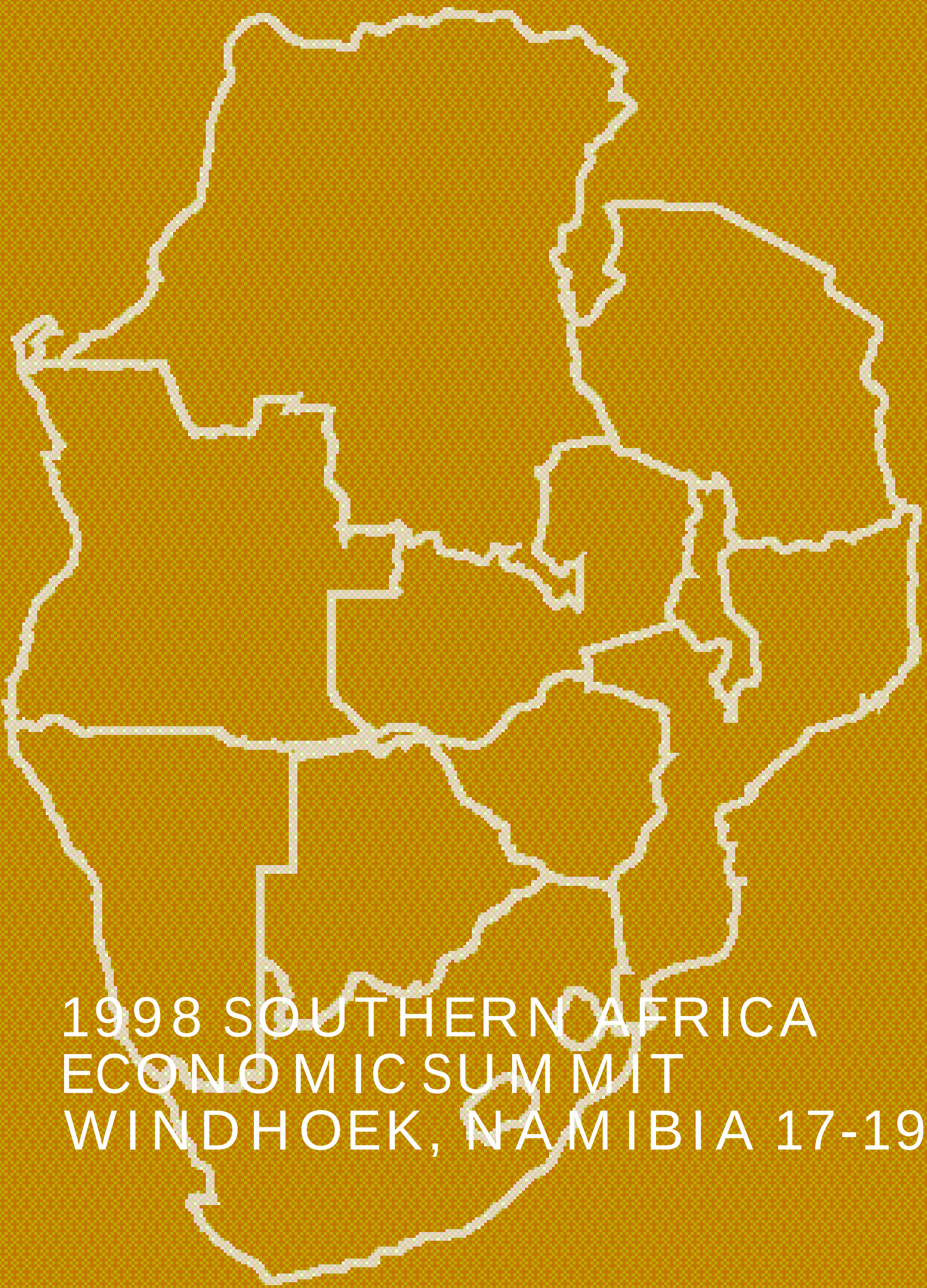

1998 SOUTHERN AFRICA ECONOMIC SUMMIT
WINDHOEK, NAMIBIA 17-19 MAY

THEME:
"PRIORITIES FOR GLOBAL COMPETITIVENESS IN THE 21ST CENTURY"

Prepared by the
SADC Finance and Investment Sector Co-ordinating Unit (FISCU)
Department of Finance - South Africa

ABBREVIATIONS

BLNS	Botswana, Lesotho, Namibia,Swaziland
BWP	Botswana Pula
CCM	Chama Cha Mpunduzi (Tanzania)
CDC	Commonwealth Development Corporation
CDS	Central depository and settlement system
CIF	Cost insurance freight
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CPI	Centro de Promoçao de Investimentos
DTI	Department of Trade and Industry (South Africa)
EIB	European Investment Bank
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
ICSID	International Centre for the Settlement of Investment Disputes
IDC	Industrial Development Corporation (South Africa)
IDZ	Industrial Development Zone (South Africa)
IFC	International Finance Corporation
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LHWP	Lesotho Highlands Water Project
LNDC	Lesotho National Development Corporation
LSM	Lesotho Maloti
LuSE	Lusaka Stock Exchange (Zambia)
MEDIA	Mauritius Export Development and Investment Authority
MIGA	Multilateral Investment Guarantee Agency
MIPA	Malawi Investment Promotion Agency
MMD	Movement for Multiparty Democracy (Zambia)
MMM	Militant Movement of Mauritius
MUR	Mauritian Rupee
MWK	Malawi Kwacha
NAD	Namibian Dollar
NKZ	Angolan New Kwanza
NTEs	Non-traditional exports
OPIC	Overseas Private Investment Corporation
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDI	Spatial Development Initiatives
SDR	Special Drawing Rights
SIDC	Swaziland Industrial Development Company Ltd
SME	Small and Medium Size Enterprises
SZL	Swaziland Lilangeni (plural Emalangeni)
TAZARA	Tanzania-Zambia Railway Authority
TPDC	Tanzania Petroleum Development Corporation
TIPA	Trade and Investment Promotion Agency (Botswana)
TSH	Tanzania Shilling
UNCTAD	United Nations Commission on Trade and Development
UNICTRAL	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
ZAR	South African Rand
ZCCM	Zambia Consolidated Copper Mines
ZIPA	Zanzibar Investment Promotion Agency
ZMK	Zambian Kwacha
ZSE	Zimbabwe Stock Exchange
ZWD	Zimbabwe Dollar

CONTENTS

INDEX

COUNTRY PROFILES

ACKNOWLEDGEMENTS

This is the second document produced by the Finance and Investment Sector Coordinating Unit (FISCU) for the SADC/World Economic Forum Southern Africa Economic Summit. This year most of the information was supplied by FISCU's stakeholders in the region. FISCU coordinated the work, edited and supplemented the information with data found on the Internet, and in newspapers and magazines.

We would therefore like to thank the staff members of the investment promotion agencies, the stock exchanges, the central banks and the Ministries of Finance of the twelve SADC Countries covered in this document. Unfortunately, we were not able to cover the two new SADC member States, the Democratic Republic of Congo and the Seychelles in this document.

Our gratitude also encompasses the Swedish International Development Co-operation Agency, which contributed to the printing and production costs, and the advertisers for supporting the balance of the cost. Photographs by courtesy of Southern African Marketing Co. Furthermore, we are grateful to Mr Philip Clayton, Senior Economist, Standard Bank of South Africa, who provided editorial assistance.

The contributors to the document are: Ms Bongi Kunene, Mr Phakamani Radebe, Ms Eva Bursvik, Ms Rosalind Mowatt and Mr Themba Zulu of FISCU.

Pretoria,May 1998.

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The information that appears in this document is, to the best of our knowledge, correct at the time of the printing, and has been verified by Central Banks and/or Ministries of Finance of the respective countries. However, the SADC countries are facing difficulties in the generation of statistical data. The issue is recognised and is currently being addressed by, inter alia, the Committee of Central Bank Governors. Meanwhile, we suggest that a degree of caution be exercised when using the macroeconomic statistics. FISCU disclaims liability for any errors and omissions that might occur in the document.

FOREWORD

The second publication of the Southern Africa Economic Summit prepared by the Finance and Investment Sector Coordinating Unit (FISCU) takes place in the context of significant regional and international political and financial developments. Within SADC the political situation is stable and there is close collaboration by member-states to ensure that peace holds in Angola and the Democratic Republic of the Congo. Multi-party democracy has become the norm in all SADC economies and the robustness of these democracies is attested by the procedural elections to be held in at least four SADC countries in 1998 and 1999. Most of the forthcoming elections will have international observers and the presence of independent electoral commissions ensure that the process is proper and fair. In keeping with mature democracies it is expected that the forthcoming elections will yield smooth succession and government functions will not be disrupted in any way.

Significant economic policy changes within SADC have occurred over time as economies were adjusting. Though adjustments were a result of different circumstances the whole region is benefiting from the positive contagion effect. Economic policy has become the focus of public debate as macro-economic management issues are discussed with a wide range of relevant stakeholders such as labor, commerce and industry, and non-government organizations. The commitment of SADC governments to adhering to sound economic principles can not be questioned. As SADC economies continue to grow the debate is no longer on what economic systems to adopt but the focus has shifted to a point where the debate is on how to ensure that a market based economic system embraces a wide majority in order to address poverty and other social backlogs. It is a concern of SADC citizens that the economic policy environment is conductive to attracting and keeping domestic, regional and foreign investors.

Internationally the focus of multilateral deliberations have been on the Asian financial crisis which have outperformed previous crises such as the Turkey and Mexican crises of 1994 respectively. The consequences of the Asian crisis continue to reverberate world-wide and the effect is transmitted in developed economies through diminished demand of dollar-priced goods and services, and through deleveraging in financial markets. SADC economies have not been immune to the crisis. Asian countries import base metals and minerals and other raw materials from the southern Africa region. Textiles and other labor intensive products from Asia compete with textiles and other products produced by the region. It is thus expected that the effect of the crisis will be felt in these sectors. In South Africa, owing to the emerging market status accorded to the country, the impact felt in the Emerging Market Index (EMI) was easily and immediately felt in the first round. As a result of slower growth in Asia and its impact on world growth, SADC expects that the demand for exported materials to decline and impact negatively on regional exports. Notwithstanding the pessimistic outlook SADC economies are expected to grow faster than the rest of Africa and other developing economies for the year 1998/1999. It may be premature to conclusively assess the impact of the Asian crisis. However, comparatively speaking, the effect on SADC seems to be minimal because the regional financial markets are not as globally integrated as the financial markets in the rest of the world.

BONGI KUENE

Director (FISCU)

THE SADC FINANCE AND INVESTMENT SECTOR

The SADC Sector for Finance and Investment held its inaugural meeting in July 1995. The SADC Ministers of Finance agreed that they will work towards the following objectives:

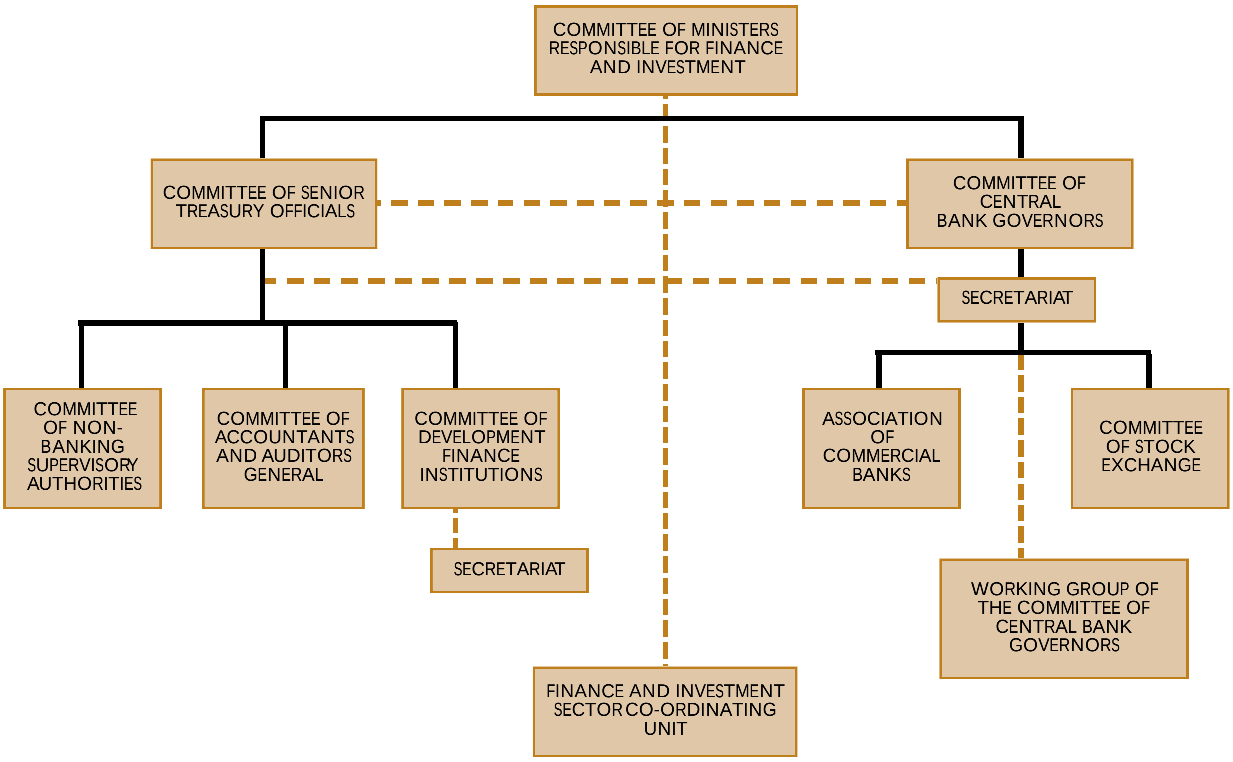
- To provide a framework for regional co-operation in the area of finance in collaboration with the central banks, other regulatory and supervisory authorities, banks and other financial intermediaries in order to mobilise resources for investment.
- To promote the development of sound investment policies of member states in order to establish an enabling investment environment for the region.
- To encourage movement towards regional macro-economic stability by, among other things, promoting prudent fiscal and monetary policies.
- To analyse and assess the impact of structural adjustment policies and programmes on the attainment of the objectives of this Sector.

The formation of regional integration arrangements, of which SADC is one, is pursued by southern African governments mainly as a developmental objective. The objectives for the Sector of Finance and Investment display the desire of SADC to move towards co-operation , co-ordination and harmonisation of economic policies across the region. To attain the above objectives, the Ministers decided on the following structure:

programme of action is decided by the governors and they review and assess progress bi-annually. Also reporting to Ministers through the Committee of Central Bank Governors is the Association of SADC Stock Exchanges and the newly formed Association of SADC Commercial Banks.

The creation of the Associations of Stock Exchanges and Commercial Banks was approved by Ministers in 1997 after a careful review of the strategic focus of the Sector. The Ministers decided that the Sector will be best served if the debate on economic integration is widened to involve private sector stakeholders. One of the crucial points in the arguments for economic integration is based on the developments in the world's financial markets. SADC attracts only 2 percent of the emerging markets portfolio funds. With the strengthening of economic performance that SADC witnessed in the years 1995 to 1997, it was deemed opportune to involve all relevant stakeholders in the debate on financial markets and regional integration. It is considered that with greater co-operation and co-ordination among the financial institutions of the region SADC could have a significant chance of becoming a major drawer of capital and investments.

The Committee of Senior Treasury Officials comprises government officials charged with the responsibility of co-ordinating a regional strategy for macro-economic convergence, structural adjustment co-ordination and the development of a



The above is a graphic presentation of the Sector. The Sector has a governing Committee of Finance Ministers which meets annually to approve a programme of action and review progress on a number of sectoral activities. To safeguard the independence of central banks and to ensure that central banking and other monetary policy related issues are dealt with at a professional level, the Ministers created the Committee of Central Bank Governors which acts independently of government officials. The Committee of Central Bank Governors has separate terms of reference. Its agenda and

unified position in international fora such as the International Monetary Fund (IMF), World Bank, the European Union and others. While self-reliance could have been an objective of economic integration in the past decade, the SADC Ministers of Finance realised very early that in financial issues self-reliance would not be achieved in the short run. Thus emphasis has been placed mainly on ensuring that government officials are tasked with the attainment of objectives which address national concerns in a way that will maximise gains for the region. In this endeavour, government officials are considering ways and means that will have beneficial results in the spill over effects of structural adjustment processes, and in general, promote sound macro-economic management principles.

Reporting through the Committee of Treasury Officials are the Committee of Accountants-Generals and Auditors-Generals, and the Committee of Non-Banking Supervisory Authorities. The Ministers realised that since trade integration efforts are being seriously addressed by the region, it would be prudent to ensure that institutional problems associated with macro-economic policy reform and financial infrastructure are attended to as a matter of urgency. Hence the involvement of private and public sector professionals such as the accountants and auditors, and supervisory authorities. The issue in this regard is that while SADC is developing region specific solutions associated with regional integration, it would be easy to lose sight of integration as a tool for small open economies to expand markets, but more importantly, to take advantages of globalisation and international competitiveness.

Accordingly the regional accountants and auditors are tasked with the responsibility to:

- determine the desirability and feasibility of harmonising standards within the region;and
- determine what needs to be done at a professional,technical and political level to ensure that the private and public sectors of the SADC region adhere to international standards.

Similarly, the regional supervisory authorities are tasked with:

- obtaining an understanding of the nature, structure, persons and institutions involved in supervisory activities in the region;
- discussing the various cross border activities and supervisory responses that may be required as a result;
- looking at the way forward and considering a strategy in relation to the establishment of a regional body, which may be private or public, charged with the responsibility for off-site analyses of adherence to prudential rules and regulations on a regional basis.

It is hoped that the involvement of various supervisory authorities in SADC fora will go a long way in the design of efficient regulatory systems, and as they will advise the Ministers and make recommendations on desirable changes, they will add value towards a solution to the negative perceptions on risk in SADC.

The Finance and Investment Sector Co-ordinating Unit (FISCU) acts as a secretariat for the Ministers of Finance Committee. As such it is responsible for the daily management of sectorial activities. The functions allocated to FISCU are dedicated to the serving of all sectorial committees and sub-committees. This involves setting up the terms of reference and determining a work plan and agenda for each sub-structure that is established in the support of sectorial objectives. FISCU also plays a monitoring role on all projects before submission to the Ministers. Most of the projects undertaken by the sector are funded in collaboration with international co-operating partners. FISCU is responsible for the identification of suitable donors and partners for each project, and negotiation of financing proposals. The process of identifying suitable partners is critical to the success of each project as it identifies possible conditionalities that the sector need to comply with and eliminates unnecessary processes and procedures. The matching of donors, projects and focus groups within the Sector results in the signing of a memorandum of understanding (MOU) which sets out the framework of the relationship between the Sector and donors. FISCU prepares all the MOUs and where a project requires the services of consultants FISCU contracts a suitably qualified candidate.

For the financial year 1998/99 FISCU's key functions are:

- to produce a framework document that will be a composite of policies and strategies that the sector needs to adopt to further the aims of economic integration.
- to produce a Finance and Investment Protocol that will be submitted to the Ministers for final approval in June 1999.
- to produce a quarterly newsletter with information on the activities of the sector.
- to identify suitable international co-operating partners for the sector's new activities.
- to produce a SADC macro-economic analysis document that will be used to inform current and potential regional and international investors of, amongst others, the investment climate in each SADC economy, potential investment opportunities, and legal provisions for doing trade in SADC. This document will be available to participants at the Southern Africa Economic Summit to be held on 17 - 19 May 1998 in Namibia. It will also be available on Internet address: www.finance.gov.za/SADC.
- to work with the SADC stock exchanges in their pursuit of harmonised policies and operations.
- to promote the establishment of effective networks between SADC development finance institutions.
- to promote the adherence of SADC governments to prudent fiscal and monetary policies, through inter alia, devising an acceptable macro-economic convergence model.
- to promote effective networking between non-banking regulatory agencies so as to devise a set of compatible regional rules.
- to work with all relevant stakeholders in the harmonisation of practices and standards in the accounting and auditing professions.
- to provide input on regional dimensions in dialogue that Ministers of Finance have with multilateral institutions such as the IMF, World Bank, the Non Aligned Movement, Commonwealth and others.

SECTORAL ACTIVITIES

In a broad sense the Sector is addressing various issues of financial co-operation. In 1995 it was decided that financial co-operation will address the following:

- Financial reforms including the promotion of investment and trade financing;
- The possibilities of establishing a regional finance and development mechanism with cognisance to the need for a more balanced geographical pattern of investment;
- Co-operation in the field of monetary matters such as monetary policy, exchange rate policy, currency convertibility, foreign exchange reserve management, foreign debt management and other issues related to the liberalisation of financial markets;
- The development of compatible rules and regulations governing supervision of banks and other financial institutions;
- The development and strengthening of capital and money markets including national and regional stock exchanges;
- The development of human resource capacity in the areas of finance and investment;
- The development of payment and clearance systems to facilitate efficient cross border payment.

The Sector has three main themes and a number of projects that complement each other and address the adopted themes.

I. MACRO-ECONOMIC MANAGEMENT

The main thrust of this theme is to complement trade integration efforts and to ensure that the political will that currently exists in SADC governments is supported by sound economic management. In this context while the argument is dominated by trade liberalisation there is a realisation that non-tariff barriers affect trade, production and investment. The Ministers of Trade and Industry are mainly concerned with the first two barriers. The Ministers of Finance on the other hand are more concerned with ensuring that the gains from macro-economic reforms which counties have been undertaking individually are regionalised by varying the intensity, scope and sequencing of economic policies.

However the Sector has had considerable difficulties in understanding the nature of the problems because of lack of an adequate database on which to base the analysis. In 1996 the Committee of Governors approved a project on the development of a statistical database with economic and financial information. A report "Statistical tables and graphs for SADC countries" is produced bi-annually for presentation to the meeting of SADC Central Bank Governors. The approved statistics appearing in this report are now available on Internet, address: www.sadcbankers.org. The developments in the statistical data base are discussed by senior officials from the central banks' Departments of Research and Economics. The latest development concerns the proposed inclusion of fiscal statistics to show the sources of government income and distribution of government expenditure.

The statistics project is part of the Sector's efforts in the development of public confidence and information efficiency. It has not been possible in the past to tackle governance issues because the information base was very narrow. The improvements in the database will ensure that the sector effectively deals with macro-economic convergence issues and accordingly adopts measurable indicators for convergence criteria.

An improvement in the management of SADC economies has been characterised by the removal of exchange controls as part of economic reform. However, the speed and effectiveness of relaxation of exchange controls have not been assessed regionally. The governors adopted a project looking at a theoretical study on the macro-economic and regulatory framework that should accompany the liberalisation of exchange controls. The study noted that most SADC economies have already liberalised exchange controls on certain categories of the current account, such as other exports, imports, services and income. A first objective for SADC economies should be to adopt Article VIII of the IMF's Articles of Agreement. Once this has been attained, further relaxation on the capital account are called for. Given the need for foreign investment in SADC countries it was recommended to Ministers that obstacles hindering inward financial flows should be reconsidered,especially control restrictions on inward direct investment, equity and portfolio investment.

The consistency of the above conclusions were echoed by the Committee of Stock Exchanges in their recommendations to Ministers on harmonisation of economic activities with reference to movement of capital flows. South Africa acted on these recommendations. The 1998/99 South African budget has allowed a further relaxation of capital flows within SADC from a limit of ZAR50 million to ZAR250 million. Likewise institutional investors can now increase their foreign currency transfers from 2 percent to 10 percent of their previous year's net inflow of funds.

The developments in SADC are happening in the context of globalisation, as a result of the expansion of internationally-driven economic changes. It has thus been deemed useful to include cooperation in international negotiations with the multilateral institutions, especially in the development of Multilateral Investment Agreements, in the discussions of the Ministers of Finance. At present this debate is not well articulated but it is clear that in the process of re-orientation of the development strategy from a national strategy to a regional one, it would be relevant to assess the possibility of strengthening the bargaining power of member countries. The concern is that as developments are instituted by the World Trade Organisation (WTO), the Organisation for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD),it is almost impossible for developing countries to single-handedly positively influence the outcomes for themselves. Instead of waiting to respond to events once they are final it is perceived that SADC Finance Ministers should collaborate with their trade counterparts for the formulation of a coherent strategy on multilateral investment agreements for the benefit of the region. It is envisaged that the issues arising out of this debate will be codified to form a significant section of the proposed Finance and Investment protocol.

II. FINANCIAL MANAGEMENT

Multilateral institutions have always emphasised the importance of good governance in any developing country. This in many instances has been used as a criteria for evaluating the level of development finance flows that the developing countries get. IN as much as good governance is part of the debate in Southern Africa, the SADC Ministers of Finance decided that financial management as a theme would be one of the crucial areas that SADC would be evaluated upon. Accordingly a programme that address this theme have been adopted. At the core of this programme is an attempt to address national problems in a way that simultaneously addresses regional needs.

Together with organisations, institutions, and associations at international and regional level, the Finance and Investment Sector Co-ordinating Unit (FISCU) is involved in devising a strategy to address accounting and auditing matters within the SADC region. Among the regional bodies involved are the East and Southern African Association of Accountants- General (ESAAG), the Eastern, Central and Southern African Federation of Accountants (ECSAFA), the Southern African Development Community Organisation of Supreme Audit Institutions (SADCOSAI). The World Bank and the Canadian International Development Agency are the two international partners whose assistance has been sought to fund the activities of these organisations.

At the core of the financial management agenda is the desire to bring about harmonisation of the accountancy and auditing professions on a regional basis.

The scope of the issues to be covered in this programme covers accounting, auditing, government accountability, ethics and norms of the profession, mercantile law, and education and training of professionals in the accounting and auditing fields. It would be a futile exercise if SADC were to attempt to conduct this work independent of the developments in the professions world wide. For this reason the associations have had to be conversant with developments on improved financial reporting based on the adoption of international accounting and auditing standards as promulgated by the International Federation of Accountants (IFAC) and the International Accounting and Standards Committee (IASC). Efforts by the governments within SADC to improve accountability and thereby provide responsible control of government finances will have the added benefit of increasing investor confidence while complying with international standards. Furthermore; with the inclusion of Auditors-Generals in this initiative, care will be placed on strengthening their powers to enforce accountability and compliance. While it is generally unquestioned in the private sector that internal audit is a management tool that ensures good corporate governance, in the public sector the idea has still to be fully marketed. It is hoped that the commitment of the Auditors-Generals to this programme will reinforce the importance of an effective internal audit function within governments.

An important element of financial management is capacity building in the form of education and training at all levels.The South African Reserve Bank has been undertaking training courses for central bank officials three times a year. Collaboration with other regional and international institutions that provide macro-economic and financial management training is on-going.Similarly, in the accounting and auditing programme a crucial aspect will be the training and education of professionals tasked with applying harmonised standards. The starting point would be comparability of standards in different countries. Once reciprocity and mutual recognition of professions has been achieved, there could be greater mobility of professionals in the region.

While most of the work pertaining to financial management has been undertaken by the accounting and auditing institutions, the SADC central banks have collaborated in the area of regulation and supervision. This they have done as part of their responsibility for ensuring bank soundness. To avoid systemic risks and as part of the agreement that central banks have with the Bank of International Settlements (BIS), initiatives on the supervision of cross-border activities are undertaken to enhance:

- the various principles, philosophies, approaches and methods underlying regulation and supervision;
- the duties and responsibilities of the various players in the regulation,supervision and risk management of banks; and,
- the basic principles and methods in the management and evaluation of different risks in banking.

Realising the importance of issues related to banking soundness, SADC central banks are applying and designing regulations that are consistent with international standards, while compatible with local needs.

SADC non-banking supervisory bodies are also in the process of organising themselves into a regional body that will deal with:

- the question of regulatory arbitrage;
- the effect of the demutualisation of South African mutual insurers;
- the standard of regulation and the degree to which differences in the standards could affect future supervisory activities; and,
- the exchange of information relating to the fit and properness of financial service institutions.

Financial management within SADC is also enhanced by ensuring,wherever possible, that local initiatives are in line with international provisions as laid down by the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

III. FINANCIAL INFRASTRUCTURE

One of the often neglected areas of finance in the past was the development of financial infrastructure.The SADC Central Bank Governors recognised this early in their discussions on financial co-operation. Initially, discussions centred on the legal systems and frameworks within which central banks operate. This culminated in a project document entitled SADC Financial Systems: Policies, Structures and Markets. This document contains information on all SADC central banks, their governance and instruments. It is now available on Internet site www.sadcbankers.org. An independent opinion on the information contained and the further use of this document is currently being sought from the International Monetary Fund (IMF).

In 1994 South Africa commenced with a project on the payments, clearing and settlement mechanisms. Among the objectives of the project was the need to reduce the settlement period between transaction and clearing in order to produce real-time gross settlement. South Africa completed this project successfully in March 1998.When South Africa joined SADC, the scope of the project was enlarged with the assistance of the World Bank to include other SADC member states.At country level so far, the project has concentrated on information gathering and stock-taking, developing a vision and strategy, and conceptual design. The key issue in each country is that an efficient payment system must have the following attributes as guiding principles: speed, certainty, reliability, security, convenience and fair costs. Some of the role players that have been involved in each country have been banks, rural and urban end-users, service providers, regulatory bodies, and various organs of government.

Much of the financial infrastructure is dependent on efficient communication tools. This area is a subject of in-depth discussion by the Southern Africa Transport and Communication Commission (SATCC), a SADC sector based in Mozambique. However some crucial activities for the Finance and Investment Sector rely on electronic communication in the form of e-mail connectivity via the internet. This has been achieved for all SADC central banks. Plans to connect the development finance institutions and the investment promotion agencies are on the cards.

The Ministers of Finance decided in July 1997 that the eight SADC stock exchanges should be an integral part of the discussions on finance infrastructure. Issues of concern and mutual benefit that have been discussed so far include: the harmonisation of listing requirements, dual listings and SADC depository receipts, cross border investment, central depositories and settlements. In less than a year some of the recommendations of the stock exchanges have developed into policy in some member states.

CHALLENGES AND CONSTRAINTS

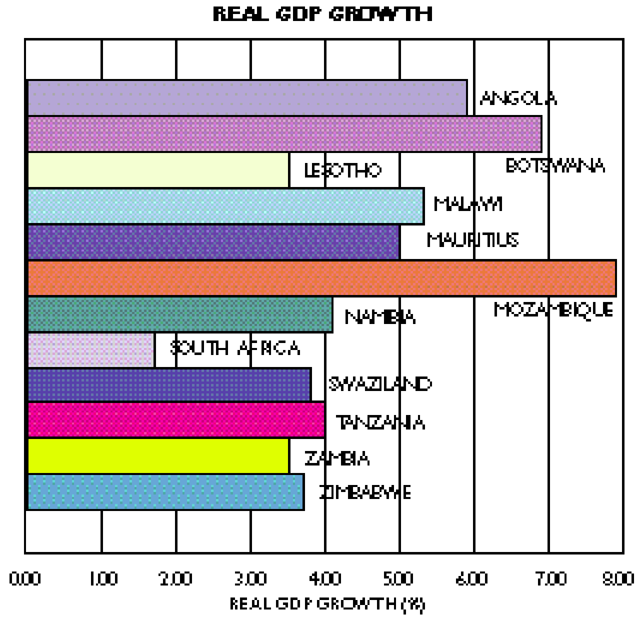
A selection of projects addressing a number of Finance and Investment Sector themes presented above is not a complete reflection of the scope of work that is being undertaken to further the objectives of the Sector within SADC. Even with the selective discussion of the projects it is clear that a lot of work still needs to be done to ensure that the interaction between the Ministries of Finance, the central banks and financial institutions is such that a “good result” is attained without disrupting the markets. Also important is the need to ensure that regional initiatives are congruent with international developments.

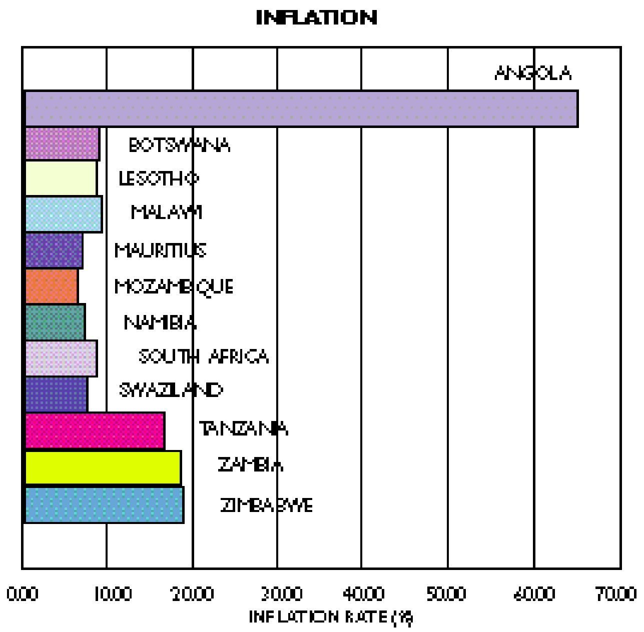
The future thus holds a number of challenges for the Sector, including the following:

- Political commitment;
- Institutional capacity;
- Global trends and developments;
- Resource constraints, and;
- Relevance of regional economic blocs.

The Sector for Finance and Investment is relatively new in a SADC environment yet its successes are discernible by the considerable level of government and private sector commitment and support in the development of its programme of action. The next challenge for the Sector will be the drafting of a Finance and Investment Protocol that will have the broad range of support from regional and international role-players.

REGIONAL MACRO-ECONOMIC HIGHLIGHTS





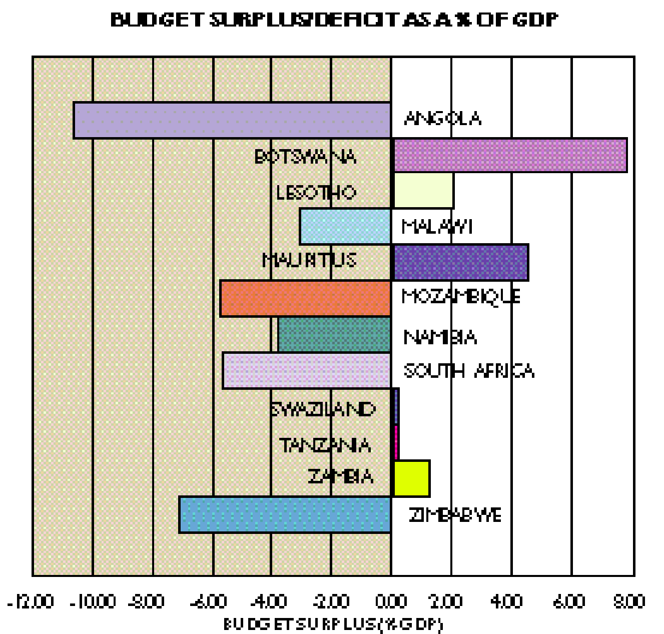
REAL GDP GROWTH

The period 1991 to 1995 recorded a varied performance with some notable strong periods of growth. However, the overall conclusion points out that the Region did not grow as rapidly as initially expected. Notwithstanding this, when SADC economies' performance is compared to non-SADC low-middle-income countries, the comparisons are more favourable to the SADC economies. Since the post-1995 period, the economic performance of the SADC economies has improved quite significantly. In 1996, the average growth rate of all SADC economies was estimated at 7.2 percent - only three countries (South Africa, Swaziland and Tanzania) recorded growth rates of less than five percent. Six countries (Botswana, Mauritius, Mozambique, Namibia, Zambia and Zimbabwe), achieved between 5 percent and 8 percent.

The best achievers were Angola, Lesotho and Malawi, who recorded extraordinary growth rates of approximately 12 percent. These extraordinary growth rates returned to normal SADC growth rates by 1997, bringing the SADC average growth rate to 4.6 percent. South Africa was the only country to record growth rates of less than 3.5 percent.

INFLATION

The results from persisting in implementing tighter monetary and fiscal policies in the SADC Region is continuing to bear fruitful results as reflected by the 1997 annual inflation rate and government deficit as percentages of GDP. In 1997, only one country (Angola) recorded an annual inflation rate above 25 percent. Even for Angola, prudent macro-economic policies have brought down inflation levels from a hyperinflation of 1,650 percent at the end of December 1996, to record 64 percent at the end of December 1997. Only three SADC countries (Zimbabwe, Zambia and Tanzania) recorded inflation above 10 percent. The rest of SADC economies recorded annual inflation rates of one digit.

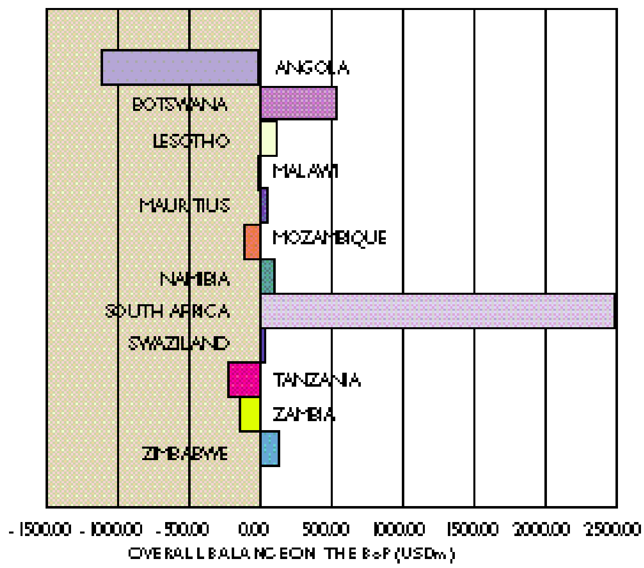


Data for Angola is from 1996

GOVERNMENT DEFICIT

The declining inflation rates signify the changing phase in African economic management in general, particularly the commitment to transforming our economies with the ultimate objective of ensuring that our economies are compatible with global demands. The declining levels of SADC government deficit which accompany the falling inflation rates, bear testimony to this commitment. In 1997, six SADC[1] economies reflected government surpluses, with Botswana and Mauritius recording government surpluses of 8 percent and 4.5 percent respectively. Lesotho, Swaziland, Tanzania and Zambia also recorded government surpluses, while Malawi, Mozambique, Namibia, South Africa and Zimbabwe reflected government deficits.

OVERALL BALANCE ON THE BALANCE OF PAYMENTS



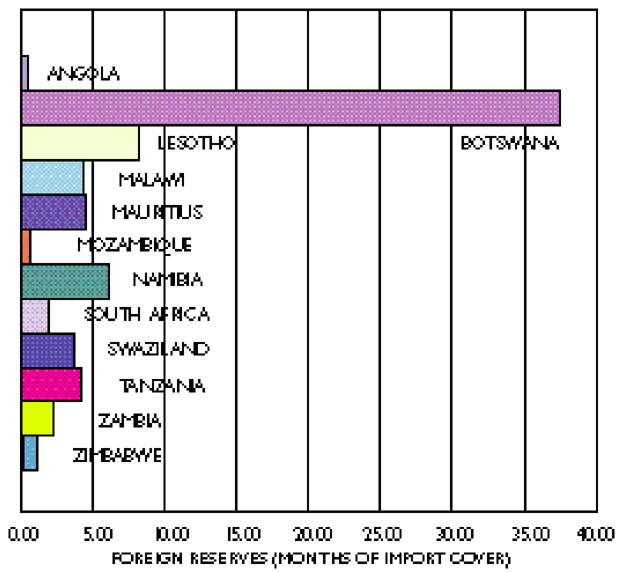
1)1997 Government deficit data for Angola not available.

BALANCE OF PAYMENTS

Typically of the problems currently facing the developing world, SADC countries continue to experience the constraints in the balance of payments. Only five SADC economies (Lesotho, Namibia, South Africa, Swaziland and Zimbabwe), had current account surpluses in 1997[2].

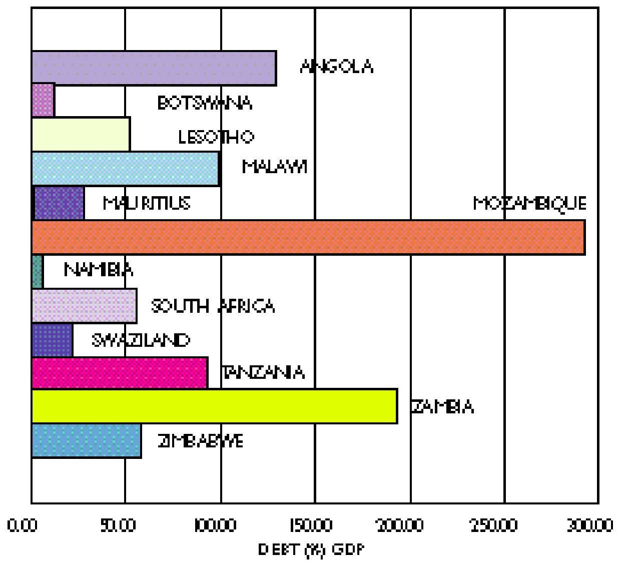
2)1997 data on the balance of payments for Botswana and Mauritius unavailable.

FOREIGN RESERVES EXPRESSED IN TERMS OF MONTHS OF IMPORT COVER



While most SADC economies are experiencing current account deficits, on average, foreign exchange reserves continued to strengthen for most of SADC member states. The import cover varied from as high as thirty seven months cover (Botswana, 1996) to as low as 2.4 weeks cover (Mozambique).

DEBT AS A % OF GDP



EXTERNAL DEBT

The analysis of external debt burden indicates that over the medium and even longer term, in most SADC economies, debt burden will remain a source of serious concern and regional economies' external position will remain vulnerable to external shocks. In fact, it has been argued that the major hurdle for growth and development in the developing world is a debt burden. SADC as part of the developing world is no exception to this. Accordingly, the fact that most of SADC economies have low external debt levels is indicative of a better future for the Region. However, it is worth noting that four of the SADC economies are extremely burdened by external debt and their economies will continue to be highly vulnerable to external shocks, and macro-economic stability will remain an evasive goal. Further, it is encouraging to note that Mozambique, due to its exceptional good performance in stabilising its economy has qualified for a HIPC (Highly Indebted Poor Countries) Initiative. However, even after taking into account possible debt relief available under HIPC, the net present value of the debt and the debt-service ratio still remains high for a country undergoing major tranformation like Mozambique, but nonetheless the impact of the initial relief is promising. The granting of debt relief to Mozambique should encourage other members of SADC to maintain their commitment on stabilising their macroeconomies with the objective of qualifying for HIPC and this will act as a springboard for growth and development within the Region.

Southern Africa and Competitiveness

This year's theme at the Southern African Economic Summit of the World Economic Forum, is "Priorities for Global Competitiveness in the 21st Century". Over the past few years, many of the Southern African Development Community (SADC) economies have moved away from isolation and patterns of low growth - South Africa's apartheid regime has been dissolved, dictatorships have been replaced by democracies and economic policy in general is moving rapidly towards free market principles. Now, there is an increasing amount of international attention being paid to Southern Africa, which is beginning to be seen as a region with enormous potential.

In terms of competitiveness, however, SADC, as a whole lags behind the developed world, as well as behind some of the other so-called "emerging markets" such as China, South East Asia, Latin America and Eastern Europe. Having embraced the policy logic of the free market and its implications - minimising state intervention in the economy, lowering barriers to trade and attracting foreign investment, among others - the countries of Southern Africa have no option but to accept the realities of the economic environment in the 21st Century. Technology is advancing at a rapid rate, the volume of cross-border capital flows is expanding, investors are increasingly looking outside their traditional boundaries for new opportunities and new ways of making money; in short, the world is becoming smaller. On top of this, donor aid to developing countries is not as forthcoming as it used to be. To be players in the world economy in the next century, the countries of Southern Africa will need to become more competitive, and to develop some way of holding their own against the dominant forces.

The Africa Competitiveness Report

Africa's entry into the world economy is evidenced by the production (for the first time) of the Africa Competitiveness Report. Compiled for this year's World Economic Forum (held in Davos, Switzerland in January/February) the report looks at 24 African countries and evaluates them in terms of their competitiveness. Conclusions are based on a survey of African business, as well as data collected from sources such as the World Bank, the International Monetary Fund, the UN, and African ministries of finance and central statistical offices. All SADC countries, with the exception of the Democratic Republic of Congo and the Seychelles,are included.

Topping the overall Competitiveness Index (calculated on the basis of six indices - openness, government, finance, labour, infrastructure and institutions) is Mauritius. Other high-ranking SADC countries include Botswana (3), Namibia (4) and South Africa (7). Swaziland (8), Lesotho (10), Zambia (12) and Tanzania (16) fall into the middle rankings, whilst Mozambique (18), Zimbabwe (20), Malawi (21) and Angola (23) are near the bottom of the table.

The report explains Mauritius's and Botswana's relatively high level of competitiveness in terms of the stability (both political and economic) of the countries, as well as well-managed economies and sound macroeconomic policies which have been in place for some time. The report also found evidence of "geographic bunching", i.e. countries in a certain geographical area tended to have similar rankings - this is most notable in relation to the Southern African Customs Union countries. A correlation between competitiveness and human welfare was also noted, suggesting that competitiveness could contribute to higher levels of human development, and vice versa.

Countries generally regarded as "good reformers" (e.g. Mozambique) did not necessarily fare well in terms of competitiveness, illustrating that real change does not take place overnight and that time is needed to strengthen institutions, infrastructure and the economy in general. Where countries such as Mozambique did obtain high rankings was in terms of two new indices, the Improvement Index and the Optimism Index. Data for these indices was obtained from "direction of change" questions in the survey. Tanzania (3), Mozambique (4) and Zimbabwe (6) were, according to the report, the three countries which showed the most improvement in terms of business environment over the years 1992-97. Mozambique topped the Optimism Index for the years 1997-99; businesses were also optimistic about the prospects of Tanzania (2) and Zambia (6). The report explains the relatively low ranking of countries such as Botswana, Namibia, Mauritius and South Africa in these indices partly in terms of contentment rather than pessimism, although obviously in the case of South Africa, factors such as crime and the instability associated with transition play a major role as well.

Overall, the report emphasises the importance of good government and good leadership as one of the prerequisites of a successful economy. This encompasses political and policy stability and transparency between business and government. Other areas of particular importance to the business community were found to be openness to trade, improved infrastructure and low levels of corruption.

In the "Essays" section of the Africa Competitiveness Report, the authors and contributors go into greater detail about issues such as foreign direct investment flows, globalization, political aspects of the reform process and developing competitive advantage. The message of the report is clear: state intervention in the economy should be kept to a minimum, foreign investment is crucial to growth, no economy can function in isolation, economies should focus on developing a strong government, good leadership and well-functioning institutions are important.

The Africa Competitiveness Report highlights both how far Southern Africa has come, and how far the region has to go before becoming a "success story". Instead of taking rigid, formulaic approach to reform, the report offers frank and practical discussions of problems which are uniquely African. Southern Africa as a region has had its own singular history and often the difficulties faced by policy makers today are as a result of the legacy of Southern Africa's past. The report recognises the distinction between policy and implementation and that something that looks good on paper may not necessarily work in practice. Furthermore, the report recognises the potential of countries which are still battling to overcome the effects of political turmoil and badly-managed economies. SADC countries would therefore do well to take heed of the report.

Regional Integration and Competitiveness

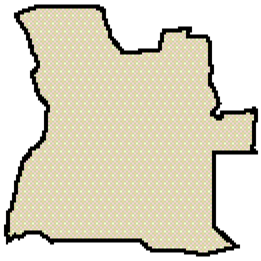
One area which the Africa Competitiveness Report does not make much mention of is the benefits of regional integration in terms of competitiveness. The World Investment Report (1997) explores the possibility of South Africa becoming a "growth pole" for the region. Direct investment by South African companies in SADC, a process which is already well underway, (see South Africa's country profile, p...) can contribute to capital formation, and the development of technology and human resources in the region. South Africa is a potential market for exports from other SADC countries, and more opportunities will be created when SADC Free Trade Area, as set out in the Trade Protocol, comes into effect.

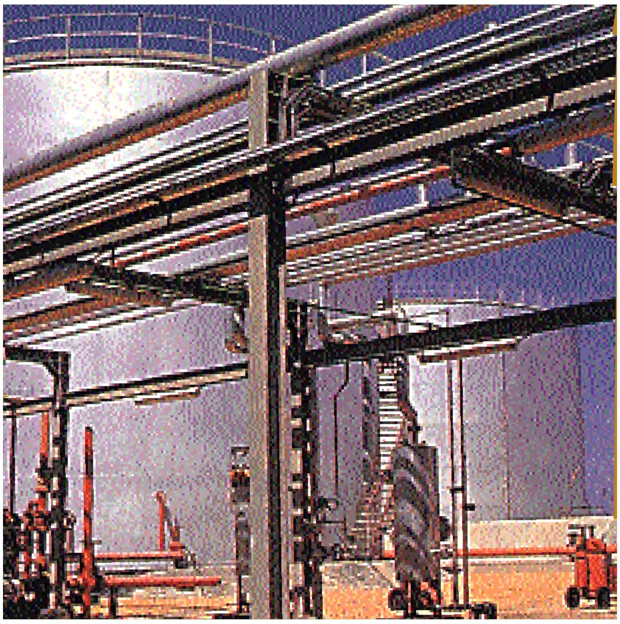
Production in the region is to a large extent concentrated in South Africa.Greater freedom of movement for both capital and labour within the region could result in the relocation of production from South Africa to other SADC countries. South Africa's labour costs, for example are in general higher than those in most other SADC countries, meaning that, all other things being equal, production costs would be cut by relocating to other member states, thus increasing competitiveness. Furthermore, countries such as Mozambique, Zambia and Tanzania have vast unutilised potential in terms of natural resources, but lack the necessary human and financial capital to exploit these resources to the fullest. However, countries such as South Africa and Mauritius, for example are relatively rich in human capital and may be able to provide the necessary skills and expertise to facilitate development in these countries. Of course, the reality of this situation is not quite as simple - South Africa has a large unemployment problem and a vast supply of unskilled labour, whilst the poorer SADC countries lack adequate infrastructure and support service, making production unviable in many cases.

The World Investment Report also suggests that the Southern African region follows the "flying geese" model, as used by Japan and South East Asia. In this model, the "lead goose" (in this case, South Africa),constantly develops new industries. When it loses competitive advantage in a particular product, it then passes the new industries on to its less-developed neighbours. Because of cheaper input costs, the latter are able to produce the goods or service more competitively, and at the same time inherit the relevant expertise and skills developed by the lead goose.

More basically, co-ordination of policies, such as policies aimed at attracting foreign investment, can also assist the region in becoming more competitive. Rather than trying to deflect investment from other SADC countries by offering ever-better incentive packages, country strategies should be aimed at bringing investment into the region as a whole.

Angola





Oil operations – contributing to Angola's greatest wealth,petroleum.

GENERAL INFORMATION

Geography and Population

The Republic of Angola covers about 1.2 m km^2 in the western region of Southern Africa. Its capital city is Luanda. Portuguese is the official language, but Umbundu, Kimbundu, Kikongo, Tchokwe, Ovambo and other languages are also spoken.The population of Angola was estimated at 11.6m 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 UNDP's 1997 human development index (HDI)[1)] is 157 out of 175 countries. This represents an improvement from 165 in 1996. However, the country still falls within the low human development category, together with Mozambique and Tanzania from the SADC region.

Political Overview

The peace process in Angola is fragile and has moved at a slow pace since the first peace accord in 1991. The first multiparty elections were held in September 1992. MPLA won the parliamentary elections with 53.7 percent of the vote, giving them an absolute majority of 129 seats in the national assembly, while UNITA received 34.1 percent and 70 seats (the national assembly consists of 220 seats). Eleven candidates stood for the Presidential elections, and President dos Santos of the MPLA won 49.6 percent of the votes. The elections were declared generally free and fair by the United Nations, but UNITA claimed there had been widespread fraud and withdrew from the process.

In October 1993 new peace talks commenced in Lusaka, Zambia. Within a month UNITA and the Government of Angola had agreed to accept the general framework of the 1991 peace accords. However, as the issue of integration of UNITA ministers in the national government was debated in early 1994 the talks stalled, and only in November of that year the Lusaka Protocol was finally signed, providing for the participation of UNITA in the government, as well as for the possibility of a second round of presidential elections.

On 11 March 1998 UNITA was acknowledged as a political party after having fulfilled an obligation to demilitarise its forces. Following this move UNITA is currently being offered a number of new posts in the administration. The second round of presidential elections has been provisionally scheduled for the year 2000.

Sectoral Descriptions

The civil war has had a devastating effect on the Angolan economy. Now the government follows a generally market-oriented economic policy, the prospects for long-term peace have improved and there is some hope that the economy outside the oil sector could expand. Although much infrastructure has decayed or has been destroyed over the last three decades, there is still significant scope for economic growth just from restarting or rehabilitating dilapidated plants and equipment. If Angola were to be seen to be welcoming inward investment and seen to be a place where reasonable risks could be taken outside the hydrocarbon sector, then the country's abundant natural resources could be harnessed to the process of economic growth and development.

Before independence in 1975, Angola was self-sufficient in all crops except wheat, but since independence 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 independence, timber production has fallen dramatically and there are now nearly 150,000 ha of eucalyptus, cypress and pine plantations waiting to be rehabilitated.

Once peace is seen to be secure, and a mine-clearing programme is under way, strong recovery in the agricultural sector is possible. A return of some of the population from the cities - to which they fled during the civil war - would be required in order for Angola to fully exploit its advantages in this sector.

The Atlantic coastline is rich in shellfish and a variety of other fish species. Currently, an attempt is being made to rehabilitate and modernise the domestic fishing industry. Neighbouring Namibia has built a significant fishing industry; given similar oceanographic conditions, it is conceivable that with good

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.

management, a reasonably large and sustainable fishing sector can be established.

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. In 1997, some exciting oil discoveries were announced. It is possible that, within a few years, Angolan oil production could double from its current level of some 700 000 barrels of oil per day.

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 fully assessed, let alone exploited. Recently the government instituted a policy framework on mining, which aims to encourage a revival of the sector, through both local and foreign investment. Rejuvenation of the road and rail infrastructure would assist in increasing investment in mining - as indeed in the agricultural sector.

Industrial production is well below capacity. 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. Given the dislocation caused by the war, increased attention on education and training may be required in order to assist in the full recovery of manufacturing.

There is great potential for Angola to become a popular tourist destination because of its geographical variety, but the development of tourism is still in its infancy and depends largely on the political stability of the country. Further investment in infrastructure would also be required. The authorities may also consider a change in the visa requirements, in order to make it easier for potential tourists to consider travelling to Angola. War and poaching has, however, decimated the wildlife; without a programme of restocking game areas, it is likely to be some years before Angola would again become attractive to those wishing to view African wildlife.

Infrastructure

As can be expected, the country's infrastructure suffered great destruction during 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. The rehabilitation is a major priority of the government's Public Investment Programme, and aid has started to flow in from foreign sources for this purpose. Angola's ports have the potential to improve foreign trade for its landlocked neighbours, but before this can be realised, improvements in efficiency will need to be made.

The installed energy capacity of Angola can theoretically meet the electricity demands of the country. However, most of its operational assets are non-functional due to the war. In recent years, the unreliable nature of the electricity supply has been a major constraint on manufacturing and commerce.

Telecommunications require an extensive upgrading - in most parts of Luanda the telephone exchanges are overloaded and connection can be difficult. Most companies, international organisations, NGOs and government institutions supplement existing telephonic connection by VHF radio communications. Telecommunications in the rest of the country are in an even more parlous state than they are in the capital.

According to the UNDP's Human Development Report (1997), an estimated 32 percent of Angolans have access to safe water and 16 percent have adequate sanitation facilities.

ECONOMIC OVERVIEW

Introduction

Economic and other weaknesses, inter alia, the 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. Angola was once the fourth largest producer of diamonds in the world, had a sizeable iron ore mining industry and a thriving manufacturing sector. Since independence, the only sector which has expanded has been the oil sector.

The country has the potential to become one of the most economically important nations in the SADC region, once political stability is achieved. However, 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. The quality and availability of economic statistics is an area that requires urgent attention.

Recent Macro-Economic Developments

The projected economic growth rate for 1997 was less than the growth rates achieved in 1996. Nonetheless, the Government of Angola continues to implement the economic stabilization programme enacted in 1996. This programme was instituted in response to incipient hyper-inflation and deteriorating social conditions. A new economic team was appointed and a new programme - the "Nova Vida" (New Life) - was formally introduced in July 1996. "Nova Vida" incorporates strict limits on monetary financing of budgetary and quasi-fiscal outlays, a strengthening of controls on prices and profit margins, and the tighter control of interest rates on the part of the monetary authorities. In part to combat the activities of money launderers and diamond smugglers, the import licensing procedures were tightened. The foreign exchange budget, which had previously been eliminated, was reintroduced, together with limits on permissible uses of foreign exchange not acquired directly from the central bank.

The government's tighter monetary and fiscal policy has begun to show a positive effect on macro-economic indicators of Angola. Since 1994, Angola has continued to achieve high real GDP growth rates. In 1995, the real GDP growth rate was 11.2 percent, followed by a marginal rise in 1996 to 12.1 slowing down to an estimated 5.9 percent in 1997. Annual inflation decreased from 1,650 percent at the end of December 1996, to 64.2 percent at the end of December 1997. The decline in inflation was accompanied by a reduction in the differential between the parallel and official exchange rates from 126 percent in May 1997 to 34 percent at the end of the year.

The fiscal deficit has been on a downward trend since 1995. In 1995, as a percentage of GDP, the fiscal deficit was approximately 25 percent of GDP, decreasing to about 10 percent of GDP by the end of 1996.

The official exchange rate was devalued by approximately 2,500 percent over the first half of 1996. It was then held constant until July 21, 1997, at which time an additional devaluation of about 30 percent took place. The parallel rate also depreciated sharply during the first half of 1996, but the differential with respect to the official rate narrowed from about 500 percent in January to about 10 - 20 percent in July. The parallel rate became more stable thereafter, although both rates remained quite sensitive to expected monetary and fiscal developments.

Preliminary estimates indicate that the external current account deficit declined from 17 percent of GDP in 1995 to 9 percent of GDP in 1996. Exports increased by 36 percent in 1996 to USD5.1 billion, mainly because of a 12 percent increase in oil export volumes and a 19 percent increase in international oil prices. Recorded diamond export receipts increased by 59 percent. Data on imports are limited, but present estimates point to an 18 percent rise in 1996 to about USD2.2 billion. The capital account showed a surplus of some USD106m in 1996, owing mainly to higher loan disbursements. The above explained trend was expected to continue in 1997 with the exception of international oil price levels which were expected to drop. The continued decline in oil prices seen so far in 1998 indicates that even if production increases, Angola is likely to experience a decline in export revenues in dollar terms this year.

Angola's external debt was reduced from USD13.7 billion at end-1995 to USD10.1 billion at end-1996, as a result of the cancellation of 70 percent of the stock of debt and arrears to the Russian Federation, and the rescheduling of the remaining 30 percent. In addition, USD1.2 billion of short-term debt to Portugal was converted into medium- and long-term debt. At the end of 1997, Angola's external debt was equivalent to 129 percent of exports of goods and non-factor services, and its debt-service ratio amounted to 33 percent.

The much discussed IMF programme was not instituted in 1997 as had been anticipated. The IMF is due to visit Angola for article IV consultations in May 1998, but it is unclear what the outcome of this visit will be. The IMF has expressed concern at the lack of transparency with regard to the handling of oil export proceeds.

Financial Institutions

Since 1991, the Angolan government has been attempting to create a more efficient and diversified banking system. Under these new reforms Banco Naçional de Angola now acts solely as a central bank, being responsible for monetary policy and issuing of bank notes and coins. As a banker of the government it administers the treasury's account, effecting payments and collecting tax income on behalf of the authorities. The bank is also co-responsible for the formulation of monetary and exchange rate policies and is largely responsible for the execution of these policies. However, monetary policy is in practice determined by the government's economic team which includes the Minister of Finance, the Governor of the central bank and the Minister of Planning, and is headed by the latter.

Further developments are the arrival of foreign banks who have established offices in the country. Problems still exist, however, in that credit facilities for businesses are inadequate and large parts of the country, especially small towns, are underbanked. There are five commercial banks in Angola. Two are state-owned: Banco de Poupança e Crédito and Banco de Comércio e Industria, and three Portuguese private banks: Banco de Fomento e Exterior, Banco Totta e Açores, Banco Português do Atlãntico.

Money and capital markets are still poorly developed and the informal money market is thus used extensively. The first steps to create a capital market have been taken. A task force has been set up to discuss primary legal and economic foundations and to prepare a basis for the creation of a Capital Market Supervisory Commission. The task force will also analyse the deregulation and restructuring of the insurance industry, and to analyse debt restructuring and privatisation issues.

Exchange Control and Currency Convertibility

The Angolan Kwanza is not convertible, and exportation of domestic currency is prohibited. Banco Naçional de Angola publishes two sets of exchange rates on a daily basis - one for its transactions with commercial banks and one for transactions between the commercial banks and economic agents. Foreign currency accounts are permitted, into which foreign currency (in cash, travellers cheques or foreign payment orders) may be deposited. Chequebooks may not, however, be issued against these accounts. Exchange control regulations are fairly strict.

Dividends earned by foreign investors may be taken out of Angola if the investment in the resident company exceeds USD 250,000. Transfers of personal capital are permitted only on a case-by-case basis. All capital transfers are subject to licensing and control.

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. 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 goverment as one of the ways to facilitate growth.

Up until recently, Angola has had few trade ties with southern African countries. However, opportunities for trade with countries in the region have opened up. Relations with South Africa have improved during the 1990s, and there has been a notable increase in trade (especially imports) with South Africa.

Trade Liberalisation

All imports and exports must be licensed by the Ministry of Commerce. An import license fee of 0.1 percent of the value of the imports is levied, and import licenses are only granted to enterprises of proven capacity. Exports of certain goods are prohibited.

Foreign Direct Investment

Since 1994 the number of approved[2)] projects have increased substantially. Between 1990-1997 projects amounting to a total of USD800m were approved. Most approved investments are fairly small, around USD250,000, and half of all projects have a value of less than USD1m each. The largest single investment thus far amounted to USD120m. A large proportion (more than 80 percent) of the invested amounts is used for imports of equipment and other goods; the remainder for the purchase of assets in Angola.

The geographical distribution of approved investments shows that some 75 percent originate in Europe, followed by West Africa with 11 percent of all investments (mainly from Nigeria). Portugal is the single biggest investor. South African investments are slowly increasing, with Anglo American Corporation and De Beers making investments in 1997. Other South African firms have expressed interest; some involvement in consumer goods has already been undertaken by firms from South Africa. Coca-Cola has announced intentions to construct a plant to be opened north of Luanda in 1999, and De Beers and the state diamond company, Endiama, will set up a diamond sorting operation in Luanda during 1998.

Privatisation Programme

The privatisation of state assets is part of the strategy that the Angolan government hopes to implement for the purpose of rebuilding the economy. Due to a number of problems, the privatisation process has not been as rapid as initially planned. Between 1991 and 1997, a number of small and some medium-size enterprises were privatised, yielding gross revenues of

[2)] Statistics for actual investments are difficult to obtain. The Investment Institute however, keeps a record of all approved investments.

USD80m. At the end of 1997, the Government of Angola launched a privatisation programme for medium and large companies to cover the 1998-2000 period. A task force working on the development of a capital market has also been asked to address the issue of privatisation. The 1998-2000 Government Programme includes some guidelines for the privatisation process, and a list of enterprises to be privatised has been approved.

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 to that given to local firms.
- Nearly all sectors of the economy are now open to foreign investment, including infrastructural development.
- 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.
- Investments less than USD5m no longer need prior government approval.

Besides being a member of SADC, Angola also belongs to the Common Market for Eastern and Southern Africa (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 royalty on 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 are given.

The oil industry also faces special tax rates - an oil production tax, an oil income tax and an oil transactions tax (which applies only to firms operating in the enclave of Cabinda).

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 and rates 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, depending upon the level of income.

No double taxation agreements have been concluded.

Investment Promotion

Angola's investment promotion agency, the Institute for Foreign Investment, was established following the adoption of the new investment law in 1994, as a successor to the Foreign Investment Directorate. The institute is fairly new and has limited capacity. Thus it has concentrated on the approval of investments and to a more limited extent on assistance to foreign investors. In the medium-term the Institute aims to address and limit bureaucratic impediments to investment.

Investment Code

The New Foreign Investment Law was passed in 1994, with the aim of reducing the role of the government in the economy and encourage greater private sector participation, with special emphasis on foreign investment.

Legal Protection of Investment

Property law in Angola will shortly be under review. This should remove a major impediment to investment. Angola is, however, a member of MIGA.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Angola has an abundance of natural resources which are not currently being fully exploited. Investment opportunities lie 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. Recent discoveries suggest that although investment is already significant in the sector, there is substantial scope for new investment.
- Mining - diamonds and iron ore especially. Angola was once a major producer of both these minerals. As far as diamonds are concerned, there has been substantial informal activity. The challenge is to limit the scope for smuggling, and to formalise activities in the sector.
- Agriculture - Angola's variety of climatic zones and soil types 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 to eight million hectares of arable land as well as extensive grazing land. Only a small percentage of the potential arable land is currently cultivated, while grazing areas are in the main unfenced. There is thus much potential for growth in this sector.
- Forestry - there are natural forests as well as plantations. A pulp mill, which would require extensive rehabilitation, is 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. Opportunities could open up in the areas of ecotourism.

The investment promotion agency is fairly new and is intending to improve its dialogue with the private sector during 1998. They are thus hoping to be able to provide lists of investment opportunities obtained from the private sector in the future.

Projects for Possible Investment

Sector	Project/Description	Required Investment in USDm
Telecommunications	Upgrading of the telecommunications system.	200
Manufacturing, Mining and Quarrying	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-Kitungoiron ore deposits.	
	Quadonacaxa quartz	0.3
	Baco - Zau Gold	0.5
	Raw materials for fertiliser industry	0.5
	GramAngola investment opportunities - marble	2.0
	Ndondungo black granite	2.5
	Palma black granite	2.5
	Sumbe gypsum	3.5
	Quihita kaolin	5.1
	Pocarica quartz	6.0
	GramAngola investment opportunities - granite	7.4
Service	Water privatisation – Privatisation of water supply in the main cities	–
Transport	Rail-line rehabilitation – Rehabilitation of the following railways: Luanda-Malange	–
	Benguela	–
	Namibe	60.0

Source: Instituto do Investimento Estrangeiro (1998)

STATISTICS[1] (USDm, unless otherwise stated.)

	1992	1993	1994	1995	1996	1997
Population (millions)	10.6	10.9	11.2	11.6	11.6[2]	11.6[2]
Nominal GDP at market prices	8,125.0	5,734.0	4,292.0	4,987.1	6,408.5	17,726.0
Real GDP growth rate	6.9	-24.7	2.5	11.2	12.1	5.9[2]
GDP per capita (USD)	765.8	526.1	383.2	429.9	552.5	666.0
Consumption as % of GDP	94.6	98.8	99.1	64.4	44.5	48.3
Gross domestic savings as % of GDP	5.4	1.2	1.0	..	..	..
Gross investment as % of GDP	3.5	5.3	4.0	..	..	..
Inflation rate, end of period	495.8	1,837.9	972.0	3,784.0	1,650.2	64.0
Merchandise exports as % of GDP	47.2	50.6	60.5	58.1	76.7	66.2
Merchandise imports as % of GDP	24.5	25.5	33.9	29.4	30.9	26.5
Capital account of balance of payments	-387.0	-542.0	-470.0	-257.0	163.0	-376.0
Foreign direct investment as % of GDP	3.5	5.3	4.0	6.3	7.4	4.2
Overall balance on balance of payments	-1,138.0	-1,501.0	-1,027.0	-845.0	-974.0	-1,108.0
Foreign exchange reserves expressed in terms of months of import cover	0.0	0.0	0.0	-11.3	1.6	0.5
Total external debt as % of GDP	100.9	140.8	219.3	192.2	128.8	–
Total external debt service as % of exports	29.9	35.2	35.1	26.9	32.8	–
Budget deficit as % of GDP	29.4	72.3	13	23.8	10.6[2]	–
Central bank discount rate (end of year)	20.0	20.0	95.0	152.0	152.0	48.0[3] 50.0 52.0
Growth rate of M2 money supply	396.4	404.4	1,922.9	1,481.5	3,413.3	–
Domestic credit to private sector	1.5	0.3	0.1	125.8	126.2	225.7

Source: Banco Naçional de Angola (1998) and the IMF (1997)

Notes: 1) Some discrepancies are evident in figures received from Angola,and it is advisable that the figures in this table be treated with some caution.
2) Estimate
3) There are three bands respectively

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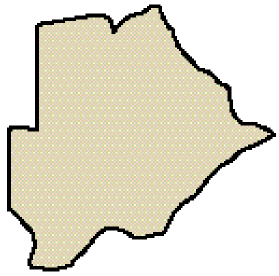
Botswana



The financial district of Gaborone.

GENERAL INFORMATION

Geography and Population

Botswana is a landlocked country, bordered by Angola and Zambia, Namibia, Mozambique and South Africa, with an area of about 585,000 km^2. The Kalahari desert occupies most parts of the country and the population is relatively rural, but growth in urbanization has also been increasing. Languages spoken in Botswana are Setswana and English, and the capital city is Gaborone. Botswana has a population of approximately 1.5m (1997 estimate).

Botswana is ranked 97 on the UNDP's HDI[1)] (1997) out of 175 countries, achieving a place in the medium development range. This ranking is the third-highest in the SADC countries, behind Mauritius (61) and South Africa (90).

Political Overview

Since independence the political system in Botswana has been based on a stable multi-party democracy with a bicameral parliamentary system. The two houses of parliament consist of the House of Chiefs (a 15-member council serving as advisor to the President) and the National Assembly (a 44-member assembly, with 40 of its members elected by popular vote and the remaining 4 appointed by the majority party). The President is elected by the legislature.

The Botswana Democratic Party has remained the dominant political party, dating back to independence. A number of other parties exist, and constitute the opposition. The main opposition party is the Botswana National Front with other political players being the Botswana People's Party, the Independent Freedom Party, and the Botswana Political Union.

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.

A recent event in the political scenario has been the retirement of Sir Ketumile Masire, who has held the country's presidency for a period of 18 years and whose political career stretches over 32 years. He has been succeeded by former Finance Minister and Vice President, Mr Festus Mogae, who will remain as head of state until the next elections.

Sectoral Description

After South Africa and the Democratic Republic of Congo, Botswana is now the third largest African mineral producer. The production of diamonds continues to play a prime role in the economy as the country's biggest earner of foreign exchange. Other significant minerals produced include copper-nickel, soda ash and coal, as well as small quantities of gold.

Livestock production, mainly cattle farming, is the other cornerstone of Botswana's economy. In an attempt to limit the dependence on this industry the government is seeking to stimulate the diversification of agricultural production. Unfavourable climatic conditions have become a limiting factor in the growing of crops, hence sorghum is naturally the most arable crop due to its drought resilient characteristics.

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. However, vast opportunities remain untapped in sectors such as food processing, electronics equipment, textiles, and the manufacture of soda ash products.

Continued stability and improving infrastructure in the country should enhance tourism's position as another important revenue earner for Botswana. Major attractions include the Okavango Delta, the Kalahari Game Reserve, Makgadikgadi Pans, Chobe National Park and the Tuli Block.

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 1997 UNDP Human Development Report. The first phase of the USD300m North-South Water Carrier Project was completed in October 1997. The whole project will be completed in 1999. Some electricity is produced by Botswana and the rest is imported from South Africa, Zambia and Namibia.

Botswana has a well-developed air and road transportation network. There are five international airports, situated in Gaborone, Francistown, Kasane, Selebi-Phikwe and Maun. The country's road network extends over 8,700km, and the government has allocated over BWP200m for the construction of roads in 1998/99. Safety and protection on the roads is governed by the Road Traffic Act, with the Road and Transport Act enabling the regulation of passenger transport and haulage.

The telecommunications sector has been undergoing restructuring during the 1990s. The government formed the Botswana Telecommunications Authority in 1996, which is governed by an act of parliament. The mandate of the body is, among other things, to regulate competition and oversee the provision of telecommunications equipment. A significant upgrading of the telecommunications system is currently underway. The programme is aimed at rural areas through the Rural Telecommunications Project, and also the envisaged link-up with South Africa, Zimbabwe, Zambia and Namibia once the Gantsi-Mamuno microwave radio is completed. The Internet has recently been introduced, and following the awarding of two licences for cellular phone networks these should become available in the near future.

ECONOMIC OVERVIEW

Introduction

The discovery of diamonds after independence in 1966 set the country on a successful economic growth path leading to rising living standards. 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. Acknowledging the risk of relying predominantly on diamonds as a source of economic prosperity, the government has initiated steps aimed at broadening the export base of the economy by stimulating the development of the small-scale sector 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 Development

A real GDP growth rate of 6.9 percent was recorded for the fiscal year 1 July 1996 to 30 June 1997. This growth rate was attributable in large part to the 7.5 percent real growth rate in the non-mining sector, which was significantly higher than the 5.6 percent real growth recorded in 1996. While the mining sector growth rate had dropped by 5.8 percent in the year ending June 1997 from 9.9 percent in the previous year, growth in the non-mining economy has been less erratic, showing a sustained upward trend since 1993. In 1997, the highest growth rate was recorded in the transport and trade, hotel and restaurants sectors, which recorded real increases in output of 13.6 percent and 10.6 percent respectively. All other sectors, with the sole exception of agriculture, recorded real growth rates of 5 percent and above. This expansion is reflected strongly in Botswana's export performance.

With respect to the fiscal position, the 1996/97 budget forecast showed a deficit of BWP636m (USD193m) and this was subsequently revised at the end of 1996 to reflect an expected surplus of about BWP400m (USD121m). The downgrading of the estimate was on account of the 1996 Pula depreciation and the improvement in mining output and receipts in 1996 and 1997. In fact, the actual outcome has been a budget surplus of BWP1,302m (USD395m). This was due to both rapid growth in government revenues and lower than expected spending. The latest estimates for the 1997/98 budget, forecast a surplus of BWP1,270m (USD385m) in the current fiscal year, despite a planned 22 percent increase in development spending.

Botswana has established itself as a low-tax jurisdiction in recent years with a manufacturing company tax rate of 15 percent and a personal income and basic company tax rate of 25 percent. Consequently, the 1998 budget did not include any changes to the basic income tax structure. Instead, the emphasis in the 1998 budget, has been on upgrading the tax administration system, the objective being to increase the efficiency of assessment and to improve on the collection of outstanding income taxes.

A sustained decline in the inflation rate in recent years has supported the positive growth trend. Since 1992, the annual average inflation rate has declined each year, falling from 16.1 percent in 1992 to 8.9 percent in 1997. On a monthly basis, annual average inflation dropped from a ten-year high of 17.7 percent in June 1992, to 7 percent in February 1998. Exchange rate stability (both nominal and real) has also improved significantly in 1997, when compared to developments in 1996. In nominal terms, the Pula depreciated by just 4 percent against the US Dollar in 1997, compared to the 23 percent depreciation recorded in 1996. Against SDR, it appreciated about 2 percent in 1997, compared to the 20 percent depreciation recorded in 1996.

In 1997 through March 1998, exchange rate policy focused on real effective exchange rate stability, while monetary policy continued to focus on maintaining positive real interest rates that are in line with those prevailing in major international capital markets. These objectives were largely achieved.

Financial Institutions

Since 1975, the Bank of Botswana has acted as both the banker and financial advisor to the government. The Bank also manages the country's foreign exchange reserves, administers exchange controls and regulates the country's overall financial system. Since the Bank is the custodian of the Botswana currency, it has recently been, through a statutory provision, allowed to act as a watchdog over counterfeiting and forgery of the local currency. The Bank of Botswana also conducts open market operations to mop up superfluous liquidity in the banking system.

The country's financial sector has experienced growing competition, leading to a proliferation of financial products and services. There are four main commercial banks in Botswana: Barclays, Stanbic, First National and Standard Bank. These banks carry out normal retail and commercial banking activities, leasing, property finance and merchant banking and also act as authorized dealers of foreign exchange. Development finance institutions supplement the commercial banks, offering specialised services targeted to certain economic sectors.

Botswana Stock Exchange

The Botswana Stock Exchange had a very successful year in 1997. The number of listed companies on the Botswana Stock Exchange has increased rapidly over the past years. To date the exchange boasts about 20 listed companies compared with 11 in 1993, an increase in excess of 67 percent.

Market capitalisation more than doubled in 1997 rising to more than USD600m. Liquidity has also improved as seen by a substantial surge in volume of shares traded. The number of foreign companies maintaining share custody accounts surged considerably to 50 in 1997 compared with 3 in 1993. Another significant milestone was the listing in December of the first bond issue by the Botswana Development Corporation.

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, First National Bank of Botswana and Metro Sefalana. Several new dual listings have been made in the first four months of 1997, namely Regent, De Beers, McCarthy and Avis. In March Ellerine Holdings became the first South African company in 1998 to list on the Botswana exchange, increasing the number of foreign companies with dual listings to nine. The Exchange is expecting a substantial growth in 1998 following recently announced exchange control relaxations.

BOTSWANA STOCK MARKET

YEAR	1993	1994	1995	1996	1997
Number of listed companies	11	11	12	12	20
Market capitalisation, USDm (excluding dual listings)	260.8	376.9	397.4	326.2	614.5
Value of shares traded, USD thousands	6,895	10,873	15,914	11,748	15,992
Number of trading days	264	264	264	264	264
Average price-earnings ratio of all listed companies, %	8.0	9.3	10.0	7.3	10.3
Domestic Companies Index, %	-11.5	4.4	2.5	-18.2	93.5

Source:Stockbrokers Botswana Ltd (1998)

Foreign Trade

Botswana's exports have been growing steadily the past five years. Diamonds represent the main export good, amounting to some 70 percent of total export earnings, followed by copper-nickel matte and meat. The past two years has seen an emergence of vehicles and parts as an important export good after diamonds, and it accounted for 14 percent of total exports in 1996. Main receiver of the country's exports is by far the UK, accounting for some 54 percent of total exports in 1996, followed by other European countries. More than 75 percent of Botswana's imports originate in South Africa and the other SACU countries. Zimbabwe is increasing its importance as Botswana's second largest trading partner in the region. Import goods include food and beverages, machinery and electrical equipment and vehicles and transport equipment.

The trade regime has been liberalised, documentation is now only needed for import shipments exceeding BWP5,000 (USD1,400), and permits are required for selected exports and imports.

Foreign Direct Investment

The inflow of FDI has shown a positive trend since 1995, after a slowdown in the early 1990s, amounting to USD23m in 1996.

Recent investments include the setting up of a car manufacturing plant for Hyundai, which started production in March 1998, and an announcement by the Swedish car manufacturer Volvo that it will start assembling two of its models in Botswana in 1999.

Privatisation

The government appointed a task force to draft a white paper on privatisation in December 1997. The team is expected to present its first report in July 1998. Earlier statements from the government indicate that the emphasis will be on promoting local ownership in the privatisation process.

The main brief of the task force is to evaluate various ways of carrying out the restructuring process and will culminate in a privatisation policy. Wide-ranging consultations are also being held throughout the country.

Enterprises that are possible candidates for reform include the Botswana Meat Commission, the Botswana Power Corporation, the Botswana Telecommunications Corporation and Air Botswana. In total, Botswana has 26 parastatals, consisting of, inter alia, utilities, the national airline and railways.

Exchange Controls

Exchange controls have been liberalised extensively since 1995, and Botswana now has a very liberal exchange rate regime. In February of 1998 the government made further announcements regarding substantial liberalisations, permitting non-residents to trade in and issue bonds denominated in local currency, and hold larger stakes in domestic companies. The limit of external borrowing for residents was increased to BWP200,000 for individuals and BWP2m for businesses. The offshore investment limit for individuals was raised from BWP100,000 to BWP1m, and the limit for companies was raised from BWP10m to BWP30m. Limits on minimum amounts required to open foreign currency accounts have been scrapped, and left to the banks' discretion. The limit for total foreign holding in any one firm on the Stock Exchange was increased from 49 percent to 55 percent.

The main elements of remaining exchange control regulations are as follows:

– 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.

– Investors are permitted to immediately remit BWP100m in the event of sale of any of their investments, with larger amounts possible in tranches over a maximum of three years.

– Direct investment by non-residents in locally incorporated companies can only be undertaken with prior permission of the Bank 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.

Investment Incentives

At the end of 1997 Botswana introduced a number of new measures to attract foreign investment. This includes simplification of application procedures to obtain residence permits, including the introduction of a three-month visitors' permit,allowing prospective investors to develop their plans while in the country, and a five-year residence permit obtainable by actual investors.

The Financial Assistance Policy (FAP):

The objective of the policy is to assist businesses engaged in import substitution, export promotion, employment creation, selected "linking" services and tourism. Applications are considered on a case-by-case basis. Large-scale mining and beef production operations are, however, not considered for this type of assistance. The value of the grants is differentiated in accordance with the size of the business. Three separate grants for medium or large scale projects are available:

- Capital grant: This is intended to support the purchase of fixed assets (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 (USD295) per job created.
- Training grant: This partially covers 50 percent 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.
- Unskilled labour grant:This is a partial reimbursement of the wages paid to unskilled employees over the first five years of the project. 50 percent of wages paid during the first two years are reimbursed, declining to 20 percent in the fifth year.

Applicants should allow for a waiting period of about three months. FAP grants are tax-free.

Export Incentives

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

- Duty drawback facility in the procurement of raw materials needed for the production of exportable merchandise.
- No surcharge (sales tax) 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.
- "Buy Botswana" is a government-driven campaign to enhance the competitiveness of manufacturers and exporters so as to increase the share of the domestic market of their products and services.

Taxation

Company taxation

- 15 percent for manufacturing companies and 25 percent for non-manufacturing companies. Capital gain is included in the definition of taxable income.
- Allowances on capital (100 percent of cost), plant and machinery (10-25 percent), and buildings (25 percent for a new building, and a further BWP5,000 for providing accommodation for employees).
- An employer can claim a deduction of 200 percent of the cost of training of 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.
- The top marginal rate for resident and non-resident individuals is 25 percent. The top rate is applicable for income greater than BWP 60,000.
- Capital gains and benefits are taxed, and a capital transfer tax is also levied.
- Botswana has double taxation agreements with the United Kingdom, South Africa,Sweden, and Mauritius.

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. TIPA encourages potential investors through the dissemination of information and the provision of advice, and organises and participates in various trade affairs and investment missions, produces promotional material and liaises with potential investors.

TIPA is currently undergoing a rationalisation process, which should culminate in the formation of a parastatal to be called the Botswana Export Development and Investment Authority. The new organisation will be fully autonomous and will be responsible for export and investment promotion, and will also act as a one-stop-centre for pre-and post-investor service.

Other investment-support institutions include the Botswana Development Corporation whose prime focus is, inter alia, the preparation of project feasibility studies, provision of long-term loans and equity participation. The Botswana Confederation of Commerce, Industry and Manpower provides advisory services to its members in addition to representing the interests of employees pertaining to industrial and commercial issues.

Investment Code

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

Protection of Investment

Botswana is a signatory to the World Bank's Multilateral Investment Guarantee Agency (MIGA). Investors may obtain protection from the Overseas Private Investment Corporation (OPIC), which covers areas such as the patents, trademarks,and utility certificates.

INVESTMENT OPPORTUNITIES AND PROJECTS

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
Manufacturing	Electronics components and product manufacture	Supply of electronic equipment, such as car radios and alarms, radios,hi-fis, TV sets, cell phones, pagers and handsets, electronic boards and transformers,circuits and fuses for use in the car assembly industry and the telecommunications industry.
	Engineering plastics	Manufacture of all plastic components in a car, such as bumpers. Cases for all electronic goods and toys.
	Building material	Exploitation of locally available granite deposits for production of floor and workshop tiles and stones.
	Pharmaceutical	Production of pharmaceutical preparations (bandages, surgical dressing,etc.) and chemical substances used in the industry.
Water	Water conservation	Recycling and re-use of waste water for gardening, toilet flushing, etc. Manufacturing of water-saving devices such as low flush toilets.
Construction	Housing	Building of low-income housing.
Tourism	Tourist services	Provide a range of tourist services through joint ventures, for tour operators and travel agencies, local camps, lodges and foreign companies.
Financial	Financial services	Establishment of investment funds, equity funds, retirement funds, and others.

Source: TIPA (Trade and Investment Promotion Agency),1998.

STATISTICS (USDm unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (millions)	1.4	1.4	1.4	1.5	1.5	1.5
Nominal GDP at market prices [1]	4,106	4,184	4,406	4,900	4,944	..
Inflation rate, %	16.1	14.4	10.6	10.5	10.1	8.9
Merchandise exports,USDm	1,726.6	1,725.1	1,875.4	2,160.7	2,232.8	..
Merchandise imports, USDm	1,541.2	1,457.9	1,350.7	1,579.1	1,436.1	..
Capital account of balance of payments	6.6	8.5	6.0	2.9	-5.0	..
Overall balance on balance of payments	404.2	405.3	141.3	213.2	522.2	..
Average exchange rate: BWP to USD	2.13	2.42	2.68	2.77	3.30	3.65
Foreign exchange reserves	3,793	4,097	4,402	4,695	5,028	5,675
Total external debt as % of GDP	14.5	14.7	14.1	12.6	11.1	..
Total external debt service as % of exports	5.0	5.0	5.0	4.7	1.5	..
Central bank discount rate (end of year), %	14.3	14.3	13.5	13.0	13.0	12.5
Prime lending rate (average for year), %	14.5	15.0	14.5	14.5	14.5	14.0
Growth rate of M2 money supply, %	10.6	10.6	7.0	-3.3	16.5	26.4
National Accounts (fiscal year[2])	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**
Real GDP growth rate, %	6.3	-0.1	4.1	3.1	7.0	6.9
GDP per capita (Market Prices-BWP)	6,190	6,587	7,828	8,609	9,807	11,774
Consumption as % of GDP	62.3	67.1	61.2	61.0	58.2	55.2
Total national savings as % of GDP	37.7	32.9	38.7	39.1	41.1	44.7
Gross investment as % of GDP	29.5	26.2	24.6	24.4	24.1	23.0
Budget deficit surplus as % of GDP	8.3	9.2	7.9	1.6	1.8	7.9
Domestic credit to government	-2,387.2	-2,326.0	-2,503.4	-2,337.0	-2,194.0	-4,220.5
Domestic credit to private sector	620.1	606.2	772.7	606.8	522.9	503.3

Source: Bank of Botswana (1998) Notes:
1).The national accounts year runs from July to June.
2).The fiscal year runs from April to March

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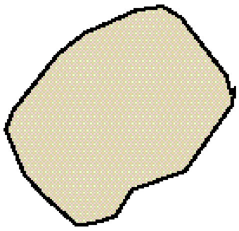
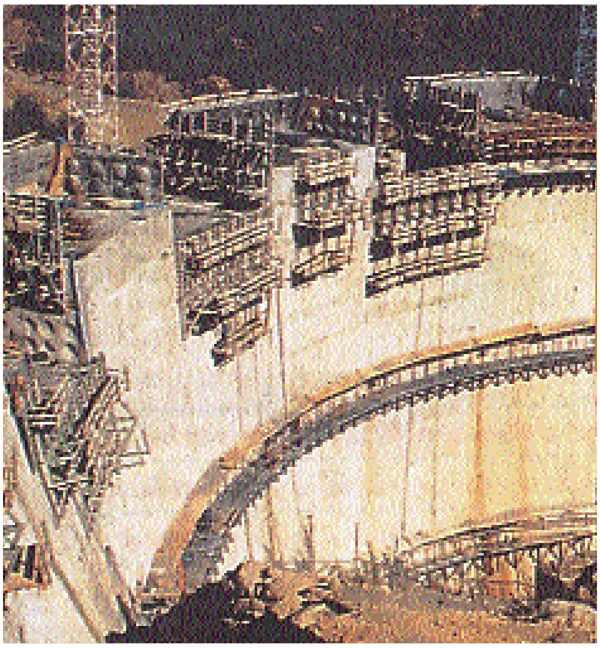
Lesotho





Dam construction in progress at the Lesotho Highlands Water Project.

GENERAL INFORMATION

Geography and Population

Covering an area of 30,355 km^2, the Kingdom of Lesotho is a small landlocked country, located in the very south of Southern Africa,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. The capital of Lesotho, Maseru, has approximately 170,000 inhabitants.

Lesotho has a population of about 2.1 m (1997 estimate), and an estimated growth rate of 2.3 percent. The major languages spoken are English and Sesotho and the literacy rate is about 70 percent. About 86 percent of the population is engaged in subsistence farming, and approximately 35 percent of the male wage earners are employed in South Africa, predominantly in the mining industry.

Lesotho is ranked at 137 out of 175 countries in the UNDP 1997 human development index (HDI)[1)], which puts it in the same category as Ghana (132), and India (138), or in the middle of the SADC countries.

Political Overview

Lesotho is a monarchy and the king is the head of state. Since the adoption of the new constitution in 1993 the king has no executive or legislative powers. The present head of state is King Letsie III, who succeeded his father at the throne in February 1996.

At the end of February 1998 the Parliament was dissolved to prepare for the country's third general elections, which are scheduled for 23 May 1998. Eight political parties and six independent candidates have registered so far. It is expected that the main contenders will be the BCP, the Basotho National Party and the LCD.

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. It should be noted however, that the ranking is based on 1994 figures.

Sectoral Descriptions

The main sectoral contributors to GDP were the following in 1997: services 44 percent, secondary sector 43.2 percent, and agriculture 12.7 percent.

Agriculture remains the backbone of the economy and the agricultural sector absorbs over 80 percent of the labour force. The main crops are maize, sorghum and wheat. Lesotho is however exporting fresh and canned asparagus to Europe. Livestock keeping 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. Wool and mohair are the major exports of this sector. The government's main agricultural policy is to move from a food self-sufficiency strategy to one of food security, and an investment programme to this effect is being finalised.

The government has also introduced a tree-planting programme which aims to increase land conservation and forestry. Around 0.2 percent of the total area under arable production is planted with trees, mainly eucalyptus and pine which provides fuel wood.

Lesotho is sparsely endowed with natural resources, the main two being the hydroelectric potential of its rivers, and diamonds. One of the largest civil engineering projects in Africa, the Lesotho Highlands Water Project (LHWP), is currently underway, its purpose being to harness and export surplus water to South Africa. Lesotho is already receiving royalties from the sale of the water.

There has been a decline in the volume of exports of diamonds since 1983, due to the closure of the main diamond mine. Plans to revive the diamond industry have not yet been implemented. Large deposits of clay have also been mined for brick manufacturing, and for the manufacture of ceramic ware and tiles. Building and construction activity has increased significantly since 1986 and the upward trend is now decelerating after completion of phase 1 A of the LHWP, which, in addition to the building of the project itself, also required much upgrading in surrounding infrastructure. Despite the country's rugged terrain, the overall policy of government is to facilitate access to isolated areas.

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 South Africa, East Asia, Mauritius and Europe. Other export goods include bricks, ceramic tiles, 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 those who enjoy outdoor activities. Accordingly, tourist accommodation is continually being developed, although on a small scale, mainly aimed at hiking and horse riding in summer and skiing in winter. The scenic Lesotho Highlands are considered the main tourist attraction.

Infrastructure

Lesotho purchases most of its power from the South African energy company Eskom. 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 LHWP 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. Increased physical infrastructure throughout the country has not only provided swift and efficient transport, it has also facilitated increased trade and tourism. Lesotho today boasts a road network of over 6,000 km. Car hire companies and freight carriers operate in Lesotho. Inland port and container facilities are also available, providing substantial cost savings on imports and export clearance.

With regard to air travel, the recently privatised national airline provides domestic flights to Mokhotlong and Quacha's Nek, and Lesotho is directly linked with Johannesburg International Airport through Air Lesotho and Air Link. Moshoeshoe I International Airport became operational in 1985 and is located approximately 20 km from the capital Maseru.

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.

ECONOMIC OVERVIEW

Introduction

Lesotho's economy has traditionally been based on agriculture 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 of Lesotho has embarked on sectoral reform programmes, including privatisation and parastatal reform programmes. These reform programmes were initiated in 1988 and are still on-going. They have been largely implemented under IMF-supported adjustment programmes with significant technical assistance provided by the Fund and other agencies.

Recent Macro-Economic Developments

The performance of the economy in 1997 reverted back to the pre-LHWP trend according to the latest estimates. The average real growth rate in gross domestic product (GDP) had increased from 3 percent during 1990-93 to 12 percent during 1994 - 1996. In 1997 GDP rose by 3.5 percent. While the LHWP was initiated in 1987/8, the peak of the activities was reached during 1994-96 - hence the significant impact on the domestic economy during that period. The sharp decline in the performance of the domestic economy in 1997 was accompanied by a reduced net factor income from abroad, as a result of a continued decline in the number of migrant mineworkers employed in the South African mining industry. The combined effect was a deceleration in the growth rate of national income.

Fiscal performance, however, was better than expected. A budgeted deficit turned out to be a surplus, mainly as a result of a stronger than anticipated growth in government revenues. Official reserves are estimated at 8.2 months import cover. Total domestic credit is expected to continue declining as a result of the buildup of government deposits with the banking sector.

The money supply growth rate for 1997 is estimated to be lower than that of the previous year - the annualised quarter-to-quarter percentage change in money supply (M2) was on a decline. It started at a level of 14.6 percent (annual) in March 1997 and declined gradually to 14.4 percent and 14.2 in June and September 1997, respectively, to reach a level of 9.9 percent in December 1997. This downward trend followed a sharp rising trend observed in 1996.

The deficit in the current account is projected to have declined in line with the decrease LHWP related imports. The capital balance is expected to have improved (though at a lower pace) while the overall balance continued to show a strong performance.

Money and capital market interest rates decreased by an average of 1.5 percentage points, following movements in the regional financial markets during the year. They remained positive in real terms.

The inflation rate, based on the consumer price index, continued to remain below 10 percent in 1997. At 8.5 percent in the first quarter, it increased marginally to 8.8 percent in the second and third quarters, and then fell to 7.5 percent in the final quarter of the year. Responsible for the stable annual rate of inflation was the lower growth rate of the food and beverages price index, which weighs heavily in the overall consumer price index (CPI). The improvement in inflation and budget deficit levels also signify an improvement in the economic performance that is mainly attributeable to the implementation of reforms by the Government of Lesotho with assistance from the IMF's enhanced structural adjustment facility.

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 Bank was established in January 1980 as the Lesotho Monetary Authority and gained the status of a central bank in 1982.

Lesotho has three commercial banks, the government-owned Lesotho Bank and the South African-owned banks Standard 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 an agricultural development bank, three insurance companies and a number of insurance brokers. The Lesotho National Development Corporation (LNDC) operates as a development finance institution, investment promotion agency and promotes the development of industry and commerce.

As Lesotho is part of the Common Monetary Area (CMA), which allows access to the South African capital market for the Lesotho banking system, the country has no exchange rate policy independent of the CMA. The currency is pegged at par with the South African Rand.

The money market is developing steadily and there are now monthly auctions of treasury bills. In 1997 the central bank introduced a Central Bank paper which is aimed at complementing the treasury bills. There is no capital market in Lesotho as yet, but in order to facilitate public sale of state enterprises the government has tasked the Privatisation Unit of the Ministry of Finance to coordinate the establishment of a stock exchange. Regulations governing the operations of the market are being promulgated under the Central Bank Act.

Exchange Controls

Profits and dividends from investments held in Lesotho may be repatriated freely. All inward transfers of capital should be registered with the central bank to facilitate subsequent repatriation. Prior approval is required for outward transfer of capital.

Residents are only allowed to transfer capital within the CMA region, and they are required by law to declare any foreign exchange earnings within seven days. Companies are however allowed to invest outside the CMA, provided foreign exchange earnings are repatriated.

Foreign Trade

Merchandise exports have increased rapidly since 1986, growing by a phenomenal 39.9 percent during 1996. Manufactured goods (predominantly from the textile and leather wear industries) made up 76.3 percent of the total export value in 1997. Total exports to Africa (mainly SACU) have registered 89 percent growth in 1996, and account for 71 percent of overall exports. While the SACU countries remain the largest trading partners, Lesotho is diversifying its markets to increase exports to North America in particular, 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.

Main export products are clothing, furniture, footwear and wool. Lesotho imports corn, clothing, building materials, vehicles,machinery and medicines.

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.

Foreign Direct Investment

Lesotho, in concert with other countries world-wide, recognises that FDI is important for the much needed employment generation, investment capital, and technology transfer, and a lot of effort is being made to put in place a liberal FDI framework to facilitate greater direct inward investment flows into the country.

FDI into Lesotho has increased steadily throughout the 1990s, from USD3m in 1992 to USD19m in 1994 and to USD28m in 1996.

The transformation of South Africa to a democracy has had a positive impact on the inflow of FDI to Lesotho. South Africa remains the main source of FDI, accounting for nearly 38 percent of the total portfolio, predominantly in agri-business, construction and engineering, manufacturing and services, followed by East Asia (27 percent) which region's presence is largely concentrated in the clothing, textiles and footwear sub-sector. The residual 35 percent comes from Europe (e.g. Germany, Switzerland, United Kingdom Portugal and Italy) and is mainly in the garment manufacturing business. Of the 23 clothing manufacturers currently operating in Lesotho, 14 are from Taiwan and five are from South Africa.

All major infrastructure investments have been financed through external sources in the form of grants and concessional finance. The best known project is the LHWP that commenced in 1987. The project is immense in comparison with the economy of Lesotho, accounting for more than 25 percent of GDP in its peak construction year of 1994. The Katse dam enables Lesotho to supply water to the Gauteng area of South Africa, and it will also generate hydroelectric power for the country itself. Other infrastructural components of the project includes roads, bridges, power lines and power supply systems. The USD1,500m first phase of the project was completed at the beginning of 1998, marking the start of the transfer of water through a complex system of dams and tunnels from Lesotho to Gauteng.

Lesotho Privatisation Programme

The legislation governing the privatisation programme was put in place in 1995. The programme is carried out by the Privatisation Unit of the Ministry of Finance, headed by a Director who is responsible to the Minister of Finance and Economic Planning.

The participation of Basotho nationals in the privatisation programme is deemed paramount for the success and acceptability of the programme. The government has thus taken a conscious decision to sell its smaller enterprises to the local business community, and to reserve share holdings in larger enterprises for sale to employees and for future public floatation. To facilitate such floatation the Privatisation Unit is charged with the task of coordinating work towards the establishment of a capital market facility. Furthermore the programme encourages joint ventures between foreign investors and individuals and groups in Lesotho's business community. Cooperation is also encouraged between investors in agro-industries and Basotho farmers who traditionally hold land, but have had little incentive to grow cash-crops like asparagus, fruits and flowers, which have proved to grow successfully in Lesotho.

The portfolio of companies to be privatised includes more than thirty state-owned enterprises, and others in which the government holds shares through LNDC and the Lesotho Development Bank. These include shares in South Africa based retail stores, agro-industry and utility companies (electricity, water and telecommunications). For the latter the government is seeking to enter into strategic partnerships. The national banks, Lesotho National Development Bank and the Lesotho Agricultural Bank have been placed under a management contract to prepare them for privatisation.

Privatisations to date include that of the national airline, Lesotho Airways Corporation, which was sold to a South African charter company, Ross Air in August 1997 at about USD2.2m. This deal brought about an application from the South African airline Airlink to have its traffic rights on the Johannesburg-Maseru line reinstated, resulting in creation of jobs and a healthy increase in the competition on the route.

Other industries that are currently being privatised include the Lesotho Flour Mills, the Basotho Fruit and Vegetable Cannery, the International Freight and Travel Service, two mountain lodges and government mechanical workshops.

INVESTMENT CLIMATE

Investment Incentives

– A non-repayable skills training grant which covers up to 50 percent of the wage bill during the initial training period for a newly established manufacturing company.

– A comprehensive export finance facility to support exporters with working capital on concessionary credits.

– Loan guarantees for loan finance provided to clients of the LNDC by other financial institutions.

– Loan finance from the LNDC to projects which can demonstrate long-term viability.

– Equity participation in strategic projects by the LNDC, in the absence of a private investor, or in partnership with local investors.

– 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 or specialised factories and commercial and residential properties for lease.

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 guarantee 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.

Trade Agreements

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

– EU: The Lomé Convention facilitates duty-free access to consumers in the EU for goods wholly produced in Lesotho, or whose value-added content satisfies the criteria.

– 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.

– USA, Japan, Canada, Australia and New Zealand: The Generalised System of Preferences (GSP) scheme provides for duty-free and quota-free entry for certain products.

– SADC: Lesotho enjoys concessionary access to the markets of the SADC member states.

Taxation

The corporate tax rate is 15 percent. No withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders. Double tax avoidance treaties with South Africa, Mauritius, the USA and the UK.

The maximum individual tax rate is 35 percent. GST is currently at 10 percent. It is envisaged that the country will move to a Value Added Tax (VAT) in the near future.

Institutions involved in Investment Promotion

Established in 1992, the Lesotho Investment Promotion Centre is a division of the LNDC, which is a 90 percent government-owned parastatal, with the remaining 10 percent owned by the German Finance Company for Investments in Developing Countries. The Investment Promotion Centre promotes the flow of foreign direct investment into Lesotho, and further acts as a "one-stop" centre to assist investors during the pre- and post-investment period, e g to obtain the necessary approvals and licences to start up their business and to obtain work, residence and other permits necessary to operate a business in Lesotho. The Trade Promotion Unit, another government agency, promotes Lesotho's goods worldwide. It offers marketing, technical and management assistance to investors as well as a series of trade advisory services, and provides information and publicity.

Investment Code

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

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 and footwear production.

In response to the growing demand for consumer electronics in the SADC region, especially since the democratisation process in South Africa, Lesotho intends to expand its production base into these products to capture this emerging market, taking advantage of the sector's labour intensity and the high productivity rates and cost effectiveness of the country's labour force. Strategic partners with the following attributes are required: technical know-how; financial strength and management know-how to produce TV sets, video cassette recorders, electric stoves, refrigerators, microwave ovens, washing machines and dryers, and telecommunications equipment.

Furthermore, there is a wide range of potential projects in the manufacturing, construction and services sector connected to the LHWP.

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	Maluti Oil and Cake Mills (Pty) Ltd	Production of sunflower oil.	0.9
	Rockwool,basalt wool, mineral wool	Lesotho is in an excellent position to beneficiate basalt and delerite, into the production of high quality rockwool for insulation, a product which is largely being imported from Europe at the moment.	15.0
	Ceramic products	Prospects exists for use of the local clays for the production of ceramic products - sanitary ware, stone-ware utensils,glazed advertising slabs.Strategic investors to form joint-venture with local investors required,with requisite managerial and technical knowhow and financial strength.	6.5
	Wool and Mohair	Lesotho intends to process the locally produced wool and mohair (2000 tons and 400 tons per annum respectively). International investors with technical knowhow, finance, management and marketing capability are being sought.	6.0
	Bottled Mineral Water	Lesotho's "white-gold" water, is poised to be one of the major export commodity. Preliminary tests of this potential indicate that mineral water bottling operations can be established,with an estimated output of 30,000 litres per day. Strategic investor partners are being sought with financial strength, management and marketing skills and technical know-how.	4.0
Tourism	Katse Peninsula	A hotel complex with chalets to be located at Katse Dam, the highest dam in Africa and part of the Lesotho Highlands Project. Investors with proven record in hotel catering and management are being sought;to invest either on their own or to enter into joint ventures with local investors.	50.0
	Ha Lejone Island Lodge	The lodge will be situated 60km from the Katse dam at Lejone valley overlooking the Malibamatso Bridge and the Katse Intake Tower.	20.0
	Mphorosana Lodge and Chalets	Another tourist development comprising 30 rooms and 20 chalets within the Highlands Water Development Area.	30.0
	Mahlasela Ski-Lodge	Upgrading of existing skiing facilities to international standard. Snow-making and grooming technology will be employed. Investors with requisite experience required for this valuable facility for tourists and ski enthusiastis	-
	Marakabei Lodge	Investment sought an already existing Tourist Lodge Complex providing accommodation meals recreation, sight seeing etc.	-

Source: Lesotho National Development Corporation (1998)

STATISTICS (USDm, unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (millions)	1.9	2.0	2.0	2.1	2.1	2.2
Nominal GDP at market prices	661.6	703.4	759.0	846.2	790.5	891.9
Real GDP growth rate, %	3.5	4.0	12.9	9.1	12.7	3.5
GDP per capita (USD)	350.2	361.5	379.2	411.5	376.1	411.0
Consumption as % of GDP	145.5	133.2	114.6	116.9	108.7	111.6
Gross domestic savings as % of GDP	50.7	45.6	58.9	50.3	69.3	64.4
Gross investment as % of GDP	78.3	75.0	80.3	83.2	99.8	94.8
Inflation rate, percent	16.5	12.0	7.9	9.6	9.0	8.5
Merchandise exports as % of GDP	16.5	19.2	18.9	18.8	22.0	24.2
Merchandise imports as % of GDP	136.0	124.2	111.4	115.8	116.3	116.0
Capital account of balance of payments	222.8	276.4	302.4	340.1	283.6	321.4
Foreign direct investment as % of GDP	1.2	2.2	5.6	2.7	3.3	4.4
Overall balance on balance of payments	87.2	100.1	141.1	69.7	110.1	104.0
Average exchange rate: LSM to USD	2.9	3.3	3.5	3.6	4.3	4.6
Foreign exchange reserves expressed in terms of months of import cover	2.7	4.3	6.4	7.3	7.6	8.2
Total external debt as % of GDP	63.7	67.1	69.0	68.7	74.0	51.3
Total external debt service as % of exports	7.9	15.9	14.9	19.0	15.6	14.6
Budget deficit/surplus as % of GDP	-3.2	-1.1	6.2	5.3	3.3	2.0
Central bank discount rate (end of year), %	15.00	13.50	13.50	15.75	17.00	15.60
Prime lending rate (average for year), %	16.00	14.00	15.00	15.00	18.25	17.10
Growth rate of M2 money supply	21.0	16.1	18.8	5.0	19.0	9.9
Domestic credit to government	-46.7	-141.5	-236.2	-311.2	-298.0	-403.5
Domestic credit to private sector	115.2	129.8	155.4	167.0	140.1	148.2

Source: Central Bank of Lesotho (1998)

Useful Addresses

Investment Promotion and Privatisation Agency

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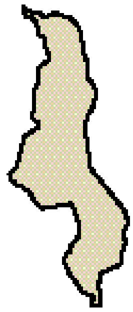
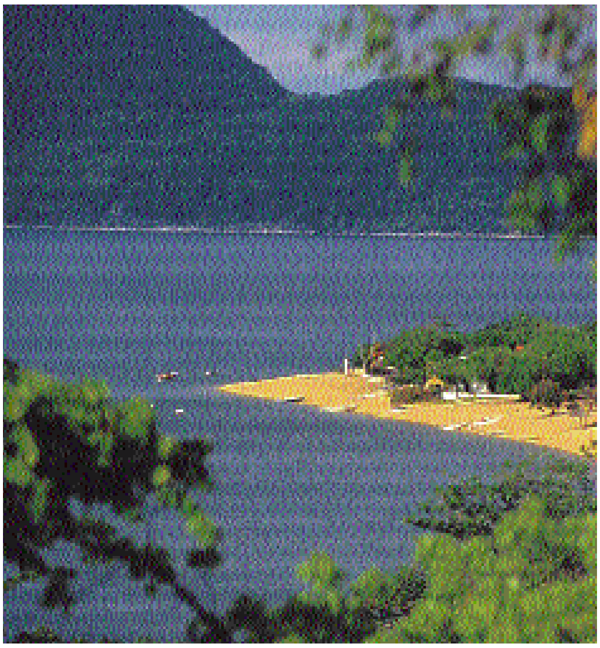
Malawi





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-east 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 Malawians.

The population in Malawi is estimated at 11.2m in 1998, with a growth rate of 3.2 percent per year. Malawi is ranked number 161 out of 175 countries in the UNDP Human Development Index[1)], placing it in the same category as Lesotho, Mozambique, Tanzania and Zambia.

Political Overview

Malawi held its first multiparty elections in 1994 after having been a one-party state for 28 years. The calls for multi-party democracy in Malawi intensified in the late 1980s and culminated in a referendum on the possible termination of the one-party system in June 1993. Over 78 percent of the adult population took part in the referendum, and 63 percent of these voted in favour of the installation of a multi-party system.

Presidential and Parliamentary elections were held in May 1994, and were "declared to reflect the wishes of the people of Malawi" by a Commonwealth observer group. Bakili Muluzi won the presidential election with a third more votes than his closest contender. Mr Muluzi's party, the United Democratic Front (UDF), secured the largest number of seats in the parliamentary elections, although it did not obtain an overall majority. In May 1995 the new constitution was finalised. Currently the country is preparing for the next elections, due before May 1999.

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. It should be noted however, that the ranking is based on figures from 1994. Most SADC countries have seen an overall improvement since then.

Sectoral Description

Agriculture is the largest sector in the Malawian economy and comprises 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 benefitted from deregulation of the economy, as this has allowed smallholders (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 sector. 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.

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. The construction sector has performed steadily in recent years, but is heavily reliant on aid projects and donor financing.

The Department of Forestry is responsible for approximately 749,000 ha of forest reserves and protected hill slopes. Demand for fuelwood, 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, and the sector is growing at a steady pace. 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 water sport.

Infrastructure

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 the roadway to Tanzania, to open up the route to the port of Dar es Salaam, and the roadway between Lilongwe and Lake Malawi to facilitate easy access for tourists. In mid 1997, Malaysia undertook to construct highways linking the country's three main commercial centres. The agreement is part of a three-year plan to lease out administration of roads to private companies. Rail freight links have also been bolstered in recent years by the improvement of railways. If the plans to create a development corridor around the existing Nacala corridor should take off, it is likely to have a positive impact on Malawi.

After having operated at a loss for several years the national airline, Air Malawi, embarked on a restructuring programme two years ago, including joint ventures with neighbouring airlines to open up new flight routes, and an expansion of the fleet. The prospect of privatising parts or all of the airline is being discussed. The airports at Lilongwe and Blantyre have cargo capacity as well as bonded and refrigerated warehouse facilities.

The telecommunications network in Malawi is presently being upgraded. Facsimile transmissions, electronic mail and data can now be transmitted from Malawi to most places in the world.

Malawi has developed a number of hydroelectric schemes since independence which have enhanced the 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. The Ministry of Water Development is responsible for overall national water resources management. About 47 percent of Malawi's population have access to safe water, and 53 percent to sanitation.

ECONOMIC OVERVIEW

Malawi adopted an export-oriented approach after independence, focusing on agriculture and agro-industries. Parastatals including Press Corporation Limited (a large conglomerate) 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.

Malawi's main economic activity continues to be agriculture, with about 37 percent of GDP coming from this sector. The other major sectors are manufacturing, utilities, construction, transport, distribution and communications, and government services.

Recent Macro-Economic Developments

The momentum of growth of the Malawian economy slowed down in 1997 as GDP grew by 5.3 percent in real terms, from growth rates of 13.4 percent and 12.0 percent in 1995 and 1996 respectively. Inflationary pressures abated significantly during 1997 and developments in the monetary, and fiscal sectors also dramatically improved as reflected by a slower growth in monetary expansion and a reduction in the fiscal deficit. In the external sector, however, a deficit in the overall balance of payments position was recorded, reversing a large surplus which was realised in 1996. The Malawi kwacha exchange rate vis-a-vis other major foreign currencies, continued to depreciate reaching MWK21.0 per USD by the end of the year from an average rate of about MWK15.0 per USD in 1995 and 1996.

In the past, the agricultural sector has been the main contributory sector behind the growth rate in GDP, but in 1997 the manufacturing sector spearheaded the growth, reflecting the liberalisation of the economy and an increase in the supply of foreign exchange on the market.

On the external front, the overall balance of payments position as measured by the change in net foreign assets of the banking system, registered a deficit of MWK178m (USD11m) in 1997. This outcome largely reflected low earnings from tobacco support facilities. Thus the official gross foreign reserves stood at K3 378.5m (USD198m) by end of the year, representing 4.3 months of import cover. At the end of 1996, the official gross reserves equalled 5.7 months of imports.

During 1997 the authorities made good progress on the fiscal front. The budget deficit (after grants) declined to 3.0 percent of GDP during 1997 compared to 4.0 percent of GDP in 1996. This development resulted from a combination of efforts by the government which ranged from stringent control measures to curb over-expenditure, to broadening the tax base and improving tax administration to boost revenues.

Monetary expansion decreased significantly in 1997 as the growth in broad money supply decelerated sharply from 39.9 percent in 1996 to only 2.2 percent. This outcome mainly reflected a tight monetary policy stance by the monetary authorities. Open market operations intensified in order to mop-up excess liquidity while the liquidity reserve requirement stood at 35 percent. The penalty for non-compliance was 20.0 percent above the ruling Bank rate. Interest rates dropped drastically during 1997 and the Bank rate was adjusted downwards from 27 percent in 1996 to 23 percent with effect from 1 August, 1997.

Prospects for 1998 are that real growth will improve marginally to 6.2 percent owing mainly to a slight improvement in weather conditions. However, the excessive rainfall experienced in the 1997/98 growing season adversely affected the quality of tobacco, the major foreign exchange earner in Malawi. This is likely to result in a weaker performance of the external sector. Inflationary pressures are also expected to increase.

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 began its operations in 1965. The bank is fully independent in the areas of monetary policy and the issuance of the Malawi currency. The Bank also administers the Exchange Control Act and operates the market in government securities. The money market comprises treasury bills, bills of exchange and promissory notes.

There are five 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. Furthermore, there are four finance houses and merchant banks, two savings institutions, four development finance institutions, one building society and nine insurance institutions.

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 Malawi Stock Market contracted a regional subsidiary of a UK investment bank to assist with the setting up of the market. The same company has also assisted with the establishments of the exchanges in Botswana and Namibia. After a three-year apprentice period, control of the stock exchange is now being passed over to an all Malawian staff. Due to its moderate size the exchange does not yet operate a central depository system and the settlement time is currently T+7.

Certain current invisible payments, such as private travel, business travel and medical expenses, are subject to indicative limits. Holders of temporary employment permits are permitted remittances of up to two-thirds of their earnings.

Residents are permitted to hold foreign currency accounts, and exporters may retain 40 percent of their foreign exchange export earnings in such accounts. The other 60 percent must be sold to an authorised dealer bank on receipt.

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, with tobacco being by far the largest export commodity. 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. Malawi exports chiefly to industrialised countries (55 percent of total exports), main trading partners being the US, South Africa, Germany and the Netherlands. Imports are sourced mainly in the developing world (74.4 percent), where South Africa and Zimbabwe represent main sources (more than 50 percent of total imports) and the UK and Asian countries being other major sources of import.

Malawi Stock Exchange (USDm)

Year	1996	1997
Number of companies listed	1	3
Market capitalisation	14.7	109.9
Volume of shares traded	258,600	3,025,958
Value of shares traded (USD)	37,390	530,440
Number of trading days,	40	260
Malawi all share index	112.5	137.6
Average dividend yield (annual average)	4 .0	8.8
Average price-earnings ratio of all listed companies	11.18	6.36

Source: Malawi Stock Exchange. (1998)

The first company listed on the Malawi Stock Exchange was the National Insurance Company in November 1996. A second company, Blantyre Hotels Limited, was listed in March 1997, followed by Sucoma sugar company, majority owned by South Africa's Illovo, in November 1997. The last listing boosted the market capitalisation from USD12.5 m to USD 110m.

Trading activity started on a slow note in 1996 and early 1997, but picked up later in the year when SUCOMA listed. The Malawi all share index has risen form 112.5 in November 1996 to 154.6 in March 1998. A major highlight of the exchange occurred in early April 1998 when SUCOMA successfully placed 51.9m shares on UK and South African markets through Stockbrokers Malawi in a deal amounting to USD7.3m.

There are good prospects for further listings with the implementation of the privatisation programme. Three potential listings of the Press Corporation Ltd, the country's largest conglomerate with businesses ranging from supermarkets, to clothing manufacturers and tea and tobacco estates, are in the pipe-line, as well as one of the leading banks, the Commercial Bank of Malawi, and Packaging Industries Malawi Ltd. These listings are expected to take place in June-August 1998.

Exchange Controls

Investors may repatriate profits, dividends, investment capital and interest, and make principal payments for international loans. Investors also have free access to foreign exchange in Malawi, both for imports payments and transferring financial payments abroad. However, capital account controls still exist. Both inward and outward direct and portfolio investments require prior approval.

Trade Liberalisation and Trade Agreements

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 for all goods excluding maize, groundnuts and beans. In March 1998 the taxes on sugar, coffee and tea exports were reduced.

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 bilateral agreements with South Africa and Zimbabwe. Malawi is also a member of SADC and COMESA, and takes part in the Cross-Border Initiative.

* Malawi is a member of the WTO and the GSP.

Foreign Direct Investment

FDI inflows into Malawi were modest during 1991-95, averaging USD5m per year. Recent statistics are difficult to obtain and there is some discrepancy between official sources and those of e g UNCTAD's World Investment Report, the latter being somewhat higher. According to the latter the country has seen some increase in FDI lately. South African firms having invested in Malawi recently include the clothing firm Pep Stores and Nampak.

Privatisation

Malawi's privatisation policy aims at reducing state ownership in enterprises with a view to: "foster increased efficiency in the economy; increase competition and reduce monopoly in the economy; promote participation by the Malawian public in enterprises; and raise revenue for government.". A Privatisation Commission was established through a Public Enterprises (Privatisation) Act, and was given the sole responsibility of implementing the privatisation of any direct or indirect government owned enterprise due to be privatised. It is estimated that more than 100 enterprises will fall within the scope of the programme.

Privatisation can take place through a public offering of shares, sales by competitive tender, management or employee buy-out, or, where pre-emption rights exist, negotiated private sale of shares.

Some of the former state-owned companies that have been privatised so far include: Portland Cement; the National Insurance Company, Auction Holdings, and the sugar companies Dwangwa and Sucoma. In most cases government held a minor stake of these companies, through parastatals such as Malawi Development Corporation and Admarc.

A 13.9 percent stake in Sucoma sugar was floated on the stock exchange in two stages, 5.9 percent in October 1997, and a further 8 percent in April 1998. South African Illovo Sugar is now a majority shareholder after obtaining 56 percent through its acquisition of Lonrho Sugar, the remaining 30 percent is retained by government through Admarc Investment Holding Company.

At the end of 1997 Zimbabwean Dairibord acquired 60 percent of Malawi Dairy Industries through the acquisition of the Blantyre dairy. Dairibord Malawi, as it is now called, aims to explore markets in neighbouring Mozambique, Zambia and Tanzania in the medium-term.

INVESTMENT CLIMATE

General Investment incentives

- 40 percent allowance on new buildings and machinery, 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 qualifying 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 payload of at least 10 tonnes.
- Agreement for the reduction of withholding taxes on remittances and payments.
- A five-year tax holiday or 15 percent corporate tax rate for new investments of between USD5m and USD10m, and up to 10 years tax holiday for new investments in excess of USD10m.

Export Incentives and Export Processing Zones

Malawi offers different types of incentives to exporters, depending on the sector in which they operate. In 1996 Parliament passed an Export Processing Zones (EPZ) act to encourage production for the export market, mainly manufacturing. The Act allows for special zones to be established as EPZs, but also for specific companies to apply for EPZ status, provided they meet the set criteria.

Incentives for establishing operations in an EPZ include: zero corporate tax rate; 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), and a transport tax allowance equal to 25 percent of international transport costs.

The Government has so far issued about 15 EPZ licences to companies in the country, which has created no less than 5,000 jobs for Malawians. The majority of the licences are for companies in clothing industry, and the others are in cut flower and furniture.

Horticultural producers targeting export markets are entitled to a 100 percent duty-free importation of equipment and raw materials.

Taxation

The Malawi government has embarked on a process of reducing taxes to attract foreign investment and improve international competitiveness. Currently the corporate tax is 35 percent and there is a withholding tax of 20 percent.

Malawi has double taxation agreements with South Africa, Kenya, the UK, the Netherlands, Denmark, Norway, Switzerland and France.

Investment Promotion Agency

The Malawi Investment Promotion Agency (MIPA) was established in 1991, its principle mandate being to promote foreign investment into 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 abroad) as a favourable location for investment.

MIPA targets both foreign and domestic investors. Towards the end of 1997 the agency conducted an outreach programme to inform existing and potential local investors about the activities. In the middle of 1997 MIPA installed an investment-tracking system in a pilot-project together with MIGA. The Agency is currently developing a website.

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. Other Acts with an influence on investment include: Companies Act 1984, Banking Act 1989 and Capital Market Development Act 1990.

Protection of Investment

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

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Mining

Known viable reserves of bauxite, asbestos, granite, uranium, glass sands, vermiculite, phosphate, coal, ceramic clays and gemstones have been identified.

Livestock and Agriculture

Beef production,particularly as an option to diversify away from tobacco for the larger estates. Expansion of cash crop production,especially sugar. Related industries, e.g. fertiliser and pesticide plants.

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. Food preservation and agro-processing of fish, coffee, avocado oil, fruit juices, canning, bakeries and confectionery.

Projects for Potential Investment

Sector	Company/Project	Description
Mining	Graphite mining: Malawi Development Corporation (MDC)	Technical partner sought, who would be able to guarantee a market for the graphite to be produced.
Manufacturing	Production of resin and turpentine: MDC	Collection of resin from forestry operations and the setting up of a distillation plant at Chikangawa forestry in Northern Malawi. A technical partner is sought to provide technical services and possibly management services of the project.
	MDC: Phosphate Fertiliser manufacturing	A joint venture partner is sought for the project. A feasibility study was conducted to assess the viability of the project.
	Malawi Beverage Company: Soft drinks bottling	Looking for an additional financier. A franchise licence to manufacture Pepsi Cola has already been negotiated from Pepsi Cola Bottler investment Limited (PCBI).
	MDC: Ceramic production	Looking for a well established technical partner who would be able to provide technical assistance as well as finance to the project.
	Encor Products Limited	Expanding operations in the production of enamelware, galvanised plant, electronic cookers, hot plates and similar products. Joint venture partner sought.
	Production of milk, yoghurt and milk related products	Looking for a joint venture partner and finance.
Tourism	MDC: Hotel resort	Looking for a joint venture partner to develop a 150 bedroom 5 star hotel, at Cape Maclear i.e. southern end of lake Malawi.
	MDC: City Centre Hotel	Looking for interest partners to establish a 5 star 150 bedroom hotel in the city of Lilongwe.
Aquaculture	MDC	Looking for a financial or technical partner on commercial fish farming for both local and foreign market.
Mortgage Bank	MDC	MDC together with consortium of Malawians want to establish a mortgage bank to provide housing finance for property development and acquisition. An additional financier is sought.
	MDC & United Milling System of Denmark: Grain Milling	There exists a financial gap of USD1.3m for the project. A partner is sought to fill the gap.
Casino	Tayamba General Dealers Limited	Looking for a technical partner to establish a Casino a long the beaches of lake Malawi. Land is available.

Press Corporation Limited is looking for joint ventures for the projects below:	
Mining	- Bauxite mining and alumina refining - Coal mining, processing and distribution
Manufacturing	- Bed linen and soft furnishings for export
Tourism	- Development of hotels on the shores of Lake Malawi, lodges on the plateaus, and safari lodges in the game parks. - Cruising on Lake Malawi including all water sports
Agriculture	- Cane growing and sugar refining - Livestock and cattle farming - Horticulture for the local market - Cashew nut production,processing and export - Acqualture and fish processing
Food Processing	- Expanding present processing facilities - Establishing new food processing and packaging lines, especially for export

Privatisation		
Manufacturing	Leopard Matches Company.	The government owns 30% shares in the company and would like to dispose the entire holding to the private sector.
Property Development	MPICO Holdings Limited	The government directly owns 25% shares in the company. The government wants to divest its interest in the company.
Financial Services	The New Building Society	The government owns 51% shares in the company and wants to divest part or all of its shares.
Catering Services	Malawi Catering Services	The company provides catering services to air crafts at the Lilongwe International Airport. The government wishes to evaluate the possibility of private sector participation in the company.

Source:Malawi Investment Promotion Agency, March 1998

STATISTICS (USDm unless otherwise stated)	1992	1993	1994	1995	1996	1997[1)]
Population (millions)	9.4	9.7	10.0	10.3	10.7	11.1
GDP at current prices	1,858.0	2,070.0	670.0	1,466.0	2,259.0	2,397.0
Growth in GDP at constant prices, %	-7.9	10.8	-11.6	13.4	12.0	5.3
GDP per capita (USD)	183.0	227.0	67.0	142.0	211.0	216.0
Consumption as % of GDP	101.5	99.8	97.0	88.4	95.8	95.0
Gross domestic savings as % of GDP	1.7	-3.3	3.0	11.6	4.6	..
Domestic investment as % of GDP	15.2	10.6	16.1	15.4	11.5	12.2
Inflation rate, %	23.3	22.8	34.6	83.3	37.6	9.1
Merchandise exports as % of GDP	21.5	15.3	27.7	27.6	21.3	22.2
Merchandise imports as % of GDP	22.3	16.4	27.3	19.4	16.5	15.7
Capital account of balance of payments	94.0	183.0	130.0	171.0	244.0	125.0
Overall balance on balance of payments	-47.0	18.0	-35.0	-32.0	-124.0	-11.0
Average exchange rate: MWK to USD	3.60	4.41	8.85	15.30	15.33	16.40
Foreign exchange reserves expressed in terms of months of import cover	1.3	1.6	3.5	3.7	5.7	4.3
Total external debt as % of GDP	91.7	88.0	149.5	146.3	97.6	98.8
Total external debt service as % of exports	25.5	22.9	18.5	24.8	23.6	18.5
Budget deficit as % of GDP (fiscal year April - March)	-4.7	-5.8	-6.5	-5.4	-4.0	..
Central bank discount rate (end of year), %	20.0	25.0	40.0	50.0	27.0	23.0
Nominal prime lending rate % (average of month-end data)	22.0	29.5	31.0	47.0	27.5	22.0
Growth rate of M2 money supply, %	21.8	41.8	39.9	60.7	39.9	2.2
Domestic credit to government	163.0	211.0	88.0	70.0	72.0	72.0
Domestic credit to private sector	201.0	171.0	77.0	82.0	92.0	94.0

Source:Reserve Bank of Malawi

Notes: 1) Projections

Useful Addresses

Investment Promotion Agency

Malawi Investment Promotion Agency, Private Bag 302, Lilongwe 3, Capital City, Tel: +265-780 800, Fax: +265-781 781

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: +265-622 899, Fax: +265-621 397

Deloitte & Touche, P O Box 187, Blantyre, Tel: +265-622 277, Fax: +265-621 229

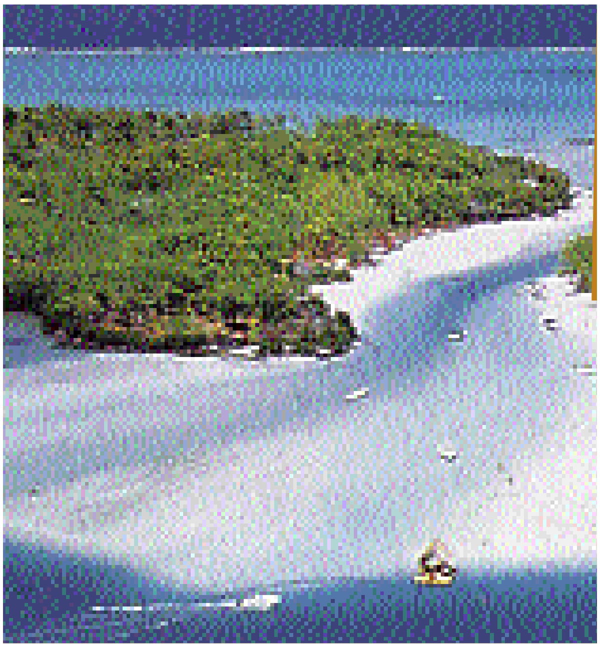
Economic Resources Limited, P O Box 1064, Blantyre, Tel: +265-624 768, Fax: +265-636 496

Imani Development, P O Box 2598, Blantyre, Tel: +265-621 817/373, Fax: +265-622 992

KPMG, P O Box 508, Blantyre, Tel: +265-620 744, Fax: +265-620 575

Price Waterhouse, P O Box 1147, Blantyre, Tel: +265-620 322, Fax: +265-621 215

Mauritius



Mauritius – a tourist haven.

GENERAL INFORMATION

Geography and Population

The Republic of Mauritius is 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 widely spoken.

Mauritius has a population of about 1.2 m people (1997), plus about 37,000 people living on Rodrigues. In terms of age distribution, 58 percent of the population is less than 30 years old, 34 percent are in the 30 to 60 years bracket, and 7 percent are over 60 years of age. 41 percent of the island's population are resident in urban areas.

Out of all the SADC countries, Mauritius is rated the highest by the UNDP in terms of human development[1]. At 61 in the world, Mauritius falls in to the "high human development" category, comparable to Malaysia (60) and Thailand (59).[1]

Political Overview

Formerly a British colony, Mauritius became independent in 1968 and a Republic in 1992. Mauritius is a member of the Commonwealth.

A coalition of the Labour Party and MMM (Militant Movement of Mauritius) won all 60 seats in the general elections in 1995. The coalition split in 1997, however, and the MMM became the official opposition, with Paul Bérenger as its leader.The leader of the Labour Party, Navin Ramgoolam, is Prime Minister. The political climate in Mauritius is stable and likely to remain so.

Mauritius is a democratic country with a unicameral parliamentary system. Its legal system incorporates elements of both the French Napoleonic Code and English Common Law.

Sectoral Overview

Sugar and tea are important traditional export crops but production is unlikely to expand dramatically. Flowers and tropical fruits have recently become export goods, 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 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 9.0 percent of GDP.

Manufacturing is the driving force behind the economy. The manufacturing sector produces a wide range of goods,including clothing and textiles, food products, sunglasses, toys, lenses, spectacle frames, plastic products, engineering products, electronic items and the printing of books and magazines. Manufacturing in Mauritius is dominated by Export Processing Zone (EPZ) companies, of which there are 500. Textiles has been the mainstay of Mauritian industry from the early years of the EPZ in the 1970s until the beginning of the 1990's - Mauritius is the third largest knitwear exporter in the world. However, with other African countries competing with Mauritius for textile contracts, efforts are underway to modernise and diversify production.

Tourism is a well-developed sector and is Mauritius's third source of income. Tourism 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, owned either by Mauritian, South African or European concerns. A record 536,000 people visited the island in 1997.

The financial services industry is the fourth pillar of the Mauritian economy.This sector has grown significantly over the past five years, and includes banking, insurance, capital market and offshore activities. Mauritius is marketing itself as a link between Asian and African financial markets, being strategically located in the Indian Ocean, and as a tax haven for foreign capital. It is at this stage unclear what effect (if any) the problems in south-east Asia will have on the continued growth of the sector.

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, telemarketing 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

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

country is served with electricity, which is essentially thermally-generated. The remaining power is either supplied by hydroelectric 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, with 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 in Mauritius. The airport has recently been modernised, and there are plans to expand it further. Mauritius has direct air links with Europe, Asia, South Africa, Australia and the other Indian Ocean islands. Freight rates are negotiable with carriers based on bulk frequency.

The island's 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. There is a relatively short waiting period when it comes to the installation of new lines, especially for businesses. In modelling itself to a certain extent on Singapore, Mauritius has made telecommunications and data services a high national priority.

ECONOMIC OVERVIEW

Recent Macro-Economic Developments

Economic growth was projected to decline, albeit marginally in 1997, in comparison to the 5.8 percent real growth rate recorded in 1996. The consistency of the Mauritian economic performance can be partly attributed to the fact that during the past two to three decades the Mauritian economy has undergone significant transformation from a solely sugar producing economy to a manufacturing one. Free enterprise and the private sector played a vital role in economic development. The role of the government in providing basic infrastructure and a sound investment climate, particularly the facilitation of the EPZ scheme, has been an important factor in promoting economic growth. The government also launched a comprehensive adjustment programme in the early 1980s, aimed at fostering economic development through export-led industrialisation, agricultural diversification and expansion of the tourism industry.

Over the past five years, the economy recorded real growth rates around the five percent mark. Real growth for 1997 is expected to register 5.0 percent with the financial sector being the major contributor, with an average growth rate of approximately 11.3 percent. Other major sectors which added to growth were trade, the EPZ, transport and telecommunications, manufacturing, and sugar cane in the agricultural sector. The EPZ was the major contributor to exports and also the largest single employer of labour. Performance of the financial and manufacturing sectors reflects successes achieved in diversifying the economy and reducing the dependence on the sugar and tourism sub-sectors.

The EPZ enjoys a competitive advantage over the competitor countries. With a view to strengthening the competitiveness of this sector, microeconomic efficiency is being promoted.

Despite an increase in the sales tax rate, the continued decline in tax revenue (due to the reduction and rationalisation of import duties) combined with an increase in budgetary expenditure are causes for the widening of the fiscal deficit. The overall budget deficit amounted to 4.6 percent of GDP in 1996/97 and the aim is to bring it down to 3.6 percent in 1997/98.

Perseverance with tight monetary policy, favourably accompanied by supply-side responses, dampened inflationary pressures. There has been a remarkable drop in the inflation rate, from 7.9 percent for the twelve months ending June 1997 to 6.6 percent for calendar year 1997.

The overall balance of payments forecast shows a deficit of MUR646m(USD 31m) for calendar year 1997, in comparison to a surplus of MUR859m(USD48m) in calendar year 1996. Due to the faster growth rate of imports relative to exports in 1997, a current account deficit has been estimated for 1997 compared with a surplus in 1996. Foreign exchange reserves are sufficient to cover about four and half months of imports.

Money supply, M2, grew in Rupee terms by 11.4 percent in calendar year 1997, compared to 7.0 percent in calendar year 1996. Although this rate of growth is somewhat higher than inflation, the increase in the money supply is not expected to significantly add to inflationary pressures.

During the period 1991-97, the trend in the Rupee/US dollar exchange rate showed a continued depreciation of the Rupee against the US dollar. This trend reflects the appreciation of the US dollar against the major currencies explained essentially by the relative strength of the US economy and the higher interest rates of dollar-denominated assets. It is also a reflection of the different inflation rates pertaining in the two countries over the period.

Financial Institutions

The financial sector has been undergoing piecemeal liberalisation since 1987.

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. Credit cards, ATMs and phone banking facilities are readily available in Mauritius. The Development Bank of Mauritius has also played a crucial role in making credit available to industry. The bank provides medium and long-term loans to large and medium-sized industrial enterprises, as well as concessionary loans to small enterprises. Other financial institutions operating in Mauritius include insurance companies (of which there are 25), 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 market mainly revolves around the stock exchange, which is the only organised market for shares and bonds. Mauritius is lacking in long-term savings instruments and underwriting services. The domestic capital market is fairly small, which is why Mauritius is currently focusing on becoming an international financial services centre.

Stock Exchange of Mauritius

The Stock Exchange of Mauritius came into operation in 1989. Two markets are operated, the Official List and the Over-the-Counter Market. To obtain a listing on the Official Market, a company must be public, have a minimum capitalisation of about MUR 20 m (about USD1m), have been in operation for at least five years and must have a minimum of 200 shareholders. The government also offers a series of tax incentives encouraging companies to be listed on the Stock Exchange.

In 1995, the stock exchange initiated the setting-up of the Central Depository and Settlement system (CDS). The CDS became operational in January 1997 and the introduction of all listed securities in the system was completed by the end of 1997. The CDS has brought about efficient clearing and settlement of trades, ensuring strict delivery versus payment and reducing some of the inherent risks in the process. Furthermore, the Stock Exchange of Mauritius adopted daily trading sessions for the Official Market in November 1997. Trading in listed securities is conducted via an open outcry method, although there are plans to install a computerised trading system in the near future.

Foreigners, who have been able to invest on the exchange since 1994, are treated the same as local investors in terms of the tax law. Foreign companies are also able to list on the exchange, subject to certain conditions. There is considerable potential for growth in market capitalisation and turnover on the Stock Exchange

Stock Exchange of Mauritius: Market Statistics (USDm unless otherwise stated)

	1993	1994	1995	1996	1997
Number of listed companies	30	35	41	45	46
Market capitalisation	791.6	1,597.5	1,600.0	1,857.2	1,549.8
Number of companies making issues (including new issues, rights issues and bond issues)	9	11	6	2	0
Value of new issues	1.38	11.41	4.07	1.48	–
Volume of shares traded (millions)	37.3	50.6	59.4	91.9	164.1
Value of shares traded	39.19	84.50	92.13	89.24	125.75
Number of trading days	97	147	149	148	160
SEMDEX	302.63	473.67	344.44	353.46	391.12
Annual average dividend yield	4.2	3.3	5.1	4.0	4.3
Average price-earnings ratio of all listed companies	12.0	16.5	11.1	14.5	14.1

Source: The Stock Exchange of Mauritius (1998). 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.

Foreign Trade

Trade has been extensively liberalised and quantitative restrictions on imports removed. About 60 percent of imported goods attract duty between zero and 20 percent, while the highest rates (of 55 percent and 80 percent) are levied on selected goods. A sales tax of five percent is payable by importers on the CIF value of their imports. Mauritius imports largely from South Africa, India, the European Union and China. Import permits are required for certain goods.

Exports of all items are permitted except several products of strategic importance or whose market access is restricted by a quota system. These goods include sugar, tea, vegetables, fish, textiles, pharmaceuticals, gold, live animals, corals and shells. Principal exports are clothing, textiles and sugar - clothing accounts for 53.4 percent of gross exports, although sugar is still the island's main net foreign exchange earner. The European Union is the major destination for Mauritius's exports.

Mauritius is a signatory to UNCTAD, the WTO, the Lomé Convention and the SADC Trade Protocol. Mauritius is also a member of COMESA, the Indian Ocean Commission and the Indian Ocean Rim Association. Products manufactured in Mauritius with a value-added component of at least 45 percent, enjoy preferential access to the markets of other COMESA countries

Foreign Direct Investment

According to the World Investment Report (1997), Mauritius received an amount of USD21m in foreign investment in 1996. Given the methodology used to collate this data, it is safe to say that this is a conservative estimate of foreign investment inflows.

In terms of manufacturing, investment is still largely directed towards the textile industry. Most of the foreign investment flowing into the textile sector is from companies already established in Mauritius, which are buying new plants and upgrading their machinery. The Freeport is also popular for foreign investment - foreign companies use it, among other things, as a transhipment base to countries on the east coast of Africa.

Foreign investment has tended to come from India, Hong Kong and South East Asia, as well as from France. South Africa, already well-established in the tourism sector, is showing increasing interest in other areas of the Mauritian economy.

Mauritian Investment in the SADC Region

The Mauritian government has signed an agreement with the government of Mozambique, securing an exclusive 100,000 hectare economic zone near Beira for development by Mauritian investors. Mauritius is also assisting Mozambique in the rehabilitation of its sugar industry, which may lead to Mauritian taking over and developing some of Mozambique's existing sugar industry.

INVESTMENT CLIMATE

INVESTMENT INCENTIVES

Mauritius has a number of incentive schemes to attract investors, the most notable of which are the EPZ, the Freeport and the Offshore sector.

Freeport:Created in 1992 to promote the country as a regional warehousing, distribution and marketing centre. More than 500 freeport licences have been granted to operators so far. Freeport zones are situated in and around Port Louis, and are deemed not to be part of Mauritius. Security around these areas is tight, to prevent the evasion of import duty.

Offshore: Two different types of companies can be created in the offshore sector, namely offshore companies and international companies. Offshore companies are locally incorporated or are registered in Mauritius as a branch of a foreign company. International companies, on the other hand, are flexible, tax-exempt entities, but because they are not tax resident in Mauritius, they are not able to benefit from Mauritius's extensive double taxation agreement network.

Export Processing Zone: An EPZ was created in 1970 to stimulate export-oriented production. There is no formally designated "zone", although most EPZ industries are concentrated in government industrial estates. Currently, the Mauritian government is attempting to attract more high-value production to the EPZs, and to achieve a greater diversification of industry in order to spread risk and accommodate higher salary demands, as the country has approached a full employment level. Some new industries targeted by the government are the manufacture of watches, jewellery, electronic measuring instruments, leather goods, toys, optical goods, printing and publishing, informatics, high precision plastics,electronics, light engineering and pharmaceuticals.

Type	Applicability	Benefits
Export Processing Zone	Available to those involved in the production of manufactured goods, deep sea fishing, printing and publishing, IT activities or agro-industries, all for export. The Export Enterprise Certificate is generally granted to those who intend to export all their output, although permission can be obtained to sell a small percentage locally (10%-20% of exports) Approval for an EPZ certificate usually takes from all commercial banks one - two months	• No corporate tax • Dividends: Tax-free for 20 years. • No customs duty or sales tax on raw materials,machinery, equipment and spare parts, except for motor vehicles. • Free repatriation of profits and dividends and capital without the payment of a capital transfer tax. • Finance available at preferential rates from all commercial banks.
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. • No tax on dividends
Modernisation and Expansion Enterprise	Two broad categories: 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.	• No customs duty on scheduled production equipment. • Income tax credit of 10% (spread over three years) of investment in new plant and machinery. • 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.	• Corporate tax rate: 15% for life. • No tax on dividends • Registration dues for land purchase: 50% exemption. • Rent control is not applicable.
Small and Medium Enterprise	Applies to enterprise whose production equipment does not exceed Rs5 m (USD275,000).	• No customs duty on production equipment 15% corporate tax

Type	Applicability	Benefits
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. Operators holding the Pioneer Status can export their products or services, or sell them locally.	• Corporate tax rate: 15% • No customs duty, import levy or sales tax on scheduled equipment or materials. • No tax on dividends • Free repatriation of profits, dividends and capital
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. Offshore companies usually take about one-two weeks to set up, while international companies take about one-two days.	• Complete freedom from exchange control. • No tax on capital gains • No tax on profit • No withholding tax on dividends, interest and royalties • Free repatriation of profits • No stamp duties or levies and no estate • duty on the inheritance of shares • Corporate tax rate of 15% as from July 1998. • Companies registered before July 1998 can opt for the new rate of 15% or will be ordered to pay a rate between 0-35%
Export Service Zone	Promotion of export-oriented service companies,i.e. companies who offer marketing services and expertise to the manufacturing sector. Includes, accounting firms,consultancies, translation works,etc.	• Corporate tax rate: 15% • No tax on dividends • Free repatriation of capital,profits and dividends • No customs duty on office equipment
Hotel Management Service Certificate and Hotel Development Certificate	Applies to companies who provide services to new hotels, or hotels which are expanding.	• 15% corporate tax (Hotel Management) and 5% corporate tax (Hotel Development) • Tax free dividends for 10 years • Free repatriation of profit,dividends and capital subject to original investment being received "A" status from the Bank of Mauritius • Loans and overdraft at preferential rates • Exemption from customs duty on importation of equipment as per the approved list (Hotel Development)
Freeport	Transhipment and re-export trade, e.g. warehousing and storage; breaking bulk; sorting;grading; cleaning and mixing; labelling; packing and repacking; minor processing; simple assembly;paper and commission trade;marketing;export-oriented port-based activities;export-oriented airport-based services;freight forwarding; mail order business; quality control services; telemarketing;transhipment.	• Zero tax on corporate profits and dividends • No customs duties or sales tax on all machinery, equipment and materials imported into the Freeport zone for exclusive use in the Freeport. • No customs duties or sales tax on all goods destined for re-export • Reduced port-handling charges for all goods destined for re-export • Free repatriation of profits 100% foreign ownership is permissible • Possibility of selling a percentage of 20% of total turnover on the local market

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, which are taxed at 25 percent, and manufacturing companies, who are taxed at 15 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 South Africa, Germany, France, China, Denmark, Kuwait, Lesotho, Madagascar, New Zealand, Pakistan,Seychelles,Great Britain, India, Italy, Zimbabwe, Sweden, Swaziland and Malaysia. Agreements are currently being negotiated with Belgium, Botswana,Namibia,Russia,Singapore and Luxembourg. If no treaty exists, unilateral credit relief is supplied by Mauritius for the burden of the tax levied as a consequence of the lack of an agreement.

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 tax: There is no separate withholding tax on payments to non-residents. .

Sales tax: A sales tax of eight percent is levied on goods. This tax is soon to be replaced by a value-added tax, to improve tax buoyancy and promote investment

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.

Non-residents may not have a controlling interest in a company, however, and may not hold more than 15 percent of the voting rights in a sugar company.

Investors in Mauritius may now obtain citizenship under the new permanent residence scheme.

Institutions Involved in Investment Promotion

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

MEDIA was set up in 1984 as part of the Ministry of Industry and Commerce, and 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.

The Mauritius Freeport Authority's mandate is to develop, promote and manage the Freeport and to provide the necessary infrastructure and storage facilities in the Freeport zone.

The Mauritius Offshore Business Activities Authority (MOBAA) is responsible for the regulation of offshore activities, the registration of offshore entities and for issuing offshore certificates through licensed offshore management companies. MOBAA also deals with work and residence permits and tax residence certificates.

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

Investment Code

Mauritian Company Law is based on the English version. Legislation relevant to the foreign investor includes the Banking Act (1988), the Companies Act (1984), the Mauritius Offshore Business Activities Act (1992), the Freeport Act (1992), the International Companies Act (1994), the Offshore Trusts Act (1992) and Foreign Investor Rules (1994) under the Stock Exchanges Act (1984).

Mauritius recently signed an agreement with the US Overseas Private Investment Corporation (Opic), which is anticipated to increased US private sector activity in the country.

The Mauritian government guarantees against the nationalisation of any investment. Mauritius is also a member of MIGA and the International Convention on Settlement of Investment Disputes (ICSID), and is a signatory to the New York Convention on the Recognition of Enforcement of Foreign Arbitral Awards.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

MEDIA has identified the following sectors as priority areas for investment:

Information Technology

Printing and publishing, light engineering, electronics, jewellery, pharmaceuticals and health care, agro-based industry.

Projects

Mauritius has recently expanded the infrastructural facilities at the Freeport and is looking for foreign companies to make use of these additional facilities.

Mauritius is seeking a foreign equity partner for the privatisation of Mauritius Telecom.

There are plans to build a new airport terminal. This will be a Build Operate Transfer project

STATISTICS (USDm unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (m)	1.1	1.1	1.1	1.1	1.1	1.2
Nominal GDP at market prices	3,189.2	3,195.4	3,503.5	3,967.3	4,298.8	4,173.2
Real GDP growth rate (% p.a.)	6.4	4.9	5.3	5.6	5.8	5.0
GDP per capita (USD)	2,941.0	2,912.1	3,148.9	3,535.5	4,298.8	4,173.2
Consumption as % of GDP	75.3	75.3	76.6	76.8	76.1	75.9
Gross domestic savings as % of GDP	26.2	24.7	23.4	23.2	23.9	24.1
Gross investment as % of GDP	27.9	28.5	30.8	24.3	26.1	27.2
Inflation rate, %	4.6	10.5	7.3	6.0	6.6	6.6
Merchandise exports as % of GDP	41.9	41.7	39.3	39.6	41.7	–
Merchandise imports as % of GDP	46.8	49.2	50.6	45.7	48.6	–
Capital account of balance of payments	-59.5	10.8	83.6	84.8	-43..2	–
Foreign direct investment as % of GDP	-0.9	0.6	0.5	0.4	0.8	–
Foreign portfolio investment as % of GDP	0.0	-0.1	0.1	6.2	1.2	–
Overall balance on balance of payments	43.3	7.0	43.5	109.0	47.	–
Average exchange rate: MUR to USD	15.6	17.7	18.0	17.4	18.0	20.6
Foreign exchange reserves expressed in terms of months of import cover	6.1	5.4	4.5	5.3	4.7	4.5
Total external debt as % of GDP	29.6	27.7	26.5	31.5	31.6	27.0
Total external debt service as % of exports	7.5	9.0	7.0	8.4	9.0	6.7
Budget deficit as % of GDP	2.1	1.9	2.4	3.7	5.6	4.5
Central bank discount rate (end of year), %	8.3	8.3	13.8	11.4	11.8	10.5
Prime lending rate (minimum), %	10.0	10.0	10.0	10.0	11.0	10.0
Growth rate of M2 money supply, %	15.8	17.1	12.4	18.7	7.5	16.4
Domestic credit to government	440.0	481.0	666.6	752.0	805.8	833.24
Domestic credit to private sector	1,105.8	1,288.3	1,613.7	1,869.0	1,934.	2,000.0

Source: Bank of Mauritius (1998)

USEFUL ADDRESSES

Investment Promotion Agencies

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

Mauritius Freeport Authority, 4th Floor, Deramann Tower, Sir William Newton St, Port Louis. Tel:+230-2129627,Fax: +230-2129626 E-mail: freeport@bow.intnet.mu

Export Processing Zone Development Authority (EPZDA), 7th Floor, St James Court, St Denis St, Port Louis. Tel:+230-2129760,Fax:+230-2129767

Mauritius Offshore Business Activities Authority (MOBAA), 5th Floor, Block A, Barkly Wharf, Le Caudan Waterfront, Old Pavillon Street, Port Louis,. Tel:+230-2107000, Fax: +230-2129459/2113398 E-mail:mobaa@bow.intnet.mu

Consulting Firms

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, 2,d'Epinary Avenue, P O Box 12, Quatre Bornes. Tel:+230-4656557/6108,Fax: +230-4649884 E-mail: imani9@bow.intnet.mu

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

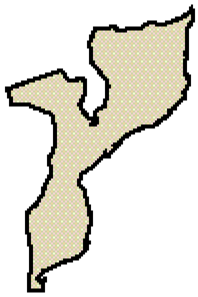
KPMG, P O Box 1130, Port Louis. Tel:+230-2088000,Fax:+230-2083026

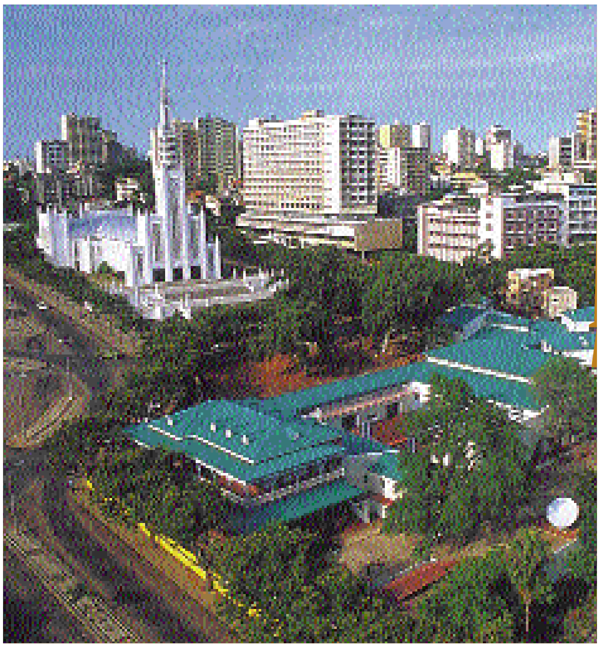
Matheson Trust Company, 210, St James Court, St Denis Street, Port Louis. Tel:+230-2118881/2,Fax:+230-2126138

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, Cerné House, Chaussée, Port Louis. Tel:+230-2088036/2125011/2/3/4,Fax:+230-2088037

Mozambique





Maputo,capital of Mozambique.

GENERAL INFORMATION

Geography and Population

Mozambique's geographical area covers 799,380 km^2 in south eastern Africa, and borders Malawi, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The capital, Maputo, has approximately 1 m inhabitants.

The size of the total population is about 15.7 m, with an average annual growth rate of 2.6 percent. About 66.4 percent of the population is under the age of 25 years, and life expectancy at birth was 45.5 years in 1997. The literacy rate is 21 percent among women and slightly higher for men, 33 percent.

Mozambique is ranked no 166 out of 175 countries in the UNDP 1997 human development index (HDI)[1)] which puts it slightly ahead of countries like Ethiopia (170) and Guinea (167), and just behind Malawi (161). It should be noted however, that the ranking is based on figures from 1994. Mozambique has made considerable progress since then and their ranking is consequently likely to improve in the coming years.

The official language is Portuguese, and there are around 10 local languages. The use of English is increasing in Maputo.

Political Overview

After some twenty years of civil war, the General Peace Agreement was signed between the warring Mozambican parties, FRELIMO and RENAMO, in October 1992. The country held its first general elections two years later, in October 1994. The FRELIMO Presidential candidate Mr Joaquim Chissano, obtained 53.3 percent of the votes, followed by RENAMO's leader, Mr Afonso Dhlakama, with 33.7 percent. FRELIMO currently holds 129 seats in Parliament, while RENAMO has 112 and the Uniao Democrática two. The next general elections are scheduled for 1999.

Sectoral Description

The distribution of GDP by sector was as follows in 1995: tourism and service 52.2 percent, agriculture 22.8 percent, industry and fisheries 11.6 percent and "others" 13.4 percent.

The tourism potential in Mozambique is perhaps one of the country's most valuable assets. The industry is growing rapidly and a number of new hotel construction and/or rehabilitation projects are being undertaken. Mozambique offers 2,500 km of coastline, featuring unspoilt beaches and coral reef off-shore islands. There are an increasing number of ecotourism ventures, the most well-known and largest being the "Blanchard" development of a game park outside Maputo. The project has commenced with the fencing of the area and restocking of animals. The construction of three hotels/lodges is scheduled for 1998. Mozambique also attracts an increasing number of scuba-divers. Popular spots are Ponta Malongane and Ponta d'Ouro in the very south of the country and the islands along the coast.

Agriculture is an important sector of the Mozambican economy, as it employs more than 80 percent of the workforce and contributes some 23 percent to GDP. 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. Mozambique has 36 m ha of arable land (less than a third of which are presently in use) and ample 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.

The industrial sector in Mozambique is currently undergoing considerable rationalisation and rehabilitation, and the government intends to pursue an active industrial policy to assist private sector initiatives. Investments in the manufacturing sector equalled 33 percent of total investments in 1996-97, and as the privatisation programme is being implemented, production is growing. Industrial production grew by 10.5 percent in 1995, 6.5 percent in 1996 and is expected to remain at that level for 1997. Some textile companies are currently being rehabilitates and export-oriented production is expected to commence during 1998-2002.

The fishing industry contributes greatly to the export earnings of Mozambique. The country is well-known for the quality of its fish and seafood, yet the fisheries sector is still relatively undeveloped. Prawns and tuna are the main export products. These are harvested mainly by industrial companies, often through joint-ventures between state-owned companies and Japanese, Spanish and South African companies. An estimated 80,000 Mozambican are engaged in the fishing industry, 35 percent of which are subsistence fishermen.

Mozambique is rich in mineral resources including coal, natural

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.

gas, gold, titanium and non metallic minerals with a potential for oil and diamonds, as well as deposits of rare metals and gemstones. Prospecting and exploration of the country's mineral sources have been limited to date and offer great opportunities to investors. Recently, major deals have been negotiated for the development of natural gas fields at Pande and the exploitation of the Moatize coal fields. Close to ten companies have signed agreements with the government for the right of petroleum prospecting, and there are currently three large heavy minerals projects in the pipeline with foreign investors. The latter are likely to start around 2001-2002.

Mozambique has some 57 m ha of forest. Of this, 20 m ha are rich in precious and semi-precious woods, with a technical felling potential of around 500,000m^3 per year. Timber was a major export product 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.

Infrastructure

Mozambique's infrastructure was greatly damaged during the war and it is now subject to extensive rehabilitation programmes. Around 60 percent of the road network is in bad condition and many of the rural roads are still dotted with land mines. Traffic on all the major railway lines linking the ports has risen since peace returned to the country and rehabilitation of the rail system commenced and port facilities were improved. Maputo is one of the largest ports in Africa, and the ports of Beira, Matola and Nacala also have cargo facilities.

The national airline, Linhas Aereas de Moçambique services nine Mozambican provincial capitals, as well as regional destinations such as Johannesburg and Harare.

Mozambique has considerable water resources, including more than 25 rivers. The government has recently taken up a USD36m soft loan from the World Bank's International Development Association to improve water services throughout the country. The water services are in dire need of expansion and upgrading. It is estimated that about 25 percent of the population have direct access to safe water. The government has shown a commitment to water reform and the changes include privatisation of the management of water services in Maputo and the provincial capitals Beira, Quelimane, Nampula and Pemba. The project will also seek to strengthen Mozambique's capacity to negotiate fair and equitable use of its rivers with its neighbours. Most of Mozambique's rivers, the Zambezi, the Pungwe, the Limpopo etc originate in neighbouring countries and their management of these rivers has a strong impact on Mozambique's water supply and management.

Mozambique possesses considerable resources for the production of energy: hydro-power, coal, natural gas, biomass and solar-energy, yet the country is a low energy consumer. Despite this, less than 3 percent of the population have access to electricity, and wood fuel is the most commonly used source of energy in households and in small scale industries. The development of alternative sources of energy for the rural areas is being investigated. and the country's first natural gas exploitation project is about to commence. One of the largest hydroelectric plants in southern Africa, Cahora Bassa is situated in Mozambique. It was originally built by the Portuguese to supply electricity to South Africa, although it hardly came into use due to the civil war. After considerable rehabilitation of transmission lines the plant is now supplying energy. Under an agreement between Hydroelectric de Cahora Bassa, which is Portuguese owned, and Eskom, the latter has a contractual right to buy the entire current output of 2,000MW. Of this, the Mozambican energy supplier EDM can acquire 200MW and Zimbabwe 500MW according to the contract.

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. 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.

Mozambique has telephone, telex, facsimile, e-mail and package switching facilities in place. A cellular telephone network was introduced in the Maputo area in 1997.

ECONOMIC OVERVIEW

Introduction

Mozambique is now clearly showing signs of rehabilitation, with an impressive GDP growth of 6.4 percent in 1996 and 6.6 percent estimated for 1997, and growing inflows of foreign direct investment.

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 macro-economic balances, free constraints on market activity and price signals, restructure and privatise parastatal enterprises, foster private sector development, and to encourage the expansion of efficient production in agricultural and industrial sectors.

The exploitation of Mozambique's many resources has experienced setbacks, but the situation has changed for the better in recent years and much-needed economic reforms have been introduced.

Recent Macro-Economic Developments

According to preliminary data, real GDP increased by 7.9 percent in 1997, exceeding the targeted rate by 2.1 percent and the figure of the previous year by 1.5 percent. In fact, the growth of production was evident in all sectors of the economy with (i) agricultural production growing by 5.9 percent, (ii) industry and fishery by 9.1 percent, (iii) construction by 7 percent, (iv) transport and communications by 11.3 percent, and (v) the services sector by 8.4 percent. Good weather conditions (although severe floods have occurred in the central and north region of the country), combined with high levels of foreign assistance and increase in private investment linked to privatisation, and low inflation seem to have been the main factors behind the strong growth of the production in the period.

On the fiscal side, government revenue and expenditure increased by 31.8 percent and 34.3 percent respectively in nominal terms in the same period, and by 2.4 percent and 6.4 percent as a percentage of GDP. The increase in government revenue resulted mainly from the surge in the economic activity combined with a set of measures implemented by the authorities aiming at improving its revenue collection.There was a slight worsening of the fiscal deficit as a percentage of GDP, which is mainly attributable to the increase of expenditure more than revenue. It should be noted however that a 23 percent increase in trade related revenue has been achieved since the contracting of the British Crown Agents in May 1997 to assist in the operation of the customs service.

The cumulative average inflation rate up to end-December 1997 declined sharply to 5.8 percent from a level of 24.3 percent in the same period of the previous year.The slow down of inflation is a result of the improvement in the monetary control, exchange rate stability, and the strong supply response in the economy. In fact, inflation begun a declining trend in 1995 with a cumulative rate of 54.2 percent after 70.0 percent in 1994.

The current account, in nominal US dollar terms, improved by 4.2 percent, as a result of the increase in exports by 6.7 percent with imports increasing by 0.8 percent.

The currency (Metical) maintained a strong performance, resulting in a cumulative nominal depreciation of only 1.5 percent in the official exchange market and an appreciation by 1.7 percent in the parallel market. As a result, the spread between the exchange rates of the two markets remained below 2 percent.The exchange rate stability was mainly due to a tight monetary policy, the good performance of the external sector combined with favourable inflows of external assistance funds, as well as the dynamism of the interbank exchange market.

Money supply growth has increased slightly from 13.2 percent in 1996 to 16.6 percent in 1997.The authorities shifted towards indirect monetary control, with the creation of the interbank money market in September, where treasury bills and monetary authority bill are traded. The interbank money market also allows commercial banks to lend and borrow funds to each other. The interbank exchange market operation has been improved, with the introduction of non-fixing sessions.

With the conclusion of the Paris Club Agreements, about 10 percent of the Mozambican external debt was reduced. Of these USD500m were rescheduled and USD100m cancelled. Additionally, in recognition of the country's record of economic reforms, the World Bank and the IMF along with other donors decided on April 7, 1998 to provide exceptional support, amounting to USD2.9 billion in nominal terms in debt service relief for Mozambique, equivalent to USD1.4 billion in Net Present Value terms in June 1999.

With this initiative Mozambique's external debt will be reduced from USD5.6 billion in late 1996 to USD1.1 billion in June 1999 when the HIPC (Highly Indebted Poor Countries) package is implemented. Debt service payments will have been reduced to below 20 percent of export earnings.The stock of debt in NPV terms will be reduced to 200 percent of exports,compared to 466 percent without the initiative.

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 formulating better regulations governing the sector.

The Banco de Moçambique was split into a central bank and a commercial bank (Banco Comercial de Moçambique) in 1992. The independence of the central bank was laid down in law, although it is stated that the bank must respect the economic policy defined by the government. Since then it has increased its independence and expanded its oversight capabilities.

There are seven 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. The newest entrant on the banking scene is Banco Internaçional de Moçambique Investimento that was created in early 1998. The bank is co-owned by Portuguese Banco Commercial Português (25 percent), its subsidiary Banco International de Moçambique (50 percent) the IFC (15 percent), and the parastatals Telecommunicações de Moçambique and Electricidade de Moçambique each own 5 percent. BIM Investimento will concentrate on joint-ventures in connection with the current privatisation programme, and on the development of links with South Africa. Electricidade de Moçambique's interests in the bank is associated with its probable involvement in future hydroelectric projects in the Zambezi valley and the construction of an aluminum smelter outside Maputo.

In September 1997 the government sold sixty percent of the last state-owned bank, the People's Development Bank, to Southern Bank Berhard of Malaysia and a Mozambican private company, Investec. The state retained 20 percent of the shares and 20 percent were reserved for bank employees and managers. Liberalisation of the insurance sector is also proceeding, but as yet there are no long-term insurers in Mozambique.

The money market is still undeveloped in Mozambique, although the legal framework for a money market is under finalisation. The central bank issues short-term bonds on a quarterly basis, which are sold mainly to commercial banks. The informal money market is used extensively.

Mozambique Stock Exchange

One of the key reasons for the establishment of a stock exchange in Maputo is to provide a vehicle for the facilitation of the privatisation programme. The “Installation Commission for the Mozambique Stock Exchange” was consequently set up under the Ministry of Planning and Finance in 1997 to prepare for the establishment of the exchange. The work is currently in its final stages and the market is expected to open before the end of 1998.

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

Foreign Trade

Mozambique's principal trading partners are South Africa, Portugal,Spain, USA and Japan. Due to the limited industrial and food production in Mozambique, the value of the country's imports far exceeds that of its exports.

The country's main export products are cashew nuts, prawns, lobster and cotton. Main import goods are transport and electrical equipment, food and vegetables.

Trade Liberalisation

Imports up to the value of USD500 may be brought into Mozambique without a license, provided that tied-aid funds are not the method of finance used. All other imports have to be registered with the Ministry of Commerce and foreign currency must be secured through negotiation with commercial banks.

All exports need to be registered with the Ministry of Commerce for statistical and balance-of-payments purposes. Exporters are allowed to retain their foreign currency earnings in foreign currency accounts.

Foreign Direct Investment

Mozambique is experiencing a boom in FDI. During the past 13 years Mozambique has received foreign investments to a total amount of USD1,040m. A number of large projects in more or less advanced stages are in the pipeline for 1998-2000.

The main investing countries are Portugal, South Africa and the UK.

The Enron - Pande natural gas project is in an advanced stage of preparation where feasibility studies have been presented to the Mozambican authorities. The project consists of gas exploitation, a pipe line to Maputo and to supply customers in South Africa, and the construction of an integrated iron and steel plant in Maputo. Construction of the former is expected to take 20 months and the latter 42 months. Total estimated amounts for the project amount to USD 470m in year 1, USD670m in year 2, USD690m in year 3 and USD230m the fourth and final year. The iron and steel plant project grew out of a need for Enron to find a major customer for its natural gas reserves at Pande. Enron and the Industrial Development Corporation of South Africa are currently seeking financiers for the project.

Other large projects include Moatize coal mine where South African JCI and Austral coal have development options, for which they will sign a joint technical programme in the near future. The projected investment is USD1,300m and the present plans include production and export amounting to 7 m

Top five countries investing in Mozambique 1993-1997, USD m

Origin	1993		1994		1995		1996		1997	
	No	Value	No	Value	No	Value	No	Value	No	Value
South Africa	14	10.9	20	21.7	17	18.6	27	4.6	23	669.0
Portugal	5	0.8	27	37.3	25	6.7	42	16.5	38	14.6
UK	4	1.5	6	4.5	5	3.0	6	8.0	9	1.9
Hong Kong	0	0	0	0	1	0	2	25.5	0	0
USA	1	0	1	0.7	0	0	2	14.6	3	1.0
Total	24	13.2	54	64.2	48	28.3	79	69.2	73	686.4

Source:Centro de Promoçao do Investimentos,Maputo (1998)

Note: Two of the South African projects above have been cancelled, the value of these was USD1.5m.

tonnes per annum. The plans include new large open cast pits at Moatize, a large capacity washing plant, rehabilitation of the railway to Beira and new coal handling facilities in Beira port. JCI also had plans to produce hot briquetted iron in Beira. The project, which includes the construction of a new terminal in the Beira port amounts to USD620m and was scheduled to commence during 1998, with production starting in 2001. Due to the difficulties experienced by JCI lately the project has been put on hold.

Some new ventures have been pioneered recently through agreements between the Heads of State of Mozambique and South Africa, and Mozambique and Mauritius respectively. The former, "Mozagrins", regards commercial agricultural joint ventures in the Niassa province between farmers from the two countries, and the latter involves rehabilitation of the sugar industry in the Beira area.

Large projects that are taking shape include the construction of an aluminium smelter outside Maputo, "Mozal". The construction is expected to start during 1998, with an annual investment projection for the project period 1998 - 2000 amounting to approximately USD430 m. The project is financed from a number of sources including Gencor/Billiton, IDC of South Africa, quasi-equity amounting to USD150m from IFC, CDC and others, foreign sources representing USD650m. The Mozambican government will retain 4 percent of the project through an EIB loan. It is expected that the project will employ around 5,000 people during its peak construction, and about 900 people, 800 of which would be Mozambicans, once it is operational.

Maputo Development Corridor

The Maputo Development Corridor represents one of the most ambitious and comprehensive regional investment projects in Southern Africa to date. The project was officially approved in August 1995 at a meeting of the respective Ministers of Transport of Mozambique and South Africa. The project is centred around the rehabilitation of infrastructure (road, rail, port and border post). Secondly, the project aims at maximising investment in related ventures that would benefit from the revived corridor. Together with the additional investments in the corridor the project is expected to attract a total of USD5,000m over the next 10 years.

The current status of the project is as follows:

The Maputo Development Corridor Infrastructure Investments

Project	Status	Amount (USDm)
Maputo-Witbank toll road	The concessionaire Trans African Concessions was given approval to commence the upgrading and construction of the road in December of last year, after it announced that it had raised the capital and loan financing for the project. The work is due to start in March 1998, and is expected to be completed by late 2001. The concession has been granted on a 30 year build-operate and transfer basis.	400
Rehabilitation of the port of Maputo	Final bids are currently being evaluated to establish a joint venture (public/private sector) company to manage, operate and maintain port and dredging.	85
Rehabilitation of the railway network of Maputo	Final bids are currently being evaluated to establish a joint venture (public/private sector) company to manage, operate and maintain the port and the dredging of the port and channel.	70
Ressano Garcia/ Komatipoort border post	Bilateral agreement to develop a single facility/one-stop border post has been drawn up and negotiations are ongoing. A three-year construction project is planned.	33

Source: Maputo Corridor Company (1998), South Africa, March

In order to facilitate the implementation of the project a company called the Maputo Corridor Company has been formed. The head office is being set up in Maputo, while the branch office in Nelspruit has been operational for some time. It is expected that 65 percent of the company will be owned by private sector entities, and the remaining 35 percent be shared between the governments of Mozambique, South Africa, Swaziland, Botswana and Zimbabwe. The company's role is facilitative and any government-to-government agreements are handled by the respective line ministries in the countries concerned.

The Maputo corridor is the most advanced of the three corridors planned in Mozambique. The corridor has increased the regional cooperation between Mozambique, South Africa and Swaziland (the latter through the connecting Lubombo corridor) and has been influential in the increase of investments in Mozambique and in the Mpumalanga province of South Africa lately. The two other corridors that are in more or less advanced stages in Mozambique are the Beira corridor, which has long been an important link for Zimbabwean international trade with the port in Beira, although the concept of it becoming a development corridor is fairly new. Likewise are the plans for the Nacala development corridors in a first stage. These two corridors are mentioned under Investment Opportunities below.

Privatisation

The Mozambican privatisation programme is considered one of the most extensive in Africa, in terms of the number of entities involved. The country saw an extensive nationalisation campaign in the mid-70s, which included small and medium companies involved in commerce and the service industry, explaining the great number of concerns involved in the present privatisation programme. The programme is governed by two pieces of legislation, a 1989 bill permitting the sale of state owned enterprises, and the 1991 main privatisation law which establishes the rules of the restructuring process and the re-dimensioning of state-owned businesses, including the privatisation and sale of enterprises, industrial plants, buildings and shares belonging to the state.

Transfer of state-owned companies can be effectuated in several ways: sale by public tender, public offer of shares, private negotiation of restricted tender preceded by pre-qualification, joint venture, transfer or sale of shares to managers and employees, granting of management of lease concessions. Managers and employees have the right to acquire up to 20 percent of shares in companies being privatised.

To date, approximately 740 small, medium and large enterprises have been restructured. Not all ventures have been successful, some companies have turned out not to be viable, whereas other sales have been affected by administrative shortcomings and cumbersome bureaucratic procedures. However, the process has been positive in general and the country is experiencing a substantial increase in production in privatised entities. Most companies have been sold to Mozambican entrepreneurs, although around 50 percent of the equity have come from foreign sources. Main foreign investors are from Portugal, South Africa and the UK.

The privatisation programme is administered by three institutions. The Technical Unit for Enterprise Restructuring (UTRE) deals with large and strategic enterprises, the Office for Restructuring of Industrial Enterprises, Commerce and Tourism (GREICT) deals with the tourism sector and small and medium sized industrial enterprises, and the Unit for Restructuring of Agricultural Enterprises (GREAP) deals with agricultural companies.

During 1997/98 the privatisation of large scale enterprise include the following sectors: sea freight, consumer goods, brewing, sugar cane, tea and copra plantations, irrigations systems, gemstones and insurance companies. The tender process for the partial privatisation of the national airline LAM came to a halt in March of this year. It is possible that a new tender will be launched later in the year. In November 1997 plans to launch a tender to reform the telecommunications sector were released. Telecommunications in Mozambique (TDM) has a monopoly on communication services (except the Internet) and its privatisation, which is planned to take place in 1999, should attract considerable interest from foreign investors. TDM registered a profit of around USD4 m in 1996.

INVESTMENT CLIMATE

Investment Promotion Agency

The Investment Promotion Centre, or Centro de Promoção 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 unfortunately still high.

A step towards the reduction of investment related bureaucracy was the execution of a comprehensive study on administrative barriers to investment at the end of 1996. The study was carried out under the auspices of the International Finance Corporation. A commission examining outdated laws pertaining to the business sector was due to present its proposals to government by December 1997.

Incentives Offered To Investors includes:

- Full exemption from customs duties and consumption and circulation tax on some equipment for green field investments, i e a new enterprise constitution with new buildings.
- Reduction by 80 percent of the Industrial Contribution Tax (corporate tax) and supplementary taxes during the period of recovery of investment expenditures in Niassa, Tete and Cabo Delgado provinces. Reduction by 65 percent of the same taxes for investments located outside other provincial capitals, and 50 percent reduction of taxes for investments in the capitals of other provinces.
- Deduction from the taxable income of operating ventures of 100 percent of investments in new equipment, plant and infrastructure and construction for up to five years.
- Deduction of losses for tax purposes of expenditures on construction, rehabilitation of public roads, schools, sewerage and training of Mozambican workers.

Export Incentives

Mozambique's main effort to expand its export markets are the Industrial Free Zones (IFZ). Investors are invited to develop and/or administer an IFZ, provided they make a minimum investment of USD5m. Companies operating in an IFZ are exempt from all taxes and customs duties. To qualify for IFZ status a company must export at least 85 percent of its production, and a minimum investment of USD50,000 is required. Both developers of and operators in an IFZ are required to pay a royalty of 1 percent of their gross turnover, the former from their 6th year of operation and the latter from their 2nd year of operation. Although the regulations governing IFS came into effect in January the concept has not yet taken off. The first IFZ to be developed will be located in Maputo.

Mozambique is eligible for duty-free exports 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, and has a special trade agreement with South Africa.

Taxation

Companies are taxed at various rates according to their type of business; the rate for industrial companies is 40 percent, for agriculture 35 percent and for commerce and services 45 percent. In addition, there is a circulation tax on invoices of 10 percent. Personal income tax is progressive with a maximum rate of 30 percent.

Investment Code and Protection of Investment

The 1993 Investment Law lays down the framework for foreign and domestic investments, including guarantees and incentives, as outlined above. The law stipulates modalities for remittance of funds abroad.

Furthermore the law 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 take up 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 offers recourse to arbitration through ICSID and the Paris based International Chamber of Commerce.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Mozambique has a vast potential for development, commencing with the development of and/or rehabilitation of infrastructure projects in all sectors of the economy. Other areas of interest to investors include: agriculture, agro-processing, mining, manufacturing, fishing, aquaculture (the culture of oysters, mussels, algae and pearls) and tourism.

Agriculture/Forestry Sector

In particular, 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 rehabilitating its sugar industry, and partners are also being sought for the production of cotton and sisal around Mocuba in Zambezia provinces. 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 being sought by a number of entrepreneurs for the development 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

The reintroduction of sugar production for the local and export markets is already underway and government is seeking additional investment in this industry. Factories in Mafambisse, Xinavane, Maragra and Sena sugar estate have been identified for foreign investment. Negotiations with foreign investors are underway for some of these factories.

Industries in both the centre and the 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

There are openings in prawn, lobster, crayfish and quality dermersal 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 Mozambican coastline has 1,700 km2 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.

Development Corridors

The nerve centre of investment attraction in the economy lies in the development of infrastructural projects in the development corridors (Maputo, Beira and Nacala). There are vast current and potential investment projects in these areas. The more advanced of the three, the Maputo Corridor is described above. The Beira corridor was established some time ago as a transport corridor, mainly for landlocked Zimbabwe. The corridors development potential lie mainly in the exploitation of mineral resources, agriculture, forestry, industry and fishing. A memorandum of understanding between Mozambique and Zimbabwe was due to be signed in March 1998.

The Nacala corridor, connecting the port of Nacala to Lilongwe, the capital of Malawi, is also considered to have great development potential. The project is in the first instance aimed at rehabilitation of the railroad, the port and the creation of an industrial free zone. The rehabilitation of the Cuamba-Lichinga link and the Cuamba- Entrelagos link will ensure a regular link between Nacala and Lichinga, capital of the province of Niassa, and Malawi. It is hoped that the railway line can be extended to Tête on the western side of Malawi's southern end. The rehabilitation of the Nacala port, which is considered one the best natural deep-sea ports in Africa, is aimed at improving its handling capacity. It is estimated that the first phase of the project will cost USD174m. The development potential of the corridor includes agriculture, fishing, forestry and mining. A consortium of Portuguese, US and Mozambican companies was created in January 1998 "Sociedade de Desenvolvimento do Corredor de Nacala" for the development of the Nacala corridor. They are currently negotiating with the national railways company regarding the private management of port and rail services along the Nacala corridor.

Investment Projects

Sector	Project	Description
Hotel and Tourism	• Maputo Elephant Reserve	
	• Machangulo Reserve	
	• "Complexo Sheik" - restaurant and night club in Maputo	Privatisation (contact point GREICT)
	• "Bungalows de Xai-Xai"	Privatisation (contact point GREICT)
	• "Complexo Lagoa Azul" - ex "Motel Serra" in Xai-Xai - Bilene	Privatisation (contact point GREICT)
Industry	• Rice dehulling factory	Privatisation
	• "Fabrica de Cerveja Reunidas (Sogere)" - Beer factory in Maputo	Privatisation (contact point: UTRE)
	• Production of parquet floors in Maxixe	Privatisation
	• "Cegraf" - Printing works in Maputo, production of school books	Privatisation (contact point: GREICT)
	• Animal feed factory in Nampula	Privatisation
	• Milk and dairy products factory in Nampula and Chokwé	Privatisation
	• 60% of a tobacco factory in Malema	Privatisation
	• Sawmills in Panda and in Tsalala	
Agriculture	• Cashew nut plantation	Gaza and Nampula provinces
	• Agricultural enterprises in: Cabo Delgado, Matama, Nante, Nauela, Salamanga and Unango.	Privatisation
	• Cattle farming in: Cabo Delgado, Namacha, Nampula, Manica, Matama, Matola Gare, Pecus, Sofala, Pemba and Licuari	Privatisation
Irrigation	• Chipembe dam – Cabo Delgado	Privatisation
Commerce	• FACIM - Organisation of international trade fairs in Maputo	Privatisation (contact point: GREICT)
	• "Frexpo", Volvo dealer and Hertz rental cars in Maputo	Part Privatisation (contact point: GREICT)
Fishing	• "Aquamar"	Privatisation

STATISTICS (USDm unless otherwise stated)	1992	1993	1994	1995	1996	1997[1]
Population (millions)	14.8	15.6	16.6	17.4	18.0	..
GDP at constant 1990 prices	1,501.6	1,791.4	1,886.4	1,969.3	2,095.4	..
Growth in GDP at constant prices	-0.8	19.3	4.4	1.4	6.4	7.9
GDP per capita (USD)	86.9	94.2	88.0	103.0	122.4	151.8
Consumption as % of GDP	98.2	87.1	80.2	68.8	67.8	90.8
Gross domestic savings as % of GDP	1.4	7.2	1.7	25.0	9.2	31.6
Gross investment as % of GDP	53.4	59.7	60.4	62.2	58.4	45.2
Inflation rate, %	54.5	43.7	70.0	54.2	24.3	
Merchandise exports as % of GDP	10.8	9.0	10.2	11.5	13.0	12.1
Merchandise imports as % of GDP	62.1	58.6	62.7	43.0	40.5	36.1
Capital account of balance of payments	-155.1	-107.0	-22.1	57.6	233.9	157.4
Foreign direct investment as % of GDP	25.3	32.0	35.0	45.0	72.5	..
Overall balance on balance of payments	-406.6	-436.2	-347.6	-256.1	-66.4	-100.7
Average exchange rate: Metical to USD	2,432.4	3,724.4	5,918.1	8,889.8	11,139.7	11,406.3
Total external debt as % of GDP	352.6	318.2	339.3	362.6	327.3	291.8
Total external debt service as % of exports [1]	129.5	87.3	80.3	79.0	63.4	59.4
Budget deficit as % of GDP, fiscal year	-5.0	-3.6	-7.5	-4.0	-5.1	-5.7
Central bank discount rate (end of year), %	43.0	43.0	69.7	57.7	32.0	12.9
Growth rate of M2 money supply, %	7.3	-6.6	26.3	-6.6	13.2	16.6
Domestic credit: net claims on central government	2.0	7.0	-13.0	-30.0	-45.0	-116.0
Domestic credit to private sector	328.0	209.0	261.0	231.0	311.0	444.0

Source: Banco de Moçambique (1998)

1.Preliminary data.

Useful Addresses

Centro de Promoção de Investimentos (CPI), Investment Promotion Centre, P O Box 4635, Maputo Tel: +258-1-42 25 30, Fax: +258-1-42 26 04 e-mail:cpi@teledata.mz

Privatisation Agencies

UTRE (Technical Unit for Enterprise Restructuring), P O Box 4350, Maputo, Tel: +258-1-42 65 15, Fax: +258-1-42 15 41 E-mail: rani@utre.uem.mz website:www.businessmonitor.co.uk, www.ipanet.net

GREICT (Office for Restructuring of Industry, Commercial and Tourism Enterprises), Av 25 de Septembro, 1179,3rd fl, Maputo, Tel: +258-1- 42 45 23,Fax: +258-1-42 85 80

Mozambique Stock Exchange, Commissao Instaladora da Bolsa de Valores de Mocambique (currently establishing a stock exchange), Att: Mr Jossub Nurmamade, President, Av 25 Setembro, 1230, fifth fl, Maputo, Tel: +258-1- 42 72 77, Fax: +258-1-42 72 58

Consulting Firms

Deloitte & Touche, CP 4318, Maputo 2581, Tel:+258-1-420955/430594,Fax:+258-1-423414/429163

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

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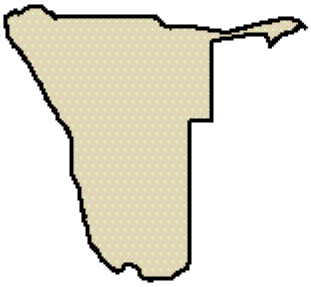
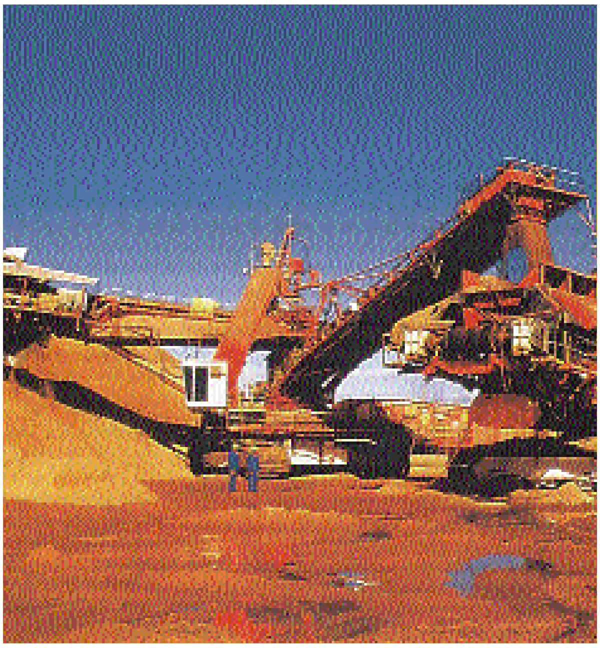
Sociedade Austral de Desenvolvimento , CP 2242, Maputo, Tel:+258-1-430143/430145/422780,Fax:+258-1-423413,e-mail:Austral@Austral.uem.mz

Namibia





The mining industry has been the backbone of Namibia's ecomony.

GENERAL INFORMATION

Geography and Population

Namibia is situated in south western Africa,bordered by Angola, Zambia,Botswana,Zimbabwe and South Africa, and the Atlantic Ocean in the west. The size of the country is 824,269km^2. Namibia is sparsely populated with an estimated total population of 1.6m (1996), or a density of 1.7 people per square km and about a third of the population is urbanized. The official language is English and the other national languages are Herero, Nama/Damara, Kwangali, Oshiwambo, Lozi, Tswana, Afrikaans and German.

The capital, Windhoek, serves as the administrative, legislative and judicial centre for the government. Other larger towns include Walvis Bay, which is an import port and the sea-side resort Swakopmund.

The standard of living is relatively high, Namibia is ranked 118 out of 175 countries in the 1997 UNDP's HDI[1)] - placing it in the medium human development category, together with countries like South Africa (90), Vietnam (121) and Morocco (119). Namibia has a comparatively high literacy rate of 70 percent.

Political Overview

Namibia was formerly known as South West Africa and was under the control of South Africa. In 1966 a liberation war between the South African government and the South West African Peace Organisation (SWAPO) began in Namibia. The armed struggle continued until the South African government withdrew its troops from Angola and, together with SWAPO, committed itself to a cessation of hostilities in 1988.

After talks between the South African government and the UN, Namibia held its first democratic elections on the 1st of May 1990 in which over 90 percent of the electorate voted. A large contingent of UN personnel supervised the elections to ensure that they were peaceful and fair. SWAPO received an absolute majority of votes, and its leader, Sam Nujoma, became President. Elections are held every five years in Namibia, and the President can stay in office for a maximum of two terms. The current political climate is stable.

Sectoral Description

The mining industry consists of more than 40 operational mines and plays an important role in the economy. Some of the most significant minerals produced are diamonds, uranium, copper, zinc, lead, gold, silver, tin, salt, granite, marble 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. Constituting just below 10 percent of GDP in 1996, diamonds still remain the country's foremost leading foreign exchange earner. Apart from local companies, foreign companies originating from Canada, Australia, the UK and South Africa, have also shown considerable interest in the exploitation of the country's resources.

Agriculture is another significant sector, and it is estimated that some 70 percent of the population is directly or indirectly dependent on this sector. 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 exports 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 is fairly modest in size and its contribution to GDP amounts to some 13 percent. Tourism is a growing sector and the unique landscape of the country attracts visitors to the Skeleton coast, Fish River Canyon, Etosha National Park and other areas.

Infrastructure

At present, Namibia is a net importer of energy. The government has for some time explored different options to secure its own energy production. The main route being examined is the controversial Epupa hydroelectric scheme on the Kunene river in the northwest of the country. A feasibility study has been undertaken, but this has received criticism from many sources, regarding the lack of detail concerning environmental impact and the inadequate analysis of alternative options. Other options being looked at include the exploration of natural gas at the Kudu gasfields.

The country has enjoyed an upswing in the coastal infrastructure with the transfer of Walvis Bay from the South African authorities. The deep-sea port enjoys excellent berth

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.

and wharf facilities. It is expected that the volume of cargo passing through Namibia will increase with the recent completion of the Trans-Kalahari or "Coast-to-Coast" transport corridor, linking Namibia with the South African industrial province Gauteng. Further upgrading is to be done to increase the current capacity of 2m tons of freight to up to 5m tons.

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.

The mobile telephone network which covers the country's main 10-15 centres is currently undergoing rapid expansion. The industry offers considerable possibilities for further upgrading. Namibia Telekom was recently transformed into a commercial operation.

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 Macro-Economic Developments

Available data suggest that the real economic growth in 1997 decreased somewhat from 6.5 percent in 1996 to 4.1 percent. Namibia's economic performance is influenced to a great extent by weather and oceanic conditions, as well as international commodity markets. Real output benefited from strong external demand for mining and fish exports, as well as the depreciation of the Namibian dollar. Agricultural activities were affected by the restocking of livestock following the drought. Increase in the interest rates impacted adversely on the retail trade and construction, and subsequently led to a decline in consumption credit.

During the first half of 1997 international reserves declined in response to increase in government expenditure. The government therefore had to introduce measures poised towards reducing expenditure as well as raising additional revenue. Public debt which has been on a declining trend since 1990 was reduced to 21.2 percent of GDP in 1997 reflecting the writing off of the pre-independence loan by the South African Government.

The rate of growth in monetary aggregates, which accelerated in the first half of 1997, showed signs of abatement in the second half of the year. At the end of the year, money supply increased by 7.6 percent compared to 24.3 percent in 1996. Accounting for growth in money supply in the first half of 1997 was a faster growth in net credit to the government and a substantial increase in net foreign assets of the banking system.

The trend in money market rates since the end of 1996 was greatly influenced by expectations of a downward adjustment in the South African Bank rate. The rates rose sharply between November 1996 and January 1997, but thereafter declined throughout the year.

Declining consumption expenditure and import prices during the last two years have contributed in putting a downward pressure on domestic inflation, particularly during the second half of 1997. Rising labour costs, weaker rand and rising food prices in South Africa accelerated the rate of inflation imported into Namibia during the second half of 1996, when the average rates rose to 8.2 percent. In fact the rate of inflation has been falling steadily reaching the lowest year on year rate ever recorded of 6.9 percent in December 1997.

The current account of the balance of payment registered a surplus in 1997. This was brought about by a combination of a decline in domestic expenditure, reduced growth in imports,as well as an increase in the value of merchandise exports.Capital and financial account registered the largest deficit since 1990, however the surplus on the current account led to a rise in international reserves of NAD312m (USD 68m) compared with an increase of only NAD98m (USD23m) in the previous year.

The Namibian dollar is fixed on one-to-one basis with the South African rand, therefore the development of the South Africa rand affects the Namibian dollar directly. In 1996 the Namibian dollar depreciated by 21.9 percent to an average of NAD4.30 against the USD. In 1997 the Namibian dollar declined by 6.7 percent and reached an average of NAD4.61 against the USD. The Namibian dollar strengthened against the German mark in the first three quarters of 1997 but depreciated sharply in the last quarter. Against the British pound, the Namibian dollar gained strength in the first half of the year but depreciated on account of quick growth in the UK economy.

Financial Institutions

The functions of central banking were previously handled by the Reserve Bank of South Africa, and were transferred to the Bank of Namibia in 1990. The Bank became fully operative after introducing Namibia's own currency in September 1993.

Six commercial banks dominate the economy, the largest being First National Bank of Namibia and Standard Bank Namibia. Other financial institutions include building societies, insurance companies and 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 private 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. Accompanying this also is the rapid development of a domestic money market and foreign exchange market. Local interbank lending is limited due to the size of the market, and local banks are often referred to the South African interbank market.

Namibia Stock Exchange

The Namibia Stock Exchange (NSE) began operating in October 1992. The stock exchange is a non-profit organization of listed companies,however.To date the number of companies listed has risen to 33, constituting a market capitalisation of about USD31,804.3 m. The increase in the number of listed companies, particularly from 1995 has been due to growing participation by foreign investors, which also should have boosted market liquidity. A new screen-based-computer-trading system, based on price-time priority dealing rules on a continuous basis, has been developed by the NSE. Settlement is, however, still operated manually. Efforts are afoot for finalising the introduction of a central depository system.

Namibia does not impose capital gains tax or marketable securities tax on share transactions, only special tax for foreigners at 10 percent.

The top five companies in terms of market capitalisation are De Beers, Standard Bank Corporation, First National Bank Holding, Investec, Metropolitan Life. 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					
YEAR	1993	1994	1995	1996	1997
Number of companies with shares listed	6	14	23	27	33
Market capitalisation, USDm	4,438.5	11,008.3	19,164.8	16,237.1	31,804.3
Volume of shares traded, million	0.03	6.13	14.59	68.61	67.2
Value of shares traded, USD million	0.04	16.40	64.43	153.73	195.62
Number of trading days	–	–	–	248	247
Average price-earning ratio of all listed companies, %	–	–	–	15.84	13.13
Average dividend yield (annual average), %	–	–	–	2.38	2.77
NSE Overall Index	123.47	155.74	224.90	218.28	225.90

Source: Namibian Stock Exchange (1998). Original figures in Namibian dollars, converted to US dollars by using the South African Reserve Bank Quarterly Bulletin (March 1998) average year exchange rates except for market capitalisation which is converted using end of year exchange rates.

Foreign Trade

The upgrading of the Walvis Bay port and the completion of the transport corridors will play a major role in boosting foreign trade, which still remains Namibia's important component of overall economic activity. In 1996, foreign trade contributed just over 40 percent of GDP. Main export goods are diamonds and other minerals, prepared and preserved fish, live animals and animal products. Primary goods, largely unprocessed, have in the past formed the largest component of exports. South Africa, UK and Japan are currently the main trading partners.

Trade Liberalisation

A large number of exports do not require a license, but import licences are issued in conformity with South Africa's import regulations. There are no regulations on imports originating from a SACU country.

Foreign Direct Investment

FDI inflows have decreased slightly over the past 6 years. Portfolio investment however, has remained more or less constant, around USD250-300m annually. Net direct investment increased by 38 percent from 1995 to 1996. Mining, retailing and oil exploration in 1996 saw the greatest improvements, and the investment was both in the form of new equity capital (USD67.4m) and reinvested profits (USD64.2m).

Transport-Corridor – Trans-Kalahari Highway

The completion of the Trans-Kalahari highway has put greater responsibility on the Walvis Bay Authorities to enhance the Walvis Bay port's handling capacity, as the volume of cargo flowing through the port is expected to increase. The highway was officially opened early this year. Concomitant to the Trans-Kalahari road project has been the construction of the Trans-Caprivi highway with significant tie-ups with Zambia and Botswana. Furthermore, the Ministry of Works, Transport and Communications is expected to launch a tender for the upgrading of the road between Katima Mulilo and Ngoma in November 1998, and the remaining 98km to Kongola are expected to be completed by October this year.

Through these road projects, it is hoped that overland transportation will become more economical and efficient, particularly for the time sensitive cargo. The decrease in shipping time to Europe or North/South America when using Walvis Bay as opposed to Maputo or Richard's Bay is considerable. However, the lengthy land stretch the cargo has to cover to reach Walvis Bay reduces the economy of using this option. The transport corridor offers potential commercial opportunities, such as the establishment of restaurants, filling stations, etc., that are logically linked to the corridor and are therefore expected to mushroom along it.

In preparing Walvis Bay as a hub port, Namport (a government institution managing the harbour) has developed a plan to upgrade and deepen the port from the current 10m to 12.8m.

Foreign Investments, USDm						
	1991	1992	1993	1994	1995	1996[1)]
Direct Investment	2,101.1	2,293.1	1,550.5	1,598.4	1,717.4	1,626.3
Portfolio Investment	181.5	196.7	268.2	246.8	300.8	240.9
Other foreign liabilities	523.4	519.7	508.5	527.9	590.3	575.6
Total	2,806.0	3,009.5	2,327.2	2,373.1	2,608.5	2,442.8

Source: Namibian Reserve Bank Annual Report (1998). The figures originally in Namibian Dollars were converted into US Dollars using the Rand /US Dollar exchange rate, from the Quarterly Bulletin of the South African Reserve Bank (March 1998).

Note: [1)]Provisional figures.

In the meantime, negotiations with potential financiers are underway in an attempt to satisfy the financing requirements of the project. The targeted development will enhance the port's capacity and reposition it as an 'emerging transit point' on the West Coast.

Privatisation

The process of privatising state assets in Namibia has been going on for the last three years.The Namibian authorities have opted for a gradual process, meaning that initially there will be a hiving-off of non-core functions with the intention of operating the enterprises on a purely commercial basis. In essence, the commercialisation programme should entail the conversion of wholly-owned government enterprises into semi-owned parastatals.The guidelines of the process are laid down in a draft Cabinet memorandum.

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 fulfill 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

To market local manufacturers, the Namibian government has embarked on a series of programmes that will ultimately boost the export industry. Chief among these programmes has been the introduction of export processing zones (EPZ). Arandis near Swakopmund has been a special incentives zone since 1991.Also, in 1995 the government announced an EPZ in Walvis Bay. There are plans of establishing financing institutions allowing for guaranteed conversion of foreign exchange. Activities that qualify for EPZ 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 EPZs, 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:	55 percent
Oil and gas extraction companies:	42 percent plus additional profits tax
Other mining companies:	25 – 55 percent depending on profitability
Individual income tax:	35 percent maximum marginal rate.
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 is located within the Ministry of Trade and Industry and is the officially recognised investment promotion and facilitation office. The centre was founded by the Foreign Investment Act of 1990, focuses on 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 and also provides advice to government on investment trends, policy and the need for new strategies or strategies.

The Offshore Development Company (ODC) has been created for the sole purpose of monitoring, regulating and promoting Namibia's EPZ regime. This is a private company run by the EPZ secretariat whose main task is to provide easy, speedy and efficient processing of investors' applications. The ODC is currently in the process of establishing an Official Financial Service Industry, which will be used as financing vehicle for investors settling in the EPZs.

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 foreigner is treated in the same way as a domestic company in respect of taxation and regulations, and can locate the business activity anywhere. However, there is an exception in the case of exploration of natural resources where the government is entitled to take a stake in the exploitation.

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

Namibia is part of the CMA, within which no restrictions are applied to payments. 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 transferrable.

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 transferrable after tax, subject to auditors' verification of the authenticity of profits. Forward exchange cover for up to one year is available for imports, exports and approved foreign currency loans.

The recent exchange control announcement included the following:

The freeing of blocked funds currently in the custody of the local banking industry which were retained upon emigration from Namibia.

Companies with foreign ownership of 75 percent or more and seeking to borrow in the domestic market will be subject to exchange controls, and those companies below the ownership threshold will be exempt from any exchange controls.

Namibians will be allowed to invest offshore or through an Authorized Dealer and maintain a foreign account up to a limit of NAD350 000, on that the individual is above 18 years of age and his/her tax affairs in good standing.

Legal protection of investment

Foreign investments are protected by the Foreign Investment Act of 1990 as amended in 1993. Namibia is also a signatory to MIGA. In 1990 it signed a bilateral investment treaty with OPIC of the USA, providing guarantees for US private investors. Similar accords were signed with Germany and Switzerland in 1993 and 1994, respectively.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

The best opportunities for foreign investment can be classified in three main target markets,namely:

Export-based opportunities: These are intended to exploit markets in Europe, North America and West Africa.Interested parties will be expected to invest in sectors such as manufacturing (local resource processing, textile and garments, electronic assembly and automotive component supply), the trading and warehousing, break-bulk packaging, shipping and distribution sectors.

Gateway opportunities: Targeted markets are South Africa, SACU and southern and western Africa. Sectors earmarked for investment opportunities are manufacturing (or assembly for regional markets), services and logistics, shipping, warehousing, break-bulk packaging, infrastructural development in Angola and the financial services sectors.

Local resource opportunities: These are aimed at the exploitation of domestic resources market.

Namibia:Projects for Potential Investment

Sector	Project	Description
Energy	Water	Construction of a hydro-electricity plant in Epupa.
.		Building of a sea-water desalination plant in Walvis Bay.
	Gas	Development of upstream and downstream gas field and also the installation of two gas pipelines linking Oranjemund to Walvis Bay covering about 1300kms.
Infrastructure	Transport Corridor	The construction of the Trans-Caprivi Highway to complement the Trans-Kalahari Highway currently in operation.
	Port	Upgrading of the deep-sea water harbour to accommodate the expected increase in trade activity such as the expansion of a container terminal and provision of new equipment.
	Railway	Extension of the railway line into Angola over a stretch of some 550kms.

Sources: Namibian Investment Centre, Ministry of Trade and Industry. (1998)

STATISTICS (USDm unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (millions)	1.5	1.5	1.5	1.6	1.6	1.6
Nominal GDP at market prices	2,757.9	2,556.2	2,926.4	3,162.3	4111.0	–
Real GDP growth rate, %	8.2	-1.9	6.5	4.1	3.0	3.0
GDP per capita,USD	1,898.0	1,705.2	1,893.40	1,948.9	2,007.4	2,067.6
Consumption as % of GDP	88.0	90.2	80.7	86.0	88.8	–
Gross domestic savings as % of GDP	25.7	22.1	29.8	24.1	–	–
Gross investment as % of GDP	20.9	22.6	21.6	22.8	20.9	–
Inflation rate, %	17.7	8.6	10.8	10.0	8.2	–
Merchandise exports as % of GDP	48.1	50.1	45.7	45.3	38.3	–
Merchandise imports as % of GDP	45.8	47.4	43.7	46.6	39.0	–
Capital account of balance of payments	32.6	27.2	43.4	43.6	47.5	–
Foreign direct investment as % of GDP	4.2	1.9	2.1	1.6	4.2	–
Foreign portfolio investment as % of GDP	0.9	3.0	1.3	3.3	0.8	–
Overall balance on balance of payments	-9.12	88.4	74.1	87.7	–	–
Average exchange rate: NAD to USD	2,8520	3.2677	3.5508	3.6271	4.3000	4.6100
Foreign exchange reserves expressed in terms of weeks of import cover	1.5	4.2	6.1	6.1	1.0	–
Total external debt as % of GDP	8.3	7.3	5.5	5.1	4.1	–
Total external debt service as % of exports	2.7	4.0	2.5	2.4	–	–
Budget deficit as % of GDP	-5.5	-4.0	-2.1	-3.8	-8.0	-4.6
Central bank discount rate (end of year), %	16.5	14.5	15.5	17.5	17.8	16.9
Prime lending rate (average for year), %	17.5	15.5	16.5	19.0	19.9	20.2
Growth rate of M2 money supply, %	26.1	20.5	27.9	24.0	24.3	7.6
Domestic credit to government	170.4	189.4	191.7	214.2	230.0	–
Domestic credit to private sector	1,083.5	1,184.6	1,387.2	1,729.2	–	–

Source: Bank of Namibia (1998)

Notes:1). Some discrepancies are evident in figures recieved from Namibia, and it is advisable that the figures in this table be treated with some caution.

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

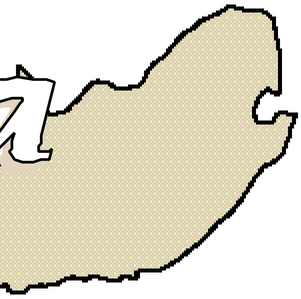
Ernst & Young, P O Box 1857, Windhoek, Tel: +264-61-23 82 60, Fax: +264-61-23 49 91

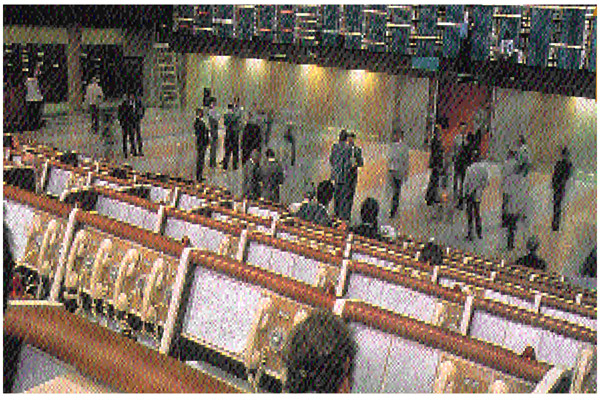
KPMG, Private Bag 13268, Windhoek, Tel: +264-61-22 65 11, Fax: +264-61-23 23 09

Price Waterhouse, P O Box 21616, Windhoek. Tel: +264-61-22 65 85, Fax: +264-61-22 65 88

Trend Line Economic & Management Services, Tel: +264-61-25 90 60. Fax: +264-61-25 90 60

South Africa





Johannesburg Stock Exchange.

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 43.2m living in nine provinces. Each province has its own Legislature, Premier and Ministers. There are eleven official languages, with English being the language of commerce. South Africa was ranked 90th in terms of the UNDP HDI in 1997, and was therefore placed at a similar level as Peru (89), Sri Lanka (91) and Latvia (92), in the medium human development category.

Political Overview

Extensive constitutional negotiations were held in South Africa after the National Party government decided to abandon its policy of apartheid in the early 1990's. During these negotiations it was agreed that a proportionately elected government - namely the Government of National Unity - would rule from 1994 to 1999. The country's first democratic elections were held in April 1994 and Nelson Mandela, leader of the African National Congress party, was elected President of South Africa, along with two Deputy-Presidents, Thabo Mbeki of the African National Congress and FW de Klerk of the National Party. Voters also chose a provincial government for their own province, including a regional "premier" - the African National Congress obtained the majority vote in all nine provinces except for Kwazulu-Natal (Inkhata Freedom Party) and the Western Cape (National Party).

In 1996, the National Party decided to leave the Government of National Unity, in order to form a more effective opposition to the African National Congress. Elections are held every five years and are due to be held again in 1999. President Nelson Mandela has indicated that he will not stand again for the presidency. South Africa's new constitution was adopted in February 1997.

Sectoral Overview

South Africa possesses considerable mineral wealth, with reserves of gold, platinum-group metals, chromium, vanadium, fluorspar, andalusite, nickel, chromium, manganese, antimony, asbestos, diamonds, coal, phosphates, iron ore, lead, zinc, uranium, vermiculite and zirconium. Mining contributed 8.6 percent to the gross domestic product in 1997, with output growing 1.2 percent. Gold has been the main source of foreign exchange for years, but its share of total export receipts has declined to below 20 percent. It is becoming increasingly expensive to mine gold in South Africa because of the depth of the mining required. Over the past year or so, the South African mining industry has experienced significant retrenchments and gold production has dropped steeply. Many South African companies are therefore looking to other African countries for new investments.

South Africa has a dual agricultural economy - a well-developed commercial sector and a predominantly subsistence-oriented sector in the rural areas. Today, South Africa is not only self-sufficient in most major agricultural projects, but, in years without adverse climatic conditions, it is also a net exporter of food. In 1997, agricultural output accounted for 5.6 percent of GDP. 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 predominantly imported from Namibia, Botswana and Swaziland.

Manufacturing output contributed 24.9 percent to total output in 1997, with real output growing in excess of three percent. Major industries include chemicals, food, transport, equipment and iron and steel. Although output has been growing steadily over the past few years, employment in manufacturing has been contracting since 1996.

From being a net importer of timber and timber products, today the industry is a net exporter to the value of more than ZAR 1 bn (about USD 223.3 m) per annum. The forest industry contributes some 14 percent to the total export of manufactured goods.

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 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 and enforced by 130 full-time marine conservation inspectors. The sector will undergo some major restructuring following the passing of the Marine Living Resources Bill in March 1998.

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 - in 1997 alone, tourist arrivals were up 21.5 percent on the previous year. South Africa received approximately one million visitors from overseas in 1997, and three million travellers from the African mainland (for the nine months up to October 1997). The fastest growing segment of tourism in South Africa is eco-tourism which shows great potential as a source of foreign exchange and investment, especially if South Africa is viewed as part of a richly diverse region.

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, the first phase of which was opened in January 1998. Another regional project is the Komati River project, a joint undertaking with Swaziland. The RDP water and sanitation programme aims to ensure that 8.9 million additional people have access to safe water.

South Africa is committed to increase access to electricity from the present 50 percent to 72 percent of households by the year 2000 and in 1997, 271,240 houses received access to electricity. Currently, South Africa supplies more than half of all electricity generated in Africa. Sasol provides 47 percent of South Africaís liquid fuel, which is processed from coal and crude oil.

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. These are serviced by 18 toll plazas. 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.

Portnet controls seven of the 16 biggest ports in the greater southern 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. Durban is the largest and busiest port in sub-Saharan Africa, and is currently undergoing a major expansion programme to increase its cargo volumes.

The Airports Company operates nine state airports, three of which (namely 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 a relatively well-developed telephone network, with nearly 90 telephone lines for every 1,000 inhabitants. However, while the commercial centres have a telecom network that is comparible with "first-world" standards the rural areas are, in comparison, poorly serviced. One of the goals of the government is therefore to provide four million new telephone connections to people in historically disadvantaged communities. Telkom, South Africa's 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. South Africa is the Internet hub for the Southern African region, with over 70 Internet service providers. Access to the Internet in South Africa is currently growing at a rate of 10 percent a month.

Cellular phones have proved to be extremely popular in South Africa. There are two cellular telephone networks in South Africa, and in March 1998 South Africa had approximately 1.8 million cellular phone subscribers.

ECONOMIC OVERVIEW

Introduction

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.

In 1996, the South African government adopted a new economic policy framework, entitled Growth, Employment and Redistribution, or GEAR. The GEAR document puts forward a medium-term strategy for achieving higher growth, creating more employment opportunities and achieving higher growth, creating more employment opportunities and achieving the objective of redistribution. The core elements which make up GEAR include: a faster reduction in the fiscal deficit; a gradual reduction of tariffs; a speeding up the restructuring of state assets; an expansionary infrastructure programme; labour market flexibility within the collective bargaining system; and an expansion of trade and investment flows in Southern Africa.

Recent Macro-Economic Developments

Real GDP is estimated to have grown by 3.2 percent in 1996, compared with 3.4 percent in 1995. However, economic activity subsequently slackened and the growth in the real GDP declined to only 1.7 percent in 1997. In the second half of 1997 output growth slowed down even more and annualised output growth in the last six months was below 1 percent.

The sudden depreciation of the Rand in 1996 and the various policy responses to that event had a powerful influence on economic development in 1997. During the midst of depreciation, uncertainties were created by unfounded rumours about the President's health and speculation regarding liberalisation of exchange controls on residents, and this fostered expectations of rising inflation. The currency weakness emphasised the need to secure a better balance in the economy between aggregate demand and aggregate supply in order to restore investors' confidence and prepare the way for sustainable strong economic growth in the longer run.

Growth in gross domestic expenditure, which reached five percent in 1995, declined to 2.7 percent and 1.4 percent in 1996 and 1997 respectively. Compared to output growth of 3.4 percent, 3.2 percent and 1.7 percent for 1995, 1996 and 1997 respectively, this confirms that the last two years have contributed to a more balanced economy with regard to aggregate demand and supply.

The adjustment process of the past two years had negative short-term effects which were unavoidable if the long-run growth capacity of the economy was to be strengthened. These included a short-term slowdown in the rate of real income growth, and, the decline in domestic employment levels as producers became increasingly cost-conscious and needed to raise efficiency in their business to become internationally more competitive. These short-term adjustment problems were aggravated by the uncertainties created by the economic and financial problems that some East Asian economies encountered during the previous year, and by the sharp decline in the price of gold.

The slowdown in private consumption expenditure, which had already become apparent in the second half of 1996, continued into 1997. Falling employment levels and heightened job insecurity weakened consumer confidence. Households still preferred to maintain a certain minimum spending level by activating their accumulated savings. Together with a further rise in household indebtedness, this caused the household savings rate and the national savings rate to decline to a level inadequate for the financing of fixed investment at a pace compatible with rapid job creation.

As already mentioned, the measures taken in response to the apparent weakness in the overall balance of payments during 1996 had the desired effect of restoring better balance between aggregate demand and supply. The deficit on the current account of the balance of payments in 1997 as a whole, however, changed little from that of 1996. In the course of 1997, an acceleration in total domestic demand in the fourth quarter, a decline in the gold price and international commodity prices and a decline in the ratio of import prices to the prices of domestically produced goods, however, resulted in a widening of the quarterly seasonally-adjusted current-account deficit. Although the deficit also widened relative to gross domestic product, it was still within the limits of sustainability during the fourth quarter of 1997. Aggregate output responded weakly to the strengthening of domestic demand towards the end of 1997. This caused the import-penetration ratio to rise steeply.

The current account deficit in 1997 was accompanied by a strong rise in net inflows of capital which helped to rebuild international reserves. Import cover improved to about 1.9 months worth of imports of goods and services. The net inflows of international capital were mostly in the form of portfolio-type investments, which nevertheless need not be of a speculative nature. A sizeable part of the inflows was related to Eurorand bond issues with fairly long maturities and asset swap arrangements between resident and non-resident investors, thereby assuming the character of longer-term investment.

Consumer price inflation is now firmly on a downward trend. Production-price inflation declined equally impressively and the most recent quarter-to-quarter inflation rates were not completely out of step with the inflation trend in South Africa's major trading-partner countries. Prospects for lower inflation also appeared to have improved, given the new-found stability of the exchange rate and the easing in the growth of private-sector credit. Furthermore, the opening up of the economy increasingly discouraged producers from raising prices in order to remain competitive with foreign suppliers.

The Reserve Bank's guidelines for M3 were kept unchanged at six to 10 percent for 1997. The upper limit of this guideline range continued to be substantially overshot. This coincided until recently with the persistently strong growth in credit extended to the private sector by monetary institutions. By the third quarter of 1997, it had become clear that private-sector credit growth had slowed down.

The decline in private-sector credit growth, the improvement in the overall balance of payments, rising gold and other foreign exchange reserves and the easing of inflationary pressures paved the way for a one percentage point reduction in Bank rate in October 1997. Bank lending rates responded with little delay to the lowering of Bank rate, but the response of money market interest rates was rather muted. This was mainly due to two reasons: firstly, the lowering of Bank rate had already been discounted in the prevailing market-determined rates and, secondly, the decline in the net foreign assets of the Reserve Bank following the financial problems in Asia, widened the liquidity shortage in the domestic money market and put upward pressure on short-term interest rates. Money market rates nevertheless began to subside in January 1998 as the impact of the Asian problems faded and trading conditions in the money and foreign-exchange markets steadied.

Financial Institutions

The South African Reserve Bank, established in 1920, is a privately-owned institution, with about 700 shareholders, accountable to Parliament. It acts as banker to the government, custodian of foreign reserves, supervisor of banks and also formulates monetary policy (in conjunction with the Department of Finance), and exchange rate policy. The Reserve Bank implemented a new system of monetary accommodation in March 1998, whereby repurchase transactions now form the main apparatus to regulate liquidity in the money market.

Commercial banking institutions are regulated by the Banks Act of 1990. The Act stipulates certain prudential requirements to be complied with 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 bond schemes, unit trusts and insurance companies. There are also several development finance institutions in South Africa, the most notable being the Development Bank of Southern Africa, the Industrial Development Corporation, which provides finance to entrepreneurs involved in competitive industries, Khula Enterprise Finance, which focuses on the small, medium and micro enterprise sector, and the Land and Agricultural Bank, which provides the agricultural sector with loans.

In South Africa, the equity, bond and futures market each have their own exchange, namely the Johannesburg Stock Exchange (JSE), the Bond Exchange of South Africa and the South African Futures Exchange, respectively.

Johannesburg Stock Exchange

Established in 1887, the Johannesburg Stock Exchange (JSE) is one of the larger stock exchanges in terms of market capitalisation - in 1997 it was ranked 19th 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, aimed at encouraging the growth of small and medium-sized enterprises which are not able to list on the Main Board. There is also a Venture Capital Market, which is there to assist companies specialising in venture capital projects or single venture capital.

The JSE has made some important strides over the last few years in terms of technology - security and audit trails have been improved, as has transparency, speed of trading, efficiency levels and the level of investor protection. An electronic trading system has replaced the old open outcry system, and an electronic settlement system and central depository is currently being developed (called Share Transactions Totally Electronic, or STRATE), which will mean a change from weekly account settlement to rolling settlement on a contractual basis. The JSE Stock Exchange News Service, an electronic service which disseminates price-sensitive information of listed equities to all market participants simultaneously, came into operation recently.

In spite of the crisis in Asian markets, the JSE had a very good year in 1997. The value of the shares traded in 1997 was 76.6 percent higher than for the same period in 1996. Liquidity increased by 56 percent, from 10.9 percent to 17.0 percent. There was also a growth in activity from non-resident investors, who purchased a net R26.2 billion worth of shares in 1997, up from R5.2 billion in 1996.

A relaxation in exchange controls was announced in the 1998/99 budget recently, whereby firms are now allowed to list on the JSE to raise capital for projects in other SADC countries.

Furthermore, dual listings on the JSE and other SADC exchange are now permitted, as are the issue of SADC depository receipts in South Africa for firms listed elsewhere in the region. Financial institutions' limit for investment in SADC stock exchanges was raised from a maximum of two percent of net annual cash inflow to 10 percent, subject to the overall asset swap limit of 15 percent.

Currently, the JSE's top five companies in terms of market capitalisation are Anglo-American Corporation (USD9.1bn), South African Breweries (USD8.3bn), De Beers (USD7.5bn), Liberty Life (USD6.6bn) and Sasol (USD6.2bn).

surcharges have been abolished and the General Export Incentive Scheme was phased out during 1997. South Africa's tariffs for agricultural products averaged eight percent, mining equipment 1.4 percent, manufacturing 17 percent, consumption goods 28 percent, intermediary goods 6.4 percent and capital goods five percent. 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

JSE - Market Statistics (USDm unless otherwise stated)

	1993	1994	1995	1996	1997
Number of listed companies	647	640	640	626	642
Market capitalisation	217,046	259,523	280,257	241,246	235,318
Number of companies making issues(including new issues, rights issues and bond issues)	40	33	43	52	54
Value of new issues	4,150	2,814	5,375	6,610	50,318
Volume of shares traded (m)	3,646	531	5,148	8,993	17,854
Value of shares traded	13,414	20,157	17,438	27,255	–
Number of trading days	250	250	250	250	250
JSE/Actuaries All Share Index	4,893	5,867	6,228	6,657	6,202
Average price-earnings ratio of all listed companies	23.79	25.29	21.79	18.82	16.88
Average dividend yield (annual)	2.4	2.1	2.3	2.3	2.8

Source: JSE 1998.

Foreign Trade and Liberalisation

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, manufactured goods account for about 70 percent of exports to Africa, where South African products have been very successful, due to competitive prices, shorter supply routes and a good understanding of the African market.

Imports mainly comprise capital goods, raw materials, semi-manufactured goods and consumer commodities, and originate largely from Germany, the USA, the UK and Japan. There is evidence that products from other African countries are losing some ground in the South African market, while, South Africa's exports to SADC jumped 30.9 percent to USD2.5bn in 1996, leading to an increase in the trade imbalance between the South Africa and the region. Germany, the USA, the UK and Japan are also major export markets for South Africa, along with Switzerland and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). South Africa recently concluded a non-reciprocal bilateral trade agreement with Zambia, which should increase trade between the two countries. South Africa's principal exports are gold, base metals and manufactured products.

South Africa is currently in the process of liberalising trade, which, due to the economic isolation, was heavily regulated. Quantitative restrictions have been replaced with tariffs, tariffs have been phased down and their structure rationalised, import

that are considered to be in short supply or that are controlled for strategic purposes.

Foreign Direct Investment

After the change of government in 1994, the net flow of foreign direct investment changed from a negative balance to a positive one. Foreign firms have shown an eagerness to exploit the South African market, enhanced by the depreciation of the Rand and the relative political stability that South Africa has enjoyed since the 1994 elections. Furthermore, many foreign firms use their operations in South Africa to serve the regional, as well as the local market.

The largest investors in South Africa have been United States' firms. Other major investors in the country have been Germany, the UK, Switzerland, France, South Korea and Malaysia. Investment from the Asian continent is a relatively new phenomenon. One of the largest investments into South Africa last year (USD1.3bn) was the purchasing of a 30 percent stake in the parastatal Telkom, by Telekom Malaysia and SBC International (USA).

Multinational corporations have also started, to a certain extent, to integrate South Africa into their global production network, whereby South African operations would be supplying the world market as well as the local market.

Foreign direct investment into South Africa tends to be concentrated in the Gauteng Province, which encompasses the cities of Johannesburg and Pretoria - 80 percent of foreign affiliates are located in Gauteng.

Spatial Development Initiatives

The Spatial Development Initiative (SDI) programme aims to encourage private sector involvement in the provision of infrastructure in areas where there is a large amount of unutilised potential.The programme aims to create corridors of development along various transport routes. Different SDIs have varying sectoral focuses - for example, the Kwazulu-Natal SDI focuses primarily on industry, whereas the Wild Coast SDI is concentrated on the agriculture and tourism sectors. SDIs have also involved a degree of regional cooperation - the Lubombo SDI and the Maputo Development Corridor have linkages with neighbouring countries. Details on these can be found in the Swaziland and Mozambique country profiles.

As part of the SDI project, South Africa is in the process of launching its own version of Export Processing Zones, called Industrial Development Zones (IDZs). The planned IDZs are different from EPZs in that they will not rely heavily on low wages or incentive packages for their success, but instead will focus more on creating a competitive and efficient environment for export production. The emphasis will be on a high level of skills, research and development, technology and workplace organisation, as well as on networks and downstream linkages.

IDZs are likely to be developed close to ports or airports in order to minimise transport cost; among the current areas being considered for development are the Coega harbour (near Port Elizabeth), Saldanha,Richards Bay and the West Bank (East London).

South Africa's Investments in the SADC Region

Investments by South African companies in the SADC region totalled USD 82.9m in fiscal 1997/98. Investments are to a large extent concentrated in the retail sector, . Among the largest investors in the region so far are Standard Bank, South African Breweries, and retail chain Shoprite-Checkers. The mining and energy sectors are also favoured by South African investors.

Some recent investments by South African companies in the SADC region include:

Angola

- De Beers invested an amount of USD26.8m in mining activities in 1997.

Botswana

- Gaborone Private Hospital was the recipient of a USD11.5m investment from Afrox in 1994.

Mauritius

- Nedbank acquired a 20.1 percent stake in Mauritius's second largest commercial bank, the State Bank of Mauritius in 1997.

Mozambique

- The Industrial Development Corporation is financing the proposed USD1.03bn development of an iron-carbide export plant at Maputo
- Alusaf is developing the USD1.59bn Mozal aluminium plant near Maputo
- Gencor may be developing a USD199m mineral sands project north of Beira, as well as a USD298m titanium-dioxide smelter at Nacala.

Namibia

- The iron and steel company ISCOR has invested an amount of USD6.9m in mining and quarrying activities in Rosh Pinah in 1996.

Tanzania

- Randgold is involved in the proposed development of an ore body at Lake Victoria
- Anglo American have acquired a majority stake in a USD125m nickel and cobalt project and is expected to invest USD27m in the Kabanga Nickel Company
- Engen have invested USD19.9m in an oil terminal at the port of Dar es Salaam
- South African Breweries has acquired a 45 percent stake in Tanzania Breweries and a five-year management contract (market share increased from 25 percent to 75 percent in two years and the brewery posted its first profit ever in the second year).

Zambia

- Avmin has acquired the mining rights to the Konkola North copper mine, as part of ZCCM's privatisation
- Investec Bank is financing up to USD23.8m of First Quantum Minerals as Bwana Mkubwa copper project
- Shoprite Checkers, a retail chain, have purchased six trading sector outlets and are planning to invest over USD7.5m in refurbishing and developing the supermarkets
- Zamanglo, a subsidiary of Anglo-American, and Indol International BV, a subsidiary of South African Breweries, have purchased Zambia Breweries

Zimbabwe

- Macmed Health Care invested USD4m in Zimbabwe's pharmaceutical and medical industry in 1997.

Privatisation

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 telecommunications company Telkom was partially privatised in 1997 - winning the bid for a 30 percent stake was a consortium made up of US company SBC and Telekom Malaysia. Sun Air was also sold off last year, for USD9.9m, to a consortium of investors, including Rethabile Consortium, Co-ordinated Network Investments and Comair, and a 20 percent stake in the Airports Company was recently awarded to Aeroporti Di Roma.

A restructuring strategy has been developed for SAFCOL, the state forestry company, in which the government will maintain a minority shareholding of the company. Legislation to corporatise Eskom is due to be presented to Parliament in October 1998. Furthermore, the privatisation of the state's arms company, Denel, will begin with the public offer of its information technology wing, Denel Informatics. The Transnet Group is busy undergoing restructuring, expected to be completed this year - up to 25 percent of the equity of the new company will be sold to a strategic equity partner. The state-owned holiday resort company, Aventura, should be privatised in the coming few months.

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

INVESTMENT CLIMATE

INCENTIVES

Type	Applicability	Benefits
Research & 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 CSIR 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 erect a house. • Erection of at least five residential units to house full-time employees or let to a tenant.	• 50% of expenditure limited to ZAR600,000 (USD 119,100) • 50% of advance/donation limited to ZAR6,000 (USD 1,191) Allowances: – Initial: 10% of the cost – Annual: 2% of cost limited to cost
Depreciation	• Plant and machinery Manufacturing or similar process Hotel equipment Farming • Buildings Industrial Hotels Hotel refurbishments • Non-manufacturing fixed assets	• Rates – 20% p.a. – 2% p.a. – 50%, 30%, 20% over three years • Rates – 5% – 5% – 20% Various - normally 10% - 20 %
Tax Holiday Scheme.	Available to entities incorporated after 1 October 1996, with assets greater than ZAR 3 m (USD 595,500). 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 Scheme must be utilised within ten years of approval. A two year tax holiday is awarded for each of the following criteria 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 Programme	Same applicability as for the Tax Holiday Scheme, except that it is for enterprises with assets of less than ZAR3m (about USD 595,000).	A tax free grant from Government for a maximum of six years in all areas of South Africa. The grant is divided into three components:

INDUSTRIAL FINANCING INCENTIVES

Type	Applicability	Benefits
Multi-shift Scheme	Independent industrialists who must maintain an equity level equal to at least 33% of the value of total assets. 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	To exporters qualifying for Credit Guarantee Insurance Corporation facilities and acceptable South African content	Competitive financing in Rands or US Dollars over a period of 2 - 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

INDUSTRIAL FINANCING INCENTIVES		
Type	**Applicability**	**Benefits**
Low Interest Rate Finance for Export Promotion	Industrialists with total assets of at least ZAR1m (USD 198,500) expanding capacity to serve export markets.This expansion should also create employment opportunities. low rate, with the balance being advanced	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 will be at the at the current rate on ordinary IDC loans.
Small Business Development Loans	Limited to entrepreneurs with enterprises whose gross assets are less than ZAR10m (about USD 1.99m).	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 (abou t USD 79,400) per client.
Ecotourism 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 ZAR 10 million (about USD 1.99 m) 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 ZAR 100,000 (about USD 19,850) 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 ZAR1m (USD 198,500)
EXPORT INCENTIVES		
Export Marketing Assistance	Undertakings registered with the Department of Trade and Industry (DTI).	A portion of specified costs relating to exhibition,market research and travel refunded.
Export Credit and Foreign Investment Reinsurance Scheme.	Undertakings registered with the DTI.	• 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. • Competitiveness: Enhanced through a reduction in the bank lending rate, enabling the DTI to adjust the USD denominated repayments rates downwards.
Steel Rebates and Steel Concessions	Exporters of fabricated steel products where 25% value has been added.	Rebates based on the value of exports.

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 withholding 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, agriculture and long-term 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 established by the Department of Trade and Industry and was launched in February 1997. Its core functions are to promote South Africa as a destination that will attract foreign direct investment and to provide investor facilitation services. Each of South Africa's nine provinces has its own investment promotion agency, and one of the roles of Investment South Africa is to coordinate these activities at a national level, as well as to assist the provinces in developing the capacity to effectively attract and facilitate foreign investment.

Systems to deal with incoming inquiries have been put in place, as well as systems to put interested investors in touch with the relevant private and public sector players. Investment South Africa, in consultation and coordination with the Department of Trade and Industry and relevant agencies such as Khula, implements a backward linkage programme focusing on developing supplier linkages between local SMEs and foreign investors.Furthermore, Investment South Africa is also playing a role in the streamlining of investment regulations.

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 central bank.

Companies that are more than 75 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.Import permits may be required in some cases.

Exporters must ensure that the proceeds of the export are received in South Africa within six 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 transferable. The transfer of directors' fees of over ZAR4,000 (about USD794) per year, management fees and royalties are also subject to approval by the central bank, however. Dividends and interest payments are exempt from normal and withholding tax.

Non-residents are permitted to retain foreign currency accounts.

Companies are allowed to remit an amount of capital abroad, with extended limits for the acquisition of fixed property in SADC countries.The Minister of Finance announced an increase in these amounts during his 1998/99 budget - the amount for SADC countries was increased from ZAR50m (USD9.9m) to ZAR250m (USD49.6m), while the amount for other countries was increased from ZAR30m (USD6m) to ZAR50m.

Investment Code

South Africa's export insurance scheme provides exporters with insurance facilities to cover normal commercial insolvency and political or 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 and is a member of MIGA.

Investment Opportunities

Because South Africa has been cut off from world markets for some time, the country's 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.

The process of 'unbundling' also offers some investment opportunities. Because of isolation during the apartheid years, companies could not expand outside the country's borders and so acquired a large number of non-core businesses - South African Breweries, for example, owns Edgars, a retail chain. Many South African conglomerates are now in selling off their non-core businesses - ZAR32bn (USD6.35bn) worth of unbundling deals occurred during 1997.

Furthermore, portfolio investment opportunities will be created by the demutualisation of two of South Africa's biggest companies, Old Mutual and Sanlam, both of which are in the life assurance industry. The companies have, over the years, built up huge free reserves; these reserves will now be offered to policy holders in the form of shares. As a result, new shares to the value of approximately ZAR80bn (USD15.9bn) will be available on the market within the next two years, and the planned listing of these two companies on the JSE is estimated to boost the exchange's market capitalisation by around six percent.

PROJECTS

Sector	Project/Description	Amount
Ship repairs, Medium/heavy engineering	Richards Bay Dry Dock Project – involves the building of two dry docks and five float berths. Foreign cooperation in the form of equity and/or loan financing is sought.	USD146m
Infrastructural development	Passenger terminal at Durban – expansion/modernisation to handle 1000 harbour passengers at a time. Conference facilities to accommodate 500 delegates. Shipping Services Centre with approximately 500 offices.	USD19.9m
Tourism	Manzengwenya on the Kwazulu-Natal North Coast. 40 bed lodge/chalet complex.Investment in the development of the site and potential participation in management of the tourism operation is sought	USD5m
Housing	Village development at Pilgrims Rest, Mpumalanga Province. 200 new houses, including reticulation infrastructure such as water, electricity and sanitation.	USD19.9m
Automobile industry	Production of aluminium alloy cast engine blocks in the Western Cape. 100 percent equity financing is required.	USD39.7m
Printing and paper	Production of linerboard imported pulp, mainly for the export market.	USD109.1m
Eco-tourism	St Lucia Wetlands. Tourist accommodation, community resource centre, cultural village, refreshment kiosk and curio stalls. Foreign investment partnerships are sought.	USD7.3m
Tourism	Yellowwoods Resort and Golf Estate in Port Elizabeth. Joint venture partner required.	USD148.9m
Tourism	Development of a nature conservation and tourist infrastructure in the Graaf-Reinet area. Includes turning existing dwellings into tourist accommodation and establishment of a lodge. Wildlife tourism project.	USD15.9m

STATISTICS (figures in USDm unless otherwise stated)	1991	1992	1993	1994	1995	1996	1997
Population (millions)	38.0	38.9	39.7	40.6	41.4	42.3	43.2
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	129,112
Real GDP growth rate, %	-1.0	-2.2	1.3	2.7	3.4	3.2	1.7
GDP per capita , USD	2,956	3,077	2,957	2,997	3,232	2,987	2,989
Private consumption expenditure as % of GDP	59.2	61.4	60.4	60.2	60.8	60.9	61.6
Gross domestic savings as % of GDP	18.9	17.1	17.2	17.1	16.8	16.5	15.2
Gross domestic fixed investment as % of GDP	17.8	16.6	15.5	16.0	16.9	17.0	17.4
Inflation rate, %	15.3	13.9	9.7	9.0	8.7	7.4	8.6
Total merchandise exports as % of GDP	20.7	20.1	20.6	20.5	21.4	23.0	23.5
Total merchandise imports as % of GDP	15.3	15.2	15.6	17.7	20.2	21.4	22.0
Capital account of balance of payments	-780	-1,651	-4,665	1,219	5,303	897	35
Foreign direct investment as % of GDP	0.0	-0.7	-0.3	0.2	0.1	–	-2.1
Foreign portfolio and other investment as % of GDP	-0.2	-0.1	0.9	1.8	1.3	–	7.9
Overall balance on balance of payments	1,460.0	93.6	-2,813.8	879.2	2,502.6	-1,076.0	2,482.0
Average exchange rate: ZAR to USD	2.7609	2.8516	3.2667	3.5497	3.6270	4.2964	4.6073
Foreign exchange reserves expressed in terms of months of import cover	1.5	1.9	1.3	1.2	1.4	1.3	1.9
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 (including transfer payments)	-4.7	-9.0	-9.8	-5.7	-5.4	-5.1	-5.6
Central bank discount rate (end of year)	17.0	14.0	12.0	13.0	15.0	17.0	16.0
Prime lending rate (average for year)	20.3	18.8	16.7	15.6	17.9	19.3	20.05
Growth rate of M2 money supply	15.7	10.8	4.0	20.6	13.9	15.8	18.7
Net domestic credit to government	1,313.7	2,360.5	2,193.6	4,369.7	1,599.1	2,160.0	9,896.0
Total domestic credit to private sector	70,228.5	68,585.3	67,619.2	75,878.9	86,647.0	78,362.9	86,328.0

Source: South African Reserve Bank (1998)

USEFUL ADDRESSES

Investment Promotion Agency

Investment South Africa, PO Box 782084, Sandton,2146. Tel:+27-11-8842206, Fax:+27-11-8843236

Department of Trade and Industry, Private Bag X84. Pretoria,0001. Tel:+27-12-3109786, Fax:+27-12-3220149

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

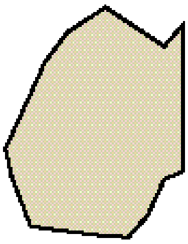
Imani Capricorn Economic Consultants (Pty) Ltd, Suite 102 Field House, 25 Field Street,Durban,4000,Tel: +27-31-304 7201, Fax: +27-31-307 1506

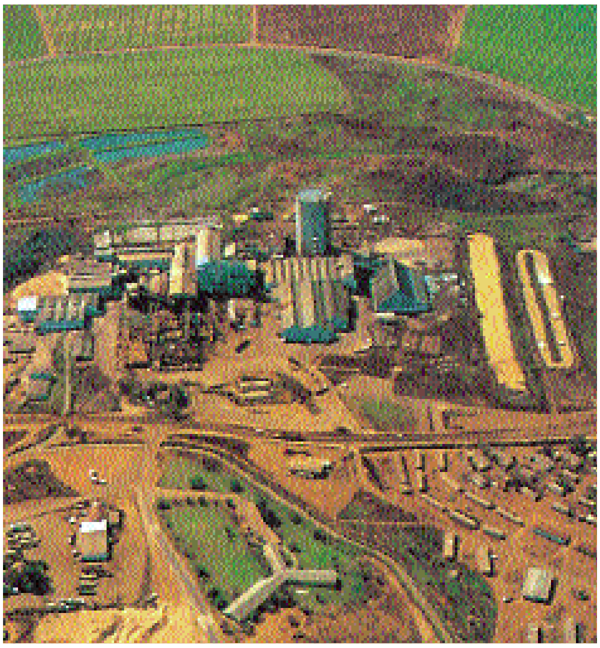
KPMG, P.O. Box 7400, Johannesburg,2000. Tel: +27-11-332 7111, Fax: +27-11-331 9517

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

The ranking is based on life expectancy at birth, adult literacy, combined primary, secondary and tertiary education enrolment ratios and adjusted r

Swaziland





Agro-Industry forms one of the cornerstones of Swazilands ecomony.

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 1.0 m inhabitants. The annual population growth rate is 2.7 percent. Swaziland was ranked 114 in the 1997 UNDP Human Development Index[1] - which can be compared with South Africa (90) and Namibia (118).

Political Overview

Swaziland's system of governance is traditional and community-oriented, and does not consist of conventional parties. The King is the Head of State. Through decentralised constituencies, the electorate nominates candidates to stand for Parliamentary elections, and the King appoints a Prime Minster, who in turn advises the King on the appointment of a Cabinet. The Swaziland political system has suffered some criticism during the past three years, with worker demonstrations and stay aways. The criticism has subsequently led to reforms which are to be enshrined in a written constitution as supreme law of the land, and will include a Bill of Rights.

Sectoral Description

Agriculture has traditionally been the key sector in the country's economy and as a foreign exchange earner, with more than two-thirds of Swaziland's working population dependent on it for their livelihood. Swaziland's manufacturing sector is, however, the largest contributor to GDP, averaging 35 percent over the past five years and the sector is composed of agricultural processing industries, textiles, food and beverage, wood and light industrial goods.

Livestock keeping is another important economic activity, particularly cattle farming. Also, the country is endowed with some mineral wealth such as asbestos, coal and diamonds. However, the mining industry suffered a setback following the closure of Dvokolwako Diamond Mine in 1996.

Tourism is another important revenue earner for the country. Swaziland has much to offer to regional and overseas visitors as an attractive tourist destination in terms of the nature reserves, wildlife, sports and a wide selection of handicrafts. Tourists continue to decline as a result of competition from South Africa and Mozambique. This has put pressure on the government to improve the tourism climate in the country if it is to remain among premier tourist spots.

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 supports close to 4.5m tonnes of freight a year, and provides an important link for the country's imports and exports. Recently a passenger train linking Maputo in Mozambique and Durban in South Africa via Swaziland started operating. 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, while efforts by both the Government and the Swaziland Post and Telecommunications Corporation are at an advanced stage in preparing for the provision of a cellular network.

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, in particular 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.

[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.

Recent macro-Economic Developments

For 1997, economic growth is projected to remain at 1996 levels, judging from estimates produced by the Ministry of Economic Planning and Development, which put growth at 3.8 percent. With the recently estimated population growth of 3.3 percent per annum, this state of affairs implies a slight increase in real GDP per capita, indicating marginal improvement in the standard of living of the Swazi people.

The robust economic performance is expected to stem largely from a strong recovery of the agricultural sector and an expanding manufacturing sector. The good rains received since the beginning of 1996 and throughout 1997, despite concerns of negative El Nino effects, are expected to improve agricultural production.Economic growth during 1997 could have exceeded the projected growth, had it not been for the stay-away in February 1997, which extended over an unprecedented 5 weeks. The manufacturing sector's contribution to GDP at factor cost, improved marginally to 35.7 percent in 1997 from 35.1 percent the previous year. However, the strong performance of this sector has been impaired in recent years,as a result of a slowdown in foreign investments. Since the early 1990s Swaziland's balance of payments posted an overall surplus of SZL66.1m (USD15m) in 1996, from a surplus of SZL108.2m (USD30m) in 1995. The financial account, excluding reserves, posted yet another net outflow of USD48m in 1996 from an outflow of USD44m the year before.

The trade account continued to deteriorate during 1996 to record a deficit of USD158m from USD135m the year before, as a result of comparative slower growths in exports against imports.

Foreign direct investment recorded a net inflow of USD39m in 1996,from an inflow of USD7m the year before. No major new capital injections were recorded in 1996, save for an increase in reinvested earnings, as some companies expanded their operations. The tentative position for 1997 indicates a net inflow of USD25m.

On the monetary front, net foreign assets registered an increase of about 16.7 percent the previous year. Export proceeds, mainly from the manufacturing sector, were responsible for the improved position. This increase was also supported by a firmer lilangeni exchange rate against major trading currencies, particularly during the first half of 1997. The reserves reflected 3.6 months of the country's estimated import cover at the end of December, the same level as in 1996.

Government net credit position with the banking system during the same period amounted to USD196m, 18.5 percent above the previous year's level. The position was supported by periodic inflows of customs and tax receipts. Credit to the private sector rose by 15 percent over the year ended December 1997.

Interest rates continued to be slightly below those ruling in South Africa during the year ended December 1997. The general structure of interest rates was revised downward 1 percentage point in October 1997 and again early 1998, following a similar move in South Africa.

Total debt stock stood at USD168m at end March 1997, an increase of only 3.5 percent over the year. The increase in the debt is a result of the continued depreciation of the lilangeni against some major currencies, in which the country's debt is nominated, coupled with disbursements from existing loans during the course of the year. Total debt service increased in 1996/1997, to record USD21m, from USD14m, a year before, largely constituted by capital repayments. The country's external debt structure did not change over the year 1996, with the dominating share still being that of central government at 93 percent.

On the fiscal side, an encouraging result was achieved in 1996/1997. Preliminary figures for 1997/98 point towards a modest estimated surplus of E0.7m

It is encouraging to note that the government has emphasised the need to intensify the internal structural adjustment programme started during the 1995/96-budget period. In order to improve its revenue, a new taxation bill that aims at diversifying the revenue base will shortly be tabled in Parliament for approval.

Financial Institutions

The Central Bank of Swaziland was established as the country's monetary authority in April 1974 and assumed its operative functions in 1979. The mandate of the Bank includes the issue of currency, clearing and settlement of payments, supervision and inspectorate of banks, management of reserves, service and redemption of domestic debt, administration of exchange control, and formulation and implementation of monetary policy. There are three lending schemes that are operated by the Central Bank. These consist of the Export Credit Guarantee Scheme, the Small Scale Enterprise Loan Guarantee Scheme and the Public Enterprise Loan Guarantee Fund. There are commercial banks in Swaziland: First National Bank of Swaziland, Standard Bank Swaziland, which acquired Barclays Bank on 1 January 1998, and Nedbank Swaziland (formerly Standard Chartered Bank). There is also one development bank, Swaziland Development and Savings Bank, and a building society.

Commonly used securities in the money market include stocks, treasury bills, bank acceptances, negotiable certificates of deposits.

Swaziland Stock Exchange

In the seven-year period of its operation Swaziland's stock market has listed the following companies; Masterfridge Limited, The Royal Swaziland Sugar Corporation Ltd, Nedbank Swaziland Ltd, and Swazispa Holdings Limited. The number of listed companies dropped to four after the de-listing of Lonrho Sugar Ltd, in 1997, hence the fall in the exchange's market capitalisation. Lonrho Sugar Ltd constituted about 66 percent of the total market capitalisation prior to de-listing. Due to this, the volume of traded shares in 1997 leaped substantially to over 134m.

Swaziland Stock Market

YEAR	1993	1994	1995	1996	1997
Number of companies with shares listed	4	4	4	5	4
Market capitalisation,USDm	296.7	338.2	338.5	471.2	129.5
Number of companies making issues (including new issues, rights issues and bonus issues)	1	-	-	1	-
Volume of shares traded (m)	0.03	1.03	0.26	3.31	134.14
Value of shares traded, USDm	0.03	2.08	0.38	2.16	357.43
Number of trading days	249	254	250	245	248
Average price-earnings ratio (annual average), %	11.5	10.6	7.4	9.7	6.8
Average dividend yield, %	5.0	5.6	5.7	5.2	9.1
SSM Index (July 1990=100)	101.5	132.7	136.8	192.9	114.1

Source: Swaziland Stockbrokers Ltd (1998).

Foreign Trade

Swaziland's economy is mainly export-oriented, with exports totalling 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 and USA. Import goods include machinery and transport equipment, manufactured goods chemicals and food products.

Trade liberalisation

Swaziland is a member of the Southern African Customs Union (SACU) together with other countries such as Botswana, Lesotho, Namibia and South Africa. There are no import restrictions on goods sourced from any of the member countries,whereas those from outside the union are licensed as required by specific import regulations. Import licenses granted in Swaziland entitle the holder to purchase foreign exchange necessary to effect the import payment.

Foreign Direct Investment

Increasing competition from neighbouring countries, particularly South Africa, has had a negative effect on the inflows of foreign investment into Swaziland, resulting in an erosion of FDI stocks and a stagnation in new inflows.The bulk of investment has during the past few years been composed of re-invested earnings from existing undertakings. Recent inflows of fresh foreign capital was for the establishment of a bus/truck manufacturing factory and a textile manufacturing operation.

The table below pictures FDI stocks over a period of six years. The manufacturing sector has received the largest share of foreign investment, amounting to USD0269,4m or 60 percent of total investment in 1997, followed by agriculture and services.

FDI originates mainly in South Africa,Europe and Asia.

The government has responded to the unfavourable development by reviewing and improving the investment climate and establishing an investment promotion agency.

Total Foreign Direct Investments Stock in Swaziland by Sector

Sector	1992	1993	1994	1995	1996	1997
Manufacturing	232,202.7	254,078.3	271,118.2	317,912.3	261,640.8	269,353.3
Services	63,212.7	66,830.7	62,672.5	68,347.2	48,236.3	48,454.2
Miscellaneous Investment channelled through SIDC and Tibiyo.	60,528.8	64,191.0	104,275.4	70,356.0	61,150.4	55,935.2
Agriculture	61,748.3	49,022.5	40,949.4	53,703.8	49,756.4	52,025.8
Finance	13,230.4	20,646.2	18,963.1	18,784.1	11,414.7	5,684.7
Mining	6,546.3	7,274.1	8,641.7	1,709.2	1,720.6	2,649.3
TOTAL	437,469.2	462,033.5	506,620.4	530,812.6	433,913.0	444,418.6

Notes:The figures were converted using the Rand/US dollar exchange rate from the South African Reserve Bank's Quarterly Bulletin of March 1998. The Swaziland's currency and the South African Rand are part of the Common Monetary Area and are convertible at par.

The Lubombo Spatial Development Initiative

The Lubombo Spatial Development Initiative (SDI), adjoining the Maputo development corridor, is a partnership of the Governments of Swaziland, South Africa and Mozambique and is expected to provide the necessary growth stimulus to the Lubombo area.

The main focal points include areas such as the Maputo Province in Mozambique, the north-eastern parts of Kwa-Zulu Natal in South Africa and eastern Swaziland. The development initiative will open up unique opportunities to vast stretches of coastline (about 350km), wildlife covering over 300,000 ha of game reserves and significant agricultural development. The Lubombo SDI is viewed as complementing the Maputo corridor, thereby creating an exceptional investment zone. There are plans to upgrade roads joining Richards Bay in South Africa and Maputo; and on the other hand, to improve the current N2 linking Richards Bay and Lavumisa/Namacha/Goba in Swaziland to accommodate future traffic volume.

A number of transitional tourism projects offering integrated wildlife experiences are currently being developed in areas such as Nduma (joining Tembe, Futhi, Usuthu George and covering wildlife in all three countries), Lavumisa-Pongola project with opportunities for recreation and leisure activities, Kosi Bay/Ponto Do Ouro project offering opportunities for beach resorts and marina, and Hlane/Mlawula Wildlife Zone.

Also, various national projects have been developed. These include the Greater St Lucia Wetland Park (South Africa), Lake Sibayi (South Africa) and numerous others involving Swaziland and Mozambique.

Governments from all three countries have created SDI structures to co-ordinate overall activities pertaining to the Lubombo SDI. In order to accelerate participation by private investors and the forging of strategic links with the public sector, priority has been given to an improved investment climate and the streamlining of investment procedures.

Privatisation

The task of privatisation in Swaziland seems less daunting than in other SADC countries, due to the modest size of public ownership. In total, some 25 enterprises are either fully or majority-owned by government, with a minority interest in some smaller companies.

The process has been commenced by the commercialisation of Swaziland Railways, and the restructuring of the Swaziland Development and Savings Bank. The monopoly status granted to the Swaziland Royal Insurance Corporation will also be lifted, and the process of acquiring a strategic partner for the national airline, Royal Swazi Airways has been ongoing for some time. Furthermore, the restructuring of the Swaziland Post and Telecommunications Corporation, a parastatal established in 1986, is on the cards. It is believed that the company will be split into a holding company with rights over the entire network system, and an operating company, which should be responsible for providing services. Additionally, provision will be made for a strategic partner to acquire a minority stake, including possibly the issue of a cellular license.

The government has created a special monitoring unit, known as the Public Enterprises Unit, to evaluate the performance of specific enterprises, and to prepare them for commercialisation or privatisation. The stipulated enterprises are required by law to submit quarterly financial reports to the unit, with recommendation sent for sanctioning by the Cabinet.

INVESTMENT CLIMATE

Investment incentives

Highlights of the incentives include:

The five-year tax exemption for new manufacturing companies involved in exports has since been phased out. New tax reforms, to be implemented soon, are aimed at reducing the level of corporate tax from 37.5 percent to 30 percent leading to 25 percent in the medium term. 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 the 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 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 (will be reduced to 30 percent during 1999).

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

Swaziland Industrial Development Corporation (SIDC), a jointly-owned by the government of Swaziland and five international development finance institutions, is the principal development finance institution. Its chief activities, therefore, involve the provision of long-term loans, equity financing, asset leasing, acquisition of industrial land and buildings, and providing technical advice and guidance to both local and international investors. Some of the projects that are likely to receive support from the institution include the manufacturing, mining, agro-industry, tourism,commerce and service sector.

The Ministry of Enterprise and Employment, launched SIPA (Swaziland Investment Promotion Authority) in April this year. This is to be a one-stop facility and its primary functions include the promotion of tourism-related investments, mining, export-oriented and labour-intensive industries, and resource-based sectors. It should also serve as a gateway to investors seeking to establish businesses in the country.

Tibiyo is an investment promising entity established by the late King Sobhuza 11 for the Swazi Nation, which has interests in virtually all sectors of the ecomony.

Investment Code

An Investment Code, consisting of revised investment incentives, was developed and adopted during 1997. The code outlines investment regulations and incentives.

Exchange Controls

No restrictions are applied to payments within CMA.

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

As a signatory to MIGA, Swaziland guarantees against nationalisation and expropriation of private enterprise.

INVESTMENT OPPORTUNITIES AND PROJECTS

Opportunities

Investment opportunities in Swaziland are mainly found in the processing of the country's natural resources, both agricultural and mineral. Sugar is produced from the vast sugar cane plantations, but it could also be used to manufacture sweets and confectionaries. 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.

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	Power grid "interconnect" between Swaziland and Mozambique and also a fourth feeder line 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 have to be supplied.
Manufacturing	Various value added products	Production of such products as sugar, citrus fruit, and wood-pulp.
	Various agro-related products	Sugar, animal feed, cotton ginning, yarn and fabrics,paper processing and pulp products and wood products.
	Medical equipment	Tenders for supply of goods such as wheel chairs and physical therapy equipment
Services	Telecommunication equipment and services	Establishing a Swaziland base station for cellular phones.
Forestry	Afforestation and charcoal	Resource-based project aimed at producing an alternative source of energy utilizing the abundant wattle forest.
Tourism	Hotel complex	Develop a prime plot located in the heart of Mbabane, and to incorporate shopping facilities, office and parking space. Develop hotel in the Lowveld for ecotourism, watersports and game.
	Road networks	Mbabane-Ngwenya/Oshoek border Mankayane-Sicunusa

Source: SIDC (Swaziland Industrial Development Company),1998.

STATISTICS (USDm, unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (m)	0.8	0.8	0.9	0.9	0.9	1.0
Nominal GDP at market prices (USDm)	969.5	1,246.3	1,457.0	1,776.0	1,959.9	2,034.4
Real GDP growth rate, %	1.0	3.1	3.5	2.7	3.9	3.8
Real GDP per capita,USD	577.12	634.1	635.3	631.6	635.5	–
Consumption as % of GDP	87.0	100.4	79.8	74.1	79.1	81.1
Gross domestic savings as % of GDP	33.23	33.9	30.0	25.9	26.4	26.4
Gross investment as % of GDP	26.1	26.6	32.1	33.1	31.2	28.7
Inflation rate, %	11.0	12.4	13.7	7.9	6.5	7.3
Merchandise exports as % of GDP	74.3	79.7	92.0	101.0	104.3	111.8
Merchandise imports as % of GDP	89.0	-89.8	-95.1	-113.2	-119.7	-131.7
Capital account of balance of payments, USDm	-0.1	0.0	-0.2	0.0	0.1	0.1
Foreign direct investment as % of GDP	2.68	4.4	-0.1	0.5	3.4	2.0
Foreign portfolio investment as % of GDP	-0.1	-0.1	-0.4	-0.1	-0.1	0.3
Overall balance on balance of payments, USDm	87.7	-63.7	-12.5	29.8	15.4	25.3
Average exchange rate: SZL to USD	2.85	3.27	3.55	3.63	4.30	4.61
Foreign exchange reserves expressed in terms of months of imports cover	4.9	3.9	3.0	3.2	3.6	3.6
Total external debt as % of GDP	26.2	21.3	23.3	17.7	19.7	21.7
Total external debt service as % of exports	3.0	2.9	3.0	2.2	2.4	2.0
Budget deficit as % of GDP	-1.7	-5.3	-5.2	1.5	-1.1	0.2
Central bank discount rate (end of year), %	12.0	11.0	12.0	15.0	16.8	15.8
Prime lending rate (average for year), %	15.0	14.0	15.0	18.0	19.8	18.8
Growth rate of M2 money supply, %	19.7	13.8	10.9	3.9	16.3	19.4
Domestic credit to government,USDm	-206.6	-152.3	-112.3	-165.4	-187.2	-206.9
Domestic credit to private sector, USDm	211.5	222.9	245.2	238.3	216.3	233.7

Source:Central Bank of Swaziland (1998)

USEFUL ADDRESSES

Investment Promotion Agency

Swaziland Industrial Development Company Limited (SIDC), P O Box 866, Mbabane, Tel: +268-433 91, Fax: +268-456 19

Swaziland Investment Promotion Authorityº (SIPA),Ministry of Enterprise and Employment, P O Box 451, Mbabane, Tel:+286-41979. Fax:+268-44711

Consulting Firms

Coopers & Lybrand, P O Box 569, Mbabane, Tel: +268-428 61/2/3, Fax: +268-450 15

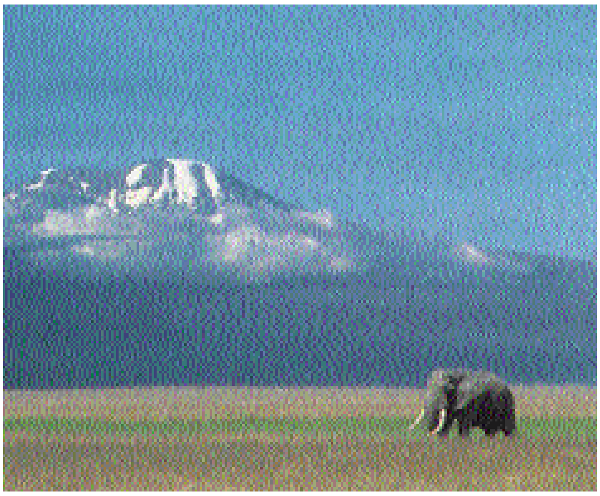
Deloitte & Touche, P O Box 1177, Mbabane, Tel: +268-428 65, 414 96, 428 68, Fax: +268-461 40

Ernst & Young, P O Box 210. Mbabane, Tel: +268-420 15/6/7, 444 81. Fax: +268-450 12

Fisher, Hoffman, Sithole Consultancy, P O Box 1478, Mbabane, Tel: +268-449 92, Fax: +268-460 88

JTK Associates, P O Box 926. Mbabane, Tel: +268-439 47, Fax: +268-439 72

Tanzania



Snow capped peaks of 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. The United Republic of Tanzania's territory, of 945,000km^2 consists of mainland Tanzania and the Indian Ocean islands which make up Zanzibar. Tanzania's neighbours are Kenya, Uganda, Rwanda, Burundi,Zaire, Zambia,Malawi and Mozambique.

The population was estimated at 29m in 1997, with an annual growth rate of 3.0 percent. Slightly more than half of the population is between 15 and 64 years of age, and approximately 20 percent of the population live in urban areas. Tanzania was ranked 149th in the 1997 UNDP Human Development Index[1]. KiSwahili is the official, universally spoken language in Tanzania. English, also an official language, is the language of commerce.

Political Overview

Multi-party politics was introduced to Tanzania in 1991. Currently the Chama Cha Mpunduzi (CCM) party are in power, under the leadership of President Benjamin Mkapa, who was elected for a five-year term in 1995. Since the CCM hold 214 of the 275 parliamentary seats, a change of government in the next few years is unlikely. Central to Mkapa's government policy has been a crackdown on government corruption, where some progress has been made.

Zanzibar has its own parliament, president (currently President Amour, a CCM candidate), legislature and law enforcement agency. Allegations of rigging and irregularities followed the 1995 elections, however, causing some political tension on the islands.

Sectoral Overview

Tanzania is rich in mineral resources. Investment is, however, required to upgrade technology and renew ageing 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 and new commercial mines are also being developed with foreign partners. Some analysts are predicting that Tanzania could become the third biggest gold producer in Africa, after Ghana and South Africa. Other minerals include gemstones, 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 80 percent to the country's foreign exchange earnings. The focal point of the government's reform programme is the farming sector, and is relying on this agriculture to help it achieve its goal of six percent growth by the year 2000. The main form of agriculture is crop farming, which constitutes about 80 percent of total agricultural production. Animal husbandry makes up 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. Furthermore, the horticulture industry is developing rapidly in the area around Arusha and Moshi. In spite of the importance of agriculture in Tanzania's economy, about 85 percent of the country's arable land remains unutilised. The reasons for this include erratic rainfall, outdated farming methods, and lack of finance for small farmers.

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 (700,000m3 per annum) is softwood from 18 national plantations.

Tanzania has abundant lakes (six percent of the total mainland area) with substantial fish resources. While traditional methods are still used on the inland lakes, modern fishing techniques are being employed in the coastal waters. There are plans to expand the prawn farming industry, an industry with great export potential; however, there is some controversy over the ecological damage which the project could cause.

The manufacturing sector contributes a very small share of national income. The sector is dominated by agro-processing industries, and is still heavily reliant on imported inputs. An increased pace of privatisation and adequate supply of power and water are required to achieve sustainable growth in the sector. Growth in manufacturing is also hampered by a small domestic market.

Tanzania's vast game reserves cover nearly one-third of its total area - attractions include the Ngorongoro Crater, Serengeti Plains, Mount Kilimanjaro and Lake Mayara. Apart from numerous world renowned game reserves, Tanzania also

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

possesses an unspoilt 800km stretch of the Indian Ocean coastline, as well as the 'spice islands' of Zanzibar and Pemba. The government encourages private investment in 'up-market' tourist developments, including joint ventures with the Tanzania Tourism Board. Tanzania received 310,000 visitors in 1996 and tourism currently accounts for about eight percent of GDP, but the sector needs a substantial amount of investment before it can reach its full potential.

There is also potential for oil mining and exploration off the Tanzanian coast, as well as certain inland areas. Drilling for oil has been taking place since 1952. One project which will soon be underway is the Songo Songo gas to electricity project,located on Songo Songo island. There are special incentives available for companies planning to invest in oil exploration in Tanzania (see section on investment incentives)

Infrastructure

The national Urban Water Authority administers urban water supply, and regional water engineers service the rural systems through local/village governments. The UNDP estimates that about 38 percent of all Tanzanians have access to safe water and 86 percent to sanitation.

Petroleum meets nine percent of energy needs, while hydroelectricity and coal provide 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. Restrictions on power use are applied in drought times, reducing the efficiency of Tanzania's manufacturing sector. The privatisation of the Tanzanian Electricity Supply Commission should improve the reliability of power supply.

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 82,000 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's Copperbelt. 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. All ports are managed by the Tanzania Harbour Authority, except for Zanzibar which is managed by the Zanzibar Ports Corporation.

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, and Tanzania has an average of three telephones per 1000 persons (1994), although the aim is to increase it to one per 100 persons by the year 2000. The telephone system in Dar es Salaam is being rehabilitated in a five year project due to end in 1998 and currently there is a surplus of exchange lines. Telephone, fax, telex, expedited mail service, private couriers and cellular phones are available. Three private companies have been granted licences as providers of cellular phones, which have proved very popular. Tanzania has two earth satellite stations situated in Dar es Salaam.

ECONOMIC OVERVIEW

Recent Macro-Economic Developments

Macroeconomic performance in Tanzania for 1997 has been relatively satisfactory, despite the severe drought and power shortage experienced during the second and third quarter of 1997, and the El Nino-induced floods in the latter part of the year. Foreign exchange reserves increased, inflation dropped,the rate of GDP growth declined and the revenue collection continued to improve. Despite substantial progress made in restructuring and stabilising the economy, the future outlook of the country's economy for 1998 is bleak given the effects of the ongoing El Nino weather conditions being experienced throughout the country. Serious flooding has washed away many roads and bridges, thereby severely damaging the communication network, to the extent of halting movements in some areas of the country. As a consequence, the 1997/98 crop is expected to perform far below targets.

The overall real GDP growth for 1997 has been estimated at 4.0 percent, compared with 4.2 percent growth recorded in 1996. Growth in agricultural and manufacturing sectors for 1997 has been projected at 3.1 and 3.0 percent respectively, compared with the previous year's growth of 4.5 percent in the agricultural sector and 4.8 percent in the manufacturing sector.

The Bank of Tanzania recorded considerable success in the pursuit of its monetary policy objectives during the first half of 1997/98. On an annual basis, the money supply growth (M3) decelerated to 13.3 percent by December 1997 compared with 18.1 percent recorded in July 1997. During the reporting period, net domestic assets of the banking system declined by TZS 7.5 bn (USD11.6m), on account of a decrease of TZS 38.6 bn (USD59.9m) in domestic credit, coupled with an increase of TZS 31.1 billion (USD48.3m) in other items net. The decline in credit was caused by considerable repayment to the banking system, by both the Government and the private sector.

Similarly, inflation exhibited significant improvements during the first half of 1997/98. Despite the food shortage experienced during the second half of 1997 when the road haulage system was brought to a standstill, inflation dropped to 15.2 percent by December 1997, compared with a high of 17.8 percent recorded in July 1997.

The overall weighted average annualised yield for all maturities fell from 14.8 percent in August 1997, to 10.5 percent in November 1997, before picking up again to 11.4 percent by December 1997. This was attributed to increased competition in the market, and decline in tender size. Meanwhile, the Statutory Minimum Reserve Ratio of 12.0 percent that prevailed throughout 1997 was reduced to 10.0 percent with effect from November 1997.

The government fiscal performance for the second quarter of 1997/98 was satisfactory. Revenue collections amounted to TZS 163.2 bn (USD266m) equivalent to 99.0 percent of the estimated revenue collection for the period. Similarly, there was an increase in recurrent expenditure to TZS 161.2 bn (USD263m) resulting in an increase in expenditure on other goods and services. The improvement in the fiscal position wasmainly attributed to the increased revenue collection from enhanced corporate tax collection efforts, and from parastatal dividends.

Net international reserves of the Bank of Tanzania increased and by December 1997 had reached USD 272.6 m. The Bank of Tanzania has targeted to build-up reserves equivalent to 20 weeks of import requirements by June 1998. With regard to the exchange rate, the shilling appreciated from TZS 631.2 per USD in July 1997, to TZS 617.7 per USD by November 1997 before depreciating to TZS 631.3 per USD by December 1997. The depreciation has been on account of tight supplies of foreign exchange in the market, following reduced export earnings.

The external debt at 31st December 1997 was USD 7,931.2 m. Out of the total debt, disbursed outstanding debt was USD 6,522.9 m, or 82.2 percent, and committed undisbursed debt was USD 1,408.3 m, or 17.8 percent.

During the second quarter of 1997/98, the trade account recorded a deficit of USD 151.8 m. The poor performance was largely attributed to a big drop in export earnings. Export receipts decreased by 19.9 percent to USD 202.6 m, whereas the import bill increased slightly to USD 354.4 m.

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.

Before the deregulation of the financial sector, Tanzania's state-owned National Bank of Commerce dominated the banking sector, cornering 70 percent of the market. The National Bank of Commerce is due for privatisation soon; the bank will be split into three separate entities - a regional bank, a trade bank and a micro finance bank. Currently, the focus is mainly on the corporate sector rather than in the retail market.Furthermore, there is a need for more finance for micro enterprises.

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.

Dar es Salaam Stock Exchange

The Dar es Salaam Stock Exchange is formally scheduled to begin operations on 15 April 1998. The Capital Markets and Securities Authority was tasked with developing the rules and regulations, and with launching the stock exchange market. When it opens for business, the stock exchange will have one quoted company, namely Tanzania Oxygen. It is expected that Tanzania Breweries and Agip will list on the exchange in 1998.

The exchange operates on a three-tier system, the first tier being listed shares that meet international listings requirements, the second tier having less stringent requirements and the third being an over-the-counter tier, for those which fail to meet the conditions for the first two segments. Five stockbrokers were licensed in June 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 equipment. Tanzania's main export markets are Germany, the UK, the Netherlands, China and the USA. Imports are sourced from the UK,Germany, Japan,Italy and France.

Tanzania now has a comprehensive liberalised trade regime. 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 crops has ended. For statistical purposes, all imports still need to be declared on an import form.

Tanzania is a member of SADC and COMESA.

Foreign Direct Investment

Foreign direct investment into Tanzania has increased substantially over the past two years. Most of the foreign direct investment into Tanzania flows into the mining and exploration sector - during 1997, Tanzania received investments to the value of USD300m in mining and exploration.The companies involved have included Sutton Resources (Bulyanhulu), Pangea Goldfields of Canada and Randgold of South Africa (Golden Ridge in Sukumaland), and Resolute of Australia and Samax Resources of Britain (Golden Pride on Lake Victoria).

Other major investments in 1997 included a USD50m investment by South African Breweries in a new brewery, a USD55m investment by R.J. Reynolds in the Tanzania Cigarette Company. Substantial opportunities for investment have also been created by Tanzania's privatisation programme (see below).

Privatisation

The Parastatal Sector Reform Commission manages the divestiture of non-performing government parastatals. By the end of 1997, approximately 150 companies had been privatised.

The first sugar firm to be privatised in Tanzania is Kilombero Sugar.The company was bought by Illovo Sugar Limited of South Africa and F Man Ground from the UK in March 1998. Due for privatisation soon is the National Bank of Commerce.

Foreign investors participating in Tanzania's privatisation programme so far have included the following:

International Company	Investment
R.J.Reynolds (Switzerland)	Tanzania Cigarette Company
Tadema (Switzerland)	77 percent stake in New Africa Hotel in 1993
Wilcroft (South Africa)	75 percent of Williamson Diamonds Ltd
Asea Brown Boveri (Switzerland)	70 percent of TANELEC
Holderbank (Switzerland)	60 percent of Tanga Cement
SCANCEM (Scandinavia)	60 percent of Tanzania Portland Cement
Carnaud Metal Box (UK)	CMB Tanzania
Dae Sung (South Korea)	Tanzania Cables
Kabool (South Korea)	Morogoro Polyester
Modern Trading Agencies (Saudi Arabia)	National Engineering Company

A commitment has been made by the government to privatise Tanzaniaís major public utilities, including water, sewerage, telecommunications and electricity.

INVESTMENT CLIMATE

Investment Incentives

In August 1997 the National Assembly repealed the National Investment (Promotion and Protection) Act of 1990 and enacted the Tanzania Investment Act (1997) to replace it. Incentives under the new Act are:

• Favourable investment allowances and deductions on industrial buildings, plant and machinery and on agricultural expenditure.

• Total exemption from import duty and sales tax on imported capital assets for projects relating to mining, infrastructure (i.e. road construction, bridges, railways, airports, generation of electricity, water services, back-up services to mining) and EPZs.

• Import duty for investment in other sectors of the economy is five percent on the project's imported capital assets.

• Straight line accelerated depreciation is allowed on capital goods.

• There is unlimited/indefinite carry-over of all business losses against future profits.

• Any approved investment has the right to employ up to five foreign nationals on it project. For mining, however, the amount of foreigners which can be employed is not limited.

• Investors are at liberty to export both capital and profits outside of Tanzania.

• There is a 20 year tax holiday for certain mining activities.

Incentives for companies investing in oil exploration:

• Long exploration periods of four (initial), four (first extension) and three (second extension), totalling 11 years.

• Relatively large exploration areas.

• Maximum Tanzania Petroleum Development Corporation (TPDC) participation is capped at 20 percent.

• Corporate income tax and royalties paid for by TPDC.

• Threshold rates of return for Additional Profit Tax at 20 percent for first tranche and 30 percent for the second tranche.

• Separate incentives in order to encourage deep sea (greater than 200m water depth) are under consideration by the government and TPDC.

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.

Zanzibar:

The government of Zanzibar offers the same incentives to investors. Furthermore, EPZs are in place in Zanzibar and companies established in EPZs are offered 10 years corporate tax holiday and duty exemption on imports of raw materials and capital equipment.

Taxation

Measures have been implemented to combat tax evasion and to streamline customs procedures.

Corporate tax:	30 percent
Individual tax: (maximum rate)	35 percent
Withholding tax on dividends and profit-sharing tax for non-residents:	10 percent.

A new value-added tax was introduced in 1997, replacing the old sales tax, at a rate of 20 percent.

Exchange controls

Foreign exchange controls were removed by the Foreign Exchange Act (1992), and Bureau de change regulations of 1992, and Tanzania accepted the obligations of the IMFs Article VIII in 1996. Residents are now permitted to hold foreign currency accounts. Capital transfers are however still subject to approval by the Bank of Tanzania.

To ensure eventual repatriation of capital, all inward investments into Tanzania should be registered with the Tanzania Investment Centre. Investments in Zanzibar should either be registered with the Zanzibar Investment Promotion Agency or Zanzibar Free Economic Zones Authority. 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.

Institutions involved in investment promotion

The Tanzania Investment 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.

Zanzibar operates a separate Investment Promotion Agency (ZIPA) which was established in 1991. To benefit from the incentive schemes offered by Zanzibar, investors should contact ZIPA first.

Investment code

The Tanzania Investment Act (1997) outlines provisions and incentives for investment in areas of national priority.

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.

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. In addition to the guarantees provided by Tanzania, Zanzibar guarantees against compulsory acquisition by government, except on payment of full compensation.

INVESTMENT OPPORTUNITIES AND PROJECTS

Investment Opportunities

The government has identified 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

Unfortunately we were unable to obtain a list of projects for investment.

STATISTICS (USDm, unless otherwise stated)	1992	1993	1994	1995	1996	1997 [1)]
Population (millions)	25.3	26.0	26.7	27.5	28.3	28.8
Nominal GDP at market prices	4,601.4	4,257.7	4,511.5	5,225.2	6,496.2	7,333.1
Real GDP growth rate, %	1.8	0.4	1.4	3.6	4.2	4.0
GDP per capita (market prices), USD	183.7	165.4	170.4	193.2	32.3	245.1
Consumption as % of GDP	102.4	103.2	103.2	101.2	99.2	98.3
Gross domestic savings as % of GDP	2.2	4.0	2.6	4.6	5.0	4.1
Gross investment as % of GDP	27.0	24.9	24.4	19.6	16.5	13.8
Inflation rate, %	21.8	25.3	34.1	27.5	21.0	16.1
Merchandise exports as % of GDP	8.7	10.3	11.5	13.0	11.7	9.8
Merchandise imports as % of GDP	28.6	29.8	29.0	25.5	18.7	15.9
Capital account of balance of payments	298.1	200.6	263.6	192.0	191.0	346.9
Foreign direct investment as % of GDP	0.3	0.5	1.1	2.3	2.3	2.0
Overall balance on balance of payments	-232.1	-633.8	-446.7	-373.7	-223.9	-221.6
Average exchange rate: TZS to USD	297.7	405.3	509.6	574.8	580.0	612.1
Foreign exchange reserves expressed in terms of weeks of import cover	12.4	6.0	9.5	6.5	10.6	16.4
Total external debt as % of GDP	173.2	195.3	202.4	214.7	113.6	92.6
Total external debt service as % of exports	41.2	29.2	21.6	18.3	19.7	24.1
Budget deficit as % of GDP (year ending June)	3.0	5.0	-5.0	-2.0	1.5	0.2
Central bank discount rate (end of year), %	22.0	27.0	67.5	50.0	40.8	17.5
Prime lending rate (average for year), %	31.0	39.0	39.0	48.0	32.0	21.0
Growth rate of M2 money supply, %	6.1	4.7	10.3	20.8	4.0	5.9
Domestic credit to government	245.4	383.6	345.9	507.4	496.7	383.4
Domestic credit to private sector	231.4	231.4	341.2	297.1	185.7	259.9

Source: Bank of Tanzania (1998)
Note: 2) Figures for 1997 are provisional

USEFUL ADDRESSES

Investment Promotion Agencies

Tanzania Investment Centre, P O Box 9242, Dar es Salaam, Tel:+255-51-113365,116328-32,Fax: +255-51-118 253

Zanzibar Investment Promotion Agency, P O Box 228,6 Zanzibar, Tel: +255-54-33026 / 331169, Fax:+255-54-32737

Zanzibar Free Economic Zones Authority, P O Box 305, Zanzibar, Tel:+255-54-33697,Fax:+255-54-33698

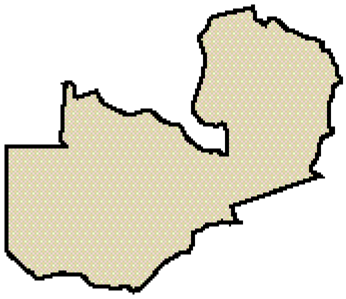
Consulting Firms

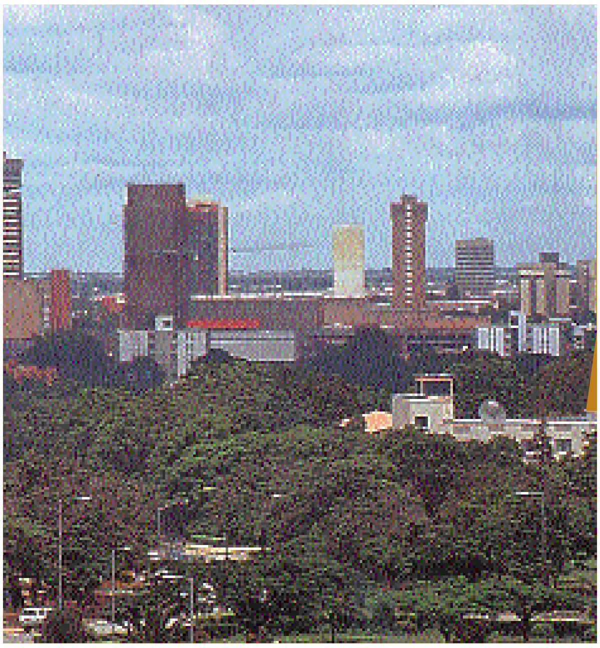
Coopers & Lybrand, P O Box 45, Dar es Salaam, Tel: +255-51-11 19 19

Massawe Ernst & Young, P O Box 247, Dar es Salaam, Tel: +255-51-239 61, 38014, 380 16, Fax: +255-51-11 49 20

Tanna Somalya & Co, (Correspondent firm to Price Waterhouse), P O Box 948, Dar es Salaam, Tel: +255-51-11 71 81, Fax: +255-51-11 26 60

Zambia





Skyline of the capital city – Lusaka.

GENERAL INFORMATION

Geography and Population

Zambia is a landlocked country covering an area of 752,614 km². It is bordered by the Democratic Repuplic of Congo, Tanzania, Angola, Namibia, Malawi, Mozambique, Zimbabwe and Botswana. Zambia's population was estimated at 9.7 million in 1997, of which 43.1 percent live in urban areas (one of the highest proportions in sub-Saharan Africa). The annual population growth rate is 3.1 percent. It is estimated that about 46 percent of the population is between 15 and 64 years of age. Zambia was ranked 143 in the 1997 UNDP Human Development Index[1)] - comparable with Nigeria (141), Bangladesh (144) and Comoros (140).

Political Overview

Zambia received its independence from Great Britain in 1964. From 1972 to 1990, Zambia was a one-party state ruled by Dr Kenneth Kaunda and his United National Independence Party. General elections were held in 1991 and the Movement for Multiparty Democracy (MMD), under Frederick Chiluba, came to power. Multi-party elections were held again in 1996, and the generally liberal MMD retained its power. Both elections passed peacefully.

A state of emergency was declared in November 1997 after a failed coup attempt in October, in which former president Kenneth Kaunda was implicated. The state of emergency was removed in March 1998, however, and apart from this incident, the internal political climate has been relatively calm.

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

Sectoral Overview

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. Copper mining accounts for eight percent of real GDP and made up 57.1 percent and 55.5 percent of the country's export earnings in 1996 and 1997 respectively. The privatisation of copper mines is well underway, with some of the major mines of the Zambia Consolidated Copper Mines (ZCCM) having been privatised. Opportunities for the exploitation of other minerals have been identified. These include gold, zinc, coal and gemstones (e.g. emeralds, aquamarine, topaz, opal, agate and amethysts). Diamond reserves have also been identified.

Agriculture accounted for 17.2 percent and 16.0 percent of real GDP in 1996 and 1997 respectively, with the 1.2 percent drop in 1997 being a consequence of drought. The growth of the agricultural sector is regarded by the government as a crucial element in enhancing Zambia's foreign exchange earnings and economic development. Although the agricultural sector employs more than half of the total employed labour force, only 15 percent of the arable land is under cultivation. The country's major crop is maize, but groundnuts, sunflower seeds, cotton, tobacco and soya beans are also cultivated. There is also plenty of land for grazing cattle. Ownership of land is vested absolutely in the President, who holds it on behalf of the people of Zambia. Leasehold tenure for a period not exceeding 100 years is possible, however.

Compared to most other SADC countries, Zambia is relatively highly industrialised: industry accounted for 24 percent of GDP in 1996. 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. The sector has been under pressure in recent years due to trade liberalisation, which made domestic goods less competitive in the local market.

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 km² set aside for wildlife conservation. Although Zambia is lacking in terms of competitive holiday accommodation and infrastructure, tourism is one of the areas that has great potential in attracting investment. In fact, foreign investors have recently exhibited an unprecedented interest in the tourism sector, most notably around the famous Victoria Falls area. An enthusiastic response was received from investors in 1997 with regard to the privatisation of 15 tourist lodges and campsites, and the recent privatisation of two Intercontinental hotels (at Lusaka and Livingstone) is an important step towards the provision of holiday accommodation which is of an international standard.

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, thus providing investment opportunities for the supply of water for irrigation, home and industrial use (through Build Operate, Build Own Operate and Transfer schemes). In areas where surface water is inadequate, underground water resources are used at no great cost.

Infrastructure

All air and road transport services are provided by the private sector in Zambia.

The government of Zambia has embarked on the process of rehabilitating the road network, which covers 35,168 km. A five and ten year Road Sector Investment Programme, estimated at USD411.9m and USD860.3 m respectively, is receiving support from the World Bank. Investment opportunities are available in the areas of road rehabilitation, routine maintenance and consultancy.

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. Currently, there are two commercial airlines which 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.

Zambia has vast water resources and coal reserves, making it ideal for the provision of hydro-electric power and rendering 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. There are plans to develop a 600 megawatt hydro-electric generation plant on the Kafue River. Zambia exports electricity to some of its neighbours, notably Zimbabwe and Botswana.

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 state-owned Zambia Telecommunications Company (ZamTel) is due for privatisation. Zambia also boasts ZamNet, the first full Internet service provider in sub-Saharan Africa outside of South Africa.

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. The United National Independence Party government nationalised much of the economy, (including small businesses) and enforced rigorous price and exchange controls. This resulted in declining productivity and profits, and a reliance on copper exports. 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 the 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 following the privatisation of several state-owned enterprises.

Recent Macro-Economic Developments

The economy of Zambia continued to record positive economic growth rates in 1997, with real GDP growing by 3.5 percent. Although this is lower than the growth of 6.4 percent recorded in 1996, it is impressive when one considers the adverse weather conditions that prevailed during the 1996/97 agricultural season. As a result of poor weather, agricultural output declined by 3.4 percent. However, the growth of output in the manufacturing and construction sectors rebounded due to a generally conducive and stable macroeconomic environment. Sectoral growth rates were as follows: manufacturing 7.4 percent, mining and quarrying 2.4 percent, energy and water 10.6 percent, transport and communication 0.6 percent, construction 33.8 percent, and real estate and business service 2.5 percent.

For the sixth year running, inflation has continued to decline. The end of December 1997 annual inflation (CPI) rate was 18.6 percent, down from 35.2 percent in December 1996. The decline in inflation was attributed to tight monetary and fiscal policies adopted by government, and a stable exchange rate. As a result of a tight monetary stance, the annual growth rate of broad money supply decelerated to 24.0 percent in December 1997 from 28.3 percent on December 1996. The government's adherence to the cash budget which resulted in a domestic fiscal surplus of 1.2 percent of the nominal GDP, also contributed to constraining money supply.

Money market interest rates have dropped due to the fall in inflation. The government's policy of using the domestic fiscal surplus to reduce the domestic debt, especially the stock of outstanding Treasury bills so as to release loanable funds to the private sector, also contributed to the fall in interest rates in 1997. Furthermore, the fall in Treasury bill yield rates was due to the fall in both the actual inflation rate and inflation expectations.

In the financial market there was further deepening, as the interaction of banks became more noticeable. The development of the interbank money market, as well as the foreign exchange market, gained momentum as both the number of transactions and the values transacted went up. To improve efficiency in the money market, the national payments system was revamped and the Lusaka Clearing House was moved from the Central Bank to the commercial banks. Furthermore, efficiency in the money market has been enhanced with the reduction of the clearing period for cheques, and the introduction of a second clearing session for large-value cheques.

The kwacha exchange rate against other currencies remained relatively stable during the first three quarters of 1997. The stability of the kwacha was achieved mainly because of the tight monetary conditions which prevailed for most of the year, and favourable supply and demand for foreign exchange. However, in the fourth quarter the kwacha began to depreciate, due to seasonality factors normally associated with an increase in imports during the festive period.

The Bank of Zambia took a bold decision to strengthen the financial wellbeing, and enhance confidence in the banking and financial system. Firstly, a weak bank with liquidity problems, the Chase Trust Bank, was merged with the Zambia National Commercial Bank, a large, strong bank. Secondly, three commercial banks namely, Manifold Bank, Prudence Bank and Credit Africa Bank, which were insolvent, were put under receivership. All the remaining operating commercial banks have strong capital basics and are well managed.

The overall balance of payment position recorded a deficit of USD138.9m in 1997 compared with a deficit of USD124.4m in 1996. The trade deficit fell due to a rapid increase in merchandise exports relative to merchandise imports. The increase in exports came mainly from non-traditional exports (NTEs) which increased by 37.9 percent.

Financial Institutions

Since independence, the Government of the Republic of Zambia 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. Monetary control is being exercised through indirect instruments such as open market operations. The Bank of Zambia is also responsible for the supervision of the banking industry and reforms aimed at strengthening the Bank's supervisory and regulatory capacities were implemented in 1997.

Both local and international banks have a presence in Zambia. International banks operating in Zambia include Barclays, Standard Chartered, Stanbic, Citibank, and the Bank of China. Many of the commercial 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 Development Bank of Zambia provides medium and long-term loan finance and equity. Also providing long-term capital in the form of loans and equity is the Zambia Venture Capital Fund, a private company established in 1995.

Lusaka Stock Exchange

The LuSE began operations in February 1994 and although in the first year no companies were listed, trading of unlisted stocks took place. The exchange was officially opened in April 1995. Currently, seven companies are listed, the major ones being ZCCM, Zambia Sugar and Chilanga Cement. The Zambian government offers some tax incentives (detailed in the section on investment incentives) for companies which list on the exchange.

A unique feature of the Zambian stock market is that it was designed by the International Finance Corporation, as a unified market. This is achieved through the Securities Act (1993) which requires companies with 50 or more shareholders to register with the Securities and Exchange Commission (the agency responsible for the regulation of the capital market) and trade their shares on a recognised exchanges. In practice, this means that the LuSE operates as a central market with a two tier structure on which both listed and unlisted shares trade. The 1998 budget announced that dual listings would be provided for on the LuSE.

The LuSE is designed to meet modern current international standards in terms of trading, clearing and settlement. The LuSE operates a central depository system and the trading mechanism is broker to broker order matching. Clearing is automated and completed on T + 1. Settlement is executed on a T + 3 rolling basis.

The LuSE was one of the fastest growing bourses in Africa in 1997, growing an impressive 208 percent in terms of market capitalisation. The LuSE was also one of the best-performing markets in 1997.

Among the developmental plans under review is the formation of a Unit Trust, possibly in 1998 to engage broad and wide participation, particularly in the privatisation programme and as part of efforts to put in place the institutional structure of the market and develop the necessary skills. There are also plans to facilitate the establishment of an active secondary market in government securities at the LuSE. This listing of government bonds is expected to improve price formation as well as draw in broader participation by the public in the bond market.

The Securities and Exchange Commission, which monitors and regulates the LuSE, is an independent body, whose board consists of six commissioners.

Lusaka Stock Exchange - Market Statistics (USDm)

YEAR	1994	1995	1996	1997
Number of companies with shares listed	0	2	3	7
Number of quoted companies	5	6	5	3
Market capitalisation	n/a	436	229	705
Volume of shares traded (m)	3.93	7.92	241.38	269.26
Value of shares traded	0.37	0.23	2.64	8.77
Annual average dividend yield	n/a	n/a	n/a	3.93
Average price-earnings ratio of all listed companies	n/a	n/a	4.67	9.68

Source: Lusaka Stock Exchange (1998).

Foreign Trade

Zambia has fully liberalised external trade, and trade procedures and documentation have been simplified and standardised. Copper and cobalt form the traditional mainstay of Zambia's export goods but the country has also embarked on a process of promoting NTEs in sectors such as agriculture, manufacturing, mining and handicraft. NTEs include textiles, fabricated products, primary agricultural commodities (soya, cotton lint, tobacco), sugar, engineering products, cement and floricultural products. In 1997, NTEs accounted for 28 percent of foreign exchange earnings. Approximately 30 percent of NTEs were exported to the EU under the Lomé Convention; furthermore, NTEs received support from the EU in terms of long-term concessional loans. Apart from the EU countries, Zambia also exports to Japan, Saudi Arabia, Thailand and India.

Crude oil, chemicals,machinery, iron,steel, textiles and vehicles are the chief import goods. South Africa, the United Kingdom, Zimbabwe and Japan are Zambia's major sources of imports. Within the region, South Africa, Malawi, Zimbabwe and, more recently, the Democratic Republic of Congo are the leading trading partners.

Export licences are required for most goods, but the procedure is a formality handled by commercial banks. 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.

Foreign Direct Investment

The privatisation programme has brought a substantial amount of investment into Zambia. Furthermore, Zambia's investor-friendly climate and effective promotion of investment has also generated foreign interest in the country. Foreign investors brought in USD58m into the country in 1996.

Some examples of foreign direct investment into Zambia over the past year are:

Louvet Distillers Limited, a multinational company, has pledged to invest USD16.7m in the production of alcohol for industrial use.

China Hainan corporation, a company owned by the Chinese government, intends to invest USD8.3m in the construction of bridges, roads and buildings in Zambia.

Sun International Limited of South Africa will invest USD 45.65m in the purchase and modernisation of the Musio-O-Tunya Intercontinental hotel in Livingstone.

Telcel Zambia Limited, a subsidiary of Telcel International, has been granted an investment license to install and operate a digital cellular system in Zambia. Telcel, the largest cellular phone operator in Africa (outside of South Africa), plans to invest USD35.3m in the country over the next five years.

Zamcell, a joint venture between a Dutch, Japanese and American firms, will provide a GSM digital cellular communication service in Zambia. The firm is expected to bring in an amount of USD13.5m.

In the future, Zambia plans to establish a number of export processing zones, a proportion of which will be located in areas where there is little industrial activity at present. This should be a further stimulant to foreign direct investment in the country.

Privatisation

In 1991, the Zambian government embarked on a massive privatisation programme, at a time when over 80 percent of the country's economy was comprised of parastatals. 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. The parastatals were a huge burden on the government in terms of subsidies, and consequently privatisation has become one of the priority areas of government policy. The process is regulated by the Privatisation Act (1992).

The second wave of privatisation began in early 1998, involving the privatisation of telecommunications, utilities, energy, postal services, mines and properties. Smaller entities were privatised first to gain experience and by March 1998, 215 companies (out of a portfolio of 321) and 198 commercial properties had been sold. Early in 1998, the President of Zambia made a reaffirmation on the sale of state-owned enterprises in the sectors of transport (e.g. National Airports Corporation), energy and utilities (e.g. Zambia Electricity Supply Corporation), property (e.g. ZIMCO properties), finance (Zambia National Commercial Bank) and others including the Zambia Telecommunications Company, Ndola Lime and the gemstone industry. All of these are expected to be privatised within the next 24 months.

The privatisation of the ZCCM is currently at an advanced stage. The parastatal has been unbundled into nine operating packages and is in the process of being sold off to various bidders. Thus far, Kansanshi Mine has been sold to Cyprus Amaz Minerals (USA); a Memorandum of Understanding has been signed with a consortium of Anglo American Corporation, Falconbridge and Gencor with regard to the Konkola Deep Mining Project; Konkola North has been awarded to Anglovaal Minerals (South Africa); Nkana and Nchanga mines have been sold to the Kafue Consortium, as has the Chambeshi Conbalt Plant; Chibuluma Mine has been awarded to Meteorex Consortium, Luanshya/Baluba Division to the Binani Group (India), and Chambisi Mine to Ivanhoe Capital Corporation. ZCCM will retain a minority shareholding plus a golden share that will ensure that the government retains a strategic interest in the various mines. The privatisation of mines alone is scheduled to generate USD2.8bn over the next five years.

The majority of companies are sold on competitive tender basis. The Privatisation Trust Fund makes it possible for ordinary Zambians to buy shares on the stock exchange in state-owned enterprises being privatised.

Privatisation has also led to investment in the country by international firms: some examples are:

African Oxygen Limited (South Africa), Commonwealth Development Corporation (UK), Floco Verwaitungs (Germany), Lonrho Africa Ltd (UK), National Breweries Limited, Lonrho Zambia Ltd (UK) and Clark Cotton (South Africa) Phelps Dodge Outokumpu Copper Oy International, Corp. (USA) and Bikana International (Zambia), Shoprite Checkers (South Africa), Tate & Lyle (UK) and Commonwealth Development Corporation (UK), Unilever PLC (UK/Netherlands), Zamanglo and Indol International BV (South Africa) and Benicon Limited (South Africa)

These companies invested in the following Zambian firms:

Zambia Oxygen Limited, Munkumpa Farms, Kapiri Glass, Zamhort Metal Fabricators of Zambia Limited, Modern Retail Outlets, Cotton Ginning, Zambia Sugar Company, Refined Oil Products, Zambia Breweries, Maamba Colleries.

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.

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:

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.

100 percent capital allowances on farm works and farm improvements.

Farm machinery and implements qualify for capital allowances at the rate of 50 percent on straight line basis.

Zero import tariffs on agricultural equipment.

Special development allowances for growing certain crops:tea, coffee, banana plants, citrus fruit trees or other similar plants or trees.

Mining

Zero percent duty on mining equipment

Capital allowance of 100 percent on mining plant and machinery, building and structures

Small-Scale Enterprises

Exemption from the requirement of any manufacturing license, if applicable

Exemption from the payment of any rates on factory premises for the first five years

Exemption from payment of any license fees in the case of a person who invests at least K5m (USD2,900) or more.

Exemption from tax for the first three or first five years of operations if operating in urban or rural areas respectively.

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

No capital gains tax

No property transfer tax

Export Incentives

Special incentives are offered to exporters of non-traditional products, such as reduced corporate tax at 15 percent. Special exemption from duty and sales tax on imports and machinery is offered to exporters of NTEs 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.

Taxation

Corporate tax:	
* Manufacturing	35 percent
* NTEs companies	15 percent
* Companies listed on the LuSE	30 percent
* Chemical fertiliser production	15 percent
* Farming	15 percent
Personal income tax	10-30 percent
Withholding tax	15 percent
Value-added tax	17.5 percent

There is no capital gains tax but property transfer tax is applicable on the transfer of immovable property and on the transfer of stock and shares in Zambian incorporated companies. Withholding tax is not levied on resident contractors and suppliers or on public entertainment fees.

All former ZCCM companies will enjoy some tax concessions.

Double taxation agreements: Zambia has signed double taxation agreements with approximately 17 countries. In the event that a double taxation agreement has not been concluded between Zambia and the country concerned, a tax credit will be granted.

In the 1998 budget, a number of changes to the tax regime in respect of mining were announced:

- Mineral Royalty Tax rate reduced from three percent to two percent
- The period of carry-forward of losses was extended from five years to 10 years
- The withholding tax rate on interest and dividends was reduced from 15 percent to 10 percent
- The restriction of offsetting losses against profits, limited to 20 percent for those mines which are not geographically adjacent, has been removed.Now, 100 percent losses can be offset.

Exchange Control

Market oriented reforms have been implemented successfully 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.

Institutions Involved in Investment Promotion

The 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. The Investment Centre is also there to ensure that the investment process is a smooth one for the investor, for example by assisting the investor to secure any permit, licence, land etc. that he or she might need. Other functions include the provision of consultancy services for the investor, undertaking economic and sector studies with a view to identifying investment opportunities, and facilitating joint venture arrangements between foreign and domestic entrepreneurs.

Other institutions include Zambia Privatisation Agency and the Export Board of Zambia.

Investment Code

Zambia's Investment Act (1993) introduced measures aimed at boosting investment. The Act, as amended in 1996, regulates investment incentives, investment guarantees etc. Investment is protected by the Securities Act (for the stock exchange) and in the Investment Act against compulsory acquisition. 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.

Other legislation of relevance to investors: Mines and Minerals Act (1995); Environment Protection and Pollution Control Act (1990), and the Companies Act (1994). Zambia's company law has recently been amended and is now in line with modern English company law.

Zambia is a member of MIGA. In case of disputes, arbitration may be sought through the Zambia High Court, ICSID or UNCITRAL.

INVESTMENT OPPORTUNITIES AND PROJECTS

Investment Opportunities

Main sectors of interest to investors are agriculture, tourism and mining, as well as utilities and services such as transportation. Opportunities for joint ventures exist in manufacturing: processing of agricultural produce, basic metal engineering and tourism

Mining: Copper mining, investigation of slag tailing dumps, gold recovery from old gold mines, nickel (unexploited), iron ore (unexploited), gemstone mining, mining of industrial minerals (yet to reach its full potential), marble. Opportunities exist for the processing of Zambia's mineral wealth locally, particularly the polishing of gemstones and marble dressing; also downstream opportunities for jewellery production.

Tourism: Development and construction of accommodation facilities;opportunities arising from Zambia's vast water reserves (cruises, sailing boats, sailing schools, water skiing, white water rafting), safaris (by car, horseback, on foot or by water); development of marinas, development of low-cost lodges for local tourists. Zambia also has the highest bunji jumping point in the world at Victoria Falls.

Agriculture: Tropical and sub-tropical crops can be grown. Development of beef and dairy industry for export,floricultural and horticultural products for export, high value labour intensive crops, industrial crops for export. Crop processing plants - canning factories, oil processing plants, etc.

In terms of opportunities arising from privatisation plans, some companies due for privatisation soon are Kafue Textiles of Zambia, Zambia Sawmills, Zambian Railways, Mulubezi Railway, Tazara Railway, the National Airports Corporation, Lusaka Water and Sewerage Co., Zimco Properties, and Zambia National Commercial Bank.

Projects

Listed in the table are some projects for which cooperation with foreign investors is being sought

Sector	Project Details	Capital Cost (USDm)
Gemstone mining	Rhino Industry and Mining Company is seeking a joint venture partner and/or project finance for the mining of emeralds, malachite and amethyst in the North Western Province.	1.5
Metal industry	RAJ Metals has recently acquired a continuous casting plant and wishes to process DHP copper rods and brass billets to produce wire, tubing,bars, rods,shafting,bushing,etc. RAJ metals seeks a joint venture partner.	..
Food manufacture	Zambia Pork Products has recently been privatised and further funding is needed to complete the rehabilitation process. The company produces hams, bacons,polonies, smoked sausages, viennas and salamies.	1.5
Agriculture	The Mineworkers Union of Zambia owns Mukuba Farm, which has an area of 90,000ha. The Union is seeking a joint venture partner to contribute towards the mechanisation of the farm.	2
Sugar	The Luena Sugar Project is a 6,000ha sugar estate and factory in Luapula province. The government is looking to the private sector to fund this project, which will involve growing sugar for the export market.	207.6
Electricity	Private/commercial financing is sought for the development of the Kafue Gorge 600 Megawatt Hydroelectric Plant. This project would be of the Build, Operate, Own type.	500 - 750

Source: Zamnet (1998)

STATISTICS (USDm, unless otherwise stated)	1992	1993	1994	1995	1996	1997
Population (millions)	8.3	8.6	9.0	9.1	9.4	9.7
Nominal GDP at market prices	3,307.4	3,273.5	3,168.1	3,300.7	3,375.8	3,696.6
Real GDP growth rate, %	-1.8	6.8	-8.6	-2.3	6.4	3.5
GDP per capita,USD	397.0	379.3	354.0	362.3	344.1	402.7
Consumption as % of GDP	94.9	87.9	87.5	84.4	..	..
Gross domestic savings as % of GDP	4.0	8.0	15.6	15.9	16.6	..
Gross investment as % of GDP	14.1	10.4	8.7	13.9	15.1	..
Inflation rate, %	185.2	183.8	54.6	34.9	35.2	18.6
Merchandise exports as % of GDP	34.7	28.8	29.8	29.1	28.9	31.3
Merchandise imports as % of GDP	40.9	31.1	31.6	32.8	35.5	32.2
Capital account of balance of payments	291.0	46.7	-18.8	-53.0	-481.4	28.3
Foreign direct investment as % of GDP	..	..	1.1	2.2	3.9	6.4
Foreign portfolio investment as a % of GDP	..	..	..	3.0	2.4	1.5
Overall balance on balance of payments	-237.0	160	-75.2	-287.9	-124.4	-138.9
Average exchange rate: ZAK to USD	175.7	469.5	694.4	864.3	1,207.9	1,308.1
Foreign exchange reserves expressed in terms of months of import cover	1.6	2.3	3.2	2.0	2.2	..
Total external debt as % of GDP	218.0	198.9	183.3	159.1	227.0	193.1
Total external debt service as % of exports	14.6	26.9	27.7	30.3	19.2	..
Central bank discount rate (end of year), %	47.0	119.0	40.5	58.7	70.0	23.3
Prime lending rate (average for year), %	54.6	113.3	70.6	..	39.4	39.0
Growth rate of M2 money supply, %	96.5	107.2	83.3	31.3	28.3	24.0
Domestic credit to government	..	..	123.1	122.6	124.2	87.8
Domestic credit to private sector	..	..	196.9	281.8	..	279.6

Source: Bank of Zambia (1998)

USEFUL ADDRESSES

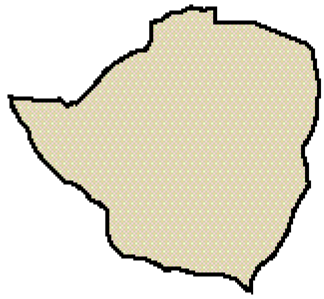
Investment Promotion Agencies

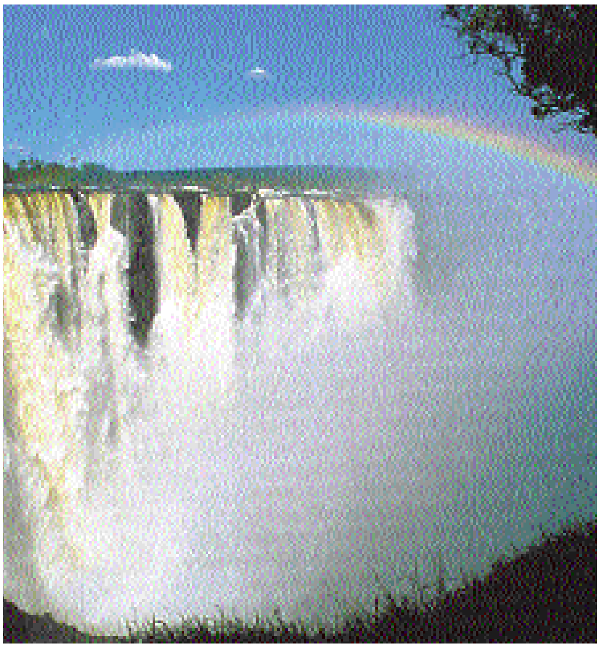
Zambia Investment Centre, P O Box 34580, Lusaka, Tel: +260-1-25 21 30, Fax: +260-1-25 21 50
E-mail:invest@zamnet.zm
Zambia Privatisation Agency, P O Box 30819, Lusaka, Tel: +260-1-22 77 91/22 01 77, Fax: +260-1-22 52 70, E-mail:zpa@zamnet.zm

Consulting Firms

Coopers & Lybrand, P O Box 30885, Lusaka 10101, Tel: +260-1-22 77 22
KPMG, P O 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 09, 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
SGS Zambia Limited, P O Box 33673, Lusaka, Tel:+260-1-225323,Fax:+260-1-227394

Zimbabwe





Victoria Falls.

GENERAL INFORMATION

Geography and Population

Zimbabwe is a landlocked country covering 390,757 km^2 in Southern Africa between the Limpopo and Zambezi rivers. Its neighbours are Mozambique, Namiba, Malawi, Zambia, South Africa and Botswana. The official and business language is English. Shona and Ndebele are widely spoken local languages. The population of approximately 12.3 million (1997) 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 129 out of 175 countries in the 1997 UNDP Human Development Index[1] which puts it in the medium human development category.

Political Overview

Zimbabwe has had an executive president and an independent judiciary since 1987. The parliamentary system is unicameral with 150 members, and thirty of them are appointed by the president, including eight chiefs and eight provincial governors. In the current parliament 117 seats belong to the ruling Zanu PF while two are taken Zanu (Ndonga) led by Reverend Ndabaningi Sithole. One seat has been secured by an independent candidate. The last elections were held in 1996, and the next elections are scheduled for 2002.

Sectoral Description

Zimbabwe is rich in natural resources and produces more than 40 types of metals and minerals. Approximately 40 percent of the country's foreign exchange is earned from the export of these metals and minerals. Zimbabwe has the world's third largest known source of high grade chromite, and second largest source of platinum group metals. Recently, it was discovered that the country has potential to be one of the major diamond producing countries in Southern Africa, and several potential diamond areas have already been identified.

Agriculture has been the main contributor to the high growth rate achieved during the past three years. Agriculture employs about 30 percent of the working population and provides many raw materials required by the manufacturing sector. Major export commodities are tobacco and horticultural produce. Crops like sugar, tea, coffee, cotton, maize, small grains and oil seeds are also exported, as well as livestock, dairy products, wildlife and poultry.

The manufacturing sector is well developed and relatively diversified. This sector has responded positively to a deregulated economy and has become one of the major contributors to growth.

Tourism is Zimbabwe's fastest growing industry. The industry currently contributes six percent to GDP and is expected to grow by an average of 28 percent annually to achieve a target of 10 percent contribution to GDP by the year 2000.

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, the Democratic Republic of Congo 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 18,435 km of state roads, of which 8,710 are surfaced and 9,725 gravelled. 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 UK. 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.

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

ECONOMIC OVERVIEW

Introduction

The thriving agricultural sector and rich natural resource endowment in Zimbabwe has created an environment that is conducive to the development of a comparatively dynamic manufacturing sector. In the Southern African 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.The liberalisation of the economy has stimulated the participation of the private sector in the economy, and thereby increasing the role of the manufacturing sector.

Recent Macro-Economic Developments

The growth of the economy, is forecast to have decelerated to an estimated 3.7 percent in 1997, down from the original estimate of 4.5 percent. The decline is mainly attributable to negative growth in the agricultural and mining sectors, estimated at 2 percent and 6 percent respectively. The fall in the agricultural sector was mainly due to excessive rains, resulting in lower-than expected average yields of major crops, such as tobacco, cotton and maize and the contraction in mining was on account of lower international prices of metals, mainly gold, nickel and copper. The manufacturing sector, however, achieved a growth rate of 8.5 percent in 1997 compared to 4 percent in the preceding year. In 1998, the economy is forecast to grow by 3 percent, with the major sectors, viz, mining manufacturing and agriculture contributing positively. Sectoral growth of 5 percent, 3 percent and 2.8 percent are forecast for mining, manufacturing and agriculture in 1998 respectively.

The fiscal deficit for 1997/98 is estimated to be around 8 percent of GDP. On an annual basis, the inflation rate decreased in the third quarter of 1997, but then rose to 16.0 percent in October, 19.4 percent in November and to 20.1 percent in December 1997. Following an increase in sales tax of 2.5 percentage points, inflation rose markedly to 24.2 percent in January. It is anticipated that by year-end, inflation will have eased to around 17 percent.

Annual growth in broad money supply (M3), which had decelerated to a three-year low of 13.3 percent in September 1997, surged significantly to 28.2 percent in November and further to 36.1 percent in December 1997. Growth in M3 was underpinned by a 42.8 percent domestic credit expansion.

Tight liquidity conditions, which characterised the money market during the last quarter of 1997, persisted into January 1998 with shortages recorded throughout the month. Money market interest rates, which started firming in October 1997 in response to the tight liquidity conditions and the rise in inflation, continued to harden through to end-December 1997.

The balance of payment was under considerable pressure, especially during the latter half of 1997. It is estimated that, in value terms, exports fell by 0.4 percent while imports grew by about 19.4 percent.The trade account, therefore, swung from a surplus of USD249m in 1996 to a deficit of USD198m in 1997. The weak export performance caused a worsening in the current account deficit, which deteriorated to 8.8 percent in 1997 from 2.1 percent in 1996. The capital account balance, however, slightly increased from a surplus of USD110m in 1996 to a surplus of USD118m in 1997. Thus, the deficit on the overall balance deteriorated significantly to USD768m in 1997 compared to a deficit of USD21m in 1996. The gross foreign exchange reserves position declined from USD830m in 1996 to USD272m in 1997, representing about one month of import cover.

The Zimbabwe dollar, after having remained relatively stable during most of 1997, came under considerable pressure towards the end of the year. During November 1997, the local currency depreciated in nominal terms by 11 percent against the major trading partner currencies. By end-December 1997, the currency had depreciated further by 20,3 percent. The Zimbabwe dollar partially recovered its November and December 1997 losses, appreciating by 2,9 percent in nominal terms against the major trading partner currencies in January 1998. This was against the background of a slowdown in demand and improving foreign exchange reserves.

Financial Institutions

Fundamental to the efficient operation of Zimbabwe's financial system is the Reserve Bank of Zimbabwe established, under the aegis of the Reserve Bank Act of 1973.The Bank enjoys a certain measure of autonomy allowing it therefore to perform its statutory obligations without external influence.

The country'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 several 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. Lately contained in the budget speech was the fine-tuning of money market operation by confining clearing functions exclusively to commercial banks. Also any crunch in the money market will be remedied through repurchase agreements since Treasury bills will henceforth become government financing instruments only.

Zimbabwe Stock Exchange

There are 67 companies currently listed on the Zimbabwe Stock Exchange (ZSE).The most important listed companies, in terms of market capitalisation,are Ashanti (dual listed), Barclays Bank and Meikles. ZSE is part of the International Finance Corporation Global Index which monitors performance of emerging markets. Since the opening of the ZSE to foreign participation in June 1993, activity by foreign investors has increased considerably. A foreign investor is allowed to own up to 10 percent of a listed company, with a maximum foreign ownership of 40 percent.

The Stock Exchange had mixed fortunes in 1997. Its overall measure of performance, as indicated by the Industrial index, hit a record high of 12,082 in August following a bull run which began in January and fuelled by relatively stable interest rates, but thereafter fell sharply in the last four months of the year. By year-end, the index had shed over 40 percent of its gains to 7,196, largely because investor confidence took a knock on account of the negative assessment of the local economic prospects. Pressure on the Zimbabwe dollar, on the back of rampant speculative activity, did little to assuage the ailing stock market and added to the substandard performance of the Industrial index.

Institutional developments includes the drafting of new listing requirements, and research undertaken for the purpose of establishing a central depository and settlement company.

Zimbabwe Stock Exchange (ZSE)					
YEAR	1993	1994	1995	1996	1997
Number of listed companies	63	65	65	65	67
Market capitalisation,USDm	1,430.4	1,679.0	2,105.0	4,830.4	2,283.7
Number of companies making issues (including new, rights and bonus issues)	4	12	1	6	9
Value of new issues incl. rights issues, USDm	46.0	96.4	1.6	62.4	129.6
Volume of shares traded, million	272.3	450.8	431.2	722.7	1,197.2
Value of shares traded, USDm	53.6	177.4	150.0	257.5	350.7
Number of trading days	253	252	250	253	251
Average price-earning ratio of all listed companies, %	8.8	8.3	7.4	14.6	9.6
Average dividend yield (annual average), %	3.6	5.0	5.2	2.9	4.4

Source:Zimbabwe Stock Exchange (1998).

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, with some 48 percent originating from the region.

Principal exports include unprocessed tobacco, ferro-alloys, gold,nickel, cotton lint, manufactural products and horticultural products. Deliberate efforts are being made to encourage 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 licences 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 non-monetary gold, precious and semi-precious stones.

Privatisation

Momentum in privatising state assets in Zimbabwe should be seen within the context of the broader Economic Reform Strategies, and its twofold objective of retiring government debt, and to serve as a mechanism for black empowerment .

An Inter-ministerial Committee of Ministers and Officials on Commercialisation and Privatisation has been constituted to ensure that the process is accomplished efficiently and is broadly representative. Functionally, the Committee deliberates on proposals submitted to it by line Ministries, and its decisions are sent to Cabinet for approval. Of the 34 submissions made, an estimated 44 percent has thus far received approval. To date about 52 state-owned enterprises have been earmarked for restructuring. In order to execute its duties effectively, the Committee has drafted a set of guidelines to assist it in evaluating each proposal on its merit. The guidelines are;

• that corporations deemed to be of strategic importance will not be privatised, but will be run on purely commercial basis,

• that assets with aesthetic and social value (such as museums) will not qualify for any form of restructuring whatsoever, and lastly

• that businesses run on commercial principles will be liable for outright sale.

Thus far, three previously government-owned enterprises are now listed on the local stock exchange following successful privatisation. These are Dairibord, Cottcoand and the Commercial Bank.

A Communications Bill is currently being drafted, the consequence of which should culminate in the clarification of government policy on the restructuring of the Zimbabwe Posts and Telecommunications Corporation into a holding company managing four subsidiaries with responsibilities in the following areas; postal services, telecommunications, manufacturing of equipment and cellular network services. The process is undertaken in conjunction with the World Bank.

Foreign Direct Investment

The liberalisation of the investment climate in Zimbabwe has had a positive effect on the economy. The number of foreign direct investments (FDIs) approved by the Zimbabwe Investment Centre (ZIC) has increased from USD291.3m in 1993 to USD648.9m in 1997. Figures provided by the ZIC show a reasonably high and consistent rate of implementation of these projects,hovering around 55%.

The sizeable BHP-Hartley Platinum investment projects valued at USD400m is expected to commence full operation this year. Also, there are plans by Anglo Zimbabwe to undertake a platinum project in the region of USD70m which should see Zimbabwe as the third largest platinum producer in the world, with annual production of over a million tons.

Sectorally, the main beneficiaries have been commercial, mining and manufacturing sectors.

The commercial sector increased its share of approved projects to about 60% (USD389.3m) in 1997 compared with 48% (USD459.7m) the previous year. Both the mining and the manufacturing sectors have shown a fluctuating trend, with 1994, and 1996 and 1997 respectively, showing strong interest.

In terms of origin, most investment came from the developed countries (USA, Canada, Australia, etc), followed by Africa (South Africa and Mauritius) and Asia (China). Contributions from Europe are negligible.

Foreign Direct Investments Approved by ZIC and Classified by Sector (USDm)

	1993	1994	1995	1996	1997
Manufacturing	90.3	314.0	184.1	76.6	181.7
Mining	93.2	267.2	57.0	354.3	71.4
Agriculture	14.6	13.4	26.3	67.0	6.5
Commercial	93.2	73.4	175.4	459.7	389.3
Total	291.3	668.0	442.8	957.6	648.9

Source: Reserve Bank of Zimbabwe, 1998.

INVESTMENT CLIMATE

Investment Incentives

- 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 and 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 (scheduled to be reduced to 35 percent from 1999 onwards)
- Withholding tax:15 percent for companies listed on the ZSE, 20 percent for others
- Individual:maximum of 45 percent
- Surtax: 10 percent;

Double Taxation Agreements: Bulgaria, Canada, Germany, Mauritius, Netherlands,Norway, Poland, Romania, South Africa, Sweden and the UK. (Agreements with France and Malaysia to be ratified.)

Institutions Involved in Investment Promotion

The Zimbabwe Investment Centre (ZIC) was set up in 1993. ZIC is directed by a board appointed by the government whose membership is largely from the private sector. ZIC is the investor's first port of call. All investment proposals with a foreign share holding are submitted to ZIC for approval and registration. The purchase of equity by foreigners into existing companies require Reserve Bank approval.

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 etc.

Investment Code

Investment Regulations are outlined in the Zimbabwe Investment Centre Act of 1992, 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.
- Purchase of shares by foreign investores on the ZSE is limited to 40 percent of total equity with a single investor acquiring a maximum of 10 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;
- 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 to 35 percent equity in companies which are reserved for domestic investors as specified in Statutory Instrument 108 of 1994 (e.g. 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

Main sectors of interest to investors are manufacturing and agro-industry, mining, tourism and agriculture.

PROJECTS

Horticulture and Agro-Based Industries	
Production of 2.3 million stems of roses such as the red velvet, white noblesse and first red	0.57
Manufacturing of 1.0 million litres of sunflower oil, 27 million litres of blended vegetable oil and 7,000 litres of mixed oil	1.06
Production of exotic fruits and vegetables, including punnets of vegetable salads, french salads, punnets of fruit salad and 50,000 litres of fresh juice	0.35
Establishment of a medium size wheat milling plant for production of flour	0.97
Tourism	
Construction of a high class hotel at Chirinda Forest,Mutare	7.09
Setting up of an eco-tourism project in the mountains of the Central Province for game loving guests that should cater for hikers and photography. A lodge at Bindura, Mashonaland is to be built	1.49
Construction of a top class hotel with conference facilities at Osborne Dam, Mutare	5.83
Provision of travel and prepaid packaged tours and to cater for an estimated market of 60,000 people on day tours and excursions	0.52
Miscellaneous	
Equity partner sought to produce Portland cement utilising locally available resources. The project is promoted by both the Industrial Development Corporation (Zimbabwe) and a Chinese company	14.90
To engage in the extraction of black granite to meet increased foreign demand and undertaking relevant marketing activities	6.00
Production of metal equipment such as agricultural implements, hand implements, wheel barrows and window/door frames	1.38
Construction of shell factories to be leased out to budding entrepreneurs. The project is promoted by the City of Gweru	2.50

Sources: Zimbabwe Investment Centre, 1998.

STATISTICS USDm unless otherwise stated	1992	1993	1994	1995	1996	1997
Population (millions)	10.4	10.8	11.2	11.5	11.9	12.3
Nominal GDP at market prices, USDm	5,246.0	5,420.0	5,7850	6,143.0	6,965.0	7,382.0
Real GDP growth rate, %	-6.8	4.2	5.3	-3.2	7.2	3.7
GDP per capita,USD	504	503	519	593	585	600
Consumption as % of GDP	44.9	54.4	44.4	..	..	..
Gross domestic savings as % of GDP	12.1	13.8	13.1	13.0	15.9	16.2
Gross investment as % of GDP	27.0	19.2	18.4	18.5	18.2	18.2
Inflation rate, %	42.1	27.6	22.3	22.6	21.4	18.9
Merchandise exports as % of GDP	22.7	25.0	28.9	28.9	29.2	30.0
Merchandise imports as % of GDP	26.4	23.5	25.9	27.7	26.3	30.2
Capital account of balance of payments, USDm	689.0	504.0	517.0	530.0	109.0	118.0
Foreign direct investment as % of GDP	0.3	0.6	0.5	1.7	0.5	1.0
Foreign portfolio investment as % of GDP	-0.2	-0.1	0.9	1.0	-0.0	0.5
Overall balance on balance of payments,USDm	-127.0	176.0	268.0	210.0	..	..
Average exchange rate: ZWD to USD	5.1	6.6	8.7	10.0	12.1	
Foreign exchange reserves expressed in terms of months of import cover	2.0	3.7	3.3	4.2	3.9	1.0
Total external debt as % of GDP	60.9	66.7	65.4	60.4	58.1	57.3
Total external debt service as % of exports	30.0	30.0	25.0	19.6	17.7	16.9
Budget deficit as % of GDP	-11.4	-8.7	-14.6	-11.6	-7.1	
Central bank discount rate (end of year), %	30.0	28.5	29.5	29.5	27.0	31.5
Prime lending rate (average for year), %	34.6	37.9	36.4	35.0	33.5	33.3
Growth rate of M2 money supply, %	25.0	29.4	33.8	30.0	27.7	35.0
Domestic credit to government,USDm	415.9	215.2	735.7	767.2	856.6	
Domestic credit to private sector, USDm	1691.6	1514.3	2025.3	2360.0	3022.8	2388.5

Source: Reserve Bank of Zimbabwe, 1998.

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

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

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Price Waterhouse, P O Box 453, Harare, Tel:+263-4-757610,Fax:+263-4-757608

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