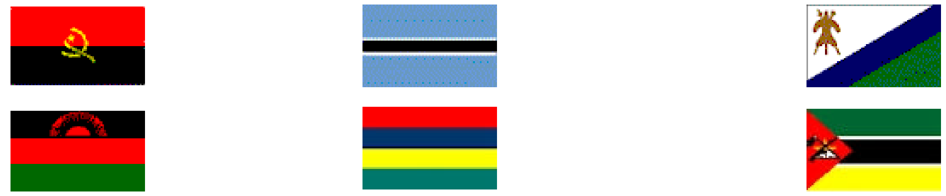
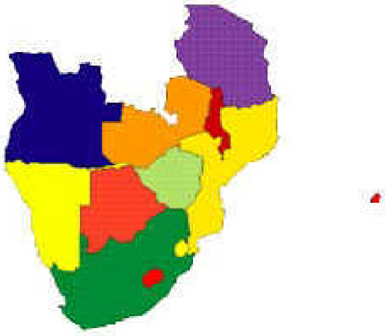


SOUTHERN AFRICA

A New Growth Opportunity



1997 Southern Africa Economic Summit

Harare, Zimbabwe 21-23 May

Prepared by the SADC Finance and Investment Sector Coordinating Unit (FISCU)

Department of Finance - South Africa

Southern Africa - A New Growth Opportunity

ACKNOWLEDGEMENTS

The SADC Finance and Investment Sector Coordinating Unit (FISCU) would like to thank Mr. Chris Liebenberg of Nedcor, South Africa, and Mr. Isaac Takawira of Barclays Bank of Zimbabwe for providing us with the opportunity to assist the Southern African Task Force of the World Economic Forum by producing this document.

Production of the document would not have been possible without the valuable assistance of a number of people.

Firstly we would like to thank the British Overseas Development Administration (ODA) for funding the printing of the document, and Mr. Dennis Dykes and Mr. Magan Mistry of the Economics Unit of Nedcor for providing editorial assistance.

Furthermore, we would like to express appreciation to the staff members of the following institutions who provided data and information: the Stock Exchanges in Botswana, Malawi, Mauritius, Namibia, South Africa, Swaziland, Zambia and Zimbabwe; the Investment Promotion Agencies of the twelve SADC Countries, with special recognition to Malawi Investment Promotion Agency, Swaziland Industrial Development Company, Investment South Africa and Zimbabwe Investment Centre; and the Secretariat of the Committee of Central Bank Governors for the co-ordination of statistical data provided by the Central Banks of the respective countries.

A number of other institutions and consulting firms that provided information, appear in the comprehensive list of sources at the end of the document.

FISCU is grateful to Southern African Marketing Co. Botswana for permitting us to draw upon the publication "The Official SADC Trade, Industry and Investment Review 1997".

Contributors to the document are: Ms Bongi Kunene, Mr. Johann van Tonder, Mr. Phakamani Hadebe, Ms Eva Bursvik, Ms Rosalind Mowatt and Mr. Huntly Pringle of SADC Finance and Investment Sector Coordinating Unit (FISCU) and Mr. Steven Ntambi and Mr. Dick Mhango of Industrial Development Corporation of South Africa. Ms Nolene Scholtz provided secretarial assistance.

Pretoria, May 1997

Southern Africa - A New Growth Opportunity

ABBREVIATIONS

BLNS - Botswana, Lesotho, Namibia, Swaziland
BWP - Botswana Pula
COMESA - Common Market for Eastern and Southern Africa
CMA - Common Monetary Area
CPI - Centro de Promoçcao de Investimentos
EPZ - Export Processing Zone
EU - European Union
GATT - General Agreement on Tariffs and Trade
GDP - Gross Domestic Product
GNP - Gross National Product
GSP - Generalised System of Preferences
GST - General Sales Tax
HDI - Human Development Index
ICSID - International Centre for the Settlement of Investment Disputes
IDC - Investment Development Corporation (South Africa)
IFZ - Industrial Free Zone
IMF - International Monetary Fund
JSE - Johannesburg Stock Exchange
LNDC - Lesotho National Development Corporation
LSM - Lesotho Maloti
LuSE - Lusaka Stock Exchange
MEDIA - Mauritius Export Development and Investment Authority
MIGA - Multilateral Investment Guarantee Agency
MIPA - Malawi Investment Promotion Agency
MT - Mozambique Metical
MUR - Mauritian Rupees
MWK - Malawi Kwacha
NAD - Namibian Dollars
NKZ - Angolan New Kwanza
OPIC - Overseas Private Investment Corporation
RBM - Reserve Bank of Malawi
SAA - South African Airways
SACU - Southern African Customs Union
SIDC - Swaziland Industrial Development Company Ltd
STC - State Trading Corporation
SZL - Swaziland Emalangeni
TAZARA - Tanzania-Zambia Railway Authority
TIPA - Trade and Investment Promotion Agency (Botswana)
TSH - Tanzania Shilling
UNCITRAL - United Nations Commission on International Trade and Arbitration Law
UNDP - United Nations Development Programme
USD - US Dollar
VAT - Value Added Tax
WTO -World Trade Organisation
ZCCM - Zambia Consolidated Copper Mines
ZK - Zambian Kwacha
ZSE - Zimbabwe Stock Exchange
ZWD - Zimbabwe Dollar

Southern Africa - A New Growth Opportunity

FOREWORD

This is the first survey of economic policies and initiatives, investment climates and opportunities in the Southern Africa region conducted by the South Africa-based Finance and Investment Sector Coordinating Unit of SADC. Its compilation and production is a considerable achievement in itself in the context of South Africa's fairly recent entry into SADC's regional economic integration programme.

This decade has witnessed far reaching changes in Southern Africa. In several countries we have seen transition from civil war, strife and conflict to multiparty democracy, peace and stability.

Policy Reform

Policy reform and adjustment characterises the economies of the region. Reform processes include the deregulation of prices, partial and, in some cases, complete removal of exchange controls, and the restructuring and privatisation of state enterprises.

Although the overwhelming debt burden that faces developing countries is ever present, there are definite reasons for optimism in the SADC region. For the past two years at least ten countries have maintained programmes within a framework of fiscal and monetary rectitude. This is evidenced by continually declining inflation rates at levels below 20% and positive economic growth levels. The challenge lies in ensuring that economic growth is translated into employment.

Regional Integration

Regional integration efforts received a new level of commitment in August 1996 when SADC member states signed, among others, a Trade Protocol. The Protocol is rooted in the principle that an integrated regional market will create new opportunities for a dynamic private sector. The Protocol has four main elements, namely:

- The simplification of trade procedures to facilitate and promote trade,
- The elimination of tariffs and non-tariff barriers,
- The promotion of industrial development and diversification, and,
- The provision of safeguard measures and exceptions for special cases.

The success of the Protocol is already being seen in high level consultations among the region's policy makers.

Trade and Investment Opportunities

Individual SADC member states offer different trade and investment opportunities. When grouped together, these opportunities are compounded. The region presents a wide range of clusters of opportunity, ranging from metal and mineral resources, to competitive industrial and technological possibilities. However, it also faces a challenge similar to that of other developing nations - that is, the need to break free from volatile primary commodity cycles by moving up the value added chain.

This publication seeks to show that there are good reasons for confidence in this region; that achievements have been made in the regulatory environment; that the region has begun to create a propitious climate for investment, and that the region's institutional, physical and economic environment is adapting to world realities. Forthcoming policy choices will undoubtedly be trying, and there are no expectations of instant results. However, our lucidity, determination and realism enable us to share the conviction that current developments will change the face of the region for the better. In the meantime, the foundations for growth and prosperity are being laid, and brand new avenues for doing business are being opened, whilst there is growing evidence that global investors are overcoming their reservations and seriously categorising the region as a viable investment destination. Given its natural advantages and the new policy environment, Southern Africa is a region worth serious consideration. This publication will be an important tool in that process.

TREVOR MANUEL
Chairman
SADC Ministers responsible for Finance and Investment

Southern Africa - A New Growth Opportunity

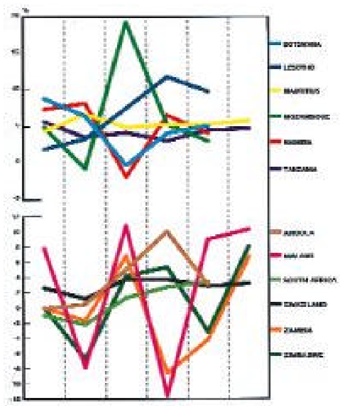
INTRODUCTION

The purpose of this publication is to provide an economic background of the Southern African Development Community (SADC) member states. It has been observed that while a number of investors regard the region as a viable investment destination, there is still insufficient information about investment opportunities, investment climate, regulatory framework, the process of privatisation, and the general macroeconomic information about SADC. While this is not an exhaustive coverage of SADC economic issues, it is nevertheless an initial attempt to address some of the major issues.

The political situation in SADC economies have remained stable for a number of years. In Angola, a government of national unity and reconstruction was inaugurated in April 1997. Thus, while the Southern African region was characterised by civil war and instability in the past, the situation has now changed markedly for all countries. Investor perception of political risk in Africa is mainly understood to refer to exchange controls, changes in taxation and trade policy, disruption in the banking system including moratorium or suspension of payments, civil disturbances and/or war, and nationalisation. SADC member states are in the process of addressing all these concerns. Individually, they have adopted a set of pragmatic policies aimed at fostering development, sustaining the prevailing peace, and increasing growth.

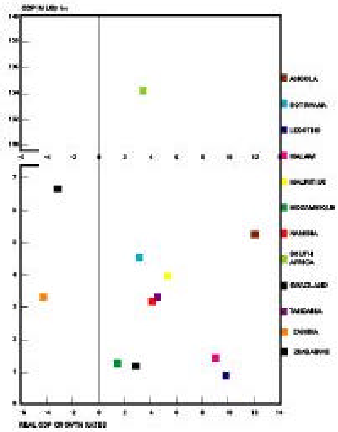
Macro-economic Highlights

REAL GROSS DOMESTIC PRODUCT GROWTH RATES 1991-1996

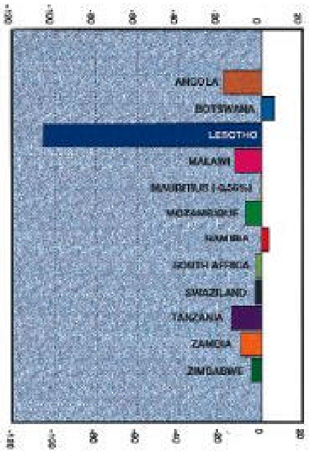


The period 1991 to 1996 produced noticeable differences for a number of countries. While it may be observed that GDP grew steadily for a number of countries, sharp fluctuations were observed in Angola, Malawi, Mozambique, Zimbabwe and Zambia. The reasons for the fluctuations are diverse but political changes, redirection of policies, climatic conditions, commodity price movements and aid inflows account for some of the observed phenomena. The improved position in GDP growth rates started consolidating in 1995. At that stage political conditions were particularly favourable; South Africa had democratic elections in 1994 followed by Malawi in 1995 and Angola had negotiated a peace accord.

GROSS DOMESTIC PRODUCT GROWTH RATES 1995



CURRENT ACCOUNT OF BALANCE OF PAYMENTS AS PERCENTAGE OF GDP: 1995

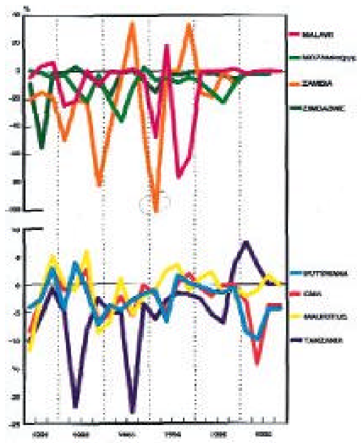


Percentage

Constraints in the current account of the balance of payments have been observed. However, some SADC countries have had current account surpluses. Foreign exchange reserves have continued to strengthen for all SADC countries, with import cover varying from as high as forty three months in Botswana (1995) to ten weeks in some countries.

AVERAGE EXCHANGE RATE TO US$

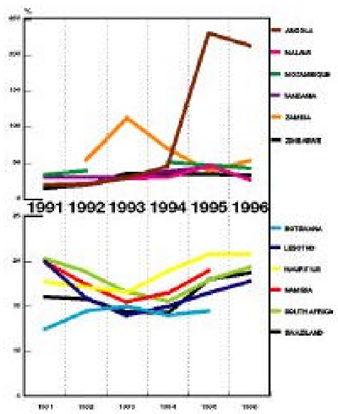
Quarter-on-quarter change



On average, exchange rates have not fluctuated excessively compared to the US Dollar. However, notable fluctuations have occurred over a five year period between the USD and the Tanzanian Shilling and between the USD and the Zambian Kwacha. From February 1996 to March 1997, the South African Rand (ZAR) depreciated by at least 20 percent to the US Dollar. Because of the common external value between the Rand and other currencies in the Common Monetary Area (CMA), the external shock to the Rand was transferred to other currencies. It is significant to note that even though other regional currencies are not pegged to the Rand, the effect of depreciation of the Rand extended beyond the CMA. Notwithstanding the situation in South Africa, other SADC economies demonstrated remarkable stability in their currencies when compared to a basket of international currencies. A case in point is Mozambique where 1996 exchange rate figures show less than 5 percent depreciation against the US Dollar.

PRIME LENDING RATES

Annual averages

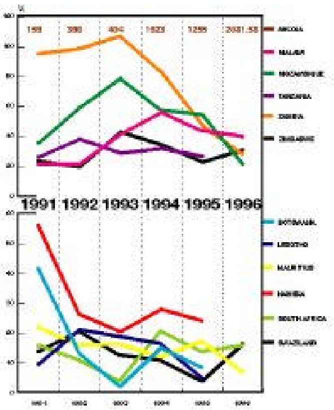


The pace of financial deregulation has varied in the region. For South Africa, other CMA countries and Mauritius, the process began in the 1980s. The effect of deregulation over time is reflected by somewhat stable prime lending rates and the ability to meet set M2 targets.

Money supply figures for the past five years attest to the change in the management of monetary policy in most SADC countries.

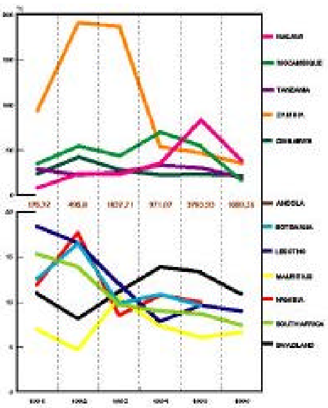
M2 MONEY SUPPLY

Annual percentage change



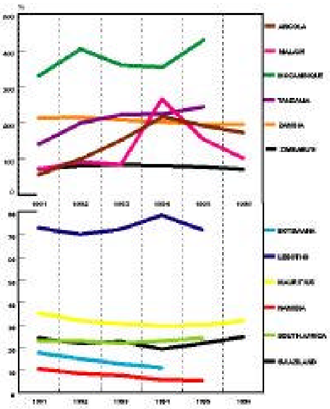
Another measure of success of monetary policy in SADC has been inflation control. Whereas double digit inflation rates were previously the norm, economic policy redirection has seen central banks devoting considerable effort to inflation control. The results show that with consistent application, desirable outcomes can be achieved. In 1996, six SADC economies had inflation rates of less than 10 percent while at least four had inflation rates of less than 20 percent by January 1997.

INFLATION RATES



The commitment to prudent fiscal policies within SADC is part of the management of structural adjustment programmes, where this applies, whereas for non-adjusting countries it is a self-driven process to curtail budget deficits. With the excep-tion of Zimbabwe and Swaziland, ten SADC economies had budget deficits as a percentage of gross domestic product of less than 6 percent in 1995. For the 1996/7 fiscal year, Tanzania and Malawi had been working on a cash budget. While it is still too early to quantify the success of this method of budgeting, it does signify a willingness to adhere to fiscal discipline.

TOTAL EXTERNAL DEBT AS PERCENTAGE OF GROSS DOMESTIC PRODUCT



Southern Africa shares the same debt constraints with other developing economies. However, it is a major achievement that Lesotho, Mauritius, Namibia, South Africa, and Swaziland have very low external debt levels. In fact, regional co-operation on debt issues was recently demonstrated in March 1997 when South Africa cancelled Namibia's debt worth ZAR1.2 billion (approximately USD290m). That makes Namibia one of the lowest indebted countries of the region.

State of Infrastructure

The Southern African region has several infrastructural sectors. Previously, the trend had been that the financing and maintenance of infrastructure was undertaken by government. However, it has become evident that the region needs to change in order to harness opportunities provided by the private infrastructure finance revolution. A number of project feasibility studies have been undertaken with the intention of using private sector funding. These projects are in the transport, energy, telecommunication and water sectors.

Transport

The Maputo Corridor is one of the spatial development initiatives that deserves particular mention. Its success will create several opportunities for developments in other sectors. Other corridors like the Beira and Nacala are in progress. For SADC it has become important to shift from the idea of transport corridors to development corridors as development corridors are characterised by strong political commitment, public-private partnership, and desirable crowding-in effect on investment. Other potential development corridors in SADC include the Malanje, the Benguela, and the Namib, in Angola; the Trans-Kalahari, in Namibia and Botswana; and the Tazara, in Tanzania and Zambia.

Electricity

Southern Africa has the potential to be one of the world's most efficient energy users. In 1996 SADC signed a protocol on energy, thereby establishing a power grid within SADC that also include a non-SADC member, Zaire. To date, the provision of electricity in Southern Africa has been somewhat unsatisfactory even by developing countries' standards. Furthermore, tariffs have also been highly subsidised. Most of the electricity utilities in the region are therefore being restructured with the aim of privatisation in the near future.

Water

The adoption of structural reform by many countries in the region has diminished the capacity of governments to finance required expansion and to improve development infrastructure. This has been particularly evident with respect to new water supply schemes. Multilateral and bilateral donors are increasingly adamant about the need for a comprehensive approach to the management and development of water resources before committing financial support to projects that borrowing countries either cannot pay for, or which may be indefinitely postponed through a more robust recourse to economic pricing and or conservation measures.

Given the continuing vulnerability of the economies in the region to drought and water scarcity, potential investors that require assured access to water resources will therefore attach a higher risk rating to those countries that either lack the will or the capacity to plan and execute policies and programmes aimed at decreasing this vulnerability.

The recent decision by SADC member states to initiate a Water Sector Round Table Process aimed at the adoption of policies and strategies that will lead to an integrated water resource planning and development, indicates a growing awareness of the need to limit national vulnerability to drought in order to foster investment and regional economic integration and development.

Telecommunications

The region has viable telecommunication links with the rest of the world. However, in terms of availability and quality, the service needs upgrading. Botswana, Namibia, South Africa and Swaziland have comparable levels of telecommunication penetration to other developing countries. In the telecommunication sector, private investment flows have tended to concentrate on the provision of cellular phone networks. The scope for growth in this industry is considerable. Countries that have cellular phone systems have demonstrated that even though the cost per call is significantly higher than the conventional commercial charges, the demand for cellular phones is nevertheless still high.

Finance

SADC member states have moved from a period of heavy financial sector regulation in the 1980s to deregulation and alignment with best international banking practices. Central banks now perform purely central banking functions. Regional co-operation in central banking elicits high level support through the SADC Committee of Central Bank Governors. This committee has, among others, worked on the development and maintenance of a SADC finance and economics statistical database, the development of a data bank on SADC central bank structures and policies, and the development of a payment, settlement and clearing system.

Commercial banks function mostly as deposit taking institutions. Developments in the banking sector within the region are encouraging; SADC countries have managed to attract a number of international banks.

Developments in the capital markets of the region have been slow and varied. There are eight stock exchanges in the region with the Zimbabwe Stock Exchange and the Johannesburg Stock Exchange being the largest. About 82 percent of regional insurance and reinsurance business is conducted in South Africa. The scope for growth in the insurance industry is therefore considerable.

Concluding Statement

Economic profiles, the investment climate and opportunities in each of the SADC member states are presented in this publication. The projects presented are either current or in the feasibility phase. The region is seeking direct investment; non-equity ties in the form of distribution, franchising, licensing, trademark and technological agreements; and investment in property, plant, and equipment. In conclusion, a few positive aspects need to be emphasized in respect of infrastructure; the region has high growth potential, investment in infrastructure is essential in furthering economic development, and there are compelling economic reasons for countries to support private investment. There are inherent advantages for industries that are being privatised, especially where these industries are located in a protected market and where earnings have shown sustainable growth levels. For investors in agro-industry, there are further advantages that the region offers such as a competitive advantage arising from low cost production. It is hoped that the information contained in this document will serve as a useful guide to investors wishing to explore the regions growth opportunities.

Southern Africa - A New Growth Opportunity

SADC ECONOMIES IN A WORLD CONTEXT

World economic growth accelerated during 1996, and is expected to increase to 4.5 percent in 1997. Economic growth in advanced economies is expected to firm to 2.8 percent in 1997, and to about 3.0 percent in 1998. Developing countries experienced growth in output of approximately 6.5 percent in 1996, and this is expected to grow at the same rate in 1997. The 5 percent expansion in Africa during 1996 was the best performance in two decades, and a 4.5 percent growth rate is expected for 1997. The SADC region continued its good performance over the past few years and this trend is expected to persist during 1997 and 1998. All member countries registered positive real growth in 1996, ranging from 3 percent to 14 percent. Eight of the twelve countries recorded real growth rates of 5 percent or higher, which reflects continued strong activity, especially in the primary products and manufacturing sectors. Output in the economies in transition is expected to increase by 3 percent in 1997.

According to the recent World Economic Outlook of the International Monetary Fund, conditions are conducive for global expansion to continue, and there seem to be few signs of the tensions and imbalances that could result in a down-turn in the business cycle. In this respect, global inflation remains subdued, fiscal imbalances are being addressed, which could assist in containing real long-term interest rates and foster higher investment. Exchange rates among the major currencies appear consistent with broad policy objectives.

Within the above context, structural reforms, especially in the SADC economies, are enhancing the role of market forces. With the assistance of economic reform programmes backed by the International Monetary Fund, the World Bank and the international donor community, SADC countries have persisted with their commitment to building a track record based on the implementation of policies conducive to stabilisation and growth. Macro-economic stability has largely been achieved, with inflation being reduced in all countries during 1996.

The performance of SADC countries on delivering on their promises to reduce fiscal deficits to affordable levels, has been consistent. Deficits have been reduced in most countries and the increases experienced in some countries were mainly due to increased capital and socio-economic expenditure. Though the total debt situation is still an area of some concern, the situation is improving with a number of countries to benefit from debt reduction and rescheduling activities, as well as from the multilateral debt initiative of the World Bank and IMF.

The process of world trade integration continues to gain momentum and deepen. SADC economies have also opened up, with the reduction of tariffs and attempts to remove trade barriers. Financial liberalisation has been undertaken on a growing basis, with many economies abolishing foreign exchange controls and others moving closer to total liberalisation. Overall balance of payments positions have also improved in almost all countries. Though donor aid flows accounted for a large portion of the capital inflows in some countries, capital inflows from other sources are beginning to assume significance. Foreign exchange reserves in countries undergoing reform also improved. Previously stressed economies had sufficient foreign exchange reserves available to fulfil their foreign commitments.

The role of the state in the economy is also changing through deregulation and the promotion of private sector activities. Privatisation in the SADC region has gained momentum with many state owned enterprises having been, or in the process of being privatised or restructured. Whereas all SADC economies made progress in this area, the Zambian economy deserves a special mention. More information on the successes of privatisation in Zambia may be found in the country profile section.

Possible Economic Risks to be Monitored

Despite the positive outlook outlined above, contrasts in economic performance across countries and regions have become more profound in recent years. These differences will need to be carefully monitored and managed as they pose several risks to the SADC economies. In Europe, the trend of de-industrialisation with resultant unemployment in the manufacturing sector is still continuing. Unemployment and weak growth rates in the European Union will make it difficult for members to meet fiscal deficit targets associated with monetary union. In the United States, a correction of prices, possibly as a result of overvaluation on the stock exchange coupled with inflationary pressures, could slow the growth rate.

In the face of the above trend, developing countries with high interest rates may attract investors seeking higher profits. Risk averse investors however, basing their decisions mainly on the stability of an economy, will still choose to invest in the traditional target economies in Europe and the US. Thus, there is a possible risk to SADC member states who, despite strong growth rates, liberalised economies and positive interest rates, may not be able to attract conservative investors. Institutional risks within SADC include the weakness of the banking system, particularly in economies in transition, who may not be able to deal with significant exposures to foreign exchange risks, and administrative barriers to investment.

These potential risks, however, also provide opportunities in some instances. For example, de-industrialisation in the manufacturing sector in advanced economies provides opportunities for investment in developing countries. SADC countries are in the process of industrialisation, with manufacturing levels improving. Technology in advanced economies could assist in improving the productivity level of value-added manufacturing in the SADC region and thus expedite the industrialisation process. Improved economic and political performances of the SADC region occurred against a backdrop of marginal capital inflows; accordingly, the opportunity appears to exist for foreign investments to further contribute to the industrialisation process, thereby realising improved growth in these economies.

With regard to country risks, Euromoney's recent biannual survey of country creditworthiness indicates that sub-Saharan Africa performance is improving. Respondents to the survey testify to a general optimism in the region, where SADC countries in particular have improved their 1997 country risk ratings markedly. In contrast, other emerging economies have suffered drawbacks.

Globalism and its Challenges

The benefits of a favourable economic environment will not automatically accrue to each country or region. The uneven performances of economies and the uneven distribution of rewards within them, are frequently linked to globalism **-** the rapid integration of economies worldwide through trade, financial flows, technology spillovers, information networks and cross-cultural currents. Globalism is not a zero-sum game with some economies winning at the expense of living standards and employment elsewhere. History shows that the pressures of globalisation have accentuated the benefits of good policies and the costs of bad policies. If policies are adapted to meet the requirements of integrated and competitive world markets, countries should be able to develop and build on their comparative advantages, and thus enhance their respective long-term growth potentials.

It is interesting to note that, in response to the challenges posed by globalism, developing countries have not only increased their share in world trade from 23 percent in 1985 to 29 percent in 1995, but they have also deepened and diversified their trade linkages. In terms of net private capital flows, developing countries attracted flows of almost USD 200 billion in 1996. Africa, however, has not shared in the successes to the same degree experienced by other developing countries such as Asian and Latin-American countries in terms of world trade and net private flows. It is worthwhile to note, however, that the situation has not been over-whelmingly negative for Southern Africa.

An analysis of economic policies implemented by developing countries demonstrates that those countries that have implemented sound policy packages in an environment of macro-economic stability have performed best. Though good policies do not translate directly into increased capital and trade flows, the implementation thereof will provide an environment for the attraction of capital, and participation in tradable goods and services. A package of policies which is mutually reinforcing and aimed at promoting macro-economic stability, good governance, reducing the state's share in enterprises and the economy, financial liberalisation, opening-up the economy, investment in human resources and reducing population growth seem to have yielded the best results in terms of the economic performance of developing countries.

Within the SADC region, member states are on track in building and maintaining political stability, and implementing the "required" set of policies in order to participate in the benefits of globalisation. This is demonstrated by the improved economic performances of the individual countries, and the Southern African region as a whole in recent years. The improvements have occurred despite the lack of sustained foreign investment into the bulk of the twelve member countries.

Apart from country policies, the SADC region is also addressing the challenges of globalism through an approach based on regionalism. Progress on the latter is demonstrated by the signing of several legally binding SADC protocols during 1996, which are aimed at promoting regional integration and socio-economic development. Some important protocols signed in 1996 are on transport, shared watercourse resource systems, energy (power pool), trade, and combating illicit drug trafficking. The conclusion of the protocol on drug trafficking is especially encouraging in light of the region joining forces on law enforcement to rid their economies of a wide range of crimes. Currently the SADC Finance and Investment Sector is working on a project that will result in a Protocol to Combat Money Laundering.

Against the background of improved economic performances, the SADC region, with its richness in minerals, growing manufacturing sector, fertile ground, relatively well developed construction sectors, tourism attractions, improving financial sector, and infrastructure, presents investors with new opportunities which could enhance the diversification of economies and economic performances even further.

Investments in the SADC Region Through Some Multilateral Institutions.

Credible and well known institutions such as the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), Commonwealth Development Corporation (CDC) and many others have already made and facilitated a large number of investments in the SADC region.

Investments by IFC

The IFC has during the course of 1996 provided technical assistance to a number of countries aimed at improving the private sector environment. Botswana benefited through technical assistance on capital market development. Mozambique also received assistance on capital market development, as well as improvements of a cement plant, and improvement of the short-term private investment environment. A review of barriers was undertaken in Namibia to improve private investment, South Africa was assisted through the structuring and placement of a private equity fund, and in addition to assistance in the initial privatisation of the national air freight carrier and an assessment on a multi-purpose irrigation dam, Zimbabwe's capital market was developed further through assistance on unit trust legislation and the legal framework for and modernisation of the stock exchange.

Investment Facilitated by MIGA

As per the MIGA 1996 Annual Report, the institution provided guarantees that facilitated two investments to the SADC region. Tanzania benefited through an investment by a UK company to establish a satellite communications link to transmit data to and from overseas locations. The project is expected to have an important impact on Tanzania's economy by facilitating access to data communications to business and local and foreign individuals. Another guarantee was provided to Habib Bank to finance a new commercial branch bank in South Africa. The bank will concentrate on trade finance activities, particularly for small and medium size companies.

Investments by CDC

During 1995, CDC experienced a successful year with regard to new investments in sub-Saharan Africa. The most notable success was the revival of CDC's new business in sub-Saharan Africa, which increased from GBP41m in 1994 to GBP153m in 1995. The SADC region also benefited from CDC investments.

During 1996, the CDC and the Commonwealth Secretariat also established an investment fund, COMAFIN, for African member states of the Commonwealth. COMAFIN will provide long-term risk capital for equity investments in commercial enterprises. Its shareholders are drawn from government investment agencies in Asia and Southern Africa which, together with CDC, have already committed in excess of USD50m to the fund.

Southern Africa - A New Growth Opportunity

LIST OF SOURCES

Sources containing information for more than one country

Africa Financing Review (1997), March, London.

The Banker (1996), December, London.

Commonwealth Development Corporation, *Report and Accounts* 1995 and 1996.

Deloitte Touche Tohmatsu International (1995) *Taxation in Sub-Saharan Africa.*

Euromoney (1997), March, London.

FISCU (1996) *Annual Report*.

FISCU Information Base on SADC Countries.

IMF (1997) *World Economic Outlook*, April.

IMF (1997) *International Financial Statistics*, January - April.

IMF (1996) *Exchange Arrangements and Exchange Restrictions*.

IMF (1996) *International Financial Statistics: Yearbook*.

IMF (1997) *International Financial Statistics*, April.

International Finance Corporation, *Annual Report*, 1996.

KPMG (1996) *Banking Survey 1996*, South Africa, June.

Secretariat of the Committee of Central Bank Governors in SADC (1997), *SADC Financial Systems, Structures, Policies and Markets*, March.

Secretariat of the Committee of Central Bank Governors in SADC (1997), *Statistical Tables and Graphs of SADC Countries*, March.

South African Reserve Bank, SADC Database.

Southern African Marketing Company (Pty) Ltd (1997), *The Official SADC Trade, Industry and Investment Review*.

Standard Bank Group (1997) *Africa in Numbers*, February.

UNDP (1996) *Human Development Report 1996*.

World Bank (1996) *World Development Report 1996.*

Angola

Aguilar, R. and Stenman A. (1996) Angola 1996: *Hyper-Inflation,*

Confusion and Political Crisis, Swedish International Development Co-operation Agency (Sida), November.

Aguilar R. and Stenman A. (1995) *Angola 1995: Let's Try Again*, SIDA, June.

Banco Nacional de Angola (1997) *Recent Economic and Financial Developments in Angola*, March.

Projectos de Consultoria Austral (1997)[1] April.

Projectos de Consultoria Austral (1996) *Time-Out*, March.

Made in SADC: Networking Trade and Investment (1997) (http://www.sadcexpo.org/angola.html)

MIGA (1995) "Fiscal Regimes" (http://www.sadcexpo.org/angola.html), October.

Botswana

Bank of Botswana (1997) *Recent Developments in the Botswana Economy*, March.

Botswana Development Corporation (1996) *Investment Guide to Botswana*, TA Publications Botswana, July.

Ministry of Commerce and Industry (1996) *Botswana Review of Commerce and Industry*, B & T Directories.

Stockbrokers Botswana Ltd (1997) Gaborone, March.[1]

TIPA (1996) *Botswana: A Land of Opportunity*, Media Communications.

Lesotho

AC Braby (Lesotho) (1996) *Lesotho '96: A Review of Commerce and Industry*.

Central Bank of Lesotho (1997) *Recent Economic Developments in Lesotho*, February.

LNDC *Investors Guide.*

LNDC (1989) *Investment Guide to Lesotho*.

LNDC (1997), March.[1]

Malawi

MIPA (1997)[1], March.

Malawi Stock Exchange (1997), Blantyre, March.[1]

Reserve Bank of Malawi (1997) *Recent Economic Developments in Malawi*, March.

Reserve Bank of Malawi Financial and Economic Review.

Made in SADC. Networking Trade and Investment (1997)

(http://www.sadcexpo.org/malawi.html).

Mauritius

Bank of Mauritius (1997) Mauritius - *A Perspective of Recent Economic and Financial Developments*, February.

Coopers & Lybrand (1996) *Mauritius: A Guide for Businessmen and Investors*, March.

Mauritius Offshore Business Activities Authority (1992) *Mauritius: The Emerging Offshore Business Centre*, March.

MEDIA *Mauritius: Your Profit Centre.*

Stock Exchange of Mauritius (1997), April, Port Louis.[1]

Sunday Times (1997) March 2.

Mozambique

Bank of Mozambique (1996) *Recent Macro-economic Developments*, November.

CPI (1993) *Legislation on Investment in Mozambique*, June.

CPI (1996) *Investment Opportunities in Mozambique*.

Coopers & Lybrand (1997), April.[1]

International Finance Corporation, the Directorate General for Development Cooperation and the Foreign Investment Advisory Service (1996) *Mozambique: Administrative Barriers to Investment*, November.

Made in SADC. Networking Trade and Investment (1997) (http://www.sadcexpo.org/mozambique.html).

Ministry of Industry, Commerce and Tourism (1996) *Second Private Sector Conference in Mozambique*, June.

Monika Branks Consulting cc (1997), May.[1]

Namibia

Bank of Namibia (1997) *Recent Economic and Financial Developments in Namibia*, March.

Century House Information (1995) "Namibia: An Objective Study of Investment Conditions," *Corporate Location*.

Coopers & Lybrand (1995) *Doing Business in Namibia.*

Coopers & Lybrand (1996) *Tax News Namibia*, October.

Ministry of Trade and Industry (1995) *Special Incentives for Manufacturers and Exporters*, September.

Namibia Investment Centre (1996) *Business Guide to Namibia*, November.

Namibian Stock Exchange, Windhoek, March.[1]

Republic of Namibia (1996) *Namibia's Export Processing Zone Programme*, February.

South Africa

Budget Speech (1997), Ministry of Finance, March.

Department of Finance, *Growth, Employment and Redistribution: A Macro-Economic Strategy Appendices*.

Department of Trade and Industry (1997), March.[1]

Ernst & Young (1996) *Investing in South Africa*, November.

IDC *Current and Proposed Capital Projects in South Africa, Jan 1996-Dec 1996*.

Investment Development Corporation (1997) *Capital Projects and Investment Opportunities in Southern Africa.*

Investment South Africa (1997), March.[1]

Johannesburg Stock Exchange (1997), April.[1]

Minister of Finance and Governor of the SA Reserve Bank (1997) *Statement on Exchange Control*, March.

South African Reserve Bank (1997) *South Africa - Recent Economic Developments*, March.

Vodacom (1997), April.[1]

Swaziland

Barclays Bank of Swaziland (1996) *Barclays Business Guide to Swaziland*, March.

Budget Speech (1997) Ministry of Finance, March.

Central Bank of Swaziland (1997) *Recent Economic Developments in Swaziland*, March.

Central Bank of Swaziland (1994) *Export Credit Finance Scheme Information Brochure*.

Central Bank of Swaziland (1994) *A Simple Guide to Exchange Control in Swaziland*, December.

Christina Forsyth Thompson (1997) *Swaziland Business Year Book, A Commercial Guide.*

Fisher Hoffman Sithole (1995) *Swaziland Tax Guide*, August.

Ministry of Commerce and Industry (1995) *Invest in the Kingdom of Swaziland. A Guide for Investors and Businessmen*.

Ministry of Commerce and Industry (Trade Promotion Unit) (1995), *Swaziland Directory of Exports and Exporters 1995-1997*.

SIDC (1997), March.[1]

SIDC (1996) *Comparative Investment Incentives.*

SIDC (1995) *Business Report*, June.

Swaziland Stockbrokers Limited (1997), Mbabane, April.[1]

Tanzania

Bank of Tanzania (1997) *Tanzania: Recent Economic Developments*, March.

Tanzania Revenue Authority (TRA), *Income Tax Act, 1973 and the Finance Bill, 1996*.

Zanzibar Investment Promotion Agency (1997), March.[1]

Zambia

Bank of Zambia (1997) *Zambia: Recent Economic and Financial Developments*, March.

Export Board of Zambia (1997) "Trade Regulations" (http://www.zamnet.zm), April.

Lusaka Stock Exchange (1997) "Review of 1994 and 1995 Stockmarket Performance" (http://www.zamnet.zm), April.

Lusaka Stock Exchange (1997) "Background to the Lusaka Stock Exchange (LuSE)" (http://www.zamnet.zm), April

Zambia Investment Centre (1997), April.[1]

Zambia Investment Centre (1997) "Why Invest in Zambia" (http://www.zamnet.zm), April.

Zambia Investment Centre (1997) "Investment Guarantees" (http://www.zamnet.zm), April.

Zambia Privatisation Agency (1997) "Summary: Privatisation Report" (http://www.zamnet.zm), April

Zamnet (1997) internet: http://www.zamnet.zm, April.

Zimbabwe

Coopers & Lybrand (1997) Zimbabwe: *A Guide to Business and Investment*, March.

Reserve Bank of Zimbabwe, *Recent Economic and Financial Developments in Zimbabwe*, February 1997.

Zimbabwe Investment Centre (1994) *Investing in Zimbabwe*, December.

Zimbabwe Investment Centre (1995) *Incentives for Local Investors*, August.

Zimbabwe Investment Centre *"Promoting Investment for Growth"*.

Zimbabwe Investment Centre (1997), Harare, April.[1]

Zimbabwe Stock Exchange (1997), Harare, April.[1]

1Faxed response to questions asked by authors.

Southern Africa - A New Growth Opportunity

ANGOLA

The Marginal, Luanda.

GENERAL INFORMATION

Geography and Population

The Republic of Angola covers about 1.2 million km^2 in the western region of Southern Africa. Its capital city is Luanda. Portuguese is the official language, but Umbundu, Kimbundu, Kikongo, Tchokwe and Ovambo are also spoken. The population of Angola was estimated at 11.6 million in 1996, of which 45 percent are below the age of 15. The population growth rate is currently about 2.7 percent per year.

Angola's ranking according to the human development index (HDI)[1] is 165 out of 174 countries - this falls into the low human development range and is a lower ranking than all the other SADC countries, with the exception of Mozambique.

Sectoral Descriptions

The civil war, after independence in 1975, had a devastating effect on the Angolan economy.

Before independence Angola was self-sufficient in all crops except wheat. Subsequently, the country has had to rely heavily on imports and food aid. State-owned farming enterprises were largely unsuccessful and both the coffee and the sugar industry have all but disappeared. Under the new dispensation however, the privatisation of farms has begun and British company Lonrho has bought privatised sugar estates in the hope of reviving production.

Natural forests which have yet to be exploited, as well as plantations of eucalyptus, cypress and pine which once formed the basis of a small export industry, add to a rich agricultural heritage. Since 1975, timber production has fallen dramatically and there are now nearly 150,000 hectares of eucalyptus, cypress and pine plantations waiting to be rehabilitated.

The Atlantic coastline is rich in shellfish and a variety of other fish species, and the fishing industry prospered in the south western provinces prior to independence. An attempt is currently being made to rehabilitate and modernise the domestic fishing industry.

The Angolan economy is heavily dependent on its oil resources, with the oil industry accounting for 54.5 percent of GDP and providing 83.5 percent of government revenue. In recent years, production has been close to full capacity.

Angola has vast mineral resources, including deposits of diamonds, iron ore, gold, phosphates, manganese, copper, lead, zinc, tin, tungsten, vanadium, titanium, chromium, beryl, kaolin, quartz, gypsum, marble and black granite. To date, very few of these deposits have been assessed. The government recently instituted a policy framework on mining, which it hopes will encourage a revival of the sector, through both local and foreign investment.

There are large gaps for investors in many areas of industrial activity, and production is well below capacity - this sector was also devastated by war and the departure of the Portuguese. Existing industries include the manufacture of consumer goods, the processing of local agricultural raw materials, oil refining, metal working, cement production, textiles, and pharmaceutical production.

While there is great potential for Angola to become a popular tourist destination because of its geographical variety, the development of tourism is nevertheless still in its infancy.

Infrastructure

According to the UNDP's Human Development Report (1996), an estimated 32 percent of Angolans have access to safe water and 16 percent have adequate sanitation facilities.

Angola has an installed capacity for meeting the electricty demands. However, most of its operational assets are non-functional due to the war.

Both Angola's road and its railway network are in need of extensive rehabilitation - many of the roads are mined and at least 200 bridges have been destroyed or damaged as a result of the war. This rehabilitation is a major priority of the government's Public Investment Programme, and aid has started to come in from foreign sources for this purpose. Angola's ports have the potential to improve foreign trade for its landlocked neighbours, improvements in efficiency will first need to be made. The country has many airports and airfields.

Telecommunications require an extensive upgrading - in most parts of Luanda the telephone exchanges are overloaded and connection can be difficult. Most companies, interna-tional organisations, NGOs and government institutions supplement existing telephonic connections with VHF radio communications.

ECONOMIC OVERVIEW

Introduction

Economic weaknesses such as a lack of adequately trained personnel and the absence of sound economic policies, resulted in a severe loss of economic capacity after independence. The agricultural sector, once an important player in the economy, was also devastated by the war. Since independence, the only sector which has expanded has been the oil sector, even though Angola was once the fourth largest producer of diamonds in the world, had a sizeable iron ore mining industry and a thriving manufacturing sector.

The country has the potential to become one of the most important nations in the SADC region, if the peace process continues. But rehabilitation of the economy will be a massive task, involving macroeconomic discipline, institutional reform, credit and financial system restructuring, foreign investment incentives and investment in infrastructure.

Recent Macroeconomic Developments

Since the resumption of the civil war in 1992, economic performance was mainly hampered by high levels of money supply and inflation, economic controls, damaged infra-structure and the lack of productive performance by the non-oil economic sectors. However, with the prospects for peace increasing and the establishment of a Government of National Unity and Reconstruction, conditions have improved to the level where the government has embarked on a new economic stabilisation programme (the "Nova Vida") during July 1996, constituting the first step in negotiating an assistance programme with the International Monetary Fund (IMF) during the course of 1997.

The purpose of the Nova Vida is to achieve macroeconomic stabilisation and to reduce inflation through various measures directed at rendering the economy free from controls and thus responsive to the market. These measures, amongst others, include the transferral of commercial banking functions from the Central Bank (Banco Naçional de Angola) to a new parastatal bank, reduction of the national government's fiscal deficit, an interest rate policy linked to inflation, eliminating the differential between the official and parallel exchange rates, increasing the coefficient of reserve requirements, and credit ceilings.

The measures were introduced against the background of a slight increase in real economic growth in 1995 and a drastic improvement in the overall balance of payments deficit for the fourth consecutive year. This increased growth occurred despite a comparably less productive performance in the non-oil sectors, such as diamonds and agriculture (mainly as a result of tense conditions and illegal trading in minerals). Nevertheless, in the light of peace negotiations, an abundance of potential and opportunities exist for these sectors to improve their contributions to GDP. Furthermore, new petroleum discoveries are projected to lead to strong growth over the next five to ten years.

Economic indicators suggest that the economy has started to show some signs of improvement since the introduction of stabilisation measures. Hyper-inflation has decreased from 3,784 percent in 1995 to 2 percent in October 1996, thereby reducing the 1996 inflation rate to an estimated 1,650 percent. Furthermore, the fiscal deficit target for 1996 was set at 10.6 percent of GDP compared to 23.8 percent and 13.0 percent of GDP for the years 1995 and 1994, respectively. Total external debt was reduced from 214.8 percent of GDP in 1994 to 171.1 percent of GDP in 1996.

Future economic prospects depend on the political stability. It is expected that the authorities will approach the IMF during 1997 for a Structural Adjustment Programme and request a Paris Club debt rescheduling which could free needed resources for purposes of achieving sustainable growth.

Financial Institutions

After independence in 1975, foreign banks were nationalised and the banking system became very limited in terms of the services it could provide. Since 1991 however, the Angolan government has been attempting to create a more efficient and diversified banking system. Under these new reforms, the central bank, Banco Nacional de Angola, now acts solely as a central bank, and some foreign banks have established offices in the country. The first steps have also been taken in establishing a competitive insurance market. Problems still exist however, in that credit facilities for businesses are inadequate and large parts of the country, especially small towns, are underbanked.

Money and capital markets have not been developed; consequently, the informal money markets are used extensively.

The commercial banks operating in Angola are:

State-owned commercial banks

- Banco de Poupança e Crédito
- Banco de Comércio e Indústria

Private Portuguese commercial banks

- Banco de Fomento e Exterior
- Banco Totta e Açores
- Banco Português do Atlântico

Others

- Investec Bank (South Africa)

Foreign Trade

Angola has come to depend overwhelmingly on oil for its export earnings, with the USA being the main market for exports. In 1996, crude oil made up over 90 percent of exports. Until recently, Angola has had few trade ties with other Southern African countries. However, now that there has been a change in the political climate, opportunities for trade with other countries in the region have opened up.

Trade Liberalisation and Trade Agreements

All imports and all exports, except for those of foreign oil companies, must be licensed by the Ministry of Commerce. An import license fee of 0.1 percent of the value of imports is levied, and import licenses are only granted to enterprises of proven capacity. Exports of certain goods are restricted.

Privatisation Programmes

The privatisation of state assets is part of the strategy that the Angolan government hopes to implement for the purpose of rebuilding the economy.

Labour Relations

Labour, particularly skilled labour, technical and professional personnel, is in short supply in Angola, and Angolan authorities have identified this area as one of primary concern. Discussions on the establishment of a minimum wage, and increases for civil servants, are currently underway.

Human Resources

Under Portuguese colonial rule, human resources in Angola were badly neglected, and after independence there was a major effort to expand primary and secondary education and to increase adult literacy. However, civil war has been a major disruption to the education process. The government is examining reforms for the education system and a few private schools have been established.

INVESTMENT CLIMATE

Investment Incentives

Foreign investment is considered crucial to Angola's reconstruction process and the promotion of foreign investment is considered a priority. The following are a few of the current investment incentives:

- Foreign companies are guaranteed equal treatment.
- Nearly all sectors of the economy are now open to foreign investment.
- Special fiscal incentives are offered to foreign investors who employ a high proportion of Angolans and provide them with professional training and benefits equal to foreign employees.
- Profits, dividends and the proceeds from the sale of investment, may be transferred abroad by foreign investors.
- Investments less than USD5m no longer need prior government approval.

Export Incentives

Angola has one of the highest volumes of exports in the SADC region, largely due to exports of oil. There is much underutilised potential in other areas however, such as diamond mining, coffee, and fishing. The promotion and diversification of exports have been recognised by the government as one of the ways to facilitate production and growth.

Besides being a member of SADC, Angola also belongs to the Common Market for Eastern and Southern African (COMESA).

Taxation

The Angolan government receives most of its revenue from its oil and diamond mining activities. Taxes on mining include:

A surface tax levied according to the size of the surface area mined.

A tax on royalties of 3 to 10 percent of the gross value of the minerals produced.

Corporate income tax: A fixed rate of 40 percent.

A 15 percent withholding tax on dividends.

Allowances for depreciation.

The oil industry also faces special tax rates - an oil production tax, an oil income tax and an oil transactions tax (which applies only on Cabinda association).

Corporations face an industrial tax of 40 percent, with some companies being taxed on their actual profits, some on their presumptive profits and some on estimated potential profits, depending on which group they fall into. A tax of 20 percent is levied on income exclusively from agricultural, forestry and cattle-raising activities. Foreign corporations are subject to the same tax system as local companies.

Shareholders are taxed at a rate of 15 percent on income from financial investments, although a lower rate of 10 percent may apply in some cases. Personal income tax rates range between 4 percent and 15 percent.

No double taxation agreements have been concluded.

Investment Promotion

The Institute for Foreign Investment is the principal investment promotion agency in Angola. One of the ways in which the Bureau is stimulating foreign investment is by reducing institutional barriers to investment.

Investment Code

The New Foreign Investment Law was passed in 1995. The aim of this law is to reduce the role of the government in the economy and encourage greater private sector participation, with special emphasis on foreign investment.

Exchange Controls

Exchange control legislation in Angola is maintained for the purpose of macroeconomic stability. The major exchange control regulations are as follows:

- There are specific dealers in Angola who are authorised to buy and sell foreign exchange.
- No restrictions exist on the amount of foreign currency brought into Angola, but the exportation of domestic currency is prohibited.
- Travel allowances, allowances for medical treatment abroad, and allowances for dependents overseas, are all granted at fixed monthly rates.
- Dividends earned by foreign investors may be taken out of Angola if the investment in the resident company exceeds USD250,000.
- Transfers of personal capital are reviewed on a case-by-case basis.
- Foreign currency accounts are permitted, into which foreign currency (in cash, travellers cheques or foreign payment orders) may be deposited.

Legal Protection of Investment

Property law in Angola is still very unclear, but it will shortly be under review. Angola is however, a member of MIGA.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Angola has an abundance of natural resources which are not being fully exploited. Investment opportunities exist in almost every sector of the economy:

- Oil and gas - approximately 15 foreign companies have invested more than USD 8 billion in Angola. Oil companies are attracted by Angola's low operating costs, favourable geology and good business terms.

- Mining - diamonds and iron ore especially. Angola was once a major producer of both these minerals.
- Agriculture - Angola's geographical variation allows for a diverse range of agricultural and agro-industrial production ranging from coffee, cotton, palm oil to tropical fruits and vegetables and a variety of grains. The country has between five and eight million hectares of arable land as well as extensive grazing land. Considerable potential for growth exists in this sector.
- Forestry - there are natural forests as well as plantations and a pulp mill which are currently not in commercial use.
- Fisheries - the redevelopment of the fishing industry could also prove to be a profitable investment opportunity. There is a need for the development of a fishing fleet and the modernisation of freezer plants, canneries and factories.
- Tourism - Angola offers a variety of experiences for tourists, with its beaches, rivers, mountains, wildlife and cultural attractions. There are plenty of opportunities for the construction of new hotels and the revamping of old ones.

PROJECTS

Current Projects

Sector	*Project*	*Value USDm*
Agriculture, forestry & fishing	Angolan/South African farming enterprises	75.0
Mining & quarrying	Quihita quarrying project	55.0
	Kassala-Quitongo iron project	300.0
Transport, storage and communication	Boa Vista fishing port rehabilitation	

Projects for Possible Investment

Sector	*Project*	*Description*	*Required Investment in USDm*
Construction	Capande	Hydro power scheme.	
Industry	Telecommunications	Upgrading of the telecommunication system.	200.0
Manufacturing	Mineral processing	• Ammonia plant in the Soyo region. • Integrated phosphate/urea fertiliser plant in Kindonocaxa. • Exploitation of asphaltic rock for the production of bitumen. • Production of pallets from Kassala-Kitungo iron ore deposit.	
	Quadonacaxa quartz		0.3
	Baco - Zau Gold		0.5
	Raw materials for fertiliser Industry		0.5
	GramAngola investment opportunities marble		2.0
Mining &	Ndondungo black granite		2.5

quarrying	Palma black granite		2.5
	Sumbe gypsum		3.5
	Quihita kaolin		5.1
	Pocarica quartz		6.0
	GramAngola investment opportunities granite		7.4
	Ornamental stones		11.0
	Luzamba diamonds		50.0
	Catoca diamonds		300.0
	Cassala - Qitungo Iron		350.0
Service	Water privatisation	Privatisation plan from state control.	
Transport	Rail-line rehabilitation	Stopped due to lack of funds and security and communications problems (May 1996).	

Compiled by the IDC using the following sources: The Angolan Ministry of Geology & Mines; Mbendi Information for Africa (March 1997).

STATISTICS

Angola (USDm, unless otherwise stated)

	1991	1992	1993	1994	1995	1996
Population (millions)	10.3	10.6	10.9	11.2	11.6	11.6
Nominal GDP at market prices	13,597.0	8,125.0	5,734.0	4,292.0	5,243.0	6,195.0
Real GDP growth rate, %	-2.5	2.7	-23.5	9.1	12.0	12.5
GDP per capita (USD)	1,318.8	765.8	526.1	383.2	452	534.1
Consumption as % of GDP	81.7	94.6	98.8	99.1	. .	. .
Gross domestic savings as % of GDP	18.2	5.4	1.2	1.0	. .	. .
Gross investment as % of GDP	14.5	15.8	16.6	15.7	. .	. .
Inflation rate, %	175.7	495.8	1,837.7	971.9	3,783.9	1,650.4
Merchandise exports as % of GDP	0.3	0.5	0.5	0.7	0.7	0.7
Merchandise imports as % of GDP	0.1	0.2	0.3	0.3	0.4	0.3
Capital account of balance of payments	622.0	387.0	542.0	470.0	471.0	274.0
Foreign direct investment as % of GDP	4.9	3.5	5.3	4.0	6.3	5.4
Overall balance on balance of payments	-1,500.0	-1,138.0	-1,501.0	-1,027.0	-965.0	-649.0
Average exchange rate: Angolan new Kwanza to USD	59.2	449.7	4,903.3	152,787.9	2,773.5	127,555.5
Total external debt as % of GDP	55.8	98.7	150.7	214.8	191.0	171.1
Total external debt service as % of exports	38.5	29.9	35.2	35.1	26.9	32.8
Budget deficit as % of GDP, fiscal year	27.7	29.4	72.3	13.0	23.8	10.6
Central bank discount rate (end of year), %	20.0	20.0	20.0	95.0	152.0	2.0
Prime lending rate (average for year), %	20.0	20.0	30.0	45.5	230.0	213.0
Growth rate of M2 money supply, %	159.0	396.0	404.0	1,923.0	1,255.0	. .
Source: Banco Naçional de Angola						

USEFUL ADDRESSES

Investment Promotion Agency

Institute for Foreign Investment, Caixa Postal 594 Angola. Tel: +244-2-393387/333727 Fax: +244-2-393381

Consulting Firms

Coopers & Lybrand, Av.do 1 Congresso do MPLA, 41-1°, Luanda. Tel: +244-2-392507

Ernst & Young, Apartado 1137, Luanda. Tel: +244-2-336295 Fax: +244-2-3511795

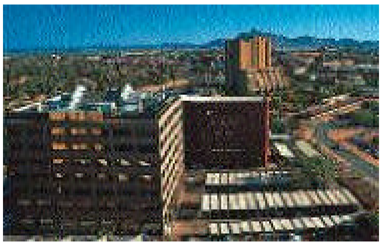
Projectos de Consultoria Austral, C P 12425, Luanda. Tel: +244-2-396841 Fax: +244-2-337248

FOOTNOTE

(1) The ranking, devised by the United Nations Development Programme (UNDP) is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

BOTSWANA



Gaborone - The Capital

GENERAL INFORMATION

Geography and Population

Botswana is a landlocked country at the centre of Southern Africa, covering an area of about 585,000 km^2. The Kalahari desert occupies more than 70 percent of the country. Languages spoken in Botswana are Setswana and English, and the capital city is Gaborone. Botswana has a population of approximately 1.5 million (1995 estimate).

Botswana is ranked 71 on the UNDP's HDI[1] out of 174 countries, achieving a place in the medium development range. This ranking is the second-highest in the SADC countries, behind Mauritius (54) and ahead of South Africa (100).

Sectoral Description

Botswana is now the third largest African mineral producer after South Africa and Zaire. Diamonds, copper-nickel, soda ash and coal are exploited, as well as small amounts of gold. Livestock production is another important sector, with cattle farming being the cornerstone of the agricultural industry. Agriculture is severely hampered by drought, poor soils and lack of water resources, so crops are generally grown for immediate consumption rather than for the market.

The performance of the industrial sector has in the past been constrained, to a certain extent, by a limited domestic market, a lack of an adequate pool of managerial personnel and by competition from South Africa. Nevertheless, exports of non-traditional products have grown significantly in recent years. Vehicles, textiles and processed foods are the leading non-traditional exports. However, there is also potential in the manufacture of soda ash products, textiles and electrical components.

Tourism is another revenue earner for Botswana, with the major attractions being the Okavango Delta, the Kalahari Game Reserve, Makgadikgadi Pans, Chobe National Park and the Tuli Block. Technology development is also beginning to take off in Botswana with the Botswana Technology Centre playing a key role.

INFRASTRUCTURE

In spite of Botswana's arid climate, 93 percent of the population have access to safe water, and 55 percent have adequate sanitation, according to the UNDP's 1996 Human Development Report. Some electricity is produced by Botswana and the rest is imported from South Africa, Zambia and Namibia.

Botswana has a well-developed transport network in the east, and the Trans-Kalahari Highway is currently being built to link Botswana's remote western districts to the more populated eastern areas and to Namibia in the west. Although Botswana possesses only a limited capacity for rail transport, Botswana Railways forms a crucial link in the Southern African railway system. Air services also exist between the main centres in Botswana and neighbouring countries. There are three international airports.

Telecommunications routes are being expanded, the Internet has recently become available, and a cellular phone network should be introduced sometime in the near future.

ECONOMIC OVERVIEW

Introduction

With the discovery of diamonds after independence in 1966, the country began to enjoy high economic growth and soaring per capita incomes. The diamond industry transformed Botswana from an agriculture-based economy to one in which diamonds account for 80 percent of exports and 50 percent of government revenue. To reduce dependence on diamonds and diversify the economy, government is actively encouraging the development of small scale industry as well as large industries. Promising fields for diversification are the manufacturing and services sectors, such as textiles, tourism and financial services.

Recent Macro-Economic Developments

For the fiscal year 1 July 1995 to 30 June 1996, real GDP grew at a rate of 7 percent, the fastest real growth rate since 1990/91. Though the growth in 1996 was led by the dominant mining sector, it was broad-based with non-mining GDP growing by 5.6 percent in real terms, 0.1 percent higher than the previous year. The trade sector registered 7.3 percent real growth, followed by 6.8 percent in the general government sector and 6.5 percent in manufacturing, the fastest growth this sector has recorded since 1990/91. The mining sector registered 9.9 percent real growth. This high growth reflected increased capacity at one of the main diamond mines, which coincided with the improvement in world diamond prices for higher value categories of gem stones, which form a large part of Botswana' s diamond output.

Due to a surge in government revenue during 1996 as a result of the currency (Pula) depreciation and improved mining outputs, the 1996/97 budget is expected to record a surplus of BWP 442m (USD 124m). This expected revenue overrun will take place against the backdrop of increased development expenditure which, at BWP 2.3 billion (USD 644m), is 38 percent higher than in 1995/96.

The good economic performance also made it possible for tax adjustments to take place. The level at which the top income tax is levied was increased from BWP 60,000 (USD 16,800) to BWP 80,000 (USD 22,400) and incomes below BWP 20,000 (USD 5,600) will be exempted from income tax. The top personal income tax rate and the basic company tax rate will be reunified at 25 percent with effect from July 1997, whilst taxation on manufacturing companies will remain at 15 percent.

Inflation has gradually slowed down during 1996, reaching 9.6 percent in December 1996, averaging 10.1 percent for the year. Though Botswana's three-month inflation rate dropped below that of South Africa from September 1996 through December 1996, upward pressure could be exerted on prices as a result of higher import prices from South Africa.

On the policy front, exchange rate policy is exercised through a managed exchange rate while monetary policy is exercised mainly through the application of three indirect instruments, namely the Bank rate, the primary reserve requirement and open market operations. The Bank rate remained unchanged during the course of 1996 at 13 percent, but was lowered to 12.5 percent in March 1997 due to the decline in the inflation rate. Money supply (M3) grew by more than 27 percent during 1996, mainly because government budget surpluses and sterilisation measures were insufficient to fully offset the impact of the accumulation of foreign exchange reserves. The increase in foreign exchange reserves was due to a large current account surplus.

Financial Institutions

Apart from its functions as banker, Botswana's central bank, the Bank of Botswana, manages foreign reserves, implements exchange rate policy, administers exchange controls and regulates financial institutions. The Bank of Botswana also conducts open market operations to reduce excess liquidity.

There are four commercial banks in Botswana: Barclays Bank of Botswana, Standard Chartered Bank, First National Bank of Botswana and Stanbic Bank of Botswana. These banks carry out normal retail and commercial banking activities, leasing, property finance and merchant banking. Development finance institutions supplement, the commercial banks, offering specialised services targeted to certain economic sectors.

The Botswana Stock Exchange has been successful, with the number of listed domestic companies increasing from six in 1990, to twelve in 1995. No capital gains tax is charged on the sale of publicly traded company shares, and dividends received are not taxable. Foreigners are free to buy and sell shares without bureaucratic interference.

The top five domestic companies listed on the Botswana Stock Exchange in terms of market capitalisation are Sechaba (a consolidation of companies under the Botswana Development Corporation), Barclays Bank of Botswana, Standard Chartered Botswana, Metro Sefalana and First National Bank Botswana. Several new dual listings have been made in the first four months of 1997, namely Regent, De Beers, McCarthy and Avis.

Foreign Trade

Goods can be transported by road, to and from countries in the South African Customs Union (SACU) region within hours, making trade with the region simple. Over 70 percent of Botswana's imports originate from South Africa, 15 percent from Zimbabwe and 15 percent from the rest of the world. Botswana's major export markets are Europe, SACU and Zimbabwe. Principal imports include food and beverages, machinery and transport equipment, while Botswana's main exports are diamonds, vehicles, copper-nickel and beef

Trade Liberalisation

Botswana is a member of the World Trade Organisation (WTO) and the process of liberalising the existing tariff structure in accordance with WTO requirements is currently underway.

Documentation is needed for import shipments exceeding BWP5,000 (USD1,400) and permits are required for selected exports and imports.

Labour Relations

Trade union membership is permitted but is not compulsory. Botswana has minimum wage legislation, and an industrial court has been recently established. The government has a detailed programme in its National Development Plan 1991 1997, aimed at organising and enhancing its labour relations. One of its objectives is to improve the process of collective bargaining by educating both employees and employers. Strikes and work stoppages are rare in Botswana.

Human Resources

Botswana's education and training system ensures that school leavers are prepared for the job market. The government's objective of universal primary education has almost been reached due to a large increase in educational provision over the last decade, with Botswana's literacy rate now at about 68 percent.

Both primary and secondary education is free in state schools, though there are several fee-charging private primary and secondary schools. Tertiary education is provided mainly at the University of Botswana, and vocational training is undertaken at approximately 70 different centres throughout the country.

Botswana Stock Market (USDm)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Number of companies with shares listed	6	9	11	11	11	12	12
Market capitalisation	226.4	263.2	291.2	260.8	376.9	397	351.4
Volume of shares traded (m)	2.2	5.2	9.9	17.7	29.6	44.8	42.8
Value of shares traded	4.2	8.5	15	20	30.6	38.5	29.3

Source: Stockbrokers Botswana Ltd. Original figures in Botswana Pula (BWP), converted to USD by using International Financial Statistics (IMF) average year exchange rates for the value of the shares traded, and end of year exchange rates for market capitalisation.

INVESTMENT CLIMATE

Investment Incentives

The Financial Assistance Policy (FAP):

This system of grants is available to businesses engaged in import substitution, export promotion, employment creation, selected "linking" services and tourism. Applications are considered on a case-by-case basis. The value of the grants will differ according to whether the business is classified as a small, medium or large scale enterprise. In the case of a medium or large scale project, three different grants are available:

1. Capital grant: This is intended for the purchase of plant and machinery. If the project is 100 percent citizen owned, BWP 1,500 (USD 420) is granted for each job created. If the project is owned by non-citizens or is a joint venture, the amount is BWP 1,000 (USD 295) per job created.
2. Training grant: This partially covers off-the-job training costs incurred over the first five years of the project, including the costs of tuition, board and lodging, travel, materials and wages. The value of the grant is tied to improvements in productivity.
3. Unskilled labour grant: This is a partial reimbursement of the wages paid to unskilled employees over the first five years of the project. 80 percent of wages paid during the first two years are reimbursed, declining to 20 percent in the fifth year.

Reimbursements are made at three month intervals. FAP grants are tax-free.

Export Incentives

Production for the export market is encouraged, with the following export incentives in place:

- Duty draw back facility in the procurement of raw materials needed for the production of exportable merchandise.
- No surcharge on the importation of machinery and equipment required in the production for exports.
- A Bureau of Standards has been established to help facilitate exporters obtaining quality and standards certificates and also the receiving of advice on maintaining high quality.
- The Botswana Export Credit Guarantee Company has been established with assistance from the Botswana Development Corporation to address the pre- and post-shipment credit problems faced by exporters.
- Government maintains stable competitive real exchange and wage rates in order to enable manufacturers/exporters to be competitive in the international markets.

Taxation

Corporate taxation

- 15 percent for manufacturing companies and 25 percent for non manufacturing companies, whether the companies are resident or non resident. Capital gain is included in the definition of taxable income.
- Allowances on capital, plant and machinery, and buildings.
- An employer can claim a deduction of 200 percent of the cost of training his or her employees, if the training is approved by the Commissioner.
- Withholding tax: 15 percent on dividends, paid to residents and non residents, and 15 percent on interest, paid to non-residents only.
- Commercial royalties and management and consultancy fees: 15 percent tax to non-residents.
- Botswana has double taxation agreements with the United Kingdom, South Africa, Sweden, and Mauritius.

Personal taxation

- The top marginal rate for resident and non-resident individuals is 25 percent. The top rate is applicable for income greater than BWP 80,000 (USD 22,400).
- Capital gains and benefits are taxed, and a capital transfer tax is also levied
- Customs and excise
- In some cases rebates are available on import duties on raw materials and/or capital goods, as an incentive to manufacturers to produce for the export market.

Sales tax

- A general sales tax of 10 percent is imposed, with some products being exempt.
- Some items (such as alcoholic beverages) are taxed at a higher rate.

Investment Promotion Agencies

The Trade and Investment Promotion Agency (TIPA) was established in 1984 under the auspices of the Ministry of Commerce and Industry. The role of TIPA is to encourage potential investors through the dissemination of information and the provision of advice. In order to facilitate investment in Botswana, TIPA organises and participates in various trade fairs and investment missions, produces promotional material and liaises with potential investors.

Investment Code

There is no legislation in Botswana which deals specifically with investment. Regulations governing investment are contained, among others, in the Companies Act, the Factories Act, the Employment Act, the Income Tax Act and the Financial Assistance Policy.

Exchange Controls

Exchange controls have been liberalised extensively since 1995, and Botswana now has a very liberal exchange rate regime. The main features of exchange control regulations are as follows:

- Foreign currency accounts in designated currencies are permitted, and foreign currency is available without limit for current account transactions. Such transactions include payments and/or transfers for purposes such as international travel, external trade and dividends to foreign shareholders.
- A limit is imposed on capital account transactions (transactions involving the acquisition of assets outside Botswana). This limit is set at BWP 100,000 (USD 28,000) for individuals and BWP 1 million (USD 280,000) for companies, business enterprises and other incorporated bodies.
- Direct investment by non-residents in locally incorporated companies can only be undertaken with prior permission of the Bank of Botswana.
- The limit of BWP 100,000 for individuals and BWP 1 million for businesses also applies to external borrowing by residents of Botswana.
- Exporters may, with the permission of the Bank of Botswana, retain a portion of their foreign earnings in order to meet their import requirements.
- Institutional investors (registered life assurance companies and pension funds) are allowed to invest up to 70 percent of their assets offshore.
- Not more than 49 percent of the free stock of non-resident controlled companies listed on the Botswana stock exchange may be held by other non residents and their nominees.
- Foreigners are free to repatriate their dividends and profits. Payments to non residents of royalties and fees for the use of patents, trade marks, copyrights, industrial designs and utility models, and technical information and assistance, are also permitted.

Protection of Investment

Botswana is a member of MIGA. Investors from the US may obtain protection from the Overseas Private Investment Corporation (OPIC).

Privatisation Programme

Despite Botswana being a market-oriented economy, some sectors are owned by the government. However, manufacturing and trading enterprises in which government has major stakes, are all commercially run. Among the public enterprises earmarked for privatisation are the national airline and some aspects of the telecommunication business.

INVESTMENT OPPORTUNITIES

Opportunities

Tourism has been one of Botswana's growth industries and there is still much untapped potential, especially since the development of the new Trans-Kalahari highway.

Some areas of manufacturing also offer opportunities:

- Garment and textile manufacturing.
- Paper and stationery.
- Leather goods.
- Diamond polishing and jewellery manufacture.
- Manufacture of products made from soda ash (e.g. detergents, fertilisers).
- Bottles and bottling.
- Household equipment, carpets, ties and mats.
- Automobile industry: assembly, manufacturing of parts and accessories.
- Aluminium and steel products; corrugated iron sheets.
- Glass manufacturing using by-products of Botswana soda ash.
- Wallpaper and other decorating material.

Cattle farming is the major agricultural activity in Botswana. Investment opportunities therefore exist in the processing of cattle products (including hide) for food, fertilisers, soaps and so on. Opportunities also exist in the area of farm supplies - for example, vaccines, feed, and the manufacturing and maintenance of farm machinery.

A number of mining projects already underway, offer opportunities for investment. There are also several unexploited mineral deposits with good prospects for development. Solar energy is another of Botswana's untapped resources. Botswana is currently seeking joint ventures or licensing agreements between the US and Botswana companies for the manufacture and/or assembly of solar energy equipment.

PROJECTS

Botswana: Projects for Potential Investment

Sector	Project	Description
Mining & quarrying	Golden Eagle	Australia-based Gallery Resources is heading up the Golden Eagle project. The heap-leach option will enable the carbon-in-leach plant at Monarch to be held in reserve for treating Monarch ore and other ore that may be available at various sites on Gallery's leases.
Transport	Air Botswana	Privatisation.
Heavy mining machinery	Mining equipment	Supply of earth-moving equipment, particularly 170 tonne trucks, heavy trucks, bulldozers and excavators, over the next five years.
Telecommunications	Telecommunication equipment	Potential for demand creation is significant for PABX systems, feature and cordless phones and car phones as well as the cellular phone market.
Tourism	Tourist facilities	Development of a wildlife industry (hides, trophies, sport-hunting) and hotel industry.
Service	Consulting services	Consulting, resource management and design engineering services in ongoing and planned infrastructure development projects in the areas of water resources, roads and power generation.
Compiled by the IDC from the following sources: Mbendi Information for Africa (March 1997); Trade Compass - Gateway to International Commerce (1996)		

STATISTICS

BOTSWANA (USDm, unless otherwise stated)

	1991	1992	1993	1994	1995

Population (millions)	1.3	1.4	1.4	1.5	1.5
Formal sector non-agricultural employment (thousands)	221.4	220.3	225.9	226.9	230.8
Nominal GDP at market prices [1)]	3,928.0	4,102.4	4,183.8	4,406.3	-
Inflation rate, %	12.6	16.5	9.8	10.8	9.6
Merchandise exports	1,875.1	1,725.1	1,725.1	1,875.4	2,160.7
Merchandise imports	1,607.4	1,539.8	1,457.8	1,350.8	1,579.1
Capital account of balance of payments	3.5	6.6	8.5	6	2.9
Overall balance on balance of payments	378.7	403.9	405.3	141.3	213.2
Average exchange rate: BWP to USD	2.0173	2.1327	2.419	2.6831	2.7716
Foreign exchange reserves	3,820.5	4,014.2	4,344.4	4,457.9	4,781.0
Total external debt	592.2	597.1	613.5	619.8	619.1
Total external debt as % of GDP	15.1	14.6	14.7	14.1	-
Total external debt service as % of exports	2.9	3	3.3	3.4	3.5
Central bank discount rate (end of year), %	12	14.3	14.3	13.5	13
Prime lending rate (average for year), %	12.5	14.5	15	14	14.5
Growth rate of M2 money supply, %	38.8	14.3	9.5	4.5	11.3
Domestic credit to government	-2,134.7	-2,119.7	-2,385.9	-2,326.0	-2,503.37
Domestic credit to private sector	376.43	383.43	655.93	606.20	631.58
National Accounts Years [2)]	1991/92	1992/93	1993/94	1994/95	1995/96
Nominal GDP at market prices (BWPm)	8,372.5	9,126.0	11,115.0	12,530.3	14,631.0
Real GDP growth rate, %	6.3	-0.1	4.1	3.1	7.0
GDP per capita (Market Prices-BWP)	6,190.0	6,587.0	7,828.0	8,609.0	9,807.0
Consumption as % of GDP	62.3	67.1	61.4	61.9	57.3
Total national savings as % of GDP	16.2	14.8	-	-	-
Gross investment as % of GDP	29.5	26.2	24.6	24.4	24.1
Budget deficit as % of GDP (fiscal year)	8.4	9.7	7.9	1.6	1.8

Source: Bank of Botswana

1. Government fiscal years run from April to March

2. Runs from July to June.

Note: The average annual exchange rate was used for conversion to USD.

USEFUL ADDRESSES

Investment Promotion Agency

Department of Trade and Investment Promotion, Private Bag 00367, Gaborone. Tel: +267-351790 Fax: +267-350375

Consulting Firms

Consult Africa, P O Box 1608 Gaborone. Tel: +267-309992 Fax: +267-309790

Coopers & Lybrand, P O Box 294 Gaborone. Tel: +267-352011 Fax: +267-373901

Deloitte & Touche, P O Box 778 Gaborone. Tel: +267-351611 Fax: +267-373137

Ernst & Young, P O Box 41015 Gaborone. Tel: +267-374078 Fax: +267-374079

JRP Management Consultants, P O Box 1463 Gaborone. Tel: +267-312269 Fax: +267-351668

KPMG, P O Box 1519 Gaborone. Tel: +267-312400 Fax: +267-375281

Phaleng Consultancies, Private Bag 00152 Gaborone. Tel: +267-313635 Fax: +267-313635

Price Waterhouse, Finance House, 2nd Floor, Khama Crescent Gaborone. Tel: +267-351081 Fax: +267-351668

Problem Solvers, Private Bag BR53 Gaborone. Tel: +267-374134 Fax: +267-357433

Professional Services, P O Box 1816 Gaborone. Tel: +267-312805 Fax: +267-359638 E-mail:

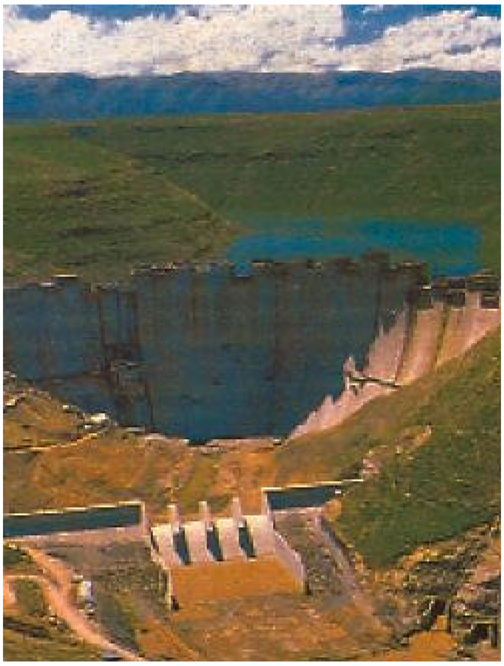
Projects Management Consulting Services, P O Box 60898, Gaborone West Gaborone. Tel: +267-322774 Fax: +267-322774

FOOTNOTES

(1) The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

LESOTHO



Dam construction in progress at the Lesotho Highlands Water Project.

GENERAL INFORMATION

Geography and Population

Covering an area of 30,355km^2, the Kingdom of Lesotho is roughly the size of Belgium and is entirely surrounded by South Africa. It is the only country in the world to have all its territory located at more than 1,000 metres above sea level. Lesotho has a population of about 2.1 million (1995 estimate) and the major languages spoken are English and Sesotho. The capital city is Maseru. Lesotho is ranked 130 out of 174 countries in the UNDP Human Development Index[1)].

Sectoral Description

Agriculture remains the backbone of the economy and the agricultural sub-sector absorbs a large portion of the labour force. However, potential for development in the agricultural sector is small, as only 13 percent of Lesotho's land is arable. The government has instituted a series of market-oriented reforms to encourage private sector investment in agriculture. The main crops are maize and wheat, although there has been a move towards diversifying into high-value, high-yield crops - Lesotho is exporting quality asparagus, peaches and strawberries. Livestock production is a substantial contributor to rural income. Much of Lesotho's terrain is suited to animal production, although the sector has suffered from drought in recent years. Cattle, wool and mohair are the major exports of this sector.

The government has introduced a tree-planting programme which aims to provide fuel and building materials. Around 0.2 percent of the total area under arable production is planted with trees, mainly eucalyptus.

There has been a decline in the volume of exports of diamonds since 1983 due to the closure of the main diamond mine in 1982. Large deposits of clay have been mined for brick manufacturing and for the manufacture of ceramic ware and tiles. Building activity has increased significantly since 1986 and the upward trend is expected to continue on the back of the Lesotho Highlands Water Project, which, as well as the building of the project itself, also requires much upgrading in surrounding infrastructure. A need also exists for more infrastructure development in the country as a whole in order to facilitate economic growth.

The programme of industrialisation through private enterprise has seen significant growth in the manufacturing sector. The main activities in this sector are clothing and footwear for export, developed through direct foreign investment from the Far East. Other export goods include ceramics, handicrafts, furniture and tapestries. Companies producing for import substitution are in the areas of brick-making, candles, beer and beverages, canned food, bread and milled products.

Lesotho's tourism strategy is aimed at people who enjoy back-to-nature activities. Accordingly, tourist accommodation is continually being developed. The scenic Lesotho Highlands are considered the main tourist attraction.

Infrastructure

Lesotho has a reliable source of power, mostly supplied by Eskom in South Africa. The government is pursuing a policy to exploit Lesotho's largely untapped hydroelectric potential in a bid to achieve self-sufficiency in energy by the early part of the 21st century - once operational, the hydroelectric scheme of the Lesotho Highlands Water Project should meet all foreseeable requirements.

Lesotho's mountainous terrain makes access to many areas difficult and Lesotho relies heavily on its domestic air network for transport. The road network has been developed considerably to facilitate easier access to and from the more remote areas, and there are roads linking Lesotho directly with South African export ports. Inland port and container facilities are also available.

With regard to air travel, the national airline and private companies provide charter flights to the 31 airstrips around the country, and Lesotho is directly linked with Johannesburg International Airport.

The telephone system has been extensively modernised and expanded in recent years with connections growing by an average of 13 percent per year. There is direct dialling both locally and overseas. Telex and facsimile services are also available.

Basic health care facilities are provided throughout the country and most of Lesotho's inhabitants have access to health care. The health system includes a village network of about 5,000 volunteer health workers, clinics, health service areas (with teams operating from referral hospitals) and a flying doctor service. The latter is used for bringing in essential supplies to the remote mountainous areas. About half the population of Lesotho has access to safe water, according to the UNDP's Human Development Report (1996).

ECONOMIC OVERVIEW

Introduction

Lesotho's economy has traditionally been based on agri-culture and animal husbandry, as well as migrant labour remittances. Industrial exports have become increasingly valuable in recent years and are outpacing the traditional exports of wool and mohair, partly due to an aggressive programme of industrialisation driven by the private sector. The government, too, recognises the need for industry in Lesotho to eventually become the driving force in the economy. In order to facilitate this, the government has embarked on a financial sector reform programme. Financial sector reforms were initiated in Lesotho in 1988 and are still largely on-going. These reforms are aimed at improving performance through more market-oriented policies in three broad areas: monetary control, efficiency of financial inter-mediation and safety and soundness of the financial system. These reforms have been implemented largely under IMF-supported adjustment programmes with significant technical assistance provided by the Fund and other agencies.

Recent Macroeconomic Developments

The economy performed well during 1993 to 1996, with real GDP growth averaging 9.4 percent. In 1996, an impressive 14 percent was registered. The main contributor to GDP was the construction sector, followed by agriculture, manufacturing and services. Construction related to the Lesotho Highlands Water Project grew by 40.7 percent. Other construction registered an increase of 26 percent. The agriculture sub-sector recovered from the 1995 drought and recorded growth of 16.9 percent, whilst depreciation of the currency added to growth in the export orientated manufacturing sub-sector.

On the fiscal side, efforts were channelled towards broadening the tax base, improving revenue collection and curbing recurrent expenditure. However, while progress was made on these initiatives, the government budget recorded a deficit of 2.8 percent of GDP for 1996. This deficit may be attributed mainly to increased capital expenditure and other construction activities related to the Lesotho Highlands Water Project.

On the monetary sphere, the monetary, credit, and interest rate policies are directed at re-allocating financial resources from the public sector to the private sector, improving the efficiency of the financial system and deepening the money- and capital markets. During May 1996, the minimum rate on saving deposits was waived in order to leave the determination of such rates to market forces. Money supply (M2) growth increased to 19 percent from the previous year's 5 percent and the bank rate was increased by 0.5 percent to 18.5 percent in December 1996. Monetary policy is expected to remain relatively tight during 1997 in order to curb money supply and pressures on the price index. Foreign direct investment increased from 2.6 percent of GDP in 1995 to 3.1 percent in 1996.

Lesotho, Namibia, Swaziland and South Africa are part of the Common Monetary Area (CMA), where the currencies of the first three countries enjoy parity with the South African Rand. Thus, with the sharp depreciation of the Rand during 1996, the Maloti experienced an equal depreciation. Though the inflation rate of 9 percent for 1996 compares well to the 9.6 percent registered the previous year, upward pressure on prices as a result of the higher prices of imports from South Africa (due to the depreciation of the currencies), is a possibility that will be monitored and treated with the correct policy measures.

The balance of payments is projected to register an overall surplus for 1996, despite an increase in the current account deficit. Capital inflows were mainly responsible for foreign exchange reserves increasing from 5.6 months of import coverage in 1995 to 6.2 months in 1996.

The authorities are in the process of introducing measures to diversify the economy. This should be viewed against the background of the winding down of the Lesotho Highlands Water Project. Many opportunities exist to expand operations, especially in the water sector, as well as in diamonds, tourism, mohair and wool.

Financial Institutions

The Central Bank of Lesotho acts as a banker to the government and other financial institutions and is responsible for the management of Lesotho's monetary policy. In addition, the Central Bank supervises the financial institutions and insurance companies and administers exchange control regulations.

The largest banks in Lesotho are the government-owned Lesotho bank and the South African-owned banks Stanbic bank (which acquired Barclays Bank PLC Lesotho in 1995) and Nedbank. All three banks deal with both the commercial and the corporate markets. Lesotho also has three insurance companies and a number of insurance brokers. The Lesotho National Development Corporation (LNDC) operates as a development finance institution and promotes the development of industry and commerce.

As Lesotho is part of the CMA, which allows access to the South African capital market for the banking system, the country has no exchange rate policy independent of the CMA.

Foreign Trade

Traditionally, Lesotho has a structural imbalance in external trade, its imports far exceeding its exports. Exports have increased rapidly since 1986, however, and manufactured goods (predominantly from the textile and leather wear industries) made up 79 percent of the total export value in 1993. Lesotho has expanded its markets to include the EU countries and North America, thus reducing its reliance on SACU. Lesotho's network of trade preferences has played a crucial role in providing favourable access to markets such as these.

Trade Liberalisation

Import licenses are issued to licensed traders and manufacturers resident in Lesotho, and will only be issued for quantities not in excess of local demand.

Labour Relations

Mechanisms are in place in Lesotho to ensure that industrial action may only be taken after extensive consultation aimed at resolving worker-employee disputes. The Association of Lesotho Employers, unions and the government take part in these discussions. Strikes are rare in Lesotho.

Human Resources

Human resources are often claimed to be Lesotho's greatest natural resource. The literacy rate is 70 percent, and the work force is educated, adaptable and easily trained. The cost of labour is competitive by world standards and is considerably lower than South Africa.

All primary schooling is free, and English is taught in all schools from pre-school upwards. Lesotho has one university, the National University of Lesotho, based at Roma, and has nine vocational schools.

INVESTMENT CLIMATE

Investment Incentives

- Free repatriation of profits.
- A non-repayable skills training grant which covers 75 percent of the wage bill during the initial training period for a newly established manufacturing company.
- Unimpeded access to foreign exchange.
- Loan guarantees for loan finance provided to clients of the LNDC by other financial institutions.
- Loans from the LNDC to projects which can demonstrate long-term viability.
- Equity participation (in selected cases) by the LNDC, in the absence of a private investor.
- Manufacturers receive a full rebate on imported raw materials or components for use solely in the processing or manufacturing of goods for the export market.
- Provision of serviced industrial plots, customised factories, commercial and residential properties for lease.
- A free enterprise and free market economic system.
- No withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders.
- General Sales Tax (GST) exemption on capital machinery and equipment for manufacturing industries.

Export Incentives

Lesotho has an Export Finance Scheme, enabling exports to compete better in world markets. The main components of this scheme are:

- Credit guarantee scheme - the exporters' bank applies for export finance on behalf of its client to obtain credit from the LNDC.
- Pre-shipment credit scheme - finances exporters working capital needs on the basis of confirmed export orders.
- Post-shipment credit scheme - a loan which enables the exporter to start a new manufacturing cycle from the day of shipment until payment from the foreign buyer is received, allowing companies to offer favourable credit terms to their customers.
- Refinance arrangement - a re-lending facility granted by the Central Bank of Lesotho to commercial banks to provide exporters with concessionary export finance.
- Counter-guarantee arrangement - the Central Bank assumes 95 percent of the risk associated with guarantees issued by the LNDC.
- Central Export Development Fund - the latter two arrangements receive financial backing from the Central Export Development Fund which is organised on a revolving basis. The fund is managed by the Central Bank of Lesotho.

Lesotho is a signatory to a number of trade agreements with various countries:

- The European Union: The Lomé Convention allows for duty-free access to the EU for goods wholly produced in Lesotho, or whose value-added content satisfies the criteria.
- South African Customs Union (SACU): Access to the markets of Namibia, South Africa, Botswana and Swaziland is mostly duty-free, although some import restrictions do exist to protect infant industries.
- United States of America: The Generalised System of Preferences (GSP) scheme provides for duty-free and quota-free entry for certain products.
- SADC and COMESA: Lesotho enjoys concessionary access to the markets of SADC and COMESA countries.
- Western European countries not part of the EU: These countries operate schemes through which Lesotho exports derive benefits.
- Nordic countries: The Nordic/SADC accord was signed in 1986. It provides substantial opportunities for Lesotho-based companies to access and optimally exploit the Nordic markets.
- Japan: The GSP scheme grants preferential entry at a variety of levels for listed agricultural products. Most industrial products from Lesotho are accorded either duty-free entry or entry at 50 percent of the normal Most Favoured Nation rate of duty.
- Commonwealth: New Zealand, Canada and Australia operate GSP schemes under which tariff reductions are granted to specified lists of agricultural and industrial products. Handicrafts from Lesotho may enter these markets duty-free.

Taxation

- Double taxation agreements with South Africa, Mauritius, the USA and the United Kingdom.
- A 35 percent tax on companies, and a 15 percent tax on manufacturing profits.
- Maximum individual tax rate of 35 percent, applicable at LSM 35,000 (±USD 7,800).
- GST is currently at 10 percent. It is envisaged that the country will move to a Value Added Tax (VAT) in the near future.

Investment Promotion Agency

The Lesotho Investment Promotion Centre is a division of the LNDC, which was established in 1967. The LNDC is 90 percent government-owned, with the remaining 10 percent owned by the German Finance Company for Investments in Developing Countries. The Investment Promotion Centre provides a service to potential investors, helping them to obtain the necessary requirements for starting up their businesses.

Investment Code

While no investment code as such exists in Lesotho, incentives available to investors are set out in legislation and the rights of investors are protected by the constitution of Lesotho.

Exchange Controls

As a member of the CMA, exchange controls in Lesotho are similar to those in Swaziland and South Africa.

- Payments within the CMA are unrestricted.
- Foreign exchange may be provided for import payments.
- Payment for invisibles, e.g. business travel or medical expenses, is subject to certain limits.
- Prior approval is required for the borrowing of foreign currency and the registering of shares in the name of a non-resident.
- Dividends, profits and interest payments may be freely repatriated on the condition that excessive use has not been made of local borrowing facilities.

Protection of Investment

Lesotho is a signatory to the convention on the settlement of investment disputes between states and nationals of other states. This convention allows for foreign investors to gain international jurisdiction of the International Centre for the Settlement of Investment Disputes (ICSID) in the event of legal disputes concerning investment in Lesotho.

Lesotho is also a member of MIGA.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Investment opportunities promoted in Lesotho include:

- Clothing and blanket manufacture.
- Agro-industries.
- Furniture.
- Footwear.
- Assembly of electronic consumer products.

Furthermore, there are a wide range of potential projects in the manufacturing, construction and services sector connected to the Lesotho Highlands Water Project.

PROJECTS

Lesotho: Current Projects

Sector	Project	Value USDm
Manufacturing	Interkiln Ceramic Factory	39
Electricity, gas & water	Lesotho Highlands Water Scheme	3,000

Lesotho: Projects for Potential Investment

Sector	Project	Description	Required Investment in USDm
Construction	Tunnel boring technology /equipment	For Phase 1B of the Lesotho Highlands Project.	-
	Roads	Roads rehabilitation and maintenance.	-
	Hotels Project	A 150 bedroom luxury hotel and a Lakeland Marina with river cruising operations at the Lesotho Highlands Project.	-
Health Care Services	Health care equipment	Health care equipment in addition to consulting engineering services for rehabilitation of rural hospitals.	-
Manufacturing	Maloti Oil and Cake Mills (Pty) Ltd	Production of sunflower oil.	0.9
	Rockwool	Production of an insulation material known as rockwool from a resultant product of the smelting of basal wool or mineral wool.	15.0

Compiled by the IDC from the following sources: Mbendi Information for Africa (Mar 1997) and Trade Compass Gateway to International Commerce.

STATISTICS

Lesotho (USDm, unless otherwise stated)

	1991	1992	1993	1994	1995	1996[1)]
Population (millions)	1.8	1.9	1.9	2.0	2.1	. .

Nominal GDP at market prices	599.5	680.7	709.7	778.8	883.4	904.7
Real GDP growth rate, %	1.9	3.3	7.5	11.8	9.8	14.1
GDP per capita (USD)	325.8	360.2	365.8	389.4	424.7	439.2
Consumption as % of GDP	150.9	150.1	148.9	135.6	111.6	130.5
Gross domestic savings as % of GDP[2)]	43.6	53.2	48.0	63.1	77.7	67.8
Gross investment as % of GDP[3)]	77.5	64.4	76.8	83.9	196.7	104.2
Inflation rate, %	18.4	16.5	12.0	7.9	9.6	9.0
Merchandise exports as % of GDP	11.3	16.2	19.0	18.7	18.0	19.4
Merchandise imports as % of GDP	141.1	135.5	127.8	114.8	115.3	117.3
Capital account of balance of payments	209.2	239.0	288.4	302.3	363.5	426.7
Foreign direct investment as % of GDP	1.3	0.4	2.1	2.4	2.6	3.1
Overall balance on balance of payments	85.3	128.6	153.0	212.6	122.6	119.5
Average exchange rate: LSM to USD	2.756	2.850	3.264	3.549	3.627	4.271
Foreign exchange reserves expressed in terms of months of import cover	2.7	3.5	4.5	6.2	5.6	6.2
Total external debt as % of GDP	62.5	60.8	63.4	60.7	58.2	61.2
Total external debt service as % of exports[4)]	4.2	3.5	3.5	2.9	3.6	3.8
Budget deficit as % of GDP (fiscal year)	-0.6	3.9	6.5	5.4	3.4	2.8
Central bank discount rate (end of year), %	18.0	15.0	13.5	13.5	15.5	17.0
Prime lending rate (average for year), %	20.0	16.0	14.0	15.0	16.5	17.8
Growth rate of M2 money supply, %	9.6	21.0	18.6	16.3	5.0	19.0
Domestic credit to government	40.5	-46.1	-141.8	-238.6	-311.3	-297.4
Domestic credit to private sector	94.2	113.7	150.0	156.2	167.0	169.9

Source: Central Bank of Lesotho

Notes:

1) Preliminary figures except for monetary aggregates.

2) Gross national savings (private & public) including unrequited transfers.

3) Private & public, including Lesotho Highlands Water Project.

4) Ratio of debt service to exports of goods and services, including factor income.

USEFUL ADDRESSES

Investment Promotion Agency

Lesotho National Development Corporation (LNDC), Private Bag A96, Maseru 100. Tel: +266-312012 Fax: +266-310038

Consulting Firms

Ernst & Young, Private Bag A169, Maseru 100. Tel: +266-316490 Fax: +266-310230

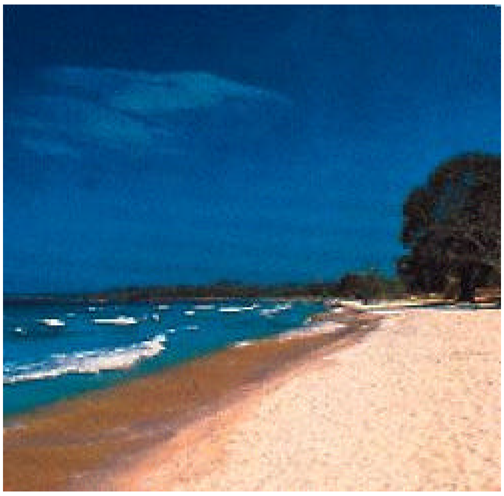
KPMG, Box 1252, Maseru 100. Tel: +266-313929 Fax: +266-310254

FOOTNOTES

(1) The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

MALAWI



Lake Malawi, the world's first fresh water park: a national heritage.

GENERAL INFORMATION

Geography and Population

Malawi is a landlocked country located in the north of southern Africa. Its geographical area covers 118,484km^2 with inland waters accounting for 24,208km^2. The capital city is Lilongwe. English is the official and business language and Chichewa is the predominant language spoken by the local people.

The population in Malawi was estimated at 10.7 million in 1996, with a growth rate of 3.2 percent per year. Malawi is ranked 157 out of 174 countries by the UNDP, in terms of human development.[1]

Sectoral Description

At present, mining operations are limited to small-scale production of coal, limestone, rubies and sapphires. Malawi is endowed with other mineral resources, however, that are presently not being exploited due to a lack of investment in basic infrastructure. Considerable opportunity exists for potential investors in this field.

The manufacturing sector in Malawi mainly involves agro-processing - tea factories, cotton ginneries, tobacco factories, sawmills, oil and grain mills, abattoirs and cold storage plants. Other industries include soaps and detergents, cement, textiles and clothing, leather processing, fertiliser compounding, brewing, distilling, and metal working. Since the government's change of stance with regard to foreign investment, this sector has considerably more opportunities to offer. The construction sector has performed steadily in recent years, but is heavily reliant on aid projects and donor financing.

Agriculture is the largest sector in the Malawian economy and constitutes about one-third of GDP. Tobacco is the dominant export earner, accounting for more than 70 percent of agricultural exports, with the other main cash crops being tea, sugar, coffee and cotton. This sector has benefited from deregulation of the economy, as this has allowed small-holders (who occupy most of the arable land) to compete with big estates, thus increasing efficiency. Aside from crops, Malawi also produces beef, pork, mutton, lamb, poultry and eggs as well as having a reasonably large dairy industry. However, fish constitutes about 70 percent of the total animal-based protein consumption in Malawi, and the industry employs, either directly or indirectly, nearly 250,000 people. The Department of Fisheries has initiated a number of projects to increase production on a sustainable basis, after production fell dramatically in the 1990s.

The Department of Forestry is responsible for approximately 749,000 hectares of forest reserves and protected hill slopes. Demand for fuelwood, particularly for tobacco curing, has put pressure on the country's forestry reserves, and a reforestation programme is currently in place.

Development of the tourism industry as a major foreign exchange earner is one of the Malawi government's key objectives. Malawi has considerable potential in this area, with five national parks and an abundance of wildlife. Lake Malawi is the principal tourist attraction and offers fishing, diving, boating and watersport.

Infrastructure

The Department of Water in the Ministry of Works is responsible for overall national water resources management. Connections are carried out by the local water board in each particular area. About 47 percent of Malawi's population have access to safe water, and 53 percent to sanitation.

Malawi has developed a number of hydroelectric schemes since independence which have enhanced electricity generating capacity. The rural electrification programme has not progressed as well as expected, and at present about three percent of rural households have access to electricity.

Being a landlocked country, Malawi is heavily reliant on its road, rail and air routes. The majority of Malawi's international freight traffic is moved by road through the country's 14,000 km road network. In recent years, priority has been assigned to the upgrading of roads, particularly to Tanzania, to open up the route to the port of Dar es Salaam, and the road between Lilongwe and Lake Malawi to facilitate easy access for tourists. Rail freight links have also been bolstered by the improvement of railways. Air Malawi has a modern fleet of aircraft and offers services to regional and domestic destinations. The airports at Lilongwe and Blantyre have good cargo capacity as well as bonded and refrigerated warehouse facilities.

The telecommunications network in Malawi is considered to be one of the most reliable and inexpensive in the region. Thousands of digital lines are presently being installed in the major cities each year. Facsimile transmissions, electronic mail and data can now be transmitted from Malawi to most places in the world. Cellular phone networks have been available since 1995.

There are district hospitals in all 24 districts of Malawi and central hospitals in the urban centres of Lilongwe, Blantyre and Zomba. Private health care is available from private doctors in Lilongwe and Blantyre.

ECONOMIC OVERVIEW

Introduction

Malawi adopted an export-oriented approach after indepen-dence, with agriculture and agro-industries being the sectors which were focused on. Parastatals operated in all key areas of the economy, often enjoying monopoly status. Government regulation of the private sector was also significant. In the 1980s however, structural adjustment reforms were initiated, aimed at liberalising the economy and improving incentives for private sector investment. These reforms, along with the transition to democracy in 1994, have progressed successfully.

Recent Macroeconomic Developments

The economy continued to strengthen in 1996, with GDP registering real growth of 9.7 percent, following the 9 percent real growth in 1995. Although all sectors performed well, agriculture, which grew by 29.2 percent in 1996, was the fastest growing sector, with small scale agriculture recording an increase of 39.8 percent in production. However, large scale agriculture increased by only 1.1 percent from 15.4 percent in 1995, mainly as a result of a temporary slowdown in tobacco production.

On the fiscal front, the situation also improved remarkably with the fiscal deficit decreasing from 5.4 percent of GDP in 1995 to 3.2 percent of GDP in 1996. This improvement mainly reflected the successful implementation of the cash budget system and other fiscal reform measures.

Inflation recorded its lowest rate since 1992, at 6.7 percent in December 1996. In estimating Malawi's inflation rate, however, food is given a disproportionately high weight so that during times of drought Malawi's inflation rate is much higher than in other years. This factor, plus tight monetary and fiscal policies, contributed to the inflation rate registering an average of 37.6 percent in 1996, compared to 83.3 percent in 1995.

Developments in the monetary sector were also encouraging, with broad money supply (M2) growing by 39.9 percent, much less than the 43.7 percent registered the previous year. The money market maintained a fairly high liquidity position during 1996 due to an increase in treasury bill holdings. These holdings have of late started to come down, reflecting the government's reduced recourse to borrowing in the local market. Net credit to the government increased during the first half of 1996 mainly as a result of the government's commitment to meet its debt obligations. The discount rate was adjusted three times during the year from a high of 50 percent in June 1996 to an eventual 27 percent in November 1996.

The balance of payments as measured by the change in net foreign assets of the banking system, recorded an increased surplus in 1996, mainly as a result of capital inflows under donor balance of payments support. As such, foreign exchange reserves increased to 5.7 months of import cover in December 1996, compared to 3.7 months in December 1995. Another notable development in this sector was the stabilisation of the currency (Malawian Kwacha) against the USD.

Prospects for 1997 point to a consolidation in economic activity as real GDP growth is expected to be approximately 7.9 percent. However, excessive rainfall may impact negatively on the balance of payments as the quality of tobacco (the major earner of foreign exchange) could be affected by the heavy rains. Inflation is also expected to increase to an average annualised rate of eight percent by end December 1997 due to expected food scarcities. These factors will naturally have an impact on fiscal and monetary performances, and a further tightening of policies is expected during the year.

Financial Institutions

The Malawian government has recently embarked on a programme to liberalise and modernise the financial system, aiming for market-based interest rates, no direct government control over credit and unrestricted access to financing facilities for both local and foreign investors.

The Reserve Bank of Malawi is fully independent in the areas of monetary policy and the issuance of Malawi currency. The Bank also administers the Exchange Control Act and operates the fledgling market in government stock.

There are six registered commercial banks, with the National Bank of Malawi and the Commercial Bank of Malawi operating countrywide. These banks offer a conventional range of services including cheque accounts, registration of foreign capital with the Reserve Bank, short and medium-term credit facilities, trade financing, export credit guarantees, foreign remittances and repatriation of capital. Commercial banks also offer working capital to investors.

Indebank is a development finance institution which provides loan and equity financing for projects. The state-owned Malawi Development Corporation invests in projects with local or foreign partners.

Malawi Stock Exchange

The stock exchange was established in 1994. There is one stockbroking company, Stockbrokers Malawi Limited, which deals in listed company shares and acts as a broker in government and other securities.

The first company listed on the Stock Exchange was the National Insurance Company in November 1996. A second company, Blantyre Hotels Limited, was listed in March 1997. There are good prospects for further listings with the implementation of the privatisation programme.

Foreign Trade

Malawi's foreign trade balance is, to a large extent, governed by production levels and world market prices for tobacco, tea and sugar; these three commodities account for around 85 percent of domestic exports. Imports are dominated by capital goods and industrial equipment. During years of drought, Malawi's food imports rise significantly. In recent years the direction of Malawi's foreign trade has diversified with South Africa emerging as a major trading partner.

Trade Liberalisation

Malawi's tariff reform programme is designed to bring Malawi in line with other Southern African countries. Almost all non-tariff barriers have been removed, and import licenses have been abolished, except for a small range of goods which have implications on health, safety, national security and the environment. Export licenses have also been abolished, except for maize, groundnuts and beans.

Labour Relations

The principal means of addressing industrial action is the Tripartite Negotiations. These negotiations bring management, trade unions and the government together to resolve disputes. However, less than 10 percent of the Malawian work force belong to a trade union. There are minimum wage rates for rural, city and municipal areas.

Human Resources

The government is making a concerted effort to open up the education system to all the people of Malawi, as education opportunities were limited in the past. Enrolment in primary schools over the past few years has risen at an average rate of 7 percent per annum. There is one university, the University of Malawi, and several private international schools guaran-teeing expatriate children an internationally comparable level of education.

The labour force is heavily biased towards the agriculture sector although this is gradually changing with the expansion of multinational manufacturing operations. Labour costs are lower than in most African nations.

The adult literacy rate is currently about 55 percent, according to the UNDP's 1996 Human Development Report.

INVESTMENT CLIMATE

Investment Incentives

General incentives are:

- Additional 15 percent allowance for investments in designated areas of the country.
- Allowance up to 20 percent for used buildings and machinery.
- 50 percent allowance for certain training costs.
- Allowance for manufacturing companies to deduct all operating expenses incurred up to 24 months prior to the start of operations.
- Zero duty on raw materials used in manufacturing.
- Indefinite loss carry forward enabling companies to take advantage of tax allowances.
- Duty free importation of heavy commercial vehicles with payloads of at least 10 tonnes.
- Agreement for the reduction of withholding taxes on remittances and payments.
- Low wage rates and a stable social and political environment.
- A five year tax holiday or 15 percent corporate tax rate for new investments of between USD5-10m, and up to 10 years tax holiday for new investments in excess of USD10m.

Export Incentives

Incentives for establishing operations in an Export Processing Zone (EPZ) include:

- No withholding tax on dividends.
- No duty or capital requirement on capital equipment and raw materials.
- No excise taxes on purchases of raw materials and packaging materials made in Malawi.
- No surtaxes (VAT).
- Transport tax allowance equal to 25 percent of international transport costs.
- Zero corporate tax rate.

Incentives for manufacturing in bond include:

- Export tax allowance of 12 percent of export revenues for non-traditional exports.
- Transport tax allowance equal to 25 percent of international transport costs, excluding traditional exports.
- No duties on imports of capital equipment used in the manufacture of exports.
- No surtaxes.
- No excise taxes or duties on purchases of raw material and packing materials.
- Timely refund of all duties (duty drawback) on imports of raw materials and packaging materials used in the production of exports.

Incentives for horticultural producers:

- 100 percent duty-free importation of equipment and raw materials for those exclusively engaged in horticultural production for export.

Malawi has signed trade agreements with some countries and has preferential access to a number of markets:

- The European Union: Malawi is a signatory to the Lomé Convention, ensuring that agricultural products and virtually all manufactured goods have preferential access to all EU markets.
- Eastern and Southern Africa: Malawi has a bilateral agreement with South Africa and Zimbabwe. Malawi is a member of SADC and COMESA.
- Malawi is a member of the WTO and the GSP.

Taxation

The Malawi government has embarked on a process of reducing taxes to attract foreign investment and improve international competitiveness.

Currently the corporate tax rate is 35 percent and there is a withholding tax of 20 percent.

Investment Promotion Agency

The Malawi Investment Promotion Agency (MIPA) was established in 1991, its principle mandate being to promote foreign investment in Malawi. Representatives from the private sector, parastatal sector, and the government constitute its Board of Directors. MIPA is responsible for facilitating the investment process, providing investment-related information, making suggestions to government as to how to improve the investment climate, and marketing Malawi (both regionally and overseas) as a favourable location for investment.

Investment Code

The Investment Promotion Act of 1991 established Malawi's commitment to attracting foreign investment. It eliminated the need for general investment licenses for investment, and it was through this Act that MIPA was created.

Exchange Controls

Investors have free access to foreign exchange in Malawi, both for imports payments and transferring financial payments abroad. However, capital account controls still exist.

- No licensing requirement exists for importing foreign exchange.
- Pre-payment for imports is not possible, as payments may only be made on receipt of the goods.
- Certain current invisible payments, such as private travel, business travel and medical expenses, are subject to indicative limits.
- Investors may repatriate profits, dividends, investment capital and interest, and make principal payments for international loans. However, this only holds if the original investment was made abroad.

- Holders of Temporary Employment Permits are allowed remittances of up to two-thirds of their earnings.
- Both inward and outward direct and portfolio investments require prior approval.
- With respect to export earnings by a resident, only 40 percent of these may be retained in a foreign currency account. The other 60 percent must be sold to an authorised dealer bank on receipt.
- The blocked funds of an emigrant may only be released after a year, and only after the individual circumstances of the case have been examined.
- The Malawian Kwacha's exchange rate is no longer fixed and its value is market-determined.

Protection of Investment

Investment is protected by the Malawi Constitution and other laws and regulations, irrespective of ownership. Malawi is also a member of several international agencies, including ICSID and MIGA, and is a signatory to bilateral investment guarantee and protection agreements.

Privatisation Programme

Privatisation of the parastatal sector is well underway, in line with the Malawian government's market-oriented policies.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Mining:

- Known viable reserves of bauxite, asbestos, granite, uranium, glass sands, vermiculite, phosphate, coal, ceramic clays, gemstones and strontianite have been identified.
- Conducive investment and economic policies and laws, as well as guidelines for environmental protection, have been formulated for the benefit of prospective investors.

Livestock production:

- Beef production, particularly as an option to diversify away from tobacco for the larger estates.

Agriculture:

- Related industries, e.g. fertiliser and pesticide plants.
- Expansion of cash crop production, especially sugar.

Industry:

- Light engineering industries such as steel rolling, wire drawing, metal plating, metal fabrication, machine shops, tool shops, electric cables and foundries.
- Mineral-based industries including lime, ash cement, mini-cement plants, roofing tiles, refractors, pottery, ceramic ware and graphite.
- Light chemical industries such as paper recycling, oil refining, plastics, rubber products, auto rubber parts, pharmaceuticals and pesticide formulation, shampoos and detergents.
- Textiles including handloom and powerloom weaving, yarn, garment and fishing net manufacture.
- Forestry and wood-based industries.
- Food preservation and agro-processing of fish, coffee, avocado oil, fruit juices, canning, bakeries and confectionery.

Tourism:

- Developing game and lakeside hotels and lodges.

- Time share developments.
- Developing city centre and resort area restaurants and hotels.
- Game parks.
- Casinos.

PROJECTS

Malawi: Current Projects

Sector	Project	Value USDm
Electricity, gas & water	National Water Development Project	
Finance, insurance & real estate	Shopping mall and office tower	25

Malawi: Projects for potential investment

Sector	Project	Description
Agriculture, forestry & fishing	Press Corporation Ltd	Joint ventures in the production of meat and milk for the domestic market.
	Irrigation	Bwenje Valley and Shire Valley.
	Others	Horticultural, poultry and rabbitry development.
Manufacturing	Packing materials	Diversifying range of products with equity participation.
	Agro processing plant expansion export markets.	Joint participation required in the expansion of processing and repacking of various agriculture products for the domestic and export markets.
	Agro processing joint ventures	Joint venture partners are required for the production of oils, aromats and colorants, animal feeders, insulation boards and wall panels.
Manufacturing	Confectionery industry expansion	Joint ventures required for the expansion of confectionery products.
	Press Corporation Ltd	Joint participation required in the following expansion projects: • production in fish processing, biscuits, candy, confectionery and breakfast cereals; • furniture production; • manufacture of steel related products; • the manufacture of various plastic containers; and • new projects for sugar production and soya bean production for the domestic and export markets.
	Animal slaughter facility expansion and cold storage facility	Finance is required for a complete overhaul of the plant (possible privatisation).
	Production of fruit juice concentrate	Looking for technical assistance, equity participation and loan finance.
	Others projects	Manufacture of products such as various sectors of processed foods, cotton products, leather goods, medical products, electrical goods, injection mouldings and tools.
	Wheat mill	Milling wheat for the domestic market.
	Soft drinks bottling	A franchise will be obtained from Pepsi or Cadbury Schweppes.
	Paper recycling	Equity participation required for paper recycling.
Mining & quarrying	Portland cement	Joint ventures for two projects in cement and four projects for coal mining.
	Uranium	Joint venture or technical partnership.
	Vermiculite	Found in the Mwanza district with reserves of 1.5 m tonnes.

Mining & quarrying	Phosphate	Found in the Phalombe area.
	Titanium	Found in the three districts of Salima, Nsanje and Zomba.
	Graphite mining company	A joint venture partner required.
	Bauxite	Found on Mulanje mountain.
Tourism	A 100 bedroom hotel in Maclear	Government is seeking joint venture partnership.
	Two five star hotels in Blantyre of 200 rooms each	Joint venture partnership sought.
	A 50 room hotel in	To cater for tourist accommodation at Mulanje.
	Two hotels at Salima of 150 rooms each	Located 100 km from the capital city Lilongwe.
	Sale of State House in Lilongwe	On a 500 ha plot, this could be converted into a hotel.
	Lilongwe 2 star hotels	200 rooms each plus conference facilities for 500 people.
Compiled by the IDC from the following sources: Department of Trade and Industry (DTI) South Africa (July 1996) - Regional Industrial Location Study: Malawi; Mbendi Information for Africa (Mar 1997).		

STATISTICS

Malawi (USDm unless otherwise stated)

	1991	1992	1993	1994	1995	1996
Population (millions)	9.1	9.4	9.7	10.0	10.3	10.7
Nominal GDP at market prices	2,203.5	1,799.5	2,070.6	1,286.8	1,420.8	2,202
Real GDP growth rate, %	7.8	-7.9	10.8	-11.6	9.0	9.7
GDP per capita (USD)	242.1	191.4	213.5	128.7	137.4	205.7
Consumption as % of GDP	91.0	101.5	101.0	91.8	93.4	93.4
Gross domestic savings as % of GDP	7.9	1.7	-3.3	3.0	11.6	4.6
Gross investment as % of GDP	20.1	18.8	12.3	16.8	17.7	13.8
Inflation rate, %	8.2	23.3	22.8	34.6	83.3	37.6
Merchandise exports as % of GDP	21.8	21.5	15.3	24.9	28.5	19.8
Merchandise imports as % of GDP	19.1	22.3	16.4	21.1	16.8	16.0
Capital account of balance of payments (Balance on long term capital)	177.0	139.2	279.5	228.3	171.1	270.5
Overall balance on balance of payments	15.7	-46.6	17.9	-34.9	-31.5	-115.8
Average exchange rate: MWK to USD	2.8033	3.6033	4.4028	8.7364	15.2829	15.2837
Foreign exchange reserves expressed in terms of months of import cover	2.0	1.3	1.6	3.5	3.7	5.7
Total external debt as % of GDP	70.3	90.7	82.0	264.3	155.2	100.8
Total external debt service as % of exports	25.3	24.9	22.3	20.5	31.8	26.4
Budget deficit as % of GDP (fiscal year)	-3.4	-6.4	-15.2	-1.7	-5.4	-3.2
Central bank discount rate (end of year), %	13.0	20.0	25.0	40.0	50.0	27.0
Prime lending rate (average for year), %	20.0	22.0	29.5	31.0	47.0	27.5
Growth rate of M2 money supply, %	21.6	21.8	41.8	56.4	43.7	39.9
Domestic credit to government	80.0	163.1	209.4	87.9	69.9	72.0
Domestic credit to private sector	247.2	201.2	170.2	77.0	81.9	91.8

Source: Reserve Bank of Malawi

USEFUL ADDRESSES

Investment Promotion Agency

Malawi Investment Promotion Agency, Private Bag 302, Capital City, Lilongwe 3. Tel: +265-780800 Fax: +265-781781

Consulting Firms

Coda and Partners (Africa), P O Box 30290, Lilongwe 3. Tel: +265-781025 Fax: +265-781135

Coopers & Lybrand, P O Box 539, Blantyre. Tel: +265-622899 Fax: +265-621397

Deloitte & Touche, P O Box 187, Blantyre. Tel: +265-622277 Fax: +265-621229

Economic Resources Limited, P O Box 1064, Blantyre. Tel: +265-624768 Fax: +265-636496

Imani Development, P O Box 2598, Blantyre. Tel: +265-621817/373 Fax: +265-622992

KPMG, P O Box 508, Blantyre. Tel: +265-620744 Fax: +265-620575

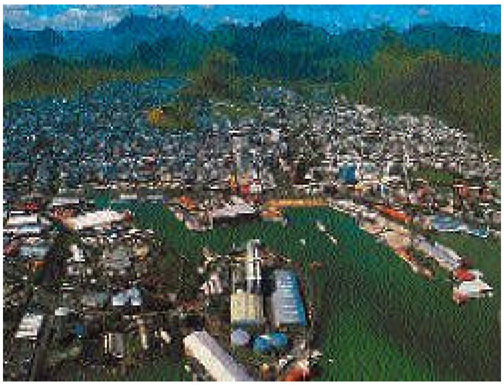
Price Waterhouse, P O Box 1147, Blantyre. Tel: +265-620322 Fax: +265-621215

FOOTNOTES

1 The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

MAURITIUS



Financial and business hub of Mauritius.

GENERAL INFORMATION

Geography and Population

The Republic of Mauritius is an island with an area of 1,865 km^2, situated in the south west of the Indian Ocean, 2,400 km off the south east coast of Africa. The capital of Mauritius is Port Louis and the official language is English, although French and Creole are also spoken. The population of Mauritius is estimated at 1,145,000 for mid-year 1997.

Of all the SADC countries, Mauritius is rated the highest by the UNDP in terms of human development. At 54 in the world, Mauritius qualifies for the "high human development" category.

Sectoral Description

Sugar is an important traditional export crop. Flowers and tropical fruits are also becoming significant foreign exchange earners, and their contribution to the country's foreign trade is expected to increase. The fishing industry comprises small-scale and commercial fishing enterprises, and efforts are now being made to develop commercial fishing ventures offshore. The island is self-sufficient in poultry and pork, and there is some beef production; otherwise, meat is imported. Agriculture accounts for approximately 9.4 percent of GDP.

Manufacturing is the driving force behind the economy. The manufacturing sector produces a wide range of goods, including clothing and textiles, sunglasses, toys, lenses, spectacle frames, plastic products, engineering products, electronic items and the printing of books and magazines. Textiles has been the mainstay of Mauritian industry from the early years of the EPZ in the 1970's to the beginning of the 1990's. However, other African countries with lower labour costs are now competing with Mauritius for textile contracts.

Tourism is a well-developed sector, and is promoted in an environmentally sensitive manner - hotels and associated developments capable of having an adverse effect on the environment have been banned by the government. There are 95 hotels at present, and a record 487,000 people visited the country in 1996.

In order to further diversify the economy, the Informatics Park was set up by the Mauritius Export Development and Investment Authority (MEDIA) in 1994 to cater specifically for information technology activities. Intelsat Business Services circuits are available to users in the Park. In this environment, activities such as software development, document processing, electronic desktop publishing, tele-marketing and directory assistance services take place.

Infrastructure

There is a regular supply of water in Mauritius and practically all Mauritians have access to clean water and sanitation. The whole country is served with electricity, which is essentially thermal. The remaining is power either supplied by hydro-electric stations or produced from bagasse (a by-product of sugar cane). Adequate storage facilities ensure a regular supply of petroleum.

The road network is 1,830 km long and provides easy access to all parts of the country. A highway links the Sir Seewoosagur Ramgoolam International Airport, situated at Plaisance, to the north of the country.

Port Louis harbour includes a container terminal and terminals for the handling of bulk sugar, oil, wheat and cement. As part of its strategy to develop the island as a Regional Trade Centre, the government has established a free port and an airport zone in Mauritius. The airport has recently been modernised, and there are plans to expand it further. Mauritius has air links with Europe, India, the Far East, Southern Africa and other Indian Ocean islands. Freight rates are negotiable with carriers based on bulk frequency.

The islands' telephone network is fully digitalised with computer controlled electronic exchanges. The system provides International Direct Dialling facilities to all subscribers and automatic telex and facsimile links to most parts of the world. A Packet Switched Data Service for high speed transfer of data and a cellular telephone system are also available, as are courier services to other countries.

The public health service is free and all Mauritians have adequate access to health services. There are eleven private clinics on the islands, twelve public hospitals and a large number of health posts and dispensaries.

ECONOMIC OVERVIEW

Introduction

Mauritius transformed itself from a sugar economy into an industrial one that is now ready to venture into international service industries. Free enterprise and the private sector played a vital role in economic development. The role of government is limited to providing basic infrastructure and a sound investment climate, particularly the facilitation of the EPZ scheme, which has been an important factor in promoting economic growth.

In the early 1980s, the government launched a comprehensive adjustment programme aimed at fostering economic development through export-led industrialisation, agricultural diversification and expansion of the tourism industry.

The past decade witnessed rapid economic growth and the achievement of near-full employment. To diversify the economy even further, the government aims to develop Mauritius as an international, financial and business centre, operating as a link between Africa and Asia. The establishment of a free port at Port Louis is a significant step in this direction.

Recent Macro-Economic Developments

Over the past five years, the economy recorded real growth rates around the five percent mark. Real growth for 1996 is expected to register 5.8 percent, the financial sector being the major contributor with an average contribution of approximately 16 percent. Other major sectors that contributed to growth are trade, the EPZ, transport and tele-communications, manufacturing, and sugar cane in the agricultural sector. The EPZ was the major contributor to exports and also the largest single employer of the labour force. Performances of the financial and manufacturing sectors reflect successes achieved in diversifying the economy and reducing the dependence on the sugar and tourism sub-sectors.

It is estimated that the relative position of the economy vis-a-vis some of its international competitors has weakened in the markets for textiles and garments due to the phasing-out of certain agreements under the Uruguay Round. The EPZ is, however, in the process of adjusting, and policy initiatives are being refined to upgrade this sub-sector. In addition, the twinning of offshore banking with offshore business, the establishment of a free port and transformation of the country into an information-based economy, is expected to produce the necessary results to face the challenges posed by an integrated world economy.

Despite an increase in the sales tax rate, the continual decline of tax revenues (due to the reduction and rationalisation of import duties and the weakening of non-tax revenue) and the increase in budgetary expenditure (mainly as a result of the re-introduction of rice and flour subsidies and salary and pension increases), are causes for widening of the fiscal deficit for 1995/96 to 6 of GDP, from 3.7% in 1995.

Perseverance with tight monetary policy, favourably accompanied by supply-side responses, dampened inflationary pressures.

The medium-term objective of monetary policy is price stability, mainly through targeting money supply (M2) growth, which increased by 7 percent over 1996. Active liquidity management therefore occupies overriding importance. As a result, the money and foreign exchange markets were integrated to ensure the efficient conduct of monetary policy. This occurred as part of the monetary authorities' package of policy reforms to free the financial system from restrictions and to exert influence through indirect monetary control.

The overall balance of payments is expected to record a lower surplus than in 1995. However, due to the stronger performance of exports, the current account of the balance of payments is projected to show a lower deficit for 1996/97, compared to the deficit for the previous year. Foreign exchange reserves are sufficient to cover about five months of imports.

Financial Institutions

The central bank (Bank of Mauritius) began its operations in August 1967. The Bank of Mauritius Act is currently being reassessed in order to provide the Bank with independence in the formulation of monetary policy. The Bank acts as banker for the government, extending credit to the government if revenue falls short of planned expenditure. The Bank is also responsible for the supervision of financial institutions.

There are a number of commercial banks, both domestic and offshore, operating in Mauritius. All extend short-term and long-term credit to manufacturing establishments. The Development Bank of Mauritius has also played a crucial role in making credit available to industry. Other financial institutions operating in Mauritius include insurance compa-nies, mutual funds, pension funds, mortgage companies, leasing companies, investment companies and trusts, and the Stock Exchange of Mauritius. The money market involves interbank transactions and the trading of short-term Government/Bank of Mauritius bills. The capital markets mainly revolve around the stock exchange, which is the only organised market for shares and bonds.

The Stock Exchange of Mauritius came into operation in 1989. To obtain a listing on the official market, a company must be public, have a minimum capitalisation of MUR20 million (about USD1 m), and must have been in operation for at least five years. The government also offers a series of tax incentives encouraging companies to be listed on the Stock Exchange.

Mauritius Stock Market (USDm)

	1990	1991	1992	1993	1994	1995	1996
Number of companies with shares listed	13	19	21	29	34	39	41
Market capitalisation (USDm)	264.8	303.6	388.5	812.0	1,597.5	1,574.5	1,856.7
Number of companies making issues*	2	3	7	9	11	6	2
Value of new issues	..	..	14.7	24.4	204.9	70.7	..
Value of rights issues	7.7	2.7	48.9	3.1	14.1	36.3	1.4
Volume of shares traded (m)	3.5	4.5	10.5	37.3	50.6	59.4	90.0
Value of shares traded	6.0	5.2	11.4	39.2	84.5	70.3	89.1

Source: The Stock Exchange of Mauritius. Original figures in Mauritian Rupees, converted to US dollars by using International Financial Statistics (IMF) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.

* Includes new issues, rights issues and bonus issues

Foreign Trade

Mauritius' major trading partners are the EU countries, the USA, Japan and China. Principal exports are clothing, textiles and sugar, while imports consist mainly of durable consumer goods, capital equipment and raw materials.

Trade Liberalisation

Some imports and exports are controlled, and require permits or permission from the Bank of Mauritius before entering or leaving the country. All importers must be licensed.

Labour Relations

The social, political, and economic stability of Mauritius has, in part, been achieved through effective management of labour relations. Labour is a partner in policy formulation and economic planning through its participation in the Joint Economic Council. The Industrial Relations Act of 1994 regulates the general working conditions, wages and salaries, as well as various types of fringe benefits. Employers are required to contribute towards their employees' social security and also pay a training levy.

Wages for skilled people are relatively low compared with those in developed countries.

Human Resources

Education is free at all levels in Mauritius and the literacy rate is over 90 percent. The workforce consists mostly of well-educated people, bilingual in English and French. There are many university graduates and qualified professionals trained both overseas and locally.

The University of Mauritius offers courses in a wide range of disciplines. Furthermore, a network of vocational training institutes is co-ordinated by the Industrial Vocational Training Board. Co-operation with major international institutes ensures training in the most modern and sophisticated technologies.

INVESTMENT CLIMATE

INVESTMENT INCENTIVES

Type	Applicability	Benefits
Export Processing Zone	Available to those involved in the production of manufactured goods for export or deep sea fishing for export.	• Corporate tax rate: 15% for life. • Dividends: tax-free for 20 years. • No customs duty, import levy or sales tax on raw materials, machinery, equipment and spare parts, except for motor vehicles. • Free repatriation of profits, dividends and capital without the payment of capital transfer tax. • Electric power at preferential rates. • Finance available at preferential rates from the Development Bank of Mauritius.
Strategic Local Enterprise	Local industry manufacturing for the local market and engaged in an activity likely to promote the economic, industrial and technological development of Mauritius.	• Corporate tax rate: 15% for life. • Dividends: tax-free for 20 years.
Modernisation	Two broad categories:	• No customs duty on scheduled

and Expansion Enterprise	(1) Investment in production machinery and equipment, such as automation equipment and processes, and computer applications to industrial design, manufacture and maintenance. (2) Investment in antipollution and environment protection technology to be made within two years of date of issue of certificate.	production equipment. • Income tax credit of 10% (spread over three years) of investment in new plant and machinery, provided at least MUR10 m (about USD550,000) is spent and this occurs within two years of date of issue of certificate (this is in addition to existing capital allowances which amount to 125% of capital expenditures). • Enterprises in Category 2 benefit from a further incentive, i.e. an initial allowance of 80% for expenditure incurred on antipollution machinery or plant (against 50% in most other cases).
Industrial Building Enterprise	Construction for renting of industrial buildings or levels thereof, provided floor space is at least 1,000m^2. Special conditions: The applicant needs to be a company intending to build for leasing to the holder of a certificate (other than an industrial building certificate) issued under this Act or to an enterprise engaged in the manufacture or processing of goods or materials except the milling of sugar.	• Corporate tax rate: 15% for life. • Dividends: Tax-free for 10 years. • Registration dues for land purchase: 50% exemption. • Rent control is not applicable.
Pioneer Status Enterprise	Activities involving technology and skills which are likely to enhance industrial and technological development. The applicant will not be considered if the qualifying activity was already operational before 1 July 1993.	• Corporate tax rate: 15% for 10 years, 35% thereafter. • Dividends: Tax-free for 10 years. • No customs duty, import levy or sales tax on scheduled equipment or materials.
Offshore Business	Conducting of business with non-residents and in currencies other than the Mauritian rupee. Activities include: offshore banking, offshore insurance, offshore funds management, international financial services, operation headquarters, international consultancy services, shipping and ship management, aircraft financing and leasing, international licensing and franchising, international data processing and other information technology services, offshore pension funds, international trading and assets management, and international employment services.	• No tax on profits, and free repatriation. • Complete freedom from exchange control. • Concessionary personal income tax for expatriate staff. • Complete exemption of taxes on imported office equipment. • Complete exemption from import duty on cars and household equipment for two expatriate staff per company. • No withholding tax on interest payable on deposits raised from non-residents by offshore banks. • No withholding tax on dividend and benefits payable by offshore entities; no estate duty or inheritance tax is payable on the inheritance of shares in an offshore entity; no capital gains tax.
Export Service Zone	Export-oriented service companies such as accountancy, law medicine, international	• Corporate tax rate: 15% for life. • Dividends: Tax-free for 20 years

	marketing, quality testing, pre-shipment services, civil engineering, management consultancy, reinsurance, entry port trade and transhipment.	• Dividends: Tax-free for 20 years. • Free repatriation of capital, profits and dividends. • No import levy or customs duty on machinery equipment, spare parts and goods destined for re-export.
Free Port	Transhipment and re-export trade, e.g. warehousing and storage, breaking bulk, sorting, grading, cleaning, mixing, labelling, packing and repacking, minor processing and simple assembly	• Complete exemption from payment of customs duty, import levy and sales tax on all machinery, equipment and materials imported into a free port zone for exclusive use in the free port, as well as on all goods destined for re-export.
Mauritius is a signatory to several international trade agreements, including the Lomé Convention and the GSP. Mauritius is also a member of SADC and COMESA.		

Taxation

Taxation of companies:

- All companies who do not qualify for any investment incentive scheme face a corporate tax rate of 35 percent, except for companies listed on the Stock Exchange, who are taxed at 25 percent.
- Capital gains: No tax is levied on those who make capital gains through the disposal of fixed assets, except on owners of immovable property who subdivide their land into two or more lots for sale.
- Double taxation agreements exist with China, Denmark, France, Germany, India, Italy, Kuwait, Lesotho, Madagascar, Malaysia, New Zealand, Pakistan, Seychelles, South Africa, Swaziland, Sweden, United Kingdom and Zimbabwe. Agreements are currently being negotiated with Belgium, Botswana, Namibia, Russia, Singapore and Luxembourg.

Taxation of non-resident entities:

- A branch of a foreign company is taxed in the same way as a resident company, except that interest and royalties are not deducted from the measure of taxable income. However, management expenses charged by a foreign head office may be deducted.
-

Taxation of individuals:

- A maximum marginal rate of 25 percent is levied on personal income.
- Withholding taxes:
- There is no separate withholding tax on payments to
- non-residents

Sales tax:

- A sales tax of 8 percent is levied on goods.

Investment Promotion Agencies

The Ministry of Industry and Commerce processes all applications concerning manufacturing activities, seeing to it that all relevant permits are obtained expeditiously.

MEDIA is the focal point for investment and export promotion activities. Services include assistance in the identification of investment opportunities, joint venture partners, site location and markets for Mauritian products, as well as providing market intelligence through the Trade Information Centre.

Other investment support institutions include the Export Processing Zone Development Authority, Mauritius Standards Bureau, the Mauritius Offshore Business Activities Authority, the Mauritius Freeport Authority, the Mauritius Export Processing Zone Association, the Mauritius Employers Federation, and the Mauritius Chamber of Commerce and Industry.

Investment Code

The Industrial Expansion Act incorporates all the industrial incentive laws into a single piece of legislation.

Exchange Controls

All provisions under the Exchange Control Act have been suspended since July 1994. This means that investors are free to repatriate their capital, profit and dividends, and there are no restrictions on capital or current account transactions.

Protection of Investment

Mauritius is a member of the ICSID and MIGA.

INVESTMENT OPPORTUNITIES AND PROJECTS

PROJECTS

Mauritius: Current Projects

Sector	Project	Value USDm
Transport, storage & communication	Airport Upgrade	69
	Port Upgrade	97
	Telecommunication Network Modernisation	86

Mauritius: Future Projects

Sector	Project	Description	Required Investment in USDm
Construction	Port extension and modernisation (three to five years).	• Tender for purchase of three gantry cranes and other equipment; and • Construction of a container park/operation area.	21
	Airport modernisation	• Upgrade the airport over the next three years;	80
		• A control centre to improve traffic management; and	15
		• Expansion of the runway and passenger terminal.	65
	Road construction	Construction of a ring road around Port Louis that would involve tunneling through a mountain.	100
	A monorail construction	A 24.1 km monorail from suburban residential areas to Port Louis.	200
Manufacturing	Printing and publishing.	- Pre-press and press works.	..

Mauritius: Future Projects			
Sector	**Project**	**Description**	**Required Investment in USDm**
Manufacturing	Engineering.	• Precision engineering products. • Fabricated metal products. • Machinery. • Light engineering products. • Automotive parts and components.	..
	Electronics.	• Consumer electronics. • Office electronics. • Electronics security systems. • Others such as electronic instruments and printed circuit boards.	..
	Information technology.	Various studies show that several export-oriented information activities may be competitively established in the near to medium-term.	..
	Pharmaceuticals and health care.	• Pharmaceuticals. • Health care products.	..
	Agro-based industry	Production of bakers' yeast and fodder yeast, industrial alcohol, oxalic acid, citric acid and nitric acid, confectionery, cut flowers and pot plants, hydroponics, asparagus and other off-season products, seaweed and seaweed products.	..
	High-precision plastics	• End product investment. • Support activities.	..
	Jewellery	Manufacture of gold and silver jewellery, medals and insignia, souvenir items, and the cutting and polishing of precious and semi-precious stones (diamonds, sapphires, rubies and emeralds).	..
Service	Telecom	Privatisation.	..
	Supply of wheat and flour	State Trading Corporation launches an annual tender for about 70,000 tonnes of flour per year every September.	
	Health care equipment and supplies	An annual requirement for the supply of pharmaceuticals, medical disposables, and equipment for which an annual tender for pharmaceuticals and dressings is issued in October. Tenders for medical disposables and equipment are issued as required.	14
Service	Supply of crude vegetable oil	Annual imports of 25,000 tonnes of vegetable oil by local manufacturers. (Soya bean oil constitutes 90%; the remainder is sunflower oil).	17
	Sewage treatment	The World Bank is coordinating the financing of a large plant at Montagne Jacquot in Pointe aux Sables. Tender for construction is to be issued during the last quarter of 1997.	73
Compiled by the IDC from the following sources: Mauritius: Country Commercial Guide (Dec 1996); Mbendi Information for Africa (Mar 1997).			

STATISTICS						
Mauritius (USDm unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Population (millions)	1.1	1.1	1.1	1.1	1.1	1.1
Formal sector non-agricultural employment (thousands)	383.0	401.0	416.0	431.0	443.0	..
Nominal GDP at market prices	2,832.4	3,192.9	3,201.1	3,513.7	3,939.9	4,259.5
Real GDP growth rate %	4.3	6.7	4.9	5.3	5.3	5.8
GDP per capita (USD)	2,646.8	2,944.4	2,917.1	3,158.0	3,511.2	3,757.8
Consumption as % of GDP	75.1	73.8	75.3	76.4	77.3	76.2
Gross domestic savings as % of GDP	24.9	26.2	24.7	23.6	22.7	23.8
Gross investment as % of GDP	28.7	29.4	30.9	32.4	25.3	24.2
Inflation rate %	7.0	4.7	10.5	7.4	6.0	6.6
Merchandise exports as % of GDP	44.3	41.8	41.7	39.2	39.9	..
Merchandise imports as % of GDP	50.8	46.8	49.2	50.5	46.0	..
Capital account of balance of payments	-1.6	-1.4	-1.5	-1.3	-1.1	..
Foreign direct investment as % of GDP	0.3	-0.9	-0.6	0.5	0.4	..
Foreign portfolio investment as % of GDP	0.0	0.0	-0.1	0.1	4.5	..
Overall balance on balance of payments	190.8	43.3	7.0	-43.5	109.0	47.9
Average exchange rate: MUR to USD	15.652	15.563	17.648	17.960	17.386	17.948
Foreign exchange reserves expressed in terms of months of import cover	7.1	6.9	6.0	5.0	5.9	5.1
Total external debt as % of GDP	4.1	11.7	10.8	9.6	8.8	12.6
Total external debt service as % of exports	4.9	4.5	5.5	3.9	3.7	3.8
Budget deficit as % of GDP (fiscal year)	-1.7	-2.6	-1.9	-2.4	-3.7	-6.0
Central bank discount rate (end of year) %	11.3	8.3	8.3	13.8	11.4	11.8
Prime lending rate (average for year) %	17.8	17.1	16.6	18.9	20.8	20.8
Growth rate of M2 money supply %	21.9	15.8	16.1	11.8	17.2	7.0
Domestic credit to government	451.1	440.0	481.0	666.6	752.0	805.8
Domestic credit to private sector	1,029.5	1,099.5	1,282.0	1,607.1	1,861.4	1,918.1
Source: Bank of Mauritius						

USEFUL ADDRESSES

Investment Promotion Agency

Mauritius Export Development and Investment Authority, (MEDIA), P O Box 1184, Port Louis Tel: +230-2087750 Fax: +230-2085965

Consulting Firms

Appavoo & Associates, Appavoo Business Centre, 29, Bis Mere Barthelemy Street, Port Louis. Tel: +230-2115093/4/5/6/7 Fax: +230-211315212

Coopers & Lybrand, P O Box 33, Port Louis. Tel: +230-2087945 Fax: +230-2087949 E-mail: coopers@bow.intnet.mu

Deloitte & Touche, P O Box 322, Port Louis. Tel: +230-2120223 Fax: +230-2088002

Ernst & Young, Louis Leconte Street, Curepipe. Tel: +230-6754777/4692 Fax: +230-6763921

Fideco Offshore Services, 28 Bis, Dr Eugene Laurent Street, Port Louis. Tel: +230-2083966/7 Fax: +230-2088774 E-mail: 100075.3150@compuserve.com

Imani Consultants, P O Box 12, Quatre Bornes. Tel: +230-4656557/6108 Fax: +230-4649884 E-mail: imani9@bow.intnet.mu

KPMG, P O Box 1130, Port Louis. Tel: +230-2088000 Fax: +230-2083026

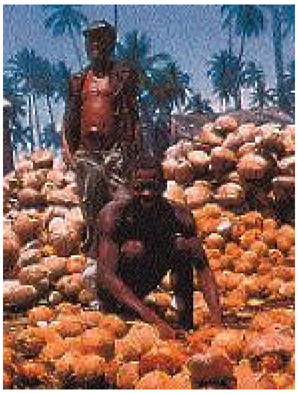
Lamusse Sek Sem & Co, 5, Duke of Edinburgh Avenue, Port Louis. Tel: +230-2080877/8 Fax: +230-2127375

Matheson Trust Company, 210, St James Court, St Denis Street, Port Louis. Tel: +230-2118881/2 Fax: +230-2126138

Multiconsult Limited, 3rd Floor, Les Jamalacs, Vieux Consell Street, Port Louis. Tel: +230-2117923/7926 Fax: +230-2125265 E-mail: 101663.1217@compuserve.com

Price Waterhouse, 6th Floor, Cern House, Chausse, Port Louis. Tel: +230-2088036/2125011/2/3/4 Fax: +230-2088037

MOZAMBIQUE



Cotton and copra production are important elements of the Mozambican economy

GENERAL INFORMATION

Geography and Population

Mozambique's geographical area covers 790,380 km^2 in south eastern Africa. The land borders Malawi, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The capital of Mozambique is Maputo.

The size of the population is about 18 million (1996), with the annual growth rate being 2.6 percent. Half the population is under 20 years old. The official language of Mozambique is Portuguese, while Ronga, Sena, Nyanja, Macua, Changana, Maconde, Chope, Chuabo, Bitonga, Chimanica and Chitswa are some of the national languages.

Sectoral Description

Mozambique is rich in mineral resources including gold, marble, heavy minerals from coastal sands, iron ores, graphite, precious and semi-precious stones, bauxite, granite, phosphates and clays. Major deals have been negotiated for the development of natural gas fields at Pande and the exploitation of the Moatize coal fields. Mozambique has one of the largest deposits of coal in the SADC region.

The availability of good land and grazing suitable for cattle and other livestock farming activities should see significant growth in the agricultural sector in the future. The government is encouraging private enterprise to become involved in livestock production.

Mozambique has 36 m ha of arable land (less than a third of which are presently in use) and plentiful water resources. Crops best suited to Mozambique include maize, wheat, sunflower, soya, peanuts, cotton, sisal, cashew nuts, tobacco, tea, copra, sugar cane, citrus, rice, and tropical fruits and vegetables. Agro-industry also offers potential.

Mozambique has some 57 m ha of forest. Timber was a major export prior to independence in 1975, but in recent times timber extraction has been limited to those species which are of higher technological or commercial value.

In 1993, products from the fishing industry accounted for 44 percent of total export value in Mozambique. Mozambique is well-known for the quality of its fish and seafood, yet the fisheries sector is still relatively undeveloped, and many species (especially fresh-water fish resources) are under-exploited.

The industrial sector in Mozambique is currently undergoing considerable rationalisation and rehabilitation, and the government intends pursuing an active industrial policy to assist private sector initiatives. A privatisation programme is well underway.

With the return of peace to Mozambique, the tourism industry is growing and a number of new construction projects are being undertaken. Mozambique offers 2,500 km of coastline, featuring virgin beaches and coral reef off-shore islands. The interior of the country offers spectacular scenery and wildlife in the national parks and game reserves.

Infrastructure

Mozambique has copious water resources including more than 60 rivers and many lakes. The government has undertaken to supply water for domestic and industrial purposes in urban centres. About one-third of Mozambicans have access to safe water.

Mozambique has the potential to provide the country with cheap electricity with a substantial surplus for export. The Cahora Bassa Dam, originally built by the Portuguese to supply electricity to South Africa, will produce 2,200 megawatts of power following completion of an ongoing rehabilitation project. In addition, further exploitation of the hydro power resource along the Zambezi river basin is being analysed.

The shortest and most cost effective route to the sea for many of the exports of landlocked southern African countries is through Mozambique, with Maputo and Beira being the closest ports for Zimbabwe, Swaziland and parts of South Africa, Zambia and Malawi. During the war, however, the country's road and rail transport routes to its ports were constantly targeted for destruction by the rebel forces. Mozambique's transport system is thus the focus of many new infrastructural projects, the most significant being the Maputo, Beira and Nacala development corridor projects.

Traffic on all the major railway lines linking the ports has risen since the early 1990s, as peace returned to the country, rehabilitation of the rail system commenced and port facilities were improved.

Around 60 percent of the road network is in bad condition and many of the rural roads are still dotted with land mines. A number of road rebuilding projects are currently underway.

Maputo is one of the largest ports in Africa, and there are harbours at Beira, Matola, and Nacala. Management of the ports has improved dramatically. The national carrier, Linhas Aereas de Moçambique services nine provincial capitals, as well as Johannesburg and Harare. Light aircraft services are also available.

With regard to telecommunications, Mozambique has telephone, telex, facsimile, e-mail and package switching facilities in place. A cellular phone network (GSM) will be in operation as from July 1997, covering Maputo province in its initial phase.

ECONOMIC OVERVIEW

Introduction

When Frelimo came to power at independence in 1975, the party inherited a country with low levels of skilled professionals, administrators and managers. The new government adopted a system of centralised control which by the early 1980s had become unworkable. Unsuitable economic policies, combined with intensifying warfare with Renamo rebels and a severe drought, caused the economy to collapse.

During 1986, a decisive shift took place within the government and past strategies and ideologies were abandoned in favour of a more pragmatic approach. A greater emphasis was placed on the role of the private sector, leading to the development of the Economic Rehabilitation Programme. The chief aims of this programme are to restore macroeconomic balances, free constraints on market activity to restructure and privatise parastatal enterprises,to foster private sector development, and to encourage the expansion of efficient production in agricultural and industrial sectors.

While setbacks were experienced in the exploitation of Mozambique's many resources, the situation has improved in recent years and the much-needed economic reforms have been introduced.

Recent Macro-Economic Developments

Good weather conditions contributed to an excellent harvest, which, together with an expansion in industrial and transportation activities, led to real GDP achieving a 6.4 percent growth rate in 1996. This exceeded the target of 4 percent and is substantially higher than the 1.4 percent growth registered in 1995. Manufacture value added grew sharply in the areas of cement and beverages, confirming the recovery that started in 1995. Apart from the effect of good weather conditions, these improvements may be attributed to the authorities' commitment to implement measures under the IMF Enhanced Structural Adjustment Facility (ESAF).

Though government revenue and expenditure fell short of the ESAF target for the first nine months of 1996 (mainly due to larger than expected import duty exemptions, delays in customs reform, cashflow problems at the state owned oil company, lower than expected depreciation of the currency, a lower wage bill and reduced capital expenditure as a result of slow disbursements), the lower fiscal deficit together with privatisation revenue compensated for a shortfall in net external financing. Expectations are positive that the fiscal deficit (before grants) target of 17 percent of GDP will be reached.

End-period inflation declined sharply in 1996, registering 16.6 percent compared to 54.2 percent in 1995. This decline may be attributed to an improvement in the supply of basic goods, money supply control, exchange rate stability, and fiscal discipline.

Despite export growth exceeding expectations, the current account deficit widened slightly due to an increase in imports associated with increased economic activity. However, capital inflows were higher than envisaged and the overall balance strengthened relative to 1995. As a result, official foreign exchange reserves also improved from the 1995 level. However, balance of payments difficulties still remain due to Mozambiques large trade deficit, and the country relies heavily on donor assistance.

The currency (Metical) put up a strong performance during 1996 and contributed to the exchange rate being quite stable for the year up to December 1996. The Metical depreciated by only 5.2 percent and 5.3 percent against the USD in the official and parallel markets respectively. The spread between these rates was always below 10 percent and the stability in the exchange rate may be ascribed to the availability of foreign exchange currency, strict monetary control and the regular functioning of the inter-banking exchange market.

Gross domestic savings and gross investment, especially in the private sector, are projected to increase even further from their 1995 levels to 11.1 percent of GDP and 23.3 percent of GDP respectively. Money supply (M2) growth rate was curtailed from its 1995 level of 54.7 percent to 21.6 percent in 1996. The authorities are preparing to shift monetary control to indirect instruments in the near future and an inter-banking money market will be established during 1997. Much progress has already been made to improve the financial system and to liberalise the economy from controls.

Financial Institutions

The government of Mozambique and the World Bank have developed a financial sector adjustment programme aimed at improving the efficiency of the banking sector, developing the money and capital markets, and revising financial sector regulations.

The Central Bank has increased its independence and expanded its oversight capabilities. Its commercial operations have been transferred to a separate bank. There are five commercial banks operating in Mozambique, and some are beginning to take steps forward in terms of offering their customers new products and taking market-oriented initiatives. Liberalisation of the insurance sector is also proceeding, but as yet, there are no long-term insurers in the country. Legislation with regard to the insurance sector is in need of updating.

Money and capital markets are undeveloped in Mozambique. An anticipated issue of Treasury Bills will be an important step in establishing a base market. Interbank lending will also develop as the number of banking institutions increase and as the result of greater liberalisation of lending regulations. The informal money market is used extensively, and a team is busy preparing for the establishment of a stock exchange.

Foreign Trade

Mozambique's principal trading partners are South Africa, Portugal, Spain and France. The value of Mozambique's imports far exceeds that of its exports. The country's main export products are cotton, cashew nuts, sugar, timber and citrus.

Trade Liberalisation and Trade Agreements

Imports up to the value of USD500 may be brought into Mozambique without a license. Licensing is mandatory for exports and 35 percent of export proceeds must be surrendered, except for those companies who qualify for free trade zone status.

Labour Relations

The Forum for Social Consultation, made up of government, employers and employees, is considering a wide range of economic development issues, one of which is labour regulations.

Trade union membership is permitted, and disputes between employers and employees may be brought before the labour tribunals for settlement. Issues relating to foreign personnel are decided upon in the context of the overall negotiations between the company investing and the government.

Human Resources

During the war rural schools were prime targets for rebel attacks, and by 1990 more than 50 percent of the primary schools had been closed or destroyed by rebel activity. Nevertheless, the adult literacy rate increased from 7 percent at independence to 34 percent in 1992. As part of the general liberalisation of government policy in 1990, the ban on private education was lifted. However, a shortage of skilled labour still exists in the country.

The Institute for Employee and Technical Training assists companies in obtaining employees and facilitates vocational training. There is no particular sectoral emphasis for the training; rather, it is based upon demand factors. On-the-job training is encouraged, and training costs are 100 percent tax deductible up to five percent of the company's taxable profits.

INVESTMENT CLIMATE

Investment Incentives

Investors are offered exemption from customs duties and consumption and circulation tax on:

- Equipment needed for the implementation of project feasibility studies.
- Building materials and equipment necessary to carry out an approved investment project.
- Light passenger cars for company representation, provided that the relevant value does not exceed 1 percent of the value of the total project investment.
- Raw materials, intermediate products and packaging materials for production of export goods, medicines, educational materials and foodstuffs.
- Raw materials, intermediate products and packaging materials for producing other articles (exempted only for the first production cycle).
- 50 percent reduction of the normal Customs Handling Fees.
- Foreign investors' and expatriate technical staff's personal belongings.

Tax incentives are offered for new or paralysed undertakings. During the period of recovery of investment expenditures (10 years maximum), the Industrial Contribution Tax (cor-porate tax) and Supplementary Tax rates are reduced by:

- 80 percent for investments in Niassa, Tete and Cabo Delgado.
- 65 percent for investments located in other provinces, outside the respective capitals.
- 50 percent for investments located in other provinces, within the provincial capitals.

For investments in operating ventures, a deduction from taxable income of 100 percent of investments made in new equipment and construction of plant and infrastructure is provided for up to five years. Additional incentives for investments located in less-developed provinces are provided through an extension of the reduction of Industrial Contribution Tax by:

- 50 percent for six more years in cases of investments made in Niassa, Tete and Cabo Delgado.
- 40 percent for three more years for investments made in Sofala, Manica, Zambezia and Nampula (excluding provincial capitals).
- 25 percent for three more years in cases of investments made in Inhambane, Gaza and Maputo (excluding provincial capitals).

The expenditures accountable as losses for taxation purposes are those made in:

- Construction or rehabilitation of public infrastructure.
- The purchase of works of art for private property ownership or other actions undertaken which contribute to the development of Mozambican culture.
- Training of Mozambican workers (up to five percent of taxable profits).

Export Incentives

The cornerstone of Mozambique's push to expand its export markets are the Industrial Free Zones (IFZs). If an export industry is located in an IFZ, it will enjoy full exemption of customs duties, import or export taxes on construction material, machinery and equipment. IFZ enterprises will also be exempted from tax on dividends for 10 years. The proposed sites for the development of IFZs are at the Industria Ceramica de Moçambique site in Maputo Province, Sofala province near to the port of Beira, Nampula province and the port of Nacala.

Mozambique is eligible for duty-free export quotas to EU markets and also to the USA and other developed economies under the GSP. Mozambique also enjoys preferential low-duty export quotas to the Eastern and Southern African market under COMESA, as well as a special trade agreement with South Africa.

Taxation

Mozambique's taxation system relies on a narrow base and needs to be revised and simplified. Companies are taxed at a rate of 45%, plus a circulation tax on invoices of 10 percent.

The maximum rate for individuals is 30 percent.

Investment Promotion Agency

The Investment Promotion Centre, or Centro de Promoçao de Investimentos (CPI) was established in 1984 in order to make business application procedures simpler and more consistent. The CPI is also taking a proactive role in obtaining permits and approvals from different government ministries and national directorates on behalf of foreign investors. CPI provides a "matchmaking" service for foreign investors seeking to identify local Mozambican partners, and has attempted to simplify and speed up the process for gaining project approval with the help of the private sector and the World Bank. Bureaucracy surrounding investment is, however, unfortunately still high.

Investment Code

The 1993 Investment Law is aimed at attracting local and foreign investors and contains a range of investment guarantees and incentives, which are detailed above.

Exchange Controls

Foreign investors are permitted to operate both local and foreign currency accounts. Foreign currency accounts for investors may be denominated as retention accounts, meaning the availability of foreign currencies is guaranteed. Foreign retention accounts, where foreign currency receipts from Mozambique-derived production and sales are received and held in foreign bank accounts, are permitted on a case-by-case basis.

The right of foreign investors to repatriate capital, dividends and other distributions of profit is guaranteed by law. Firms are obliged to register all imports of goods or money with the Central Bank. Future repatriation of non-registered investment is not guaranteed.

Protection of Investment

The Mozambican government offers the following guarantees to investors:

- Security and legal protection of property over goods and rights in connection with investments made.
- Freedom to import equity capital or loans to carry out investments.
- Repatriation of capital invested upon liquidation or sale, total or partial, of goods or rights of an investment undertaking.
- Just and equitable compensation in event of expropriation based on absolutely necessary and weighty reasons of public and national interest, health and public order.
- Mozambique is a member of MIGA, OPIC, and ICSID.

Privatisation Programmes

The privatisation of parastatals has been a major priority of the Mozambican government since it implemented its Economic Rehabilitation Programme in 1987, and most of the economy has already been privatised. The Technical Unit for Enterprise Restructuring has been set up to restructure as well as to act as a privatisation agency. Privatisation of strategic companies is one of the methods Mozambique has been using to draw foreign investors into the country.

By the end of 1995, over 500 small and medium-sized enterprises had been sold off, and proceeds from privatisation totalled USD 64 m. Privatisation objectives are scheduled to be achieved by 1997/8.

INVESTMENT OPPORTUNITIES

Opportunities

Mozambique has vast potential for development in the region, commencing with the development of and/or rehabilitation of infrastructure projects in all sectors of the economy.

Agriculture/Forestry Sector

Opportunities exist in the production of crops such as: cashew nuts in the Nampula and Gaza Provinces and coconuts in the Zambezia Province. The government is reorganising its sugar industry, and partners are being sought for the production of cotton and sisal around Mocuba in Zambezia province. Plenty of opportunities exist for investors to process agricultural products.

Opportunities for investment exist in forest plantations and the industrial processing of wood products. Provincial forestry projects are being established and reforestation programmes are planned.

Mining Sector

Foreign partners are sought by a number of entrepreneurs for the develop-ment of tantalite and pegmatite mining in Zambezia, bauxite in Manica province, gold production, also mainly in Manica, and the mining of a number of other minerals and precious and semi-precious stones.

Manufacturing Sector

Plans to reintroduce the production of sugar have already been formulated and the government is seeking investment funds of approximately USD 100 m for the purpose of producing sugar from sugar cane in the central region of the country where sugar cane plantations are still in place. Industries in the centre/north of the country offer opportunities for expansion resulting directly from easy access to raw materials, cheap power sources and quick road/rail access to the sea. Industries such as cement manufacture enjoy a high demand as a result of the recovery in the construction industry.

Fishing Sector

There are openings in prawn, lobster, crayfish and fish farming, as well as in the development of boat yards and processing factories and the fishing of more exotic species such as sharks. The aquaculture industry also has promising prospects in Mozambique - the coastline has 1,700 km^2 of mangrove, most of which has potential for shrimp or prawn aquaculture. Opportunities exist for the farming of oysters, mussels, algae and pearls, and for integrated freshwater fish farming.

Tourism

A number of new construction projects are being undertaken in Mozambique, including the refurbishment and modernisation of existing tourist facilities, and the construction of new ones. Opportunities exist both along the coast and inland.

Other Sectors

The nerve centre of investment attraction in the economy lies in the development of infrastructural projects in the country corridors, namely the development corridors (Maputo, Beira and Nacala) and the transport corridors (Tete and Limpopo). There are vast current and potential investment projects for railways, roads and ports in these areas.

Maputo Development Corridor

Recently the governments of South Africa and Mozambique have agreed on a project to expand and upgrade the trade flow between the two countries by creating conditions for establishing the necessary infrastructure and facilities. The project is a liaison between Maputo and Gauteng province in South Africa and includes three components shown in the table below. Investments will be financed by private commercial investors.

The Maputo Development Corridor		
Project	**Description**	**Required Investment**
Toll road	Upgrading of the Witbank-Komatipoort road and the rehabilitation of the Ressano-Garcia road.	USD 89 m with USD 36 m coming from the Mozambican side
Railways	Upgrading of the line linking Maputo and Ressano-Garcia.	USD 20 m
Maputo harbour	Upgrading the capacity of vessels accessing the port to a maximum of 30 000 tonnes by dredging the channel.	USD 9 m
Source: Regional Industrial Location Study: The case of Mozambique, August 1996		

Current Projects

Mozambique: Current Projects		
Sector	**Project**	**Value USDm**
Agriculture, forestry & fishing	Mocita cashew project	-
Electricity, gas & water	Pande gas engineering project	2,000
Transport, storage and communication	Beira Corridor toll road	-
	Maputo Corridor	150
	National road rehabilitation	800
Wholesale & retail trade, hotels & entertainment	Maputo Elephant Reserve	200
	Machangulo tourist resort	600

Mozambique: Projects for Potential Investment			
Sector	**Project**	**Description**	**Required Investment in USDm**
Agriculture, forestry & fishing	Cashew nuts	Nampula and Gaza Provinces	
	Coconuts	Zambezia Province	-
Construction	Construtora de Regadios do Limpopo, EE	Privatisation of irrigation systems and civil works.	-

Manufacturing	Cement	-	-
	Mepanda Uncua Hydro Power Plant	To involve a build operate (BO) operation.	-
	Gemas e Pedras Lapidadas	Privatisation of cutting, polishing and sale of precious and semi-precious gemstones.	-
	Fabrica de Cervejas Reunidas	Privatisation of brewery in Maputo.	-
	Smelter in Maputo (Alusaf)	Aluminium smelting and milling.	23.3
	Sugar production	Producing sugar from sugar cane in the central region of the country.	23.3
Mining & quarrying	Marmonte, EE	Privatisation of marble exploitation, cutting and polishing.	-
Service	Commercial bank of Mozambique	Privatisation.	-
	Water provision	Water systems in Maputo, Beira, Quelimane and Pemba will have donor funding to subsidise initial tariffs.	-
	Hidraulica de Maputo, EE	Privatisation of irrigation systems and civil works.	-
	Pescom Nacional	Privatisation of seafood cold storage and sales.	-
	Equipesca, EE	Privatisation of fishing equipment.	-
Service	Cogropa	Privatisation of consumer goods distribution.	-
	Imbec, EE	Privatisation of consumer goods distribution.	-
	Anfrena, EE	Privatisation of sea freight agent.	-
	Navinter, EE	Privatisation of sea freight agent.	-
	Geomoc	Privatisation of geological studies.	-
Tourism	Empresa Nacional de Turismo, EE	Privatisation of hotels and tourism operations.	-
Compiled by the IDC from the following sources: Regional Industrial Location Study: The case of Mozambique (August 1996) DTI; Mbendi Information for Africa (March 1997); MIGA, IPANET (1997).			

Statistics (USDm unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996[1)]**
Population (millions)	14.4	14.8	15.6	16.6	17.4	18.0
Nominal GDP at market prices	1,433.5	1,285.0	1,466.9	1,462.0	1,255.6	1,620.8
Real GDP growth rate, %	4.9	-0.8	19.2	4.4	1.4	6.4
GDP per capita (USD)	99.4	86.9	94.2	88.0	72.1	89.9
Consumption as % of GDP	99.8	98.6	92.8	93.5	75.0	..
Gross domestic savings as % of GDP	0.2	1.4	7.2	1.7	25.0	..
Gross investment as % of GDP	48.5	53.2	59.7	60.2	..	..
Inflation rate, %	35.2	54.4	43.7	70.0	54.2	16.6
Merchandise exports as % of GDP	14.0	12.2	8.9	10.2	11.7	13.0
Merchandise imports as % of GDP	69.8	69.9	58.6	60.3	49.0	46.1
Capital account of balance of payments	-187.5	-155.1	-107.0	-22.1	57.6	224.4
Foreign direct investment as % of GDP	22.5	25.3	32.0	35.0	45.0	72.5
Overall balance on balance of payments	-535.7	-406.6	-436.2	-347.6	-256.1	-90.2
Average exchange rate: Metical to USD	1,434.5	2,432.4	3,724.4	5,918.1	8,889.8	11,140.0
Total external debt as % of GDP	329.1	403.6	358.9	353.2	427.5	..
Total external debt service as % of exports	12.0	53.8	78.9	57.0	58.9	45.3
Budget deficit as % of GDP (fiscal year)	-6.3	-5.9	-5.2	-8.2	-4.9	-5.2
Central bank discount rate (end of year), %	33.0	43.0	43.0	69.7	57.8	32.0
Lending rate (average for year), %	34.0	39.5	..	51.0	47.8	43.5
Growth rate of M2 money supply, %	35.7	59.3	78.8	57.6	54.7	21.6
Domestic credit to government	-3.4	2.7	10.4	-14.6	-35.9	-68.1
Domestic credit to private sector	458.9	369.3	294.1	289.2	277.8	318.9
Source: Banco de Moçambique						
Note: [1)] Preliminary data.						

USEFUL ADDRESSES

Investment Promotion Agency

Centro de Promoçao de Investimentos (CPI), CP 4635, Maputo. Tel: +258-1-422456/7 Fax: +258-1-422459

Consulting Firms

Coopers & Lybrand, CP 796, Maputo Tel: +258-1-420308

Deloitte & Touche, CP 4318, Maputo Tel: +258-1-42 09 55/430594, Fax: +258-1-42 34 14/429163

Ernst & Young, CP 366, Maputo Tel: +258-1-424043, Fax: +258-1-421984

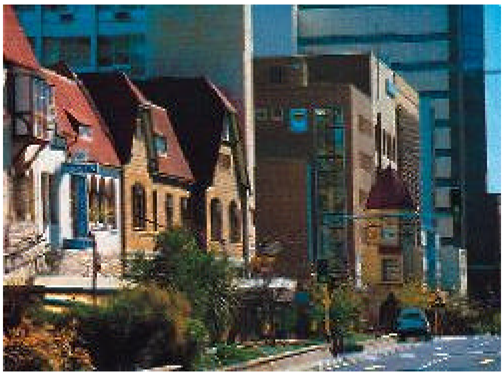
KPMG, CP 2451, Maputo Tel: +258-1-424043, Fax: +258-1-421984

Price Waterhouse, Terceira Avenida, 76, Bairro De Triunfo, Maputo Tel: +258-1-455108, Fax: +258-1-455108 E-mail: pnevitt@zebra.uen.mz

Sociedade Austral de Desenvolvimento, CP 2242, Maputo Tel: +258-1-430143/430145/422780, Fax: +258-1-423413 E-mail: Austral@Austral.uem.mz

Southern Africa - A New Growth Opportunity

NAMIBIA



Windhoek

GENERAL INFORMATION

Geography and Population

Namibia is located in south western Africa, bordered by Angola, Zambia, Botswana, Zimbabwe, and South Africa. The size of the country is 824,268km^2. Namibia is sparsely populated with a total population of 1.5m (1995 estimate), or 1.9 people per square km. The average annual population growth rate was 2.8 percent between 1990 - 1994. The standard of living is relatively high, Namibia was ranked 116 in the 1996 UNDP Human Development Index[1] - which compares favourably with South Africa (100), Indonesia (102), Vietnam (121) and Morocco (123). The percentage of the population with access to health services during 1990-1995 was 62 percent, to safe water: 57 percent, and to sanitation: 34 percent.

Sectoral Description

The mining industry remains the most important sector of the economy, with over 40 operating mines and quarries. The most valuable minerals produced are diamonds and uranium, and to a lesser extent, copper, zinc, lead, gold, silver and fluorspar. All rank high in both reserves and production and include two world-class deposits: the alluvial gem diamond fields and the Rossing opencast uranium mine. Diamonds are Namibia's largest foreign exchange earner, accounting for around a third of export revenues. The resources are being exploited by domestic as well as foreign companies originating in Canada, Australia, the UK and South Africa. Two companies alone, Namdeb Diamond Corporation and Rossing Uranium, account for around 12 percent of GDP.

About 70 percent of the population is directly or indirectly dependent on farming for its livelihood. Agriculture contributes approximately 10 percent to GDP. Traditional crops include millet, sorghum, maize, wheat, groundnuts and cassava. Livestock production, mainly cattle and sheep, dominates the commercial agricultural sector, and contributes around 87 percent to the gross agricultural income. In recent years, diversification within the agricultural sector has led to the production and export of fruits (mango, paw-paw, oranges, avocados), flowers and fish. In fishing terms, Namibia ranks among the top ten in the world on value to catch ratio.

Namibia's manufacturing sector contributes about 13 percent to the country's GDP, and is constituted mainly by food processing. Unfavourable conditions in the fishing industry as from 1994, have contributed significantly to the deterioration of the fish processing industry.

Infrastructure

At present, Namibia is a net importer of energy; it could however become an important exporter, should the plans to expand the hydropower along the Kunene river and/or commercial development of the large Kudu gasfield become reality. Water is a scarce resource in Namibia and the country is negotiating with neighbouring countries to share access to rivers, in order to meet future demand.

Walvis Bay has a deep-sea port with excellent berth and wharf facilities. The port handles most of the country's fish exports and is linked with Windhoek through rail and road. Two major trans-continental highway construction projects are underway to improve Namibia's link with neighbouring countries: the Trans-Kalahari linking Namibia with Botswana, and the Trans-Caprivi linking Namibia with Botswana and Zambia. The former will considerably improve transport linkages between Namibia and South Africa's core industrial and economic centre, the Gauteng province. Namibia's railway company, TransNamib, covers more than 2,382 km of track with the main line running from the South African border via Windhoek to Tsumeb in the north, connecting with important centres such as Luderitz, Swakopmund and Walvis Bay.

Air Namibia operates domestic, regional (Angola, Botswana, South Africa, Zambia, Zimbabwe) and international (Frankfurt, London) scheduled passenger and freight services. Other airlines flying to Windhoek include South African Airways, Air Zimbabwe, Air Botswana, Angolan Airlines, Comair, SA Express, and Lufthansa. Namibia has 28 licensed and some 300 unlicensed aerodromes and airstrips.

Telecommunications are well developed and a rapidly expan-ding mobile telephone network covers the country's main 10-15 centres.

ECONOMIC OVERVIEW

Introduction

At independence in 1990 the newly elected government faced the challenge of addressing economic imbalances and reactivating growth after a decade of virtual stagnation. It opted for a strategy designed to gain the confidence of foreign and domestic investors, namely broadening of manufacturing activities and tourism, increased value-adding of domestic raw materials for export, and expanding skills through investment in training and education. Details of the strategy are set out in Namibia's first five-year plan covering 1995/96 - 1999/2000.

Recent Macroeconomic Developments

Following an expansion in economic activity in 1994 and 1995, with growth rates of 6.2 percent and 5.2 percent respectively, the growth rate slowed down to 2.6 percent in 1996. The slower performance of the economy in 1996, was due to unfavourable oceanic conditions impacting negatively on the fish processing industry, the effect of two consecutive years of drought on harvests and livestock, lower than expected output in the mining sector, and a slight decline in construction activity. The drought conditions resulted in emergency marketing of cattle and small stock, and in diversification into ostrich farming, which actually raised the real output growth in agriculture. Uranium mining benefited from its more competitive market position and raised its output significantly. The outlook for an early economic recovery in 1997 seems promising. The mining sector started to show signs of improvement during the third quarter of 1996, especially in the areas of diamonds and uranium, and two mining companies are likely to start operations during the second half of 1997. In addition, good rainfall during the end of 1996 and early in 1997 is expected to improve prospects in agronomic products and the building up of livestock. Further steps were announced to improve fishing and it is expected that the take off of the EPZ may contribute to positive growth in 1997.

The projected deficit before borrowing for 1996/97 is foreseen to widen to 4.2 percent of GDP, mainly as a result of the drought, salary adjustments and increased outlays on development and capital projects. The bulk of the deficit is expected to be financed via borrowing on the domestic markets, but some concessionary financing will also be taken up. The budgetary situation is due to improve as a result of South Africa taking over Namibia's colonial debt during the first half of 1997, totaling ZAR1.3 billion (approximately USD290m).

Consumer price inflation averaged 8.0 percent during 1996, down from 10.0 percent in 1995. This reduction may be ascribed to moderate rises in food prices and strict monetary control.

A prominent feature characterising the financial and monetary developments in 1996, was the increase in interest rates due to the depreciation of the South African Rand and the Namibian Dollar, and rising money market shortages in both Namibia and South Africa. Despite the bank rate increasing to 17.75 percent, annual money supply (M2) growth rate increased to 24 percent in December 1996 from 13 percent in June 1996. This growth may be attributed mainly to strong economic recovery in the second half of 1996. However, the authorities are concerned that continual high interest rates may have a negative impact on productive investment.

Namibia is part of the CMA where, amongst others, the Namibian Dollar enjoys parity with the South African Rand. Depreciation of the South African Rand during 1996 and equal depreciation of the Namibian Dollar, have caused some concern for the authorities, as these depreciations necessitated interest rate increases in both countries. The higher real interest rates may have a hampering impact on investors interested in productive investment in Namibia, while a loss of fiscal revenue (import duties) might be experienced due to the establishment of the EPZ, and lower receipts from the Customs Union due to South Africa's accelerated implemen-tation of GATT and the WTO rules.

Financial Institutions

The Bank of Namibia was established in 1990 as the central bank, and progressively took over functions previously performed by the South African Reserve Bank. With the launch of Namibia's own currency in September 1993 it became a fully operative central bank.

There are six commercial banks, the largest being First National Bank of Namibia and Standard Bank Namibia. There are also two building societies, five insurance companies and nine public finance institutions, including the Development Fund of Namibia and the Agricultural Bank of Namibia. All banks provide comprehensive domestic and international services. Short-term insurance and life insurance broking, estate planning and factoring are some of the ancillary services provided by the banking sector.

The central bank, the Ministry of Finance and the financial sector are actively pursuing the establishment of financial instruments and markets, such as parastatal bills, debentures and bonds, government treasury bills and negotiable certificates of deposit. A domestic money market and foreign exchange market are rapidly developing. Local interbank lending is limited due to the size of the market, and local banks are often referred to the South African interbank market.

The Namibia Stock Exchange started operating in October 1992. At the end of 1996, 27 companies were listed to a value of USD16.5m. The top five companies in terms of market capitalisation are: Namibia Minerals Corporation, Namibia Breweries, CIC Holding Ltd, Ocean Diamond Mining, and Pep Namibia Holding. The Stock Exchange is in the process of establishing an Unlisted Securities Market Authority, which will manage a separate trading system for shares of companies that do not meet the stringent requirements for a full board listing on the stock exchange.

Namibia Stock Exchange (USDm)

	1992	**1993**	**1994**	**1995**	**1996**
Number of companies with shares listed	4	6	14	23	27
Market capitalisation	2,821.8	4,439.7	11,010.3	17,719.5	16,241.5
Number of companies making issues	n/a	n/a	2	1	2
Value of new issues	n/a	n/a	16.7	1.4	50.2
Value of rights issues	n/a	n/a	17.4	6.8	20.3
Volume of shares traded (m)	n/a	0.0[1)]	6.1	14.6	68.6
Value of shares traded	n/a	0.5	16.4	64.4	153.6

Source: Namibian Stock Exchange (1997). Original figures in Namibian dollars, converted to US dollars by using International Financial Statistics (IMF) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.

Note: 1) 28,000

Foreign Trade

Foreign trade has always been a significant component of overall economic activity, and since 1990 exports have, on average, accounted for about 50 percent of GDP. Main export goods are diamonds and other minerals, prepared and preserved fish, live animals and animal products. Primary goods in largely unprocessed form have traditionally accounted for 80 percent of exports. Major trading partners are South Africa, Spain, UK, Japan and Germany.

Trade Liberalisation

Most exports do not require a license. Import licenses are issued in conformity with South Africa's import regulations. There are no restrictions on imports originating from a SACU country.

Labour Relations

Labour relations are regulated by the Labour Act of 1992. The act provides for basic conditions of employment, including registration of trade unions and employers' organisations, as well as the settlement of disputes.

Human Resources

Since independence, the government has been addressing the high illiteracy rate, estimated at 60 percent, through an upgrading of the inadequate education infrastructure. Government spending on education and training has consequently increased from 21 percent in 1990 to 27 percent of total government expenditures in 1996. Namibia's first university opened in 1992.

INVESTMENT CLIMATE

Investment Incentives

To encourage investment into Namibia, the government offers tax and non-tax incentives to foreign investors, with an emphasis on export-oriented manufacturing:

Certificate of Status Investment

Investors may obtain a Certificate provided they fulfil certain criteria regarding the size and nature of the investment. The holder of a Certificate is entitled to, inter alia, buy foreign currency to service foreign loans, to transfer net profits, dividends, proceeds of sales and remittances and to retain currency gained from exports. They are also granted exemption from restrictions regarding categories of business reserved for Namibian residents.

Special Incentives for Manufacturing Enterprises

The following incentives were introduced in 1993 and apply equally to local and foreign manufacturing companies:

- 50 percent tax abatement for five years - phased out over 10 years;
- New investment relocation package - further negotiated tax rates;
- Accelerated depreciation on buildings - 10 years;
- Exporter's deduction (promotion costs) - 125 percent to 175 percent tax deductible;
- Training cost deduction - 125 percent tax deductible;
- Direct production wages deduction - 125 percent tax deductible;
- Concessional loans for industrial studies 50 percent of real cost; and
- Exporter's grants/loans - 50 percent of approved promotional expenses.

Export Incentives

Arandis near Swakopmund has been a special incentives zone since 1991. In order to further boost the local manufacturing and export industry, the Namibian government announced an EPZ in Walvis Bay in 1995. Eligible activities include all export-manufacturing activities, value added processing in agro industry and mineral beneficiation, storage and warehousing, break-bulk activities and business services. Incentives offered in the EPZ include:

- Exemption from corporate income tax, general sales tax, additional sales duty, stamp duties, transfer duties and import duties (for exports out of SACU);
- Guaranteed currency conversion (offshore banking legislation to follow);
- Liberal labour and customs regulations; and
- Conditional reimbursement of up to 75 percent of EPZ personnel training costs.

In addition to the incentives offered in the EPZ, a provision was introduced in 1994/95 which offers an 80 percent exemption from taxation on profits accruing to exports of manufactured goods (except fish and meat products). Tax incentives for export promotion activities are also available.

As a Lomé Convention signatory Namibia enjoys preferential access to the European Union on a wide range of products. The country is also granted duty-free access to the US and other major markets through the GSP. Namibia is a member of the regional organisations SADC and COMESA.

Taxation

Corporate

General: 35 percent
Diamond mining companies: 50 percent
Oil and gas extraction companies: 42 percent plus additional profits tax
Other mining companies: 25 - 60 percent depending on profitability

Individual income tax: maximum 35 percent.

Non-resident shareholders tax: 10 percent.

Dividends from the NSE-listed companies payable to Namibian residents are tax-free.

Double taxation agreements have been concluded with South Africa and the UK. Negotiations are underway with a number of additional countries.

Institutions Involved in Investment Promotion

The Investment Centre within the Ministry of Trade and Industry is the official investment promotion and facilitation office. Established by the Foreign Investment Act of 1990, the Centre focuses on the promotion of domestic investment and provides a service to all investors from enquiry to operational stage. The Centre offers general information packages and tailor-made advice regarding investment opportunities, incentives and procedures.

The Namibian Development Corporation is a parastatal providing loans and equity, local and foreign investment, stimulation of small and informal economic activity and the promotion of employment. The Corporation is also involved in the implementation of development schemes. The Namibian National Chamber of Commerce and Industry, established in 1990, represents the interests of the business community.

Investment Code

According to the Foreign Investment Act of 1990, a foreign investor is free to set up any kind of business activity and will be subject to the same taxation and regulations as a Namibian company, with the exception of exploration of natural resources where the government is entitled to take a stake in the exploitation. The government may also choose to allocate rights to Namibian companies on more favourable terms.

The Act further provides special concessions for companies involved in activities of particular benefit to the country through the issue of Certificate of Status Investment.

Exchange Controls

No restrictions are applied to payments within CMA. The CMA member states (Lesotho, Namibia, South Africa and Swaziland) apply virtually identical exchange control regulations vis-a-vis third parties.

Transfers of capital to and from destinations outside the CMA in the form of loans are subject to Bank of Namibia approval. Proceeds from the sale of quoted or unquoted CMA securities, real estate, and other equity investments by non-residents are freely transferable.

Foreign investors may take up local loans via the companies in which they invest. Limits on the amount that may be borrowed depend, inter alia, on the size of the investment and the percentage of foreign share holding. Earnings are freely transferable after tax, subject to auditors' verifications of the authenticity of profits. Forward exchange cover for up to one year is available for imports, exports and approved foreign currency loans.

Legal Protection of Investment

The Foreign Investment Act of 1990 protects the investor from expropriation.

Namibia is also a signatory to MIGA, and it signed a bilateral investment treaty in 1990 with OPIC of the USA, which provides guarantees for US private investors; similar accords were signed with Germany and Switzerland in 1993 and 1994, respectively.

INVESTMENT OPPORTUNITIES AND PROJECTS

Investment Opportunities

The best opportunities for foreign investment are in agriculture, fisheries, manufacturing, mining and tourism.

The fish stock suffered for many years from illegal and poorly controlled fishing by foreign fleets. To combat the situation the government declared a 200 mile Exclusive Economic Zone in 1990, aimed at ensuring maximum benefit of its marine resources through the maintenance of sustainable catch levels. There are many opportunities for investment in industry; these include fish processing and modernisation of existing facilities, both fleet and shore facilities, and in fishing support activities: canning, packaging and marketing.

While Namibia's manufacturing sector is small, opportunities nevertheless exist for foreign investors, who are offered special investment incentives. Specific opportunities may be found in packaging and bottling, leather tanning, processing, and mineral processing.

PROJECTS		
Sector	**Project**	**Value USDm**
Mining & quarrying	Island Diamonds Mining Project	-
	Haib Copper Mine	600.0

Namibia: Projects for Potential Investment		
Sector	**Project**	**Description**
Agriculture, forestry & fishing	Agricultural equipment	Reliable agricultural equipment will be fundamental as Namibia strives to increase production for subsistence use and for agribusiness opportunities.
	Agricultural chemicals	Chemicals applied to agricultural uses or for clearing of range bush.
	Agricultural processing	Leather and tallow products such as glue and gelatin, processing of pelts and wool of the karakul sheep, millet milling, meat and dairy processing, and fruit and vegetable processing including canning,
Agriculture, forestry & fishing	Fish processing	Onshore processing and modernization of existing facilities. There are also opportunities in the fishing support industries such as marketing, canning and packaging materials, ingredients for fish processing, plant and equipment, vessel servicing, cold storage, transport services, surveillance and inspection.
Construction	Low-cost housing	Affordable low-cost housing is needed in various regions throughout Namibia including low-cost building materials
Manufacturing	Mineral processing	Processing of various mined minerals.
Mining and quarrying	Oil and gas exploration	Namibia has issued several oil and gas licenses, and is seeking interested bidders
Service	Telecommunications equipment	Updated equipment will be needed as Namibia moves forward in the development of this sector.
	Water and energy technology	There is a possibility of technology transfer through technical assistance, engineering, and consulting services in these sectors.

Tourism	Tourism services and products	The building of accommodation facilities and various tourism services.

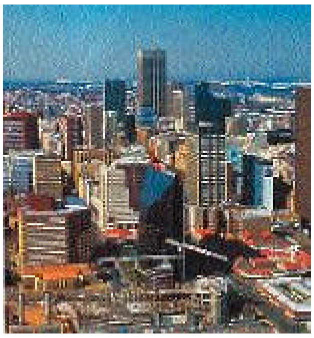
Namibia (USDm, unless otherwise stated)					
	1991	**1992**	**1993**	**1994**	**1995**
Population (millions)	1.4	1.4	1.5	1.5	1.6
Nominal GDP at market prices	2,387.7	2,757.9	2,556.2	2,926.4	3,162.3
GDP growth rate, %	7.4	8.2	-1.9	6.5	4.1
GDP per capita, USD	1,730.2	1,898.0	1,705.2	1,893.4	1,948.9
Consumption as % of GDP	90.9	88.0	90.2	80.7	86.0
Gross domestic savings as % of GDP	24.5	25.7	22.1	29.8	24.1
Gross investment as % of GDP	16.5	20.9	22.6	21.6	22.8
Inflation rate, %	11.9	17.7	8.6	10.8	10.0
Merchandise exports as % of GDP	50.8	48.1	50.1	45.7	45.3
Merchandise imports as % of GDP	46.9	45.8	47.4	43.7	46.4
Capital account of balance of payments	29.3	32.6	27.2	43.4	43.6
Foreign direct investment as % of GDP	4.8	4.2	1.9	2.1	1.6
Foreign portfolio investment as % of GDP	-1.1	0.9	3.0	1.3	3.3
Overall balance on balance of payments	-15.4	-9.1	88.4	74.1	87.7
Average exchange rate: NAD to USD	2.7613	2.8520	3.2677	3.5508	3.6271
Foreign exchange reserves expressed in terms of weeks of import cover	2.0	1.5	4.2	6.1	6.1
Total external debt as % of GDP	10.4	8.3	7.3	5.5	5.1
Total external debt service as % of exports	3.1	2.7	4.0	2.5	2.4
Budget deficit as % of GDP	-2.9	-5.5	-4.0	-2.1	-3.8
Central bank discount rate (end of year), %	19.5	16.5	14.5	15.5	17.5
Prime lending rate (average for year), %	20.0	17.5	15.5	16.5	19.0
Growth rate of M2 money supply, %	55.8	26.1	20.5	27.9	24.0
Domestic credit to government	-111.0	170.4	189.4	191.7	214.2
Domestic credit to private sector	860.0	1,083.5	1,184.6	1,387.2	1,729.2
Source: Bank of Namibia					

USEFUL ADDRESSES
Investment Promotion Agency
Investment Centre, Ministry of Trade and Industry, Private Bag 13340, Windhoek
Tel: +264-61-283 7335 Fax: +264-61-22 02 78
Consulting Firms
Coopers & Lybrand, P O Box 1571, Windhoek. Tel: +264-61-22 19 23
Deloitte & Touche, P O Box 47, Windhoek. Tel: +264-61-23 31 08 Fax: +264-61-23 31 17
Ernst & Young, P O Box 1857, Windhoek. Tel: +264-61-23 82 60 Fax: +264-61-23 49 91
KPMG, Private Bag 13268, Windhoek. Tel: +264-61-22 65 11 Fax: +264-61-23 23 09
Price Waterhouse, P O Box 21616, Windhoek. Tel: +264-61-22 65 85 Fax: +264-61-22 65 88
Trend Line Economic & Management Services. P O Box 80822, Windhoek. Tel: +264-61-25 90 60 Fax: +264-61-25 90 60

1 The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

SOUTH AFRICA



Johannesburg, the largest industrial, financial and cultural centre of South Africa.

GENERAL INFORMATION

Geography and Population

The Republic of South Africa occupies 1,223,201 km^2 at the southernmost tip of the African continent, stretching from the Limpopo river in the north to Cape Agulhas in the south. South Africa borders Namibia, Botswana, Zimbabwe, Mozambique and Swaziland. Completely enclosed by South Africa in the south east, is the Kingdom of Lesotho.

South Africa has a multiracial population of 42.3 million living in nine provinces. Each province has its own administration. There are eleven official languages, with English being the language of commerce.

Sectoral Descriptions

South Africa possesses considerable mineral wealth, with reserves of gold, platinum-group metals, chromium, vanadium, fluorspar, nickel, chromium, manganese, asbestos, diamonds, coal, phospates, iron ore, lead, zinc, uranium, vermiculite and zirconium. Mining contributed 8,7 percent to GDP in 1995, while mineral export sales accounted for 48.1 percent of total export revenue. Gold has been the main source of foreign currency for years and currently accounts for about 53 percent of the value of mineral export sales to foreign countries.

South Africa has a dual agricultural economy - a well-developed commercial sector and a predominantly subsistence oriented sector in the traditionally settled rural areas. Today, South Africa is not only self-sufficient in most major agricultural projects, but in a good year it is also a net exporter of food. In 1995, food made up 9.2 percent of total exports (including gold). Livestock is farmed in most parts of South Africa and the country normally produces 85 percent of its meat requirements while the other 15 percent is imported from Namibia, Botswana and Swaziland.

From being a net importer of timber and timber products, today the industry is a net exporter to the value of more than ZAR1 billion (about USD 223 m) per annum. The forest products industry contributes some 14 percent to the total export of manufactured goods. Exports are pre-dominated by the pulp and paper sector.

Marine resources along the 3,000 km South African coastline sustain a fishing industry which employs about 28,000 people. The industry harvested 537,227 tonnes (live weight) of fish, shell-fish, seaweed and guano (fertiliser made from fish) in 1994. The government follows a strict conservation policy based on research conducted by the Sea Fisheries Research Institute of the Department of Environmental Affairs and Tourism.

Statutory science councils, such as the Council for Scientific and Industrial Research are responsible for science and technology development, innovation and transfer and also for the promotion of human resources development for science and technology and promotion of technology implementation.

Tourism in South Africa contributes 3.6 percent to GDP and one employment opportunity in 25 is linked to tourism. With the country's international isolation having ended, forecasts suggest that the number of tourists could double between 1995 and 2000.The fastest growing segment of tourism in South Africa is eco-tourism which shows great potential as a source of foreign exchange and investment.

Infrastructure

South Africa is largely semi-arid and prone to erratic, unpredictable droughts and floods. Many large storage dams have been constructed to regulate the naturally variable flow of rivers, and to ease water transfers between catchments. An important hydroelectric scheme is the Lesotho Highlands Water Project, a joint venture with Lesotho.

South Africa is committed to increase access to electricity from the present 50 percent to 72 percent of households by the year 2000. Currently, South Africa supplies more than half of all electricity generated in Africa.

South Africa's modern transport system plays an important role in the national economy and in the economies of several other African states. Several countries in Southern Africa use the South African transport infrastructure to move their imports and exports. The national road system connects all the major centres in the country to one another and to neighbouring countries. The system covers approximately 7,000 km of roads, of which about 660 km are toll roads. Road transport accounts for roughly eight percent of all freight being transported by land in South Africa. The railway system is well-developed, covering about 36,000 km of track, of which almost half is electrified.

Seven of the 16 biggest ports in the greater Southern Africa region are located in South Africa. They are Richards Bay, Durban, East London, Port Elizabeth, Mossel Bay, Cape Town and Saldanha Bay. The ports of Durban, Port Elizabeth and Cape Town provide large container terminals for deep-sea and coastal container traffic.

The Airports Company operates nine state airports, three of which (Johannesburg, Durban and Cape Town) are classified as international airports. The national airline, South African Airways (SAA) serves both domestic and international routes. Privately run airlines compete with SAA.

South Africa has nearly 90 telephone lines for every 1,000 inhabitants. Telkom, South Africa's major telecommunications company, offers telegram services, telex and teletex services, public e-mail and electronic data interchange, enhanced facsimile services, a telephone conference facility, and a nationwide network of microwave channels to link the South African Broadcasting Corporation and M-Net television studios and transmitters. Optical-fibre networks carrying voice and data have been established in and between all major centres.

There are two cellular telephone networks in South Africa, and in March 1997 South Africa had approximately 800,600 cellular phone subscribers. Projections for the year 2000 currently stand at 3 million.

In 1995, 27,297 medical practitioners, of which 5,541 were practising specialists, were registered with the Interim National Medical and Dental Council of South Africa. Some 207 private hospitals and 75 unattached operating theatres were in use at the end of 1995.

ECONOMIC OVERVIEW

Introduction

Since 10 May 1994, South Africa has been governed by a democratic, proportionately elected Government of National Unity. This has led to the country's re-entry into global investment, tourism and trade markets.

South Africa has a modern, well-diversified economy in which agriculture, mining, secondary industry (manufacturing, electricity, gas, water and construction), commerce and a broad structure of service establishments contribute to the wealth of the nation. The market-driven and export-oriented economy is based on private enterprise and ownership. The industrial sector is seen as the major generator of economic growth in the country.

South Africa has the potential to become a magnet for foreign investment into the region.

Recent Macro-economic Developments

Economic events during 1996 were dominated by a decline in the external value of the currency (Rand). The decline, which stretched from February 1996 to October 1996, resulted in the trade weighted exchange rate falling by 21.9 percent (from December 1995 to December 1996). Stability in the foreign exchange market was restored towards the end of 1996 and the currency started to strengthen against the US Dollar and a basket of other currencies. However, the positive effects of the currency depreciation became clearer with the robust growth in merchandise exports, raising the hopes for growth and job creation. The depreciation together with good rainfalls also had its positive effects on agricultural output, as well as on the non-agriculture sectors. In particular, manufacturing production recovered from a decline in the third quarter to register positive growth of 2.5 percent in the fourth quarter of 1996. As a result of these developments, real GDP increased by 3.1 percent in 1996.

The Government has fulfilled its promise to reduce the fiscal deficit further and to meet the targets of its growth, employment and redistribution macro-economic strategy (GEAR). The fiscal deficit for 1997/98 is projected to be 4 percent of GDP compared to 5.1 percent in 1996/97. This reduced deficit target is to take place within a framework of no new taxes, but lower taxes to the working class, better targeting of expenditure programmes on poverty relief and increased expenditure on social sectors, infrastructure and human resource development, improved management in government, and cooperative governance.

With exchange controls on foreigners already liberalised, the Minister of Finance recently announced that South African individuals and corporations will now be able to, within certain limits, transact internationally. Of specific importance to the region, is the fact that individuals will be able to remit an amount of capital abroad, with extended limits for the aquisition of fixed property in SADC countries. In addition, corporations wishing to establish new ventures will be permitted to transfer up to ZAR40 m (about USD 9 m) to SADC countries.

The inflation rate averaged 7.4 percent for 1996, the lowest since 1972. However, the depreciation of the Rand has placed upward pressure on prices. The competitive gains of the depreciation need to be consolidated by preventing second rounds of wage and price increases, in order to ensure that the benefits will be of a long-term nature.

The growth over twelve months in the broad money supply (M3) fluctuated within a narrow range during 1996. The year-on-year growth rate subsided from a peak of 16.1 percent in December. During January 1997 the growth rate in M3 accelerated again to 16.8 percent in February. The Bank rate remained unchanged at 17 percent since its last increase in November 1996. However, bond yields for the first two months of 1997 improved to 15 percent, reflecting the positive change in fundamentals and sentiment.

The growth in the export sector was accompanied by a slowdown in imports, which resulted in a reduction of the current account deficit. However, the volatility in the foreign exchange market resulted in a slowdown in the inflow of capital compared to 1995. Foreign exchange reserves, which had fallen by ZAR4.3 billion (about USD 966 m) in the first three quarters of 1996, showed some improvement in the fourth quarter and are currently sufficient to cover 5.5 weeks of imports.

Financial Institutions

The South African Reserve Bank, established in 1920, is an independent institution. It acts as banker to the government, a custodian of foreign reserves, supervisor of banks and also formulates monetary and exchange rate policy.

Commercial banking institutions are regulated by the Banks Act of 1990. The Act stipulates certain prudential requirements to be complied by banks regarding capital, cash reserves, liquid assets and large exposures. At present there are 45 banks which operate in South Africa. Some of the other financial institutions and mechanisms include finance companies, participation mortgage bonds, unit trusts and insurance companies.

The Johannesburg Stock Exchange (JSE) is one of the larger stock exchanges in terms of market capitalisation - in 1996 it was ranked 16^{th} in the world. It is governed externally by the Stock Exchanges Control Act of 1985, and internally by its own rules and regulations. In 1984, the JSE established a development capital market similar to Britain's unlisted securities market.

Currently, the JSE's top five companies in terms of market capitalisation are Anglo-American, De Beers, South

African Breweries, Sasol and Richmont.

Johannesburg Stock Market (USDm)							
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Number of listed companies	781	740	683	647	640	640	626
Market capitalisation	183,122	185,265	164,132	217,046	259,523	280,257	241,246
Number of companies making rights issues [1]	..	..	38	40	33	43	52
Value of new issues	..	3,491	4,315	4,150	2,814	5,375	6,610
Value of rights issues	..	2,380	2,424	2,138	813	1,896	2,303
Volume of shares traded (m)	2,623	2,527	2,227	3,646	531	5,148	8,993
Value of shares traded	9,241	8,052	7,752	13,414	20,157	17,438	27,255
Source: Johannesburg Stock Exchange, Original figures in South African Rand converted to US Dollars using International Financial Statistics (IMF) average exchange rates, except for market capitalisation which is converted at end of year exchange rates.							

Foreign Trade

Despite attempts to diversify its export base, South Africa is still largely reliant on the export of primary and intermediate commodities to industrialised countries. However, manufac-tured goods account for about 70 percent of exports to Africa.

Imports mainly comprise capital goods, raw materials, semi-manufactured goods and consumer commodities, and originate largely from Germany, the USA, the UK and Japan. These four countries are also major export markets for South Africa, along with Switzerland and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). South Africa's principal exports are gold, base metals and manufactured products.

Trade Liberalisation

South Africa is currently in the process of liberalising trade, which, due to its economic isolation, was heavily regulated. Quantitative restrictions have been replaced with tariffs, the tariffs have been phased down and their structure rationalised, import surcharges have been abolished and the General Export Incentive Scheme will be phased out by 1997. This liberalisation will continue in line with South Africa's commitment to the WTO.

Goods from Botswana, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe do not generally require import permits. Export permits are required for goods being exported outside SACU that are considered to be in short supply or that are controlled for strategic purposes.

Labour Relations

The Labour Relations Act of 1995 is designed to move South Africa's industrial relations from an adversarial approach towards co-operation. The Act encourages the establishment of workplace forums based on the German model of co-determination. There are over 300 unions in South Africa, with several umbrella bodies such as the Congress of South African Trade Unions (COSATU). Minimum wage rates are prescribed for certain industries and occupations in industrial council agreements or other labour legislation.

Human Resources

The Human Sciences Research Council estimates illiteracy at 50 percent. The government and private organisations have established adult basic education and learning projects to combat this problem.

South Africa has 21 fully-fledged universities, two of which are non-residential institutions offering distance tuition. 15 Technikons provide vocational education on a tertiary level to supply the labour market with people who have particular skills and adequate technological and practical knowledge.

INVESTMENT CLIMATE

TAX INCENTIVES	Applicability	Benefits
Research and Development	Scientific research operating expenditure. Approved scientific research capital expenditure.	25% of the cost of capital expenditure for scientific research approved on a yearly basis by the Council for Scientific Indus trial Research may be deducted annually. If the research is discontinued there will be a recoupment of the deductions allowed.
Employee Housing	Erecting a house for an employee Amount donated or advanced to employee to build a house Erection of at least five residential units to house full-time employees or to let to a tenant.	50% of the expenditure/advance/ donation, with a limit of ZAR6,000 (about USD 1,3560). Allowances: Initial 10% of cost Annual 2% of cost limited to cost.
Depreciation	Plant and machinery Manufacturing or similar process Hotel equipment Farming	Rates: • 20% p a • 2% • 50%, 30%, 20% over three years
	Building Industrial (manufacturing or similar process) Hotels Hotel refurbishments	Rates: • 5%
	Non manufacturing fixed assets	Various - normally 10% to 20%

Industrial Financing Incentives		
Multi-shift Scheme	Independent industrialists and groups with total assets of ZAR 1 m (about USD 225,000) or more. At least one shift of 8 hours should be added resulting in greater employment.	Loans are available for the financing of additional working capital and equipment for increased production through an additional shift at a low interest rate for the first three years.
Finance for Export of Capital Goods	Exporters of capital goods	Competitive financing in Rands or US Dollars over a period of two to 10 years.
Venture Capital Finance	Entrepreneurs starting a business or high technology industry or requiring further permanent capital to finance growth or the commercialisation of new technology.	Advantageous financing.
Low Interest Rate Finance for Export Promotion	Industrialists with total assets of at least ZAR1 million expanding capacity to serve export markets. This expansion	Low interest rate loan for the first three years if 60% of sales are intended for export. If 30% to 60% of sales are exported, only half the loan

	should also create employment opportunities.	will be at the low rate, with the balance being advanced at the current rate on ordinary IDC loans.
Small Business Development Loans	Limited to entrepreneurs with enterprises whose gross assets are less than ZAR10 million (about USD 2.25 million).	Provision of finance, premises and training.
Finance to Improve International Competitiveness	For manufacturers who need to improve their international competitiveness through the acquisition of fixed assets, following the change in tariff protection policy.	Finance available at a low interest rate for three years.
Bank Indemnity Scheme	Small or medium enterprises where contribution and collateral must total at least 50% of facility granted.	Indemnity to banks against 60% of loss. Maximum of ZAR400,000 (about USD 90,000) per client.
Eco-tourism scheme	Development, improvement and/or expansion of tourist accommodation in conservation areas and national game reserves.	Loans at IDC rates or by risk participation
General tourism scheme	Institutions which are developing tourist accommodation suitable for foreign tourists.	Loans at IDC rates. Maximum funding of ZAR10 m (about USD 2.25) per project. Full range of support services.
Low Interest Rate Scheme for Employment Creation	Manufacturers expanding capacity to create new employment opportunities. Employment must be created at a capital cost not exceeding ZAR100,000 (about USD 22,500) per job.	Loans are granted at 5% below the prevailing IDC rate for the first three years, and at the normal rate for the following years.

RESEARCH AND DEVELOPMENT INCENTIVES		
Support Programme for Industrial Innovation	All private sector companies in the manufacturing industry.	50% subsidy on the expenditure incurred in developing new products and technology. Maximum of ZAR1 million (USD 225,000)
Steel Rebates and Steel Concessions	Exporters of fabricated steel products where 25% value has been added.	Rebates based on the value of the assets.

REGIONAL INDUSTRIAL DEVELOPMENT FINANCE		
Tax Holiday Scheme (Replaces the Regional Industrial Development Programme)	Available to entities incorporated after 1 October 1996, with assets greater than ZAR3 million (USD 674,000). Approval must be given for the tax holiday between 1 October 1996 and 30 September 1999. The entity must be a manufacturing concern in terms of Major Division 3 of the Standard Industrial Classification.	Tax holiday: Tax levied at zero percent on taxable income for a maximum of six consecutive years. The tax holiday must be utilised within ten years of approval. A two year tax holiday is awarded for each criterion met: The product being manufactured is on the approved list. The plant is situated in one of the designated locations. The human resource remuneration to value added ratio exceeds 55%
Small/Medium Manufacturing Development	Same applicability as for the Tax Holiday Scheme, except that it is for enterprises with assets of less than ZAR3 million (about	A tax free grant from government for a maximum of six years in all areas of South Africa. The grant is divided into three

Programme	USD 674,000).	components: Establishment Grant: First three years calculated at 10.5% of qualifying assets with a maximum of ZAR315,000 (about USD 70,800). The equity percentage has to be greater than 10%. Profit/Output Incentive: The next three years are based on 25% of profit before tax but is limited to the establishment grant. To qualify for the fifth and sixth year, the labour remuneration as a percentage of value added has to be maintained at 55%. Foreign Investment Grant: There will be a grant for companies with a foreign shareholding greater than 50% which will reimburse the local company for costs incurred for importing new machinery. The grant is limited to USD 50,000.

EXPORT INCENTIVES		
South Africa is a member of SADC and SACU. Recently, South Africa has become a signatory to the Lomé Convention, allowing preferential access to EU markets.		
General Export Incentive Scheme (To be phased out by December 1997 in accordance with the requirements of the WTO).	Manufacturing exporters who register and qualify according to the products exported. Products are classified into categories, based on their classification under the international customs tariff code.	Since July 1996, only products in category four (i.e. fully manufactured final products) qualify for benefits. Benefits are granted according to the sales value of the product, the level of value added, the local content and the prevailing exchange rate. The payment is a maximum of 6% of the free-on-board value of the product.
Export Marketing Assistance	Undertakings registered with the Department of Trade and Industry.	A portion of specified costs relating to exhibition, market research and travel refunded.
Export Credit and Foreign Investment Reinsurance Scheme	Undertakings registered with the Department of Trade and Industry.	Foreign exchange risk cover: Financial institutions may offer loans to exporters of capital goods at a range of forward exchange rates instead of a single predetermined export exchange rate which applied previously. Competitiveness: Enhanced through a reduction in the bank lending rate, enabling the Department of Trade and Industry to adjust the USD denominated repayments rates downwards.

Taxation

Some important aspects of the tax system are:

- Income in South Africa is taxed at source.
- VAT is levied on goods and services, except for some basic foodstuffs. Exports are also zero-rated. The current VAT rate is 14 percent.

- A tax loss incurred by a company in any business activity may be carried forward and set off against future profits until exhausted, as long as the company continues to do business.
- Profits may be repatriated and are not subject to with-holding tax.
- There is no capital gains tax in South Africa.
- Partnerships and joint ventures are not treated as separate taxable entities. Each partner is taxed on his or her share of the partnership's taxable income.

Specific taxation legislation applies to mining and insurance companies

In addition to normal income tax, there is a secondary tax on companies. The tax is calculated on the net amount of dividends declared and is currently levied at 12.5 percent

Double taxation agreements exist between South Africa and the following countries: Botswana, Denmark, Finland, France, Germany, Hungary, Israel, Korea, Lesotho, Malawi, Namibia, Netherlands, Norway, Poland, the Republic of China, Romania, Swaziland, Sweden, Switzerland, Tanzania, Thailand, the United Kingdom, Zambia and Zimbabwe. The treaty with the United Kingdom also extends to Grenada, Mauritius, the Seychelles and Sierra Leone. There are other countries who are in the process of negotiating double taxation agreements with South Africa

Investment Promotion Agency

Investment South Africa was launched in February 1997, its core functions being the promotion of South Africa as a destination for foreign direct investment, and the provision of facilitation services to investors. Investment South Africa also provides input on policy issues relating to investment, and links local small and medium enterprises with incoming foreign direct investment.

Exchange Controls

The South African Reserve Bank is in charge of the administration of exchange control, with some responsibilities being delegated to authorised foreign exchange dealers, such as commercial banks. Some exchange control regulations that might affect investors are as follows:

> If a South African resident borrows from a non-resident, prior approval is required from the Reserve Bank.

Companies that are more than 50 percent owned or controlled by non-residents, are restricted in their local borrowing. The restriction is related to the net worth of the company and the amount of foreign participation in the company.

Foreign exchange may be provided for the payment of imports, if there is documentary evidence as to the receipt of goods in South Africa. Imports permits may be required in some cases.

Exporters must ensure that the proceeds of the export are received in South Africa within 6 months of shipment, although authorised dealers may approve credit up to 12 months if this is necessary to retain the foreign market.

There is no restriction on the repatriation of profits, or on the transfer of dividends or branch profits. Interest payments are also freely transferrable. The transfer of directors' fees of over ZAR4,000 (about USD904) per year, management fees and royalties are also subject to Reserve Bank approval, however.

Non-residents are permitted to hold foreign currency accounts.

Individuals are allowed to remit an amount of capital abroad, with extended limits for the acquisition of fixed property in SADC countries.

Protection of Investment

South Africa's export insurance scheme provides exporters with insurance facilities to cover normal commercial insolvency and political/transfer risks that may prevent them from receiving payment for their goods. The signing of bilateral agreements for the promotion and protection of investment with nine countries are in the process of being negotiated.

South Africa is signatory to international investment protection agreements including MIGA.

Privatisation Programmes

The Cabinet approved a set of guidelines in September 1995, for the restructuring of state assets, and the first privatisation initiative (the sale of six radio stations) was completed in 1996. The state-owned telecommunications company, Telkom, is currently undergoing restructuring and a foreign equity partner is being sought by the South African government. Other plans to be carried out in the near future include the outright sale of Sun Air and Aventura, the corporatisation of South African Airways, and the restructuring of Safcol, Alexkor and Eskom.

The proceeds of privatisation initiatives will be used to reduce state debt, recapitalise public enterprises and broaden economic participation.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

South Africa has been cut off from world markets for some time, and its re-entry into the global arena has opened up many opportunities for foreign and South African investors alike.

The IDC has identified industries and sectors with a comparative advantage, in terms of export performance and competitiveness.

The best export-oriented industries as per revealed comparative advantage, were found to be:

Food and related products: Sugars, starches, insulin and wheat gluten, vegetables and fruit.

Textiles and clothing: Textile wear, woven fabrics of synthetic fibres.

Wood-related products: Wood and cork, chemical wood pulp, paper and articles thereof.

Chemicals: Inorganic chemicals, fertilisers, petroleum jelly, mineral waxes.

Non-metallic mineral products: Building and monumental stone.

Basic metals: Basic iron and steel, ferro-alloys, non-ferrous basic metal products.

Export industries with the highest degree of penetration in world markets are:

- Food and related products: Cereals and preparation thereof, beverages.
- Textiles and clothing: Men's suits and trousers, footwear, travel goods, handbags.
- Wood-related products: Wood and cork manufactures, furniture and parts, chemical wood pulp.
- Chemicals: Organic chemicals, fertilisers, petroleum-related products, tyres.
- Machinery: Agricultural machinery and parts, trailers and other non-motorised vehicles, railway equipment.
- Basic metals: Basic iron and steel products.
- Metal products: Wires, cables and cordages of iron and steel.
- The best performing manufacturing sub-sectors have been identified as:
- Clothing
- Footwear
- Tanneries and leather finishings
- Leather products
- Furniture
- Paper containers

- Industrial chemical products
- Industrial and other machinery
- Electrical appliances
- Non-ferrous metal products
- Basic iron and steel
- Fabricated metal products

Projects

Company	Project	Value USDm	Expected completion date
AGRICULTURE, FORESTRY & FISHING			
Orange Wynkelders	Vineyards and Grape Juice Plant	13.5	4 Q 99
MINING & QUARRYING			
Sasol Mining	Secunda Mines Expansion	147.2	4 Q 97
Anglo- American	Western Deep's Shaft Deepening	225.0	1 Q 05
JCI	Doornkop South Reef Mines	181.1	1 Q 05
Phalaborwa Mining	Northern Province Underground Copper Mine	337.5	1 Q 03
Richards Bay Mining	Zulti North - Fifth Mining Plant	112.5	4 Q 01
Richards Bay Mining	Zulti North - Infrastructure Upgrading	180.0	4 Q 01
Red River Exploration	Red River Ilmenite and Vanadium Project	303.8	4 Q 00
ISCOR / IDC	Aluminium Project	360.0	4 Q 99
MANUFACTURING			
IDC	Glycol Manufacturing Plant	202.5	4 Q 99
South African Breweries	Eastern Cape Brewery, Port Elizabeth	225.0	4 Q 00
South African Breweries	Eastern Cape Brewery, East London	168.8	1 Q 99
Kohler	Paper Recycling Plant	30.1	4 Q 97
Mondi	Mondi's Capacity Expansion	112.5	3 Q 97
Sasol	Synthol Reactors	184.5	1 Q 99
Sasol	Rectisol Petrol Plant	30.4	4 Q 97
Sapref	Kwazulu-Natal Oil Refinery	45.0	unknown
Karbohem	Chrome Chemical Plant	112.5	1 Q 98
Iscor	Titanium Slag and Smelter Project	450.0	4 Q 99
Afrox	Gas Plant and Pipeline	45.0	3 Q 97
Sasol	Sasol Chem - New Air Separation Plant	78.8	1 Q 98
Fedmis	Phosphoric Acid Recovery Plant	202.5	4 Q 99
Sentrachem	Herbicide Project	76.1	4 Q 00
Bayer South Africa	Merebank Chrome Chemicals Beneficiation Facility	114.8	3 Q 98
Volkswagen	Eastern Cape Aluminium Engine Block	67.5	unknown
Chromecorp Holdings	Rustenburg Chrome Capacity Expansion	38.9	4 Q 97
Natal Portland Cement	New Cement Factory	180.0	2 Q 98
IDC	Cold-Rolled Steel Surface Coating Plant	101.3	4 Q 98
IDC	Iron Direct Reduction Facility	900.0	4 Q 98
ISCOR	Stainless Steel Works Expansion	101.3	4 Q 98
IDC & Swiss Steel	Saldanha Steel	117.0	1 Q 98
Nissan SA	Rosslyn Plant Expansion	38.3	4 Q 98
Mercedes-Benz SA	Mercedes-Benz Plant Expansion	90.0	1 Q 99
ELECTRICITY, GAS AND WATER			
Eskom	Matimba Power Station Upgrade	60.8	4 Q 02
Eskom	Substation	47.0	3 Q 97
WHOLESALE & RETAIL TRADE, HOTELS			
Morkels Retail Group	Countrywide Retail Expansion	112.5	4 Q 00
Strive & Win Group	Benoni Leisure Centre	180.0	1 Q 99
Granger Bay Trust	Granger Bay Villa Via	33.5	3 Q 98
Protea Hotels	Sectional Title Hotel	35.3	1 Q 98

Mpumalanga Parks Board	Songinvolo Hotel & Timeshare Park	56.3	4 Q 00
Stocks & Resort	President Protea Sectional Title Hotel - the Millenium Development	78.8	4 Q 99
South African Consortium	Rhino Hotel & Casino Resort	168.8	unknown
Liberty Life	Gauteng and Cape Town Hotel Development	78.8	2 Q 97
Campagné Generale de Batîment et de Construction	Vicotria and Alfred Waterfront, Cape Town	180.0	unknown
Mpumalanga Parks Board and Dolphin Group	Mpumalanga Hotel Development	65.5	1 Q 00
TRANSPORT, STORAGE & COMMUNICATIONS			
Department of Transport	Gauteng to Maputa Corridor	450.0	1 Q 20
IDC	Pande Gas Pipeline	607.5	4 Q 00
Department of Transport	N3 Toll Road De Beers Pass Project	270.0	4 Q 02
Intersite Property Management Services and Metro Rail Services	Johannesburg Park Station	36.0	unknown
Portnet	Nqwu Mouth Port	315.0	4 Q 99
Portnet	East London Port Upgrading	213.8	4 Q 97
St Francis Bay Council and three businessmen in Port Elizabeth	Eastern Cape Harbour	56.3	unknown

FINANCE, INSURANCE & REAL ESTATE			
Montsi Properties	Montsi Properties Hotel & Casino Development	45.0	4 Q 99
RMP Properties	Crown City Project	157.5	4 Q 08
Intersite Property	Station Land Development	112.5	4 Q 98
Tongaat-Hulett Property	Mount Moriah and Effingham-Avoca Property Development	360.0	4 Q 98
Johnnic Properties	Nelspruit's Riverside Retail and Office Park	90.0	4 Q 97
Sanlam Properties	International Business Gateway Office Park	157.5	4 Q 99
Sanlam Properties	Sanlam's Sandton Business Park	78.8	4 Q 98
Homes for Gauteng	Phumala Low-Cost Housing Project	45.0	2 Q 99
Propnet	Knysna Waterfront Development	37.1	4 Q 99
Propnet	Tygerberg Business Park	112.5	4 Q 99
Oudekraal Estates	Camps Bay Residential Development	168.8	4 Q 97
Afro Prop	Mahogany Ridge	38.0	3 Q 98
Anglo-American Property Services	Durban Waterfront Development	56.3	4 Q 98
Norwich Properties and the Commonwealth Development Corporation	Gauteng Shopping Centre	54.0	2 Q 97
Intersite Property Management Services	Kwazulu-Natal Business Park	112.5	unknown
Compagné Generale de Batîment et de Construction	Cape Town Hotel and Office Development	191.3	unknown
Unknown	Saldanha Light Industrial Office Park	112.5	4 Q 01
COMMUNITY, SOCIAL & PERSONAL SERVICES			
Department of Public Works	Kwazulu-Natal's Two New Prisons	57.4	4 Q 97
Kwazulu-Natal Public Works	Kwazulu-Natal Buildings	33.8	1 Q 98
Unknown	Wanderers Cricket Ground Upgrade	33.8	4 Q 97
Needwood Leisure	Huddle Park Golf Course	90.0	4 Q 98

Compiled by the IDC from the following sources: Engineering News (Jan-Dec 1996); Mbendi Information for Africa (Mar 1997); Nedcor Capital Projects (1996);IDC Executive Management Reports (1996); Trade Compass - Gateway to International Commerce (1996); Business Report (4 June 1996).

For projects valued at less than USD30m, please contact the IDC.

South Africa (USDm, unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Population (millions)	38.0	38.9	39.7	40.6	41.4	42.3
Formal sector non-agricultural employment (millions)	5.7	5.4	5.2	5.2	5.2	..
Nominal GDP at market prices	112,309	119,569	117,456	121,619	133,926	126,388
Real GDP growth rate, %	-1.0	-2.2	1.3	2.7	3.4	3.1
GDP per capita (USD)	2,956	3,077	2,957	2,997	3,232	2,987
Private Consumption expenditure as % of GDP	59.2	61.4	60.4	60.2	60.8	60.9
Gross domestic savings as % of GDP	18.9	17.1	17.2	17.1	16.8	16.5
Gross domestic fixed investment as % of GDP	17.8	16.6	15.5	16.0	16.9	17.0
Inflation rate, %	15.3	13.9	9.7	9.0	8.7	7.4
Total merchandise exports as % of GDP	20.7	20.1	20.6	20.5	21.4	23.0
Total merchandise imports as % of GDP	15.3	15.2	15.6	17.7	20.2	21.4
Capital account of balance of payments	16.0	11.0	1.0	-5.0	17.0	..
Foreign direct investment as % of GDP	0.0	-0.7	-0.3	0.2	0.1	..
Foreign portfolio and other investment as % of GDP	-0.2	-0.1	0.9	1.8	1.3	..
Overall balance on balance of payments	1,460.0	93.6	-2,813.8	879.2	2,502.6	-1,076.0
Average exchange rate: ZAR to USD	2.8	2.9	3.3	3.5	3.6	4.3
Foreign exchange reserves expressed in terms	1.5	1.9	1.3	1.2	1.4	1.3
of months of import cover						
Total external debt as % of GDP	22.8	22.8	21.7	22.9	23.9	..
Total external debt service as % of exports	7.5	6.7	6.6	6.3	6.9	..
Budget deficit as % of GDP, (fiscal year)	-4.7	-9.0	-9.8	-5.7	-5.4	-5.1
Central bank discount rate (end of year), %	17.0	14.0	12.0	13.0	15.0	17
Prime lending rate (average for year), %	20.3	18.8	16.7	15.6	17.9	19.3
Growth rate of M2 money supply, %	15.7	10.8	4.0	20.6	13.9	15.8
Net Domestic credit to government	7,430.2	7,245.4	8,205.2	8,974.3	8,762.6	9,211.3
Total Domestic credit to private sector	70,228.5	68,585.3	67,619.2	75,878.9	86,647.0	78,362.9
Source: South African Reserve Bank						

USEFUL ADDRESSES

Investment Promotion Agency

Investment South Africa, P O Box 752084, Sandton, 2146. Tel: +27-11-884-2206, Fax: +27-11-884-3236

Consulting Firms

Coopers and Lybrand, P.O. Box 2536 Johannesburg 2000. Tel: +27-11-498 4000 Fax: +27-11-834 4745

Deloitte and Touche, Private Bag X6 Gallo Manor Sandton 2052. Tel: +27-11-806 5000 Fax: +27-11-806 5003

Ernst and Young, P.O. Box 2322 Johannesburg 2000. Tel: +27-11-498 1000 Fax: +27-11-498 1111

Imani Capricorn Economic Consultants (Pty) Ltd., Suite 102 Field House, 25 Field Street, Durban 4000. Tel: +27-31-304 7201 Fax: +27-31-307 1506

KPMG, P.O. Box 7400 Johannesburg 2000. Tel: +27-11-332 7111 Fax: +277-11-331 9517

Price Waterhouse, P.O. Box 783027 Sandton 2146. Tel: +27-11-780 2000 Fax: +27-11-780 2534

Southern Africa - A New Growth Opportunity

SWAZILAND

Agro-Industry forms one of the cornerstones of Swaziland's economy.

GENERAL INFORMATION

Geography and Population

Swaziland is a small kingdom bordered by Mozambique and South Africa. The country covers an area of 17,000 km^2 populated by 0.9 million inhabitants. The annual population growth rate is 3.4 percent. Swaziland was ranked 110 in the 1996 UNDP Human Development Index[1] - which may be compared with South Africa (100), Namibia (116), Indonesia (102),Vietnam (121) and Morocco (123).

Sectoral Description

Agriculture has traditionally been a key sector in the country's economy as a foreign exchange earner, and more than two-thirds of Swaziland's working population is dependent on the agricultural sector for their livelihood. Swaziland's manufacturing sector is, however, the largest sectoral contributor to GDP, averaging 35.8 percent over the past five years. The sector is made up of agricultural processing industries, textiles, food and beverage, wood and light industrial goods.

Livestock keeping is another important economic activity, in particular cattle farming, and the country has some mineral wealth, in particular asbestos, coal and diamonds.

The tourism sector is an important revenue earner for the country. Swaziland has much to offer regional and overseas visitors, including nature reserves, wildlife, sports and a wide selection of handicrafts.

Infrastructure

Swaziland produces some electricity, but the bulk is imported from South Africa.

The country has a railway system covering 300 km, connecting it with Mozambique and South Africa. The system moves close to 4.5m tonnes of freight per annum and provides an important link for imports and exports. The road system is in good condition, and the main route between Mbabane and Manzini is being upgraded to accommodate the heavy flow of traffic on that route. The telecommunications system has been upgraded during the recent years and a feasibility study on the viability of a cellular network has been conducted.

An inland dry port, located at the Matsapha Industrial Estate saves time and expense for Swaziland's importers and exporters using the Durban port. The recent investments in the upgrading of Mozambique's road, rail, and port infrastructure will improve Swaziland's access to the port in Maputo for exports, especially sugar which is freighted through this port.

Royal Swazi National Airways operates domestic and regional flights from Matsapha International Airport.

Airlinks between Swaziland and other regional capitals are frequent and well developed.

ECONOMIC OVERVIEW

Introduction

Due to its limited domestic market, Swaziland relies heavily on export-oriented industries. Industrialisation has reached a fairly high level, mainly because of foreign investments attracted during the sanction years in South Africa. Main contributors to GDP are: manufacturing, government services, agriculture, wholesale, retail, hotels and restaurants.

Recent Macroeconomic Developments

Though real GDP growth increased to 3.2 percent in 1996 from 2.8 percent in 1995, it was still lower than the 3.7 percent registered in 1994, reflecting a moderate and mixed growth trend over recent years. Production increases in sugar and woodpulp industries, as well as in the agricultural sector (due to good rainfalls), together with good performances in the export-orientated industries such as soft-drink concentrates, were responsible for the increased growth. This growth occurred despite decreased investments and the expected closure of some industries. (In this respect, the mining sector is due for a setback with the imminent closure of the diamond mine). In addition, sizeable infrastructure projects such as the Urban Development and Komati River Basin project are ex-pected to improve social development and economic growth.

Due to a lower increase in government revenue compared to the previous two years, and increased expenditure (mainly as a result of salary increases), the net deficit before borrowing for 1996/97 is expected to be SZL216.9m (approxi-mately USD47m). However, it is anticipated that through a self-imposed structural adjustment programme aimed at increasing revenue receipts and curbing expenditure growth, the deficit will be reduced to SZL98.5m (around USD21m) in 1997/98. The 1997/98 budget is aimed at improving infrastructure and training, but also makes provision for a decrease in taxation rates and other incentives directed at investment attraction.

The overall balance of payments position reflected a surplus despite a deterioration in the trade and current accounts. This is due to an improvement in net long-term capital inflows as a result of reinvestment in the sugar, pulp, refrigerator and textile industries. Apart from being capital inflow receivers, these industries together with the soft drink and cotton yarn sub-sectors, were the leading export earners. The services sector also showed improvement, with tourism being the main source of revenue. Foreign direct investment improved slightly to 2.7 percent of GDP in 1996.

On the monetary front, the policy of aligning interest rates with those in South Africa was maintained, with interest rates in South Africa slightly higher. Money supply (M2) growth rate increased from 3.9 percent in 1995 to 16.3 percent in 1996 mainly as a result of the government's increased net creditor position and because of greater export earnings as a result of the depreciation of the currency. Swaziland is part of the CMA, and as such the currency (Emalangeni) enjoys parity with the South African Rand. Due to the sharp depreciation of the Rand and thus the Emalangeni during 1996 and the improvement in the overall balance of payments, foreign exchange reserves increased to cover 4.6 months of imports, compared to 3.2 months in the previous year. However, the depreciation also caused external debt to rise in local currency terms. The debt service ratio nevertheless remained manageable at 3.9 percent in 1996. Annual inflation for 1996 recorded 11.2 percent, down from the 13.3 percent registered in 1995.

Financial Institutions

The Central Bank of Swaziland was established as the country's monetary authority in April 1974. It took on the functions as a central bank in 1979. The mandate of the Bank includes: issues, service and redemption of domestic debt; external debt management and service; administration of exchange control, and formulation and implementation of monetary policy. Three lending schemes are operated by the Central Bank: the Export Credit Guarantee Scheme, the Small Scale Enterprise Loan Guarantee Scheme and the Public Enterprise Loan Guarantee Fund. There are four commercial banks in Swaziland: Barclays Bank, First National Bank of Swaziland, Stanbic Bank Swaziland and Nedbank Swaziland (formerly Standard Chartered Bank). There is also one development bank, Swaziland Development and Savings Bank, and a building society.

Instruments used in the money market include: stocks and treasury bills, bank acceptances and negotiable certificates of deposits. Swaziland's stock market has been operating for more than seven years and lists five companies at present, the largest being Lonrho Sugar, Masterfridge (both dual listed) and Royal Swaziland Sugar.

Foreign Trade

Swaziland's economy is export-oriented, with exports amoun-ting to 70 percent of GDP. The major export products are soft drink concentrates, sugar, refrigerators, textiles and wood pulp. The most important trading partner is South Africa, followed by the EU, Mozambique, Japan, USA and the UK.

Trade Liberalisation

All imports from outside SACU require an import permit.

Labour Relations

The Industrial Relations Act as amended in 1995, provides for collective negotiations of terms and conditions of employment and income generating activities. Labour relations are governed by the 1980 Employment Act. Statutory minimum wages are regulated.

Human Resources

Approximately 10.8 percent (91,873) of the population was formally employed in March 1995, of which 28,541 were in the public sector and 63,332 in the private sector. Informal employment was estimated at 15,149, and the number of migrant Swazi nationals employed in South African mines amounted to 15,758 in 1994.

Swaziland has one of the highest literacy rates in the region, with 77 percent of the adult population being literate. Swaziland has one university, offering degree courses in arts, sciences, commerce, education, law and agriculture. The country also has several technical colleges.

Swaziland Stock Market (USDm)							
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**[2)]
Number of companies with shares listed	1	2	3	4	4	4	5
Market capitalisation	17.2	27.2	106.9	296.9	338.7	338.7	470.8
Number of companies making issues	-	1	1	1	1[1)]	-	1
Value of new issues	2.1	-	3.5	-	-	-	14.4
Value of rights issues	-	-	-	-	9.5	-	-
Volume of shares traded (m)	0.09	0.24	0.33	0.03	1.03	0.26	3.31
Value of shares traded	0.1	0.2	0.4	0.0[3)]	2.1	0.4	2.3

Source: Swaziland Stockbrokers Ltd (1997). Original figures in Swaziland Emalangeni (SZL), converted to USD by using International Financial Statistics (IMF) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.

Notes:
1) Rights issue
2) Figures exclude an issue valued at USD11.9m which was suspended before commencing trading, listed December 1996
3) USD30,000

INVESTMENT CLIMATE

Investment Incentives

Highlights of the incentives include:

* Five year tax exemption for new manufacturing companies involved in exports. Further tax incentives are presently being considered.

* An employee training programme allows for expenses incurred in training personnel to be deducted for tax purposes.

* Assessed losses may be carried forward and offset against future profits.

* An initial depreciation allowance of up to 50 percent on plant and machinery may be claimed in the first year or spread over several years.

* A 10 percent local preference on public tenders is allowed.

* An allowance is granted for the cost of building houses for employees.

Business sites for industrial operations are available from the Ministry of Enterprise and Employment and Swaziland Industrial Development Company (SIDC). Ongoing expansion of the Matsapha Industrial and other sites is being carried out along with upgrading of the country's infrastructure.

Export Incentives

The Central Bank operates an Export Credit Guarantee Scheme established in 1991. The scheme includes pre- and post-shipment loans granted by commercial banks, which receive guarantee bonds from the scheme as risk cover. Swaziland has decided not to adopt the export processing zones concept, as the benefits presently offered to investors are equally favourable.

As a Lomé Convention signatory Swaziland enjoys preferential access to the EU for a wide range of products. Under the GSP, Swaziland also has access to other major markets such as USA, Canada, Australia and Japan.

Swaziland is a member of SACU, which provides for the free movement of goods between the member countries (Botswana, Lesotho, Namibia, South Africa and Swaziland). It is also a member of the regional organisations SADC and COMESA.

Taxation

Corporate tax rate is 37.5 percent (and will be reduced to 30% during 1997).

Maximum rate for individual tax is 39 percent.

Withholding tax is at 15 percent (12.5 percent within SACU).

Double taxation agreements exist with South Africa, Mauritius and the United Kingdom.

Institutions Involved in Investment Promotion

SIDC is the principal development finance and investment promotion agency. SIDC finances private sector projects in manufacturing, mining, tourism, commerce and service sectors and also provides assistance on business requirements and procedures.

Establishment of an investment promotion centre is under consideration. The Trade Promotion Unit within the Ministry of Enterprise and Employment is the national focal point for trade promotion, with a special emphasis on non-traditional exports.

Investment Code

An Investment Code has been developed and will be adopted during 1997. The code outlines investment regulations and incentives.

Exchange Controls

No restrictions are applied to payments within CMA. The CMA member states (Lesotho, Namibia, South Africa and Swaziland) apply virtually identical exchange control regulations vis-a-vis third parties.

Dividends and profits are freely repatriated from Swaziland subject to a 15 percent withholding tax.

Outward transfers of capital require Central Bank approval. Inward transfers should be registered with the

Central Bank, to facilitate possible future repatriation of capital.

Companies that are more than 25 percent owned or controlled outside the CMA require Central Bank approval before taking up loans locally.

Legal Protection of Investment

Swaziland is a member of MIGA.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Investment opportunities in Swaziland are mainly found in processing of the country's natural resources, both agricul-tural and mineral. Sugar is produced from the vast sugar cane plantations, but could also be used to manufacture sweets and confectioneries. Tobacco, pineapple and vegetables are currently grown and canned, but there is scope for further processing of these goods. Kaolin and limestone may be used to produce ceramic ware, paper, pharmaceuticals and glass. Coal could be processed to make chemicals, cement and fertilisers. There are also favourable opportunities to further develop the country's tourism potential.

Swaziland: Projects for Potential Investment		
Type	**Project**	**Description**
Agriculture	Cattle farming (other livestock: goats, sheep, pigs have great potential)	Feedloting, hides and skins, rendered fats, tallow, meal, horn.
Construction	Electrical power systems and Mozambique and also a fourth feeder line	Power grid "interconnect" between Swaziland from South Africa to complete an important link-up in the southern African regional power grid.
	Upgrading of the Matsapha airport	Airport/Ground support equipment would need to be supplied.
Manufacturing	Various value added products	Production of such products as sugar, citrus fruit, and wood-pulp.
	Various agro-related products fabrics, paper processing and pulp products	Sugar, animal feed, cotton ginning, yarn and and wood products.
Services	Telecommunication equipment and services	Establishing a Swaziland base station for cellular phones.
	Medical equipment	Tenders for supply of goods such as wheel- chairs and physical therapy equipment.

STATISTICS

Swaziland (USDm, unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Population (millions)	0.8	0.8	0.9	0.9	0.9	0.9
Nominal GDP at market prices	870.8	969.0	982.3	1,045.9	1,169.9	1,091.1
Real GDP growth rate, %	2.6	1.2	3.8	3.7	2.8	3.2
GDP per capita, USD	1,094.6	1,177.8	1,154.8	1,189.8	1,288.3	1,163.5
Consumption as % of GDP	87.0	84.0	87.3	85.7	87.0	94.1
Gross domestic savings as % of GDP	33.0	33.3	33.9	30.0	25.9	25.9
Gross investment as % of GDP	20.8	26.2	26.8	25.2	26.7	23.8
Inflation rate, %	11.0	8.2	11.2	13.9	13.3	10.9
Merchandise exports as % of GDP	68.3	65.9	69.8	74.9	81.5	78.0
Merchandise imports as % of GDP	72.7	79.2	78.8	78.4	83.4	78.3
Capital account of balance of payments	19.6	35.0	12.3	-60.6	-14.2	5.7
Foreign direct investment as % of GDP	7.3	4.9	6.1	-0.2	2.7	2.7
Foreign portfolio investment as % of GDP	-0.1	-0.0[1)]	-0.1	-0.4	-0.2	0.0
Overall balance on balance of payments	13.8	87.8	-63.8	-12.5	29.8	14.8
Average exchange rate: SZL to USD	2.7563	2.8497	3.2636	3.5490	3.6270	4.4625
Foreign exchange reserves expressed in terms of months of import	3.9	4.9	3.9	3.0	3.2	4.6

cover						
Total external debt as % of GDP	23.9	21.6	22.5	19.2	21.6	23.6
Total external debt service as % of exports	3.1	2.5	2.5	2.7	2.3	2.5
Budget deficit as % of GDP, fiscal year	4.7	-1.5	-6.1	-6.2	-2.1	-6.9
Central bank discount rate (end of year), %	13.0	12.0	11.0	12.0	15.0	16.8
Prime lending rate (average for year), %	16.1	15.8	14.4	14.3	18.0	18.7
Growth rate of M2 money supply, %	13.5	19.7	13.8	10.9	3.9	16.3
Domestic credit to government	-152.0	-206.8	-152.5	-112.3	-165.3	-180.2
Domestic credit to private sector	237.6	215.1	228.2	246.6	242.2	209.8
Source: Central Bank of Swaziland Note 1) -0.02 per cent.						

1 The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

TANZANIA

Snow capped peaks of Mount Kilimanjaro.

GENERAL INFORMATION

Geography and Population

The United Republic of Tanzania is located on the east coast of Africa between the great lakes of the rift valley system in the central part of the continent and the Indian Ocean. Tanzania's territory, of 945,000 km^2 also includes the Indian Ocean islands of Pemba and Zanzibar.

Tanzania's neighbours are Kenya, Uganda, Rwanda, Burundi, Zaire, Zambia, Malawi and Mozambique.

The population was estimated at 27.4 million in 1995, with an annual growth rate of 3.0 percent. Slightly more than half of the population is between 15 and 64 years of age. Tanzania was ranked 144 in the 1996 UNDP Human Development Index[1] - comparable with Zambia (136), Côte d'Ivoire (147) and Nepal (151). KiSwahili is the official, universally spoken language in Tanzania. English, also an official language, is the language of commerce.

Sectoral Description

Tanzania is rich in mineral resources. Investment is, however, required to upgrade technology and renew aging plant and machinery used for transporting bulky minerals. Although its share of national income is small, the mining sector contributes a significant share of exports and has attracted new foreign investment in recent years. Gold production has improved with the introduction of economic reforms, which curbed illegal mining. There is much artisanal production but new commercial mines are also being developed with foreign partners. Other minerals include diamonds, coal, phosphates, iron, and to a lesser extent, tin, salt, gypsum and kaolin. Nickel deposits have also recently attracted important new investment in the sector.

Tanzania's agricultural sector produces 55 percent of GDP, and accounts for approximately 80 percent of the country's foreign exchange earnings. The main form of agriculture is crop farming accounting for about 80 percent of agricultural production. Animal husbandry accounts for a further 15 percent, fisheries for five percent and forestry for less than one percent. Major cash crops are coffee, cotton, tobacco, cashew nuts, tea, cloves, sisal, sugar, pyrethrum, cardamom and groundnuts. Coffee, cotton, tobacco and cashew nuts are grown mainly by smallholders, while sisal and tea are grown predominantly on large estates. Tanzania's national cattle herd numbered some 13,4m in 1994.

Despite the country's great forestry potential, capacity utilisation has been low. The aim is to increase the industry's output to meet Tanzania's future needs in forest products and generate export earnings. Until the end of the 1970s, the forestry industry was almost entirely based on indigenous hardwoods from natural forests. Now, more than two-thirds of total log consumption (700,000m^3 per annum) is softwood from 18 national plantations.

Tanzania has several freshwater lakes (six percent of the total mainland area) with substantial fish resources. In addition, it has an 800 km coastline with a narrow continental shelf. While traditional methods are still used on the inland lakes, modern fishing techniques are being employed in the coastal waters.

The construction industry experienced an increase in activity as a result of investment financed by aid inflows, particularly during the 1980s. Spending is on equipment, road and bridge construction and other civil works and buildings.

The manufacturing sector contributes a very small share of national income, estimated by the Bank of Tanzania to have fallen from 13.0 percent in 1976 to 6.4 percent in 1995. An increased pace of privatisation and adequate supply of power are required to achieve sustainable growth in the sector.

Tanzania's vast game reserves cover nearly one-third of its total area. The government encourages private investment in 'up-market' tourist developments, including joint ventures with the Tanzania Tourism Board.

Infrastructure

The national Urban Water Authority administers urban water supply, and regional water engineers service the rural systems through local/village governments. All district headquarters have water systems.

Wood-based energy resources accounted for approximately 90 percent of all energy needs in 1993. Petroleum met nine percent of energy needs, while hydroelectricity and coal provided the balance. Petroleum has to be imported, thus absorbing large amounts of the country's foreign exchange. There is great potential for developing alternative sources of energy, notably hydroelectric power, coal, natural gas and solar energy.

Tanzania is well served by international, land, sea and air transportation routes. In most parts of the transport sector, major rehabilitation works are being undertaken. The size of the country and its low population density make maintenance and expansion of the transport infrastructure very costly. A road network connects Tanzania with Kenya, Malawi, Zambia, Uganda, Burundi and Rwanda, and any part of the country can be reached by the existing comprehensive road network of almost 54,000 km, of which 3,200 km are asphalt. Many roads are currently in poor condition and a major rehabilitation project began in 1990.

Tanzania Railways Corporation runs the 2,600 km system linking Dar es Salaam with the central and northern regions. The Tanzania-Zambia Railway Authority (TAZARA) operates 1,860 km of track, 976 km of it in Tanzania, which links Dar

es Salaam with Kapiri Mposhi in Zambia. It is mainly used to transport Zambian copper to Dar es Salaam port and Zambian imports in the opposite direction. The principal coastal ports are Dar es Salaam, Tanga, Lindi, Mtwara and Zanzibar. They are managed by the Tanzania Harbour Authority.

International airlines operate in and out of Tanzania through Dar es Salaam and Kilimanjaro airports. There is a third international airport on Zanzibar. There are also several regional airports and numerous landing strips for use by charter planes. Air Tanzania operates regular services to most regional towns and has scheduled flights to neighbouring countries and to the Middle East.

Telecommunication facilities are available in most parts of the country. The telephone system in Dar es Salaam is being rehabilitated. Telephone, fax, telex, expedited mail service, private couriers and cellular phones are available. Tanzania has two earth satellite stations situated in Dar es Salaam with a total capacity of 420 channels.

ECONOMIC OVERVIEW

Introduction

Agriculture is the economic lifeline of Tanzania, while mining and tourism are important growth sectors. Economic policy is geared towards creating an enabling environment for private sector involvement and reducing the role of government in business and economic activities. Since the mid-eighties, Tanzania has followed an Economic Recovery Programme supported by the IMF, the World Bank and other international institutions and donors. The aims of the strategy include: the attainment of a 5 percent average economic growth in real terms; fiscal and monetary measures to reduce the annual rate of inflation to below 10 percent;

reducing dependence on exceptional balance of payments financing; increasing foreign exchange reserve levels to at least three months' import cover; reducing the public sector role of the economy and encouraging foreign direct investment.

Recent Macroeconomic Developments

During the first three months of 1997, the government continued with the reform programme aimed at increasing growth, lowering inflation, stabilising the exchange rate, ensuring a market-determined interest rate and improving the foreign exchange reserve position. Against this background, real GDP growth of 4.7 percent is expected for 1996/97. Production in the manufacturing and mining sectors improved during 1996 due to increased private sector participation in the economy, and food production also increased slightly.

Inflation declined from 22.7 percent in June 1996 to 14.0 percent in January 1997. The average annual inflation rate for 1996 was 19.6 percent. The target is to reduce inflation even further to 10.0 percent by June 1997.

Against the background of 40.0 percent of budgetary expenditure being allocated to debt repayments and another 40.0 percent to salaries, the fiscal performance was remarkable, especially during the second half of 1995/96. The fiscal target for 1996/97 is to record a saving exceeding 0.5 percent of GDP on recurrent expenditure, as well as improving revenue collections. Indicators show that the government is on target in achieving its goals.

Due mainly to the improved fiscal performance, money supply growth rate (M3) declined from 11.9 percent in September 1996 to 8.7 percent in December, and even further to 8.5 percent in January 1997. The government budget also had a stabilising influence on the money market with Treasury Bill rates declining dramatically (44.6 percent in 1995 to an average of 18.6 percent in 1996), and short-, medium- and long-term lending rates following suit. Saving deposit rates started to increase in January 1997.

Though the currency (Tanzania Shilling) depreciated against the US Dollar during the course of 1996, the average exchange rate reflected stabilisation, with the 1996 average rate being the same as the 1995 average rate. Sufficient foreign exchange was available for sale to the public, and reserves increased to cover 15 weeks of imports at the end of January 1997, compared to 8.3 weeks at the end of June 1996.

The country's total debt level makes it difficult for the government to allocate more funds to priority sectors such as health and education. The debt situation, however, is due to improve with a Paris Club cancellation of external debts totalling USD 1 billion, and the rescheduling of USD 0.7 billion on concessional terms.

The government is aiming at a real growth rate of above 6 percent to eradicate poverty, lowering inflation to below 5 percent by June 1998, implementing measures to improve budget management (including public debt), expediting financial sector reforms to improve the availability of funds, and the creation of a conducive environment for investment promotion, especially in the export sector.

Financial Institutions

Tanzania's central bank, the Bank of Tanzania, was established in 1966. The primary objective of the bank, as outlined in the Bank of Tanzania Act of 1995, is to formulate and implement monetary policy directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania. In 1991, the financial services sector was opened to private and foreign capital. Already sixteen foreign banks and nine non-bank financial institutions have been licensed to do business in Tanzania. More than 80 bureaux de change are currently in operation.

Liberalisation of the financial services sector and the establishment of open markets in foreign exchange and government paper have extended the scope for the implementation of an active monetary policy. Interest rates have been liberalised and are now determined freely by the market. Since the launching of regular Treasury Bill auctions in August 1993, it has been possible for the central bank to set its discount rate on the weighted average yield of all maturities.

Plans are at an advanced stage for the establishment of a stock exchange market. The Capital Market Authority has been tasked with developing the rules and regulations and launching the stock exchange market, which is expected to become operational during 1997.

Foreign Trade

Main export goods are agricultural commodities such as coffee, tea, tobacco, cotton, and cashew nuts. Exports of manufactures have been growing steadily during the 1990s, and accounted for 16 percent of total exports in 1995. Imported products are machinery, textiles and apparel, fuel and transport equip-ment. Tanzania's main trading partners are Germany, the UK, India, Japan, China and the USA.

Trade Liberalisation

Tanzania now has a comprehensive liberalised trade regime. External trade restrictions on imports have been removed (except for those items on which control is necessary for health or security reasons), export and import procedures have been simplified and single channel export of traditional export crops has ended. For statistical purposes, all imports still need to be declared on an import form.

Labour Relations

The Regulation of Wages and Terms of Employment Ordinance prescribes minimum wages. Labour disputes are settled by the Industrial Court. Trade Union Legislation is under review.

Human Resources

The literacy rate is presently at 68 percent. Tanzania has two universities, the University of Dar es Salaam and the Sokoine University of Agriculture. An open university specialising in distance education has also been established.

INVESTMENT CLIMATE

Investment Incentives

The National Investment (Promotion and Protection) Act 1992 offers the following incentives:

* First time investors receive a five-year tax holiday, followed by a reduction in tax rate up to five percentage points below the standard rate;

* exemption from import duties on all capital equipment and raw materials;

* exemption from sales tax on imports of capital equipment and raw materials;

* a five-year tax exemption applies to withholding tax on dividends, royalties and interest payments, followed by reduced rates; and

* depreciation allowed for in profit calculations.

Investment is treated favourably under Tanzania's corporate tax system. Many tax incentives relate directly to capital outlays, from full write-off for clearing and planting of agricultural land in the year of investment, to extensive depreciation allowances.

Export Incentives

At present exporters are benefiting from the liberalisation of export licensing, and the duty drawback scheme. A feasibility study for the establishment of EPZs in Tanzania was carried out during 1996, and the draft regulations and organisation of EPZs are under preparation.

An EPZ is however already in place in Zanzibar. Companies established in the EPZ are offered 10 years corporate tax holiday and duty exemption on imports of raw materials and capital equipment.

Tanzania is a member of the regional organisations SADC and COMESA, and thus enjoys preferential access to the markets of the other member states.

Taxation

Corporate tax: 35 percent

Individual tax: maximum 35 percent

Institutions Involved in Investment Promotion

The Investment Promotion Centre, established in 1991, processes investment proposals and assists investors with application procedures. Their mandate is to be the focal point for the implementation of the National Investment Policy and to promote, coordinate and monitor domestic and foreign investments. In an effort to further improve the investment climate in Tanzania, the Centre is expected to be replaced by the proposed Tanzania Investment Facilitation Authority, upon approval by Parliament which is anticipated during 1997.

Zanzibar operates a separate Investment Promotion Agency which was established in 1991.

Investment Code

The National Investment Promotion Act was passed in 1990, outlining provisions and incentives for investment in areas of national priority.

Investments in Zanzibar are regulated by the National Investment Promotion Act of 1986 (under revision), outlining provisions and incentives for investments in areas of national priority. The Economic Zones Act (1992) governs EPZs.

Exchange Controls

Foreign exchange controls were removed by the Foreign Exchange Act (1992), and Bureau de change regulations of 1992. Capital transfers are however still subject to approval by the Bank of Tanzania.

To ensure eventual repatriation of capital, all inward invest-ments should be registered with the Investment Promotion Centre. Investors are allowed to retain 100 percent of their net foreign exchange earnings for purposes of remittance of dividends, profits and settlement of external obligations.

Borrowing of funds from local banks by non-residents is allowed.

Legal Protection of Investment

Extensive guarantees are provided to investors under the Investment Promotion Centre's Certificate of Approval, such as guarantees regarding ownership of properties, dispensation of assets, repatriation of income and others. Tanzania is also a member of MIGA and ICSID.

Zanzibar guarantees against compulsory acquisition by government, except on payment of full compensation.

Privatisation Programme

The Parastatal Sector Reform Commission manages the divestiture of non-performing government parastatals. A total of 151 state owned parastatals had been divested by February 1997.

The government of Zanzibar is operating a privatisation programme, in order to improve the efficiency of state-run corporations.

INVESTMENT OPPORTUNITIES AND PROJECTS

Investment Opportunities

The government has defined the following priority areas for investment: manufacturing, agriculture, petroleum and mining, construction, transport, transit trade, computer and other high technology businesses, tourism and natural resources.

Investment opportunities in Zanzibar include: labour-intensive industries and assembly plants, construction and housing, hotel and tourism, transport by sea and air, human resource development schemes, transit trade and warehousing and off-shore activities.

PROJECTS

Tanzania: Current Projects		
Sector	**Project**	**Value USDm**
Mining & quarrying	Kiwira Coal Mine Rehabilitation	2
Manufacturing	Songo Songo Oil & Gas Production	200
Wholesale, retail trade, hotels & entertainment	Northern National Park New Tourism Complex	36

Tanzania: Projects for potential investment			
Sector	**Project**	**Description**	**Required Investment in USDm**
Manufacturing	General Tyres East Africa Ltd	General Tyres, one of the largest tyre manufactures in Africa is to sell some of its shares.	
	Tabam ball clay	Open clay mining & processing - reserves cover about 1,500km^2.	0.2
	Foam mattress	Production of foam mattresses for domestic and export markets.	0.3
	Pyrethrum farming and refining	Farming of pyrethrum and its processing into a crude extract	0.6
	Domestic appliances manufacture	Manufacturing for domestic and export markets (SADC)	1.0
	Tea development	Growing and processing at Itumba Njombe District - about 800 ha.	2.0
	Bolts and nuts production	Production and marketing of bolts and nuts throughout Southern and Central parts of Africa.	2.0
	Nyanza container glass	Use of silica sand to manufacture container glass - processing rate of 15,000 tonnes/year.	4.0
	Tea development	Growing and processing at Dabaga area Iringa district - about 1,000 ha.	10.0
	Sugar production	Kagera river valley (200,000 tonnes/year).	120.0
	Sugar production	At Ruipa (100,000 tons/year).	247.0
Mining & quarrying	Mchuchuma coal deposits	Extraction of coal at Mchuchuma	
	Liganga iron deposits	Extraction of bituminous coal for exports - about 300 tonnes in reserves.	
	Kahama diamond	Exploration project located near Nyangwale for the output of 100-150 tonnes per day is planned.	0.3
	Natural graphite	Processing and marketing of graphite located in the Songea District - about 7.7 m tonnes.	1.0

Mining & quarrying	Pugu kaolin mine	Enlargement of an existing kaolin mining and processing operation from the present 10,000 tonnes/year to 200,000 tonnes/year - deposits 23,495 m tonnes.	65.0
	Lake Natron soda ash	Exploitation of 130 m tonnes of natural soda ash reserves at lake Natron.	319.0
Sources: Compiled by IDC from the following sources: Regional Industrial Location Study (1996), Department of Trade and Industry, South Africa; Mbendi Information for Africa (1997), March			

Tanzania (USDm, unless otherwise stated)					
	1991	**1992**	**1993**	**1994**	**1995**
Population (millions)	24.6	25.3	26.0	26.7	27.4
Nominal GDP at market prices	4,258.7	3,797.6	3,465.3	3,576.5	3,294.5
Real GDP growth rate, %	5.7	3.8	3.9	3.0	4.5
GDP per capita (market prices), USD	154.5	136.9	122.3	122.0	120.2
Consumption as % of GDP	97.8	97.8	95.9	97.3	. .
Gross domestic savings as % of GDP	2.2	2.2	4.0	2.6	4.6
Gross investment as % of GDP	27.0	30.5	28.1	26.5	24.0
Inflation rate	28.8	21.9	25.2	33.1	29.8
Merchandise exports as % of GDP	9.5	11.6	13.8	16.0	. .
Merchandise imports as % of GDP	38.9	43.7	46.1	46.2	. .
Capital account of balance of payments	103.5	59.4	34.4	-28.5	236.67
Foreign direct investment as % of GDP	0.0	0.3	0.6	1.4	3.6
Overall balance on balance of payments	-267.1	-244.4	-349.4	-150.3	-200.6
Average exchange rate: TZS to USD	219.6	297.7	405.3	509.6	574.8
Foreign exchange reserves expressed in terms of weeks of import cover	2.6	4.7	2.6	3.4	2.4
Total external debt as % of GDP	141.1	197.9	221.2	223.9	241.9
Total external debt service as % of exports	31.6	40.9	27.7	21.9	26.0
Budget deficit as % of GDP, fiscal years	-7.4	-7.7	-6.2	-9.7	. .
Central bank discount rate (end of year), %	22.0	22.0	27.0	67.5	50.0
Prime lending rate (average for year), %	31.0	31.0	31.0	39.0	45.0
Growth rate of M2 money supply, %	26.2	38.5	28.9	31.9	26.8
Domestic credit to government	181.2	244.9	453.1	342.9	485.8
Domestic credit to private sector	246.9	268.6	254.7	350.5	284.5

1 The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

Southern Africa - A New Growth Opportunity

ZAMBIA

Lusaka - Capital of Zambia

GENERAL INFORMATION

Geography and Population

Zambia is a landlocked country covering an area of 752,614 km^2. It is bordered by Zaire, Tanzania, Angola, Namibia, Malawi, Mozambique, Zimbabwe and Botswana. Zambia's population was estimated at 9.8 million in 1996, of which 38.5 percent live in urban areas. The annual population growth rate was 3.1 percent. It is estimated that about 46 percent of the population is between 15 and 64 years of age. Zambia was ranked 136 in the 1996 UNDP Human Development Index[1] - comparable with India (135), Laos (138) and Kenya (128).

Sectoral Description

Zambia has an abundance of known mineral deposits. It is the world's fourth largest producer of copper and holds six percent of the world's known reserves thereof. Copper mining accounts for 8 percent of real GDP and makes up 83 percent of the country's export earnings. The privatisation of copper mines is currently under review. Opportunities for the exploitation of other minerals have been identified. These include gold and gemstones (e g emeralds, aquamarine, topaz, opal, agate and amethysts). Diamond reserves have also been identified.

Agriculture accounted for 19.5 percent of real GDP in 1995, employing nearly 70 percent of the total labour force. The growth of the agricultural sector is regarded by the government as a crucial element in increasing Zambia's foreign exchange earnings and economic development. Although the agricultural sector employs more than half of the total labour force, only 15 percent of the arable land is under cultivation. The agricultural sector is therefore yet to be exploited to its fullest potential.

The government is implementing policies designed to stimulate recovery of the manufacturing sector. This includes an attractive package of incentives for foreign investors. The main emphasis has been on food processing and textile production. However, the growth potential in other sectors is unlimited. Support measures designed to aid manufacturing enterprises in non traditional sectors are being implemented.

In spite of the potential of the tourism industry in Zambia, the natural beauty of the country and the wealth of wildlife have yet to be fully developed. Zambia has 19 national parks and 34 game management areas with a total of 65,000 km^2 set aside for wildlife conservation. The main problem facing the tourism industry is inadequate competitive holiday accommodation. This is one of the areas that has great potential in attracting investment.

Zambia has an abundant supply of reliable water - 45 percent of the total water resources of the Southern African region is to be found in Zambia. In areas where surface water is inadequate, underground water resources are used at no great cost.

INFRASTRUCTURE

The government of Zambia has embarked on the process of rehabilitating the road network, which covers

35,168 km.

The rail network is also in need of urgent rehabilitation. Historically Zambia has been served by a rail line running south to South Africa via Zimbabwe and north through the Zambian Copperbelt to Kinshasa in Zaire. Zambia Railways is responsible for this rail line. In the mid 1970s another rail line linking Zambia and Tanzania became operational. This is jointly run by Zambia and Tanzania through Tanzania-Zambia Railway Authority (TAZARA). Other promising rail routes are Zambia-Mozambique (Beira line), Zambia-Malawi (Mchinje line), Zambia-Namibia and Zambia-Angola. Construction of the Zambia-Malawi line has reached an advanced stage.

Lusaka International Airport is Zambia's main airport connecting Zambia with other African countries and Europe. A number of local and neighbouring countries' airlines serve the regional market. British Airways operates flights between Lusaka and London. Lusaka International Airport is assisted by three small airports in Ndola, Livingstone and Mfuwe, as well as secondary airfields in Chipata, Kitwe, Kasama, Mongu and Solwezi.

Zambia has vast water resources and coal reserves for hydroelectric power generation. This renders electricity relatively inexpensive in Zambia. Although most of the electricity is supplied from major hydro stations, there are also small diesel power stations in rural areas. The distribution of electricity is however mainly concentrated to Lusaka and the Copperbelt.

Over 97 percent of the telephone exchanges are automatic, and the country enjoys direct dialling facilities, fax, e-mail and television links with the rest of the world. In the main urban centres public telephones and independently operated cellular telephone networks are in place. The government is currently reviewing the process of privatising the Zambia Telecommunications Company.

ECONOMIC OVERVIEW

Introduction

During the 1960s and 1970s, Zambia's economy, historically based on the production and export of copper, was regarded as one of the strongest in Sub-Saharan Africa. With the decline of world copper prices and deteriorating terms of trade, coupled with disinvestment in the key sectors of the economy and drought, GDP growth declined from 3.7 percent per annum in the early 1970s to an average of only 1.0 percent during the 1974-90 period. The poor performance of the economy in the 1980s, together with political transition in the early 1990s, led to a recognition of the need to minimize the role of government in the economy, and to promote policies that seek to create a private sector led economy.

It is against this background that Zambia adopted structural adjustment programmes which have since contributed to an improved policy environment. These reforms include liberalisation of exchange regimes and foreign currency control regulations. The emphasis has been the adoption of policies that seek to reduce government budget deficit. This has contributed to an increased pace of economic growth, especially in 1995, following the privatisation of several state-owned enterprises.

Recent Macroeconomic Developments

The Zambian economy made an upswing in 1996, with real GDP growing by 6.4 percent after registering a negative growth of 4.3 percent in 1995. Targets set under the IMF supported Enhanced Structural Adjustment Programme were substantially met or exceeded. Due to good rainfalls and increased production of export crops such as cotton, flowers and tobacco, the agricultural sector performed well. Manufacturing also improved, as a result of accelerated privatisation and the stable macro-economic climate. Other sectors that contributed to the higher growth rate were mining, wholesale and retail, accommodation and entertainment, and real estate and business services.

A tight monetary policy throughout 1996 contributed to reducing inflation and maintaining a stable macro-economic environment. Through open market operations, an increase in the bank rate, as well as a rise in the core liquid assets and statutory reserve ratios to 43.5 percent and 8.0 percent respectively, inflation was reduced from 46.0 percent in 1995 to 32.0 percent in March 1997.

The good fiscal performance in the fourth quarter complemented monetary policy to stabilise the economy even further. The government achieved its target of running a surplus for the year and remains committed to achieving a surplus of 1 percent of GDP for 1997.

The exchange rate remained stable during the fourth quarter, despite pressures for a depreciation as a result of an increased demand for foreign exchange over the festive season. In terms of the real effective exchange rate, an appreciation occurred during the second quarter of 1996 as a result of increased capital inflows, as well as the continual growth of non-traditional exports.

The government intends to use the fiscal surplus realised in 1996 to retire some of its domestic debt, thereby reducing its crowding-out effect on the private sector in the financial markets. As a result of this reduction of credit to the government, together with lower money supply growth, the targeted inflation rate of 15 percent for 1997 is likely to be achieved, together with lower money supply growth. Interest rates are therefore expected to drop further during the course of 1997.

Despite the mining and metal sub-sectors under-performing, the balance of payments is expected to improve from its 1995 position. Strengthening of the capital account mainly due to foreign capital inflows, contributed to gross foreign exchange reserves increasing to cover 10 weeks of imports by the end of December 1996, compared to 7 weeks during October 1996.

The privatisation programme maintained its momentum during 1996 and privatisation of the rest of the Zambia Consolidated Copper Mines (ZCCM) units has raised hopes for the revival of the Copperbelt province and auxiliary industrial activities.

Financial Institutions

Ever since independence, the Government of the Republic of Zambia has maintained a very active role in the banking sector. At the beginning of the 1990s the government started the process of opening up the economy, allowing the market forces to play an important role. The financial sector was also liberalised during the same period. The Banking and Financial Services Act in 1994 was designed to ensure a proper framework for regulating the conduct of the financial sector and the protection of clients and investors.

The Bank of Zambia exercises overall control over the banking system. The Bank's main responsibility is the protection of the value of the country's currency. Coupled with this is the primary focus on reducing inflation to single digit levels and developing a diversified and dynamic financial system. Monetary control is being exercised through indirect instruments such as open market operations.

Zambia has 19 commercial banks -14 local banks and 5 international banks. Many of these banks also offer merchant and investment banking services. The introduction of automated and computerised services has improved the quality of the services provided by the banking sector. The number of building societies is also growing, catering for small depositors - and concentrating on long term mortgage loans.

The emergence of the capital market in Zambia has had a positive impact on the economic and financial sectors. The Lusaka Stock Exchange (LuSE) began operations in February 1994. Although in the first year no companies were listed, trading of unlisted stocks took place. The LuSE was officially opened in April 1995. Currently, five companies are listed, the major ones being ZCCM, Zambia Sugar and Chilanga Cement.

Lusaka Stock Exchange (LUSE) (USDm)			
	1994	**1995**	**1996**
Number of companies with shares listed	0	2	5
Market capitalisation	n/a	413.3	231.9
Number of trades	977	898	1,376
Volume of shares traded (m)	3.9	7.9	241.4
Value of shares traded	0.3	0.3	2.8
Source: Lusaka Stock Exchange, Zamnet (1997). Original figures in Zambian Kwacha, converted to USD by using International Financial Statistics (IMF) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.			

Foreign Trade

Zambia has fully liberalised external trade, and trade procedures and documentation have been simplified and standardised. Zambia has also embarked on a process of promoting non-traditional export products in sectors such as agriculture, manufacturing, mining and handicraft. Main export goods are refined minerals, copper, lead, zinc and cobalt. Crude oil, chemicals, machinery, iron, steel, textiles and vehicles are predominant import goods. Main trading partners are European countries such as Germany and the United Kingdom. Within Southern Africa, South Africa, Malawi and Zimbabwe are the leading trading partners.

Trade Liberalisation

Export permits are no longer required, but have been replaced by Export Declaration Forms. Exports of some agricultural commodities, such as white maize, may be subject to restrictions when domestic supplies are short. Import licences are required for statistical purposes and are issued by commercial banks.

The tariff regime has been liberalised and simplified. Maximum tariffs have been lowered from 100 percent to 25 percent, the tariff structure now comprises four tiers, ranging from 0 - 25 percent

Labour Relations

In line with the government's liberalisation policy, Zambia's labour relations are currently under review. The government is opening the labour market and is in the process playing a very limited role. Recognising that minimum wages result from collective bargaining between employers and trade unions, the government is seeking to create an environment that allows only for minimum involvement from government. Zambia currently has 19 registered trade unions.

Human Resources

Around 39 percent of the Zambian population live in urban areas. The country has a high literacy rate of 73 percent, and boasts two universities offering a wide range of degrees from education and social sciences to engineering, law, medicine and mineral technology.

INVESTMENT CLIMATE

Investment Incentives

Zambia has designed a package of incentives aimed specifically at establishing a profitable environment for increased domestic industrial growth, export promotion, the development of market-oriented production management and private sector development.

The Investment Act of 1993 (amended 1 April, 1996) offers a range of incentives including:

The investor pays the following tax on income from an investment:

* 15 percent income tax for non-traditional exports;

* One-seventh of the normal 35 percent corporate income tax rate in its first 5 years of operation for rural enterprises;

Income tax allowance:

* Buildings used for manufacturing, mining or hotels qualify for a wear and tear allowance of five percent of the cost, plus and initial allowance of 10 percent of the cost in the year in which the building is first used.

Income tax deduction:

* Expenditures on the conduction of research, on technical education, or any further training related to a company's specific business activity

Incentives for agricultural enterprises include:

* Dividends payable to farmers are tax exempt for the first five years of operation.

* 15 percent income tax on farming profits;

* Full tax allowance for outlay on land development, conservation and other costs;

* Capital expenditure on farm improvements qualify for an allowance of 20 percent per annum for each of the five first years;

* Substantial rate of depreciation allowing farm machinery to be rapidly written off against tax;

* Special development allowances for growing certain crops: tea, coffee, banana plants, citrus fruit trees or other similar plants or trees; and

Miscellaneous

* No foreign exchange controls;

* Where a double taxation agreement exists between Zambia and another country, the foreign tax payable by the investor to the other country, in respect of any foreign income, shall be allowed as a credit for that investor against Zambian tax in respect of the foreign income.

Incentives relating to investments on the LuSE include:

* Corporate income tax reduced to 30 percent, compared to the normal 35 percent corporate tax;

* No restrictions on foreign ownership and share holding levels; and

* No capital gains tax

Export Inventives

Special incentives are offered to exporters of non-traditional products, such as reduced corporate tax to 15 percent. Special exemption from duty and sales tax on imports and machinery is offered to exporters of non-traditional products with net foreign exchange earnings, tourism investment with foreign exchange earnings in excess of 25 percent of the gross annual earnings, and agro-related products for export.

Zambia enjoys preferential access to important markets in Europe and Southern Africa through the Lomé Convention and membership in SADC and COMESA.

Taxation

Corporate: Manufacturing and services 35 percent

Farming and exports of non-traditional products 15 percent

Individual income tax: 15 - 35 percent

Withholding tax: 10 percent

Double taxation agreements have been concluded with Botswana, Canada, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Romania, South Africa, Sweden, Switzerland, Tanzania, Uganda, United Kingdom and the United States.

Institutions involved in investment promotion

Zambia Investment Centre was established in 1992 to promote, implement, coordinate and facilitate investment programmes and policies. The centre provides information on the investment climate and identifies and promotes opportunities for investment.

Other institutions include Zambia Privatisation Agency and the Export Board of Zambia.

Investment Code

The Investment Act, as amended in 1996, regulates investment incentives and investment guarantees.

Exchange Controls

Market oriented reforms have successfully been implemented in Zambia. Exchange control regulations have been removed, and prices and interest rates have been deregulated. Profit, dividends and capital may be repatriated without restrictions.

Legal protection of investment

Investment is protected against compulsory acquisition in the Securities Act (for the stock exchange) and in the Investment Act. No investment can be expropriated unless Parliament has passed an Act relating to the compulsory acquisition of that property. In the event of expropriation, the Investment Act guarantees full compensation at market value and free transfer of the funds in the currency in which the investment was made.

Zambia is a member of MIGA. In case of disputes, arbitration may be sought through the Zambia High Court, ICSID or UNCITRAL.

Privatisation Programme

A special agency, Zambia Privatisation Agency, was established under the Privatisation Act in 1992 to plan, implement and control the privatisation of state owned enterprises. By March 1997, a total of 204 companies had been privatised, with another 122 in the portfolio for privatisation.

Smaller companies may be sold as single entities through public tenders, whereas larger organisations may be publicly floated. Major foreign investors to date include: Anglo American Corporation, Lonrho, CDC, Unilever and Colgate-Palmolive. The Privatisation Trust Fund makes it possible for ordinary Zambians to buy shares on the stock exchange in state owned enterprises being privatised.

Investment opportunities and projects

Investment opportunities

The main sectors of interest to investors are agriculture, tourism and mining, as well as utilities and services such as transportation. Opportunities also exist in manufacturing: processing of agricultural produce, minerals and timber.

Projects

ZAMBIA: CURRENT PROJECTS		
Sector	**Project**	**Value USDm**
Electricity, gas and water	Kafue Gorge Hydro-Electric Power Station	1,000
Mining and quarrying	Zambia Consolidated Copper Mines Ltd Rehabilitation	1,500

ZAMBIA: INVESTMENT OPPORTUNITIES			
Sector	Project	Description	Required Investment in USDm
Agriculture, forestry and fishing	Mifulu Farms Ltd	Ranching for both dairy and beef animals as well as crop production for soya beans and other beans for the domestic and export markets.	0.2
Finance, insurance and real estate	Privatisation of Zambia State Insurance Corporation	Offers are invited for the 70 per cent acquisition of Zambia State Insurance Corporation Ltd.	-
Manufacturing	Metal product	Establishment of a foundry based on locally	-

	expansion	available scrap metals for the production of bronze products for export and spare parts for the mining sector and other industries	
	Timber logging and saw milling at Kafubu, Kalibu and Doal Hill	Tenders are invited for the purchase of part of the Zambia Forestry and Forest Industries Corporation engaged in logging and saw milling activities.	-
	Manufacturing of agricultural equipment	Establishment of a workshop with equipment such as lathes, milling machines, plate shear, bending press, bending machine, arc welding and other machines and equipment.	0.1
	Chicken processing abattoir	Slaughter and packing of chickens bought from local farmers for both domestic and export markets	0.2
	Particle board and chip board	Manfuacturing of particle board and chip board from locally available saw dust, wood, shavings and grass	0.2
	Re-manufacturing and assemblage	Domestic refrigerator compressors - planned capacity of 50.9000 compressors per year	1.0
	Banana processing	Processing of banana waste	
	Pulp mill expansion	Expanding production of toilet tissue, towelling and paper (for newsprint, writing, packing and books), fluting, liner and browndraft from recycled waste paper and imported pulp for the domestic and regional markets	1.0
	Yeast project	Utilizing the readily available molasses in Mazabuka to produce products such as ethanol, vinegar, yeast and spray dried molasses	2.0
	Kernel cashewnuts	Processing the kernel to produce various products such as edible oil and cashewnuts for the domestic and regional markets	4.0
	Copper processing	Producing sheets and strips from copper and its alloys for export to the COMESA subregion	5.7
Mining and quarrying	SADUC	Emerald mining in the Copperbelt Province and amethyst mining in the Southern Province	0.2
Services	Technical assistance to Zambian Air Services Training Institute	Providing technical assistance to upgrade the training provided by the Zambian Air Services Training Institute in airport operations and maintenance and air navigation services	2.2
Transport	Tazara - Mpulungu railway link	To provide a high capacity transport network (rail) link between the SADC countries and the East and Central African countries to facilitate trade	-
	Chipata/Mchinji railway link	Connecting the eastern part of Zambia to Nacala (Mozambique)	2.7
	Improvement to the existing runway at Livingstone Airport	Improving the existing airport facilities in order to accommodate bigger aircraft	12.9
	Privatisation of Mines Air Services Ltd	The Zambia Privatisation Agency is inviting offers for a bid of a 100 per cent shares of Mines Air Services Ltd	100.0
Compiled by IDC from the following sources: Regional Industrial Location Strategy (1996)k Department of Trade and Industry, South Africa, August; Mbendi Information for Africa (1997)			

Statistics

Zambia (USDm, unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Population (millions)	8.0	8.3	8.6	9.0	9.1	9.8
Nominal GDP at market prices	3,386.7	3,307.4	3,273.5	3,168.1	3,300.7	3,375.8
Real GDP growth rate, %	0.0	-1.8	6.8	-8.6	-4.3	6.4
GDP per capita, USD	1,421.2	397.0	379.3	354.0	362.3	344.1
Consumption as % of GDP	85.1	94.9	87.9	87.5	84.4	..

Gross domestic savings as % of GDP	14.5	6.4	15.4	15.6	15.9	16.6
Gross investment as % of GDP	11.0	11.9	15.0	13.4	13.9	15.1
Inflation rate, %	93.4	191.3	187.3	53.3	46.0	35.2
Merchandise exports as % of GDP	32.6	34	30.2	33.7	35.9	30.6
Merchandise imports as % of GDP	22	40.9	31.1	31.6	32.8	35.5
Capital account of balance of payments	-71.5	291	46.7	-18.8	-53	14.5
Foreign direct investment as % of GDP	1.0	..	..	1.3	2.8	3.9
Overall balance on balance of payments	-180	-237	-160.4	-242.5	-261.4	-111.1
Average exchange rate: ZAD to USD	64.5	172.2	452.8	669.2	856.3	1,207.9
Foreign exchange reserves expressed in terms of months of import cover	2.1	1.6	2.3	3.2	2.0	2.2
Total external debt as % of GDP	212.5	213.7	206.7	202.0	193.9	194.6
Total external debt service as % of exports	20.8	14.6	26.9	27.7	30.3	19.2
Central bank discount rate (end of year), %	..	47.0	72.5	59.1	48.2	63.1
Prime lending rate (average for year), %	..	54.6	113.3	70.6	45.5	54.2
Growth rate of M2 money supply, %	95	98.5	107.2	83.3	47.7	28.3
Domestic credit to government	484.2	..	..	125.4	106.4	123.4
Domestic credit to private sector	266	..	..	200.7	214.4	278.5
Source: Bank of Zambia						

1) The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

USEFUL ADDRESSES

Investment Promotion Agencies

Zambia Investment Centre, P O Box 34580 Lusaka. Tel: +260-1-25 21 30 Fax: +260-1-25 21 50 E-mail: invest@zamnet.zm

Zambia Privatisation Agency, P O Box 30819 Lusaka. Tel: +260-1-22 38 58 Fax: +260-1-22 72 50 E-mail: zpa@zamnet.zm

Consulting Firms

Coopers & Lybrand, P O Box 30885 Lusaka 10101. Tel: +260-1-22 77 22

KPMG, Box 31014 Lusaka. Tel: +260-1-22 88 74/8 Fax: +260-1-22 28 61

Deloitte & Touche, P O Box 30030 Lusaka. Tel: +260-1-22 86 77/9 Fax: +260-1-22 69 15

Price Waterhouse, P O Box 30942 Lusaka 10101. Tel: +260-1-22 88 89 Fax: +260-1-22 07 68

Renco Associates (Ernst &Young, P O Box 34223 Lusaka. Tel: +260-1-22 70 22 Fax: +260-1-22 70 22

Southern Africa - A New Growth Opportunity

ZIMBABWE

Harare, the capital of Zimbabwe.

GENERAL INFORMATION

Geography Population

Zimbabwe is a landlocked country covering 390,757 km^2 in Southern Africa between the Limpopo and Zambezi rivers. Its neighbours are Mozambique, Zambia, Namibia, South Africa and Botswana. The official and business language is English. Shona and Ndebele are widely spoken local languages.

The population of approximately 11.9 (1996) million is growing at an annual rate of 3.3 percent. Slightly more than half the population is between 15 and 64 years of age. Zimbabwe was ranked 124 in the 1996 UNDP Human Development Index[1] which can be compared with South Africa (100), Zambia (136), Morocco (123) and Vietnam (121).

Sectoral Description

Zimbabwe produces over 40 types of metals and minerals. Approximately 40 percent of Zimbabwe's foreign exchange is earned from the export of these metals and minerals. The world's third largest known source of high grade chromite, second largest source of platinum group metals and significant reserves of nickel are located in Zimbabwe's Great Dyke area. Furthermore, significant attention has been focused on diamonds in recent years, following a country-wide aero-magnetic survey that drew attention to several potential diamond areas.

Agriculture employs 26 percent of the working population and provides many raw materials required by the manufacturing sector. Major export commodities are tobacco and horticulture. Smaller crops like sugar, tea, coffee, cotton, seeds, maize, small grains and oil seeds are also exported, as well as livestock, dairy products, wildlife and poultry meat. Zimbabwe is one of Africa's leading exporters of beef and veal to the European Union.

The manufacturing sector is in African terms well developed and relatively diversified. Main production outputs are foodstuffs, metals and metal products, chemical and petroleum products, beverages, tobacco and textiles.

Tourism is the fastest growing sector among Zimbabwe's major economic growth sectors. Wildlife and ecotourism are the mainstay of the sector. The industry continues to attract investment, as evidenced by the renovation, expansion and construction of new hotels.

Infrastructure

Generation and distribution of electricity is undertaken by the Zimbabwe Electricity Supply Authority. Hydroelectric power is generated from the Zambezi river at Kariba, and there are four thermal power stations. Zimbabwe is on the regional power grid linking it to sources in Zambia, Zaire and South Africa.

Zimbabwe has an extensive rail and road transport network linking it to principal ports in Mozambique and South Africa, and to all neighbouring countries. The rail network, supplemented by the National Railways of Zimbabwe's Road Motor Services and a thriving privately run trucking industry, handles the bulk of imports and exports. The railway company is administered as a parastatal.

There are 8,435 km of designated state roads, of which 8,710 are surfaced and 9,725 graveled. Another 61,630 km in rural areas are maintained by local and district authorities.

The national airline, Air Zimbabwe, is a commercial body administered by the Ministry of Transport and Energy. It provides regular internal connections to Bulawayo and the principal tourist destinations of Victoria Falls, Hwange and Lake Kariba. It also provides direct services to various African destinations, Australia and the United Kingdom. Several established regional and international carriers have scheduled flights to Harare. Affretair, the national cargo airline, handles specialised cargo for destinations worldwide. Facilities include a 200-tonne cold room at Harare Airport. Work on a new international airport is progressing in the capital.

Zimbabwe is in the process of introducing a modern digital telephone system to replace the aged electro-mechanical exchanges. A fibre-optic cable network is being laid throughout the country. For international traffic there are two earth satellite stations serving the Atlantic and Indian oceans. Cellular telephones are being introduced.

ECONOMIC OVERVIEW

Introduction

Geographical diversity has enabled the tapping of natural resources and agricultural wealth in Zimbabwe. This, in turn, has been conducive to the development of a comparatively dynamic manufacturing sector. In the sub-Saharan context, Zimbabwe's industrial base is second only to South Africa.

A comprehensive reform programme initiated in 1990 has sought to create a deregulated, market driven economy in Zimbabwe by freeing interest and exchange rates, liberalising exchange control regulations and restructuring expenditure.

Recent Macroeconomic Developments

The economy is estimated to have grown by 8.1 percent in 1996, following the bumper harvest of 1995/96. Agriculture, which grew by more than 40 percent, contributed 5.4 percent to the growth rate. The manufacturing sector also had a positive contribution on economic growth, but mining output is

estimated to have declined marginally. The forecast for 1997 is positive, with the economy expected to grow by 5 percent. With the improvement in the economic performances of industrialised countries, the world market prices for minerals should increase, and contribute to a positive performance by the mining sector.

The fiscal deficit for 1996 is estimated at 8.5 percent, compared to 11.6 percent in the previous year. Inflation is on a downward trend, registering 15.8 percent at the end of January 1997. This compares well with the annual inflation rate of 22.7 percent in 1995 and 28.0 percent in January 1996, and reflects the authorities' commitment to reduce the inflation rate.

The growth rate of annual broad money supply (M3) increased to 31 percent in December 1996, following a deceleration from 33.4 percent in September 1996 to 10.5 percent in November 1996. This came about as a result of government restricting discount houses from accepting deposits directly from the public. Lending rates, however, remained high with average real money market and prime lending rates for commercial banks being positive throughout the year.

In an attempt to control the build-up of liquidity in the money market, the statutory reserve requirements of banks on all deposit liabilities (except individual foreign currency accounts), were increased to 20.0 percent. As a result of the lower inflation rate, the Central Bank has lowered the rediscount rate from 27.0 percent to 23.5 percent. This reduction is expected to provide much needed relief to the productive sectors and underpin the strong growth experienced by the economy. The financial system's efficiency has also been improved through the introduction of a primary dealer system, involving discount houses as counter parties to the Central Bank. Discount houses will now be able to transact business over their accounts with commercial banks. This was necessitated by the growing segmentation in the money and capital markets.

Despite the worsening of the capital account of the balance of payment from a surplus in 1995 to a deficit as a result of portfolio and long term investment flows declining, the performance of exports is encouraging. Exports grew by 12.8 percent and outstripped import growth, contributing to the current account deficit being lowered from 5.6 percent of GDP in 1995 to 1.8 percent in 1996. Against this background, foreign exchange reserves declined marginally to cover 3.9 months of imports.

Over the course of 1996, the exchange rate remained relatively stable, with the Zimbabwe Dollar depreciating 5.1 percent in nominal terms, but appreciating 3.1 percent in real terms as a result of the narrowing inflation differential vis-a-vis major trading partners.

Zimbabwe Stock Exchange (ZSE) (USDm)

	1990	1991	1992	1993	1994	1995	1996
Number of companies with shares listed	58	61	62	63	65	65	65
Market capitalisation	2,683.5	1,406.0	626.2	1,431.5	1,679.2	1,675.2	4,833.0
Number of companies making issues	3	3	2	3	2	0	2
Amount raised on new issues	68.5	29.8	16.0	10.2	8.1	0.0	12.1
Value of rights issues	37.5	166.4	6.6	35.8	63.2	1.6	36.2
Volume of shares traded (m)	56.7	137.7	79.8	272.3	450.8	431.2	722.7
Value of shares traded	51.3	82.1	20.3	53.6	177.4	150.0	257.5

Source: Zimbabwe Stock Exchange (1997).

Original figures in Zimbabwean Dollars, converted to US Dollars by using International Financial Statistics (IMF) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.

Financial Institutions

Zimbabwe's financial services sector comprises five commercial banks, ten merchant banks, six finance houses, five building societies and two accepting houses, as well as the Post Office Savings Bank, insurance companies and pension funds, and seven registered representative offices of foreign banks. Most of the restrictions formerly facing the sector have been removed and banking regulations are being reviewed to make them more responsive to a market-led economy.

The Zimbabwe Stock Exchange (ZSE) lists 65 companies. Some of the most important companies in terms of market capitalisation are Ashanti (dual listed), Delta Corporation, Barclays Bank, Meikles, TSL and HippoValley. ZSE is included in the International Finance Corporation Global Index which monitors performance of emerging markets. The ZSE is open to foreign investors, within certain limitations. Since the opening of the ZSE to foreign participation in June 1993, foreign investors have traded in shares to a total value of USD350m. The Zimbabwe Credit Insurance Corporation underwrites political and commercial risk.

Foreign Trade

About one-third of Zimbabwe's exports are destined for regional markets comprising SADC countries, South Africa in particular, and countries that are members of COMESA. The remaining share is divided equally between the European Union and the rest of the world. The pattern is relatively similar for imports to Zimbabwe.

Principal exports include unprocessed tobacco, ferro-alloys, gold, nickel, cotton lint and horticultural products. Deliberate efforts are being made to encourage the production of higher value-added products. Main import goods are: machinery and transport equipment, manufactured goods, chemicals and fuel.

Trade Liberalisation

Trade regulations have been liberalised substantially during the 1990s. Import and export formalities and border procedures for road motor transport have also improved in recent times.

Export licenses are still required for certain strategic goods such as minerals, petroleum, wild animals, basic agricultural commodities (including maize, cheese, citrus fruits). On the negative list for imports are mainly goods that are restricted due to health and security reasons, as well as nonmonetary gold, precious and semi-precious stones. Imports of certain agricultural products are controlled by the Grain Marketing Board and the Cotton Company of Zimbabwe.

Labour Relations

Labour relations are regulated in the Labour Relations Act of 1985 (amended in 1993). Labour rates and conditions of service for each industry are subject to collective bargaining by each industry's National Employment Council. All trade unions are part of the Employment Council. Trade unionship is based on voluntary participation. Employers are required by law to contribute to the Worker's Compensation Insurance Fund.

Human Resources

Since independence, Zimbabwe has invested heavily in edu-cation and has achieved a large increase in both primary and secondary school enrolments. New schools and colleges have been built. There are currently three universities and several technical colleges. Zimbabwe's literacy rate is estimated at over 70 percent of the adult population.

INVESTMENT CLIMATE

Investment Incentives

Incentives for investors include:

* Investment allowance of 15 percent in the year of purchase for industrial and commercial buildings, staff housing and articles, implements and machinery;

* Investment allowance of 50 percent in the year of purchase for training buildings and equipment;

* Exemptions from import tax (sales tax), surtax and customs duty on equipment and machinery imported for productive purposes;

* Investors investing significant sums in projects approved by the Zimbabwe Investment Centre (ZIC) are eligible to acquire permanent residency, depending on amounts involved;

* 25 percent Special Initial Allowance on cost of industrial buildings, and commercial buildings in growth point areas, and machinery is granted as a rebate for the first four years;

* Special mining lease entitles the holder to specific incentive packages, to be negotiated with the Ministry of Mines.

Incentives for setting up in Growth Point Areas:

* New manufacturing operations located in a growth point qualify for a concessionary rate of 10 percent for the first five years of operations;

* 15 percent investment allowance on cost of investment.

Export Incentives

The Export Processing Zone Act passed in 1994 allows for the establishment of EPZs in specifically designated towns, areas or companies.

Incentives for EPZs:

* Exemption from withholding taxes on dividends, royalties fees etc;

* Exemption of duty for goods imported into EPZs;

* Exemption from capital gains tax, surtax & sales tax on goods and services;

* Exemption from fringe benefits tax for employees of EPZ's companies;

* Five year tax holiday and 15 percent corporate tax thereafter;

* Permission for foreign companies to borrow locally.

In addition to these incentives exporters may benefit from a duty drawback system whereby import dues will be reimbursed upon exportation of the qualifying goods in an unused state or as inputs in export goods.

As a Lomé Convention signatory Zimbabwe enjoys preferential access to the European Union on a wide range of products. Zimbabwe is also a member of SADC and COMESA. Furthermore, the country is granted duty-free access to the US and other major markets through the GSP.

Taxation

* Corporate: 37.5 percent

* Withholding tax: 15 percent for companies listed on the ZSE, 20 percent for others

* Individual: max 45 percent

* Surtax has been reduced from 15 to 10 percent;

Double taxation agreements: Bulgaria, France, Germany, Mauritius, Netherlands, Norway, Poland, Romania, South Africa, Sweden and the UK.

Institutions Involved in Investment Promotion

Zimbabwe Investment Centre was established in 1993 with the aim of co-ordinating investment activities in the country, and simplifying investment procedures for foreign investors. All foreign investments require approval by the Investment Centre. The value of the total number of projects approved annually has increased from USD296.6m in 1993 to USD954.0m in 1996. In 1996, 415 projects were approved, of which 347 were joint-ventures, 65 foreign investors and three local investors. The origins of foreign investors were: Australia, Germany and Malaysia for the larger "one-off" investments, and South Africa, the UK and China for smaller and medium investments.

ZimTrade is the national trade promotion body. ZimTrade serves as a centre for information on export markets and opportunities and organises inward and outward buyer missions and visits to trade fairs.

Investment Code

Investment Regulations are outlined in a statutory instrument of 1994, supplemented by the Export Processing Zone Act, and the Stock Exchange Act.

Exchange Controls

* Repatriation of original capital investment is allowed in the case of divestment;

* No restrictions on local borrowing for working capital, imports and import licenses, except for the short negative list;

* Purchase of shares on the ZSE is limited to 40 percent of total equity with a single foreign investor acquiring a maximum of 20 percent of the shares;

* Dividend and profits remittance for all foreign investors is now 100 percent and payment is effected through the inter bank market;

* Exporters are entitled to retain 100 percent of their export proceeds with authorised dealers in corporate Foreign Currency Accounts;

* Investment inflows and capital transfers are eligible for 100 percent deposits into Foreign Currency Accounts;

* Foreign investors may hold up to 100 percent equity in companies operating in preferred sectors of the economy;

* Foreign investors may hold up 35 percent equity in companies which are reserved for domestic investors as specified in Statutory Instrument 108 of 1994 (eg transportation, retail/wholesale trade estate agencies, employment agencies and some agriculture and forestry);

* In construction and specialised services, foreign investors may hold up to 70 percent equity.

Legal Protection of Investment

Zimbabwe, being a signatory to several bilateral and multilateral protection agreements, guarantees security of investment and property rights of investors through: UN Commission on International Trade and Arbitration Law (UNCITRAL), OPIC - USA, MIGA, ICSID - World Bank, New York Convention on Recognition and Enforcement of Foreign Arbitral Awards, and bilateral investment protection agreements signed with Mozambique, the UK, Germany, Malaysia, Portugal, Switzerland and China.

INVESTMENT OPPORTUNITIES AND PROJECTS

Investment Opportunities

Main sectors of interest to investors are manufacturing and agro-industry, mining, tourism and agriculture. Price controls on agricultural commodities have been abolished, opening up new opportunities for investment in processing and other downstream industries.

Zimbabwe: Current Projects		
Sector	**Project**	**Value USDm**
Manufacturing	Gweru Sodium Silicate Factory	0.8
Mining & quarrying	Platinum Project	220.0
Transport, storage & communication	Mashonaland and Manicaland Telecommunications Digitalisation Project	115.0

Zimbabwe: Projects for Potential Investment		
Sector	**Project**	**Description**
Agriculture,	Production of various	Food and cash crops, primary horticulture,game, wildlife ranching
forestry & fishing	products	and livestock development, fishing and fish farming, poultry farming and other agro-industries involving growth processing.
Manufacturing	Joint ventures	Grain milling, baking, sugar based products, tobacco products, armaments manufacture, marketing and distribution.
Mining & quarrying	Mining in the Great Dyke area	Several minerals including nickel, chrome, platinum and coal.
Service	Joint venture projects	Transportation, retail/wholesale trade, barbershops, beauty and hair salons, commercial photography, employment agencies, estate agencies, photography services valet services, public water provision for domestic and industrial use and operation of railways.
Sources: Compiled by IDC from the following sources: Regional Industrial Location Study (1996), Department of Trade and Industry, South Africa; Mbendi Information for Africa (1997), March.		

Zimbabwe (USDm, unless otherwise stated)						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Population (millions)	10.2	10.4	10.8	11.2	11.5	11.9
Nominal GDP at market prices	6,546.6	5,544.3	5,807.5	5,953.6	6,637.3	7,433.0
Real GDP growth rate, %	0.0	-6.8	4.2	5.3	-3.2	8.1
GDP per capita, USD	616.0	540.0	534.0	535.0	576.0	624.0
Consumption as % of GDP	83.4	90.8	80.8	80.9	81.0	. .
Gross domestic savings as % of GDP	16.6	9.2	13.6	13.1	11.1	. .
Gross investment as % of GDP	22.0	20.0	20.5	21.0	16.3	. .
Inflation rate, %	23.6	42.1	27.6	22.3	22.7	21.7
Merchandise exports as % of GDP	27.3	27.1	27.7	32.7	33.4	33.6
Merchandise imports as % of GDP	26.0	31.6	26.6	29.9	32.1	29.8
Capital account of balance of payments	533.0	689.0	504.0	517.0	530.0	135.0
Foreign direct investment as % of GDP	0.2	0.1	0.5	1.3	2.5	1.0
Foreign portfolio investment as % of GDP	0.1	-0.2	-0.1	0.8	0.9	1.2
Overall balance on balance of payments	-126.0	-127.0	176.0	268.0	210.0	-21.0
Average exchange rate: ZWD to USD	3.4	5.1	6.5	8.2	8.7	10.0
Foreign exchange reserves expressed in terms of months of import cover	2.1	2.0	3.7	3.3	4.2	3.9
Total external debt as % of GDP	71.8	79.6	82.6	80.3	76.1	69.0
Total external debt service as % of exports	23.5	30.0	30.0	25.0	20.0	17.7
Budget deficit as % of GDP, fiscal year	-11.1	-11.4	-8.7	-14.6	-11.6	-8.5
Central bank discount rate (end of year), %	27.0	31.0	28.5	29.5	29.5	29.5
Prime lending rate (average for year), %	15.5	20.0	36.3	34.9	35.0	33.6
Growth rate of M2 money supply, %	23.3	19.7	43.0	34.3	22.7	31.0
Domestic credit to government	165.9	333.1	285.2	393.6	346.1	454.4
Domestic credit to private sector	896.1	1,173.5	1,514.3	1,497.1	1,730.1	1,918.7
Source: Reserve Bank of Zimbabwe						

1 The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratio and adjusted real GDP per capita.

USEFUL ADDRESSES

Investment Promotion Agency

Zimbabwe Investment Centre (ZIC), P O Box 5950, Harare. Tel: +263-4-757931/2/3/4/5/6 Fax: +263-4-797937, 759917

Consulting Firms

Coopers & Lybrand, P O Box 702, Harare. Tel: +263-4-74 99 00

Deloitte & Touche, P O Box 267, Harare. Tel: +263-4-74 62 48-54, 74 62 71-4 Fax: +263-4-74 62 55

Ernst & Young, P O Box 62, Harare. Tel: +263-4-75 18 56 Fax: +263-4-77 38 42

ISCS, IRT/Speciss Consulting Services (Pvt) Ltd, P O Box 2173.

Tel: +263-4-70 84 94, 72 91 49 Fax: +263-4-73 76 40 E-mail: iscs@rita.icon.co.zw

Imani Development (Pvt) Ltd, P O Box 4990, Harare.

Tel: +263-4-77 42 33/4/5 Fax: +263-4-77 42 32 E-mail: imani@harare.iafrica.com

KPMG, P O Box 6, Harare. Tel: +263-4-70 76 61 Fax: +263-4-70 76 69

Price Waterhouse, P O Box 453, Harare. Tel: +263-4-757610 Fax: +263-4-757608