opportunity for growth on the continent. MTN continues to invest heavily in capital infrastructure to meet pent-up communication services demand. For example, in Nigeria, which has been the MTN Group’s single largest investment, for the nine-month reporting period ended 31 December 2005, the capital expenditure, including software, was R3.8 billion. This investment resulted in a significant acceleration of the network roll-out in which MTN Nigeria deployed 2 211km of optic fibre for transmission during the year and increased its base stations to 2 120 from 1 662 the previous year.

<table>
<thead>
<tr>
<th>Country</th>
<th>Mobile penetration rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>62%</td>
</tr>
<tr>
<td>Botswana</td>
<td>45%</td>
</tr>
<tr>
<td>Zambia</td>
<td>4%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>19%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>13%</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>11%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>14%</td>
</tr>
<tr>
<td>Congo Brazzaville</td>
<td>18%</td>
</tr>
<tr>
<td>Uganda</td>
<td>6%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>3%</td>
</tr>
<tr>
<td>Iran</td>
<td>40%</td>
</tr>
</tbody>
</table>

Looking ahead, the Group’s key objectives are to continue identifying and exploring growth opportunities; to maintain leadership position in innovation; to focus on customer centricity and to maintain Group EBITDA margin at above 40%.

On the assumption that current market conditions endure, the MTN Group expects to continue to show good subscriber growth, maintain a strong market position in all of its existing operations and deliver sustainable and increasing medium-to long-term returns to its shareholders.

Capital expansion programmes in Nigeria, South Africa and Iran are expected to provide further impetus to subscriber and revenue growth. Against this background, the MTN Group expects continued satisfactory growth in earnings for the year ahead.

### MTN Mobile subscribers as at 31 December 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>10.24 million</td>
</tr>
<tr>
<td>Botswana</td>
<td>479 000</td>
</tr>
<tr>
<td>Zambia</td>
<td>97 000</td>
</tr>
<tr>
<td>Swaziland</td>
<td>213 000</td>
</tr>
<tr>
<td>Nigeria</td>
<td>8.37 million</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>1.08 million</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1.25 million</td>
</tr>
<tr>
<td>Congo Brazzaville</td>
<td>210 000</td>
</tr>
<tr>
<td>Uganda</td>
<td>982 000</td>
</tr>
<tr>
<td>Rwanda</td>
<td>275 000</td>
</tr>
</tbody>
</table>
MTN steps up growth in Africa and the Middle East

The MTN Group has substantially increased its subscriber base in its African operations and is poised to capitalise on major new growth opportunities in the Middle East.

In the recent announcement of the group’s financial results for the nine months ending December 31, 2005, MTN Group CEO Phuthuma Nhleko disclosed that MTN Nigeria has increased its subscriber base to 8 370 000 – a 50% growth since 31 March 2005. MTN Nigeria continues to hold the largest share of the local market with an estimated 47% market share. All profits generated by the MTN Nigeria business to date have been reinvested into the Nigerian operation.

In other operations, MTN Cameroon has maintained market leadership in a highly-competitive trading environment and has an estimated market share of 54% and 1 248 000 subscribers. MTN Cote d’Ivoire recorded 1 079 000 subscribers as at 31 December 2005 – a 16% increase from 932 000 since acquisition. Market share is estimated at 47%.

Aggressive marketing and promotional strategies helped MTN Uganda increase its mobile subscriber base by 26% to 982 000 from 31 March 2005. The Group says MTN Uganda still enjoys its position as the market leader, with 63% of mobile market share.

With 100% mobile market share, MTN Rwanda recorded 275 000 subscribers, while MTN Swaziland increased its subscriber base to 213 000, a 36% increase from 31 March 2005 and still enjoys 100% mobile market share.

MTN Zambia recorded a 6% increase in subscribers, since acquisition, to 97 000 subscribers. The acquisition of the 100% interest for R347 million became effective on 10 August 2005. In terms of the licence, 10% of the equity in this business will be available for ownership by Zambians. MTN says details will be made available later.

Elsewhere on the continent, Mascom Wireless Botswana recorded 479 000 subscribers on 31 December 2005, an estimated market share of 67% and MTN Congo Brazzaville recorded 210 000 subscribers as at 31 December 2005.

In November 2005, The Iranian government issued the second GSM licence to Iran-cell Telecommunications Services Company (Irancell), in which MTN has acquired a 49% share. Nhleko says this is an exciting greenfield opportunity, with Iran’s population estimated at 69 million and current mobile penetration at approximately 11%.

Nhleko says the Group’s vision is to be the leader in telecommunications in developing markets. The Group currently has operations in 10 countries across Africa and commencement of commercial operations in Iran is expected in the second half of 2006.

Earlier this month, MTN and Investcom released details of a landmark deal to create the pre-eminent mobile operator in the emerging markets of Africa and the Middle East.

Nhleko points out that the transaction will make the enlarged group one of the world’s largest emerging market players in telecommunications and the clear leader in Africa and the Middle East, operating mobile networks in 21 countries, covering a population under licence on a combined basis of approximately 488 million people and serving in excess of 28 million subscribers.
Regulatory reform and convergence set to top the ICT agenda

Growth within the information technology industry – particularly its internet market – holds enormous potential for the future of the African continent. The acceleration of convergence information and communication technologies is starting to take root in the business arena and is rapidly signalling new ways of conducting business, according to Edwin Thompson, Senior Executive – Operations, Regulatory and Legal at Verizon Business SA.

While Africa is the world’s most rapidly-growing market for mobile telephony and home to the fastest growing fixed telephony markets in the world, the continent still has the lowest penetration rates globally and basic telephony provision remains a major need in many parts of the continent, particularly in rural areas.

As such, Thompson predicts, South Africa and certain North African countries will be specifically focusing this year on the deregulation of the market, with a greater emphasis on broadband technologies – high speed/cost effective bandwidth.

In Africa, the most prolific implementations of broadband have been wireless; including broadband VSAT, localised WiFi hotspot offerings and broadband Fixed Wireless Access (FWA). With the launching of 2.5G and 3G services, mobile operators in Africa are now positioning themselves to compete against fixed-line operators for the provision of broadband services.

“We will shortly see the entrance of dual protocol telephones (GSM/IP). This phone is configured to use the preferred available network – as configured by the user.

In terms of VoIP, there are a number of applications that are going to fuel the uptake of this technology in 2006. All of these revolve around the single requirement for centralised services and converged networks.

“However, the African VoIP market is still in its start-up phase, with many companies showing a cautious entry into the converged networking market. We have noticed that there is more interest in VoIP using existing infrastructure as opposed to companies making the complete investment into a full IP Telephony (IPT) solution, as most corporates wish to retain their existing PABXs until the full benefit of IPT is apparent.

“IP telephony is gaining momentum in Africa following a growing availability of Internet bandwidth in many varying forms. Several countries have liberalised and are allowing VoIP, opening up opportunities for many smaller service providers, including South Africa and Kenya, with Uganda and Tanzania set to follow in their footsteps with new competition frameworks.

“This development is expected to create a ripple effect across the continent and trigger the much needed reduction of the traditionally high telecommunication costs in Africa”.

Thompson’s view is that the main focus in 2006 will be on finalising regulatory reform and the subsequent converging of multi-technologies/networks. All network services will experience an increased uptake in the coming year, as companies realise the benefit of consolidated networking.

“I also believe that service providers will start to deliver more mature VoIP solutions in 2006, as much of the ‘unknowns’ of this new technology are ironed-out and companies become more familiar with installing and supporting customers’ VoIP solutions”.

And with IP convergence, enterprises can expect to pay less for call costs and to reduce management complexity, procurement issues and billing headaches – all of which translate into lower costs and better utilisation of resources for enterprise customers.

Africa remains the least connected continent in the world both from the view of the total bandwidth feeding the entire continent and from an Internet penetration perspective. According to a recent research report, while Internet uptake increased from less than 500 000 in 1995 to over 12 million in early 2004, its use remains comparatively minuscule, due to the lack of telecommunications infrastructures in many regions and high infrastructure costs (bandwidth, hardware and software).

A significant number of African countries, including Botswana, Cote d’Ivoire, Egypt, Madagascar and Mauritania, still place restrictions on the use of VoIP. “As a result, the benefits of this technology can not be fully enjoyed by companies operating on the continent. VoIP has a very real and important role to play in bridging the digital divide in Africa. The current legislative restrictions on its use are therefore counterproductive and not in the best interests of the country concerned as a whole”.

To overcome these challenges, Thompson argues, regulators across the continent need to take a closer look at deregulated markets around the world and engage a keener interest in acknowledging that telecommunications reform stands to benefit a country and all industries operating within that specific country.

“It is internationally recognised that the extent of technology adoption and growth is wholly dependent on the communications laws set and the independent enforcing and monitoring thereof by an independent body.

“We need to stop looking at these technologies individually as technologies are converging and/or collaborating. What is becoming more apparent is that users will require certain applications or functionality and these will need to be developed, considering all technology platforms.

“In reality there is a place for all technologies and your preferred access method (wired or wireless) will be dependent on where you are, what device you are using and what information you’re trying to access”.

Thompson concludes: “As an industry, we need to realise that there are many challenges for African countries in terms of a lack of infrastructure, low teledensity and regulation...but we should not discount Africa’s capability to leapfrog technology and quickly adopt and roll-out solutions if given the support and opportunity”.

For more information, contact: Edwin.F.Thompson@verizonbusiness.co.za
Africa’s best
set to reap the dividends of World Cup 2006

N
do disrespect to Nigeria, Cameroon and South Africa—and even Senegal—but the qualification of four new African countries for the 2006 Fifa World Cup is a breath of fresh air for African Football. In case you’ve been sleeping or simply don’t follow the beautiful game, Cote D’Ivoire, Angola, Ghana and Togo will all be among the last 32 for the World Cup finals in Germany from June 9 to July 9 of this year.

Only Tunisia, of the African qualifiers, have been there before, competing in their third successive World Cup finals. Not only will the World Cup finals bring these countries into the public eye, in football terms, as never before; it will also offer them, especially their footballers and footballing authorities, that commodity most of us, for all the Buddhist rhetoric we can muster, crave—cold hard cash. It’s about time this cash was spread around some of those less successful footballing nations, and not just your usual suspects.

All the last 32 teams at the World Cup finals are guaranteed £2.6 million each in prize money—and that’s just for turning up for their three group matches. £10.75 million goes to the World Cup winner, should any of these teams somehow achieve, in Cote D’Ivoire’s case, the improbable, and as for the rest, the pretty much impossible. Perhaps £2.6 million is not too much money for the London or New York stock exchange, but for a small country like Togo it’s a major boost.

The reason many African teams struggle is fundamentally a lack of funds: they have strong players, but if they cannot afford the right coaches and the right development structures, there is a problem. Tunisia, from their continued World Cup success, have now been able to invest in Roger Lemerre, the man who coached France to glory at the European Championships in 2000.

And there’s not just that: if you ask your average football fan to name you a player from the Togolese national team, he’ll probably be able to name just one—Arsenal striker Emmanuel Adebayor.

For Ghana, there’s Chelsea’s record signing Michael Essien and Ghana captain Stephen Appiah, who plays for Fenerbache in Turkey.

For Angola, there’s perhaps Mantorras at Benfica.

Cote D’Ivoire have a few more well known players: Didier Drogba from Chelsea, Kolo Toure and Emmanuel Eboue from Arsenal, and Bonventure Kalou from Paris St Germain. But still there’s not the pantheon of household names you’d find in the England squad, or the France squad, for example.

The fact is that most players from these countries will be hoping to use Germany as a place to advertise their talents to the mass of scouts attending the tournament. A lucrative, major money move could be on offer to anyone who performs well. Cameroon and Barcelona’s Samuel Eto’o, for example, was just 17 when he played in his first World Cup, in 1998. Nigerian Austin ‘Jay Jay’ Okocha’s exceptional talent came to the fore in the 1994 and 1998 World Cups.

The World Cup is the ultimate shop window for these African players. Like with Brazilians, for many an African football is often the only way out of a life of poverty. Drogba, Eto’o and company are now able to enjoy a lifestyle they could only have dreamed of in their youth.

Eto’o’s success, indeed, has led to him combining with Giant Saudi club side Al Ittihad, to set up a soccer academy in his homeland.

In this way, footballers can start to give back what they have earned directly to Africa. For years, George Weah, the former World Footballer of the Year, single-handedly funded the Liberian football team, though unfortunately Weah never got to play in a World Cup.

Meanwhile, there are other areas with which the World Cup brings financial gain to Africa’s best. All five World Cup qualifiers have got themselves lucrative kit sponsorships with major clothing brand Puma. Ghana were believed to have netted around £7 million from their deal with Puma alone. But at a more grass roots level, what will the World Cup 2006 bring to the people of the countries involved, can it benefit your average Ivorian, Angola in any way? Well, emotively, of course it can. They say France’s victory at the World Cup 1998, with a team made up of plenty of players with African origins, did more for racial equality in that country that years of politics. For Cote D’Ivoire, a country ravaged by civil war, the World Cup can, momentarily at least, bring the people together in support of their team.

After Cote D’Ivoire this year qualified for the final of the MTN Africa Cup of Nations in Egypt, Kolo Toure said: “This win is good for our country where they are having such a hard time. It is our aim to make the people happy and I think we have been doing a good job.”

And he was backed up by Bonaventure Kalou. “I can’t tell you how important this is,” said the Paris St Germain midfielder. “This is something that can bring even if just for one week, peace in my country. We won today so everybody in Cote D’Ivoire is happy”.

Angola, too, is a country not without it’s past wars, and the country’s World Cup qualification was met with wild celebrations in the streets of Luanda.

However, whether a country’s economy will be boosted by their teams participation in a World Cup is debatable. One could, indeed, see a reverse situation at the World Cup, if too many people take days off sick to watch their teams play!

Where a country can bear economic fruit, of course, is by hosting a World Cup, and in 2010 that will be the honour of South Africa.

It is the first time an African country
will host a World Cup, and promises to bring great benefits to the continent.

The official World Cup 2010 website says that, “according to consulting firm Grant Thornton, the World Cup will pump around R21.3-billion into South Africa’s economy, generating an estimated R12.7-billion in direct spending and creating an estimated 159 000 new jobs.

“The country’s tourism industry will benefit from the estimated three million visitors expected for the tournament, while construction and engineering companies will look to a slice of the billions to be spent on infrastructure in the lead-up to the event”.

There is also the distinct possibility in 2010 that Africa could have six teams at a World Cup for the first time. Fifa have yet to rule on this officially, but with South Africa already qualified, there should be five more spots up for African teams. And that can only bring a further boost to football on the African continent.

Finally, what chances to the five African qualifiers this time around, actually have in Germany?

Well, Togo, frankly, have little chance, in a group with 1998 World Cup winners France, 2002 World Cup semi-finalists South Korea and Switzerland. All have far more pedigree than Togo, now coached by German Otto Pfister, with Nigerian Steven Keshi sacked after a poor performance at the MTN Africa Cup of Nations in Egypt earlier this year.

They said the same about Togo, of course in World Cup qualifying, but they topped a group containing Senegal, Mali and Zambia. And in Adebayor they have a striker, if erratic, capable of frightening defences. But the world stage should prove a bridge too far, and Togo will be happy with a single victory to show for their efforts.

Angola, meanwhile, should provide some fireworks when they meet their former colonists Portugal in their World Cup opener in Cologne on June 11. The last time the two sides met, in a friendly, Angola had four players sent off, forcing the game to be abandoned.

Angola then play Mexico, but their best chance of victory will surely come against Iran, another relative footballing minnow, who they meet in Leipzig on June 21. If they can win that one, it will form a decent World Cup for Oliveira Goncalves’ men.

Ghana, for their part, have been drawn in an extremely tough group, containing Italy, Czech Republic and USA. They do have superstars in Essien, signed by Chelsea last season for a monstrous £24.5 million and Appiah, who has been in fantastic form in Turkey with Fenerbache, and with Udinese’s Sulley Ali Muntari added to the mix, the Black Starts will put forward a formidable midfield in Germany.

But up front, Serbian Ratomir Dujkovic’s side lack firepower. Strikers Isaac Boakye misses the tournament through injury, while Matthew Amoah is in the squad, but has also missed most of the second half of the season after picking up a knock at the MTN Africa Cup of Nations. Ghana may well prove tough to break down in Germany, but a lack of cutting edge is likely to see them miss out on the last 16 of the competition.

So it’s Tunisia and particularly Cote D’Ivoire who have arguably the best chance of the five Africa teams at World Cup 2006 of making the last 16. Roger Lemerre will hope to coach Tunisia to greater success than in 2002, where under Ammar Souayah they were widely criticised for a dreadful display. Lemerre at least brings an array of coaching experience that Souayah could not and has already lifted one major trophy with Togo, the 2004 African Cup of Nations.

Tunisia’s group is undoubtedly the easiest of any of the African teams at Germany 2006, containing Ukraine, Spain and Saudi Arabia.

With striker Francileudo Dos Santos, as well as talents like Slim Benachour and Ziad Jaziri, Tunisia can be a threat to anyone on their day, and should fancy their chances of finishing in the top two in their group and landing a place in the last 16.

From there, however, their lack of quality compared to other nations should see them bow out.

Cote D’Ivoire are a rising force in Africa, signified by the fact that they ousted Cameroon in qualifying for Germany. In Didier Drogba, they have a world class striker and in Kolo Toure and Emmanuel Eboue, they have two world class defenders, along with a host of other players scattered around the European leagues.

This year, they made the final of the MTN Africa Cup of Nations, and were a little unlucky to lose to hosts Egypt. Cote D’Ivoire’s main problem is their exceptionally tough group, containing two giants of the world stage, Argentina and Holland, as well as Serbia and Montenegro, who were ahead of Spain in their World Cup qualifying group.

However they are capable of causing a few upsets, and if they can get out of the group, somehow, who knows how far the Elephants could go. Their first game is against Argentina in Hamburg on June 10 and should be an absolute cracker.

Even if no African team, however, qualifies for the last 16, at least they can go home safe in the knowledge they have represented their continent on the World’s grandest stage – and the £ 2.6 million will certainly help too!
Henri Claude Oyima

Henri Claude Oyima, 49, has been CEO of the International Gabonese and French Bank (BGFIBANK) – a leading institution in the CEMAC zone – since June 1985. After completing a Bachelor of Science in Administration and Master of Art in Development Banking at Washington DC University, Oyima started working at Citibank of New York (1982). With a true global vision, Oyima encourages his staff to learn English, and is eager to point out that Gabon's commercial and financial interests are no longer dominated by France. On the contrary, he says, there is a strong willingness at all levels to open new horizons in Asia and the Americas, as well as in Africa. An astute and driven businessman, Oyima has led the rapid integration of BGFIBANK in Gabon, Equatorial Guinea, and Congo. Antoine Lawson speaks to Mr Oyima about his visions and objectives.

Please tell us more about BGFIBANK and the services it provides.

BGFIBANK is a leader in the commercial banking sector of Gabon. It traces its origins back to the French bank, Paribas, but over time, both the capital and personnel of the bank have been 'Gabonised'. Initially this was done with significant state participation, but the state's current shareholding in the bank is only 8%. The bank's head office is in Libreville, Gabon's capital, and it has twelve branch offices. It offers personal, commercial, corporate and merchant banking products and has relationships with all major international and regional financial institutions. The BGF Group Bank offers a comprehensive range of services to companies interested in trading with or investing in Gabon.

You are also President of the Gabonese Employer Confederation, please tell us about this organisation.

Yes, I am the new President of the Gabonese Employer Confederation (CPG). Founded as the Gabon Inter-professional Union (UNKAGABON) on 4 September 1959, its title was changed to the current Gabonese Employers' Confederation (CPG) in 1978. The CPG was initially concerned with social issues, but has progressively moved towards a wider conception of its mission and today is determined to play a leading role in the development of Gabon through providing the authorities with a good source of proposals and strong representation.

What advice would you give someone investing in Gabon?

Investors in Gabon should make enquiries at the official institutions, i.e. the Gabonese Employers' Confederation, consultancy firms and the Agency for the Promotion of Private Investments, prior to setting up business. They then need to comply with the texts in force and act in accordance with the labour laws. They have to be familiar with any agreements and obligations associated with the sector of activity related to their chosen business and apply for all the necessary licences in this respect.

What advantages can companies wishing to invest in Gabon expect from their investments?

Companies wishing to invest in Gabon can benefit from political and social stability, which is essential for any form of development, and an ideal geographical environment that provides access to a vast market and tremendous business prospects. There is also an abundance of natural resources. On a monetary level benefits include a currency supported by the Euro, which greatly simplifies EU and international transactions, and a reliable banking network. In terms of business law, Gabon is governed by unquestionably modern rules, as laid down by the Organisation for the Harmonisation of Business Law in Africa (OHADA). With respect to human resources, the workforce is incredibly adaptable. We have one of the best telecommunications networks in the sub-region and an attractive personal income tax and corporate tax system.

Is BGFIBANK a 100% African Bank?

Yes, BGFIBANK was established in April 1971, out of a partnership between Banque Nationale de Paris (BNP), the Netherlands and the Gabonese government. 10 years down the line the bank was renamed Banque Paribas Gabon. The change in strategy adopted by Paribas in 1996 saw the Gabonese government become the majority shareholder and the bank was renamed once more, this time as Banque Gabonaise et Francaise Internationale (BGF). Thereafter events unfolded rapidly. In March 2000, the bank adopted a simpler moniker to reflect a more international approach to its development. Since then the acronym BGFIBANK has been preferred over the full name. A month later, the first branch outside Gabon was opened in Brazzaville. This was followed by another in Malabo in Equatorial Guinea and in 2001, the Pointe Noire branch in Congo opened its doors. Currently, a second branch is under construction in Equatorial Guinea, in the town of Bata.

BGFIBANK seems to have a strategy that focuses on development in Africa. You are right. In the last few years, BGFIBANK has become the leading financial group in Gabon with a total turnover of more than 700 million Euros at December 2004. This represents a three-fold increase over the last four years and a net profit of more than 13 million Euros. The management team of BGFIBANK attributes the bank's success to the strategy chosen for development and the quality of its staff, on which particular emphasis is placed. The strategy pursued has four key elements: regional development, growth, profitability and the constant pursuit of excellence.

In April 2003, BGFIBANK signed a commercial and technical cooperation agreement with Belgolaise, which has an active presence in Gabon, Congo (Brazzaville) and in Equatorial Guinea. In Belgolaise we have found a European banking partner that is truly dedicated to Africa. Unlike some other banking groups, the people at Belgolaise think only about Africa and their international strategy does not change when the name of the chairman does.

By signing this partnership agreement we wanted to develop a successful and fruitful relationship that would benefit both banks, and their clients. Through this partnership we have given Belgolaise access to our network in order to develop the obvious commercial synergies, and have enabled our client base to benefit from Belgolaise international network and from that of its parent group, Fortis Bank. In Gabon the bank has a network of four branches: Libreville, where the bank's headquarters are located; Owendo, Port-Gentil and Moanda. We have 350 employees in Gabon, 19 in Equatorial Guinea and about 29 in Congo. Ultimately, Belgolaise possesses an operational know-how that we hope to draw on where appropriate. Belgolaise is not a factory. It remains very much a bank based on human values, just like BGFIBANK.

For further information, contact:

Henri Oyima
Tel: +241 762326/764035 Email: bgfinternetgabon.com
Trade between South Africa and India set to double year-on-year

Two-way investment surge gathers pace as new business confidence lays the foundation for thriving economic partnership

Could you please characterise the state of India-South Africa relations since the advent of democracy in SA in 1994 – with particular reference to the growth of bilateral trade between the two countries, economic relations and inward investment into South Africa – as well as from SA into India? The establishment of a formal diplomatic relationship with South Africa in 1994 opened the way for trade and economic co-operation between our two countries. Compared to practically zero levels of trade in the early 1990s, total trade today, according to Indian statistics, was in the region of US$4 billion dollars in 2005. (excluding Indian imports of gold and diamonds).

Indian exports to SA in 2005 grew in the order of 54.6% from about R4.5 billion to R7 billion, while there was a growth of almost 100% in SA exports to India. These figures indicate that there has been a tremendous growth – roughly some 75% – over the previous year.

How does South Africa rank today in importance as a trade and investment partner for India, both in the global and an African context?
The products offered by Indian companies have been immediately accepted in the market here. On the investment front, Indian multinational Tata – to name but one – has come in as an investor in the second fixed line network operator consortium and expectations are that it will be functional – or that work on the project will start – by June. Tata is also confident of gaining a stake in the Richards Bay steel manufacturing plant. Similarly, ACSA won the bid in India for the modernisation of Mumbai airport, and SA Breweries announced last year they will be investing about US$225 million in India over the next five years. Shoprite Checkers also has a footprint in India and, more recently, Sanlam entered into a joint venture with an Indian financial company for the provision of long-term insurance. Group 5 was one of earlier companies to become involved in road development in India, while Eskom is active in power projects.

What is happening is that After a gap of many years, there has been an outburst of information, knowledge and awareness of what our two countries are able to offer to each other. If there is one single factor which is responsible for the increase in trade and investment, it is this expansion of knowledge about each other, coupled with the resulting mutual increase in confidence.

Other factors could include the success of Indian companies in third markets and the increase in the exchange of visits between India and South Africa. For example, there has been a growth of practically 100% in business visitors from India to SA and from SA to India over the past decade or so.

Over a period of time, Indian suppliers have proven to be reliable both in terms of quality and price-competitiveness. Until about 15 years ago, we were not known to be a major exporting nation, and even now we can quite correctly be regarded as an emerging exporting nation. There has been an almost 14% growth in Indian exports over the past year, but we cannot really be characterised as a mass manufacturer such as China.

Formal diplomatic relations between South Africa and India were resumed in 1994, providing the launching pad for a remarkable surge in trade, investment and economic growth between the two countries which continues to gain momentum.

While India’s historical and cultural ties with South Africa date back more than a century, India was at the forefront of the diplomatic and economic offensive against apartheid in the years immediately following World War II. Almost half a century later, the political isolation of South Africa ended with the passing of a resolution declaring the demise of apartheid, which was piloted through the UN General Assembly, by Suresh Goel, India’s representative on the UN Special Committee against Apartheid in New York from 1991–1994. Today, with links between the two countries restored at all levels, Goel serves as India’s Consul General in Johannesburg.

In a wide-ranging interview with David Jackson, he charts the phenomenal growth in trade and investment between India and South Africa since the restoration of official ties and the underlying reasons why South Africa today is India’s largest trading partner on the African continent...
Nevertheless, importers of these products can now be certain of the consistency in the quality of what they are getting from India. This has been some of the important progress made over the past 15 years or so. Indian suppliers take pride in what they supply and will have no hesitation in rejecting any demand for lower prices if this means compromising on quality. They have become very conscious about not entering into one-off deals. A business relationship must be tested over a period of time and in order for this to occur, consistency is important.

Another key factor is the transformation of India’s professional image. Success in the technological arena as IT managers and software developers and as producers of price-competitive pharmaceuticals for example, has contributed to this perception of Indians as professionals. This has been further encouraged by the presence of so many Indians in the various multi-national companies, from IBM to financial institutions such as Citibank, among others.

South Africa is an economically-developed county, rather than a developing country in the true sense. Its business people are astute and appreciate value for money. I believe they are realising that doing business with India makes sense.

Private enterprise has come of age in India. In India, we have more than 40 billionaires, according to a recent media report quoting the Forbes list as the source. The report claimed that the collective net worth of the 40 richest persons in India is US$106 billion, compared with China’s US$26 billion. The flourishing of private enterprise in India can be traced back to the economic reforms we undertook in 1991, when the government was perceptive in realising the need to unshackle the Indian economy. As a result, we have seen explosive growth in India’s GDP, which is now ranging around 8% and expected to reach 10% in the near future.

India has first-hand experience of the important role that SMEs play in a developing economy. What are the lessons and skills that India is able to – and is – offering South Africa in this field?

In the mid-1970s we had the phenomenon of huge unemployment among educated youth, with about 30–40% unemployment among graduates from universities and colleges. There were about 20 million people graduating from universities every year, and to create some eight million jobs, you can imagine the level of investment that would be required in the public sector.

We didn’t have this amount of money to invest. So the government came up with a scheme to encourage entrepreneurship and to support those able to come up with bright ideas – to manufacture something, for example. An organisation was created, staffed by consultants who were able to advise budding entrepreneurs as to how their concepts could be translated into order for this to occur, consistency is important.

Another key factor is the transformation of India’s professional image. Success in the technological arena as IT managers and software developers and as producers of price-competitive pharmaceuticals for example, has contributed to this perception of Indians as professionals. This has been further encouraged by the presence of so many Indians in the various multi-national companies, from IBM to financial institutions such as Citibank, among others.

South Africa is an economically-developed county, rather than a developing county in the true sense. Its business people are astute and appreciate value for money. I believe they are realising that doing business with India makes sense.

Private enterprise has come of age in India. In India, we have more than 40 billionaires, according to a recent media report quoting the Forbes list as the source. The report claimed that the collective net worth of the 40 richest persons in India is US$106 billion, compared with China’s US$26 billion. The flourishing of private enterprise in India can be traced back to the economic reforms we undertook in 1991, when the government was perceptive in realising the need to unshackle the Indian economy. As a result, we have seen explosive growth in India’s GDP, which is now ranging around 8% and expected to reach 10% in the near future.

India has first-hand experience of the important role that SMEs play in a developing economy. What are the lessons and skills that India is able to – and is – offering South Africa in this field?

In the mid-1970s we had the phenomenon of huge unemployment among educated youth, with about 30–40% unemployment among graduates from universities and colleges. There were about 20 million people graduating from universities every year, and to create some eight million jobs, you can imagine the level of investment that would be required in the public sector.

We didn’t have this amount of money to invest. So the government came up with a scheme to encourage entrepreneurship and to support those able to come up with bright ideas – to manufacture something, for example. An organisation was created, staffed by consultants who were able to advise budding entrepreneurs as to how their concepts could be translated into

Today, 40% of India’s GDP comes from small and medium enterprises, while they account for 30% of our exports. SMEs absorb some 50% of our labour force and our unemployment rate has come down substantially to around 7%.

India’s IT industry actually developed through SMEs. In addition to the well-established Tata Consultancy Services (TCS), others have also come through the SME route. One such successful example is Infosys (today a US$ multi-billion IT industry empire), which started out 15 years ago with a capital investment of around US$3 000. The Infosys campus in Bangalore is one of the most modern of its type in the world.

We should see future growth in Indian companies coming into SA in sectors such as automobiles and the IT sector, where there is already a strong presence, as well as in the pharmaceutical industry. In the field of healthcare, we are trying to promote price-competitive medical care for South Africans. We are looking at becoming involved in more financial services joint ventures with South Africa, both here and in India – as well as in the engineering field.

South Africa has traditionally been regarded as the trade “gateway” to Southern Africa. What importance does India attach to its trade relationship with the SADC countries – and what trade and investment initiatives have been undertaken in this regard?

With its strong industrial and economic base and its excellent infrastructure, South Africa is indeed the gateway into the rest of Africa. But it should not become complacent in this regard, because other countries are developing their own strategies for entering African markets.

But because of the facilities and the support services it offers, South Africa will, for the foreseeable future, serve as an entry point for Indian companies into sub-Saharan Africa and the rest of Africa. It remains a very important hub for Indian companies and the Indian government in reaching into SADC countries and supporting the aims and objectives of Nepad (the New Partnership for Africa’s Development).

Can you provide the latest statistics which illustrate the growth in trade – imports and exports – and the level of foreign direct investment by India into SA?

South Africa is India’s largest trading partner in Africa. India’s imports from South Africa are the highest of any African country – about US$1.5 billion – which is more than 50% of total African exports to India. Similarly, our exports to South Africa constitute about 25% of our exports to Africa as a whole, but are the highest (in monetary terms).

How do you envisage trade and economic relations between India and South Africa rolling out over the next 10 years. Will it be the recipe as before, or are there specific targets and goals in place to expand the relationship even further?

That path was laid down during the visit of President Thabo Mbeki to India in October, 2003, when initially we were looking at a doubling of trade over the next five years.

But trade has practically doubled in 2005 alone. So if this trend continues, we can safely assume a near-doubling of trade on an annual basis. Therefore the target of ten times the amount of trade by 2010 is likely to be surpassed. To facilitate this, we are in the process of negotiating a preferential trade agreement with SA, for which the framework is already in place.

There is no looking back now. There is a very bright future ahead for trade and economic co-operation between our two countries.

For further information, contact:
Consulate General of India
Tel: +27 11 482 8484
Fax: +27 11 4828492
Email: cgijhb@global.co.za
India in Africa: an old partner, a new competitor

Duncan Bonnett, Whitehouse & Associates

India’s relations with Africa date back hundreds, possibly even thousands of years, although the last century has seen a more direct presence on our continent. For decades Indian communities thrived in service industries and light manufacturing enterprises in many parts of Africa, but that is now changing.

The global system, at virtually every level, is changing rapidly. Much has been made of the post-Cold War rise of China, US political and military hegemony, the retreat of Europe and the emergence of a new order characterised by the rapid growth of key economies such as the BRIC countries (Brazil, Russia, India and China). Each of these countries is set to become a more important player on the global stage within the next two decades based on their considerable attributes — physical size, populations, rapidly expanding economies, and aggressive international positioning. There is much debate as to the role that these countries will play in the course of the next few years with regards to the development of African countries, as the demands for resources and markets increase competition in the global system even further.

From an African perspective India is possibly the most interesting of the four to look at, given the close historical and political ties that much of the continent has with India, as well as other indicators, such as levels of development and the structure of the economy. A snapshot of trade, project and investment activity from Indian firms operating in Africa might provide some clues as to the future direction relations will develop.

Investments and project activity across Africa have a tendency to draw trade flows from the host nation as well. The reasons for this are simple. In many instances, the new investor or the company undertaking a project, has no knowledge of the capabilities of local contractors or the quality of locally produced inputs, and thus relies on suppliers that served them well in their home market. In addition, in many large capital projects local companies do not have the capacity — human, technical or financial — to undertake turnkey operations, and thus this function, and the consequent sourcing of goods and services, takes place outside of the host market. Mining, oil and gas, telecommunications, retail developments and large infrastructure projects often fall into this category.

India’s presence as an investor and as a source of civil and other engineering companies has begun to grow quite quickly across key markets in Africa. For example, India invested US$70m in Zambia between 1996 and 2004, and is the fifth largest investor in Ethiopia at present. From an investment perspective, there are several high profile companies active across Africa.

Most notably, the Tata Group, present in Zambia, Tanzania, Malawi, Namibia, Ghana, Mozambique, South Africa and Uganda, has investments in a range of sectors. These include automotive (largely retail, but possibly as an assembler in South Africa and Zambia in the near future), possibly steel and ferrochrome, hotels and leisure (expanding quickly), power, coffee (the company is to establish a coffee processing facility in Uganda), engineering works, food and beverages, agriculture, bicycle manufacturing, import-export and telecommunications to name some.

Mittal Steel, the world’s largest producer, has plants in Algeria and South Africa, and is looking at investments in West Africa. State oil company, ONGC has invested in Libya, Sudan, Cote d’Ivoire and Egypt. It’s no surprise that exports of pipeline and structural steel to Libya, Egypt and Sudan have increased significantly in recent years from India!

Rites and Icon, two large state-owned infrastructure and engineering companies have been involved in projects and concessions primarily in African rail and road developments for several years now. Rites has refurbished and leased locomotives in Sudan and Tanzania, whilst supplying technical assistance to rail authorities in Kenya and Mozambique. Rites has also been involved in design and construction of roads in Uganda and Ethiopia. Icon has constructed railways in Algeria and (currently) in Mozambique, and has also been active in the rail sectors in Sudan, Nigeria and Zambia.

India, through state-owned ONGC and Mittal Steel, reportedly struck a US$6bn deal for industrial development in Nigeria in late 2005 in exchange for oil exploration rights, in a sign that the country is prepared to use its considerable economic clout – and the decayed state of much of Africa’s manufacturing sector – to secure its energy requirements.

India has established a concessional credit of up to US$1bn for the ‘Team 9’ countries in West Africa, for the development of these markets. This initiative offers credit for projects set up by Indian companies through the EXIM (Export Import) Bank of India. Other than Nigeria, countries in this initiative include Burkina Faso, Chad, Cote d’Ivoire, Equatorial Guinea, Ghana, Guinea-Bissau, Mali and Senegal. Future plans include countries such as Sao Tome, Niger, the DR-Congo and the Republic of Congo.

Moreover, the EXIM Bank of India is playing an increased role in Africa, allowing Indian companies to export into many markets that perhaps would not have been able to provide the necessary guarantees themselves. It has also established a number of lines of credit for the purchase of Indian goods – notably in the agricultural machinery and implements sector, effectively locking in exports from India.

India also provided US$100m for the establishment of the Ebene Cyber Tower in Mauritius, has provided a US$50m line of credit to Sudan for humanitarian aid purchases. The government of India has thus increasingly used finance mechanisms such as the EXIM Bank and the Team 9 model to entrench its position in strategic African countries.

There is nothing inherently sinister in this assistance – almost all countries in the OECD do this as a matter of course, and have in the past used tied aid to ensure exports from the home market.
benefit from projects or assistance in recipient countries. This still happens, although it is generally a little more subtle than it used to be.

Indian investment and project activity across Africa thus spans a range of manufacturing activities from chemicals and pharmaceuticals to iron and steel, textiles, mining (such as in Zambia’s copper/cobalt sectors), infrastructure, transport, banking and retail. The country is thus, like China, Brazil, Australia and Canada (largely mining for these two), and South Africa, beginning to become a more established presence in many African countries. With this investment and project focus, trade naturally follows (although obviously much trade is independent of aid and project flows). It is this area that should be some cause for concern.

India’s exports to Africa as a whole grew slowly in the late nineties, as many emerging markets struggled through that fraught period. However, since the turn of the century, there has been steady growth, culminating in a surge of exports over the last two years. The increases in 2003 and 2004 will, if anecdotal evidence is correct, have continued through 2005 and this year as well.

Exports rose from US$1.9bn to US$5.3bn over this period – the fourth fastest rate of increase from across the globe. As the chart below illustrates only China, Australia (heavily influenced by bauxite sales to Mozambique), and Brazil increased the level of their exports to Africa at a faster pace. It is interesting to note that South Africa – still being called the new colonial power in Africa by superficial commentators – increased exports to the rest of the continent at a slower rate than almost all of the key exporters to Africa.

This rise in exports from India has not actually increased its position substantially in overall export terms, rising from fourteenth position in 1997 to twelfth in 2004. Furthermore, India’s exports to Africa in 2004 were less than a quarter of those from France – the continent’s largest source of imports. This said, the rate of increase should see India move into the top ten within the next two or three years, at the expense of countries such as South Africa and the Netherlands. The growth has not been matched by a similar growth in the level of imports from Africa as a whole, despite the focus of much of the globe on the apparent scramble for resources by the emerging giants of Asia and Latin America.

Trade data reveals that since 2000 the balance of trade, whilst in India’s favour, has not been dramatically skewed. It has certainly grown in the last couple of years (and again, one would expect a continuation of this trend), but is not of the magnitude of the imbalance with other countries or regions.

However, the overall figure masks the role of South Africa in this picture. Once South Africa’s trade with India is removed, the imbalance is more visible. Including South Africa, India exports 1.4 times the value of goods to Africa that she imports, but with South Africa’s data removed, the imbalance moves to 2.6 times the value. Once again, this figure has accelerated in the last two to three years, and it cannot be explained simply in terms of project-driven activity. See Graph above

The key destinations for Indian exports to Africa are generally those with the larger and more developed markets in Africa. South Africa, Nigeria, Egypt and Kenya are thus logical as major export markets. Of the other countries outlined below, there is a combination of factors, notably stability, resources or populations of Indian origin.

Source: Whitehouse & Associates, based on Comtrade data
A notable feature of India’s exports to individual markets is that the increases have been far from uniform. Thus whilst a similar analysis of China’s trade will reveal increases every year, India’s exporters have yet to establish the kind of foothold in many markets that Chinese companies have. In fact, closer scrutiny of the trade data shown that some of the spikes in the graph below are once-off exports, related to commodities or projects.

Key exports from India to Africa include cotton – although this has been stable and actually declining – petroleum products, and cereals (largely rice, some of it as donations) on the base commodities side. In addition, pharmaceuticals, and manufactured items in the machinery, plastics, clothing sector, basic iron and steel and products made from iron and steel feature prominently. Many of these items compete directly with local industries, and in concert with imports form other Asian suppliers, as well as traditional suppliers, this is putting pressure on small, generally weak industries in the region.

On the import side, the South African column is all-revealing. South Africa accounted for 57% (or US$8.6bn) of Africa’s total recorded exports to India from 2000 to 2004, and even these were largely base commodities and their derivatives.

Morocco’s, Senegal’s and Tunisia’s exports were dominated by exports of phosphates; Egypt’s by cotton and fuel derivatives; Cote d’Ivoire’s by wood, fruit and cotton, Tanzania’s by fruit, vegetables and to a lesser degree by gold and gemstones; and Nigeria’s by wood, and some fruit and basic iron and steel.

This snapshot of India’s recent, current and potential involvement with the African continent obviously cannot tell the full story – there are inevitably examples that contradict much of the above, given that it is a very broad topic. However, it is instructive in the sense that African countries are being seen by many in India in the same light as they have been by many others – as a source of raw materials and a market for manufactured goods.

This may not be entirely fair in India’s case, given that the country has many investors in Africa, quite a few of those manufacturers and service providers that bring with them skills and services that the continent desperately needs. However, this argument has been used before in Africa’s not too distant past, and should the continent – and countries and industries within it – not want to simply be providers of raw materials for those moving up the industrial ladder, relations with the emerging (and existing) powers of the global economic system will have to be better monitored and managed, in order that Africans best extract added value from the rich resources of our continent.

Source: Whitehouse & Associates, based on Comtrade data
India’s investment drive gathers pace across a wide front

India is not only the world’s largest democracy – it also has one of the world’s fastest-growing economies. It is ranked one of the six fastest growing economies in the world and is rated high in terms of the purchasing power Parity Index.

India’s investment drive into southern Africa rapidly gained impetus once full diplomatic links between the two countries were restored in the early 1990s. According to the Indian Consulate General office in Johannesburg, the UB Group of India, the largest Indian investor in South Africa, initially invested US$220 million during the 1990s in the black-owned National Sorghum Breweries. In addition, it invested US$6 million in a tourism project, the Mabula Game Lodge. The group has since expanded its operations and investments in South Africa.

Shriram Industrial Enterprises has invested US$7 million in a car airconditioner manufacturing unit near Durban and is involved in a tourism project – the Imbali Game Lodge – in the Kruger National Park.

India’s multinational Tata Group is fast becoming a household name in South Africa. Tata’s South African operations involve three companies. Tata Africa Holdings is responsible for bringing investments into South Africa in suitably viable areas. It also supervises Tata companies in Zambia, Zimbabwe, Namibia, Uganda, Mozambique and Ghana. Tata Iron & Steel Co (Tisco) recently launched its ferrochrome smelter project in Richards Bay – now expected to be commissioned in 2006/07.

The second company, Tata Automobiles, imports, assembles, distributes and sells Tata trucks, buses and motor vehicles. The third Tata group company, Consilience Technologies, is an IT joint venture between the Tata Consultancy and the J&J group of companies in South Africa.

While multinational groups such as these may represent the spearhead of India’s investment thrust in South Africa, Indian investors and companies are actively targeting strategic objectives across a wide front, including the banking, energy, infrastructure, power and hospitality sectors, among others.

Among the more recent developments, according to the Indian Consulate General office in Johannesburg, Indian wind energy companies are well on their way to negotiating a pilot project in South Africa. And a local company has entered into a joint venture with an Indian counterpart to build an ecologically friendly hotel at Crown Mines, Johannesburg. There are also indications that India and South Africa may work closely together in the hospitality industry.

Sahara Computers and Mittal Steel are often cited as prime examples of Indian entrepreneurship at its best. In fact, Sahara Computers is not an India-based company but a company incorporated in South Africa and not directly linked to the Sahara Group in India – although the two entities have a business co-operation agreement.

Partnership paves way for

EU financial support

A European Union-Africa Infrastructure Partnership has been established with the signing in Brussels of a Memorandum of Understanding by EU Commissioner Louis Michel and European Investment Bank (EIB) President Philippe Maystadt.

This new initiative, part of the recently-agreed EU Strategy for Africa, will provide EU financial support for trans-border infrastructure projects that link African countries and regions and close gaps in regional infrastructure networks. The focus will be on projects in the energy, water, transport and communications sectors.

During the first phase (2006–07), the EU-Africa Infrastructure Partnership Trust Fund will benefit from 60 million in European Commission grants, primarily for interest rate subsidies on an anticipated 220–260 million of EIB lending. EC grant funds are expected to play the role of catalyst for projects with demonstrable economic returns to Africa, but where the prospects for high financial returns are less certain and/or where the risks involved are perceived as an issue.

Synergies will be further enhanced by the possibility of EU Member States national development finance institutions participating. The second phase, from 2008 onwards, should benefit from substantially increased EC grant resources.

The Trust fund will be able to blend EC grants with EIB own resources, as well as loans from the EIB-managed Investment Facility. The latter focusses on financing the private sector and the commercially-managed public sector. The interest rate subsidies provided by the Partnership will also assist financing proposals that respect HIPC (Highly Indebted Poor Countries) criteria for debt sustainability.

Certain types of guarantees, and technical assistance for project identification and preparation, can also be financed via the Partnership.

The EIB, established in 1958 by the Treaty of Rome, finances capital investment projects that further the European Union (EU) policy objectives. It also participates in the implementation of the EU’s co-operation policy towards third countries that have co-operation or association agreements with the Union.

Financing in Africa, the Caribbean and the Pacific (ACP) is carried out under the provisions of the Investment Facility, set up by the ACP-EU Partnership Agreement, signed in Cotonou in June 2000. Under the Cotonou agreement the total financial aid available amounts to 15.2 billion for 2002–2006, of which 11.3 billion is grant aid from the EU member states, 2.037 billion is managed by the EIB under the Investment Facility and up to 1.7 billion is in the form of loans from the EIB’s own resources.

The Investment Facility is a revolving facility (loan amortisation will be invested in new operations), aiming at supporting technically, environmentally, financially and economically-sound projects in the private or the commercially-run public sector.
WSP expands its footprint into Africa and the Middle East

Andrew Mather
Managing Director

Consulting engineering and facilities management specialists, WSP Group SA, have been making impressive inroads into the rest of Africa and the Middle East, tapping into a host of business opportunities presented by the boom in construction and infrastructural projects.

WSP Group SA’s managing Director, Andrew Mather, spoke to David Jackson about some of the group’s achievements to date and its plans for future growth.

Major new opportunities are opening up in the rest of Africa for South African-based companies as the continent experiences an unprecedented demand for engineering skills to meet the backlog in infrastructural capacity.

Supplementing this boom in construction and civil engineering projects is a new recognition of the complementary role to be played by specialist disciplines such as facilities management (FM) – where companies can outsource their non-core business to FM professionals and get on with the main job of generating profits for their companies.

WSP Group SA, who are consulting engineers and facilities managers employing some 6,000 people in 60 countries, have identified these demands and are busy expanding their footprint into the rest of Africa. From their Johannesburg-based regional office, the group – whose head office is in the UK – is also responsible for operations elsewhere in Africa and the Indian Ocean islands.

Managing Director of WSP Group SA, Andrew Mather, says that the group is very much in a growth phase in Africa. Because WSP is a listed company, Mather points out, the share price normally responds positively to international growth. “We’ve grown from a staff of 120 people to just short of 500 over the past five years in Africa and we are aggressively moving into new territories and new disciplines”.

While WSP is no stranger to Africa in the consulting engineering arena, the concept of facilities management is relatively new on the continent. WSP has recently won a number of new projects in Africa, several of these in the steadily-expanding facilities management field.

The Group’s initial strategy is to target the SADC countries, as well as English-speaking countries in the rest of Africa. This includes countries such as Mozambique and Angola, where – while not English-speaking – a platform for doing business is already in place.

WSP is currently very active in Mauritius, where it has an established office in place, which provides a springboard into other Indian Ocean islands such as the Seychelles, Mather explains.

WSP has the largest mechanical and electrical (M&E) consulting company in Mauritius and last year opened a facilities management company on the island.

“We are currently targeting the banking and retail sector and intend to look at the hotel sector as well,” Mather says, “and we have also started marketing energy management services in Mauritius”.

Efficient and professional energy management, in a continent where fossil fuels and natural energy sources are not infinite, is fast becoming one of Africa’s priority needs. WSP accordingly established a new company in South Africa last year, focusing specifically on energy management. This company is currently undertaking the monitoring of the electrical consumption of all Shoprite Checkers stores nationally in South Africa. “Through monitoring,” says Mather, “we are able to look at trends, see problem areas in the pattern of electricity consumption and to make recommendations for improving those problem areas”.

Energy management is an extremely useful discipline in Africa, where traditional energy sources are expensive and are becoming increasingly unreliable. Global awareness of the need to harness renewable energy sources is starting to penetrate Africa, Mather believes. Virtually all the multi-national companies coming into Africa now adhere to the “Triple Bottom Line” (a commitment to reporting on social, economic as well as environmental issues in their annual company financial reports).

Furthermore, the high costs of electricity and poor reliability of energy in Africa is forcing companies to be more conscious of energy consumption. The older African buildings invariably do not use low-energy light fittings or have the capacity for power factor corrections, so there is a potentially huge market in the energy management field. Renewable resources such as solar energy or hydro-electric power are already in operation in some Africa countries. Gas deposits – which many countries flare off into the atmosphere – can be used to generate electricity through a cleaner method than coal fired boilers.

In South Africa, WSP has recently been involved in projects to use the bagasse left over from sugar production to generate electricity, which is fed back into the power grid at Komatipoort.

“And if one puts up a power plant that utilises renewable energy resources, you can get carbon credits for it, sell those carbon credits and use that to partly finance the cost of putting up the plant – so there’s a good financial business case for getting involved with renewable energy sources,” Mather emphasises.

WSP sees Africa’s growing need for energy management and facilities management services as providing an entree into a number of African countries, with traditional consulting engineering services hopefully piggy-backing on these initial contracts.

The group’s expansion into Africa already boasts an impressive list of new clients. In Mozambique, the company is busy with a substantial amount of infrastructure work such as roads and bridges; in Angola, WSP is set to provide assistance with power generation projects; while the group’s established business in Botswana has been undertaking roads and infrastructure work as well as hotel and leisure projects.

A joint venture facilities management business has been established by WSP in Tanzania, where the group has also been appointed to oversee the property interests of one of the Tanzanian pension funds. WSP also has an
established footprint in Nigeria, where for the past three years it has been offering facilities management services in joint venture with a local Nigerian partner.

"This company is growing in size, with a focus primarily on the luxury residential accommodation sector," Mather says. "Many of the international companies have their own expatriate communities and we’ve been providing facilities management to these. We’ve also recently secured a project for United Bank of Africa, Nigeria’s third largest bank, to undertake facilities management at their head office and other branch offices".

WSP foresees the hotel sector booming in West Africa in the years ahead. The group is already active in this field through two hotel projects in Nigeria and more hotels in Dakar, Senegal – and it is undertaking a massive distribution warehouse project for the Panda group in Saudi Arabia, along with a number of consulting engineering projects in Dubai, in association with WSP’s UK office. "(WSP’s Middle East interests are overseen jointly from South Africa and the UK, while the rest of Africa is entirely the mandate of the WSP Group SA.)"

In addition, WSP has been sounding out new business ventures in Kenya, as part of its strategy of further strengthening the group’s commitment in the East African region. "Kenya is probably our next formal step on the African east coast; while Ghana is likely to be the next country we will enter on the West coast," Mather says.

Many people still have an outmoded concept of facilities management, perceiving it to embrace typical "soft" services such as catering, cleaning and landscaping. But as Mather points out, facilities management is essentially made up of two fundamental parts. These comprise the "soft" services as well as "hard" services – the technical services such as plumbing and drainage and maintenance of the building fabric, the electrical network; heating and ventilation, among others. WSP comes from a hard services background, but offers a turnkey solution, whereby it will typically sub-contract many of the soft services to soft services specialists.

"In Africa, where facilities management is a new concept, you have to sell and promote the concept before you can think about promoting your company", Mather points out. "And in general terms, Africa does not have an established culture of maintenance and it is sometimes difficult to convince people of the value of spending money on maintenance, to pre-empt possible expensive repairs further down the line.

"Another hurdle is that companies do not always account properly for what they spend on maintenance – and this is something that is also common in countries such as South Africa, where facilities management services have been on offer for many years".

Mather explains that often companies are under the mistaken impression that maintenance is not one of their budgeted costs, so they balk at the prospect of the additional expense of paying for maintenance – as well as paying for a facilities management company to undertake that maintenance. But, Mather argues: "The reality is that they are probably spending quite a lot of money on maintenance, but are not accounting separately for it.

"We have found that the best way to promote facilities management is to market a key component of the service such as energy management, or the setting up of a call centre – and then to integrate the full facilities management bouquet once the client realises the potential benefits that can be obtained".

Consulting engineering will always be a core focus of the WSP Group’s business, but it recognises the strategic importance of offering a full suite of facilities management services (including energy management), particularly in Africa. "We are focused on providing both consulting engineering and facilities management as ‘best of breed’ service offerings and we have set up a separate facilities management company that employs people who are trained specifically in this discipline”.

In the field of engineering and construction, spending on basic infrastructure such as water, electricity, sewerage, roads, education and health clinics is high priority for those African countries facing the task of reconstruction after civil wars. In Sudan, for example, entire towns need to be built virtually from scratch as result of civil conflict.

"Providing such infrastructure is a core part of our business, so we see huge opportunities in a number of African countries,” says Mather. “The challenge is not to lose focus and over-extend one’s resources by adopting a shotgun approach, but to focus on selected targets”.

Another challenge in doing business with Africa is the security risks present in countries that have recently emerged from civil war. It is sometimes difficult to motivate personnel to go and live in these countries while on company business, or to find people to supervise the implementation of projects. “Finding the right people who are prepared to travel into Africa is probably our biggest challenge,” according to Mather.

Payment for work in Africa is often delayed, which can work both ways – for example, a number of companies have lost money because of the strong Rand. Many South African companies working in Africa now insist on payment upfront – or phased payment – ahead of the work schedule to try to offset the risk of bad debt. Then there are the significant health risks that come with working in some parts of Africa – such as endemic malaria and various tropical fevers.

On a positive note, an encouraging trend from a South African perspective is that African countries are increasingly looking to source goods and materials from South Africa. "There’s a strong feeling in a number of African countries that they have been ripped off by the first world countries for a long time and that they find they can source the same services and equipment from South Africa a lot cheaper," Mather says.

Mather believes that this new awareness of South Africa’s potential as a supplier to Africa has been spearheaded by NEPAD (New Partnership for Africa’s Development) and President Thabo Mbeki’s African Renaissance initiative. "There is a real will to want to get things right in Africa," Mather points out. "Ten to 20 years ago, most African countries would have been happy to rely on overseas aid, now there is a genuine drive to become economically self-sufficient wherever possible.”

The WSP Group in South Africa is also looking to aggressively target opportunities presented by the 2010 Soccer World Cup, both from a consulting engineering and facilities management perspective. "WSP has a very strong track record of sports capability around the world, having undertaken projects at a number of the major stadiums in the UK and the US," Mather observes. "We are fortunate to be able to draw on that expertise and technology from the US and the UK to assist us.

"We are probably quite capable of doing 80–90% of the work locally. There are some specialist areas that require leading edge technology, to which we have direct access – so we are well positioned as a group to target some of the opportunities that will be coming up. It isn’t just a question of stadiums," Mather points out, "but the infrastructure around the roads leading to the stadiums, which are going to need upgrading. In addition, there is insufficient hotel capacity in most of the centres where stadiums are situated, so new hotels are in the offering – and WSP is very strong in hotel design. "When you add to that the upgrades that will be required at airports and all the ramifications of the massive Gautrain project, the challenge will be to find enough engineers in South Africa to cope with what’s on offer”.

For further information, contact:
Andrew Mather
Tel: +27 11 233 7800 Fax: +27 11 233 7801
Email: ajm@wspgroup.co.za
The new business environment and recent developments in the Angolan market are paving the way for the introduction of new concepts and products, particularly in the financial market, which has led to the imminent establishment of the Angolan Stock Exchange.

With a provisional structure comprising of a general assembly, administrative and fiscal boards, the Angolan Stock Exchange and Derivatives is scheduled to start operations and conduct its first transactions by October this year.

Transparency is an important element in building up confidence among the role players in the financial market, where the honest disclosure of a company’s assets and liabilities – as well as the publication of audited financial reports – are essential in establish the stock exchange on a solid basis and to increase the financial power of the companies.

In the financial market, public and private entities can capitalise their shares through the stock exchange by opening up to private investors. In this way, companies will be able to raise funds for expansion and development instead of relying only on government and private loans. On the other hand, the stock exchange will contribute to economic growth by promoting transparency in the privatisation and management processes. This takes into consideration that the financial value of the company will be available in the open market at market-related prices, which are regulated by the laws of supply and demand and leveraged by the co-relation between the perceived and real value of the shares issued.

The Stock Exchange and Derivatives of Angola (BVDA) incorporates 40% of public enterprises, 28% of banks and financial institutions and 32% of private companies and small subscribers. Until the 16th of March, the stock exchange had 27 listed members, forming the incorporating capital of approximately US$15 million. Main subscribers are public companies such as the Angolan society of oil Sonangol, diamond company Endiama, insurance services ENSA, banks and financial service providers (BPC, BIC, BFA, BAI) and the private companies Sistec, Chicoil, Antonio Mosquito Group, among others.

As part of a series to educate the Angolan business community about this relatively new concept, the Financial Market Institute of the Ministry of Finance organised a workshop about the demands of the financial market and the need of a stock exchange in Angola. The workshop pinpointed the importance of financial markets for economic development, the role of stockbrokers, strategies to setup and implement the stock exchange, as well as a brief overview of the business plan for the proposed Angolan stock-exchange.

The final objective is to develop the philosophy of buying and selling shares in open market, which will stimulate a culture of saving, by giving people other choices on how to use their monies and savings for future gain.
The Angolan economy has become one of the fastest-growing economies in the southern Africa region, as a result of the government’s efforts to speed up the reconstruction and development process in the country.

The development strategy requires, among other criteria, the existence of strong and reliable financial institutions to provide sound advice and financial backup to mid and long-term projects, mainly the rehabilitation and upgrade of basic infrastructure which includes roads and railways, telecommunications networks, mining activities and manufacturing, among others.

To complement this effort, the Development Bank of Angola (BDA) was created in March 2006, with a mission to support and implement the government’s financial policy in terms of infrastructure rehabilitation and development. It aims to stimulate the economic and social development of the country, with policies that will attract new investments, create employment and increase productivity levels in all affected areas.

The impact of major macro-economic reforms implemented by the government in the past few years has allowed for a significant reduction of inflation rates (from 31% in 2004 to 18.5% in 2005 and 10% forecast for 2006). This has led to a certain degree of macro-economic stability necessary to build a strong market economy that will attract public and private investments in different sectors.

BDA is a public institution that will operate with assets and personnel inherited from the Economic and Social Development Fund (FDES), which has since been disbanded. Investments made with Development Bank funds will definitely increase and diversify basic infrastructure developments and contribute to steady economic growth and sustainable development.

For further information, contact Adelaide Cassungo
Mobile: 082 3506039
Email: adelaidec@mweb.co.za
Natural plant oil set to provide solution for Africa’s fuel supply woes

Zambia joins the swing towards Jatropha tree plantation farming

Richard Mulonga

In many African countries, fuel is either in short supply and expensive – or not available at all.

For Zambia, the memories of the recent long queues at filling stations are still fresh – this situation resulted in George Mpombo being dropped from his post as Minister of Energy and Water Development.

But a novel solution could be at hand. Recent findings indicate that some trees produce oil that can be used for powering machinery such as motor vehicles, making soap and for refrigeration. One such tree is the Jatropha Curcus, which scientists say is a source of natural oil. Renewable fuel can be obtained from Jatropha Curcus oil after mixing the contents with alcohol as a catalyst, according to research findings. Thus, Zambia has joined scores of other African countries that are now turning to Jatropha, a tropical and exotic plant, as a panacea for fuel stabilisation.

Zambia is trying to diversify to bio-fuel because of supply difficulties and the escalating cost of fuel on the international market. It is envisaged that the success of Jatropha cultivation and processing in Zambia could ease persistent fuel shortages, saving billions of Kwacha in fuel import costs in the process.

Environmental considerations are also a factor. The Jatropha project is likely to be integrated into a programme that encourages production and use of renewable energy in Zambia. This has the support of Zambia’s Energy Regulation Board (ERB), given that renewable energy, such as fuel obtained from the oil of the Jatropha tree, causes negligible damage to the environment.

Research has indicated that renewable energy technologies have enormous potential in developing countries, including Zambia, and that this potential can be realised at a reasonable cost, subject to certain conditions. Indications are that many customers would purchase renewable energy such as Jatropha oil, even if it costs a little more than conventional power. According to the ERB, renewable energy increases the diversity of energy supplies and can replace diminishing fossil fuel resources in the long-term.

Most renewable energies use indigenous resources, thus enhancing a country’s independence from external supplies of primary fuels. In Zambia, renewable energy technologies could be a key element in providing energy and economic empowerment to the rural poor. Their use in place of fossil fuels can substantially reduce greenhouse gases and other undesirable pollutants.

Renewable energy technologies account for a substantial portion of total energy consumption in industrialised countries, when viewed against the low levels to which they have been put into use in developing nations. In Zambia, such growth could provide the rural poor with increased access to modern energy resources. Major plans are therefore being put in place to grow Jatropha, so that this plant could provide raw materials for cheaper, renewable fuel.

Currently, the Jatropha projects are being spearheaded by the private sector and most of these activities are concentrated in the countryside. The government, through the ministries of Agriculture and Energy is encouraging farmers to cultivate Jatropha as a cash crop. In addition for use in making fuel, Jatropha cultivation is also being encouraged because it would give rural households the resources needed for school fees, hospital bills and other expenses.

The government is looking to establish Jatropha cultivating regions where the plant would be grown massively. It is also examining ways of establishing Jatropha plantations, where some farmers in the countryside would have an opportunity to cultivate the plant on a large scale. In addition, the authorities are looking at the logistical feasibility of engaging peasant farmers in Jatropha out-grower schemes in rural areas. These farmers would be trained in how to grow Jatropha.

A policy document is being drafted which is expected to serve as a blueprint for guiding the Jatropha project in Zambia. The National Institute for Scientific Research (NISIR) in Lusaka has already started a two-hectare Jatropha test plantation in terms of a contract with a local soap-making company, to explore the possibilities of making soap from the Jatropha oil.

The NISIR’s main Jatropha-related focus, however, is on conducting scientific research to ascertain how this plant can help to alleviate fuel problems in Zambia. Pilot initiatives are taking place in which Jatropha is being tested to establish how effective it could be in driving some of the critical areas of the economy, such as the transport and manufacturing sectors. And once the out-grower schemes are successfully implemented, Energy minister Felix Mutati is confident that the plantations would not only provide Jatropha as a raw material for fuel production, but that they would also create employment opportunities for scores of people who would be attracted into the business.

The minister believes that poverty levels would also shrink because people would have some consistent form of income.
Ndola, which is said to have suffered some of the most severe effects of the privatisation programme, is one of the regions identified for Jatropha growing.

Jatropha is a name derived from the Greek language in which Jatros means doctor and trophe stands for food. The plant was originally used for medicinal purposes. Jatropha originates from Central America, where it was taken by the Portuguese and distributed to the world through the Cape Verde and Guinea Bissau.

Some local farmers have already started growing Jatropha. One of these projects is on the farm, Terraform, where there is a 1 200-hectare Jatropha plantation in the Kavu area of the Copperbelt. This entrepreneur is exploring scientific ways of producing diesel from Jatropha. Studies have shown that bio-diesel reduces engine wear by as much as one half, primarily because it provides excellent lubricity.

Terraform has produced a sample of Jatropha fuel, which has undergone laboratory tests at the Indeni petroleum refinery, Zambia’s oil purifying plant in Ndola. Results indicated that the Jatropha fuel was effective in running car engines, refrigeration and in soap-making.

“We are using Jatropha oil to propel machinery such as tractors and vans at our farm,” said David Kuchanny, who is the director at Terraform. Kuchanny added that machinery was being imported to increase fuel production and quality, although he emphasised that the diesel being produced was already of international standard. The Jatropha trees would also help in environmental conservation and fighting deforestation, which results in recurrent droughts, he observed.

Other small Jatropha plantations are being introduced on the Copperbelt, where farming and tourism are being encouraged as a means of diversifying from the traditional mining activity that the economy of this region largely depends on. Jatropha is also being grown in Chipata, Lundazi, the Petauke districts of the Eastern Province, as well as in the Kabompo district in northern western province. The tree is also widely grown in the Namwala district of Southern Province, Chibombo district in central province and Chongwe, which is on the outskirts of Lusaka, the capital city.

In Chibombo, Keembe’s Member of Parliament, Lieutenant General Ronnie Shikapwasha, is mobilising residents to start a huge plantation that would not only involve the villagers in cultivating the plant, but would also open up an opportunity for the establishment of a processing plant.

Elsewhere in Africa, Jatropha plantations exist in Egypt, Ghana and Mali. In Tanzania it is expected that by the end of 2006, a 1 000-hectare plantation will be able to produce 1 500 tons of pure plant oil a year. Madagascar also has a plantation, which was expected to start producing oil at the end of last year. The plant also has other benefits. One of the major by-products from Jatropha is the harvesting of its fruit to produce pure plant oil, whose quality is similar to rapeseed oil.

The oil can be used as medicine against ailments such as constipation and the liquid can also heal wounds. The plant’s leaves can be consumed as a herbal tea to treat malaria. Its adaptability to local climatic conditions and the fact that it can easily be grown from either seed or cuttings, like cassava, are other reasons why Jatropha is being viewed as a potential solution to Zambia’s fuel problems.

However it is the lack of investment in research and development that is a major hindrance to Zambia’s Jatropha programme. More efforts are needed to take advantage of the opportunity presented by Jatropha Curcus.

ICT project opens up new development opportunities for Zambia’s farmers

Bruce Kaunda

Information and Communications Technology (ICT) is slowly but surely taking root in most African countries as a means of improving economic development.

In 2004, a group of farmers in Kabwe, the provincial headquarters of the Central province of Zambia, opened an Internet cafe. Their aim, among other objectives, was to access inexpensive information on how to obtain farming input from other countries.

As a result, the Internet Cafe has assisted about 50 commercial and 130 small-scale farmers in bringing in farming equipment, among other items, into Zambia.

The Farmers’ Internet Cafe, hosted by the Kabwe Farmers Association, was established by the Zambia National Farmers Union (ZNFU). It received support in this project from the United States Agency for International Development (USAID) and the American agricultural department, through the Education Development and Democracy Initiative (EDDI) programme.

The secretary of the Kabwe Farmers Association (KFA) Sven Pilblad, said the new technology had helped farmers and he was hopeful that this would encourage other farmers in the country to join in the benefits that are available through ICT.

Pilblad, a horticulturalist and poultry farmer, said the ICT development was viewed as a tool to improve farmers’ products, which was why US$10 000 had been spent on opening the Internet cafe in Kabwe. The association welcomed the project as an income generator for the association and secondly, to give farmers affiliated to the association an opportunity to access information cheaply.

Pilblad said the Internet was also used to disseminate agricultural information such as marketing of products, from which farmers had also greatly benefited. And despite the fact that the Internet was a new concept to most farmers in the country, many of them had benefited from initiatives by countries such as India, which is providing information to small-scale farmers through means of the Internet. Small-scale farmers are also able to access cottage industry agro-machinery and processing equipment from such countries.

Another outcome of the Internet initiative at KFA is that most farmers have started to seek people with whom they can network, who in turn can assist them to develop. Networking can also assist farmers to obtain good prices for their products and to access viable capital for their projects. Some commercial farmers have managed to import farming necessities such as fertiliser from Sasol in South Africa.

Agri-business experts have pointed out that farmers need more information to improve their production and that technology provides the means whereby farmers can improve their production, purchasing and marketing decisions. Farmers also needed to be connected with the rest of the world in order to keep abreast of new technological developments.
Export Africa: Harnessing the continent’s untapped trade potential a key goal

Export Africa 2006 (incorporating Import Africa) – the dedicated trade exhibition targeting both international and African exporters, importers and investors – gets underway for the second successive year in Gauteng later this month.

The eagerly-awaited expo is Africa’s premier multi-sectoral exhibition aimed at harnessing Africa’s full trade potential. Export Africa will be held at the Gallagher Estate exhibition centre in Midrand, Gauteng from 24–27 May.

The expo will be officially opened on Africa Day (May 25) by South Africa’s Minister of Trade and Industry, Mandisi Mpahlwa, according to Estelle Kruger, Executive Director of exhibition organisers, Hweba Africa. More than 50 ambassadors from the African Union are among the VIP guests expected to attend the ceremony.

Septi Bukula, Co-Director of Hweba Africa, says the exhibition is essentially a private sector initiative that came into existence through the support of the Department of Trade and Industry (the dti) and Standard Bank, trading in Africa as Stanbic Bank, which was the main sponsor for Export Africa 2005 and sponsors Export Week in 2006. With its head office in Johannesburg and strategic representation in 17 key sub-Saharan markets, the Standard Bank group is the major provider of trade services in the region, Bukula points out.

The objectives of Export Africa are anchored in the vision of NEPAD (New Partnership for Africa’s Development), namely to encourage and promote intra-Africa trade and to increase the current low levels of trade between African countries and the rest of the world. At present, Bukula notes, it is estimated that not much more than 1% of all global trade is with Africa.

“Global trade apart, we believe that many opportunities to trade within the continent remain untapped. These dual priorities form the basis of Export Africa’s two-pronged focus”.

He adds: “While markets within South Africa are fairly well known, there is a high degree of ignorance within the continent about what is available in the respective African countries. South Africans know very little about what the rest of the continent has to offer – and the rest of the continent in turn knows very little about that they can offer to themselves. Export Africa 2006 aims to redress this”.

Kruger adds that local trade visitors will also be able to source products from other African countries for domestic markets and for re-export. The inaugural Export Africa 2005 expo was the largest export trade promotion event ever undertaken on the continent of Africa, she recalls. The exhibition showcased more than 460 companies to a proven visitor base of senior decision-makers and buyers from Africa and the world.

“Since the inaugural exhibition, we have made encouraging progress in achieving the goal of increased inter and intra-African trade, through which we aim to provide a platform for increased prosperity in Africa,” Bukula says.

“Export Africa’s vision is to establish a primary export trading hub for the entire African continent and to provide a platform to facilitate faster economic growth and development”.

The focus of Export Africa 2006 is on export, import and investment promotion and the expo aims to assist in addressing trade imbalances by “showcasing Africa to Africa”. One of Export Africa’s priorities is to involve BEE companies in the export process.

At this year’s exhibition, Export Africa will also host an Import Promotion Hall to enable countries to showcase products and services to the African marketplace. Strict guidelines will be in place to ensure that the goods and services promoted are in fact in demand in Africa. Foreign countries participating will host an import and investment promotion booth at Export Africa to facilitate the development of two-way trade.

An innovation at this year’s expo is the inclusion for the first time of exhibitors from outside the continent, including Indonesia and the US. Kruger says that Indonesia, which will be represented by some 60 companies, will be a major presence at Export Africa 2006 and will be taking more than 450 square metres of exhibition space. Indonesia’s trade minister, Ms Mari Elka Pangestu, will personally attend Export Africa 2006 and will also hold talks in Cape Town with trade minister Mandisi Mpahlwa on May 24.

In addition to highlighting continental trade opportunities for established players, Bukula emphasises that Export Africa 2006 will place a strong emphasis on assisting small and medium-sized enterprises to secure a slice of the African trade pie.

“We believe this is important because many export promotion programmes, particularly those of small and medium enterprises, tend to focus on European markets for example.

“But given their relatively modest levels of technology and capacity at this stage of their development, we believe that neighbouring markets such as Botswana, Swaziland and Namibia, for instance, are probably better places for SMEs to make a start in exporting. These are markets with cultural
EAC and COMESA. “It is about actively encouraging, promoting and facilitating both international and intra-national trade between African countries and the rest of the world”.

Running parallel to the export exhibition, Export Africa is again presenting Export Week, hosted by the dti. This comprises a series of seminars and market briefings to enable exporters to learn more about the nature of the markets in potential export destinations.

Says Bukula: “We have identified a number of markets, both developing and developed, to which we wanted to expose exhibitors – and not just South African companies. As was the case last year, the dti is being instrumental in bringing economic counsellors from South Africa’s diplomatic missions in these countries to give detailed briefings on these specific markets at Export Africa 2006.

There will also be presentations on South African markets by some of the country’s institutions”.

Another initiative – which proved very successful at last year’s inaugural expo – seeks to benefit smaller enterprises who are not necessarily involved in exports and who may never have participated in an exhibition before. Export Africa has partnered with the dti agency, SEDA (the Small Enterprise Development Agency) who are again sponsoring pre-exhibition training, including seminars around the country, aimed at smaller enterprises in particular in the weeks leading up to Export Africa 2006.

“Export Africa sees trade as a developmental tool,” Bukula says. We are also working with SEDA (Small Enterprise Development Agency) to produce an information manual on the various African markets, particularly aimed at small enterprises”. This will include aspects such as practical trade tips, to go hand-in-hand with the pre-exhibition training, along with a list of resources such as contact numbers of key players and Chambers of Commerce, for example.

“To encourage small and medium enterprises, our strategy has been to link up with government agencies that work with small enterprises, such as SEDA, among others. We are pleased to confirm that we will have the Gauteng Enterprise Propeller on board as well this year.

“In addition,” Bukula says, “we invite the provincial trade promotion agencies to participate as exhibitors because we believe it is vital that South African exporters should know what export support is available in their own provinces. We also ask them to bring small businesses to Export Africa under their wing and we are hoping for even more small business representation this year”.

Export Africa 2006 will also feature a workshop session devoted to detailing what level of support is available in South Africa for exporters – emanating from the dti as well as various institutions and government agencies. These include the dti’s Export Marketing and Investment Assistance scheme (EMIA) which assists companies with the costs of visiting other countries to investigate potential export markets.

Explains Bukula: “The support agencies with which we have teamed up are those that offer a range of capacity-enhancing interventions at small business level. Getting access to finance for exports is obviously important, but small enterprises need to build up their internal export capacity first, in order to be able to export on a sustainable basis. Once this is achieved, there are avenues available for them to obtain commercial export finance”.

Export Week also runs a seminar on the export cycle, presented by a specialist consultant, which includes elements of information and training in educating business people about the ramifications and challenges of becoming an exporter.

Kruger advises that exhibitors at Export Africa 2006 will include manufacturers as well as exporters and investors in the following key sectors: Agro Processing (floriculture/fruits, nuts and vegetables/juices/wine/meat and dairy products); Automotive (replacement parts/after sales services); Chemical and Allied Industries; Energy & Gas; Furniture; Clothing, Textiles, Leather and Footwear; Metals and Mineral-Based Industries; Healthcare (Cosmetics); Information Communication Technology and Transport (Marine).

The Services Sector will embrace business & financial services; investment; development, government service providers and trade management. Each sector will be represented in its own pavilion.

For further information, contact:
Estelle Kruger, Executive Director
Tel: +27 11 678 1024
Website: www.exportafricaexpo.com

EXPORT WEEK is designed to provide potential, established and new exporters with the knowledge and expertise to grow their export markets. Export market briefings will be presented from 24-26 May. They will focus on export markets with significant growth potential. The Department of Trade and Industry’s Foreign Economic Representatives will profile individual export markets. Presentations will be delivered on Tunisia, Russia, Mozambique, Senegal, Egypt, Angola, Ghana, Indonesia and Kenya.

The export training workshops – to be presented from 24-27 May – will provide new and potential exporters with the tools to research, understand and enter the export market. Focused on the Export Value Chain, these workshops concentrate on export logistics and export marketing.

There will also be a finance workshop hosted by the EMIA on 25–26 May. The purpose of the dti’s assistance under the EMIA scheme is to partially compensate exporters for costs incurred while developing export markets for South Africa. An IDC (Industrial Development Corporation) workshop on the same two days will feature the topic – “IDC your partner in Export Finance”.

Standard Bank, the major sponsor of Export Week, will also be conducting a workshop on 25 and 26 May, offering advice on exporting financial issues.
The Government of Ghana is looking for partners to help operate its railway systems, which the Government views as a facility with enormous potential.

Professor C. Ameyaw-Akumfi, Ghana’s Minister of Harbours and Railways, said the government is prepared to work out agreements with partners for joint ventures and then to work with them to try to source funding.

At present, the Central Line from Huni-Valley to Kotoku is not running and the line from Accra to Kumasi is only partially operational up to Nsawam.

Ameyaw-Akumfi said feasibility studies were underway and the Chinese Government had sent a delegation to Ghana to conduct pre-feasibility studies on a proposed Ghana-Burkina Rail Line. The Minister said it is hoped that China will follow up the study.

He added that if the railway line was to go beyond Ghana’s borders with Burkina Faso, communication by rail with landlocked countries would be easier and would strengthen regional integration. At present, Mali, Niger and Burkina Faso use Takoradi and especially the Tema port, from where cargoes are hauled by road to these countries.

The Minister said Ghana was also looking for financial support from the African Development Bank for the feasibility studies on the Ghana-Burkina Faso line, revealing that the Arab Bank for Economic Development in Africa (BADEA) had provided $300,000 for feasibility studies on the railway line between Tema and Akosombo.

The Ghana Investment Promotion Centre advises that there are a number of assurances and guarantees in place to protect potential investors. The Ghana government also encourages dispute settlement using alternative mechanisms such as arbitration, mediation and conciliation within the judicial system, under the auspices of non-governmental private organisations.

Currently there are two centres offering these services: The Ghana Arbitration Centre of the American Chamber of Commerce (AMCHAM) in Ghana and the Ghana Arbitration Centre.

Ghana, with its stable political system, is a member of the Economic Community of West Africa States (ECOWAS). Its strategic and central location offers easy access to a sub-regional market of over 300 million people.
Africa can be a hugely rewarding place to do business for those whose plans are based on facts and not perceptions, on meticulous preparation and attention to detail – and on a clear understanding of the operating environment from the ground up.

Non-financial risk management has been a common thread in most successful corporate ventures in Africa. Entrepreneurs and companies go to great lengths and expense to gain understanding of the “big picture” in terms of political, financial and environmental risks but fail to obtain the same level of understanding and knowledge in the arena where this really counts – at local level.

Many enterprises in Africa have failed, or suffered severe financial losses, as a result of seemingly minor incidents which have escalated to become serious threats to the viability of the business. The theory that a flutter of a butterfly’s wings may trigger the tiny movement of air that eventually becomes a hurricane is fascinating but difficult to comprehend and impossible to measure. The theory that a wrong word or gesture between an expatriate and a local employee in an African village could trigger the collapse of a large business venture is however measurable and often predictable, if local cultural and political dynamics are understood.

While risk management at a strategic level is vital – and an absolute requirement in terms of corporate governance and responsibility to stakeholders – these responsibilities extend to the more tactical level of risk management as well.

Companies, most especially large operations like mining, oil or construction, require strategies that take into account the impact their operations may have on the broader socio-political environment. In Africa, as in other developing areas of the world, large projects can impact massively on the local economies and social structures. They can also affect the political balance of power in specific areas of a country where their operations are located.

The nature of that impact can be the source of significant risk and potential disruption to operations if not properly handled.

Mining and capital construction projects are probably the most vulnerable to these risks. Today, very few greenfield mining exploration opportunities and, by extension new mines, are found in safe or trouble-free areas of the globe. Executives, New Business and Project Managers are faced with an awesome array of risks outside of the usual scientific, environmental, fiscal, tax and legal parameters. Growing numbers of anti-globalisation and human rights pressure groups have placed the activities of even relatively small mining groups under scrutiny.

Take the example of international mining houses conducting exploration and extraction operations in the eastern Democratic Republic of Congo (DRC). Eastern DRC is still a conflict area (albeit hopefully on the road to resolution). An area beset by warring ethnic militias and political factions, together with an international military force (United Nations peacekeepers), eastern DRC presents a highly complex operating environment. Insert into this “rich” mining companies spending millions of dollars and the local balance of power can shift dramatically.

These companies may be seen as the solution to many of the problems created as a result of a government’s inability to provide for the needs of the populace. Communities often have unrealistic expectations of mining companies, particularly in the development phases, anticipating new schools, clinics, roads and the like, assuming that they will gain immediate benefit from these companies. Local leaders – both political and military – often regard such projects as part of “their” domain. A complex game ensues in which the company has to work hard to avoid being drawn into a web of progressive extortion.

The fact that so many governments are unable or are failing to deliver basic services to communities drives up these expectations when a large project starts. What may sound like a solid community-relations plan, such as building a school or clinic, can come back to haunt a company.
when it suddenly finds the same community demands more of such facilities – and the long-term financial upkeep thereof.

Local leaders are often tempted to claim credit for such largesse by companies and then use their power to force more “donations” so that their own positions are strengthened. This “creeping extortion” can cause massive escalations in costs for companies, which then have to try and balance the financial costs versus the potential disruption to operations should they refuse.

Some investors believe that by dealing with governments at ministerial level their venture will receive adequate protection and be assured of plain sailing. This has proved to be, for many, an incorrect and costly assumption. In many African countries the ethnic makeup of society dictates the balance of power and while a particular government may reflect this dynamic, the marginalised still hold a modicum of power in their own areas. A government decision, on granting mining rights for instance, may be fiercely resisted and obstructed by local communities, merely because this is the only way of expressing their political muscle in a country where opposition is weak or non-existent.

The enterprise will be caught in the middle as it may be seen as an extension of government and ruling party interests. If however the investor had understood the dynamics involved he could have approached the community in the first instance to lobby for their support for the project or undertaking.

Every operating environment is unique and risks can differ significantly even within the same country. The only method of devising effective and relevant standard operating procedures in these environments is a thorough formal risk assessment. Many well-prepared and informed companies have ridden out the storms of change in high risk countries, while those less prepared, have been forced to take ill-considered and costly decisions leading to often unnecessary closure of projects.

Without an integrated risk and threat assessment and management plan, companies can face a myriad potential problems that could result in financial and reputational losses.

A detailed security assessment, which looks at crime, local cultural, religious and anthropological dynamics and how these impact on the project.

A more focused assessment, which examines the social, cultural, religious and anthropological dynamics and how these impact on the project.

A detailed security assessment, which looks at crime, local security providers, police capacity, and how company in-house security can and should interact with officialdom.

A comprehensive community-relations strategy.

For further information, contact: John Adam
Tel: +27 11 476 4179 Mobile: +27 82 958 0149
john@bridgemond.co.za
It is often said, with some justification, that South Africa has a “First World” financial sector operating in a “Third World” country. In the international arena, South Africa’s financial services sophistication is similar to industrial countries. Its standards are compliant and it is, therefore, capable of attracting capital investment. In the national arena, however, the country’s financial sector requires innovations to bridge the gap between those fortunate enough to access financial services and capital gains, and those who still cannot.

The South African financial sector stands to be a catalyst for social and economic change. With the introduction of the government-promoted Black Economic Empowerment (BEE) Financial Sector Charter, the banking and financial industries are starting to address the need for specialised banking services that educate, give access to and increase usage of banking services to the large “unbanked” and second economy sector – the majority of whom are low-income, black, rural citizens. Increasing this access is critical. According to the International Monetary Fund, a country requires a level of savings greater than 20% of GDP to support an annual 3% real economic growth. Growth is crucial to supporting the development of the second economy, to raising the living standards of the poor and to integrating a social and economic cohesion that can bring about political stability through belief in government reforms. But the majority of South Africa’s population is still excluded from an income bracket that, given the current structure of the large banks, would enable such savings. The expensive transaction fees (as demonstrated in the graph below) is just one of these exclusion barriers.

Progressively, over the past couple of years, an increasing awareness is driving innovations to address these shortcomings – and these innovations are starting to unfold exponentially, bringing in new products and players to the scene. Some of these products, such as the Mzansi account, have been in the spotlight for a few years – developed and pushed through by the Financial Sector Charter. The accounts seek to extend banking to the large proportion of the population – 48% – who are part of the low-income, unbanked sector. Since October 2004, the big four banks – Standard Bank, ABSA, First National Bank, and Nedbank – and the Post Office’s Postbank, have offered Mzansi Accounts – accounts that seek to simplify the banking process and cut debilitating fees. The accounts, which have been strongly marketed, still have 11 million of the 13 million-target market to reach (as of November 2005, two million accounts had been opened). However, many of the users have expressed reservations over using them, citing “hidden” costs – or costs that they are not aware of until after they completed the transaction – and lack of congruency with their basic usage of financial services. For example, in addressing this latter point, much of the Mzansi-focused population would benefit if the accounts included debit orders. At the time of writing, First National Bank was the only bank to offer this service (for a fee), with the other banks promising to add similar services to their Mzansi accounts. The banks have stated that the accounts are not profitable. For the big banks, their focus is on integrating people into the banking sector, educating them as to the various opportunities that exist, and then moving them into profitable accounts that will match the expected accumulating growth in real wealth.

The banks’ limited penetration into the 13 million potential target market has created an opportunity for new players to enter, allowing smaller banks to ride on the educational
marketing coat-tails of the bigger banks and to enter the market profitably. Of course not all the profitability of these smaller banks, such as Capitec, come from this coat-tail theory — their structure of small overheads and a satellite and internet technologically-linked banking system has allowed them to undercut the cost structure of Mzansi accounts in some key areas.

Capitec has recognised that most low-income earners tend to draw all their salaries or grants from a bank account at once, due to the costs of ATM transactions. Although the Mzansi accounts have reduced the fees substantially, this has not been enough to incentivize a change of behaviour (i.e. taking out smaller amounts periodically). Capitec has not only eliminated debit card transaction fees, but it is also encouraging responsible spending by setting up debit card readers so that users can check the balance of their accounts before (and after) they undertake a transaction. The bank has also extended the usage and security of its cards by allowing cardholders to load their cards with a certain level of funds, which can be used in off-line modes of rural areas. Combined with Capitec’s high savings interest rate of 10%, it is hoped that users will be incentivised to keep money in the bank, earning interest in a secure place, instead of collecting dust under a mattress.

Even with the opportunity to have a bank account and all the potential services (and fee structures) that go with it, saving and wealth accumulation — and economic empowerment — will only be as good as the access to banking services. Rural communities are a still largely, untapped, financial market. In South Africa it is estimated that 46% of the 14 million unbanked live in rural areas. Many belong to income brackets between subsistence and subsidised living standards — 79% earn less than R1 000/month and 21% earn between R1 000–R6 000/month. The government is trying to influence the banking sector to engage with the unbanked. The Financial Sector Charter paid particular attention to the inaccessibility issue: by 2008 the goal is set at providing banking services within 20km for 80% of these communities. Banks have been able to approach their goal through the rollout of portable branches, ATMs, and cashless mini ATMs.

However, an obstacle remains: educating and encouraging customers to make use of these services, especially with regard to savings. Perhaps the best way for banks to penetrate the unbanked sector, is by harnessing the modes of communication and the technology they rely so heavily on: the cellphone. It is estimated that 49% of the unbanked sector and 29% of rural people have access to a cellphone. The potential to use the cellphone has grown to include all of the major banks partnering with at least one of the three South African national cellular networks (Vodacom, Cell C and MSN) to offer cellphone-based banking services, such as account balance inquiries, payments, transfers and prepaid bill options. Ensuring that users are aware of the services and the associated banking charges will take time. Companies such as Wizzit have addressed this issue through employee formally unemployed township youths — Wizz kids — to create trustworthy marketing and educational links. This point of access is touted to become the primary means of both local banking and of sending and receiving remittances and presents a cost-effective way of increasing banking access for rural areas.

The banks are not only engaging the unbanked sector through bank accounts; the other important modes of possible services which adhere to the growing socio-economic needs of the unbanked sector have become another entry point into which the banks are starting to enter. Housing is such an area — and one that the banks, through the Financial Sector Charter, are having to approach head-on.

The lack of assets that can serve as security, and the cost factors surrounding the monitoring of the small, high-volume loans, pose dilemmas for the development of the constitutionally-protected right to housing. FNB, who allow the working class to use 80% of their pension/provident funds as security, has at least tried to create some sort of access to housing finance, although an inappropriate amount of the risk falls upon the loanee. The need for responsible and appropriate risk-sharing is a space that has yet to be fully developed, but is one that is on the cusp of expansion, with the integration of NGOs, such as Kuyasa (a small housing microlender), as a possible means of appropriately addressing this trade-off equation.

The banks are also bringing in the unbanked through addressing other characteristic routines. For example, remittances represent a R6 billion market annually in South Africa; government pension and benefits have become a primary source of income for the poor; and prepaid services are used by 90% of the unbanked segment. In facilitating remittances, the Mzansi Money Transfer Account, (started in September 2005) has allowed money transfers to be sent from one bank and accessed at any other participating bank — ABSA, Standard Bank, Nedbank, FNB and Post Office bank — with additional cost. It helps to re-affirm the benefits of using financial services through increasing money transfer security (transferring from bank-to-bank instead of via taxis or friends). ABSA has taken advantage of the ritual of pre-payments by setting up kiosk centres around gas stations. It is growing the list of “financial service benefits” by offering convenience and accessibility. Government pension and benefit payments, combined with Smart Card technology, has led to the development of ABSA’s Sekulula card accounts, where the payouts are paid electronically to an account and accessed through a debit card. This innovative process has streamlined the paper administration for both the government and the receiver and has simplified the monetary transactions — although concerns regarding costly transaction fees, which can severely deplete a recipient’s only source of income, have been raised. Educating users as to these fees is a very important process if banks are going to be seen as a beneficial and trustworthy mode of monetary transactions.

The growing emergence of insurance products for low income earners is a key development, underlined by the fact that they are the market segment that can least afford to replenish stolen or destroyed items. Insurance, in the past, has been an area in which the low-income earner has been ignored, save for community funeral insurance schemes. Addressing this need has led to a number of products, such as shack insurance and cellphone coverage. South Africa’s Insurance Association (SAIA) ‘shack’ insurance is slated not only to cover the contents but also the structures themselves, against damage from weather, fire, or lightning, with a limited amount for theft. The affordable premiums, between R15 and R150 per month will be available to all those earning less than R3 000 a month. Cellphone coverage, offered by SAs two largest short-term insurers, Santam and Mutual & Federal, is set to cost R10 per month. For the small, medium, and micro enterprises, Advoc8 — a legal insurance policy launched by cre8 and LEXCorp — offers legal protection and assistance. Added to these developments is the ban on HIV exclusion in insurance policies — opening up opportunities that will support survival interventions.

All of these innovations, opportunities, and remaining challenges underline the special significance of financial access in engendering economic growth and savings, especially in a country characterised by a dual economic structure such as South Africa. The necessity for access cuts across all sectors, notably banking, education, housing, and in increasing economic and entrepreneurial opportunity. By expanding financial services to a still, largely untapped market, innovative financial products can catalyse the potential of that market not only to spend, but to build and to grow.

For further information, contact: Laurel Steinfield
Tel: +27 11 643-6604 E-mail: laurel@aiccafrica.org
Website: www.aiccafrica.org
China continues to deepen its presence in Angola with for example the announcement by the China International Fund that it will be reconstructing the strategic Benguela Rail Line. China’s US$2 billion credit line to that country is being utilised in a wide range of infrastructure sectors including road rehabilitation and power supply. It is also reported that Angola has negotiated a US$560 million loan from the Chinese for the planned construction of a new airport in Luanda.

A number of new rail projects are being mooted. A consortium is considering the construction of a Botswana-Namibia Rail Link that would cost around US$1 billion. A Chinese company that is involved in Iron ore prospecting in Mayumba, Gabon is referring to the need for a 100-kilometre rail line to link Tchibanga to Mayumba.

New airports are also being considered. Apart from the abovementioned proposed airport for Luanda, the Gabonese government is strongly promoting the concept of a new airport for Libreville despite some opposition from some donors. The cost would be about US$250 million.

Seaports are receiving attention. In the DR Congo, some procurement and supervision contracts are underway for improvements at Matadi Port. A national company has been established by the DRC to study and promote a deepwater port at Banana situated at the mouth of the Congo River. More expansion is taking place at the important strategic Port of Dakar, Senegal. The container terminal at Toamasina Port, Madagascar is receiving new investment for improvements.

The World Bank has approved a further loan of US$230 million for the development of the Tanzanian road infrastructure.

In Madagascar, much attention is being paid by the donors to the country’s troubled power and water utility, JIRAMA. A donors meeting to address the utility’s problems is being organised for mid-2006 in Paris. Work on a new power station in N’Djamena, Chad has begun. Another new power station is planned for Nouakchott, Mauritania.

A new water treatment plant in Kano State, Nigeria should be completed early 2007.

The French company, SAGEM has been selected to install the 2 000-kilometre Fibre Optic communications network in Madagascar. The privatisation of Malawi Telecommunications appears to be proceeding following the rejection of an offer made in mid-2005 that was considered too weak. A consortium that is in strong contention includes the Press Corporation of Malawi with the country’s largest insurance company, NICO. This group reportedly also has German and South African participation.

Recent announcements of expansion of mobile telecommunications networks have been made with regard to Burkina Faso, Cote d’Ivoire, the Seychelles and Zambia.

Wanbao Mining of China has received authorisation to prospect for Iron ore in Mayumba Province, Gabon. If successful, much support infrastructure will be required including a rail line and a new deepwater port to facilitate export of the product.

Mining prospecting in Madagascar continues at a considerable pace. Jubilee Platinum has reportedly found good Nickel indications at Antsahabe. A Canadian junior has acquired two permits for Gold exploration in the north of the island.
The important Moatize Coal Project situated in the Zambezi Valley, Mozambique appears to be at a critical stage. The Brazilian managers and their partners are reportedly awaiting finalisation of certain aspects of the project before commencing a project “road show.”

Some US$100 million will be invested in renovation and rehabilitation at the site of the Kansanshi Copper Project in Zambia.

Work will commence at the end of 2006 on the Blingen Iron ore project in Gabon. A consortium of Chinese, Brazilian and French companies has been established to tackle the project.

Alcan is reportedly preparing to invest 500 billion CFA for the tripling of Aluminium production in Cameroon. The country’s Bauxite deposits will be exploited.

In Angola, there are repeated announcements of production from new deposits. A recent example is the beginning of production from the Belize Deposit in Bloc 14.

ExxonMobil is preparing to drill in two recently acquired offshore blocs in Madagascar. There appears to be considerable optimism regarding the island’s potential as a future oil producer.

A number of companies have shown interest in investing in the planned SONAREF Refinery in Lobito, Angola. The project is clearly a priority for the government.

Indorama of Indonesia has purchased the Port Harcourt Petrochemical Plant in Nigeria. Chinese companies have reportedly manifested their interest in buying the second refinery in Port Harcourt as well as the Kaduna Refinery in the north.

The independent oil company, Perenco has signed an agreement with the Gabonese power utility, SEEG for the supply of gas through the construction of a 400-kilometre Gas pipeline that links one of its fields to Libreville through Omboue.

As usual, there has been little news of new projects in these sectors. Gabon’s first fish processing plant at the port of Owendo has been inaugurated. President Obasanjo has inaugurated West Africa’s largest dairy production plant in Lagos. Irish companies are executing the project. The promoter of a small rice project in southern Mozambique is now reporting success despite years of difficulties and delays.

A number of African heads of state met in 2005 at a ‘Fish for All’ summit to promote fisheries and aquaculture in the continent.

Shopping centres are being planned or constructed in Angola (where the Belas Centre in Luanda Sul is being constructed), in Accra, Ghana (where a new shopping mall is planned), in Swaziland (where the Ezulwini Valley Centre and Office Park is being planned), and Tanzania (where the Nilimani City Centre in Dar es Salaam is being constructed.)

There is considerable, current leisure project development in Malawi. A hotel and conference centre is being promoted for Blantyre and there are plans for a hotel and residential flats complex in Lilongwe.

South African property developers and marketers are expanding and the Pam Golding Property Group has been appointed global marketers for the US$300 million Eden Island Marina Development in the Seychelles.

There are reports that hotel development in the touristy Livingstone area of Zambia has not reached an end and that a number of new projects are being planned including another new hotel.

In Mozambique, the Golf Club Polana and the contractor, CETA are redeveloping the Polana Golf Course and Estate.

The National Development Corporation of Tanzania is in the process of developing the Tanga City Industrial Zone near Dar es Salaam Port for medium enterprises including light engineering firms.

The French group, Lafarge will be constructing a new cement plant in Zambia. The cost will be about US$100 million.

Projects for which investment is sought include the Kimpese Cement Plant in the DR Congo and an extension of a polypropylene bagging plant in Madagascar.

Skyrun FZE International of China and a local firm have opened an air conditioning assembly plant in the Free Zone of Calabar, Nigeria.

In the areas of environment and wildlife conservation, Gabon is making strong progress with the recent establishment of an organisation to manage the country’s thirteen National parks that now protect about 11% of the national territory.

In the last edition of The Projects Pages, I made reference to progress made by India in accessing African projects. The inserts above indicate an even stronger penetration by Chinese companies in a wide range of resource-oriented and industrial sectors. Africa is becoming increasingly immersed in the global dimension and Africa-watchers will have to spread themselves geographically wider in order to understand and remain abreast of developments in our continent.
Kenya’s Environmental Law

Richard Harney
Kaplan & Stratton

Kaplan & Stratton is part of the Lex Africa legal network, a network of leading African law firms

Background

The Environmental Management & Co-ordination Act, 1999 brought Kenya’s environmental laws into line with the various international treaties, conventions and protocols to which the country has been a signatory. It also brings under one statute the many earlier provisions of Kenyan law regarding the environment.

General principles

The Act begins with General Principles: “Every person in Kenya is entitled to a clean and healthy environment and has the duty to safeguard and enhance the environment”. Anyone who has been or is likely to suffer an infringement of his basic entitlement to a clean environment can apply to the High Court for redress and for the High Court to make such orders or give such directions as it thinks fit: to prevent, stop or discontinue any act or omission that damages the environment; to compel any public officer to take measures to prevent or discontinue any act or omission that is damaging the environment; to require that any on-going activity be subjected to an environment audit (see below); to compel the persons responsible to restore the degraded environment and to provide compensation for any victim of pollution and compensate for an act of pollution and other losses etc.

The right is conferred on any person even if they may not be able to show loss or injury. The High Court has to follow a set of overarching principles of sustainable development which are part of the international environmental law regime. These are:

- The principle of public participation in the development of policies, plans and processes for environmental management.
- The cultural and social principles traditionally applied by communities in Kenya.
- The principle of international co-operation in the management of environmental resources shared by two or more states.
- The polluter-pays principle.
- The pre-cautionary principle.

In the corporate and business arena the potential impact of the Act applies in three main areas:

- Compliance with prescribed quality standards for business e.g. waste disposal, noise or emissions control.
- The clean-up costs of restoring the environment to acceptable standards arising from present or past practices.
- Project development. Any of the activities listed in the Second Schedule to the Act may require an environmental impact assessment study and licence before it can proceed. A lender should not agree to lend to a project developer until this aspect of the law is complied with.

All of the above suggests that the introduction of the Act in Kenya, while welcome in many quarters, brings with it an added level of corporate/social responsibility for business. Compliance measures could be onerous and costs could be high.

The institutions established under the Act

National Environment Council

The NEC is responsible for developing national policy, goals and objectives and promoting co-operation between public offices, local authorities, private sector and other organisations.

National Environment Management Authority (NEMA)

Its purpose is to exercise general supervision and co-ordination over all matters relating to the environment and to be the principal Government agency regulating the environment. It directs line agencies, Ministries, and other bodies responsible for implementing environmental policies established by the NEC. NEMA also establishes various committees to administer the law such as the Provincial and District Environment Committees, a Public Complaints Committee, a Standards and Enforcement Review Committee etc.

National Environment Tribunal

The NET hears appeals on decisions of local committees, or by NEMA, on all aspects of the Act and has wide powers to make rulings. Appeals against its decisions lie to the High Court.

Environmental Impact Assessment (EIA)

Those who wish to undertake projects listed in the Second Schedule to the Act have to undergo an approval process. The activities are: Urban Development viz. new townships, industrial centres, shopping complexes or expansion of the same; Transportation; Dams, Rivers and Water Resources; Aerial Spraying; Mining; Forestry; Agriculture; Processing and Manufacturing Industries; Electrical Infrastructure; Management of Hydrocarbons; Waste Disposal; Natural Conservation Areas; Nuclear Reactors and Major Developments in Biotechnology and any general activity that is out of character with its surroundings, any structure of a scale not in keeping with its surroundings and any major changes in land use.

Assuming that the project will have some impact on the environment, the proponent will be required to comply with the Act and the Environmental (Impact Assessment & Audit) Regulations 2003. It must submit a project study/report (EIA) to NEMA before any financing for or commencement of the project. If compliant NEMA will issue an environmental impact assessment licence. However, if a person receives no response from NEMA for a period of three months he may proceed with his project regardless.

Environmental audit and monitoring

NEMA is responsible for carrying out an environmental audit of all activities that are likely to have a significant effect on the environment. For this purpose NEMA can appoint environmental inspectors. These people are empowered to enter any land or premises for the purposes of determining how far the activities carried out conform with the statements made in the EIA report issued for the project.

Environmental quality standards

NEMA is empowered to set, control and enforce standards for:

- water quality
- air quality
- wastes
• pesticides and toxic substances
• noise
• ionising radiation; and
• noxious smells.
Offences and penalties are imposed for contravention of the standards.

Manufacturing and industrial concerns in Kenya are now faced with a range of additional compliance issues as a result of the introduction of these quality standards for the environment in the Act. These range from:
• An EIA (see above).
• Written approval of the Director-General of NEMA for permission to develop in or around lakes, wetlands, rivers.
• A licence to discharge effluents or pollutants.
• A licence for emissions into the air.
• A waste disposal licence.
• A hazardous waste transport permit.
• A noise permit.

Offences
There are a wide range of offences and penalties imposed under the Act. All offences are punishable with a fine and/or a term of imprisonment or both. The Act also covers the position where offences are committed by bodies corporate, partnerships, agents and employees. Most importantly in the case of a body corporate, every director or officer of the company who had knowledge of the commission of the offence and who did not exercise due diligence, efficiency and economy to ensure compliance with the Act will be guilty of an offence.

In addition to any sentence the High Court may impose on an offender, a polluter can also be ordered by the Court to pay the clean-up costs of restoring the environment, removing the pollution and, if necessary, to meet the cost of the pollution to any third parties through compensation, restoration or restitution.

There is nothing yet under Kenyan law to suggest that lenders to a project sponsor may be held liable for environmental claims. However, the development of the law is in its infancy and there is no definitive answer as yet. Therefore, although there is no present reason to suppose that lenders would be held so liable, this does not mean it is not possible. Lenders and other subsequent holders can only assess their potential liability by carrying out appropriate due diligence.

Conclusion
The Act is a bold step in the right direction. However, there are still some major issues around its implementation – such as to how this can be funded given the Government’s obvious needs to prioritise allocation of limited budgetary resources. Enforcement will be a key consideration for any person aggrieved or who is affected by environmental pollution. Unfortunately in Kenya, more legislation and more bureaucratic red-tape opens up more possibilities for corrupt practices to hamper the system.

Investors, project sponsors and lenders are strongly advised to take account of the provisions of the Act, and as necessary, to conduct detailed due diligence before proceeding to commit funds.

For further information, contact:
Richard Harney
Email: rharney@kapstrat.com
www.kaplanstratton.com

Vicky Bunyan
Tel: +27 11 535 8188 Fax: +27 11 535 8600
e-mail: vbunyan@werksmans.co.za
website: www.werksmans.co.za
Business and thought leaders to converge on Johannesburg

Eight of the world’s most inspiring business and thought leaders will be in Johannesburg in June for the first ever Global Leaders Africa Summit.

In addition to addressing the 1,500 delegates expected to attend the three-day event – taking place 20-22 June – they will also interact with select business people in private “Up Close and Personal” sessions.

“The Summit will provide a once in a life-time opportunity for local business and government executives to listen to some of the world’s leading minds on various topics, including branding, social economics, land transformation, political and business leadership and more,” says Tina Schneidermann, President of Global Leaders, the driver of the Global Leaders Summit series.

“Above all, the event promises to enhance African leadership by bringing new perspectives and invaluable insights which harness the personal experiences of overseas and local speakers”.

The international business leaders who will address the Global Leaders Africa Summit are:

- Carly Fiorina, Former Chairperson and CEO, Hewlett-Packard
- Rudolph Giuliani, Former Mayor of New York
- Hernando de Soto, President – Institute for Liberty and Democracy, Peru and author of “The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else”
- Daniel Pink, author of “Free Agent Nation” and “A Whole New Mind”
- Scott Bedbury, Former Marketing Chief for Nike and Starbucks and author of “A New Brand World: 8 Principles for Achieve Brand Leadership in the 21st Century”
- Clayton Christensen, Professor of Business Administration at Harvard Business School, author of “Seeing What’s Next”, and former missionary in Korea
- Tom Peters, management guru and one of the most influential business thinkers of all time; and
- Michael Porter, Harvard Business Professor and expert on competitive strategy. He will be joined on stage by local thought leaders including:
- Dr Charles Villa-Vicencio, Executive Director of the Cape Town-based Institute for Justice and Reconciliation;
- Wiseman Nkuhlu, former economic adviser to President Thabo Mbeki and Chief Executive of NEPAD, current chairman of Pan-African Capital Holdings Ltd; and
- Crispin Sonn, general manager, Old Mutual Personal Financial Advice & Private Wealth Management.

According to Schneidermann, there is an important difference to the Johannesburg event: half the speakers either currently live in – or have – first hand experience of life in a developing country.

“Theyir presentations will reflect this experience, ensuring the Summit is truly relevant for local business leaders who operate in both a global and African context as well as government leaders.

“The remaining speakers will provide an international perspective on issues that impact business and political leaders, regardless of their location,” Schneidermann says.

Welcoming the announcement of the Global Leaders Africa Summit, Dr Wiseman Nkuhlu says: “Africans have grown weary of the hopeless poverty that has characterised their continent for decades, and are taking decisive steps to move away from the problems of the past. Now there is a new style of leadership emerging throughout the African continent – leaders that are committed to democratic values, transparency and to the principles of economic growth”.

“South Africa has all the tools to compete in the new global village – an eager workforce, ready to take on any challenge,” says global thought leader, Tom Peters.

All the speakers will each address the Summit over the first two days (Michael Porter will only speak on day 3). On the final day, Tom Peters will conduct a morning workshop during which he will share what he terms “ultimate leadership success secrets” with delegates and Porter will run an afternoon workshop during which he will share his latest research on the competitiveness of Southern Africa as well as his latest (yet unpublished) thinking on Competitive Strategy for companies.

Global Leaders Africa Summit is supported by the African Leaders Foundation, an organisation established to harness the impact of the Summit across business and government in Africa.

Members of the African Leaders Foundation include Dr Namane Magau, President of the Businesswoman’s Association of South Africa and MD, Business and Development Solutions; Ms Philisive Buthelezi, CEO, National Empowerment Fund; Professor Stella Nkomo, lecturer in Leadership and Change Management at Unisa’s Graduate School of Business Leadership; Dr Donald Kabukker, President, African Development Bank; Evelyn Mungai, President, All African Businesswomen’s Association; and Summit speakers, Charles Villa-Vincencio, Crispin Sonn and Wiseman Nkuhlu.

Commenting on the establishment of the African Leaders Foundation and the announcement of the Global Leaders Africa Summit, Evelyn Mungai said: “What you have is a very noble idea whose time has come. To unlock people’s potential for a better Africa and for a better world is clearly the way to go”.

Her sentiments were echoed by Dr Magau who says discussions on the African and international leadership model is important, as it will contribute to new insights of a dynamic world that thrives on innovation and diversity.

She points out that African leaders have unique experiences to bring to the international world. “Their insights reflect their exposure to global dialogue and challenges. In the same way other international leaders bring unique experiences from their environments and benefit from the diverse global leadership perspectives”.

For further information, contact:
Tel: +27 11 881-5438
Email: info@globalleadersafrica.com
Website: www.globalleadersafrica.com
What role does CASA play in the South African gambling industry?
The Casino Association of South Africa was founded in 2003 with the aim of creating a better understanding of casino entertainment by bringing the facts about the industry to the general public, the media, elected politicians, regulators, policy and other decision makers through education and advocacy. A board of chief executives representing casino operators leads CASA.

CASA’s members are employers, property owners and taxpayers and in these capacities have to be responsible corporate citizens.

CASA conscientiously represents the interest of the industry and of the public it serves, and will continue to play a constructive and positive role in the evolution of good public policy and good governance in respect of the casino industry.

How many casinos does CASA represent?
CASA represents 32 of the 33 casinos which are currently licensed in South Africa.

Some 1.20% (R87.2-million) (latest figures) of the total income of the casinos goes to Corporate Social Investment (CSI). Do you foresee a considerable increase in the casinos CSI spend in the near future?
Decisions about the level of corporate social investment spending are not made in CASA, but rather by individual companies and their shareholders. I therefore can’t comment on what their intentions might be in the future, but I think it is fair to say that our members already contribute substantial sums, as you point out, in respect of social responsibility expenditure.

Please give us some examples of the type of sectors that benefited from, and how much was spent on, CSI projects by your members?
Our members invest in a wide variety of projects in education, health and welfare, enterprise development, sport, arts and culture. Examples vary from the SA Red Cross Air Mercy Services, to rural schools and school feeding projects, to Disability Sports SA and the KwaZulu Natal Philharmonic Orchestra. The full list of beneficiaries runs into hundreds of organisations.

How do the casinos determine the beneficiaries of CSI projects, i.e. do they get approached by the organisations/communities for funding?
This question would need to be addressed to the individual companies concerned, but yes, they receive requests for funding from NGOs and community structures, and those are judged according to the relevant
A recent Wits University study showed that under-age gambling is on the increase. What measures are CASA and its members putting in place to combat this problem? Perhaps the most salient observation to be made is that the prevalence of young people in South Africa to gamble is within what is described as “international norms”. In the formal, regulated industry it is lower than in many other jurisdictions. For example, 1.4% of adolescents in the study claim to have laid bets at a casino, in person or through a third party. In Australia and some US jurisdictions the number is twice that amount, and of course in arcades, British children of all ages are legally entitled to play low-prize slot machines.

In both Britain and the US, the prevalence of problem gambling among adolescents is 6% higher than in adults. However, it should be pointed out that the relatively high percentage of adolescent gamblers in the Northwest Province can probably be ascribed to the fact that there are still a considerable number of unlicensed operations that are active in that province.

What is clear from the report is that at gambling venues where there are well-policied access controls, such as casinos, there is a much lower likelihood of adolescents being able to gamble.

Thus, it is no surprise that the number of young people who claim to have gambled in a casino in person or by agency (1.4% of the sample), is substantially less than those who have purchased lottery tickets (9.1%), scratch cards (4.5%) or indulged in sports betting (5%).

Similarly, unregulated or informal gambling, presumably in playgrounds or at home, features much more regularly than casinos. Gambling and wagering via flipping coins (3.5%), informally organised card games (2.7%), cellphone gambling (2%), or dice (1.9%) for example, show a much higher participation from young people than those who say they have gambled themselves, or via a third party, in a casino.

We note the researchers’ concern over the amount of adolescent gambling on the lottery, the most common form of gambling practised by young people. It is thought-provoking that the study speaks of the growing tendency of learners to disassociate the lottery from mainstream gambling, which, after all, it is.

One acknowledges that many young people have a high propensity to take risks, and this is a reality not just in South Africa, but throughout the world. It is very much true of the behaviour of some adolescents in respect of alcohol consumption, drugs, unprotected sex and smoking, as it is with gambling.

This is why the casino industry has helped to fund, through the National Responsible Gambling Programme (NRGP), an extensive public education programme about gambling and the need for young people to understand not just the law in respect of gambling, but the risks.

Over the past three years, the NRGP has educated over 50 000 learners at nearly 180 schools as part of this comprehensive initiative, in addition to the programme’s regular public service education campaigns.

The Wits research makes the important point that parents also have a significant responsibility to not only engage with their children on the subject of high risk behaviours, but it notes that most young people who claim to gamble do so with funds from their parents. Clearly this is something which needs attention.

Is there anything you wish to add?
The legislation of casino gambling in South Africa introduced a rigorously and effectively regulated legal industry that has contributed very substantially to the public purse and funded considerable infrastructure in South Africa’s leisure and tourism sector.

In 2002, the National Gambling Board commissioned a study to establish the economic impact of gambling in South Africa, including its contribution to GDP. It found that the initial impact (measured as the direct spending of gambling institutions) of the gambling sector in 2000 amounted to just more than R3-billion with an additional spillover effect (indirect and induced impact) of R6.1-billion.

The study also looked at capital investment and found that just between 1997 and 2000 no less than R10.1-billion was invested, representing 2.1 % of the total South African capital formation of R493.7-billion during the same period.

Since then, it has been estimated that in only eight years the casino industry has been responsible for more than R12-billion in new investment in all nine provinces, adding more than R36-billion to GDP in terms of economic multipliers. The industry has created almost 100 000 direct and indirect jobs and in 2005 alone, accounted for over R2.7-billion in various forms of taxation. Casinos account for more than 83 % of all gambling taxes paid to government, according to the National Gambling Board.

It is thus a significant industry by any yardstick, and in particular, it is a key component of South Africa’s tourism and leisure industry. In recent years, CASA members have invested heavily in infrastructure and tourism plant, including two new international convention centres, and over 5 000 new hotel rooms, for example, and a wide range of other public interest projects and spending, as various as internationally-known golf courses, new roads, eco-tourism facilities, airport re-development, museums, and wellness centres, to mention but a few.

There is also clear evidence that the casino sector has substantially advanced Government’s economic transformation agenda in respect of the tourism and leisure industry. Previously disadvantaged shareholders enjoy substantial control (just over 60 % of voting shares, on average) in the casino industry, while these same shareholders have, on average, a 38 % effective economic interest in South African casinos. On both counts, this exceeds comparable sectors. The industry’s fulfilment of its black economic empowerment obligations through recruiting, training, procurement, outsourcing and other measures is constantly monitored by the authorities.

For further information, contact:
Derek Auret
Phone: +27 21 409-2460
Fax: +27 21 419-7271
Email: derek@casasa.org.za
Mozambique on the road to recovery from the ravages of civil war

Gordon Feller

Mozambique has staged a dramatic recovery from the damage of the civil war. Since 1992, infrastructure has been improved and is now approaching its pre-war levels – and incomes have risen considerably. On average, the Mozambican economy grew by 8% annually between 1996 and 2003 and the poverty headcount fell from 69% in 1996/97 to 54% in 2002/3.

This accomplishment can be attributed to the Government’s phased but determined approach to stabilisation and structural reforms, as well as to concessional assistance (half of Government expenditures), a remarkable agricultural “catch-up”, an expansion of agricultural exports, and fast expansion in tourism, construction, and certain manufacturing sub-sectors.

Another factor was the authorities’ success in attracting “mega-projects” in aluminium smelting, natural gas, and titanium mining, and a resulting tripling of exports in three years.

One other factor, which was a pre-condition for all of the above, was that the country was successful in bringing about reconciliation, ending the civil war and in managing potential conflicts since that time. Mozambique recently had its third general and presidential election.

Nevertheless, the country remains poor ($240 per capita income); infrastructure is inadequate, there are serious unmet education and health needs and poverty rates remain high. Many of the “first-generation” reforms associated with market liberalisation have already been implemented. The country now faces the prospect of tightening macro-economic constraints, a need for substantial institutional improvement to make growth sustainable, an increasing need for better prioritisation and management of public expenditures to eliminate absolute poverty – and massive investment in infrastructure to promote growth and further reduce poverty.

The World Bank’s “Country Economic Memorandum” has examined the growth-poverty linkage, using a wide variety of data sources, including the national household survey of 2002/3. It has sought to understand the sources of growth in the recent past, to evaluate the prospects for growth in the next decade, to examine the likely implications for poverty and to outline the policies that will be needed to achieve further growth and poverty reduction.

The reason for this focus at this time is that the Government was planning to develop its second Poverty Reduction Strategy Paper (the “PARPA” in Mozambique) and it was felt that a substantial contribution in the area of growth and poverty might make a useful contribution.

On account of the light coverage the subject has received in other sector work, bank-produced and otherwise – the Country Economic Memorandum also examines the relevance of natural resource management to growth and poverty objectives. It was found, in the event, that natural resources are of great importance for both growth and poverty reduction. Hence it is hoped that in the future the natural resource issues will be fully integrated with the national policy discussions.

Mozambique’s population of 19 million is projected to grow at about 2.4% annually between 2005 and 2010. Since dependency rates are falling, and the country is one of the most land-abundant in Africa, population dynamics have not been a major driver of poverty trends; indeed, demographic dynamics have helped support rising per capita incomes and falling poverty. The urban working population is expected to grow at 4% until 2010, underscoring the need for a growth path with job creation.

How was 8% growth accomplished? The preconditions for healthy growth were met with a tolerably stable macro-environment, steady progress towards liberalising key sectors (for example telecoms, air transport) and steady progress in freeing up internal and external trade. In addition, there were several idiosyncratic factors including massive concessional assistance.

As regards the macro-environment, inflation was brought down from over 60% to single digits in the late 1990s and despite some slippages in the wake of the banking crisis in 2000–2002, is expected to remain in the single digit range in the future. Government spending increased markedly (24% of GDP in 1997 to 30% in 2002, then falling to 24% by 2004) but there was little borrowing from the banking system as the spending was handed from increased concessional assistance (and from a modest increase in revenues).

Since 2001, the Government’s fiscal and monetary stance has been guided by the Programme of Action for the Reduction of Absolute Poverty (PARPA), which stresses the key role of macro-stability, envisages steady...
increases in revenue, and brooks no borrowing from the banking system.

As regards liberalisation, state-sponsored interventions in the agricultural economy were all but eliminated by the mid-1990s. Telecoms were liberalised significantly from 2001 onwards and cell-phones increased from 51 000 in 2001 to 700 000 by 2004. Air traffic was liberalised in 2002, and 2004 saw the first new entrant competing on domestic routes, and the first tourist charter flights.

As regards trade, through the 1990s, import tariffs were steadily lowered to the point where average tariff is 9%, one of the lowest in Africa. The plan is to reduce the top tariff rate to 20% in 2006. Management of customs was contracted out during the 1990s, and the efficiency of collection improved. Export performance has been strong, growing at 22% annual growth (in US$ terms), well above the performance of world exports (6%), making Mozambique one of the few countries in Africa whose share in world exports has risen. Most of the export expansion was, however, due to mega-projects. Traditional exports grew at only 2.3%.

Mozambique benefited from three idiosyncratic factors: Agriculture, which supports 80% of the population, grew at 6.8% per annum between 1992 and 1997, slowing to 4.6% per annum between 1997 and 2003 (including the impact of the floods of 2000). The main contributors are food grains (maize), sugar and tobacco. About half of the growth between 1992 and 2003 was due to area expansion (2.4% annually) and the remainder labour force growth and yield improvements.

Growth in certain regions such as Tete has been stronger owing to trade. A substantial part of the growth is due to a “bounce-back”, in two senses. Crop yields, which had fallen precipitously during the socialist period and the war, quickly recovered to their original levels during the 1990s. In the other sense, during the course of the 1990s the area harvested rose back to its original pre-war levels, as war refugees returned to their farms. In addition, off-farm income (micro-enterprises, wages and remittances) was important in the three southernmost provinces, which depend on links with Maputo city.

Mozambique is one of the big recipients of concessional assistance in Africa (some 12–15% of GDP, accounting for half of Government spending). The aid succeeded in assisting the Government to pursue its aims of improving access to and quality of services – to judge by the improvements in education, health and roads – and in improving somewhat the level of fiduciary accountability. (An exception is HIV/AIDS, which continues to spread.) Modelling approaches show that aid was responsible for a substantial part of Mozambique’s impressive growth record.

Another factor is the mega-project phenomenon. Attracted by fiscal benefits and natural resources, several very large investors entered Mozambique after 1997, starting with the MOZAL aluminium smelter. By 2002, these accounted for 7% of GDP. Their contribution to GDP growth was perhaps as much as 1.6 percentage points annually. Their share of GDP will rise to 10–11% by the end of the decade. The mega-projects helped put Mozambique on the map, and will probably encourage non-mega-project investment also. All these effects have been positive to a greater or a lesser degree, and no negative effects have been observed. Hence there is at least a prima facie case that the authorities’ unorthodox policy of tax incentives has been successful.

All this meant that growth was broad-based. In addition to agriculture, there was substantial growth in some parts of the private formal sector – manufacturing, transport, communications, services, mining – where average growth rates (in real terms) between 1995 and 2003 varied between 5 and 15% annually. Some of this was due to the re-establishment of traditional markets such as tourism from the region, hotels and restaurants. Some constituted new investment, much of it from neighbouring countries.

This was growth from a very low base and so these rates are not likely to be as high in the future. The number of people active in the urban informal sector grew at the fast clip of 7–8%, driven by rural-urban migration and fast growth of the working age population.

How did poverty fall? The fall was faster in rural areas (from 71 to 55%) than in urban areas (62 to 52%). Nonetheless, poverty continues to be primarily a rural phenomenon because the bulk of the population is rural.

Poverty can also be measured by assets, access to services, and social outcomes. These also improved. Radio and bicycle ownership rose. Safe water access rose from 24% to 37%. As of 1996–7, 8% of all adults had completed primary school; this rose to 11% by 2002/3. The key health indicator is the infant mortality rate, which fell from 149 in 1995 to 101 in 2003, one of the fastest reductions observed in Africa.

Several policy-relevant factors can be identified as having had considerable importance in reducing poverty between 1996–7 and 2002–3. From the sectoral point of view, the dominant factor in explaining Mozambique’s poverty performance is the good performance of agricultural households. This is because of the vast size of the agricultural sector relative to other sectors of employment.

The increase of education helped to reduce poverty. This is because the levels of education rose and because the impact of education on wages (and consumption) is considerable. The impact of an extra year of education on the wage is of the order of 3% in agriculture in rural areas and between 5 and 15% in non-farm activities in rural areas – and also in urban areas – and the impact rises at the ES2 and tertiary levels.

Linkages do exist between growth and poverty reduction. How did the growth process contribute to reducing poverty in the period 1996 to 2003? First and most important is to note that while GDP grew at 8% in the period 1992 to 2003, private consumption as measured by the national accounts grew at a more modest 2–4%, depending on the specific time period. (The wedge between these was due to rising investment rates and steeply increased exports associated with the mega-projects). It was this consumption growth that led to the observed reduction in poverty.
Innovative adaptation:
Adapting global personal protection equipment to the African oil and gas industry

Traders spoke with Ajen Maharaj of DuPont Personal Protection (DPP), to find out how their fire protection garments are adapted to suit the African climate.

What areas of industrial protection does DuPont PPE cater for?
There are three types of hazards that we support. One of them is heat and flame protection; the next category is chemical and particle protection – in other words a chemical splash or exposure of the skin to particles that could cause skin irritation. Thirdly, we look at mechanical protection, which is essentially the protection of hands against cuts and lacerations.

Adapting a product to suit Africa is innovation in itself, with regards to this, how do you go about establishing the criteria to be taken into consideration?
When selecting protective clothing, essentially we look at three different criteria, both from a client perspective and the supplier’s perspective. We initially look at the hazard and how the protective clothing will need to form a barrier between the worker and the hazard. Secondly the product must be economical, in terms of durability (while giving the wearer the appropriate protection). The third criteria is comfort – if the clothing is not comfortable, people are not going to wear it correctly. Because it is so hot in Angola and so humid in Nigeria; we find people opening up the garment to tie it around the waist.

Africa is not Europe or the North Sea – where workers must deal with foul weather. In Africa there is high humidity – in some parts greater than 85%, there are also high temperatures. In this climate it is essential that the subject is comfortable, how do you ensure this?
Because your skin breathes, it is important to ensure that you have good moisture management properties in the garment. We want to make sure that the wearer doesn’t open his garment and tie it around his waist; it must be comfortable enough to be worn in the way it is intended.

In the 1960s DuPont invented an aramid fibre, and branded it Nomex®. Nomex is an inherently fire-resistant fibre – this means that it does not support combustion i.e. it doesn’t burn. We are a global leader in heat and flame protection as a result of this technology. Formula one racing drivers as well as their pit crews use Nomex®, as a multi-layer garment, where, in the event of a flash fire, burn injuries are minimised.

To facilitate moisture management properties, DuPont researched fibre geometry and its impact on moisture transport. The Nomex® fibre has a specific shape, which promotes the wicking away of sweat from the body, hence contributing significantly to ergonomics and comfort in the African environment. The fabric also has a low moisture regain, unlike cotton, which absorbs a lot of water.

The other comfort benefit of Nomex® for the African climate is weight. In comparison to flame retardant treated cotton, Nomex® is 40% lighter.

DuPont™ Nomex® is ideal for tropical climates such as in Africa. Based on the technological advancements and the introduction of Nomex Comfort, a new generation fibre, Nomex® provides an excellent balance between comfort, durability and protection – significantly better than normal fire retardant treated cotton.

With regards to DuPont’s increased focus on oil and gas, how has your product been adapted to this industry?
Workers on oilrigs, or in similar environments, are dealing with volatile materials coupled with the constant risk of a spark that could result in a flash fire. In such a potentially hazardous environment, you need to equip yourself adequately against the hazard.

Nomex® has become a standard in heat and flame protection in the oil and gas industry. If you had to expose a worker wearing pure cotton to a flash fire for 4 seconds, the wearer would incur 92% total body burns, of which 80% will be third degree burns – with minimal chance of survival.

How are your products of this nature tested?
At DuPont’s technical centre in Geneva, we have a thermal testing facility called ‘Thermoman’. Thermoman is a mannequin equipped with 122 sensors, which is linked to a computer. It calculates the total burn injury and then splits these into second and third degree burns, also profiles the positioning of the burns as it would occur on the human body.

When testing, we dress the mannequin with a Nomex® coverall, and then subjected it to a four-second test. The simulated flash fire is equivalent to fire, which occurs on a petrochemical plant or a drilling rig.

Is the use of Nomex standard in oil and gas operations?
In upstream operations, where crude oil is being extracted from the source, yes it is. In downstream operations, we have a well-entrenched market position with companies who value superior safety performance.

What challenges do you face when introducing a new product into Africa?
The first challenge is generally related to the safety culture of organisations. Much of the work conducted by DuPont focuses on ‘best-in-class’ protection strategies for oil and gas workers. Secondly, there is inadequate legislation to support the optimum protection of workers in meeting global standards.

We certainly don’t have stringent enough legislation to ensure that workers are protected. Thirdly we face ‘perceived cost’ as a challenge. Often companies do not build laundering and actual versus promised durability into the economic equation.

Are you finding that the culture of safety is changing in South Africa?
Yes, leading organisations are embracing safety as a key performance metric.

What other industries do you focus on and what is your general strategic approach when selling into these industries in Africa?
In terms of general PPE, we are focused on oil and gas, mining, automotive, pharmaceutical, agriculture as well as the chemical and petro-chemical industries.

For further information, contact:
Ajen Maharaj
Tel: +27 11 654-8600
Email: Ajen.Maharaj@za.dupont.com