

## **Acknowledgements**

The Finance and Investment Sector Co-ordinating Unit (FISCU) is grateful for all the assistance we received in producing this document for the third successive year. Once again, it has been a true teamwork effort, with inputs coming from all over the region.

First of all we would like to thank the UK's Department for International Development for sponsoring the contribution of the Southern African based strategic investment group BusinessMap to this document. DfID also providing funding for the services of our two editors, namely Phambili Consultants on the technical side and Umanyano Media Service on the language side.

For their valuable contributions to the document, FISCU is indebted to the investment promotion agencies and stock exchanges in 14 SADC countries. We were also ably assisted by various SADC Ministries of Finance and central banks, among others. Thanks, too, to the Secretariat of the Committee of Central Bank Governors for providing us with country statistics and recent economic developments.

The document was compiled by Bhadala Mamba, Themba Zulu and Rosalind Mowatt of FISCU. Other contributors were Lynne Thomas of the Centre for Research into Economics and Finance in Southern Africa (CREFSA), Fudzai Pamacheche of the SADC Secretariat, and BusinessMap.

Pretoria, May 1999

## **FOREWORD**

The Southern African region is attracting a growing amount of attention from the international business community. Positive political and economic changes in the region have opened the way for foreign investors. For those interested in the region's many business opportunities, the background document to the Southern Africa Economic Summit provides a comprehensive overview of the region's economies and investment climates. This year's document includes updated profiles of the 14 countries, as well as chapters on the transport, mining and financial sectors in the region.

Increasing adherence to sound economic policies and the general adoption of democratic principles contributed to the strong performances of most of the Southern African Development Community (SADC) states during the 1990s. These changes, supported by regional peace initiatives, brought hope of a continental rebirth. There are, however, still many challenges to be faced. The pursuance of sustainable economic policies by the SADC countries will go a long way towards ensuring that African Renaissance becomes reality. The theme of this year's Southern Africa Economic Summit, "Responsible leadership for action and growth", highlights the important role that our region's leaders have to play in this regard.

Regional integration arrangements such as SADC also have an important role to play in promoting growth and social upliftment. Advantages of the integration process include the promotion of trade between member states, the development of a larger, more secure market for investors, and the capacity to create political and economic synergies between member states. The benefits from greater integration have been seen in regions such as Europe and Latin America. The continent of Africa, with its pressing developmental needs, can realise enormous gains from greater co-operation and integration. SADC has the capacity to lead the way in Africa in this regard.

Steps towards greater economic integration are being undertaken. Positive developments include the SADC Trade Protocol, which aims to establish a free trade area in the region. The Trade Protocol is at present the subject of intensive negotiations between member states. It is expected that once the Trade Protocol enters into force, it will substantially increase the level of intra-SADC trade. Another milestone on the road towards regional integration was taken with the establishment of the SADC Finance and Investment Sector during 1995. The sector aims to promote sound

investment policies, financial harmonisation, and macroeconomic stability, and the improved utilisation of the development finance resources to address the region's development requirements. The Finance and Investment Sector involves central banks, ministries of finance, and other institutions dealing with financial and investment issues. Steady progress has been made in areas such as development finance, payment and clearing systems, stock exchanges, and commercial banking.

Though regional integration is one way of meeting the challenges of globalisation, the benefits it offers are seriously undermined by the enormous burden of debt faced by several countries in Southern Africa. Their indebtedness presents a profound obstacle to the development of these countries and to their efforts to extricate themselves from poverty. None of the current proposals for debt relief will bring the enduring long-term benefits of higher growth and exit from poverty. Long-term growth cannot be attained when a larger proportion of export revenues are spent on debt service with no resources left to build infrastructure and for allocation to social services such as health and education. Thus SADC countries have a direct interest in seeing a determined and conclusive effort for a sustainable debt profile that will put the region on a renewed path to play a leading role in African growth into the next millennium

Positive developments on the regional integration front, as well as individual policy reforms in many of the SADC countries, make Southern Africa an exciting market for potential investors. This third edition of the background document to the Southern Africa Economic Summit aims to provide businesspeople, both regional and foreign, with a general overview of the investment climate in each SADC country. We trust that you will come away with a fresh perspective on Southern Africa and the opportunities it holds.

**TREVOR MANUEL**  
*Chairman*

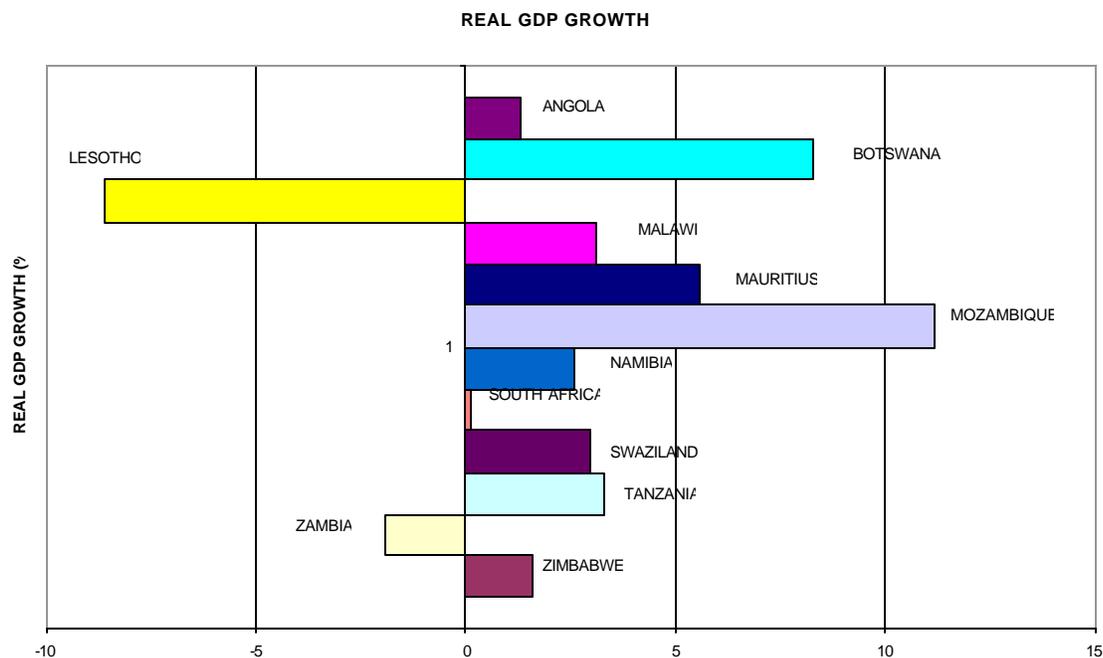
*SADC Ministers responsible for Finance and Investment*

# REGIONAL MACRO-ECONOMIC HIGHLIGHTS<sup>1</sup>

## GDP GROWTH

The economic performance of SADC region during the period 1991-1999 has been rather mixed influenced by externally and internally determined factors. Negative factors which characterised the decade included a region-wide drought, the 'Asian crisis' (which depressed global demand), low international prices of commodities and the resurgence of hostilities in certain parts of the region. Nevertheless, the region experienced positive growth trends in the middle of the decade, spurred by political stability and sound macroeconomic policies. Compared to other sub-Saharan African states, the SADC region continued to record higher growth rates. The performance of the SADC countries was varied with countries like Mozambique recording growth rates of 11.2 percent during 1998. Botswana and Mauritius also achieved growth rates above 5 percent. On the other hand, negative growth rates were recorded by both Lesotho and Zambia.

The region's total GDP is estimated to have grown by only 1.7% during 1998, influenced in part by depressed international prices of the regions' export products, drought, and the flare-up of industrial and political unrest in some of the regional states.

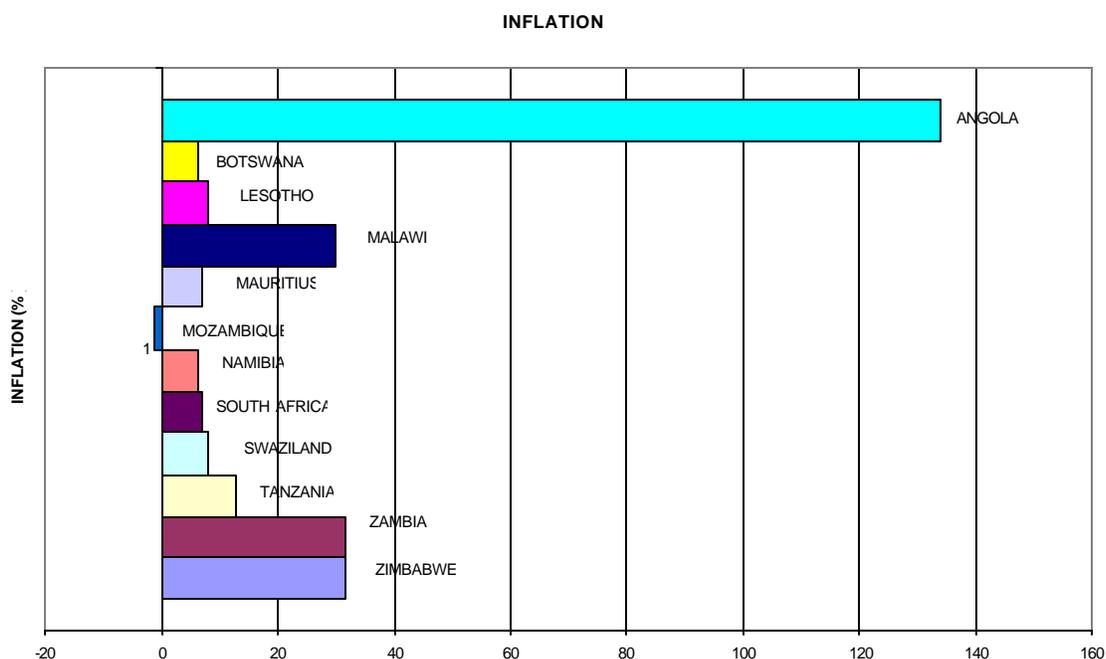


## INFLATION

The effects of poor harvests exacerbated by poor weather conditions, depreciating domestic exchange rates, industrial and political tension, and other exogenous factors tended to fuel the inflationary pressure in some of

<sup>1</sup> Because of lack of data, analysis excludes the Democratic Republic of the Congo and Seychelles.

the countries. This undermined the efforts of prudent fiscal management and tight monetary policy previously adopted by most SADC countries. However, other countries recorded conditions of declining inflation, and, in some cases, deflation, during the same review period. Mozambique notched up a negative inflation rate of -1.3 percent. Countries that experienced greatly increased inflation rates during 1998 were Angola (134.0 percent, up from 64.1 percent in 1997), Malawi (29.8 percent, up from 9.2 percent), Zambia (31.6 percent, up from 18.6 percent) and Zimbabwe (31.7 percent, up from 18.8 percent).



## BALANCE OF PAYMENTS

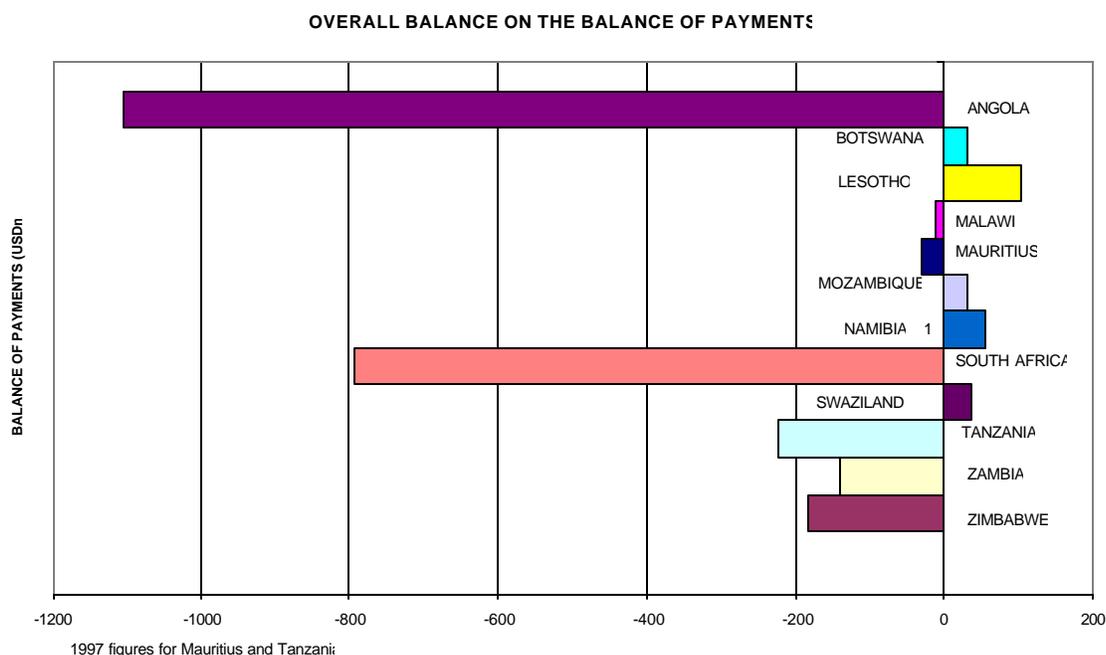
The regional states experienced unprecedented difficulties with their respective balance of payments positions during 1998, fuelled by difficult international trade conditions and poor performances of the export sector. The Asian crisis did not only dampen global demand but also influenced the general levels of prices of the regions major export commodities. This tended to fuel the further deterioration of the SADC countries' current account positions in the balance of payments.

The general change in the sentiments of global investors on developments in the emerging markets tended to reduce inflows of foreign direct investments to these regions, of which the SADC region is one. The result was a deterioration in the overall balance of payments position of most of these countries which put pressure on the countries' reserves.

These shocks led to exchange rate pressures and unexpected attacks on regional currencies, fuelled inflation, and retarded economic growth. This prompted some governments to intervene in the markets at huge costs and with few available resources, to protect national currencies from of these attacks.

Therefore, most of the SADC countries recorded overall balance of payments deficits, a position which was exacerbated, for some, by the huge debt burden they carry. Balance of payments surpluses were experienced by Botswana, Lesotho, Mozambique, Namibia and Swaziland.

During the review period Zambia received assistance from both the African Development Bank (ADB) and the International Monetary Fund (IMF) to address the difficult BOP problems encountered.



## EXTERNAL DEBT

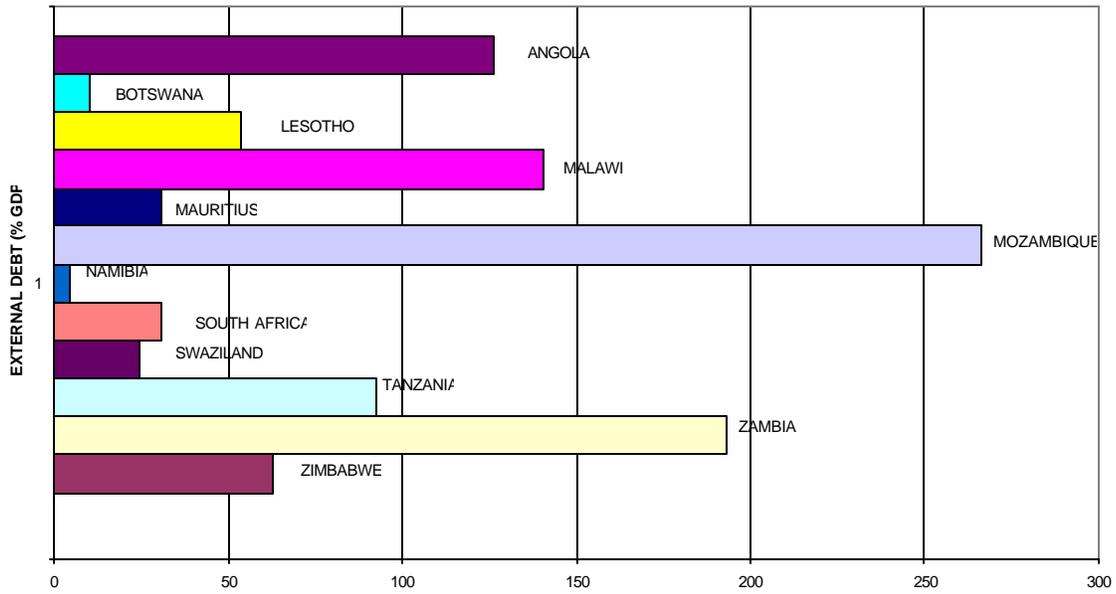
The external debt burden remains one of the major impediments to the economic transformation of the SADC region. The huge resources disbursed to pay external debt obligations by these countries, undermine the efforts currently being pursued by the regional states, to effectively provide basic services to its populace on a sustainable basis. Initiatives to engage the donor community on this matter are ongoing, through the Highly Indebted Poor Countries (HIPC) initiative and other fora. Mozambique has already received debt relief under the HIPC initiative, and other countries are being encouraged to pursue these issues on a bilateral basis. A regional strategy is also been developed to deal with the problem.

The current net present value of the debt and the high debt-service ratio coupled with numerous externally determined economic shocks, mean that many SADC governments cannot make any meaningful impact on poverty alleviation and raising the standard of living of its inhabitants.

The coming into fruition of the current initiatives could release some much needed resources for prosperity, sustainable growth and development for regional states currently engulfed by this problem.

Countries suffering from high external debt to GDP ratios in the region include Angola, Malawi, Tanzania and Zambia.

### EXTERNAL DEBT



1997 figures for Angola, Botswana, Mauritius, Mozambique, Tanzania, Zambia

# THE ROLE OF GOVERNMENTS IN ENCOURAGING SUSTAINABLE GROWTH AND DEVELOPMENT

Lynne Thomas<sup>1</sup>

The theme of this year's Southern Africa Economic Summit is *Responsible Leadership for Action and Growth*. In this article, we explore what is "responsible leadership" and focus, in particular, on the role of governments in encouraging sustainable economic growth and development. Over the past two decades, there has been a shift in perceptions regarding the appropriate role of the state in the economy. With trade, financial liberalisation and sweeping privatisation programmes, the role of government has moved away from direct intervention towards providing a more enabling environment for private sector enterprise, while still ensuring balanced and sustainable social development.

In considering the role that government can play in encouraging economic growth, it is important to have some understanding of the underlying determinants of growth. This is an area of research that attracts considerable attention but there is no single solution to what a country should do to improve economic growth, not least because each country is unique. Methodological problems found in the growth literature are significant, yet there are some conclusions that can be drawn from studies attempting to explain economic growth - both world-wide and, in particular, in Africa.

## *What do we know about growth?*

In general, there is some consensus that initial socio-economic conditions are important if a country's economic performance is to be explained. Socio-economic conditions are generally reflected in indicators of initial *per capita* income, life expectancy and primary education. Poorer countries tend to grow faster if they are able to take advantage of the technological advances of richer countries - this process often being referred to as convergence. But health and education also appear to be critical to the process of growth, representing a long-term investment in human capital as well as contributing to the overall social wellbeing of a country.

In addition to these three factors, studies of world-wide growth have identified a variety of other explanatory factors such as openness to international trade, the type of investment undertaken (not just the volume), political stability, diversification away from primary exports, the presence or absence of market distortions, and global location. Institutions, especially the quality of administrative capacity of government and of the judiciary, are also important. Furthermore, in studies exclusively focused on African economies, the magnitude and persistence of external shocks and economic instability have also been found to correlate negatively with growth.

Almost all studies of growth in Africa have found that impediments to trade, whether these are natural barriers - like being land-locked - or deliberate policies, have significantly reduced growth rates in an historical context. These findings have, in many cases, led to great emphasis being placed on the need

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1. LSE Centre for Research into Economics and Finance in Southern Africa. This article draws on the findings of ongoing collaborative research with Carolyn Jenkins into the determinants of growth and convergence in Southern Africa.

for trade liberalisation in order to improve African economic performance. But trade liberalisation should not be viewed in isolation. Given the range of influences on economic growth highlighted above, trade liberalisation should be accompanied by wide-ranging complementary policies to encourage private sector investment, both domestic and foreign. Governments across Southern Africa have recognised a need to create an environment conducive to investment in order to encourage the private sector to take advantage of the growing opportunities in the region.

There are grounds for optimism for the economic prospects of many Southern Africa countries, in part due to significantly improved growth rates in recent years. The challenges that remain, however, revolve around how to establish a permanently higher growth path. These challenges differ from country to country. They include, for example: maintaining long-term macroeconomic stability; streamlining the bureaucratic process of investment; improving infrastructure - especially in the areas of transport and communications; and developing and maintaining human capital through a broad range of health, education and training programmes. From a regional perspective, one key issue is the impact of globalisation in Southern Africa. Providing economic stability in the face of difficult global economic conditions is a challenge currently faced by all governments in Southern Africa. But the increasing integration of the region into the global economy, through trade and financial liberalisation, adds heightened importance to developing policies to counter the potential adverse effects of openness on domestic economies.

*What can governments do to foster economic growth?*

There are several implications for responsible leadership that come out of various studies on growth and economic performance in Africa.

To begin with, policy consistency is important. Economic instability has often occurred as a result of inconsistencies in the macroeconomic policy framework. Such inconsistencies can represent a major disincentive to investment as they increase uncertainty. A compatible set of policies can be thought of as a configuration of monetary, fiscal, exchange rate and aid policies, which results in external balance. This means that governments face real trade-offs in policy choices. Experience has shown that large and persistent fiscal deficits frequently imply tighter monetary policy, reflected in higher interest rates, to restrain inflationary pressure. This, in turn, makes it difficult for the private sector to access domestic credit for investment. On the other hand, if inflation is allowed to increase, this often results in overvalued real exchange rates, harming the competitiveness of exporters.

Thus, if the private sector is to respond to the opportunities created by economic liberalisation, governments need to provide a consistent macroeconomic policy framework that is credible to investors. Credibility is an important aspect of a consistent policy framework as the investment response is likely to be limited if entrepreneurs fear the reversal of policy initiatives. However, building credibility is a long-term exercise and some governments have sought to accelerate this process by strengthening institutions so as to make policy reversals difficult, such as legislating central bank independence, joining international organisations and signing regional stability pacts.

The quality of the institutional framework is especially important for encouraging private sector investment but also for ensuring that private sector activity is ultimately beneficial. Furthermore, governments have an active role to play in creating an enabling environment for small-scale economic

activity. This is an important element of broadening the set of economic opportunities available to the population.

Investors need confidence that their investment will be protected under the law and also that it will not be subject to arbitrary actions of government - either through sudden policy reversals at the executive level or, at an administrative level, through inefficiencies and corruption. Simplifying the *process* of investment (in terms of official procedures such as approvals and licensing) has been highlighted as important for encouraging private sector investment - especially foreign investment. This is intended, in part, to make the investment process quicker but also to increase the transparency of official procedures.

At the same time, there remains a clear need for rules to hold in check any damaging activity by the private sector. This suggests an important role for an effective regulatory framework, covering a broad range of activities - for instance, from protecting the natural environment to safeguarding the overall stability of the financial sector.

Finally, governments have a responsibility to promote sustainable social development. It is widely recognised that investment in education and health is a key priority for governments in developing countries. As noted above, health and education appear to be important determinants of long-term economic growth and are also crucial for improving quality of life.

An improved social environment does not automatically follow from greater economic growth. As such, governments must look to ways in which the wider population can enjoy gains from growth and how these gains can provide a basis for continued strong growth. In the context of economic liberalisation, it is important to recognise that, in the short term, some sections of the population are likely to suffer in the pursuit of long-term growth. Trade liberalisation, for example, can adversely affect employment in certain sectors of the economy as these economies are opened up to international competition. Governments need to consider complementary measures to offset the short-term adverse impact of liberalisation on social development. This is a complex challenge facing many developing countries.

### *Southern Africa - the way forward*

Governments across Southern Africa have made significant advances over the past few years in many of the areas that signal responsible leadership and an improved framework for economic growth and development. Macroeconomic conditions in many countries have shown a clear improvement - for example, budget deficits and inflation have fallen markedly in several countries and growth rates across the region in the last two to three years have generally been higher than in the first half of the 1990s. Several governments remain concerned, however, about the impact of adjustment and liberalisation on social development.

As noted above, there are still challenges facing the region in maintaining a higher growth path. It is apparent that most of the policies to be implemented are in the hands of domestic governments. Nevertheless, regional institutions are playing an important role in supporting growth. Initiatives to promote cross-border investment and trade in the Southern African Development Community are particularly relevant to this process but regional co-operation across a wide range of economic sectors will also contribute to creating a consistent policy framework for trade and investment. Regional

integration should contribute to growth through creating larger markets for trade and investment to thrive and, ultimately, could serve as a useful springboard for competition in the global economy.

## **DEVELOPMENTS IN THE TRADE SECTOR IN SADC**

**Fudzai Pamacheche<sup>1</sup>**

Trade is perceived to be a critical sector in Southern Africa as it can contribute towards deepening regional integration and help with the community building process in SADC. Trade is intrinsically linked to investment hence the Southern Africa Economic Summit naturally talks about trade and investment together.

Intra-regional trade in SADC has improved substantially and is currently estimated at over 21% of total trade. It is envisaged that with increasing cross-border investments emanating from within the region, this figure could rise to over 30% by the year 2000.

SADC Heads of State and Government signed a trade protocol in 1996 in Maseru, Lesotho. The main objective of the SADC Trade Protocol is to remove tariff and non-tariff barriers to trade in the region and ultimately achieve a free trade area within a period of eight years. The protocol has to date been ratified by five member states, namely Botswana, Mauritius, Namibia, Tanzania and Zimbabwe. Some member states are in the process of ratification, while others will only ratify once current negotiations on the tariff reduction schedule, an important element of the protocol, are completed.

Since November 1998, remarkable progress has been made in the negotiations for tariff reduction schedules. The SADC technical arm spearheading the trade negotiations, the Trade Negotiating Forum (TNF), at a meeting in November 1998, agreed a timetable for the completion of negotiations by June 1999. Once agreement is reached on the tariff reduction schedules, the implementation of the protocol is expected to commence at least within a three-month period. The TNF also cleared up some of the fundamental principles for negotiations, such as the concept of asymmetry in relation to the speed at which relatively well developed member states could reduce tariffs in relation to the less developed. The Forum also agreed on the treatment of sensitive products, which will not be excluded from liberalisation, but may take longer to liberalise or may require certain policies to be put in place before liberalisation.

The Forum has also discussed and agreed on some of the policies that are required to underpin implementation of the Trade Protocol. These include:

- The need for macroeconomic stability in the region.
- The need for harmonised investment policies and incentives to avoid use of revenue receipts in competing for investment.
- The need to diversify as well as specialise in certain product lines where there is comparative advantage within member states and the region.
- Policies on technology transfer in order to improve productivity, quality and enhance competitiveness with the rest of the world.
- Liberalised exchange controls to facilitate trade transactions.
- Improved payments, clearance and settlement systems to enhance speedy transfers.

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<sup>1</sup> Economist at the SADC Secretariat in Gaborone, Botswana

- Harmonised customs procedures and standardised customs declaration and transit documentation.
- Industrialisation policy to ensure equitable development in the region.

Since the TNF started meeting monthly in January 1999, all member states except the DRC, Seychelles and Angola have offers on the table and TNF has managed to negotiate and reach agreement on 73 Chapters of the customs tariff book. Judging from the offers on the table, on average about 30% of all tariff lines will be reduced to zero on entry into force of the Trade Protocol. For some countries this category of products is about 56%. The level of the products currently categorised as sensitive is about 25% but the objective of the negotiations is to reduce the proportion of sensitive products to 10% at most. Given the pace at which the negotiations are going it is envisaged that the target date for finalising the negotiations could be met. The target implementation date for the protocol is envisaged to be at the earliest October 1999 or latest January 2000. It is expected that most ratification can take place within three months after the finalisation of the negotiations on tariff reduction schedules.

The TNF recognised that agreement on tariff reduction schedules alone would not necessarily increase trade in the region if certain non-tariff barriers were not removed simultaneously. In fact non-tariff barriers are more serious obstacles to trade than tariffs because they are not transparent and therefore the business community cannot factor them into their business plans. In this respect, the TNF identified several non-tariff barriers and other trade measures faced by exporters in the region. A general commitment was made by each member state to ensure the elimination of all known non-tariff barriers once the trade protocol is enforced.

However, during the process of negotiation, each member States is expected to notify the core non-tariff barriers or trade measures particularly those related to:

- Quantitative restrictions on imports and exports such as licences and permits, quotas, prohibitions and single channel marketing.
- Surcharges on imports.
- Pre-shipment inspection and related costs.
- Customs documentation and related procedures.
- Export subsidies.

Two sub-committees, on Customs Co-operation and Trade Facilitation, and other appropriate technical committees and organs such as those dealing with standards, quality assurance and metrology, and sanitary and phytosanitary measures, will help the TNF develop strategies and a timeframe for the elimination of these non-tariff barriers. The elimination of non-tariff barriers will add impetus to the regional integration process, as the cost of trade transactions will be reduced to the advantage of importers and exporters as well as the final consumers.

The trade negotiations are on course and SADC is closer to achieving its goal of creating a single economic space in the region where there is free movement of all factors of production, investment capital, goods and services.

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## Abbreviations

BEDIA	Botswana Export Development and Investment Authority
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 Promoção de Investimentos (Mozambique)
DTI	Department of Trade & 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	Heavily 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 (South Africa)
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
SME	Small and medium-sized enterprises

SZL	Swaziland Lilangeni (plural Elangeni)
TAZARA	Tanzania-Zambia Railway Authority
TPDC	Tanzania Petroleum Development Corporation
TSH	Tanzanian 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-add 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

## MINING: A KEY SECTOR IN TRANSITION

Mining, traditionally the driving economic force and major foreign exchange earner in many countries in the region, resurfaced in the 1980s and 1990s after years of poor management, low investment and decline. In a number of SADC countries, new and potential mining and mineral projects represent the most significant sources of foreign direct and technology investment seen since independence. Projects worth US\$1.05bn have been established in the last five years or are now approaching an operational stage.

Decisions on a number of other equally large (if not larger) potential schemes have yet to be finalised. There needs to be positive commitments on these projects if mining and minerals development is to be established as the foundation of a number of economies in the region, and if this sector is to become competitive internationally. But how can this be accomplished?

The impressive growth of the last five years was built upon a period of political peace, security, and economic liberalisation, unprecedented in the post-colonial era. Foreign investors have also developed faith in the new policies of the SADC governments in the 1990s, which have presented new opportunities for foreign participation in local development.

The willingness of local public and private stakeholders to invest in this sector, provides a strong basis for a positive outlook for growth. This is helped by the politically secure situation found in most countries – an essential entry-level requirement for significant and sustained investment in an industry which makes risk calculations on a long-term basis.

The rich natural mineral resources in the SADC offer considerable hope for growth. The region's global share of key minerals include: platinum group metals (18%), chromite (17%), as well as gold, titanium, iron ore, coal and uranium. While South Africa remains by far the most important mining country in the region, five other countries have developed significant minerals industries. In the early 1990s, Angola, Botswana, Zambia, Zimbabwe and Namibia accounted for 99% of non-South African mineral exports from the region. Since then, Tanzania has emerged as a key area for gold exploration and development activity.

**Table 1 - Annual SADC Mineral Production**

Mineral	Unit	1993	1994	1995	1996	1997	Relative contributions by SADC states
<b>Copper</b>	Tx1000	635	588	527	511	523	Zam 60.8%, SA 29.3% Nam 4.8%, Zim 1.3% Bot 3.8%
<b>Nickel</b>	Tx100	63	63	59	66	67	SA 52.2%, Bot 29.85% Zim 14.92%
<b>Coal</b>	Tx1,000,000	188	198	213	212	224	SA 96.7%, Zim 2.1%; Other 1.2%
<b>Cobalt</b>	Tx10	477	322	350	555	531	Zam 85.5%, Bot 6.2% SA 5.8%
<b>Asbestos</b>	T	297	271	257	249	236	Zim 68.2%, SA 21.2%, Swa 11.0%
<b>Zinc</b>	Tx1000	16	141	130	143	144	Nam 50.7%, SA 49.3%
<b>Lead</b>	Tx1000	133	122	91	106	85	SA 97.6%, Nam 2.3%
<b>Chromite</b>	Tx10	308	411	579	566	645	SA 89.6%, Zim 10.4%
<b>Diamond</b>	ctx100,000	265	278	288	305	336	Bot 60%, SA 30%, Nam 4.22%, Ang 3.91% Zim, Tan, etc. 2%
<b>Gold</b>	Kgx1000	644	606	552	525	520	SA 94.8%, Zim 4.6%

*Notes:*

- DRC contribution is not included
- % Contribution based on the 1997 production figures of major mining investments
- Abbreviations: Ang = Angola; Bot = Botswana; Les = Lesotho; Mal = Malawi; Moz = Mozambique; Nam = Namibia; SA = South Africa; Swa = Swaziland; Tan = Tanzania; Zam = Zambia; Zim = Zimbabwe; DRC = Democratic Republic Of The Congo.

Source: *SADC Mining Sector Annual Progress Report, 1998*

While there has been a decline in the production of some traditional mineral exports like copper, asbestos, zinc and lead over the past 25 years, there have been large increases in the production of oil, diamonds (three-fold) and nickel (four-fold) in Angola and Botswana.<sup>1</sup> More recently, Zimbabwe has entered as a significant player in the mining of platinum group metals. Tanzania is now gearing up for large new gold mining operations.

Advances have also been made in the past 15 years in mineral beneficiation. By the early 1990s, a small amount of ore or concentrate was exported in raw form for further refining abroad.<sup>2</sup> Most gold, copper, cobalt, tin, zinc and nickel are now processed to their pure form in the region, before export. But there is still scope for much more beneficiation through new investments in modern technology. This, like other mining activities, will depend upon the establishment of a flexible, low-risk, internationally competitive and predictable political and economic environment.

### **Developments within the Minerals Sector**

Mining, the traditional prime export earner and large-scale employer in several countries of the region, is increasingly emerging as a potential new motor for growth after years of comparative decline and stagnation. Evidence for this is not limited to the mining success story of Botswana, or the ever-present regional powerhouse of South Africa, but also includes Zambia, where recent investments seem set to revitalise a stagnant industry, and Tanzania, where a boom in the gold sector now appears underway. In different places, under different conditions and regulatory environments, substantial new investor interest is emerging.

Still, the process of rebuilding and expanding the industry is by no means assured. Firstly, the global state of the mining sector is itself unstable, having witnessed a general downward trend in the past decade, with only very recent signs of recuperation. Secondly, the regional context of growth and new investment in the sector is still in the process of consolidation, and depends upon further progress in the areas of political and financial stability, policy reform and enactment, and improved security. The form of engagement of private sector investors, too, requires reassessment, given the vital need in some instances to integrate the mining sector into local economies and take stock of national political sensitivities. Large strides have been made on both counts in recent years in some countries. These must now be confirmed and expanded into other potential mining investment targets in the region. This will take a good deal of co-operative work by governments, policy-makers and private sector stakeholders, and some amount of luck given the high-risk nature of the industry.

World mining has been in the doldrums since the 1980s. This is because of a number of factors, namely, declining real prices for commodities, increasing costs, competition and risks, and exogenous shocks like the Asian financial crisis, the continuing uncertainty over Russia (and its application of old mineral stocks), and regional conflicts, like in Angola and the DRC. Low sector growth forecasts have resulted, and profit margins of most mining houses are expected to remain low in the long term. There has been a significant trend within the industry towards increasing cost-competitiveness and improved efficiencies, with new technologies being introduced.

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<sup>1</sup> Paul Jourdan, ed., *The Mining Sector in Southern Africa*, SAPES Books (Harare, 1995), p. 19.

<sup>2</sup> Jourdan. p. 20.

Emphasis in the global industry has been on sharpening production cost efficiencies, reducing overheads, using modern techniques to find higher-value ore bodies, building synergies within and among companies, and avoiding risk. Projects vying for finance in international capital markets will be severely disadvantaged if they do not have the competitive edge on these issues. For projects in most African countries, where there are insufficient stocks of capital and technical expertise to start new projects, it is essential that they are able to compete favourably in international capital markets.

In several respects, the shifts in the mining industry towards cost-efficiency and risk-aversion stand to benefit SADC producers. Firstly, production costs in the region are generally considered reasonable by international standards, with rates for electricity and labour costs sometimes much lower than foreign competitors. Human resource levels are generally also seen as being adequate for modern mining, and where better skills are needed, they are typically imported without hindrance. Secondly, the risk profile of several mining host countries is widely acknowledged to have improved dramatically. In the 1980s and early 1990s the poor security situation in several countries prevented systematic exploration. As a result, countries like Mozambique were effectively closed to modern exploration and development work for over 15 years. But now the changing political and security dispensation in much of SADC is opening up new possibilities for such work, at the same time as changing political and regulatory environments in several countries are reducing the political and financial risks to speculative investors.

**Table 2 - Perceived Political Risk of E&D Countries in SADC**

	Medium risk	Acceptable Trend	High risk
<b>Traditional E&amp;D countries</b>	South Africa, Botswana	Tanzania, Zambia, Namibia	Zimbabwe, DRC, Angola
<b>New E&amp;D countries</b>		Mozambique, Swaziland	Lesotho

Source: *Metals Economic Group data*

The convergence of these positive risk-related factors is clearly having an impact on new mining investment interest in the region. Spending on exploration has risen steeply in the 1990s, following a trend seen across Africa. Some estimates indicate that the continent's share of global exploration and development spending has risen from 7% in 1993 to 17.5% in 1998<sup>3</sup>, and about 35 large advanced projects (excluding South African projects, operating mines, diamond works and metal beneficiation projects) worth at least US\$6.7bn, are involved. In addition, about one third of the value of current African projects being researched, are listed as being within SADC (for a SADC total project value of US\$483m). Another 90% of projects, worth US\$3.65bn that are already underway or about to start, are located in the region.

**Table 3 - Mining Exploration Expenditure 1993-1997 (US\$m)**

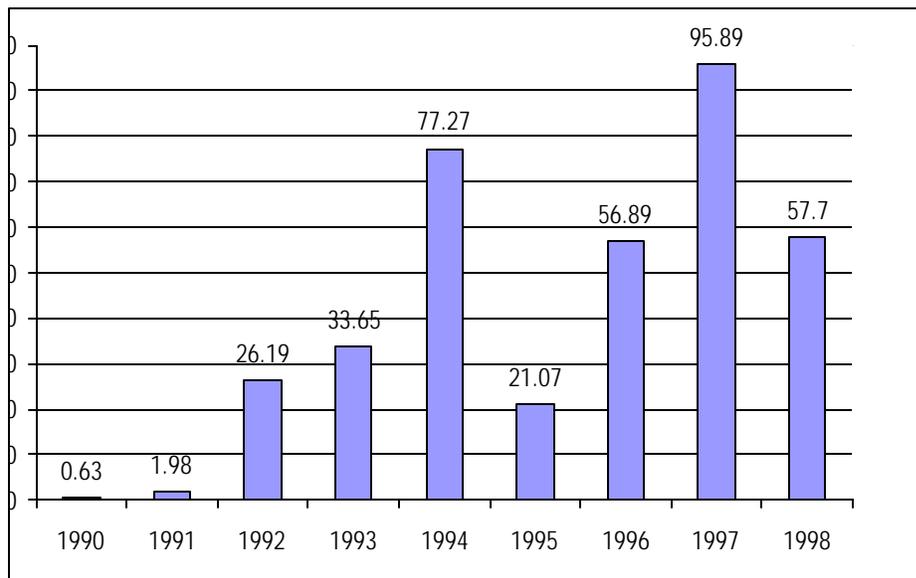
Country	1993	1994	1995	1996	1997
Angola	N/A	N/A	0.9	1.5	2.3
Botswana	13.0	16.2	12.1	10.6	10.8
Lesotho			0.05	4.4	6.6
Mozambique	NA	NA	4.0	10.2	13.2
Namibia	3.7	3.7	9.1	11.3	9.3
Zambia	14.0	19.0	26	32.0	45.0
Zimbabwe	1.3	1.3	1.7	1.7	1.7
<b>Total</b>	<b>31.9</b>	<b>40.2</b>	<b>52.9</b>	<b>68.5</b>	<b>86.6</b>

Source: *MCU 1998 Annual Report*

<sup>3</sup> Minerals and Energy Policy Centre (Johannesburg), "New Sources of Capital for the Development of Africa's Mineral Resources". Report for the United Nations Economic Commission for Africa. March 1999.

Tanzania serves as a good example of rising exploration interest in SADC. Here gold exploration is booming in the wake of promising finds and as a result of a more stable political and economic climate. By 1998 six new commercial prospects were reported, with one deposit indicating a resource of at least 5m oz. Several sites are currently being developed or prospected for production in the near future. Mozambique too, is now being viewed with renewed interest by exploration and development operations. Zimbabwe has also experienced a five-year spate of renewed exploration activity, which has only recently begun to diminish.

**Figure 1 - Tanzania: Mining Annual Exploration Budgets (US\$m)**



**Table 4 - Tanzanian Exploration Spending in the 1990s**

1990	1991	1992	1993	1994	1995	1996	1997	1998	Totals
0.63	1.98	26.19	33.65	77.27	21.07	56.89	95.89	57.7	371.27

*NB: These figures indicate commitments by the companies as per their work programmes.*  
Source: Ministry of Minerals, Tanzania.

All three countries have employed modern exploration techniques, sometimes for the first time. Some see this as a way to increase the probability of finding new viable mineral resources, and of securing exploration funding for the future.

There is increasing evidence that South African mining houses are leading the resurgence in mining activity in the region, often in partnership with foreign specialist mining operations. The SADC Mining Sector Co-ordinating Unit's (MCU) annual report for 1998 points to this development. According to the MCU, Anglo-American has recently invested US\$40m in African exploration, followed by Randgold (\$15m), Gencor and JCI (both at \$13m).

Increases in exploration activity should typically lead to increases in project development. But despite the recent positive outlooks, in order to realise the SADC's mining potential, a consistent and sustainable set of inputs is required. These include political and economic stability and security, and the development and implementation by government of policies that enable competitive investment in exploration and production, and enhance long term confidence in the stability of the mining sector in the region. In this regard, much has been accomplished in recent years by both legislation and actions (see next section).

There remain lingering concerns however. Problems with technical and project promotional support on the part of both government and local private sector players still remain. Local finance capital, including venture capital and stock market actors, also tend to be weak potential partners and project promoters. In addition, some governments make unpredictable and inconsistent decisions around deal negotiations. There are also instances of corruption and insufficient transparency. Failings here can lead to broader questions about the security of tenure of new or acquired investments, which in mining are characteristically calculated on a long-term basis. Once confidence in a government goes, it is difficult to rebuild.

Investors also watch the unfolding fiscal environment in prospective host countries for signs of fiscal imbalances, high debt and key macroeconomic indicators, such as inflation and real interest rate trends. Such factors, important in themselves for local investment considerations and production costs, also heavily influence a number of other elements that have a direct bearing on mining operations. These include the development and maintenance of a physical infrastructure, educational levels, and the elaboration over time of taxation and revenue collection regimes and exchange control regulations. Quite apart from international market and financial trends, these local economic conditions contribute directly to the calculation of a mining projects' bottom line, and must be seen by host governments as factors in luring new mining (and other sector) investment. Tax holidays and allowances for repatriation of capital and profits are necessary but in most cases not sufficient concessions for substantial investment to take place. Other incentives, such as mineral depletion allowances, infrastructure investment rebates, and other cost-reduction schemes, along with rights to direct marketing of commodities, are also sought by larger investors.

### **The changing regulatory environment of the 1990s**

The regulatory policies and fiscal and legal environments of the host country are key factors that are considered by mining houses when deciding whether to enter new projects. A secure policy environment that allows for competitive production practices, has increasingly become an entry-level requirement for global investors. This is especially the case given the narrowing margins in the industry and the comparatively long period over which returns on investment are calculated.

Throughout SADC there is a clear recognition that the state cannot play a dominant role in the mining industry, either through direct ownership or nationalisation. In the 1990s, against a background of wider economic and political liberalisation, governments have acknowledged that legislated state dominance in mining infringes on the sector by excluding private sector participation and raising doubts about security of tenure. Fiscal constraints, such as high income taxes and duties, limits on the repatriation of dividends, profits and invested capital and the imposition of withholding taxes, have also come to be recognised as dampening factors in the creation of an attractive investment environment. This has resulted in a number of regulatory changes being introduced in a number of SADC countries in the 1990s.

Reforms to the policy and regulatory environment have typically dealt with the following issues:

- *tenure rights and licensing*  
Government has committed itself to recognise the basic property and commercial rights of private sector explorers and mining companies. Government has also acknowledged that for the sector to develop, it is important to have private sector participation. In line with this policy shift, in countries such as Zambia and Tanzania there have been moves to privatise state mining and mineral assets, and to distance government from regulation of the industry by establishing more autonomous regulatory structures in consultation with sector stakeholders.
- *the fiscal environment*

In a number of countries more attractive and competitive fiscal packages have been introduced for the sector. These include reductions or elimination of income and withholding taxes, the extension and deepening of tax holidays, deductions for exploration and project development outlays, liberalisation of rules on foreign exchange, and the repatriation of dividends and profits, etc. Just as important, there have been explicit commitments by governments to keep such regulations stable, reliable, predictable, equal and to avoid ad-hoc/discretionary intervention by state officials.

- *“industrial” regulatory issues*

Some governments have moved to adopt rules that are compliant with international best practices in order to encourage an internationally competitive environment. Some examples of these include regulations against open-ended exclusivity in tenure rights that can be used for speculative purposes, and against information hoarding, transfer pricing etc. South Africa remains in transition from a regime that supports aspects of these regulations through the existence of privately held mineral rights. However, South Africa is the only mining country in SADC that operates under such rules. Reforms in some instances have extended to the de-regulation of minerals marketing, in some instances (still the case in Zimbabwe), formerly controlled by the state.

- *the small-scale sector*

The small-scale sector provides considerable employment and contributes meaningfully to national mineral production in some countries, like Zimbabwe, Tanzania and Namibia. The sector has its own special needs, typically around access to credit and marketing facilities, and some efforts have been made by government to address these in the 1990s. In some cases financial flows to the informal small-scale sector have been encouraged. For example, in Tanzania, there has been the creation of incentives and the development of rules concerning the use of mining properties as security for credit. In Namibia, licensing and other rules for small-scale indigenous miners are generally more relaxed, and the ability of the sector to comply with mining codes, environmental and health & safety regulations, are factored in during development.

Some industry observers have recently noted a generally positive response by governments in the region to the enactment of specific reforms addressing the above issues – but also indicate that there is some way to go. According to the 1998 MCU Annual Report, while there has been considerable progress made with market liberalisation and privatisation, the establishment of more attractive foreign investment regulations and institutional structures to support them and reforms around narrower mining issues have been less rapid. For instance, some countries have been slow to provide duty relief on capital imports and tax reductions; and in a number of cases, progress has been slow in the removal of uncertainties around the granting, removal and transfer of licenses.

The following table indicates progress up to the end of 1998 in the implementation of mining sector reforms:

**Table 5 - SADC Mining Policies: Implementation of Reforms \***

	ANG	BOT	LES	MAL	MOZ	NAM	RSA	SWA	TAN	ZAM	ZIM	DRC	MAU	SEY
<b>a</b>	Y	Y	A	Y	A	A	Y	Y	Y	Y	Y	N	U	U
<b>b</b>	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
<b>c</b>	Y	Y	N	N	A	Y	Y	N	N	Y	Y	Y	N	N
<b>d</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>e</b>	U	Y	N	N	N	N	N	Y	N	N	N	U	N	N
<b>f</b>	Y	Y	U	Y	A	A	N	N	N	Y	A	N	N	N
<b>g</b>	U	A	A	Y	A	A	U	N	N	Y	A	U	N	N
<b>h</b>	Y	U	A	Y	A	A	N	N	N	N	N	U	N	N
<b>I</b>	U	U	N	N	U	U	U	N	N	Y	Y	U	N	N
<b>j</b>	Y	U	A	Y	Y	A	Y	U	A	Y	Y	U	U	U
<b>k</b>	U	A	A	U	U	U	Y	N	O	N	O	N	N	N

*Y: Yes; N: No; O: On-going; A: Anticipated; U: Unclear*

**Key:**

a. Statutory Guarantee of Tenure of Mineral Rights	g. Investment Tax Allowances
b. Ownership of Minerals Vested in the State	h. Duty-Free Importation of Mining Machinery
c. Mining as Key Economic Sector	I. Tax Deduction for Mining Losses
d. Encouraging Diversification of Mining Sector	j. Environmental Protection
e. State Participation Obligations	k. Removal of Uncertainties re. the granting, removal and transfer of licences
f. Tax Regimes	

\* Source: *MCU, SADC Mining Sector Overview 1998*

## **SADC in the reform process**

While national governments have been and continue to be directly responsible for policy reform, a number of stakeholder institutions, both public and private, have participated in regulatory changes. This development has helped to establish and strengthen these sector organisations and the industry in the process, providing for an unprecedented degree of regional co-operation and co-ordination around mining and mineral issues. Such co-operation ought to help build a regional identity for the SADC mining sector and define the region as a safe, bankable and competitive place for investment. The first steps have already been taken but there is still some way to go.

Intergovernmental activity is currently co-ordinated by the Lusaka-based SADC Mining Sector Co-ordinating Unit (MCU). The MCU has six sub-sectors that are responsible for co-operation and development around geo-science data and information, small scale mining activity, minerals processing, environmental issues, human resources, information sharing and management at regional level. The MCU has developed a plan of action that was backed by the *SADC Mining Protocol* and signed by regional Heads of State in September 1997. The Protocol lays out the legal basis for co-operation and co-ordination among states in the region, and is the first such agreement for co-operation on minerals issues at sub-regional level in Africa. However it still awaits ratification by the majority of SADC states (three had ratified by late 1998) before it comes into effect as a binding regional set of guidelines.

Meanwhile, under the terms of the Protocol and the broad aim of regional integration and development, the MCU has targeted various action areas. In its first plan of action (1992/96), attracting new foreign investment was a priority. Since then, the MCU has worked on information sharing, the establishment of common standards, the development of technological capacity, encouragement of private sector participation including the improvement of the small scale mining sector, the development and harmonisation of environmental protection, and occupational health and safety standards. The current MCU plan of action comprises 26 projects worth about US\$16m, most but not all of which have attracted government and donor funding.

MCU's objectives include the building (and sharing) of institutional capacity in SADC's mining countries. There is a keen awareness that part of the challenge of developing new investment interest in the sector lies in demonstrating a growing local technical and policy capacity to sustain a modern mining industry. For some emerging and re-emerging mining countries in SADC, this can perhaps most effectively come about by means of co-operation with more developed mining sectors within the region. But this requires additional work at regional integration, and lack of resources – financial, human, political, bureaucratic, etc. – continue to hamper the process.

A new regional body, the Mining Industry Association of Southern Africa (MIASA), has also emerged. This body serves as a forum for discussion, co-ordination and engagement with government at regional level. MIASA focuses on areas of common interest, for example, the rationalisation and improvement of education and training, information gathering and sharing, policy advocacy and harmonisation of standards. It works among the four national Chambers of Mines in Namibia, South Africa, Tanzania and Zimbabwe, and in the absence of such chambers in other member countries, representatives of industry and commerce. MIASA does not represent other mining interests, such as small-scale miners (for which associations exist in Namibia, South Africa, Tanzania, Zambia and

Zimbabwe), or mineral-specific associations (in South Africa and to a lesser extent Zimbabwe). In some instances such groups have been inadequately integrated into the national and region policymaking process. At regional level this is partly due to varying capacities, a lack of effective contact among comparable groups, and to a characteristic lack of sustained policy dialogue.

Perhaps, SADC governments and the private mining sectors need to develop a stronger strategic and mutual vision around which goals and effective forms of co-operation can be established. As a 1998 report by the United Nations Economic Commission for Africa on SADC minerals sector institutions warned last year, the costs of *not* creating and acting on such a vision should be weighed up against the costs of doing so. Difficult issues of subsidiarity of government policy decisions and supranationality of regional decision-making in mining and minerals, needs to be faced in the future by national and regional policy makers.

**FULL PAGE BOX:**

**SADC National Mining Codes: the changing terrain of the 1990s**

**Angola**

A new mining law was introduced in 1992, and a diamond law in 1994. The Foreign Investment Law was enacted in 1994, with further liberalisation in the mining sector coming into effect with the 1995 decree, Fiscal Regime for Geological and Mining Activities. The 1992 law puts into practice a new policy on mining, eliminating the monopoly of state-owned companies over mineral rights and opening avenues for private sector investment in mineral development. This represents significant changes to the legal and regulatory environment and plans for restructuring and privatisation of publicly owned mining companies will be developed.

**Botswana**

New legislation aims to promote diversification in the mining sector, while retaining state ownership and licensing rights over mineral properties. The new Act is likely to affect minerals more than the diamond sub-sector, and deals with industry concerns over security of tenure, the concessioning process, taxation and the structure of state involvement in mining activities.

**Mozambique**

A new mining and geological policy was approved in early 1997, and seeks to liberalise the sector by minimising direct government participation in mineral activities. Special fiscal measures were introduced as part of the revision of mining regulations. Government flexibility aimed at attracting investment into the sector was demonstrated in the Mozal project, which attracted substantial tax, customs and other fiscal concessions.

**Namibia**

The Minerals (Prospecting and Mining) Act, the country's first comprehensive mining legislation, was passed in 1992 and enacted in 1994. A Minerals Amendment Act, aimed at streamlining and rationalising the mining management system laid out in the 1992 legislation, is now being prepared in consultation with private sector stakeholders and is likely to be adopted before the end of 1999. A new Diamond Bill is currently before Parliament, and may be passed in mid-1999. Namibia's mining and minerals legislation provides for a relatively flexible approach to investment, and accommodates processes of wide-ranging negotiations and concessions within the realm of pre-licensing mineral agreements.

**South Africa**

South Africa is currently undertaking a major review of mining legislation. A Minerals and Mining Policy White Paper was published in October 1998, after extensive consultations with all stakeholders. Among other key issues, the White Paper focuses on the reform of the system of access to and mobility of minerals rights (introducing the "use it or lose it" principle, and eliminating provisions for private ownership of mineral rights). The new policy perspective also considers the participation of the previously disadvantaged population in ownership and management within the industry, provides for reforms for the small-scale sector, and aims to encourage greater regional co-operation in the minerals industry.

**Tanzania**

New Mining Law was passed by Parliament in 1997, was accepted by the President in July 1998, and is likely to be implemented by mid-1999. Private sector stakeholders were closely consulted in the drafting stages. In advance of implementation, various new regulatory structures are being established, to assume powers and roles once held by ministers. Before the first reforms were enacted in the early 1990s, the state was by law the dominant player in the industry, and had to have at least a 50% share in any mining venture. The new law opens the field up to private sector players, calls for privatisations of state mining companies and restrains the state from engaging directly in new mining companies. Other

changes involve the introduction of incentives through fiscal packages, including more favourable rates and rules on taxes, duties, withholding taxes, etc. The regulations also reform conditions for small-scale activity.

### **Zambia**

In the 1990s mining regulations changed to encourage diversification, promote more vigorous mining activities and to reduce the role of the state as the main owner and operator of the country's mining assets. The privatisation policy reforms were some of the most sweeping in Africa. More specific changes in the country's mining policies have included attempts to encourage private sector investment in exploration and development in a range of mining activity, including small-scale mining and aspects of mineral beneficiation.

### **Zimbabwe**

Zimbabwe's mining laws remain largely unchanged since independence in 1980. Only minor adjustments to regulations, involving revenue collection from the sector, have been introduced. Foreign mining houses continue to dominate the large-scale sector, which exists alongside a substantial small-scale sector. State ownership of minerals remains in place, and the parastatal Minerals Marketing Corporation retains near-exclusive rights to market most sector commodities (negotiated exceptions have been seen).

*Source: MCU 1998 Annual Report, official documents and BusinessMap interviews*

## **Investment trends and activity in the 1990s**

Prior to 1990, there had been no significant major foreign investment in the SADC mining sector since the early 1970s, with the exception of diamond installations in Botswana and oil development in Angola. This lack of foreign and domestic investment was particularly marked in the area of exploration. For example, although there was good gold exploration potential in Tanzania and Zimbabwe, these countries missed out, almost entirely, on the world gold boom of the 1980s. Instead investment went into the developed countries like Canada, Australia and the USA, and to Latin America.

Evidence from the 1990s indicates that this situation has since changed. In fact, exploration and project development in SADC has shown signs of recuperation despite the negative trend in global mining, especially when global exploration took a sharp drop (by more than 30% in 1997/98 alone in response to the Asian crash). This recovery has been led by foreign direct investment (FDI), with a strong showing from South African companies, and encouraged by the shedding of run-down assets in some countries by reforming governments. More recently, this investment wave is beginning to be felt in the important value-added sector of minerals processing and beneficiation.

**Table 6 - Recent Mining FDI\* in Selected SADC Countries 1995-1999 (US\$m)**

Country	1998	1995 - 1999 Totals
Botswana	2	22
Dem. Rep. Of Congo	67	197
Mozambique	8	20
Namibia	10	59
Tanzania	48	297
Zambia	162	405
Zimbabwe	544	577
<b>Totals</b>	<b>841</b>	<b>1577</b>

\* Figures include only actual project investment above US\$1m, not firm intentions or exploration expenditure.

Source: *BusinessMap* SADC-FDI Database

Data on FDI collected by *BusinessMap* indicates a growing foreign interest in mining in the region during the latter half of the 1990s, with increased expenditure on exploration and advanced feasibility study work now translating into new project development work in countries like Tanzania and Zimbabwe. Investor activity is wide-ranging in terms of both countries and mineral sub-sectors. It involves new major global players, like Australia's BHP, fast-moving juniors including Canadian exploration specialists, and South Africa's established mining houses – often in a mix of partnerships.

As the following table shows, *BusinessMap*'s transaction-based data indicates that the commitment of these players in the region is accelerating as the new millennium approaches.

**Table 7 - SADC: Selected Mining FDI 1995-1999 (US\$m)\***

Target Company	Target Country	Source Company	Source Country	US \$m	Kind	Year
Hartley Platinum Mines	Zimbabwe	BHP Minerals & Zimplats	Australia	500.0	New	1998
Kolwezi Tailings project	DRC	Anglo American Corporation (AAC) and AMF	SA & USA	130.0	Mergers & Acquisitions	1999
Nkana, Nchanga, Konkola & Nampundwe Copper Mines (ZCCM)	Zambia	Anglo American Corporation (AAC)	SA	90.0	Privatisation	1999
ZCCM Power Division	Zambia	Copperbelt Energy Corporation	UK	50.0	Privatisation	1997
Gécamines	DRC	Isacor	SA	66.7	Expansion	1998
Tsumeb Corporation	Namibia	Danae Resources	Australia	49.2	Mergers & Acquisitions	1999
Golden Pride Mine	Tanzania	Resolute Ltd & Samax Gold	Australia	47.0	New	1997
Turk Mine	Zimbabwe	Casmyn Corporation	Canada	30.0	Mergers & Acquisitions	1995
ZCCM / Kansanshi Copper Mines	Zambia	Cyprus Amax Minerals	USA	28.0	Privatisation	1997
Bwana Mkubwa Copper Mine	Zambia	First Quantum Minerals	Canada	26.0	Mergers & Acquisitions	1997
Eureka Gold Mine	Zimbabwe	Delta Gold	Australia	24.0	New	1998
Maamba Collieries	Zambia	Benicon	SA	22.0	Privatisation	1997
Phoenix Mine	Botswana	Tati Nickel Mining/Anglo American Corporation (AAC)	SA	20.0	New	1995
ZCCM / Chibuluma	Zambia	Metorex consortium	SA	17.5	Privatisation	1997
Indarama Gold Mine	Zimbabwe	Trillion Resources Limited	Canada	14.8	Mergers & Acquisitions	1998
Rosh Pinah Zinc Corporation	Namibia	Isacor	SA	10.0	Mergers & Acquisitions	1998
Rio Tinto Zinc Corporation	Zimbabwe	Rio Tinto	UK	5.0	New	1994
Chaka Processing Plant	Zimbabwe	Delta Gold	Australia	3.0	New	1998
Bubi Mine	Zimbabwe	Anglo-American Corporation (AAC)	SA	2.0	New	1997
Marlin Zimbabwe	Zimbabwe	Marlin Corporation	SA	2.0	Expansion	1998

Source: *BusinessMap FDI-SADC database*

FDI is also moving into related areas in the minerals industry, like minerals' beneficiation. Countries like Mozambique have been able to make use of other factor advantages, such as cheap surplus electricity at Cahora Bassa, in order to entice private sector capital.

**Table 8 - Recent FDI into Minerals Beneficiation in SADC**

Target Company	Target Country	Source Company	US\$m	Kind of Investment	Year
Mozal (Mozambique Aluminium Smelter)	Mozambique	Industrial Development Corporation (SA) Billiton (UK); and Mitsubishi (Japan)	1,320.0	New	1997
Chambishi Cobalt Treatment Plant & Nkana Slag Dumps and Smelter	Zambia	Anglovaal Minerals (Avmin) (SA)	139.5	Privatisation	1998
De Beers Centenary Angola Properties Limited (Debcap)	Angola	Teixeira Duarte (Portugal)	30.0	New	1998
Ndola Precious Metals	Zambia	Binani Group	2.8	Privatisation	1998

Metal Fabricators of Zambia Limited (ZAMEFA) Privatisation	Zambia	Phelps Dodge Outokumpu Copper Oy (PDOCO) (USA)	3.2	Privatisation	1997
Steeldale Mozambique	Mozambique	LTA Limited (SA)	0.8	New	1997
<b>TOTALS</b>			<b>1,496.4</b>		

Source: *BusinessMap FDI-SADC database*

This promising trend in mining and minerals activities could continue in the medium term. This assumption is based on the data collected on “firm intentions” and the advanced plans involving a collection of other projects in the region. These include some of the larger projects noted in Table 4.3, which are currently in the final planning stages, and are awaiting a go-ahead and the setting in place of financial arrangements.

**Table 9 - Firm Intentions and Expressions of Interest in Mineral Beneficiation Projects in SADC**

Target Company	Target Country	Source Company	US \$m	Year
Maputo Iron & Steel Production Plant	Mozambique	Industrial Development Corporation (SA); Enron (USA)	2,083.7	1998
Moatize coal coking project	Mozambique	Johannesburg Consolidated Industries (JCI) SA)	1,500.0	1997
Buchwa-Beira Hot Briquetted Iron Plant	Mozambique	Johannesburg Consolidated Industries (JCI) (SA)	500.0	1998
Aluminium smelter in Savane	Mozambique	Fluor Daniel (USA)	1.3	1999
<b>TOTALS</b>			<b>4085.0</b>	

Source: *BusinessMap FDI-SADC database*

**Table 10 - Firm Intentions and Expressions of Interest in Larger Mining Projects in SADC**

Target Company	Target Country	Source Company	US \$m	Year
Mozambican coal deposit	Mozambique	Ingwe Coal Corporation & Tavistock Collieries (SA)	750.0	1998
Namzinc	Namibia	Reunion Mining (UK) & Anglo American Corporation (SA)	250.0	1997
Mining exploration	Tanzania	Anglo American Corporation (SA)	200.0	1996
Kolwezi Tailings project	Congo (DRC)	International Panorama Resource Corporation (Canada)	190.0	1997
Sengwa Coal Mine	Zimbabwe	Rio Tinto (UK)	160.0	1998
Nickel Cobalt project	Tanzania	Sutton Resources Ltd (Canada)	108.0	1997
Gecamines	Congo (DRC)	Johannesburg Consolidated Industries (JCI) (SA)	100.0	1998
Ngezi Platinum Mine	Zimbabwe	Zimbabwe Platinum Mines (Zimplats)	100.0	1998
Unki Mine (Platinum Group Metals)	Zimbabwe	Anglo American Corporation (SA)	80.0	1998
International Project Development (IPD)	Namibia	Berlin Engineering Group (Germany)	80.0	1998
Dikulushi copper and silver mine	Congo (DRC)	Anvil Mining	33.0	1998
Konkola North	Zambia	Anglovaal Minerals (Avmin) (SA)	30.0	1996
Nickel Cobalt project	Tanzania	Anglo American Corporation (SA)	27.0	1997
Mining exploration – various	Namibia	JCI (SA)	5.8	1995
Exploration	Namibia	Anglovaal Minerals (Avmin) (SA)	2.0	1997
Goba and Catuane, Chicualacuala, Limpopo	Mozambique	Intermine (Australia)	1.2	1994
Anmercosa Exploration	Angola	Anglo-American Corporation (AAC) SA	1.0	1997
<b>TOTALS 1994 - 1998</b>			<b>2118</b>	

Source: *BusinessMap's FDI-SADC database*

For many of these “intentions” to move into final project development however, all of the key ingredients of a successful FDI stake must be satisfied. These include: confidence from investors that their investment is secure; an understanding that the host country will be supportive of the deal and committed to making it work in the long term; and of course, that the project’s bottom line is a viable and competitive one. With investors weighing up a number of different variables, host country governments cannot afford to inject undue uncertainty into the equation by prevaricating or showing less than full transparency in establishing their terms for agreement to deals.

Recent concerns in Zimbabwe that at least one and perhaps more large mining development projects might not proceed in the wake of a lack of clarity by the state and declining confidence by international financial institutions, provides one among several examples. Another is offered by the continuing problematic divestment by Zambia’s ZCCM of its core assets, the Nkana and Nchanga mines and related mining complexes, which is still under negotiation after the collapse of a long-running bid by the Kafue Consortium early last year.

In the case of the ZCCM deal, it now appears as though government’s hesitation to go forward with the initial negotiating process has cost it dearly. The earlier offer by the Kafue Consortium (comprised of SA’s Anglovaal Minerals (Avmin), Canada’s Noranda and the USA’s Phelps-Dodge) of US\$150m cash and up to a total of US\$1bn in follow-on investment, dwarfs the more recent bid by Anglo American, reported to be worth approximately US\$90m. Overall, however, the privatisation exercise in Zambia, where the state’s 60% share is to be reduced to 10-15% through the unbundling and sale of key assets, has attracted wide interest among foreign investors. In the process, a large number of run-down mining institutions on the brink of bankruptcy have received a fresh injection of capital and technology, and this has created new hope for the future (*see box on Chambishi Treatment Plant*).

**Table 11 - ZCCM Privatisations**

Asset	Investor/Country	US\$ m	Date	Details
Chambishi Cobalt / Acid Plant & Nkana Slag dumps	Anglovaal Minerals (Avmin) (SA)	139.5	1998	Anglovaal Minerals (Avmin) buys cobalt and acid treatment plant at Chambishi and the Nkana slag dumps, and commits to their further development. Total value of the project, including purchase price of US\$50m cash, investments in new installations and working capital is approximately US\$140m.
Nkana, Nchanga, Konkola & Nampundwe Copper Mines	Anglo-American Corporation (AAC) (SA)	90.0	1999	In 1999 ZCCM and Anglo-American Corporation, through its subsidiary Zambia Copper Investments, sign a memorandum of understanding for sale of 80% share in the Nkana, Nchanga, Konkola and Nampundwe Copper operations. Cash payment set at US\$90m, further investment commitments of US\$300m.
Power Division	Copperbelt Energy Corporation (UK)	50.0	1997	The ZCCM's Power Division (excluding the Bulk Transport, its assets and fleet of vehicles) is sold on competitive tender basis to the United Kingdom’s Copperbelt Energy Consortium.
Luanshya / Baluba Division	RAMC Trading Binani Industries (UK)	41.2	1997	Luanshya/ Baluba mining and metallurgical complex (excluding Precious Metals Plant) is sold on competitive tender to the Binani Industries. Binani pay \$35m cash for 85% stake.
Kansanshi Copper Mine	Cyprus Amax Minerals (USA)	28.0	1997	Cyprus Amax Minerals Company pay US\$28m, over three payments (US\$3m; \$10m; and \$15m) for an 80% share in the mine.
Maamba Collieries	Benicon Limited (SA)	22.0	1997	Benicon, an SA-Mozambican company, buys 80% of the state owned Maamba. The purchase price includes liabilities amounting to US\$16m, a cash consideration of US\$1.5m and a pledged capital expenditure and refurbishment of US\$4.5m.
Chambishi Copper Mine	China Non-Ferrous Metal Corporation (China)	20.0	1998	Chinese company buys 85% of the mine on a competitive tender for US\$20m, and commits to investing an additional \$103m during 1998/2003.

Chibuluma South	Metorex Consortium (SA)	17.5	1997	Metorex consortium (Crew Development Corporation, Maranda Industries and Genbel Securities) is awarded the Chibuluma copper and cobalt project of Zambia Consolidated Copper Mines (ZCCM) for \$17.5m. Maranda has 25.5% in Chibuluma Mines. ZCCM retains a 15% interest.
Ndola Precious Metals	Binani Group (UK)	2.8	1998	100% shareholding in Ndola Lime Company sold for \$2.8m; including \$0.35m cash (\$1.4m over five years up to 2003) and a deferred payment of a further \$1.4m.
Mpelembe Drilling Limited	Management buy-out (MBO) (Zambia)	0.3	1997	Mpelembe Drilling Limited sold on competitive tender to the MBO team for the purchase consideration of K335m.

Source: - *BusinessMap's FDI-SADC database*  
- *Zambia Consolidated Copper Mines Limited*

Other states in the region are also involved in minerals and mining privatisation exercises, to varying degrees. There is a long way to go though. In 1988, SADC's host countries owned mining assets worth about 45% of the value of the key minerals produced, excluding oil.<sup>4</sup> With some key mineral producers still involved directly or indirectly in their national mineral industries – for example, the Botswana government has a strategic 50% stake in the large local diamond mining operation, Debswana – privatisation alone is unlikely to serve as an adequate provider of new mining investment capital. For the large-scale mining industry in the region, the primary target of foreign investment will be existing and new private-sector projects and not divested state assets.

### **The years ahead**

In order to attract and hold new mining capital – financial, technological and human – SADC governments will have to align themselves with international trends in the volatile mining industry. Being a competitive site for investment is not enough. An industrial environment that compares favourably with those found in other countries has to be developed. The 1980s and 1990s demonstrate that, while world-wide options for minerals project development are plentiful, the financing for them is limited. To compete in international markets, SADC countries must offer internationally competitive conditions for production – as they are now showing a capacity to do. This will involve governments making some investments of their own. The development of infrastructure and facilities, such as transport, communications, electricity and water, as well as human resources, is key if mining is to be competitive. Governments will increasingly be called upon to commit themselves in years to come, and to match this commitment with a demonstrated capacity to deliver on such undertakings. Investment in skills and infrastructure will be watched closely by international business, to see if states in the region begin to make up the considerable backlogs that grew in the 1970s and 1980s.

Investment by regional private sector interests will also be watched, particularly with regard to the greater integration, co-ordination and rationalisation of financial markets and activity in the region. Local commitments to growing local stock exchanges and other secondary markets will be one sign of renewed faith in domestic economic growth and macroeconomic stability; SADC governments' commitments to participating positively in this process of integration and harmonisation will be another. Both will help deflect worries about the risk profile of investing into the region.

Another means of undercutting the perception of risk is for the public and private sector in the region to engage more openly and inclusively in partnerships with international mining houses, benefiting from their skills and capital inputs through the formation of strategic alliances. This pre-supposes a capacity to identify and link with potential strategic partners that is clearly lacking in some countries though. This further underlines the importance of greater and deeper co-operation at regional level, involving both the public and private sector, with the aim of building a more competent, integrated and

<sup>4</sup> Jourdan. p.21.

competitive regional mining sector. The MCU, MIASA and others have taken the initial steps, but the aims should now be to deepen and strengthen the process.

### **Chambishi Plant : Warming up to Privatisation in Zambia**

The 1998 privatisation of ZCCM's Chambishi cobalt and acid treatment plant and the Nkana slag dumps demonstrates the benefits to both government and private sector investors when negotiations are backed by political support and clear commitments. The Chambishi deal concluded with Anglovaal Mining (Avmin) of South Africa for a cash price of US\$50m and additional investment commitments of US\$70m was settled quickly after an earlier and larger bid by Avmin and other partners for key assets of the ZCCM had failed.

In 1997/98, Anglovaal Minerals (Avmin) was a leading player in the Kafue Consortium, which brought together three mining houses – Avmin, Phelps Dodge (USA) and Noranda (Canada). Each would have a 26.67% stake in the bid, the Commonwealth Development Corporation (UK) 10%, with the remaining 10% held by ZCCM. By early 1998 the proposed deal by the Consortium was showing signs of strain, with the copper price having collapsed in late 1997 by 20% to about 80cents/pound, and financing becoming more expensive. Kafue's bid was readjusted downwards, a factor which contributed to a hardening of positions and the eventual collapse of negotiations.

By this stage, Avmin noticed that one of the assets which was part of the original bid package was manageable by the company alone as a separate and viable acquisition. Focusing on the Chambishi asset, an existing cobalt and acid treatment plant that badly needed an injection of capital and improved management, as well as considerable copper/cobalt rich dumps, Avmin opened what would be intensive but fruitful negotiations with the ZCCM. In a matter of weeks a final agreement was reached, with the Zambian government increasingly keen to attract investment and skills into a flagging sector.

Both sides came out winners. For the Zambians, the agreement led to an immediate cash purchase payment of US\$50m, the retention of 10% equity in the Chambishi operation by the ZCCM, and a contractual commitment by Avmin to build an entirely new cobalt smelter worth at least US\$70m. In addition, Avmin agreed to upgrade the existing Chambishi plant. In all Avmin will invest about US\$120m in the short term in the deal, safeguarding hundreds of jobs, boosting technological standards and earning Zambia many millions of dollars in foreign exchange over the next two decades.

For Avmin too the deal has had its advantages. These primarily include access to the Nkana slag dumps, which date back 60 years and hold 20 million tonnes of cobalt and copper slag. With an average content of 0.76% cobalt and 1.16% copper, Avmin estimates the dumps will provide for the processing of up to 4000-5000 tonnes of cobalt and 5,000-10,000 tonnes of copper annually. Eighty thousand tonnes of acid will be produced per year. A new smelter at Chambishi will be developed to process the existing slag mountain – an impressive mound half a kilometre square and 30m high – and feed its semi-processed matte to the upgraded Chambishi plant.

At the same time, as part of the deal, Avmin won contractual obligations from nearby ZCCM mines Nchanga, Nkana and Roan Antelope to continue supplying the Chambishi refinery with their products for toll refining for up to 5 years (renewable). Avmin has completed initial upgrading on the Chambishi plant at a cost of US\$9m to make this process more efficient. Reports indicate that the toll refining operation is already breaking even on the investment.

What made the Chambishi deal work for Avmin when earlier efforts with the Kafue Consortium had fallen through? Manageability by Avmin of a more focused project, greater decisiveness on the part of government, a lower degree of political sensitivity surrounding the deal, and a Zambian commitment to bringing in investment in cash and kind, all played a part in the quick and successful conclusion to the deal.

## **SADC TRANSPORT: MAKING A WAY FORWARD**

### **Introduction**

Transport has been a policy and investment priority in the region since the beginnings of the Southern African Development Community (SADC) in the early 1980s. The heavy dependence of the countries of the region on apartheid South Africa's shipping routes was an issue of primary importance. In the 1980s as much as 80% of total SADC project financing went towards the rehabilitation of existing regional infrastructure. The SADC transport and communications sector's Southern African Transport and Communication Commission (SATCC), based in Mozambique, was later established as the only permanent commission within the regional body.

A key strategic aim of SADC's initial project thrust was to revive transport networks which had been developed under the colonial period, and which had fallen into disrepair and disuse. It soon became evident that donor project funding and the limited government expenditure which was possible within the region would not sustain the development of these transport systems. A key problem was the critical shortage of regular investment and adequate management in the network. Increasingly in the 1990s, attention has been turned to these factors by regional governments in an attempt to re-establish the viability of transport. The deteriorating state of infrastructure, its broad negative economic implications for SADC countries and the realisation that existing forms of ownership and operation are no longer sustainable, have all helped to force the issue of transport reform on regional governments.

In the 1990s broad market reforms have been seen across the region and opened the door to private sector participation – a trend already in evidence internationally. As a result, SADC now stands on the brink of a new phase of private and public investment into a range of transport projects. Old (and some new) ideas of corridors have re-emerged as a centre of investment policy and strategy making. Governments of the region are moving towards closer co-operation around transport investment issues, problems and solutions. A new common approach in a range of sub-sectors is taking shape. Where will this lead, and will it remain on-track in the face of numerous political and economic policy uncertainties?

### **A history of chronic low investment**

In the colonial period the transport infrastructure in the region was comparatively well developed. By the early 1960s this featured a number of effective "transport corridors", linking resource and industrial centres to export routes on both the eastern and western seaboard. For example, the Zambian Copperbelt used the Angolan port of Lobito via a rail link; Zimbabwe exported agricultural and mineral products through the ports of Beira and Maputo in Mozambique; and Malawi shipped its exports via Nacala and Beira. But in the 1960s and 70s, civil and regional conflicts, as well as poor investment and management, saw the crumbling or disuse of most of these established corridors.

While conflict and poor security was a particularly important factor in transport disruption in some cases – notably the rail and road networks in Mozambique and Angola – a more consistent problem revolved around chronic under-investment in transport by governments in the region. Maintenance backlogs grew to high levels, new capital investment was minimal and management systems were put under great stress, which they often had inadequate resources to manage effectively. After a period of chronic neglect, some key trunk rail routes came to handle less than one-third of their installed capacity, pushing the costs up for users and forcing them to look to alternatives such as road transport. There was continued if not growing

diversion of commercial activity to the tried and tested shipping routes of South Africa and to a more limited extent, the port of Dar es Salaam (via the Tazara Railway, completed 1975).

Small dents were made in this pattern of regional transport by the partial rehabilitation of the port of Beira in the 1980s, but the bulk of regional cargo traffic continued to flow southwards, rather than east, west or north, to internationally shipping routes, in the 1980s and early 1990s. As the following sub-sector reviews indicate, a number of critical and unsustainable bottlenecks with wide-ranging economic and political implications emerged and forced governments to consider new solutions to deepening problems.

### *Rail*

Years of neglect at a number of national railways have moved the regional network towards a crisis situation. According to SATCC, considerable portions of the regional network track and train management systems are in poor condition, with related infrastructure and services deteriorating rapidly.<sup>1</sup> The primary reason for this is inadequate maintenance and investment in national railways over the past many years. SATCC estimates that at the end of 1997 there was a backlog in infrastructure exceeding US\$300m (this figure does not include amounts required by railways in Angola, the DRC and Tanzania).<sup>2</sup> Continuing restricted revenues by many of these organisations and rising debt loads means that under current conditions, it is unlikely the necessary investment inputs into these national railway systems will come from governments in the region. Improving operating margins in a number of national railways in recent years belies the fact that essential maintenance investments have been deferred. Under normal re-investment regimes, considerable overall losses would have been incurred and would have to be borne ultimately by the public sector operators of the railways.

In only a few exceptions have operating margins been sufficient to permit consistent reinvestment in maintenance and new development. In places where this has not happened, such as Zambia, the condition of the track and services have become poor and led to tightening bottlenecks and sometimes dangerous operations: in Zambia in 1995/96 alone, there were 100 train derailments on main and branch lines attributable to maintenance neglect. Overall, a number of key trunk intra-regional lines are showing signs of stress and stagnating performance. For the most part there has been a failure of these lines to grow adequately in tandem with the renewed economic growth and demand for bulk transport needs in the region. On SADC's key rail corridors growth in traffic and cargo volume has been disappointing, often falling behind overall economic growth trends.

**Table 1: SADC railways performance on a corridor basis 1990 - 1995 ( '000 tonnes)**

Corridor	1990	1991	1992	1993	1994	1995
Goba Line	366.1	136.6	187.2	154.3	163.5	275.0
Ressano Garcia Line	990.6	702.4	289.7	693.6	675.5	658.5
Limpopo Line	0.0	25.8	417.9	302.4	381.9	741.7
Machipanda Line	850.1	699.9	848.2	1,025.9	958.1	1,062.9
Nacala Line	92.4	88.5	87.3	125.1	155.6	215.1
Tazara Line	996.5	926.9	962.4	1,079.4	635.4	n/a
Total Traffic	3,295.7	2,579.2	2,792.7	3,380.7	2,970.0	2953.2*

\* = Total traffic in 1995 from all corridors, except Tazara

Source: SATTC. 1998. *Transport and Communications Integration Study for Southern Africa*

<sup>1</sup> SATCC Annual Report, February 1999.

<sup>2</sup> SATCC Annual Report, p.43.

While government operators have failed to provide sufficient investment into “hardware” rail infrastructure, management problems have also contributed to gaping inefficiencies in rail networks. Poor management capacity has compounded the problem of insufficient capital investment and made it doubly difficult for several national railways to confront the stiff and growing competition from the road transport sector. Political considerations have often made it difficult to bring about the wholesale change needed in management structures. As long as rail networks remain under the ownership and management responsibility of political offices, this situation is unlikely to see meaningful change.

**Table 2: Staffing and Staff Productivity of SADC Railways, 1992 - 1997**

Railways	Number of staff						Staff productivity (thousands of traffic units per railway employee)					
	1992	1993	1994	1995	1996	1997	1992	1993	1994	1995	1996	1997
Botswana Railways	2,025	2,024	2,039	1,940	1,795	1,196	534	668	327	367	427	744
CFM (C) (Moz)	5,178	4,978	4,678	5,370	4,103	4,025	48	63	64	71	93	96
CFM (S) (Moz)	2,833	2,553	3,602	3,212	3,731	3,626	106	127	109	155	152	157
NRZ (Zim)	16,343	15,362	13,918	12,975	11,908	11,434	386	394	358	409	464	475
Spoornet (SA)	105,900	81,334	66,480	65,425	63,063	51,284	849	1,136	1,407	1,526	1,583*	1,972
Swaziland Railways	1,074	747	728	725	701	680	705	969	927	1,025	976	985
TAZARA	7,011	6,756	6,600	6,550	6,190	5,500	287	352	226	222	209	218
TransNamib Railways	2,063	1,999	1,928	1,944	1,752	1,753	617	572	570	568	599	597
Zambia Railways	8,544	8,518	7,929	5,500	5,450	5,285	144	157	125	120	147	154

\* = Ton-kilometres per hour

Source: SATCC Annual Report 1999

### Road

Only about 15% of SADC’s 890,000 km road network is comprised of primary roads, with the bulk of the network made up of tertiary roads. Much of the latter, and some parts of the former, have suffered increasingly in recent years from lack of state investment in maintenance and development. Fiscal pressures on governments and the limited potential revenue base of road users, combined with increasing costs and escalating expenses associated with damaged roads, have restricted countries’ room for manoeuvre. The backlog of required maintenance is now growing, according to SATCC, and is threatening the viability of some networks.

**Table 3: Adequacy of Funding for Road Maintenance in the SADC region, June 1997**

Country	Sustainable Level of Road Expenditure US\$m	Road User Payments US\$m	Year	Actual Expenditure on Road Works	Year	RUC Payment Coverage of Sustainable Maintenance	
						Percentage	Quality
Botswana	39.92	6.83	95/96	99.62	95/96	17%	Very inadequate
Lesotho	17.48	2.01	1995	22.40	95/96	11%	Very inadequate
Malawi	33.57	1.70	94/95	28.05	96/97	5%	Very inadequate
Mozambique	50.00	21.20	1995	161.00	1996	42%	Poor
Namibia	78.23	71.64	1993	76.90	1993	92%	Good
South Africa	1,490.68	2,350.00		724.91	95/96	158%	Good
Swaziland	11.49	2.29	1995	23.70	1995	20%	Poor

Tanzania	72.94	57.80	95/96	86.30	95/96	79%	Good
Zambia	80.43	15.59	1995	43.10	1995	19%	Very inadequate
Zimbabwe	173.56	10.56	95/96	35.96	95/96	6%	Very inadequate

Note 1: A “sustainable” level of road expenditures is the level required to maintain the road system in an acceptable condition. It is assumed that the road-maintenance backlog has been eliminated.

Note 2: The “payment coverage” is hypothetical in that it is assumed all income from the road user payments is devoted to sustainable maintenance. However, for most countries much of these payments go to general revenue, and are not all dedicated to road works. Thus the terms presents too optimistic a picture.

Source: *SATCC Annual Report, 1999*

As the table above shows, only three of ten SADC countries surveyed displayed rates of revenue collection adequate to meet the most basic or “sustainable” investment needs, let alone the requirements of new development programmes. Even in the minority of cases where adequate income was generated, not all of the revenue from road users (typically collected through fuel taxes) necessarily was invested back into the road sector. In South Africa, for example, only a portion of “road taxes” goes to roads; the rest goes to the general state treasury.

Other factors, including vehicle loading regulations and their supervision, and the installed facilities and management at border posts, also contributed to the decline in regional road surfaces and the viability of road transport and haulage. Overloading is generally accepted as a significant problem in much of the region, with at least four of ten countries surveyed reporting overloading rates of about 40% or more, and nine reporting overloading rates of at least 20%.<sup>3</sup> The current situation – which poses a distinct threat to road surfaces, the safety of other road users and the commercial competitiveness of other transport means such as rail – is unlikely to improve without significant investment into monitoring and enforcement institutions, notably weigh bridges. But such investment, as well, has often been seen as an unsustainable financial and management expense by many governments. As a result, this road related infrastructure has not typically received priority action within existing public bureaucracies.

Border post and customs management infrastructures exhibit similar problems. Lack of investment into these facilities and substantial growth in traffic, particularly in the 1990s, has led to severe bottlenecks at critical border points. In turn, this has led to escalating costs for commercial road users. SATCC estimates that the cost of delays at borders for commercial road transporters to be about US\$48m annually in the late 1990s. In Zimbabwe, a key link in the regional road transport network, average delays of more than 20 hours are expected at three of the country’s most important international crossing points. At least one country surveyed indicated average border delays of up to 37 hours. The clear costs of these and other failures in the transport system are forcing governments and transport stakeholders to respond, singly and collectively, with viable alternative options. As a result, policy reform in the road sector has accelerated in the second half of this decade.

#### *Ports:*

After a long period of stagnation and decline, a number of key SADC ports are resurfacing in the 1990s as a result of policy-driven reforms. In the past two decades, several factors played a role in the deterioration of port facilities and shipping volumes: civil conflicts, apartheid destabilisation, diminished surrounding transport infrastructure and services, low commercial demand, poor management and lack of sufficient investment in maintenance. Changes now

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<sup>3</sup> SATCC Annual Report, p.36.

under way will take some time to have an impact on associated transport services, but the groundwork for future development of SADC's ports is slowly taking shape.

#### **Table 4.1. SADC Ports**

##### **Tanzania**

###### **Dar es Salaam:**

- Water Depth:  
7.6-m
- Quay Length:  
Combined quay: 550-m  
General cargo: 1,464-m  
Coastal vessels: 588-m
- Facilities:  
3 container berths

##### **Mauritius**

###### **Port Louis:**

- Water depth:  
11-m water depth
- Quay length:  
550-m
- Facilities:  
Berthing of containerships and some general cargo vessels.  
3 ship-to-shore container cranes
- Improvements & Problems  
Construction of 560-m container terminal with 12.5-m water depth.  
Reconstruction of 545-m of existing quay.

##### **Mozambique**

###### **Nacala:**

- Water Depth:  
14.0-m
- Quay Length:  
335-m
- Facilities:  
ship berths
- Tonnage:  
373.0tons (1997)
- Improvements & Problems:  
General Cargo quay due for reparation

##### **Mozambique**

###### **Beira:**

- Quay Length:  
1.650-m
- Facilities:  
10 Ship berths  
Breakbulk cargo terminal  
Petroleum Jetty

##### **Mozambique**

###### **Maputo:**

- Water Depth:  
9.4-m
- Facilities:  
12 ship berths

##### **South Africa**

###### **Durban:**

- Water depth:  
12.8-m
- Quay Length:  
12,900-m
- Facilities:  
57 berths.
- Improvements & Problems:  
Expansion limited by land side urban development.  
Programme initiated for refurbishment, re-equipping and upgrading.  
Holding capacity:1.089 million TEU's per annum.

##### **South Africa**

###### **Richards Bay:**

- Water Depth:  
19.5-m
- Quay Length  
3,900-m
- Facilities:  
12 ship Berths
- Improvements & Problems:  
700-m multipurpose pier constructed

##### **South Africa**

###### **Port Elizabeth:**

- Water Depth:  
12.2-m
- Quay Length:  
3,050-m
- Facilities:  
11 ship berths  
Container stacking area
- Tonnage:  
223.000 tons

**South Africa****Cape Town**

- Water depth  
14m
- Quay length  
5,000
- Facilities  
20 ship berths
- Tonnage  
678,000 tons

**South Africa****Saldanha Bay:**

- Water Depth:  
20.5-m
- Quay Length:  
1.050-m
- Facilities:  
Bulk cargo
- Improvement & Problems:  
Construction of iron ore plant

**Namibia****Walvis Bay:**

- Water Depth:  
10.4-m
- Quay Length:  
1.430-m
- Facilities:  
8 ship berths
- Improvements & Problems:  
Container handling equipment needed

**Angola****Luanda:**

- Water Depth:  
10.5-m
- Quay Length:  
1.9060-m
- Facilities:  
2 container terminals  
1 dry bulk terminal  
2 general cargo terminals

**Angola****Lobito:**

- Water Depth:  
8.3-m
- Quay Length:  
1.281-m
- Facilities:  
6 ship berths
- Improvements & Problems:  
Rehabilitation of Benguela railway  
needed

**Angola****Namibe**

- Water Depth:  
10.4-m
- Quay length:  
960-m
- Facilities:  
Breakbulk cargo
- Tonnage:  
72,500 tons per annum

Source: *SATCC Annual Report, 1999*

Most principal ports in SADC are still geared to serving their respective national markets, and have not grown into export platforms for regional producers. There are important exceptions, however, and these mainly include ports along the eastern seaboard down to Durban. Of these the port of Durban is by far the largest, handling on average 50% of the region's containerised freight traffic including significant amounts of cargo trade for Swaziland, Botswana, Lesotho, Malawi and Zimbabwe.<sup>4</sup>

**Table 4.2 : Total cargo handled at main ports in SADC**

Dar es Salaam		Nacala		Beira		Maputo		Port Louis		Richards Bay		Durban		Port Elizabeth		Cape Town		Saldanha Bay		Walvis Bay		Luanda	
1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
4,11	3,53	373	346	3,89	2,97	3,10	3,17	3,82	3,71	81,0	78,6	30,3	31,5	5,52	5,30	7,44	6,76	21,8	20,3	1,81	1,78	1,36	903

Source: *SATCC Annual Report, 1999*

<sup>4</sup> SATCC Annual Report, p.71

Further north up the coast, larger ports have only in recent years started to expand handling capacity, after a long period of decline, just as some larger ports such as Durban and Richards Bay are reaching capacity point. For non-South African ports, particularly Beira and Maputo, there are clear emerging opportunities for attracting modest amounts of new regional traffic. But a lot needs to be done in order to lure business their way. Some steps are now being taken in this direction, led by policy reforms in the 1990s that have seen fresh inflows of capital and management skills into port operations.

Recent developments include:

- **Dar es Salaam:** government investment in port grain handling facilities in the early 1990s, and later additional investment into cotton facilities. Government built a container port by converting conventional docks. In 1999 government will look for a private sector player to take over the container port on concession.
- **Nacala:** CFM hopes to concession the port but nothing has been concluded. A key obstacle in marketing the port to the private sector is the low traffic volumes and likely low profit margins. Weak linkages out of the port into the hinterland are also a problem, and further improvement to rail and road connections are needed to provide access to Zambia and beyond.
- **Beira:** Container handling facilities were developed by government in the late 1980s through conversion of conventional berths. In 1998 CFM granted a Dutch company concessioning rights for the port. Other Mozambican and Zimbabwean investors are considering the possibility of grain handling facilities. Channel entrance siltation remains a critical issue.
- **Maputo:** Maputo has attracted the greatest investor interest of all non-South African ports on the east coast because of its potential due to location and existing rail and road links. Since the mid-1990s there has been considerable focus on improving the “software” of port management. The concessioning and expansion of the container port, and the imminent concessioning of the main port, open new possibilities for tapping the South African and regional market. Citrus and sugar facilities are also run privately on concession.

Port development is currently in the beginning stages of restructuring, involving new forms of concessions and sub-contracting. The impact of these moves will take time. Governments still need to move further from the position of principled acceptance of port reform, to actual change and practical demonstration of their commitment to the process through implementation of new policies. Having agreed to general principles, governments must now further establish the modalities of restructuring in order to sustain the momentum of early reforms.

### **Regulatory environment on the move**

In the first years of this decade the critical transport situation in the region led governments to consider the use of internationally tested solutions. Thus public private partnerships (PPPs), and variants of them like Build-Operate-Transfer (BOT) agreements, began to find favour with governments. They were seen as solutions to the double crisis of crumbling networks and diminishing public capital available for transport investments.

In the initial stages the consideration of new policy options tended to be ad hoc, driven by the need to respond on a case-by-case basis to crises. Governments haltingly entered into new agreements, in the absence of well-defined policy, legislative and regulatory frameworks. There were few established rules and guidelines, little understanding by governments of the principles involved, and not a great deal of confidence or trust on either side of the new contractual agreements.

Some governments looked upon PPPs with considerable trepidation, unwilling to concede an important area of political and economic authority to the private sector – and only doing so when the harsh reality of economic limitations forced them to. Budgetary constraints and service provision crises – not a coherent strategic commitment to reform – were the driving forces in the early period of transport restructuring in several cases. But as practical experiences with PPPs have deepened, and as governments (both individually and at regional level) have moved more concertedly and coherently towards a broad policy of market liberalisation, private sector participation in public sector infrastructure development has deepened. PPPs of various kinds are becoming an integral feature of SADC transport policy.

This development has been championed at regional level by SATCC, and has involved the identification of the benefits and targets of reform, the recommendation of preferred modalities for restructuring and the establishment of priorities for action. Road, rail and port installations, as well as air carriers, border and customs services, are all witnessing a transformation and the beginning of a new period of private sector investment. There is a long road ahead, but there are also strong signs of determination on the part of governments in the region to make transport policy reforms work.

In Mozambique, for example, there has been a gradual unpacking of CFM's assets in different regions of the country, and the start of section-by-section negotiations for private sector joint venture concessions with the CFM owner. Concessioned assets include the Maputo container port, the port of Beira, the Nacala rail line up to the Malawi border, and three sections of the CFM South network. Through this process confidence on both sides has slowly been established, with the strategic needs of each being made apparent. Important aspects of the CFM network, including the port of Maputo and the rail line from Maputo to Ressano Garcia on the South African border, await the closing of negotiated agreements.

Other countries have seen similar experiences, although Mozambique ranks ahead of most in the speed with which it has moved forward with the concessioning and privatisation process. Generally, the national railway networks have been the site of the most substantial reform planning and implementation. This is undoubtedly due to the heavy drain on public spending represented by commercially unviable railroads, and the increasingly serious nature of their deterioration in the 1990s. Typically, both factors have forced governments' hands and pushed the restructuring process forward. Thus railroad concessioning has begun meaningfully in at least three countries (Mozambique, Malawi and Zimbabwe) and plans are underway in at least three others (South Africa, Tanzania and Zambia) for significant private sector involvement in the future. The reform of port operations has followed closely behind, often linked to the process of rail sector restructuring (as in the case of Mozambique) through their common ownership and management.

Progress has also been made in the road sector, through the introduction of concessioning and the gradual restructuring of management including notably, the establishment of independent Road Authorities or Road Funds. South Africa has been the primary site of the first aspect of reform involving private sector investment, with this option being limited for much of the rest of the region because of lower traffic volumes and therefore the lack of commercial viability. In South Africa a number of large-scale road projects involving substantial private-sector capital inputs are now underway, starting with the awarding of the NI concession in March 1994. The turning point in this process was the formation of the South African National Roads Agency, which provided the regulatory framework under which new concessions could be facilitated without the red tape and political vagaries of direct government involvement.

**Table 5: N-road Concessions in SA**

Project	Deal size (Rm)	Status
N1 Warmbaths-Pietersburg	1,000	Closed
N4 Maputo Corridor	2,019	Closed
N3 Heidelberg-Cedara	3,000	Negotiation
N4 West Platinum Toll Road	2,300	Best and Final Offers

Source: BusinessMap. *Transport 1999 - New Paths to Investment*

In the absence of a commercial basis for concessioning, the more accessible alternative for many countries has been the development of new agencies and dedicated funds for investment recycling of user revenues into road infrastructure. In the past few years a number of governments have moved substantially in this direction, with support from SADC and its transport sector unit. A common position on road funding and operation appears to be emerging around the region as a result.

**Table 6: Progress of Institutional Reform in Road Management in SADC, April 1998**

	<b>Existence of dedicated road fund, autonomous road board, and independent road agency</b>	<b>Plans for establishing road fund, board and agency</b>
Angola	None	None
Botswana	None	None
Lesotho	Road Fund (fuel levy only) and Roads Board fully operational.	---
Malawi	The Acts which establish a road fund/ roads board, and a roads agency (authority) have been submitted for approval to parliament.	---
Mozambique	Road fund meets 100% of routine and periodic maintenance, and 20-50% of rehabilitation.	---
Namibia	None	Studies and legislation are far advanced and cabinet has agreed in principle to restructure the road agency and establish a road fund and board.
South Africa	The Road Fund, Roads Board and Roads Agency have started operation. The Road Fund is financed by the fuel levy.	---
Swaziland	None	The Cabinet has approved the restructuring of the roads sector.
Tanzania	A road fund is in place, but not dedicated.	A Cabinet Paper has been finalised for establishment of a Roads Agency and Roads Board.
Zambia	A road fund and board are in operation, but funding of the roads' fund is inadequate.	The Roads and Road Traffic Act is under study and may be revised to include a Roads Agency.
Zimbabwe	None	A Roads Sector Reform Steering Committee was formed to guide formulate a policy on roads. Three studies are being carried out to establish a dedicated Road Fund, and to

Source: *SATTC Annual Report, 1999*.

In recent years the key policy aim has been to channel road user revenues into dedicated funds, and to ensure that these are managed professionally, with strong involvement of stakeholders and users in the private sector. Another aspect has involved the move towards establishing national road agencies that operate on sustainable commercial principles. Finally, in order to improve the capacity of countries to supervise and enforce loading regulations, and expedite the process of customs clearance and border management, countries have moved towards developing enabling regulations to permit the involvement of private sector capital and skills in these formerly state-maintained functions. As in other transport subsectors, the advisory and co-ordinating role of SADC institutions has been an important factor in the development of these recent policy reforms.

*The SADC Protocol on Transport, Communications and Meteorology*

Increasingly, policy reform at regional level is taking place in terms of the *SADC Protocol on Transport, Communications and Meteorology*, the regional agreement developed under the guidance of SATCC. 10 SADC members have since ratified the Protocol, signed in 1996.<sup>5</sup> This means the agreement now has the force of law in member countries, and supervision of compliance with its terms can be monitored by the responsible agency, SATCC's technical unit, SATCC-TU.

As part of the process of monitoring and supervising the process of Protocol implementation, SATCC-TU has been tasked with providing technical and other advice to national governments in the conceptualisation and implementation of policy reforms. One of the ways SATCC-TU does this is by developing "model legislation" by means of consultation with member states individually and collectively through the Commission. Model legislation containing generic guidelines and policy options for governments is being worked on at both the general and specific, or transport sub-sector, level. The latest and likely final draft of a broad approach to transport sector reform has recently been published by SATCC. It is expected that this "Investment in Transport Act" (ITA) will receive the approval of SADC members states in 1999, leading to its incorporation in the Protocol as an "annex" with legal force.

The ITA both spells out the broad thrust and logic, and defines the more precise recommended procedures and practices, of private sector investment in publicly owned transport infrastructure. Various modes of investment – from partial and full privatisation to PPPs, BOTs and other concessioning schemes, and management sub-contracting and licensing – are examined, and the methods by which they can be transparently structured, implemented and monitored explained in detail. In effect, various forms of policy and regulatory harmonisation currently underway within the SADC transport sector is being instrumentally put in place through the ITA and emerging sub-sector model legislation exercises associated with it.

The Act sets its main goals as being:

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<sup>5</sup> Missing are the DRC, Lesotho, Seychelles and Zambia, although Zambia is continuing to reform its national legislation in line with the guidelines spelt out in the Protocol, and is expected to ratify at a later date.

- maximisation of investment opportunities for the private sector, including the development of clear rules under which investment opportunities are established, bid for or purchased, taken up and operated
- freeing up of government transport infrastructure assets, including parastatals, to private sector investment interest, with the aim of restructuring and developing assets into commercially viable services; and maintaining public investment in transport assets which are needed but not necessarily commercially viable
- refocusing of government on the “core functions” of engaging in strategic planning, facilitating investment and monitoring its performance and benefit to the public

In an extension of the generic process outlined in the ITA, discussions around the development of model legislation for SATCC’s component subsectors – including rail, roads, ports and civil aviation – are continuing. Both the strategy and form of implementation and monitoring receive substantial attention in this process, with careful consideration given to addressing the anxieties of governments over (among other things): the loss of control over strategic assets; the costs, quality and extent of service provision; the emergence of monopolies; and the impact on employment and other parts of the private sector.

The principles of model legislation are the same in all sub-sectors, and refer back to the basic ideas of the ITA: deregulation, privatisation, increasing involvement of the private sector through a variety of regulatory schemes including concessioning, sub-contracting, and PPPs of various kinds. Model legislation and related documentation for each of these sub-sectors tends to provide more detailed background and SADC precedents for the sector, as pointers towards available best practices.

Some sectors, such as rail, are at an advanced stage. SATCC is now in the final stages (5<sup>th</sup> draft) of preparing model legislation for railway concessioning, spelling out the basics of model legislation, best practices and alternative options. A number of governments have moved quickly towards common positions aimed at revitalising their railroads through private sector investment because they are suffering similar problems from the deteriorating condition of their national rail networks. SATCC reports that objections to earlier drafts of the model legislation have been incorporated in the most recent version of the document, which might well be accepted at regional level this year.

The road sub-sector has also seen progress in terms of model legislation. Guidelines for vehicle overloading and border post management have been drafted and are moving forward. Among other issues, this model legislation makes provisions for private sector management of border post operations, and develops legal instruments enabling private sector enforcement of overloading rules on road operators. Model legislation covering port management and concessioning continues to be developed within the context of the Protocol, and a new draft is expected to be discussed in 1999.

All of these sub-sector discussions and agreements involve the participation of sub-sector structures, and include not only governments but also sub-sector stakeholders and their various representative bodies. In this way, the development of model legislation and interim regulatory agreements and codes involves a process of institutional strengthening within each sub-sector, and proceeds on the basis of consensus.

Once the ITA and other sub-sectoral model legislation has been adopted by SATCC and incorporated into the Protocol, SATCC can start to play a role in supervising and monitoring their implementation. The precise legal status of the ITA and other annexes to the Protocol has yet to be fully decided by SADC members, but there is a willingness to move ahead and

develop a system of implementation and compliance. It is likely that once it is passed, member states will be obliged to remodel their own legislation in keeping with the model legislation under the supervision and guidance of SATCC-TU.

In reality a number of member states are ahead of SATCC in the development of model legislation. While there is increasing demand for SATCC assistance from some countries with less capacity, elsewhere – for example, Malawi, Namibia and South Africa – reform is being strongly led by the national public sector in a number of areas, notably rail and telecommunications (another key SATCC responsibility). Not all stakeholders are aware if they are acting in compliance with the principles of the Protocol, SATCC-TU has found. The unit reports that only about half of the SADC member countries which have ratified the Protocol have thoroughly examined it to see how or if their own national legislation complies, or how it might be made to comply, with the Protocol. Yet in few cases do there appear to be substantial points of conflict or contradiction between new national legislation and the principles of the Protocol.

One of the next key steps in implementing legislative reforms around the region, therefore, will involve the development of a greater degree of awareness concerning agreements and principles spelt out in the Protocol and its annexes. Part of this need might be met this year, if as expected, donor assistance allows for the development of a new guideline publication focused on the development of model BOT contracts and arrangements. This may be used in conjunction with different pieces of model legislation now being developed.

But in addition, SATCC-TU requires additional funding if it is to assist meaningfully with the next step of ITA implementation and further development through sub-sector model legislation. There is a pressing need to establish national legal reform teams (currently Swaziland is the only SADC country which has moved to create one), and to improve report-backs and supervision of legislative reforms at national level in keeping with the regional agreement. Without this deepening of institutional support at regional level, the laudable aims and objectives of the current forward-looking reform process might eventually meander off-track.

### **Transport Corridors and SDIs**

In the context of growing investor interest in regional transport opportunities, old and new forms of thinking about regional corridors are emerging as targets of investment promotion. On the one hand SATCC has begun identifying viable transport corridors in the region, and a range of projects which would be central to their rehabilitation and development. Many of these corridors closely resemble some of those put in place decades ago as functioning shipment routes, demarked by ports and their railway spines into the hinterland; or by intra-regional, cross-border trunk roads used as primary road shipment routes.

On the other hand, a Spatial Development Initiative (SDI) has recently been launched by the South African government's Department of Trade and Industry (DTI) to focus primarily on the investment potential of different corridors and areas. The SDI programme, begun in 1997, looks only secondarily at the issue of transport network improvement. The DTI project methodology seeks first to identify resources in an area that might be of interest to investors, and then help local stakeholders plan and promote infrastructural investments which improve access to these investment targets. Transport remains a key component of projects, but as a means to development – and not the primary target of investment promotion.

To date, eleven South African SDI projects have been identified (some of which extend beyond the South African border into neighbouring countries). The initial focus was on the

development of projects within the country, with the identification and promotion of investment opportunities serving as a core activity of the SDI programme. The concept has since been extended to include the region, with the aim of identifying other transport and investment opportunities around “Development Corridors” in neighbouring countries. In 1997 the South African government allocated R50m for domestic and regional SDI projects.

By May 1999, a total of eleven regional SDIs, most of them along traditional transport spines, had been identified (*see box*). Of these, the Maputo Corridor and Lubombo SDI are the only functioning initiatives. These will likely soon be joined by the Walvis Bay Corridor, for which an agreement between the Namibian government and the DTI awaits final agreement. DTI also is looking to move ahead with plans to recruit a project manager for the South African Platinum SDI, which covers the Rustenburg-Jwangeng area. This SDI will be a key link in the development of a Coast-to-Coast Development Corridor – a compendium of the Walvis Bay, Platinum and Maputo Corridors. Further to the north, preparation work is continuing on the Beira Corridor, Nacala Corridor and Zambezi Valley Development Initiative.

In reality, there is space for a good deal of convergence between the concepts of the traditional transport corridor and that of the SDIs currently promoted by DTI. Both models recognise the same core factors of investment potential and transport access as being key in the future development of infrastructure which involves the backing of the private sector. Differences would appear to be more a matter of emphasis and phasing, than of the practical objectives of the exercise. At the moment, both sets of projects are still in their early stages, with their full development and impact yet to be seen. What is of interest, however, will be the extent to which the transport projects and needs identified by both are taken up by private sector interests through the new sorts of PPP arrangements now unfolding across the region. Do the private sector investors and financiers see major transport development taking place in the same areas and sectors and under the same conditions as the policy-makers? Such issues will have to be closely watched if policies are to match and respond to practices in the critical years ahead.

#### REGIONAL SPATIAL DEVELOPMENT INITIATIVES (SDIs)

*As of mid-1999, regional SDIs identified for development included the following:*

##### **Tazara Development Corridor (Tanzania-Zambia):**

Following the route of the existing Tazara Railway, this corridor extends from the port of Dar-es-Salaam to Lusaka. The project will likely involve substantial new investment into the rail and road routes, and possible future links into the rail and road network of the Nacala Corridor to enable access to the port of Nacala. Concessioning of aspects of Tazara (which is jointly owned by the two countries) is currently in early stages of consideration. In early 1999, negotiations between the Tanzanian government and DTI were opened around co-operation in the development of the Tazara SDI. A memo of understanding was signed between the two governments, and it is expected that a technical team from the SDI project will carry out initial survey work in Tanzania in mid 1999.

##### **Nacala Development Corridor (Malawi-Mozambique):**

Progress is being made in the development of this transport-based corridor which links Nacala’s naturally deep port with Malawi. A memo of understanding between the two governments is currently at an advanced stage of preparation. A large part of the rail route has been repaired, with only 77km of unrehabilitated track remaining. Concessioning of the rail line, services and port operations has been completed on the Mozambique side of the border (Nacala-Entre Lagos); a decision and awarding of a tender is expected in the near future for the Malawi section of the rail line. The improvement of the Nacala transport spine offers large benefits for Malawi, which currently exports most of its goods via the distant ports of Dar-es-Salaam and Durban.

**Beira Development Corridor (Mozambique-Zimbabwe):**

The transport route between Beira and Harare was one of the first partially rehabilitated in the 1980s, as a result of efforts to build alternatives to apartheid South Africa's transport and freight routes. In the 1990s the idea of developing the route has been revived. Mozambique and Zimbabwe have each appointed national co-ordinators to guide the development of the project, and a memo of understanding is in the final drafting stages. The regional SDI programme has begun identifying potential investment projects, but the hiring of a project manager and full-scale promotional activities await a final agreement between the two governments involved. Meanwhile, operations at the port of Beira were concessioned in late 1998, with a Dutch venture winning the bid.

**Mozambique Zambezi River Development Initiative (Mozambique):**

A large development area in the Mozambican Zambezi river basin has been identified and given special priority status by government. A special committee made up of ministers now back the concept, and in 1998 an independent planning and "think tank" unit, GPZ ("Zambezi Planning Authority") was established in Maputo. Initial project identification has begun with help from DTI by means of an initial survey and conceptual workshop in December 1998. A tender is being prepared for a manager of the project, but a formal agreement on the SDI has yet to be signed by the Mozambique government.

**Maputo Development Corridor (Mozambique-South Africa):**

The Maputo Corridor, linking Gauteng with the port of Maputo, is the most advanced of all regional development corridors. Work on the road link was begun in 1997, and is centred on a toll road between Witbank and Maputo. Parts of the port in Maputo, notably the container terminal, has been concessioned, and final negotiations on the main docks at the port are continuing with a preferred bidder. Development of the rail link has been less rapid, and a decision remains to be made on the concessioning of the crucial Maputo-Ressano Garcia line in Mozambique. An initial investment conference focused on the corridor was held in 1997.

**Coast-to-Coast Corridor (Namibia, Botswana, South Africa, Swaziland, Mozambique):**

This corridor is in reality a collection of development corridors and SDIs, including the Walvis Bay Corridor, the Maputo Corridor and the envisaged Platinum SDI (which is centred on the Rustenburg-Jwaneng route). The completion of the Trans-Kalahari highway, continuing progress on the Maputo Corridor, and advances made in planning the Platinum SDI, point to likely future interest in the realisation of the coast-to-coast concept.

**Walvis Bay Development Corridor (Botswana-Namibia):**

Likely to be the next functioning corridor within the regional SDI initiative, the SDI corridor which links Walvis Bay with Windhoek has been accepted in principle by the Namibian government. A formal agreement has yet to be signed, but a project manager is being sought in the meantime. The focus of investment promotion on this corridor will be mining and tourism, and it is likely that Australian assistance will include specialist consulting and advice on the prospects and modalities of desert tourism. A consortium of prominent Namibian business figures is understood to be examining transport investment opportunities on this and other major routes in the country.

**Malange Development Corridor (Angola):**

Connecting Malange with Luanda, the development of the Malange Corridor, like others in Angola, has been severely disrupted by the continuing political and military conflict in the country.

**Lobito Development Corridor (Angola-DRC-Zambia):**

Linking the port of Benguela, via the Benguela rail route, to the southern DRC, the Zambian Copperbelt and city of Lusaka, this corridor follows an old route that eventually fell into disservice as a result of military and political conflicts in the region. The rail routes are no longer functioning, but present large potential for freighting, particularly for the Zambian mining and agricultural industry, and the DRC mining sector. Development of the concept is pending given the security situation along much of the route. Some work has been done, with assistance from SATCC-TU, in identifying investment prospects and infrastructural needs along the route.

**Namibe Development Corridor (Angola):**

This Development Corridor stretches from the interior city of Menongue with the port of Namibe. Progress has been disrupted by the continuing conflict in Angola.

**Okavango-Upper Zambezi Tourism SDI (Botswana, Angola, Zambia and Zimbabwe):**

This is a cross-border zone with enormous tourism potential. Conceptualisation is at an early stage. In early 1999 a SDI-commissioned study will be undertaken, with the agreement of the governments of Botswana, Namibia, Zambia and Zimbabwe, for the rapid scanning of investment potential for the SDI. The study will focus on tourism, and issues related to the common management of natural resources in the area.

*In addition, the following South African SDI projects include regional components:*

**Lubombo SDI (Mozambique, South Africa and Swaziland):**

Work is continuing on this tourism and agriculture-focused initiative, launched in 1998 by the three respective Heads of State. This includes the construction of a new road linking Maputo with Durban, which among other benefits will provide access to unique ecological tourism opportunities. Road construction has started on the South African side of the border; road design is in its final stages on the Mozambican side. Preparations are in progress for the holding of an investment conference for the SDI.

**Phalaborwa SDI (South Africa)**

This SDI includes the establishment of an improved transport link between the Mozambican border on one hand, and the mining and industrial area of Phalaborwa in Mpumalanga, and agricultural activity around Xenon in South Africa's Northern Province, on the other. This route links with the Maputo Corridor, and terminates at the national boundary.

**Platinum SDI (South Africa and Botswana):**

The primary focus of this SDI is mineral and industrial projects in the Rustenburg-Jwaneng region, an area of large-scale platinum mining.

**Investment Trends in Transport**

New large scale investment flows into the transport sector have generally not been seen in SADC, although interest is growing and project conceptualisation and planning is picking up. One of the reasons for this lag in activity is the fact that in many instances national legislative and regulatory regimes have not been fully reformed. Another is perhaps the hesitancy of the private sector to commit large sums before the economic environment is also settled and the market features of the various sub-sectors fully understood. Above all perhaps, it will be necessary for both the spirit and the letter of national codes concerning PPPs, BOTs, and other schemes to be put in place, complete with sets of accepted and workable rules for implementation and evaluation, before large investments into fixed transport infrastructure will come from private sector sources.

Nonetheless, there have been some areas of accelerating activity and these typically involve cases where state assets are more easily disposed. A prime example is the national airlines and civil aviation facilities. Here several privatisations and PPPs have been closed recently, and a number are lined up for the near future.

**Airlines**

Investment in the airline sector has been focused on privatisations, involving a handful of regional airlines and even smaller number of installations to date; but with many more likely in the medium term. Recent investment activity is dominated by the South African sector – both as a source and target of investment capital flows. Some key investments in this sector include:

*Lesotho Airways Privatisation*

Johannesburg based Ross Air, an air charter company, bought a controlling stake in Lesotho Airways in 1997 for US\$2.4m. This is the first privatisation deal in Lesotho.

*SAA Privatisation*

Government aims to sell 49% of SAA in 1999. Non-binding submissions are expected to be in hand by mid-May 1999 and the sale of between 20% and 25% of the airline is due to be finalised by late July or early August 1999.

*Other upcoming airline privatisations:*

- Air Zimbabwe (commercialised 1998 in preparation for privatisation)
- LAM Mozambique (first attempt at privatisation failed, another round likely)
- Air Namibia (In April 1999 it was announced that the national air carrier is to proceed with a restructuring programme aiming at full privatisation by 2004.)
- Air Botswana (October 1998 a draft white paper on privatisation is published, which identifies Air Botswana as a definite candidate for privatisation. Moves towards its corporatisation began in 1997, after the airline's first ever record of profit)

*ACSA Privatisation*

Minority stake in Airports Company South Africa (ACSA) were sold to Aeroporti di Roma for R819m (US\$165m) in privatisation deal. Government retained 51%.

*Harare International Airport*

New International airport construction and operating concession awarded for US\$90m, now under construction.

*Dar es Salaam Airport Handling Company*

South African Airways acquires majority shareholding in privatisation deal worth US\$6m. SAA controls 65% of the company, and the Tanzanian government the remaining stake.

The opening up of other transport assets tends to be more complex, with far-reaching implications for other productive sectors, employment and government strategic interests. Railways and ports are exemplary in this instance. In SADC, the process of liberalisation in the railway sector has proceeded steadily, with significant work undertaken in planning "software" development (that is, changing the regulatory environment) in advance of its future implementation. Only Mozambique, Malawi and to a more limited extent Zimbabwe, have actually moved practically to open their railways to private sector participation. However, several other SADC countries are currently in the conceptualisation stages of planning for reform, and restructuring is likely in the future. Likewise, Mozambique has been at the forefront of introducing concessions of various kinds into its port operation and management systems.

### **Railways**

Private sector involvement in SADC rail networks in the 1990s includes the following agreed and likely future projects:

*Beitbridge-Bulawayo Railway (BBR)*

A BOT launched in 1997 for the rehabilitation and building of a rail link in Zimbabwe between the border town of Beitbridge and Bulawayo, the country's second city, involving Zimbabwean owners and operators, and South African financiers. Follow-on concessions are expected soon on other parts of the NRZ network.

*CFM North Rail Network (Nacala line)*

A consortium led by the Mozambican railway, CFM, wins the concession on a closed bidding process to operate and manage rail services between the port of Nacala and the Malawi border, in 1998. CFM is also part of the consortium bidding for the rail concession on the other side of the Malawi border, thus opening up the possibility in the near future of a the region's first privately-operated trans-border rail concession. Details of the Mozambican side-concession for Nacala not disclosed.

*CFM South Rail Network (4 segments)*

Negotiations around the concessioning of CFM's southern section are continuing. Three of the four parts of CFM-South have gone to a Portuguese-led consortium; these assets include the Limpopo line to Zimbabwe, the Goba line to Swaziland and the Maputo marshalling yards. Negotiations and final

decision on the concession for the Maputo-Ressano Garcia line to Mpumalanga in South Africa is awaited.

#### *Malawi Railways*

Final stages of negotiations on the awarding of concession for line to Entre-Lagos on the Mozambique border, and for development of handling facilities at end point in Malawi.

#### *Other railway concessioning in progress:*

- CFM South (Mozambique) Ressano Garcia line
- National Railways of Zimbabwe (1999) eastern and southern sections
- Zambia Railways (conceptual)
- Tazara (conceptual)
- Tanzanian Railways (conceptual)
- Spoornet (SA) considering schemes for concessioning sections of its domestic network.

### **Ports**

Recent PPPs introduced in SADC ports include the following:

#### *Maputo Container Port*

In 1996, Maputo International Ports Services, a consortium of CFM (33%), South Africa's Rennie (37%) and P&O Australia (30%), won the concession to manage and operate the container terminal at the port of Maputo on a 10-year lease. A total of US\$5.4m investment is involved. As part of the agreement, MIPS pays CFM for land and facilities rentals. P&O assumed primary responsibility for managing the development, in what is the company's first venture into managing African ports. In the period 1996-1998, throughput at the port increased by approximately 70%.

#### *Beira Port*

In 1998 the Dutch company, Corneder, obtains a concession on a closed tender to develop and run the port of Beira. Corneder invests US\$9.1m and CFM \$3.9m, for the development and operation of the port, including a container terminal and general cargo facility.

#### *Nacala Port*

Nacala's port is reportedly included in the broader concession agreement for the Mozambican section of the Nacala Corridor concession, won by a CFM-led consortium.

#### *Luanda Port*

Parts of Luanda's dock services have been concessioned in the 1990s.

### **Laying the ground for the path ahead**

Substantial private sector investment into the SADC transport is now a distinct possibility, but if the full promise offered by market current opportunities and the continuing reform process is to be realised, the ground for future activity must be carefully prepared. It is now widely accepted by government and private sector alike, that if the transport networks in SADC countries are to be operated on an efficient and sustainable basis, private sector participation must be facilitated – as both the provider of new investment and management capacity. So much is acknowledged at SADC level by member governments, and demonstrated by their commitment to the process of developing model legislation for the transport sector. That process is now at an advanced stage and it is likely that 1999 will see formal approval of a key policy document that enshrines PPPs as a preferred model for national transport sector development. This in itself will be a large step ahead.

But more will need to be taken. While the basic principles of PPPs are now being agreed upon, their implementation in a way that maximises benefits to governments and national

stakeholders, still needs attention. It must be understood that PPPs and privatisations, in themselves, are not a panacea for mistakes and problems of the past. Private sector management will not necessarily deliver better or more appropriate services needed on the ground – experience internationally provides plenty of proof of this. Rather, governments need to develop a clear strategic sense of why they are undertaking restructuring; what precisely they aim to get out of the process; and how they are going to ensure that their objectives are realised and sustained in the long term.

These needs necessarily imply a certain capacity on the part of government to not only monitor, evaluate and enforce contractual obligations laid out in tender agreements, but also a capacity to strategically develop and negotiate tendering documents in the first place. This broad process of restructuring falls apart if the capacity of the state to support and guide it at every stage is inadequate. While it is true that transparency in the process of bidding and awarding of tenders – so often cited as a primary consideration and potential pitfall of restructuring – must be ensured, the problem of ensuring transparency is one that relates to structures. A properly structured, regulated and institutionalised reform programme minimises the opportunities for political interference, corruption and other destabilising factors to upset the process. In all these respects, the model legislation now being developed under the guidance of SATCC-TU is a good departure point. However, further capacity – planning, negotiating, evaluation and monitoring – will have to be developed by governments in the near future if the fruits of the current pruning process are to be realised to full advantage.

#### Case Study Profile Investment: Beitbridge-Bulawayo Railway

##### **"Fast tracking it with a BOT in Zimbabwe"**

SADC's largest Build-Operate-Transfer (BOT) railway project to date is to be commissioned in Zimbabwe in July, opening the way to more concessioning deals on the extensive National Railways of Zimbabwe network – and faster access to regional freight routes to the north.

The US\$65m Beitbridge-Bulawayo Railway (BBR) involves the building and rehabilitation of 317km of line between the southern Zimbabwean border town of Beitbridge, the busiest cargo border crossing point in the region, and Bulawayo, Zimbabwe's second city. The project involves the laying of 170km of new track from the border, heading directly for Bulawayo. Another 147km of track closer to Bulawayo will be upgraded to international standards.

The new route will cut more than 200km from the current roundabout route from the border to Bulawayo, the country's domestic railway hub and link to other national railway networks to the north. It will also significantly cut operational costs. South Africa's Spoornet will manage train services on the route, providing for a single cargo operator on both sides of the busy Zimbabwe/SA border routes. Cargo rates will be collectible directly by the BBR and set in US dollars, in a hedge against the volatile Zimbabwe currency.

Like the building of the line itself, the BOT was put together in record time having first been proposed in 1996. The operator of the project is the BBR Limited, a consortium led by the Zimbabwean-registered New Limpopo Bridge Projects Limited (with 60%), which also operates the BOT concession on the international bridge linking Zimbabwe and SA. Four South African banks providing financing for the project hold 25% equity together, while the NRZ maintains a 15% stake.

How was the deal put together so quickly in a country which has been slow to get off the mark with privatisations and public-private partnerships? Growing need matched with ideas and a self-financed project, says the BBR. It is estimated that this year the NRZ will suffer losses of perhaps Z\$700m (US\$18.4m), or 20% of its expected revenue, and the parastatal's debt load is soaring. Productivity on the network is dropping, and cargo competition looking elsewhere.

Where the NRZ and government foresaw growing problems, BBR identified opportunity. In the BOT deal, the BBR consortium is providing all of the financing, technical expertise and management. The contract lasts for a period of 30 years (*xxx phone and check on this*).

More reforms are soon to follow. Plans for concessioning the rest of the NRZ network are now well advanced, and will involve government proposing two concessions for the remaining eastern and southern sections of the network. Details of the terms are awaited, but it seems likely that the BBR will be one of the bidders.

When the process is set in motion, it will be critical that it proceeds transparently and in a clearly structured fashion. In the case of the BBR no tender was offered and the deal was concluded privately between the consortium and government. While the BBR operators say this arose from the convergence of interests and growing need, the larger and more critical concessioning of the national network demands a national and open process. Moreover, it will be important for performance conditions and non-compliance regulations to be put in place, if Zimbabweans are to receive the improved rail services they seek.

## **FDI IN SADC FINANCIAL SERVICES : FOLLOW THE LEADERS**

The resurgence in overall FDI into the region is reflected in the financial services sector. On the one hand, this has happened because of a natural growth of foreign interest and increased foreign corporate activity. On the other hand, particular changes in the financial services sector in the 1990s, with liberalisation and the emergence of numerous viable investment propositions has encouraged FDI. FDI is perhaps not as substantial in value terms in this sector, but it is important as it underlines a growing confidence in regional markets, and will help open up avenues for future capital inflows.

FDI into SADC's financial sector is not an entirely new phenomenon – international banks have been in operation for decades – but the revival of investment interest on increasingly large scales is relatively recent. During the 1970s and 1980s, investors tended to pull back from the region because of unfavourably restrictive policy environments (including nationalisation), difficult and declining operating environments and political obstacles (notably the boycott or blocking of apartheid South Africa's investments in the region). This situation gradually began to change in the late 1980s, with the introduction of market reform programmes, including structural adjustment liberalisation measures. These contained aspects of policy restructuring which had a direct and beneficial impact on the financial sector, notably the liberalisation of financial markets and restrictions on foreign exchange.

In the 1990s numerous small indigenous banks, some of them relatively competitive in local markets (but many also dangerously undercapitalised), began to appear. At the same time, there was renewed investor interest on the part of foreign players. This was seen particularly in the case of South African banks - those who for political reasons could not participate directly in the region during apartheid years began looking for opportunities in neighbouring states in the 1990s. Moreover, as privatisation and new needs for public project financing emerged, foreign banks led by key South African players rapidly increased their involvement in regional activity. Foremost among these was the Standard Bank Group, which has since consolidated its position with further investments.

## Opportunity knocks The Standard Bank Group in SADC

**Table 1: FDI into SADC by Standard Bank Group of SA**

Country	Asset	Investment Wing	US\$m	Year	Kind
Swaziland	Barclays Bank of Swaziland	Stanbic	10.2	1998	M&A*
Zimbabwe	Stanbic Bank of Zimbabwe	SBIC	10	1997	Expansion
Lesotho	Barclays Bank of Lesotho	Stanbic	6.9	1995	M&A
Tanzania	Stanbic Bank of Tanzania*	SBIC	6.0	1995	M&A
Mozambique	Banco Standard Totta de Mozambique	SBIC	6.0	1995	M&A
Zambia	Stanbic Bank of Zambia	SBIC	5.0	1998	Expansion
Zambia	Zambia Venture Capital Fund	SBIC	1.0	1998	M&A

Stanbic = Standard Bank Investment Corporation Ltd

SBIC = SBIC Africa Holdings Ltd

M&A = Merger and Acquisition

The most active new investor in financial services in SADC is South Africa's Standard Banking Group, which undertook a number of fresh acquisitions in the 1990s. A long-standing international player, this group's activity in the sub-region was held back during the apartheid years, but changed in the '90s.

In 1992, the Standard Bank Group purchased the assets of ANZ Grindlays for about £25m. ANZ Grindlays operates in the DRC, Zambia, Zimbabwe and Nigeria and Kenya. In the second half of the decade, the Group has expanded this network, spending more than US\$45m in SADC countries since 1995 through its affiliated SBIC Africa Holdings Ltd (SBIC). Group-related banking operations are now found in 8 SADC countries (excluding South Africa).

### *What has been the strategy?*

Only to go for the market opportunities, Standard Bank officials say. Expansion into the region has been more as a result of emerging market opportunities than from grand design. The ANZ Grindlays buy-out laid the ground for more activity, but other deals were taken up as they came along – including the divestment of holdings by Barclays Bank in Swaziland and Lesotho, and a sell-out to foreign interests by an under-performing Tanzanian operation. A long-standing relationship with Banco Totta helped cement another investment in Mozambique.

According to Standard Bank, the bottom line for decision-making is the same as that of a balance sheet: margins and return on equity. Standard Banks says its 20-30% market share in much of the region (50% in Swaziland) means its investments are paying off handsomely. Returns on equity from regional operations are as much as 50% higher than in South Africa. Markets may be comparatively small compared to those at home, but the favourable margins and relative ease of operation sweeten the appeal. Standard's South African competitors are also catching on these business opportunities. Last year Absa bought into the Commercial Bank of Zimbabwe via a privatisation deal, making it the last of the large South African banks to venture into the region.

Compared to other sub-regions in Africa, SADC offers attractive opportunities: good economic growth rates, relatively good communications and infrastructure, a better-than-average pool of skilled labour, growing secondary markets, and a reasonably competitive regulatory environment.

But obstacles remain. Though comparatively advanced, infrastructure can still be a problem, not only for the running of the banking sector, but also for the wider growth of competitive industry

and agriculture. This inadequate infrastructure has a direct impact on the capacity of banks to expand, or on the demand from the private sector for them to do so.

A lack of suitable available skills is also another major problem in the region. Currently, there is a lack of skilled staff and this inhibits the further expansion of financial services by foreign companies, especially the larger banks. Furthermore it will take some years before these skills can be developed through training. In the meantime, the capacity of financial institutions to expand to meet the demand will be limited by their capacity to supply adequate levels of management.

### **Efforts at integration**

More work needs to be done on revising and rationalising the regulatory environment. In this regard, considerable progress has been made at national and SADC level in recent years. For example, at least seven SADC countries have introduced flexible exchange-rate policies, with most liberalising controls on their current accounts. However controls on capital accounts remain in place, and in the wake of the Asian crisis last year, are unlikely to be relaxed for some time.

Reform at national level has been matched by growing co-operation and liberalisation at regional level, through the Finance and Investment Sector, its co-ordinating unit, FISCO, and a number of sub-sector stakeholder organisations. These include, among others, the Committee of Central Bank Governors in SADC, formed in 1995; the SADC Committee of Stock Exchanges, a private sector initiative launched in January 1997; and the more recently established SADC Banking Association, representing the commercial banking sector.

A number of positive steps are being taken towards sector co-ordination by the various sub-sector structures. These include efforts by the Committee of Stock Exchanges to harmonise listing requirements and other rules, and facilitate greater intra-regional capital flows and co-operation. The eight functioning Stock Exchanges in the region (most of which are comparatively small) meet regularly to work on the modalities of information sharing and mutual restructuring.<sup>1</sup> While discussions have centred mainly on harmonisation of listing requirements and procedures for settlement clearing, a range of other areas of co-operation have emerged, from training and information sharing, to Y2K preparedness.

The Committee, in co-operation with FISCO, is moving towards establishing several new central depository systems on regional bourses. Preparations are underway for the system used by the Stock Exchange of Mauritius to be installed in Botswana, Malawi, Zambia and Zimbabwe. Elsewhere, the Bond Exchange of South Africa is providing technical assistance and advice to regional exchanges with an interest in developing bond markets. Discussions about the possibility of establishing new regional capital markets (including equity, debt securities and futures products) through the existing national exchanges are at an early stage, but point to a forward-looking approach to modernising financial markets.

The Committee of Central Bank Governors has, for its part, continued discussions on the role of SADC's Central Banks in modernising and securing financial markets, the rationalisation of modalities for payment, clearing and settlement within the region, the legal and operational frameworks for their activities, and similar issues and practicalities. They should help to improve the perception about the regulatory authorities' commitment to modernising the management and

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<sup>1</sup> Countries with functioning exchanges include Botswana, Malawi, Mauritius, Namibia, South Africa, Tanzania, Zambia, Zimbabwe. Lesotho and Swaziland await enabling legislation.

structuring of regional financial markets. This is important in itself, in particular in a sector where decisions on new investment are partly hinged on perceptions of market modalities.

### Recent investment activity

FDI into SADC's financial services has followed the broad trend seen in other key sectors where there was a wave of new activity in the 1990s. This wave, which continues up to the present, is made up of a number of relatively small deals thus far. These deals often involve opportunistic mergers or acquisitions, and typically follow the path of investments of other home-country private sector interests. While representing something of a vote of confidence in the regional financial services sector, there is room for growth. This will depend in part upon the continuing performance of macroeconomic indicators in much of the region, sustained political stability (currently somewhat destabilised by the conflict in the DRC), and the implementation and commitment to financial sector reforms that are aimed at integrating the regional financial services market.

As the following table shows, financial FDI is currently dominated by South African, and to a lesser extent, Portuguese companies. Increasingly, these interests have identified smaller but relatively profitable markets in the region and staked their claims. There is acknowledgement by South African players that competition among domestic operators now extends into the region. The costs of moving into or expanding in SADC must therefore increasingly be weighed up against the costs of not being there at all.

**Table 2: FDI into SADC Financial Services: Key Transactions in the 1990s**

Investment Target	Country	Source Country	Source Company	US\$m	Year	Kind
Housing Finance Corporation	Malawi	International	International Finance Corporation	30.0	1998	New
People's Development Bank	Mozambique	Malaysia	Southern Bank Berhard (SBB)	21.0	1997	Privatisation
Mozambique Investment Company	Mozambique	Portugal, UK	Banco Mello, CDC	19.0	1998	New
Standard Chartered Bank Zimbabwe	Zimbabwe	UK	Standard Chartered Bank	10.9	1998	Expansion
Barclays Bank of Swaziland	Swaziland	South Africa	Standard Bank Group	10.2	1998	M&A*
Stanbic Bank Zimbabwe	Zimbabwe	South Africa	SBIC Africa Holdings Ltd	10.0	1997	M&A
Commercial Bank of Zimbabwe	Zimbabwe	South Africa	Absa Bank, IFC	7.9	1998	Privatisation
Barclays Bank of Lesotho	Lesotho	South Africa	Standard Bank Group	6.9	1995	M&A
Banco Standard Totta de Moz.	Mozambique	South Africa	Standard Bank Group	6.0	1995	M&A
Meridien BIAO Bank	Tanzania	South Africa	SBIC Africa Holdings Ltd.	6.0	1995	M&A
Stanbic Bank of Zambia	Zambia	South Africa	SBIC Africa Holdings Ltd	5.0	1998	M&A
AJM-Banco de Investimentos	Mozambique	Portugal	Grupo Caixa Geral de Portugal	4.5	1994	New
Metropolitan Life Limited	Botswana	South Africa	Metropolitan Life	4.4	1997	New
New merchant bank	Botswana	South Africa	Investec	4.3	1998	New
Banco Portugues do Atlantico	Mozambique	Portugal	Banco Portugues do Atlantico	4.0	1992	New
Banco de Fomento e Exterior	Mozambique	Portugal	Banco de Fomento e Exterior	4.0	1992	New

Source: BusinessMap SADC FDI Database. NB: Table does not include FDI into South Africa, deals under US\$4m, or intentions.

\* M&A = Mergers & Acquisitions

All FDI Totals	1992-1995	1997	1998	Total 1992/99
FDI US\$m	37	44.3	91.7	173

The rising trend in FDI into the financial sector as seen above can be explained by several factors, including:

- *the introduction of market-based economic reforms at national level*

In the 1990s, most countries in the region have undertaken reform programmes, which include significant liberalisation of financial sector activities. As a result, controls on foreign exchange, stock markets (and other secondary financial markets), capital and investment flows, etc have been loosened or lifted, permitting increased intra-regional and international participation in local financial activity.

- *emerging policy reforms at regional level*

National reforms have been accompanied by regional attempts at greater harmonisation, co-ordination and integration of financial activity. While some private sector sources indicate that regulatory changes have not been a key factor in decisions around new investments, they also point out that the absence of rising basic or "entry level" regulatory standards, (including for example, liberalisation of foreign currency rules, capital repatriation controls and tax concessions for investors), would have impacted negatively on new investment.

- *the return of economic growth and macroeconomic stability in several countries*

Good and continuing economic growth and improved macroeconomic stability in a number of SADC countries in the mid-90s has created a more positive environment for financial sector investments. The scale and duration of growth in GDP in much of the region in the mid- 90s has not been seen since the 1970s, and generally improved financial indicators, coupled with facilitating financial sector reforms, has helped build investor confidence.

**Table 5: Growth of real GDP 1991-96 (annual percentage change)\***

Country	1991	1992	1993	1994	1995	1996	1991-95 Average
Angola	-2.2	-3.4	-24.7	2.5	10.7	12.2	-3.4
Botswana	7.6	3.0	-0.1	4.1	3.1	7.0	3.5
Lesotho	1.7	2.6	8.0	8.2	9.1	12.7	5.9
Malawi	8.7	-7.3	10.8	-11.6	13.9	11.7	2.9
Mauritius	6.4	4.8	5.0	5.2	5.6	6.1	5.4
Mozambique	4.9	-0.8	19.3	4.4	1.3	6.6	5.8
Namibia	7.4	8.2	-1.9	6.5	4.1	3.0	4.9
South Africa	-1.0	-2.2	1.3	2.7	3.4	3.2	0.8
Swaziland	2.5	1.3	3.3	3.5	3.0	3.6	2.7
Tanzania	6.4	4.7	0.4	1.4	3.6	4.2	3.3
Zambia	..	-2.5	6.5	-3.0	-2.3	6.6	-0.3
Zimbabwe	4.6	-8.4	2.0	5.3	-0.2	6.1	0.7

*Source: IMF; SADC Committee of Central Bank Governors (1999)*

- *the appearance of new market opportunities*

Several key deals involving financial services FDI do not appear to be the result of coherent investor-led strategies for regional investment, but rather the utilisation of new opportunities emerging around the region. Privatisation, the seeking of joint ventures and technical partnerships with larger firms, and the need for assistance in re-capitalisation, among other factors, have provided ad hoc opportunities for foreign investment. Investments into existing operations therefore feature prominently in recent top FDI deals in the region.

- *the increasing movement of other private sector interests into the region*

The dominant role of South African and Portuguese players in recent FDI underscores the importance of home country investor activity in encouraging follow-on investment in financial services. In the case of South African FDI, there is a clear trend of the financials following larger deals (notably in mining) into other African countries. Both developments have been made possible by the changed political positioning of South Africa in the region, a shift that has effectively permitted the release of pre-existing capacity. The movement of Portuguese financials in Mozambique displays broadly similar patterns, with financial investors returning to former markets in tandem with other Portuguese businesses.

Signs of future growth are promising in the wake of recent developments, among these the de-mutualisation process in South Africa (and in the case of Old Mutual, in the region). Billions of dollars in fresh investment capital are likely to be freed up during this process. The full implications of this for the region, its financial markets and future investment into them, are still not yet clear but there are expectations that at least some of the investment dividend will flow north. Similarly, new interest in the development of regional unit trusts is a positive pointer to future investment. Locally led attempts in this direction have sometimes proved disappointing. It would appear however, that ongoing restructuring of stock markets, including the Namibian Stock Exchange's<sup>2</sup> ambitious computerised linkage with the Johannesburg Stock Exchange (JSE), are opening the way to new investment potential.

According to private sector sources, further regulatory reforms are not required for future foreign investment. Rather, it will be more important for countries in the region to maintain a steady hand and provide a generally enabling environment for economic growth and further foreign investment. Financial markets cannot be pushed to follow suit; but under the right conditions, they will follow of their own accord. So too will financial sector players, in pursuit of growing business opportunities.

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<sup>2</sup> Despite recent shudders induced by the 1998 global financial crisis, the Namibia Stock Exchange (NSX) stands out as a star performer, having adopted a liberal approach to questions of foreign buyers, cross-listings and links with other markets, notably the JSE. There have been no ceilings imposed on the buying of shares by foreign companies or individuals, and the dual listing of companies on both the NSX and the JSE has been encouraged. The NSX has adapted its listing requirements to those of the JSE and is redesigning its electronic trading and support systems to eventually link up with the JSE's JET system. It is expected that all other key JSE electronic systems will be integrated into the NSX and that the JSE Central Securities Depository System will be embraced by the Windhoek exchange during 1999.

## **Profile/Case Study: An International Financial Services Centre (IFSC) for Botswana**

*Charles Harvey – Senior Research Fellow, Botswana Institute for Development Policy Analysis*

Botswana's strong financial position has informed popular opinion that the country has a good chance of establishing an International Financial Services Centre (IFSC). Currently, foreign exchange reserves equal 27 months imports of goods and services; the government has no domestic debt after 15 years of budget surpluses; and this year's budget deficit could be financed for 12 years out of its bank balance. However, both this, and the abolition of exchange controls (in February 1999) are substantially irrelevant, except as strong indicators that Botswana is effectively immune to financial crisis or a sudden change of economic policy.

### ***What sort of financial services is a Botswana IFSC likely to attract?***

The most promising prospect is the administration (the back office work) of international unit trusts, investment trusts, and other "collective investment undertakings". The financial transactions, selling investment units to savers, and investing their savings in shares and other assets, would take place somewhere else. The development of modern telecommunications has made it possible for administration, and the financial decision-making, to be done in geographically separate places.

Another possibility is the location in Botswana of captive insurance companies, used by large companies to insure most of their own risks, which is cheaper than placing the insurance elsewhere. Dublin has been successful in attracting these types of business, and the Botswana Development Corporation has hired Irish experience to try and establish a Botswana IFSC.

Botswana is not considering, still less encouraging, the provision of international financial services based on tax avoidance, or the concealing of illegal income through the registration of international business companies, the setting up of trusts, and the provision of personal investment services. It is not in Botswana's long-term interest to make it possible for the nationals of other countries to avoid paying tax, or to use Botswana for "money-laundering", especially as the most likely sources of investment in a Botswana IFSC, at least initially, are South Africa and other neighbouring countries.

Although there has been talk of an IFSC in Botswana for some years, progress has only recently been made on the necessary legal changes. These changes include: to the Income Tax Act, a 15% tax rate for firms setting up as part of the IFSC; to the Bank of Botswana Act, to establish the Bank as the regulatory authority of the IFSC; and to the Collective Investment Undertakings Act, to incorporate international best practice. All of these legislative changes should be enacted by Parliament by the middle of 1999. In addition, double taxation treaties are being renegotiated so that no further tax is payable when profits are remitted from Botswana.

The next step, already initiated, will be to publicise the opportunities for establishing international services companies in Botswana under the new legal and tax regime. Botswana Development Corporation has already received some approaches.

The factors which might attract investment in Botswana's IFSC are mostly those that are likely to attract foreign investors in general. These are: a well managed economy, a low crime rate, low tax rates in general, public services which function efficiently, political stability, good labour relations (in other words, relatively few strikes), wage rates which are lower than those in South Africa, and immunity from financial crises that has already mentioned.

Botswana also has, comparatively speaking, a good number of literate and numerate school leavers, who can be trained in the required skills. Education makes up 25% of recurrent government spending, so adult literacy is 70% and rising. The government also plans to put computers in all secondary schools so that school leavers have some minimum of computer literacy.

The money that has been provided by government to cover initial costs is a considerable gamble, as, viewed optimistically, only about 500 jobs might be created over five years. However, it would not be the first time that Botswana has succeeded in creating a new industry, in which it has had no previous experience. Moreover, the

government is proceeding in the right way, by creating the right conditions for private sector investment, and not by setting up a series of financial parastatals.

**Table 4: Recent FDI into Botswana Financial Services\***

Source Country	Target Company	Source Company	US\$m	Year	Kind	Details
South Africa	Metropolitan Life of Botswana Ltd	Metropolitan Life	4.35	1997	New	Metropolitan Life (75%) joins with Botswana Development Corporation (5%) to establish new Joint Venture financial services company, Metropolitan Life of Botswana Ltd.
South Africa	New Merchant Bank	Investec	4.25	1998	New	Investec takes 75%, Botswana Development Corporation 25%, in country's first Merchant Bank. BDC is backing plans to turn the country into an international financial services centre.
South Africa	Botswana Insurance Holdings	African Life	3.74	1997	Acquisition	African Life acquires additional 25.4% stake in BIH to bring its holding to 57.2%
South Africa	Stockbrokerage	Investec	n/a	1998	Intention	Investec Securities acquires license to operate a stockbrokerage, the country's second.

\*Source: BusinessMap SADC FDI Database

# ANGOLA

## GENERAL INFORMATION

**Where:** The Republic of Angola is in the western region of Southern Africa, and is the third-largest country in sub-Saharan Africa

**Land Surface:** 1,200 000 km<sup>2</sup>

**Capital city:** Luanda

**Population:** Estimated at 11.6 million in 1996. 45% are below the age of 15. The population growth rate is currently about 2.7% per annum. 50% live in the urban areas, due to rapid migration from the countryside in recent years

**Official languages:** Portuguese is the official language, but Umbundu, Kimbundu, Kikongo, Tchokwe, Ovambo and other languages are also spoken

**Human Development Index: (UNDP)**

156 out of 174 countries (where 1 is best and 175 is worst). Falls within the low human development category.

## Political Climate

The peace process has moved very slowly since the first peace accord was signed in 1991. After the 1992 elections, the country was again plunged into a devastating civil war and only in October 1993 did new peace talks begin in Lusaka, Zambia. After lengthy negotiations, the Lusaka Protocol was signed in November 1994. This Protocol provided for the participation of UNITA in government, as well as the possibility of a second round of presidential elections.

In March 1998, UNITA was acknowledged as a political party and its leader Jonas Savimbi became official leader of the opposition in parliament. UNITA officials were also offered seats in parliament, and given 11 ministerial positions. At this time, the United Nations certified that the demobilisation of UNITA troops was full and complete.

When Savimbi failed to demilitarise his troops, the country lurched into civil war yet again. UNITA parliamentarians were suspended from their posts in the government of national unity in September 1998 after a number of attacks by UNITA forces in countryside villages. In March 1999, the United Nations abandoned its peacekeeping mission in the country, at the request of the Angolan government.

The civil war continues, with most of the fighting taking place in the central provinces of Huambo and Bié. Since the resumption of the war, many civilians have fled from these provinces, leading to the internal displacement of an additional 300,000 people. The situation in Angola is also complicated by the involvement of both the Angolan government and UNITA in conflicts outside the country's borders. The government supported Laurent Kabila's rise to

power in the DRC in 1996/7 and is backing him in the current civil war, while UNITA is allegedly supporting the rebel movement. The two countries have also been involved on separate sides of the conflict in neighbouring Congo-Brazzaville.

## **Sectoral Descriptions**

The civil war has had a devastating effect on the Angolan economy, and it is unlikely that there can be any meaningful reconstruction while this political instability persists. The country has abundant natural resources that could be harnessed for economic growth and development but while the perceived political risk remains high, investment in most sectors of the economy will not be forthcoming.

Angola's climatic diversity means that a wide range of crops can be grown. Prior to independence, the country was self-sufficient in all crops except wheat. It was a top commercial producer of coffee, sisal, palm oil, bananas and sugarcane. In fact, agriculture contributed to 12.6% of GDP in 1998, up from 9.6% in the previous year, although this increase was in part due to the declining contribution of the oil sector. Most price controls have also been removed, and a rural credit programme has been set up to help develop the sector.

Natural forests, which include rosewood, ebony, African sandalwood, mahogany, tola and mulberry trees, have yet to be exploited. Plantations of eucalyptus, cypress and pine trees once formed the basis of a small export industry. These 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.

Angola has some of the richest fishing grounds in Africa, but lack of maintenance has meant that the country currently has very few trawlers in operation. The international community has provided a number of loans and grants to assist the country to rehabilitate its fishing industry. This has included the upgrading of its fishing fleet and the overhauling of refrigeration facilities and canneries. The Angolan Support Fund for Fisheries Development was also recently set up.

Angola is the second-largest producer of oil in sub-Saharan Africa, after Nigeria. Angola's economy is heavily dependent on its oil resources and it has the potential to satisfy up to 86% of Southern Africa's oil requirements. This sector has not been severely affected by the war. Oil reserves are mainly located offshore of the northern Cabinda region and northern coast, but also onshore around Soyo. In 1997 and 1998, some exciting oil discoveries were made and it is possible that, within a few years, Angolan oil production could double from its current level of some 700,000 barrels per day. Angola's downstream oil industries have suffered greatly because of the war, however. For example, the oil refinery in Luanda is in need of a substantial upgrade. The state oil company, Sonangol, is planning to build another refinery, to be based in Lobite or Namibe. Sonangol is attempting to attract foreign investment to its downstream oil industries, but the size of the market and lack of infrastructure have hindered this objective.

Declining oil prices on the world market saw the sector's contribution to GDP fall from 48.5% in 1997 to 38.5% in 1998.

Mining currently accounts for 6.4% of GDP as the wealth of the vast mineral deposits has not been fully assessed nor exploited because of the war. Diamond mining is the most developed activity with USD 430m worth of diamonds being produced in 1998. About three-quarters of Angola's diamonds are of gemstone quality. Most of the country's diamond resources are located in the remote Lunda Norte province, near the border with the DRC, and its six known kimberlite pipes hold an estimated 180 million carats of diamonds (several billion dollars worth). However, the recent political instability has led to the closure of several of Angola's diamond mines. A large portion of the country's diamond production is undeclared, as it is in the hands of UNITA. Although the UN has imposed sanctions against UNITA, international traders are still buying diamonds from the organisation. Furthermore, there are a large number of individual prospectors which makes it very difficult to control the industry. Iron ore deposits have been identified at Kassala Kitungo, and production of iron ore at Cassinga has resumed.

The manufacturing sector made up 5.9% of GDP in 1998 and industrial production is well below capacity. Heavy industry, including cement, steel tube production and oil refining, accounts for about 15% of manufacturing output. Major opportunities exist in the food processing and light industry sub-sectors, including textiles. Industrial parks in Viana/Luanda and Fátima/Cabinda are currently being developed, and investors (domestic and foreign) will be offered special incentives to locate their enterprises in these parks.

Angola's informal sector is burgeoning and it is estimated that it contributes 20-30% of GDP. However, the activities of this sector are constrained by factors such as lack of access to credit, no institutional support, and the difficult macroeconomic environment.

Obviously there is not much that can be done to build up Angola's potential as a tourist destination while there is a war on. Top quality hotels are being planned for Luanda, and the government is currently in the process of reviewing tenders for this project. Further investment in infrastructure will also be required to make the tourist industry viable. 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. Currently, the political instability is hampering any efforts the government is making to promote tourism. Angola is currently a county for only the very adventurous!

## **Infrastructure**

Rehabilitation of the country's infrastructure, which has been severely affected by the war, is a major priority of the government's Public Investment Programme. Although the war has hindered the implementation of the programme in the central provinces, particularly in the rural areas, progress is still being made in Luanda and elsewhere.

The road network covers about 75,000km, 7,955km of which is tarred. Many of the roads are mined which makes overland travel difficult. Most internal travel is therefore by air and there are a number of large airports and airfields. Significant investment opportunities exist, including the restructuring of the national airline TAAG, the rehabilitation of several airports and improvements to air traffic control systems.

Angola's ports, situated at Luanda, Lobito and Namibe, have the potential to handle foreign trade for its landlocked neighbours. However, political instability as well as inefficiencies, make this impossible at present. These port facilities are currently undergoing comprehensive restructuring, although it is difficult to ascertain how much progress will be made, due to the resumption of the war.

Luanda has one of the finest natural harbours on the west coast of Africa, but the shortage of equipment, lack of a tracking system, cumbersome customs procedures and slow onward shipment are just some of the problems experienced. The security situation is better at Lobito and Namibe, but the ports are not working anywhere near full capacity.

The electricity demands of the country can theoretically be met and the country has a lot of potential for growth. However, the war has rendered the electricity supply largely non-functional. This has been a major constraint on manufacturing and commerce.

The provision of electricity is expected to improve with the completion of the USD2bn, 520-MW Capanda hydroelectric project, although the current political instability could impede the construction process. An initial study for the SADC project involving the interconnection of the northern, central and southern grids in Angola, including a possible extension to Namibia, has been completed. This could provide the basis for Angola to become a regional exporter of electricity.

Telecommunications has recently improved, with the installation of new cables in Luanda and the establishment of a network of public phones. There is direct dialling in all the major cities and international direct dialling so one no longer has to book calls in advance. However, Angola's telephone rates are among the most expensive in the world.

There is a cellular phone network that is operational in Luanda. Angola will participate in a regional initiative to install a sub-marine telecommunications cable along the Western coast of Africa. This project is expected to greatly improve telecommunication links between Africa and the rest of the world.

# **ECONOMIC OVERVIEW**

## **Introduction**

The government introduced a three-year economic recovery and stabilisation programme in 1998, which is based on the progressive reduction of the budget deficit and a move towards a single exchange rate. The medium-term objectives of the programme are to ensure the security of people, goods and capital in the country, to guarantee economic stability, to promote good governance and to address basic needs.

The programme has the backing of NGOs and the international community, but the war has severely limited the government's capacity to implement the proposed reforms. This is unlikely to change until peace is restored, and the government can focus its efforts on building the economy.

## **Recent Macroeconomic Developments**

Factors such as political instability and the drop in crude oil prices internationally led to a slowdown in real growth. During 1998, the price of oil almost halved. While the government had based its budget on an oil price of USD 18 per barrel, by the end of 1999 this was USD 9. As a result GDP growth fell to 1.7% in 1998, against the 7.1% achieved in the previous year.

The annual inflation rate increased to 91.1%, up from 27.1% in 1997. This was mainly due to an increase in government spending and the depreciation of the exchange rate in the parallel market in the last few months of the year.

The deterioration of the current account by 10.7% was mainly due to a 31.2% reduction in the export receipts from crude oil (the main source of external receipts). The deficit on the balance of payments was financed mainly using the foreign reserves of the central bank, or by borrowing internationally. Lenders were willing to extend oil-backed loans because Sonangol has a good credit record and has not defaulted on any of its loans.

Crawling peg devaluation measures (4.5% weekly) were introduced to stop the financial and foreign exchange deterioration in the country and to promote convergence between the official and parallel rates. This policy was changed a few weeks later when the weekly devaluation ranged between 2 and 12.5%. Despite all these attempts however, the gap between the official and the parallel rate widened from an average of 37% in 1997 to 56% in 1998. The over-valuation of the Kwanza effectively crowds out Angola's non-oil exports, which could otherwise be highly competitive, including products such as fish, coffee, maize, cotton, sisal, tobacco and banana.

In his New Year's speech, the President announced the economic priorities for 1999. These included restoring macroeconomic balances, reforming the financial sector, dealing with

corruption and the misuse of state assets, and supporting science and technology as well as the education and health systems. A government reshuffle in January this year also saw the appointment of respected former managing director of Sonangol, Joaquim David, as the Minister of Finance. This has prompted speculation of a move towards increased financial prudence in the country, in a bid to improve negotiations for a structural adjustment loan with the IMF.

### **Financial Institutions**

The central bank, Banco Nacional de Angola, has the authority to guide, coordinate and supervise monetary policy, but it is not independent. Monetary policy is determined by the Government's economic team, which is headed by the Minister of Finance, with decisions being made at the council of Ministers. The central bank also advises the government on the national budget and international negotiations dealing with loan contracting and debt servicing arrangements.

There are six commercial banks operating in Angola, two of which are state-owned. The central bank is responsible for the supervision of commercial banks in the country. The government owns and controls the insurance and pension funds.

Money and capital markets are still poorly developed and the informal money market is thus used extensively. A working group of experts drawn from the Ministry of Finance and the central bank are now exploring the development of a capital market, which is scheduled for 2000.

### **Exchange Control**

The Angolan Kwanza is not convertible, and export of domestic currency is prohibited. Banco Nacional 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 be issued against these accounts. Exchange control regulations are fairly strict and are enforced.

In terms of repatriation capital and profits accrued by foreign investors, the following rules apply:

- Net profits and dividends accrued from investment capital may be repatriated; however, no repatriation on direct capital investment can take place until six years after the initial transfer of capital.
- Proceeds obtained from liquidation or expansion of investments may be repatriated.
- All capital transfers are subject to licensing and control

## **Foreign Trade**

Angola has come to depend on oil for its export earnings. The USA is its main market, and goods worth USD 2.3bn were exported there, 97% of which was crude oil. Other exports include diamonds, refined petroleum products, gas, sisal, fish and fish products, timber and cotton. Europe is another large trading partner. Angola's principal imports are capital equipment, food, vehicles, clothing and medicines. Trade relations with South Africa have improved in the 1990s, and there has been a notable increase in trade (especially imports). SA is now Angola's major trading partner in the region.

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

## **Trade Liberalisation**

Customs duties and consumption tax are levied on imports. Consumption taxes vary from between 5% and 50%. Companies covered by Foreign Investment Law can be exempted from customs duties but they must first obtain approval from the Minister of Finance. Imports made by oil companies are usually exempt from these taxes and duties.

The Ministry of Commerce must license all imports and exports. An import license fee of 0.1% of the value of the imports is levied, and import licenses are only granted to enterprises of proven capacity. Delays in the issue of import permits are common. Exports of certain goods are prohibited. Re-exports of goods other than capital goods and personal belongings is also prohibited. Restrictions apply to the exportation of products that are in short domestic supply.

## **Foreign Direct Investment**

According to the World Investment Report (1998), Angola was the 6th largest recipient of Foreign Direct Investment (FDI) in Africa in 1997, with a total inflow of about USD350m. The central bank estimates foreign investment for 1998 to be USD 211m, with mining and industry being the primary beneficiaries. FDI is very important to Angola, accounting for 76% of gross fixed capital formation between 1992-96.

The US is the single largest investor in Angola, with the total stock of US investment standing at USD4bn in July 1998. Angola is also the USA's second-largest investment destination. South African investments are slowly increasing with Anglo American Corporation and De Beers having invested in 1997. Other South African firms have been involved in consumer goods production.

In the largest industrial project in the country in recent years, Coca-Cola has announced its intention to upgrade its existing plant in Luanda and to construct a USD36m plant which will open south of Luanda in November 1999. Coca-Cola will hold a 55% stake in the new

venture, and the Angolan government the rest. Coca-Cola estimates that 440 new jobs will be created and that their products will become more accessible to ordinary Angolans. Another large investment was that undertaken recently by Manchester Airport (UK), who signed a USD 25m agreement with the Angolan government to undertake the rehabilitation of Luanda's international airport.

There is significant foreign investment in the oil sector, and recent big deepwater finds and low costs per barrel have stimulated more foreign interest. Foreign investment is forecast to rise from USD 3.32bn in 1999, to USD 4.37bn in 2000. It is expected that Elf, Chevron and Exxon will remain the major players, along with BHP and Texaco. Elf has announced a scaling down on its interests in Gabon to concentrate on Angola, and Chevron is planning to invest USD 4bn in the oil sector over the next five years.

Foreign firms can enter into joint ventures or production sharing agreements with Sonangol, which is the sole concessionaire. Foreign parties commit to carry out exploration and development within a specified period of time, and must finance all investment costs. These costs can be recovered when production begins. The government is currently in the process of selecting operators for deep offshore blocks 31, 32 and 33. Block 34 is reserved for Sonap, a joint venture between Sonangol and a foreign partner. This will continue until sufficient capacity is developed at Sonangol, whereafter it will pass into Angolan hands.

New production sharing agreements were recently signed with a range of international oil companies for deepwater Blocks 21, 22 and 24. A further agreement was signed in 1998 between Sonangol and Texaco for the export of liquefied natural gas.

De Beers and the state-owned diamond company, Endiama, are planning to set up a diamond sorting operation in Luanda. The project is expected to be complete by the year 2000. De Beers also holds a number of prospecting licences. The Namibian Minerals Corporation (NAMCO) has acquired a share in three diamond concessions totalling 664 square kilometres in the diamond-rich Lunda Norte Province. Other foreign investors in the diamond sector include Almazi-Rossi Shaka (Russia), American Mineral Fields (USA), Longreach Gold Oil (Australia) and International Defense and Security Resources (Netherlands Antilles). Much the same as Sonangol in the oil sector, Endiama, the state diamond mining company has control over diamond mining rights. There is hope that the recent shake-out in management at Endiama will result in increased transparency in the diamond sector. There may be a rewriting of gem sector laws and a reduction in Endiama's control over the industry. There is also speculation that future mining contracts will include social investment specifications.

## **Privatisation**

The resumption of the war has put the government's privatisation programme on hold. Under the programme, strategic, non-monopoly parastatals have been targeted. Initially, small-scale enterprises were selected, and 275 companies, broken up into 850 smaller units, were

privatised. Under the 1998-2000 programme, larger enterprises were to be targeted. Many of these are joint venture opportunities, with a maximum stake of 49% being offered. The sale of 25% of government industries did not take place during 1998 as planned, however.

To date, privatisation has focused mainly on the retail, construction, fisheries and agricultural sectors. The government plans to privatise its state-owned shipping companies that are all experiencing financial difficulties. Under the Economic Recovery and Stabilisation Programme, the government has announced plans for a gradual and partial privatisation of the two state-owned banks, the Bank of Savings and Loans and the Bank of Commerce and Industry.

## **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, and foreign residents are permitted to be directors of companies.
- Nearly all sectors of the economy are now open to foreign investment, including infrastructural development. Exceptions are those industries and activities that are considered sensitive, like defence, the administration of ports and airports, air transport and areas of telecommunications.
- Special fiscal incentives are offered to foreign investors who employ Angolans and provide them with professional training and benefits equal to foreign employees.
- Foreign investors may transfer profits, dividends and proceeds from the sale of investments, abroad.
- Investments less than USD 5m do not need prior government approval.
- In the oil sector, the share-out of “profit oil” (i.e. that oil revenue which does not go into covering development costs) is tied to the field’s commercial rate of return, thus minimising the exposure of operators to risk.

Foreigners wishing to take up employment in Angola must apply for work permits. In granting these permits, consideration is given to the type of work proposed, the availability of local workers capable of performing the job in question, the level of salary to be paid and the availability of accommodation.

### **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 that is mined.
- A royalty of 3 to 10% on the gross value of the minerals produced.
- Corporate income tax at a fixed rate of 40%.
- A 15% withholding tax on dividends.
- Allowances for depreciation are given.

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

Corporations face an industrial tax of 40%, with some companies being taxed on actual profits, some on presumptive profits and some on estimated potential profits, depending on the group they fall into. A tax of 20% is levied on income raised exclusively from agriculture, forestry and cattle-raising activities. Foreign corporations are taxed at the same rate as local companies. However, the Minister of Finance can decide, on a case-by-case basis, to exempt certain companies from tax if they invest in fundamental areas of the Angolan economy. An exemption of 3 – 5 years can also be obtained for new industries. Sales tax on all materials and inputs used for export is refunded.

Shareholders are taxed at 15% on income from financial investments, although 10% may apply in some cases. Personal income taxes range from between 4 and 15%, depending upon the level of income. Foreign workers are subject to social security taxes, which are levied at a rate of 5% for employers and 2% for employees, unless they can prove that they are already covered by another country's social security regime. 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. This is a successor to the Foreign Investment Directorate. Its major function is to provide potential investors with information on investment opportunities, and to liaise with ministries to ensure the speedy and efficient approval and implementation of new investments.

Under the Economic Recovery and Stabilisation Programme, the government plans to set up a one-stop shop, Gabinete Unico de Empresa, to promote private sector 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 to encourage greater private sector participation, with special emphasis on foreign investment.

Companies covered by the Foreign Investment Law are those operating on a branch or local company basis, unless the investment is less than USD250,000. Under this law, companies are required to comply with certain regulations and to submit to monitoring by the relevant authorities.

### **Legal Protection of Investment**

Investment against expropriation is guaranteed by the Investment Proclamation, which is part of the Foreign Investment Law. The country's Property Law was revised in 1993, allowing for the introduction of private property rights.

## **INVESTMENT OPPORTUNITIES**

Investment opportunities exist in almost every sector of the economy but the war hinders many of these investments.

**The Oil Sector** - The oil sector is possibly the only sector not affected in a major way by the war. Recent new oil discoveries suggest that there is still much undeveloped potential in this sector. The downstream oil industries are also under-developed, and opportunities exist for investment in plastics and petro-chemicals.

**Mining** - the government is trying to attract foreign investment into the diamond sector, for joint ventures with Endiama in kimberlite mining, which is less susceptible to smuggling than alluvial mining. There is also scope for setting up small diamond-cutting enterprises.

**Agriculture** - Opportunities exist for the commercial production of a wide variety of crops. These include grains such as millet, sorghum and rice, tropical and semi-tropical fruit, sugarcane, palm oil, cassava, coffee, tobacco and sisal. The country has between five to eight million hectares of arable land as well as extensive grazing land. Only a small percentage of the arable land is currently cultivated, while grazing areas are in the main unfenced.

**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. Value-added fish products could be exported to other African countries, particularly those that are landlocked.

**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. Once again, however, Angola will only be successful in attracting tourists once the security situation is normalised.

**Manufacturing** - Opportunities exist in food processing, especially for small and medium-sized businesses. Activities include breweries and soft drinks plants, grain mills and bakeries, vegetable oil processing, sugar refining, cigarette manufacture and the canning of meat, fish and fruit. Support services to these industries such as refrigeration, packaging, logistics and distribution are other potential areas for investment.

Construction - The Public Investment Programme should offer extensive opportunities, including infrastructural development and the building of houses. A new city south of Luanda is planned and here opportunities exist in the area of prefabricated structures.

Retail - There are opportunities in the sale of second-hand vehicles and spare parts.

## STATISTICS

	1993	1994	1995	1996	1997	1998 <sup>1</sup>
Population (millions)	10.9	11.2	11.6	11.9	12.1	12.4
Nominal GDP at market prices	5,734	4,292	5,365	6,616	7,656	7,882
Real GDP growth rate, %	-24.7	2.5	10.7	12.2	7.3	1.3
GDP per capita, USD	526.1	383.2	462.5	555.9	632.7	634.3
Consumption expenditure as % of GDP	98.8	99.1	64.4	44.5	48.3	51.0
Inflation rate, %	1,837.7	971.9	3,783.9	1,650.4	27.1	91.1
Total merchandise exports as % of GDP	49.9	74.3	73.6	77.0	65.8	44.5
Total merchandise imports as % of GDP	25.1	35.8	29.0	30.8	33.8	26.2
Overall balance on balance of payments	-1,501	-1,027	-845	-536	-605	-1,105
Average exchange rate: Readjusted Kwanza to USD	6.50	509.26	5.69	201.99	263.38	-
Foreign exchange reserves expressed in terms of months of import cover	4	4	3	7	-	-
Total external debt as % of GDP	-	-	-	128	125	-
Budget deficit (-) / surplus (+) as a % of GDP	-72.3	-13.0	-23.8	-10.4	-19.7	-15.7
Central bank discount rate (end of the year)	20.0	95.0	152.0	152.0	-	-

<sup>1</sup> Estimates Source: Ministry of Finance, Banco Nacional de Angola (1999)

## **USEFUL ADDRESSES**

Institute for Foreign Investment, PO Box 594, Luanda, Angola, Tel:+244-2-391434, 33 12 52,  
Fax:+244-2-39 33 811

# BOTSWANA

## GENERAL INFORMATION

<b>Where:</b>	Botswana is a landlocked country, bordered by Zimbabwe and Zambia (north), Namibia (west), and South Africa (south). The Kalahari Desert occupies a large proportion of the land.
<b>Land surface:</b>	585,000 km <sup>2</sup>
<b>Main centres:</b>	Gaborone, Francistown, Lobatse, Maun and Selebi Phikwe
<b>Capital city:</b>	Gaborone
<b>Population:</b>	1.6 million, with 190,000 people living in Gaborone. Most people still live in the rural areas but there has been a growth in urbanisation since independence in 1966.
<b>Official languages:</b>	Setswana and English
<b>Unemployment rate:</b>	21.5%
<b>Human Development Index:</b>	Ranked 97 <sup>th</sup> out of 174 countries and categorized in the medium development range. The ranking is the fourth highest in the SADC countries behind South Africa (89).
<b>Other ratings:</b>	Ranked the third most competitive country on the continent ahead of South Africa (5) at the World Economic Forum's Davos Conference in 1998; third place in the country rating exercise conducted by the Institutional Investor.

## Political Overview

Botswana has a long and stable political history that has been supported by a well-managed economy. The current president is the country's former Minister of Finance, Festus Mogae. Botswana's political system is a multi-party democracy supported by a bicameral parliament and universal adult suffrage. Elections are held once every five years. The next election is due to take place later this year.

## Sectoral Description

Botswana is largely a primary sector-dependent economy and is the third largest producer of mineral products in Africa, behind South Africa and the Democratic Republic of the Congo. In 1997, Botswana embarked on an intensive industrialisation process in order to reduce dependency on the primary sector, in particular diamond mining.

Mining accounts for over 33% of the GDP and is the predominant economic activity. About 80% of foreign exchange earned and about half of the governments' tax revenue derive from the sale of diamonds. Diamond production has an output potential in excess of 20 million carats per annum. There are at present two cutting and polishing industries.

Debswana Diamond Company, owned by De Beers of South Africa, is the dominant company operating in approximately 4 diamond mines. The role that diamonds are to play in the economy will be further consolidated if we take into consideration the current plans to expand the Orupa Diamond mine.

Other important mineral products include copper, bituminous coal, asbestos, kaolin, uranium, gypsum, gold (small amounts), nickel, and soda ash.

Agriculture no longer plays a significant role in the economy and now accounts for less than 5% of the GDP. This has been because of the government's rapid industrialisation programme. However, approximately 62% of the country's total labour force are still employed in the sector.

Livestock production is the most prevalent farming activity. This is because the arid weather conditions are better suited to grazing than food production. This has created multiple investment opportunities for the growth of value-added industries such as meat processing, the construction of grain storage facilities, hide-processing and the manufacturing of cattle and chicken feed.

Manufacturing currently accounts for about 6% of the total economy, with growth rates being in the region of 5% on average. This is as a result of the industrialisation process that is taking place in the country. The small size of the domestic market remains a limiting factor to a rapid growth rate in the domestic market however. Various opportunities have arisen in the textile, motor vehicle production, garments, electronics, jewellery and agro-processing industries.

Tourism is an important source of foreign exchange revenue and has become a principal revenue earner for Botswana. The commitment to strengthening the infrastructure and the general political stability in the country accounts for why tourism has assumed this position. The Okavango Delta, Kalahari Game Reserve, Makgadikgadi Pans and Chobe National Park are the major tourist attractions.

In order to boost tourism a range of services - transport, banking, hotels, restaurants, trade and financial services - have developed rapidly. The banking sector, in particular, has grown to provide support to and complement the tourist industry. Many foreign companies have also established a presence in the country because of tourism. To date, about 31.4 % of the country's GDP is generated from this sector.

## **Infrastructure**

Botswana has an efficient and reliable telecommunication system. Teledensity stands at 5.5 telephone lines per 100 people. All rates charged by the Botswana Telecommunications Corporation are extremely competitive.

Botswana is well connected via the earth-satellite station (through Intelsat) and the ISDN network links, to Europe and to the USA. Direct calls can also be made to South Africa. Further upgrading is planned to install digital switches using fibre optic cables in order to connect on an inter-city basis. The cellular network systems currently in operation are 100% digital.

Internet usage remains limited but is growing. There are over 5,000 Internet users countrywide and only 5 Internet service providers. Internet quality is high and there is sufficient outgoing bandwidth (256Kps), which allows for effective interaction with international users.

Air and road infrastructure is well developed. There are five international airports in Gaborone, Francistown, Kasane, Selebi-Phikwe and Maun. Botswana also has a good road network that spans 8,700kms internally and is linked to South Africa (Johannesburg, Cape Town, and Durban), Mozambique, Zimbabwe, Zambia and Namibia. The transportation of goods is able to take place relatively trouble-free.

The Government plans to invest heavily in the development of the road network in 1999 – 2000.

Botswana produces its own electricity, but it also imports some from South Africa, and Zimbabwe.

# **ECONOMIC OVERVIEW**

## **Introduction**

Botswana has a small and open economy whose economic performance is affected by international events, especially retail demand for its mineral products, like diamonds. The government is aware of the risks involved in relying exclusively on a single commodity and has developed plans to diversify the country's economic base.

Despite positive growth over a number of years in the manufacturing sector, value-adding industries remain insignificant. The Botswana Government is supporting the production of: textiles and garments; cars; electronic, leather and pharmaceutical goods.

## **Recent Macroeconomic Developments**

A real GDP growth rate of 8.3% has been provisionally estimated for the year 1997/98. This should be compared against the revised estimated growth rate of 6.9% in 1996/97.

The Government's commitment to diversify the Botswanan economy is bearing fruits as evidenced by the good performance of the non-mining sectors of the economy. Overall, the non-mining sectors grew by 7.7% in 1997/98, a marginal decrease from the previous year's growth rate of 7.8%. Moreover, various non-mineral sectors of the economy recorded excellent growth rates, namely:

- water and electricity (9.8%);
- transport and communications (9.3%);
- trade, hotels and restaurants (8.4%);
- social and personal services (7.0%); and,
- manufacturing (4.7%).

Non-mining and non-governmental sectors of the economy are expected to grow by around 8.0% in 1998/99. However, the real growth rate for the economy is expected to fall from 8.3% in 1997/98 to around 6.0% in 1998/99, mainly due to the fall in the growth rate of the mining and government sectors.

Botswana prides itself on its low tax rates - manufacturing company taxes stand at 15 % while personal income tax is levied at a maximum of 25%. Despite these low tax rates, the government has been seeking to diversify revenue sources. As part of this strategy, in the 1999 budget, the Pay-As-You-Earn (PAYE) tax was extended to cover non-cash benefits such as housing, school fees, company car and utilities allowances. In addition, expatriates whose contracts were signed on or after July 1, 1999 will now have to pay tax on their gratuities. Actions will also be initiated to replace the sales tax by value added tax by April 1, 2001.

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 from 16.1% in 1992 to 6.5% in 1998. It is expected that the inflation rate will increase marginally during 1999.

Financial turmoil in global money and capital markets, especially the emerging markets, strongly influenced the Pula exchange rate in 1998. The Pula depreciated by 14.5% against the US Dollar in 1998, compared with only 4% in 1997. Against the British Pound it fared even worse – depreciating by 24.1%. However, it did make some gains against the South African Rand, appreciating by 3.1% over the year.

### **Financial Institutions**

The Bank of Botswana acts as the overall manager of the country's financial systems while enjoying considerable autonomy in conducting monetary policy. Since it was established in 1975, it has acted as an advisor to the government on fiscal policy. Other functions of the Bank include the managing of the country's foreign exchange reserves and maintaining a sound and efficient financial system. The way it regulates the banking system is by using government securities and targeting interest rates.

In February 1999, Investec became the first merchant bank to open its doors to the public in Botswana by offering specialised banking services. Its services are targeted at high net worth clients with income levels of over BWP 200,000 (USD 47,328) per annum or with tangible net asset value of at least BWP 1m (USD 236,640).

During 1998, a number of foreign exchange bureaux were opened across the country. These bureaux will operate outside the normal operating hours of commercial banks. This will allow for and enhance foreign exchange transactions, especially over the weekends. Another advantage is that these bureaux are situated at various convenient sites in the country, e.g. at border crossings.

Leading institutions within Botswana's financial community include a combination of retail banks, merchant banks, asset management companies and insurance holding institutions. Recently, African Alliance Botswana launched a new unit trust scheme. Alliance Botswana Management Co. is to act as the manager of this scheme.

### **The Botswana Stock Exchange**

The Botswana Stock Exchange (BSE) was established in 1995 from the Botswana Share Market, and has grown into a thriving institution. Since its establishment, the BSE has consistently distinguished itself compared with other peer markets in the developing community. Its best performances continue to be supported by sound economic management, which has lured a notable amount of foreign investors.

The financial turmoil engulfing the emerging countries resulted in fewer volumes traded, however the market capitalisation rose. The BSE's volume of shares fell to 52,072 million in 1998 following the robust 60,783 of the previous year.

Market capitalisation rose a phenomenal 17%, which was up on 1997 levels. By year-end, the BSE Domestic Companies Index stood at 946.91 points. In US dollar terms this reflected a 14% growth rate from 1997. The IFC's Frontier Stock Market Review ranked the BSE fifth in terms of the best performing stock markets in the world.

Liquidity improved after an increase in the volume of shares traded. The dual listing of eight foreign companies, which counted among them De Beers and the Morgan Stanley Africa Investment Fund, was another highlight. The BSE also saw the listing of MRI Botswana - a domestic company. The last domestic listing was in 1992. Two new bonds were issued in 1998, one by Investec Overseas at a nominal value of BWP 500m (USD 112.2m) and the

other by the Botswana Telecommunications Corporation to the value of BWP 100m (USD 22.4m).

The following are some of the major companies listed on the BSE: Avis; McCarthy; Ellerine; Inco Holdings; Engen Botswana; De Beers; Regent; Sechaba; Barclays Bank of Botswana; Botswana Insurance Holdings; Standard Chartered Botswana; First National Bank of Botswana; and Metro Sefalana.

<b>Botswana Stock Market (USDm unless otherwise stated)</b>					
<b>YEAR</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of listed companies	11	12	12	20	23
Market capitalisation (USDm)	376.9	397.4	326.2	614.5	723.4
Number of companies making issues (including new issues, rights issues and bonus issues)	-	-	-	-	2
Value of new issues (USDm)	-	-	-	-	6.3
Volume of shares traded (millions)	29.5	44.9	42.8	60.8	52.1
Value of shares traded (USDm)	10.9	15.9	11.7	16.0	65.1
Number of trading days	264	264	264	264	264
Average price-earnings ratio of all listed companies, %	9.3	10.0	7.3	10.3	11.1
Average dividend yield (annual average), %	5.3	6.5	6.8	5.8	4.0
Domestic Companies Index, %	12.3	3.2	9.1	101.2	33.7

Source: Stockbrokers Botswana Ltd (1999)

## **Foreign Trade**

Mining products, such as diamonds, copper-nickel and soda-ash, make up the majority of the country's exports. Diamonds are notably the most predominant of mineral exports providing, on average, some 80% of total export earnings, and about half of government revenue.

The presence of Hyundai and Volvo has bolstered exports of vehicle components, which have risen substantially since 1994. In 1997, vehicle component exports accounted for about 10% of total exports, making it the second biggest earner of foreign exchange. Volvo has announced that it will soon start exporting to South Africa, Australia and New Zealand.

Beef is another significant export with some 19,000 tons destined for the EU every year. Food and beverages, chemicals, petroleum products, textile machinery and transport equipment are what make up the bulk of imports.

The EU has pledged a sum of EUR1.7m to encourage Botswana's trade diversification plan and to enhance export promotion. The promotion of road links, such as the Trans-Kalahari highway, could encourage the easy transportation of goods to neighbouring trading partners.

Europe emerged as the foremost trading partner with Botswana in 1997, with trade exceeding 78%. They were followed by SACU, with Zimbabwe also becoming a significant trading partner.

### **Foreign Direct Investment**

Botswana's consistent economic performance – a healthy balance of payments and high growth rates - has led to increasing foreign direct investment (FDI). A number of investment plans happened in 1998 or have since been planned. They are:

- France Telecommunications has entered into the mobile telephone market. The company is to construct a cellular network, which will last for 10 years.
- South Africa's Portland Cement has concluded a share re-purchase deal with Botswana Development Corporation (BDC). They will acquire 50% of BDC's shareholding in the company.
- Avis Southern Africa acquired a 75% of Vacation Exchanges International.

The completion of the Trans-Kalahari linking Botswana with South Africa and Namibia, has led to additional interest in the development corridor. For instance, Engen Botswana is to establish a one-stop centre near the Lobatse area. This centre will include a truck shop, filling station and a fast-food outlet.

Sources of FDI remain diverse, with most of it originating from Africa, Europe, North America and Asia Pacific. As at December 1997, Africa accounted for 80.4% of total FDI, followed by the European Union with 12.7%. The largest share of investment emanating from Africa is from South Africa (80%). Mining accounts for 76.6% of the FDI inflows, followed by manufacturing and finance with 7.0% and 4.5% respectively. From December 1997, there has been a tremendous increase in the number of new foreign investments in the manufacturing sector.

### **Privatisation**

Botswana has over 26 government-owned companies. Currently, there are no details available on the country's privatisation programme, yet a White Paper is before Cabinet. The legislation that might arise from this process will seek to promote and develop the domestic business sector through joint ventures with well-established international businesses. The corporations that might find themselves targets of privatisation are: the Botswana Meat Commission; the Botswana Power Corporation; the Botswana Telecommunications Corporation and Air Botswana.

### **Exchange Control**

All Botswana's remaining exchange controls were completely abolished with effect from the 8<sup>th</sup> of February 1999. This places Botswana among the few countries with no exchange controls within Southern Africa. It is expected that this move will increase the level of foreign investment and provide a substantial boost to the attempt to set up a regional financial services sector in the country. Completion of foreign exchange transaction forms will be done only for the purpose of compiling balance of payments statistics and monitoring developments in the foreign exchange markets. The only remaining element of exchange control regulation is that local institutions are only allowed to invest up to 70% of their assets abroad. However, this is also considered to be a very generous allowance.

## **INVESTMENT CLIMATE**

### **Investment Incentives**

The Financial Assistance Policy (FAP)

This policy has been introduced to promote the development of manufacturing establishments involved in import substitution and export-oriented activities, employment creation, select "linking" services and tourism. Business will qualify for assistance depending on whether they are small, medium or large-scale. Large-scale mining and beef processing operations will not qualify for this assistance.

The grants are as follows:

- **Capital grant:** This grants supports the purchase of fixed assets (like, the plant and machinery). For a 100% locally owned business, BWP 1,500 (USD 355) is given for each job created. For non-citizens or joint ventures, an amount of BWP 1,000 (USD237) per job created is given, but only 40 - 85% of the assets are paid for, this being dependent on where the plant is located.
- **Training grant:** This covers 50% of the training costs incurred over the first five years of the project.
- **Unskilled labour grant:** This scheme involves the reimbursement of the wages paid to unskilled employees over the first five years of the project. This is done in a phased way: 80% of wages in the first two years, 60% in the third year, 40% in the fourth year and 20% in the fifth year.

### **Export Incentives**

Production for the export market is encouraged. The following export incentives are in place:

- There is a duty drawback facility in the procurement of raw materials needed for the production of goods for export.
- No surcharge (sales tax) on machinery and equipment imported for the production of exports.

## **Taxation**

### Company taxation

- This is 15% for manufacturing companies and 25% for non-manufacturing companies. Capital gain is included in this definition of taxable income.
- The following tax allowances are made: 100% of cost on capital goods; 10 – 25% for the plant and machinery; 25% on a new building. A further BWP 5,000 (USD 1,183) is given if you provide accommodation for employees.
- There is a 200% deduction on the cost of training employees that can be claimed by the employer. This training must be approved by the Commissioner of Taxes.
- Withholding tax: 15% on dividends paid to residents and non-residents, and 15% on interest paid to non-residents only.
- For commercial royalties, management and consultants fees, there is a 15% tax on non-residents.

### **Double Taxation Relief Agreements**

Botswana has double taxation agreements with the United Kingdom, South Africa, Sweden, and Mauritius.

### **Individual taxation**

- The top marginal rate for individual residents and non-residents is 25%. The top rate is applicable for an income greater than BWP 60,000 (USD 14,199).
- Capital gains and benefits are taxed, and a capital transfer tax is also levied

### **Sales tax**

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

## **Investment Promotion**

The government has created a professional organisation called the Botswana Export Development and Investment Authority (BEDIA) to help strengthen investment promotion. This organization will promote investment into the country and the export of locally manufactured products. It has also been entrusted with the task of constructing factory buildings to house manufacturing enterprises. As such it is the focal point for investment promotion, providing both pre and post investment services in order to facilitate the setting up of manufacturing enterprises.

With regard to the promotion of exports, the Authority facilitates participation in professional trade exhibitions, conducts market surveys, and organises contact promotion missions.

Organisations working in a similar field include the Botswana Development Corporation whose prime focus is, *inter alia*, long-term finance, equity participation and construction of factory shells. In addition, the Botswana Confederation of Commerce, Industry and Manpower plays an important role in promoting Botswana for inward investment.

## **Exchange Controls**

Foreign exchange controls have been abolished entirely.

## **Protection of Investment**

Botswana is a signatory to the World Bank's Multilateral Investment Guarantee Agency (MIGA).

## INVESTMENT OPPORTUNITIES

The industrial strategy of Botswana is geared towards export-oriented manufacturing although there is plenty that can be done in the import replacement sector as well. For tax purposes, the Government makes no distinction between production for the local market and for export, and the corporate tax rate is a uniform rate of 15%.

As regards investment opportunities, emphasis is placed on the diversification of the industrial base of the country away from the mineral sector. The introduction of new techniques of production and transfer of technology are important considerations, while, the products manufactured can be based both on imported raw materials for further transformation in the country or on raw materials available locally.

The sectors, which are presently being promoted comprise are:

- a) Textile and garments
- b) Assembly of cars as well as production of parts and components for the automobile industry.
- c) Polishing of diamonds and semi-precious stones
- d) Jewellery
- e) Engineering products like assembly of bicycles, motorcycles, concrete mixers, gas cylinders, fans, dies and moulds for the plastic sector, kitchen utensils etc.
- f) Leather products including the setting up of a good tannery
- g) Printing and publishing
- h) Plastics including engineering plastic products
- i) Ceramics
- j) Glass products
- k) Electronic goods like assembly of TV sets, refrigerators, washing machines etc.
- l) Pharmaceuticals

Projects that can be developed because of Botswana's excellent communications facilities are:

- a) the establishment of call centres
- b) pre-press operations
- c) imaging activities
- d) high value-added data processing and data capture

Besides investment in the areas mentioned above, Botswana welcomes investment in all areas of modern manufacturing technology and supporting services. The above areas are indicative of the country's industrial strategy.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	1.4	1.4	1.5	1.5	1.5	1.6
Formal sector non-agricultural employment (thousands)	220.3	225.9	226.8	229.6	233.1	-
Nominal GDP at market prices <sup>1</sup> (USDm)	4,534.0	4,571.6	5,127.0	5303.9	5,596.8	-
Inflation rate, %	14.4	10.6	10.5	10.1	8.9	6.5
Merchandise exports, USDM	1,724.3	1,877.6	2,161.9	2,233.8	2,820.4	2,133.5
Merchandise imports, USDM	1,457.2	1,366.6	1,606.7	1,478.5	1,924.8	2,140.5
Capital account of balance of payments (USDm)	85.0	19.2	14.4	6.2	16.9	18.5
Overall balance on balance of payments (USDm)	405.2	141.5	213.2	521.8	635.0	34.8
Average exchange rate: BWP to USD	2.42	2.68	2.77	3.30	3.65	4.22
Foreign exchange reserves expressed in terms of months of import cover	35.6	31.0	43.2	28.3	33.9	36.0
Total external debt (USDm)	523.9	514.1	519.8	542.8	538.7	467.1*
Total external debt as % of GDP	14.0	12.6	11.8	12.6	11.2	9.6*
Total external debt as % of exports	4.1	4.1	3.4	3.5	2.4	-
Central bank discount rate (end of year), %	14.3	13.5	13.0	13.0	12.5	12.5
Prime lending rate (average for year), %	15.0	14.5	14.5	14.5	14.0	14.0
Growth rate of M2 money supply, %	12.4	13.0	2.2	18.1	25.0	33.7
National Accounts Years <sup>2)</sup>	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Nominal GDP at market prices (BWPm)	9,045.4	10,972.2	12,252.0	14,201.8	17,502.9	20,428.3
Real GDP growth rate, %	-0.1	4.2	2.7	6.6	7.2	8.3
GDP per capita (market prices – BWP)	6,527	7,732	8,432	9,531	11,460	13,049
Consumption as % of GDP	65.0	61.6	60.3	57.8	53.1	57.0
Total national savings as % of GDP	37.1	27.6	36.9	36.6	37.9	-
Gross investment as % of GDP	28.1	25.1	25.1	25.0	23.9	24.7
Budget deficit as % of GDP (fiscal year) <sup>3)</sup>	9.7	8.0	1.6	1.9	7.4	4.3
Domestic credit to government (BWPm)	-5,085	-5,629	-6,716	-6,477	-7,242	-19,227
Domestic credit to private sector (BWPm)	1,321	1,466	1,695	1,726	1,836	-

1) The national accounts year runs from July to June.

2) The fiscal year runs from April to March

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

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# DEMOCRATIC REPUBLIC OF CONGO

## GENERAL INFORMATION

<b>Where:</b>	The DRC is in central Africa. In the west of the country, there is a small stretch of coastline where the river Zaire enters into the Atlantic Ocean.
<b>Land surface:</b>	2,435,409 km <sup>2</sup>
<b>Capital city:</b>	Kinshasa which is located at the far west end of the country, close to the border of Congo-Brazzaville
<b>Main centres:</b>	Lubumbashi in the south, and Kisangani in the north
<b>Population:</b>	49 million in 1998, 5 million who live in the capital. This makes it the largest SADC Member State, both in terms of geographical area and size of population
<b>Official languages:</b>	French is the official language, while Lingala, Swahili, Kikongo and Tshiluba are the four national languages used by the Congolese administration. There are a number of local dialects, which are used in the different regions.

## Political Overview

Laurent Désirée Kabila, the current president, came to power in May 1997 after he led a rebellion that unseated the longtime ruler, Mobutu Sese Seko. Sese Seko governed the country for 32 years.

In August 1998 the country was plunged back into military conflict as rebels began an uprising against the Kabila government. The rebel movement consists of several groups, the main one being the Congolese Rally for Democracy (RCD) led by Professor Ernest Wamba dia Wamba. At the time of writing, the war was still ongoing.

## Sectoral Overview

Mining and agriculture are the most important sectors of the economy. The extensive natural resources found in the Congo make it potentially one of the richest countries in Africa.

Mining mainly takes place in the eastern and southern parts of the country. The mining of diamonds, copper, cobalt, gold and oil is fairly developed, although this has decreased from the 1980s to 1990s. There was a slump in mining production between 1989 – 1995: copper from 442,000 tons to 33,000 tons; zinc from 54,000 tons to 4,500 tons; and cobalt from 9,300 tons to 3,900 tons. The state-owned company Gécamines controls all copper and cobalt mining, which accounts for 20% of the country's export revenue. However, the World Bank and the Congolese government have projected that the mining sector could eventually be worth up to USD 2.85bn per annum. This figure is based on an annual production of 700,000 tons of copper, 40,000 tons of cobalt and 200,000 tons of zinc, as well as diamond sales of USD 600m per year.

Congo produces mainly industrial diamonds and is said to be the world's fourth largest diamond producer, after Botswana, Russia, and South Africa. Diamonds are the country's single largest foreign exchange earner. It is difficult to get accurate figures on production in

this sector because it is affected by widespread smuggling and illegal sales of the stones. It is estimated that some 50% of all diamonds produced are illegally exported.

Under Kabila, the government has tried to gain control of the diamond trade. In 1997 the government's diamond buying agreement with De Beers was suspended, and diamonds were sold on tender by government, with De Beers remaining a large buyer. All diamonds and gold are sold through the centralised Bourse for Precious Minerals, which pay the national dealers in Congolese Francs. The aim of this is to try and cut down on diamond smuggling, to promote domestic economic empowerment and to give government access to foreign currency through the Bourse's sales on the international market.

Oil reserves are estimated at 180m barrels. Companies involved in Congo's oil sector include Chevron (US), Union Oil (US), Teikoku Oil (Japan), Petrofina (Belgium), and Shell (UK/Netherlands).

The agricultural sector is fairly undeveloped, partly because of the limited transport network. It remains an important source of employment though and is responsible for a significant portion of the GDP – approximately 40-50%. Coffee is the main cash crop with 60,000 tonnes being produced annually. Timber is becoming increasingly important, and palm oil, rubber, cocoa, and tobacco are also grown. Crops that are produced on a smaller scale include maize, rice, cotton and bananas. There is limited cattle farming.

The industrial sector decreased in importance in the 1980s and 1990s, and now accounts for approximately 10% of GDP. The main reasons for the decline are the scarcity of foreign exchange and investments and decreasing domestic demand. The main industries are smelters, and chemical, textile and food processing factories.

## **Infrastructure**

The infrastructure is fairly undeveloped and transport is mainly by rail. In the north and north-east, the Congo River is used for transport. The road network is in need of upgrading, and the Kabila government has declared this as one of its priorities. There are about 145,000km of road in the country, of which only about 2,500km is tarred. Several private and international airlines operate in the country.

Due to its extensive water resources (the Congo River in particular), the potential to develop hydroelectric power is enormous. In the industrial and urban areas, most power is already supplied by hydroelectric means. Smaller generators propelled by diesel or petrol supply power in the rural areas. Inga, the country's main power plant, is currently operating at a capacity of around 1,700 MW. Inga will be the largest hydroelectric power station in Africa if the plans to expand production to 44,000 MW by 2010 materialise. Cahora Bassa in Mozambique, which is currently one of the bigger stations in Africa, is currently producing between 2,000-2,500 MW.

It is estimated there are 0.8 telephones per thousand people. The telephone service in the country is not very reliable, and extensive use is made of cellular phones. There are three domestic service providers, Telecel Corporation, Comcel, and Transglobal Telecom.

# **ECONOMIC OVERVIEW**

## **Recent Macroeconomic Developments**

The government had made progress towards restoring a basic regulatory and revenue structure before the war resumed in August 1998. In 1997/98, with the assistance of the IMF, a monetary reform programme was embarked on. The main aim of the reform was to create a stable macroeconomic climate, to put an end to three decades of spiraling inflation, and to regain national control over the currency. The country had previously been split into four currency zones, and the currency, the new zaire, became associated with four-digit hyperinflation. In later years, this had led to an uncontrolled printing of banknotes.

During 1998 the economy started to show signs of recovery. Financial sector reform (described below) began to yield results, a new currency, the "Congolese franc" was introduced in June, and cheques came back into use. The diamond sector in the Kasai region had also started to make payments in Congolese francs instead of US dollars. Inflation, which had long stood at three-digit figures, dropped to around 10-20%.

With the outbreak of the internal strife in August 1998, this situation rapidly deteriorated though. Inflation crept back to the three-digit levels, and the annual average is likely to be about 100% for 1998. The value of the franc continued to decrease from the fixed rate of CFr 1.4/USD, to CFr2.5/US dollar in mid-February 1999, after a dip to CFr4.5/USD. Parallel rates followed and stood at about Cfr3 to the US dollar in February 1999. A government decree signed on 8 January 1999, banned all transactions in foreign currencies in a move to force foreign exchange out of the informal economy and into the commercial banking sector and the central bank.

The scarcity of foreign exchange reserves has resulted in a reduction of imported goods. Importers, having bought foreign currency on the more expensive parallel markets, pass on the increased cost to the consumers. The price of domestic goods has also risen - the price of rice tripled between July and December 1998. Government's finances are also suffering because of the costs incurred in fighting a war.

## **Financial Institutions**

Reform of the financial sector took place alongside the monetary reform that saw the birth of the Congolese Franc in 1998. The main concerns that prompted the financial reform were the banks' low liquidity and their lack of credibility that led to cash transactions forming the basis of the economy. DRC citizens have little confidence in their banks, and it is estimated that only 5% use banks at all. This may also be due to the fact that banks are concentrated in the Kinshasa area, while some of the rural areas tend to be underbanked.

The central bank, with financial and technical assistance from the World Bank and the Canadian Agency for International Development, has undertaken an audit of all banks. This has resulted in a number of banks being declared insolvent and unfit to participate in the reform. Provisional assessments in June 1998 concluded that BCCE, NBK, BCA and COBAC were in serious difficulties, while Citibank, Stanbic, BIC and BCDC, mainly offshoots of international banks, were regarded as financially solid.

The financial reform programme allows banks facing difficulty a two-year restructuring period, during which they have to report progress to the central bank. In an effort to restore confidence in using cheques as a method of payment, the government has issued a law that

orders that all future government transactions to take be paid by cheques.

The reforms also aimed to guarantee independence for the central bank, in maintaining a tight monetary policy. A positive sign is that the central bank commenced its participation in SADC's Committee of Central Bank Governors, sending representatives to the Committee's meetings in 1998 and 1999.

### **Foreign Trade**

Main exports are from the mining sector and include copper, diamonds, cobalt and oil. Coffee is the main agricultural foreign exchange earner. Belgium is the main market for Congo's exports, account for 42.6% of the total in 1997. Other important destinations include the US (mostly crude oil), South Africa, and Italy.

Total exports from the DRC amounted to USD 2.9bn in 1996, whereas imports totaled USD 2.6bn. The country imports consumer goods, foodstuffs, mining equipment and other manufactured goods. South Africa and Belgium are the country's main source of imports.

### **Foreign Direct Investment**

FDI has mainly reached the mining sector. Since the change of power in 1997, there have been some changes in the ownership of mining assets. Mining activities have also been adversely affected by the resumption of internal conflicts in August 1998.

The largest foreign investor in the DRC is the Belgian conglomerate Société Générale de Belgique, which has investments in a diverse range of sectors. Unilever also has a strong presence in the country.

The most recent FDI has been the purchase by Anglo American and American Mineral Fields of a 60% stake in Kolwezi Tailings. This was sold for USD 130m in January 1999.

### **Privatisation**

The privatisation process has not gained much momentum, although the government is planning to sell its shares in a few companies, and privatise the management of others in the near future.

### **Taxation**

The DRC's taxation code is based on the system it inherited from Belgium. Regional administrative entities can also levy taxes. Investment projects may be given significant tax breaks.

### **Exchange Controls**

Before the outbreak of the war, the government was looking at liberalising exchange control. However, there have been some additional controls imposed over the past year or so.

### **Investment Code**

Investment incentives are contained in Act no. 88-028 of 5 April 1986, the *Code des Investissements*.

## **Investment Opportunities**

There will be countless opportunities for investment once political stability returns to the country, with the minerals and agriculture sectors leading the way. There is also much unexploited potential in terms of timber (the DRC has vast equatorial forests) and fishing in the Great Lakes region.

## STATISTICS

Population	49.2m (1998)
GDP growth	0.4% average for 1992-96
GDP/capita	USD 415 (1996)
Discount rate	221% (end February 1997)
Foreign debt	USD150bn (1997)
Inflation	176% (1997)
Exports of goods and services	USD 1.4bn (1997)
Imports of goods and services	USD 807m (1997)
Total reserves, minus gold (USDm)	219.10 (1990) 120.7 (1994) 82.5 (1996)
Foreign exchange reserves, expressed in terms of months of import cover	1 (Dec 1998)

Source: IMF, EIU (1999). Some figures are estimates.

# LESOTHO

## GENERAL INFORMATION

- Where:** The Kingdom of Lesotho is a small landlocked country, surrounded by South Africa.
- Land surface:** 30,355km<sup>2</sup>, all at more than 1,000 metres above sea level.
- Capital city:** Maseru
- Population:** 2.1 m (1997), mainly Sothos. The growth rate is 2.3%.  
170,000 people live in the capital. Most people live in the rural areas, and are engaged in subsistence farming.
- Official languages:** English and Sesotho
- Employment patterns:** Approximately 35% of male wage earners are employed in South Africa, mostly in the mining industry. Females head almost 54% of households.
- Human Development Index:** Lesotho is ranked at 134 out of 175 countries. This places it in the same category as Ghana (133), and Cameroon (132), or in the middle of the SADC countries.
- Other ratings:** Literacy rate of approximately 70%.

## Political Overview

Lesotho is a constitutional monarchy and the present head of state is King Letsie III, who succeeded his father in February 1996. Under the 1993 constitution, the King has no legislative or executive powers.

The major parties in Lesotho are the Lesotho Congress for Democracy, the Basotho Congress Party, the Basotho National Party and the Maramatlou Freedom Party. Elections were held in May 1998 and the Lesotho Congress Party won 79/80 seats in Parliament.

Opposition leaders declared that they did not believe the election process had been “substantially free and fair”, resulting in an outbreak of violence in the main centres. This led to some political tensions in the country during September 1998. SADC intervened in the conflict and eventually an agreement between the parties was reached. Under this agreement an interim political authority has been sworn in, with plans to hold fresh elections and overhaul the electoral system soon. The government, in conjunction with UNDP, is currently implementing a reconstruction programme aimed at rectifying the damage caused by the looters and restoring property losses. Business is back to normal in Maseru.

## **Sectoral Descriptions**

Agriculture includes crop production, the keeping of livestock, forestry and related activities. Only 13% of all land is arable though, and Lesotho is therefore only able to produce 30-50% of total food requirements. Agriculture remains an important economic sector as 80% of the population live in the rural areas, 60% work in the sector, and 50% derive their livelihood off the land.

Lesotho's main crops are maize, sorghum and wheat. Livestock, which include sheep, cattle and Angora goats, contributes substantially towards rural income. Lesotho's terrain is highly suited to animal production, although the sector has suffered because of the drought in recent years. Wool and mohair are major exports, although cattle exports are also important. A national abattoir was established in Maseru in 1985 and has created the capacity for export to the regional market. Lesotho is also exporting fresh and canned asparagus to Europe.

The government has also instituted a series of market-oriented reforms, such as privatisation and deregulation, in order to encourage private sector investment in agriculture. There are plans to: promote diversification into high-value horticultural crops; encourage land resource management; improve extension services; and, build human capacity. The government's main agricultural policy is to move away from a food self-sufficiency strategy to one of food security. An investment programme to this end is being finalised

Around 0.2% of the total area under arable production is planted with trees, mainly eucalyptus and pine which provides fuel wood. The government has introduced a tree-planting programme to encourage forestation for fuel wood and building materials. This project includes the development of a forestry policy for Lesotho, the establishment of a forest service and the provision of plants for conservation purposes.

Building and construction increased significantly after 1986, when one of the largest civil engineering projects in Africa, the Lesotho Highlands Water Project (LHWP), got underway. The purpose of the project has been to harness and export water to South Africa. Lesotho has been receiving royalties from water sales since January 1998. The upward trend in growth due to this project is now decelerating after the completion of Phase 1A of the project in 1997, and the economy is expected to return to long run average growth. In addition to building the project itself, surrounding infrastructure has also had to be improved. Roads have been constructed and upgraded, improvements made to border crossing facilities, and power supply, camps and communications were developed. All these projects have created employment opportunities.

Mining activity is currently undertaken on a small to medium scale, with an estimated 1,000 Basotho having been employed in the sector from 1993-97. Most of Lesotho's minerals are exported to South Africa. The government is currently seeking investors to re-open a significant diamond mine, closed since 1982 due to a lack of smuggling controls. The potential of other

kimberlite pipes is also currently being evaluated. Large deposits of clay are being mined for brick manufacturing and for the manufacture of ceramic ware and tiles. Roadmetal and ornamental stones are also mined.

The manufacturing sector is made up of large and small, medium and micro enterprises (SMMEs). Government policy focuses on creating an attractive investment climate for this sector. The industrialisation programme has resulted in significant growth. Manufacturing output has risen on average by 15% per annum since 1993. The reason for the growth has been the creation of export markets, and significant FDI inflows, mainly from Hong Kong, Singapore, Taiwan, South Africa and Europe.

Clothing and footwear companies have led the way in growth terms. The industry currently employs about 18,000 people and contributes 30% of total value-added in the manufacturing sector. Companies export to the United States, Europe and South Africa. Other goods for export include bricks, ceramic tiles, pottery, handicrafts, furniture and tapestries. Companies producing for import substitution are brick-making, candles, beer and beverages, canned food, bread and milled products industries.

Tourist activities are targeted at those who enjoy outdoor events – like hiking and horse riding in summer and skiing in winter. Tourist accommodation is continually being developed, albeit on a small scale. The scenic Lesotho Highlands are considered the main tourist attraction. The development of the Katse Dam will become a further attraction, offering a fjord-like landscape unique in Southern Africa, as well as water sports, bird watching and trout fishing.

## **Infrastructure**

A South African company, Eskom, supplies Lesotho with most of its power. Lesotho plans to achieve self-sufficiency early into the 21<sup>st</sup> Century by tapping into its hydroelectric potential. The hydroelectric scheme of the LHWP, once operational, will have a capacity of 200-MW and should meet all foreseeable requirements.

The 72-MW Muela hydroelectric project came into operation in September 1998. This is designed to promote general development in the Highlands regions by providing electricity, potable water and water for irrigation. The Lesotho Electricity Corporation plans to connect all outlying hydro plants in the rural areas to the national electrical grid.

The LHWP has spurred the development of a road network, which has facilitated easier access to and from remote areas. The road network extends for about 6,000km - 887km of which is tarred. There are roads linking Lesotho directly with South African cities and ports. Africa's biggest port of Durban is a mere 600km away.

The improvement in physical infrastructure has had positive spin-offs – transport is quicker and more efficient and trade and tourism have increased. Although Lesotho has the shortest railway

line in the world, there are good rail links between Maseru and the South Africa. The Maputsoe Industrial Area (85km north of Maseru) is also about 2km from the railway at Ficksburg in South Africa. 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.

Lesotho has a direct air-link to Johannesburg, and there are domestic flights to Mokhotlong and Quacha's Nek. Air Link also provides charter flights to many airstrips around the country. Moshoeshe I International Airport became operational in 1985 and is located approximately 20 km from Maseru.

The Lesotho Telecommunications Corporation (LTC), a parastatal, manages the telecommunications industry. The sector has improved substantially over the past few years, especially since an analogue microwave system has replaced the less reliable wireline system. The wireline system remains as the major connection to rural areas.

Vodacom Lesotho, in a joint venture with LTC, owns and operates a cellular network. This was introduced in May 1996. The government is currently restructuring its telecommunications sector. The reforms are expected to include the financial restructuring of LTC, increased opportunities for private telecommunications firms, competition in the supply of customer premise equipment, and the issuing of licences for VSAT, paging and radio trunk networks.

## **ECONOMIC OVERVIEW**

### **Introduction**

Lesotho's historic economic dependence on South Africa, especially in terms of migrant labour remittances, has meant that it has been affected by the country's economic policies. The slow growth of the South African economy and falling commodity prices has meant fewer employment opportunities for Basotho workers in South Africa's mines. The number of Basotho miners in South Africa declined from 130,000 in 1989 to 96,000 in 1997. Further, the historically high levels of protection afforded to South Africa's industries, has increased the cost of manufacturing inputs as well as consumer goods in Lesotho. This has had an adverse effect on the country's production base, as well as consumers.

Since 1988, Lesotho has been undergoing a programme of structural reforms, supported by the IMF. This has led to a number of positive developments in terms of the balance of payments and fiscal deficit. Manufacturing exports have also performed particularly well in recent years, driven by foreign direct investment from East Asia and South Africa. This has helped to reduce the country's dependence on migrant labour remittances and other traditional sources of income, such as agriculture and animal husbandry.

Lesotho's economic growth in the medium term will come from its wealth of natural resources, the manufacturing industry and tourism and eco-tourism development.

### **Recent Macroeconomic Developments**

After nearly a decade of exceptional output growth, the Lesotho economy experienced only moderate growth in 1997 and a decline was forecast for 1998. The development of the LHWP and foreign investor interest (particularly from East Asian countries) in the manufacturing industry, were the contributory factors to strong output growth in the 1990s. However, as the LHWP reaches completion, this strong growth momentum has begun to taper off.

Initial expectations were that GDP would decline by about 2% in 1998. However, these expectations had to be revised following the social disturbances in September, which culminated in the burning and looting of shops. Approximately 400 large and medium scale enterprises were burnt, damaged or looted. The total destruction of property and stock cost about USD32.4m and resulted in 3000 job losses. Domestic output in 1998 is predicted to have declined by as much as 9% because of these social disturbances.

Much of what will happen in 1999 will hinge around the speed with which the reconstruction process takes place. The role of the financial sector is crucial. The reconstruction process is likely to take place over an extended period of time. It appears therefore that in 1999 the economy will perform only modestly.

Lesotho's inflation rate, on a downward trend since 1996, edged upwards in the last 4 months in 1998. During the first nine months, inflation averaged 7% but increased to 9% in the last quarter. This increase can be attributed to the September disturbances. A survey undertaken two weeks after these disturbances indicated that the general price level increased by some 14%. Prices later decreased as political stability returned.

Early indications suggest that there is likely to be a significant turnaround in the government's budgetary position in 1998/99. Government revenues are reported currently to be down from 44% to 42% of GNP. A substantial proportion of this drop is attributable to a fall in SACU-related revenues as a result of reduced LHWP activities, and the September disturbances. The government's expenditure commitments also increased notably in 1998 largely as a result of ongoing efforts to restructure the financial sector, which included closing the Lesotho Agricultural Development Bank. As a result of these developments, it is now anticipated that the government's budgetary position for the 1998/99 fiscal year will, for the first time in five years, register a deficit of around 2% of GNP.

The balance of payments continued to hold its own despite capital flight of about 1% of GNP and the loss in foreign earnings as a result of the retrenchment of Basotho miners working in South Africa. Official reserves are estimated to have increased significantly from around 9 months of import cover, to around 10 months. This surprise turnaround was because of the deceleration in the growth of merchandise imports. The scaling down of the government's development expenditure programme, which involved construction activities with a high import content, also helped reduce this bill.

Private sector credit hardly showed any growth during 1998, in sharp contrast with previous years when it averaged 15% per annum. This lack of growth is as a result of the financial distress in the domestic banking system. The stagnation in private sector credit also has implications for the reconstruction process and the future growth prospects of the economy.

Despite the stagnation in private sector credit, a rather excessive monetary expansion was observed in 1998. An unexpected increase in foreign reserves exerted upward pressure on money supply, resulting in growth of around 12% in 1998, compared to zero growth in nominal GDP. This strong monetary expansion in the midst of recessionary conditions generated excess liquidity in the economy. It is likely therefore that in the absence of the sterilisation of this excess liquidity, inflationary pressures may begin to set in or official reserves may be eroded.

### **Financial Institutions**

The Central Bank of Lesotho is a parastatal. It provides advice to government on fiscal, financial and monetary matters. The Bank also acts as the government banker and extends credit to the government sector within stipulated credit ceilings. The central bank is responsible

for the supervision of commercial banks and insurance companies. Development and other non-banking financial institutions have their own Acts.

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

The two state banks, Lesotho Agricultural Development Bank and Lesotho Bank were placed under conservatorship with Irish Development International in December 1997. Both banks were listed for privatisation in June 1998. The Agricultural Bank was closed in September 1998 pending its liquidation and following its failure to secure a strategic investor. The government is actively negotiating with Standard Bank as they have expressed an interest in acquiring majority shareholding in Lesotho Bank.

As Lesotho is part of the 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 on a par with the South African Rand.

Although the money market is generally well developed, there is a need to improve by introducing new financial products. There is a monthly auction of treasury bills. The Central Bank paper was withdrawn in 1996 to encourage direct lending between commercial banks. The Lesotho Privatisation Unit is currently working on the establishment of investment vehicles and, in conjunction with the central bank, the development of capital markets through which shares in government-owned enterprises will be made available to the public. A British based firm, Crown Agents, was contracted in February 1999 for three months, to give advice on an appropriate investment vehicle for Lesotho. The firm will also advise on an appropriate legal framework for its operation. The establishment of the fund is expected during the first half of 1999.

### **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.

Residents are only allowed to transfer capital within the CMA, but 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**

Manufactured goods (predominantly from the textile and leatherwear industries) made up 76.3% of total exports in 1997. Lesotho has also recently started to earn revenue from the sale of water to South Africa, as part of the LHWP. The SACU countries are Lesotho's major export market (49% in 1997), followed by North America under the GSP scheme (37%), and Europe under the Lomé Convention (9%).

Lesotho is diversifying its markets, so as to reduce its reliance on SACU. North America has been identified as a target market. Lesotho exported USD 101m worth of clothing to the US in 1998. Lesotho's network of trade preferences has played a crucial role in providing favourable access to markets such as these. Main export products besides clothing, textiles and footwear are in furniture, mohair, chemicals and wool.

The SACU countries remain the largest source of imports for Lesotho (89.5%), followed by Asia (7.4%), Europe (1.6%), and North America (1.1%). Lesotho imports maize, clothing, building materials, vehicles, machinery and medicines.

## **Trade Liberalisation**

Lesotho is a member of SACU and as such has a common external tariff against the rest of the world. As South Africa reduces its tariffs in line with its commitment to the WTO, trade barriers in Lesotho will be lowered as well.

Licences may be required for imports that are not destined for final consumption in Lesotho. There are controls on the export of animals but not on general manufactured products.

## **Foreign Direct Investment**

FDI into Lesotho has increased steadily throughout the 1990s, from USD 15m in 1993 to USD 43m in 1994 and to USD 206m in 1998. In 1998, FDI accounted for approximately 23% of GDP.

The South African transformation process has positively effected the inflow of FDI to Lesotho. South Africa remains the main source of FDI, accounting for nearly 38% of the total portfolio. Investment is predominantly in agro-business, construction and engineering, manufacturing and services. East Asia with 27% has the second largest FDI, concentrated in the clothing, textiles and footwear sub-sectors. A residual 35% comes from Europe e.g. Germany, Switzerland, United Kingdom Portugal, Italy, and is mainly in the garment manufacturing business.

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 began in 1986. The project has had a significant impact on the economy of Lesotho, accounting for more than

25% of GDP in its peak construction year in 1994. The Katse dam enables Lesotho to supply water to the Gauteng Province in South Africa, and it will also generate hydroelectric power for the country itself. Other infrastructural components of the LHWP include the building of roads, bridges, power lines and power supply systems. The USD1.5bn 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 the Gauteng Province in South Africa. Work has now begun on Phase 1B - the Mohale Tunnel Project. The World Bank recently approved at USD 45m loan for the second phase of the LHWP. The project is due for completion in 2020.

The tendering process for the reconstruction of buildings and property after the September disturbances in 1998, has begun. Rioters caused USD 15.7m damage to premises and a further USD 26.6m damage to stock. LNDC is also holding seminars in South Africa's major cities to address the concerns of investors after the crisis.

### **Lesotho Privatisation Programme**

The Lesotho Privatisation Programme is part of a new economic management strategy. Through this strategy, the government hopes to ensure sustainable economic growth, with the private sector and labour playing important roles. Government in turn will concentrate its fiscal and administrative resources on regulation and the promotion of an enabling and facilitative environment.

Through the privatisation programme the government aims to stimulate economic activity, accelerate foreign direct investment, and encourage the meaningful participation of indigenous business people in the mainstream economy. The related goals are job creation and the improvement in the quality of life for all citizens of Lesotho.

Under the current programme, which started in 1996, the government seeks to divest its interest in over fifty enterprises. These include companies in the financial services, utility, retail, transport, agro-industry, and tourism sectors.

The following privatisation transactions were completed during the past financial year:

- The assets of Lesotho Airways Corporation were sold to Rossair Group of South Africa in September 1998. The company was registered and started operation on the Maseru-Johannesburg route, as Air Lesotho. The company stopped operating in February 1999 after failing to meet its business targets.
- Seaboard Corporation of the United States bought a 51% share in the country's largest mill, Lesotho Flour Mills, in May 1998. The remaining shares will be sold to company employees and the public.
- The assets of the car rental division of the International Freight and Travel Services were sold to Avis (Southern Africa) in April 1998, The sale agreement allows for up to 20%

shareholding by local investors. American Express, the travel agency division of the company, has been placed under liquidation.

- Marakabei Lodge, situated on the Maloti Mountain highway, near the construction site of the second dam in the LHWP, has been leased to MCM Enterprises for three years.
- A private management contractor was engaged in June 1998 to manage the government Plant and Vehicle Pool Services, to auction off its assets and to privatise seven of the vehicle service garages throughout Lesotho.

The Privatisation Unit has, during the current financial year, given high priority to the creation of investment vehicles for public participation in the privatisation programme. The primary focus is on privatisation of the banking, telecommunications, water and electricity sectors. The government is also specifically committed to joint ventures between Basotho business people and outside investors, as well as the incorporation of local farmers in the sale of its agro-industries.

A New Zealand-based financial specialist was appointed in July 1997 to devise and implement a strategy to turn around the operations of ailing companies in preparation for privatisation, envisaged to be complete by December 1999. In September 1998, another consulting firm was engaged to carry out a market analysis of the telecommunications sector, review the draft law for future regulation of the sector, and to prepare a privatisation strategy.

## **INVESTMENT CLIMATE**

### **Investment Incentives**

- Free repatriation of profits for manufacturers without attracting further withholding tax on dividends.
- There are allowances for depreciation on plant and machinery.
- Foreign investors may own 100% of their investments.
- Declining water and electricity tariffs as a spin-off of the LHWP.
- A skills-training grant which covers up to 50% of wages during the initial training period for a newly established manufacturing company.
- Unimpeded access to foreign exchange.
- An exports 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 that 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, commercial and residential properties for lease.
- Factory shells at competitive rental rates.

### **Export Incentives**

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

- A Credit guarantee scheme: The exporters' bank applies for export finance on behalf of its client in order to obtain a credit guarantee from the LNDC.
- Pre-shipment credit scheme: This finances exporters' working capital needs on the basis of confirmed export orders.
- Post-shipment credit scheme: This is 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. This allows companies to offer favourable credit terms to their customers.
- Refinance arrangement: This is 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% 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 that 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:

- The European Union: 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.
- South African Customs Union (SACU): Access to the markets of Namibia, South Africa, Botswana and Swaziland is mostly duty-free, although some import restrictions do exist to protect infant industries.
- USA: The Generalised System of Preferences (GSP) scheme provides for duty-free and quota-free entry for certain products.
- Japan: The GSP scheme grants preferential entry at a variety of levels for listed agricultural products. Most industrial products from Lesotho are accorded either duty-free entry or entry at 50% of the normal Most Favoured Nation rate of duty.
- Commonwealth: New Zealand, Canada and Australia operate GSP schemes under which tariff reductions are granted to specified lists of agricultural and industrial products. Handicrafts from Lesotho may enter these markets duty-free.

## **Taxation**

- The corporate tax rate is 35%. Manufacturing companies are taxed at 15%.
- Foreign income is not subject to Lesotho tax.
- Dividends payable to non-resident shareholders are subject to a withholding tax of 25%.
- A branch of a non-resident company is taxed at 25% on repatriated income, as well as having for income tax on chargeable income.
- 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.

Individuals are taxed on a sliding scale, with the maximum rate (for income in excess of LSM 30,000, or USD 4,689) at 35%.

## **Institutions involved in Investment Promotion**

The Ministry of Industry, Trade and Marketing is responsible for policy formulation and the creation of an enabling investment environment. The investment promotion agency is the Lesotho Investment Promotion Centre. This is a division of the LNDC, a parastatal that is

90% government-owned, with the remaining 10% in the hands of the German Finance Company for Investments in Developing Countries.

The Investment Promotion Centre promotes the flow of foreign direct investment into Lesotho, and acts as a one-stop centre to assist investors during the pre- and post-investment period. LNDC also acts as a marketing agency for the privatisation programme. The Trade Promotion Unit, another government agency, promotes Lesotho's goods internationally. 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, the legislation sets out the investment incentives and the Lesotho constitution protect the rights of investors.

### **Protection of Investment**

The law protects intellectual property rights. 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.

Lesotho intends to begin production of consumer electronics in order to capture the newly emerging markets for these goods in the SADC region. Lesotho will do this by taking advantage of the fact that this sector is labour intensive, and Lesotho's labour force is highly productive and cost effective. Strategic partners are sought who have the necessary technical and management knowledge as well as financial strength. TV sets, video cassette recorders, electric stoves, refrigerators, microwave ovens, washing machines and dryers, and telecommunications equipment is what is likely to be produced.

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

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (m)	2	2	2	2	2	2
Nominal GDP at market prices	673	760	847	790	843	878
Real GDP growth rate (% p.a.)	4.0	8.2	9.1	12.7	3.6	-8.6
GDP per capita (USD)	362	380	411	374	493	396
Inflation rate, %	12.0	7.9	9.6	9.0	8.5	7.8
Merchandise exports as % of GDP	22.4	22.0	21.5	25.5	27.9	-
Merchandise imports as % of GDP	..	..	103.5	98.1	96.0	94.9
Financial account of balance of payments	..	..	349	342	361	254
Foreign direct investment as a % of GDP	2.2	5.6	2.7	3.3	2.0	-4.3
Overall balance on balance of payments	100	141	96	113	136	106
Average exchange rate: LSM to USD	3.25	3.54	3.63	4.30	4.61	5.54
Foreign exchange reserves expressed in terms of months of import cover	..	..	7	8	9	10
Budget deficit (-) or surplus (+) as % of GDP	-1.1	6.2	5.3	3.3	2.0	-4.3
Central bank discount rate (end of year), %	13.5	13.5	15.8	17.0	15.6	19.5
Prime lending rate (minimum), %	14.0	15.0	15.0	18.3	17.1	20.1
Domestic credit to government	-141	-236	-311	-298	-401	-364
Domestic credit to private sector	130	156	167	140	165	121

## **USEFUL ADDRESSES**

Lesotho Privatisation Unit  
Private Bag A249  
Maseru 100  
Lesotho  
Tel: +266-317902

Lesotho National Development Corporation (LNDC)  
Private Bag A96  
Maseru  
Lesotho  
Tel: +266-312012  
Fax: +266-310038  
E-mail: [Indc@pixie.co.za](mailto:Indc@pixie.co.za)

Ministry of Planning  
P.O. Box 630  
Maseru  
Lesotho  
Tel: +266-311100  
Fax: +266-310281

Ministry of Industry, Trade & Marketing  
P.O. Box 747  
Maseru  
Lesotho  
Tel: +266-312802  
Fax: +266-310326

# MALAWI

## GENERAL INFORMATION

<b>Where:</b>	Malawi is a landlocked country located in the north of southern Africa.
<b>Land surface:</b>	118,484km <sup>2</sup> with five inland water lakes accounting for 24,208km <sup>2</sup> .
<b>Capital city:</b>	Lilongwe
<b>Population:</b>	10 million in 1998. The growth rate is 1.9% per year.
<b>Official languages:</b>	English is the official language; Chichewa is the main local language.
<b>Human Development Index:</b>	Ranked 161 out of 174 countries, placing it in the same category as Lesotho, Mozambique, Tanzania and Zambia
<b>Challenges:</b>	There are many development challenges, exacerbated by a rapidly growing population, the high incidence of HIV/AIDS and poor social indicators.

## Political Overview

Malawi had been a one-party state for 28 years when the one-party system was abolished in a referendum in 1993, and the first democratic elections were held in 1994. President Bakili Muluzi currently leads the ruling party, the United Democratic Front, which won the 1994 elections with 46.4% of the vote. A new political party, the Congress for National Unity, was formed recently by Bishop Daniel Nkubwe. Malawi is to hold presidential and parliamentary elections on the 25<sup>th</sup> May 1999.

## Sectoral Description

Agriculture is the largest sector of the economy and comprises about 37% of GDP, no surprise considering that about 90% of the population live in the rural areas. Tobacco, the dominant crop, accounts for more than 70% of agricultural exports. This crop is declining in popularity though due to lower world prices. Malawi is therefore seeking ways of diversifying its agricultural output. Other cash crops include tea, sugar, coffee and cotton, while subsistence crops include maize, millet, sorghum and root crops. This sector has benefited from the deregulation of the economy, as well as from government efforts to increase efficiency and productivity. A strategy adopted to develop this sector has been to improve productivity of the smallholder sector while at the same time attracting medium to large scale export oriented foreign capital and expertise. Maize production for the 1998/99 season is expected to increase by over 30%, to a record 2,350,000 metric tonnes, compared to the previous harvest. These positive results are partly because of good rains but are also because free seed and fertilisers was distributed to smallholder farmers throughout the country.

Malawi also produces beef, pork, mutton, lamb, poultry and eggs and there is a reasonably large dairy sector. Fish constitutes about 70% of the total animal-based protein consumption and the industry employs, either directly or indirectly, nearly 250,000 people. About 70,000 tonnes of fish is harvested from Lake Malawi annually. After production fell dramatically in the 1990s, the Department of Fisheries initiated a number of projects to increase sustainable production and improve exports.

The mining sector remains relatively under-exploited. There are exploitable deposits of bauxite, asbestos, graphite and uranium, but as yet, none of these have been mined. Due to a lack of investment in basic infrastructure, operations are limited to the small-scale production of coal, limestone, rubies and sapphires, and employing about 2,000 people. There is one coal mine, Mchenga. Phosphate reserves have been exploited since 1994 and are used in the production of fertilisers.

In an effort to promote the mining sector, the government established the Mining Investment and Development Corporation, MIDCOR, in 1985. MIDCOR is at the forefront of promoting investment through the formulation of conducive investment and economic policies. MIDCOR is also actively involved in assisting prospective investors with issues of exploration, extraction of minerals and in formulating and fostering environmental safeguards. Considerable opportunity exists for potential investors in this field.

Manufacturing accounts for approximately 33% of GDP and is geared towards the domestic market. Industries include: agro-processing; tea, tobacco and cotton factories, sawmills, oil and grain mills, abattoirs and cold storage plants, soaps, detergent, cement, textiles and clothing factories; leather processing, fertiliser compounding, brewing, distilling, and metal working activities. The influx of cheap imports, high interest and inflation rates, the depreciation of the Malawian Kwacha and prohibitive transport costs have all had an adverse effect on the manufacturing sector.

The construction industry has performed steadily in recent years, with its intermediate industries producing sawn timber, window, doorframes and cement. The industry is heavily reliant on aid projects and donor financing.

The Department of Forestry is responsible for approximately 749,000 hectares of forest reserves and protected hill slopes. Demand for wood for fuel, particularly for tobacco curing, has put pressure on the country's forestry reserves, and a re-forestation programme is currently underway.

The tourism industry remains a major foreign exchange earner and is one of the key growth sectors identified by the Malawian government. Lake Malawi is one of the largest lakes in the world, and offers beautiful scenery, unspoilt beaches and wildlife, as well as fishing, diving, boating and water sports. There are also five national parks with an abundance of wildlife. Other tourist attractions include bird watching, viewing the largest orchid species in Africa, and shopping for handicrafts.

## **Infrastructure**

Malawi, as a landlocked country, is heavily reliant on its road, rail and air routes. As a result, most of Malawi's development budget is spent on its transport sector. Priority projects include the repair of the roadway between Lilongwe and Lake Malawi in order to facilitate access for tourists, and the reconstruction of the Tanzanian roadway to the port of Dar es Salaam. Transport costs are in fact among the highest in the region, and constitute a major bottleneck to growth, especially in the agriculture and manufacturing sectors. Privatisation in the transport sector is expected to lead to an improvement in the situation, however.

The National Roads Authority was established in an effort to ensure sound management and infrastructure development. This Authority will also ensure that revenue from road levies will be ploughed back into road rehabilitation and maintenance. In mid-1997, Malaysia undertook to construct a number of highways linking the countries' three main commercial centres. This agreement is part of a three-year plan to lease out the administration of roads to private companies.

Rail freight has been improved with the development of the Northern Corridor, the improvement of the Nacala line through Mozambique to the Indian Ocean, and the opening up of the revamped Tete Corridor. The privatisation of railway operations between Mozambique and Malawi (around the Nacala Corridor) has had a positive influence on the railway links between the two countries. Plans to create a development corridor around the Nacala corridor would also have a beneficial impact on the economy because it could provide the cheapest and shortest route to the sea. The recent developments in trade, with more than 50% of the country's imports originating from Zimbabwe and South Africa, has meant increased use of these overland modes of transport.

There are three ports on Lake Malawi. The Lake is used extensively for transporting passengers and cargo, as well as serving as a link to export routes from the North.

Air Malawi has a relatively modern fleet, and services domestic, regional and international destinations. Restructuring, joint ventures with neighbouring airlines to open up new flight routes, and an expansion of the fleet have all helped improve the service delivery of the local airline. The International Airport in Lilongwe is regarded as one of the most efficient airports in the world, and is capable of handling large jets. The prospect of privatising parts or the entire airline is being discussed. The airports at Lilongwe and Blantyre have cargo capacity as well as bonded and refrigerated warehouse facilities. There are 45 airports in the country, 6 of them with paved runways.

The telecommunications network is currently being upgraded. Facsimiles, electronic mail and data, can now be transmitted to most places in the world. Since 1995, the country has invested in cellular telephones based on the GSM standard. The telephone density remains low however, and the waiting time for a telephone can be lengthy. The offices of international courier services are also found in the country. In addition, Malawi has an Internet service provider and there are an estimated 500 Internet users in the country.

Since independence, Malawi has developed a number of hydroelectric schemes, which have enhanced the electricity-generating capacity to 222.57 MW. The rural electrification programme has not progressed as well as might be expected and only about 3% of rural households have electricity. The Ministry of Water Development is responsible for overall national water resources management. About 54% of Malawi's population have access to clean potable water, and 53% to sanitation.

# **ECONOMIC OVERVIEW**

## **Introduction**

Malawi has been engaged in extensive liberalisation and reform programs, embracing market-oriented economic policies with an export-oriented approach. The promotion of agro-industries, agricultural reforms, and the bolstering of the tourism sector, are the main focus areas.

The country has a long track record of the implementation of stabilisation measures and structural reforms aimed at restoring prudent fiscal management and promoting sound macroeconomic policies. This effort was boosted by the IMF's decision to release funds in the latter half of 1998 under the Enhanced Structural Adjustment Facility (ESAF).

## **Recent Macroeconomic Developments**

In 1998, the performance of the Malawian economy was less than satisfactory. Most sectors recorded low output levels, consumer prices spiralled upwards, and monetary growth was increasingly excessive. External reserves exceeded expectations however and some positive development was recorded.

Growth in real GDP slowed down from 5.2% in 1997, to 3.1% in 1998. This was largely due to poor performance in the transport, distribution, and large-scale agriculture sectors. In large-scale agriculture, tobacco production was lower than expected and this impacted negatively on overall output. The devaluation of the Kwacha in August, and the resultant high interest rates, also contributed towards the slowdown in economic activity in the last quarter.

Consumer price inflation, which stabilised during the first half of 1998, accelerated in the second half following the devaluation of the Kwacha. This situation was made worse when food and fuel prices increased towards the end of the year. As a result, the 12-month inflation rate soared from 18.2% in January, to 53.0% in December 1998. The annual inflation rate therefore averaged 29.8% compared to 9.2% in 1997. Inflationary pressures intensified further in January 1999 and accelerated to 55.5%, brought on by further food price increases.

The overall balance of payments position recorded a surplus of USD187.9m during 1998, as opposed to a deficit of USD10.8m in 1997. This was due to the balance of payments support received in capital inflows during 1998, particularly in the last quarter of the year. In addition, following the devaluation of the Malawian Kwacha, demand for foreign exchange tapered off towards the end of the 1998. Consequently, gross official reserves rose from MWK3,378.5m (USD159.6m) in 1997 to MWK11,399.3m (USD259.8m) or about 4.4 months of imports.

The Kwacha had to be devalued for two major reasons. Firstly, there was a rising demand for foreign exchange. Secondly, there were delays in the receipt of pledged donor support and shortfalls in export earnings because of low tobacco production volumes and prices. These two dynamics affected the country's foreign reserves needed to support the Kwacha. In addition, the depreciation of the currencies of the country's major regional trading partners, particularly the South African Rand and the Zimbabwe Dollar, also necessitated the realignment of the value of the Malawian

Kwacha. The Kwacha was devalued by some 25%, from MWK26.80 to MWK34.00, against the US dollar. By end-December 1998, the Kwacha had fallen to MWK43.88/USD. It has now stabilised at around MWK43/USD, and some nominal appreciation is expected in the next few months.

In order to restore confidence in the Kwacha, several revisions were made on the Bank rate. These are as follows: 23.0% in January 1998, to 30.0% in April, to 32.5% in September, to 40.0% in October, and to 43.0% in December. Currently, the Bank rate stands at 47.0%.

Commercial prime lending rates increased from an average of 22.0% in January 1998, to 29.0% in February, and 31.0% in March. The rates went up in September and October - to 35.0% and 43.0% respectively. The prime-lending rate currently stands at 48.0%. This upward adjustment was effected in January 1999.

Despite these negative economic trends, money supply grew sharply by 55.5% in December 1998, as against the slow growth rate of 2.2% in 1997. This expansion in money stock was due to large capital inflows and was coupled with an increase in domestic credit, particularly to the private sector.

There was a tremendous improvement in budgetary performance during 1998 as far as fiscal discipline was concerned. This about-turn is due to the following factors: a remarkable increase in revenue because of revenue-enhancement measures being put in place; an increase in capital inflows; and, the introduction of a cash budget system where expenditure is allocated according to the previous months' revenue collections.

During 1999, the economy is expected to improve, particularly in the real and external sectors. Real GDP is projected to increase by 6.0% and this sector is expected to gain from increased agricultural production, particularly maize production. Although tobacco exports are expected to decrease, exports of other produce should increase. Consequently, pressure on both money supply and domestic prices is expected to abate sometime during the year. Monetary policy will continue to be tight in light of current inflationary pressures.

### **Financial Institutions**

The Malawian government has recently embarked on a programme to liberalise and modernise the financial system. This it plans to do by introducing market-related interest rates, indirect control over credit and unrestricted access to financing facilities for both local and foreign investors.

The Reserve Bank of Malawi (the central bank), in existence since independence, is responsible for implementing monetary policy, safeguarding the value of the national currency, registering new entrants into the financial sector, and modifying and improving the regulatory framework. The Central Bank and the Treasury consult on a regular basis with respect to the formulation of monetary policy. The Reserve Bank of Malawi Act and the Banking Act were revised in 1989. Furthermore, the Capital Markets Act was passed in 1990 to broaden the capital markets and improve mobilisation of domestic financial resources.

There are five commercial banks, with the National Bank of Malawi and the Commercial Bank of Malawi operating countrywide and being the dominant players in the market. These banks offer a conventional range of services including cheque accounts, registration of foreign capital with the Reserve Bank, short and medium-term credit facilities, trade financing, export credit guarantees, foreign remittances and repatriation of capital. Commercial banks also offer working capital to investors. Furthermore there are four finance houses and merchant banks, two savings institutions, four development finance institutions, one building society and several insurance institutions. The National Bank of Malawi recently opened a representative office in South Africa. Other institutions included finance houses, insurance companies, a building society, a savings bank and a discount house.

Instruments used in the financial market in Malawi are money market instruments such as treasury bills, bills of exchange, promissory notes, and Reserve Bank Bills, with shares and Government of Malawi Local Registered Stocks being traded on the capital market.

The finance sector has other institutions co-owned by locals and foreign capital, which were created with the aim of providing medium to long-term financing. The Investment and Development Bank of Malawi (Indebank) is a development finance institution which provides loan and equity financing for projects. The state-owned Malawi Development Corporation (MDC) invests in projects with local or foreign partners.

### **Malawi Stock Exchange**

The Stock Exchange was established in 1994. Stockbrokers Malawi Limited, the only stockbroking company in Malawi, deals in listed company shares and acts as a broker in government and other securities. Due to its moderate size, the Stock Exchange does not yet operate a central depository system and the settlement time is T+7.

<b>Malawi Stock Exchange</b>			
<b>Year</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of companies listed	1	3	6
Market capitalisation (USDm)	14.9	109.9	147.7
Volume of shares traded	258,600	3,025,958	98,105,568
Value of shares traded (USD)	37,390	530,440	13,616,023
Number of trading days	40	260	240
Malawi all share index	112.5	137.6	220.7

<b>Malawi Stock Exchange</b>			
<b>Year</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Average dividend yield (annual average), %	4.0	8.8	4.8
Average price-earnings ratio of all listed companies, %	11.8	6.4	16.8

Source: Malawi Stock Exchange, 1999

The National Insurance Company was the first company listed on the Malawi Stock Exchange. This happened in November 1996. In March 1997, a second company, Blantyre Hotels Limited, was listed. Sucoma Sugar Company, whose majority ownership is by Illovo of South Africa, followed in November 1997. The last listing boosted the market capitalisation from USD 12.5m to USD 110m. In April 1998 Sucoma Sugar Company successfully placed 51.9m shares on UK and South African markets, through Stockbrokers Malawi. This deal amounted to USD 7.3m.

During 1998, three companies listed on the MSE, one being Press Corporation Ltd, Malawi's largest conglomerate. The corporation has business interests in the manufacturing and investment sectors, with activities ranging from tea and tobacco production through to clothes production. Press Trust, a new structure, will retain 49% control of the corporation, 3% will be held by international investors, 5% by Malawian shareholders, Old Mutual of SA will have a 15% stake, and global depository receipts will constitute the remaining 28%. This company is also listed on the London Stock Exchange.

The Commercial Bank of Malawi, the second largest bank in Malawi, also listed on the MSE in 1998, as did Packaging Industries Malawi Ltd, a packaging materials manufacturer and printing company. All these developments have increased market capitalisation from USD109.9m to USD147.7m in 1998, with the sharemarket index rising to 220.68 from 137.57 in 1997. The market capitalisation increased considerably more in Kwacha terms.

At least two new listings are expected during 1999 as the privatisation process picks up steam.

### **Exchange Controls**

Malawi abolished all exchange controls on current transactions in 1994. Restrictions on capital account transactions are gradually being removed and controls on foreign portfolio investments on the stock exchange were recently liberalised. Outward cross-border investment is permitted on a case-by-case basis, especially with regard to the SADC countries.

Investors may repatriate profits, dividends, investment capital and interest, and make principal payments for international loans provided that such foreign investments are registered with the Reserve Bank of Malawi. Investors also have free access to foreign exchange in Malawi, both for import payments and transferring financial payments abroad. However, capital account controls still exist. Both inward and outward direct and portfolio investments require prior approval.

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 who are regular earners of foreign exchange are permitted to hold foreign currency accounts. Exporters (with the exception of tobacco exporters) may retain 40% of their foreign exchange export earnings. The other 60% must be sold to an authorised bank dealer on receipt. The conversion requirements do not apply to embassies, international and non-governmental organisations.

## **Foreign Trade**

Production levels and world market prices for tobacco, tea and sugar influence Malawi's foreign trade. Tobacco, tea and sugar account for about 85% of domestic exports, with tobacco being by far the largest export commodity. Imports are mainly in capital goods and industrial equipment. Malawi's food imports rise significantly only during years of drought.

In recent years, Malawi's foreign trade has diversified with South Africa and Zimbabwe emerging as the major trading partners. Malawi exports mainly to industrialised countries (55% of total exports), the main trading partners being the US, South Africa, Germany and the Netherlands. Other major SADC export destinations are Mozambique and Zimbabwe. Imports are accessed primarily from the developing world (74.4%), with South Africa and Zimbabwe representing the main sources (more than 50% of total imports). The UK and Asian countries are other major sources of imports.

## **Trade Liberalisation and Trade Agreements**

Malawi's tariff reform programme is designed to bring it in line with other southern African countries. Almost all non-tariff barriers have been removed, and import licenses have been abolished, except on a small range of goods where there might be health, safety, national security and environmental implications. The maximum tariff is 45%. Export licenses have also been abolished, except on war implements, atomic energy material, petroleum products, wild animals, maize, manufactured tobacco, and tea. Malawi has abolished all remaining export taxes.

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 EU markets.
- Eastern and Southern Africa: Malawi has bilateral agreements with South Africa and Zimbabwe. Malawi is also a member of COMESA, and takes part in the Cross-Border Initiative.
- Asia: Malawi has bilateral agreements with Malaysia and Taiwan.
- Malawi is a member of the WTO and the GSP.

## **Foreign Direct Investment**

FDI into Malawi was modest during 1991-95, averaging USD5m per year. Recent statistics are difficult to obtain and there is some discrepancy between official sources and those that appeared in UNCTAD's World Investment Report. The Malawi Investment Promotion Agency (MIPA)

assisted foreign investments during 1996 through to the first quarter of 1999, with an average value of USD 8m per year. South African firms that have invested in Malawi recently include the clothing firm, Pep Stores, Nampak, Bonita, and Meadow Feeds.

Upper Ten Tabak, a Dutch company, recently entered into a joint venture with the Malawi Development Corporation to build and operate a cigarette manufacturing company in Blantyre. The factory will produce cigars and pipe tobacco for export, as well as five brands of cigarettes for the local market. Malaysian company G-Two Holdings Berhad is building a satellite township outside Blantyre as well as an international hotel in the town itself.

## **Privatisation**

Malawi's privatisation policy aims at reducing state ownership in enterprises in order to:

“foster increased efficiency in the economy; increase competition and reduce monopoly in the economy; promote participation by the Malawian public in enterprises; raise revenue for government; and to make enterprises commercially viable”

A Privatisation Commission was established through the Public Enterprises (Privatisation) Act. This Commission was given the sole responsibility to implement the privatisation programme. It is estimated that about 200 enterprises, either directly or indirectly government owned, fall within the scope of the programme. The government holds a substantial interest in the economy through the holdings of ADMARC and MDC, and it is estimated that by 2003, all the assets of these institutions will be in private hands. ADMARC is currently being prepared for privatisation.

A privatisation fund, aimed at assisting local investors to acquire shares in privatised firms, was recently set up. The fund can finance up to 85% equity participation, up to a limit of USD2.9m. The EIB is providing USD17m loan to this fund.

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

Some of the former state-owned companies that have been privatised include Portland Cement, the National Insurance Company, Auction Holdings, and the sugar companies Dwangwa and Sucoma. In most cases, government held a minor stake in these companies, through parastatals such as Malawi Development Corporation and ADMARC. A further 15 enterprises have been earmarked for privatisation by the end of 1999, and the programme will be completed by 2000.

The Press Trust Corporation, a conglomerate with a turnover equivalent to about 12% of Malawi's GDP, was partially privatised in 1998 through a 23% floatation on the London Stock Exchange. The company was also listed on the MSE.

South African Breweries recently brought Chibuku Products, which produces maize beer. A Mozambican consortium, headed by a state-owned ports and rail company, CFM, recently won the tender for privatisation of Malawi Railways. The partner in the USD20m deal is the Nacala Corridor

Development Company, which is made up of private American, French and Mozambican investors. Malawi Lake Services will also be privatised soon.

Privatisation has brought USD840m into the state coffers over the past four years.

# INVESTMENT CLIMATE

## Investment Incentives

Joint ventures between Malawian and foreign businesses are encouraged. There are also no restrictions placed on foreign ownership, on the size of the investment or the source of funds. Malawi offers general incentives as well as specialised incentives for exporters.

General incentives include:

- A 40% allowance on new buildings and machinery.
- An additional 15% allowance on investments in designated areas of the country.
- An allowance of up to 20% for used buildings and machinery.
- A 50% allowance for approved training costs.
- Manufacturing companies can 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 the tax allowances.
- Duty-free importation of heavy commercial vehicles with a payload of at least 10 tonnes.
- Agreement for the reduction of withholding taxes on remittances and payments.
- A five-year tax holiday or a 15% corporate tax on new investments of between USD5m and USD10m.
- Up to 10 years tax holiday for new investments in excess of USD10m.
- No withholding tax on dividends

Special incentives include:

- 20% corporate tax (instead of 35%) for a 10-year period, for an enterprise granted pioneer status. Pioneer status is given to industrial projects that can generate extensive linkages, have significant impact on employment, and have the potential to earn foreign exchange.

There are a number of different incentives depending on where exporters operate. In 1996, Parliament passed the 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 operating in Export Processing Zones (EPZ) include:

- No corporate tax.
- Zero duty or capital requirement on capital equipment and raw materials.
- No excise taxes on purchases of raw materials.
- No withholding tax on dividends.
- No VAT.
- A transport tax allowance equal to 25% of international transport costs.

The Government has issued about 15 EPZ licences to companies in the country. These companies have created approximately 5,000 local jobs. The majority of the licences are for companies working in the clothing, flower and furniture industries.

Exporters not working in EPZs receive the same incentives, with the exception of the reduced corporate tax on dividends and the exemption from withholding tax on dividends. Exporters of non-traditional products (i.e. not sugar, tea, tobacco or coffee) are granted export tax allowances to the value of 12% of export revenues.

The registration process for a new company is relatively simple, and takes about 15 days. Foreign investment capital must be registered with the Reserve Bank of Malawi. Except in a few instances, manufacturing operations do not require licences.

Incentives can also be found in the agricultural sector, for forest plantation projects.

## **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% and there is a withholding tax of 20%.

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

## **Institutions involved in Investment Promotion**

The Malawi Investment Promotion Agency (MIPA) was established in 1991 to promote foreign investment into Malawi. The Board of Directors includes representatives from the private sector, parastatals, and the government. MIPA is responsible for facilitating the investment process, providing investment-related information, making suggestions to government on 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 its activities. In mid-1997 MIPA, in a pilot project with MIGA, installed an investment-tracking system. The Agency is currently developing a web site.

The MDC also plays a role in promoting investment (both domestic and foreign), as the government agency responsible for promoting industrial development. For example, one of its tasks is to establish industrial estates for investors.

## **Investment Code**

The Investment Promotion Act of 1991 demonstrated Malawi's commitment to attracting foreign investment. The Act eliminated the need for general investment licenses, and created MIPA. Other Acts that influence investment include the Companies Act (1984), Banking Act (1989); and the Capital Market Development Act (1990).

## **Protection of Investment**

Investment is protected by the Malawi Constitution and other laws and regulations. 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:** There are viable reserves of bauxite, limestone, gold, graphite, vermiculite, coal, gemstones, hydrocarbons, uranium, phosphate rock, and ceramic clays. Many of these minerals can play a complementary role to the agricultural sector, e.g. phosphate fertilisers can be produced from phosphate rock. Semi-precious stones are also found in large quantities in Malawi.

**Livestock and Agriculture:** Non-traditional crops, such as rice, legumes, sunflower seeds, groundnuts, macadamia nuts, spices, and plants (especially orchids) provide important investment opportunities. In addition, the processing of spices, rubber, jute/sisal and coconuts, as well as the production of fertilisers and pesticides are all possibilities. There are also opportunities in the traditional cash crops of tobacco, cotton, tea, coffee, and sugar.

In terms of animal husbandry, opportunities exist in the areas of ranching, poultry (including ostrich), production of dairy products, bee-keeping, hides/skins, leather processing, processing of meat, crocodile farming, fish farming, and eel farming.

**Industry:** The following opportunities exist in these industries:

Timber: Saw milling, charcoal, wooden products, crates and cartons, furniture.

Minerals: Cement, bricks and tiles, ceramics, ornaments, glass sheets and containers, fertilisers.

Beverages and tobacco: Distillery products, soft drinks, mineral water, tea, coffee, cigars.

Textiles, leather, and footwear: Cotton/mixed yarn, weaving, garments, leather garments, footwear, leather garments

Assembling: Office equipment, computers, electrical goods, and household durables.

Other: Handicrafts, basketry, rubber-based products, medicines, condoms, cosmetics, perfumes, medical goods, paints and varnishes, printing and publishing, jewellery.

**Tourism:** Opportunities exist for the building of hotels and game lodges along the shores of Lake Malawi. The tourist infrastructure of the surrounding national parks and game reserves is also in need of upgrading. Possibilities exist for restaurant facilities to be built in Blantyre and Lilongwe, and for the setting up of seaplane services from Lilongwe to Blantyre to the lake-side resorts.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	9.1	9.3	9.5	9.7	9.8	10.0
GDP at current prices	2,070	1,165	1,479	2,277	2,538	1,659
Growth in GDP at constant prices, %	10.8	-11.8	13.9	11.7	5.2	3.1
GDP per capita (USD)	232	128	160	241	264	169
Inflation rate, %	22.8	34.6	83.3	37.6	9.2	29.8
Merchandise exports as % of GDP	15.3	27.5	27.3	21.2	22.3	28.4
Merchandise imports as % of GDP	16.4	21.2	28.2	16.0	14.0	24.8
Overall balance on balance of payments	18.0	-35.0	-32.0	-115.8	-11.0	187.9
Average exchange rate: MWK to USD	4.41	8.85	15.30	15.33	16.40	31.07
Foreign exchange reserves expressed in terms of months of import cover	1.6	3.5	3.7	5.7	4.3	4.4
Total external debt as % of GDP	88.0	149.5	146.3	97.6	95.9	140.5
Total external debt service as % of exports	22.9	18.5	24.8	23.6	14.2	14.6
Budget deficit (-) / surplus (+) as % of GDP (fiscal year April to March)	-5.8	-6.5	-5.4	-4.0	-4.5	0.7
Central bank discount rate (end of year), %	25.0	40.0	50.0	27.0	23.0	43.0
Nominal prime lending rate (average of month-end data), %	29.5	31.0	47.0	27.5	22.0	43.0
Domestic credit to government	210.7	88.0	70.0	72.0	58.4	-7.5
Domestic credit to private sector	171.3	77.0	82.0	92.0	75.7	72.6

Source: Reserve Bank of Malawi, 1999

## **USEFUL ADDRESSES**

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Tel: +265-780 800  
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Malawi Export Promotion Council  
PO Box 1299  
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Tel: +265-620499  
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Malawi Chamber of Commerce and Industry  
PO Box 258  
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# MAURITIUS

## GENERAL INFORMATION

### Geography and population

<b>Where:</b>	The Republic of Mauritius is situated in the Indian Ocean, 2,400 km off the south east coast of Africa.
<b>Capital city:</b>	Port Louis
<b>Population:</b>	The main island has a population of about 1.2 million people (1998). 37,000 people live on Rodrigues Island. 41% of the island's population are urbanised.
<b>Age Distribution</b>	58% of the population is less than 30 years old; 34% are between 30 – 60 years old; and 7% are over 60 years old.
<b>Official languages:</b>	English, although French and Creole are also widely spoken.
<b>Human Development Index:</b>	Rated 61 by the UNDP

### Political Overview

Mauritius became a Republic in 1992 and is a member of the Commonwealth. The country is a parliamentary democracy based on the Westminster model. Elections are held every five years, with the next election scheduled to take place in December 2000.

In 1995, a coalition of the Labour Party/MMM (Militant Movement of Mauritius) won all 60 seats in the general elections. The coalition split in 1997 and the MMM became the official opposition, with Paul Bérenger as its leader. An alliance between the MSM, led by former Prime Minister Anerood Jugnauth, and the MMM was recently formed, and the two parties will jointly contest the next elections. The alliance is expected to constitute a formidable opposition to (current Prime Minister) Navin Ramgoolam's Labour Party.

### Sectoral Overview

Sugar is still an important export crop although it is no longer the mainstay of the economy. Over 90% of cultivated land in Mauritius is used to grow sugarcane. Some diversification of the sugar industry has taken place, with the sugar by-product bagasse being used for power-generation purposes. Currently about 85 million KWh of electricity is produced from bagasse, and the Chamber of Agriculture estimates that by 2000 the sugar industry will be supplying 40% of Mauritius' electricity.

There have been other attempts to diversify crops by introducing cabbages, carrots, ginger, strawberries, and papaya. 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.

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 printed books and magazines.

Companies in the Export Processing Zone (EPZ) dominate manufacturing in Mauritius. Since the 1970s, textiles have been the mainstay of industry. However, with other developing countries beginning to compete for textile contracts, efforts are underway to modernise and diversify production. The focus of the Mauritius textile industry is moving increasingly towards high quality fashion garments, while there has been a tendency for Mauritian companies involved in mass production to relocate to countries with lower labour costs (such as Mozambique and Madagascar).

The government is increasingly focusing on SMEs as a way to deal with the recent rise in unemployment levels. Total manufacturing output grew by 6.2% in 1998, with non-EPZ manufacturing (including SMEs) achieving a growth rate of nearly 6%. This indicates that the strategy of industrial diversification is beginning to take effect.

Most tourists come from Europe (over 50%), while the island remains a popular destination for tourists from the Reunion Islands and South Africa. There have been initiatives to promote agrotourism as an alternative to the traditional beach holidays on offer. Tourist arrivals peaked at 558,195 in 1998, compared with 536,000 in 1997.

The financial services industry is the fourth pillar of the Mauritian economy. Mauritius is marketing itself as a link between Asian and African financial markets, being strategically located in the Indian Ocean, and as a low-tax investment environment for foreign capital. Investment funds have been invested mainly in India, resulting in Mauritius being one of the largest foreign investors in that country.

An Informatics Park was set up by the Mauritius Export Development and Investment Authority (MEDIA) in 1995 to cater specifically for information technology activities for both foreign and local operators. Intelsat Business Services circuits are available to users in the Park. Activities such as software development, document processing, electronic desktop publishing, telemarketing and directory assistance services take place here.

## **Infrastructure**

Nearly everyone has access to clean water and sanitation in Mauritius. Mauritius is served with electricity that is essentially thermally generated. The remaining power is either supplied by hydroelectric stations or produced from bagasse so as to reduce dependence on imported oil.

The road network 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 is a deep-water harbour with container terminals for the handling of bulk sugar, oil, wheat and cement supplies. 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 digitised with computer controlled electronic exchanges. Services include ISDN (Integrated Services Digital Network) and 64Kbps dedicated lines. The system also 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.

Legislation relating to major infrastructural development was recently passed. This legislation allows for developments such as Build, Operate, and Transfer (BOT) schemes. The government will award contracts after a competitive bidding process, which is expected to attract international as well as domestic competitors. Initially, this programme will focus mainly on the transport and energy sectors.

# **ECONOMIC OVERVIEW**

## **Introduction**

In the space of twenty years, Mauritius has developed from a mono-crop economy dependent largely on sugar, to a country with a diversified and dynamic business environment. Living standards and GDP/capita have improved greatly and there has been a significant decline in unemployment. This was partly due to the success of the EPZ, which have grown by over 30% each year since 1983. The EPZ attracted foreign investment, provided opportunities for local entrepreneurs, and created jobs for the unemployed.

Government has played a facilitating role in the Mauritius' success story but the rapid growth experienced by the country has been largely due to private sector initiatives. The private and public sectors enjoy a good working relationship in Mauritius.

## **Recent Macroeconomic Developments**

The Mauritian economy performed well in 1998 despite an external environment characterised by weak world demand, and turbulence in foreign exchange and financial markets. Real GDP growth increased to 5.6% in 1998, up from 5.3% in the preceding year. All sectors of the economy experienced the same high growth rates, with restaurants and hotels being the highest at 8.2%. Financial institutions recorded a growth rate of 8% and the insurance and other business services sector grew at 7.9%.

Aggregate consumption expenditure increased nominally by 11.7% in 1998 and, after a price increase adjustment, the growth rate was recorded at 4.4%, similar to 1997 levels. As a percentage of GDP at market prices, final consumption expenditure incurred by households remained more or less stable at around 76% in 1998.

Gross domestic fixed capital formation (GDFCF), after recording a nominal growth of 6.4% in 1997 (largely on account of the acquisition of aircraft and marine vessels), shrunk by 4.6% in 1998. If these once-off purchases are excluded however, GDFCF grew in volume terms by 4.6% in 1998 as against a contraction of 1.5% in 1997. The investment rate, as measured by the ratio of GDFCF to GDP at market prices, declined from 27.3% in 1997 to 23.3% in 1998.

The average inflation rate for the 12-month period leading up to December 1998 stood at 6.8%, up from 5.4% for the fiscal year 1997-98. The unemployment rate, which stood at 5.9% in 1997, fell to 5.8% in 1998, due to the creation of additional jobs in the manufacturing sector.

The basic thrust of monetary policy for 1998-99 has been towards achieving price stability and a stable exchange rate. In July 1998, the reserve ratio of commercial banks was reduced from

6.0 to 5.5% of total deposits including foreign currency deposits. Previously, foreign currency deposits used to be excluded from the deposit base for calculating the reserve ratio. The reserves to be maintained by banks in this context consist of non-interest cash balances with the Bank of Mauritius and notes and coin in banks' vaults.

Since July 1998, the Bank of Mauritius has been auctioning Treasury Bills. The Bills are now sold to the public and non-financial corporations. This measure has contributed to liquidity management thereby lessening the excessive demand for foreign exchange. It has also impacted on the commercial banks' lending and deposit rates, acting against unjustified credit expansion, and hence, against undue foreign exchange outflows. Money supply (M2), went up by 11% in 1998, and domestic credit expanded by 19.9%. While net credit to Government declined by, credit to the private sector expanded by 28.7%.

The current account of the balance of payments registered a deficit of USD54.6m in 1997/98. In relation to GDP, the deficit on the current account represented 1.3% in 1997/98 as against a surplus equivalent to 0.5% in 1996/97. However, if the importation of aircraft is excluded, the current account of the balance of payments recorded a surplus of USD66.4m in 1997/98, equivalent to 1.6% of GDP. Exports (f.o.b.) rose by 6.5% to USD1.6bn while imports (f.o.b.) went up by 13.6% to USD2.0bn. The capital and financial account recorded a net inflow of USD87.6m.

Within a fully liberalised foreign exchange market environment, the net international reserves of the country decreased marginally from USD1bn at the end of December 1997 to USD829.5m at the end of December 1998. This represented 5.1 months of imports, exclusive of the purchase of aircraft, at the end of December 1998 as compared with 6.1 months at the end of December 1997. During the period under review, the Mauritian Rupee depreciated against most trading partner currencies, including the British Pound, Deutsche Mark, French Franc, US Dollar, Indian Rupee, and Japanese Yen. In contrast, it appreciated against the New Zealand Dollar, Australian Dollar and South African Rand.

The overall budget deficit for 1998-99 is estimated at USD75.8m, equivalent to 1.8% of GDP as compared to 3.7% in 1997-98. Total public debt reached USD2bn at the end of June 1998, with external and internal debt amounting to USD473.6m and USD1.5bn, respectively. As a percentage of GDP, total public debt increased marginally to 47.0% at the end of June 1998, and the debt service ratio of the country increased from 6.7% in 1996-97 to 6.9% in 1997-98.

### **Financial Institutions**

Mauritius is committed to providing the private sector with a wide range of financial services. The financial sector has been undergoing piecemeal liberalisation since 1987. The government regards this sector as key to Mauritius' development and therefore the modernisation of financial services is considered a priority.

Apart from the central bank, the Bank of Mauritius, there is a well-developed network of commercial banks, which offer a wide range of services for domestic and foreign transactions. Credit cards, ATMs and phone banking facilities are available. Prudential regulation of the banking industry has recently been tightened, and anti-money laundering legislation will also be introduced in the near future. The scope of business for offshore banks (there are currently seven in operation) has been growing, and is expected to increase with the opening up of regional markets.

The Development Bank of Mauritius has 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 concessional loans to small enterprises. The Mauritius Venture Capital Fund provides equity or quasi-equity finance to business, relieving companies of the burden of having to borrow money. 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 (SEM) came into operation in 1989. Two markets are in operation, namely 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.

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. The SEM is currently developing a manual continuous trading system, an interim measure while plans for an electronic trading system are being developed. The exchange is also holding discussions with the central bank on the development of a secondary market for government bonds through the exchange.

Compared to other emerging markets, the Mauritian stock market fared relatively well in 1998, with the all-share index (SEMDEX) increasing by 7% in dollar terms. Foreign transactions increased from 25% to 32% of total transactions. The stock market reached an all-time high of 501.58 points in August 1998, but the turmoil in emerging markets caused the index to slip heavily in the third quarter, although the market recovered in the last few months of the year.

The government offers several incentives for companies to list on the stock exchange. These are:

- A 30% tax credit on tax bills of companies listed on the stock exchange.
- Foreign investment is authorised through the setting up of country funds.
- The income tax payable by unit trusts and other approved investment trust companies that are listed, is 15%.
- Exemption from income tax on dividends for listed companies.
- The interest that is received on bonds approved for issue and traded on the market, is exempt from income tax.
- A tax credit of up to MUR 8,000 (USD 319.4) for investment in Unit Trusts and on purchases of newly issued securities of approved investment trust companies listed on the Stock Exchange.
- Authorisation to Mauritian non-residents to acquire securities traded on the Stock Exchange up to a ceiling of MUR 500,000 (USD 19,960).
- Exemption of up to MUR 250,000 (USD 9,980) from income tax on capital gains arising from regular trading of securities on the Stock Exchange.

Foreigners, who have been able to invest on the stock exchange since 1994, are treated in the same way as local investors in terms of the tax law. Foreign companies are also able to list on the exchange, subject to certain conditions.

The top five companies in terms of market capitalisation as at January 1999 were State Bank of Mauritius (USD270.8m), Mauritius Commercial Bank (USD245.4m), New Mauritius Hotels (USD208.6m), Sun Resorts (USD176.3m), and Rogers & Co (USD168.1m).

<b>Stock Exchange of Mauritius</b>						
<b>YEAR</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of companies listed*	30	35	41	45	46	47
Market capitalisation (USDm)	791.6	1,597.5	1,600.0	1,857.2	1,549.8	1,849.9
Number of companies making issues (including bonus issues)	9	11	6	2	0	3
Value of new issues (USDm)	1.4	11.4	4.1	1.5	-	-
Volume of shares traded	37.3	50.6	59.4	91.9	164.1	98.9
Value of shares traded (USDm)	39.2	84.5	92.1	89.2	125.8	104.3

\* Including debentures

Number of trading days	97	147	149	148	160	248
All-share index (SEMDEX)	302.6	473.7	344.4	353.5	391.1	465.6
Annual average dividend yield, %	4.2	3.3	5.1	4.0	4.3	3.6
Average price-to-earnings ratio of all listed companies, %	12.0	16.5	11.1	14.5	14.1	13.4

Source: The Stock Exchange of Mauritius (1999)

## Foreign Trade

Mauritius imports largely from South Africa, India, the European Union and China. Import permits are required for certain goods. Principal exports are clothing, textiles and sugar. France, the USA, the United Kingdom and Germany are the largest export markets for Mauritian goods.

## Trade Liberalisation

Trade has been extensively liberalised and quantitative restrictions on imports removed. About 60% of imported goods attract an import duty of between zero and 20%. Higher rates of 55% and 80% are levied on selected goods. All goods facing a rate of 55% or over, attract an additional duty of 20% when imported from a non-scheduled territory.

Exports of most products are allowed, except those that are of strategic importance and those whose market access is restricted by a quota system. These goods include sugar, tea, vegetables, fish, textiles, pharmaceuticals, gold, live animals, corals and shells.

The Customs and Excise department deals with import and export procedures expeditiously. A major project to computerise these procedures using Electronic Data Interchange, is underway.

Mauritius is a signatory to UNCTAD, the WTO, the Lomé Convention and the SADC Trade Protocol. Through the GSP schemes, goods from the island are given preferential access into countries like the US, Japan and Australia. 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% enjoy a rebate of up to 70% on customs duty upon entry into some COMESA countries. Imports from COMESA countries attract duties of 20% on the applicable tariff.

## Foreign Direct Investment

FDI is important for the development of the Mauritian economy and labour-intensive manufacturing industries, especially garments and textiles, have benefited most from this investment. Most foreign investment reaching the textile industry is from companies already established in Mauritius that 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 transshipment base to countries on the east coast of Africa.

Foreign investment slowed during the early 1990's, as rising labour costs pushed investors to move to lower cost destinations (wages are markedly higher on the island than in Asia). Mauritius is now attempting to attract investment into higher-skill and technology-intensive activities, such as information technology and financial services. Investment into these sectors has also been slower than was hoped for however.

Foreign investment has tended to come from India, Hong Kong and South East Asia, as well as from France. South African companies have been the major players in the tourism sector, and have more recently become active in the financial services sector.

### **Mauritian Investment in the SADC Region**

The Mauritian government has signed an agreement with the government of Mozambique, securing an exclusive 100,000ha economic zone near Beira for development by Mauritian investors. Production costs are much lower in Mozambique than in Mauritius, and there is a large market which current production does not satisfy. Mauritius is also assisting Mozambique in the rehabilitation of its sugar industry, which may lead to Mauritians taking over and developing some of Mozambique's existing sugar industry. For example, a Mauritian consortium, Société Marromeu, and the Mozambican government have set up a joint venture to renovate the Sena Sugar Estates in the central province of Sofala, which will require an estimated USD 200m worth of investment.

The Mauritian government is also planning to launch a Regional Development Scheme in the near future, which will provide incentives for Mauritian investment in Eastern and Southern Africa. A committee is currently working on the establishment of the scheme.

### **Privatisation**

The privatisation of Mauritius Telecom, scheduled for the third quarter of this year, is expected to bring a substantial inflow of foreign investment. Cabinet has approved the plans to privatise the utility. Shares will first be sold to a strategic equity partner, institutional investors and employees of Mauritius Telecom. After this, the company will sell shares to the public, through the Stock Exchange of Mauritius.

## INVESTMENT CLIMATE

### Investment Incentives

Mauritius has a number of attractive incentive schemes, the most notable being the “EPZ”, the “Freeport” and the “Offshore” sector.

**Freeport:** This was created in 1992 to promote the country as a regional warehousing, distribution and marketing centre. Goods entering the Freeport usually come from Asia, and are then exported, after processing, to Africa. Freeport zones are situated in and around Port Louis and at the airport.

**Offshore:** Offshore and international companies can be created within this sector. *Offshore companies* are locally incorporated or can be registered in Mauritius as a branch of a foreign company. *International companies*, on the other hand, are flexible, tax-exempt entities. However, because they are not tax resident in Mauritius, they are not able to benefit from Mauritius’s extensive double taxation agreement (DTA) network, which favours tax-efficient investment structures. Other offshore activities include offshore trusts, sociétés (or partnerships), and banking units.

**Export Processing Zone:** 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.

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

Type	Applicability	Benefits
Export Enterprise (EPZ)	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 one-two months.	<ul style="list-style-type: none"> <li>• Corporate tax: 15%; dividends tax-free for 20 years.</li> <li>• No customs duty/sales tax on raw materials and equipment.</li> <li>• Registration dues for land purchase: 50% exemption.</li> <li>• Preferential finance from all commercial banks.</li> <li>• Relief on personal income tax for two expatriate staff.</li> <li>• 60% remission of customs duties on buses used for the transport of workers</li> </ul>
Strategic Enterprise	Local	<ul style="list-style-type: none"> <li>• Local industry manufacturing for the local market and engaged in an activity likely to promote the economic, industrial and</li> <li>• Corporate tax rate: 15% for life.</li> <li>• No tax on dividends</li> </ul>

Type	Applicability	Benefits
	technological development of Mauritius.	
Modernisation and Expansion Enterprise	Two broad categories: 1. Investment in machinery and equipment, such as automation equipment and processes, and computer applications for industrial design, manufacture and maintenance. 2. Investment in anti-pollution and environment protection technology to be made within two years of date of issue of certificate.	<ul style="list-style-type: none"> <li>No customs duty on scheduled production equipment.</li> <li>Income tax credit of 10% (spread over three years) on investment in new plant and machinery, subject to certain conditions.</li> <li>Category 2 enterprises benefit from a further incentive, i.e. an initial allowance of 80% for expenditure incurred on anti-pollution machinery or a plant (against 50% in most other cases).</li> </ul>
Industrial Building Enterprise	Construction of industrial buildings for rent purposes, provided floor space is at least 1,000m <sup>2</sup> .	<ul style="list-style-type: none"> <li>Corporate tax rate: 15% for life; no tax on dividends.</li> <li>Registration dues for land purchase: 50% exemption.</li> <li>Rent control is not applicable.</li> </ul>
Small and Medium Enterprise	Any manufacturing activity, including repair, packing and assembly of outputs into finished or semi-finished goods, provided that the aggregate CIF value of production equipment does not exceed MUR5m (USD199,600).	<ul style="list-style-type: none"> <li>No customs duty on production equipment up to MUR10m (USD399,202)</li> <li>15% corporate tax.</li> <li>Concessional borrowings for the purchase of production equipment and for working capital.</li> <li>Feasibility studies: 50% grant, up to a maximum of MUR75,000 (USD2,994) per project</li> <li>Training costs: 50% grant (up to a maximum of MUR25,000 (USD 6,250) per enterprise per year).</li> <li>Development of new manufacturing processes: 50% grant.</li> </ul>
Pioneer Enterprise Status	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.	<ul style="list-style-type: none"> <li>Corporate tax rate: 15%.</li> <li>No customs duty, import levy or sales tax on scheduled equipment or materials.</li> <li>No tax on dividends.</li> <li>Free repatriation of profits, dividends and capital.</li> </ul>
Pioneer Financial Services Scheme	Services and products qualifying for this scheme: <ul style="list-style-type: none"> <li>Foreign currency and portfolio management</li> <li>Lease financing</li> <li>Options and other future instruments</li> <li>Factoring and other actuarial services</li> </ul>	Corporate tax rate of 15%.
Offshore Business	Conducting of business with non-residents and in currencies other than the Mauritian	<ul style="list-style-type: none"> <li>Corporate tax rate of 15% as from July 1998. Companies registered before</li> </ul>

Type	Applicability	Benefits
	<p>Rupee.</p> <p>Note: Offshore banking units enjoy the same incentives as offshore companies.</p> <p>Non-resident Offshore Trusts and non-resident beneficiaries are tax exempt, while Resident Offshore Trusts will be taxed at 35% on the trust's income less distributions and their beneficiaries taxed at 15% on distributions. This feature enables Resident Offshore Trusts to access the double taxation treaty network. Foreign tax credits are however given in respect of the foreign source income of the trust.</p> <p>A Non-resident Offshore Société is normally taxed as if it were a company, at 15%.</p>	<p>July 1998 can opt for the new rate of 15% or will be ordered to pay a rate between 0-35%.</p> <p>Offshore companies only:</p> <ul style="list-style-type: none"> <li>• Work and residence permits for two expatriate staff.</li> <li>• Personal income tax rate reductions for expatriate staff, namely half the normal rate.</li> <li>• Complete exemption from taxes on imported office equipment.</li> <li>• Complete exemption from import duty on cars and household equipment for two expatriate staff.</li> <li>• Usually takes one – two weeks to set up.</li> </ul> <p>International companies only:</p> <ul style="list-style-type: none"> <li>• Single shareholder and bearer shares allowable; single director allowable; director and shareholder meeting can be held anywhere.</li> <li>• Usually takes one - two days to set up.</li> </ul>
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, consultancy firms, translation services, etc.	<ul style="list-style-type: none"> <li>• Corporate tax rate: 15%.</li> <li>• No tax on dividends.</li> <li>• Free repatriation of capital, profits and dividends.</li> <li>• No customs duty on office equipment.</li> </ul>
Hotel Management Service Certificate  Hotel Development Certificate	Applies to companies who provide services to new hotels, or hotels that are expanding.	<ul style="list-style-type: none"> <li>• 15% corporate tax; 5% for development certificate.</li> <li>• Tax free dividends for 10 years.</li> <li>• Free repatriation of profit, dividends and capital subject to original investment receiving "A" status from the Bank of Mauritius.</li> <li>• Term loans and overdraft at preferential rates.</li> <li>• Hotel Development Certificate only: exemption from customs duty on importation of equipment as per the approved list.</li> </ul>
Agricultural Development Certificate  Fishing Development Certificate	A company deriving at least 75% of its gross income from agriculture other than sugarcane cultivation, but including fisheries and livestock.	<ul style="list-style-type: none"> <li>• 15% corporate tax; tax-free dividends.</li> <li>• Registration dues for land purchase: 50% exemption.</li> <li>• Complete exemption from payment of customs duty on machinery, equipment and spare parts.</li> </ul>
Freeport	Transshipment and re-export trade, e.g. warehousing and storage; sorting/grading/mixing; minor processing;	<ul style="list-style-type: none"> <li>• Zero tax on corporate profits and dividends.</li> <li>• No customs duties or sales tax on all</li> </ul>

Type	Applicability	Benefits
	commission trade; reshipment; mail order businesses; organisation of fairs/exhibitions; trade-related services; breaking bulk; label/pack/repack; simple assembly; marketing; cash and carry sales; telemarketing; express counter.	<p>machinery, equipment and materials imported into the Freeport zone for exclusive use in the Freeport.</p> <ul style="list-style-type: none"> <li>• No customs duties or sales tax on all goods destined for re-export.</li> <li>• Reduced port-handling charges for all goods destined for re-export.</li> <li>• Free repatriation of profits</li> <li>• 100% foreign ownership is permissible.</li> <li>• Access to offshore banking facilities.</li> </ul>

## Taxation

- All companies who do not qualify for the investment incentive schemes listed above face a corporate tax rate of 35%, except for:
  - manufacturing companies, which are taxed at 15%;
  - the sugar sector, where net income derived from the first 60 tonnes of sugar is exempt from income tax, and there is no levy on windfall gains;
  - those companies that derive at least 75% of their gross income from the construction of buildings, roads and bridges.
- Capital gains: No tax is levied on those who make capital gains through the disposal of fixed assets. Owners of immovable property who subdivide their land into two or more lots for sale are taxed.
- DTAs exist with Botswana, France, Germany, India, Indonesia, Italy, Kuwait, Luxembourg, Madagascar, Malaysia, Namibia, Oman, Pakistan, People's Republic of China, Singapore, South Africa, Sri Lanka, Swaziland, Sweden, Thailand, United Kingdom and Zimbabwe. Eight treaties await ratification, with Bangladesh, Belgium, Lesotho, Malawi, Mozambique, Nepal, Russia and Vietnam. Treaties with Canada, the Czech Republic, Greece, Portugal, Tunisia, Uganda and Zambia are currently being negotiated. Where no treaty exists, unilateral credit relief is supplied for the burden of the tax levied as a consequence of the lack of an agreement.
- 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.
  - There is no separate withholding tax on payments to non-residents.
  - The top marginal tax rate for individuals is 30%
  - VAT replaced GST in September 1998. VAT is currently levied at a rate of 10%.

## 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.

### **Investment Promotion**

The Ministry of Industry and Commerce is responsible for processing applications for manufacturing activities and granting relevant permits.

The Mauritius Export Development and Investment Authority (MEDIA), set up in 1985 as part of the Ministry of Industry and Commerce, is the focal point for investment and export promotion activities. Their 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. MEDIA also supplies industrial buildings for lease, and owns some 100,000m<sup>3</sup> of factory space across the island. MEDIA has offices in France, the UK, India and Kenya, and representatives in other countries.

The Mauritius Freeport Authority's (MFA) 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 issues work and residence permits and tax residence certificates.

The Mauritian government recently established a Board of Investment to speed up the approval time for foreign investments.

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**

Legislation pertaining to the foreign investor is found in 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).

The Mauritian government guarantees that no investments will be nationalised and private property rights are enshrined in the constitution. Mauritius is also a member of MIGA and the International Convention on Settlement of Investment Disputes (ICSID). It is also a signatory to the New York Convention on the Recognition of Enforcement of Foreign Arbitration Awards.



## INVESTMENT OPPORTUNITIES AND PROJECTS

### Opportunities

#### Manufacturing

- \* Manufacturing of fabricated metal products, machinery, automotive parts and consumer electronics.
- \* Manufacture of electronic security systems, electronic instruments and printed circuit boards;
- \* Information technology, software development, computer-aided design, desktop publishing and text translation; Manufacturing of pharmaceuticals, optical lenses, disposable, surgical dressings, sanitary products, diagnostic kits and reagents.

#### Service

- \* Supply of pharmaceuticals. A tender for pharmaceuticals and dressings is issued annually in October. Tenders for other medical equipment are issued as required;
- \* Supply of crude vegetable oil;
- \* Sewage treatment services.

Technology and knowledge-based services are being promoted, including accountancy, international marketing, quality testing, civil engineering, management consultancy, computer and advertising services, reinsurance and entrepreneurial trade.

### Projects

SECTOR	PROJECT	DESCRIPTION
Construction/Development on State Land	Northern Bus Terminal / Victoria Bus Terminal	Constructions of a multi-functional complex including traffic centre, parking facilities, post office, commercial and non-commercial spaces.
	New administrative complex	Redevelopment of traffic centre in Rose Hill with provision for other facilities such as parking, commercial and non-commercial spaces, etc.
Agriculture	New national garden	Recreational facilities in nature for tourists and Mauritian population.
Energy	Wind power development	Production of electrical energy from wind power in Mauritius and Rodrigues.
Airport	Airport at Agalega	Construction of a new airport at Agalega Islands.
Culture	Museum of history and popular traditions	Tourist attraction.
Port Development/Customs	Cargo inspection system	Provision of modern technology for customs control.
Housing	Low cost core housing	Provision of housing for low income earners.

	units	
Land Transport	Mass transit system	Provision of an alternative mass rail-based public transport system.
Leisure	Development of “La Citadelle”	Development and conversion of “La Citadelle” into a leisure and tourist centre.

Source: Ministry of Finance, 1999

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (m)	1.1	1.1	1.1	1.1	1.1	1.2
Formal sector non-agricultural employment (thousands)	375.1	392.5	398.9	405.6	416.2	429.6
Nominal GDP at market prices	3,205	3,510	3,973	4,301	4,177	4,199
Real GDP growth rate (% p.a.)	5.0	5.2	5.6	6.1	5.3	5.6
GDP per capita (USD)	2,921	3,155	3,541	3,794	3,639	3,620
Consumption as % of GDP	75.3	76.7	76.8	76.1	75.9	76.0
Gross investment as % of GDP	28.4	30.7	24.3	26.1	27.3	23.3
Inflation rate, %	10.5	7.3	6.0	6.6	6.6	6.8
Merchandise exports as % of GDP	41.6	39.2	39.6	42.1	38.9	..
Merchandise imports as % of GDP	49.2	50.6	45.6	49.7	49.8	..
Financial account of balance of payments	19	41	25	92	-25	..
Foreign direct investment	-19	19	15	34	53	..
Foreign portfolio investment	-2.0	2.0	176.0	35.0	-68.0	..
Overall balance on balance of payments	7.0	-44.0	109	48	-31	..
Average exchange rate: MUR to USD	17.7	18.0	17.4	18.0	20.6	22.8
Foreign exchange reserves expressed in terms of months of import cover	4	4	4	4	3	..
Budget deficit (-)/surplus (+) as % of GDP	-2.4	-3.7	-5.7	-4.5	-3.7	-1.8
Central bank discount rate (end of year), %	8.0	12.3	9.9	10.3	9.0	12.2
Domestic credit to government	481	667	752	806	833	750
Domestic credit to private sector	1,229	1,584	1,828	1,860	1,906	2,245

Source: Bank of Mauritius (1999)

## **USEFUL ADDRESSES**

Mauritius Export Development and Investment Authority (MEDIA)

P O Box 1184

Port Louis

Tel: +230-2087750

Fax: +230-2085965

E-mail: [media@bow.intnet.mu](mailto:media@bow.intnet.mu)

URL: [www.ncb.intnet.mu/media](http://www.ncb.intnet.mu/media)

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](mailto: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](mailto:mobaa@bow.intnet.mu)

# MOZAMBIQUE

## GENERAL INFORMATION

- Where:** Mozambique is in south-eastern Africa, and borders Malawi, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
- Land surface:** 799,380 km<sup>2</sup>
- Capital city:** Maputo
- Population:** 16.9m (1998). The annual average growth rate is 2.3%. About a quarter of the population live in urban areas in, particularly in Beira and Maputo. More than half the population is under the 20 years old, and life expectancy in 1997 was set at 45.5 years.
- Official languages:** Portuguese. There are around 10 local languages. The use of English is increasing in Maputo.
- Human Development Index:** Ranked 166<sup>th</sup> out of 174 countries. This puts it slightly ahead of Eritrea (168) and Guinea (167), and just behind Malawi (161). There has been considerable economic progress since the end of the war and this ranking is expected to improve in forthcoming years.
- Other ratings:** The literacy rate is 21% for women, and 33% for men.

## Political Overview

The General Peace Agreement or the Rome Accord ending the civil war, was signed in 1992 and Mozambique held its first democratic elections in 1994. FRELIMO, the ruling party, led by the current President, Joaquim Chissano, won the elections, with more than 50% of the vote. RENAMO, the opposition party, led by Alfonso Dhlakama, secured a little over one third of the votes. FRELIMO currently holds 129 seats in Parliament, RENAMO 112, and the Uniao Democrática, 2.

General elections are held every five years, with the next scheduled for October 1999. Registration will take place between June and mid-August. There are estimated to be 8 million eligible voters in the country.

Although there are still minor tensions, political stability has been restored and the country appears to be flourishing under the new multiparty system.

## Sectoral Description

An important source of foreign exchange during the colonial period, the tourism sector is once again proving to be one of Mozambique's most valuable assets. This industry is growing rapidly with a number of new hotels opening, and various construction and/or rehabilitation projects being undertaken. Mozambique has 2,500km of coastline and boasts

unspoilt beaches and coral reef offshore islands. An increasing number of scuba divers are visiting the country to take advantage of this situation. Popular spots include Ponta Malongane, Ponta d'Ouro in the very south of the country, and the islands along the coast.

The agriculture sector employs more than 80% of the workforce and contributes about 33% of GDP. This sector is growing rapidly – it recorded 8.7% growth in 1997, and 8.2% growth in 1998. Mozambique has 36m hectares of arable land (less than a third of which is presently in use) and ample water resources. The vast open spaces and good grazing lands are suitable for the rearing of a wide range of farm animals. During the war, Mozambique's livestock population was severely depleted, and now the country imports a large proportion of its meat and dairy products, so there is plenty of potential for investors in this area.

Crops best suited to this environment include maize, wheat, sunflower, soya, peanuts, cotton, sisal, cashew nuts, tobacco, tea, copra, sugar cane, citrus, rice, tropical fruits and vegetables. There has been significant improvement in the outputs of grain, cotton and sugarcane. However, the cashew-nut industry, once a major contributor to export revenue, needs to be revived. Many cashew-processing plants were forced to close after the government opened up the sector to foreign competition. Now only 3 out of the 14 processing plants are in operation. Cashew output has dropped from 67,000 tonnes in 1996 to at 45,000 tonnes in 1998.

The industrial sector in Mozambique is currently undergoing considerable rationalisation and rehabilitation. The government intends to pursue an active privatisation programme in order to assist private sector initiatives. Investments in the manufacturing sector continued to exceed other sectors. However, growth in the sector is hampered by a low level of domestic demand, a shortage of capital, and high financing costs.

The fishing industry remains an important sector of the economy. Mozambique is well known for the quality of its seafood, yet this sector remains undeveloped. Prawns and tuna are the main exports. Industrial companies, often in joint ventures between state-owned and Japanese, Spanish and South African companies, are the main harvesters. However, the government plans to encourage semi-industrial fishing in the prawn industry to preserve stocks. Foreign vessels may therefore be prevented from fishing for prawns in the waters off Sofala Bank. A new fiscal regime for the fishing industry will also be introduced. Prawns are Mozambique's most important export, and an estimated 80,000 Mozambicans are involved in the fishing industry, 35% being subsistence fishermen.

Mozambique is rich in minerals, such as coal, natural gas, gold, titanium, non-metallic minerals with a potential for oil and diamonds, as well as deposits of rare metals and gemstones. There has been limited prospecting and exploration to date and great opportunities await investors. A number of companies have already signed agreements with the government for the right to petroleum prospecting. Foreign investors are also involved in three large heavy mineral projects. These are due to start from 2001-2002.

Mozambique has some 57m ha of forest - 20m ha of which are rich in precious and semi-precious woods. This allows for a technical felling potential of around 500,000m<sup>3</sup> per year.

Timber was a major export product prior to independence in 1975, but more recently timber extraction has been limited to those species that are of a higher technological or commercial value.

## **Infrastructure**

Mozambique's infrastructure was extensively damaged during the war and is now being rehabilitated. Around 60% of roads are in bad condition and landmines still dot rural roads.

Recent storms have also caused damage to some of the roads and railway lines leading to the sea. There are a number of road rebuilding projects taking place currently, like the planned bridge over the Zambezi at Caia. Although transport links between Mozambique and its neighbours are relatively good, links between the north and the south of the country are weak.

Traffic on all major railway lines linking the ports has risen since peace returned to the country. There has been some rehabilitation of the rail system and there are plans underway to re-build the railway line linking Malawi to Beira.

Port facilities are also being improved. Maputo, one of the largest ports in Africa, is preparing for an increase in traffic once the Maputo corridor, which connects the city to South Africa's industrial heartland, is complete. An increase in sea-traffic from the Far East has already been noted, with three million tonnes of non-container traffic recorded during 1998. This could be increased to nine million tonnes over the next five years if the port is fully utilised by the neighbouring states, which produce coal, steel, sugar, cars and a host of other products. 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. Several other international airline operators transit through the International Airport in Maputo. Light aircraft services are also available providing connections to important destinations, like Nelspruit and Durban in South Africa, and Manzini, in Swaziland.

Mozambique has considerable water resources with more than 25 sizeable rivers. The water services are in dire need of expansion and upgrading though. It is estimated that about 25% of the population have direct access to safe water. The government has shown a commitment to water reform and has decided to privatise the management of water services in order to effect the changes. This privatisation is to take place in Maputo and the provincial capitals Beira, Quelimane, Nampula and Pemba. Mozambique seeks to negotiate a fair and equitable use of its rivers with its neighbours. The Zambezi, the Pungwe, the Limpopo originate in neighbouring countries and how these rivers are managed in those countries will have a direct impact on Mozambique's water supply and management.

Mozambique possesses considerable resources for the production of energy - hydroelectric power, coal, natural gas, biomass, and solar-energy - yet the country is still a low energy consumer. Less than 3% of the population have access to electricity, and wood-fuel is the most commonly used energy source in households and small-scale industries. However,

there were an estimated 9,580km of electricity transmission lines in the country in 1998, as opposed to just 443km at independence. Furthermore, 31,000 new consumers have gained access to electricity since the present government took office in 1994. The development of alternative sources of energy for the rural areas is being investigated.

One of the largest hydroelectric plants in southern Africa, Cahora Bassa, is located in Mozambique. It was originally built by the Portuguese to supply electricity to South Africa and was hardly used during the civil war. After the completion and rehabilitation of the transmission lines, the plant is now supplying energy to Zimbabwe and South Africa. An agreement between Hydroelectric de Cahora Bassa, which is Portuguese owned, and Eskom (SA), gives Eskom the right to buy the entire current output of 2,000MW. Of this, the Mozambican energy supplier EDM can acquire 200MW and Zimbabwe 500MW.

Large reserves of natural gas have been located in Temane and Sofala and a number of drilling contracts have been signed with companies. The National Hydrocarbon Company represents Mozambique while foreign partners include South Africa's Sasol, ARCO of the USA and Zazara of the United Arab Emirates.

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. The telephone density is low, at 0.35 telephones per 100 people (1997). There are six Internet service providers operating in the country, and an estimated 3,400 Internet users. A cellular telephone network was introduced in the Maputo area in 1997.

## **ECONOMIC OVERVIEW**

### **Introduction**

Mozambique's GDP is estimated to have grown by 14.1% in 1997 and 11.2% in 1998. These impressive growth rates are to a large extent due to inflows of foreign direct investment.

FRELIMO has transformed the economy from a state-controlled to market-oriented one. The government came to power in 1975, and inherited a country with a low skills base - from professionals, through to administrators and managers. The authorities also had to deal with a number of adverse conditions that included unsuitable economic policies, an intensifying war with RENAMO, and adverse weather conditions perpetuated by a severe drought.

In 1986, the government changed its policies that placed the state at the centre of the economy and opted in favour of a market economy, driven by the private sector. An Economic Rehabilitation Programme was put in place to restore and pursue sound macroeconomic policies. This included liberalising trade and deregulating industry, restructuring and privatising parastatals, fostering private sector development, and encouraging the expansion of efficient production in the agricultural and industrial sectors.

### **Recent Macroeconomic Developments**

According to preliminary data, real GDP increased by 11.2% in 1998, exceeding the targeted rate by 4.0%.

Growth was evident in all sectors of the economy:

- agriculture and livestock grew by 6.8%;
- industry and fisheries grew by 9.9%;
- construction grew by 55%;
- transport and communications grew by 6.4%; and
- other services grew by 13.1%

Despite severe floods in the central and northern regions of the country in the first quarter of the year, 1998 was generally characterised by good weather conditions. This, combined with improved transportation networks, high levels of foreign investment, and low inflation, seems to have been the main factors behind the strong economic growth in the period.

On the fiscal side, government revenue and expenditure increased by 15.8% and 13.9% respectively, in nominal terms. There was a decline in both revenue and expenditure as a percentage of GDP. The 12.0% decrease in revenue may have been as a result of the temporary tax exemption conceded to some big investment projects like Mozal, offset by their contribution to the GDP. The 11.5% reduction in government expenditure as a

percentage of GDP from 1997 to 1998 reflects government's withdrawal from economic activity now being carried out by the private sector.

For the first time since the launch of the economic restructuring programme, the cumulative inflation rate up to the end of December was negative, reaching -1.3% as opposed to a rate of 5.8% in the same period of the previous year. The sharp decline in inflation reflected the consolidation of the economic achievements of the previous years.

The current account, in nominal US dollar terms, worsened by 17.3% as a result of a greater increase in imports (9.6%) than in exports (only 1.4%). This was mainly due to the acquisition of capital goods related to the new investment projects. The weak performance of exports was due to a decrease of 2.9% in receipts for services, which reduced the impact of the 7.9% increase in exports of goods.

The currency (Metical) depreciated in cumulative nominal terms by 6.2% against the American dollar. The parallel exchange rate depreciated by 6.4% and as a result, the spread between the exchange rates of the two markets was 1.3%.

Total consumption decreased from 66.4% of the GDP in 1997 to 63.9% in 1998. This was for two reasons: the internal and external stability of the Metical encouraged private savings; and, public consumption decreased.

Total investment in the same period experienced a significant increase as a percentage of GDP, from 54.5% in 1997 to 61.2% in 1998. Public sector investment increased by 0.7% while the private sector component increased by 15.4%, reflecting the implementation of big investment projects.

Money supply growth decreased from 23.5% in 1997 to 17% in 1998. The indicative target for broad money expansion of 17% (with an interval of variation of  $\pm 2\%$ ) was set in order to accommodate interventions by the central bank. In 1998 the activity in the inter-bank money market received new momentum with the introduction of three new facilities:

- a liquidity lending permanent facility;
- a liquidity absorption permanent facility; and
- a last-resort liquidity lending facility.

These are in addition to the exchange of liquidity between commercial banks, and the issuing of Treasury Bills and Monetary Authority Bills.

The co-ordination between the inter-bank money market and the inter-bank foreign exchange market contributed to the contraction of base money by 3.5% (stock variation) after an expansion of 6.4% in 1997.

About 10% of Mozambican external debts were reduced with the conclusion of the Paris Club Agreements. Of this, USD500m was rescheduled and USD100m cancelled. In addition, in recognition of the country's economic reform programmes, the World Bank and

the IMF, along with other donors, decided in April 1998 to provide debt relief. This amounted to USD2.9bn in nominal terms in debt service relief for Mozambique, equivalent to USD1.4bn in net present value terms in June 1999.

Mozambique's external debt will be reduced from USD5.6bn in late 1996 to USD1.1bn in June 1999 when the HIPC (Highly Indebted Poor Countries) package is implemented. Debt service payments will thus be reduced to below 20% of export earnings. The stock of debt in NPV terms will be reduced to 200% of exports compared to 466%.

### **Financial Institutions**

Broad financial sector reforms aimed at improving regulatory and institutional frameworks and refining the instruments of monetary and exchange rate policy, were instituted in 1998. These reforms included the privatisation of the state-owned commercial bank, the entrance of new financial institutions into the market, improving and diversifying the financial intermediary instruments, modernising the payments system, improving capacity for financial systems supervision, and the passing of new legislation.

A new reserve requirement regime was introduced. It comprised the reduction of the requirement from 12% to 9%, and the widening of the base of incidence to government and bank deposits that do not result in operations in the inter-bank money market.

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 money and capital markets, and formulating better regulations governing the sector.

The authorities shifted towards indirect monetary control, with the creation of the interbank money market, where treasury bills and monetary authority bills 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.

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 the bank must still respect the economic policy of government. Since then it has increased its independence and expanded its oversight capabilities. The Banco Comercial de Moçambique was sold off in 1996, with foreign investors taking a 51% stake. The other large bank operating in the country, Banco Popular de Desenvolvimento, was privatised the following year.

Until 1992 there two commercial banks mentioned above were the only ones operating in Mozambique. After liberalisation of the sector, however, a number of new banks entered the market and there are 8 commercial banks in the country. Some are beginning to take positive steps forward by embarking on market orientated activities and offering their customers new products.

There are now 4 insurance companies, one leasing company, and 4 credit unions operating in Mozambique.

### **Mozambique Stock Exchange**

A Mozambican Stock Exchange is to be established in Maputo to provide a vehicle for the facilitation of the privatisation programme. The “Installation Commission for the Mozambique Stock Exchange” was set up under the Ministry of Planning and Finance in 1997 to prepare for the establishment of the exchange. The stock exchange is scheduled to open in 1999.

The Mozambican Stock Exchange is expected to play a leading role in generating venture capital for the recently privatised state companies, and to provide opportunities for investors with interests in Mozambique to raise finance. Companies that will list on the stock exchange will qualify for a number of incentives including lower corporate taxes.

The Mozambican National Brewery, 65% owned by SA Breweries, is the only company thus far to have qualified to register on the stock exchange. USD5m of Mozambican bonds are likely to be listed on the exchange at face value. Another USD60m will increase this in the next year.

The issue of foreign participation on the exchange has still not been decided upon.

### **Foreign Trade**

Main export goods include prawns and shrimps, cashew nuts, coal, cotton, energy, sugar and copra. Equipment goods are the major imports, followed by consumer goods and raw materials. The main countries of origin for imports are South Africa, Zimbabwe, Portugal, India and the United States.

Mozambique generally runs a large deficit, importing far more than it exports. There are signs that this is changing, however, with the development and re-development of various export industries.

### **Trade Liberalisation**

Imports of up to USD5,000 may be brought into Mozambique without a license. Resident companies are free to hold the whole amount of their exports in foreign exchange account deposits in the domestic banking system and to borrow in foreign currency to finance their activities.

### **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. Domestic capital is also accessible to foreign investors.

The right to repatriate capital, dividends and other profits 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 Direct Investment**

FDI inflows in 1998 alone amounted to USD212.7m, although USD157.3m was for one project, the Mozal aluminium smelter. There are many new projects in the pipeline - the CPI approved 202 projects in 1998, with a total value of USD837m.

The main investing countries so far have been Portugal, South Africa and the UK.

Some new ventures have been pioneered recently through agreements between the Mozambican and South African Heads of State, and Mozambique and Mauritius respectively. The former, "Mozagrius", 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. A consortium of Mauritian companies, named Sociedade Marromeu, recently took over two sugar-processing plants at Marromeu and Luabo, near Beira. Rehabilitation work has begun on the Marromeu factory, which is expected to be operational by 2005. Furthermore, several Mauritian operators have put forward plans for further projects, in agro-business, fisheries and hotel management.

The construction of the Mozal aluminium smelter outside Maputo began in 1998. The capital cost of the smelter is estimated at about USD1.3bn. The project is being financed from a number of sources including Billiton, IDC of South Africa, quasi-equity amounting to USD150m from IFC, CDC and others, and foreign sources representing USD650m. The Mozambican government will retain 4% 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 will be Mozambicans, once it is operational. Mozal has been granted IFZ status. An agreement between the Mozambican government and US engineering company, Fluor Daniel, to conduct a viability study for another aluminium smelter has been signed. The planned smelter will be located at Savane, 25 km north of Beira.

The Enron-Pande natural gas project involves gas exploitation, a pipeline to Maputo and South Africa, and the construction of an integrated iron and steel plant in Maputo. The construction of the pipeline to Maputo and South Africa is expected to take 20 months, while the iron and steel plant will take 42 months to complete. The pipeline will supply natural gas to the iron and steel project, which will consume most of the fields output over the next 25 years. The go-ahead for the iron and steel plant, involving JCI (SA), has been given. The project is expected to cost USD470m in year 1, USD670m in year 2, USD690m in year 3 and USD230m the fourth and final year. A consortium consisting of Arco (US), Sasol (SA), Zazara (United Arab Emirates) and Mozambique's state-owned

National Hydrocarbons Company, are currently drilling for natural gas in Temane, in the southern part of the country. So far, exploration work indicates that the five wells drilled can produce 23-50 cubic feet of gas per day for the next 50 years. After work has been completed in Temane, the consortium will move to the Sofala province, to prospect for natural gas offshore. Other companies operating concessions in Mozambique include BP (Zambezi offshore block), Canop (Limpopo Block), and Lonrhopet (Rovuma block). There is some speculation that a third pipeline will be built, linking Mozambique's gas fields with Secunda or Phalaborwa in South Africa.

Other large projects include Moatize coal mine. South African JCI and Austral coal have development plans here and 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 7m 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. The project, which includes the construction of a new terminal in the Beira port amounts to USD620m and is scheduled to begin during 1998, with production starting in 2001. Due to the difficulties experienced by JCI lately the project has been put on hold

Irish company Kenmare, in a joint venture with BHP (Australia), is prospecting the northern coast of Mozambique for heavy minerals, including titanium and zirconium. Kenmare is also involved in the mining of graphite at Ancuabe in the north of the country.

### **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 Maputo Development Corridor Project has as its aims:

- The rehabilitation of infrastructure (road, rail, port and border posts).
- Investment maximisation through the development of related ventures.

The Maputo Corridor Company has been formed to facilitate the implementation of the project. A Head Office is being set up in Maputo, while a branch office in Nelspruit has been operational for some time. It is expected that 65% of the company will be private-sector owned, while the remaining 35% will be shared between the governments of Mozambique, South Africa, Swaziland, Botswana and Zimbabwe. The Maputo Corridor Company plays a facilitating role and the ministries from the countries concerned handle government-to-government agreements.

The Maputo corridor is the most advanced of the three corridors planned in Mozambique. The corridor has increased regional co-operation between Mozambique, South Africa and Swaziland (the latter through the connecting Lubombo corridor). In addition, it is partly

responsible for the increase of investments in Mozambique and in the Mpumalanga province of South Africa.

A major component of the Maputo Corridor project is the 120km toll road which is being built between Witbank in South Africa's Mpumalanga province, and Maputo. The road is a build, operate and transfer scheme on a 30-year concession. The concession was awarded to a French-led international consortium, Trans-African Concession. Work on the road is proceeding smoothly.

The volume of South African trade passing through Maputo has not increased at the expected rate, however, due to problems with the capital's railways and port. Earthworks have begun at the border post, as part of a plan to speed up procedures at the border.

The initiative is driven mainly by the private sector, with the governments of Mozambique and South Africa putting up 10% of the funding. Other corridor projects in Mozambique are the Beira and Nacala corridors, as well as the Maputaland tourism corridor.

### **Privatisation**

The Mozambican privatisation programme is one of the most extensive in Africa, as well as one of the most rapid and successful. A study undertaken by UTRE and the World Bank recently showed that, on average, the performance of companies, in terms of output levels, employment levels, wages, and the repayment of outstanding debt, has improved markedly after privatisation. The programme is due for completion shortly.

The programme is governed by two pieces of legislation:

- A 1989 bill permitting the sale of state-owned enterprises, and,
- A 1991 act which sets out 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 effected in several ways: sale by public tender; public offer of shares; private negotiation of restricted tender preceded by pre-qualification; joint ventures; transfer or sale of shares to managers and employees; and granting of management of lease concessions. Managers and employees have the right to acquire up to 20% shares in those companies being privatized.

To date, more than 900 small, medium and large enterprises have been restructured. Not all ventures have been successful. Some companies have not been viable while administrative shortcomings and cumbersome bureaucratic procedures have affected the sale of other companies. 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% of equity have come from foreign sources. Main foreign investors are from Portugal, South Africa and the UK. The government has sold off its entire stake in the financial sector, as well as a large

proportion of its manufacturing interests.

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.

The structure of the economy has changes significantly since the implementation of the privatisation programme. Banks are now largely Portuguese-controlled, as is the cement industry. South African companies have large stakes in the tourism industries and the breweries. Some companies have been bought using Mozambican capital, including the state trading company Enacomo, which was privatised through a management buyout.

A 15-year concession to operate the Maputo port was recently awarded to an international consortium headed by Mersey Docks & Harbour Company, and included the South African-based shipping and transport group Grindrod. Another recent privatisation was the USD8.2m sale of the Laurentina Cervejas brewery, to a consortium consisting of CDC, Guinness (UK) and Castel (France).

## **INVESTMENT CLIMATE**

### **Investment Incentives**

Customs and fiscal incentives offered to investors:

- 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% 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% of the same taxes for investments located outside other provincial capitals, and 50% reduction of taxes for investments in the capitals of other provinces.
- Deduction from the taxable income of operating ventures of 100% 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.

Fiscal incentives differ by region, with the less developed provinces of Niassa, Tete and Cabo Delgado offering larger tax reductions than Nampula, Zambézia, Manica and Sofala provinces, which in turn offer more incentives than Gaza, Maputo and Inhambane.

Mozambique has used Industrial Free Zones (IFZ) as a way to expand its export markets. 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% 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% of their gross turnover, the former from their 6th year of operation and the latter from their 2nd year of operation. The first IFZ to be developed will be located in Maputo; there are also plans to establish IFZs in the Beira and Nacala areas.

Mozambique is eligible for duty-free export quotas to EU markets, 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%, for agriculture 35% and for commerce and services 45%. In addition, there is a circulation tax on invoices of 10%, and a supplementary tax of 3-4%. Personal income tax is progressive with a maximum rate of 30%.

There are no taxes on own equity capital, loans and accrued interest. However, capital gains are taxable. There is withholding tax for non-residents, levied at 5%.

In June 1999, VAT will replace the existing sales and consumption taxes. The introduction of VAT is one of the main qualifying conditions for debt relief under the HIPC.

### **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.

There are additional laws covering investment in mining, petroleum, casinos and tourism.

Mozambique is a member of MIGA, OPIC and offers recourse to arbitration through ICSID and the Paris based International Chamber of Commerce.

### **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 simple 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.

# INVESTMENT OPPORTUNITIES

## Opportunities

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

### *Construction Sector*

The government has deemed the rehabilitation of the existing agriculture-related infrastructure to be a priority. Investment opportunities in this sector therefore include the upgrading of roads, railway lines, ports, irrigation systems, and water and power supply.

### *Agriculture/Forestry Sector*

Vast 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.

The meat and dairy industries also offer opportunities, with domestic demand currently outstripping domestic supply. Activities with great potential include the rearing of pigs, goats, rabbits and poultry..

Forest plantations and the industrial processing of wood products provide further opportunities for investment. 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 and gold production mainly in Manica province, 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 demersal 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 km<sup>2</sup> of mangrove, which offers the potential for shrimp or prawn aquaculture. Opportunities exist for the farming of oysters, mussels, algae and pearls, and for integrated freshwater fish farming. There are also opportunities in industries which service the fishing sector, such as rope and steel cable manufacture, marine engineering consultancy, and marine electronics.

### *Tourism*

A number of new construction projects are being undertaken in Mozambique, including the refurbishment and modernization of existing tourist facilities, and the construction of new ones. Privatisation initiatives in this sector may create additional opportunities. Private sector involvement in the development, marketing, and management of wildlife areas and game parks is encouraged

### *Development Corridors*

The most appealing investment attraction is the potential infrastructural projects in the development corridors (Maputo, Beira and Nacala). 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 lies mainly in the exploitation of mineral resources, agriculture, forestry, industry and fishing.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (m)	15.1	15.5	15.8	16.2	16.5	16.9
Nominal GDP at market prices	1,467	1,462	1,245	1,750	2,122	2,393
Real GDP growth rate (% p.a.)	19.3	4.4	1.3	6.6	14.1	11.2
GDP per capita (USD)	94	88	103	122	128	141
Consumption as % of GDP	87.1	80.1	68.9	70.2	66.4	63.9
Gross investment as % of GDP	59.6	60.5	61.1	56.9	54.5	61.2
Inflation rate, %	43.6	70.2	54.2	16.6	5.8	-1.3
Merchandise exports as % of GDP	9.0	10.2	14.0	12.9	10.8	10.4
Merchandise imports as % of GDP	58.6	62.7	52.6	44.7	35.8	36.3
Average exchange rate: Metical to USD	3,724.4	5,918.1	8,889.8	11,139.7	11,406.3	11,851.8
Foreign exchange reserves expressed in terms of months of import cover	2.5	2.2	3.4	5.9	9.0	9.3
Total external debt as % of GDP	318.2	339.3	443.2	325.2	265.9	..
Total external debt service as % of exports	87.3	80.3	79.0	63.4	59.4	..
Budget deficit as % of GDP	3.6	7.5	5.0	5.1	5.2	5.9
Central bank discount rate (end of year), %	43.0	69.7	57.7	32.0	13.0	10.0
Prime lending rate (minimum), %	..	..	..	..	29.3	24.8
Domestic credit to government	7	-13	-30	-45	-120	-134
Domestic credit to private sector	209	261	231	311	467	545

Source: Banco de Moçambique, 1999

## **USEFUL ADDRESSES**

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Tel: +258-1-42 25 30

Fax: +258-1-42 26 04

e-mail: [cpi@teledata.mz](mailto: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](mailto:rani@utre.uem.mz)

website: [www.businessmonitor.co.uk](http://www.businessmonitor.co.uk), [www.ipanet.net](http://www.ipanet.net)

GREICT (Office for Restructuring of Industry, Commercial and Tourism Enterprises)

Av 25 de Setembro, 1179, 3rd fl

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Mozambique Stock Exchange

Comissao Instaladora da Bolsa de Valores de Moçambique (currently establishing a stock exchange)

Att: Mr Jossab Nurmamade, President

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# NAMIBIA

## GENERAL INFORMATION

- Where:** Namibia is in south-western Africa. It borders Angola, Zambia, Botswana, Zimbabwe, South Africa and the Atlantic Ocean.
- Land surface:** 824,269km<sup>2</sup>. There are two vast stretches of desert, the Namib and the Kalahari deserts.
- Capital city:** Windhoek
- Main centres:** Swakopmund, and Walvis Bay
- Population:** 1.7 million (1998). The country is sparsely populated with a population density of 1.7 per square km. Almost two thirds of people live in the rural areas.
- Official language:** English. Other languages spoken include Herero, Nama/Damara, Kwangali, Oshiwambo, Lozi, Tswana, Afrikaans and German.
- Human Development Index:** Ranked 107 out of 174 countries - placing it in the medium human development category, together with countries like South Africa (89), Indonesia (96) and Morocco (125).
- Other ratings:** Standard of living is relatively high. Namibia has also a comparatively high literacy rate of 76%.

## Political Overview

Namibia became an independent country in 1990 following a cessation of hostilities in 1988. The South West Africa People's Organisation (SWAPO), a dominant force in the fight for the liberation of Namibia, received an absolute majority of votes in the first elections and formed a new democratically elected government. Sam Nujoma, SWAPO's leader, became the first post-colonial President. Elections are held every five years in Namibia and it enjoys a stable political climate. General elections are due to take place in December 1999. A new party, the Congress of Democrats, under the former High Commissioner to the UK, Ben Ulenga, will contest the elections this time round.

## Sectoral Description

Agriculture and mining form the two most dominant sectors of the economy, in terms of their contribution to GDP. Fishing, tourism and manufacturing are other important industries.

The mining sector continues to be the backbone of the economy with approximately 40 operational mines. Diamonds are the country's largest foreign exchange earners accounting for over 35% of total mining revenue. Silver, gold, uranium, copper, lead and zinc are the other important minerals that are mined. Australian companies and many other overseas investors have shown considerable interest in mineral prospecting.

Agriculture is the second largest GDP contributor after mining, hardly surprising when over 70% of

people live in rural settlements. Livestock features predominantly, with beef and mutton production being the main agricultural activity. The production of wool, maize, millet, wheat and sorghum is common. By 1996, agriculture was the foremost employer in the economy, absorbing a total labour force of roughly 190,000 people.

Since the introduction of the 200-mile Exclusive Economic Zone policy by the government, Namibia has had a thriving fishing industry with plenty of stock at sea. Fishing is still significant, with about 130,000 tons of hake, 144,000 tons of purse salna and 262,000 of mild trawling, produced annually on average.

The manufacturing sector is still relatively small, but continues to contribute a modest 10% of the GDP. Opportunities exist for exploring possible ventures between the primary and manufacturing sectors. Most of the processing currently undertaken involves the fishing and construction industries. The introduction of export processing zones (EPZs) by the Namibian government signals its intention of expanding this sector.

### **Infrastructure**

Namibia's infrastructure is good. However further improvements in the infrastructure are critical to assist in attracting investment and trade and thus to provide the necessary support to the economy.

The road transportation network has been expanded since independence, and two major road links into the Southern African region, the Trans-Kalahari and the Trans-Caprivi Highways have been completed. A transportation master plan that has to assess the future transport needs, is being finalised. Additionally, a feasibility study on the extension of the Namibian rail network system (currently covering 2,382 km) into Angola is being conducted.

Walvis Bay and Luderitz are the main ports of Namibia. Major upgrading is taking place as a result of the completion of the Trans-Kalahari and the Trans-Caprivi Highways. Walvis Bay, a deep-sea harbour with excellent berth and wharf facilities, handles an estimated 2 million tons of cargo, consisting of dry bulk, break bulk, fuel products and containerised cargo. With further upgrading and the introduction of new equipment, the handling capacity is expected to increase to 5 million.

All airports have now been commercialised. This resulted in the launch of Namibia Airports Company in November 1998.

A number of major infrastructure projects in power generation and water supply are currently being assessed or implemented so as to get Namibia to move away from its status as a net importer of energy. These projects include the Epupa hydro-electrical project, the Swakopmund sea water desalination plant, the Kudu gas exploitation programme, the Okavango-Grootfontein water pipeline, and the new powerline to South Africa.

## **ECONOMIC OVERVIEW**

### **Introduction**

The challenges that the government was confronted with at the time of independence remain. In response, the government has adopted a five-year plan (1996-2000) aimed at attracting foreign and domestic capital in order to stimulate economic growth. EPZs have been established as a way to open up the economy, and to diversify its manufacturing and tourism activities.

### **Recent Macroeconomic Developments**

The Namibian economy in 1998 continued to be characterised by low growth because of internal and external factors, such as the decline in commodity prices and the crisis in Asia. Consequently, real GDP grew by a moderate 1.8% per annum in 1998. Despite this growth in real GDP, per capita GDP has been declining by 8% from 1997 to 1998.

The mining sector recorded an overall decline of approximately 4%. This can be attributed to a decrease in gold production and a decline in the prices of copper, zinc and lead. Though currency depreciation helped to offset some of the hardships caused by the decline in commodity prices, it was not enough to prevent the closure of three important mines. In particular, the closure of Tsumeb Corporation affected mining negatively.

Agricultural production was below average, mainly due to bad weather conditions. Rainfall in 1997/1998 was only sufficient to support the livestock and meat industries. Crop and cereal production fell by 22.8% from October 1997 to May 1998. However, the fishing sector performed well due to a recovery in fish stocks. This good performance led to increased allocation of total allowable catches, which further boosted overall production in the manufacturing and export sector.

The manufacturing sector was the one sector that performed well in 1998 due to the increase in fish processing. The retail sector was negatively affected by various factors though, such as the decline in per capita income that led to a further decline in consumer expenditure, especially in the rural areas. Construction was the hardest hit industry. Preliminary data suggests that increases in interest rates caused a decline in demand for buildings, particularly in the non-residential sector.

Tourism, which is the third largest economic sector according to current estimates, grew by about 8% in 1998. An increase in the number of tourists, either one-day visitors from neighbouring countries, budget tourists or international business people, accounts for this increase.

The year 1998 could be described as deflationary. The average annual inflation for the year was 6.2%, the lowest in almost three decades. This sharp decline in annual inflation could be attributed to a tight monetary policy and the low inflation on imported goods, particularly food. However, due to increases in marginal tax, additional sales levy and increase in municipal charges, consumer price inflation may begin to increase again.

The expectations of an upward adjustment of the official interest rates in South Africa have had a

great influence on the trend in Namibia's money market rates. This speculative pressure pushed the nominal quarterly average for prime lending rates from 24.2% in quarter three to 23.9% in quarter four. The bank rate in Namibia has been declining since then, in line with the South African markets.

The budget deficit rose from 3.6% in 1997 to 4.3% in 1998, and is set at 4.2 for the year 2000. Although foreign public debt declined by 25% in 1997 due to the writing off of pre-independence debt from SA, it has increased by 54% to NAD 545m (USD 92.7m) in 1998. Domestic public debt has risen by 18% to NAD 3.9 bn (USD 662.5m) by December 1998. As a ratio of GDP, domestic debt amounts to 20.6% in 1998, compared to 16.6% the previous year. Despite this worrisome rate of growth, Namibia's debt ratio remains low by international comparison.

A record trade surplus, a boom in tourism and an increase in transfers from SACU, led to a positive performance on the overall balance of payments. Exporters benefited from the depreciating currency and from increased output of live animals, meat products, and manufactured products from beef and fish. The resulting surplus on the current account was 5.8% of GDP (1997: 2.8%). However, the deficit on the capital and financial account deteriorated further from 1.2% of GDP in 1997 to 4.1% in 1988. The current account improvement led to a NAD 308m (USD 55.7m) overall balance of payments surplus. However this figure is lower than the NAD 312m (USD 67.8m) in 1997. The country's foreign reserve level represents 8.5 weeks of import cover.

The Namibia dollar depreciated against the US dollar by 22.9%, between December 1997 and August 1998. However, capital outflows slowed the currency appreciation to NAD5.89 per US dollar by December. The NAD also declined by 18.6% and 20.0% against the German Mark and the Japanese Yen respectively, as well as depreciating by 11.0% against the British Pound. The nominal effective exchange rate of the Namibian dollar fell by 14.0%, while the real effective exchange rate depreciated by 7.1% over the years.

## **Financial Institutions**

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

During 1998, the Banking Supervision Act was enacted to strengthen banking supervision. By incorporating the Basle core principles into the Act, the Namibian authorities seek to align the country's banking practices and standards with those accepted internationally. Among the prominent issues dealt with in the Act, is the limitation on money laundering and close supervision of pyramid schemes.

There are now five commercial banks operating in Namibia in addition to the Post Office savings Bank. The banking industry in Namibia is highly competitive as evidenced by the similarity in interest rates and service fees charged by these banks. First National Bank of Namibia and Standard Bank Namibia are the two largest banks in terms of market capitalisation. 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 and life insurance, estate planning

and factoring are some of the ancillary services provided by the banking sector.

There are plans by government, in partnership with the private sector, to reform the financial market system to allow for the introduction of financial instruments such as parastatal bills, debentures and bonds and negotiable certificates of deposit. The changes are aimed at accelerating the development of a domestic money market, foreign exchange market, and local inter-bank lending, which is still underdeveloped.

### **Namibian Stock Exchange**

The Namibian Stock Exchange (NSX), which operates on a non-profit making basis, first began its operations in 1992. It also issues all licenses for the running of stock exchanges.

The NSX's 1998 performance was marred by price arbitrage opportunities normally that exist on dual-listed companies on the Namibia and Johannesburg stock exchanges. In addition, the NSX performed poorly because of the negative sentiments expressed by international investors towards emerging markets due to the financial crisis in the East Asian region. The effects of the Asian crisis were also evident in the low levels in market capitalisation, which fell by 22.6% from May to December 1998. The financial and mining sectors constitute just over 80% of the total market capitalisation of the stock market sectors.

The overall index plunged 22% to 176 in 1998, but is still respectably higher than its 1994 level. However, the volume of shares rose by nearly 60% in 1998.

Foreign investor interest is still the major driving force behind the stock market's performance. By 1998, foreign investors had increased participation to over 60% of the total of listed companies on the NSX. Eleven companies were listed in 1998 of which five were in the financial sector, four in the retail sector and two in the fishing sector. Nine of the eleven companies listed were dual-listed, while the other two were primary listings. Mergers and liquidations were common reasons given for why companies de-listed. The total number of listed companies stood at 41, with 15 locally listed, as of December 1998.

Another milestone is that the NSX has acquired financial assistance from the Swedish International Development Co-operation Agency for the upgrading of its stock trading system and overall administrative services. The agreement will be implemented in parts, beginning at first with the installation of new computer technology to improve both the trading and administrative systems. The final phase relates to the introduction of a computer-based central securities depository, thereby eliminating paper certificates. This will be done in co-operation with the Johannesburg Stock Exchange in South Africa. In general, the significance of this lies in the possible enhancement of operational efficiencies and increased underlying liquidity.

<b>Namibian Stock Exchange</b>					
<b>YEAR</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>

Number of companies with shares listed	14	23	27	33	40
Market capitalisation (USDm)	14,357.8	24,677.3	20,868.5	40,626.3	35,748.6
Volume of shares traded, million	6.1	14.6	68.6	67.2	107.2
Value of shares traded (USDm)	16.4	64.4	153.7	195.6	232.2
Number of trading days	-	-	248	247	247
Average price-earning ratio of all listed companies, in %	-	-	15.8	13.1	8.8
Average dividend yield (annual average), in %	-	-	2.4	2.8	3.8
NSX Overall Index	155.7	224.9	218.3	225.9	176.0

Source: Namibian Stock Exchange (1999).

## Foreign Trade

The main export goods for the country are the diamonds, uranium, beef, mutton, and fish. Fish exports gained a major boost with the increase in fishing quotas by the government. The Spanish government provided about USD 50m for a joint fishing venture between the Namibian and Spanish investors. Machinery and transport equipment, food and live animals, and manufactured goods constitute the biggest share of Namibia's imports. The country's main trading partners are South Africa, UK, France, Germany, Japan and Spain.

## Trade Liberalisation

A wide variety of exports are excluded from licensing requirement. However, import licenses are issued in accordance with South Africa's import regulations. All imports from the SACU countries are exempt from any regulations. There are plans by government to allow for more competition in the marketing of the country's rough diamond production, which has been done exclusively by the Central Selling Organization.

## Exchange Controls

Namibia is part of the Common Monetary Area (CMA), within which restrictions do not apply to payments. The CMA member states, which includes Lesotho, Namibia, South Africa and Swaziland, apply virtually identical exchange control regulations vis-à-vis third parties. The Bank of Namibia approves all transfers of loan capital originating from and destined for non-CMA areas. There are no restrictions on the proceeds from the sale of quoted or unquoted CMA securities, real

estate, and other equity investments by non-residents are freely transferable.

Foreign investors may take up local loans via the companies in which they invest, and the extent of the borrowing will depend, among others, on the size of the investment and the percentage of foreign share holding. Earnings are freely transferable 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 announcements include the following:

- The release of emigrants blocked accounts.
- Companies with foreign ownership of 75% 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 authorised dealer and maintain a foreign account up to a limit of NAD350,000 (USD63,310.6), provided that the individual is above 18 years of age and his/her tax affairs in good standing.
- Increase in emigrants' settling-in allowance.

### **Transport-Corridor – Trans-Kalahari Highway**

Since independence in 1990 the Government of Namibia has pursued the development of west-east orientated transport corridors to provide the landlocked countries such as Botswana, Zambia, Zimbabwe and Malawi with access to the Atlantic Ocean.

One of these corridors is the Walvis Bay-Botswana-Gauteng-Maputo Development Corridor, of which the Trans-Kalahari highway forms an integral part. Another corridor consists of the Walvis Bay-Ndola-Lubumbashi Development corridor with the Trans-Caprivi Highway still under construction. The necessary financing has been secured and a large portion of the corridor up to Zambia has been completed.

The port of Walvis Bay, as part of these western corridors, can be viewed as an emerging transit point for sea-borne traffic to the landlocked countries. Once the port and the transport corridors are fully developed, the Southern African region can benefit from these routes via the port of Walvis Bay, which is best positioned to link the landlocked countries and South Africa's Gauteng Province with European and American markets. Consequently, there will be a saving of up to six days in shipping time via the Walvis Bay. Together with current plans of enhancing the handling capacity to some five million tons from the current two million tons, this will strengthen the port's position as a competitive route for transporting goods and services.

Furthermore, the overland route from between Windhoek/Walvis Bay and the Gauteng Province will be reduced by some 500 km with the completion of the Trans-Kalahari highway.

### **Privatisation**

Namibia has a small number of publicly-owned companies and the government is committed to a

gradual process of transferring assets into private hands. As a consequence commercialisation will be preferred over outright sell-offs. In the meantime, the National Economic Policy Research Unit (NEPRU) is conducting a comprehensive research on the restructuring of state assets.

## **INVESTMENT CLIMATE**

### **Investment Incentives**

Namibia offers excellent investment opportunities through a range of tax incentives, liberal investment climate and natural resource endowments. Its EPZ policy positions the country as an ideal focal point for regional trade within Southern African. The primary focus has been on promoting manufacturing, fishing, mining, agriculture and tourism. Through a number of trade agreements, Namibia offers vast opportunities to investors in excess of original benefits from the EPZ status and tax incentives. With the exception of SACU, the country has entered into agreements and is part of numerous other regional structures such as COMESA, the Lomé IV Convention and SADC. Bilateral trade agreements also exist with Zimbabwe and Zambia.

### **Certificate of Status Investment**

Benefits accruing to holders of such certificates consist of:

- Preferential access to foreign exchange to repay foreign debt, royalty or similar charges, remit branch profits and dividends as well as proceeds of sale of an enterprise.
- The right to retain abroad foreign exchange earnings from exports.
- Exemptions from restrictions regarding categories of business reserved for Namibians.
- Protection against expropriation of business.

### **Special Incentives for Manufacturing Enterprises**

The following incentives apply equally to local and foreign companies registered as manufacturers.

- 50% corporate tax abatement for 5 years; linear phasing out over a further 10 years.
- New investment/relocation package – a further negotiated tax package.
- Accelerated depreciation on factory buildings - written off over 10 years.
- Export promotion costs tax deductible at 125 -175%.
- Training costs tax deductible at 125%.
- Direct production wages deductible at 125%.
- Industrial studies available at 50% of cost.
- Cash grants loans of 50% of approved export promotion expenses.

### **Export Incentives**

The Exporters Incentive grants an 80% allowance on taxable income derived from the export of manufactured goods, with the exception of fish and meat products, irrespective of whether the goods have been produced in Namibia or not.

### **Export Processing Zone Incentives**

The flagship of Namibia's tax based incentives is the EPZ-regime. Launched in 1996 by the EPZ Act, the EPZ is now vibrant and represents a whole new territory for the investor to exploit. In its short life span, Namibia's EPZ has attracted a good response from countries as far afield as Germany, China, Britain, Chile, Italy, Saudi Arabia, India, Canada, Oman and Lebanon. To date over 61 companies have been granted EPZ status. Of these, 15 EPZ companies are fully operational producing goods ranging from car parts to ostrich leather products.

Enterprises which undertake manufacturing, assembly, re-packaging and break-bulk operations, which gear all or almost all of their production for export markets outside of SACU, and which earn foreign exchange and employ Namibians, will be eligible for EPZ status, which confers an attractive range of both tax and non-tax benefits. These benefits are of unlimited duration.

- Enterprises with EPZ status do not pay corporate tax, import duties, sales taxes, stamp or transfer duties. It is a totally tax-free regime.
- EPZ enterprises may be eligible for a Government grant covering a part of the direct training costs on the basis of pre-approved training plans, once training is complete.
- EPZ enterprises are allowed to hold foreign currency accounts in local banks.
- They also enjoy industrial calm as no strikes or lock-outs are allowed in the EPZ-regime.
- Companies operating under the regime are free to locate their operations anywhere in Namibia.
- Through the Offshore Development Company, EPZ enterprises have access to factory facilities rented at economical rates.

## **Taxation**

Companies/Close Corporations:	40%
Diamond mining companies:	50% plus surcharge of 10 percent
Oil, gas extraction companies:	42% plus Additional Profit Tax
Other mining companies:	30 - 60% depending on profitability
Individual income tax:	40% maximum marginal rate
Non-resident shareholders tax:	10%

Substantial tax reductions have been announced for the financial year 1999/2000.

Dividends from NSX-listed companies paid to Namibian residents are tax-free.

Double taxation agreements have been signed with Germany, South Africa, the UK and other countries.

## **Institutions Involved in Investment Promotion**

The Namibia Investment Centre (NIC) was established in 1990 by the Foreign Investment Act. In 1998, the NIC was upgraded to the level of a department in the Ministry of Trade and Industry, and also expanded beyond the borders of the country by including commercial counsellors stationed abroad. The Centre has grown and now covers four essential areas of responsibility, namely: 1) Investor services, 2) Investment Promotion, 3) Information Services, and 4) Projects and Incentives Evaluation.

The NIC currently provides a full range of information and services to investors and the business community at large. Greatly enhanced information dissemination will also be possible through an office which will attend to all information needs in a timely manner. One of the main services provided includes the facilitation of the residence and work permits for investors, and assisting in the processing of applications to other line ministries regarding incentives and customs matters. The centre's primary goal is to promote Namibia as an investment location overseas, and to arrange contacts between local and foreign investors. In addition, it provides advice to the Government on

investment trends, environmental policies and incentive strategies.

The NIC therefore is the first point of call for potential investors, providing general information package and tailor-made advice on investment opportunities. Furthermore, it facilitates interaction between the Government and the private sector and assists investors in minimising bureaucratic obstacles, working closely with key productive sectors, and service and regulatory bodies.

The Offshore Development Company (ODC) is the flagship of Namibia's tax-free Export Processing Zone (EPZ) regime. Established as a private company with minority government shareholding, the ODC monitors, regulates and promotes the Namibia EPZ as a vehicle for export-led industrialisation of the economy. It also provides an opportunity for local and foreign investors to benefit from tax concessions. Together with the NIC, the ODC runs an EPZ secretariat, which handles investors' applications for EPZ status. Also it handles immigration applications by investors. Furthermore, the ODC will provide industrial or factory space for investors at economical rates, and these can be erected anywhere in the country.

The Namibian Development Corporation (NDC) was established in 1993, and is wholly-owned by the Namibian Government, but is run by an autonomous board of directors. Its development focus is mainly on agriculture and industry, and it offers loans, project appraisals, market surveys, project implementation and business advice. The NDC has branches throughout the country.

The Namibia Chamber of Commerce and Industry was founded in 1990. Among its functions it promotes prosperity through social partnership by focusing on enhancing the entrepreneurial skills, private sector development and economic growth.

### **Investment Code**

The Foreign Investment Act of 1990 provides liberal foreign investment conditions, including equal treatment of foreign and local investors, full protection of investments, no local participation requirement and openness of all sectors of the economy. However, in some cases, the government may seek to promote joint ventures with local businesses to address social and economic imbalances.

The Act also provides for the granting of a Certificate of Status Investment to foreign investors that fulfill certain criteria regarding the size and nature of the investment.

### **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

Opportunities exist for foreign investors to participate in the local market through defined target markets: these are investments potentially geared for the development of the country's export capacity to cater for markets in Europe, North America and West Africa. Potential investors have unlimited options regarding the sectoral areas in which they intend to invest. Manufacturing, local resource processing, textile and garments, electronic assembly and automotive component supply, trading and warehousing, break-bulk packaging, shipping and distribution, are among a few sectors to consider.

Lastly, local resource opportunities are aimed at servicing the domestic resource market.

<b>Namibia: Infrastructure Projects for Investment</b>		
<b>Sector</b>	<b>Project</b>	<b>Description</b>
Energy	Epupa	Construction of hydroelectric plant at Epupa.
	Kudu gas	750MW Combined Cycle Gas-Fired Power Plant to be located at Oranjemund. The project has two main components – electric power and natural gas.
	Wind energy	In the framework of its programme “Promotion of the Use of Renewable Energy Sources in Namibia”, the Ministry of Mines and Energy has investigated the feasibility of wind energy for electricity generation. It was found that the prevailing wind regime in the southern coastal areas would make wind generated power a viable option.
	132 KV line from Victoria Falls to Katima Mulilo	The objective is to reinforce the existing 66Kv line in Western Zambia, which is undergoing severe voltage fluctuations as a result of an increased combined load of Katima Mulilo and Western Zambia.
	Third petroleum licencing round	Petroleum exploration companies are encouraged to bid for offshore acreage.

Water	<p>Desalination Plant</p> <p>Okavango-Grootfontein pipeline</p>	<p>Building of seawater desalination plant in Swakopmund.</p> <p>Construction of pipeline to extract water from the Okavango river to supply the central areas of Namibia.</p>
Transport	<p>Shipping Services</p> <p>Harbour Dredging</p> <p>Northern Railway</p> <p>Walvis Bay airport upgrade</p>	<p>Establishing a regular passenger/cargo ferry service between Walvis Bay, Cape Town, and Luanda to extend the Trans-Caprivi and Trans-Kalahari Highways-based road transportation network via the Walvis Bay harbour.</p> <p>Deepening of the Walvis Bay harbour channel. This is a SADC approved project.</p> <p>The proposed new line will link Tsumeb with the Angolan border at Oshikango running parallel to the existing great north-south highway.</p> <p>The existing aerodrome is to be upgraded to accommodate wide-bodied transcontinental aircraft such as the Boeing 747.</p>

Port	Luderitz Quay	To provide 300 metres additional quay space and to provide container handling facilities in Luderitz.
	Luderitz waterfront	Development of the waterfront area to provide recreational facilities for tourists and local inhabitants. The facilities will include accommodation and a series of public places for social and cultural interaction.
	Walvis Bay: Grain silo	A need for storage facilities for import and export of grain and maize, and quarantine facilities for health and safety necessitates the construction of a 30,000 ton grain and maize silo.
	Synchrolift	As a service to the fishing industry, by providing dry docking facilities for the West coast of Africa and to attract offshore oil industry and fishing vessels, the project involves the construction of a synchrolift for vessels between 2,000 and 50,000 tons.
	Container terminal	The project intends to relocate the present container terminal in the port to provide ship to shore container handling equipment and to enable the port of Walvis Bay to handle cargo from neighbouring countries for direct exports.
	Common user facility	Construction of a quay to provide facilities for fishing vessels without their own jetties.

Source: Industrial Development Corporation, 1999

## STATISTICS

	1993	1994	1995	1996	1997	1998*
Population (millions)	1.6	1.6	1.6	1.6	1.7	1.7
Nominal GDP at market prices	2,556.2	2,926.4	3,162.3	2,966.0	3,280.6	3,006.0
Real GDP growth rate, %	-1.9	6.5	4.1	3.0	1.8	1.8
GDP per capita, USD	1,705.2	1,893.4	1,948.9	1,003.0	1,988.3	1,821.8
Consumption as % of GDP	90.2	80.7	86.0	88.8	85.8	86.0
Gross domestic savings as % of GDP	22.1	29.8	24.1	25.6	25.6	26.0
Gross investment as % of GDP	22.6	21.6	22.8	20.9	23.9	21.6
Inflation rate, %	8.6	10.8	10.0	8.0	8.9	6.2
Merchandise exports as % of GDP	50.1	45.7	45.3	38.3	41.4	42.6
Merchandise imports as % of GDP	47.4	43.7	46.4	39.0	42.7	48.3
Capital account of balance of payments	27.2	43.4	43.6	47.5	-37.9	-121.6
Foreign direct investment as % of GDP	1.9	2.1	1.6	4.2	4.6	3.2
Foreign portfolio investment as % of GDP	3.0	1.3	3.3	0.8	0.6	0.5
Overall balance on balance of payments	88.4	74.1	87.7	21.0	67.8	55.8
Average exchange rate: NAD to USD	3.2677	3.5508	3.6271	4.2949	4.6025	5.5303
Foreign exchange reserves expressed in terms of weeks of import cover	4.2	6.1	6.1	1.0	2.7	8.5
Total external debt as % of GDP	13.8	11.9	11.4	10.5	4.6	4.5
Total external debt service as % of exports	4.0	2.5	2.4	2.4	0.3	2.8
Budget deficit as % of GDP	-4.0	-2.1	-3.8	8.0	3.6	4.3
Central bank discount rate (end of year), %	14.5	15.5	17.5	17.8	16.0	18.8
Prime lending rate (average for year), %	15.5	16.5	19.0	19.8	20.5	21.8
Growth rate of M2 money supply, %	20.5	27.9	24.0	24.3	7.6	10.1
Domestic credit to government	189.4	191.7	214.2	230.0	230.8	260.5
Domestic credit to private sector	1,184.6	1,387.2	1,729.2	1,304.1	1,218.0	1,901.7

Source: Bank of Namibia (1999)

\* Estimates

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# SEYCHELLES

## GENERAL INFORMATION

<b>Where:</b>	The Republic of Seychelles is a group of islands in the Indian Ocean, situated north-east of Madagascar
<b>Land surface:</b>	455km <sup>2</sup> . There are 40 granitic and about 50 coralline islands, many of which are uninhabited. Seychelles has a large maritime area (Exclusive Economic Zone) of about 1.3 million km <sup>2</sup>
<b>Capital city:</b>	Victoria, on the island of Mahé.
<b>Population:</b>	78,000 (1997 estimate).
<b>Official languages:</b>	French and English are official languages. Creole is the <i>lingua franca</i> .

## Political Overview

The Seychelles Democratic Party (SDP) led by James Mancham, and the Seychelles People's Progressive Front (SPPF), led by France-Albert René, are the two main opposition parties in the Seychelles. The SDP and the SPPF are complete opposites in the political spectrum, with the SPPF being strongly socialist and the SDP conservative.

During the 1980s, after an attempted invasion of Seychelles by mercenaries, René banned all opposition parties. This led to a period of unrest, including a number of coup attempts. Opposition parties were legalised again in 1991. A new constitution supporting multiparty democracy was adopted and elections were held in 1993, which were won by the SPPF. In March 1998, more elections were held and once again the SPPF were victorious, with René winning 66.7% of the vote in the presidential election.

## Sectoral Descriptions

Tourism is the mainstay of the Seychelles' economy with over 60% of the country's foreign exchange coming from this industry. Hotels and restaurants contribute about 9% to GDP and 14% of the labour force is employed in this sector. The Seychelles' tourism industry is aimed at upmarket tourists, with a large majority arriving from Europe. In 1997, annual arrivals were estimated to be 130,100. The government has introduced incentives to encourage an expansion in the sector and a number of hotel developments are expected to take place over the next few years.

The government still retains a measure of control over the strategically important tourism sector, and nine of the 15 hotel developments that are being planned will be state-owned. Tourist attractions include beautiful beaches and water sports, and there are four marine national parks. The government is exploring the possibility of promoting the more remote islands as tourist destinations, to relieve the pressure on the main islands.

Since the 1970s, the share of agriculture as a percentage of GDP has dropped significantly. Coconuts (from which copra is produced), tea, cinnamon, vanilla, cassava and bananas are grown commercially on the islands. Broiler chickens and pig farming are other activities. However, the islands still rely substantially on imported foodstuffs, including the staple grain, rice.

Seychelles' tuna fishing industry has expanded since the granting of licences to foreign tuna fishing vessels, particularly those from France and Spain. These countries have been granted rights to fish in the Exclusive Economic Zone. The economy has benefited in other ways from this foreign investment because of the additional services needed by the foreign operators. Seychelles presently does not have the capacity to monitor its waters though, and it is widely suspected that some illegal fishing takes place.

Manufacturing accounts for about 13% of GDP and employment in the sector has risen rapidly since 1993. The brewing of beer, production of cigarettes, animal feeds, and fruit juices are just some of the activities of this sector. A 20ha business park, the Seychelles International Trade Zone, has been established to attract foreign processing industries.

Since 1993, the finance and business services sector has expanded and constitutes about 11% of GDP.

## **Infrastructure**

The Seychelles has an electricity generation capacity of 33,000kW, with electricity being mostly generated through the burning of diesel. The law prescribes electricity tariff rates. There has also been some petroleum exploration of the region, although no viable deposits have yet been found.

On Mahé, there are several dams and reservoirs. 99% of urban and 80% of rural dwellers have access to safe water. An extensive bus service is also in operation on Mahé, In total, there are 270 km of highways on the islands, 170km of which is tarred.

Victoria harbour, the only port on the island, is the deepest port in the Indian Ocean (13m). The port is privately managed and can handle 20 and 40-ft containers, undertake break-bulk handling, ship chandelling, bunkering and other port-related services. Oil and cement storage facilities are close by. There are plans to expand the harbour in the near future to cater for the shipment of containers as well as oil and gas products.

A number of airlines, including British Airways, Air France, Condor, Aeroflot, Kenya Airways and Inter-Air, fly directly to the Seychelles from all over the world. Air Seychelles flies regularly to Praslin, Frégate, Desroches, Bird and Denis Islands, and helicopters also fly to some of the islands. There is one international airport and 13 domestic airports, 12 of them with paved runways.

The Seychelles boasts a state-of-the-art telecommunications network, and, at 19.56/100, has the highest telephone density in SADC. There are radiotelephone communications

between islands in the archipelago, as well as between neighbouring islands and countries on the east-coast of Africa. Other international connections are made via satellite. A GSM cellular phone service was introduced in 1995, and there are presently about 1,200 subscribers. There are two television stations. The telecommunications sector is privately run, with competition ensuring that rates are reasonable and that the service is reliable.

# **ECONOMIC OVERVIEW**

## **Introduction**

Since independence the Seychelles has experienced significant growth in per capita-GDP, due to the substantial expansion of the tourism industry. In the 1990s, the government took significant steps to liberalise the economy, which is now a mix of state-owned and private enterprises. The government is currently focusing both on encouraging foreign investment and trying to reduce the dependence on tourism earnings by promoting diversification.

## **Recent Macroeconomic Developments**

The macroeconomic environment in the Seychelles is stable, and is characterised by low inflation. The economy is heavily dependent on tourism, although the government has taken steps in recent years to achieve greater diversification. The fishing industry is now a significant earner of foreign exchange, and the Seychelles is marketing itself as an international business centre.

Government policy is current focused on fiscal discipline and containing the budget deficit. The 1999 budget address promised a move away from monetisation of the fiscal deficit, towards borrowing in a more sustainable manner.

## **Financial Institutions**

Several international banks operate in the Seychelles, including Barclays Bank, Banque Francaise Commerciale – Ocean Indien, and the Bank of Baroda. The two local banks are state-owned, namely the Development Bank of the Seychelles and the Seychelles Savings Bank.

The IFC recently provided a USD10m loan to Nouvobanq, for on-lending to SMEs which earn foreign exchange.

## **Exchange Control**

There are no foreign exchange controls. However, the export of local currency is restricted to SCR100 in notes and SCR10 in coins.

## **Foreign Trade**

The Seychelles' main export is canned tuna, which accounted for 85% of domestic exports in 1997. Cinnamon bark, fresh and frozen fish, and copra are also exported. Re-export of petroleum products also takes place. France, Germany and Italy are the major destinations for Seychelles' exports. The islands import manufactured goods, food, petroleum products, and machinery. Imports are mainly from South Africa, the UK, Yemen, and Singapore.

The Seychelles generally runs a trade deficit. The tourism sector's earnings offset this partially, although the islands' hotels and restaurants often buy large quantities of imported goods.

Most imports are subject to quotas. Tariffs range up to 200%, but most goods incur a tariff of between 5 and 30%. The Seychelles Marketing Board has a monopoly on imports of most essential goods.

The Seychelles is a member of the Indian Ocean Commission, the Indian Ocean Rim, and COMESA. The Seychelles, together with the DRC, is SADC's newest member, joining the organisation officially in 1998.

### **Foreign Direct Investment**

A number of foreign companies have taken advantage of the Seychelles' onshore investment incentives, including Guinness (which has a stake in a brewery), Cable and Wireless (telecommunications) and Malaysia's Berjaya Leisure Group (tourism). Over 1,000 international companies are registered in the Seychelles.

The Heinz Group invested USD 8m in a tuna canning plant under the International Trade Zone (ITZ) arrangement, and is looking at exporting to Europe. Other ITZ investments include a USD 2m plant to export medical devices to Europe and the USA.

### **Privatisation**

The state is still a major player in the economy. There are two important parastatals in the country. These are the Seychelles National Investment Corporation and the Seychelles Marketing Board (SMB). The Seychelles National Investment Corporation is responsible for promoting development in areas neglected by the private sector, and the SMB is the sole importer of key commodities and regulates the prices, production and distribution of most goods and services.

Other parastatals include the Seychelles Timber Company, the Fishing Development Company, the Islands Development Company and Islands Resorts.

Companies that are scheduled for privatisation (1994) are the agro-industrial division of the SMB and a parastatal known as Stationery, Printing and Computer Equipment. This will be sold as three separate enterprises. Hotels will also be privatised in the future.

# **INVESTMENT CLIMATE**

## **Investment Incentives**

### **Onshore Investment**

Businesses serving the domestic and export market may apply for a Certificate of Approval, entitling them to the following benefits:

- Accelerated depreciation of up to 150% of the original cost of the asset for certain categories of investment.
- 15% corporate tax rate, with further tax credits available. In some cases, businesses may enjoy a virtual tax holiday.
- Special incentives for investments in Export Oriented Units and Special Growth Areas.

Both local and foreign companies may apply and onshore investment enterprises may employ a certain percentage of foreign staff - 25% can be foreigners, subject to the payment of a monthly fee of SCR500 (USD94) fee per employee. A further 25% of staff may be foreigners, if an additional SCR1,500 (USD192) is paid per employee.

### **Offshore Investment**

A Company must register as an International Business Company (IBC), an International Trust, an Offshore Bank, or an Offshore Insurance Company, if they wish to operate in the offshore sector. Companies pay no tax and the law guarantees confidentiality.

- IBC: There is no minimum capital stipulation and licence fees are fixed.
- International Trust: A trust may own and trade in shares, open bank accounts, and deal in government securities. There is a once-off licence fee of USD100.
- Offshore Banking: There is a minimum capital investment of USD1m, a processing fee of USD2,000 and an annual fee of USD15,000.
- Offshore Insurance: The minimum paid-up capital for general or life insurance businesses is USD125,000, while for re-insurance it is USD1m. Captive insurance companies must have a minimum of USD70,000.

### **International Trade Zone**

Freeport and manufacturing operations can apply for an ITZ licence, provided that their output is geared towards the export market. An ITZ licence will grant them exemption from all taxes. Other incentives offered by the ITZ include fixed licence fees, eligibility to sell in the domestic sector, and no restrictions on the hiring of foreigners.

Licence fees are as follows:

- Redistribution Licence: USD550
- Light Assembly Licence: USD550
- Manufacturing Licence: USD2,700 plus USD1,300 processing fee
- Processing Licence: USD2,700 plus USD1,300 processing fee
- Export Services Licence: USD1,500 plus USD500 processing fee

Licences are renewable every year.

Hotel and restaurants are granted, on a case-by-case basis, a 100% tax concession on imported capital equipment. A 50% tax concession is also granted on all service items.

## **Taxation**

Residents of the Seychelles pay income tax and social security payments.

Individuals are taxed as follows:

- 0% on first SCR 24,000 (USD 4,500)
- 25% on next SCR 24,000 (USD 4,500)
- 30% on next SCR 48,000 (USD 9,000)
- 40% on remainder

Withholding tax

- 15% on royalties
- 5% on salaries paid to non-resident government employees

The Seychelles recently concluded double taxation agreements with both South Africa and Zimbabwe. Negotiations with Cyprus, Malaysia, the Philippines, Singapore, Indonesia, the Czech Republic, Thailand, Russia, Tunisia and Morocco, are currently taking place. Seychelles' strategy is to develop a network of taxation treaties with emerging economies, which are major importers of capital. The Seychelles hopes in this way to become a route through which capital is channelled.

## **Investment Promotion**

The offshore sector is administered by the Seychelles International Business Authority (SIBA), which was established in 1995. It is concerned with the registration of offshore companies. It is also involved in the setting up of a free port in Victoria's harbour.

## **Investment Code**

The Investment Promotion Act of 1994 governs the onshore investment regime of the Seychelles. The International Trusts Act is based on the laws prevailing in Caribbean countries such as the Bahamas and the British Virgin Islands. The Insurance Act (1994) governs the Insurance Act.

## **Legal Protection of Investment**

The legal system is based on English common law, French civil law and customary law. Protection against nationalisation is guaranteed.

## STATISTICS

	1993	1994	1995	1996	1997
Population (m)	0.07	0.07	0.07	0.07	0.08
Nominal GDP at market prices	2,431.5	2,440.4	2,419.8	2,522.8	2,707.4
Real GDP (1986 prices)	1,965.6	1,950.8	1,937.4	2,029.6	2,114.8
Real GDP growth, %	..	-0.8	-0.7	4.8	4.2
Inflation, %	1.3	1.8	-0.3	-1.1	0.6
Exports as a % of GDP	53.9	51.8	55.1	62.4	67.7
Imports as a % of GDP	64.8	55.3	61.7	73.7	79.8
Financial account of the balance of payments	25.6	7.4	16.7	22.9	49.6
Overall balance on balance of payments	-10.1	-11.7	-14.0	-13.0	-5.2
Average exchange rate: SCR to USD	5.18	5.06	4.76	4.97	5.03
Budget deficit (-) or surplus (+) as a % of GDP	-9.3	-9.0	-11.4	-11.4	-12.7
Domestic credit to government	914.5	1,071.8	1,276.9	1,529.7	1,842.4
Domestic credit to private sector	172.8	209.0	245.1	269.6	397.5

Source: IMF International Financial Statistics, February 1999

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# SOUTH AFRICA

## GENERAL INFORMATION

<b>Where:</b>	The Republic of South Africa is on the southernmost tip of Africa and borders Namibia, Botswana, Zimbabwe, Mozambique and Swaziland. The Kingdom of Lesotho is completely enclosed by South Africa.
<b>Land surface:</b>	1,223,201 km <sup>2</sup>
<b>Capital city:</b>	There are nine provinces. Each has an elected Premier and a legislature.
<b>Population:</b>	43.2m
<b>Official languages:</b>	There are eleven official languages. English is the language of commerce
<b>Human Development Index:</b>	Ranked 89 <sup>th</sup> out of 174 countries in 1998. This is similar to Sri Lanka (90), the Dominican Republic (88) and Paraguay (91), and is in the medium human development category

## Political Overview

After decades of apartheid and discrimination on the basis of race, democratic elections were held in South Africa for the first time in April 1994. Nelson Mandela, leader of the African National Congress (ANC) party, was elected President of South Africa. The African National Congress obtained the majority vote in all nine provinces except from KwaZulu-Natal (Inkatha Freedom Party) and the Western Cape (New National Party). South Africa's new constitution, one of the most liberal in the world, was adopted in February 1997.

Elections are held every five years and will be held again this in June this year. President Nelson Mandela has indicated that he will not stand again for the presidency; instead, the Executive Deputy-President Thabo Mbeki will be the ANC's presidential candidate.

A new political party will contest the 1999 elections, namely the United Democratic Movement, established by Bantu Holomisa (formerly of the ANC) and Roelf Meyer (formerly of the National Party). Other major parties not mentioned above include the Pan-Africanist Congress, the Democratic Party and the Freedom Front.

## Sectoral Overview

South Africa possesses considerable mineral wealth, with reserves of gold, platinum-group metals, chromium, nickel, chromium, manganese, asbestos, diamonds, coal, iron ore, lead, zinc, and uranium. Mining accounted for approximately 7.9% of GDP in 1998. Gold has been the main source of foreign currency for years, but its share of total export receipts has declined to

below 20%, due to the fall in the dollar value of gold and the increasing depletion of high-quality gold-bearing ore. Many South African gold mining companies are therefore looking to other African countries for new investments. After gold, coal is South Africa's second-largest foreign exchange earner.

South Africa has a dual agricultural economy - a well-developed commercial sector and a predominantly subsistence-oriented sector. Today, South Africa is not only self-sufficient in most major agricultural products, but, without adverse climatic conditions, it is also a net exporter of food. Livestock is farmed in most parts of South Africa and the country normally produces 85% of its meat requirements, while the other 15% is predominantly imported from Namibia, Botswana and Swaziland. Fishing and forestry are also important activities. The sector has been deregulated in recent years, with the majority of agricultural marketing schemes and control boards having been phased out.

The manufacturing sector is well-developed and major industries include chemicals, food, transport, equipment and iron and steel. Manufacturing activity (not including the construction or energy sectors) accounted for 23.7% of GDP last year and output has been growing steadily over the past few years.

The services sector is by far the largest contributor to output, making up 57.5% of GDP in 1998, as opposed to 51.7% in 1990. A significant component of this is financial, insurance, real estate and business services, which constitute 19% of output. In fact, the financial sector is the only sector of the South African economy in which employment has been expanding since 1996. There is also much potential for growth in the tourism and communications sectors.

## **Infrastructure**

While much of South Africa's infrastructure compares favourably with that of developed countries, there is still inequality in terms of access to services and amenities. The government has prepared a ZAR5bn package of labour-intensive infrastructure programmes, which is expected to expand dramatically over the next few years.

A national campaign was recently launched in South Africa to ensure that the demand for water is effectively managed and that the appropriate tariffs are applied. Many large storage dams have been constructed to regulate the naturally variable flow of rivers, and to ease water transfers between catchments. South Africa has recently started purchasing water from Lesotho, in the first phase of the massive Lesotho Highlands Water Project. The government has provided three million people with access to clean water since 1994, bringing the %age of the population without access to water down from 30% to 20%.

About 63% of the population now have access to electricity, compared with 40% in 1994. South Africa is mostly self-sufficient in terms of energy, but does import power from the Cahora Bassa hydroelectric plant in Mozambique as well. Coal is the country's primary source of

energy. Sasol provides 47% of South Africa's liquid fuel, which is processed from coal and crude oil. Natural gas reserves offshore from Mossel Bay are exploited by Mossgas.

South Africa's modern transport system plays an important role in the national economy and in the economies of several other African states. Several countries in southern Africa use the South African transport infrastructure to move their imports and exports. The national road system connects all the major centres in the country to one another and to neighbouring countries. The system covers approximately 7,000 km of roads, of which about 660 km are toll roads. Road transport accounts for roughly 8% 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. 35% of houses have telephones. However, while the commercial centres have a telecom network that is "first-world", the rural areas are, in comparison, poorly serviced. One of the goals of the government is therefore to ensure that 75% of households have a telephone line by 2004. One million new lines were installed in 1998, mainly in the rural areas. 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. There has also been a significant increase in electronic commerce, with ZAR500m (USD85.3m) worth of transactions being done over the Internet in 1998, up from a mere ZAR6m (USD1.3m) in 1996.

Cellular phones have proved to be extremely popular in South Africa, with the country estimated to have the fourth largest market in terms of growth. There are two cellular telephone networks in South Africa, and a third is expected to be licensed in July this year.

# **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.

The South African government has affirmed its commitment to a market-oriented economy, and has recognised the need to keep inflation and the budget deficit, among other indicators, in check. However, the government is also committed to poverty relief, sustainable development and redressing the imbalances of the past. This approach is set out in the government's macroeconomic policy framework document, "Growth, Employment and Redistribution", or GEAR, which also encompasses the objectives of the Reconstruction and Development Programme.

## **Recent Macroeconomic Developments**

The mood in the South African economy at the beginning of 1998 was one of cautious optimism – interest rates had begun to fall in October of the previous year, another drop in lending rates was anticipated within the first quarter, and all seemed set for an acceleration in GDP growth, which had been slowing throughout 1997. The interest rate cut came in March, and more were anticipated, spread out over the year. Inflation was heading downwards to the extent that a new 25-year low was recorded in June, with consumer price index inflation at 5%. Passenger vehicle sales, which usually lead changes in the direction and pace of aggregate demand growth, picked up during the first quarter.

But the legacy of the South-East Asian financial and currency crises of 1997, made itself felt all around the world. Troubles in Russia triggered a renewed flight to low risk investments with emerging market economies bearing the brunt of investor panic. As this second wave of investor nervousness swept around the world in April, it became clear that South Africa would not be lucky enough to escape the damage sustained by other economies.

Within a few weeks of the second quarter, it became obvious that there was not only pressure from the emerging market contagion, but there was focused speculation against the Rand. Speculators drove the currency, which had begun the year at ZAR4.97/USD all the way to ZAR6.74/USD by the beginning of July. Initially the Reserve Bank tried to stabilise the Rand by selling Dollars, but then resorted to raising interest rates to discourage further speculation. Pressure from the Reserve Bank forced commercial banks to raise their prime lending rates

from 18.25% early in June, to an all-time high of 25.5% by the end of August. All hopes of accelerating growth vanished, replaced by anticipations of economic recession and rising inflation.

Rising interest rates brought with them their own short-term inflation problems – mortgage bond interest payments account for 12.9% of the total CPI basket of prices, and rapidly rising home bond rates were one of the factors which propelled the rate of CPI-measured inflation to 9.4% in November, after which it began to decline slowly.

Bond and equity markets showed massive changes in sentiment, not unlike those in both the industrialised and emerging markets around the world. In particular, the very liquid South African bond market suffered, by providing a convenient instrument with which to sell the Rand short. Private consumption spending was significantly constrained by the sudden increase in interest rates, but fixed investment growth was positive well into the fourth quarter of 1998.

Contracting agricultural output during the third quarter amplified the negative growth pressures accumulating in the economy. With interest rates squeezing the spending power of consumers, as well as adding to business costs, aggregate demand began shrinking. Reinforced by the high costs of holding inventories, production fell heavily in the secondary sector, particularly in the dominant manufacturing sector, which contracted by 1.7% during 1998.

Growth declined from 1.7% in 1997 to 0.1% in 1998. Interest rates began declining in mid-October, with the prime rate shedding 2.5% before year-end. The first three months of 1999 have seen a further 3% decline in prime lending rates. Further declines are anticipated.

It could take well into the second half of 1999 for consumers and businesses to re-establish the necessary confidence to create a sustainable upswing. Nervousness continues in global financial markets, and South Africa is patently not immune to such problems. Interest rates may take the first nine months of 1999 to return to early June 1998 levels. The Rand is rather weaker than a year ago. Commodity prices in global markets remain depressed. But the outlook remains positive for the South African economy – the weak Rand appears to be supporting the country's export performance, the national budget was positively received when it was announced in February, and the proceeds from the distribution of reserves in the demutualisation of two of the country's insurance giants, should assist the recovery process. GDP growth of up to 1.2% is anticipated for 1999, although analysts' individual projections vary considerably.

### **Financial Institutions**

The South African Reserve Bank, established in 1920, is a privately-owned institution (with about 700 shareholders), but is accountable to Parliament. It acts as banker to the government, custodian of foreign reserves, supervisor of banks and also formulates monetary policy and exchange rate policy. Monetary policy is determined by the Governor's Sub-committee, which consists of the Governor and his three deputies. 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. South Africa has a unitary exchange rate system, determined by the forces of supply and demand, with the Reserve Bank intervening to smooth out short-term fluctuations.

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 of these are the Development Bank of Southern Africa, the Industrial Development Corporation, Khula Enterprise Finance, and the Land and Agricultural Bank.

Net foreign portfolio investment into South Africa jumped from USD1.9bn in 1996 to USD7.8bn in 1997. Due to investor sentiment in terms of emerging markets, however, there was a substantial outflow of foreign capital in the third quarter of 1998, although in the fourth quarter foreigners returned to being net buyers of South African bonds and equities.

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 (SAFEX), respectively. The three will soon be merged into one institution, motivated by a desire to increase the international competitiveness of South Africa's financial market.

### **Johannesburg Stock Exchange**

Established in 1887, the Johannesburg Stock Exchange (JSE) is one of the larger emerging stock markets - in November 1998 it was ranked 21st in the world in terms of market capitalisation, and had the 13th highest number of companies. It is governed externally by the Stock Exchanges Control Act of 1985, and internally by its own rules and regulations.

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 replaced the old open outcry system in 1995, leading to a significant improvement in liquidity. However, screen-based trading with its consequent ten-fold increase in average turnover per day, highlighted the deficiencies of the paper-based settlement system. Thus an electronic settlement system and central depository system are 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. In April this year, a new initiative aimed at facilitating the access of SMEs to capital, was launched. The Emerging Enterprise Zone project uses the latest

Internet, database and communication technology to match capital seekers with capital providers, as well as with a range of support organisations.

One of the highlights of 1998 was the demutualisation of life assurance giant Sanlam, which listed on the JSE in November in South Africa's largest ever floatation. It is estimated that the listing will have doubled the number of shareholders in the country. Old Mutual, another big life assurance company, will demutualise during the course of 1999.

<b>JSE MARKET STATISTICS (USDm unless otherwise stated)</b>						
	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of listed companies	647	640	640	626	642	668
Market capitalisation (USDm)	217,04 6	259,52 3	280,25 7	241,24 6	235,318	153,55 9
Value of new issues (USDm)	4,150	2,814	5,375	6,610	10,915	15,989
Volume of shares traded (m)	3,646	5,800	5,148	8,993	17,854	33,232
Value of shares traded (USDm)	13,414	20,157	17,438	27,255	44,859	57,740
Number of trading days	250	250	250	250	250	249
JSE/Actuaries All Share Index	4,893	5,867	6,228	6,657	6,202	5,431
Average price-earnings ratio of all listed companies, %	23.79	25.29	21.79	18.82	16.88	19.43
Average dividend yield (annual), %	2.4	2.1	2.3	2.3	2.8	2.1

Source: JSE 1999

## **Foreign Trade**

Despite attempts to diversify its export base, South Africa is still largely reliant on the export of primary and intermediate commodities to industrialised countries. South Africa's principal exports are gold, platinum, diamonds, coal, food, wine, and manufactured products. Main exports in February 1999 were diamonds and gold (22% of exports), base metals (16%), and minerals (15%). However, manufactured goods account for about 70% 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. In February 1999, the main imports were machinery (30%), chemicals (11%) and minerals (8%). 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). Exports to the US were up 27% in the first three-quarters of 1998, compared to the same period last year, mainly due to a large increase in platinum and steel exports.

### **Trade Liberalisation**

South Africa is currently in the process of liberalising trade, which, due to South Africa's economic isolation, was heavily regulated. The average (imported weighted) tariff rate was 15% in 1998, down from 21% in 1994. Textiles, electronic goods and automobiles are considered to be sensitive products and tariffs on these items will be phased out over a longer period. This liberalisation will continue in line with South Africa's commitment to the WTO. South Africa recently concluded non-reciprocal bilateral trade agreements with Zambia, Malawi, Tanzania, Mozambique and Zimbabwe, which should increase trade between these countries and SA. A free trade agreement with the European Union was concluded this year, under which South Africa has undertaken to remove barriers on 86% of EU imports, while the EU will scrap 95% of its tariffs on SA goods. The agreement will be phased in over a 12-year period.

Most imports require prior licensing. Export permits are required for goods being exported outside SACU that are considered to be in short supply or that are controlled for strategic purposes.

### **Foreign Direct Investment**

After the change of government in 1994, the net flow of FDI 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. Over the past few years, many firms which disinvested in South Africa during the apartheid era have been returning the country; however, investment flows of this nature have tailed off, and are now in the process of consolidation. Furthermore, many foreign firms use their operations in South Africa to serve the regional, as well as the local, market. FDI picked up considerably towards the end of 1998, after relatively slow activity during the first three-quarters of the year. Investment was up by an estimated 9% in nominal rand terms in 1998, amounting to a slight decline when the depreciation of the rand is taken in account.

The largest investor in South Africa by quite a long way has been the United States. Other major investors in the country have been Germany, the UK, Switzerland, France, South Korea and Malaysia. While European and American firms established a presence in the South African

market many years ago, investment from the Asian continent is a relatively new phenomenon. Malaysia was South Africa's top investor in 1998, as a result of the additional Petronas investment in Engen. The sectoral distribution of FDI was markedly different in 1998, as compared to 1997, with the top five FDI sectors being Energy and Oil, Mining and Quarrying, Construction and Materials, Motor and Components, and Food and Beverages. None of these sectors featured in the top five list for 1997, suggesting that sector performance does not necessarily motivate investment.

About 60% of total investment flows over the past four years have been undertaken in the form of mergers and acquisitions. 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% 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. The initiatives are to be financed primarily by the private sector, with minimal government involvement.

**Fish River SDI:** Running between the two Eastern Cape ports of East London and Port Elizabeth, this SDI is focused on industry and agro-tourism. The major projects planned for the area include a USD 460.8m zinc smelter, an expansion of investments by motor manufacturers Delta, Mercedes-Benz and Volkswagen, and an automotive and components industrial cluster.

**Wild Coast SDI:** This SDI consists of a 280 km stretch of Indian Ocean coastline, from Port Edward in the north to East London in the south. The major potential of this area has been identified as agro-tourism, and thus the planned projects involve the development of tourist facilities at four key nodes along the SDI. The aim is also to promote arrangements between investors and the local communities that control the land resources.

**Platinum SDI:** The road around which the SDI is based, runs from the north of Pretoria and through the North-West Province, eventually joining up with the Trans-Kalahari highway in Lobatse, Botswana. Due to the region's wealth of raw materials and existing tourist infrastructure, the SDI will be built around industry and agro-tourism. Major projects identified include the proposed building of a USD 511.9m toll road, new mining projects (platinum, gold, diamonds, slate and nickel), and 33 tourism projects.

Phalaborwa SDI: This corridor aims to establish better transport links between the agricultural area of Xenon in the Northern Province, the mining potential of Phalaborwa and the port of Maputo. Initial studies to identify investment opportunities along the corridor are currently underway.

West Coast Investment Initiative: The corridor stretches from the industrial centre of Atlantic, just north of Cape Town, up along the west coast. It includes several major fishing and industrial ports, including Saldahna Bay. The largest project currently underway is the Namakwa Sands project, which mines titanium slag and other minerals from the heavy sands at Saldahna. The latter has also been earmarked for an Industrial Development Zone (see below), and there will also be a focus on developing the agriculture and tourism sectors in the region.

Regional SDI projects include the Maputo Corridor and the Lubombo SDI, details of which are given in the Mozambique and Swaziland country profiles respectively.

As part of the SDI project, South Africa is in the process of launching its own version of Export Processing Zones (EPZs), called Industrial Development Zones (IDZs). The planned IDZs are different from EPZs in that they will not rely heavily on low wages 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, innovative human resource utilisation, research and development, technology and workplace organisation, as well as on networks and downstream linkages. IDZ companies will benefit from world-class infrastructure, expedited customs procedures, and a one-stop regulatory authority.

IDZs will be located in a fixed, duty-free geographical zone, most likely close to ports or airports in order to minimise transport costs. Fiscal and financial incentives proposed are

- duty-free imports of capital goods, inputs and specialised support equipment;
- profit and capital repatriation mechanisms; and
- VAT exemption when accessing local raw material inputs and services for export

A draft Development Zone Enabling Bill was presented to Parliament in July 1998, and Cabinet approved plans for establishing IDZs in March 1999. An IDZ will be established at the proposed Coega port in the Eastern Cape, and technical preparations for land acquisition and port construction are being finalised. Feasibility studies for the establishment of IDZs are currently being conducted around the ports of Richards Bay, East London and Saldahna.

### **South Africa's investments in the SADC region**

South African investment in the SADC region has grown substantially since 1994, especially in the non-SACU countries. The country's first democratic elections opened up many areas of previously-unexplored potential in the Southern African region for South African companies. Relaxation of exchange control restrictions, allowing SA companies to invest up to ZAR 250m (USD 40.5m) per investment in any of the SADC countries, have also acted as an incentive for

SA firms to invest in the region. There are signs that these flows are slowing, however - South African investment in other SADC countries totalled an estimated ZAR 8bn (USD 1.3bn) in the first three-quarters of 1998, compared to ZAR 13.7bn (USD 2.2bn) in 1997.

Knock-on investment opportunities are also emerging, especially in the area of support infrastructure for newly established operations. Furthermore, many South African companies in the services sector are following their clients into the region. The trend towards privatisation and deregulation in many Southern African states has also opened up opportunities for South African companies.

A high percentage of South African investment into SADC has been in the mining sector. Southern Africa's mineral potential is to a large extent unexploited, whereas South African mines have been extensively developed, so northward expansion is seen as a natural progression. South African retailers have also invested significantly in the region.

South African companies have a number of advantages over their overseas counterparts when it comes to investing in SADC - geographical proximity, their focus on providing for the African market, and their African identity and commitment. Investors from other parts of the world can benefit substantially by partnering with South African firms. Furthermore, South African companies now have access to funding from institutions such as the World Bank, the African Development Bank, the European Development Fund and the Commonwealth Development Corporation.

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

<b>COUNTRY</b>	<b>COMPANY</b>	<b>INVESTMENT</b>	<b>AMOUNT</b>
Angola	De Beers	Mining activities in 1997	USD135m
Democratic Republic of Congo	Anglo American	Acquisition of a 60% stake, in partnership with American Mineral Fields, in a new company which will own the Kolwezi Tailings project (a cobalt and copper concession). October 1998.	
Malawi	Standard Bank	Acquisition of a 72% stake in Indebank in May 1998	USD10m
Mauritius	Nedbank	Acquisition of a 20.1% stake in Mauritius' second largest commercial bank, the State Bank of Mauritius, in 1997.	
Mozambique	Billiton IDC	Major shareholders in the Mozal aluminium plant being constructed near Maputo	ZAR1.3bn (total)
	IDC	Together with Enron, IDC holds a 50 % stake in the iron and steel plant to be built	USD210.7m (total)

		near Maputo. The project is scheduled to start up in 2003.	investment)
	Protea Hotels	Investment in the hotels, leisure and gaming sector in 1998.	USD259.3m (total investment)
	Shoprite Checkers	Retail sector, 1998	USD13m
Namibia	Shoprite Checkers	Retail sector, 1998	USD4.9m
	Price Forbes	Financial services sector, 1998	USD5.7m
	Anglo American	Owns 40% stake in the Skorpion zinc project, currently being developed by Canadian company Reunion Mining	
Tanzania	Anglo American	Holds 60% of the Kabanga nickel resource, a joint venture with Sutton Resources	
	Engen	Oil terminal in Dar es Salaam	USD19.9m
	South African Breweries	Acquisition of a 45% stake in Tanzania Breweries and a five-year management contract.	
	Alpha	Acquisition of a large stake in Tanga cement	
Zambia	Anglovaal Minerals	Acquisition of the mining rights to the Konkola North copper mine, as part of ZCCM's privatisation. Avmin also bought the Nkana slag dumps and Chambishi Cobalt and Acid plants. There are plans to build a new plant to process copper and cobalt from its mine and other mines in the area.	
	Shoprite Checkers	Refurbishing and developing recently purchased trading outlets.	USD7.5m
	Anglo American South African Breweries	Acquisition of Zambia Breweries through their subsidiaries Zamanglo and Indol International BV, respectively	
	Sun International	Hotel, leisure and gaming sector, 1998	
	African Oxygen	Acquisition of a majority stake in the formerly state-owned company, Zambian Oxygen, in 1998.	USD3.2m
Zimbabwe	Macmed Health Care	Pharmaceutical and medical industry, in 1997	
	Anglo American	Development of the Unki platinum deposit	

## **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% stake was a consortium made up of US company SBC and Telekom Malaysia. The corporatisation of the electricity utility Eskom has also progressed, with the Eskom Amendment Act being passed by Parliament in 1998. The Post Office is also expected to choose a strategic management partner by the end of May this year - four foreign groups have already been short-listed. The service is committed to becoming self-sufficient in the next three years.

The sale of Aventura Holiday Resorts to Kopano ke Matla, the Congress of South African Trade Union's investment wing, fell through after Kopano failed to meet payments deadlines due to a lack of financial backing. Sun Air was sold last year, for USD 9.9m, to a consortium of investors, including Rethabile Consortium, Co-ordinated Network Investments and Comair, and a 20% stake in the Airports Company was awarded to Aeroporti Di Roma. The government is intending to sell 49% of South African Airways, with 35% going to an international equity partner, by mid-June. Meetings with potential partners have already taken place. Although government will absorb ZAR 3bn (USD486.2m) of its liabilities, SAA will still remain responsible for its ZAR 1bn (USD162.1m) pension fund and debt burden, which will mean that the airline will probably only become profitable in a few years times.

It is anticipated that Safcol, the state forestry company, as well as 60% of government-owned commercial forest, will be sold by August 1999. The government expects to raise between ZAR1-1.5bn (about USD 162.1m to USD 243.1m) through this privatisation, the largest ever forestry privatisation in the world. The private sector will be offered a 75% share, of which 10% has been set aside for groups involved in black economic empowerment.

Furthermore, the privatisation of the state's arms company, Denel, will begin with the public offer of its information technology wing, Denel Informatics. The corporatisation of Denel Aerospace as a separate company will be completed by the end of April. The Transnet Group, with assets estimated at some ZAR41bn, is busy undergoing corporatisation and restructuring, with the sale of some of its non-core businesses - Transwerk, Connex, Datavia, Production House, Apron Services, Protekon, Chemical Services, Transmed and Housing - envisaged sometime this year. A two-year management contract for the state-owned diamond mining company Alexkor was awarded to Nabera Mining in March 1999, with London-listed Petra Diamonds being the lead partner.

The goal of South Africa's privatisation programme is to increase asset productivity, to set up a strategic partnership for skills and technological transfers, and the attraction of long term FDI to supplement financial flows which are predominantly short term and highly volatile. The proceeds

of privatisation initiatives will be used to reduce state debt and recapitalise public enterprises. Furthermore, government plans to pool part of the shares of privatised companies in the National Empowerment Fund, a fund set up to promote the participation of previously disadvantaged groups in South Africa's economy. The privatisation programme also considers issues of job creation and developing downstream economic activities.

# INVESTMENT CLIMATE

## Investment Incentives

<i>Type</i>	<i>Applicability</i>	<i>Benefits</i>
<b>Credit Guarantee Insurance Corporation</b>		
Short-Term Export Finance Guarantee Facility	All SMME exporters in all sectors.	Pre- and post-shipment export finance guarantees.
<b>EMA</b>		
Export Marketing and Investment Assistance Schemes	All exporters, but with special terms for SMMEs.	Portion of costs relating to exhibitions, primary market research, outward selling trade missions, and inward buying trade missions.
<b>Industrial Development Corporation</b>		
Medium-Term Loan Financing	All independent industrialists/groups with assets not exceeding ZAR120m (USD19,4m).	Loan financing at medium-term capital market rates.
Job Scheme	Any company creating at least 10 new jobs at ZAR100,000 (USD16,207.4) per job or less	Low interest loans for the creation of addition production capacity.
Orchard Scheme	Individual farmers/group of farmers for a joint scheme administered by a co-operation or other acceptable body.	Provision of low interest rate loans, with the aim being to create job opportunities in rural areas. Will be phased out shortly.
Normal Finance	Small and medium-size industrialists.	Finance to assist these industrialists in the growth phase of their development.
Import Finance	Small and medium-sized industrialists.	Credit and guarantee facilities to local industrialists for importation of capital goods and services.
Finance for Export of Capital Goods and Services	Industrialists/exporters.	Credit facilities for capital goods and services exported.
Ecotourism Scheme / General Tourism Scheme	Development, improvement and/or expansion of tourist accommodation.	Financing for the development of new projects and the expansion of existing facilities.
Standard Leased Factory Building Scheme	Small and medium-sized industrialists.	General-purpose factory buildings available for lease from the IDC.
Cleaner Production Scheme	Industrialists.	Loans at the normal interest rate for acquisition of fixed assets to control/abate pollution.
Consortium Finance Scheme	Empowerment groups.	Equity funding on a matching basis.
Wholesale Finance Scheme	Organisations, companies, franchisers.	Financing for on-lending to emerging entrepreneurs
Fish Harvesting Scheme	Emerging entrepreneurs with an asset base > ZAR500,000 (USD81,037) who intend to establish fishing ventures.	Loans, equity and quasi-equity loans.
Low Interest Rate	Small and medium-sized undertakings	Low interest rate finance.

Empowerment Schemes	controlled and managed by black entrepreneurs.	
Takeover and Acquisitions Scheme	Emerging black industries.	Finance in the form of loans, equity and quasi-equity loans.
<b>Department of Trade and Industry</b>		
Competitiveness Fund	To support the introduction of technical and marketing know-how and expertise to firms.	Loans and grants of up to 50% of the cost.
Sector Partnership Fund	Partnership of five or more organisations in the manufacturing sector.	Up to 65% of costs of projects up to ZAR1.5m (USD243,112) are covered. Aim is to support sub-sector partnerships in preparation of technical and marketing programmes
Duty Credit Certificate Scheme for exporters of textiles and clothing (DCCS)	Exporters of certain prescribed textile and clothing products.	Duty credit certificates to qualifying exporters.
Motor Industry Development Programme (MIDP)	Available to local motor vehicle assemblers and component manufacturers and exporters.	
Tax Holiday Scheme.	Local and foreign firms whose investment in plant and machinery exceeds ZAR3m (USD486,224).	Industrialists receive two years tax holiday for each of these components they comply with: spatial location, qualifying industries and the ratio of human resource remuneration to value added. Also includes a foreign investment grant for investors bringing in new industrial equipment.
Small/Medium Manufacturing Development Programme (SMMDP)	Same applicability as for the Tax Holiday Scheme, except that it is for enterprises with assets of less than ZAR3m (USD486,224). Must be incorporated after 1 October 1996 and engaged in new, secondary manufacturing processing.	Tax-free grant from Government for maximum of six years. The grant is divided into three components: - Establishment Grant: First three years calculated at 10.5% of qualifying assets. - Profit/Output Incentive: The next year is based on 25% of profit before tax. - An additional two years profit/output incentive provided the industrialist can meet or exceed the human resource remuneration to value added ratio of 55% measured in the fourth financial year. - Foreign Investment Grant: A grant to overseas companies investing in new machinery and equipment to establish new projects in South Africa.
Support Programme for Industrial Innovation (SPII)	All private sector companies in the manufacturing industry.	50% subsidy on the expenditure incurred in developing new products and technology. Maximum of ZAR1m (USD 162,075)
Technology and Human Resources for Industry Programme (THRIP)	Research groups in the natural sciences, engineering and technology within educational institutions can participate in collaboration with any private	Contributions provided by industry and government to finance research efforts provided that such research projects involve the training of students. R1

	company.	(about 16 US cents) for every R2 from industry, and, if certain criteria are met, R1 for every R1 from industry.
Rebate Provisions	All manufacturing industries.	Drawback of certain duties applicable to imported goods, raw materials and components used in manufacturing, processing or for export.
Low Interest Rate Finance for Export Promotion	Industrialists with total assets of at least ZAR1m (USD 162,075) expanding capacity to serve export markets. Large companies with total assets exceeding ZAR120m (USD19.4m) only qualify partially.	Low interest rate loans for the acquisition of fixed assets (machinery and equipment) to promote new investment directed at exports.
<b>South African Revenue Service</b>		
Accelerated Depreciation	Local and foreign firms establishing new manufacturing plants or expanding existing plants.	Provides for the depreciation of plant and machinery over three years, and land and buildings over ten years.
<b>Khula Enterprise Finance Limited</b>		
Standard Credit Guarantee Scheme	SMMEs with assets of less than ZAR2m before financing. SMMEs must meet the bank's normal lending criteria.	Credit guarantees to a maximum indemnity of 60-70 %. Maximum facility: ZAR600,000 (USD97,244).
Emerging Entrepreneur Scheme	SMMEs with assets of less than ZAR2m before financing. SMMEs must meet the bank's normal lending criteria.	Credit guarantees to a maximum indemnity of 60-70 %. Maximum facility: ZAR75,000 (USD12,156).
Business Loans for Retail Financial Intermediaries (RFIs)	Accessible to experienced and less experienced RFIs who meet Khula's development and institutional criteria.	Loans to RFIs for on-lending to SMMEs. Loan amounts for less experienced RFIs range from ZAR1m (USD162,075) to ZAR10m (USD1.6m). Loan amounts for experienced RFIs range from ZAR5m (USD810,365) to ZAR100m (USD16.1m).
Seed Loans for RFIs	To qualify, an RFI must have clearly defined SMME target markets and have matching funds of at least 15% of envisaged operating expenses.	The amounts range between ZAR50,000 (USD8,104) and ZAR20m (USD3.2m). Seed loans are converted to grants once mutually agreed-upon performance criteria are met.
Capacity building support for RFIs	An RFI with a clearly-defined SMME target market.	Support will be structured around the capacity needs of the RFIs. The grant amounts range from ZAR10,000 (USD1,621) to ZAR500,000 (USD81,037).

## Taxation

Some important aspects of the tax system are:

- Income in South Africa is taxed at source.
- Corporate tax rate: 30% (reduced from 35% as from 1 April 1999).
- VAT is levied on goods and services, except for some basic foodstuffs. Exports are also zero-rated. The current VAT rate is 14%.

- 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 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%.
- Double taxation agreements exist between South Africa and the following countries: Austria, Belgium, Botswana, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Iran, Ireland, Israel, Japan, Korea, Lesotho, Malawi, Malta, Mauritius, Namibia, Netherlands, Norway, Poland, Romania, Singapore, Swaziland, Sweden, Switzerland, Thailand, the United Kingdom, the USA, Zambia and Zimbabwe. The treaty with the United Kingdom also extends to Grenada, the Seychelles and Sierra Leone. There are other countries that are in the process of negotiating double taxation agreements with South Africa.

### **Investment Promotion**

Established by the Department of Trade and Industry, and officially launched in February 1997, Investment South Africa is South Africa's national investment promotion agency. Through the development of a proactive investor targeting strategy, Investment South Africa helps to match overseas firms with attractive investment opportunities.

The agency acts as the facilitator of Government's vision to achieve a competitive outward-oriented growth platform, in line with its GEAR (Growth, Employment and Redistribution) Strategy.

Investment South Africa works in partnership with each of the nine provincial investment promotion agencies. The organisation co-ordinates provincial activities at a national level, ensuring consistency with policy objectives laid down by the Department of Trade and Industry, and assists the provinces in developing the capacity to effectively attract and facilitate foreign direct investment. Through its investor targeting activities, the agency pairs industry requirements with the location attributes of each province.

Investment South Africa has embarked on a programme of strategic discussion with the private sector to elicit their support for investment marketing efforts. The agency has been instrumental in launching SDIs and targeting foreign business in SDI marketing campaigns. In addition, a programme has been initiated to target and assist black owned SMEs that show potential for joint ventures and other partnerships in alliance with foreign firms.

### **Exchange Controls**

- The South African Reserve Bank (SARB) is in charge of the administration of exchange control, with some responsibilities being delegated to authorised foreign exchange dealers, such as commercial banks. There are virtually no restrictions on current account transactions, or on inward investment and disinvestment. Outward investment is, however, still subject to controls. 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% 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 their export sales 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 ZAR 4,000 (about USD 794) per year, management fees and royalties are also subject to approval by the SARB, 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. ZAR 250m (USD 40.5m) may be invested in the region, while the amount for other countries currently stands at ZAR 50m (USD 8.1m).

### **Investment Code and Legal Protection of Investment**

The signing of bilateral agreements for the promotion and protection of investment with several countries are in the process of being negotiated. Intellectual property rights are protected, and South Africa does not discriminate between domestic and international holders of intellectual property rights. South Africa has also complied substantially with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

South Africa is signatory to international investment protection agreements and is a member of MIGA.

### **Investment Opportunities**

Investment South Africa has identified the following sectors and industries with good potential for investment.

- *Agribusiness*: Aquaculture; Beta-Carotene; Leather Tanning & Finishing; Nuts (Macadamias); Sub-tropical Fruit.
- *Agro-Forestry*: Furniture; Wood products.
- *Automotive*: Components, including After-Market Components, Alloy Wheels, Bearings, Catalytic Converters, Engine Batteries, Glass Components, Wire Harnesses; Farm Equipment and Machinery.
- *Dimension stone*: Granite; Slate.
- *Engineering*: Light Engineering and Metal Works; Precision Engineering.
- *Food Processing*: Beer and Malt Beverages; Carbonated Soft Drinks; Fruit Processing; High Value-added Branded Processing; Meat Processing; Potatoes ; Vegetable Processing.
- *Information Technology*: Integrated Solutions; Telecommunications Equipment.
- *Iron, Steel and Aluminium*: Aluminium Building Products; Aluminium Hollowware; Aluminium Products; Stainless Steel Pipes and Tubes; Downstream Industries in Carbon Steel.
- *Petrochemicals*: Olefins; Paints; Plastics/Polymer; Solvents; Surface Active Agents; Tar Products; Waxes.
- *Pharmaceuticals*: Generics; Research and Development.
- *Tourism*: Conference Tourism; Ecotourism; Game Farms, Lodges and Nature Reserves; Historical/Cultural; Hotels, Resorts, and Casinos.
- *Transport*: Boat Building; Ship Repair and Containerization.
- *Other*: Film Production; Mohair Apparel; Sanitaryware.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	38	39	39	40	41	42
Formal sector non-agricultural employment (millions)	5.4	5.3	5.3	5.2	5.2	4.9
Nominal GDP at market prices	116,988	121,443	133,613	126,324	129,112	116,659
Real GDP growth rate, %	1.3	2.7	3.4	3.2	1.7	0.1
GDP per capita , USD	3,085	3,143	3,385	3,132	3,132	2,769
Private consumption expenditure as % of GDP	60.6	60.3	60.9	61.0	61.6	61.4
Net private savings as % of GDP	9.3	8.1	6.9	6.9	5.5	4.0
Gross domestic fixed investment as % of GDP	13.6	15.9	14.7	13.7	11.9	10.4
Inflation rate, %	9.7	9.0	8.7	7.4	8.6	6.9
Total merchandise exports as % of GDP	20.7	20.6	21.6	23.5	23.5	24.0
Total merchandise imports as % of GDP	15.7	17.7	20.3	21.7	22.0	23.1
Financial account	634	2,263	5,401	3,333	7,529	2,581
Overall balance on balance of payments	-2,728	813	2,368	-1,188	-2,358	-793
Average exchange rate: ZAR to USD	3.27	3.55	3.63	4.30	4.61	5.53
Foreign exchange reserves expressed in terms of months of import cover	2	1	1	1	2	3
Total external debt as % of GDP	23.1	24.4	26.4	27.3	30.4	30.9
Budget deficit as % of GDP (including transfer payments)	-9.7	-5.6	-5.8	-5.5	-3.5	..
Central bank discount rate (end of year)	12.0	13.0	15.0	17.0	16.0	19.3
Prime lending rate (average for year)	15.3	16.3	18.5	20.3	19.3	23.0
Growth rate of M2 money supply	4.0	20.6	13.9	15.8	18.7	13.7
Net domestic credit to government	2,194	4,3670	1,599	2,175	4,107	5,374

Total domestic credit to private sector	67,619	75,878	86,794	78,401	86,328	83,721
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Source: South African Reserve Bank (1999)

## USEFUL ADDRESSES

Maputo Corridor Company:

PO Box 4277

Nelspruit

1200

Tel: +27-13-7554004

Development Bank of Southern Africa:

PO Box 1234

Halfway House

1685

Tel: +27-11-3133911

URL: [www.dbsa.org](http://www.dbsa.org)

Industrial Development Corporation

PO Box 784055

Sandton

2146

Tel: +27-11-2693000

URL: [www.idc.co.za](http://www.idc.co.za)

Investment South Africa

PO Box 782084

Sandton 2146

Tel: +27-11-8842206

URL: [www.isa.org.za](http://www.isa.org.za)

Department of Trade and Industry

Private Bag X84

Pretoria 0001

Tel: +27-12-3109786

South African Reserve Bank

PO Box 427

Pretoria

0001

URL: [www.resbank.co.za](http://www.resbank.co.za)

# SWAZILAND

## GENERAL INFORMATION

<b>Where:</b>	The Kingdom of Swaziland is bordered by South Africa and Mozambique and is one of the smallest countries in Southern Africa.
<b>Land surface:</b>	17,364km <sup>2</sup>
<b>Capital city:</b>	Mbabane
<b>Population:</b>	Less than one million people (1998). There is a steady population growth rate of about 2.7% per annum.
<b>Human Development Index:</b>	Ranked 115 out of 174 countries. It can be compared with South Africa (89), and Namibia (107).

## Political Overview

Swaziland is one of the few monarchies in Africa. Swaziland has a hybrid form of government, consisting of western and traditional elements. One of the latest political developments is the *Tinkundla* system, which allows people to elect parliamentary representatives based on specific constituencies.

The country has a bicameral parliamentary system, with the Prime Minister being appointed by the King. Swaziland is governed through the King having extensive consultations with the people, a practice long established since the days of the King Sobhuza II (father of the current King). At present a Constitutional Review Commission has been instituted by the King to consider a reform of the system.

The dualism of the political framework also permeates the legal system, which has both constitutional and traditional courts. However, in the event of a dispute, the Roman-Dutch law takes precedent. The constitution is the supreme law of the land, and includes a Bill of Rights.

## Sectoral Description

The manufacturing sector accounts for about 37% of GDP and is the leading economic activity. Over 26% of the total workforce are employed in this sector. Due to the small domestic economy, this sector is highly responsive to events internationally, especially foreign direct investment and external demand. Most of its exports consist of food and beverage, soft drinks, sweets, dairy products, yarn, fabrics, furniture and fruit canning.

Agriculture, despite falling as a percentage of GDP, is still the key economic activity and also the largest earner of foreign exchange in Swaziland. Its importance stems mostly from the fact that a number of the value-adding industries are largely dependent on the sector for their inputs such as wood pulp, citrus, sugar, maize and meat. Sugar on its own accounts for much of the agricultural activity (about 20% of GDP) and about 16,000 Swazis are employed in the cane and sugar industry. Over the years agriculture has been gradually declining and currently claims less than 10% of GDP.

Farming is made up of commercial and informal or small-scale farmers. Commercial farming is characterised by a huge industrial base geared for the export market, and is responsible for 81% of

agricultural output. Europe, the USA, and Mozambique are some of the important export destinations. Small-scale farmers are mostly engaged in subsistence farming and their total production scarcely exceeded the 2% GDP threshold.

Forestry is another widespread economic practice. A large number of forests are found in the country with pine plantations being the most prevalent. The Usutu has well over 66,000 hectares of land covered in planted pine trees, making it one of the largest man-made forests in the world. Other common species consists of the non-indigenous conifers and gum trees.

The government has initiated several moves to boost the tourism industry's turnover, such as extending border hours and relaxing visa requirements in line with international experience. The country still enjoys some competitive advantage over its neighbours, offering affordable motel, hotel and lodge accommodation, and attractive resorts. The growth in casinos is expected to spur tourist interest. In addition, efforts on the current Lubombo spatial development initiative, an eco-tourism zone that will link South Africa, Swaziland and Mozambique, will also have a positive impact on the sector.

## **Infrastructure**

The National Development Plan has been primarily introduced to improve and upgrade the country's infrastructure.

Swaziland produces some electricity, but the bulk is imported from South Africa. Swaziland is in the process of concluding agreements with neighbouring states on a 400KV-electricity project, which will guarantee electricity supply for the next 20 to 30 years without any upgrading. The Swaziland government has also received a pledge from DANIDA to assist on a large-scale rural electrification scheme to meet local energy needs.

The country has a well-maintained roads system. In the current national budget, a substantial allocation was made for the improvement of the road network internally, and to integrate existing roads into the neighbouring countries. Distribution efficiencies will accrue to the business community, in particular following the completion of the Mbabane-Manzini highway. Further work is still being done along the following roads, Ngwenya-Mbabane, the Siteki-Mhlumeni, the Luyengo-Sicunusa, and the Nhlanguano-Lavumisa. During 1999, work is expected to commence on two other roads - the Mliba-Madlangempisi-Lavumisa and Madlangempisi-Msahweni complexes.

Railway rehabilitation is expected to take place in Matsapa-Phuzamoya and Mpaka to the Mozambican border as part of the country's goal to enhance export capacity through providing competitive and efficient transportation systems. Costs will be reduced due to direct access to the Gauteng Province in South Africa and the Maputo port. The Ngwenya Border post was upgraded by the Ministry of Public Work recently and this has resulted in increased parking space capacity. Currently the border post allows for about 15 heavy-duty trucks to park simultaneously, compared to six previously.

Construction of the Komati River Basin and the Lower Usuthu River Basin is underway, while construction on another two dams will also start in 1999. For a country still reliant on agricultural activity this is a significant initiative as an estimated 18,500 hectares of land will be put under cultivation. It is also expected that water from the completed dams will be utilised for the generation of hydro-electricity

and agricultural projects. Construction work on the Maguga dam is scheduled for 1999.

The Royal Swazi National Airways Corporation will continue as the national carrier operating flights internationally, domestically and regionally, although privatisation plans are pending. Meanwhile, a decision is to be taken regarding the introduction of a new airline. An Air Services Agreement between the Swaziland and Tanzanian governments is still to be finalised and will deal with issues such as route schedules, flight frequencies, types of aircraft to be used and so on.

The telecommunications sector is continuously being improved. With the completion of the digitalisation and upgrading of the telephone system, there are plans to extend existing telephone lines into rural areas. A license to install and operate a GSM cellular network was awarded to MTN Swaziland. While in its early stages, cellular services will be concentrated in the main centers such as Mbabane, Manzini and Pigg's Peak. There is a five-year plan to ensure the roll-out of these services to over 70% of the country.

# **ECONOMIC OVERVIEW**

## **Introduction**

Swaziland has a small economic base and, as a result, the country has had to rely on the development of an export market. As part of SACU, Swaziland derives a large proportion of government revenue from the Union. With the free trade agreement between the EU and South Africa having been concluded, its revenue base might be negatively affected due to a reduction of tariffs.

The government has adopted a long-term economic view aimed developing the private sector and increasing the general living standards of the Swazi people. The National Development Plan and the Economic and Social Reform Agenda are the two key government policies which aim to stimulate economic growth, improve tax regimes to attract further foreign direct investment, upgrade infrastructure, alleviate poverty, and reduce crime and unemployment.

## **Recent Macroeconomic Developments**

Sluggish aggregate demand due to punitively high interest rates, together with adverse economic developments in South Africa and Asia, have had a negative impact on the overall performance of the country's economy. The Swaziland economy is forecast to grow by 3% in 1998, edging below the 3.7% obtained in 1997. With the recent estimates of population growth at 2.7% per annum, the standard of living of the Swazi people seems to have marginally improved. But this improvement is far off the levels achieved in the 1980s, when Swaziland recorded a rapid growth in per capita income.

Positive economic performance in 1999 will emanate mainly from a strong recovery of the agricultural sector and an anticipated moderate growth in manufacturing. Agriculture's recovery is associated with the continued good rainfall since 1997. The manufacturing sector is expected to register positive growth in spite of a weaker than expected production of refrigerators and the closure of a glass-manufacturing firm. Furthermore, the low real growth of the South African economy in 1998 is expected to undermine Swaziland's export demand, since South Africa is the largest buyer of Swaziland's exports. This, to some extent, will result in slower manufacturing output growth.

The rate of growth of private sector credit continued to decline in 1998 reaching a year-on-year level of 5.9 % at the end of December. The high level of interest rates during the second half of the year, put credit out of reach of the ordinary business enterprise at a time when the economy was already experiencing a recession.

Net foreign assets increased by 43.7 % valued in local currency. This high rate of growth reflects in part the revaluation effects of the weakened currency. Government's net creditor position with the banking system strengthened by 51% - mainly due to the accumulation of savings from the customs revenue pool. The low rate of credit extension to the private sector together with the huge growth in government savings resulted in a negative growth in net domestic credit.

Swaziland's overall balance of payments is expected to perform relatively well during 1998, despite a net outflow on the financial account. It stood at USD35m in 1998 from a revised surplus of USD20m in

1997. Consequently, the international reserves of the country improved significantly, representing 5.0 months worth of import cover in December 1998 compared to 3.5 months in December 1997.

The improved overall balance of payments position is expected to stem mainly from an improvement in the external current account, that yielded the highest ever estimated surplus of USD25m from a revised deficit of USD11m in 1997. The positive developments in the current account resulted mainly from improvements in the trade account coupled with large inflows of transfers, principally in the form of revenue from the SACU and the income account. The favourable developments in the trade balance are attributable to a combination of a weak import demand and a strong performance of merchandise exports, especially manufactured goods like soft-drink concentrates, paper and textile products.

The projected out turn for 1998/99 indicates that Government's budgetary position will worsen to a deficit of USD18m from a surplus of USD37m in 1997/98. This will be largely due to a sharp increase in capital expenditure that is associated with sizeable developmental projects. However budget deficits in past years have been as a result of a combination of factors, such as high levels of government consumption and much slower growth in public revenues, mainly associated with a less diversified revenue base.

Swaziland's external debt continued to rise, reflecting the persistent depreciation of the Lilangeni against major currencies and the increased pace of drawing down on loans associated with large capital projects. At the end of December 1998 total external debt amounted to USD 268m. Of this amount, public sector borrowing accounted for 80.8%.

## **Financial Institutions**

The Central Bank of Swaziland was established in 1979. The Central Bank is part of the Ministry of Finance and there is no constitutional guarantee of its independence. The Bank conducts all the central bank functions such as advising government, issuing national currency, managing the country's foreign official reserves, and intervening occasionally in the foreign market. Monetary developments by and large reflect those of South Africa due to the integration of the two economies. The Bank does however maintain a spread between the interest rates of the two countries.

New and stringent measures are to be put in place to strengthen the country's banking system after the world experienced serious banking failures and ebbing depositor confidence. This will be effected by limiting the issuing of operating licenses only to those financial institutions of repute.

Complementary efforts aimed at increasing efficiencies in the national payment system have also been undertaken through providing support to SADC initiatives to establish an integrated settlement of inter-bank payments, and also by modernising the country's payment system. Arrangements will also be made to provide an automated service for the country's clearing house and to link non-members to SWIFT.

Through the Bank's Small Scale Enterprise Loan Guarantee and the Export Credit Guarantee Schemes financial access is made available to support the development of small and medium sized businesses.

There are currently three commercial banks in operation in the country, the Standard Bank, First National Bank and Nedbank. Complementing the commercial banks as national savings depositories are

various other financial institutions, namely the Swaziland Building Society, the Swaziland Royal Insurance Corporation, the Swaziland National Provident Fund and the Swaziland Stock Exchange.

### Swaziland Stock Market

In 1998 there were five listed companies on the Swaziland Stock Exchange. Despite the new listing in 1998, market capitalisation continued to decelerate by 34.2% mainly as a result of the rapid rise in interest rates. Consequently, the volume of traded shares fell substantially to 0.2 million.

There are currently two members of the Swaziland Stock Market (SSM), namely African Alliance Swaziland and Swaziland Stockbrokers. This arrangement is to continue until such time the Central Bank has the requisite infrastructure to run the SSM. Additionally the country's stock exchange has embarked on the harmonisation of listing requirements in line with SADC's objectives of regional integration. The completion date is set for the middle of 1999.

In the eight-year period of its operation, the SSM has managed to list the following companies: Masterfridge; Royal Swaziland Sugar Co-operation; Nedbank Swaziland; Swazi Spa Holdings; and Swaziland Property Investments. The number of listed companies has increased to five in 1998 after the listing of Swaziland Property Investments in May 1998.

<b>Swaziland Stock Market</b>						
<b>YEAR</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of companies with shares listed	4	4	4	5	4	5
Market capitalisation (USDm)	296.7	338.2	338.5	471.2	129.5	85.2
Number of companies making issues (including new issues, rights issues and bonus issues)	1	-	-	1	-	2
Value of new issues incl. rights issues (USDm)	-	-	-	46.9		11.4
Volume of shares traded (m)	0.03	1.03	0.26	3.31	134.14	0.24
Value of shares traded (USDm)	0.03	2.08	0.38	2.16	357.43	0.21
Number of trading days	249	254	250	245	248	250
Average price-earnings ratio (annual average), %	11.5	10.6	7.4	9.7	6.8	7.9
Average dividend yield, %	5.0	5.6	5.7	5.2	9.1	9.8

SSM Index (July 1990=100)	101.5	132.7	136.8	192.9	114.1	70.5
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Source: Swaziland Stockbrokers Ltd (1999).

## Foreign Trade

Swaziland has entered into a number of international trade agreements and organisations, such as SACU, SADC, COMESA and the Lomé Convention, in line with its export-oriented policy. A high proportion of its products, like sugar and citrus, are sold externally. Attempts are being made to secure new markets, but because of South Africa's proximity and the close integration between the two economies, it remains the foremost partner. About 40% of exports are destined for and around 80% of imports originate from South Africa. Most of the imports are consumer goods and petroleum products. Other trading partners include Mozambique, Japan, USA and UK.

## Trade Liberalisation

The country has undergone a reform process. This has led to the liberalisation of the capital account, and the reduction of the tariff structure to enhance trade flows and to provide a favourable investment climate for both domestic and foreign investors. As part of the SACU, the country does not impose import restrictions on goods coming from any of the member countries.

Those from outside the union are licensed as required by specific import regulations though. Holders of import licenses are entitled to purchase the foreign exchange necessary to effect the import payment.

## Foreign Direct Investment

Since the early 1990s, FDI has been declining. This is because of the positive political developments in South Africa and the improving investment climate in Mozambique. Most investors, some of whom had previously invested to evade economic sanctions in South Africa during the apartheid era, now view South Africa as a more attractive economy to operate from.

FDI stock has performed rather unevenly over the past years. However, since 1996 the rate of growth in FDI has fallen by, on average, 13% per annum. While other components of FDI recorded positive growth during the review period, reinvested earnings, which is the main component, accounted for much of the fallout.

In terms of sectoral breakdown of total FDI stock, the manufacturing sector has retained the lead over the past five years. By 1997, the manufacturing sector stock was 56.2% of the total stock, which stood at SZL1,175.4m (USD241.5m), a decline of 3.2% compared with SZL1,213.3m (USD267.4m) in 1996. This decline could have been influenced by a reduction of reinvested earnings, a decline in company profitability, and profitable companies opting for higher dividend payments.

Prospects for 1999 point towards a 3.1% growth in total FDI. A bulk of this growth is expected to come from increased equity capital, with some textile companies preparing to increase their share capital for purposes of expanding output. A major expansionary project involving an investment sum of SZL 12.5m (USD 2.1m) by Cadbury Swaziland is underway to increase production of chocolate eclairs and

bubble-gum to meet high demand. The manufacturing sector will continue to benefit from domestic investor confidence due to the planned increase in the production of soft drink concentrates, refrigerator manufacturing and high wood pulp volumes with the installation of a new SZL 240m (USD41.0m) digester at the Usuthu Pulp Mill. Also the past developments in the area of FDI have concentrated on the expansion of existing productive capacity, mainly in the sugar industry. Furthermore, the introduction of the Swaziland Investment Promotion Authority is expected to yield positive results on FDI in 1999.

### **Total Stock of Foreign Direct Investments in Swaziland by Sector (USD million)**

<b>Sector</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Manufacturing	264.07	270.73	322.23	267.44	241.48	203.20
Services	69.45	62.56	68.95	57.16	58.39	39.69
Investment	66.73	104.14	71.05	65.67	44.77	35.83
Agriculture	51.25	40.87	55.34	55.19	57.55	45.86
Finance	21.47	18.93	18.87	24.26	24.47	18.64
Mining	7.55	8.62	1.71	1.77	2.80	2.81
<b>TOTAL</b>	<b>480.52</b>	<b>505.85</b>	<b>538.15</b>	<b>471.49</b>	<b>429.46</b>	<b>346.03</b>

Notes: Central Bank of Swaziland (1999)

### **The Lubombo Spatial Development Initiative**

The Lubombo Spatial Development Initiative was launched in 1998 and is a regional venture between the governments of Swaziland, South Africa and Mozambique. This development initiative will open up vast stretches of land and coastline to be used for extensive tourism and agricultural development. The area will have cover over 300,000ha of land for game reserves and will include the St. Lucia Wetlands in South Africa, which are the largest wetlands in the world.

In preparation for the smooth flow of people and traffic across borders, there will be an extensive upgrading of roads, linking Richards Bay in South Africa and Maputo in Mozambique. The current road linking Richards Bay and Lavumisa-Namacha-Goba in Swaziland will also be upgraded.

A trilateral ministerial body has been put in place to oversee the implementation of the project, and the committee has been publicising the initiative to international investors. Several countries from East Asia and Europe have also shown considerable interest in participating in the venture. Cross-border controls such as visa requirements and customs posts are some of the pressing issues the committee will deal with.

### **Privatisation**

The government of Swaziland has embraced the call for privatisation of state-owned enterprises and the Finance Ministry has submitted a draft set of policy guidelines to Cabinet. However, the government favours a principled privatisation approach.

Progress on the restructuring of some companies, like the Royal Swaziland National Airways, the Swaziland Dairy Board and Pigg's Peak Hotel, has reached advanced stages. The development of performance contracts with those that have not yet been targeted for privatisation is continuing. These contracts spell out the responsibilities and targets of government and the enterprises concerned. Companies for which performance contracts have either been completed or are still being developed include: the Swaziland Housing Board; the Swaziland Electricity Board; Sebenta; Swaziland National Trust Commission; Swaziland Water Services Corporation and the University of Swaziland.

## **INVESTMENT CLIMATE**

### **Investment Incentives**

The highlights are:

- An employee-training programme that allows for expenses incurred in training personnel to be deducted for tax purposes.
- Assessed losses may be carried forward and offset against future profits.
- A five-year tax holiday is applicable for newly established manufacturing enterprises.
- An initial depreciation allowance of up to 50% on plant and machinery may be claimed in the first year or spread over several years.
- A 10% local preference on public tenders is allowed.
- An allowance is granted for the cost of building houses for employees.
- New tax reforms aimed at reducing the corporate tax level of 37.5% will be effective in July 1999.

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 Area 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. This was established in 1991 and involves pre- and post-shipment loans granted by commercial banks which in turn receive guarantee bonds from the scheme as risk cover. Swaziland has decided not to adopt the export processing zones concept, as the benefits presently offered to investors are equally favourable. As a Lomé Convention signatory, Swaziland enjoys preferential access to the EU for a wide range of products. Under the GSP, Swaziland also has access to other major markets such as USA, Canada, Australia and Japan.

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

### **Taxation**

Corporate tax rate is 37.5% (this will be reduced during 1999).

Maximum rate for individual tax is 39%.

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

NB: An income tax amendment bill will be piloted before Cabinet as part of government's efforts to introduce widespread changes in the tax system. Some of the possible changes to counter fiscal drag include the reduction of corporate tax and improved tax administration and collection.

Double taxation agreements exist with South Africa, Mauritius, Republic of China (Taiwan) and

## **Investment Promotion**

The Swaziland Investment Promotion Authority (SIPA) in 1998 with the assistance of the European Union and will promote Swaziland as an investment destination. As a one-stop facility, it is designed to promote free enterprise in the country by providing a centre where potential investors receive all the assistance and information they require. SIPA will focus broadly on promoting both local and foreign investment by rationalising the administrative framework, ensuring a sound legal basis, and creating a conducive investment and industrial climate. Wide-ranging consultations with relevant ministries are currently being undertaken to develop a policy response to the rationalisation of administration procedures.

The Swaziland Industrial Development Corporation (SIDC), a private development finance agency, complements the work of SIPA. This company previously conducted all investment promotion activities. However, its primary objective is the promotion of industrial growth through the financing of private sector projects. Apart from this, it also has financial investments in the form of loans, equities and an extensive property portfolio. Some of the major companies it has managed to attract to the country are Cadbury, Swazi Paper Mills, and Masterfridge. SIDC also provides advisory services to potential investors.

Other institutions are the Commonwealth Development Corporation (CDC) and the Tibiyo Taka Ngwane. CDC has played a meaningful role in promoting economic growth in developing countries, in particular in the sugar and forestry industry. Under certain conditions, the company can also provide rehabilitation support. Tibiyo Taka Ngwane is the oldest indigenous development agency (established in 1948) and promotes self-sufficiency, education and training and general economic prosperity. It has also supported traditional and cultural heritage because of its closeness to the royal family. It has investments in a number of sectors and provides support for the setting up of joint ventures.

## **Investment code**

In 1997, Swaziland developed and adopted an Investment Code that reflects the latest investment incentives. The code outlines investment regulations and incentives.

## **Exchange controls**

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

Dividends and profits are freely repatriated from Swaziland subject to a 15% 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% 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

Most investment opportunities derive from the agricultural and mining sectors. There are opportunities for cattle farming, processing of citrus fruit and wood pulps, feedlotting, hides and skins, sugar, yarn, animal feed, cotton, and downstream processing of forest products and sugar natural resources. The country offers a range of opportunities in other areas as well, such as the supply of telecommunication equipment and services, and medical equipment. An increasing number of value-adding industrial opportunities exist especially with support from the agricultural sector.

## Projects

<b>Swaziland: Projects for Potential Investment</b>		
<b>Sector</b>	<b>Project</b>	<b>Description</b>
<b>Agriculture</b>	Livestock/meat (excluding beef)	Slaughtering, preparing, packaging, canning and marketing of products such as feedlotting, hides and skins, tallow, meal, horn hair gallstones and rendered fats.
	Dairy	Yoghurt, butter fat, sour milk, and milk butter production. This will include packaging inputs.
	Wood	Production of sawn timber, plywood, veneer sheets, treated poles, mine timber, wattle bark and timber furniture.
	Sugar cane	Production and manufacturing of sugar, molasses, confectioneries and distilling.
	Pineapples	Growing and processing of pineapple
<b>Mining</b>	Coal	Mining and marketing of coal
	Diamond	Mining, cutting and marketing
	Limestone	Mining of low-grade lime deposits for the production of cement & ceramic ware, glass & glass products.

<b>Swaziland: Projects for Potential Investment</b>		
<b>Sector</b>	<b>Project</b>	<b>Description</b>
<b>Tourism</b>	Amusement Park	Creation of an amusement park

Source: SIDC (Swaziland Industrial Development Company), 1999.

# STATISTICS

	1993	1994	1995	1996	1997	1998
Population (m)	0.709	0.827	0.856	0.884	0.913	0.938
Nominal GDP at market prices (USDm)	948.7	1,062.1	1,266.3	1,219.2	1,311.4	1,184.5
Real GDP growth rate, %	3.3	3.5	3.0	3.6	3.7	3.0
Real GDP per capita, USD	986.6	886.9	840.1	817.6	629.4	541.6
Consumption as % of GDP	99.6	79.4	74.5	82.5	83.9	86.8
Gross domestic savings as % of GDP	13.5	35.3	36.5	29.5	28.0	27.1
Gross investment as % of GDP	26.6	32.1	34.1	32.1	31.9	30.3
Inflation rate, %	12.4	13.7	7.9	6.5	7.2	8.0
Merchandise exports as % of GDP	69.3	74.5	68.5	71.2	73.8	76.1
Merchandise imports as % of GDP	78.1	76.9	73.8	83.7	79.8	83.6
Capital account of balance of payments, USDm	-0.3	-2.0	-5.1	3.2	2.2	-2.5
Foreign direct investment as % of GDP	4.7	-0.1	2.5	2.0	1.9	1.2
Foreign portfolio investment as % of GDP	-0.2	-0.4	-0.7	-0.1	-0.2	-0.1
Overall balance on balance of payments	-63.7	-12.5	29.8	15.4	25.3	37.2
Average exchange rate: SZL to USD	3.3	3.6	3.6	4.3	4.6	5.9
Foreign exchange reserves expressed in terms of months of imports cover	3.9	3.0	3.2	3.6	3.5	5.0
Total external debt as % of GDP	25.0	29.0	19.9	22.0	18.6	24.1
Total external debt service as % of exports	2.0	3.0	2.3	2.5	1.9	2.1
Budget deficit as % of GDP	-5.5	-5.2	1.5	-1.1	3.5	-1.6
Central bank discount rate (end of year), %	11.0	12.0	15.0	16.8	15.8	18.0
Prime lending rate (average for year), %	14.0	15.0	18.0	19.8	18.8	21.0
Growth rate of M2 money supply, %	13.8	10.9	3.9	16.3	19.4	12.9
Domestic credit to government	-152.3	-112.3	-165.4	-187.2	-206.9	-245.5
Domestic credit to private sector	229.9	245.2	238.3	216.3	233.7	192.2

Source: Central Bank of Swaziland, (1999).

## **USEFUL ADDRESSES**

Swaziland Investment Promotion Agency (SIPA)

Ministry of Enterprise and Employment

P.O. Box 4194

Mbabane

Tel: +268-40 40 470/2/3/4

Fax: +268-40 43 374

Email: [info@sipa.org.sz](mailto:info@sipa.org.sz)

Swaziland Industrial Development Company (SIDC)

P.O. Box 866

Mbabane

Tel: +268-40 43391-3 or 4010-2

Fax: +268-44 45619

Email: [sidc\\_it@iafrica.sz](mailto:sidc_it@iafrica.sz)

# TANZANIA

## GENERAL INFORMATION

- Where:** The United Republic of Tanzania comprises mainland Tanzania and the Indian Ocean islands of Pemba and Unguja that make up Zanzibar. Tanzania is found on the east coast of Africa between the great lakes of the rift valley in central Africa and the Indian Ocean. Zanzibar lies off the north eastern coast of Tanzania.
- Land surface:** 945,200km<sup>2</sup>. Zanzibar covers 2,332 km<sup>2</sup>.
- Capital city:** Dar es Salaam
- Population:** 29.9 million in 1999 (estimate), with an annual growth rate of 3.0%. More than half the population is between 15 and 64 years of age, and approximately 20% live in urban areas. There are over 120 ethnic groups.
- Official languages:** KiSwahili and English. English is used for commerce.
- Human Development Index:** Ranked 149<sup>th</sup> out of 174 countries in 1997

## Political Overview

Tanzania has been a multi-party democracy since 1991. The Chama Cha Mpunduzi Party (CCM) under the leadership of President Benjamin Mkapa, is currently in power, elected for a five-year term in 1995. The CCM holds 214 of the 275 parliamentary seats and it is unlikely that there will be a change of government in the next few years. The government had identified corruption as a serious scourge and a crackdown on government corruption has yielded good results so far.

Zanzibar has its own administrative structure comprising of a parliament, a president (currently President Amour of the CCM), a legislature, and a law enforcement agency. It also has its own constitution. The Civic United Front was a strong contender to the CCM in the 1995 elections, and there were allegations of rigging and irregularities, causing some tension on the islands.

Zanzibar is semi-autonomous from the mainland, formulates its own development policies and manages its own foreign exchange reserves.

## Sectoral Description

Tanzania has a wide variety of mineral reserves, including gold, gemstones, coal, phosphates, iron, nickel, cobalt and to a lesser extent, tin, salt, gypsum and kaolin. Nickel deposits have recently attracted important new investments. However, investment is still needed to upgrade and revamp the capital stock and machinery that is currently in use. The recent discovery of huge gold deposits around Lake Victoria is likely to make Tanzania one of the biggest gold producers in the continent after South Africa and Ghana. Gold production has also improved with the introduction of economic reforms that have curbed illegal mining.

The mining sector's contribution to the national economy is likely to increase in the next few years, with export earnings and employment figures in the industry on the rise. There is general interest in the sector with new commercial mining ventures being developed with foreign partners. Mining legislation and incentives in Tanzania also compare favourably with those of other African countries.

Agriculture dominates the economy, accounting for 55% of GDP and 80% of total foreign exchange earnings. The government has introduced a reform programme to transform the farming sector so that it will be able to achieve 5% growth by the year 2000. Despite the importance of agriculture in the Tanzanian economy, about 85% of the country's arable land remain unutilised. Unpredictable weather conditions and inadequate transport infrastructure have hampered progress. Crop farming accounts for about 80% of total agricultural production. Major cash crops are coffee, cotton, tobacco, cashew nuts, tea, cloves, sisal, sugar, pyrethrum, cardamom and groundnuts. Small-scale farmers mainly grow coffee, cotton, tobacco and cashew nuts, while sisal and tea are grown predominantly on large estates. The horticulture industry is developing rapidly in the area around Arusha and Moshi.

Animal husbandry is an integral part of the agricultural sector, making up 15%. Fisheries account for 5% and forestry for less than 1%. The reasons for this include the erratic rainfall, outdated farming methods, and lack of finance for small farmers. In Zanzibar, agriculture constitutes over a third of GDP, 71% of employment and 90% of foreign exchange earnings. The dominant crop and primary export commodity is cloves, as well as livestock rearing and fisheries.

The country's great forestry potential has not been fully exploited and the aim remains to increase output so that it meets local need and generates export earnings. The forestry industry was almost entirely based on indigenous hardwoods from natural forests until the late 1970s. Now, more than two-thirds of total log consumption (700,000m<sup>3</sup> per annum) is softwood from 18 national plantations.

Tanzania has abundant lakes (6% of the total mainland area) and an 800km coastline, and its fish resources are substantial. The country also has several big rivers that flow into the Indian Ocean. 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. There is some controversy over the ecological damage that the project could cause however.

The manufacturing sector does not contribute significantly to the national economy. The sector is dominated by agro-processing industries, and is still heavily reliant on imported goods. Policies are being propagated to ensure the development of this sector. These include the elimination of duty on traditional exports, the simplification of the existing tariff structure, and the maintenance of flexible exchange rate mechanisms. Sustainable growth in the sector will only be achieved with increased privatisation and infrastructure reform, including the adequate supply of power and water. Growth in manufacturing is also hampered by a small domestic market.

The tourism industry has the potential to still be developed. Vast game reserves cover nearly one-third of the country - attractions include the Ngorongoro Crater, Serengeti Plains, Mount Kilimanjaro and Lake Manyara. Tanzania also possesses an unspoilt coastline, as well as the 'spice-

islands' of Zanzibar. There has been some foreign investment in small hotels on the islands. The government encourages private investment in 'up-market' tourist developments, in order to protect the environment.

The government is actively encouraging private sector involvement in the petroleum industry, through oil and gas exploration. A draft regulatory framework for this sector has been completed and will be implemented before the end of 1999. Potential exists for oil mining and exploration off the Tanzanian coast, as well as certain inland areas. Drilling for oil has been taking place since 1952.

Natural gas is currently being extracted at Songo Songo Island, about 230km south-east of Dar es Salaam. A Canadian company, as part of a joint venture, is in the process of building a natural gas pipeline from the island to Dar es Salaam. This gas will be used to fuel a power station in the city. A deep-sea geophysical survey began recently, the first of its kind in Tanzania through a joint venture between Western Geophysical of Houston (US) and the Tanzania Petroleum Development Corporation. There are special incentives available for companies planning to invest in oil exploration in Tanzania (see section on investment incentives)

### **Infrastructure**

The government has formulated a blueprint on water resource management with the intention of completely reviewing the country's water policy. Management of existing rural water infrastructure is to be transferred to communities. The national Urban Water Authority administers urban water supply, and regional water engineers service the rural systems through local/village governments. The water restructuring process is meant to address issues of pricing, equity, economic and financial considerations. According to World Development Indicators, it is estimated that on average 49% of all Tanzanians had access to safe water from 1990-96.

Tanzania relies mainly on hydroelectric power as a source of energy. In the future, it is expected that the natural gas reserves at Songo Songo and the development of the coal reserves at Mchuchuma will alleviate Tanzania's dependence on hydroelectric power generation. Restrictions on power use are applied in times of drought, reducing the efficiency of Tanzania's manufacturing sector. Private sector participation including privatisation of the Tanzanian Electricity Supply Commission is being encouraged to improve delivery of this sector. The 180-MW Kihansi Hydropower project is likely to be completed by the year 2000. This project is expected to reduce the incidence of power shortages, disruptions and blackouts experienced during times of drought.

Tanzania is well served by international, land, sea and air transportation routes. Several autonomous agencies, to ensure the maintenance and management of road and ports, are being established. Major rehabilitation works are being undertaken in the transport sector, as part of a ten-year Integrated Roads Programme, designed to upgrade 70% of the country's 10,300km of existing main roads and to build 3,000km of new roads. The main objective of the programme is to ensure that economically important areas are easily accessible. 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.

Tanzania Railways Corporation runs the 2,600km 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. This railway is mainly used to transport Zambian copper to the port at Dar es Salaam and to transport imports to Zambia. Tazara has announced plans to build another line linking the country with Mpulungu, a Zambian port on Lake Tanganyika

The principal coastal ports are Dar es Salaam, Tanga, Lindi, Mtwara and Zanzibar. Dar es Salaam is an important port for the region, handling transit cargo for Zambia, Malawi and the DRC. The port was recently dredged and straightened, which has improved its capacity. The Tanzania Harbour Authority manages all ports, except for Zanzibar, which is managed by the Zanzibar Ports Corporation. Rehabilitation work has begun on Zanzibar's Wete port, which the government plans to develop into Tanzania's first free port.

International airlines operate in Tanzania through Dar es Salaam, Zanzibar and Kilimanjaro airports. 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. There are daily flights connecting the country with European cities. Several regional airlines transit through the Dar es Salaam airport.

Telecommunication facilities are available in most parts of the country, and Tanzania has an average of 3 telephones per 1000 persons (1997), 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 and currently there is a surplus of exchange lines. Telephone, fax, telex, expedited mail service, private couriers and cellular phones are available. There are 14 Internet service providers in the country, and about 2,500 users. 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**

## **Introduction**

Macroeconomic performance since the mid-1980s has benefited from the Economic Recovery Programme (ERP), a donor-supported programme. The ERP has focused on economic liberalisation through promoting the role of the private sector in the economy. Trade reforms are being pursued and sectors of the economy that are export oriented and generate foreign exchange earnings are encouraged. Privatisation of about half the country's parastatal enterprises, fiscal consolidation, and the restructuring of the civil service, have gone a long way towards developing a market-based economic policy stance.

## **Recent Macroeconomic Developments**

During 1998, economic performance was relatively satisfactory, despite severe drought, power shortages and the El Nino-induced floods of 1997. The floods devastated many parts of the country. The agricultural sector was the worst affected and on-going government activities were hampered by these developments.

Overall economic performance remained subdued during 1998. Foreign exchange reserves recorded a modest increase, and inflation dropped to single digit levels for the first time in 23 years. Government is targeting a real GDP growth rate of around 5% annually, improvements on fiscal discipline (reduction of budgetary deficit), and management and the improvement of revenue collection. The fiscal consolidation efforts have released substantial resources to assist in the stabilisation process.

GDP growth for 1998 is estimated at 3.5%, compared to 3.3% in 1997. The agricultural, mining and manufacturing sectors are expected to provide the growth impetus into the millennium. The manufacturing and agricultural sectors grew by 6 and 2.5% respectively during 1998, compared to 5 and 2.4% in 1997.

The effects of El Nino have substantially undermined the progress made in restructuring and stabilising the economy. Serious flooding washed away many roads and bridges, severely damaging the communication network, in some areas halting transport completely, and affecting tourism and access to markets. The adverse weather conditions have also impacted badly on the agricultural export sector, with earnings falling rapidly.

During January 1999, Tanzania recorded single digit inflation figures. This achievement is largely due to prudent monetary and fiscal policy measures implemented by the government since the third quarter of 1995. The annual headline inflation rate, as measured by changes in the Consumer Price Index (CPI), decreased from 11.2% in December 1998, to 9.1% in January and 8.7% in February 1999. The annual headline inflation is expected to continue to decline towards the targeted level of 7.5% by end June 1999. This is provided that food supplies in the market improve. Assuming normal weather conditions, it is very likely that the targeted rate of 5% will be achieved in the year

2000. Five percent is the average rate of inflation of Tanzania's neighbours and major trading partners.

Net international reserves of the Bank of Tanzania increased and by December 1998 had reached USD283.7m. Gross reserves of the Bank of Tanzania increased from USD502.5m in June 1998, to USD599.0m, equivalent to 20.6 weeks of imports at the end of December 1998. The Bank of Tanzania has targeted to build-up reserves equivalent to 16 weeks of import requirements by June 1999.

The Bank of Tanzania recorded considerable success in the pursuit of its monetary policy objectives during the second half of 1997/98. On an annual basis, the money supply growth rate (M3) increased to 10.8% in December 1998 compared with 6.6% recorded in July 1998. In March 1999, money supply growth decelerated slightly to 10.5%. During December 1998, net domestic assets of the banking system increased by TZS 59.6 bn (USD 89.7m), on account of an increase of TZS 102.4bn (USD 154.1m) in domestic credit, coupled with a decrease of TZS 42.8bn (USD 64.4m) in other items net. The increase in credit was caused by an increase in credit to the private sector by commercial banks coupled with an increase in Bank of Tanzania claims on Government.

On an annual basis, all monetary aggregates recorded decelerating growth rates. Extended broad money, M3, grew by 9.7% in January 1999 compared with a growth of 10.8% in December 1998, and 15.0% in a similar period the previous year. Broad money, M2, registered an annual growth rate of 9.8% compared with 11.1% in December 1998 and 12.6% in January 1998. Similarly, the annual growth of reserve money, M0, fell from 14.7% in December 1998 to 13.8% in January 1999. During a similar period last year, M0 grew by 12.1%.

While the average rate on savings deposits decreased marginally from 8.7% in December 1998 to 8.6% in January 1999, the 3-month, as well as 6-month fixed deposits, remained unchanged at 8.0% and 9.6% respectively. On the other hand, average fixed deposit rates for a 12-month period increased slightly from 11.4 to 11.5%. Short-term lending rates decreased from an average of 22.4% in December 1998 to 21.9% in January 1999, while the average medium and long-term rate remained unchanged at 22.0%. Consistent with the declining trend in Treasury bills yields, the discount rate, which is the rate at which the Bank of Tanzania lends to commercial banks and the Government, decreased from 17.6% during December 1998 to 15.2% in January 1999. With regard to the exchange rate, the shilling depreciated from TZS 663.0 per USD in July 1998, to TZS 679.3 per USD in December 1998, and continued to depreciate further to reach TZS 692.2 per USD in March 1999. The depreciation reflects the short supply of foreign exchange on the market due to shortfalls in export receipts and delays in disbursement of expected donor funds during 1998/9.

According to the revised national food supply statistics, it is certain that a significant shortage of 585,000 tons of grains will emerge during the remaining period of 1998/99. Inadequate rain in most parts of the country is the major cause of the shortage. As a result, the Government distributed 5,161 tons of grain to the drought-affected areas. By the end of January 1999, the grain stocks stood at 36,000 tons compared with 41,161 tons recorded in the previous month. Government is making efforts to improve the food situation in the country by importing 100,000 tons and also by removing import duties on maize to encourage importation of the commodity.

In the year ending January 1999, the trade account recorded a deficit of USD827.0m, representing an under-performance of 24.8%, compared with the deficit of USD662.8m in the previous year. The trade account deficit worsened in the review period mainly due to a significant decline in total export earnings and an increase in imports.

The total debt committed as at 31<sup>st</sup> January 1999 was USD 7,987.5m, representing an increase of 0.9% when compared with USD 7,915.0m registered at the end of January 1998. Out of the total debt committed, the disbursed outstanding debt was USD 6,551.7m, while committed un-disbursed debt was USD 1,435.8m.

The profile of disbursed outstanding debt by creditor category reveals that multilateral and bilateral debts accounted for 47.5 and 45.5% percent of total debt respectively. The proportion of debt owed to commercial sources and other private creditors was very small, accounting for 4.0 and 3.0% respectively. The structure of disbursed outstanding debt by borrower category shows that the central government is the largest borrower accounting for 93.5% of total debt. The proportion of public corporation and private sector debt is 2.7 and 3.8% respectively.

### **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 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-banking financial institutions have been licensed to do business in Tanzania. Foreign banks such as Citibank, Stanbic, and Standard Chartered have opened branches in the country. More than 80 bureaux de change are currently in operation. The insurance industry was liberalised recently and insurance companies, brokers and agents began receiving their licences in October 1998, effectively ending the monopoly of the National Insurance Corporation of Tanzania.

Liberalisation of the financial services sector and the establishment of open markets in foreign exchange and government paper, has 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.

The secondary money market is still at an early stage of development, as is the capital market. In the past, when the economy was heavily dominated by the state, companies were financed through loans or government subsidies. There are very few public companies in Tanzania, although the recent establishment of the Dar es Salaam stock exchange should provide some encouragement in this direction.

### **Dar es Salaam Stock Exchange**

The Dar es Salaam Stock Exchange began operations in April 1998. The Capital Markets and Securities Authority was tasked with developing the rules and regulations, and with launching the stock exchange market. Tanzania Oxygen was the first company to be listed on the exchange, followed by Tanzania Breweries later in the year. A governing body comprising of ten people representing various interest groups oversees the exchange. There are currently five licensed dealers (stockbrokers) and trading takes place twice a week.

The exchange operates on a three-tier system: the first tier is listed shares that meet international listings requirements; the second tier has less stringent requirements; and the third is an over-the-counter tier, for those which fail to meet the conditions for the first two segments. Foreigners may not buy shares on the Dar es Salaam Stock Exchange.

The stock exchange is currently open for trading on Tuesdays and Thursdays. A Central Depository System (CDS) was installed and will replace most of the physical delivery and settlements processes in the near future.

The exchange was given a boost in January 1999 when a primary dealership system for trading in government securities was introduced, taking trading in gilts to the secondary market.

<b>Dar es Salaam stock exchange</b>	
	<b>1998</b>
No. of listed companies	2
Market capitalisation (USDm)	236.4
No. of companies making new issues	0
Volume of shares traded	340,000
Value of shares traded (USD)	306,902
All Share Index	Yet to be developed
Annual average dividend yield, %	11.9
Average PE ratio, %	7.6

### **Foreign Trade**

The main export goods are agricultural commodities such as coffee, tea, tobacco, cotton, and cashew nuts. Exports of manufactured goods grew steadily during the 1990s. 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 come from the UK, Germany, Japan, Italy and France.

### **Trade Liberalisation**

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, East African Cooperation (EAC), and COMESA.

### **Foreign Direct Investment**

According to the Tanzanian Investment Centre, an estimated 1,086 commercial ventures with a total capitalisation of USD 3.4 bn have been established in the country since the start of the decade. These ventures have created employment opportunities estimated at over 175,000.

Much of the FDI has been in the mining sector. The Tanzanian government has recently taken some positive steps towards promoting investment in this sector, including the formulation of a new Mining Act, which came into effect in 1998.

Investors in the gold mining sector include Samax (Canada) and Resolute (Australia), which together have invested USD50m in the Golden Pride Mine. The mine opened in February 1999 and is expected to produce USD50m worth of gold annually. Sutton Resources' project at Bulyanhulu is currently in the exploration phase, and the company should invest at least USD200m before going into production. Projects at Buckreef, Golden Ridge and Geita involve East African Gold Corporation (Australia), Randgold (South Africa) and Ashanti Goldfields (Ghana). At least four gold mines are expected to be in full production in the Mwanza region by the year 2000.

Outside of gold mining, Anglo American and Sutton Resources have invested in a nickel and cobalt deposit at Kabanga, and it is anticipated that a mine will be in production by 2001. Sutton Resources, BHP Minerals and Romanex International (Canada) are developing cobalt and nickel deposits in the Kagera region. Graphtan, owned by Samax, is developing the Merelani graphite deposit.

The oil sector is also attracting some interest, with investments from Songas Ltd (Canada), Ndovu Resources (Australia), and Western Geophysical of Houston (US).

The tourism sector has attracted tour operators from Europe, Australia, South Africa, Japan and the US.

### **Privatisation**

The Parastatal Sector Reform Commission manages the diversification of non-performing government parastatals. By the end of 1998, 222 companies out of the 401 earmarked, had been privatised.

The government has sold its interests in the beer, cigarette and cement industries. Privatisation in these areas have been successful, especially in the case of Tanzania Breweries and the Tanzania Cigarette Company, which are now thriving under private ownership (South African Breweries and RJ Reynolds, respectively).

There has been some delay in the privatisation of Tanzania Railways Corporation, a large railway network. The parastatal may remain under government ownership, and lease its functions out to

management companies on long-term concessions.

The government has made a commitment to privatise Tanzania's major public utilities, including water and sewerage services, electricity, harbours, and telecommunications. Air Tanzania and the restructured National Bank of Commerce are up for divestiture as well.

Other companies up for sale include the 12 factories of the Cashew Nut Board of Tanzania, the Kapunga rice farms, Southern Paper Mill, 7 tea processing factories, 8 regional transport companies, and a number of hotels and lodges.

# **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 5% 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 investor has the right to employ up to five foreign nationals per project.
- Investors can repatriate capital and profits.

## **Incentives for companies investing in oil exploration:**

- Long exploration periods of four (initial), four (first extension) and three (second extension) years.
- Relatively large exploration areas.
- Tanzania Petroleum Development Corporation (TPDC) participation is capped at 20%.
- Corporate income tax and royalties paid for by TPDC.
- Threshold rates of return for Additional Profit Tax at 20% for the first, and 30% for the second tranche.
- No front-end bonuses.
- Separate incentives in order to encourage deep-sea exploration (greater than 200m water depth) are under consideration by the government and TPDC.

## **Incentives for mining companies**

- 30% tax rate for both resident and non-resident companies.
- Royalties: 3% of net-back value, 5% for diamonds, 0% for cut and polished gemstones. Royalties are tax deductible.
- 100% depreciation allowances on all mining capital expenditure.
- At the end of each tax year the balance of un-recovered development expenditure in respect of a mining licence receives an additional 15% capital allowance each year.
- There is no concessional state participation.
- No withholding tax on interest.

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.

The government of Zanzibar offers the same incentives to investors as mainland Tanzania. Furthermore, EPZs are in place in Zanzibar and companies established in EPZs are offered a 10 year corporate tax holiday (conditional on 40% value added), and duty exemption on imports of raw materials and capital equipment. Zanzibar's Free Economic Zone Authority (ZAFEZA) and Zanzibar Free Port Authority (ZFA) provide attractive investment opportunities in the EPZ arena. Enterprises that export more than 80% of their output qualify for EPZ status even if they operate outside the designated zones. Approvals are granted within 10 days.

### **Taxation**

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

Corporate tax:	30%
Individual tax: maximum	35%
Withholding tax on dividends and Profit-sharing tax for non-residents:	10%
VAT	20%

Double taxation treaties have been signed with Canada, Denmark, Finland, Italy, India, United Kingdom, Norway, Sweden, and Zambia.

Tanzania is in the process of negotiating treaties with Belgium, Burundi, Iran, Lebanon, Malaysia, Mauritius, Pakistan, Rwanda and Uganda.

### **Exchange Controls**

The Foreign Exchange Act (1992) and bureaux de change regulations of 1992 removed foreign exchange controls. Tanzania accepted the obligations of the IMF's 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 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% of their net foreign exchange earnings for the purposes of remittance of dividends, profits and settlement of external obligations. Borrowing of funds from local banks by non-residents is allowed.

### **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 co-ordinate and monitor domestic and foreign investments. The centre handles all foreign investments with a value greater than USD 300,000, while the minimum amount for domestic investment is USD100,000.

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. The Zanzibar Free Economic Zone Authority (ZAFEZA) regulates the free zone areas.

### **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. These guarantees are with regard to ownership of properties, dispensation of assets, and repatriation of income. Tanzania is also a member of MIGA and ICSID.

Investments in Zanzibar are regulated by the National Investment Promotion Act of 1986 that is currently under revision. This Act outlines 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.

*Manufacturings:* Animal-feed processing, agro-based industries, beverages, textiles and leather goods, steel and metal engineering, cement and ceramics, electrical engineering, electronic engineering, printing and publishing, pharmaceuticals, fish processing and canning, fishnets, packaging, general processing and canning, bottles and glassware, paints and automotive engineering.

*Agriculture:* Tea, sisal and sisal products, coconuts, wheat, cashew nuts, palm oil, sugar, castor oil, fruit, vegetables and flowers for export.

*Petroleum and mining:* Exploration and production of oil and gas, gold, diamonds, gemstones and all other minerals, metallic and non-metallic.

*Construction:* Hotels and other tourist accommodation, residential houses, commercial buildings, warehouses and industrial sheds, estates and factory buildings.

*Transport:* Road and haulage, coastal shipping, air charters and airlines.

*Transit trade:* All activities relating to transit of goods to neighbouring countries, and to the re-export of goods that have value added in Tanzania.

*Computers and high-tech industries:* Activities relating to the manufacture, assembly, marketing, servicing, utilisation, and human resources development with regard to computers and related fields.

*Livestock development:* Heifer breeding, dairy farming, sheep and goat keeping, beef ranching, and poultry.

*Tourism:* Operation of tourist hotels and accommodation, tourist transportation (road, air, ocean and inland waterways), provision of services relating to tourism such as tourist safaris, licensed hunting, restaurants and photographic services. Returns on investment in this sector are high, and Tanzania has a strong reputation among European tourists.

*Natural resources:* Forestry, fishing and fish farming, game cropping for commercial purposes, wildlife ranching.

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. The Islands also provide

opportunities for agriculture, fisheries, tourism, financial services, sea and air transport, communication, power and others. Existing ventures providing opportunities for investment or partnerships include several hotels, a shoe and existing pharmaceutical factory, garment manufacturing and a seaweed-processing establishment.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	26.0	26.7	27.5	28.3	29.1	29.9*
Nominal GDP at market prices	4,257.7	4,511.5	5,225.2	6,496.2	7,333.1	..
Real GDP growth rate, %	0.4	1.4	3.6	4.2	3.3	3.5*
GDP per capita (market prices), USD	165.37	170.43	193.1	232.3	245.1	..
Consumption as % of GDP	103.2	103.2	101.2	99.2	98.3	..
Gross domestic savings as % of GDP	4.0	2.6	4.6	5.0	4.1	..
Gross investment as % of GDP	24.9	24.4	19.6	16.5	13.8	..
Inflation rate, %	25.3	34.1	27.5	21.0	16.1	12.8
Merchandise exports as % of GDP	10.3	11.5	13.0	11.7	9.8	..
Merchandise imports as % of GDP	29.8	29.0	25.5	18.7	15.9	..
Capital account of balance of payments	200.6	626.6	191.0	191.0	346.9	360.2
Overall balance on balance of payments	-633.8	-446.7	-373.7	-223.9	-221.6	..
Average exchange rate: TZS to USD	405.3	509.6	574.8	580.0	612.1	664.7
Foreign exchange reserves expressed in terms of weeks of import cover	6.0	9.5	6.5	10.6	16.4	..
Total external debt as % of GDP	195.3	202.4	214.7	113.6	92.6	..
Total external debt service as % of exports	21.9	16.5	17.3	17.5	16.2	27.4
Budget deficit (-) or surplus (+) as % of GDP (year ending June)	-5.0	-5.0	-2.0	1.5	0.2	..
Central bank discount rate (end of year), %	27.0	65.9	45.1	19.0	16.2	17.6
Prime lending rate (average for year), %	39.0	39.0	48.0	32.0	21.0	21.0
Growth rate of M2 money supply, %	4.7	32.5	26.2	11.6	11.0	11.1
Domestic credit to government	383.6	345.9	507.4	496.7	383.4	406.2
Domestic credit to private sector	231.4	341.2	297.1	185.7	259.9	352.2

\*- Bank of Tanzania estimates

Source: Bank of Tanzania (1999)

## USEFUL ADDRESSES

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 2286  
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

Tanzania Chamber of Commerce  
PO Box 9713  
Dar es Salaam  
Tanzania  
Tel: +255-51-466247

Ministry of Energy & Minerals  
PO Box 2000  
Dar es Salaam  
Tel: +255-51-117153-9  
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# ZAMBIA

## GENERAL INFORMATION

<b>Where:</b>	Zambia is a landlocked country that borders the DRC, Tanzania, Angola, Namibia, Malawi, Mozambique, Zimbabwe and Botswana.
<b>Land surface:</b>	752,614 km <sup>2</sup>
<b>Capital city:</b>	Lusaka
<b>Population:</b>	10.1 million in 1998, 55% living in urban areas (one of the highest proportions in sub-Saharan Africa). About 46% of the population is between 15 and 64 years of age. The annual population growth rate is 3.1%.
<b>Human Development Index:</b>	Ranked 146 <sup>th</sup> out of 174 countries, comparable to Bangladesh (147), Benin (145) and Côte d'Ivoire.

## Political Overview

From 1972 to 1990, Zambia was a one-party state ruled by Dr Kenneth Kaunda and his United National Independence Party (UNIP). The Movement for Multiparty Democracy (MMD) won the democratic elections held in 1991.

UNIP boycotted the elections in 1996, which were again won by the MMD under Frederick Chiluba. Both the 1991 and the 1996 elections passed peacefully.

## Sectoral Overview

The Zambian mining sector plays a very significant role in the national economy, relying heavily on the copper sub-sector. Zambia produces well over 300,000 tonnes of copper annually. It is the world's fourth largest producer of copper and holds 6% of the known reserves. Copper mining accounts for 8% of real GDP and made up 54.6% and 50% of export earnings in 1997 and 1998 respectively. The country has embarked on the privatisation of mines with one of the biggest mines, Zambian Consolidated Copper Mines (ZCCM), currently engaged in this process. Although the copper sector has experienced declining output over the past three decades, it remains extremely viable – its average grade of ore is more than double the world average. Zambia also has a plethora of other mineral deposits. These include gold, zinc, tin, iron, feldspar, coal and gemstones (e.g. emeralds, aquamarine, topaz, opal, agate and amethysts). Zambia produces 20% of the world's emeralds. Diamond reserves have also recently been discovered. In fact, there has been significant exploration activity for minerals in general in recent years, and now almost 50% of the country is covered by existing prospecting licences or by applications for licences.

Agriculture's contribution to GDP improved slightly over the last two years after drought negatively affected the sector. Agriculture accounted for 15.7% and 15.1% of real GDP in 1997 and 1998

respectively. The Government regards good performance by this sector as the key to Zambia's sustained economic transformation and development.

Agriculture still employs more than half of the total labour force, although only 15% of 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 granted from time to time. Zambia is encouraging investments into this sector which is still to be exploited to its full potential.

Zambia is a relatively highly industrialised country compared to most other SADC countries. It still has potential to improve its manufacturing capacity though, as most of the processing of Zambia's products is currently done outside the country. Activities in this sector include the manufacture of fertiliser, explosives, textiles, glass, refined petroleum, motor assembly, cables, aluminium and steel fabrication, foodstuff, leather, jewellery, and others.

Zambia has a diverse natural heritage including lakes, waterfalls and a wide variety of wildlife. There are 19 national parks and 34 game management areas that have been put aside for wildlife conservation. These cover, in total, 65,000 km<sup>2</sup>. The tourism industry remains under-developed though. Foreign investors have shown great interest in tourism, most notably around developments in the Victoria Falls area. The recent privatisation of two Inter-continental hotels (at Lusaka and Livingstone) is an important step towards the provision of holiday accommodation that is of an international standard.

Zambia has an abundant supply of reliable water – 45% of the total water resources of the Southern African region can be found in Zambia. This provides 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 can be used at no great cost.

## **Infrastructure**

Air and road transport services are wholly owned and operated by the private sector. The Zambian road network provides access routes to neighbouring states and international markets and is extensively tarred. The government has embarked on a process of rehabilitating the road network, which covers 35,168km. Extensive work has already been carried out. The southern networks have already been completed and work on the northern networks is now proceeding in earnest. Five and ten-year Road Sector Investment Programme valued at USD41.9m and USD860.3m respectively, have received support from the World Bank. The project has reached an advanced stage and is generating a lot of interest. The Japanese government has provided financial support for the construction of the Kafue Bridge. The government, in an effort to maintain high standards in this sector, has privatised the supervision of road building.

The rail network is in need of urgent rehabilitation. Zambia's railways link it to several countries: in the south to South Africa via Zimbabwe; in the north to Kinshasa in the DRC; and in the east to the port of Beira in Mozambique. The Tanzania-Zambia Railway Authority (Tazara) runs a further rail

line linking Zambia and Tanzania. Other promising rail routes are Zambia-Mozambique (Beira line), Zambia-Malawi (Mchinje line), Zambia-Namibia and Zambia-Angola. The construction of the Zambia-Malawi line is almost complete. The Zambian rail line cuts through most of the major cities and industrial centres.

Lusaka International Airport is Zambia's main airport connecting Zambia with other African countries and Europe. Currently, there are two commercial airlines that serve the regional market. There are five flights a week to Johannesburg and a number of other regional airlines operate through the Lusaka International Airport. British Airways operates flights between Lusaka and London. There are three small airports in Ndola, Livingstone and Mfuwe, as well as secondary airfields in Chipata, Kitwe, Kasama, Mongu and Solwezi.

Zambia has vast water resources and coal reserves, making it ideal for the generation of hydroelectric power, and rendering electricity relatively inexpensive in Zambia. Most electricity is supplied from major hydro stations, like the Kafue Gorge, Victoria Falls and Kariba North bank. There are also small diesel power stations in rural areas. The distribution of electricity is however mainly concentrated in Livingstone (the tourist town near Victoria Falls), Lusaka (the capital) and the Copperbelt towns. There are plans to develop and improve electricity supply through expanding existing structures or putting up new generating stations, like the Batoka Gorge scheme which began in 1995. Zambia exports electricity to some of its neighbours, notably Zimbabwe and Botswana. The Zambia Electricity Supply Corporation (ZESCO) is engaged in an on-going rehabilitation process and has also entered into a co-operation agreement with ESKOM in South Africa.

Telephone exchanges in Zambia are mostly automatic in major centres (97%) 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. There are about nine telephones per 1000 people. The state-owned Zambia Telecommunications Company (ZamTel) is due for privatisation. About 2,500 people in the country have access to the Internet, and there are three service providers.

## **ECONOMIC OVERVIEW**

### **Introduction**

Zambia's economy, historically based on the production and exportation of copper, was once regarded as one of the strongest in Sub-Saharan Africa. The UNIP government nationalised much of the economy, including small businesses and enforced rigorous price and exchange controls. This resulted in declining productivity and profits, and an over-reliance on copper exports. The decline of world copper prices and deteriorating terms of trade, coupled with dis-investment and drought, led to a decrease in GDP growth from 3.7% per annum in the early 1970s to an average of only 1.0% from 1974-90. The poor performance of the economy in the 1980s, together with political transition in the early 1990s, led to recognition of the need to minimise the role of the government in the economy and to promote policies that seek to create a private-sector led economy.

Against this background, Zambia adopted structural adjustment programmes that have contributed to an improved policy environment. The reforms include liberalisation of exchange and trade regimes, and foreign currency control regulations. The emphasis has been on the adoption of policies that seek to reduce the government's budgetary deficit and improve productivity.

### **Recent Macroeconomic Developments**

Real GDP declined by 1.9% in 1998, as compared with the 3.4% growth registered in 1997. This was mainly on account of the fall of output in agriculture, forestry and fisheries (6.1%), mining and quarrying (11.0%), and construction (4.0%). Other sectors where output declined were energy, gas and water (2.8%), and wholesale and retail trade (2.6%). The decline in agricultural output was mainly on account of the El Niño weather phenomenon during the 1997/98 agricultural season and problems of input availability. Output in mining and quarrying declined mainly due to operational problems faced by ZCCM, which in turn contributed to the fall in the demand for electricity and other goods and services. This and reduced export demand for electricity largely accounted for the fall in the energy, gas and water sector. However, positive growth rates were recorded in manufacturing (3.0%), tourism (3.3%), real estate and business services (11.9%), and the transport, storage and the communications sectors (8.3%). Financial institutions and insurance also grew by 0.4%.

Fiscal policy in 1998 focused on achieving a domestic budget surplus of 1.3% of GDP through continued adherence to a cash budget, improved revenue collection and strict control of expenditures. The savings generated were to be applied towards reduction of government domestic debt, thereby releasing resources to the private sector for investment. Preliminary figures show a budget surplus of 0.6% of GDP (equivalent to USD20.4m) on a cash basis, compared with 1.6% of GDP (equivalent to USD34.3m) in 1997. Revenue collection, particularly non-tax revenue, which fell by 53% to USD23.1m, was far below the target. Delays in the collection of fees resulting from administrative bottlenecks was the major contributing factor.

The end-December 1998 twelve-month headline inflation was 30.6% compared to 18.6% at the end of December 1997. A shortfall of nearly 44% in the domestic output of Zambia's staple food crop, maize, and the sharp depreciation of the exchange rate of the Kwacha against major currencies, were reasons for the increase in inflation.

Monthly inflation slowed to 2.0% in February 1999 from 5.6% recorded in December 1998. The twelve-month headline inflation remained fairly stable, recording a marginal decline in February 1999 to 30.5% from 30.6% in December 1998. The slowdown in the inflation rate was mainly due to increased food supply, tightening of monetary conditions and relative stability in the exchange rate.

In response to inflationary pressures, nominal interest rates on Government securities continued their upward adjustments during the period under review. Treasury Bill yield rates increased by between 3.5 and 4.2%, in nominal terms. Similarly, the yield rate on twelve-month Government bonds increased by 5.6% also in nominal terms. In real terms, yield rates on Government securities, despite fluctuations, remained positive during the period under review.

Commercial banks' nominal interest rates increased, consistent with the movements in inflation and yield rates on Government securities. However, while the deposit rates remained negative in real terms, lending rates were positive.

The depreciation of the Kwacha was due to depressed export earnings arising from the Asian crisis and the non-disbursement of pledged balance of payments support by donors. From the demand side, importation of maize and external debt service added to the exchange rate pressure. The pressure on the exchange rate continued into the last quarter of 1998, causing further depreciation.

Importation of maize and fertiliser and servicing of the government's external debt led to the drawing down of gross international reserves. Reduced earnings from both traditional and non-traditional exports, and non-disbursement of pledged balance of payments support by donors in 1998, caused supply constraints. However, in February 1999, the exchange rate of the Kwacha against major currencies appreciated due to the receipt of some balance of payments support and the subsequent sale of these on the market.

During the fourth quarter of 1998, the overall balance of payments deficit widened to USD39.3m from USD22.3m recorded in the third quarter. Deterioration in the current account was the major factor. The latter was, in turn, due to reduced export earnings of metals and non-traditional products and non-disbursement of balance of payments support by donors. Depressed demand for metals arising from the Asian crisis and decline in production explain the low earnings. On the other hand, reduced agricultural production and conflicts in the Great Lakes Region accounted for the low non-traditional export earnings.

As at July 1999, Zambia had received USD 148.1m in balance of payment support, with 72% of this coming from the World Bank and 24% from the European Union. Zambia also had a new Enhanced Structural Adjustment Arrangement approved by the IMF on the 29<sup>th</sup> March 1999. Further positive developments include an increase in agricultural production (including non-traditional exports) following good rains, and successful negotiations with the Consultative Group (CG) and the Paris Club creditors. The CG has pledged to provide USD 630m in balance of payments support

and project finance in 1999. The Paris Club creditors agreed to provide debt relief of USD 1bn for debt falling due during the new ESAF arrangement period of 1999 to 2001. These developments have had a positive impact on the economy, and will go a long way towards consolidating the efforts of the Zambian authorities to stabilise and reform the economy. Furthermore, a good harvest is expected in 1999, which should assist in alleviating inflationary pressures and relieving food shortages.

## **Financial Institutions**

The government maintains a very active role in the banking sector, despite its liberalisation and privatisation policies. The financial sector was liberalised in the 1990s but scope still remains for development and improved competition. This would lead to a better quality of service being provided, and would broaden and deepen financial intermediation.

The efforts that are underway to improve this sector include reviewing the current regulatory regime to enable the Bank of Zambia to effectively carry out its responsibilities of licensing, supervising and monitoring developments. In this respect, the Banking and Financial Services Act of 1994 was revised and presented to Parliament in 1998 for review and amendment. The Act aims to ensure a sound regulatory framework and to protect clients and investors interests. In addition, the recommendation of the Basle Committee on International Minimum Accounting Standards has also been included. The IMF provided assistance with the revision of the Inspection Manual, and an early warning system for off-site inspection was devised. The adoption of the Capital Assets Management Earning and Liquidity (CAMEL) rating system strengthened on-site inspections. Furthermore, capital and money markets instrument guidelines are likely to be in place in the not-so-distant future, in order to improve circulation and trade in commercial paper. A draft bill aimed at curbing and controlling money laundering is also likely to be tabled in parliament in the near future.

The Bank of Zambia exercises overall control of the banking system. The Bank's main responsibility is protecting the value of the country's currency. Coupled with this is the primary focus on reducing inflation to single digit levels, and developing a diversified and dynamic financial system. Monetary control is being exercised through indirect instruments such as open market operations. The Bank of Zambia is also responsible for the supervision of the banking industry - reforms aimed at strengthening the Bank's supervisory and regulatory capacities were implemented beginning in 1997.

Both local and international banks have a presence in Zambia. The international banks include Barclays, Standard Chartered, Stanbic, Citibank, and the Bank of China, while local banks include Zambia National Commercial Bank, Finance Bank, Inves-trust, First Alliance, New Capital Bank and Commerce Bank. Finance houses are the Inter-market Discount house and Access Finance. Commercial banks offer numerous services including traditional banking services, trade financing services, financing for projects, merchant and investment banking services, amongst others. The introduction of automated and computerised services has improved the quality of the services provided by the banking sector. There is an insurance market, with life, non-life and investment insurance offered. Other financial institutions include leasing companies and building societies.

The Development Bank of Zambia provides medium and long-term loan finance and equity, to

promote agricultural and industrial development, export-oriented projects and development services.

### **Lusaka Stock Exchange**

The Lusaka Stock Exchange (LuSE) began operations in February 1994 and although there were no listings in the first year, trading of unlisted stocks took place. At this time, there were 1,000 Zambian nationals participating in the market. This had risen to 20,000 nationals by the end of 1998.

The emergence of the capital market in Zambia has had a positive impact on the economic and financial sector. Currently eight companies are listed on the stock exchange. These include the Zambian Sugar Company, Chilanga Cement, Zambian Breweries, Standard Chartered Bank and Rothmans of Pall Mall. Two companies: Kafironda Explosives and Zambian Telecommunications Corporation are due for floatation. National Breweries was the only listing in 1998. Companies listed in the exchange are offered some tax incentives (detailed in the section on investment incentives).

The market capitalisation of the LuSE, fell to USD301m from USD705m at the end of 1997. The bourse was affected by weaker institutional investment both from both domestic and international players. The decline in activity (estimated at 37.9%), the depreciation of the Zambian Kwacha, the slow pace of privatisation in the mining sector, and unfavourable macroeconomic conditions, were all to blame for the poor performance of the market.

The Zambian Stock Market was designed by the International Finance Corporation as a unified market. 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 exchange. 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. Furthermore, in accordance with an agreement reached at the SADC Committee of Stock Exchanges forum, the LuSE has recently drafted a new set of harmonised listing requirements, based on those of the Johannesburg Stock Exchange.

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.

Among the developmental plans under review is the formation of a Unit Trust. 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. The Law Association of Zambia, the Accountancy Association, Chambers of Commerce and the Stock Exchange nominates four of

these commissioners. The other two are from the Bank of Zambia and the Ministry of Legal Affairs.

<b>LUSAKA STOCK EXCHANGE</b>					
<b>YEAR</b>	1994	1995	1996	1997	1998
Number of companies with shares listed	0	2	5	7	8
Market capitalisation	n/a	436	22.9	705	301
Number of trades	977	898	1,376	3,741	3,772
Volume of shares traded (USDm)	3.93	7.92	241.38	269.62	157.86

Source: Lusaka Stock Exchange (LuSE), 1999

## **Foreign Trade**

Traditionally, Zambia's main exports are copper, cobalt, lead and zinc. The country has also, however, embarked on a process of promoting non-traditional export products (NTEs) in sectors such as agriculture, manufacturing, mining and handicrafts. 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% of foreign exchange earnings. Approximately 30% of NTEs were exported to the EU under the Lomé Convention and NTEs received further 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.

Zambia's trading partners are European countries such as Germany and the United Kingdom. Within Southern Africa, South Africa, Malawi and Zimbabwe and more recently the Democratic Republic of Congo are the leading trading partners.

Crude oil, chemicals, machinery, iron, steel, textiles and vehicles are the chief import goods. South Africa, the United Kingdom, Zimbabwe and Japan are the major sources of imports.

## **Trade Liberalisation**

Trade reforms introduced have transformed external trade. Trade procedures have been improved and documentation has been simplified and standardised. Export permits are no longer required. Export licenses are required for most goods, but the procedure is largely a formality and handled by commercial banks. Exports of some agricultural commodities, such as white maize (the staple food), may be subject to restrictions when domestic supplies are short. Import licenses 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 to 25%, and the tariff structure now comprises four tiers, ranging from 0 – 25%.

## **Foreign Direct Investment**

Market reforms, privatisation and efforts to promote an investor-friendly climate have all contributed towards getting foreign firms to invest in Zambia. Statistics from the Zambia Investment Centre for the period 1993 to 1998 indicate that an estimated 950 companies have invested in various sub-

sectors of the Zambian economy. Their total capitalisation is estimated at USD 760m

For the period January 1998 to March 1999, Zambia attracted a total of USD11.5m in 125 projects. Manufacturing attracted USD 52m, tourism USD 40m and the agricultural sector USD 18m. . Mining investment increased from USD2m in 1991 to an estimated USD50m in 1998.

The tourism industry is expected to see more inflows. Four concessions for lease periods of 25 years were signed recently, for Chichele Lodge, Fairyland House, Moshi Camp, and Ntemwa Lodge. An amount of USD11m is expected to flow into the country, as the companies that won the concessions undertake refurbishment of the lodges.

South Africa's Avmin, which recently bought the Nkana slag dump and Chambishi cobalt and acid plant as part of the ZCCM privatisation (see below), is planning a new USD80m plant. The plant will process material from the mine, as well as from other mines in Zambia and the DRC. Reunion Mining have also invested in the Dunrobin goldmine, which began producing its first gold in late 1997. Other recent investors in the mining sector include Anglo American, Billiton, Caledonia Mining, Cyprus Amax, Equinox Resources, Falconbridge, Phelps Dodge, and RTZ Mining.

South African Breweries recently increased its shareholding in Zambian Breweries, acquiring 45% of ordinary shares from Zamanglo Industrial, a subsidiary of Anglo American. SAB now owns 90% of the company, with the balance being floated on the LuSE. South African and Zimbabwean farmers have also been attracted to the good agricultural conditions in the country. A group of 15 Zimbabwean farmers recently invested USD15m in a farming project located along the Tazara Corridor. Maize, soya beans, tobacco, wheat and coffee will be grown, and the project is expected to create 1,110 jobs.

## **Privatisation**

In 1991, the Zambian government embarked on a massive privatisation programme. At this time, 80% of the economy comprised parastatals, and the average rate of return on assets was less than 5%, a paltry amount in an environment of hyperinflation. 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 Privatisation Act (1992) regulates the process. The majority of companies are sold on a 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.

The number of state-owned enterprises privatised or liquidated by May 1999 amounted to 242 out of a total working portfolio of 280 companies.

The privatisation of mines alone is scheduled to generate USD2.8bn over the next five years. However, the privatisation of ZCCM experienced a number of setbacks during 1998. The parastatal was unbundled into nine operating packages, some of which were sold fairly quickly. However, problems were encountered with the sale of the large Nkana and Nchanga mines, as a

deal with the Kafue Consortium fell through. This had ramifications across the Zambian economy - there was a loss of investor confidence, and a withholding of funds by donors, which meant that lack of progress with the ZCCM privatisation process was a major contributor to Zambia's poor macroeconomic performance in 1998. The refusal of the Kafue Consortium's bid for the mines is estimated to have cost the Zambian economy a massive USD1.47bn. ZCCM's significance to the national economy is indicated by its 25% contribution to GNP, and 95% contribution to foreign exchange earnings.

<b>PRIVATISATION OF ZCCM: PROGRESS SO FAR</b>			
<b>MINE</b>	<b>STATUS</b>	<b>BUYER</b>	<b>AMOUNT</b>
Chibuluma Mine	Sold	Meteorex Corporation (Crew Development Corporation, Miranda Industries, Genbel Securities)	USD17.5m + commitment of a further USD34m.
Luanshya/Baluba Division	Sold	Binani Group, India ZCCM retains a 15% stake	USD35m + commitment of a further USD69m
Chambishi Mine	Sold	China Non-Ferrous Metal Corporation ZCCM retained a 15% stake	
Kansanshi Mine	Sold	Cyprus Amax, USA ZCCM retained a 20% stake	USD28m
Chambishi Cobalt Plant, Acid Plants and Nkana Slag Dumps	Sold	Avmin Limited, South Africa ZCCM retained a 10% stake	USD50m, plus a cash deferred payment of USD45m over a 5-year period
Power Division	Sold	Copperbelt Energy Consortium (National Grid and Midlands Power, both of the UK, and a ZCCM management team) ZCCM retained a 20% stake	USD50m Depending on the level of sales, an additional payment may be made.
Konkola Deep	MOU between ZCCM and Anglo signed. Negotiations currently ongoing	Zambia Copper Investments, a subsidiary of Anglo American Corporation of South Africa.	Will necessitate an investment of USD750m.
Nkana & Nchanga Mines	ZCCM in discussions with Anglo	Initially, Kafue Consortium (Avmin, Noranda Mining, Phelps Dodge and CDC). No agreement could be reached, however, and now it looks like	USD90m + USD300m committed investment

		Anglo will be taking over the running of the mines. There is speculation that a Chilean company, Codelco, could be joining Anglo in the deal.	(80% ownership)
Mafulira Mine and Concentrator	MOU signed	Reunion Mining Plc, Britain to take a 75% stake. There is a possibility that KGHM Polska Miedz of Poland will enter into a joint venture with Reunion.	About USD10-14m

Source: Pangaea Partners (1999), The Post of Zambia (1999), Zambian Ministry of Mines and Mineral Development.

ZCCM will retain a minority shareholding in its mines plus a golden share that will ensure that the government retains a strategic interest in the various mines. ZCCM is listed on the London Stock Exchange and has a market capitalisation of USD400m.

Examples of other recently privatised companies include:

- Lonrho's 70% holding of Northern Breweries was sold to Zambian Breweries, controlled by South African Breweries.
- CDC has bought Munkumpu Farms for USD7.2m.
- Tate & Lyle has bought the Zambia Sugar Company.
- Unilever Plc purchased a 70% stake in Refined Oil Products Limited.
- Six retail outlets were purchased by Shoprite Checkers, for an amount of ZAR10m.
- A 33% shareholding in Metal Fabricators of Zambia was sold to Phelps Dodge (US) and Bikana International (Zambia).
- Benicon Earthworks (SA) has purchased an 80% interest in Maamba Collieries, Zambia's only coal mine, for an amount of USD16m.
- Zambezi Sawmills was sold in late 1998 to Jet Cheer (Zambia), subsidiary of a Hong Kong-based company. The new owners have pledged to invest USD10m in rehabilitating the mills.

Next in line for privatisation are the Zambia State Insurance Company, Zambia National Commercial Bank, Zambia Forestry and Forestry Industries Corporation, Kafue Textiles, Nitrogen Chemicals of Zambia, Zambia Electricity and Supply Corporation, Tanzania-Zambia Pipeline, Zambia National Oil Company, Zamtel, Kafue National Park (various assets), Lochnivar Park (community site), Nkala GMA (Musa Gate), South Luangqa Park (Luambe Camp), Lundazi Castle Hotel, Mukuba Hotel, and Zambia Railways. The management rights for Livingston, Ndola and Mfuwe airports will be put out to tender soon. It is likely that some of the more strategic companies will be restructured and not sold.

## INVESTMENT CLIMATE

### Investment Incentives

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

The Investment Act of 1993 (amended on 1<sup>st</sup> April 1996) offers a wide range of incentives. Further incentives were announced in the government's recent budget.

#### *Capital Allowances:*

Wear and Tear Allowances on:

- |   |      |
|---|------|
| • commercial buildings  | 2%   |
| • industrial buildings ( low cost - maximum ZMK 200,000 )                                 | 10%  |
| • other buildings   | 5%   |
| • Farming, Manufacturing and Tourism:   |      |
| - plant, equipment, furniture and commercial vehicles                                     | 50%  |
| - non-commercial vehicles   | 20%  |
| - farm works and farm improvements  | 100% |
| • Mining plant, machinery, buildings and structures, shafts etc. and specialised vehicles | 100% |
| • All other businesses:   |      |
| - plant, equipment, furniture and commercial vehicles                                     | 25%  |
| - non-commercial vehicles   | 20%  |

#### *Mining Incentives:*

- Mineral royalty now 2%
- Some capital expenditure is tax-deductible – 25% on plant, machinery and commercial vehicles, and 20% on non-commercial vehicles. Under special circumstances, both prospecting and mining expenditure attract tax deductions. .
- The period of carry-over of mining losses has been extended from 5 to 10 years.
- The restriction of offsetting losses against profits, which is limited to 20% for mines with a common owner and that are not adjacent, has been removed, so that 100% of the losses can be offset.
- Duty-free importation of capital equipment and utility vehicles. These are also exempt from VAT.

#### *Manufacturing Sector - Customs and Excise Duties:*

- Duties on certain raw materials have been reduced from 15% to 5%.
- There is a 5 -15% duty on some categories of industrial machinery (e.g. industrial furnaces and ovens, printing machinery and machinery used in food production).
- The customs duty rate on selected items used on manufacturing processes has been reduced

#### *Other:*

- Buildings used for manufacturing, mining or hotels qualify for a wear and tear allowance of 5% of cost, plus an initial allowance of 10% of cost in the year in which the building is first used.
- Companies with an investment of over USD250,000 may employ five expatriate workers.

*Incentives for agricultural enterprises include:*

- Dividends payable to farmers are tax exempt for the first 5 years of operation.
- 15% income tax on farming profits.
- Full tax allowance for outlay on land development, conservation and other costs.
- Capital expenditure on farm improvements qualifies for an allowance of 20% per annum for each of the first five years.
- Substantial rate of depreciation allowing farm machinery to be rapidly written off against tax.
- Special development allowances for growing certain crops: tea; coffee; bananas; citrus or other similar plants or trees.

*Incentives relating to investments on the LuSE include:*

- Corporate income tax reduced to 30%, compared to the normal 35% corporate tax.
- No restrictions on foreign ownership and share holding levels; and,
- No capital gains tax.

Special incentives are offered to exporters of non-traditional products, such as a reduction in corporate tax to 15%. Special exemption from duty and sales tax on imports and machinery is offered to exporters of non-traditional products with net foreign exchange earnings, tourism investments with foreign exchange earnings in excess of 25% of the gross annual earnings, and agro-related products for export.

## **Taxation**

### *Corporate tax:*

Companies listed on the Lusaka Stock Exchange ( LuSE )	30 %
Banks : the first ZMK100 million	35 %
Excess over ZMK100 million	45 %
All other companies	35 %
Income from farming	15 %
Non-traditional exports (excludes copper, cobalt, lead & zinc )	15 %
Income from chemical fertiliser production	15 %

VAT is currently levied at 17.5%. Non-resident withholding tax is 10%, and includes rents, dividends, interest, management fees and royalties.

Double taxation agreements have been concluded with Botswana, Canada, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Romania, South Africa, Sweden, Switzerland, Tanzania, Uganda, United Kingdom and the United States.

Where a double taxation agreement exists between Zambia and another country, the foreign tax payable by the investor to the other country, in respect of any foreign income, shall be allowed as a credit for that investor against Zambian tax in respect of the foreign income

## **Investment Promotion**

Zambia Investment Centre was established in 1992. It provides information on the investment climate, and identifies and promotes opportunities for investment. The Investment Act, as amended in 1996, regulates investment incentives, investment guarantees etc.

Other institutions include the Zambia Privatisation Agency, an institution mandated to privatise all state owned enterprises, and the Export Board of Zambia, a statutory body established to promote the production of non-traditional exports.

## **Exchange Controls**

Exchange control regulations have been removed, and prices and interest rates have been deregulated. Profit, dividends and capital may be repatriated without restrictions.

## **Legal Protection of Investment**

Investment is protected in 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.

Zambia is a member of MIGA and there are bilateral investment protection agreements in place with a number of countries. Arbitration may be sought through the Zambia High Court, ICSID or UNCITRAL in the case of disputes.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	8.6	9.0	9.1	9.5	9.8	10.1
Nominal GDP at market prices (USDm )	3,273	3,347	3469	3266	3,932	3,180
Real GDP growth rate, %	6.5	-3.1	-2.3	6.6	3.3	-1.9
GDP per capita, USD	381	372	381	344	401	315
Consumption as a % of GDP	81.3	54.6	88.6	83.0	80.8	77.7
Inflation rate, %	183.8	54.6	46.0	35.2	18.6	30.6
Merchandise exports as % of GDP	30.2	31.9	34.2	30.4	28.5	25.7
Merchandise imports as % of GDP	28.0	27.0	28.1	29.1	26.9	30.5
Financial and capital accounts of balance of payments (USDm)	406	257	170	197	342	706
Average exchange rate: ZMK to USD	452.8	694.4	864.4	1207.9	1314.5	1862.1
Foreign exchange reserves expressed in terms of months of import cover	2.3	3.2	2.5	2.4	2.6	0.8
Total external debt as % of GDP	119.6	126.4	175.8	190.0	162.8	209.6
Total external debt service as % of exports	123.7	114.4	27.9	18.5	14.3	16.2
Central bank discount rate (end of year), %	119.6	40.5	66.7	82.5	38.8	43.4
Prime lending rate (average for year), %	115.6	70.6	45.4	53.8	46.7	31.8

Source: Bank of Zambia (1999)

## USEFUL ADDRESSES

Zambia Investment Centre

P O Box 34580

Lusaka

Tel: +260-1-25 21 33/ 255240-3

Fax: +260-1-25 21 50

E-mail: [invest@zamnet.zm](mailto:invest@zamnet.zm)

Zambia Privatisation Agency

P O Box 30819

Lusaka

Tel: +260-1-22 38 58

Fax: +260-1-22 72 50

E-mail: [zpa@zamnet.zm](mailto:zpa@zamnet.zm)

Export Board of Zambia

P O Box 30064

Lusaka

Tel: +260-1-228106-7

Fax: +260-1-222509

Zambia Revenue Authority

P.O. Box 35710

Lusaka

Tel: +260-1-223754/ 229214-8

Zambia National Farmers Union

P.O.Box 30395

Lusaka

Tel: +260-1-223222

Fax: +260-1-222736

Zambia Association of Manufacturers

P.O.Box 31992.

Lusaka

Tel: +260-1-229364/ 222709

Fax: +260-1-229371

Zambia Export Growers Association

P.O.Box 31705

Lusaka

Tel: +260-1-221895

Fax: +260-1-221895

Zambia Association of Chambers of Commerce  
and Industry (ZACCI)

P.O.Box 30844

Lusaka

Tel: 260-1-252369

Fax: 260-1-252483

Lusaka Stock Exchange

P.O.Box 34523

Lusaka

Tel: 260-1-228537/ 228391

Fax: 260-1-225969

Zambia National Tourist Board

P.O.Box 30017

Lusaka

Tel: 260-1-222714

Fax: 260-1-225174

# ZIMBABWE

## GENERAL INFORMATION

**Where:** Zimbabwe is a landlocked country in Southern Africa and borders Mozambique in the east, Zambia in the north, South Africa in the south and Botswana in the west.

**Land Surface:** 391,109 km<sup>2</sup>

**Capital city:** Harare

**Major centres:** Bulawayo; Mutare; and Gweru

**Population:** 12.7m (1998). 60% of people live in the rural areas. Harare has a population of 1.4 million. More than half the population fall between 15 and 64 years of age.

**Official languages:** English; Shona and Ndebele are locally spoken languages.

**Human Development Index:** Ranked 130<sup>th</sup> of 175 countries in 1998.

## Political Overview

ZANU and ZAPU formed a coalition government that has ruled the country for more than 18 years since independence. Political dynamics are changing though and this could culminate in the formation of an opposition party. The Zimbabwe Congress of Trade Unions (ZCTU) is backing these new political developments. Elections are held every five years. Recent political and social events could result in legislative elections being highly contested in 2001.

## Sectoral Description

Agriculture does not contribute significantly to GDP but remains the backbone of the economy. More than 80% of the population is engaged in agricultural activities and agricultural production feeds directly into the manufacturing industry.

Main activities include production of maize, tobacco, cotton, sugar, soya-beans and horticultural products. Tobacco is the single principal earner of foreign exchange and makes up about 40% of exports. Livestock production is another important activity consisting of ostrich and poultry farming.

Zimbabwe produces over 40 mineral products and has over a thousand operational mines. This sector has attracted the largest share of foreign direct investment (FDI) despite it contributing only 7% to GDP. Some of the minerals mined in the country are nickel, gold, carbon, ferrochrome, ferro silicon chrome, copper, steel, diamonds and coal. Due to work done by BHP Platinum, platinum production is set to expand to an estimated 180,000 ounces per annum, while the Ngezi project in Mashonaland is expected to add a further 200,000 ounces per annum. Gold is the second largest foreign exchange earner.

The manufacturing sector of the country is well diversified. The percentage share of GDP fell from 25% to 18% in 1998. This sector still remains a critical one though, with 20% of the labour force

employed and 40% of exports originating from the sector. Textile, clothing, car assembly and printing and packaging are common activities.

Zimbabwe's beautiful natural scenery and abundant wildlife has resulted in tourism becoming a fast growing sector. Several projects aimed at improving tourist inflows have been developed jointly by government and the private sector. A USD90m project to construct a park in the Chiyangwa village and the Hunyani River area is already being planned. In anticipation of an increase in tourism, there has also been growing investment in the construction of hotels and game lodges.

## **Infrastructure**

Zimbabwe holds its own in terms of infrastructural sophistication in the Southern African region.

The freight handling section of Harare International Airport is currently being extensively upgraded to conform to international standards and to improve the airport handling of both horticultural and perishable goods. This project has been made possible by a USD2m capital injection from DHL Aviation. Once completed, a 24-hour service (seven days a week) will be provided, with major reductions in handling time of goods. In addition, the current scaling method will be computerised, the cold store room expanded and radio transmission equipment improved. All improvements should bring great relief to customers.

Road and rail networks are spread throughout the country. There are approximately 19,000kms of roads - 8,500kms of which are tarred and over 10,500kms of which are un-tarred. Local authorities and municipalities administer an additional 61,630kms. The National Railways of Zimbabwe operate and maintain the rail system. The rail networks cover some 3,000kms and provide strategic links with neighbouring countries, especially the ports of South Africa and Mozambique. Significant rehabilitation of certain rail lines may be required in order to be able to cope with present-day demands for cost- and time-effectiveness.

Telecommunications is generally satisfactory. About 32 people in every thousand have access to telephones. The Post and Telecommunications (PTC), following its launch in 1996, set up a new cellular operation.

As a net importer of energy, Zimbabwe plans to supplement its supply deficit by building a USD63m thermal power station in Gokwe North. This is a joint venture between the World Bank, Zimbabwe and Britain, and invitations to tender will be advertised soon. Already existing power sources include: the Kariba South hydroelectric facility producing 666-MW; and the Hwangwe coal power station supported by four 120 and 2,200-MW units. The state-owned Zimbabwe Electricity Supply Authority is responsible for the production and supply of electricity.

## **ECONOMIC OVERVIEW**

### **Introduction**

Zimbabwe is currently undergoing a second reform process with the first phase having been completed in 1996 under the Economic Structural Adjustment Programme (ESAP). ZIMPREST (Zimbabwe Programme for Social and Economic Transformation) seeks to deepen the initial reform process. The main focus of the programme is to reduce the country's reliance on donor support, and to prop up the fiscus through ensuring a diversified economic base. Other targets include bringing down the inflation rate to single digit levels and attaining a government budget deficit of 5% of GDP. International events impact greatly on economic performance in Zimbabwe because of the dependency on mineral products and commodities, especially tobacco.

### **Recent Macroeconomic Developments**

The Reserve Bank of Zimbabwe forecast a slowdown in economic growth from 2.6% in 1997 to a revised estimate of 1.5% in 1998. This deceleration is a reflection of the difficult economic conditions faced world wide due to depressed global demand, and high fuel, energy and wage costs. Low domestic demand because of low disposable incomes, also affected the economy negatively. In the manufacturing sector, output fell by 2.7%, while output in the mining sector increased marginally by 0.5% in 1998. However, it is expected that the agriculture sector will fare better and will contribute towards the upturn in economic growth in the coming year.

The fiscal position improved during the year under review, mainly due to improved revenue collection. The increase in revenue collection was boosted by an increase in voluntary compliance by taxpayers, with personal and corporate taxes contributing a hefty 44.1% of the total revenue inflow. Other significant contributors consisted of sales tax (19.9%) and customs and import duties (16.9% and 4.1% respectively). As a result, the deficit declined from 6.4% during the 1997/98 financial year to 4.9% during 12 month fiscal period ending December 1998.

Government spending was more than the estimated ZWD66,833.2m (USD3,124.4 m) due to an increase in recurrent expenditure components. Capital expenditure remains at ZWD4,094.4m (USD191.4m). The withdrawal of foreign investors from the domestic financing market presented a serious threat to inflationary pressures. To ease both fiscal and inflationary pressures the government is to embark on a programme to restore foreign investor confidence and speed up the sale of state assets.

Inflation soared in 1998. The sharp depreciation of the domestic currency, increases in administered prices which included fuel prices and electricity tariffs pushed the inflation rate from a low 29.3% in August to 46.6% in December 1998, with non-food inflation reaching 36.9%. The Reserve Bank aims to bring the inflation rate to below 30% during the first half of the year 2000.

The Reserve Bank has opted for a conservative monetary policy to stem further price hikes. As a consequence, the annual growth rate in broad money supply (M3) decelerated dramatically in 1998. By June 1998, M3 had slowed down to 20.7% before falling to 14% by December 1998. The fall

in net foreign assets, together with reduced government borrowing from the central bank, accounted for the favourable performance of the money growth rate. However, the money supply rate still remains high and the Reserve Bank has resolved to bring this down to single-digit figures by year-end, consistent with real economic activity.

A reduction in money supply and tight monetary policy led to an increase in lending costs. Banks increased their lending rates to over 40%, reflecting the underlying liquidity constraints. For example, the call money rate stood at 37%. Similarly, other short-term rates like the 90-day NCD and average three-month treasury bills were, by December 1998, 45% and 35.4% respectively. The Reserve Bank reacted by instituting formal changes in monetary policy. The rediscount and overnight rates were replaced with a Reserve Bank rate to enhance the Bank's influence on short-term interest rates.

Reforms in mandatory reserve requirements were introduced to manage market liquidity. Banks are now permitted to use up to 25% of their reserves, but have to replenish these by the reporting dates. A balance of 75% of reserves must always be maintained.

The country's external balance position came under pressure during 1998. Several factors accounted for this state of affairs, namely, low international commodity and mineral prices, a contracting global demand, and a high import propensity. Imports decreased significantly by 24.5% in 1998 compared to 18% the previous year. A combination of tight monetary policy and tariff measures might have been the reason for the huge decline in the current account deficit for 1998 to 5.4% of GDP. This compares favourably with the previous figure of 10% of GDP in 1997. The capital account could, however, have improved markedly had the IMF and other external donors disbursed as expected. Nonetheless, the overall balance of payments position for 1998 is estimated to have improved to a deficit of 2.5% of GDP from a deficit of 8.4% of GDP in the previous year.

### **Financial Institutions**

The Reserve Bank has plans to strengthen the country's financial payments system by introducing a real-time gross settlement system by year 2001.

The financial system came under great stress last year with the collapse of one of the merchant banking institutions. While the financial system remains sound, the Reserve Bank responded by increasing the 13% capital adequacy requirement for the country's banks. This is in excess of the internationally accepted minimum ratio of 8%.

The Reserve Bank also introduced several other measures aimed at improving the smooth functioning of the local markets. These include: the replacement by the of the rediscount and overnight rates by the Reserve Bank discount rate; and, merchant and commercial banks being given the right to underwrite government stock in a bid to introduce the stock pricing mechanism. Previously, only the discount houses were allowed to deal in primary issue of government stock.

The increasing number of financial institutions entering the sector is likely to improve efficiency and lead to an expansion of the financial product range. There are currently seven commercial banks and eight merchant banks. The new entrants include such companies as Rapid Securities, Prudential

discount house, Time Bank, First Banking Corporation and Kingdom Financial Services.

There was a great deal of activity in the financial sector experienced with mergers and acquisitions as institutions fortified their capital bases. Syfrets Merchant Bank became subsumed as a division of the Zimbabwe Banking Corporation; Heritage bought into First Merchant Bank of Zimbabwe. Also, Standard Chartered Finance was purchased by Zimbabwe Development Bank and is now trading as ZDB Financial Services. All these experiences strengthened the presence of the commercial and merchant banks, who together hold a 65% share of the total asset base of the financial local sector.

### **Zimbabwe Stock Exchange**

A number of critical factors, like the controversy around land reforms, participation in a war in a foreign country, weak tobacco export sales, currency meltdown and internal tensions, impacted negatively on the overall performance of the Zimbabwe Stock Exchange (ZSE).

Three new companies, accounting for ZWD620m (USD16.6m), were listed in 1998. The number of companies listed has increased to 70, with 80 traded equities. Of the total companies listed, five account for 53% of total market capitalisation, with foreign companies owning 22%.

The increase in listing and merger activity did not do enough to support sagging market capitalisation though, which receded by almost 59% from 1997 levels to 953.6. The market was also characterised by strong non-liquidity due to a contraction in the volume of share transactions. The mining sector was the hardest hit, with a drop in the index from the high of 544 recorded in February to 367 by December 30<sup>th</sup>. Declining mineral prices and cost inefficiencies created this negative situation.

New listing requirements, based on those of the Johannesburg Stock Exchange and the London Stock Exchange, were introduced during the year, and by the end of 1999 a central depository system will hopefully be in place.

Since June 1993, foreign investors have been allowed to participate on the stock exchange provided they financed shares purchased by the inward transfer of foreign currency through the normal banking channels. Individuals can own up to 10% of a listed company and 40% in aggregate. Both net capital and dividends payments are freely remittable.

Listed companies include MacMed holdings, Barclays Bank, Econet, Mambo properties, Delta Corporation and Meikles Africa.

<b>Zimbabwe Stock Exchange (ZSE)</b>					
<b>YEAR</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Number of listed companies	65	65	65	67	70
Market capitalisation, USDm	1,679.0	2,105.0	4,830.4	2,283.7	953.6
Number of companies making issues					

<b>Zimbabwe Stock Exchange (ZSE)</b>					
<b>YEAR</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
(including new, rights and bonus issues)	12	1	6	9	6
Value of new issues incl. rights issues, USDm	96.4	1.6	62.4	129.6	22.6
Volume of shares traded, million	450.8	431.2	722.7	1,197.2	1,110.0
Value of shares traded, USDm	177.4	150.0	257.5	350.7	105.3
Number of trading days (i.e. days during which shares are traded in a particular year)	252	250	253	251	253
Average price-earning ratio of all listed companies, %	8.3	7.4	14.6	9.6	7.1
Average dividend yield (annual average), %	5.0	5.2	2.9	4.4	4.1
Industrial index (overall index)	-	-	-	-	6,408.4

Source: Zimbabwe Stock Exchange (1999).

## **Foreign Trade**

SADC member states, in particular South Africa, and the UK, US and Germany, receive most of Zimbabwe's exports. Food and food products, tobacco (especially unprocessed) and manufactured goods form the core export commodities. It is speculated that poor tobacco quality due to excessive rains could have led to the 30% drop in export of this product. The expected benefits from the devaluation of the Zimbabwe dollar would not have offset this fall in sales.

Over 40% of imports are from the SADC region, with South Africa contributing approximately 38% of these. Chemicals, fuels and electricity, machinery and equipment, and manufactured goods, are the key imports. South Africa, the USA, and the European Union are the country's principal trading partners.

## **Trade Liberalisation**

Tough trading conditions, especially in the foreign exchange market, forced the government to raise import duties from 10 to 15% in order to contain the sharp depreciation in local currency.

Trade regulations have been revised. Border procedures for road motor transport have been relaxed and import and export formalities changed. The Grain Marketing Board and the Cotton

Company of Zimbabwe control imports of certain agricultural products. There are plans by the government to also cut duties imposed on Zimbabwe textiles from 90 to 24.5%, and for clothing from 60 to 30%. No trade restrictions or quotas exist, other than on seasonal agricultural farm produce. There is an import surtax of 10%, with a further sales tax of between 12.5% and 20% on goods sold domestically. Customs duties on consumer goods are at 35%, and duty on vehicles could be up to 75%.

Exporters may retain all the proceeds from their operations, but conversion into local currency must occur within three months. However, export licences are imposed on certain strategic goods such as minerals, petroleum, wild animals, basic agricultural commodities (including maize, cheese, citrus fruit). For imports, licensing is required for goods that are restricted for health and security reasons, as well as non-monetary gold, precious and semi-precious stones.

### **Privatisation**

The country has a huge deficit, which has been made worse since its participation in the war in the Democratic Republic of Congo. However, the government could redeem the fiscal pressures by selling off some of its public enterprises.

Pressure has been mounting on the government to speed up the privatisation process. Of the 40 public enterprises owned, only four have been privatised. The government has indicated that it will establish independent tenders and privatisation boards to restore credibility and ensure transparency.

The British government has supported the privatisation programmes by pledging a million pounds to assist with the establishment of a privatisation agency. The agency's mandate will be to draw up a plan for privatisation, bearing in mind the number of employees, and size and nature of operations of the enterprise. The World Bank and the IMF are still to define the kind of interventions that they intend to make during the implementation phase.

Thus far the Zimbabwe government has been able to proceed with privatisation of several parastatals, including the Dairiboard of Zimbabwe, the Cotton Company of Zimbabwe, the Zimbabwe Reinsurance Company, and the Rainbow Tourism Group. It has also sold its 80% share of the Zimbabwe Commercial Bank (the other 20% will be sold to local investors once sufficient demand is evident). Various other state enterprises have already been flagged for privatisation. These will include the Post and Telecommunications Corporation, Air Zimbabwe, Cold Storage Company, Small Enterprises Development Corporation, and Zimbabwe Iron and Steel Company.

### **Foreign Direct Investment**

The slowdown in world economic activity precipitated by the Southeast Asian financial crisis impacted negatively on the number of foreign direct investment (FDI) approvals received - from 332 in 1997 to 272 in 1998. Despite the sharp depreciation of the domestic currency, in value terms projects approved increased from USD648.9m in 1997 to USD2,567.4m in 1998 – an rise of 296%.

The Zimbabwe Investment Centre (ZIC) approved two sizeable investment projects in 1998, in

spite of all the economic difficulties. This included the multi-billion dollar (USD1.4bn) Gokwe North Power Station, a joint venture between the Zimbabwe Electricity Supply Authority and the UK-based National Power, dubbed the biggest privately run power project in Southern Africa. It entails the development of the Sengwa coal mine, the power station, a cooling water pipeline from Kariba Dam and a growth point.

ZIC also approved the Hyatt Hotel project valued at about USD430m, to be constructed at the Harare International Airport, by the Hyatt Group of the USA.

On a sectoral basis, the main beneficiaries of FDI approvals have been the commercial, construction, manufacturing, mining and, to some extent, the tourism sectors. The commercial sector has continued to dominate the share of approved projects accounting for about 58% (USD1,485.7m) of approved projects in 1998. This is followed by construction which accounted for 18% (USD467.8m). The proportion of approved projects in the manufacturing and the mining sectors improved somewhat in 1998.

Most of the approved projects emanated from the OECD countries, with the UK, USA, Germany and Ireland featuring prominently. Approved investments originating from Asia were negligible, primarily as a result of the economic meltdown in that region. South Africa and Mauritius had the largest share of approved projects coming from Africa.

#### **Foreign Investments Approved and Classified by Sector (USDm)**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Manufacturing	314.0	184.1	76.6	181.7	246.8
Mining	267.2	57.0	354.3	71.4	181.2
Agriculture	13.4	26.3	67.0	6.5	3.0
Commercial	73.4	175.4	459.7	389.3	1,485.7
Construction	-	-	-	-	467.8
Tourism	-	-	-	-	133.1
Transport	-	-	-	-	49.8
<b>Total (USDm)</b>	<b>668.0</b>	<b>442.8</b>	<b>957.6</b>	<b>648.9</b>	<b>2,567.4</b>

Source: Central Bank of Zimbabwe, 1999.

## **INVESTMENT CLIMATE**

### **Investment Incentives**

Incentives for investors include:

- An investment allowance of 15% in the year of purchase for industrial and commercial buildings, staff housing and articles, implements and machinery.
- An investment allowance of 50% in the year of purchase for training buildings and equipment.
- A duty drawback and inward processing rebate for exporters of manufactured goods.
- Exemptions from import tax (sales tax), surtax and customs duty on equipment and machinery imported for productive purposes.
- Permanent residency for investors investing significant sums in projects approved by the Zimbabwe Investment Centre (ZIC). This is dependent on the amounts involved.
- A 25% Special Initial Allowance on cost of industrial buildings, and commercial buildings in growth point areas, with rebates on machinery for the first four years.
- A 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% for the first five years of operations.
- 15% investment allowance on cost of investment.

### **Export Incentives**

In 1994, Zimbabwe established EPZs with the objective of spurring industrial development and exports. The EPZs are regulated under the Export Processing Zone Act.

Incentives for EPZs:

- Exemption from withholding taxes on dividends, royalties, fees etc.
- Exemption of duty for goods imported into EPZs.
- Exemption from capital gains tax, surtax & sales tax on goods and services.
- Exemption from fringe benefits tax for employees of EPZ's companies.
- A five-year tax holiday and 15% corporate tax thereafter.
- Permission for foreign companies to borrow locally.

In addition, 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.

Zimbabwe enjoys preferential access to the European Union as a Lomé Convention signatory. Zimbabwe is also a member of SADC and COMESA. Furthermore, the country has been granted

duty-free access to the US and other major markets through the GSP.

### **Taxation**

Corporate:	35%
Withholding tax:	15% for companies listed on ZSE; 20% for others
Individual:	maximum of 45%
Surtax:	Reduced from 15 to 10%.

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 as an autonomous institution to act as a clearing agency for direct private investment. A Board of Directors appointed by the Government but largely drawn from the private sector runs ZIC. 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 requires Reserve Bank approval. Between mid-1996 and 1997, ZIC approved approximately USD100m new projects. These projects have created more than 12,000 jobs. This value of projects approved in Zimbabwe is the highest since the country's investment drive began in 1991.

The mining sector topped the list of last year's new investments, followed by tourism. In terms of the new jobs created, the manufacturing sector topped the list.

ZimTrade is the national trade development organisation. It was separated from the Ministry of Industry and Commerce and established as a partly self-financed authority in the early '90s. ZimTrade assists local businesses to develop and expand international trade by providing valuable information on export markets and opportunities. It also conducts and participates in trade fairs, training, and the matching of foreign and local business opportunities.

The Zimbabwe Export Processing Zone (EPZ) Authority is the foremost promoter and administrator of the EPZ programme. The Authority grants investment licenses to qualifying companies and permits to private companies, ensures compliance with EPZ status, and provide customs services in the EPZ.

### **Investment Code**

The Investment Regulations are outlined in the Zimbabwe Investment Centre Act of 1992, which lays down a framework for investment practices countrywide. The Export Processing Zone Act and the Stock Exchange Act supplement this Act.

### **Exchange Controls**

- Restrictions on the repatriation of dis-investment proceeds apply only to capital introduced in Zimbabwe prior to the 1<sup>st</sup> September 1979. No restrictions on the repatriation of proceeds arise out of investment made after May 1993.
- Credit terms on exports are now 90 days and all the proceeds realised from exports must be sold to the market immediately upon receipt unless specific dispensation has been granted.
- No restrictions on local borrowing by foreign owned companies registered and operating in Zimbabwe.
- Purchase of shares on the ZSE by foreign investors is limited to 40% of total equity, with a single foreign investor allowed to acquire a maximum of 10% of the shares.
- Dividend and profits remittance for all foreign investors is now 100% and payment is effected through the inter-bank market.
- Foreign investors may hold up to 100% equity in companies operating in priority sectors of the economy. These priority areas include manufacturing, mining and quarrying, mineral exploration and the development of hotels for tourism.
- All companies operating within the country are limited to borrow up to USD5m from offshore without government approval for export-related businesses. However, if the loan exceeds the stipulated amount, prior approval by the External Loans Co-ordinating Committee should be sought.

### **Legal Protection of Investment**

The Zimbabwean constitution enforces the right to private property and forbids expropriation without due compensation. Investment is therefore constitutionally protected. The country is also a signatory to a number of multilateral and bilateral protection treaties and agreements such as MIGA, ICSID, New York Convention on Recognition and Enforcement of Foreign Arbitral, UN Commission on International Trade and Arbitration Law (UNCITRAL) to name but a few. Bilateral investment agreements exist with countries such as Mozambique, the UK, Germany, Malaysia, Portugal, Switzerland and China. The Zimbabwe Investment Act of 1992 and the Export Processing Zones Act of 1996 provide for protection from compulsory acquisition of property or interest of a licensed investor, to whom an investment license has been issued in compliance with the ruling law.

## INVESTMENT OPPORTUNITIES AND PROJECTS

A number of opportunities exist in banking, resource beneficiation, agriculture and the value-adding industries. Those companies that further the government's economic policy will be particularly welcome. The government's economic policy focuses mainly on promoting the diversification of the economy, on increasing export capacity so as to reduce unemployment and on improving technological applications.

### Projects

<b>Manufacturing</b>	<b>Value (USDm)</b>
Production of sodium silicate	-
Chemical production project	1
Rehabilitation of ZISCO's blast furnace	605

<b>Transport and Communication</b>	
Upgrading and construction of the road network system	688
Construction of the Bulawayo-Beitbridge Rail link	85
Digitalisation project in Mashonaland and Manicaland	-

<b>Miscellaneous</b>	
Enhancement of capacity for platinum production	220
Construction of a new international airport in Harare	60
Electrification project	1.5
Building of an entertainment complex	20
Construction of Tokwe-Mukorisi Dam in Lowveld	343
Rural resources and water development	1,263

Sources: Industrial Development Corporation 1999.

## STATISTICS

	1993	1994	1995	1996	1997	1998
Population (millions)	10.8	11.2	11.5	11.9	12.3	12.7
Nominal GDP at market prices	6,446.3	8,837.7	7,127.6	8,474.7	8,235.0	5,557.1
Real GDP growth rate, %	1.2	5.3	-1.0	8.5	2.6	1.5
GDP per capita, USD	598.0	613.2	616.4	711.7	869.8	438.9
Private consumption as % of GDP	63.4	61.0	64.4	63.3	71.5	68.5
Gross domestic savings as % of GDP	20.6	21.5	16.5	22.8	9.3	-
Gross investment as % of GDP	23.6	21.4	24.8	14.2	18.0	-
Inflation rate, %	27.6	22.3	22.6	21.7	18.8	31.7
Merchandise exports as % of GDP	32.2	36.5	40.9	36.3	44.6	47.8
Merchandise imports as % of GDP	23.5	26.0	29.9	26.6	32.2	36.1
Capital account of balance of payments	173.0	181.0	437.0	109.0	102.0	124.0
Foreign direct investment as % of GDP	0.5	0.4	1.4	0.4	1.3	7.8
Foreign portfolio investment as % of GDP	-0.0	0.7	0.9	-0.0	0.4	0.2
Overall balance on balance of payments	176.0	268.0	210.0	-21.0	-740.0	-182.0
Average exchange rate: ZWD to USD	6.6	8.2	8.7	10.0	12.1	23.5
Foreign exchange reserves expressed in terms of months of import cover	3.4	2.8	3.7	3.2	1.0	1.3
Total external debt as % of GDP	61.4	62.7	62.1	55.4	56.4	62.7
Total external debt service as % of exports	30.1	25.0	19.9	18.0	18.0	21.2
Budget deficit as % of GDP	-5.9	-4.2	-9.9	-7.0	-5.5	-4.9
Central bank discount rate (end of year), %	28.5	29.5	29.5	27.0	31.5	39.5
Prime lending rate (average for year), %	37.9	36.4	35.0	33.6	35.3	42.1
Growth rate of M2 money supply, %	43.0	33.8	30.0	27.7	34.7	14.1
Domestic credit to government	285.2	735.7	767.2	854.0	858.6	433.9
Domestic credit to private sector	1,514.2	2,025.3	2,360.0	3,023.7	2,388.5	1,516.3

Source: Reserve Bank of Zimbabwe, 1999.

## **USEFUL ADDRESSES**

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