AFRICAN RENEWAL

Business Opportunities in South Africa Botswana, Uganda, Mozambique and Kenya

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Department of Foreign Affairs and Trade
Economic Analytical Unit

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EXECUTIVE SUMMARY

Perceptions of Sub-Saharan Africa in the business community and the wider public are dominated by images of poverty and political instability. But change is underway in this region, just as it is in less developed parts of East and South Asia. Some economies in Sub-Saharan Africa have either grown quite strongly for a decade or more, or have undertaken reforms which suggest a capacity to do so. These warrant closer examination by Australian business.

Botswana, Kenya, Mozambique, South Africa and Uganda, which are the subject of this report, have good economic growth prospects. Over the past decade, by embracing economic and governance reforms, they have improved their economic growth and business environments. Botswana, Mozambique, South Africa and Uganda in particular share a common commitment to strong economic growth, full employment, macroeconomic stability and a business friendly environment. Kenya's newly elected Government is developing and implementing key economic reforms.

The five economies account for most of Australia's trade and investment with Sub-Saharan Africa; they account for 76 per cent of Australia's trade with the region while South Africa alone receives 64 per cent of its investment.[1] However, similarities in resource endowments mean these economies often compete with Australian export markets. Nonetheless, their improved performance is generating new investment and to some extent trade opportunities for Australian business.

ECONOMIC PERFORMANCE IMPROVES STRONGLY

Botswana, Mozambique and Uganda are Africa's standout economic performers, achieving higher economic growth than many East Asian economies over the past decade. Since the end of the apartheid regime in 1994, South Africa also has adopted significant reforms and boosted its economic growth. After decades of economic decline, Kenya's new Government offers hope of economic reform. If fulfilled, this could generate business opportunities.

Macroeconomic Management Improves

All five economies have improved their macroeconomic management in recent decades. They have contained inflation and all economies except Mozambique employ inflation targeting. However, for a variety of reasons, real interest rates remain high, constraining private sector investment. Non-performing loans in Kenya, efforts to sterilise the impact of aid in Uganda, monetary policy objectives in Botswana and South Africa and ongoing financial sector problems in Mozambique are responsible for high interest rates. Governments have reduced their budget deficits, but they remain vulnerable to fluctuating growth and external shocks. Botswana is the only economy with a budget surplus, while significant donor flows to Mozambique and Uganda finance their budget deficits. However,

[1] No Australian outward investment statistics are available for other individual African economies.

all five governments have broadened their revenue bases, including introducing value added taxes and abolishing tax exemptions. South Africa also is drafting a bill to introduce mining royalties. All economies are reducing their external debt exposure.

Financial Systems Strengthening

Better prudential regulation has supported stronger financial markets in these economies. Kenyan, Mozambican and Ugandan authorities are strengthening their prudential control and privatising state owned banks, while South Africa and Botswana have generally sound financial systems. Banks also have broadened their services to clients; for example, credit card use is rising rapidly in Botswana, Kenya and South Africa.

Better Governance

All five economies are undertaking reforms to improve governance and strengthen institutions; most now compare favourably to East Asia. South Africa and Botswana have the most transparent and efficient governance in Sub-Saharan Africa. Uganda, Mozambique and Kenya are undertaking judicial and public sector reform; Kenya began to focus on these areas only since its new government was elected in 2002.

BUSINESS ENVIRONMENT GENERALLY FAVOURABLE

Relatively stable, democratic governments characterise all of Southern and East Africa's success stories. This has provided the legitimacy required to undertake economic reforms and increase investor confidence. Ratings institutions have recognised these efforts, giving investment grade ratings to Botswana and South Africa.

Australians doing business in Africa encounter modest cultural differences. International business people generally find their counterparts in these economies professional, accessible and courteous.

The legal and regulatory environments in each of the five economies differ but, with the exception of Kenya, mostly are straightforward. Few business regulations actively inhibit investment. However, judicial and bureaucratic inefficiency in Kenya and Mozambique can make enforcing contracts and registering businesses difficult and time consuming. With a few exceptions, foreigners may invest in most sectors; authorities generally allow 100 per cent foreign ownership and do not enforce performance requirements on foreign owned businesses.

Taxation is not particularly onerous. Corporate taxes range from 10 to 37.5 per cent depending on the economy and industry. Property rights are well protected in all five economies. Foreigners may own freehold land in Botswana, Kenya and South Africa, but not in Mozambique or Uganda and all five economies allow foreigners to own or lease agricultural land. All have laws to protect intellectual property rights and have signed the Trade-Related Aspects of Intellectual Property Rights, TRIPS, Agreement.

The mining business environment generally is strong in Botswana and South Africa and the Ugandan and South African Governments are undertaking further reforms. The South African Government has passed, or is considering, several new pieces of mining legislation aimed at developing the mining sector and broadening the tax base. It transferred mineral rights from private to government ownership, standardising it with practice in most economies including Australia. The South African Government also introduced the Broad-based Socio-economic Empowerment Charter to promote opportunities for historically disadvantaged South Africans in the mining industry. In practice, this charter means new miners establishing in South Africa need to form a joint venture with a black mining partner. The South African Government currently is discussing with relevant stakeholders a draft Royalties Bill which imposes royalties on minerals extraction. The Ugandan Government has recently opened up its mining regime to foreign investment and is issuing exploration licences.

Despite their generally improving economic and business environment, several problems hinder Southern and East Africa's business environments. Poverty is widespread. Human capital development remains weak. Productivity and social indicators also are under pressure from HIV/AIDS which affects up to 40 per cent of Botswana's population, 20 per cent of South Africans, 15 per cent of Kenyans and 13 per cent of Mozambicans. Labour laws and regulations increase unit labour costs and limit labour market flexibility. Outside South Africa and Botswana, transport infrastructure is poor. National road networks in Kenya, Mozambique and Uganda are weak and all economies' railway systems are deficient to varying degrees. In Kenya and Uganda, companies typically install alternative power supplies because national supplies are unreliable. Governance issues are common in several economies and security is an ongoing concern. Information and communications technology, ICT, readiness is generally poor with relatively low telephony penetration and business and household Internet uptake.

AUSTRALIA'S TRADE WITH SOUTHERN AND EAST AFRICA INCREASING

In all these economies, trade liberalisation has improved export performance despite weak prices for several key commodity exports. However, similar export profiles of Australia and these five economies limit bilateral trade. While South Africa currently is Australia's largest trading partner in Sub-Saharan Africa, it ranks only twenty first out of Australia's global merchandise trade partners. Manufactures are an important part of Australian exports to these economies, although Mozambique imports significant volumes of Australian alumina, South Africa imports large amounts of coking coal and nickel and Kenya imports wheat.

Export Opportunities

Higher value added manufactures such as telecommunications equipment, aircraft and aircraft parts, machinery and electrical equipment are some of the fastest growing Australian exports to the region. Service exports such as education and ICT also offer good prospects. Regional governments and parents are starting to recognise Australian universities can provide quality university education more cheaply than traditional destinations like the United Kingdom and the United States. Opportunities exist for Australian ICT exporters as mobile phone usage expands and financial services reform drives demand for supporting financial software and ICT services.

Trade Barriers

Governments of the five economies mostly are streamlining and reducing complex tariff systems and barriers. The main remaining non-tariff measures in these economies include import quotas on some agricultural products, opaque customs procedures, import and export licensing, export subsidies and local content requirements. All five economies have joined regional preferential trading agreements; while such trading blocs may attract potential investors because they provide access to larger markets and may improve incomes of participants, they also can affect trade with third countries for some products.

GOOD PROSPECTS FOR AUSTRALIAN INVESTMENT IN SOUTHERN AND EAST AFRICA

Over the past decade, reforms in most of these five economies have encouraged a significant increase in FDI inflows; these now form an increasingly important part of total investment. Their governments have relaxed exchange controls, ruled out expropriation, privatised state owned enterprises, avoided policies favouring domestic producers in specific sectors and signed multilateral investment treaties. They also have established investment promotion agencies to reduce foreign investors' establishment costs and regulatory barriers. Regional trading arrangements may attract investors, although in the foreseeable future consumers' disposable income will remain low in most of these economies.

Australian investors can find rewarding investment opportunities in all five economies. Their on-going reforms (including to FDI policy), sound economic growth and the close match between their investment requirements and Australian expertise and technological capacity drive these opportunities. Mining, agribusiness and related goods and services offer some of the major investment prospects. Other opportunities include infrastructure, education, financial services, tourism and ICT.

Mining and Agriculture

Considerable tapped and untapped mineral wealth exists throughout Southern and East Africa providing mining investment opportunities in Botswana, Mozambique, South Africa and Uganda. Australian companies already mine chrome ores, coal, diamonds, gold, manganese and platinum in these economies. The South African, Botswana and Mozambican governments in particular encourage minerals processing industries. As well, all five governments are keen to promote local and foreign investment in agriculture and agri-processing, particularly in non-traditional agricultural sectors such as floriculture, fruit and vegetables, nuts and cotton.

Infrastructure

As poor infrastructure is a key impediment to growth in the region, all five governments accord priority to infrastructure provision. The World Bank has assigned additional funds for African infrastructure development, while the Development Bank of Southern Africa is funding infrastructure in projects in South Africa and the rest of the region. Projects include developing roads, rail, energy, water, ports and telecommunications infrastructure.

Services

Vocational training presents one of the best opportunities for Australian educators. Shortages of skilled and technically trained labour are widespread and local institutions cannot fill this gap. All five economies have an oversupply of arts graduates, but more limited higher education capacity in the sciences and ICT, providing opportunities for Australian educational institutions. The potential to offer new products, such as electronic funds transfer in the regional financial services sector, provides opportunities for Australian financial institutions to leverage expertise in banking technology and advanced financial products. Africa's diverse wildlife and vast tracts of relatively unspoilt environment generate significant tourism with potential for Australian suppliers including training for local operators. Most of the five economies also are seeking to increase their ICT uptake. Botswana and South Africa have the most developed ICT infrastructure, providing opportunities for sophisticated ventures such as system integration services, business process software and Internet-based business system solutions. Less developed networks in Kenya, Mozambique and Uganda present opportunities to invest in more basic information and communications infrastructure.

SOUND AFRICAN INVESTMENT PROSPECTS IN AUSTRALIA

As most of Sub-Saharan Africa has little surplus capital to export, the great majority of African investment in Australia comes from South Africa; over the past 10 years, the stock of South African investment in Australia has averaged growth of 18 per cent per annum. South African authorities' gradual easing of restrictions on outward FDI over this period permitted this growth. Although the majority of this investment is concentrated in the mining sector, South African FDI is present in finance, insurance, manufacturing, real estate and a range of services.

Australia provides an attractive destination for Southern and East African FDI, offering a productive and skilled workforce, a resilient economy, well developed ICT and other infrastructure, open and transparent regulations and few limitations on FDI. The similar sectoral profile of these economies and Australia, including significant mining and related sectors, agriculture and agri-processing, tourism and business, ICT and professional service sectors, generates investment opportunities for the region's investors in Australia. Australia's close proximity and connections with East Asia also attract regional investors wishing to service both Australia and East Asia from an Australian base.

IMPLICATIONS

The improving economic performance of Botswana, Kenya, Mozambique, South Africa and Uganda should generate increasing trade and investment opportunities for Australian business.

Higher incomes mean that the greatest short to medium term opportunities are in South Africa and Botswana. However, as Mozambique, Uganda and Kenya continue reforming their economies and business environments, Australian business also can consider early investment and trade opportunities in these economies. All five economies are open to FDI with few sectors off limits. However, in the short to medium term, HIV/AIDS, skilled labour and infrastructure shortages and crime could challenge business. Businesses would do well to utilise the investment promotion agencies in each economy to help expedite investment approval and set-up processes.

Government-to-government links with Southern and East Africa already are significant, although more limited than those in our own region. AusAID, the Australian Government's overseas aid agency, continues to play a modest but constructive role in Africa. Australia has an interest in further efforts to assist reform and development in these economies, through, for example, targeted postgraduate scholarships in key economic and technical disciplines and training to promote public sector reform. Australia also is developing strong links with some of these economies because of shared interests in international trade reform, especially on agriculture.

ECONOMIC PERFORMANCE OF SOUTHERN AND EAST AFRICA

KEY POINTS

- Poor economic outcomes throughout much of Sub-Saharan Africa can deflect Australian business attention from achievements and commercial opportunities in several better performing Southern and East African economies.
- In the last decade, South Africa, Botswana, Mozambique and Uganda have adopted outward oriented economic policies and improved their economic governance.
- For over a decade, Botswana and Uganda have been quietly reforming their economies and growing at well over 6 per cent per year.
- Since the end of the apartheid regime in 1994 and Mozambique's civil war in 1992, South Africa and Mozambique also have pursued economic reform, significantly boosting economic growth.
- Lower trade barriers have revived export sectors and increased opportunities for export oriented investment, especially in agribusiness.
- More open foreign direct investment, FDI, regimes now offer access to previously undeveloped resources and investment opportunities.
- Improved macroeconomic management and financial markets are providing a more stable framework for local and foreign investment.
- After decades of economic decline, Kenya's new Government offers prospects of economic reform which, if fulfilled, could generate business opportunities.
- While development constraints remain, including HIV/AIDS, Uganda's successful anti-AIDS campaign shows these problems are not insurmountable.

Natural disasters, breakdowns in the rule of law and poor economic governance characterise many Sub-Saharan African economies. However, several Southern and East African economies have embraced economic and governance reforms and improved their economic growth and business environments, reaping significant benefits for their populations.

This report focuses on Botswana, Mozambique and South Africa in Southern Africa and Kenya and Uganda in East Africa, all of which have good economic growth prospects. Since 1994, Australia's largest African trade partner, South Africa, has initiated major economic reforms under its new democratic government. Mozambique also started reforming and opening its economy after its civil war ended in 1992; Australia is currently Mozambique's largest foreign direct investor.[1] Uganda and Botswana are 'model' reforming African economies, which have achieved high growth and major improvements in living standards in the past two decades. Finally, the recently elected Kenyan Government, the most industrialised East African economy, is developing and implementing key economic reforms.

All these economies have good growth prospects and are opening up to FDI. They offer new trade and investment opportunities to Australian business in many areas of Australian expertise and international competitiveness, including mining, agri-business, advanced manufacturing, financial services, infrastructure provision, education, retail and health delivery.

DEVELOPMENT PROGRESS

Over the past ten years, South Africa, Botswana, Mozambique and Uganda have significantly lifted their economic performance (Table 1.1). However, the devastating impact of HIV/AIDS and high levels of inequality have undermined some development and social indicators (Figure 1.1). Economic growth has accelerated as governments have shifted towards outward oriented policies and attempted to strengthen economic governance. Over the past decade, most of these economies have introduced governance reforms including privatising government owned businesses. Continued rapid growth accompanied by good governance should see noticeable improvements in living standards and declines in poverty in the next decade.

1 Australia is the largest investor in Mozambique through BHP Billiton's ownership of the Mozal aluminium smelter.

Table 1.1

Economic Performance Improving

Summary of Key Economic Indicators, Five Southern and East African Economies, 2001

	Botswana	Mozambique	South Africa	Kenya	Uganda
Gross Domestic Product, GDP, US$ million	5 025	3 583	114 174	11 396	5 699
GDP per capita, US$	3 234	192	2 607	364	237
PPP GDP per capita[a]	8 196	1 110	9 565	1 032	1 255
Key variables as ratio to GDP (per cent)					
Government consumption	31.6	10.4	18.9	16.8	12.5
Private consumption	29.8	70.4	62.2	77.7	81.4
Investment	13.7	41.6	15.1	14.5	20.0
Exports: goods and services	59.6	21.7	30.7	26.2	11.7
Current account balance	7.7	-17.8	-0.1	-2.2	-14.2
External debt	7.4	124.7	21.1	51.2	65.5
Sectoral structure of GDP (per cent)					
Agriculture	2.7	32.2	4.3	30.1	44.0
Manufacturing	4.9	20.0	20.0	9.5	8.7
Other industry[b]	48.0	22.9	12.3	5.9	9.3
Services	44.4	24.9	63.4	54.5	38.0
Current account (US$ million)					
Exports: goods and services	2 994	776	35 060	2 981	667
Current account balance	389	-637	-166	-253	-810
Foreign direct investment	57	255	6 653	50	229
External debt	370	4 466	24 050	5 833	3 733
Average annual growth rate over past 10 years (per cent)					
Real GDP	5.4	6.3	2.2	2.0	6.3
Population	2.0	2.5	2.9	1.7	3.0
Exports: goods and services (nominal)	3.9	11.0	2.6	3.1	10.4
Gross fixed capital formation	-6.6	14.3	-1.5	-0.4	8.5

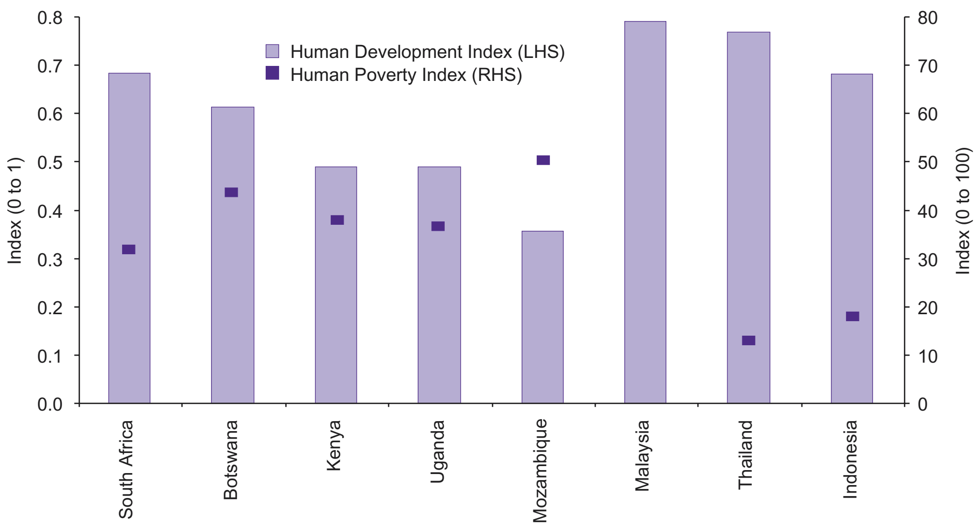
Notes: a. PPP, or purchasing power parity, rather than official exchange rates is used to calculate GDP per capita.
b. Other industry includes mining, construction and utilities.

Sources: African Development Bank, 2003. PPP GDP per capita from World Bank, 2003a.

Figure 1.1

… but Development Indicators Still Lag East Asia

Human Development and Human Poverty Index, 2001, Five Southern and East African Economies and Selected East Asian Economies



Notes: A value for the Human Poverty Index is not available for Malaysia.
The Human Development Index aggregates data on life expectancy at birth, the adult literacy rate, the combined primary, secondary and tertiary gross enrollment ratio and GDP per capita. Higher values indicate an improvement in the Human Development Index.
The Human Poverty Index aggregates data on the probability at birth of not surviving to age 40, the adult illiteracy rate, percentage of the population without reliable access to an improved water source and the percentage of children under weight for age. Lower values indicate an improvement in the Human Poverty Index.

Source: United Nations Development Program, 2003.

Growth and Development Outcomes

Due to periods of political and civil instability and variable commitment to economic reform, Botswana, Mozambique, South Africa and Uganda have followed different development paths over the past two decades. However, they now share a common commitment to achieving strong economic growth, full employment, macroeconomic stability and a business friendly environment.

GDP Growing Strongly

Botswana, Mozambique and Uganda are the standout growth performers. Since independence in 1966, by wisely using its valuable mineral endowments, Botswana raised itself from one of Africa's poorest economies to one of the few classified as lower middle income (World Bank, 2003a). Between 1980 and 2002, Botswana reported average annual economic growth of just over 8 per cent in real terms, although short term growth could moderate due to plateauing diamond production (OECD, 2003).

Due to its 16-year civil war, Mozambique's real GDP stagnated in the decade to 1992; but since war ended in 1992 its economic growth has averaged 9.5 per cent per year in real terms (OECD, 2003). The opening of Mozambique's Mozal aluminium smelter and agricultural output recovery boosted growth to 14 per cent in 2001, compared to an average annual rate of 8.5 per cent from the mid 1990s (International Monetary Fund, 2002c). Forecasts anticipate continued strong growth into 2003 (OECD, 2003).

Since the current Ugandan Government came to power in 1986, it has introduced wide ranging and successful reforms in many areas, promoting GDP growth averaging 7 per cent over the 1990s. Authorities are targeting GDP to grow by an average of 7 per cent until 2017, reducing poverty to below 10 per cent of the total population (Ministry of Finance, Planning and Economic Development, 2002). However, the Ugandan Government now faces many challenging governance issues; choices made will determine whether Uganda maintains its past strong reform and growth record.

Kenya and South Africa have had more modest growth outcomes. In the ten years prior to the end of the apartheid regime in 1994, average annual economic growth in South Africa was only 0.6 per cent. Reforms the new ANC Government instituted since 1994 generated stronger growth averaging 2.7 per cent (African Development Bank, 2003). Growth slowed in 2001 because of capital outflows and declining confidence, in part reflecting slower world economic growth, but also some slowing in the pace of domestic economic reforms (International Monetary Fund, 2003b).

In the decade to 2001, poor economic policies and governance in Kenya undermined private sector growth, keeping average GDP growth to only 2.0 per cent per year, while the population increased by 2.5 per cent per year (African Development Bank, 2003; United Nations Economic Commission for Africa, 2002). However, a new government has been elected on a reformist agenda.

Social Development Outcomes Mixed

Reflecting their variable reform and growth records – and low absolute GDP per capita in the case of Uganda, Kenya and Mozambique – the five economies studied here achieved mixed social development outcomes (Table 1.2). In some cases these may limit their future development options. School enrolments have increased in all except Kenya, which suffered a slight decline prior to the new Government's election.[2] All economies, except Uganda, report an increase in immunisation rates for tuberculosis, diphtheria and measles.[3] Infant mortality has declined in all economies except Botswana. On the down side, contrary to the African trend and largely due to the prevalence of HIV/AIDS, mortality rates for the under 5 age group have increased and life expectancy is below the African average of 53 years (Table 1.2).

2 However, the new government has introduced free primary school education, which will reverse this trend.

3 The decline for Uganda apparently is due to a fall in the percentage of the population with access to health services, possibly due to the Lord's Resistance Army insurgency in its north.

Table 1.2

Social Development Outcomes Mixed

Selected Social Indicators, 1985 to 2001, Five Southern and East African Economies

		Botswana	Mozambique	South Africa	Kenya	Uganda	African average[a]
Population, million, 2001		1.7	18.1	43.2	30.7	22.8	814.8
Income distribution, share of income held by							
Richest 20%	1986-99	58.9	46.5	64.8	51.2	44.9	n/a
Poorest 20%	1986-99	2.2	6.5	2.0	5.6	7.1	n/a
Population below $1 per day, PPP							
Per cent	1993-97	23.5	37.9	<2.0	23.0	82.2	n/a
Gross school enrolment rate (per cent)[b]							
Primary	1985	105	87	110	99	73	79
	2001[b]	108	92	111	94	136	81
Secondary	1985	29	7	54	21	10	24
	2001[b]	93	12	87	31	19	29
Vaccination (per cent of population)							
Tuberculosis	1990	50	59	59	54	100	75
	2000	73	106	99	75	77	71
Diphtheria	1990	56	46	74	42	77	60
	2000	85	88	96	63	53	60
Measles	1990	55	59	79	41	74	58
	2000	84	97	95	46	56	58
Under 5 mortality rate (per 1 000)							
	1990	77	176	72	94	187	132
	2001	140	226	98	105	165	131
Infant mortality rate (per 1 000)							
	1985	61	138	64	79	122	104
	2001[b]	68	130	59	60	96	80
Life expectancy at birth							
	2001[c]	38	39	49	50	45	53

Notes: a. Population represents African total.
b. Number of pupils enrolled regardless of age as a percentage of the total population in the relevant age group. Hence some percentages are greater than 100.
c. Values for the African average refer to 2000.

Sources: African Development Bank, 2002, 2003; United Nations Development Program, 2002; United Nations Educational, Scientific and Cultural Organization, 2002.

Trade Policies More Outward Oriented

Over the past decade, all five economies have liberalised their trade regimes, and all except Mozambique have reduced average tariffs on a most favoured nation basis (Table 1.3). Authorities also have simplified complex tariff systems so most tariffs now fall within a limited number of bands (Elyetu, 2003; Kuria et. al., 2003; Links et. al., 2003).

Table 1.3

Tariffs Falling, Except in Mozambique

Unweighted Tariffs, Five Southern and East African Economies, 1994 and 2001, per cent

		Kenya	Mozambique	South Africa	Uganda
All tariffs					
	1994	32.1	5.0	12.7	17.0
	2001	20.2	13.4	11.0	8.2
Primary					
	1994	21.5	5.0	12.1	13.9
	2001	15.5	13.8	5.0	6.9
Manufacturing					
	1994	31.9	5.0	12.8	16.7
	2001	19.9	13.2	11.1	8.0

Notes: Data for South Africa is 1988 and 2001. Due to its Southern African Customs Union membership, Botswana has a common tariff with South Africa.

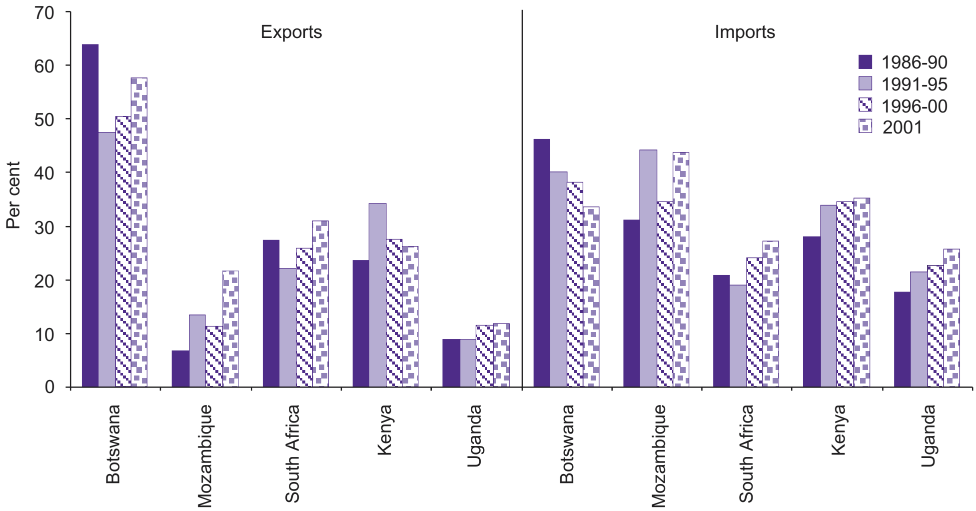
Source: World Bank, 2003c.

The ratio of trade flows to GDP is increasing in Mozambique, South Africa and Uganda (Figure 1.2). Nevertheless, as significant aid and limited FDI recipients, all except Botswana run current account deficits (Table 1.1).

Figure 1.2

Trade Expanding as GDP Share, Except in Kenya, Botswana

Goods and Services Trade as a Share of GDP, 1986 to 2001, Per cent, Five Southern and East African Economies



Source: African Development Bank, 2003.

FDI Policies Liberalising and Inflows Increasing

The five Southern and East African economies are reforming their FDI policies to provide a more attractive investment environment for business. Governments have relaxed exchange controls, ruled out expropriation, privatised state owned enterprises, avoided policies favouring specific sectors and signed multilateral investment treaties. They also have established investment promotion agencies to reduce foreign investors' establishment costs and time. (See Chapter 4 – I*nvestment Opportunities.*)

Reflecting their more open trade and investment policies, South Africa, Mozambique and Uganda in particular have attracted increasing FDI inflows in recent years.[4] In all except Botswana, FDI makes an increasingly important contribution to GDP, rivalling shares in several East Asian economies

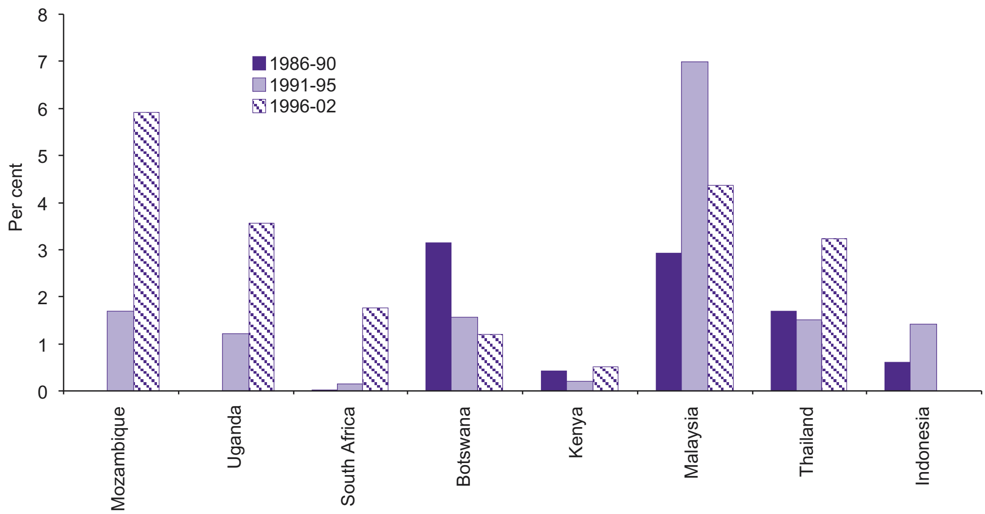
4 A 1999 survey of investment promotion agencies showed investors were optimistic about investment prospects in Botswana, Mozambique, South Africa, Uganda and Namibia reflecting those countries' macro economic stability and more business friendly environments (Basu et. al., 2002). A 1999-2000 survey of 296 of the world's largest multinational corporations suggested FDI flows to Africa should increase over the medium term, with more than one third planning to increase their African investments over the following three to five years. Respondents named Mozambique, South Africa, Uganda and Tanzania as the most attractive destinations (Basu et. al., 2002). However, Sub-Saharan Africa accounts for only 1.1 per cent of global FDI inflows, with over half of this investment going to Angola, Chad, Nigeria and South Africa (UNCTAD, 2003).

(Figures 1.3 and 5.2).[5] South Africa attracted 56 per cent of FDI inflows to Sub-Saharan Africa in 2001, reaching a record US$6.6 billion. However, this peak was largely due to a restructuring of Anglo American and De Beers, and inflows have fallen back since (Figure 1.3; UNCTAD, 2003; Department of Trade and Industry, 2003).[6]

Figure 1.3

Five African Economies' FDI Role Rivals East Asia

FDI Inflows, Ratio of GDP, 1986 to 2002, Five Southern and East African Economies and Selected East Asian Economies



Source: UNCTAD, 2003.

Largely due to its policy of encouraging mega projects and ending of the civil war, Mozambique's FDI inflows are rising strongly. They increased to an average of US$222 million per year between 1995 and 2002, after averaging only US$23 million per year between 1989 and 1994 (UNCTAD, 2003).[7] As a result, Mozambique now receives a larger ratio of FDI to GDP than any other country in Sub-Saharan Africa and exceeds Malaysia's FDI to GDP ratio, which is one of the highest in East Asia. However, these mega projects are highly capital intensive and concentrated in a few locations; outside Maputo their contribution to Mozambicans' employment and living standards has been limited to date.

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5 Botswana's high savings rate covers part of this shortfall.

6 South Africa also is emerging as an important source of FDI in the rest of Africa, investing on average US$1 billion per year in the continent, including significant sums in Mozambique and Uganda (United Nations Economic Commission for Africa, 2002).

7 Factors such as political stability, sustained economic reform leading to macroeconomic stability, protection of investment and enforcement of property rights, tax holidays and fiscal incentives, privatisation and liberal policies on remitting profits and dividends are cited as reasons for the impressive FDI growth performance (Basu et. al., 2002).

As a result of a decade and a half of reform, Uganda has one of Africa's most welcoming foreign investment environments. Since 1995, its FDI inflows have averaged more than US$200 million per year, up from an average of just US$9 million per year from 1988 to 1993 (United Nations Economic Commission for Africa, 2002). This gives Uganda a higher ratio of FDI inflows to GDP than Thailand.

Botswana and Kenya have had little FDI growth in recent years. Botswana was an early recipient of FDI, predominantly from Europe, but its inflows have tapered off since 1995 as other African economies opened up their investment regimes and its diversification efforts slowed (OECD, 2003). In Kenya, poor economic policies and governance, spiralling crime levels, worsening infrastructure and low growth have kept new FDI inflows low as a share of GDP. Many foreign investors withdrew from Kenya when the International Monetary Fund suspended its enhanced structural adjustment facility in 1997 and the World Bank suspended a structural adjustment credit in 1998 due to the Kenyan Government's failure to undertake agreed reforms (United Nations Economic Commission for Africa, 2002).

Macro Management Stronger

In the five economies, macroeconomic management has improved significantly in the past decade. Reforms are boosting tax revenues, opening domestic capital markets and allowing better use of donor funds (International Finance Corporation, 1999).

Inflation

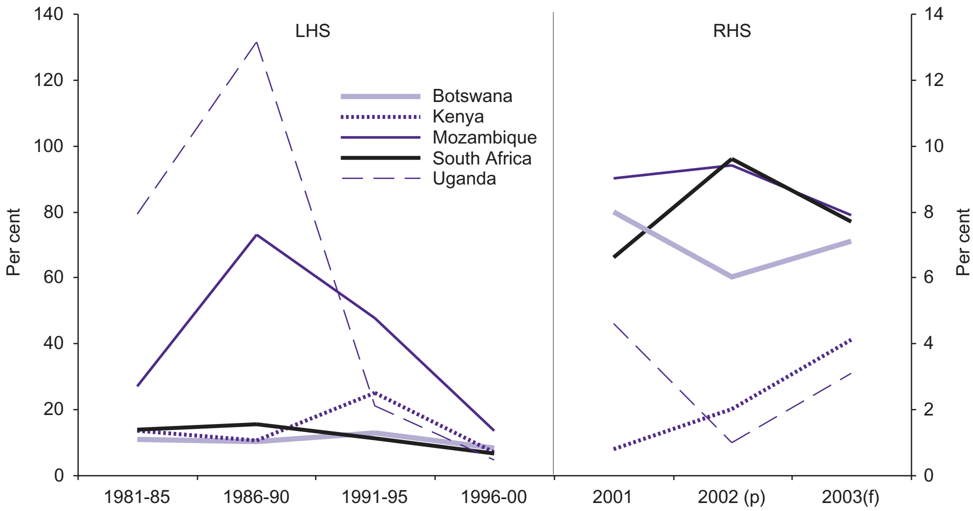
Inflation generally is contained in Botswana, Kenya, Mozambique, South Africa and Uganda (Figure 1.4). With the exception of Mozambique, all these economies have adopted inflation targets and only shocks beyond government control usually cause inflation spikes (International Monetary Fund, 2002a, 2002b, 2002c, 2003b, 2003c).

While inflation is now contained, several economies still have high real interest rates, inhibiting investment. Real lending rates remain above 15 per cent in Kenya, Mozambique and Uganda and between 8 and 10 per cent in Botswana and South Africa (Economist Intelligence Unit, 2003b, 2003c, 2003d, 2003e, 2003f; International Monetary Fund, 2002c). High non-performing loans, especially in the state owned banks, keep Kenyan spreads high (Kinyua, 2003). Uganda's high interest rates, which crowd out private investment, are due largely to the authorities' need to sterilise large donor inflows with bond sales (Tumuheirwe, 2003). South Africa's relatively high but falling real interest rates mainly reflect tight monetary policy settings designed to contain increasing inflationary pressures in 2002 (Walters, 2003); some analysts also believe this policy may have supported the volatile rand. Botswana's high interest rates also support monetary policy objectives although the Government recognises the need to contain interest rates to maintain competitiveness (Sekwakwa, 2003). Ongoing problems in the financial sector have contributed to Mozambique's continued high interest rates (Jaiantilal, 2003). In Mozambique and Kenya, weak legal protection of creditors undermines the credit culture, increasing interest rate spreads (Jaiantilal, 2003; Kimura, 2003).

Figure 1.4

Inflation Generally Contained

Annual Inflation, 1981 to 2003, Per cent, Five Southern and East African Economies



Notes: 1981-2000 data are annual averages. 2002 and 2003 data are OECD preliminary and forecast estimates respectively.

Sources: African Development Bank, 2003; OECD, 2003.

Fiscal policy

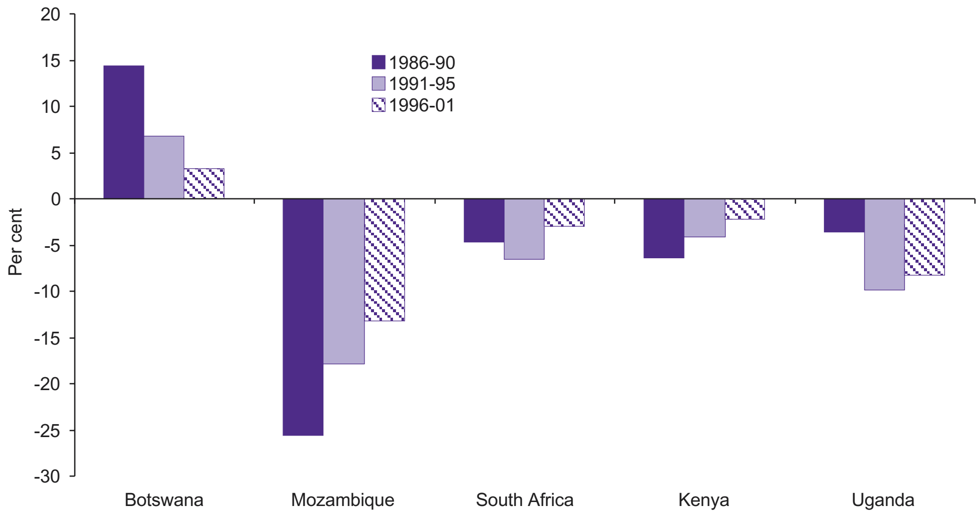
The five governments also now pursue prudent fiscal policies, implementing policies to improve government efficiency and broaden the revenue base. However, budget positions remain vulnerable to fluctuating growth and external shocks. In Kenya, Mozambique and Uganda poor budget administration, low tax revenue bases and a large stock of domestic arrears and debt also have the potential to affect budget positions (International Monetary Fund, 2002a, 2002b, 2002c, 2003b, 2003c). Botswana's increased health outlays to combat HIV/AIDS may challenge its budget position. HIV/AIDS also will be a significant issue for South Africa but program implementation rather than cost is the central challenge.

Botswana is the only economy operating a budget surplus (Figure 1.5). Mozambique's and Uganda's significant donor flows finance their budget deficits. Governments have introduced efficiency measures including improving revenue collection and fiscal transparency and cutting public service employment in the case of Kenya. Revenue broadening measures include introducing and consolidating VAT schemes and cutting tax exemptions. South Africa also is drafting a bill to introduce mining royalties.

Figure 1.5

Deficits Declining

Budget Deficit/Surplus as a Share of GDP, 1986 to 2001, per cent, Five Southern and East African Economies



Sources: World Bank, 2002, 2003a.

Foreign exchange regimes

Foreign exchange controls are negligible in the five economies.[8] The main problem confronting the current foreign exchange regime is whether the shallow financial systems in Kenya, Mozambique and Uganda can cope with the risks large capital movements impose (United Nations Economic Commission for Africa, 2003).

[8] In Mozambique, remittance of funds above US$5 000 require previous registration with the Investment Promotion Centre and registration of the investment with the Central Bank. Investors apply for remittance of funds at their commercial bank, which then helps comply with the procedures of the Central Bank to obtain clearance, after which the Central Bank will issue a repatriation certificate. The import and export of local currency is prohibited (UNCTAD, 2001). South Africa maintains controls for residents and South African businesses, which were put in place to prevent capital flight following the collapse of the apartheid regime, although they are now being relaxed. A capital amnesty was announced in the 2003-04 budget, allowing illegally expatriated funds to return to South Africa for a limited time without prosecution.

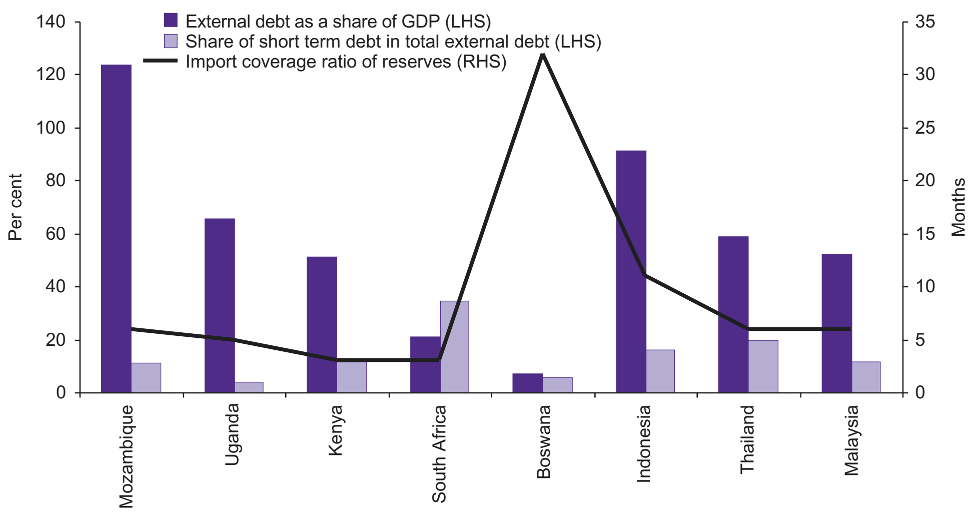
External debt and international reserves

External debt remains an issue for several of the five economies but their exposure is declining (Figure 1.6).[9] The International Monetary Fund is monitoring the debt position of Mozambique and Uganda although their participation in the Heavily Indebted Poor Country scheme has relieved some pressure (International Monetary Fund, 2002a, 2003a). As a share of GDP, external debt is similar to several East Asian economies. Since 1996, Kenya and Mozambique have reduced their stock of external debt in absolute terms and as a share of GNP, but these shares remain high. Mozambique's high ratio is a hangover from considerable external borrowing in the 1980s and early 1990s. Uganda has maintained a stable debt position in recent years. While Botswana and South Africa have increased their external debt as a share of GNP, they still maintain some of the lowest ratios in Sub-Saharan Africa (OECD, 2003).

Figure 1.6

Debt/Import Coverage Similar to Parts of South East Asia

External Debt as a Share of GDP and Short Term Debt and Import Coverage of Reserves, 2001, Five Southern and East African Economies and Selected East Asian Economies



Sources: World Bank, 2003a, 2003c.

9 Debt servicing requirements as a share of export receipts in 2001 were 15.8 per cent for South Africa, 15.6 per cent for Kenya, 9.7 per cent for Uganda, 3.5 per cent for Mozambique and 2.0 per cent for Botswana (International Monetary Fund, 2002b, 2002c, 2003a, 2003b; World Bank, 2003a). The majority of external debt for Botswana, Kenya and Uganda is concessional. Mozambique's debt is around half concessional, half non-concessional. South Africa has no concessional debt. Most debt is public, with the exception of South Africa, where only 35 per cent of the total is public debt (World Bank, 2003a).

With the exception of Botswana, international reserves cover less than 10 months of imports. South Africa's reserves cover only 3 months of imports but the Government is rapidly reducing its international exposure and building up reserves (International Monetary Fund, 2003b; Walters, 2003).[10]

Financial Systems Strengthening

Although access to private capital markets remains limited in Sub-Saharan Africa, the five economies are strengthening financial markets. Authorities are establishing local stock exchanges, though most remain small and illiquid and offer a narrow range of financial instruments.

While prudential regulations remain weak, Kenyan, Mozambican and Ugandan authorities are strengthening their oversight and privatising state banks, following banking sector problems.[11] Banks also have broadened their services to clients; for example, credit card use is rising rapidly in Botswana, Kenya and South Africa (Economist Intelligence Unit, 2002). A bullish economic outlook and unsustainable lending to the elite drove strong credit growth in Mozambique, but the sector suffered a severe setback following the 2001 collapse of Banco Austral, Mozambique's third largest bank (Economist Intelligence Unit, 2001a) (Figure 1.7). Statistics are not yet available to determine how well Mozambican credit has recovered. Ineffective creditor protection is also of concern in Kenya (Kimura, 2003; Mullei et. al., 2003).

Botswana and South Africa operate generally sound financial systems. Botswana released three sovereign bond issues in early 2003 and also is establishing an International Financial Services Centre to increase its attractiveness as a regional financial centre (Matome et. al., 2003). South Africa's financial system is by far the largest in Sub-Saharan Africa and resembles that of a developed economy (Abedian, 2003; International Monetary Fund, 2003a). However, South African household savings are virtually zero, so the system has relatively few deposits to intermediate (Baxter, 2003).

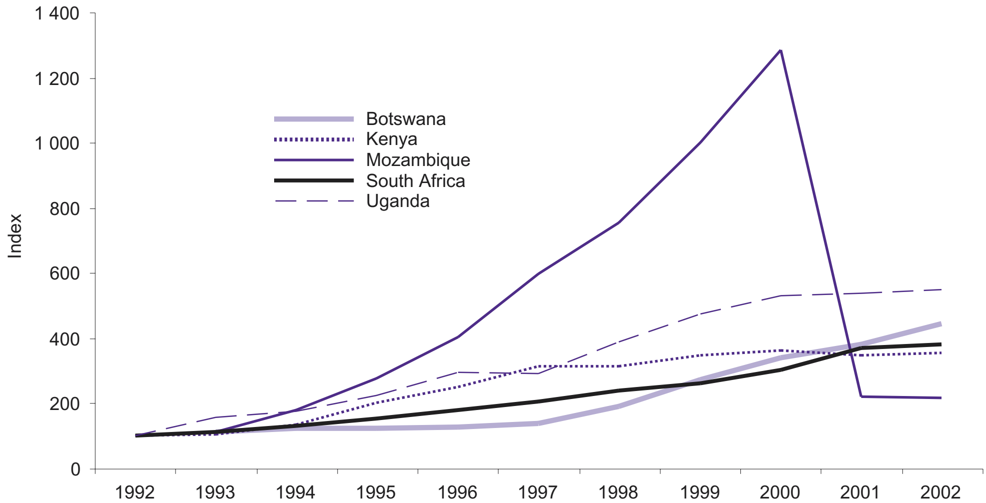
[10] The net open forward position of the South African Government has declined from approximately US$23 billion in 1998 to around US$2 billion in 2002 (International Monetary Fund, 2003b).

[11] After privatising the grossly loss making Uganda Commercial Bank, the country's largest bank to a Malaysian company, the Ugandan Government had to step in and inject funds when it went bad and has now re-privatised it to the South African Stanbic bank. While the sale was controversial, the bank now is running well; interest rates are down, it has computerised and has dramatically speeded up domestic money transfer times, assisting business (Kigozi, 2003).

Figure 1.7

Credit Growth Strong; Mozambican Excess Caused Crash

Credit to the Private Sector, 1992-2002, Index, 1992=100, Five Southern and East African Economies



Note: The 2001 collapse of Banco Austral, discussed in the text, caused the massive decline in Mozambique's private sector credit.

Source: International Monetary Fund, 2003a.

Better Governance and Institutions

All five economies are taking steps to improve governance and strengthen institutions. A new study ranking 24 African economies' macroeconomic policies, judicial independence, respect for property rights and regulatory institution effectiveness places South Africa first, Botswana second, Mozambique seventh and Uganda eighth. Kenya ranked twentieth, obtaining a rating of "poor" (United Nations Economic Commission for Africa, 2002). (See Chapter 2 – *Business Environment.*)

According to most studies, South Africa and Botswana have the most effective systems of governance among the five economies and in Sub-Saharan Africa, with generally sound macroeconomic institutions, good legal systems, a free press, relatively sound financial institutions and reasonably stable regulatory and policy environments (Campbell et. al., 2003; Thamage, 2003; OECD 2003). Key reforms underway in Uganda, Mozambique and Kenya include judicial and public sector reform. Kenya has begun to strengthen laws and institutions since the new government's election in 2002 (International Monetary Fund, 2002b, 2002c; United Nations Economic Commission for Africa, 2002).

Public Enterprise Privatisation

The five economies all have adopted public enterprise privatisation programs as part of their growth and development agenda, though to date progress is variable. Botswana's privatisation program is still in its early stages. The Government sees it as part of its broader development policy and therefore is unwilling to privatise without obvious efficiency gains (OECD, 2003). The Kenyan Government has earmarked 207 of 240 public enterprises, called parastatals, for privatisation; to date the Government has sold most divested enterprises to local investors (OECD, 2003). The Mozambican Government is privatising parastatals it previously nationalised after independence in 1975. By mid-2002, only 20 large and 200 small parastatals remained to be privatised from an original 1 248 (OECD, 2003). While the South African Government indicates it is committed to privatisation, implementing this policy is complicated by its commitment to black empowerment groups' participation in equity purchases (OECD, 2003). Of the 155 parastatals earmarked for privatisation in Uganda, authorities have to date divested 74 and liquidated 34 (OECD, 2003).

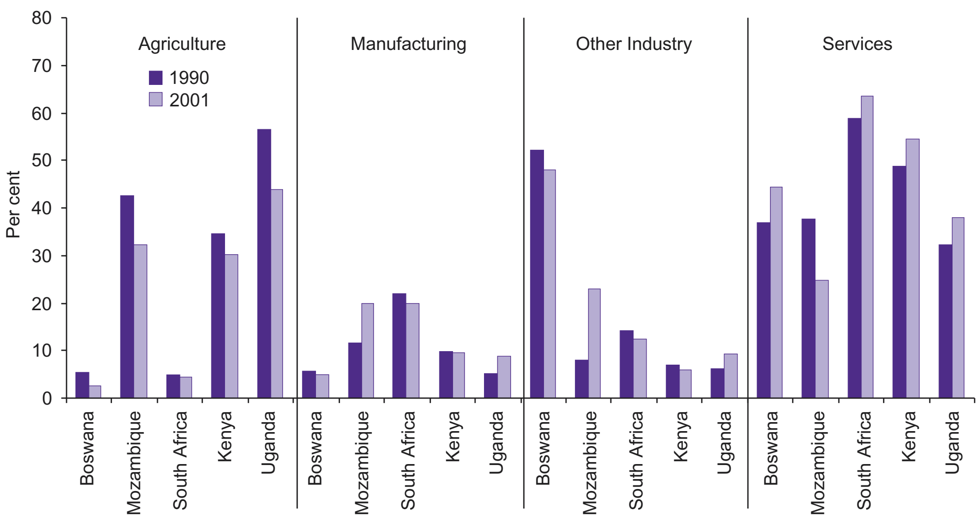
New Sectors Emerging

Botswana, Mozambique, Kenya and Uganda still rely heavily on agriculture and/or mining but are expanding their industrial and service sectors (Figure 1.8). As several large resource based projects have come on-line Mozambique's industrial and mining sectors have grown rapidly.

Figure 1.8

Agriculture Declining

Percentage Share of Sectors' GDP, Five Southern and East African Economies



Note: Other industry includes mining, construction and utilities.

Source: African Development Bank, 2003.

BUT MORE WORK TO BE DONE

Despite economic achievements of the last decade, significant development challenges remain for several of these five economies. These include HIV/AIDS, relatively low human capital, continuing problems with economic governance, low tax takes, heavy reliance on donor funds, low levels of savings, slow technology uptake, lack of economic diversification (making economies vulnerable to economic shocks) and high income inequality.

HIV/AIDS

Sub-Saharan Africa's HIV/AIDS infection rates are some of the worst in the world, with Southern Africa particularly hard hit. Adult population infection rates are 38.8 per cent in Botswana, 20.1 per cent in South Africa, 15.0 per cent in Kenya and 13.0 per cent in Mozambique (Joint United Nations Programme on HIV/AIDS, 2002). Uganda is the standout performer with only 5.0 per cent of the adult population infected by HIV/AIDS, down from a peak of nearly 30 per cent in parts of Uganda in the early 1990s (Joint United Nations Programme on HIV/AIDS, 2002).

HIV/AIDS could be the major factor determining the path of Southern and East Africa's economic development in coming decades (Haacker, 2002). Demographic estimates from Southern Africa indicate that by 2010, population growth will fall by 0.6 to 2.1 percentage points. Life expectancy has already declined by between 2 and 22 years for the five Southern and East African economies.[12] AIDS mortality rates for the working age population, aged 15 to 49, are expected to increase to between 2.1 and 4.9 per cent compared to current rates of 0.8 to 2.7 per cent.[13] By 2010, the Botswana and South African populations are expected to be contracting by 1.2 per cent per year.

Limited Human Capital

Notwithstanding the gains in immunisation and education over the past two decades, significant human capital deficiencies remain (Table 1.2 and Table 1.4). Low teacher training standards, in some economies low educational participation rates, high non-completion rates and low transition between different education levels are common across the five economies (OECD, 2003). The apartheid regime's legacy also holds back educational attainment in South Africa. Although the South African Government is attempting to improve the education system's efficiency, success to date has been modest (OECD, 2003).

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12 Botswana's life expectancy rates has fallen from 62 years in 1987 to 38 years in 2001; Mozambique's from 44 years in 1989 to 39 years in 2001; Uganda's from 47 years in 1982 to 45 years in 2001, but has recovered from 42 years in 1992; South Africa's from 60 years in 1992 to 49 years in 2001; and Kenya's from 57 years in 1987 to 50 years in 2001.

13 Mortality rates are defined as the number of deaths for 15 to 49 year olds as a percentage of the 15 to 49 year old population.

Despite progress in general health indicators, HIV/AIDS is placing health systems under severe strain (OECD, 2003). With the exception of Botswana and Mozambique, the private sector provides the majority of health care (Table 1.4).[14]

Table 1.4

Health and Education Require a Boost

Selected Health and Education Statistics, 1990 to 2001, Five Southern and East African Economies

	Botswana	Kenya	Mozambique	South Africa	Uganda
Education expenditure, 1993 – 1998[a]	9.1	6.6	2.9	6.1	1.6
Illiteracy rate, 2001[b]	22	17	55	14	32
Pupil teacher ratio, 1998 – 1999					
Primary school	28	28	61	37	60
Secondary school	17	26	29	30	19
Pupil progression, 1992 – 1998[c]	88	-	46	76	45
Health expenditure, 1995 – 2000[a]					
Public	3.8	1.8	2.7	3.7	1.5
Private	2.2	6.5	1.6	5.1	2.4
Population per physician, 1990-2000	4 274	7 576	n/a	1 776	25 000
Percentage of births attended by trained health personnel, 1990-2000	99	44	44	84	38

Notes: a. Per cent of GDP.
b. Percentage of population 15 years of age and above that is illiterate.
c. Percentage of cohort reaching grade 5.

Source: World Bank, 2003a.

Weak Judicial Processes and Governance

Weak judicial processes and governance remain disincentives to investing in Kenya, Mozambique and Uganda; South Africa and Botswana rate higher on these criteria. While investor perceptions on governance range from weak to very bad by international standards, all five governments are taking positive steps to combat this problem (World Bank, 2003b). For example, in May 2003, Kenya enacted new legislation, including the Public Officer Ethics Act, designed to improve governance. The Ugandan Government has established an Inspector General of Government and a Leadership Code.

[14] Aggregate national statistics mask marked regional differences; for example, regional disparities in Mozambican health care, per capita incomes and AIDS prevalence cause a 21 year difference in life expectancy between Zambezia province and Maputo (OECD, 2003).

Tax Shares Variable

Tax effort varies widely, depending mainly on the level of economic development and access to donor funds. Mozambique and Uganda collect a relatively small share of GDP in tax revenue, relying heavily on donor assistance to balance budgets and undertake development investment (Figure 1.9). Uganda's widespread reliance on subsistence agriculture and commitment to low tariffs reduces the Government's taxation options. However, with better tax enforcement, tax revenue's share of GDP could be raised from 12 to 16 per cent of GDP (Blake, 2003).[15] Uganda's sound economic policies draw large amounts of donor support. These flows contributed close to 12 per cent of GDP in 2001-02, up from 8 per cent in 1997-98 (International Monetary Fund, 2003c). However, high donor inflows increase the difficulty of maintaining a stable macroeconomic environment (Tumuheirwe, 2003). In the long term, they also could reduce incentives to increase local revenue collection.

While Mozambique's 2000 floods boosted donor aid to 16 per cent of GDP in 2001, the Government's medium term target is to reduce aid dependency and prioritise fiscal consolidation (International Monetary Fund, 2002c, OECD, 2003). With aid inflows expected to fall to about 10 per cent of GDP by 2005, the Government plans to increase tax revenue to 15 per cent of GDP by then. It aims to limit tax exceptions to investors, improve the efficiency of the tax system and increase income tax collection (International Monetary Fund, 2002c; OECD, 2003).

Kenya's tax take is high compared to those of Uganda and Mozambique, at just under 20 per cent of GDP. Its more developed industrial and service sector and higher reliance on commercial rather than subsistence agriculture give it a broader tax base (Blake, 2003). Its tariff levels also are very high, as are corporate and personal tax rates.

As a middle income economy with developed modern sectors South Africa has a well developed fiscal system and reasonably high tax take. It only receives small amounts of development assistance.

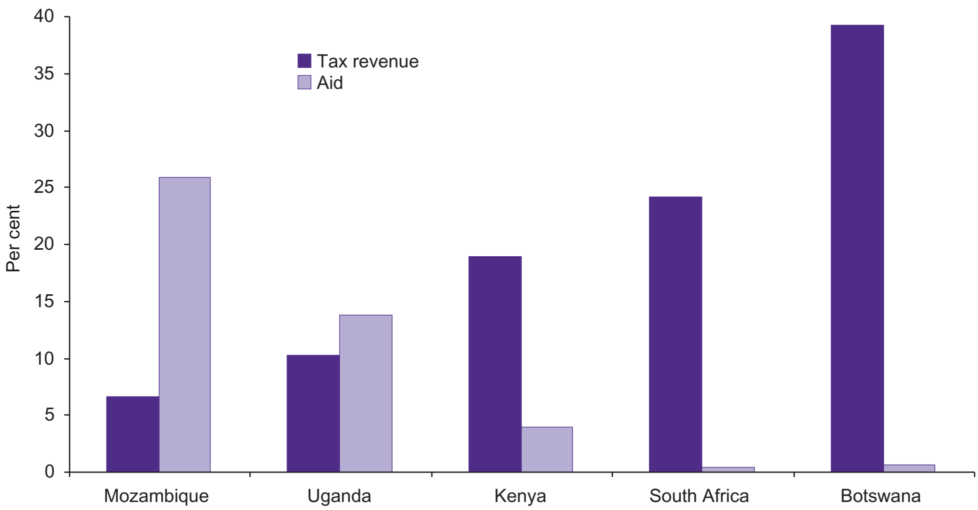
Botswana's tax take is particularly high as a share of GDP due to the Government's effective taxation of the highly profitable mining sector, particularly diamonds. Mining generates 70 per cent of tax revenue. However, the introduction of the value added tax, VAT, in July 2002 should help broaden the tax revenue base and reduce reliance on mining revenue.

15 Uganda levies a VAT of 17 per cent and corporate tax rate of 35 per cent. It does not give tax holidays but its depreciation schedules for equipment are much more generous than Kenya's and Tanzania's (Blake, 2003).

Figure 1.9

Kenya, Mozambique and Uganda Tax Take Low, Rely on Aid

Tax Revenue and Aid as a Share of GDP, 2001, Per cent, Five Southern and East African Economies



Source: World Bank, 2003a.

Low Saving Levels

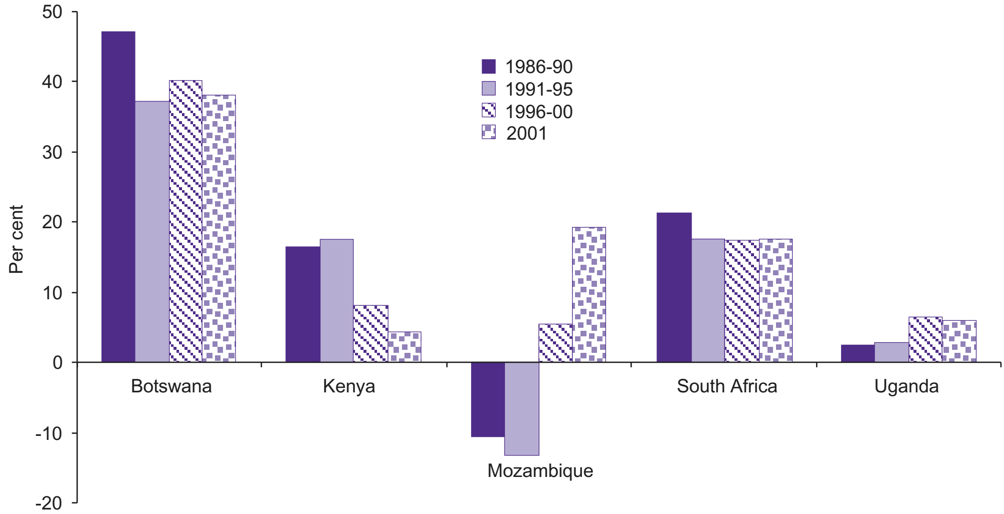
In Uganda and Kenya, and until recently Mozambique, lack of access to banks or credit coops, low per capita incomes and the dominance of informal barter-based transactions limit saving opportunities (Figure 1.10). For example, over 20 per cent of the Uganda economy does not use money in transactions (Economist Intelligence Unit, 2001b). Kenya's savings rate has fallen dramatically as the economy stagnated in recent decades. Mozambique's savings rates have recovered strongly since the civil war ended. With the exception of Mozambique, the private sector is the main source of saving (International Monetary Fund, 2002a, 2002b, 2002c, 2003b, 2003c).

Botswana's savings rate is consistently above 30 per cent. Most is by the private sector, which has received a boost from the transfer of pensions of government officers to pension managers (International Monetary Fund, 2002a; Matome et. al., 2003). At 18 per cent of GDP in 2001, South Africa's savings rate compares poorly with the savings rates of middle-income economies in East Asia (World Bank, 2003a).

Figure 1.10

Savings Rates Low

Savings as a Share of GDP, 1986 to 2001, Five Southern and East African Economies



Sources: World Bank, 2002, 2003a.

Lagging Technology Uptake

Technology diffusion is weak throughout Sub-Saharan Africa, including in the five economies studied here. A key problem is a lack of fixed telephone lines. However, largely in response to frustration with the slow pace of main telephone line installation, mobile telephones have rapidly overtaken telephony markets previously monopolised by inefficient government owned fixed line operators. Southern and East African consumers are extremely high users of mobile phone technology (Table 1.5).[16]

Lack of fixed lines also limits the delivery of Internet services. Research suggests pro-competitive policies in telephony and Internet services would help shrink the 'digital divide' (Dasgupta et. al., 2001). South Africa has one of the best technology ratings of Africa, and ranks above countries such as Brazil and Thailand in the 2003 Economist Intelligence Unit E-readiness rankings (Economist Intelligence Unit, 2003a).

16 Even with optimistic economic growth projections of 5 per cent until 2009, one study estimates the proportion of the population with mobile phones will only reach 4.7 per cent in Kenya and 1.1 per cent in Uganda by 2009. However, in Botswana and South Africa the mobile phone share could reach at 36 per cent and 31 per cent respectively (Dasgupta et. al., 2001).

Table 1.5

Infrastructure Inhibits Communications Development

Selected Communications Statistics, Five Southern and East African Economies and Selected East Asian Economies

	Fixed phone lines per 100 population	Mobile phones per 100 population	Mobile phones as a share of total telephone subscribers	Internet users per 10 000 population	Computers per 100 population
	2001 (1995)	**2001**	**2001**	**2001**	**2001**
Mozambique	0.44 (0.34)	0.84	65.5	7.43	0.35
Uganda	0.28 (0.20)	1.43	83.5	26.64	0.31
Kenya	1.00 (0.84)	1.60	61.5	159.78	0.56
Botswana	9.27 (4.09)	16.65	64.9	154.13	3.89
South Africa	11.35 (10.14)	21.00	64.9	700.58	6.85
Indonesia	3.70 (1.69)	2.47	40.0	186.19	1.07
Thailand	9.39 (6.06)	11.87	55.8	556.11	2.67

Source: International Telecommunications Union, 2002.

Vulnerability to Shocks

Lack of economic diversification makes several of the five economies vulnerable to external shocks and disasters. While Botswana has made a concerted effort to diversify its economy away from diamond mining, a cyclical fall in diamond production in 2001/2002 cut its GDP growth by more than half, highlighting its vulnerability to external shocks (International Monetary Fund, 2002a). Mozambique is still recovering from the 2000 floods, which reduced economic growth from 7.5 per cent in 1999 to 1.6 per cent in 2000 (African Development Bank, 2002). While Uganda is diversifying its exports away from coffee, the long term price of which is declining sharply, most exports are primary commodities. Periodic drought, pests, diseases and phytosanitary issues raised by developed countries make exports vulnerable (Ministry of Finance, Planning and Economic Development, 2002).[17] Kenya's 2000 drought caused GDP to decline by 0.2 per cent following modest growth of 1.3 per cent in 1999 (OECD, 2003). Such shocks increase reliance on aid funding; with tax revenue collection already low, governments find they do not have the financial resources to cope with such disasters. South Africa's economy is perhaps the least vulnerable to sectoral shocks, but still is subject to exchange rate volatility typical of a commodity-based economy. However, the South African Reserve Bank's decision not to intervene in foreign exchange markets during the 2002 run on the rand indicates growing confidence in macroeconomic settings and political stability (International Monetary Fund, 2003b).

[17] For example, Uganda's second biggest export is now Nile perch to the EU market. However, a phytosanitory complaint raised by the EU halted this trade for two years up till quite recently (Tumuheirwe, 2003).

Inequality

Income distribution remains highly unequal in all five economies; the gap between rich and poor in South Africa is amongst the widest in the world (Table 1.2). With the exception of South Africa, around a quarter or more of the population in the economies studied here live on less than $1 per day, adjusted for purchasing power parity (World Bank, 2003c).

ROLE MODELS FOR THE CONTINENT

While all five economies face challenges, Uganda, Botswana, Mozambique and South Africa are embracing reform and are achieving stronger growth as a consequence. Kenya's new Government has indicated it supports economic reforms and hopefully will join these four economies to become models for the rest of Sub-Saharan Africa.

Botswana and Uganda in particular are two of the outstanding performers of Sub-Saharan Africa. Stable government, sound macroeconomic policies, strong commitment to providing social services, improving governance and diversifying their economies has generated rapid growth, dramatically improved development outcomes and increased investment opportunities. Uganda has successfully reduced its HIV infection rate from 30 to 5 per cent over the course of the decade and Botswana has developed from a least developed economy to a low-middle income economy. These positive outcomes are cause for optimism and also indicate opportunities for Australian investors and exporters.

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SOUTHERN AND EAST AFRICA'S BUSINESS ENVIRONMENT

KEY POINTS

- Governments of the five Southern and East African economies are making headway in improving their business climates and attracting more domestic and foreign private investment.
- Political systems for the most part are stable; Botswana, Kenya, Mozambique and South Africa have multiparty democracies; Uganda has a stable, non-party democracy.
- Security issues remain a concern for business; crime is a serious concern in some countries.
- Property rights generally are respected although some difficulties in enforcement remain. Some governments restrict the foreign ownership of land including agricultural land.
- The main labour issues are the lack of skilled workers, legislated minimum wage rates in Botswana, Mozambique and South Africa and other labour market rigidities and the difficulty in obtaining visas for skilled non-citizen workers. HIV/AIDS also is a major threat to labour productivity and costs to employers.

Stable, mainly democratic, political regimes characterise all of Southern and East Africa's success stories; this has provided the legitimacy required to undertake hard economic reforms and increase investor confidence. Botswana, Kenya, Mozambique, South Africa and Uganda all aim to provide a business friendly environment and are working on improving governance. Property rights are generally respected. All five economies have laws in place regarding intellectual property such as patents and trademarks although copyright enforcement is lax.

However, most of these five economies need to undertake further reforms and institutional strengthening to improve personal security, accelerate case treatment and increase transparency in court systems, better enforce court decisions and increase technical and middle management labour skills. HIV/AIDS poses a considerable threat to productivity and the long term growth prospects of economies in Southern and East Africa, although Uganda's experience shows the problem is not insurmountable.

OVERALL COMPETITIVENESS

Botswana and South Africa are among the more competitive African economies while reforms in the other economies are bearing fruit (Figure 2.1). Investors report Mozambican and Ugandan competitiveness is improving. Recognising government efforts in creating an attractive foreign investment climate, Moody's long term bonds and notes ratings are A2 for Botswana and Baa2 for South Africa.[1] World Economic Forum Microeconomic Competitiveness Indexes ranked South Africa 29 out of 80 economies, above Indonesia, the Philippines and Thailand and Botswana was ranked 57th, above Indonesia and the Philippines (World Economic Forum, 2003).

In the African Competitiveness Index, South Africa and Botswana have a high Competitiveness Index ranking compared to other African economies, Uganda and Mozambique have a middle ranking.[2] However, Uganda and Mozambique have a strong improvement ranking, indicating business believes their competitiveness is improving (Figure 2.1).

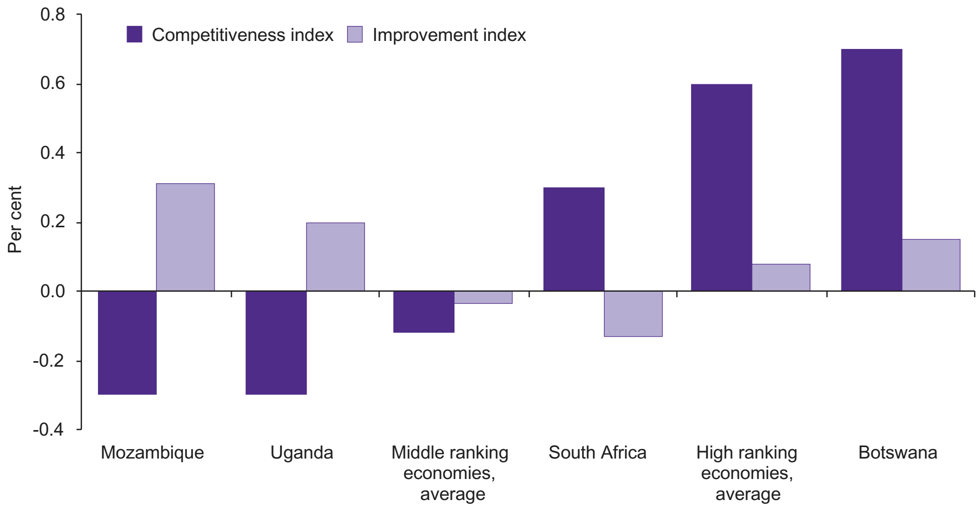
1 Mauritius and Senegal are the only other African economies to have investment grade ratings.

2 The Microeconomic Competitiveness Index does not include the majority of African countries. Therefore this analysis uses the World Economic Forum African Competitiveness Index. Other high ranking economies include Tunisia, Mauritius, Namibia, Morocco and Egypt. Middle ranking economies comprise Senegal, Ghana, Swaziland, Ethiopia, Zambia, Lesotho, Tanzania, Cote d'Ivoire, Cameroon and Malawi.

Figure 2.1

Botswana, South Africa Competitive; Mozambique, Uganda Improving

African Competitiveness and Improvement Index, 2000, Per cent, Five Southern and East African Economies



Notes: The Competitiveness Index is constructed from a business survey regarding current measures of microeconomic competitiveness. The Improvement Index is constructed from direction of change questions from the Executive Survey; respondents were asked to rate factors affecting economic growth at present and three years ago.

Source: World Economic Forum, 2000.

Factor Costs

Factor costs are variable between the five economies, but tend to be reasonably high. The cost structure is quite transparent in Botswana, Mozambique, South Africa and Uganda but a lack of comparable data makes international comparisons difficult (Table 2.1). Minimum wages exist in Botswana, Kenya, Mozambique and some sectors of South Africa, such as for security guards, farm employees and domestic workers. Kenyan minimum wages vary between Mombassa/Nairobi and other areas within the country. Some telecommunications information is available and indicates domestic call costs are comparable to some East Asian economies but international call costs from Kenya are particularly high (Figure 2.2).

Table 2.1

Factor Costs Variable

Costs, Selected Factors, Botswana, Mozambique, South Africa, Uganda[a]

	Botswana	Mozambique	South Africa	Uganda
	US$	US$	US$	US$
Minimum wages	0.39 to 0.46 per hour	30 to 35 per month	-	-
Electricity				
Fixed charges, per month	3.02	2.51	(b)	0.54 to 8.13
Energy charges, per kWh	0.02	0.04 to 0.11	0.02 to 0.03	0.03 to 0.08
Demand charges, per kWh	5.38 to 5.71	-	1.29	-
Water				
Rent and maintenance	-	0.36 to 13.6	-	-
Per cubic metre	0.24 to 2.01	(c)	0.35 to 0.65	0.57 to 0.77
Telecommunications[d]				
Connection fees	12.45 to 88.90	32.55	18.11 to 30.02	59.62
Rental charges, per month	1.48 to 33.19	8.77	5.90 to 11.30	2.71 to 5.42
Call charges per minute	0.22 to 1.19	0.07 to 1.74	0.01 to 0.76	0.01 to 0.98
Rent, per square metre/month	3 to 14	12 to 15	2 to 10	4 to 15
Freight, rail				
Per tonne	-	2.50 to 73.74	24.11 to 59.15	16 to 33.50
Full container	-	67 to 745	-	700 to 1 726
Freight, road	-	-	0.33 to 0.78 per kg plus 56 to 390 local fees	100 per tonne
Freight, air/sea				
Air, per kg	-	1.95 to 18.47	37.77 minimum charge	2.00 to 8.85
Sea, per 20 foot container	-	1 400 to 6 150	33.48 to 312.51	900 to 2 500

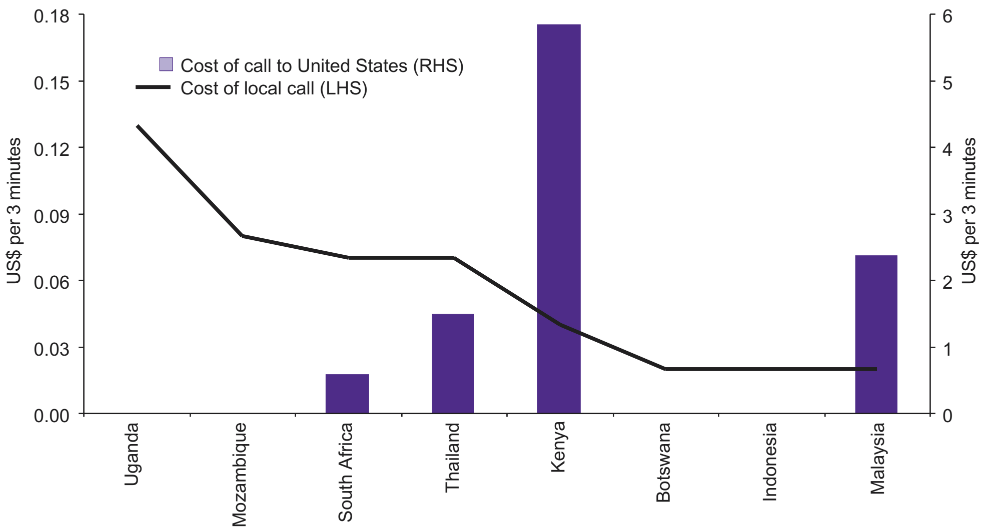
Notes: a. Botswana, South Africa and Uganda rates converted to US$ using December 2002 exchange rates.
b. Service and administration charge per account of US$325 and US$1 236.
c. US$13.53 per month up to 25m^3 commercial, US$27.05 per month up to 50m^3 industrial.
d. Telecommunications service in Uganda based on Uganda Telecom Limited tariffs.

Sources: Botswana Export Development and Investment Authority, www.bedia.bw; Mozambique Investment Promotion Centre, www.mozbusiness.gov.mz; South Africa Department of Trade and Industry, www.dti.gov.za; and Uganda Investment Authority, www.ugandainvest.com.

Figure 2.2

Telecommunication Call Costs

Cost of Telephone Call, 2001, US$ per 3 minutes, Five Southern and East African Economies and Selected East Asian Economies



Note: International call costs are unavailable for Botswana, Indonesia, Mozambique and Uganda.
Source: International Telecommunication Union, 2002.

Infrastructure

Kenya, Mozambique and South Africa have the advantage of being coastal countries and Kenya and South Africa have two of the best deep-water ports in Africa (Economist Intelligence Unit, 2003a). Mozambique has recently privatised its port facilities and is about to start 24-hour operation. Uganda has direct passenger and freight flights to Europe, its major export market, which partially overcomes its land-locked status and poor transport links with the port in Mombassa.

The state of transport infrastructure remains a problem in the five economies, perhaps with the exception of South Africa.[3] Road networks outside capital cities in Kenya, Mozambique and Uganda are a major concern as varying charges, lack of investment and continued growth in traffic take their toll. This can have a significant influence on the decision to invest in low-value-to-weight products such as agricultural produce (Economist Intelligence Unit, 2003b; UNCTAD, 2001a, 2001b). The transport constraints can significantly increase the cost of doing business. Land transport is particularly an issue for Botswana and Uganda, landlocked countries that must rely on road and rail transport

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3 The internal Botswana road system is good but they have no influence over roads once goods pass their border.

networks in other economies for exports and imports.[4] Mozambican connections to Botswana, South Africa, Swaziland, Zambia and Zimbabwe are good but to the detriment of Mozambique's internal systems, limiting the ability to invest in areas outside Mozambique's major ports. For very high value goods, air freight services are relatively good.[5]

Railway systems also are problematic. Botswana rail is expensive compared to road transport, the Kenyan rail system is poor and has steadily deteriorated since independence, Mozambique's working rail is concentrated around the Maputo area, there is a backlog of rail investment in South Africa and financial problems in Uganda Railways Corporation have severely inhibited investment in Ugandan rail (Campbell et. al., 2003; Kinyua, 2003; Matome et. al., 2003; UNCTAD, 2001b).

The state of utilities also is considered a problem for investors. Kenyan electricity is expensive and availability is poor (Kinyua, 2003; May et. al., 2003). The Ugandan distribution network needs substantial investment, power is expensive and only 5 per cent of the population has access to the grid (Blake, 2003). Foreign companies should make provisions for alternative power supplies in Kenya and Uganda, given the poor state of their electricity supplies (Economist Intelligence Unit, 2003b; Waniala, 2003). South Africa has some of the cheapest electricity in the world, but is starting to run into capacity constraints (Abedian, 2003; Campbell et. al., 2003; Downing, 2003). Telecommunications also have some way to go in terms of land-line installation, competitiveness and technology adoption although considerable gains have been made in mobile phone networks with markets opened to new mobile phone operators. (See Chapter 1 – *Economic Performance*).

POLITICS, CULTURE AND SECURITY

Despite the diverse mix of foreign and indigenous cultures, ethnic violence, although an issue, does not significantly threaten business in any of the five economies.[6] A key risk to business is personal and property security; crime is common. Kenya also is the focus of the US "War on Terror" in Sub-Saharan Africa due to the United States Embassy bombing in 1998, the hotel bombing and the attempted shooting down of an Israeli charter flight in November 2002 and the arrest of Al-Qaeda figures in 2003.

Political Risk Fairly Moderate

Botswana, Kenya, Mozambique, South Africa and Uganda all enjoy relative political stability compared to the rest of Africa and all except Uganda have multiparty democracies. Botswana has held democratic elections since independence in 1966 but truly democratic processes are more recent in Kenya,

4 Ugandan goods utilising land transport usually go through either Kenya or Tanzania (Conway, 2003). Botswana goods utilising air, rail and road transport go through South Africa (Nthomiwa, 2003).

5 For example, Uganda exports flowers via air to the Netherlands.

6 However, Northern Uganda is facing an insurgency from the Lords Revolutionary Army.

Mozambique and South Africa. The relationship between the government and opposition parties can at times be antagonistic, as in Mozambique, but political risk generally is low (World Bank, 2003a). While the Botswana and South African oppositions are relatively weak, they maintain a healthy democratic debate in Botswana and internal African National Congress debate, vigorous media, opposition parties and civil society keeps South African democracy strong (Campbell et. al., 2003; Mbendi, 2002).

Uganda's political system bans political parties on the grounds that they exacerbate tribal rivalries (UNCTAD, 2001b). Candidates must therefore run as individuals and an all-inclusive non party system of government exists. Parliament consists of directly elected representatives with some appointed by the president (Mugerwa and Masembe, 2003). Nevertheless, the elected parliament and media retain freedom of expression and the electorate endorsed the system in a constitutional referendum in 2001 (UNCTAD, 2001b). The Government has recently stated its support for the return of multiparty democracy, which it expects to put to a referendum in 2004 (Economist Intelligence Unit, 2003d).

In Kenya, the election of the National Rainbow Coalition represents the first transition to an opposition party since independence in 1963 and is comprised of the Liberal Democratic Party, the National Alliance Party of Kenya and members who defected from the Kenya African National Union, the previous ruling party. Some analysts consider there is a moderate risk of political instability (Economist Intelligence Unit, 2003b).

Cultural Issues Limited

There may be some slight cultural differences in engaging with business in Africa and an open approach is advisable. They appreciate frankness, as long as it is courteous. All except Mozambique have strong British connections with institutions based on British models. English is one of the official languages of Botswana, Kenya, South Africa and Uganda and is widely spoken among the bureaucracy and business community. As a former Portuguese colony, Portuguese is one of the official languages of Mozambique. Mozambique nevertheless is a member of the Commonwealth and English is spoken in the southern tourist regions.

Kenya, Mozambique, South Africa and Uganda have numerous indigenous cultures within their borders, each with their own distinctive language.[7] Botswana is the only economy with a relatively homogenous indigenous society, nearly 80 per cent of whom are the Tswana. The prominent religious groupings of the five economies are Christian, Muslim and Animist. Christian religions are predominant in Kenya, South Africa and Uganda whereas Animist beliefs are in the majority in Botswana and Mozambique. Muslims account for approximately 20 per cent of the Mozambican population and 11 per cent of the Ugandan population (UNCTAD, 2001a, 2001b).

[7] Prominent cultural groups include: Botswana: Tswana, Kalanga and Basarwa; Kenya: Kikuyu, Luhya, Luo, Kamba, Kalenjin, Kisii, Meru, British and Indian; Mozambique: Makua, Makonde, Sena and Shanagaan; South Africa: Zulu, Xhosa, Ndebele, Afrikaner, British, Indian and Jewish; Uganda: Baganda, Banyankole, Acholi, Basoga, Lugbara and Indian (CIA, 2002; Richmond, 2002).

Security a Problem

Security issues remain a major concern in the five economies. Problems that affect these countries in varying degrees include petty crime, theft and violent crime. Estimates suggest around a million unexploded land mines exist in Mozambique as a result of the civil war, adding to security issues outside Maputo. Further details are available from the latest country travel advisories from the Department of Foreign Affairs and Trade at www.smartraveller.gov.au.

International governments also have expressed concern about the threat of terrorist attacks in East Africa. The British Government suspended all commercial flights from the United Kingdom to Kenya in May 2003 because of concerns about poor security in the face of evidence of potential terrorist threats. Flights to Nairobi resumed in July due to improved security arrangements and Mombassa followed shortly after in September 2003.

LEGAL AND REGULATORY ENVIRONMENT

The legal and regulatory environment in each of the five economies differs but for the most part is relatively straightforward. Few business regulations actively inhibit investment although in some economies, judicial system inefficiency makes enforcing contracts and registering businesses difficult and time consuming. Foreigners may invest in most sectors. Authorities generally allow 100 per cent foreign ownership, and do not enforce performance requirements on business. Competition generally is encouraged. Government departments can be inefficient. In Kenya, Mozambique and Uganda there can be problems with decision-making at lower levels of the civil service, although these governments are taking steps to combat the problem (Kigozi, 2003; Marques, 2003).

Legal Systems

The South African, Kenyan and Ugandan legal systems are based on the Common Law system, but application and performance varies across the five economies (Table 2.2; Figure 2.3). However, in all five economies domestic and foreign firms face the same legal requirements and have equal treatment before the courts.

Investor perceptions of the fairness and impartiality of the Botswana and South African court systems are quite favourable with average responses rating the legal system as better than the African average. However, perceptions of the fairness and tardiness of Kenyan, Mozambican and Ugandan court systems are unfavourable (Figure 2.3). Enforcement of court decisions is a cause for investor concern in all economies but especially Mozambique, Kenya and Uganda.

Table 2.2

Common Law Predominant

Legal Systems

Economy	Legal system
Botswana	Roman-Dutch law and local customary law.
Kenya[a]	Common law. Islamic law accepted in the courts.
Mozambique	Portuguese civil law.
South Africa	Common law and Roman-Dutch law.
Uganda	Common law.

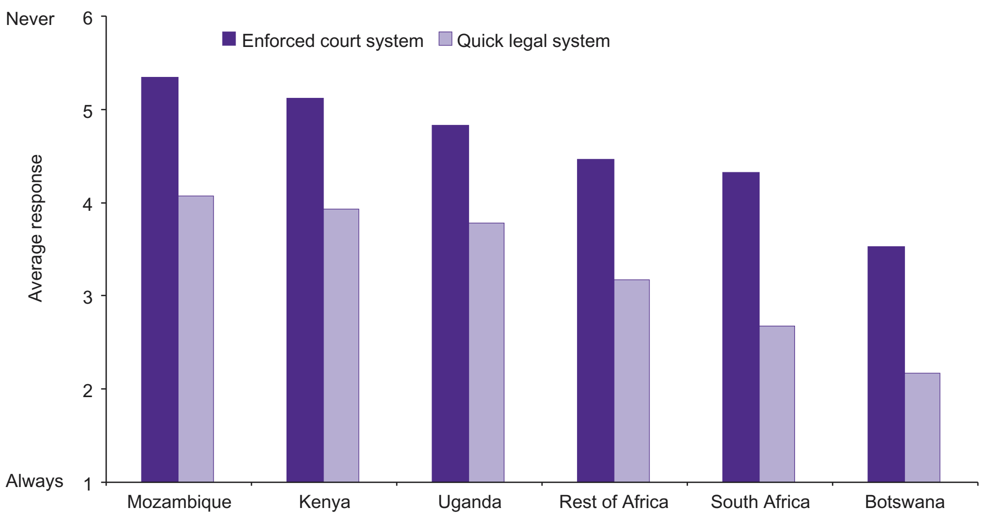
Note: a. The Kenyan court system accepts Islamic law, but only to deal with family law, such as marriage and succession disputes. It has no impact on business undertakings in Kenya.

Sources: Economist Intelligence Unit, 2002a; Uganda Investment Authority, www.ugandainvest.com; UNCTAD, 2001a; and Werksmans Attorneys, 2002.

Figure 2.3

Legal Systems Need Improvement

Investor Opinion on the Legal System Being Quick and Whether Court Decisions are Enforced, 2000, 1=Always, 6=Never



Note: Rest of Africa is calculated as the simple average of African countries surveyed minus Botswana, Kenya, Mozambique, South Africa and Uganda.

Source: World Economic Forum, 2000.

Performance Requirements

Businesses are not required to employ locals or export specified output shares from general investment projects in any of the five economies. However, authorities in most economies expect foreign investors will transfer technologies and train local employees to reduce the need to hire expatriates. Governments also look favourably on businesses producing for export markets and employing locals.

Business Regulations

Registering a business can take anywhere between one to six months depending on the economy and whether the business requires special licences (United States Government Export Portal, 2002). Mozambique's FDI approval processes can be the most lengthy, but Kenya's processes also are very arduous and non-transparent (Kimura, 2003; Levy, 2003; May et. al., 2003). Uganda has established a one-stop shop for local and foreign investors, making establishing a business very quick and low cost (Kigozi, 2003). Botswana, Mozambique and South Africa also have efficient investment authorities, which act as one-stop-shops for investors and Kenya is working to improve its. Businesses also can hire local consultants to assist them navigate necessary procedures; this is recommended particularly in Kenya and Mozambique where processes can be non-transparent and South Africa to manage black economic empowerment obligations (Economist Intelligence Unit, 2003b; Levy, 2003; Van de Merwe et. al., 2003).[8] Businesses have to register for tax purposes and make contributions for their employees to relevant national social security and health funds. Most activities require business permits and trade licences. In Kenya, businesses such as banks and insurance companies also require special licences.

Foreign investors may invest in most sectors and generally they can hold wholly foreign owned businesses. In general no legal minimum investment requirements exist. However, to obtain an investment licence in Uganda, firms may be required to invest a minimum of $100 000, undertake to train local staff, procure locally where possible and meet local environmental standards (Uganda Investment Authority, 2003; UNCTAD, 2001b). To obtain fiscal incentives in Mozambique, foreign investors are required to invest US$50 000 and national investors US$5 000 (Investment Promotion Centre, 2003). The few areas where governments restrict foreign investment usually are to encourage indigenous employment growth (Table 2.3).

Reforms to foreign ownership regulations have ensured that Botswana, Kenya, Mozambique, South Africa and Uganda are relatively open to FDI, with most imposing restrictions on a sectoral basis (Table 2.3). Investment is also protected through membership of multilateral investment agencies (Table 2.4). However, Australia does not have bilateral investment treaties with these countries, although it does have a double taxation treaty with South Africa.

[8] For more information on black empowerment, see the box in this Chapter – *South Africa's New Mining Regime.*

Table 2.3

Full Foreign Ownership Allowed

Regional FDI Regimes, Five Southern and East African Economies

Economy	Key FDI regulations
Botswana	The only sectors reserved for citizens or 100 per cent nationally owned companies are predominantly small-scale businesses located in retail trade, manufacturing and mining.[9] Foreign and local investors are treated equally. The only exceptions to this are that 30 per cent of Government construction contracts are reserved for citizens, agricultural land cannot be transferred to non-citizens without ministerial approval and foreign investors cannot access financial incentive schemes. Investment incentives include a reduced corporate tax rate of 15 per cent, instead of 25 per cent, for registered manufacturing companies and financial services businesses associated with the International Financial Services Centre.[10]
Kenya	No minimum foreign investment requirements are in place, except for a minimum investment for the immigration department to issue a work permit for foreigners.[11] The only sectors that require Kenyan co-ownership are public utilities, insurance, telecommunications and some parts of the media. Agricultural land may be held only by Kenyan citizens. Foreign and local investors are treated equally, although local businesses enjoy lower tax rates. Businesses utilising the Manufacture Under Bond programme are exempt from duty and VAT on imported inputs. They also receive a 100 per cent investment allowance on plant, machinery, equipment and buildings.
Mozambique	No minimum investment requirements exist, unless the investor wants to take advantage of investment incentives, and no sectors are reserved solely for citizens or majority Mozambican owned businesses. In general, foreign and national investors are treated equally, except in cases where the nature or scale of investment by nationals merits special treatment and support from the Government. Businesses registered as Mozambican are eligible for greater tax concessions. Investors are eligible for a tax credit equal to 5 per cent of the total investment. This increases to 10 per cent for investment in Gaza, Sofala, Tete and Zambézia Provinces and 15 per cent for investment in Cabo Delgado, Inhambane and Niassa Provinces.
South Africa	No minimum investment requirements exist. Foreign investors generally are allowed 100 per cent ownership. The main restrictions are in ‘strategic industries’ such as electronics and newly established banks. Apart from access to local finance, foreign and local investors are treated equally. The key requirement for both foreign and local mining firms is that any new investment must involve a black empowerment partner.[12] A foreign investment grant covering up to 15 per cent of the costs of moving new machinery and equipment, to a maximum amount of R3 million, US$350 000, per entity is available to manufacturing foreign investors.

9 The Government toyed with the idea of minimum foreign investment requirements in particular industries but has abandoned this scheme.

10 The international financial services centre is being developed as an active cross-border financial services centre (Botswana International Financial Services Centre, 2003).

11 To encourage Kenyan employment, the immigration department requires Ksh 3 million (about US$38 000) be invested before it will issue a work permit for foreigners.

12 The purpose of a black empowerment partner is to ensure 40 per cent of managers, including foremen, and 26 per cent of the equity of attributable ownership is in the hands of historically disadvantaged South Africans.

Table 2.3(cont.)

Economy	Key FDI regulations
Uganda	Minimum investment requirements are not written into the Foreign Investment Code but a minimum of US$100 000 is applied in practice. The only restrictions on foreign investors are those involving national security and ownership of land. Foreign investors may lease land for up to 99 years. They can also participate in joint ventures involving the outright purchase of agricultural land but Ugandans must hold the majority stake. Otherwise, foreign ownership of up to 100 per cent is allowed. Domestic and foreign investors are treated equally before the law, but foreign investors may have limited access to land, may need to meet certain requirements before obtaining an investment licence and need higher paid up capital for banks and insurance companies. An allowance of 50 per cent of costs of plant and machinery investment is available for Kampala, Entebbe, Namanve, Jinja and Njeru, increasing to 75 per cent for investment outside these areas. Scientific research expenditure, training expenditure and mineral exploration expenditure receive an allowance of 100 per cent.

Source: UNCTAD, 2001a, 2001b, 2002; United States Government Export Portal, 2002; Werksmans Attorneys, 2002; World Trade Organization, 2003.

Table 2.4

Investment Generally Protected

Membership of Various Investment Related Groups, Five Southern and East African Economies

	Botswana	Kenya	Mozambique	South Africa	Uganda
Multilateral Investment Guarantee Agency	✔	✔	✔	✔	✔
International Centre for the Settlement of Investment Disputes	✔	✔	✔		✔
Overseas Investment Insurance of the UK					✔
Overseas Private Investment Corporation of the United States					✔
International Chamber of Commerce			✔		
Africa Trade Insurance Agency		✔			

Source: UNCTAD, 2002, 2001a and 2001b.

Competition Policy

Kenya and South Africa both have competition laws and enforcement agencies to ensure mergers and acquisitions and pricing arrangements do not undermine competition. The Kenyan Government currently is reviewing its *Restrictive Trade Practices, Monopolies and Price Control Act*, as the authorities feel it does not reflect the current global trading environment (Economist Intelligence Unit, 2003c). South African mergers and acquisitions are subject to a public interest test and whether the authorities believe competition will be adversely affected before transactions are approved (Werksmans Attorneys, 2002).

In contrast, Botswana and Uganda currently have no laws governing competition between firms or their conduct in the marketplace. In Uganda, competition generally is encouraged and few government monopolies exist. To provide more certainty regarding competition policy, Uganda currently is developing an anti-trust law and reviewing commercial laws to encourage greater competition (New Vision, *Government in Anti-Trust Laws Formulation,* 14 July 2003, allafrica.com, accessed 28 July 2003; UNCTAD, 2001b). In Botswana, competition policy is being reviewed but at present no laws prevent 'price gouging' (UNCTAD, 2002).[13]

Taxation

Taxation is not particularly onerous compared to economies such as Indonesia, Malaysia and Thailand. Corporate taxes range from 10 to 37.5 per cent depending on the economy and the industry. All economies impose value-added taxes of 10 to 17 per cent. However, Kenyan stakeholders report it is difficult for exporters to get refunds for the VAT and import duties and other charges for importers also are high; the import declaration fee is 2.75 per cent and port charges are $265 per container, compared to $100 in Singapore and Egypt (May et. al., 2003). Appendix Table A2.1 provides more details on tax rates in the five economies.

Mining Legislation

The South African Government has passed or is considering several new pieces of mining legislation aimed at developing the mining sector and broadening the tax base. These are the *Minerals and Petroleum Resources Development Act* and the Royalties Bill. The Broad-based Socio-economic Empowerment Charter within the *Mineral and Petroleum Resources Development Act 2002*, aims to promote opportunities for historically disadvantaged South Africans in the mining industry, typically black workers. (See Chapter 4 – *Investment Opportunities*).

[13] This could for example entail firms coming into Botswana and charging higher prices than, for example, South Africa and then preventing others from importing their products from South Africa.

SOUTH AFRICA'S NEW MINING REGIME

South Africa's 2003 *Minerals and Petroleum Resources Development Act* changes ownership of mineral rights from private to government ownership, standardising it with practice in most economies, including Australia. Although some uncertainty remains, the general consensus is this change should release large tracts of land major South African mining companies previously locked up, as miners have to use their leases or lose them. This should provide opportunities for small mining companies, including from Australia.

The Broad-based Socio-economic Empowerment Charter has eight key principles aimed at distributing wealth to historically disadvantaged South Africans.[14] In practice, it means new miners establishing in South Africa need a joint venture with a black mining partner. However, young black professionals are getting excellent money to stay with existing mining companies placing considerable stress on new black companies. Shortages of black mining professionals also make finding a black empowerment partner difficult for new firms.[15]

The draft Royalties Bill aims to impose royalties on the extraction of minerals (for details, see Appendix Table A2.2). Interested parties have objected to areas in the draft such as royalties on revenue, classification of the royalty standards, lack of local/rural development offsets and the possibility of double royalty payments. The South African Government is considering these objections. It has indicated it wishes to work with the business community, extending the time frame for the draft bill to be completed to allow more discussion with relevant stakeholders.

Source: Baxter, 2003; Campbell et. al., 2003; Van der Merwe et. al., 2003.

Uganda recently began developing its mining legislation in consultation with the World Bank to provide a framework for mining sector investment and development. Under the new legislation, only Ugandan citizens or businesses incorporated or registered in Uganda are permitted to hold mineral rights. All mineral rights are vested in the Government which grants various licences for the exploitation of minerals. In a move presumably designed to offset rent seeking, public officers engaged in the administration of the *Mining Act* are prohibited from acquiring rights or interests in mineral rights or shares in a company involved in any mining process. Royalties must be paid on the gross value of minerals at a rate prescribed by the Government.[16] The 2002 Mining Bill provides for protection of the

14 The principles are functional literacy of all mining industry workers; 40 per cent historically disadvantaged South African participation in management, including foremen, in 5 years; 10 per cent women in mining in 5 years; improved housing and nutritional standards; non-discrimination against immigrant workers; more procurement from historically disadvantaged South African firms; 15 per cent equity of attributable ownership to historically disadvantaged South Africans in 5 years and 26 per cent over 10 years; and beneficiation in South Africa (Baxter, 2003).

15 A similar charter is likely to apply eventually to most South African businesses. To this end, the Government currently is working on an Economic Empowerment charter for the ICT and electronics sectors.

16 No royalty rates were available in the Mining Bill.

rights of women to work on mines, the environment and the rights of occupiers of land subject to a mineral right. It also requires holders of mineral rights to give preference to using Ugandan inputs where possible (Ministry of Energy and Mineral Development, 2002).

PROPERTY RIGHTS

Property rights are well protected in all five economies. Governments can only expropriate private assets if owners receive fair market compensation. This right is protected in the Botswana, Kenyan and Ugandan constitutions (United States Government Export Portal, 2002). Cancelling leases or licences is rare and only allowable under specific circumstances.[17] The Uganda Investment Authority prefers to rely on counselling to achieve the desired outcome in the case of disputes and authorities have not revoked any licences since 1991 (UNCTAD, 2001a, 2001b).

Ownership of Land

Rules on foreign ownership of land differ between economies. Foreigners may own freehold land in Botswana, Kenya and South Africa but not in Mozambique or Uganda, although agricultural land ownership is more complicated.

In Mozambique, neither domestic nor foreign investors can own land, including agricultural land but can lease land for an initial period of up to 50 years, renewable once for up to another 50 years. As no value is placed on undeveloped land, the lease price is quite low. However, obtaining a lease is a complex and relatively protracted process and the land leases cannot be re sold or sublet. This creates a problem regarding access to finance as land cannot be used as collateral (UNCTAD, 2001a; Jaiantilal, 2003). Investors may only acquire private estates, or housing, if they can present an investment project to use the land. Otherwise, only local citizens may acquire government-owned houses and only if they reside in them (UNCTAD, 2001a). These restrictions make rents relatively expensive (Economist Intelligence Unit, 2002b). In Uganda, foreign investors may lease land for up to 99 years.

In all five economies, ownership of agricultural land entails some restrictions but these are not onerous enough to deter investment. Foreigners or majority owned foreign businesses may not own Botswana agricultural land without the consent of the Minister of Local Government and Lands. In rural areas, except for land held freehold under a registered title deed, most land is government owned. Customary grants are only available to Botswana citizens (Armstrongs, 1999).

South Africa's agricultural land ownership is complicated by the land restitution and redistribution program to historically disadvantaged South Africans currently underway (Department of Land Affairs, 2003). Some land is owned by the chief or the community making it difficult to use the land for collateral or to sell. Communal ownership deters agricultural investment (Baxter, 2003). Foreigners

[17] For example in Mozambique, these circumstances include liquidation of the company, expiration of the project or non-fulfilment of mandatory obligations.

may only own Ugandan agricultural land if they are part of a joint venture where the Ugandan partner holds a majority stake, although they can lease land for 99 years (Kigozi, 2003; UNCTAD, 2001b). Generally, Kenyan agricultural land can only be transferred or leased to Kenya citizens or citizen owned businesses and requires permission from the land control board (Economist Intelligence Unit, 2003a). It is still possible to buy agricultural land in Kenya but it is better to do it with a local partner (May et. al., 2003). Usually a foreign company may only gain control of land if a public company transfers ownership through the sale of shares (Economist Intelligence Unit, 2003a).

Security of tenure in the South African mining sector remains somewhat uncertain as the new *Minerals and Petroleum Resources Development Act* gives the President some discretion in converting prospecting licences into mining licences. Potential investors are observing how the new mining regime beds down (Van der Merwe, 2003).

Intellectual Property

All five economies have laws to protect intellectual property and are signatories to the Trade-Related Aspects of Intellectual Property Rights, TRIPS, Agreement. However, most still have not developed mechanisms to implement their obligations (World Trade Organization, 2003). Enforcement of copyright infringements is considered lax in Kenya, South Africa and Uganda and is the main intellectual property issue (May et. al., 2003; United States Government Export Portal, 2002). In 2000, the Kenya Association of Manufacturers reported the sale of counterfeit goods cost the Kenyan manufacturing sector over Ksh20 billion, or A$450 million, in lost sales (United States Government Export Portal, 2002).

LABOUR MARKETS

Labour market inflexibility conditions and skill mismatch result in high unemployment rates in most of the five economies, ranging from around 15 per cent in Botswana to 40 per cent in Mozambique (United Nations Economic Commission for Africa, 2002).[18] Labour regulations and legislation increase unit labour costs and limit labour market flexibility. Productivity generally is low. In most cases employers and employees must contribute to either a social security or health fund or both, further adding to unit labour costs. However, industrial action is limited and policies are encouraging workforce training to improve productivity.

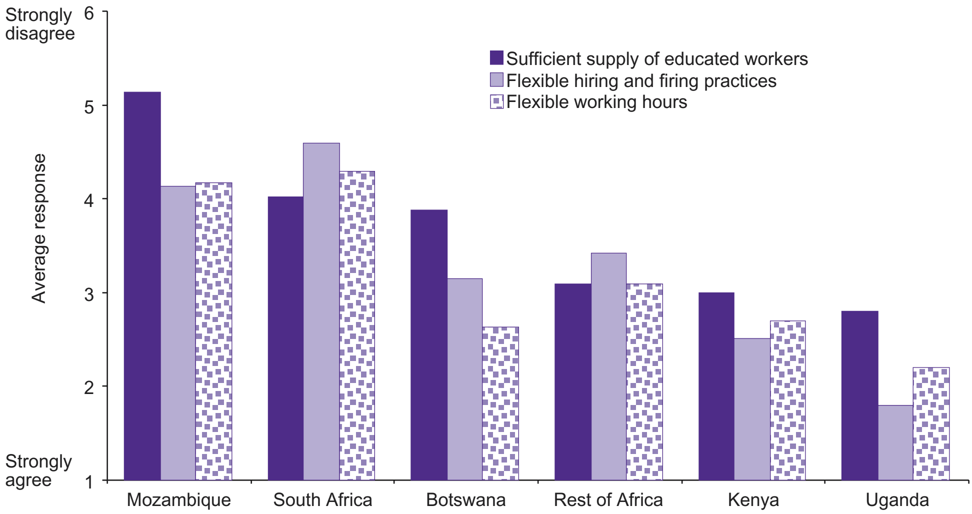
In contrast, Ugandan labour regulation are among the best in Africa and investors consistently rank it highly on the supply of educated workers and flexible hiring and firing practices and working hours; the Government does not legislate minimum wages (UNCTAD, 2001b) (Figure 2.4). Businesses also can hire expatriates if skilled locals are not available but must obtain a work permit for them (Blake, 2003).

[18] Unemployment estimates are nebulous for most African economies as the labour market has a high proportion of informal industry workers.

Figure 2.4

Ugandan, Kenyan Labour Markets a Positive for Investors

Investor Opinion on the Labour Supply, Flexible Hiring Practices and Flexible Working Hours, 2000, 1=Strongly Agree, 6=Strongly Disagree



Note: Rest of Africa is calculated as the simple average of African economies surveyed minus Botswana, Kenya, Mozambique, South Africa and Uganda.

Source: World Economic Forum, 2000.

Labour Market Restrictions Costly

Botswana, Kenyan, Mozambican and South African labour legislation provides for minimum hours of employment, conditions of service, workers compensation, leave and conditions for terminating employment. Appendix Table A2.1 provides more details on employee conditions.

Regulations make it difficult and costly to dismiss workers in Mozambique and South Africa (UNCTAD, 2001a; Werksmans Attorneys, 2002). Several pieces of South African legislation introduced since 1995 provide a new legal framework governing employment and conditions; businesses are advised to consult labour experts before hiring (Baxter, 2003; Van der Merwe, 2003; Werksmans Attorneys, 2002). Business perceives the resulting labour laws as quite strict and rigid but some analysts believe these perceptions are inaccurate. For example, many managers do not realise firms with under 100 employees have full labour dismissal flexibility (Abedian, 2003). In Mozambique dismissing employees without just cause is only possible after the payment of substantial indemnity costs (UNCTAD, 2001a).

Botswana employees also have very generous severance benefits known as the five-year service award. Employees who have completed 60 months of continuous employment with one employer regardless of whether the contract of employment has been terminated or not get one day's basic pay for each month worked during the first 60 months of continuous employment and two days' basic pay for each additional month of continuous employment (Government of Botswana, 2003).

Kenyan, Mozambican, South African and Ugandan employers also must contribute to a social security or health insurance fund (Appendix Table A2.1).[19] Because of difficulty in getting money from the social security system to cover employees adequately, conscientious Mozambican employers must pay twice to look after their employees; once to the National Institute of Social Security and a second time to actually cover the employee's expenses (Levy, 2003). It is common for firms in Kenya to offer voluntary fringe benefits such as private pensions and medical insurance schemes, the total cost of which is around 40 per cent of the basic wage (Economist Intelligence Unit, 2003b).

Work Permits

Due to concerns about the unemployment rate, all five economies encourage foreign investors to hire local employees. Investment projects that involve local employment are looked on more favourably than those that do not (see above). To encourage the use and training of local labour, Botswana sometimes grants expatriate work permits only on the condition that applicants train local staff to take over from expatriates. Work permits typically last for one or two years but obtaining work permits becomes increasingly difficult the longer a business goes without making efforts to engage local staff. In Mozambique, expatriates may be hired to fill shortages of locally qualified individuals. However, immigration rules make hiring foreign professionals difficult and obtaining a work or residence permit takes on average 4 to 6 weeks (Levy, 2003; UNCTAD, 2001a).

Industrial Relations

Industrial action is fairly limited in all five economies. In Kenya, strikes are legal only under conditions where conciliation breaks down, an employer does not refer a dispute to the Industrial Court or honour a court award, or the labour ministry fails to act within 21 days of receiving notice of a dispute. Strike activity has been declining despite the Government's reluctance to declare strikes illegal if they do not fulfil the above requirements (Economist Intelligence Unit, 2003b). South African unions are stronger in the cities than the regions and they currently are seeking a 40 hour week, down from 45 hours. Pay also may be increased to one-and-a-half times on Saturday and two times on Sunday (Baxter, 2003; Loewald, 2003).

Skills Sets Poor

Although technically skilled individuals and middle managers are in short supply in Southern and to a lesser extent in East Africa, governments are emphasising training programs to improve skill levels. (See Chapter 4 – *Investment Opportunities*). A dual labour market exists in most of the five economies. Skilled labour is in short supply and thus commands a premium, while a large pool of unskilled labour is priced highly compared to productivity and hence unemployment rates are high (Suleman et. al., 2003; United Nations Economic Commission for Africa, 2002; UNCTAD, 2001b).

[19] Botswana does not have a statutory national pension or provident fund scheme (Botswana Export Development and Investment Authority, 2003). Contributions to such funds are voluntary.

Governments have introduced many programs seeking to address skills shortages. In Botswana, employers can claim a deduction of 200 per cent of the cost of approved training for Botswana employees (Government of Botswana, 2003). The South African Government has established sector education training authorities, which coordinate businesses workplace skills and training plans. Employers must pay 1 per cent of their payroll to the Government as a training levy, but can claim up to 60 per cent of this levy for training their employees and a R25 000, US$3 200, tax break for every employee that undertakes a relevant training course. New training courses also are designed to encourage life-long learning (Sunday Times, 2002, *Carrying the Hopes of a Nation,* 14 July, www.suntimes.co.za, accessed 9 July 2003). In Uganda, investors are eligible for a 100 per cent write off if they invest in training local staff (UNCTAD, 2001b). Foreign investors also have noted that Mozambicans are hard working and willing to learn (Wilshaw, 2003, UNCTAD, 2001a). The Kenyan Government, with assistance from the World Bank, has introduced free primary education and is planning to extend this to secondary education. Kenya has high educational attainment levels and skilled workers are more available than in most African economies.

HIV/AIDS

HIV/AIDS' impact on labour supply and productivity is a major long-term problem facing potential investors in all of the economies except Uganda (Table 2.5). Direct costs of the disease include increased spending on training, health care, funerals, insurance and absenteeism.[20] However, Uganda's experience shows that it is possible to beat HIV/AIDS. Ugandan authorities have conducted public awareness campaigns supported by the President and non-government initiatives have included free testing and counselling. As a result, rates have fallen from around 18 per cent of the adult population in 1992 to 5 per cent in 2001 (Economist Intelligence Unit, 2003e).

[20] The importance of extended family mean adults attending funerals can have a significant impact on absenteeism (UNCTAD, 2001b). Some South African employers now have rosters for employees to attend funerals (Anderson, 2003). Replacing deceased professionals can reportedly take up to five months, placing a significant burden on business (World Economic Forum, 2000).

Table 2.5

HIV/AIDS Picture Grim

Prevalence of HIV/AIDS and Investor Responses Regarding the Effects of the Epidemic on Business

	Botswana	Kenya	Mozambique	South Africa	Uganda
Population (million, 2001)	1.7	30.7	18.1	43.2	22.8
Adult rate of HIV/AIDS infection (per cent, 2001)	38.8	15.0	13.0	20.1	5.0
Estimated AIDS deaths (per thousand population, 2001)	15	6	3	8	2
Percentage of firms that rank the AIDS epidemic as having a moderate or major impact on the following running costs					
Healthcare costs	48	54	67	41	41
Time lost to AIDS-related sickness	55	55	50	41	59
Time lost due to employees attending funerals	56	37	48	30	59
Reduction in skill level of workforce	46	35	45	28	40
Increase in training costs	53	31	64	34	32
Percentage of firms that hire more than one employee in the following positions due to HIV/AIDS related death and disability					
Management of technical positions	6	6	4	0	17
Labourer or clerical positions	6	8	0	0	18
Percentage of firms that provide the following services					
Routine HIV screening	1	28	4	10	3
Free condoms	56	42	33	36	19
HIV counselling or education	52	60	31	59	28

Source: World Bank, 2003b; World Economic Forum, 2000.

ENTRY STRATEGIES

Entry strategies for the Southern and East African market are similar to those for other unfamiliar markets; visit, do some research, talk to the relevant stakeholders and determine whether a market for your product exists. However, conditions particular to various economies mean that extra steps may be required to ensure a successful outcome. Businesses planning on investing in African countries outside South Africa may also want to consider a joint venture with a South African business, as South Africa is one of the biggest investors in Africa and the expertise of its firms in some sectors may be useful.

In Mozambique, local representation is important in conducting business, as is aiming to mutually benefit all parties through community involvement (Austrade, 2003a). Entry strategies will differ depending on the size of the investment. Small to medium enterprises should engage a good local partner, as they can assist the investor on specific issues. However, an investor should go through a three to six month phase of testing the local partner before committing as they may not have the required capacity (Marques, 2003; Levy, 2003). Mega investment projects of over US$100 million have most issues expedited, including registration and getting goods across the border (Levy, 2003). Investors should visit the Investment Promotion Centre which will advise on the main steps for establishing a company in Mozambique. They also will advise on the procedures for obtaining investment approval, including FDI registration and obtaining land for a project. Austrade has a satellite office in Maputo where potential investors can obtain assistance with market introductions and business facilitation.

In South Africa, suggested entry strategies for investors include licensing arrangements, which are the least risky but also provide the least control, or joint ventures, which give increased control but at a higher cost (Austrade, 2003b). Legal advice is strongly recommended to ensure agreements are comprehensive and afford suitable protection (Austrade, 2003b). Different business entities such as partnerships, corporations, or limited liability companies provide different tax advantages and can be structured to limit liability (Austrade, 2003b). Austrade and the South African Department of Trade and Industry are good starting points for advice for potential investors.[21]

Austrade also can assist businesses interested in Botswana, Kenya and Uganda. Businesses also should take advantage of the investment promotion centres in each of these countries; the Botswana Export Development and Investment Authority, the Investment Promotion Centre in Kenya and the Uganda Investment Authority. Contact details are provided at the end of this report.

[21] The South African Department of Trade and Industry has a considerable amount of information on their website, www.dti.gov.za, listed under ‘publications’. Of particular use to the prospective foreign investor are the links ‘Investors Handbook’ and ‘Cost of doing business in South Africa’.

IMPLICATIONS

Although Africa's business environment is improving, investors require patience when operating in Southern and East Africa. While disputes involving locals and foreigners generally are treated equally, court systems are slow to come to decisions and in some cases, decisions are not enforced. Administrative inefficiencies can be frustrating for new investors, but using relevant investment advisory services can help overcome many problems.

Labour market regulations raise costs in some economies but again, employing a labour lawyer or consultant can help investors avoid major pitfalls. On the other hand, lack of skilled labour and HIV/AIDS are long term problems in most economies, and especially in Southern Africa. Hence, to ensure businesses can hire sufficient skilled labour, businesses should be prepared to undertake education and training programs for their employees.

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APPENDIX

Appendix Table A2.1

Southern and East African Business Regulations

Botswana	
Corporate income tax	25 per cent. Approved manufacturing companies and businesses in the International Financial Services Centre pay 15 per cent.
Capital gains tax	At the income tax rate of the particular taxpayer in respect of 100 per cent of the gain on immovable property and 50 per cent of the gain on movable property. Gains on a sale of shares in a public company listed on the Botswana Stock Exchange are exempt.
Withholding tax	15 per cent withholding tax on all dividends and interest payable.
Personal income tax	Sliding scale with a top marginal rate of 30 per cent for non-residents.
Wholesale or point of sale tax	10 per cent VAT on sales and services.
Import duties	Have a common external tariff with South Africa.
Social security/payroll tax	Nil.
Foreign exchange controls	Nil.
Labour supply	Lack of technically skilled employees, expatriate employees need a work permit.
Staff overtime/bonuses	45 hour week. Maximum 14 hours overtime per week, at 1.5 times hourly rate, double on public holidays.
Staff leave	15 days annual leave per year, 14 days sick leave per year, 12 weeks maternity leave at 25 per cent of basic pay or 50 thebe, US$0.09, per day, whichever is greater.
Staff dismissal	Minimum notice is one payment cycle (unless a serious breach), eligible for severance benefit after 5 years.
Employee health cover	Workers compensation applies. Employers must also take out insurance cover.
Labour issues	Industrial action rare. HIV/AIDS.
Foreign land ownership	May own freehold, but some restrictions on owning agricultural land.
Banking services	4 primary commercial banks, plus the Botswana Development Corporation for infrastructure credit and the National Development Bank for longer term manufacturing loans.
Stock/financial markets	Botswana stock exchange, relatively illiquid.

Sources: Armstrongs, 1999; Government of Botswana, 2003; UNCTAD, 2002.

Kenya	
Corporate income tax	37.5 per cent for non-resident companies, 30 per cent for locally registered and incorporated companies, 25 per cent for newly listed companies on the Nairobi Stock Exchange.
Capital gains tax	Nil.
Withholding tax	10 per cent of the amount payable on dividends (5 per cent for residents) and 15 per cent on interest except bearer instruments.
Personal income tax	Top marginal rate of 30 per cent.
Wholesale or point of sale tax	16 per cent VAT on taxable supplies of goods and services.
Import duties	0 per cent on raw material inputs, maximum rate 35 per cent, except for sugar (100 per cent) and wheat flour (60 per cent).
Social security/payroll tax	Compulsory contribution to the National Social Security Fund, 10 per cent of basic wages up to KShs 160, US$2, per month per employee, half of which is paid by the employer and half by the employee.
Foreign exchange controls	Nil.
Labour supply	Relatively well skilled and educated.
Staff overtime/bonuses	52 hours of work for 6 day work week, not more than 60 hours work a week. Entitled to at least one rest day for every period of seven days. A Christmas or performance related bonus is generally paid by employers.
Staff leave	21 days annual leave per year, sick leave 7 days full pay after 2 months continuous service, 7 days at half pay for every year after that; 2 months maternity leave full pay.
Staff dismissal	With justifiable reason.
Employee health cover	Compulsory to join the National Hospital Insurance Fund for employees earning more than KShs 1 000, US$13, per month. Contributions vary according to salary level.
Labour issues	HIV/AIDS has the potential to lead to labour shortages and higher operating costs for companies.
Accounting principles	International accounting standards, tailored to meet local needs. The ‘big five’ accounting firms have offices in Kenya.
Foreign land ownership	Cannot own agricultural land.
Banking services	Fragile system due to non-performing loans, 47 banks, 5 non-bank financial institutions, 4 building societies. Foreign bank representation.
Stock/financial markets	Medium sized exchange dealing in variable and fixed income securities.
Industrial Development Zones	At least 80 per cent of production must be exported. Businesses operating in the zones receive a 10-year tax holiday after which tax is levied at a flat rate of 25 per cent for another 10 years. Businesses also receive perpetual exemption from VAT, import duties on inputs and stamp duties.

Source: Economist Intelligence Unit, 2003b.

Mozambique	
Corporate income tax	10 per cent on agriculture until 2007, after which 35 per cent. 35 per cent for all other activities.
Capital gains tax	18 per cent on the sale of shares. Capital gains derived from the sale of fixed assets are included in ordinary income and are subject to tax at the corporate rate.
Withholding tax	18 per cent on dividends, interest. Non-resident companies without a permanent establishment in Mozambique are subject to a 15 per cent withholding tax on gross income.
Personal income tax	Sliding scale of 10 to 20 per cent.
Wholesale or point of sale tax	17 per cent VAT on goods and services. Specific Goods Consumption Tax over and above payment of VAT payable on the importation and production of specific luxury goods. Rates vary between 20-75 per cent.
Import duties	Basic goods, 0 per cent; raw materials 2.5 per cent; fuel & equipment 5 per cent; intermediate materials, 7.5 per cent; consumer goods, 35 per cent.
Social security/payroll tax	7 per cent of salaries to the National Institute of Social Security - 3 per cent from employees, 4 per cent from employers. Foreign nationals exempt if participation in an alternative scheme is proven.
Foreign exchange controls	Import and export of local currency prohibited. Entry of foreign currency free. Foreign investors the right to remit loan repayments, dividends, profits and invested capital.
Labour supply	Hardworking and relatively low cost. Difficult to attract and retain appropriately trained and qualified staff.
Staff overtime/bonuses	40 hour work week. Employees are entitled to time off if the working week exceeds 48 hours.
Staff leave	21 days annual leave in the first year, 30 days annual leave thereafter.
Staff dismissal	Without just cause is only possible after the payment of substantial indemnity costs.
Labour issues	Minimum wage US$30 per month for agriculture, US$35 for industrial. Incidence of industrial action is low.
Foreign land ownership	Limited ownership rights apply to foreigners and locals. Land may be leased for a period up to 50 years and renewed once for up to another 50 years. Land may not be sold or sublet.
Banking services	Relatively limited, some foreign bank representation.
Stock/financial markets	Small, with activity confined to secondary trading in treasury bills.
Industrial Development Zones	85 per cent of production must be exported and Mozambicans must be employed by businesses within the zone. The Mozambican Government encourages investment in the regions by offering a reduction in the industrial contribution, essentially company tax, of between 25 to 80 per cent, depending on the region.

Sources: Investment Promotion Centre, www.mozbusiness.com; UNCTAD, 2001a.

South Africa	
Corporate income tax	30 per cent. 35 per cent on income derived from South Africa for the South African branch of a foreign company headquartered outside South Africa.
Capital gains tax	50 per cent of the gain taxed at the corporate rate of 30 per cent.
Withholding tax	12 per cent on gross royalties. A comprehensive double taxation treaty is held with Australia.
Personal income tax	Sliding scale of 18 to 40 per cent.
Wholesale or point of sale tax	14 per cent VAT on most goods and services, including immovable property.
Import duties	Rebate of customs duty can be obtained if the imported goods are to be used in manufacturing for export.
Social security/payroll tax	Contribution to the Unemployment Insurance Fund is 2 per cent of worker salaries; 1 per cent from employers and 1 per cent from employees.
Foreign exchange controls	Remittance of interest, royalties and licence and similar fees requires the prior approval of the South African Reserve Bank but are remittable without restriction once such approval is granted. Restrictions exist on local borrowings.
Labour supply	A large gap between skilled and unskilled labour. Unskilled labour relatively expensive.
Staff overtime/bonuses	45 hour week.
Staff leave	21 days annual leave per year.
Staff dismissal	Costly to fire individuals, but can dismiss large numbers of workers for economic reasons. Employers with less than 100 employees have full dismissal flexibility.
Employee health cover	South Africa does not have a national medical insurance scheme, although contributions to a private medical aid scheme are usually made by both employer and employee in equal shares.
Labour issues	Right to strike over retrenchment. HIV/AIDS.
Skills development	Employers are obliged to pay a skills development levy of 1 per cent of payroll.
Accounting principles	Influenced to a large extent by the standards promulgated by the International Accounting Standards Committee and the International Federation of Accountants.
Foreign land ownership	Foreigners are free to acquire freehold title to land anywhere in the country.
Banking services	Highly developed and closely regulated. Foreign banks well represented.
Stock/financial markets	21st biggest stockmarket in the world. Modern exchange with an order driven automated trading system and an electronic settlement system.

South Africa (cont.)	
Industrial Development Zones	Businesses have to comply with all South African legislation. Offer a customs secured area with own customs facilities and personnel and an industrial and services area supplying goods and services to those in the area. Business are eligible for duty-free importation of production-related inputs and do not have to pay VAT on supplies procured from South African sources.

Sources: Department of Trade and Industry, www.dti.gov.za; Department of Labour, www.labour.gov.za; IMD International, 2003.

Uganda	
Corporate income tax	30 per cent. Rates between 25 and 45 per cent apply to mining companies.
Capital gains tax	Included in company income and taxed at the company rate.
Withholding tax	15 per cent for non-residents on management & professional fees, royalties, dividends, interest and pensions or annuities.
Personal income tax	Sliding scale of 10 to 30 per cent for a non-resident. Rental income of an individual is segregated from other income and is taxed at a rate of 20 per cent of gross rental income in excess of USh1 560 000, US$840, per year.
Wholesale or point of sale tax	17 per cent, except on items which are exempt and supplies that are zero rated (i.e. zero rated supplies are goods and services which are exempt from VAT but in respect of which a VAT (output tax) is claimable).
Import duties	Maximum of 15 per cent.
Social security/payroll tax	Employers pay 10 per cent of workers salary to the National Social Security Fund. A further 5 per cent is deducted from the employees salary.
Foreign exchange controls	Nil.
Labour supply	Shortage of middle managers and technicians, health concerns. Business may easily recruit expatriates for any category of skilled labour when Ugandans are not available.
Staff leave	21 days annual leave per year. 30 days sick leave full pay and 30 days sick leave half pay per year.
Employee health cover	Employer pays for medical services for unskilled workers.
Labour issues	No history of labour disputes or strike actions.
Foreign land ownership	Foreigners may own land if they form a joint-venture with a local majority shareholder.
Banking services	Commercial banking predominantly confined to Kampala, with the exception of Uganda Commercial Bank. Around half the commercial banks are foreign.
Stock/financial markets	Small underdeveloped exchange trading primarily in government securities and bonds issued by the East African Development Bank.

Source: Uganda Investment Authority, www.ugandainvest.com; UNCTAD, 2001b.

Appendix Table A2.2

Proposed Royalty Schedule for South Africa

Group	Substance	Royalty rates, %
1	Salt, sand, stone, sandstone, late, gravel, clay, concrete, mortar, plastar, brick, dolorite, limestone, shale, gypsum, limestone, perlite, and phosphate rock extracted by a mineral extractor outside of the exemption described under section 12 of the Royalty Bill.	1
2	Oil and gas: natural gas and natural gas condensate petroleum crude offshore production where the water depths are deeper than 500 meters.	1
3	Alumino-silicates (andalusite, sillimanite, kyanite), asbestos, ammonium sulphate, barytes, zirconium oxide uranium oxide, kaolin, talk, magnesite, mica, silica, sulphur, sodium sulphite, mineral pigment, pyrophylite, dimension stone (granite, norite) and perlite.	1
4	Anthracite and bituminous coal (low ash and steam)	2
5	Antimony, copper, iron, manganese, lead, zinc, cobalt, nickel, silicon, tin, and vermiculite.	2
6	Oil and gas: natural gas and natural gas condensate petroleum crude onshore and offshore production where the water depths are shallower than 500 meters.	3
7	Gold, silver, vanadium, chromite, and titanium dioxide (Ilmenite, rutile).	3
8	Platinum group metals: platinum, paladium, rhodium, iridium, ruthenium, and osmium.	4
9	Amethyst, quartz (smoky quartz, citrine, rose quartz), cryptocrystalline quartz (jasper, opal), or chalcedony (blue lace agate, moss agate, onyx, rainbow chalcedony), tiger's eye, blue asbestos (crocidolite), beryl (emeralds, aquamarine, morganite, heliodor), chrysoberyl (cat's eye, alexandrite), corundum (rubies, sapphires), garnet (jade, hydrogrossular, spessartine), Iolite, kyanite, sodalite, sugilite (royal lavulite or royal azel), tourmaline, verdite (serpentine), and topaz.	5
10	Unpolished natural diamonds	8

Source: Republic of South Africa, 2003.

TRADE OPPORTUNITIES IN SOUTHERN AND EAST AFRICA

KEY POINTS

- Botswana, Kenya, South Africa and Uganda are liberalising their trade regimes and reducing their tariffs as part of their reform programs.
- While Mozambique has simplified its tariff structure it has raised average tariff levels.
- To promote intra-African trade, most African economies also have joined regional preferential trading arrangements. Such arrangements may attract potential investors and improve incomes of participants; they also can affect trade with third countries for some products.
- At only 1 per cent of Australia's total merchandise trade, two-way merchandise trade between Australia and the five economies is modest. For example, it is worth just over one third of Australia's merchandise trade with Indonesia.
- However, from this low base, Australian bilateral merchandise trade with the five Southern and East African economies grew at 10 per cent per year for the past five years, a third faster than trade with all economies.
- Furthermore, Australia's two-way trade with South Africa expanded 17 per cent per year over the past decade, while trade with Mozambique has grown at 29 per cent per year. Economic reforms, stronger GDP growth and liberalising trade regimes drove this rapid trade growth.
- Export opportunities exist mainly in high value added manufactures and services, including in education and information and communication technology, ICT.

By liberalising their trade regimes and undertaking other reforms over the past decade or so, most of the Southern and East African economies have accelerated their growth. This is increasing opportunities for Australian firms exporting to these markets. While relatively low income levels and the similarity of Australian and Southern and East African resource endowments still limit trade, opportunities are emerging in many sectors.

TRADE POLICY IN SOUTHERN AND EAST AFRICA

With the exception of Mozambique, the five economies have been gradually liberalising their trade regimes, lowering most favoured nation, MFN, tariffs unilaterally and under World Trade Organization auspices. However, like most African countries, these five economies have joined regional preferential trading agreements. Such trading blocs may attract potential investors as they open up a larger market and can boost regional incomes; they also can affect trade with third countries for some products. (See Appendix 4.1 – *Investment Opportunities.*)

Tariffs Falling but Still Relatively High

South Africa, Uganda, Botswana and Kenya are liberalising their trade regimes. Uganda began dismantling its complex trade barrier system in 1986 and now has very few bands of relatively low tariffs. South Africa, and hence Botswana, which are members of a customs union, started liberalising their trade regimes in the early 1990s.[1] Kenya, a relative latecomer, started reviewing its trading regime in 2001. Mozambique abolished import licensing in the early 1990s and administrative requirements in 1998 (OECD, 2003).

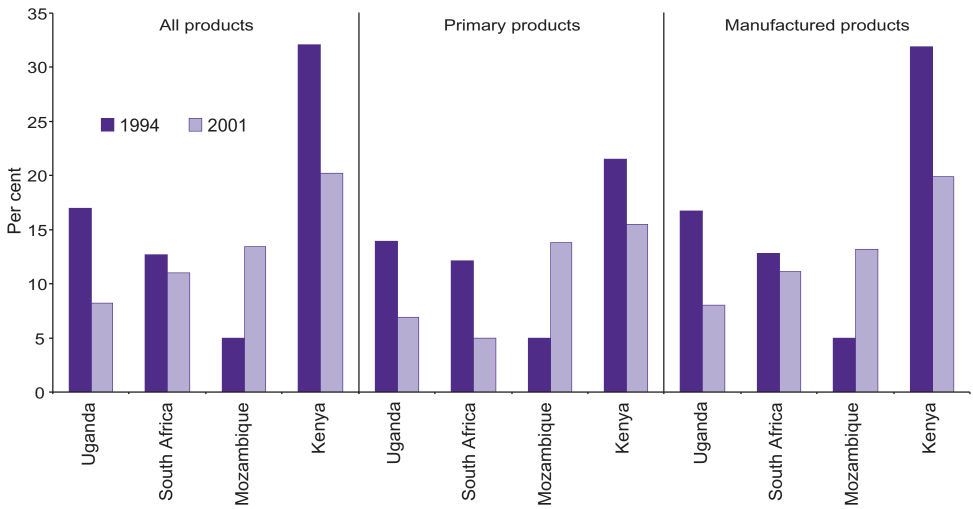
Over the last decade, Kenya's average tariffs have come down most, by 11.9 percentage points, Uganda's by 8.8 percentage points and South Africa and Botswana's by 1.7 percentage points (Figure 3.1). However, tariffs remain high on some product lines, particularly compared to Australia (Table 3.1).

1 The Southern African Customs Union, comprising South Africa, Botswana, Lesotho, Namibia and Swaziland, provides for common external and excise tariffs and free trade between the five economies.

Figure 3.1

Tariffs Falling, Except in Mozambique

Unweighted Tariffs, Five Southern and East African Economies, 1994 and 2001, per cent



Source: World Bank, 2003b.

Tariff Complexity Declining

Authorities in these economies also are streamlining previously complex tariff systems. In Kenya and Uganda most tariffs now fall within a limited number of bands. Uganda has three tariff bands; 0 per cent for capital goods, 7 per cent for intermediate goods and 15 per cent for consumer goods (Uganda Investment Authority, 2003). Kenya has five tariff bands of 0, 5, 10, 15 and 25 per cent, with the exception of wheat flour and sugar, which retain a 60 and 100 per cent tariff respectively (Economist Intelligence Unit, 2003c; OECD, 2003). Kenya plans to reduce further the number of tariff bands to four by 2004 and eliminate all suspended duties excluding on oil products (International Monetary Fund, 2002a). Mozambique does not have a set number of tariff bands, but the tariff structure has been simplified with tariffs now ranging from 0 to 30 per cent (World Trade Organization, 2001a).

Despite some reform, the Southern African Customs Union, which includes Botswana and South Africa, retains a complex tariff structure.[2] Thirty-nine tariff bands exist on ad valorem tariffs although this is down from 45 bands in 1997 (World Trade Organization, 2003). Historically, South Africa drove tariff policy but a recent change in the agreement gives other members more influence (Nthomiwa, 2003). WTO commitments arising from the Doha round also will assist in bringing down external tariffs.

Table 3.1

Tariffs Variable and Relatively High

Average Applied Tariff Rates on Selected Items, Four Southern and East African Economies and Australia, 2002

	Australia	South Africa[a]	Uganda[b]	Mozambique	Kenya
Agriculture	1	8	12	20	16
Industrials	5	6	10	14	18
Wood, pulp, paper and furniture	3	8	13	14	24
Textiles and clothing	12	15	12	26	27
Leather, rubber, footwear and travel goods	7	13	8	16	16
Metals	3	4	9	8	15
Chemicals and photographic	2	3	4	6	13
Transport equipment	4	7	1	12	15
Non-electric machinery	3	2	7	7	12
Electric machinery	4	5	10	10	14
Mineral products, precious stones	2	4	12	9	18
Other manufactured articles	2	3	12	23	20
Fish and fish products	0	10	b	34	15
Petroleum	0	3	b	7	10
Agriculture and industrials	4	6	9	15	16

Notes: a. Botswana has a common external tariff with South Africa.
b. Information for Uganda is calculated using Harmonised System Chapters, 2-digit, and is not directly comparable with estimates for the other economies. Fish and fish products are included in agriculture and petroleum is included in mineral products.

Sources: McGuire, 2003, p. 72; World Trade Organization, 2001b.

2 Its regime includes ad valorem, specific, mixed, compound and formula duties. Formula duties maintain domestic prices above set floors and are automatically adjusted with changes in international prices. The formula duty generally applies the higher of two rates and is based on the relationship between the free on board, f.o.b., import price and a reference price. For more details on how Southern African Customs Union officials calculate this tariff regime, see World Trade Organization, 2003.

Non-tariff Measures

All five economies employ non-tariff measures. Apart from those considered within international norms, non-tariff measures include import quotas on some agricultural products, opaque customs procedures, import and export licensing, export subsidies and local content requirements (World Trade Organization, 2003).[3] South Africa's motor industry development plan, which includes a duty drawback scheme, is one example. Mozambique imposes an import surcharge on sugar and an export tax on unprocessed cashew nuts (International Monetary Fund, 2002b).

SOUTH AFRICAN MOTOR INDUSTRY DEVELOPMENT PROGRAMME

Introduced in 1995 to assist the car industry, the South African Motor Industry Development Programme was scheduled to end in 2007; however the scheme now is expected to continue until 2012 at least. Under the programme, the Government abolished minimum local content requirements and is reducing tariffs on light vehicles and components. In 2003, it also made manufacturers of light vehicles for export and domestic use eligible for a duty free allowance for original equipment component imports worth up to 29 per cent of vehicles' wholesale value. One of the key planks of the scheme is the import-export offset scheme; for every rand of car component, automobile and tooling exports, manufacturers can import 0.6 rand worth of cars duty free.

Since 1996, automobile exports have increased by an average of 33 per cent each year. The scheme particularly encourages intra-industry trade. For example, Toyota Corollas are now made in South Africa for export to Australia and Australia exports Toyota Camrys to South Africa. The South African car industry is now larger than Australia's. Although Australian motor vehicle part exports to South Africa have declined over the past five years passenger motor vehicle exports have more than doubled since 1998.

Sources: Mbendi, 2001; Black, 2002; Twine, 2003.

SOUTHERN AND EAST AFRICAN TRADE

A decade of trade reforms has stimulated strong trade growth in these five economies. Trade now accounts for a greater share of GDP in all of these economies except in Kenya, the trade regime of which has undergone the least change (Figure 1.2). Except for South Africa, a limited number of primary commodities dominate most of these economies' exports exposing them to commodity price volatility. Manufactured goods, particularly machinery, dominate imports.

[3] Approved measures include the prohibition on importing goods from animals that are on the endangered species list, coral and seashells, nuclear and other toxic waste, requiring prior approval for weapons, ammunition and fireworks and compliance with technical, sanitary and phytosanitary, health and environmental conditions for items such as live animals, fish, plants and certain chemicals (Economist Intelligence Unit, 2003b).

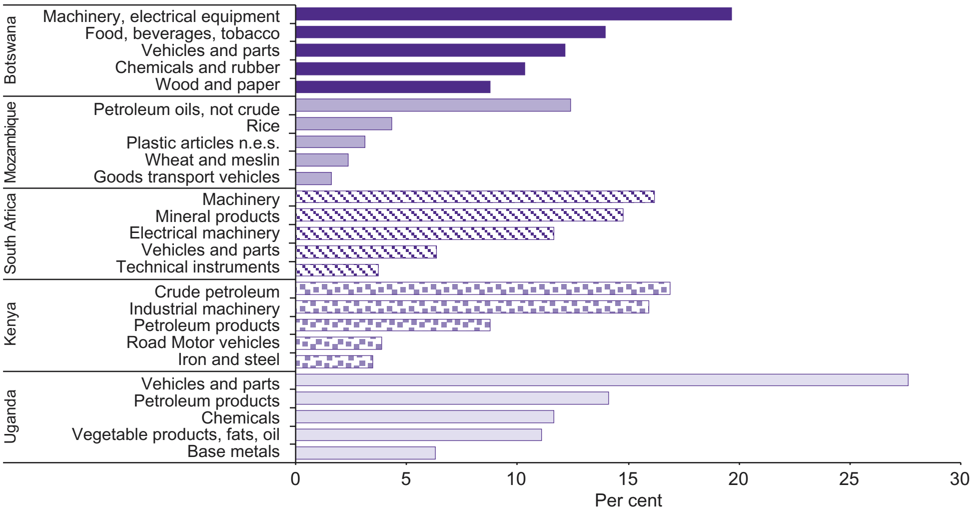
Commodities Important Exports; Manufactures Key Imports

Botswana, Kenya, Mozambique, South Africa and Uganda rely heavily on machinery, vehicles and petroleum product imports; this implies opportunities for higher value added Australian manufactures (Figure 3.2).

Figure 3.2

Machinery, Equipment and Petroleum Imports Important

Top 5 Imports as a Share of Total Merchandise Imports, Five Economies, 2001, Per cent



Notes: Imports for Kenya refer to 2000. For South Africa, mineral products are defined as mineral fuels, mineral oils and products of their distillation, excluding petroleum.

Sources: Bank of Uganda, 2002; Central Statistical Office, 2003; Department of Trade and Industry, 2003; East African Community, 2003; International Trade Centre, 2003.

While traditional manufacturing imports also are growing rapidly in several of the five economies, many new and niche products are among each of these economies' fastest growing imports (Figure 3.3).

All five economies' export profiles are influenced by a few commodities (Figure 3.4). Diamonds dominate Botswana's exports; Kenya mainly exports tea and other primary commodities; and Mozambique relies on aluminium and seafood, but has boosted electricity exports in recent years.[4] While Uganda has diversified into non-traditional fish, gold and tobacco, coffee is still its largest export (Figure 3.4). South Africa has the most diversified export profile with machinery and vehicle exports making a major contribution.

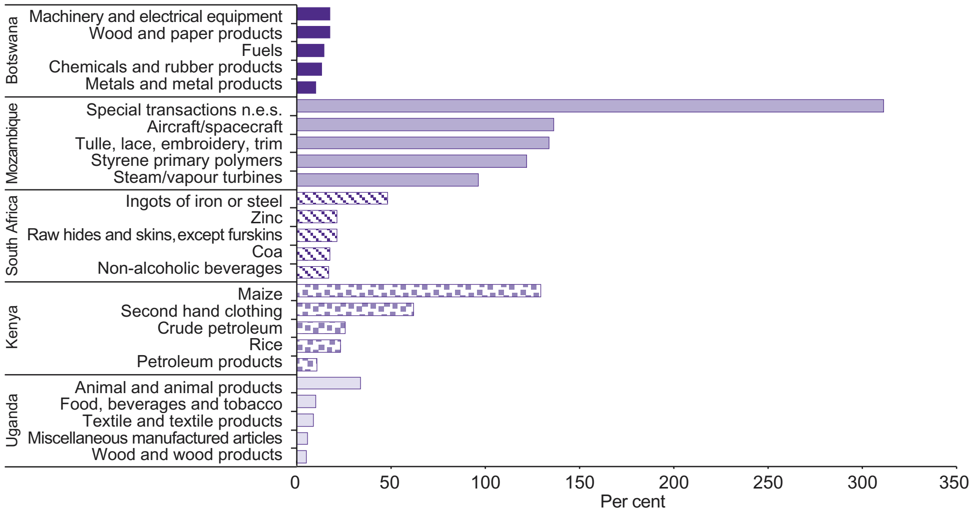
Governments' desire to reduce their reliance on a few major exports in large part motivated their decision to reform their trade regimes. Over the past five years the fastest growing exports from Botswana, Kenya, Mozambique, South Africa and Uganda have been non-traditional commodities.

[4] Mozambique exports approximately 50 per cent of electricity production to South Africa, 40 per cent to Zimbabwe and keeps 10 per cent for itself. Much of the regional Mozambican population does not have access to electricity, partly due to a lack of transmission lines (OECD, 2003).

Figure 3.3

Manufactures Among Fastest Growing Imports

Top 5 Fastest Growing Imports, Four Economies, 1997 to 2001, Per cent



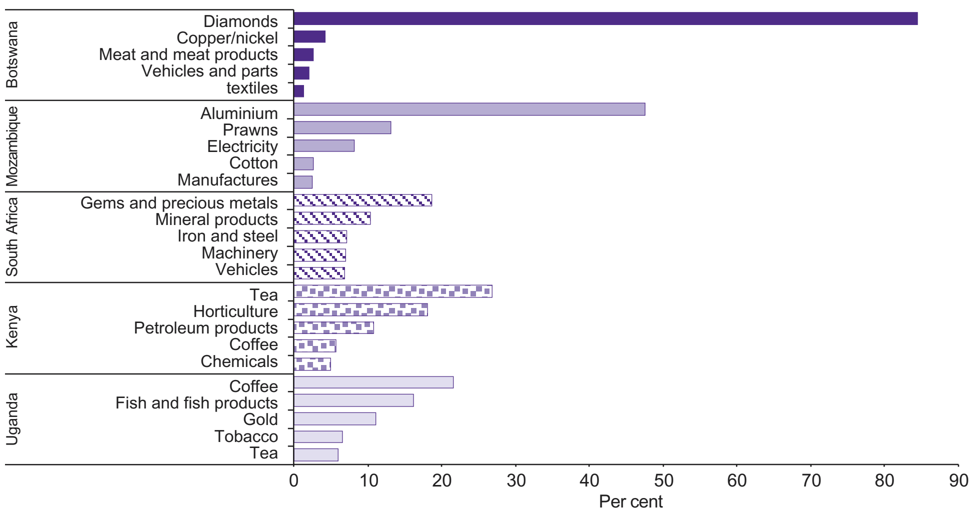
Notes: Special transactions n.e.s. includes alumina. Data for Mozambique is growth over 4 years to 2001. Data for Kenya is growth over 4 years to 2000.

Sources: Bank of Uganda, 2002; Central Statistical Office, 2003; Department of Foreign Affairs and Trade STARS database; East African Community, 2003; International Trade Centre, 2003.

Figure 3.4

Primary Commodities Dominate

Top 5 Exports as a Share of Total Merchandise Exports, Five Southern and East African Economies, 2001, Per cent



Notes: For South Africa, mineral products are defined as mineral fuels, mineral oils and products of their distillation, excluding petroleum.

Source: Bank of Uganda, 2002; Central Bank of Kenya, 2002; Department of Trade and Industry, 2003; Central Statistical Office, 2003.

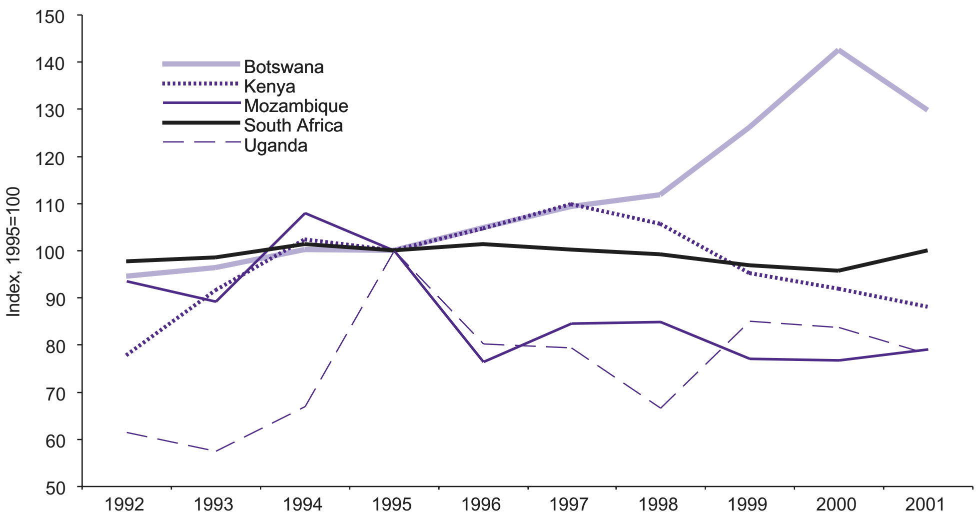
Terms of Trade Declining

Over the past decade, heavy reliance on a few commodity exports has resulted in volatile terms of trade for Mozambique and Uganda (Figure 3.5). Coffee prices, crucial for Kenya and Uganda, are just over half their 1990 value and a little more than 20 per cent of their 1980 value in real terms. Aluminium and tea prices are around 80 per cent of their 1990 value (International Monetary Fund, 2003b).

Figure 3.5

Falling Terms of Trade Reflect Weak Commodity Prices

Terms of Trade Index, 1992 to 2001, Five Southern and East African Economies, Index, 1995=100



Source: World Bank, 2003a.

Most Trade with Europe and United States

Europe, particularly the UK, and to a lesser extent the United States and Japan are African economies' main trading partners.[5] However, Australia is South Africa's tenth largest trading partner and Mozambique's fourth largest import supplier (Figure 3.6).[6] Selected Middle East economies also are important oil suppliers to these economies.

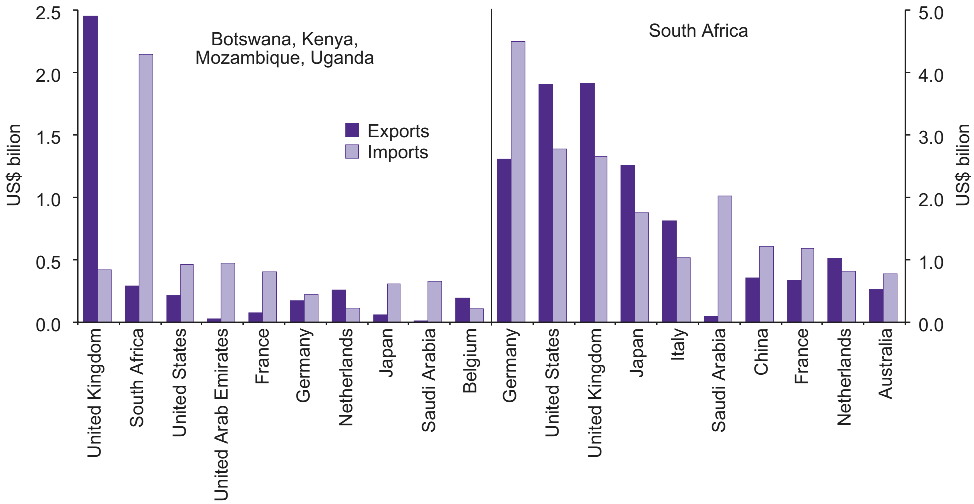
5 For Botswana, Kenya, Mozambique and Uganda, the United Kingdom accounts for around one-fifth of trade, South Africa 17 per cent, France, Germany, the Netherlands and Belgium 11 per cent and the United States 5 per cent. For South Africa, Germany, Italy, France and the Netherlands account for nearly a quarter of trade, the United States 12 per cent, the United Kingdom 11 per cent and Japan 8 per cent.

6 Imports from Australia are dominated by alumina for the Mozal smelter.

Figure 3.6

South Africa, Europe Dominate Trade

Value of Trade, Five Southern and East African Economies, US$ million, 2002



Notes: Data for Botswana is for 2001. Kenya exported approximately US$400 million of goods and services to Uganda in 2002, representing 18 per cent of total exports. Information on whether this represents on-shipping to Uganda is not readily available.

Sources: Central Statistics Office, unpublished data; International Monetary Fund, 2003a.

TRENDS IN AUSTRALIA'S TRADE WITH SOUTHERN AND EAST AFRICA

While Australia's trade with the five economies is relatively small, it is growing strongly. Commodities such as aircraft and parts, telecommunications equipment, electrical equipment, mining supplies and measuring and controlling equipment offer good export growth prospects. Services such as mining exploration, surveying and financial services, technical and higher education and ICT also have good potential.

Bilateral Trade Modest but Growing Strongly

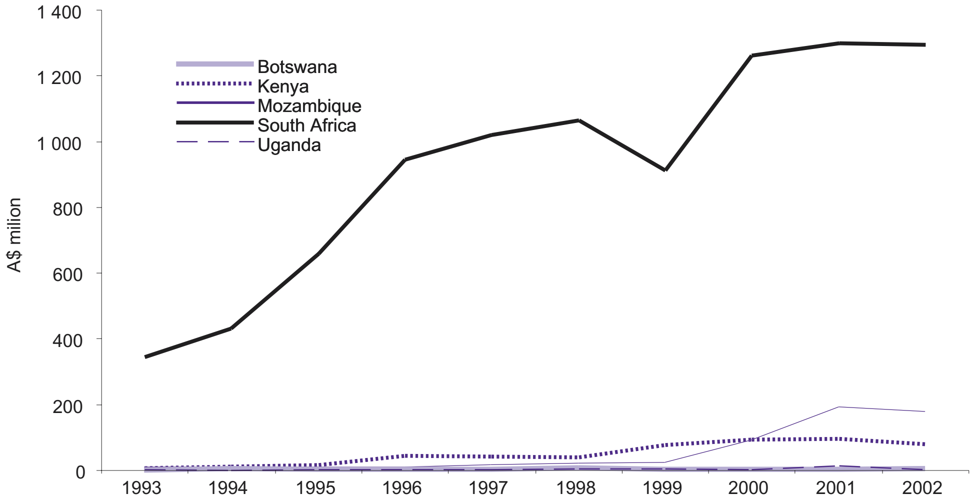
Over the past decade, two way trade with South Africa, by far Australia's largest trading partner in Sub-Saharan Africa has grown a rapid 17 per cent on average each year, boosted by nickel, coking coal and aircraft and parts exports. Trade with Mozambique, dominated by Australian alumina exports, has grown even faster, at 29 per cent per year over the past decade (Figure 3.7). Trade with Kenya also has grown steadily. Exports to all three economies have remained flat in the last 2-3 years, but are expected to continue to grow strongly in the medium term.

Trade with Botswana and Uganda remains low and static. However, as the latter two economies are growing well, have strong economic reform programs and Botswana is a middle-income economy, they should provide future opportunities for exporters if these are pursued.

Figure 3.7

Exports to Several Economies Growing

Value of Merchandise Exports, Southern and East Africa, 1993-2002, A$ million



Source: Department of Foreign Affairs and Trade, 2003.

Despite their rapid growth and the niche opportunities available, Australia's African markets remain limited compared to East Asia (Table 3.2).[7]

Table 3.2

Sub-Saharan Africa Trade Small Compared to East Asia

Value and Rank of Australian Bilateral Trade, A$'000, Selected African and East Asian Economies, 2002

	Total Value merchandise trade	Rank	Value of merchandise exports	Rank	Value of merchandise imports	Rank
South Africa	2 260 146	21	1 294 766	20	965 381	25
Mozambique	178 916	58	178 915	45	2	196
Kenya	102 573	70	80 176	60	22 397	67
Uganda	16 084	118	1 799	169	14 285	72
Botswana	4 133	154	4 119	138	14	180
Total above	*2 561 852*		*1 559 775*		*1 002 079*	
Indonesia	7 271 841	10	3 059 215	10	4 212 626	9
Thailand	5 652 547	13	2 511 814	11	3 140 733	14
Total Australian trade	*247 078 113*		*119 436 070*		*127 642 043*	

Source: Department of Foreign Affairs and Trade, 2003.

7 Total exports to the five Sub-Saharan African economies represent only 62 per cent of exports to Thailand and 51 per cent of Australian exports to Indonesia.

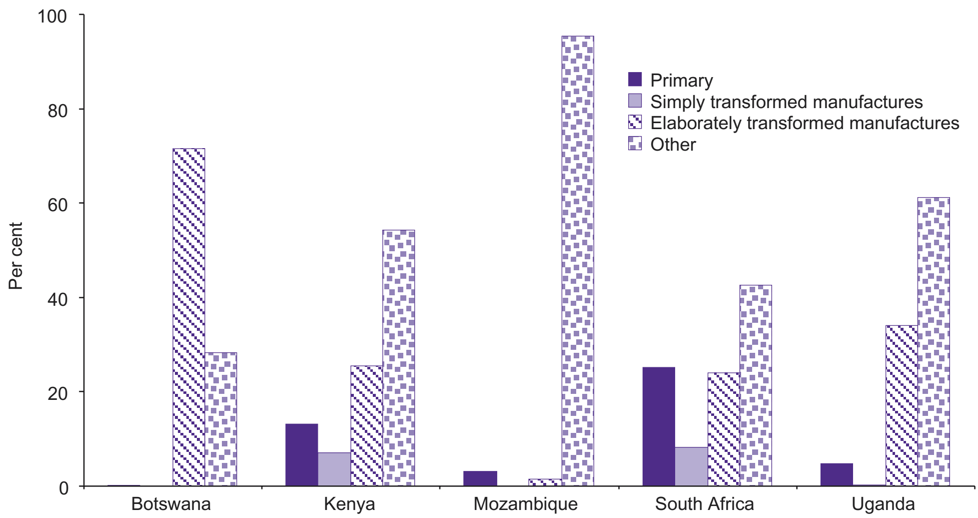
Manufactures and a Few Commodities Dominate Exports

Southern and East African economies have similar commodity based resource endowments and export profiles to Australia. Primary products, higher value added manufactures and a few items where statistical data are not published (such as alumina) are significant Australian exports to this region (Figure 3.8).

Figure 3.8

Manufactures Are Significant Australian Exports

Australian Exports to Selected Economies, 2002, Share of Total Exports, Five Southern and East African Economies, Per cent



Note: 'Other' consists primarily of confidential items such as alumina, diamonds and liquefied natural gas.
Source: Department of Foreign Affairs and Trade, 2003.

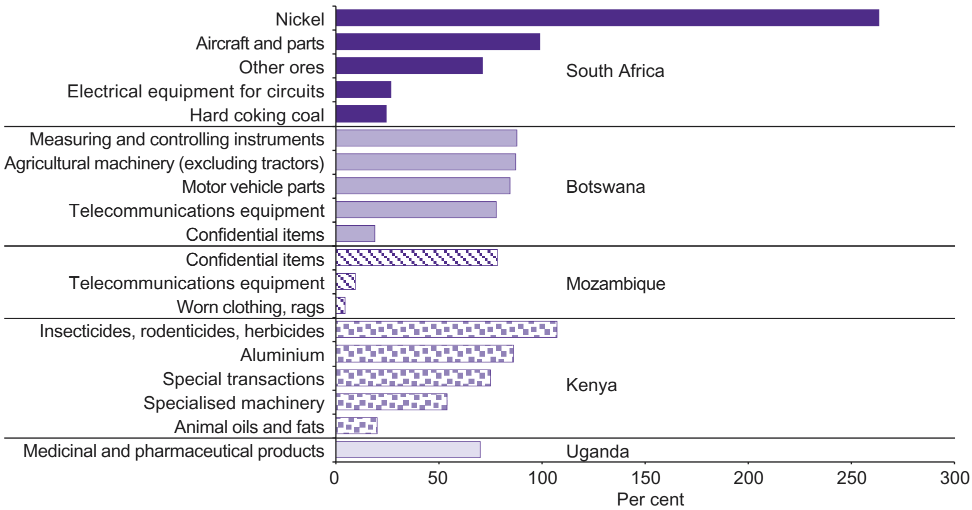
In the five years to 2002-03, Australia's most rapidly expanding exports to Botswana were measuring and controlling instruments, agricultural machinery other than tractors, motor vehicle parts and telecommunications equipment (Figure 3.9). Australia also exported some primary commodities to these five economies; alumina to Mozambique, hard coking coal and nickel to South Africa and wheat to Kenya. However, apart from these commodities, opportunities for resources exports are limited. Service exports have grown marginally over the past decade; in 2001-02, service exports to South Africa reached A$169 million compared to A$87 million in 1992-93; 60 per cent of this was travel related.[8]

[8] Services trade data are limited.

Figure 3.9

Manufactures Are Fast Growing Exports

Average Annual Growth of Five Fastest Growing Australian Exports to the Five Economies, 1997-98 to 2002-03, Per cent



Notes: Botswana figures represent exports over A$100 000, Kenyan figures represent exports over A$1 million and South African figures represent exports over A$10 million.
Uganda only had one export line worth more than A$100 000 that had shown positive growth over the past 5 years, medicinal and pharmaceutical products. Mozambique only had three export lines over this value; confidential items, which includes alumina, telecommunications equipment and worn clothing, rags.

Source: Department of Foreign Affairs and Trade, STARS database.

Australian Imports from Southern and East Africa

Australia mainly imports a relatively limited range of commodities from these five economies; accounting for less than one per cent of Australia's total merchandise imports. In 2002, fish represented nearly three quarters of Ugandan and Kenyan exports to Australia. Imports from Botswana and Mozambique were negligible, totalling less than $15 000. Imports from South Africa were considerably more diverse although cars accounted for around 40 per cent of the total. Service imports from the African continent, excluding South Africa, have grown 8 per cent per year over the past 10 years.[9]

TRADE OPPORTUNITIES

South Africa represents by far Australia's largest market in Southern and East Africa and also offers the greatest short to medium term opportunities. Analysis of Australia's fastest growing exports to these economies over the past five years indicates the best merchandise export opportunities lie in higher value added manufactures. Other opportunities include mining supplies and services, education, ICT and infrastructure.

9 In 2002, nearly three-quarters of the value of these imports were travel related, illustrating the growing importance of tourism to the region. Travel imports from South Africa have grown 8 per cent per year over the past 5 years and account for two-thirds of service imports.

Higher Value Added Manufactures

Machinery, electrical goods, vehicles, transport equipment and spare parts are key import items for Botswana, Kenya, Mozambique and Uganda, and are some of the most promising export opportunities relevant to Australia's expertise and competitiveness. Synergies between the Australian and South African car industries offer Australian exporters opportunities in component supply, after sales service and off road vehicles (Mahon, 2003).

SOLAHART: EXPORTING AUSTRALIAN INNOVATION

Africa provides an attractive market for Solahart Industries Pty Ltd which exports solar hot water systems to several African countries including Botswana, Kenya, South Africa, Namibia, Uganda and Tanzania. Solahart has maintained a relationship with Southern and East Africa for over 20 years. Their customers range from homeowners to corporate clients. Although they currently price to the middle and higher end of the income market, they also are looking at ways to provide low cost solar energy to the region.

Africa presents a good market for Solahart. In particular, it has secured markets in mining company towns and remote area tourist and community projects such as game parks and hospitals, replacing diesel fired generators to provide electricity. Given lack of infrastructure and ample sunshine, solar water heaters can achieve a payback on investment within one to three years, whereas conventional heaters have ongoing supply costs over their lifetime.

Despite facing high tariffs on its products, Southern and East Africa has become an important export market for Solahart. The company believes the major reasons for its success are good local partners and what it terms the 'Solahart way of doing business'. This involves maintaining face to face relationships with government, utilities, architects and other stakeholders. Solahart recommends direct sales for products, as this has proven successful.

Source: Avery, 2003.

Mining Supplies and Services

Mining related manufactures and services, including mining software services to the region's large and growing mining sector represent some of the best opportunities for Australian exporters to the region (Mahon, 2003). Southern African economies' generous mineral endowments include coal, copper, diamonds, gold, iron ore, mineral sands and platinum group metals. Uganda and Mozambique are in the early stages of opening up their mineral reserves to foreign and local investors, generating surveying and exploration opportunities and future mining goods and services export opportunities. Developed mining sectors in Botswana and South Africa already provide markets for Australian exploration, mining related expertise, technologies and related services (Van der Merwe et al., 2003). South Africa's new mining regime also should open up more deposits for exploration and development generating new opportunities. (See Chapter 2 – *Business Environment.)* In many cases, the operational environment in South Africa and Botswana is similar to Australia's and does not suffer from the potential for language and bureaucratic problems sometimes encountered in Latin America, China and Russia (Ritchie, 2003). As many Australian miners have operations in several African economies, exporters can deal with the same company in several economies (Ritchie, 2003).

SUPPLY DIRECT: MINING SUPPLY AND LOGISTICS

Supply Direct, a Western Australian company which is a wholly owned subsidiary of Ausdrill, began operations in 1994 to satisfy the demand for an integrated supply chain management service for the mining industry. It provides a single supply source for major mining projects, sourcing, ordering, tracking and delivering goods to clients where isolation and production priorities demand a high level of commitment from suppliers. Supply Direct services a broad range of mining and mineral processing operations including aluminium, cobalt, copper, gold, iron ore and tin.

Supply Direct has offices in the United Kingdom, Ghana and South Africa and operates in Botswana, Ghana, Guinea, Kenya, Mali, Mozambique, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. Sub-Saharan Africa accounts for 70 per cent of Supply Direct's business. This reflects the company's ability to procure and deliver a diverse range of materials, goods and services throughout the world and in particular to remote locations.

In addition to providing a good service for customers, Supply Direct also attributes its success to several basic approaches it adopts. It deals only with senior government officials. It also taps its client network from previous operations to demonstrate its abilities. Supply Direct tackles transport issues through patience and professionalism. The volume of freight it moves requires a good rapport with individuals ranging from customs officials to transport companies. It sub-contracts work to local transport companies that have good quality gear and professional, experienced drivers and encourages these companies to meet their standards of best practice.

Supply Direct believes Sub-Saharan Africa still has many untapped resources, as the large amount of exploration currently underway demonstrates. It considers Australian companies are well placed to service African resource developments as they have considerable modern mining expertise and a strong customer satisfaction focus.

Source: Conway, 2003.

Education

With the possible exception of South Africa, these economies suffer shortages of quality higher educational and vocational training services, providing an important export opportunity for Australian institutions and providers. In particular, technical skills often are significantly under-supplied as many economies in the region have only a very limited technical education system. Technical skills are sought across a broad range of sectors, including mining and engineering. Australian technical colleges are well placed to take advantage of this opportunity by offering places in Australian institutions and providing in-country training. Although much of the population still has relatively low incomes, many in the growing middle classes are willing to pay for a quality education. As education also is a key regional priority of the World Bank and other international institutions, educational and training service suppliers can bid for educational projects in the region.[10]

Many African governments and families are starting to recognise Australian universities can provide quality university education at more competitive tariffs than traditional destinations like the United Kingdom and the United States. For example, Australia now hosts the largest number of Botswana students, approximately 600, studying abroad outside South Africa (Sekwakwa, 2003). The Botswana Government sponsors most of these students. A similar number of Kenyan students are studying in Australia; this market is growing strongly and has considerable potential (Australian High Commission, Nairobi, 2003).

RMIT UNIVERSITY

RMIT University is combining education and ICT to deliver services in Africa. In 2002, RMIT won a World Bank contract to provide a one-year certificate, two-year diploma and four-year degree in Computer Science, starting in 2003, via the Kenya-based African Virtual University. The University of Cape Coast, Ghana, Addis Ababa University, Ethiopia, Kigali Institute of Science, Technology and Management, Rwanda and the University of Dar-es-Salaam, Tanzania are the partner institutions currently involved in the project.

Students are offered interactive electronic academic material including video and graphic presentations – uploaded on the WebCT Learning Management System. The primary server is in Johannesburg. If Johannesburg is not accessible, then students can access the material through their local university server. Should this also be inaccessible for some reason, there is a paper-based ‘learners guide’ to which students can refer, ensuring their studies are uninterrupted. In each of the partner universities, there is a facilitator who interacts with the lecturer at RMIT and operates as the ‘face’ of RMIT. RMIT also has live broadcasts for students using satellite technology, enabling lectures to be beamed simultaneously to the four sites. An interactive chat-room is used to field student questions.

RMIT sets exams, which their facilitator conducts. In their first semester in operation, students achieved an 86 per cent pass rate, indicating students are benefiting from the course and generating a sound base on which to build further education possibilities.

Source: Chadwick, 2003.

10 World Bank funds for education projects currently total US$90 million in Kenya, US$143 million in Mozambique and US$53 million in Uganda (World Bank, www.worldbank.org, accessed 17 July 2003).

Information and Communication Technology

South Africa has good telecommunications but in 2003 its world ICT readiness rankings was only thirty-fifth, indicating good opportunities for Australian ICT exporters to assist South African business lift their ICT capacity (Economic Analytical Unit, 2002; Economist Intelligence Unit, 2003a). With nearly 40 per cent of the population expected to use mobile phones by 2009, Botswana also offers opportunities in mobile phone enabled ICT services (Dasgupta et al., 2001). Mobile phones also are spreading rapidly in the other economies compensating for weaknesses in fixed line services.

Q-MAC ELECTRONICS: FINDING A NICHE

Established in 1994, Western Australian based firm Q-MAC Electronics Pty Ltd fills a gap in the high frequency communications market by supplying quality, affordable, portable high frequency communications equipment to emerging market economies. The firm has won several export and design awards for their product, including the 2002 Small to Medium Manufacturers National Export Award. Their clients include military, paramilitary, NGOs and peace keeping forces around the world. Southern and East African clients include those in Botswana, Namibia, Angola, Kenya, Mozambique, South Africa, Tanzania and Uganda.

Q-MAC have 20 core staff and use dealers to sell their products in overseas markets. Their approach to doing business in Africa includes:

- thoroughly researching the market; finding out which products have been used to date, which companies with relevant experience already operate there and what opportunities exist for their product
- obtaining a good dealer who can find potential contacts, provide company specific information to interested parties, take care of local regulatory requirements and check out company profiles before they commit to the market. They have found a good acid test of a dealer is whether they are prepared to buy demonstration equipment
- training Q-MAC dealers in demonstrating and selling its product to ensure it is differentiated from competitors' products
- selecting a dealer with technical expertise and training them in basic maintenance to deal with breakdowns. In general, Q-MAC has found African technicians have a good understanding of wireless communications, though expertise in technical support is less common. The Q-MAC kit also includes back-up instructions and it returns the electrical board to Australia for repairs
- tailoring the product to the market as necessary. Q-MAC also can sell its product without modification as it is designed and manufactured to be used by non technical operators and to operate after being dropped in dirt and water.

Source: Mihic, 2003.

As financial services reform deepens throughout the five economies, opportunities should increase to provide supporting financial software and ICT services to banks and other financial institutions. For example, Standard Chartered Bank has launched phone banking services in Uganda enabling clients to access a range of non-cash banking services at no extra cost (Mbendi, 2003).

Infrastructure

The international financial institutions and bilateral aid agencies also generate business opportunities including in infrastructure. For example, under its new Infrastructure Action Plan, the World Bank has assigned additional funds for African infrastructure development while the Development Bank of Southern Africa is funding infrastructure in projects in South Africa and the rest of the region. Projects include developing roads, rail, energy, water, ports and telecommunications infrastructure. World Bank funds for infrastructure projects currently total US$1.08 billion in Kenya, US$429 million in Mozambique and US$667 million in Uganda (World Bank, www.worldbank.org, accessed 17 July 2003). Recognised expertise in constructing private sector infrastructure projects in difficult climatic conditions and remote areas gives Australian construction firms good credentials in bidding for these infrastructure projects.

FUTURE TRENDS

While South Africa provides the best medium term opportunities for Australian exporters, if reforms and trade liberalisation continue in the other four economies they also should continue to provide steadily growing export opportunities. Mining goods and services, some high value added manufactures, ICT and education are likely to provide the best opportunities for Australian exporters in the near future. Businesses already exporting to the region highlight the importance of visiting Southern and East Africa, undertaking thorough market research and demonstrating to potential customers long term commitment to the market.

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INVESTMENT OPPORTUNITIES IN SOUTHERN AND EAST AFRICA

KEY POINTS

- **Australia's mining and agricultural sector strengths match those of most of the five Southern and East African economies; hence Australia's investment opportunities are likely to exceed its trade opportunities in these economies for the foreseeable future.**

- **Investment and other economic reforms have boosted FDI inflows to most of these economies, in some cases increasing FDI's share of capital formation to East Asian levels.**

- **While Australian investment in the region is a small share of total Australian FDI, major investment opportunities are emerging in sectors in which Australia is internationally competitive.**

- **These opportunities include mining, mineral processing, services to mining, agriculture, agri-processing, services to agriculture, infrastructure, education, financial services, tourism and ICT.**

While Africa attracts considerably less FDI inflows per capita than East Asia and Latin America, the five Southern and East Africa governments recognise the benefits of FDI and are implementing policies to increase their attractiveness to investors. Over the past decade, reforms in most of these five economies have encouraged a significant increase in FDI inflows. Governments have relaxed exchange controls, ruled out expropriation, privatised state owned enterprises, avoided policies favouring specific sectors, signed multilateral investment treaties and established investment promotion agencies to reduce foreign investors' establishment costs.

As a result of these reforms, sound economic growth and requirements for expertise and technology which Australia can supply, Australian investors could find rewarding investment opportunities in these economies.

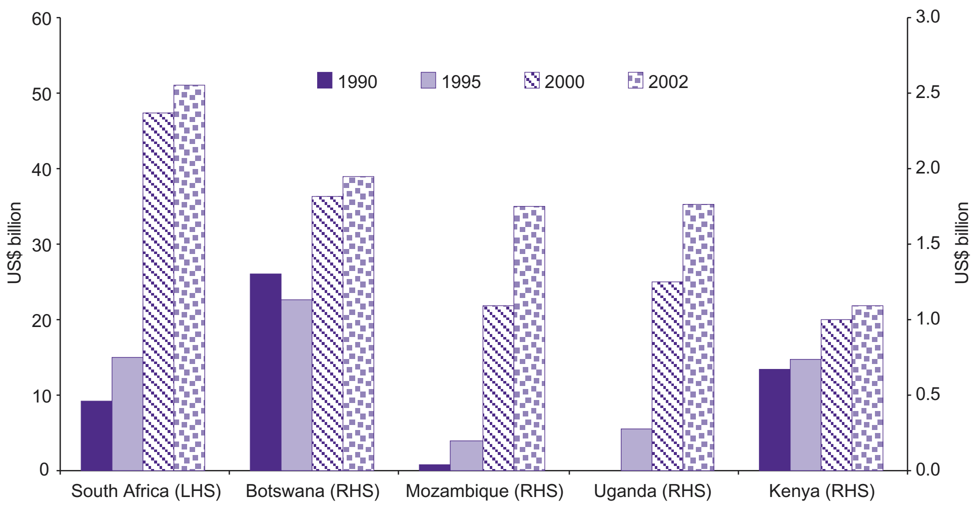
FDI IN SOUTHERN AND EAST AFRICA

South Africa, Mozambique and Uganda in particular have benefited from their pro-business reforms, with FDI stocks growing 15 per cent, 36 per cent and 66 per cent per annum respectively between 1990 and 2002 (Figure 4.1). As a share of the developing world's FDI inflows these five economies' FDI inflows rose from an average of 0.5 per cent between 1990 and 1995 to 1.4 per cent between 1996 and 2002.[1] Increased South African inflows drove most of this growth (UNCTAD, 2003). Botswana, Kenyan, Mozambican and Ugandan inflows remain very low compared to East Asian and Latin American economy shares (UNCTAD, 2003).

Figure 4.1

FDI Stocks Growing

FDI Stocks, 1990 to 2002, US$ billion, Five Southern and East African Economies



Source: UNCTAD, 2003.

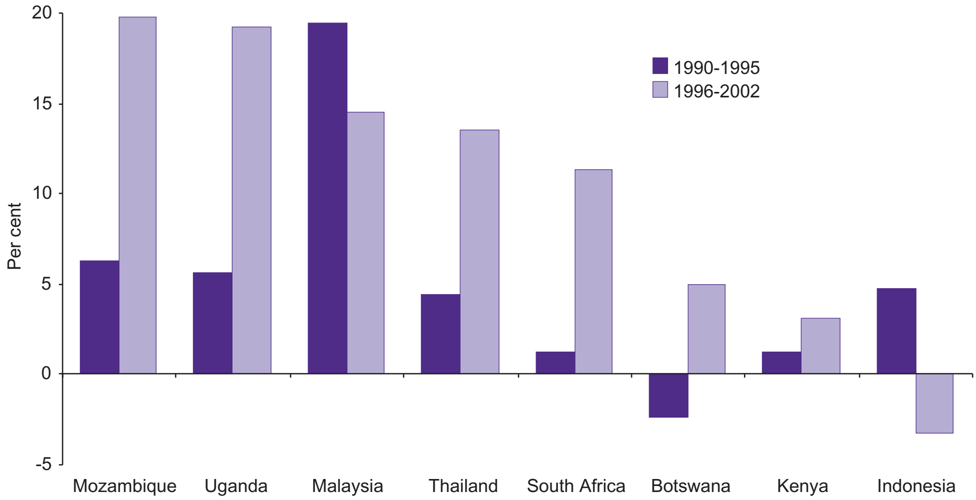
1 This occurred despite a substantial increase in China's share of developing world FDI stocks, from 5 per cent in 1990 to 19 per cent in 2002.

FDI also is becoming a more important share of gross fixed capital formation for all five economies (Figure 4.2).

Figure 4.2

FDI More Important Capital Source

FDI as a Share of Gross Fixed Capital Formation, 1990-95 and 1996-02, Annual Averages, Five African and Selected East Asian Economies, Per cent



Source: UNCTAD, 2003.

Most FDI to Services and Mining

While each of the five economies' patterns vary, the great bulk of their FDI inflows go to services, mining, and manufacturing sectors in that order; very little goes to agriculture. Two-fifths of South Africa's current FDI stock is concentrated in finance, insurance, real estate and business services, with a further quarter each devoted to mining and manufacturing (South African Reserve Bank, 2003). Mining accounted for 80 per cent of Botswana's FDI stock in 2001, followed by financial services, 7 per cent and wholesale and retail trade, 6 per cent (Bank of Botswana, 2003). Based on approved project value in Mozambique between 1997 and 2000, around two-thirds of investment flows were in manufacturing, particularly a few mega projects, 12 per cent in agriculture and 10 per cent in financial services (UNCTAD, 2001a). Nearly three quarters of Uganda's accumulated FDI flows between 1991 and 2002 were in manufacturing, real estate, financial services and transport, storage and communications (Uganda Investment Authority, 2003).[2]

2 Information on actual investment by sector and country which is comparable across economies is not readily available.

Main Sources of FDI

Most of the five economies' FDI comes from selected EU economies and the United States, but inflows from Asia, Australia and South Africa are increasing, albeit from a low base. Largely due to strong historical ties, three quarters of South Africa's FDI comes from the UK (South African Reserve Bank, 2003). Due to its prominent Indian business community, Uganda receives significant FDI inflows from India. China, India, Korea, Malaysia and Taiwan also fund expanding FDI inflows to Mozambique, South Africa and Uganda in sectors including banking, steel and textiles (United Nations Economic Commission for Africa, 2002; UNCTAD 2001a, 2001b). Thanks to BHP Billiton's major share in the Mozal aluminium smelting project, Australia is one of Mozambique's largest investors. South Africa and Mauritius also are becoming increasingly important investors in the region; South African investment is particularly important in Botswana and Mozambique (United Nations Economic Commission for Africa, 2002; UNCTAD, 2001a, 2002b).

FDI PROSPECTS

If reform momentum is maintained, Southern and East Africa's improving economic performance and investment environment should continue to attract increased FDI flows in the short to medium term. Government policies providing increased priority for education and infrastructure should support increased private investment in these sectors.[3] Governments are seeking to diversify their economies away from traditional production and export lines by improving the business environment in manufacturing and services.[4] World Bank and other donor support for education and infrastructure projects also should create opportunities. Many of the five economies have created investment promotion agencies to reduce difficulties new foreign and local investors face.

3 Botswana is increasing student places at the University of Botswana from 10 000 to 15 000, planning a second university and establishing a medical school (Gaolathe, 2003). Mozambique is spending over US$1 billion to rehabilitate and maintain primary and secondary roads (UNCTAD, 2001a). Uganda has launched a 10-year road sector development program expected to cost US$2.3 billion (Uganda Investment Authority, 2003).

4 Botswana has established an International Financial Services Centre, providing fiscal incentives for offshore financial services provided from Botswana (UNCTAD, 2002b). Kenya provides a 100 per cent investment allowance for investment in manufacturing and hotels (Kenyan Investment Promotion Centre, www.ipckenya.org). Uganda established the Kampala Industrial Business Park at Namanve to provide high quality infrastructure and administration for investors (Uganda Investment Authority, 2003).

BOTSWANA EXPORT DEVELOPMENT AND INVESTMENT AUTHORITY

In 1997, the Botswana Government established the Botswana Export Development and Investment Authority, BEDIA, to help establish export oriented enterprises and selected services industries. The Government seeks to promote economic diversification and sustained economic and employment growth. BEDIA acts as the first contact point for potential investors in Botswana and has regional offices in South Africa and London.

BEDIA helps investors identify investment opportunities in Botswana, provides investment advice, identifies joint venture partners and assists in obtaining factory premises and pre-investment clearances. It also organises investment missions to familiarise potential investors with Botswana's investment climate. BEDIA uses its experience to advise the Botswana Government on investment policy.

Source: Botswana Export Development and Investment Authority, www.bedia.bw.

Privatisations

Most of the five governments are in the process of privatising state owned enterprises; this also improves FDI prospects.[5] Uganda successfully privatised its telecommunications sector and is keen to engage the private sector in other divestments. Privatisation is just starting in Kenya in 2003 with more planned for 2004. The Kenyan Government plans to privatise banks and telecommunications.[6]

PRIVATISATION PROPOSALS IN KENYA AND UGANDA

Kenya and Uganda currently offer the largest number of privatisation projects, though South Africa and Botswana could generate larger programs in the short to medium term. The Kenyan Investment Promotion Centre website lists 109 public enterprises earmarked for privatisation, ranging from packaging and agri-processing to tourism.

The Ugandan Investment Authority, UIA, lists 14 privatisation opportunities for foreign investors in Uganda in agriculture, mining, finance, printing, transport and utilities. The UIA currently have a buyer for the electricity grid distribution network.

Sources: Kenyan Investment Promotion Centre, www.ipckenya.org; Uganda Investment Authority, www.ugandainvest.com.

5 Privatisations also offer the opportunity to consult on the process.

6 Earlier parastatal sales in Kenya did not yield the gains expected, so the government is developing a privatisation law before fully embracing privatisation.

Some privatisation opportunities are available in Botswana; 16 parastatals could be privatised in transport, telecommunications, housing and marketing boards although no timetable has been established for this process (Dewah, 2003). However, the privatisation process in Botswana, Mozambique and South Africa has slowed recently.[7] (See Chapter 1 – *Economic Performance.*)

BOTSWANA'S PRIVATISATION PROGRAM

The Public Enterprises Evaluation and Privatisation Agency of Botswana, PEEPA, recently tendered for expressions of interest on consultancy services regarding citizen economic empowerment during the privatisation process as well as a strategic plan for BotswanaPost. PEEPA aims to complete a privatisation master plan setting out privatisation opportunities by September 2003. This will develop divestiture and contracting frameworks to guide the privatisation process's execution, management and monitoring.

Sources: Economist, 2003, Vol. 367, No. 8330, 28 June, p. 78; Goalathe, 2003.

Regional Trading Arrangements May Attract Investors

If they become fully operational, the regional trading arrangements in Southern and East Africa may encourage increased FDI. The key regional agreements for Kenya and Uganda are the Common Market for Eastern and Southern Africa and the East African Community. Botswana and South Africa are members of the Southern African Customs Union and the Southern African Development Community. Mozambique is a Southern African Development Community member. Being classed as least developed economies, Uganda and Mozambique have access to the European Union 'Everything But Arms' Agreement and all five economies are eligible to participate in the European Union Cotonou Agreement and the United States' African Growth and Opportunity Act. (See Appendix 4.1.)

By establishing manufacturing plants in one member economy market, these regional trading arrangements should provide local and international investors, including Australian business, duty free access to several other African markets.[8] The potential size of markets accessible through these regional trading agreements is significant, approximately 450 million people. However, in the foreseeable future, disposable income will remain low for the majority of these economies' consumers.

[7] The reason for the slowdown varies between economies. Botswana has no need for the funds and Mozambique has divested a considerable number of parastatals already. South Africa is committed to black empowerment groups' participation in equity purchases and has sought to avoid job losses in a high unemployment environment.

[8] Duty free access will depend on meeting rule of origin requirements.

UGANDA INVESTMENT AUTHORITY

In 1991, the Ugandan Government established the Uganda Investment Authority, UIA, with the aim of being a 'one-stop-shop' for investors. The UIA has several roles. It coordinates the national investment marketing program, monitors international investment trends and serves as the main contact point for investors in Uganda. It also markets Uganda's investment opportunities to targeted investors around the world.

The UIA has a very hands-on approach, offering investment advice to foreign and local investors, assisting with utility connection and taxation issues and mediating between foreign companies and employees. It also assists with identifying joint venture partners, securing licences and approvals and locating project support services. The UIA provides information on investment opportunities in Uganda and advises the Ugandan Government on investment policy based on their experience with investors. Importantly, the UIA maintains contact with investors even after the investment decision has been made.

Sources: Uganda Investment Authority, www.ugandainvest.com; UNCTAD, 2001b; Kigozi, 2003.

AUSTRALIAN DIRECT INVESTMENT IN SOUTHERN AND EAST AFRICA

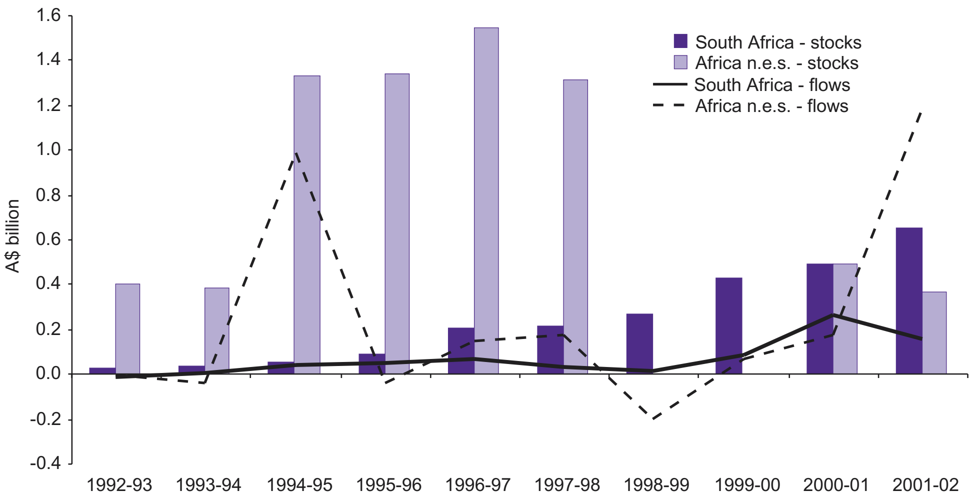
In the past, the great bulk of Australia's investment in this region has gone to South Africa but in recent years Mozambique also has become a significant destination. Over the past decade, Australian investment stocks in South Africa have increased a rapid 41 per cent per year on average (Figure 4.3). While still only representing 0.14 per cent of Australian investment stocks abroad, Australian FDI stocks in South Africa are up significantly from 0.02 per cent achieved in 1992-93. In contrast, the current investment stock in the rest of Africa is around one-quarter of the 1996-97 value (Figure 4.3).[9] However, Australia's investment in Mozambique is rising strongly.

9 Australian overseas investment statistics are not available for individual African countries apart from South Africa.

Figure 4.3

Australian Investment Still Limited

Australia's African Investment, 1992-93 to 2001-02, A$ billion



Notes: Australian investment abroad includes FDI, portfolio investment and financial derivative assets. Investment information broken down by investment type are published only intermittently.
In some cases, the investment stock may decrease, even though investment flows have increased, because stocks are measured at a particular point in time whereas flows are measured over time.
n.e.s. denotes not elsewhere specified.
Data on stocks for Africa n.e.s. are not available for 1998-99 and 1999-00.

Source: Australian Bureau of Statistics, 2003.

OPPORTUNITIES FOR AUSTRALIAN INVESTMENT

Although Australian FDI in Southern and East Africa still remains heavily focussed on Mozambique and South Africa, most of the five economies now aim to provide attractive investment environments. If their reform programs stay on track they all should offer improving investment opportunities in future. (See Chapter 2 – *Business Environment.*)

Australian businesses should be well placed to take advantage of these emerging business opportunities. The region's major investment opportunities closely match Australia's expertise, particularly in mining, agribusiness and related goods and services. Other opportunities should arise as part of the five economies' diversification strategies, including infrastructure, education, financial services, tourism and ICT.

Agriculture and Agri-processing

Agriculture and agri-processing are major export oriented investment opportunities in Kenya, Mozambique, South Africa and Uganda. Africa's endowment of arable land per capita is only slightly lower than Latin America's; 0.24 hectares compared to 0.26 hectares per capita.[10] However, with the exception of South Africa, Sub-Saharan Africa's agricultural productivity, value added and agricultural machinery use per acre are much lower than Latin America's (World Bank, 2003). Inadequate rural infrastructure, poor access to urban markets, communal land ownership in some areas and high barriers to agricultural trade within Africa and into developed economies prevent many African farmers moving out of a tenuous existence in subsistence farming. With some restrictions, foreigners can own agricultural land in Botswana, Kenya and South Africa. In Mozambique and Uganda, agricultural land is only available for lease; in Mozambique, this restriction applies to local and foreign investors. (See Chapter 2 – *Business Environment.*)

The European Union offers preferential trade access for some agricultural products from Botswana, Uganda, Kenya and Mozambique, and South Africa has limited access to the European agricultural sector through the Trade, Development and Cooperation Agreement. For example, Botswana has preferential access to the European beef market but to date has not filled their quota. (See Chapter 3 – *Trade Opportunities.*) However, investors should be aware that preferences are not guaranteed by WTO provisions and developed economies can and often do revoke such preferential access if agricultural exports from a developing economy become a significant commercial threat to local farmers (Economic Analytical Unit, 2003). The Doha Round of the World Trade Organisation is aimed at reducing developed country barriers to developing country trade.

All five governments are keen to promote local and foreign investment in agriculture and agri-processing, particularly in non-traditional agricultural sectors (Table 4.1). Agricultural products receiving particular priority include floriculture, fruit and vegetables, nuts and cotton. Livestock has potential in the region and Botswana and Uganda have master plans for beef and dairy production. Analysts also expect local demand for meat to rise as incomes increase in the five economies.[11]

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[10] Arable land per capita for the five economies are South Africa 0.35 hectares, Mozambique 0.23 hectares, Uganda 0.23 hectares, Botswana 0.21 hectares and Kenya 0.14 hectares.

[11] For example, up to 30 per cent of Ugandan household budgets is spent on animal products (Uganda Investment Authority, 2003).

Table 4.1

Opportunities in Agriculture

Potential Agricultural Sectors, Five Southern and East African Economies

Economy	Product
Botswana	Beef. Potential: dryland cotton and dairy.
Kenya	Asparagus, avocados, beans, beer, butter, carrots, coffee, flowers, ghee, macadamia nuts, maize, mangoes, margarine, meat, melons, milk, mushrooms, oilseeds, passionfruit, pineapple, potatoes, pyrethrum, rice, sisal, sugarcane, tea, wheat. Potential: chicken, cotton, honey, substitutes for palm oil.
Mozambique	Cashew nuts, copra, cotton, sunflowers, Cape mahogany, sisal, sugarcane, tea, tobacco.[a] Potential: feedstock supply, meat.
South Africa	Apples, apricots, avocados, bananas, barley, beans, berries, citrus, cotton, dairy, feedstock, figs, grapes, groundnuts, maize, mangoes, meat, melons, oats, peaches, pears, peas, pineapples, plums, prunes, rye, sorghum, soya beans, sugarcane, sunflower seed, tobacco, wheat, wool.
Uganda	Avocado, bananas, beans, cereals, chilli, cocoa, coffee, cotton, essential oils, flowers, mangoes, meat, milk, oilseeds, okra, orchids, passionfruit, peas, pineapple, poultry, silk, tea, tobacco.

Note: a. The common Mozambican names for sunflowers and Cape mahogany are girassol and mafurra respectively.

Sources: Kenya Investment Promotion Centre, www.ipckenya.org; Ministry of Agriculture, 2002; Mozambique Investment Promotion Centre, www.mozbusiness.gov.mz; National Department of Agriculture, 2002; Uganda Investment Authority, www.ugandainvest.com.

Considerable scope also exists for investment in agri-processing, particularly for agricultural products like tea, coffee and cocoa. Other areas of opportunity for value added processing include leather, textiles, edible and other oils, beer, dairy products and sugar, including confectionery.[12] As farmers seek to increase agricultural productivity and agri-processing industries expand, local producers would require support services in which Australia has expertise. These include packaging, storage, seed production, fertilisers, disease control, veterinary services and supplies and infrastructure development such as dams, bores and irrigation. Livestock diseases including foot and mouth remain a problem across most African economies; most would benefit from professional services and technology related to disease control.

Mining

Considerable tapped and untapped mineral wealth exists throughout Sub-Saharan Africa and mining investment opportunities exist in Botswana, Mozambique, South Africa and Uganda (Table 4.2). Mineral deposits include coal, cobalt, copper, diamonds, gold, iron ore, mineral sands, natural gas, platinum group metals, precious stones and titanium (Table 4.2). Opportunities also exist for construction material extraction such as limestone, gypsum, granite, stone, clay and marble.

12 There are problems with tariff escalation in developed economies on processed goods, potentially reducing the benefits of investing in this area (Economic Analytical Unit, 2003).

Table 4.2

Opportunities in Mining

Major Mineral and Non-Metallic Mineral Deposits, Five Southern and East African Economies

Economy	Commodity
Botswana	Clay, coal, cobalt, copper, crushed stone, diamonds, feldspar, gold, limestone, marble, nickel, quartz, salt, semi-precious stones, silica, soda ash. Potential: gas.
Kenya	Potential: gas, gold, oil, precious stones.
Mozambique	Bauxite, bentonite, coal, emeralds, gold, graphite, marble, precious stones. Potential: apatite, asbestos, fluorite and gypsum, iron ore, limestone, magnetite, tantalum ore, titanium dioxide, vermiculite.
South Africa	Asbestos, chrome, coal, copper, diamonds, fluorspar, gold, granite, iron ore, lead, manganese, nickel, phosphate, platinum group metals, pyrite, silver, titanium, uranium, vanadium, vermiculite, zinc.
Uganda	Aggregate, crushed and dimension stone, beryllium, bismuth, chromium, clay, copper-cobalt, diatomite, feldspar, gold, gypsum, iron ore, kaolin, lead, limestone, lithium, marble, niobium-tantalum, phosphate, salt, silica, tin, titanium, tungsten, vermiculite. Potential: diamond, nickel, oil, platinum group metals, rare earth elements.

Sources: Chamber of Mines of South Africa, 2002; Department of Mines, 2001; Kenya Investment Promotion Centre, www.ipckenya.org; Mozambique Investment Promotion Centre, www.mozbusiness.gov.mz; Thamage, 2003; Uganda Investment Authority, www.ugandainvest.com.

Mozambique, South Africa and Uganda are modernising their mining legislation and opening up their mining regimes to encourage new foreign and local mining investment. Botswana already has a long history of engagement with miners and the Botswana Government has an excellent record in dealing with mining companies (McKay, 2003; Williams, 2003). South Africa's 2003 *Minerals and Petroleum Resources Development Act* should open up more land for exploration and development, generating opportunities for small miners – also known as juniors – in particular. (See Chapter 2 – *Business Environment.*)

MINERAL SANDS AND WMC RESOURCES

The WMC Resources Corridor Sands Project in Mozambique based on titanium dioxide mineral deposits in southern Mozambique's Gaza Province envisages establishing an integrated heavy mineral sands mining, mineral processing and beneficiation operation near Chibuto. The planned investment is approximately US$500 million for the initial production level of 375 000 tonnes of titanium dioxide slag and a further US$800 million to reach its planned full production level of 1 million tones of slag. Phase 1 design and construction is expected to start in 2004 and delivery of the first product is expected in late 2007.

As the site is outside the Maputo corridor, several infrastructure projects are underway to ensure the project's success. These include a power line connecting the site to the grid, a road from Chibuto to the coast and a jetty to dock purpose built ships. Although considerable infrastructure development is required, the region has good mobile phone coverage and a sealed road from Maputo to Chibuto.

Source: Hall, 2003.

Many large and junior Australian miners already operate in Sub-Saharan Africa. Australian expertise in mineral extraction in remote and difficult terrain can be invaluable in mineral exploration and mine development in Africa. Historical mining industry links between Australia and South Africa give many Australian miners the necessary experience to successfully undertake African projects.

GOLDEN MINING OPPORTUNITIES: GALLERY GOLD

Australian based company Gallery Gold Limited is one of the few gold exploration companies operating in Botswana. In 1998, Gallery Gold discovered the Mupane gold deposit in the Francistown district. Gallery presently is conducting a feasibility study for developing a 100 000 ounce per year gold mine at Mupane with production scheduled to commence in mid 2004.

While its primary listing remains on the Australian Stock Exchange, in mid 2001 Gallery Gold dual listed on the Botswana Stock Exchange. Hence, the Botswana Government granted Gallery 'local asset' status, allowing local institutional investors to invest in the company. Batswana shareholders now own about 12 per cent of the company. Due to Botswana's well developed infrastructure, the company expects the cost of developing the Mupane mine will be similar to constructing a mine in the Western Australian gold fields region.

Success factors for Gallery Gold include strong government support, listing on the Botswana Stock Exchange, securing major exploration rights early ahead of competitors, easy access to finance and good local infrastructure. Despite the problem of HIV/AIDS and difficulty in obtaining skilled labour, Gallery believes the outlook for Botswana is positive.

Gallery Gold is continuing its exploration program for other gold deposits and also has platinum and diamond exploration prospects in train.

Source: McKay, 2003.

Minerals Processing

All five governments, but particularly the Southern African governments are encouraging minerals processing industries in their countries to add value to mining operations. Aluminium, cement, chrome, glass, iron and steel are the prospects identified by investment authorities. These products are important inputs into the construction and packaging industries, which also should benefit from rapid economic growth in the region.

MOZAL: LARGEST INVESTMENT IN MOZAMBIQUE

To develop the Mozal aluminium smelter, joint venture partners BHP Billiton, Mitsubishi and the Industrial Development Corporation of South Africa invested US$1.34 billion to become one of the largest foreign investors in Mozambique. The Mozal operation procures local goods and services worth US$3 million per month, spends US$2 million per annum on development projects for the community and employs over 1 000 Mozambicans. Its huge size and evident success to date provides a powerful demonstration effect for other potential investors. The Mozambican Government worked closely with Mozal to ensure the project was successful and enacted legislation to create a secure, business friendly environment for large scale foreign investment.

Joint venture partner BHP Billiton considers several important factors underpinned the project's success. A senior manager was appointed to achieve outcomes outside the construction site. These outcomes included: maintaining relationships with key government and institutional personnel, allowing problems to be solved quickly; forming a one-stop contractor registration shop, which shortened the time to register foreign contracting businesses from up to nine months to two weeks; increasing the efficiency of customs clearance processes so imported equipment and other inputs are cleared at the border within 24 hours compared to the normal two weeks and; achieving top level commitment in Mozambique to efficient administration in relation to the project. This enabled the construction and operations management teams to focus on delivering the smelter ahead of schedule and under budget. BHP Billiton considers the other factors key to its success include:

- secure access to key input supplies; alumina from Western Australia and energy from South Africa
- good infrastructure; they are located in the Maputo corridor which has the best port facilities and road links in Mozambique
- an exceptional Mozambican work ethic
- forming partnerships and linkages in government and the community to assure success.

However, Mozal still has to surmount challenges, including skilled labour shortages, low levels of infrastructure development outside the Maputo corridor, poverty, legislative and judicial issues and the potential impact of HIV/AIDS. Nevertheless, Mozal's shareholders have strong confidence in Mozambique and Mozal; the company currently is doubling the plant's size at a budgeted cost of US$860 million.

Source: Wilshaw, 2003.

Mining Services

Australian mining goods and services suppliers should have strong investment opportunities in Southern and East Africa. Suppliers of mining related goods and services already are benefiting from increased mineral prospecting and mine development, particularly in South Africa. As little of the region has undertaken advanced geological surveys, mapping exploration opportunities using advanced new technologies are significant. Existing geological surveys are often out of date and would benefit from recent advances in exploration technology. For example, Namibia recently undertook an advanced laser survey of its territory and identified several potential commercial deposits. South Africa has not yet completed such a survey (Van der Merwe et. al., 2003).

BHP BILLITON PROSPECTING IN THE KALAHARI

BHP Billiton, through its 20 per cent shareholding in Kalahari Diamonds, has entered an alliance to explore and mine for diamonds in Botswana. Kalahari Diamonds has shouldered most of the initial risk and raised US$21 million to finance the exploration stage. BHP Billiton has provided the technology and land package. Kalahari Diamonds is using a BHP Billiton developed technology called Falcon, an airborne system with the potential to detect diamond kimberlites under the wind-blown sand of the Kalahari. As this technology distinguishes between heavy and light mineral deposits it also can uncover other minerals during the exploration process. The new technology is more environmentally friendly than most exploration projects as the initial stage does not require on-the-ground exploration. Drilling only is required once potential sites have been identfied.

Source: Williams, 2003.

Increasing consultancy opportunities also are available to assist miners negotiate their way through new mining legislation. South Africa, in particular, is making major changes in its mining laws. Finally, limited financial industry development in Kenya, Mozambique and Uganda could generate opportunities for financial institutions assisting miners raise investment finance.

RSG GLOBAL

RSG Global, a Western Australian mining consultancy firm with offices in South Africa, Ghana and Peru, offers consulting services in geology, exploration, resources, mining engineering and metallurgy. RSG Global mainly acts for junior mining companies, for which opportunities in South Africa have expanded in recent years. The company also assists potential black empowerment mining companies and foreign investors in South Africa looking for good black empowerment partners. (See Chapter 2 – *Business Environment.*)

RSG Global believes it is very difficult for new investors to fail in their business in South Africa but stress the importance of new investors:

- doing their homework and working with the local community and government
- employing specialised consultants for dealing with the administrative issues, such as obtaining mining licences and coping with strict South African labour laws
- considering London financial markets to finance African investment as they are comfortable with doing business in Africa
- checking banks are up to date on foreign exchange control regulations. Although foreign exchange controls are not an issue for foreign companies, some banks do not know the rules already have changed and the new investor needs to ensure their bank has the correct information on this issue.

Source: Van der Merwe et al., 2003.

Infrastructure

As poor infrastructure is a key impediment to successful investment and development in Sub-Saharan Africa, all these five governments are keen to improve infrastructure. (See Chapter 2 – *Business Environment.*) Several offer private infrastructure investors incentives. For example, the South African Government announced it has a R170 billion, A$34 billion, infrastructure backlog with around a third of this amount needed for roads (Lewis, 2003). The Development Bank of Southern Africa is the major public infrastructure development sponsor, whereas the Industrial Development Corporation of South Africa is a key private infrastructure investor. Both bodies were established by the South African government and operate within the broader region. For example, the Industrial Development Corporation has a stake in Kalahari, a gold exploration company, and Mozal, an aluminium smelter. The Ugandan and Kenyan Governments are looking for investment in energy to cope with electricity shortages and high electricity costs. Australian expertise in renewable energy resources such as solar energy may be of particular interest to isolated communities unconnected to national electricity grids.

Australian infrastructure and financing firms' experience in developing and operating competitive private sector infrastructure projects in Australia and elsewhere equips them well to compete in Southern and East Africa. For example, Macquarie Africa operates several infrastructure funds and has leveraged off Australia's early experience in privatisation (Lewis, 2003). Australian business also has a reputation for being adept at consulting with local governments and communities, an important part of developing infrastructure projects in the region (Scott, 2003).

THE DEVELOPMENT BANK OF SOUTHERN AFRICA

In 1983, the South African Government established the Development Bank of Southern Africa. As well as its role as a development finance institution in South Africa, it responds to Southern African Development Community needs and supports the New Partnership for Africa's Development initiative. The bank is a lender, partner and advisor to many infrastructure development stakeholders.

The bank's purpose is to address socio-economic imbalances in the region and help improve the quality of life of its people. Its mandate charges it to:

- invest in infrastructure and facilitate private sector infrastructure development
- finance sustainable infrastructure and other developments in partnership with the public and private sectors
- provide technical assistance, capacity building, information and policy support for infrastructure development.

Its operation is focused on knowledge development, knowledge sharing and partnership building in its fields of activity and interest, including regional, municipal and rural infrastructure as well as eco-tourism, enterprise development and institutional infrastructure.

In conducting its operations, the bank builds relationships with key development players and stakeholders, many of whom are clients or partners. These include national governments, provincial governments, local authorities, donor agencies, utilities, development corporations, parks boards, non-governmental organisations, private sector entities and other development finance institutions.

The bank's geographic and functional/sectoral units develop insights and networks of contacts in both public and private sectors in their areas of focus. Firms interested in potential business opportunities in South Africa and the region (particularly but not exclusively in infrastructure, local government service provision and sustainable development technology applications) can contact the bank. It can advise on and facilitate contacts with appropriate public or private sector organisations.

Source: Scott, 2003.

Education

Education is a priority for all five governments, presenting opportunities for Australian educational institutions. Uganda is a regional hub for education, as instruction is in English unlike in Tanzania or Rwanda. The Kenyan Government has introduced free education at primary school level with World Bank support and is planning eventually to extend free education to secondary schools. Vocational training probably presents the best opportunities for Australian educators; skilled and technically trained labour shortages are widespread and local institutions cannot fill this gap.

Existing private universities in Uganda have expressed interest in establishing joint ventures and staff exchanges with Australian universities (Kigozi, 2003). The five economies have an oversupply of graduates with arts degrees but more limited higher education capacity in the sciences and ICT. Australian universities are well suited to fill this gap (Levy, 2003; Matome, 2003).

MONASH UNIVERSITY

In February 2001, Monash University, incorporated in Victoria, opened its Monash South Africa Campus in Roodepoort, on the outskirts of Johannesburg. By 2003, it had around 350 students enrolled in four undergraduate programmes, Bachelor of Arts, Bachelor of Business and Commerce, Bachelor of Business Systems and Bachelor of Computing. Monash expects to have around 2 500 students by 2011. It also has an international campus in Malaysia and international centres in the United Kingdom and Italy.

Monash believes it has established an important niche. While South Africa has about 43 million people, only the Universities of Cape Town, Pretoria, Stellenbosch and Wittswattersand offer courses with similar quality and nature and other attributes comparable to Monash. It also offers the ability to study at other Monash campuses and enter arranged exchange programs around the world.

However, the positive outlook for the new campus is tempered by several looming issues. South Africa is suffering from 'brain drain'. It is starting to feel the impact of HIV/AIDS and this is likely to get worse over the medium term. Finally, primary and secondary education skills need improvement. However, Monash management does not believe these problems are insurmountable. Monash believes that by establishing a beachhead in South Africa, they will benefit other Australian businesses investing in the region as well as giving students from South Africa and other African nations access to greater choice in their university education.

Source: Anderson, 2003.

Financial Services

Although the sophistication of the financial sector varies between economies, Southern and East African governments recognise financial services are crucial to diversifying and expanding their economies. They are keen to improve the quality of financial services to support private sector growth. However, even in South Africa, which has a large financial services sector, several of the more sophisticated products on offer in developed economies are not yet available (Economist Intelligence Unit, 2003b; Lewis, 2003). Nevertheless, many businesses in the region are comfortable adopting new banking and purchasing technologies and are ready to take advantage of quality financial products.

This may generate market opportunities for Australian financial institutions and services businesses, especially those supplying new banking technologies. Financial businesses, including investment and commercial banks with quality products, should do well in Southern and East Africa (Levy, 2003; Matome et. al., 2003).[13] Foreign banks have started to gain a foothold in these markets by taking over existing operations, purchasing privatised banks and using stand alone ventures.

The Botswana Government has established an International Financial Services Centre to intermediate funds from South Africa and the rest of the world into other parts of Africa. The Government encourages investment in the centre by offering a 15 per cent tax rate to investors, compared to the usual 25 per cent rate (Economist Intelligence Unit, 2003a).

Potential investors should closely monitor bankruptcy laws and progress in legal reforms in Kenya, Uganda and Mozambique. These policies have a significant impact on the ability to recover lent funds (Jaiantilal, 2003; Kimura, 2003).

MACQUARIE AFRICA

Macquarie Bank has had a significant presence in Africa for more than a decade. Macquarie Africa is a wholly owned subsidiary, dealing in infrastructure and specialized funds management and corporate and structured finance. In 2000 they formed a joint venture with Old Mutual Asset Managers to take over the management of the South Africa Infrastructure Fund. This fund invests in infrastructure assets in Southern African Development Community economies, with consideration given to roads, airports, telecommunications, water, rail, power and regulated assets. Macquarie's African funds management offices are in Cape Town, while the advisory business is based in Johannesburg. Macquarie is one of the world's leading infrastructure consultants and has leveraged off Australia's early privatisation experience.

Source: Lewis, 2003.

Tourism

Africa's diverse wildlife and relatively unspoilt environment generate significant tourism potential (Dogonyaro et al., 2003; Kigongo et. al., 2003; Kigozi, 2003; Matome et al., 2003; May et al., 2003; Paulo, 2003).[14] South Africa was the fastest growing tourism destination in the world in 2002 and was untouched by the Iraq War or SARS virus outbreak. Australia's established ecotourism industry is well placed to take advantage of these natural resources. Tourism related training also is a significant opportunity in Uganda (Kigongo et. al., 2003; Kigozi, 2003).The World Bank, through the International Finance Corporation, invests in sustainable tourism in Africa.

13 Australian commercial finance investment in the region is limited to date. Macquarie Africa, a subsidiary of Macquarie Bank, provides, among other things, infrastructure finance. South African banks such as Stanbic have successfully launched new products in the region such as electronic funds transfer.

14 For example, Mozambique has 2 000 kilometres of unspoilt coastline while all five economies have major game parks.

The key constraint on future tourism development in Southern and East Africa is security although infrastructure also is important. Many parts of Africa suffer from high rates of petty theft, rape, armed robbery, carjacking and banditry. Kenya also has experienced several terrorist attacks over the past few years. These create a significant deterrent for international visitors. (See Chapter 2 – *Business Environment*.)

Information and Communications Technology

At present, only Botswana and South Africa have the necessary infrastructure required for sophisticated ICT ventures. These economies provide digitalised, local and wide area networks and could be good markets for advanced technologies and services such as system integration services, business process software and Internet-based business system solutions.

All major information communication technology and multimedia companies are represented in South Africa and Botswana, which are host to BBC Television, IBM, Siemens and Unisys. Botswana and Kenya have good supplies of numerate and literate school leavers, some of the best in Sub-Saharan Africa, who can be trained in software and service skills (UNCTAD, 2002b).

Some banks in the region already are introducing new technology. Australian ICT and financial services businesses could find good opportunities in supplying smart cards, information technology for on line banking services, photonics, telecommunications services and products, such as specialised equipment and billing services, application service provision, government on line services and mining software (www.austradetech.com, accessed 25 October 2002). For example, South African bank Stanbic is computerising its systems allowing rapid funds transfers within and between countries (Kigozi, 2003). Australian financial institutions and software companies are well placed to engage with the growing financial sector by developing banking, brokerage and investment software.

The telecommunications sector, while still underdeveloped in Kenya, Mozambique and Uganda is growing rapidly with private competition, offering Australian telecoms goods, services and technology providers the chance to leverage off skills developed in servicing Australian and Asian markets.

Other Sectors

Manufacturing opportunities exist in Africa and could expand with governments' efforts to diversify their economies and reduce trade barriers. For Australian business, investment opportunities in these sectors are likely to be in niche products. Outside South Africa and Kenya, the region's main comparative advantage lies largely in resources, agriculture and services. Particular investment opportunities listed by investment authorities include forestry and paper, printing and publishing, construction and pharmaceuticals (Botswana Export Development and Investment Authority, www.bedia.bw; Kenyan Investment Promotion Centre, www.ipckenya.org; Mozambican Investment Promotion Centre, www.mozbusiness.gov.mz; and Uganda Investment Authority, www.ugandainvest.com).

OUTLOOK

Many attractive investment opportunities exist in the five Southern and East African economies. These governments are working to create an attractive investment environment. Few sectors are off limits, 100 per cent ownership is allowed and funds can be repatriated easily from all five economies. These economies' resource endowments are similar to Australia's and Australia has strong expertise in many of the region's most competitive sectors including mining, agricultural production and agri-processing.

While frustrating to existing business, the need for significant infrastructure investment generates opportunities for Australian investors in private sector toll roads, rail, energy and water. Australian educational institutions' strong reputation and experience in providing educational services in international locations give them a significant advantage in investing in higher education and technical training in the five economies. The potential to offer new products, such as electronic funds transfer in the regional financial services sector, provides opportunities for Australian financial institutions to leverage expertise in banking technology and advanced financial products. Australian tourism operators have the necessary expertise to participate in the African tourism industry and provide training for local operators.

Finally, most of the five economies are seeking to increase their ICT uptake. Well developed e-business and e-government infrastructure in Australia give Australian ICT businesses strong advantages in pursuing opportunities in these economies' growing ICT markets.

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APPENDIX 4.1

Regional Trading Arrangements

Regional integration agreements in various forms have existed in Africa for some time; the Southern African Customs Union, SACU, still in existence, was established in 1910, and South African Trade Minister Erwin has pledged that in future, South Africa will enter all trade agreements as part of SACU, not alone (World Bank, 2000; Australian High Commission, Pretoria, 2003). It is only over the past 5 years however that these agreements have looked seriously at reducing trade barriers between economies and encouraging closer economic ties, partly in response to obligations arising from WTO membership as well as a belief that economic cooperation plays a key role in moving African economies forward.

The four most important regional trade agreements for Botswana, Kenya, Mozambique, South Africa and Uganda are the Common Market for Eastern and Southern Africa, the East African Community, the Southern African Customs Union and the Southern African Development Community (Table A5.1). All except Mozambique belong to at least two groups, making liberalisation negotiations complex (Office of the United States Trade Representative, 2003).

The establishment of these trade agreements has yet to show any noticeable increase in trade between members as trade barriers only recently began to be dismantled. In 2001, intra-regional trade accounted for only 10 per cent of exports and 11 per cent of imports of Southern African Development Community members. For the Common Market for Eastern and Southern Africa, intra-regional flows accounted for 5 per cent of exports and 3 per cent of imports (African Development Bank, 2003).

NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT

All African economies are members of the New Partnership for Africa's Development, NEPAD. Under NEPAD, members have pledged to restore and maintain macro stability, implement transparent legal and regulatory frameworks for financial markets, revitalise and extend education, training and health care, promote infrastructure, agriculture and manufacturing development and promote female participation. Main strategies for achieving these goals include creating a conducive environment for private sector investment and private entrepreneurs, increasing public goods provision, and promoting the inflow and effective use of aid through reforming systems for delivery and evaluating aid.

Source: Dogonyaro et. al., 2003; New Partnership for Africa's Development, 2002.

Table A4.1

Regional Arrangements Add Complexity

Regional Economic Grouping Membership and Preferential Arrangements

	Botswana	Kenya	Mozambique	South Africa	Uganda
Intra-regional arrangements					
Common Market for Eastern and Southern Africa, COMESA		✓			✓
East African Community, EAC		✓			✓
Southern African Customs Union, SACU	✓			✓	
Southern African Development Community, SADC	✓		✓	✓	
Extra-regional					
African Growth and Opportunity Act – United States, AGOA	✓	✓	✓	✓	✓
Cotonou Agreement	✓	✓	✓	✓	✓
Everything But Arms			✓		✓
South Africa – European Union Free Trade Agreement				✓	

Note: South Africa is not a full member of the Cotonou Agreement and does not have access to financial instruments or the preferential trade regime. This is in part because of the South Africa-European Union Free Trade Agreement, also known as the Trade, Development and Cooperation Agreement, which gives South Africa *limited* access to the European agricultural sector. For more details, see www.europa.eu.int.

Sources: International Monetary Fund, 2002a, 2002b, 2002c and 2003; UNCTAD, 2001a, 2001b.

Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa, COMESA, aims to create a regional bloc that promotes growth and development through improving peace and stability in the region as well as removing perceived weaknesses in member states.[15] It currently has 20 members, including Kenya and Uganda, covering most of the continent and representing a total population of 340 million people.[16]

Nine members have committed to be part of the COMESA Free Trade Area established in 2000.[17] All members eventually are to become part of a free trade area and adopt common investment practices. The key provisions are for members to remove all tariff and non-tariff barriers between them, although no

15 The Common Market for Eastern and Southern Africa, established in 1994, replaced the Preferential Trade Area for Eastern and Southern Africa, established in 1981.

16 The current members are Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

17 These nine economies are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.

timeline is set for this, establish a common external tariff by 2004 with four tariff bands of 0, 5, 15 and 30 per cent and implement full monetary union by 2025 (Common Market for Eastern and Southern Africa, 2003; Office of the United States Trade Representative, 2003). Uganda currently levies tariffs of 0 per cent on capital goods, 4 per cent for intermediate goods and 6 per cent for consumer goods if these goods originate from COMESA countries; outside COMESA the rates are 0, 7 and 15 per cent respectively (Uganda Investment Authority, 2003). To ease the trade liberalisation burden, COMESA is establishing a fund to assist members that lose tariff revenue as a result of opening their markets (Office of the United States Trade Representative, 2003).

Members also aim to harmonise their investment codes and introduce a political risk guarantee facility as part of their insurance services. No timeline is given as to when this might occur (Common Market for Eastern and Southern Africa, 2003).

East African Community

In 2000, Kenya, Tanzania and Uganda formed the East African Community, representing a population of 82 million people. The community has a broad mandate to cooperate on issues ranging from the free movement of labour to monetary and financial cooperation.

Internal tariffs and non-tariff barriers are to be removed and a customs union established. Internal tariffs will be reduced to zero over 7 years; as of 2002, Uganda had reduced tariffs on products from other members by 80 per cent (East African Community, 2003; Kigongo et. al., 2003; OECD 2003). By November 2003, the Community expects to have negotiated a common external tariff with three tariff bands for all products of 0, 10 and 20 per cent, at which point Kenya will have zero tariffs on Tanzanian and Ugandan goods (Blake, 2003; Kuria et al., 2003). Most non-tariff barriers to internal trade have already been removed (East African Community, 2003). Uganda and Tanzania are committed to achieving zero internal tariffs by 2005 (Office of the United States Trade Representative, 2003).

In May 1998, the East African Community established the East African Association of Investment Promotion Agencies. It currently is working on investment incentive and investment code harmonisation of the three members (East African Community, 2003).

Southern African Customs Union

Established in 1910, the Southern African Customs Union, SACU, comprising South Africa, Botswana, Lesotho, Namibia and Swaziland, represents a market of over 50 million people with the rand effectively a common currency. SACU has no tariffs between members and provides for common external and excise tariffs. The 2001 unweighted external tariff was 11 per cent.

In October 2002, the members agreed to further free up trade and deepen economic integration by, among other things, promoting conditions of fair competition, increasing investment opportunities and facilitating the development of common policies and strategies (World Trade Organization, 2003). In June 2003, they began negotiations with the United States on a free trade agreement (Department of Foreign Affairs, 2003). The main drawback of common external and excise tariffs is that member countries can only reduce their trade barriers at the rate of the slowest member. Nevertheless, obligations under the WTO have hastened the fall in the external tariff.

Southern African Development Community

The Southern African Development Community, SADC, comprises 14 economies, including Botswana, Mozambique and South Africa, representing 250 million people.[18] The SADC aims to improve living standards in the southern African region through a broad action plan covering economic and social sectors. Part of this process involves encouraging trade between member states and promoting economic stability within the region. In 1997, SADC members agreed to eliminate all tariffs on goods originating within the SADC region over a ten-year period, except South Africa, which agreed to eliminate tariffs over an eight-year period (UNCTAD, 2001a). As such, investment opportunities arising from SADC are more likely to be realised over the long term.

Preferential Agreements with Developed Economies

Most African countries also are parties to preferential agreements with the European Union and the United States; these are the Cotonou Agreement, Everything But Arms and the Africa Growth and Opportunity Act. Several economies have been unable to take full advantage of their preferences; Botswana has never filled its beef quota with the European Union and the Mozambican agricultural sector is so small that it will not threaten their preferential arrangements for some time (Nthomiwa, 2003; Marques, 2003). Constraints also remain on agricultural exports to the United States and Europe and preferences can be withdrawn at any time (Aluma, 2003; Dewah, 2003; Economic Analytical Unit, 2003; Kigongo et. al., 2003).

AFRICA GROWTH AND OPPORTUNITY ACT

In 2000, the US African Growth and Opportunity Act, AGOA was signed into law. It is scheduled to end in 2008. Under the Act, qualifying African nations are given tariff free access to selected US markets. At present, 38 out of the 48 African nations have qualified to receive this preferential treatment.[19] In practical terms, few economies have been able to take advantage of the Act as their textile sectors (the main area of interest) are relatively undeveloped and the Act does not necessarily give all countries equal access. The US government also has discretionary powers to change the tariff rates should exports to the United States become a threat to US producers. South Africa probably has benefited most from AGOA and is exporting textiles, agricultural products and automobiles to the United States.

Sources: OECD, 2003; Office of the United States Trade Representative, 2003.

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[18] The members are Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The Southern African Development Co-ordination Conference, established in April 1980, preceded the SADC.

[19] Those excluded are Angola, Burundi, Burkina Faso, Comoros, Equatorial Guinea, Liberia, Somalia, Sudan, Togo and Zimbabwe.

COTONOU AGREEMENT AND EVERYTHING BUT ARMS

Concluded in June 2000, the Cotonou Agreement, which succeeds the Lomé Convention, is the new 20-year framework agreement between the European Union and African, Caribbean and Pacific countries. It establishes basic provisions for development and political cooperation and also requires the negotiation of free trade agreements between the European Union and either regional groupings or individual member states. The Cotonou Agreement also allows non-reciprocal preferential treatment. However, even under the Cotonou Agreement, products under the Common Agricultural Policy still face customs duties.

The European Union also has the 'Everything But Arms' arrangement in place for least developed countries under which they have duty and quota free access to European markets, including agricultural products but excluding arms and ammunition. However, fresh bananas, rice and sugar, which are important products for African economies, are not subject to immediate liberalisation.

Sources: UNCTAD, 2002a and 2002b.

AFRICAN INVESTMENT PROSPECTS IN AUSTRALIA

KEY POINTS

- As most of Sub-Saharan Africa has little surplus capital to export, the great majority of African investment in Australia comes from South Africa.
- Over the past decade, South African investment in Australia has grown rapidly with the majority of investment concentrated in the mining sector.
- Australia provides an attractive destination for FDI from Sub-Saharan Africa offering a productive and skilled workforce, a resilient economy, well developed ICT and other infrastructure, open and transparent regulations and few limitations on FDI.
- South African investors have strong expertise and hence prospects in Australian mining, agri-processing, business and professional services and ICT sectors.

AUSTRALIAN OPPORTUNITIES FOR SOUTHERN AND EAST AFRICAN INVESTORS

Australia offers investment opportunities for Southern and East African investors and as South Africa has relaxed its capital controls in recent years, Australia has attracted increasing flows of FDI from the region.

INVEST AUSTRALIA: PROMOTING INWARD INVESTMENT

In 1997, the Australian Government established Invest Australia to encourage inward FDI to support sustainable industry growth and development. Invest Australia offers a comprehensive, free and totally confidential service for potential foreign direct investors. It acts as an initial contact point for investors, providing information on how to establish a business in Australia; arranging site visits; providing information on Australia's industry capabilities, business costs, infrastructure and investment regulations; identifying industry assistance schemes; providing industry and government contacts and facilitating projects through targeted programs.

Invest Australia's programs include Major Project Facilitation, for investments of strategic significance, the Supported Skills Program, providing streamlined immigration assistance for key personnel, and Strategic Investment Coordination, the Australian Government's investment incentive program.

Invest Australia has investment specialists in Beijing, Canberra, Frankfurt, Hong Kong, London, Melbourne, New York, Paris, San Francisco, Shanghai, Singapore, Sydney and Tokyo. Investors planning on entering the Australian market should in the first instance contact Invest Australia which can advise investors on the full range of relevant issues.

Source: Invest Australia, www.investaustralia.gov.au.

SOUTH AFRICAN INVESTMENT IN AUSTRALIA GROWING

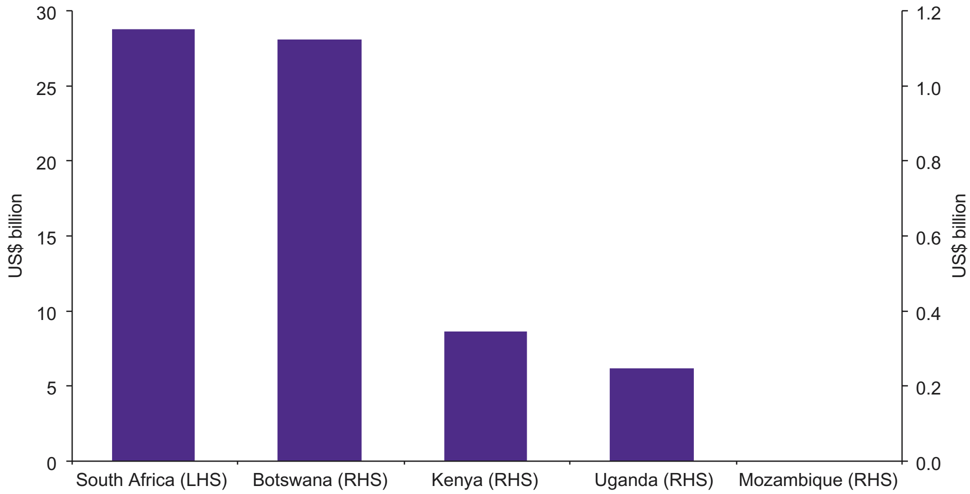
South Africa's FDI abroad currently dwarfs those of the other four Southern and East African economies (Figure 5.1). In 2002, South African outward investment stocks totalled US$28.7 billion, over 70 per cent of the total from Sub-Saharan Africa. In contrast, the combined outward FDI stocks of Botswana, Kenya, Mozambique and Uganda totalled only US$1.7 billion. Limited available funds from these economies suggests the opportunities for attracting their investment to Australia will be more limited for the foreseeable future.

While Australia currently hosts only 1.5 per cent of South Africa's total FDI stock, the similarity of the South African and Australian economies and hence match between South African companies' expertise and growth sectors in Australia indicates considerable scope for South African businesses to invest in Australia.

Figure 5.1

South African Investment Dwarfs Others

Foreign Direct Investment Outward Stock, US$ billion, 2001



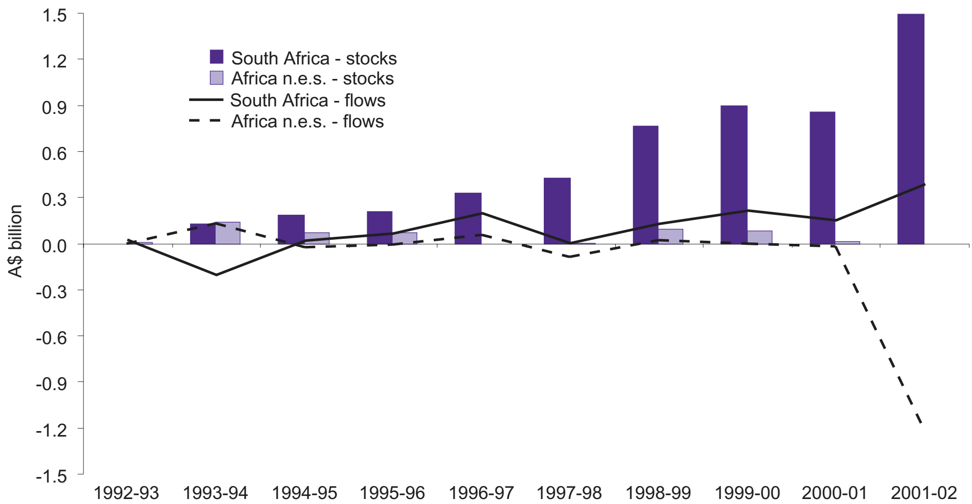
Source: UNCTAD, 2003.

Over the past 10 years, as South African authorities gradually eased restrictions on outward FDI, the stock of South African investment in Australia has grown rapidly (Figure 5.2). Between 1993-94 and 2001-02, South African investment in Australia increased from 0.03 per cent to 0.21 per cent of Australian GDP. As a result, in 2001-02, South Africa had become the seventeenth largest foreign investor in Australia, up from twenty third in 1993-94. South African investment in Australia should expand considerably as the South African Reserve Bank continues to relax capital controls. (See Chapter 2 – *Business Environment.*) In contrast, investment stocks from the rest of Africa are negligible (Figure 5.2).

Figure 5.2

South African Investment Growing, Other African Investment Limited

Foreign Investment in Australia, 1992-93 to 2001-02, A$ billion



Note: Foreign investment in Australia includes FDI, portfolio investment and financial derivative assets. Investment information broken down by investment type are only available intermittently for Africa.
Statistics are not available for individual African economies outside South Africa.
Data were not published for South African stocks in 1992-93, Africa n.e.s. stocks in 1996-97 and 2001-02 and Africa n.e.s. flows in 1999-00.
The significant outflow of funds for Africa n.e.s. in 2001-02 was the result of a A$1.2 billion change in total financial derivative liabilities.

Source: Australian Bureau of Statistics, 2003b.

New investment proposals approved by the Australian Foreign Investment Review Board also indicate South Africa rapidly is becoming an important source of investment for Australia, ranking fifth in terms of both the number and value of new investment proposals in 2001-02 (Table 5.1).[1]

The majority of South African investment proposals to the Foreign Investment Review Board by value is concentrated in the mining industry but other significant sectors include retailing, computing, marketing, distribution, fast food and manufacturing. South African businesses with a significant interest in Australia include AngloGold, Dimension Data, Metro Cash & Carry, Nandos, Pick ‘n Pay, Waco International and the owners of Country Road.

1 Information on total South African investment in Australia by industry is not readily available. The value of investment in Table 5.1 is only the value of proposals to the Foreign Investment Review Board. Smaller proposals do not have to go before the Board and therefore the size and industry location of total new South African investment in Australia may be different to that presented here.

Table 5.1

South Africa: Important Source of New Proposals

Approved Investment Proposals, by Country of Investor and Industry Sector, 2001-02, A$ million

	Number of proposals approved[c]	Total value	Agriculture, forestry and fishing	Finance and insurance	Manufacturing	Mineral exploration and development	Real estate	Resource processing	Services, excluding tourism	Tourism
UK	1 635	19 496	-	919	3 650	1 126	1 776	250	11 491	284
USA	308	18 514	82	1 862	4 380	5 485	448	1 340	4 720	197
Singapore	282	18 144	-	1 000	1 220	-	1 394	162	14 318	50
Japan	147	10 475	20	7 547	1 195	635	157	874	47	-
South Africa	265	5 012	-	150	40	4 438	128	142	114	-
Canada	75	4 627	-	200	-	4 074	24	-	318	11
Hong Kong	27	3 755	-	-	1 141	-	169	-	2 445	-
Germany	155	2 212	-	32	635	18	744	250	533	-
Malaysia	271	1 563	-	-	7	18	1 440	-	50	48
New Zealand	40	1 488	-	-	1 270	-	19	-	199	-
France	63	1 125	-	87	374	104	48	-	316	196
China	237	311	-	-	47	-	234	20	-	10
Thailand	19	6	-	-	-	-	6	-	-	-
Not Allocated[a]	276	5 584	-	-	-	16	5 557	-	-	11
World Other	860	7 697	1	984	2 247	1 938	1 102	1 060	312	53
Sub-total	4 660	100 009	103	12 781	16 206	17 852	13 246	4 098	34 863	860
Australia[b]	137	17 898	75	370	141	1 312	1 048	668	14 198	86
Total	4 797	117 907	178	13 151	16 347	19 164	14 294	4 766	49 061	946

Notes: Totals may not add due to rounding. Approvals do not necessarily mean investments proceed in either the time frames or the amounts proposed.

a. 'Off the plan' approvals to real estate developers are not identified by investors' nationality as this is not known in advance.

b. The investment identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total investment associated with foreign investment proposals in which they are in partnership with foreign interests, but does not generally include the contribution attributable to minority Australian shareholders in companies with majority or controlling foreign shareholders.

c. These figures indicate the total number of proposals in which investors from the particular country have an interest. Proposals involving investment from more than one country count as one proposal for each of the countries concerned.

Source: Foreign Investment Review Board, 2002.

AUSTRALIA A COMPETITIVE FDI DESTINATION

Australia compares favourably to other significant investment destinations (Table 5.2).[2]

Table 5.2

Australia Competitive with Other Major Investment Destinations

Selected Competitiveness Measures

	Australia	United States	United Kingdom	Germany	Canada	China	Japan
Competitiveness							
Current competitiveness index[a]	9	2	7	4	11	47	15
Growth competitiveness index[a]	5	2	12	17	3	39	21
Productivity[b]	57 857	81 553	55 060	79 616	60 712	2 885	92 582
Costs							
CEO remuneration[c]	143 333	526 271	283 190	270 005	164 648	60 287	293 105
Labour costs[d]	26 087	28 907	23 843	33 226	28 424	729	31 687
International telephone call costs[e]	0.50	0.45	0.94	0.33	0.48	2.90	1.48
Office rent[f]	247	403	908	451	270	281	1 134
Doing business							
Ease of doing business[g]	2	1	6	11	4	7	13
Administrative burden for start-ups[h]	5.4	6.0	5.6	4.8	5.5	4.9	4.5
Permits to start a firm[i]	5	4	2	3	3	6	3
Days to start a firm[j]	30	30	7	30	22	30	30

Notes: a. Rank out of 75 economies, 2001. The Current Competitiveness Index is constructed using survey information from 75 economies, covering company operations and strategy, input conditions, demand conditions, the quality of related and supporting industries and the context for firm strategy and rivalry. The Growth Competitiveness Index is calculated using information on technology, public institutions and the macroeconomic environment. For more detail, see World Economic Forum, 2002.
b. Value added per worker in manufacturing, US$, 1995-99.
c. CEO total base salary plus bonuses and long term incentives, US$, 2002.
d. Labour cost per worker in manufacturing, US$, 1995-99.
e. US$ per 3 minutes in peak hours to United States; for United States, 3 minutes in peak hours to Europe, 2003.
f. Total occupation cost, US$/sqm per year, 2002.
g. Rank out of 30 economies, 2003.
h. Score, 1=extremely difficult and time consuming, 7=easy, 2001.
i. Average number of permits, 2001.
j. Median number of days, 2001.

Sources: World Economic Forum, 2002; IMD International, 2003; World Bank, 2003.

2 For more information on investing in Australia, see Blake Dawson Waldron, 2002.

Australian Investment Attractions

Australia's other attractions as an FDI destination include a strong economy, openness to foreign investment, a skilled workforce, proximity to the large East Asian market, widespread adoption of ICT throughout the economy and an efficient and transparent regulatory regime. Over the past decade, extensive economic reforms and trade opening has helped Australia become one of the fastest growing economies in the OECD (Economic Analytical Unit, 2003b). Economic and regulatory reforms also make Australia resilient; it has withstood significant potential external economic shocks like the Asian financial crisis over the last decade. In the decade to 2002, Australia's gross domestic product, GDP, grew an average of 3.9 per cent per annum compared to 3.2 per cent for the United States and 2.4 per cent for the OECD average. Even during the Asian financial crisis, from 1997-99, Australia grew a robust 4.7 per cent per year. Microeconomic and trade reform has encouraged productivity growth which makes a significant contribution to economic growth; between 1991-92 and 2001-02, multifactor productivity grew on average 1.4 per cent per annum (Australian Bureau of Statistics, 2003a).

Skilled workforce

Despite the workforces' high skill and education levels, wages of both workers and managers compare favourably with other industrialised nations (Table 5.2). Australia's high level of education in part explains the rapid uptake of ICT (Barnes et al., 2002; de Brouwer et al., 2001).

Open FDI regime

Australian FDI regulations are open and transparent with very few restrictions; specific restrictions on foreign investment remain in sectors such as the media and developed residential real estate (Treasury, 2000). Foreign business investments in established business valued at less than A$50 million or new businesses valued at less than A$10 million do not require approval unless they are contrary to the national interest (Treasury, 2000). Foreign investments above these amounts require approval, but less than one per cent of foreign investment proposals in the non-sensitive sectors have failed to meet the national interest test since it was introduced in the mid 1980s (Economic Analytical Unit, 2003b).[3]

Transparent regulations

Australia has an open and transparent regulatory environment that applies equally to domestic and foreign investment. Transparency of Australian Government policy is rated as the best of 30 large economies and Australian competition legislation is rated as the best in 30 large economies at preventing unfair competition (IMD International, 2003).

[3] For more information on the types of proposals that require prior approval, see Treasury, 2000.

Strategic location

Australia is well located for investors wishing to sell into the Asian market, operating in similar time zones to major Asian economies. For example, Australia's trade with China is expanding rapidly, providing many opportunities for businesses supplying this dynamic market (Economic Analytical Unit, 2002a). Japan also is an important market for Australian raw materials and other exports and remains Australia's biggest market overall. The Singapore-Australia Free Trade Agreement and the recently agreed Australia-Thailand Closer Economic Relations Free Trade Agreement also should generate investment and trade opportunities.

Strong ICT services

Australia's well developed ICT services sector helps local businesses lower their costs and can provide new opportunities in e-commerce (Economic Analytical Unit, 2002b). In 2002, Australia was sixth in the world in terms of 'e-readiness' (Table 5.3). (Economist Intelligence Unit, 2002). ICT applications are well advanced in business-to-business, business-to-consumer, e-commerce, and electronic supply chain management systems. After adopting such systems in Australia, Southern and East African investors could transfer them back to their operations in Africa. E-government services in Australia also are second only to the United States, potentially providing significant cost savings for African businesses utilising government services and seeking government contracts (United Nations Division for Public Economics and Public Administration, 2002).

Labour Markets Reforming

Australia's labour market has undergone sweeping changes since the late 1980s, focussing industrial relations on the workplace and enterprise rather than the centralised wage system (Loundes et al., 2003). Greater flexibility in the workplace has contributed to improved labour productivity. Labour market reforms have significantly reduced industrial unrest (IMD International, 2003).

OPPORTUNITIES FOR SOUTHERN AND EAST AFRICAN INVESTMENT

The similar sectoral strengths of the Australian and Southern and East, and particularly South African economies, in mining and related sectors, agriculture and agri-processing, tourism and business and professional services generates opportunities for the region's investors in Australia. Australian strengths in ICT where Southern and East African economies are not particularly strong also generates investment opportunities.

Mining and Mineral Processing

South African companies are well established investors in the Australian mining sector. In 2001-02, almost 90 per cent of South African FDI proposals by value in Australia were in the minerals sector (Table 5.1). The similarity of Australian and South African mineral resource endowments and the scale of mineral development opportunities in Australia are the main attractions. The Australian mining sector provides a well established industry in which to do business and offers investors the opportunity to diversify their operations into new mining regimes and markets.

METAGO ENVIRONMENTAL ENGINEERS (AUSTRALIA) PTY LTD

Metago Environmental Engineers is a South African business offering civil and environmental engineering consultancy services covering civil, geotechnical and geo-environmental engineering, environmental science, mining and environmental law and risk assessments, environmental economics and bankable feasibility studies. Its regional headquarters for Australasia was established in Perth in 2001, driven by the need to more easily serve their Australian clients. The Company expect to use Perth as a base for further regional ventures. At present its operations are relatively small compared to competitors, although employment has grown from 4 to 10 in the space of two years. Despite the competitive nature of the market, Metago has succeeded by offering innovative solutions and quality products to clients, which include Osborne Gold & Copper Mine (Placer Dome Asia-Pacific), Argyle Diamonds and Hamersley Iron (Rio Tinto), Anaconda Nickel, Cleanaway and the Westralia Airports Corporation.

Source: Blenkinsop, 2003.

Australia's proximity to dynamic, rapidly growing East Asian economies which are highly reliant on resources imports also provides Australia another competitive advantage. In particular, the Chinese economy's continued growth and restructuring should provide a rapidly growing market for raw material imports in coming decades, generating substantial investment and export opportunities in Australia. Australia already is a key supplier of resources such as iron and copper ores, alumina, natural gas, copper and non-crude oil to China and other East Asian manufacturing industries (Economic Analytical Unit, 2002a and 2003a).

ANGLOGOLD AUSTRALIA

AngloGold Australia is a wholly owned subsidiary of South African company AngloGold Ltd, one of the world's largest gold producers. AngloGold Australia was established when AngloGold Ltd acquired Acacia Resources Ltd and, in October 1999, listed on the Australian Stock Exchange. The purchase was a timely and attractive business opportunity; the company saw Australia as offering low political risk, world-class gold operations, a comprehensive network of mining suppliers, a highly skilled professional workforce and an open FDI regime. The acquisition also offered AngloGold the opportunity to incorporate open cut mining into its asset base which mainly included traditional deep level underground mines.

Its Australian operations now account for around 8 per cent of AngloGold's earnings, before interest and tax. Retention of Australian management and a quality workforce have played a part in the success of AngloGold Australia. Given the right opportunity, AngloGold would consider expanding its operations in Australia; it is developing an underground mine at the Sunrise Dam operation in Western Australia and has a 33 per cent share in the large Boddington Expansion Project, a gold-copper project located in Western Australia.

Source: Maxey, 2003.

Agri-processing

Australia has a good international reputation for high quality agricultural products, including processed products and its exports of agricultural and agri-processed products are growing rapidly. Australian agri-processing operations provide South African investors the opportunity to export from Australia to the Asian northern hemisphere in the Asian off-season. In 2001, food and live animal exports from Australia to East Asia totalled US$4.9 billion compared to South African food and live animal exports to East Asia of US$0.4 billion. In 2002, beef, milk and cream exports alone earned A$3.1 billion while cotton and wool generated another A$3.3 billion in export earnings. As incomes rise across the East Asian region, demand for processed agricultural products also should increase, expanding these products' export opportunities. Along with opportunities in food production, upstream opportunities include supplying equipment, services and other inputs to the agri-food industry.

AFGRI AND WALTONS

In 2003, South African agricultural services group Afgri entered Australia's agricultural market by acquiring T&H Walton, the largest dealer in John Deere farming equipment in Western Australia and agent for several other product lines.

Entering the Australian market allowed Afgri to reduce risk exposure to weather conditions in South Africa and expand Afgri's services market. For the year to September 2002, Australian farmers purchased 8 700 tractors and 880 combine harvesters while South African farmers purchased only 3 100 tractors and 160 combine harvesters. Walton accounts for 21 per cent of John Deere's tractor sales and 43 per cent of its combine harvester sales in Western Australia as well as 10 per cent of Australia's total John Deere sales. Afgri sees opportunities to acquire some of the 67 other John Deere dealerships in Australia.

Afgri also are exploring the option of introducing precision farming technology and equipment to the Australian market. This technology will expand farm management operations by recognising that crop yields can vary within paddocks.

Source: Afgri, 2003; Department of Agriculture, Fisheries and Forestry, 2003.

Retailing and Distribution

The Australian retailing industry has grown at a robust 3.5 per cent per year in real terms over the past decade, offering investment opportunities in retailing and distribution despite the maturity of the market. Several South African businesses already are engaged in this sector including Metro Cash and Carry, which is involved in food marketing and distribution, and Pick 'n Pay, which acquired some of the Franklins stores. Retailing has not been limited to supermarkets and distribution; Country Road also has extensive market presence in Australia.

PICK 'N PAY PURCHASE FRANKLINS

Pick 'n Pay, a dominant South African retailing chain operator, sought new opportunities in Australia when the Franklins Supermarket Chain was broken up in 2001. Pick 'n Pay purchased 50 Franklins stores in Sydney and the 20-store Fresco Chain. Negotiations began in March 2001 and Franklins became a wholly owned subsidiary of Pick 'n Pay in September of the same year.

Franklins fitted well with Pick 'n Pay's South African operations and it successfully adapted its business model to the Australian environment. At present Franklins accounts for 15 to 20 per cent of total Pick 'n Pay turnover and the company plans to consolidate its NSW Franklins business before moving out to the wider Australian market. Pick 'n Pay have a long term commitment to the Australian market concentrating on a niche sector of retailing offering no-frills non-perishables and packaged groceries.

Source: Zelinsky, 2003.

Financial, Business and Professional Services

Australia also offers Southern and East African companies investment opportunities in finance, insurance, property and business services.

DIGICORE AUSTRALIA

In 1999, Digicore Holdings, a South African based global company providing logistics and security fleet and cargo management services established a presence in Australia. It currently owns 37.5 per cent of Digicore Australia. Digicore Holdings operates in all major markets except the United States; an important part of their expansion strategy in entering Australia was to service both the domestic market and Asia. At present the Australian market accounts for a small share of the company's worldwide sales revenue.

Digicore Australia offers several insights for potential investors in Australia:

- Setting up a business under regional headquarter status allows business to access work visas for key employees from South Africa, a key part of establishing a new business;
- Business should carefully choose their location to ensure adequate access to major markets;
- Business should consider use of a local senior management team to help overcome any local issues;
- It would be prudent for any investor to do a full market research into the desire and need for the product and buying practices and acceptance of new technologies in the Australian market. In selling new capital technologies, business should provide for the longer timelines between demonstration, acceptance and order than may be usual in South Africa.

Source: Lehman, 2003.

Finance and insurance service provision are two sectors particularly suited to the global economy. Australia offers sophisticated finance and insurance products, ranks as first in the world in availability of financial sector skills and is strategically located in the Asian time zone and between the time zones of the two major financial centres, London and New York (Axiss Australia, 2003). Australia's financial sector is growing rapidly; in 2001-02, finance, insurance, property and business services accounted for 18 per cent of Australia's GDP, up from 16 per cent in 1992-93. In 2001-02, finance and insurance services have attracted Japanese, Singaporean, US and South African investment proposals (Table 5.1).

South African's also have invested in professional and business services such as engineering, legal and logistics services. In several cases, this investment is substantial; according to information from IBISWorld's top 2000 Australian companies, McConnell Dowell and Waco Kwikform, which are wholly or partly owned by South African interests, account for around 9 per cent of revenue in the industries in which they operate.

Information and Communications Technology

Australia's well developed ICT service sector offers opportunities for South African investors (Table 5.3). Australia has strengths supplying ICT services and developing niche software including for computer games, mainly for export, photonics, quantum computing, the Internet, health, education and telecommunications applications (de Brouwer et al., 2001; Economic Analytical Unit, 2002b). Well developed ICT skills and infrastructure support Australia's ICT sector and ICT application throughout the economy.

Table 5.3

ICT Sector Well Developed in Australia

ICT Indicators, Selected Countries

	Australia	United States	United Kingdom	Germany	Canada	China	Japan
E-readiness ranking[a]	6	1	3	8	9	49	25
E-government ranking[b]	2	1	7	10	6	93	27
Adequacy of communications[c]	4	1	10	3	2	24	9
Suitable Internet access[c]	5	1	11	4	2	27	9
Information technology skills[c]	4	2	16	7	5	29	14
Internet costs[d]	28.06	21.43	44.02	33.10	29.13	n/a	58.20

Notes: a. Rank out of 60 economies.
b. Rank out of 133 economies.
c. Rank out of 30 economies.
d. Internet access basket for 20 hours at peak times, US$.

Sources: IMD International, 2003; Economist Intelligence Unit, 2002; United Nations Division for Public Economics and Public Administration, 2002.

DIMENSION DATA

Dimension Data is a South African company listed on the London Stock Exchange providing ICT and consulting services across areas including networking infrastructure, managed services, information technology security, contact centres, information technology education and application integration. Between 1996 and 2000, Dimension Data purchased 100 per cent of Australian company Com Tech Communications, changing its name to Dimension Data Australia in 2001.

Dimension Data purchased Com Tech as part of its international expansion strategy. It chose an Australian company because of the high penetration of ICT in the Australian market. Australia represents approximately 20 per cent of the company's global operations. The Australian market is very competitive in both ICT products and services and Dimension Data remains successful through distinctive intellectual property and maintaining its strong customer base. Australian clients include ActewAGL, Bakers' Delight, Boral, PBL, Queensland Treasury, Telstra and the Victorian Department of Sustainability and Environment. Its international clients include American Express, Citibank, HSBC, Manchester United, Parmalat and Vodafone.

Dimension also is using Data Australia as a launching pad into Asia. In 1997, Dimension Data acquired a majority shareholding of Datacraft Limited. This company holds a 51 per cent share of Singapore-listed Datacraft Asia that services New Zealand and 20 Asian markets.

Source: Lees, 2003.

PROSPECTS

Good prospects exist for continued growth in South African investment in Australia. Anecdotal evidence suggests South African investors are comfortable with Australia and the investment opportunities it offers. A large South African expatriate base provides a strong network for businesses. Australia also offers a reliable and secure environment in which to do business, allowing investors to diversify their production base for minimal risk. While limited capital exports from the other four Southern and East African economies are unlikely to increase significantly in the medium term, Australia would provide a strong business base for these economies when they seek to expand to markets outside Africa.

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IMPLICATIONS FOR BUSINESS AND GOVERNMENT

KEY POINTS

- **Ongoing reforms and rapid growth in Botswana, Kenya, Mozambique, South Africa and Uganda are boosting commercial opportunities for Australian traders and investors in the region. All five economies are open to FDI with few sectors off limits.**

- **Short term trade opportunities are greatest in education, financial and ICT services and elaborately transformed manufactures.**

- **Investment opportunities are strongest in resources, agriculture, vocational training and higher education, financial services, ecotourism and tourism–related training and ICT service provision. Businesses can utilise investment promotion agencies to help expedite investment approval and set-up processes.**

- **Government-to-government links with Southern and East Africa already are significant. AusAID continues to play a modest but constructive role in Africa.**

- **Australian technical assistance and capacity building in negotiation skills already has assisted African countries to participate more effectively in current negotiations, including the Doha Round.**

- **Other opportunities to strengthen government-to-government links may take the form of targeted postgraduate scholarships in key economic and technical disciplines and training to promote public sector reform.**

IMPLICATIONS FOR BUSINESS

Ongoing reforms and rapid growth in Botswana, Kenya, Mozambique, South Africa and Uganda are boosting commercial opportunities for Australian traders and investors in the region. All five economies are open to FDI with few sectors off limits. South Africa's economy and business environment is the most developed, but all five economies are reforming and attempting to increase their attractiveness to business. Hence, Australian businesses could benefit from exploring emerging trade and investment opportunities in these economies.

Sectoral Investment Opportunities

Similarities in the resource endowments and export profiles of the five African economies and Australia may generate significant investment opportunities for Australian resource and agricultural companies. New mining legislation should expand mining opportunities in Southern and East Africa for small and large mining companies and increase demand for mining supplies and services in related activities including consulting, surveying and exploration.

Agriculture and agri-processing are key sectors for Kenya, Mozambique, South Africa and Uganda and all five economies allow foreigners to own or lease agricultural land. Except in South Africa, agricultural productivity is low compared to other major agricultural exporting nations, possibly providing opportunities for agricultural projects utilising modern farming techniques, particularly for export markets. However, barriers to agricultural exports into major developed economy markets, particularly in Europe, are a key constraint on this sector.

All of these economies suffer significant shortages of technically skilled people, but are offering rising incomes for such personnel, generating opportunities in vocational training and higher education services in-country.

Except in South Africa, where financial services already form a significant part of the economy, financial sectors are an increasingly important part of diversification efforts and private sector development. Credit card use is rising rapidly and business and banks have readily adopted technology such as electronic funds transfer. Prospects are good for the provision of niche financial products such as mining and infrastructure finance as well as ICT products applicable to the financial sector. Africa has strong tourist potential, including niches like ecotourism, generating opportunities in travel services and tourism related training. Botswana and South Africa have the most developed ICT infrastructure, providing opportunities for ICT goods and services provision such as system integration services, business process software and Internet-based business system solutions. Less developed networks in Kenya, Mozambique and Uganda present opportunities to invest in more basic information and communications infrastructure.

Businesses would do well to utilise the investment promotion agencies in each economy to help expedite investment approval and set-up processes. Businesses planning on investing in African countries outside South Africa may also want to consider a joint venture with a South African business; South Africa is one of the biggest investors in Africa and the expertise of its firms may be useful.

Trade Opportunities

Although Australia's trade with the five economies is relatively small due to similar export profiles, it is growing strongly. Manufactures are an important part of Australian exports to these economies, although Mozambique imports significant volumes of Australian alumina, South Africa imports large amounts of coking coal and nickel and Kenya imports wheat.

Prospects to increase trade with the Southern and East African economies mainly focus on advanced manufactures and services. Botswana, Kenya, Mozambique, South Africa and Uganda rely heavily on machinery, vehicles and petroleum product imports, although many new and niche products are among each of these economies' fastest growing imports. Major business opportunities include developing new markets for advanced manufacturing technologies as economic growth drives these economies' demand for capital equipment, including telecommunications equipment, motor vehicles, aircraft and aircraft parts, electrical equipment and chemicals. Services opportunities include mining finance, surveying and exploration as Uganda and Mozambique open their mineral reserves to foreign and local investors. Developed mining sectors in Botswana and South Africa already provide markets for Australian exploration, mining related expertise, technologies and related services. Skilled labour shortages offer prospects to supply vocational training and higher education services. As financial services reform deepens throughout the five economies, opportunities should increase to provide supporting financial software and ICT services to banks and other financial institutions. Mobile phones also are spreading rapidly in these economies, offering opportunities in mobile phone enabled ICT services.

Key Business Challenges

Despite the gains achieved in most of the five economies, business needs to be realistic about the challenges. HIV/AIDS and skilled labour shortages are two key long term problems. There are still problems with public administration, especially at lower levels of government. In Kenya, Mozambique and Uganda judicial processes can be slow and frustrating. Crime is an important issue in South Africa. Kenya currently is the focus of the US 'War on Terror' in Sub-Saharan Africa. Outside the capital cities, basic services often are lacking. Investors in Kenya and Uganda are advised to make alternative electricity arrangements because national supplies are unreliable.

IMPLICATIONS FOR GOVERNMENT

Government-to-government links with Southern and East Africa already are significant, although more limited than those in our own region. AusAID, the Australian Government's overseas aid agency, continues to play a modest but constructive role in Africa, recognising that the bulk of Australian aid resources necessarily focus on the Asia Pacific region. Australia has an interest in further efforts to assist reform and development in these economies, through, for example, targeted postgraduate scholarships in key economic and technical disciplines and training to promote public sector reform. Australia also is developing strong links with some of these economies because of shared interests in international trade reform, especially on agriculture.

The Australian Government currently is represented by High Commissions in Kenya, (whose country responsibilities include Uganda), South Africa (whose country responsibilities include Botswana) and Zimbabwe (whose country responsibilities include Mozambique). Austrade has an office in Johannesburg in South Africa. (For more contact details, see *Information for Business* at the end of this report). Government-to-government relations with these countries cover a wide range of issues, from poverty reduction to trade liberalisation.

In 2003-04, Australia's African aid programme targets the Southern and East African economies, selectively engaging with other parts of Africa on a small scale. Australia is expected to donate $25 million in development assistance to African agriculture in the two years to 2005. Most will go to projects aimed at enhancing agricultural competitiveness and strengthening agriculture related institutions, food productivity and food security.

Given the importance of strong economic institutions to African growth, assistance to strengthen these core agencies of government also would be productive. AusAID could encourage targeted training and interaction between staff in relevant Australian Government departments and the African public sector to develop capacity building. Such interaction should aim to support African ministries gain knowledge and experience to promote further reform.

Australia also has provided technical assistance to these and other African economies to help them participate more effectively in the Doha Round. For example, in May 2002, Australian trade officials held a training course in Pretoria, South Africa, for 40 trade officials from 25 African countries. In 2003, senior Australian officials also visited key African capitals, including Cairo (Egypt), Dar es Salaam (Tanzania), Gaborone (Botswana), Kampala (Uganda) and Nairobi (Kenya) to discuss prospects for closer WTO cooperation between the Cairns Group and the African Group and deliver parts of the WTO's Regional Trade Policy Course. Given the importance of trade for the future development of the African region, this is a valuable form of assistance to these African economies.

PROSPECTS

As these five Southern and East African economies continue to liberalise and grow, they should generate business opportunities for Australian traders and investors. Investment inflows from the region to Australia also should continue to grow strongly. While they still face many challenges, ongoing reform should continue to improve business environments and strengthen consumer demand. South Africa will remain the region's major destination for trade and investment, but the other four economies offer significant niche trade and investment prospects for Australian firms, particularly in mining, agri-processing and advanced services. As commercial links with the five economies grow, government-to-government links also are likely to become broader and stronger.

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Lex Africa are a network of legal firms throughout Africa, and provided some of the information in this report.

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