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# Doing business in post-conflict and fragile states: Challenges and risks

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## Abbreviations

BRIC	Brazil, Russia, India and China
CD	compact disc
CGIC	Credit Guarantee Insurance Corporation of Africa Ltd
COMESA	Common Market for Eastern and Southern Africa
CWN	Congolese Wireless Network
DBSA	Development Bank of Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
ECIC	Export Credit Insurance Corporation of South Africa Ltd
EITI	Extractive Industries Transparency Initiative
ENE	Empresa Nacional de Electricidade
EWN	Econet Wireless Nigeria
FNI	Front des Nationalistes et Intégrationnistes
GDP	gross domestic product
HIPC	Heavily Indebted Poor Country
HIV/Aids	human immunodeficiency virus/acquired immune deficiency syndrome
ICT	information and communications technology
IDC	Industrial Development Corporation
IT	information technology
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
Okimo	Offices des Mines d'Or de Kilo-Moto
PetroSA	Petroleum, Oil and Gas Corporation of South Africa (Pty) Limited
SAA	South African Airways
Sacoil	South Africa Congo Oil Company
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPP	Southern African Power Pool
SNEL	Société nationale d'électricité
SOE	state-owned enterprise
Westcor	Western Power Corridor Company

## Executive summary

Africa's development has been constrained by many factors but none more than conflict. More than 28 African countries have been involved in some kind of war since 1980. Most states in Africa are still in a conflict, sporadic conflict or post-conflict situation, depending on the definition used.

The legacy of conflict in Africa includes serious poverty, the breakdown of systems and institutions, political control of the economy, endemic corruption and an unpredictable operating environment. These challenges notwithstanding, South African companies have ventured into these countries in ever-greater numbers. After 1994, companies moved primarily into member states of the Southern African Development Community (SADC) that were not in conflict, because of their geographical proximity, political stability, historical trading and political ties, and existing opportunities. Member states of the Southern African Customs Union (SACU) were the easiest to penetrate. In sectors such as banking and retail, this resulted in stiff competition in these small markets. Another top trade and investment destination for South Africans is Mozambique, where proximity and opportunity, and the massive Mozal aluminium smelter project, have drawn companies despite the language and cultural differences. Companies were slower to move into the other big lusophone market, Angola, because of the difficulty and cost of entry, given the unique structure of the post-war economy, logistical concerns, and differences in language and culture. The cost and difficulty of testing the market in Angola was simply far greater than in Mozambique.

South African companies have also expanded their activities beyond the SADC region, based on increasing economic liberalisation, political stability and better governance. Although mining lured early investors into Ghana, for example, retailers, banks and others soon followed after the country entered a period of successful reform. More recently, Nigeria, Africa's biggest market, has been the big drawcard. Once avoided by South Africans because of its military rule and reputation as a tough place for business, the 1999 democratisation allowed the economy to open up and re-engage with global business.

In East Africa, a welcoming business environment drew investors to Uganda, supported by the signing of bilateral agreements. In 2002, South Africa was one of the top ten investors in the country. Tanzania, now part of the SADC, was also an investment target, as was Kenya. There, however, local business was hostile to South African advancement because of threats to its own well-developed private sector and stiff competition in sectors such as brewing, retail and tourism.

By 2009, Angola, Nigeria, Ghana, Zambia and the Democratic Republic of Congo (DRC) were top investment destinations, with Zimbabwe back on the investment radar following the relative normalisation of the economy. The government is looking for new business

destinations for South African companies, sometimes in unlikely places. For example, it is courting the pariah government of Equatorial Guinea to open up opportunities for business, particularly for the Petroleum, Oil and Gas Corporation of South Africa (PetroSA) in the large oil sector.

In the early part of the century, trade with Morocco was brisk, despite cool diplomatic relations owing to the dispute in the Western Sahara. It was boosted by the sophisticated economy, good investment incentives and the government's active engagement with the private sector. Engagement with Algeria has been slow, despite strong political ties. Egypt courted South African companies with some success, although it has many cultural and legislative barriers to entry.

In Francophone Africa, business was engaged in the Côte d'Ivoire until conflict eroded interest in the market, while Madagascar, Gabon and Cameroon are among current investment destinations across a variety of sectors.

South African companies appear not to make decisions based on notions of conflict and post-conflict states but rather on an assessment of opportunity versus risk and the requirements for mitigating such risk.

## Entry strategies

Entry strategies, which are critical to success in a new market, are starting to conform to the realities of African markets. Many companies are now choosing to invest via equity partnerships, where before they might have preferred a greenfield investment because of concerns about compromising the brand or corporate ethics, or because they did not see value of a local partner. As companies understand African markets better, they develop strategies that are more in line with local business conditions. Equity investment in local firms is on the rise as companies see the benefit of local knowledge, reaching critical mass sooner through existing networks, addressing empowerment issues and being close to the market, particularly in challenging countries. However, they generally prefer to maintain a majority stake in such enterprises, even if they do not keep their South African brand name.

But partnerships can be risky when business practice and ethics do not meld. There may be funding disputes, problems with local management skills or (unfounded) claims of high-level access to government officials. These problems can – and have – set companies back. But such problems have usually not been enough to deter them from continuing in the market concerned. South Africans generally do not have difficulty in finding new business partners locally if old partnerships fail.

Where there is a lack of potential targets for acquisition, companies prefer greenfield operations. Some enter a market via a large contract, others through privatisation. Another

factor in investment is the drag effect of multinational companies, which import goods, services and skills because of the weakness of the private sector in many African countries. This type of entry is typically on a contract basis but larger suppliers often establish themselves in important markets to broaden their customer base.

South African expertise, finance and experience are highly sought after and many African governments and companies visit the country to find equity partners or other types of partnerships and investment. They often offer good incentives to draw companies into new markets.

### **Main sectors**

The main sectors for investment are financial services; mining and related services; construction and property development; retail; supplier services to the oil, gas and mobile telephony industries; ICT; security and guarding; logistics; and tourism and hospitality. Agriculture is a growing area of investment although much of this is related to skills transfer.

A large part of South African business with the rest of Africa is trade, the export of goods and services using local agencies, franchising, and other non-investment business.

### **Learning from experience**

South Africans started to invest in other African countries just when those economies entered an era of reform, economic liberalisation and privatisation. They were generally on an upward trajectory in terms of their operating environments, investment incentives, openness to foreign investment and policies. This eased, but did not remove, significant challenges.

Operating on the continent has been a major learning curve for companies, based on trial and error. Early South African investors did not understand the markets well and there was a general belief that their skills and knowledge, and being African, would be enough for them to succeed. Instead, they found a difficult and complex terrain and had to learn from their mistakes. Many struggled because of poor business models and entry strategies, insufficient market information, an impatience for results and untested assumptions about new markets.

Most South African companies once viewed high risk and cost as major deterrents to doing business on the continent. However, the experience of their countrymen, more information on the markets, a better business environment and the ability to manage risk more effectively have spurred many to take advantage of cross-border opportunities. Greater experience of and exposure to African markets have led companies to assess countries and risk on a case-by-case basis rather than seeing the rest of the continent as homogeneous.

## Main challenges of doing business in Africa

The high cost of doing business in the rest of Africa is an important barrier to entry, particularly for small and medium-sized enterprises. Other significant challenges include: poor or non-existent infrastructure; regulatory and tax uncertainty, which creates planning problems and unexpected costs; difficult and costly logistics (linked extensively, but not exclusively, to infrastructure deficiencies); a surfeit of bureaucracy, which creates bottlenecks and inefficiencies; the absence of effective legal frameworks; corruption; skills shortages; and currency fluctuations.

Political risk is another challenge, and includes corruption, political change or the sudden eruption of conflict. Political corruption includes the solicitation of bribes; officials maintaining personal business interests, which can skew the playing field for competitors or result in unfair regulatory changes; and political battles that can affect investor agreements. The power vested in individuals, particularly ministers, is a particular problem as a new appointee can scupper deals made with a predecessor.

Another concern for investors, particularly those in resources or agriculture, is the level of power devolved to the provinces or states. Strong decentralisation can be positive in countries such as Mozambique or the DRC, where dealing with a geographically remote central government can be slow and problematic. However, it also leaves companies in outlying areas susceptible to ad hoc local policies, often designed to fleece foreign investors, in addition to any national requirements that they may have to satisfy.

South Africans also face secondary risks on the continent. These include the following:

- Different language and business cultures
- The choice of local partners
- A weak local private sector
- A lack of market information
- Weak government institutions
- Problems with work permits
- Non-payment of contracts
- Dealing with issues of local content and empowerment
- Onerous requirements for operating licences
- The cost of tendering for contracts
- The security of people and assets.

Finance can be a constraint to entry because banks have a perception of high risk in Africa. But bankers say a poor business case or seeking funding for particularly risky sectors such as agriculture is the problem, not lending into other countries per se. Companies are

also ignorant of the many funds available to finance good projects on the continent. They tend not to seek funding from development finance institutions because they do not know how to access such funding or are concerned that the development criteria of these institutions may not fit their business plans. Most large projects involve syndicated and externalised funding, which mitigates risk. The fact that South African banks are either operating in or providing trade and other types of finance to many African countries has made it easier for business to access financial services outside their home market.

### **High-risk, high-reward opportunities in conflict and post-conflict countries**

South African companies are prepared to invest in conflict and post-conflict countries if the returns are worthwhile. Resources companies generally take more risk, as it is an inherent part of their business. Many companies enter as suppliers to the mines, which lessens their own risk. Political stability and economic progress in these markets usually draw companies from other sectors to invest later on.

Business opportunity and failed or failing states are not mutually exclusive concepts, particularly in resource-rich countries. In fact, high returns are common in dysfunctional states but the process of entering these markets can be difficult and expensive.

Investing in post-conflict states can bring an early-to-market advantage. This includes being able to negotiate highly preferential investment agreements with young governments and to establish early brand presence and market dominance. Donor-related opportunities and increased economic activity in the wake of donor revenues provide another opening but there is a downside – overzealous donor activity can crowd out the private sector.

Most post-conflict governments in Africa are eager for foreign direct investment to assist their reconstruction efforts; companies can benefit from this goodwill in negotiating entry strategies. Usually, there are also sharp increases in the demand for goods and services, an incremental improvement in the business environment, better prospects of funding and lower risk. Such markets typically have strong donor inflows underpinning national budgets and reconstruction projects. The potential downsides are dealing with inexperienced government officials, the possibility that conflict may erupt again, and the likelihood of conflict-linked challenges in the business environment.

Operating in conflict and post-conflict states carries other challenges, such as the following:

- Reputational risk from interaction with illegal regimes or rebel groups, or from perceived links to human rights violations, as with resource extraction in rebel-held areas
- The high cost of finance based on the perception of risk among financial institutions
- A significant lack of infrastructure and services

- Pervasive corruption
- Skewed economic structures
- Shifting and often dubious relationships with politicians and local elites
- Contract violation compounded by unreliable legal systems.

### Strategies for risk mitigation: better risk analysis and partnerships

The numbers of South Africans operating in the rest of Africa suggest that they have built these risks and challenges into their business plans and found ways to manage them. Risk experts have fine-tuned their knowledge and some companies have fulltime in-house risk officers. There is more emphasis on pre-entry risk management, which mitigates some of the post-entry challenges. Risk is also decreasing in most African markets as they mature and learn from their exposure to the global market and best practice in other regions.

Relatively few South African companies of size have failed in their African expansion efforts. Most examples of failure had specific reasons, such as local competition and hostility, poor business plans, high costs, failure to get traction in the market, and the like. Once a company has decided to enter a market, it will not walk away easily. Some of the main reasons a company may pull back are the need to pay bribes or threats of nationalisation or extreme government interference. Should such significant problems arise, companies may close down local operations or revert to international arbitration, a long and costly process.

For all the improvements in the African operating environment, many challenges remain. Better risk management mitigates but does not remove these risks. The difference between success and failure in Africa can boil down to how these risks are identified and managed.

### Role of the government

The South African government has indirectly supported business by signing bilateral agreements covering trade, double taxation, investment protection and other areas of importance. Business tends not to seek direct support from the government, although this is changing with black economic empowerment as senior executives have a closer relationship with top officials. They may leverage these ties in their dealings in Africa, particularly when entering a market or when problems arise.

The growth of South African missions on the continent is a resource for business that is not well used. The Department of Trade and Industry has deployed trade and investment staff in countries such as Nigeria, Angola and the DRC. However, their usefulness depends on the skills of each individual.

The government has assisted foreign governments seeking South African investors by hosting investment forums and delegations. The state also played an important role

by relaxing exchange control regulations for companies to invest in other African countries. Many large companies have also circumvented exchange controls by raising operational finance offshore.

### The way forward

South Africans have benefited from the fact that companies from the West and developing countries such as China and India use their countries as a springboard into Africa. This has provided feeder business opportunities for suppliers and service providers, partnerships in big projects and even equity partnerships.

The rapid growth of China, Brazil, India and other new players on the continent is both an opportunity for and a threat to South African business. The opportunity lies in increased economic activity, new projects, higher demand for goods and services, the building of infrastructure and the possibility of engagement as partners or stakeholders. The threats, broadly, include increased competition in sectors such as construction, ICT and retail, and issues around corruption and governance in resource-rich countries.

Surprisingly, given the many success stories on the continent, there is still a fair degree of scepticism in South African boardrooms about the merits of African operations. This is based on (often-outdated) perceptions rather than experience of risk. It is exacerbated by Afro-pessimism linked to poor coverage of African business in the media, which tends to focus on negative political stories. However, the interest in African business opportunities shown by investors from emerging markets and the success of South African companies in the rest of Africa have started to erode some of these doubts.

Increased funding by development finance institutions may draw more South African companies into projects, particularly as providers to large infrastructure and development projects that may be more marginal in commercial terms but for which they have valuable expertise. These institutions have a particular role in facilitating and underwriting deals that involve state-owned enterprises in other African countries. But development finance institutions need to market their services to business, as the private sector seems concerned about long project timeframes and a surfeit of bureaucracy, while generally being unaware of the services they offer.

## Introduction

The economic performance of the African continent has improved over the past decade, albeit off a low base. Economic growth rates averaged about 2,6% in the 1990s but improved after 2000. From 2003 to 2008, the average growth rate was above 5%, reaching 5,7% in 2008 (ADB, 2009).

With a gross domestic product (GDP) of \$283,1 billion, South Africa has the biggest economy in Africa, followed by Algeria, Egypt and Nigeria (World Economic Forum, 2009). It comprises about a third of the economy of sub-Saharan Africa and a quarter of the total African economy (Grobbelaar & Besada, 2008). The size of the country's economy and the expansionary ambitions of its companies have been significant factors in the improved fortunes of the continent. Although figures are patchy and often differ according to sources, it is believed that, from 2000, South Africa has been the biggest new investor on the continent outside the oil and gas sector. Trade and investment continues to increase with returns on investment being 20% to 30% higher than in South Africa.

South Africa remains a major player in Africa despite the recent emergence of new players from the BRIC countries (Brazil, Russia, India and China), and the continued presence of companies from traditional investors such as the United Kingdom, the United States and France. Investment from South Africa is broad-based and cuts across sectors, including those unexplored by other foreign investors. Such investment has brought higher employment for local people, from blue collar to management level; training; more consumer choice; access to more and better quality services; and so on.

Most South African investment is still in the countries of the Southern African Development Community (SADC),<sup>1</sup> although there are growing investments further afield, such as in Nigeria, Ghana, Uganda, Kenya and Rwanda. There has been a rash of new investment funds focusing on the rest of Africa, funded by both local institutions and foreign equity. Commercial and state funding agencies have developed new financial products to support trade, investment and infrastructure projects on the continent. The South African government has also relaxed foreign exchange controls on investments in the rest of Africa.

The South African expansion has been driven by several factors, such as pent-up capital at home after years of international sanctions, a search for new markets owing to expanding industrial capacity, the saturation of the domestic market and increasing competition. The post-apartheid political openness was also an important driver, although the fact that

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<sup>1</sup> The SADC comprises South Africa, Botswana, Mauritius, Lesotho, Swaziland, Mozambique, Zambia, Zimbabwe, Namibia, Malawi, Madagascar, Angola, the DRC and Tanzania.

most companies expanding northwards are largely white-owned has brought some negative perceptions about South African business. South Africans have the benefit of proximity to underdeveloped markets, a familiarity with these countries, and skills and products that are well suited to African countries. They also have an appetite for risk that has countered negative perceptions about the state of the continent.

Between 1994 and 2006, South African exports to African countries grew by 659%, from \$1,3 billion to \$7,6 billion, while imports increased from a low base of \$0,4 billion to \$4,2 billion (Grobbelaar & Besada, 2008).

The experience in the rest of Africa has been a steep learning curve for business. Two decades ago, many South Africans believed doing business on the continent would be similar to operating in South Africa. Many also believed that they were superior because of their sophisticated economy; that other Africans were unskilled and uneducated; and that governments would be grateful to have them.

But dealing with the realities has changed attitudes and entry strategies have been redrawn. Where South African companies once preferred to go it alone, many now seek local equity and technical partners. The benefits include easier market entry, rapid critical mass, local knowledge and market acceptance. Standard Bank, for example, made strategic acquisitions in Nigeria and Kenya, which enabled it to become a significant presence in these markets.

South African companies are increasingly bidding for participation in big donor projects and viewing the new investors from Asia and South America as potential business partners rather than just as competitors. Traditionally, South Africans have been disadvantaged by the fact that South Africa is not a donor, a former colonial power or a country with significant government backing for investment. These factors have all assisted foreign investors from other regions in obtaining contracts and earning the favour of African governments. South African companies are trying to be part of the “slipstream” of new emerging market investors, although early signs are that countries such as the BRIC nations prefer opportunities for their own nationals. For example, Brazil mining giant Vale brought in two Brazilian conglomerates – Camargo Correa and construction firm Odebrecht – to work on its \$1,3 billion Moatize coal project in Mozambique. Still, the experience and established networks of South African companies have opened a window of opportunity for partnerships.

This study looks broadly at the trends in South African business expansion on the continent, with case studies of Mozambique, as a post-conflict country, and the Democratic Republic of Congo (DRC), which contains two distinct profiles – conflict in the eastern Congo and post-conflict economies in Kinshasa and Lubumbashi. The study examines the challenges and risks of this expansion and the mechanisms for dealing with them.

## Methodology

The methodology was multi-faceted, based primarily on interviews and discussions with South African companies doing business on the continent. Some have been on the continent for many years and, while not having particular entry strategies, survived through learning from experience. Others are large companies such as Group Five and AngloGold Ashanti, which have risk officers to assess potential problems and advise on managing risk.

Questionnaires were used but found not to be sufficient, as companies are reluctant to talk in detail about their engagement in Africa for fear of compromising their competitiveness. More effective were face-to-face and telephone interviews. The information-gathering process also included events related to business in African markets and risk management. The paper also draws on extensive research on business in Africa over the past decade by Africa @ Work.

## Business in conflict and post-conflict states

More than 28 African countries have been involved in some kind of war since 1980. These conflicts increasingly have a regional aspect. For example, the war in the DRC drew in seven countries (Luckham, 2001). Most states in Africa are still in a state of conflict, sporadic conflict or post-conflict, depending on the definition used. Peace deals frequently fail as conflicts reignite, and many conflicts are taken to more remote theatres of war, such as those in the eastern DRC, Darfur in the Sudan, Casamance in Senegal and the Lord's Resistance Army in northern Uganda.

Almost all countries in Africa experienced conflict during the struggle for independence, during the Cold War, in localised disputes or even civil wars. The remaining conflicts are mostly internal, where rebel groups fight against the central government, although these may spill over into cross-border disputes. Long-running conflicts between regions or in localised border areas are often insidious, caused by ethnic conflicts, rivalries, battles for resources, corruption, revenge attacks and so on.

There are many examples of "traditional" conflict: armed warfare between domestic parties, whether in urban or rural areas (e.g. Angola, the Côte d'Ivoire, Rwanda, Mozambique, the Sudan, Somalia, Senegal, Guinea-Bissau, Morocco and Algeria) and cross-border wars (e.g. Ethiopia-Eritrea, Chad-Sudan, the DRC-Uganda-Rwanda and Liberia-Sierra Leone). Another form of conflict is the erosion of the state through dictatorships, poor governance and economic failure, essentially a scenario of the government versus the rest (e.g. Zimbabwe, Chad, Equatorial Guinea, Nigeria and Guinea).

Africa also has what many classify as "failed" and "failing" states". The narrow definition of a failed state is one that is unable either to control its own territory and security or to

deliver basic services to its people. It has the corollary of creating a vacuum in a region, which may create problems for its neighbours. External intervention is usually necessary in these countries. Failing states are generally those that fit some of the criteria for failed states but are still able to turn themselves around. In most, but not all, cases, such states are characterised by tiny, rich elites and widespread and extreme poverty.

Business opportunity and failed or failing states are not mutually exclusive concepts, particularly in the case of resource-rich countries. Business can thrive in situations of poor governance. Companies seeking high-risk, high-reward scenarios often find these in dysfunctional states but the process can be difficult and expensive. Compromise of principle, large amounts of money and large doses of ingenuity are important criteria for operating in such states. Many business opportunities arise from donor spending and large projects, usually resource-based, and others from providing goods and services that are generally not available in conflict and post-conflict situations.

According to the International Finance Corporation, which recently established a programme on Conflict Affected States in Africa,<sup>2</sup> economies can often recover quickly from conflict once basic economic activity resumes but they generally struggle to sustain long-term growth. According to the programme, economies recovering from conflict typically face the following problems:

- Lack of institutional capacity in government
- Weak and “balkanised” business associations
- High levels of corruption and a climate of mistrust
- High levels of informality
- Marginalisation of small domestic firms
- Lack of basic infrastructure through neglect or active destruction
- Deterioration of financial services and diversion of savings into survival activities
- Spread of disease, eroding already depleted health budgets and affecting economic recovery

The slow pace of economic development means many states that have not experienced conflict for years are still regarded as post-conflict countries. One example is Mozambique, which held its first post-war election in 1994; arguably, the patchy development and extreme poverty in most of the country keep it confined to the post-conflict category. As Nkurunziza (2008:5) writes: “If the name of post-conflict is justified on the grounds that countries emerging from civil war have specific characteristics that differentiate them from peaceful countries, a post-conflict period should end, in theory, when the specific attributes inherited from the conflict cease to have influence. In reality, however, it is impossible to

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<sup>2</sup> The programme started with four states in Africa: the Central African Republic, the DRC, Liberia and Sierra Leone. See [www.ifc.org/ifcext/afrika.nsf/Content/CASA\\_Home](http://www.ifc.org/ifcext/afrika.nsf/Content/CASA_Home)

say exactly when a country returns to normalcy from its post-conflict state. Hence, the post-conflict period is arbitrarily defined as the 10-year period following the end of a conflict.”

South African companies tend to think of countries in terms of levels of risk rather than whether they are conflict or post-conflict states (although it may well amount to the same thing). Business seems prepared to go into conflict countries if the returns are worthwhile. However, it is an environment for large companies. Although many export to these countries, the small and medium-sized businesses that are fairly common in the main SADC trading partners are not found in high-risk markets, except as suppliers to the big companies. Companies almost seem to be deterred more by issues of language and cultural barriers, as in Francophone countries and the Arabic markets of North Africa, than by overt political risk.<sup>3</sup>

The premium for investing in a conflict country can be high in many ways, not just in terms of raising investment and operational finance. Other aspects are skills recruitment, the security of staff, the reputational risk of operating in areas known for human rights abuses, the difficulty of doing transactions, poor (and often dangerous) transport links, establishing basic services, dealing with the demands of communities and governments (often illegally constituted), high levels of militarism and crime, and rampant corruption. Geographical proximity and supply chain issues, particularly with regard to transport links, are also important factors for companies considering high-risk markets. In eastern Congo, goods can be transported only by (expensive) chartered flights or by road from the Mombasa port in Kenya through Uganda and Rwanda, another costly option.

In post-conflict countries, the risk and difficulty of operating are often ameliorated by the fact that, despite some remaining dysfunction, new governments tend to seek investors. They may offer generous incentives and be open to improving the operating environment, usually with the help of zealous donors. Corporate reputational risk is also much lower, and large donor inflows for reconstruction boost economic activity and create linked opportunities. The need for goods and services increases, although the premium on them decreases as the economy improves.

But many institutions in developed countries continue to see Africa as a risky destination; there is little effort to recognise the diversity of countries and their development. South Africans maintain that international banks, for example, charge high premiums for letters of credit when a deal emanates from or is taking place in Africa, regardless of the country concerned. South Africa benefits from the fact that it is the base for many foreign multinationals and is viewed as a country apart.

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3 Roger Ballard-Tremeer, Hon Chief Executive of the South Africa-Angola Chamber of Commerce, says language can be a risk when poor interpreters misunderstand or interpret badly, scuttling a deal or resulting in parties not signing the deal they thought they had.

## Target markets for South African business

SADC remains the main investment destination for South African companies because of its proximity, its established transport routes, the similarity of language and business culture, historical ties and an understanding of the markets. The first markets for South African investors, which are still relatively significant, were those in the Southern African Customs Union (SACU): Swaziland, Lesotho, Namibia and Botswana. These countries have seen a proliferation of South African banks, retailers, food chains and other businesses fighting for market share in their small and overtraded economies.

Beyond SACU, Zimbabwe and Zambia were, and remain, the top investment destinations. Although new investment into Zimbabwe has almost come to a standstill over the past decade, South African companies (which make up about 70% of all listed stocks) remained, waiting for change rather than disinvesting. As Zambia blossomed in the wake of Zimbabwe's decline, investment in Zambia increased not just in mining but also in tourism, retail, construction, property, agriculture, ICT and other sectors.

Mozambique was very different from other countries in the SADC, given its foreign business culture, its former Marxist economy, and its long record of conflict and underdevelopment. But proximity and opportunity have made it a top trade and investment destination for South Africans, with many companies drawn by the Mozal aluminium smelter project and its spinoffs. Until recently, nearly all investment was in the Maputo area, signalling that South Africans were not ready for the more distant and difficult parts of the country. This is starting to change as opportunities in and around the capital become saturated and infrastructure starts to improve. The government is also actively courting South African investors in sectors such as tourism and agriculture, offering commensurate incentives.

Companies were slower to move into the other big lusophone market, Angola, given the cost and difficulty of testing the market. This was due to the unique structure of the post-war economy, issues of language and culture, logistical difficulties and poor transport links.

In the past five to eight years, companies have started to invest further afield. Mining companies and related suppliers were the pioneers in West Africa, concentrated in Ghana. As this market matured and became politically stable in the late 1990s, banks, retailers, franchisers, ICT companies and others followed. Investment reached a plateau as the focus turned to Nigeria, Africa's biggest market, but Ghana remains a popular investment destination in view of its ongoing political stability.

There is limited South African investment outside these two anglophone markets in West Africa, despite attempts by the South African government to interest companies in markets such as Senegal, the Côte d'Ivoire, Mali and Liberia as part of its foreign policy strategy. Many companies regard such markets as a bridge too far because of differences

in language and business culture, different legal systems, competition from France, political instability, corruption, transport challenges and poor policy frameworks, among other issues. Some planned to use Ghana or Nigeria as a springboard into the region but that has been slow to happen: Nigeria, in particular, has proved to be an all-consuming market.

In East Africa, Uganda was an early destination for South Africans, the result of a welcoming business environment supported by strong government-to-government links and the signing of trade and investment agreements. In 2002, South Africa was one of the top ten investors in the country. Tanzania, now part of the SADC, was also an investment target, as was Kenya. There, however, local business was hostile to South African advancement because of threats to its own developed private sector and stiff competition in sectors such as brewing, retail and tourism. This, together with the difficulty of market entry, meant that the Kenya-South Africa relationship has never realised its potential.

By 2009, Angola, Nigeria, Ghana, Zambia and the DRC were top investment destinations, with Zimbabwe back on the investment radar following the relative normalisation of the economy. The South African government continues to seek new destinations for business, include the pariah state of Equatorial Guinea, where President Jacob Zuma undertook a state visit in 2009 in part to position South Africa as a supplier to the booming oil sector.

North Africa is a mixed bag. A decade ago, South African trade with Morocco was brisk, despite cool diplomatic relations owing to the dispute in the Western Sahara. It was boosted by the country's relatively sophisticated economy, generous investment incentives and its government's active engagement with the private sector. Business engagement with Algeria has been slow, despite strong political ties. Political conflict, the slow pace of reform, strong European competition, the distance from South Africa and a lack of perceived opportunity in an economy dominated by hydrocarbons have kept business at bay.<sup>4</sup>

Egypt has courted South Africa with some success, despite its significant cultural and legislative barriers to entry.<sup>5</sup> It is highly protectionist, as companies trying to take advantage of duty-free access under the Common Market for Eastern and Southern Africa (COMESA) free trade area have discovered (South Africa is not a member).

In Francophone Africa, business was engaged in the Côte d'Ivoire until conflict eroded interest in the market, while Madagascar, Gabon and Cameroon are among current investment destinations across a variety of sectors, including telecommunications, mining, infrastructure, downstream petroleum, logging and tourism.

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4 In 2004, SABMiller, with French partner Castel, made investments in two breweries and two soft drink plants in Algeria. In Morocco, it acquired an interest in a holding company that owned three breweries and a malt plant. In Algeria, BHP Billiton is the only other company of size linked to South Africa.

5 However, it has proved to be a difficult and highly competitive market. Shoprite, for example, invested in 2001, opening seven supermarkets. In 2006, it divested because of ongoing restrictions on retailing and a different trading culture, which also affected its India operation. It closed seven stores, resulting in a R19,9 million loss. See [www.shopriteholdings.co.za/pages/1019812640/about-our-company/history.asp](http://www.shopriteholdings.co.za/pages/1019812640/about-our-company/history.asp)

## Main sectors for investment

The main attractions for companies looking at African markets are proximity, reasonable logistics, similar business cultures and economic reforms that promote economic activity. South Africans appear not to make decisions based on notions of conflict and post-conflict states but rather on the assessment of opportunity versus risk and the requirements for mitigating such risk. Another reason is the drag effect of large multinationals, which import goods, services and skills because of the weakness of the local private sector. These are often provided on a contract basis although larger suppliers may establish themselves in important markets to provide such services. The pull effect of economic reform, stable governments and good incentives may also encourage companies to invest, as may the availability of acquisitions, a direct approach from a local company or a government invitation to invest.

Although South African investment into the continent is broad-based across multiple sectors, the large, high-profile investments are concentrated in a few sectors, as listed below.

*Financial services* have been a significant area of African expansion but the publicity given to this sector belies the scale of the expansion. Outside SACU markets, it has mostly been one large player: Standard Bank. The bank capitalised on the expansion of South African business, following its clients into 17 African countries. The strategy paid off in an unexpected way – the purchase of a 20% stake in the bank by China’s largest bank, ICBC, premised on its large footprint and experience in African markets. This has provided the group with a massive capital injection and significant new opportunities. The other large banks have also made some forays. For example, ABSA made acquisitions in Tanzania and Mozambique, and now has the benefit of Barclays’ African footprint. Nedbank has operations in SACU countries and in Malawi and Zimbabwe; its 2009 tie-up with West Africa’s Ecobank Group significantly extended its reach. Firststrand has been active in African countries mostly through its trade and project finance operations but is looking at acquisitions, especially in Nigeria. The market for financial services is growing, particularly for corporate advisory services on the back of equity deals and mergers and acquisitions, as well as project and export finance.

South African companies have generally been loath to use the services of local African banks despite major improvements in banking operations and capitalisation through reforms of the banking sector. Despite its advances, the industry is still in a transition phase in most countries. Some companies say the high cost of local finance in these countries is a deterrent, with interest rates routinely around 25% and term funding hard to obtain. But where there are strong local banks, they are a potential resource for local currency funding. For example, in 2007, MTN raised a \$2 billion loan facility from international and Nigerian banks to fund its Nigerian expansion (Bizcommunity.com, 2007). The deal, which involved 12 Nigerian banks, raised a naira-denominated N138,6 billion term facility and a N63 billion revolver facility.<sup>6</sup>

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6 In 2009, the value of the naira against the United States dollar was fairly steady at around \$1 = N160.

Investment in *mobile telephony* has been dominated by two large operators and a slew of other companies in their supply network. MTN and Vodacom spent millions of dollars in their Africa operations, while large suppliers such as Altech Namitech established African subsidiaries to produce charge cards, for example. Big international players based in South Africa also do business in the rest of Africa, such as Siemens, Nokia and Samsung. Mobile telephony has been a massive change in Africa's operating environment and has improved the ease of doing business immeasurably. The success of mobile phone companies was a signal to South Africans of the size of the potential opportunity, and highlighted the fact that poverty statistics do not necessarily reflect the spending of disposable incomes. Their success also underscores the improving risk profile of African markets.

The related *ICT* sector is growing rapidly. South African ICT companies, such as Dimension Data, Integr8 and Business Connexion, often work with foreign multinationals based in South Africa, such as IBM, Intel, Unisys, SAP, Dell and Compaq. The multinationals typically employ South Africans to run their Africa operations and use South African suppliers in their expansion, an example being the tie-up between America's Cisco Systems and Dimension Data. The opportunity in this sector is linked to the historical deficit of ICT across Africa; companies are closing this digital divide with new leapfrogging technologies. Advances in ICT improve the operating environment, allowing innovation in business and financial management systems, lowering the cost of business with new technologies, and generally improving efficiency. As local companies and governments become more sophisticated, they are also looking to IT to improve efficiency.

All African countries have Internet connectivity; costs are falling as broadband improves, infrastructure is built and entry and competition are facilitated. Seacom, the 13 700 kilometre undersea fibre optic cable bringing broadband to the east coast, is one of several initiatives that are expected to make ICT the boom sector in Africa over the next five to ten years. However, South African investors face growing competition from Indian ICT companies, who, like the Chinese retailers, are competing on price. The South Africans believe it will take time for new consumers to see professional backup as a competitive advantage instead of making decisions based on price alone. South Africans are also active in television, primarily through MultiChoice and its suppliers.

*Retail* is the most visible sign of South African expansion. Retail companies rapidly expanded into SACU countries in the early 1990s but only a few companies expanded successfully beyond these markets, notably Game, in 11 countries, and Shoprite, with 71 stores in 16 countries.<sup>7</sup> In the 2008 financial year, Shoprite's revenues from operations outside South Africa grew by 38% to R5,5 billion. Growth is constrained not by opportunity but by a lack of suitable sites, according to Shoprite, which has established a property arm to source sites and build its own centres in several countries.

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7 [www.shoprite.co.za](http://www.shoprite.co.za)

The retail opportunity grew along with the rise of an African middle class and new elites, as well as increasing numbers of expatriates. South African supermarkets and malls have changed the face of shopping for African elites long used to informal traders, stalls and outdoor markets. Apart from strong local competitors in Zimbabwe and Kenya, South African retailers have not had much formal competition, although the informal market is a significant competitor on price. Other problems include widespread smuggling, which undercuts prices, and cheap imports from Asia. Still, there is enough purchasing power at the high end to support formal retailers.

SABMiller is a significant investor in Africa's *brewing* sector, where it competes head-on with big international brands such as Heineken and Guinness. It markets various brands in 31 African countries. Because returns are good, competition is stiff and the brewing game has had a sordid past. In East Africa, the company was involved in a major spat with East African Breweries in the fight for market share; SAB eventually left the Kenyan market. Kenyans use the case as an example of South African arrogance in African markets, although both sides behaved badly. Local competition also kept the company out of Nigeria until 2008, when it finally entered that market through a small acquisition in one of the states.

The *mining* sector drew many of the investment pioneers, including some of the world's biggest miners, such as AngloGold Ashanti (following the merger with Ghana's Ashanti Goldfields), Anglo American's various metals divisions, De Beers and Randgold Resources. Junior miners are less visible on the continent; Canadians and Australians dominate this sector but many South African companies are suppliers to Western mining companies. Mining is always a high-risk sector. Exploration is costly, lengthy and risky and, once the mine has been dug, the costs escalate significantly, as do the risks. Mining operations are long-term ventures, which rely on government agreements and contracts that are often violated. It is difficult to avoid high-risk countries: outside South Africa, the best mineral deposits are in countries such as the DRC, Angola, Guinea, the Central African Republic, Algeria and others. Tanzania, Zambia, Ghana and Mali are exceptions.

*Construction* companies were among the pioneers in Africa but soon experienced difficulty. Some withdrew to the domestic market, particularly ahead of the 2010 World Cup. Most problems related to payment by government clients. Now, few are prepared to do large, costly projects in the African public sector unless the project has significant involvement by Western donors and funders with offshore financing. Nevertheless, the opportunity is huge, given major infrastructure deficits and commodity demand from Asia. Companies that have spent millions on their African footprint are not leaving. Rather, the large players, such as Aveng<sup>8</sup> and Murray & Roberts, have spread the risk by diversifying

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<sup>8</sup> In September 2009, Aveng said it had R22 billion in its project pipeline for the rest of Africa, focused mostly on infrastructure (De Bruyn, 2009).

their operations into specialised sectors such as engineering, water management, mining and power.<sup>9</sup>

*Hospitality* is a growing area of investment because the demand for quality hotels rises as economies improve. All of South Africa's big players – Sun International, Southern Sun, Protea Hotels and the Legacy Group – have operations in African countries. These are mostly management contracts and lease agreements rather than fixed investments.

The *oil and gas* sector is drawing increased South African business as suppliers to international oil companies and in areas such as construction, engineering and other skilled jobs. The main operators on the exploration side are Sasol and Petroleum, Oil and Gas Corporation of South Africa (PetroSA). Cape Town has established itself as a repair and maintenance hub for ships and oil rigs in West and Central Africa.

## Entry strategies

The mode of entry into an African market is an important strategy for risk management. The choice of mode depends on the objective, the size and nature of the competition, whether there are suitable acquisition targets or useful assets, and any opportunities arising from government activity, such as public-private partnerships or privatisation.

In the early days of expansion into Africa, there was a view that greenfield entry was necessary because of the weak private sector in African markets. Companies were concerned about their brand, corporate governance, profits, skills, company ethics and the like. In addition, there were limited acquisition targets beyond privatisation.

Companies are still concerned about these issues but, through experience, have discovered distinct benefits to carefully chosen, strategic local partnerships that do not require compromising on principles. These include: local knowledge about business culture, personalities, competitors and opportunities; the rapid development of critical mass; getting local buy-in to avoid concerns about empowerment and related issues; leveraging complementary skills, assets and operations; and adding to their portfolio of services.

However, most South African companies prefer to maintain a majority stake in an enterprise, even if they do not use their brand name or merge it with a competitor's brand. Recent examples include Standard Bank's purchase of a mid-sized Nigerian bank, IBTC Chartered, to become Stanbic IBTC, and the acquisition of a large Kenyan bank, CFC Bank, to become CFC Stanbic Bank. ABSA acquired 80% of top Mozambican bank Banco Austral, keeping the Mozambican brand, although this has now changed to Barclays Bank Mozambique.

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<sup>9</sup> In 2008, Group Five won a \$62 million contract to design, supply and install a power station in Nigeria.

Dimension Data made two recent acquisitions – in Angola and Morocco – while insurance companies Alexander Forbes, Clientèle Life and others have bought local enterprises. Nedbank and FNB are looking for acquisitions in Nigeria, while Tiger Brands bought a majority stake of Haco Industries in Kenya, that country's biggest industrial conglomerate. Even smaller companies have gained rapid market share by finding a local partner with complementary operations. SABMiller has mostly opted for acquisitions and, although Shoprite appears to prefer greenfield entry, in 2002 it acquired French chain Champion in Mauritius, a move which immediately gave it five stores and a distribution centre.

But partnerships can be risky. When business practice and ethics do not meld, it can result in funding disputes, problems with local management skills or (unfounded) claims of high-level access to government officials. Companies believe the partner must make a substantial contribution to justify the investment in them, whether a licence, important assets or other non-financial benefits. Still, the uneven weighting of partners' financial standing can be a problem, as happened with Vodacom and its Congolese partner in the DRC (see the case study below). While many companies have had trouble, most continue in the market concerned and find new partners. South Africans are sought after as business partners and it is easy for them to find new partners should the previous partnership fail.

The further afield the markets, the more smaller companies, and some large ones, are likely to have an entry strategy linked to a big client. For example, many firms operating in Nigeria entered on the back of their links to MTN. The banks have a reverse strategy in some markets, going in with their corporate clients rather than as part of a pull effect, that is, establishing themselves in a market for purposes of attracting new South African clients.

Some companies enter a market via a large contract, and there are two possible outcomes. Either the business succeeds in putting down roots, as did NamiTech in West Africa, or they are unable to sustain the operation once the contract ends, such as Pace Property in Nigeria, or their experiences preclude further engagement.

## Challenges in the business environment

Although the return on investment is generally higher in other African countries than in South Africa, this is necessary to justify the costs of doing business and the high, although decreasing, risk. South African companies face significant challenges on the continent, mostly related to issues that do not exist in the domestic market, thus adding to the learning curve. Huge inefficiencies in the business environment, insufficient and badly functioning infrastructure, and the lack of local products and services keep the cost of doing business high. Other significant problems are: poor governance, a lack of infrastructure and power, protectionist tariffs and non-tariff barriers, a plethora of taxes and duties, inefficient bureaucracies, corrupt officials, overzealous but poorly implemented regulation, weak legal

systems, currency risk, exorbitant property rentals and insecurity of tenure.

Although many African producers are uncompetitive because of the onerous operating environment, this serves the South Africans well: they have developed critical mass and economies of scale by serving a large domestic market. But the flood of cheap Chinese imports, particularly white goods, is eroding this edge. Price, rather than quality and backup, is still the driving force for the majority of African consumers. This is evident in the clothing market where South African retailers compete with second-hand clothing bought in bulk from Asia.

Some of the challenges in the business environment are detailed below.

- *Inefficient and insufficient infrastructure:* The main concerns relate to transport routes to and within markets, power supply, water reticulation and sewage, rail networks and other utilities. In most of Africa, companies are forced to supply services that the state provides in South Africa. This can be particularly expensive.
- *Currency volatility:* The volatility of local currencies, particularly the rand, against the United States dollar has a significant impact on company profits and dollar funding into new markets. Metorex, for example, which has mining operations in the DRC and Zambia, said in September 2009 that its operating costs had increased by 25% to R749 million for the year, mainly because the rand-dollar exchange rate weakened by 24% (*Mining Weekly*, 2009a). As most South African companies report in rand, negative currency movements can skew the true performance of African operations and affect perceptions about the value of business returns.
- *Regulatory and tax uncertainty:* Unpredictable regulation is a significant cost factor in doing business in Africa, affecting funding models, profit projections and operational matters. This can mean violating incentives agreed upon when entering a market, changing agreements after the investment has been made, and introducing new regulations and taxes once profits rise. Examples include royalties in the mining sector and tariffs for booming mobile phone companies.
- *Supply chain:* A long and inefficient supply chain is a major concern. Problems include long and costly delays at border crossings; inefficient and severely congested ports<sup>10</sup> in large markets such as Kenya, Nigeria and Angola; theft along the route; and the tendency of governments to impose ad hoc bans on certain goods and alter import tariffs or taxes without notice. In southern and eastern Africa, transport costs represent 15% to 20% of import prices, according to the World Bank (2010).<sup>11</sup> In landlocked countries, the cost is higher. The costs rise on the return journey as trucks from SADC countries usually return empty because, with the exception of minerals, exports from these countries are limited.

10 The average turnaround time for goods from Cape Town to their market in Lagos is about 80 days; the time to Luanda is longer, according to companies that transport goods by sea.

11 The Regional Trade Facilitation Programme maintains that, while it takes goods between two and three weeks to move from the Zambian Copperbelt area to the Durban port, the same distance in Europe would take 48 hours.

- *Corruption:* Overzealous bureaucracy is often at the heart of corruption in business. The state makes it extremely difficult to get things done and officials solicit bribes to ease the process. The biggest problems are encountered in government contracts, where a “signature bonus”<sup>12</sup> is often required to secure a deal. Despite observing corporate governance principles at home, South Africans are seemingly not averse to offering bribes to secure business or remove bureaucratic problems.<sup>13</sup> However, as companies gain more experience on the continent, they are less inclined to pay once they realise that it is possible to do good business without paying bribes; it only takes longer.
- *Lack of institutional structures:* Poor institutional structures in African countries put the emphasis on personalities. A change of government or minister can change the playing field, and associated deals, overnight. Investment agreements made by one person or government may have to be renegotiated with a new incumbent. This is particularly problematic in long-term projects, such as in the mining industry, as demonstrated by the renegotiation of licences in the DRC (see the case study below). Making contact directly with a president or minister to gain entry to a country is becoming less important as governments develop better structures but such contacts can still be useful. Shoprite’s Whitey Basson says that, before the company enters a market, they make an appointment to see the president so he knows who they are and what they want to do. Once a company is established, particularly a high-profile company that interfaces with the public, a change of government may not disrupt business.
- *Small and inefficient local private sector:* This affects foreign investors in various ways. For example, the difficulty of sourcing goods and services locally means costly relocation of staff and imports of goods and services. It can also mean that foreign investors become revenue targets via ad hoc taxes, the corrupt or unfair application of rules and regulations, and the like.
- *High operational costs:* The high costs of setting up and operating businesses in other countries is a barrier to entry, particularly for small companies. Operating costs are typically at least double what they are in South Africa, whether for flights, hotels,<sup>14</sup> office rentals,<sup>15</sup> or basic services. The same holds for taxes, currency volatility, delays in start-up procedures, unexpected regulatory costs and having to rely heavily on imports (depending on the sector). Building costs, whether for offices or roads, are about three times those in South Africa.

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12 This is usually a payment required by a minister or top official to append his or her signature to a contract, typically a percentage of the contract value.

13 In the 2008 Bribe Payers Index released by Transparency International (2008), South Africa was at number 14 out of 22 countries, an improvement on previous years.

14 In Nigeria, three-star hotel rooms go for more than \$400 a night, for example.

15 Also in Nigeria, rentals for offices and homes are payable in full at least two years in advance, in United States dollar. In Luanda, a major accommodation shortage has also pushed up prices.

- *Increasing competition:* South African companies face increased competition from rapidly growing domestic companies, other South African companies and new investors from Asia and other developing regions. Strong state backing and the use of cheap labour and capital have enabled Asian companies to outbid competitors for government tenders in Africa, for example.<sup>16</sup>
- *Visas and work permits:* The ongoing requirement for visas to most African countries is an irritant in doing business, particularly as it can be difficult to get multi-entry visas. Work permits are becoming more problematic. Governments are promoting skills transfer and limit the number of expatriates allowed into a country. Quotas for foreigners are being reduced and work permits take longer to obtain.
- *Protection of property rights:* Property rights for both physical and intellectual property are often a movable feast. In terms of intellectual property, legislation may exist but is seldom enforced. Land and property disputes are common, given the lack of formalised databases for property and the political and emotional baggage of land ownership. Claims on leased land<sup>17</sup> are frequent and can stall projects for months, if not years. There are often multiple claimants, particularly when a big investor or project is involved.
- *Legal systems:* Legal redress for problems like contract fraud (a relatively common problem) and disputes about payment are hampered by ineffective legal systems, which make for a slow, corrupt and often fruitless process. Cases can take years to be resolved and the enforcement of court rulings can be problematic.
- *Foreign shareholder limits:* Some governments have capped foreign shareholdings to promote local empowerment. In Angola, mining investors are only allowed a minority interest, with the government and local investors taking the rest. In Zimbabwe, legislation forces investors to cede 51% of new investments to black Zimbabweans, while in Kenya, foreign ownership of companies is pegged at 40% of the enterprise (Duncan, 2009).

Other challenges in the business environment include the following:

- The time taken to get licences and permits can be a year or more. In some sectors, such as retail, businesses need multiple permits for imports, which are renewable annually.
- Language barriers are a concern, particularly in Francophone countries. The quality of translation services is sometimes unreliable.
- Financial sectors in host countries are often underdeveloped, which makes it hard to obtain project and term finance in local currency.

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<sup>16</sup> In 2008, South African construction company Murray & Roberts took the Namibian Tender Board to court over its award of a state tender to a Chinese company that had not complied with Namibia's labour and affirmative action laws (Donnelly, 2008).

<sup>17</sup> In most African countries, freehold title on property does not exist, only leasehold.

- There may be problems with local partners if bad choices are made.
- There are concerns around the security of people and assets in high-risk countries;
- Many countries have skills shortages, coupled with pressure for local empowerment.
- The playing field for tenders and contracts may be uneven.
- There may be a lack of shareholder buy-in for expansion in difficult markets or support for operations where results do not justify the perceived risk, such as the case of Johnnic/Avusa (see below).
- Media hostility: South African companies come under greater scrutiny in African markets than foreign investors from elsewhere, possibly because they are African too. Large companies such as MTN, SABMiller, Shoprite and others are frequently taken to task in local media for issues such as high prices, market domination or the perceived exploitation of locals.

## Specific challenges in conflict and post-conflict states

In Africa, the distinction between conflict and post-conflict countries can be tenuous. For example, it may be premature to call the DRC a post-conflict country. Violence simmers in many parts of the country and long-standing flashpoints have not been resolved permanently. Many business people describe the DRC as both a conflict and a post-conflict country: the east and north-east remain conflict flashpoints while Katanga province and Kinshasa are regarded as post-conflict areas. Still, the core challenges of doing business in the DRC are present throughout, such as excessive bureaucracy, corruption and limited infrastructure.

Mozambique is not generally viewed as a post-conflict state as such but rather as a poor country where underdevelopment means great opportunity. The concentrated attention by both donors and foreign investors has put the government under pressure to perform. Despite some challenges outlined in the case study, there is no doubt that the country is on a firm democratic trajectory underpinned by a market economy.

Unfortunately, stability in an African country can sometimes be the flipside of instability, as happened in Guinea recently. Mining companies, while conceding the West African state to be a difficult country in which to operate, believed it was politically stable. But the stability was a façade created by authoritarian rule. When the dictator died in 2008, the military leader who took his place by force unleashed a rash of new problems and uncertainties for companies there.

Conflict and newly post-conflict countries face most of the challenges outlined above but some of these are more pronounced; others are not experienced in more stable countries. The primary challenges are outlined below.

## Infrastructure

Infrastructure deficits are extreme in conflict and post-conflict countries. The diversion of resources and energy, neglect and sabotage for political or military gain mean that roads, railways and utilities usually need to be rebuilt or have not been built at all.

Power is a particular issue affecting reconstruction. After the war in Mozambique, almost all transmission lines had to be replaced or refurbished, which took about three years. The DRC has gradually increased its power supply although available power falls short of installed capacity and equipment is generally run-down. Zimbabwe is experiencing chronic shortages because of a lack of investment in its power utility. Angola is just able to meet its peak demand, although the grid reaches very few people. On considering a market, these costs are built into the model but they can be high. For example, a 400KVA generator can cost more than half a million rand. In Nigeria, a generator to run a large business 24 hours a day costs about R4 million installed. This does not include fuel.

Air links to conflict zones are generally poor and often require circuitous routing or using no-name airlines to reach places such as Liberia, Chad, Sierra Leone, Guinea and the Central African Republic. Special charter flights and United Nations planes are often used for cargo in war zones, such as eastern Congo and the Sudan.

Rail is defunct in most of the continent because of neglect. Low usage of existing networks is part of a vicious cycle, with high costs contributing to more low usage. Roads tend to suffer from a lack of maintenance due to fighting, landmines, the emergence of no-go areas and little commercial activity. There is the further risk of transporters being hijacked or bandits robbing cargo along transport routes.

## High costs of doing business

The high costs of operating in Africa rise considerably in conflict zones. The destruction of most normal economic activity means goods and food must be imported. In eastern DRC, for example, imports are trucked from Mombasa through Uganda and Rwanda. This adds at least 40% to the cost of goods because of fuel costs, border taxes, weighbridge fees and corruption along the way. The same happens in Burundi, Southern Sudan and Chad.

Companies must often provide all basic services, especially when government officials are unable to enter conflict areas. AngloGold Ashanti, for example, built its own power stations in Mali and the DRC. In outlying areas, mining companies may have to build their own roads, without state assistance, and install generators at great cost to power mines, computers and lights. Mobile phone operators also have very high infrastructure costs as they have to transport base stations to remote areas, which may include building runways and roads.

Other costs are danger pay for staff, paying a premium for project funding, paying high security costs, building accommodation and offices, leasing land, and paying bribes or “fees” to local communities to be allowed to operate and to ensure the safety of staff.

## Corruption

Pervasive corruption, often at the highest levels, is a particular problem for companies that are expected to satisfy South African standards of corporate ethics. Corruption is always worse in conflict countries where the fabric of society has broken down and where survival requires quick thinking. It is easy to get on the wrong side of the law simply to survive, particularly in remote areas where different operating norms apply and where paying bribes can relate to personal and business security.

New operating systems, which are broadly viewed as corruption outside conflict areas, can become the norm. They include facilitation fees (usually small amounts of money to get basic services delivered) and outright bribes to get officials to attend meetings, deliver services and issue contracts. Managers in the field say paying some sort of fee is sometimes the only way to avoid political interference in business operations. Decisions have to be made on the spot, as rapid referral to head office is usually difficult. Companies need to decide upfront how far they are prepared to go under exceptionally difficult conditions (see the example of Anglogold in the DRC case study) as inflexibility can put an intolerable strain on ground staff.

This conflict zone culture of corruption remains entrenched in post-conflict societies and can take years to eradicate. Many post-conflict governments, recognising the corrosive effect of graft and the objections to it by development partners, establish anti-corruption institutions. Unfortunately, these generally fail to address high-level graft, which reduces their overall impact.

## Skewed macroeconomic fundamentals

Economic policy in conflict states is usually expedient, out of kilter with normal practice and tailored to the needs of the ruling elite. This often results in spiralling inflation,<sup>18</sup> foreign exchange controls, wide spreads between official and black market exchange rates, price controls and high trade taxes. Mostly, this macroeconomic environment does not serve companies well, although black market currency trading can work in their favour. In post-conflict states, the correction can also be problematic as liberalisation brings price increases for goods and services, rising rentals because of increased demand, and the outlawing of currency trading on the lucrative black market, among other measures.

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<sup>18</sup> In 2000, when Joseph Kabila assumed the presidency of the DRC, the inflation rate was over 500%, falling to less than 20% a year later.

## Regulation

In conflict countries, corrupt bureaucracy usually supplants regulation: officials make the rules and take bribes to circumvent them. In post-conflict states, regulation is usually part of a package of reforms introduced by foreign consultants but a lack of skills and experience among the locals implementing them can make regulation an obstacle to business rather than a facilitator of it.

A challenge in post-conflict countries is changing the ideological mindset of government employees to embrace a new market-driven order. This has been an issue in Mozambique, for example, where officials have clung to their socialist mindset, hampering the speed of reform and maintaining the heavy hand of the state in business.

On the upside, post-conflict governments can be more open to new ways of doing business than those in countries without conflict as a spur to change or in countries still in conflict.

## Security of people and investment

Conflict and post-conflict areas are breeding grounds for crime. Even after the fighting ends, well-armed and trained – and usually jobless – former soldiers remain at large, often resorting to crime. Vigilante groups can be a threat to mining companies in remote areas, while banditry is common along transport routes. This situation makes demobilisation and reintegration of the armed forces crucial components of post-conflict reconstruction.

Staff security is a concern for resource-based companies, as a remote location increases the likelihood of crime and extortion. Staff may require lucrative salaries to work in such areas.

Security of investment is usually covered by bilateral agreements on investment protection but if the government does not honour these, the only recourse is the long and costly process of international arbitration. A change of government can precipitate threats of seizure of assets, expropriation and other measures. But South Africa does not have such bilateral agreements with every country. For example, it only signed an agreement with its important trading partner, Zimbabwe, in late 2009. In the meantime, the state had already seized the assets of more than a dozen South African farmers.<sup>19</sup>

Urban crime is a lesser issue. Most companies say staff is safer in other African countries than in South Africa. But because foreign workers can be targets in ways they are not at home, companies still take precautions. Many workers live in secure compounds or have 24-hour security at home and work. In Nigeria, large companies such as Protea and MTN have armed escorts for their staff and security convoys from the airport in Lagos. South

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<sup>19</sup> Although an investment protection agreement was finally signed between South Africa and Zimbabwe in 2009 after years of delays, by 2010 it had still not been ratified by both governments.

African security companies are active on the continent, contracted not only to companies from home but also to embassies, foreign multinationals and local companies.

## Reputational risk

Reputational risk is a significant potential problem for companies in conflict and even post-conflict areas, given the shadowy forces at large. Anglogold Ashanti in the DRC is a good example. De Beers in both Angola and the DRC also experienced reputational challenges linked to protests about “blood diamonds”.<sup>20</sup> Anglo American and De Beers were both named in a 2002 United Nations report as being among 29 firms accused of wrongdoing in the DRC. Anglo American said at the time that it had not done business in the DRC because of its concerns regarding the governance issues of mining in that country (*UN Wire*, 2002).

In 2009, British tin smelter Thaisarco suspended tin ore purchases from the DRC, sourced mainly in eastern Congo, because negative publicity undermined industry efforts to combat illicit trading through a certification process. In 2008, the United Nations pointed fingers at Belgian minerals merchant Traxys for buying minerals from four Congolese companies that, in turn, bought from rebel-controlled mines (*Mining Weekly*, 2009b). The company denied any wrongdoing but stopped sourcing minerals from the DRC on reputational grounds. Although neither is a South African company, their problems highlight the potential risk of association with conflict areas and areas where human rights violations are known to take place, particularly as well-resourced non-governmental organisations affect sentiment in Western markets far removed from the theatres of war.

In Zimbabwe, not a traditional conflict country, foreign companies, including South African firms, were criticised for their continued presence, which was viewed as tacit support for a government widely accused of repression and human rights abuses. In Nigeria and Angola, companies appear to have shied away from any hint of corruption because of concerns for their reputation.

Other challenges in these high-risk operating environments include:

- *Skills shortages*: This Africa-wide problem is exacerbated by conflict, which sharply increases the brain drain. Even in a post-conflict environment, countries have found it difficult to draw back diaspora skills, requiring more investment in training.
- *Weak private sector*: In post-conflict states, the options for entry are more limited. Usually, there are few good prospects for acquisitions unless it is to secure a licence or contract already awarded to a local company (see, for example, the case of Vodacom in the DRC).

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<sup>20</sup> Diamonds mined in areas of conflict, the proceeds from which are believed to fund and prolong wars.

- *Donors, advisers and consultants and economic policy:* In post-conflict countries, new and inexperienced governments work with donors, consultants and policy advisers who draw up policies and give advice that may not promote the growth of the private sector.
- *Financial systems:* In politically charged countries, the availability of foreign exchange is a problem, as it is usually traded at a premium on the black market. Moving it out of the country through formal channels can be all but impossible, as banking systems flounder and cash transactions are paramount.
- *A shifting population of powerful and influential people* makes it hard to know whom to court to help business run smoothly.

## Risk in Africa

Emerging markets are challenging for businesses: a company must deal with the usual risks associated with entering a new market, as well as new challenges such as an unknown political environment, different security and leadership dynamics, a lack of transparency and, importantly, a lack of available information. But, despite the drawbacks, the continent offers high-reward investment opportunities, provided that the risks are rigorously assessed upfront and proactively managed afterwards.

Companies believe that just operating in sub-Saharan Africa carries a premium based on perceptions of risk that are not always justified. Such perceptions affect credit ratings and the cost of finance from institutions outside the continent. Africa is often viewed as a single high-risk region rather than different countries with vastly differing risks, opportunities and challenges, and investors pay a price for this. South Africans are more in tune with the diversity on the continent and are able to identify the risks differently.

Depending on the sector, companies tend to view risk on a country-by-country basis. For companies such as SABMiller and Shoprite, for example, market choices are not dictated by the location of resources. Resources companies often operate in high-risk environments. AngloGold Ashanti, for example, has a dedicated risk department, as do Murray & Roberts, Group Five and other companies of size in relatively high-risk business. Much of the risk analysis is premised on experience, although new risks may emerge unexpectedly. A good example is the punitive tax on beer introduced in Botswana recently to curb drinking and the associated spread of HIV/Aids, a move that significantly affected SABMiller in a seemingly low-risk market.

South Africans tend to believe that other African markets are similar to each other and to their home base, and thus do not require tailored business strategies. Many do insufficient homework and underestimate the costs and timeframes for entry and start-up. There is a tendency to believe that political contacts (on either side) will protect them in difficult

markets and that African markets are inferior and will welcome any South African engagement. Some of these rather basic miscalculations can lead to failure in the long run.

Most of the SADC is viewed as low-risk, although Angola, the DRC and Zimbabwe are exceptions. Mozambique is not viewed so much as a post-conflict as a low-income developing country. Zimbabwe is not a post-conflict country in the traditional sense but investors currently regard it as a high-risk market given its unpredictable government and business-unfriendly legislation.

East African countries are regarded as low risk because of their similar business culture and language, transport links to southern Africa and political stability. The violence in the 2007-08 election in Kenya came as a shock to South Africans because the nation was regarded as politically stable. Kenyan hostility to South African companies operating locally had been seen as a greater risk than the political environment.

Many companies have invested in Uganda: as far back as 2005, there were already more than 50 South African companies, making South Africa one of the top three sources of its foreign direct investment (GCIS, 2005). Rwanda and Tanzania are also favoured, although South African business faces competition in East Africa from strong Kenyan companies, particularly in retail, hotels and financial services.

Risk has not been a significant deterrent to South African investors entering the DRC, Angola and Nigeria, given the returns to be made in these countries. However, managing the risk has been a distinct challenge and continues to be a learning curve for companies. A new challenge is the rapidly increasing competition from the BRIC nations in sectors such as mining, construction, ICT and retail. All three of these states are dysfunctional because of their turbulent histories and economic structures shaped by governance crises and conflict. The business environment in each is a particular barrier to entry and a factor that significantly increases risk. Excessive bureaucracy, pervasive corruption and personality-driven government are major constraints to development in these countries.

Knowing who to do business with is also difficult, particularly given that working with politicians who fall out of favour could be more harmful than not pulling any strings at all. Many influential local business people are linked to the powerful politicians of the day and the demise of the latter can effectively undermine the influence of the former. It can be better to avoid getting too close to either, given the shifting sands of politics.

Having political contacts is only part of the story, as former businessman Tokyo Sexwale discovered. He used his political contacts to secure alluvial diamond mining rights in Angola when he was chairman of Trans Hex. However, despite the relative ease of entry, the company struggled; profits were badly hit by high costs, bad management and lower sales (Ryan, 2009). The Supergroup logistics company was nearly put into liquidation over

a fraudulent deal with relatives of the president of Angola over unpaid bills for fleets of trucks (Rose, 2009), highlighting the potential problem of doing business with political elites who see themselves as above the law.

Despite the challenges in all these markets, companies are looking for entry points because of the perception of significant opportunities from oil and gas revenues; large reconstruction projects; the wealth of the elites; large expatriate communities, particularly in Angola and the DRC; and a dearth of goods and services.

Companies have encountered problems in some of these high-risk markets. In Angola, for example, De Beers left in 2001 after the breakdown of an agreement with state-owned diamond company Endiama. Once court battles over an outstanding loan were resolved, De Beers returned in 2005 in a joint venture with Endiama. The market is too lucrative to avoid despite the reputational concerns around “blood diamonds”, a stigma not present in the other big regional markets, Botswana and Namibia.

Another concern in Angola is ownership caps for foreigners, who are only allowed a minority stake in the mines. Companies must assume all the exploration costs but cede majority ownership to Endiama and private Angolans nominated by the state. Unless the expected profits are significant, which is not guaranteed in an era of boom-bust commodity prices, this can be a major problem. It is among the reasons why BHP Billiton and Petra Diamonds pulled out of Angola. Companies will not comment publicly about problems for fear of upsetting their operations there (Ryan, 2008).

The logistics in Angola are punishing. Flights to Luanda were once a major problem because of protectionist behaviour by the national airline; while this has improved, many connections are not direct. Road traffic has to be routed through Namibia, adding time and costs, while Luanda’s port is inefficient and undercapacitated, delaying goods for months at a time. The internal road network is extremely poor, as are links to other countries in the region. Rail is non-existent, although the rebuilding of the historic Benguela line linking Angola to the DRC and Zambia is under way.

Nigeria is another difficult market, with risk inherent in the unpredictability of regulation, the distance from market, pervasive corruption, poor institutions and inefficient – but improving – business systems. Shoprite Africa managers say the market is challenging, particularly the 80 days it takes to get goods from Cape Town to Lagos because of the congested port. But the company plans another 50 stores in Nigeria by 2013. Nigeria’s main attraction is the size of the market: 150 million people. Many companies say that having 1% of the Nigerian market is worth 10 or 15 smaller markets in Africa. SABMiller says that its two competitors in Nigeria – Guinness and Heineken – do as much business in Nigeria as SABMiller does in 24 other African countries, excluding South Africa (Lloyd, 2009).

The risk of doing business rises considerably in lesser-known markets, particularly non-English-speaking countries. These include the Central African Republic, Equatorial Guinea, Congo Brazzaville, Guinea-Bissau and Guinea. These markets are not generally on the strategy list for South African companies, except those operating in specific areas (oil and gas, mining, security and some trade), as they are politically unstable and economically undeveloped, the business culture is different and there are no air links to South Africa.

In 2009, the South African government made overtures to the pariah Equatorial Guinea government in a bid to open the door for South African oil and gas companies. This was surprising given the poor human rights record of the Obiang government and South Africa's stated support for human rights. A reciprocal agreement on the protection of investment was signed. The real value of such agreements has not been well tested by the South African government and there are concerns that, when a company is in dispute with a government, South Africa may be compromised by diplomacy. Nevertheless, such agreements do provide some comfort and give the government at least the right to intervene, where necessary, on behalf of its nationals.

## Market failures

Although the number of high-profile business failures in the rest of Africa is relatively small, many smaller companies have struggled because of high barriers to entry and the difficulty of surviving troubled times without significant resources. Apart from the mining companies mentioned above, the one high-profile withdrawal from another African country was Vodacom. It pulled out of Nigeria just two months into a five-year deal with Zimbabwe's Econet Wireless Nigeria (EWN), when the Nigerian partners paid "brokerage fees" to the state governments to invest in EWN. Vodacom and its partner, Britain's Vodaphone, which jointly funded the \$250 million deal, judged a practice considered acceptable in Nigerian terms to be corrupt. Vodacom has been tied up in court for years with EWN over the deal but has continued to look for other ways to enter this lucrative market. The situation reflects the challenge of managing different business cultures in the prism of South Africa's culture of corporate governance.

Another company that failed in Nigeria, and in Kenya, was Johnnic Communications (now Avusa). Its businesses included multimedia stores and cinemas in both countries, a majority stake in a leading Nigerian newspaper (*Business Day*) and a CD manufacturing facility in Nigeria. But it overstretched itself, particularly in Nigeria, and did not seem to have an efficient business plan. In 2008, it sold all its Nigerian and Kenyan assets, saying the company was not prepared to inject the required capital into loss-making and undercapitalised entities. Management played a big role in this. The drivers of the initial Africa strategy were overly zealous and failed to do proper due diligence on entry. A new management subsequently decided that the Africa strategy was a failure and did not

want to pursue it. This highlights the importance of a solid entry strategy, detailed market research and the commitment of management to doing business in difficult markets.

Another company that pulled back from African markets was Profurn, one of the first companies to expand into the continent after 1994. In just a few years, it had opened stores in 15 countries, including the north. But, after an initial spurt of success, its operations became unprofitable. The reasons included the use of credit retailing in countries where there are no credit bureaux and little customer information, reckless expansion, low disposable incomes in many markets, and competition from lower-priced local goods. In 2003, the ailing company was bought by JD Group, which sold 55 African stores, retaining about a dozen in southern Africa (Games, 2003).

Woolworths had a difficult time in Nigeria, opening a store there and being forced to close it shortly afterwards when the government, at short notice, introduced an import ban on clothing, among other products. (See also the example of Pick 'n Pay in the next section.)

## Managing risk: The South African experience

South African companies have generally learned the hard way how to manage risk. In the early days of investing in and trading with other African countries, many struggled as they did not understand the markets (having assuming they were similar to South Africa) and did not know how to analyse and manage the risks. Whitey Basson said, "You will face challenges you never knew existed" (Planting, 2009).

Over the past decade, the risks have been reduced through political stability and market reforms. Companies have also learnt to manage risks by better understanding their complexity and breaking them into their component parts. Some companies have introduced dedicated risk staff or departments.

According to an Ernst & Young (2008) survey on risk, two-thirds of respondents worldwide said they would avoid a company whose risk management seemed insufficient; 48% said they had disinvested from companies for the same reason, and 82% said they would pay a premium for companies with good risk management.

Some risk management strategies used by South African companies on the continent are outlined below.

### Identifying risk

An important component of company-wide risk management is quantifying the risks upfront. Companies often constitute a senior planning team consisting of managers from different divisions, each with their own risk potential. The team holds scenario-planning meetings to identify potential risks, plot management options, determine the likelihood of each risk and devise appropriate responses. This needs to be a company-wide strategy, as gaps will

form if departments consider only their specific, but not company, risk. Murray & Roberts has an executive risk committee, which reviews significant risk decisions before they are submitted to the board.<sup>21</sup>

Risk Experts<sup>22</sup> say risk management is an ongoing process because the risks can change, get worse or improve, and regular reviews are necessary. While large companies tend to have their own in-house risk teams, some use outside consulting firms, which offer valuable objectivity and a critical analysis of the company's operations.

### Managing political risk

Building relationships with the government of the day is one element of risk management that many companies favour in the absence of institutions. This can be through voluntarily giving the state an equity stake in the enterprise, giving important officials a seat on the board or simply by getting the government's buy-in to the project.

Randgold Resources Chief Executive Mark Bristow, commenting on the purchase of the Moto gold mine in the DRC, said the formal written support from the government had been fundamental to the company's decision to proceed with the purchase. "Fostering mutually beneficial partnerships with the governments and people of our host countries is a key principle of Randgold's formula for success in Africa" (Randgold Resources, 2009).

A spokesman for Anglogold Ashanti says, "Government will always have a stake – we prefer it that way because we look to ensure they have an interest in the fortunes of the enterprise" (interview August 2009). However, this has not always worked for the company, which had problems in Guinea during the rule of former president Lansana Conté and, after his death in December 2008, with his successor. The military ruler who seized power was confrontational with the mines in what is viewed as an attempt to pressurise them into funding his regime. Still, it could be argued that the problems may have been worse without the relationship.

Large South African companies normally deal with top government ministers and even presidents upon entering a country because the size of the investment relative to the local economy is usually seen as warranting high-level attention. While this may give comfort, it can also add to risk when there is a change of government or minister or when local, state or provincial authorities override the centre. The latter appears to be the case in the problems facing mining giant First Quantum in the DRC in the wake of the wholesale review of mining licences in that country (see the DRC case study). There may also be trouble if a company goes over the head of relevant agencies and has a problem down the line.

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<sup>21</sup> See their website for more details on risk management: [www.projects.murrob.com](http://www.projects.murrob.com)

<sup>22</sup> This was said to the author off-the-record.

Massmart in Nigeria used its offices with then President Olusegun Obasanjo to get its goods cleared from the Lagos port in time for its Nigeria opening. However, despite (some say because of) the president's involvement, port authorities dug in their heels and the consignment was not released any faster. When MTN ran into trouble with the Benin government over hefty new licence fees and regulatory issues, then President Thabo Mbeki stepped in to broker a deal (Badaru, 2007). This is unlikely to have happened for a company with less political influence at home.

Blue Financial Services told a business breakfast on Nigeria in 2009 that if a company does business through the regular channels, it has the moral high ground to argue about unfair regulation and other issues when there is trouble. Increasingly, companies have recognised the tenuous nature of political connections and are going through the correct channels, even though this may be slower and more frustrating. But close ties with government can reduce regulatory risk. When unreasonable or ad hoc regulations are introduced, companies at least have a channel of appeal if they have the ear of top officials.

### Local partnerships

Local partnerships, through equity or technical agreements, are increasingly becoming a risk management strategy. (However, if they fail or run into problems, they can increase risk; this appears to be happening to Vodacom in the DRC.<sup>23</sup>) A good partnership gives companies the advantage of local knowledge and early warning about possible changes in policy, particularly in post-conflict countries where the playing field shifts constantly and rapidly. Partners can also assist in bedding down a new operation and sorting out logistics.

However, rigorous due diligence is necessary to ensure the partnership is a good fit and not likely to scupper a new operation. Companies also need to allow their partners real decision-making power although it is important to keep close tabs on local subsidiaries in order to protect their brand, reputation and operations from abuse.

James Hersov, Managing Director of International Development at Africa for Veracity Worldwide, emphasises the importance of keeping close to the activities of local affiliates. Particular red flags include the way affiliates handle transactions with governments and parastatals, whether they use third-party agents, which may imply a lack of transparency, or claim special access to the government and influential local players (Hersov, 2009).

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<sup>23</sup> Congolese Wireless Network (CWN), the mobile phone company that Vodacom acquired (49%) to facilitate its entry into the DRC, accused the South Africans, in legal papers, of fraud, abuse of trust and usury. The relationship broke down after 2005 when Vodacom, which has invested \$350 million in DRC since then, brought in new funding arrangements that CWN saw as disadvantageous. Vodacom says CWN's directors had agreed to all the new arrangements. The situation suggests that CWN has become a financial liability to Vodacom in an era of falling profits and rising costs but the allegations could damage the mobile giant's reputation (Business Report, 2010).

## Sound entry strategy

A sound entry strategy is pivotal to success or failure in a market. It requires rigorous analysis of the market, competitors, potential partners, the regulatory framework, political stability and future growth areas. Many South Africans have rushed into markets without doing the necessary research and have failed.

Pick 'n Pay failed in Tanzania because, it says, of smuggling by competitors; logistical and regulatory problems; and difficulties with warehousing, maintaining IT infrastructure and sourcing relevant skills. It sold its stores to Shoprite, which has, in the eight years since, closed several stores because of slow trading. It seems that both companies rushed into the market without doing proper research. Pick 'n Pay's problem should have been uncovered by detailed due diligence but its African expansion was seemingly driven by the success of Shoprite at the time rather than by Tanzania as a viable market. Shoprite was buoyed by its success in Zambia and clearly thought its broad African experience would counter the problems experienced by its predecessor.

It can take a year or more to prepare for entry into large and difficult markets such as Nigeria and Angola. This allows time to follow the correct administrative paths, vet potential partners, establish offices, review the business culture and competition, find out who is influential, look for potential customers and do proper market research.

Blue Financial Services, for example, set aside 12 to 36 months to establish themselves in another African country. Apart from the logistical and market issues, it takes time to become aware of local cultural nuances in each country, which can make or break a business that is very exposed to local customers.

Some failures result from an undue focus on the bottom line in a high-risk, high-reward scenario and from shareholder pressure to perform. Successful companies generally have a long-term view and are prepared to take the financial pain in the early stages of the investment.

Multinationals devise their own risk models for market entry. One of South Africa's largest multinationals, for example, looks at the return on the average cost of capital. It assigns ratings to countries accordingly, based on criteria such as property rights, threat of asset nationalisation, exchange rate volatility, the ability to repatriate profits in foreign currency and the local availability of foreign exchange. It then measures the returns required to offset the risk, with higher returns required for higher risk.

In competitive environments, acquisitions are becoming a preferred strategy, as outlined above in the section on entry strategies. There are several reasons for this. First, the

experience of other companies show the value of local knowledge and influence. Second, as African economies mature, local firms are becoming stronger, more professional and able to absorb equity deals to which they can add real value. Third, they often have complementary operations or existing economies of scale, such as retail banking operations, for example. However, some companies maintain that a partnership must add tangible value for both parties. Often local partners do not have the equity for financial partnerships; they need to contribute something else to the partnership.

Mining companies are usually forced to have government shareholding, which many accept as a hedge against risk. However, this has made little difference in some countries: in the DRC and Angola, the state continues to change the rules regardless of their stake. While a government stake can reduce risk in less corrupt markets, it can increase frustration as it slows down decision-making.

Where there are no local candidates for acquisition, South Africans have opted for greenfields entry first and then reconsidering their options later. However, this makes it harder – and longer – to get market share.

### Managing sector risk

Sector-specific risk management can be more important than country risk, particularly where the investment is long-term and involves bricks and mortar. Two such risk management routes are building relationships with the government and implementing social responsibility programmes. Another is to ensure adequate funding over the term of a project and having backup sources of funding in the event of unexpected cost overhauls. Futures markets and hedging are also used to manage possible price shocks.

In Guinea, the government determines the price of fuel, adding 50% to the market price to boost state revenues. AngloGold Ashanti says it manages this type of concern by getting information in advance and budgeting for it. However, these costs, while manageable in boom times, assume a greater significance when commodity prices drop.

Royalties are another issue of concern. For example, the Zambian government, under pressure to realise more benefits from the mining boom, unilaterally imposed a new tax regime in 2008, which effectively raised the tax rate from about 31% to 47%. This had implications for company costs and investment agreements negotiated on entry. Part of the problem is officials' lack of experience in negotiating with large global companies. In the case of Zambia, the government did not accommodate a provision for price fluctuations in investment agreements despite the known volatility of the copper price.

There are other, less visible risks. As noted, SABMiller's Botswana market is threatened by a 30% government levy on beer sales, introduced in 2009 in an attempt to cut consumption.

The company sees this as a major risk in a market that has never been regarded as risky. Other risks to retailers include ad hoc import bans, unpredictable tariff regimes and even poor roads and flooding, which may cut off transport routes.

Agriculture faces a plethora of risks, some of them related to governance. South African farmers, sought after in the rest of Africa for their skills, are wary of going into countries without specific agreements to protect their investments. This is especially important given their vulnerability in remote locations, the risk of hostility from local communities, the politically loaded nature of land in Africa and the uncertainty of dealing even with host governments.

Another sectoral risk is competition. Retailers entering the Kenyan market found that the strong local competition undermined their operations. SABMiller has tried to buy what competitors it could and has battled with those it could not. Banking is going in the same direction, with South Africans looking to buy their way to a competitive market share through strong equity partnerships.

### Shareholding

Many South African companies believe it a benefit to have a government official or powerful local business person on the board of a country operation or as a shareholder. For example, Vodacom has a strategy of choosing politicians or their friends as board members in their African operations. Mozambican President Armando Guebuza is on the board of its local operation, as are several politicians linked to former president Joaquim Chissano. Similar situations exist in Tanzania and the DRC. Defending its actions, Vodacom argued that it was the norm in Africa to have participation by “governments, parastatal bodies, public investment institutions, political parties, trade unions, empowerment groupings and government officials” (Brummer, 2007). But this can backfire as political allegiances and power structures change, as they did in South Africa. Some companies believe it better to have powerful business personalities on the board rather than politically linked ones because of the transient nature of the latter.

### Corporate governance

This relates to both a company’s operations in foreign markets and the structure of local subsidiaries or joint ventures. In terms of the latter, buying into a listed company will provide an element of comfort, though full compliance with the listing regulations (which may in any event be weak) should not be taken for granted. Corporate governance principles, as they are understood in South Africa, are not well known in most African countries.

South African companies are under great scrutiny in African markets by both their shareholders and the domestic market. This makes it imperative for them to adhere closely

to the corporate governance principles dictated by their home base. However, this can be difficult when business cultures are different and inflexibility is misinterpreted as arrogance or superiority, which can be damaging to their operations.

In 2004, then Minister of Public Enterprises, Jeff Radebe, said the government was investigating the option of legislation to regulate the behaviour of South African companies in the rest of Africa. This was in reaction to complaints from other countries about the behaviour of certain businesses. The initiative did not gain much currency and was never implemented. But one of the challenges companies face is keeping to their home principles in markets where different rules apply.

### Learning the local systems

Many officials and business people in African countries sell themselves to foreigners as being people who can “get things done” but this is often not the case. Trusting the wrong people, who may not have the authority they claim to have, can be costly.

On another level, it is important in areas outside the main urban centres to cultivate relationships with local chiefs, heads of police stations and state or provincial leaders. It is neither possible nor recommended to keep calling top-level contacts about problems experienced at a lower level, such as a police roadblock or a problem at a port.

### Procurement

Procurement in African markets can be a minefield and companies have to be clear about the process in each country. A company may sign a contract with a government without, unwittingly, having gone through the required tender process; this will render the contract null and void. Not complying with the tender and procurement legislation can also affect the financing of the project: commercial and development finance institutions need guarantees that a contract is legal, binding and enforceable. These cannot be provided if the legislated processes have been circumvented.

Officials may claim the discretion to issue procurement contracts but most countries are statutorily bound to the procurement standards of developed countries. This is particularly true when contracts are linked to international funding; flouting these standards can be a criminal offence.

### Access to information

Most African countries, particularly conflict and post-conflict states, have limited available statistics. What is available is may be out of date and hard to access. Although South African companies tend to eschew paying for information, this can be crucial to success

in other markets. They typically need information about political and succession trends, new competitors, security dynamics, local nuances and context, and issues in the sector.

One of the problems of identifying risk in Africa is that many questionable businesses – and business practices – operate with government sanction. Using resources such as Transparency International rankings can be useful but companies should also obtain informal information from local networks and other investors for an accurate take on a potential business opportunity.

An important information gap relates to influential players and undisclosed relationships in politics and business both between people and companies and with the interested party. There may be undisclosed conflicts of interest that may become problematic. It is also important to keep abreast of corruption cases and allegations.

### Service self-sufficiency

In the absence of sufficient infrastructure, companies must provide their own utility services. For example, AngloGold Ashanti constructed its own hydropower facility in the DRC to produce 30-40MW of power. The company estimates the extra cost to be between 20% and 40% of total investment costs but the mines cannot function without it. In most countries, generators and water purification plants are also needed, and companies often build or maintain roads. Governments barely contribute but these costs are typically built into the entry strategy.

### Corruption

It is generally possible to operate successfully without paying bribes. It is easier for multinationals to avoid bribes as they have the resources to play the waiting game or to get high-level intervention for a problem, a luxury that many smaller companies do not have. Research in several African countries undertaken by the author over several years has found that smaller South African companies do not always wait for a bribe to be solicited but are quick to offer “facilitation fees” to avoid onerous bureaucracy or get ahead of the competition.

Companies can avoid paying bribes by outsourcing functions to local agencies, law firms and the like with the brief to get the job done, no questions asked. Another is to threaten to walk away from a deal or an investment. However, the new interest in Africa from Asian countries has undermined this strategy as a bargaining tool.

Not paying bribes means it may take longer to be established in a country and start contributing to the bottom line. This needs to be well understood by the head office to prevent pressure on the local office to contribute to the bottom line soon after entry.

## Risk insurance

Global risk cover, such as that offered by the World Bank's Multilateral Investment Guarantee Agency (MIGA), covers most African markets but is affordable mainly to large corporates. More commonly used are the facility offered by the Export Credit Insurance Corporation of South Africa (ECIC)<sup>24</sup> and the Credit Guarantee Insurance Corporation (CGIC), which cover exports against payment default, whether local or international.<sup>25</sup> In 2008/09, ECIC's biggest exposure was in Mozambique (32%), followed by Iran (31,3%), the DRC (11,4%), Zambia (6,7%), Turkey (6,5%) and Ghana and the Sudan, at 2,7% and 2,5% respectively.

For large investments and projects, risk cover is often mandatory and can be made part of an entry strategy by a funder or foreign partner. It certainly gives comfort; when companies can afford to, they usually obtain risk cover.

Demand for risk mitigation has changed over the years. The institutions offering it, such as MIGA and the African Development Bank, used to provide mainly traditional political cover, which typically related to currency inconvertibility, expropriation and civil unrest. They now include more commercial concerns in their cover, such as breach of contract by governments, regulatory risk, currency devaluation and subsovereign risk for other tiers of government (Biau et al., 2008).

Other risk mitigation strategies include the following:

- *Legal systems:* Large companies usually include international arbitration in investment agreements to counter poor and ineffective legal systems in African countries. Where arbitration facilities exist, these are a preferred way to fast-track the resolution of disputes. Where bilateral investment treaties exist, these offer some form of protection although many South Africans are unaware of the relationships between their government and other African governments.
- *Local offices:* Having local offices keeps companies close to local markets, conveys a commitment to doing business in those countries (which is important for local buy-in), gives them greater visibility, positions them to take up opportunities timeously and, in some cases, even qualifies them for preferential access to bids and tenders.
- *Logistics hubs and networks:* Hubs allow companies to avoid some of the worst problems of long supply chains. They are generally located near markets and reduce transport costs, border delays and other problems. Shoprite, for example, uses its Bulawayo store as a regional hub and is looking at establishing a warehousing facility in Lagos. Transport companies have established hubs in Zambia and DRC for the central

24 The Department of Trade and Industry is the sole shareholder of the ECIC, which facilitates South African exports by underwriting bank loans and investments outside the country to enable foreign buyers to obtain capital goods and services from South Africa. The ECIC evaluates export credit and foreign investment risks and provides insurance cover on behalf of the government. See [www.dti.gov.za/thedti/ecic.htm](http://www.dti.gov.za/thedti/ecic.htm)

25 [www.creditguarantee.co.za](http://www.creditguarantee.co.za)

African region, while airlines have considered, but not successfully implemented, air hubs outside South Africa. African Explosives Ltd, which services mines across Africa, has its West African hub in Ghana, where it has maintained offices for more than a decade.

- *Understanding regional trade agreements:* Few business people keep track of trade agreements, notably those under the SADC, COMESA and the East African Community (EAC), even though they can have a material effect on business. Understanding them helps companies to be aware of tariff issues, which can affect trade strategies and the bottom line, and developments to ease the supply chain, such as the harmonisation of requirements across borders or new customs regulations.
- *Local sourcing and development of small suppliers:* It is cost efficient for companies to source goods and services locally. This has become a value add for local businesses, which strive to improve their offerings to secure lucrative contracts from the South Africans. However, it has been hard for foreign investors to find appropriate local suppliers and the learning curve has been steep. Some companies, such as Shoprite and SABMiller, have structured programmes with suppliers, which they train to provide quality agricultural inputs for local operations.
- *Social responsibility programmes:* These programmes build bridges with local communities and allay the criticism that big companies do not support local development. For a company like MTN, it is also a way of creating brand awareness and increasing sales in rural areas. On the downside, some governments see such corporate spending as removing their own responsibility for particular services. In Angola, for example, mining companies provide infrastructure, schools, clinics and other services outside their core business. This has now become an expectation of both communities and governments. As infection rates rise, HIV/Aids programmes have shifted from social responsibility programmes to being part of the overall business strategy. Most multinationals have an in-house HIV programme, some of which, such as De Beers in Botswana, are world class.
- *Competition:* Because most African economies are small, the competition and market share can change quickly, with one or two new players of size changing the landscape. Companies watch the market closely or pay other companies to do so on their behalf to identify new or fast-growing competitors.
- *Black economic empowerment:* South African companies that have black economic empowerment as a core strategy may find it had to maintain the purity of their black South African shareholding in countries where empowerment is seen as a nationalist rather than a race issue.
- *Trade unions:* Although trade unions in other African countries are not as powerful as in South Africa, they can nevertheless be a concern. They focus on the practices of foreign companies and may make (unfounded) allegations about wage structures

and the like. Shoprite has had problems with trade unions because of its high visibility, large workforce and African footprint, which allows for comparison. Companies manage the issue by being aware of the unions in their sector and building relationships with them.

## Case study 1: Democratic Republic of Congo

Foreign investors and funders consider the DRC to be one of the highest-risk places for business in Africa.<sup>26</sup> It has a long history of political instability but its valuable resources, such as copper, cobalt, gold and diamonds as well as huge forestry reserves, make it an attractive destination for investors willing to look at high-risk, high-return scenarios.

The DRC remains unstable despite a significant reduction in conflict after the end of a five-year civil war in 2003. Joseph Kabila assumed the presidency after his father's assassination in 2001 and subsequently won the first democratic elections in 2006. He is supported by major Western governments, including the United States, France and former colonial power Belgium, and has widespread support in Africa, including from South Africa. These relationships are mostly based on economic diplomacy. However, the eastern part of the country still sees frequent clashes between the rebels and government forces, and there is sporadic fighting in other parts of the country. Much fighting goes unreported because of the vastness of the country, coupled with a lack of communication and transport connections. Almost \$1 billion a month is spent on a large United Nations force, to which South Africa is a contributor.

The DRC is the third largest recipient of World Bank funds in Africa, after Ethiopia and Nigeria. The World Bank currently has \$1,8 billion in outstanding commitments in the DRC and its Country Assistance Strategy has provision for at least \$1,4 billion in new lending up to 2011. This is mostly for natural resources (mining and forestry) but also the rehabilitation of the water sector, transport sector reforms, increased agricultural production and the expansion of the power sector (World Bank, 2008).

The Investment Climate Advisory Services division of the World Bank has agreed to support the DRC's planned special economic zone, which aims to encourage investment and job creation, to use it as a model for initiatives in other parts of the country. The five-year programme, launched in 2008, focuses on four areas: improving the business environment through regulatory reform; strengthening small and medium-sized enterprises and support institutions such as chambers of commerce; rebuilding financial markets, banks and other institutions; and increasing private sector involvement in infrastructure.<sup>27</sup> The agreement for

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<sup>26</sup> The World Bank considers over 70% of the DRC portfolio at risk and more than half of the projects in the World Bank's DRC portfolio have 3 or more "risk flags", according to the Bank's internal risk-rating system (World Bank, 2008).

<sup>27</sup> [www.ifc.org](http://www.ifc.org)

the zone was signed in August 2009 and the International Finance Corporation's Conflict Affected States in Africa initiative will support the feasibility study (Faure, 2009).

The DRC is also a priority for the Chinese government, which has pledged \$9 billion in reconstruction spending in return for commodities – its biggest African investment to date. The money will be used for mining and infrastructure projects (i.e. roads, railways, hospitals and schools) carried out by Chinese companies. In return, China will get metals worth about \$50 billion at 2009 prices: 10 million tonnes of copper and 600 000 tonnes of cobalt (Centre for Chinese Studies, 2009).

The economy of the DRC still depends on the mining sector, despite strides made in areas such as telecommunications and services. As in most African countries, agriculture contributes 48% to GDP but production is declining. Conflict has prevented the development of commercial agriculture and small farms and subsistence agriculture dominate the sector. The DRC is one of 11 African countries that invited South African farmers to produce food there.

In 2007, the DRC recorded economic growth of 6,2%, up from 5,1% in 2006 (OECD, 2008). The growth rate rose to 8,5% in 2008, despite the start of the global crisis (Standard Bank, 2009). According to the government in Katanga Province, the headquarters of the DRC's mining industry, more than \$2 billion was committed to mining projects in 2006 and 2007, 38 joint ventures were formed with mining parastatal Gecamines and the number of mining licences granted rose to 1 635 (Cuvelier, 2009). A ban on the export of unprocessed metals resulted in a mushrooming of metallurgical plants, thus increasing employment.

After hitting highs of nearly \$9 000 a tonne in mid-2008, the copper price plummeted by nearly 40% in October 2008 alone. Since late 2008, about 40 mining companies have suspended operations in Katanga province. By early 2009, an estimated 200 000 people had lost their jobs. Southern African Resources Watch (2009) says mining output was expected to decrease by 38% in 2009 and employment by 13% because of the global crisis, although a rising copper price could counter some of this risk.

In response, the DRC Ministry of Mines revised its output forecasts and cut official budgets by up to a quarter. The central bank raised interest rates three times in short succession, from 28% to 66%, and dipped into foreign reserves to prop up the weakening Congolese franc (Cuvelier, 2009). The government also reduced the export tax on minerals from 28% to 1% to aid struggling mining companies but, given that minerals comprise more than 50% of exports, this has major revenue implications.

Despite billions of dollars in investment since 2003, government policies are not generating broad-based growth and the DRC remains near the bottom of the United Nations' Human

Development Index. In 2009, it was ranked last out of 181 countries in the World Bank's 2009 Doing Business global rankings, the same position it held in 2008. It ranked 173<sup>rd</sup> in terms of enforcing contracts, 154<sup>th</sup> in the ease of starting a business (which takes 13 procedures and 155 days) and 160<sup>th</sup> in trading across borders.<sup>28</sup>

## Mining sector

Potential investors usually view the state of the crucial mining industry as a signal for doing business in the DRC. The DRC contains about 4% of the world's copper reserves and a third of its cobalt reserves. It is the third largest diamond producer in terms of output, although only the seventh in terms of value, as artisanal mining accounts for 70% of production. All mineral deposits are owned by the state but holders of mining rights can retain the profits from commodity sales. The industry is regulated by the Ministry of Mines and governed by the National Mining Code, drawn up with the World Bank and implemented in 2002.

Investors in the sector are willing to discount the political risk premium during periods of high commodity prices but operating problems are brought into sharp relief when prices drop. In 2008, before the global crisis, the government set in motion a review of all mining contracts to regularise the industry after the chaos and corruption that characterised the sector during the war years.

By October 2009, several large operations still awaited the conclusion of the review. Of the 61 mining contracts already reviewed, the government said 14 were found to be regular and 25 would be renegotiated or modified. The remaining 22 were classified as "red light" contracts that were out of step with mainstream international practices and faced cancellation. The process only covered known assets; for future discoveries, ownership would be shared based on the international standard practice of a 51%:49% split between parastatals and private companies. The government also undertook to introduce compulsory subcontracting to Congolese-owned companies (Swanepoel, 2008).

The mining review was extended several times; some analysts argued that the government was waiting for commodity prices to rise to give them more leverage in the negotiations. One of the outstanding reviews is that of the Tenke Fungurume mine, one of the biggest copper and cobalt operations in the world. The operators threatened to pull out should the review still not be completed by the end of March 2010 (Reuters, 2009a).

There is also a dispute with another large consortium in the DRC – mining giant First Quantum and its partners, South Africa's Industrial Development Corporation (10%), the International Finance Corporation (7,5%), the DRC government (5%) and state mining

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28 See the World Bank Doing Business website: [www.doingbusiness.org/EconomyRankings](http://www.doingbusiness.org/EconomyRankings)

company Gecamines (12,5%). The state has sealed off a tailings facility, part of the giant Kolwezi Mine operated by First Quantum, claiming that the company is in violation of agreements relating to the operation. The company, which has filed for international arbitration, denies this, saying the sealing order is illegal. It is speculated that the real reason for the confrontation is that the government wants to increase its stake in the consortium without paying for the shares. If these companies were to withdraw from the DRC, Chinese investors would be eager to negotiate more favourable terms with the government. This trend that has echoes in Guinea, where Chinese investors are also looking for lucrative opportunities, some of the best of which are held by Western mining companies.

These cases show the power of government officials to interfere with commercial operations for unspecified reasons. These companies have invested several billion dollars and paid state taxes for years but have little say in the outcome – a major risk for them.

Risk analysts and companies investing in the DRC believe a long-term view of the investment is necessary and that community investment is important, given the remoteness of many operations. The prospect of international arbitration and legal action is also a major consideration, as the government is not renowned for respecting contracts.

The lack of properly functioning institutions in the DRC means politicians have great personal influence and a change of guard in, for example, the mining portfolio can have a major effect on the industry. But it is nevertheless necessary to build relationships with politicians along the chain to keep operations secure; this comes at a cost in terms of money, ethics and time, as important people are notoriously unavailable.

Another problem is the high cost of finance for projects in the DRC because of the perceived risk, which affects the country's international credit rating. Companies prefer to spread the risk of projects by having multiple external partners, such as financiers and operators. The externalisation of risk is only possible to a certain extent and is easiest in terms of financing. Eventually the country risk comes to bear, as it did for First Quantum and Tenke Fungurume. The government has provided mining companies with guarantees but the legal system is not strong or efficient enough to enforce them, making them little more than a goodwill gesture.

In 2008, the DRC became a candidate country for the Extractive Industries Transparency Initiative (EITI), a multi-stakeholder effort to increase transparency in transactions between governments and the extractive industries. However, progress towards validation has been slow.

## **South Africa and the DRC**

South Africa's political relationship with the DRC was put on the map in 1997 when then President Nelson Mandela attempted to resolve the conflict between then President

Mobutu Sese Seko and rebel leader Laurent Kabila, father of the current president.<sup>29</sup> Since then, South Africa has maintained an active engagement with the DRC. During 2002 and 2003, South Africa hosted the Inter-Congolese Dialogue, which aimed to design a peace deal between the many factions in the DRC. In January 2004, then President Thabo Mbeki went on the first state visit to the DRC, accompanied by a large business delegation. In 2006, South Africa assisted with the country's first democratic election; in 2007, President Kabila visited South Africa.

In the early part of the decade, South Africa displaced Belgium as the DRC's biggest trading partner. Two-way trade rose from R1,8 billion in 2005 to R2,6 billion in 2006.<sup>30</sup> In 2009, South Africa was its tenth biggest trading partner (down from sixth in 2008). The movement of goods is skewed heavily in favour of South Africa, with exports to the DRC of R8,27 billion in 2008 and imports of only R49 million.

A Binational Commission was established between the two countries at presidential level, which held its fifth meeting in April 2008. Areas covered by the existing agreements include telecommunications, mining and energy, infrastructure development and tourism. The South African government is involved in some reconstruction efforts in the DRC and in the plan to develop hydroelectric power on the Inga Dam. Its interests are political stability in the DRC, given its potential for destabilising the continent; the Southern African Power Pool (SAPP); and creating opportunities for South African business and parastatals.

But companies have found the going tough. Almost non-existent transport routes to most of the country, expensive air travel, the language barrier, a different business culture, deep-rooted corruption and political instability have constrained the exploitation of potential opportunities. Kinshasa, the capital, and Katanga province, the mining centre in the south-east, are the preferred destinations for South Africans. The Zambian Copperbelt is the springboard for much business into nearby Katanga and Lusaka is a hub for trade into this corner of the DRC. There are direct flights from Johannesburg to Ndola in northern Zambia and to Lubumbashi, and regular flights between the two towns. One problem for mining companies is the inefficiency of the border crossing between the DRC and Zambia at Kasumbalesa. It is one of the most corrupt and inefficient crossings on the continent and goods can be delayed for several weeks on either side of the border.

Bureaucracy, necessary for getting licences, work permits and other documents, is a lengthy and frustrating process, which can delay project start-up for months, if not

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<sup>29</sup> The mediation effort was unsuccessful. Less than two months later, Kabila led his forces into Kinshasa and Mobutu fled the country.

<sup>30</sup> Department of Trade and Industry website: [www.thedti.gov.za](http://www.thedti.gov.za)

years. Environmental impact studies must be done, soil and mineral samples analysed and other processes completed before a bankable study can be drawn up. "It is two years before you even dig a hole in the ground," one mining engineer says.

Applications for grid power can be made only in Kinshasa. Many visits are required before any progress is made, adding to cost and time. Officials from the power utility need to be flown to the site, at company expense (including per diems), to sign off on arrangements; this can require more than one trip. One mining company says it can be easier and cheaper to bring officials to Johannesburg to negotiate and sign deals. This has the added benefit of strengthening relationships with these officials.

Companies complain that government officials have no sense of urgency to get projects under way, no one wants to take charge of the process, meetings can be months apart and several of these are required before a signature is likely to be appended to anything. Time overruns on projects result in cost overruns, which can sometimes be a tipping point for companies. But business persists because of the returns from high grades and volumes. For example, in the DRC, 5% of copper is recoverable from every tonne, compared to 1% to 1,5% in neighbouring Zambia. In gold terms, 7–8 grams a tonne are recovered in the DRC but only about 1 gram in South Africa.

## **South African business in the DRC**

### **Inga Dam Power Project**

The Inga project is the biggest planned infrastructure project on the continent. Its potential political risk is high and rests heavily on the goodwill of the government in Kinshasa, a big potential problem given the size and timetable of the project.

South Africa's Eskom is involved through its membership of Western Power Corridor Company (Westcor), established in 2003 by five members of the SAPP<sup>31</sup> to explore renewable energy options in the SADC region. On completion of the project, Eskom will draw power from Inga, which will allow it to close several coal-powered stations. However, the project is fraught with risk, given its dependence on the DRC. There have already been problems. In 2009, Westcor threatened to withdraw from the agreement, as it believed the DRC government planned to shed Westcor's involvement: BHP Billiton had offered to develop the project with the state to allow it to draw power for its proposed aluminium smelters there.

However, after the September 2009 SADC summit in Kinshasa, President Kabila reaffirmed his commitment to Inga as a regional, multi-utility project that the DRC would not go alone. Westcor is back on board, although shareholding is to be enlarged to include governments in the rest of southern Africa, presumably to spread the risk.

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<sup>31</sup> The five are Société nationale d'électricité (SNEL) in the DRC, Angola's Empresa Nacional de Electricidade (ENE), Nampower (Namibia), Botswana Power Corporation (Botswana) and Eskom.

DRC consultant, John Kaninda, told the African Business Network meeting in November 2009 that Westcor had irked the government by trying to dictate the terms of the contract, rather than following the government's lead. Recognising sovereignty, even with regional projects, is important in project deliberations; it is one of the factors holding back effective regional integration.

## Anglogold Ashanti

Anglogold Ashanti (2009) is one of the biggest South African investors in the DRC. It invested in 1996 with a licence to explore a gold deposit in Ituri District in the north-eastern Congo. At the time, the area was overrun by the Front des Nationalistes et Intégrationnistes (FNI), a rebel group that violently seized control of the area and was accused of serious human rights abuses. The company inherited the mine when it merged with Ashanti in 2004. It currently holds 86% of the shares, with the remainder held by Ashanti Goldfields Kilo and Offices des Mines d'Or de Kilo-Moto (Okimo), a local parastatal.

The company's operations in the DRC highlight one of the prime risks of doing business in conflict areas – the ethical compromises necessary to ensure smooth operations and the safety of staff. The company attracted controversy after it was accused by human rights organisations of paying the FNI rebels to allow it to operate. According to the United Nations Global Compact, in 2005, the exploration team paid \$8 000 to the FNI to allow the company to operate unharmed. It accused the company of providing accommodation and transport and paying levies on cargo flown into the local airport. It asserted that having dealings with FNI lent the group political legitimacy. The company defended itself by saying that it subscribed to global business principles, including the promise to ensure that communities were better off for it having operated there. But it admitted to the payment, saying it was made under duress for the safety of its on-site employees and fell far short of the \$15 000 demanded by the rebels. Payments totalling \$1 100 were made in 2004 in landing "taxes" at the local airstrip to ensure the safe delivery of goods and equipment. However, these stopped after a United Nations Panel of Experts investigating breaches of the arms embargo pointed out that such payments contravened United Nations Resolution 1493. Some ground transport was also offered to FNI militants who threatened company drivers (Kapelus, 2006).

So, ultimately, the company subscribed to its business principles until the safety of staff and operations was threatened. In rebel-held conflict areas, companies cannot call on the government for assistance. They must decide, before going into such areas, how far they are prepared to go to secure their operations, as it is almost certain to involve a compromise of international ethical principles. This issue is a particular concern for resource companies and also arises in countries such as Angola, the Central African Republic, Guinea and the Niger Delta in Nigeria.

## Divine Inspiration Group and the South Africa Congo Oil Company

South Africans have been embroiled in another controversy relating to an oil concession on the DRC side of Lake Albert. A consortium, Divine Inspiration Group, was set up, headed by politically connected businessman Tiego Moseneke and the South Africa Congo Oil Company (Sacoil), of which the Moseneke family's Encha Group is the main shareholder. The consortium was given the rights to the concession although it was held by Canada's Tullow Oil, which also held the rights also to an adjoining concession in Ugandan waters.

The Sacoil consortium was backed by state oil company, PetroSA, and the South African government, which used their relationship with the DRC government to secure the deal (*Sunday Times*, 2008). The group apparently paid \$6 million in "bonuses" to the DRC government to secure the rights after DRC Hydrocarbons Minister Lambert Mende cancelled Tullow's concession in 2007. Tullow challenged the decision in the Kinshasa High Court. In April 2009, before the court had ruled, Oil Minister Rene Nkeka announced that Tullow would retain its rights. There was media speculation that the changes related to a power struggle between the ministries, reflecting the power of individuals in post-conflict states.

Tullow maintains that the South Africans, who are awaiting the finalisation of three other claims in the DRC, acted in bad faith, as they knew the oil block was already taken. The latter maintains they did nothing wrong by bidding for a block for which the government had issued invitations. But the most basic due diligence would have highlighted this as a problem and the South Africans took a risk that did not pay off, possibly hoping that the connection with the South African government would help them. The situation suggests that the South African relationships did not extend to all the relevant ministers and that the minister who had awarded the Tullow contract possibly had an interest in the status quo.

The examples above highlight some of the primary problems of investing in the DRC, particularly in long-term projects. Government and political risk is high, contract enforcement lax and the bureaucracy overbearing.

### Other business

Vodacom has had some success in the DRC since it invested \$94 million in 2002 in partnership with a Congolese operator Congolese Wireless Networks (49%). By December 2008, the company had a 38% market share and a subscriber base of nearly four million people. While 16 operators had been licensed in DRC in 2001, by 2009 there were just four main players.<sup>32</sup> However, the company has seen falling revenues because of weak economic conditions, growing competition, rising excise duties and the generally expensive operating environment. It reported an 11,2% drop in average revenue per user in the quarter to

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32 [www.vodacom.com/drc.php](http://www.vodacom.com/drc.php)

June 2009, from \$64 in the same quarter of 2008 to \$39 (IT Online, 2009). New funding arrangements with Congolese Wireless Networks have led to tension between the parties and a legal case may be looming.

Shoprite invested about \$80m to build two supermarkets – one in Lubumbashi and one in Kinshasa. Although the first supermarket was due to open in 2009, Chief Executive Basson says they are looking at starting trading early in 2011 (Reuters, 2009b).

Various mining companies also invest in the DRC, such as Mvelaphanda Holdings, Afriminerals Holdings Group and Metorex. The first two companies are led by political heavyweights Tokyo Sexwale (until recently) and Zwelakhe Sisulu, whose political connections may have helped to secure their entry.

## Case study 2: Mozambique

Mozambique is generally regarded as one of Africa's big success stories. It has used its post-colonial and post-conflict revival to good effect, becoming one of the fastest growing economies on the continent, albeit off a low base. Political stability and huge needs made it a top donor destination, a factor that has been both good and bad for the country. On the one hand, it has unlocked development funding on a large scale and created new economic activity. On the other, it has perpetuated the dependency mindset fostered by socialism and strong government control of the economy.

The effect of Mozambique's proximity to South Africa has been significant. This has, first, allowed the development of megaprojects such as the Mozal aluminium smelter, the location of which was based on its proximity to Gauteng. Second, it has enabled the rapid penetration of goods, services and skills into the country. This contributed to the skewed nature of development in Mozambique – a high concentration of development around Maputo and little in the rest of the country.

Mozambique has been one of South Africa's top three African trading partners for more than a decade. With Maputo a four-hour drive away, South Africans have moved into the market in large numbers, despite the potential language and cultural barriers. A short drive or flight to Maputo makes it easy to explore this market.

It is the site of a number of megaprojects, which have been a big opportunity for South Africa in terms of business linkages, supply and inputs, but also to investors from elsewhere. BHP Billiton's Mozal aluminium smelter project, which is the biggest employer and taxpayer in the country, is still the biggest megaproject. But there are others, such as the Sasol gas pipeline to South Africa, the \$450 million Moma titanium mine and smelter in northern Mozambique, the \$1,5 billion Moatize coalmine being developed by Brazil's Vale in the

north and BHP Billiton's \$500 million Corridor Sands titanium project (Games, 2007). Mozal alone attracted double its investment value in new investment in supplementary services, most of it from South Africa.

Between 1994 and 2008, real GDP growth averaged 8%. Inflation has decreased from more than 50% in the mid-1990s to near single digits today. Mozambique has good investment ratings from international agencies, which have, along with the other positive indicators, boosted investor confidence.<sup>33</sup> As a Heavily Indebted Poor Country (HIPC), it also benefited from major debt write-offs, and reached its HIPC completion point in September 2001. Per capita GDP, although low at \$956 in 2008, is much higher than its mid-1980s level of \$120 (Department of State, 2009).

Mozambique approved 836 investment projects with a value of \$11 billion in the past five years (\$8 billion in 2007 alone), of which \$6,5 billion was foreign direct investment. The ten largest sources of such investment were the United States, Switzerland, Mauritius, the United Kingdom, South Africa, China, Portugal, Tanzania and Canada. In the first quarter of 2009, the country received \$110 million in new investment pledges for 59 projects, most of them in agriculture and agro-industry (Mozambique Investment Promotion Centre, 2009a).

The government, aided by foreign consultants and donors, has done much to improve the economy. Companies say the operating environment has improved dramatically in the past five years, even though the country continues to grapple with its transformation from a centrally planned economy to a liberalised, market-driven system. For example, good laws are often not followed by good implementation and a distrust of the private sector remains part of the official mindset. Government subsidies and most restrictions on exports have been lifted, while operating requirements, licensing, import tariffs and other important areas of the economy have been simplified. A new Commercial Code was introduced in 2006 – an update on an 1888 version in use until then – and many other legal reforms have been undertaken to modernise the economy.

The country rose by five places in the World Bank's Doing Business Index from 2009 to 2010.<sup>34</sup> Its biggest improvement – a jump of 47 places to 96<sup>th</sup> – was in the category of the ease of starting a business, reflecting the government's commitment to the development of small and medium-sized enterprises. It also showed some improvement in the ease of registering property, another headache for both local and foreign investors, but declined in categories such as protecting investors and the ease of obtaining credit.

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33 Mozambique received a B (stable) rating from both Standard & Poor's and Fitch.

34 World Bank Doing Business Index 2010: [www.doingbusiness.org/exploreconomies/?economyid=133](http://www.doingbusiness.org/exploreconomies/?economyid=133)

Despite many macroeconomic improvements, Mozambique still ranked 175<sup>th</sup> out of 179 countries on the United Nations' Human Development Index in 2008. Positive economic growth has failed to translate adequately into broad-based development. Most investment is still in the Maputo area and, despite a few pockets elsewhere linked to megaprojects, the country is moving slowly in terms of poverty alleviation. More than half the government's budget is still supported by donors.

Government is centralised in Maputo, with most planning and budget decisions emanating from the capital. This has presented significant logistical and cost problems for companies operating elsewhere, particularly given high transport costs and transactional delays. However, there has been some attempt by the central government to provide the country's 128 districts with more financial capacity.

This decentralisation will become increasingly important as growth nodes develop around megaprojects, such as Nampula and Tete in the north. The country's "second city" of Beira is not faring well. It has been adversely affected by the economic decline and political turmoil in Zimbabwe. This has affected tourism in Beira, where previously busy hotels are empty. The manufacturing and industrial concerns of the pre-war city are mostly gone. Agriculture, fishing and transport now drive the provincial economy but unemployment is high. South Africans have been slow to take up opportunities in Beira, given the deterioration of the city and its logistics.

The Mozambican economy is reaching a new level with the prospect of commercial oil finds. In 2008, Petronas became the fifth major oil company to be licensed to explore for oil ([allafrica.com](http://allafrica.com), 2008).

The government has been criticised for relying on megaprojects to drive its economy because of claims of limited linkages to the local economy. But there have been many positive spinoffs. For example, Mozal created more than 15 000 temporary posts during the construction of its two phases, 65% of which were for Mozambicans. It buys \$10 million in supplies every month. It spent \$8 million on training for 10 000 people and continues to allocate \$2,5 million a year to training. It has established a training centre that is used by other companies and has extensive community development programmes (Games, 2007). Mozal has also had a significant effect on the secondary tier of the economy through the creation of supplier companies and linkages, thereby increasing the tax base and creating new opportunities for training and skills transfer. The diversity of companies surrounding each megaproject has opened up new opportunities and helped to create a new skills base.

In 2004, the Anti-Corruption Law was passed, mainly to regulate the public sector. It includes defined procedures for the signing of contracts between the private and public sectors, while a Banking Law governs issues relating to money laundering. The President has been

outspoken on the issue of corruption but companies complain that these measures have had little effect; petty bribery is still pervasive.

The *banking* sector in Mozambique is highly regulated and considered restrictive for private operators. The level of interference from the regulator is a big challenge for private institutions. One change introduced in 2007 was the requirement for all non-exporting companies to borrow in local, rather than foreign, currency. The regulations on borrowing make it punitive for the banks to lend to non-exporters in foreign currency. This has resulted in the institutions themselves regulating such borrowing, rather than the authorities. The downsides of local borrowing are higher and less stable interest rates; the absence of hedging instruments; and the fact that returns have to be in local meticals.

Opportunities for large project financing are restricted because of lending caps in the local market and the limited availability of finance. As with most African countries, long-term project finance is generally raised offshore.

*Land* remains a controversial issue in Mozambique and any deals that involve securing land can be problematic. The slow process of registering property means that there can be multiple claimants on land and projects can be held up for years while these issues are sorted out. Mortgage financing is also limited because land, which is owned by the government, is not accepted as collateral for private deals. It is only viable for the banks to look at financing additions and improvements to land once a building is about 80% complete; otherwise, the transaction becomes high-risk, except in the case of regular low-risk clients. Such financing must also be done in the local currency, as noted, which can make it costly for clients.

Access to *finance*, including credit, is circumscribed by restrictive lending policies and is not supported by the legal framework. Getting a court date to deal with issues such as bad debt can take several years, for example, and the conclusion of a case much longer. This has encouraged banks to be conservative in their lending practices.

*Telecommunications* is still a developing area and the country has yet to be fully connected. The sector has been dominated by government monopolies that have stifled competition. War and floods have damaged infrastructure and the high cost of transporting equipment has been a compounding factor.

The problems undermining *agriculture* include inadequate infrastructure, particularly rural roads; limited access to finance, especially credit; a lack of commercial focus; weak knowledge of export markets among local enterprises; and business inefficiency. Most farmers are still engaged in subsistence agriculture. Poor roads and high transport costs restrict the movement of surplus crops. However, commercial operations benefit from a good climate,

the availability of land, access to several ports, a lack of competition in the market, and a surplus of cheap labour.

Companies operating in Mozambique cite excessive bureaucracy as an important concern. The government maintains complex procedures and onerous documentation for simple requirements and business people see its hands-on approach to private companies as a way of getting bribes. Government officials require details of staff leave schedules, salaries and related information, and inspectors regularly visit offices to check that companies are operating lawfully.

A lack of delegation of government authority and the micromanagement of issues by top officials cause delays in delivery, while the frequent changing of rules means companies spend a lot of time to stay on the right side of the law.

Labour laws were eased with legislation introduced in 2007, making the issue much less onerous for employers. One of the main areas of dispute was the generous redundancy packages that employers were forced to pay. The emphasis is still on the protection of the employee rather than the employer, something employers say employees use to their advantage.

The government has been responsive to overtures from the private sector and the President has established an advisory board<sup>35</sup> to assist him in improving the investment climate. The board has focused primarily on tourism to date. The government also strives to improve its rankings on the World Bank's Doing Business indicators, with some success (Mozambique Investment Promotion Centre, 2009b).

However, broadly speaking, the government still has a socialist mindset. For all its impressive strides in improving the country, it seems to have reached a plateau in terms of how much economic control it is prepared to relinquish. A strong donor presence has also constrained an emerging entrepreneurial culture.

But none of these challenges curbed investor interest, which is premised on the country's political stability; large donor inflows; improving business climate; potential for agriculture, tourism and mining; and its proximity to South Africa.

## South Africa in Mozambique

Between 1994 and 2003, South Africa was the leading investor in Mozambique, followed by Australia, the United Kingdom and Portugal. Over this period, Mozambique received

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<sup>35</sup> The Brenthurst Foundation, the Oppenheimer-family think tank, was asked to invite leading business people to sit on the board. They include Jonathan Oppenheimer of De Beers, Lakshmi Mittal, representatives of Vale and others.

51% of investment by South African companies into the SADC region, followed by Malawi, Tanzania and Zambia, with 10%, 9% and 9% respectively (Pingo, 2002).

In 2009, according to figures from the South African Department of Trade and Industry, Mozambique was the biggest destination for exports to the rest of Africa, up from third place in 2008. However, the large trade imbalance is in South Africa's favour: most of Mozambique's exports – primarily aluminium from Mozal – go to a trans-shipment centre in the Netherlands (in nearly 60% 2006).

Investments are in a variety of sectors, from retail, property and services to mining and agriculture. There are a number of South African banks with stakes in local banks, while Standard Bank has an operation in Mozambique.

Vodacom clinched a 15-year licence in Mozambique in April 2002, launching in 2003, in competition with state-owned mcel. Vodacom expects its investment in Mozambique to increase to \$200 million over ten years and the market to grow to 2,0 million users by 2012. In 2008, the company announced it had 1,5 million subscribers and a 40% share of the market (International Telecommunications Union, 2008).

**South Africa-Mozambique trade, 2003 to 2008 (R 000)<sup>36</sup>**

Year	Imports from Mozambique	Exports to Mozambique
2008	3 310	13 497
2007	2 388	9 016
2006	319	6 240
2005	199	6 403
2004	205	5 078
2003	281	5 676

Source: Department of Trade and Industry.

The Maputo Corridor spatial development initiative links Gauteng and Maputo. It generated more than \$3 billion in investment between the two governments, banks and construction companies, and has facilitated increased business between the countries.

Maputo still takes the lion's share of investment; its rapid growth and sophistication clearly reflect the influx of new money and the growing incomes of its residents. Retail

<sup>36</sup> It is not clear what caused the big jump in trade from 2006 to 2007 but several analysts suggested factors such as Sasol's planning for hydrocarbons exploration, increased exports of gas from the Pande field to South Africa, as well as a number of mining, steel, agricultural and building projects.

developments are expanding rapidly, with South African supermarkets such as Game and Shoprite as anchor tenants, and incorporating offices and upmarket apartments. All of this development is premised on rising future incomes.

Poor roads and high transport and shipping costs have kept the cost of doing business north of Maputo high. There is a lack of support services for companies operating in Beira and services often have to be imported from the capital. Transporters reckon the cost of moving a truck from Beira to Maputo is about \$2 000 one-way. Most building materials and other inputs are imported from South Africa.

The size of South Africa's interests in Mozambique does not mean the country is necessarily an easy business destination. Despite huge improvements, Mozambique retains many of the characteristics of a state in early transition partly because of the mindset of the politicians, rather than legislative problems. But South Africans have shown a large appetite for the market, mostly because of the geography and the size of the opportunity. They get comfort from the strong political ties and the investment-friendly attitude of the government. However, they are slow move into other areas of the country because of the logistics, costs and uncertainty of the market. In the northern areas, investors from Zimbabwe, Malawi and other parts of the world are more in evidence.

South Africans are involved in the tourism sector but mostly through small operators. Apart from Southern Sun in Maputo, European and other investors run most big hotels. Despite generous investment incentives, tourism is a high-cost business in Mozambique and most South African operators are small. Air links are poor, particularly beyond the capital, and ticket costs are high. Many resorts are offshore, which raises the cost of travel and facilities; poor infrastructure also pushes up costs, and the length of the country means long travelling times. Other costs are providing potable water in more remote areas, moving building equipment and supplementing power.

South Africans are very involved in agriculture. For example, Tongaat Hulett has large sugar holdings in Mozambique and plans to double its output. As did the DRC, Mozambique invited South African farmers produce food; the two governments have put in place strong political agreements to this end.

The border crossing between South Africa and Mozambique – Ressano Garcia – is one of the busiest in the region. It is the proposed site of a second one-stop border post in the region (the pilot project is at Chirundu on the Zimbabwe-Zambia border) to alleviate serious congestion. Exporters in South Africa complain that, although it is a short four-hour drive to Maputo from Gauteng, cargo trucks can be stuck at the border for a week or more.

South Africans have succeeded in Mozambique because they moved into niche markets ahead of other competitors, they can easily leverage their domestic market, and proximity means they can test the market, making failure less likely. But many companies have been frustrated by the overzealous bureaucracy, slow decision-making by government, labour issues and increasing competition from other South Africans and international investors. The low failure rate is also linked to the tendency among investors to pursue the easiest opportunities.

The main findings of a 2004 report on the experience of South African companies in Mozambique are still relevant today (Grobbelaar, 2004). These include the following:

- The successful implementation of megaprojects such as the Mozal aluminium smelter and the Sasol pipeline had a huge impact on the confidence of South African, foreign and domestic businesses. Both projects highlight the ability of Mozambique to respond to the demands and requirements of large investors.
- Government cooperation and support from both countries were critical to the success of these projects.
- The introduction of South African products to the market and the development of the local distribution network have led to a more consistent supply of goods, greater price stability and higher consumer awareness.
- South African companies engage in strategies of peer learning and coping to overcome logistical bottlenecks. As an example of peer learning, Sasol tailored its model for engagement with the Mozambican government on that of Mozal and its model for community engagement on that of Shell. Coping strategies are evident from moves such as opting to transport goods by sea rather than land and investing in sewerage farms, generators and water boreholes.
- The experiences of smaller and larger investors diverge. The latter are generally insulated from the constraints of the domestic economy because they benefit from fiscal incentives and an exemption from red tape. In contrast, small South African businesses face many of the same difficulties as local businesses, and are more exposed to petty corruption and harassment by officials.
- The impact of South African investment on economic policy, industrialisation, the transfer of technology and the regulatory framework has generally been positive. In many instances, it has set standards of best practice in labour and business.
- South African and other foreign business dominate the small private sector of Mozambique. Careful management of local sensitivities and strict adherence to good corporate governance are required to ensure the continued positive reception of South African investors in Mozambique.

## State-owned enterprises in Africa

South Africa's state-owned enterprises (SOEs), which formed a vital part of the government's economic diplomacy after 1994, have a chequered history in the rest of Africa. Their penetration of African markets was widely hailed as South Africa's contribution to the ideals of the New Partnership for Africa's Development (NEPAD) by using available skills for the development of the continent. In 2002, at the height of SOE investment northwards, then Public Enterprises Minister Jeff Radebe said in a 2002 speech: "South Africa's key SOEs perform development functions beyond our borders through partnership agreements, joint ventures, infrastructure development and business transactions. Their activities in Africa provide a solid platform upon which much of NEPAD's development agenda can be based. South Africans generally should be proud of the extent of the engagement of SOEs in Africa" (Radebe, 2002: no page). He emphasised the need for responsible corporate governance and the development of a culture of "ethical probity".

At the time, Eskom Enterprises had invested about R325 million in a range of telecommunications, electricity supply, consultancy, infrastructure and hydroelectric projects in about 32 African countries, with projects valued at R2,5 billion in the pipeline. Spoornet had agreements with several countries, such as Mozambique, for line rehabilitation and the leasing of locomotives, and South African Airways was expanding its Africa network.

Government and media rhetoric suggested that South Africa was playing a leadership role in reconstructing the continent in line with its responsibility as an African superpower. Foreign policy was linked directly to the efforts of SOEs in various countries.

However, while the expansion of the private sector into Africa has been impressive, the performance of the SOEs has not. This, combined with funding issues and development priorities at home, has resulted in the withdrawal of most SOEs from the rest of Africa.

One problem was the expectation that South Africa, as part of the continent, would have preferential access to contracts and that being fellow Africans would obviate many of the business risks and problems experienced by other foreign investors. However, this was not the case and South African state employees were unprepared for the challenges.

SOEs also did not have the benefit of being aid donors, which would put them in good stead for preferential benefits and enable them to leverage opportunities for the private sector. They lacked the historical ties of former colonial powers who, although the subject of much vitriol in Africa, continue to have strong links with their former colonies.

The aggressive expansion of these organisations, coming in parallel with private sector expansion, quickly elicited resentment about the country's economic power and threatened

the political goodwill engendered by the end of apartheid. South Africa was soon perceived to be operating in its own interests – to pave the way for capital accumulation by its private companies – rather than in the spirit of African solidarity.

A decade later, most SOEs have limited engagement with the rest of the continent. Eskom Enterprises had a good run with deals across the continent in more than 32 countries in the power and ICT sectors. For example, it had a contract with the Nigerian power utility worth \$164 million to string fibre optic cable along power lines but allegations of corruption and moving goalposts scuttled the project. Eskom was involved in power projects up to Mali and Mauritania and had ambitions of a massive trans-Africa power grid. Currently, its remaining ties are with the southern African region through its involvement in the SAPP. Power challenges back home necessitated a pullback from African operations. Challenges in other countries, coupled with increasing demand at home, also drew back Eskom subsidiaries such as Roshcon and Rotek, which had been involved in engineering and other projects across the continent.

Spoornet has had limited success on the continent. It was once involved in railway concessions, management contracts or rehabilitation programmes in 14 countries but many ventures were not successful. Two joint venture concessions in Zambia and Mozambique were cancelled in a short time.

Umgeni Water had a number of successful projects in the rest of Africa. However, one of biggest – a contract in Nigeria in 2001 – was problematic as Umgeni chose to enter this market through Rivers State, then one of the most corrupt of the country's 36 states. The deal collapsed when the state government failed to pay.

Telkom has had patchy success in the continent despite its wide footprint across 38 countries. It quickly spread its footprint by buying Kenyan Internet service provider Africa Online in 2007, which had businesses in seven countries (Telkom, 2007). In the same year, it paid \$280 million for a majority stake in Nigerian telecommunications operator Multi-Links but, in 2009, announced major financial problems in that market owing to high operating expenses, bad debts and the general economic downturn.

The African ambitions of the Airports Company of South Africa also failed to take off. The company says it does not search for opportunities elsewhere but rather responds to these as they arise. It has experienced tough times in negotiating bids in other African countries because of a lack of experience by negotiators there and the failure by many governments to adhere to proper processes. It pulled out of a bid to manage Abuja's new airport in 2006 owing to concerns about information on the viability of the deal (e.g. traffic statistics, tariff regimes and the regulatory framework); the Chinese subsequently won

the contract. In Mozambique, it was in negotiations for nearly four years over the terms of the 15-year concession contract to manage Maputo's airport. An executive said the problems included ignorance among Mozambican counterparts about negotiating such deals, issues of price for the rehabilitation of the facilities, and so on. The deal was finally concluded in 2004 and the funding was put in place. However, after Mozambique's 2004 election, the new minister decided not to go ahead with the project. The company says it will not consider deals in Africa where supply side advisers are not involved as their absence adds to the risk of these deals and the time to negotiate them. It maintains that the appointment of such advisers signals the seriousness of the government about a deal.

South African Airways (SAA), despite its funding woes at home, has been successful on the continent. From 2001, it expanded its African routes in earnest under the guidance of American Chief Executive Coleman Andrews. It is still increasing its network, and introduced flights to Gabon in 2009. SAA has withstood significant competition from carriers such as Kenya Airways and Ethiopian Airlines, and remains a major player in the African skies. However, some of its forays have tarnished its reputation. One of these was the multi-government deal with Tanzania and Uganda to run Alliance Air, a regional airline launched in 1995. The airline lost money and experienced shareholder problems. Its East African partners accused SAA of dominating the arrangement, while the company complained that the partners failed to attend shareholder meetings. The airline collapsed in 2000. It subsequently lost the bid for a stake in Uganda Airlines in what was believed to be internal politics but also a quest to keep SAA out, owing to perceptions of its arrogance and its likely domination of the airline (*Business in Africa*, 2001a, b). SAA also had problems in Nigeria after taking over state carrier Nigeria Airways' route between Lagos and New York in a code share with the ailing local airline. The venture lost money and was terminated in 2002. Two years later, SAA was a frontrunner in the bidding for a core investor in Nigeria's new national airline (to replace the defunct Nigeria Airways). However, it lost out to Virgin Atlantic when it would not agree to promise the Nigerian government 10% of SAA when it privatised. No such demand was made of Virgin but some Nigerians viewed the issue as an example of South African arrogance in business with other African countries (*African Standard*, 2004).

South Africa is also active in the oil and gas sector in Africa through agencies such as PetroSA, which has exploration activities in several countries, and the Petroleum Agency of South Africa, which is working with other state-owned oil companies to market the continent.

Two parastatals with seemingly different experience on the continent are the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA). Both have expanded their operations on the continent and have facilitated, directly or indirectly, South African private investment in Africa.

The IDC expanded its continental reach in 2002 in support of the NEPAD vision. It invests across sub-Saharan Africa, provides credit lines to regional organisations and facilitates the export of South African goods and services. The DBSA's mandate remains confined to southern Africa but it has increased its funding disbursements in this region. In addition to regional projects with a strong developmental impact, it funds improved infrastructure, which supports business.

Many SOEs consider doing business with governments in Africa a high-risk operation. Bureaucracy and large-scale corruption can result in long payment delays, prevent the completion of projects and even scuttle big projects altogether. The fact that SOEs, as government agencies, are dealing with counterpart quasi-official and official organisations may help in obtaining contracts but otherwise seems to make little difference to their success.

Different business cultures have been a factor; being African SOEs may even have worked against, rather than for them. Most other African countries are used to working with foreign companies, mostly from developed countries, and the success of another African country such as South Africa has been resented, rather than celebrated, elsewhere on the continent.

The rapid penetration of Chinese companies and SOEs offering preferential deals backed by large amounts of money is a real threat to the operation of South African SOEs, which do not have this luxury. The government may need to work harder to persuade African governments that South Africa is a partner of choice in state deals.

### **Funding mechanisms**

Companies interviewed for this paper generally had little awareness of funding by development finance institutions in terms of mechanisms, usefulness to the private sector or potential to fund projects and expansion. However, there was interest in understanding a possible new revenue stream. Some of the negative perceptions were about the hassle factor – the idea that there would be many conditions on such funding and a long process to access it – and the involvement of government, which some companies felt might compromise their independence.

SOEs seemed well disposed to funding by development finance institutions: the cost of finance was lower than commercial banks, the institutions had a better understanding of and appetite for risk as lenders of last resort, and they gave comfort to commercial lenders. The longer decision-making time associated with such financing was cited as a downside.

In high-risk markets, companies were more receptive to the idea of having a state agency as partner, given that it could assume more risk. However, most companies are either

self-funding or raise money from many different banks and geographical locations. This allows them to access money more easily in a credit crunch, deal with local shortages of hard currency, and spread their risk.

The difficulty of raising money in the global downturn had not yet manifested itself in the companies surveyed, although a recent project funding conference in Johannesburg heard that development finance institutions such as the European Investment Bank and Proparco had recorded a big increase in funding requests in the wake of the crisis.

Currency risk means companies prefer to reinvest their local currency profits or keep them to offset local costs. In some countries, South Africans may borrow from local banks for local currency costs, although interest rates are generally extortionate. These have to be weighed against currency fluctuations. One large mining company said it raised money offshore as a company, rather than for specific projects, thus lowering the premium for projects in high-risk countries.

Companies also use South African banks, including merchant banks, either alone or as part of a syndicated loan. Banks such as Standard Bank offer lines of credit to operators in the rest of Africa and most South African banks provide trade and project finance on the continent, even where they do not have corporate offices.

Self-funding gives a firm more control and allows it to be self-regulating, rather than directed by funders or given conditions for financing. Where companies are involved in deals funded by clients, they sometimes assist in putting together funding packages to ensure that the deal is not vulnerable to financial problems.

Big companies, in general, seemed unaware of funding from development finance institutions and how they could access it. They did not seem to consider such funding in the range of options open to them. This implies that development finance institutions need to work harder to engage and brief the private sector on what they offer and how they could benefit the private sector in the rest of Africa. Many said they would look at funding from development finance institutions if they had more information on what is offered and how this could be tailored to their needs. All funding options have to be justified and motivated, so the instruments of development finance institutions would have to measure up to other funding options.

Concerns centred on perceptions of long turnaround times in getting approvals, a lack of flexibility, the kind of conditions that may be imposed, and the development mandate, which could constrain the projects and types of business that would qualify for funding.

## Conclusion

As the engagement of South African companies in the rest of Africa matures, there is a better understanding of the problems inherent in the political and business environment. This assists companies in managing risk and maximising opportunities. However, the nature of many African markets is such that risk is still high, particularly in conflict and post-conflict countries.

Conflict countries pose the highest risk. Because of the fluid and erratic nature of governance in such places, companies need to decide upfront whether the opportunities are worth the unpredictability of risks, challenges and ethical compromises. The DRC and Guinea are examples of such countries. The more the resources and the more these are sought after by international investors, the more the arbitrary power of the government.

An added factor in this scenario is the increasing influence of non-traditional investors such as China and India. Investors from these countries may not be concerned about the ethics of the political situation. They can secure lucrative contracts and decrease their risk by linking their business deals to major infrastructure and other funding deals.

Some post-conflict countries remain difficult places for business, notably Angola and the DRC, as they are slow to develop systems and institutions and are still constrained by politics and corruption. However, the business opportunities in these difficult markets are compelling, particularly for South African companies that have the benefit of strong political ties and their proximity to the market.

A country such as Mozambique is still emerging from its socialist legacy, which means many challenges remain. Mining resources brought keen foreign interest in this country and years of international engagement mean it has relatively little risk, which is attractive even for non-resource business. The risk is, again, lower for South Africans owing to their proximity to the market.

Most countries still carry a large degree of risk, whether political, sector or another type of risk. Many of these are not obvious but are related to undisclosed relationships, emerging competitors, low-level corruption, poor infrastructure, inefficient bureaucracies and so on.

Some of the major findings of this paper are briefly outlined below.

- South Africans mainly invest in the following sectors: mining, financial services, ICT, construction (mostly with private sector projects or public-private partnerships backed by international funders), retail, hospitality, property development (often in conjunction with international equity companies and local developers), insurance (mostly in partnership with strong local players) and agriculture (typically large multinationals such as Illovo and Omnia). But South Africans are also doing business in areas such

as management consulting, education, health, advertising and media, although this is usually technical support and training rather than investment.

- Investment has broadly followed two trends. First, non-resource companies opted for investment destinations based on proximity, reasonable logistics and similar business cultures in the hinterland. This was primarily SACU countries but also Zimbabwe, Zambia and Mozambique. Second, they tended to prefer countries with improving governance, political stability, economic liberalisation and greater transparency, such as Zambia, Mozambique, Tanzania, Uganda and Ghana. The trend is slightly different for resource companies, which have invested heavily in Angola, the DRC, Mali and Guinea, in addition to some of the countries listed above.
- While non-resource companies tend to avoid conflict zones, except as suppliers to multinationals, they are quick to look at post-conflict countries for new opportunities. Mozambique was the first because of its proximity but companies are increasingly investing in Angola, the DRC, the Sudan (mostly outside the oil sector), Rwanda and the Republic of the Congo.
- African expansion is driven by the need to find new markets for pent-up capital, expertise and goods; higher returns than in South Africa; rising demand for goods and services; improving economies and reduced risk; political support for investing on the continent; generous investment incentives from African governments; and improving trade facilitation and regional integration.
- South African companies succeed because they have the following: an appetite for risk and risk management experience; the goods and services needed in African countries; historical familiarity with many countries, particularly in the SADC region; similar business culture and language; reasonable transport links; proximity to markets; and a more nuanced view of the continent than many competitors. Being another African country has some advantages, particularly from the strong ties between South Africa and other African governments. However, the downside is that resentments build easily about South African arrogance and companies are under more scrutiny than investors from elsewhere.
- South African companies, agencies and institutions are involved in all sectors in some way. They have even engaged in the small enterprise sector: a South African manages a large informal covered market in Lagos, for example. Likewise, small and medium-sized enterprises in South Africa increasingly link with their African counterparts through the Department of Trade and Industry and other government agencies. Even though South Africans are relatively small players in the global oil and gas picture, they are suppliers to the oil multinationals. There are also increasing links between institutions in health and education.
- Entry strategies have typically been greenfield but equity and technical partnerships are becoming the norm because of the benefits of rapid critical mass, sound local knowledge, established business networks and complementary services. There are some

downsides but companies have learned that rigorous due diligence is required before taking on a partner. Another common entry strategy is as a supplier to a multinational company or through privatisation or asset sales.

- The main challenges for South African companies in the rest of Africa are: infrastructure deficits, particularly regarding power; high operating costs related to infrastructure, inefficiencies and shortages; currency volatility and limited availability of foreign exchange; regulatory and tax uncertainty; supply chain difficulties; corruption; lack of institutional structures; weak domestic businesses and suppliers; increasing competition, particularly from Asia; limited protection of property rights; violation of contract agreements; visa and work permit problems; and ineffective legal systems.
- Conflict zones have more challenges in addition to the above: reputational risk; nationalisation of assets; a premium on finance; a lack of state utilities and services; skewed macroeconomic fundamentals; stifling bureaucracy; high-level corruption; high crime levels and security risks for staff and assets; increased demand for bribes; difficult supply chain and logistics; escalated political risk; and high cost of goods.
- In post-conflict countries, many of these problems linger but there are advantages such as the goodwill of new governments towards foreign investment; the ease of negotiating generous investment incentives; early-to-market advantages; large donor inflows and donor-linked project opportunities; increased demand for goods and services; improved funding options; and lower cost of finance (compared to conflict states).
- The primary risk management strategies include: identifying risk before entry; having ongoing reviews; having dedicated risk staff or supplier companies; building relationships with politicians (important in the absence of institutions but also sometimes difficult to manage); establishing local partnerships and offices; having sound entry strategies; understanding sector risk, not just sovereign risk; extending the corporate governance principles of home operations to cross-border affiliates; avoiding corruption; learning to work local systems effectively; seeking detailed information on markets; and buying risk cover.
- Although many South African companies, including a large number of listed firms, have invested in the rest of Africa, many have not. This is based on several factors, including: a perception of risk being bigger than opportunity; the attraction of markets further afield such as India, Australia and South America; tight margins that preclude putting risk capital up for uncharted territory; a belief that African markets are too small and poor to matter; and the need to build critical mass in the local market.
- The South African government plays an important role in supporting business on the continent by forging relationships with their African counterparts, negotiating investment protection agreements, having a diplomatic presence and arranging trade delegations to African states. SOEs have largely pulled back from the continent because of problems in their local corporate structures and markets. They met with limited success in difficult African markets, already well patronised by Western – and increasingly

Asian – SOEs and companies. Eskom is an exception by virtue of its involvement in regional power structures while SAA continues to dominate aviation – although it is facing strong competition from Kenya Airways, Emirates and Ethiopian Airlines.

- South African companies tend not to use funding from development finance institutions and know little about it. Large companies are generally self-funded or fund their operations through international financiers and syndicated funding involving local banks.

South Africa's engagement with Africa is a double-edged sword – countries want the benefits of South African investment but appear to resent the fact it comes from another African country, rather than embracing this. Perception issues, rather than outright risk, may be one of the biggest challenges that companies face on the continent.

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## Annexure: South Africa in Africa: A Background

Successive post-apartheid governments have prioritised trade and political ties with the rest of Africa to facilitate opportunities for South African companies and underpin the country's diplomatic initiatives for African development. In 2008, for example, Department of Trade and Industry Director Tshediso Matona said: "South Africa has been part of initiatives to stimulate regional economic development and we are already starting to see the positive outcomes of these initiatives with faster economic growth taking place on the African continent for the first time in many years. For South Africa, trade in Africa now exceeds trade with the United States and we anticipate that Africa will be the investment destination of choice for the next 15 to 20 years" (Matona, 2008).

South Africa's total trade with the continent grew by about 659% between 1994 and 2008 (Grobelaar & Besada, 2008). It has a large trade surplus with African countries, bar a few oil-producing states such as Nigeria, Angola and Congo, from which it imports petroleum products. The trade imbalance has caused friction politically and the South African government has committed itself to improving the balance; it has yet to spell out measures to do so. The cause of this politically loaded situation is the sophistication of South Africa's own economy combined with the lack of industrial and agricultural development in other African countries, as well as the high costs of doing business, which makes products uncompetitive.

Africans accuse South Africa of using non-tariff barriers such as sophisticated rules of origin to inhibit imports from the rest of Africa; South Africa argues that the rules prevent dumping (Imari Development Austral, 2004). Informally, African companies complain that South Africa uses its greater expertise in trade negotiations and its efficient legal system to keep out competition from the rest of Africa.<sup>37</sup> Many African countries believe that South Africa, given the imbalance of its trade in the region, should offer preferential trade deals to its African partners.

There is also resentment about South Africa's trade diplomacy, which involves trade agreements with major international partners without the region, such as with the European Union and IBSA.<sup>38</sup> The situation was exacerbated by the conflict between South Africa and its trade partners over the European Union's Economic Partnership Agreements.

South African politicians, in response to the competition from the East, have made much of the fact that South Africa can provide African solutions for African problems. They also stress that this country has many things to offer other African countries beyond investment, such as skills training, exchange programmes, capacity building and models of development.

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37 These allegations have been made for years in interviews with African companies on the issue of South Africa's trade in Africa.

38 The IBSA Dialogue Forum aims to promote cooperation and information flows between the three member countries – India, Brazil and South Africa – and to improve trade flows between these emerging markets.

Investment, too, has increased and although the figures are not entirely reliable, the South African Reserve Bank estimated that investment grew in real terms from about \$1,2 billion (R6,1 billion) in 1996 to just over \$4 billion (R24 billion) in 2001 (Grobbelaar & Besada, 2008). Since then, investment has shot up; it could even be double this amount by 2009, given the large number of investments in countries such as Nigeria, the DRC, Kenya and Angola. These include the following: Phase II of the Mozal aluminium smelter (over \$1 billion), the Sasol pipeline in Mozambique (\$1,2 billion), Vodacom's entry into the DRC (\$94 million), MTN in Nigeria (\$395 million in 2008 for its five-year expansion plan); Nampak in Angola (\$75 million) and Nigeria (\$28 million); the merger of AngloGold with Ashanti Goldfields of Ghana (\$1,4 billion), Standard Bank's acquisition of IBTC in Nigeria in 2007 (\$525 million), and Shoprite in the DRC (\$80 million),<sup>39</sup> among many others.

Recorded figures focus on outflows from the continent and are likely to include transactions by South African multinationals based abroad. The United Nations Conference on Trade and Development (UNCTAD) estimates total outflows of foreign direct investment from Africa at \$8,2 billion, mostly from South Africa. Although the figures are not specific, UNCTAD recorded the general flows of trade and investment from South Africa. Since the end of apartheid in the early 1990s, South Africa has emerged as a powerhouse for outward foreign direct investment, with a strong focus on the services sector: communications, finance, electricity, trade, transport and storage. Some South African transnational corporations are also engaged in the primary and secondary sectors (UNCTAD, 2007).

South Africa's foreign direct investment in the rest of Africa has been vital for the region, accounting, for example, for up to 40% of the inward foreign direct investment stock in Botswana in 2003. In 2004, the government of South Africa abolished limits and eased foreign exchange restrictions on its transnational corporations investing abroad. Since then, transnational corporations from the country have carved a strong presence in virtually all sectors within Africa and abroad. The expansion is also attributable to South Africa's robust economy, characterised by a high degree of industrial development and technological capability at the corporate level relative to other countries in the region. The country's strategy of encouraging outward foreign direct investment is important for the development of other countries in Africa, through increased investment in their economies (UNCTAD, 2008).

To encourage investment on the continent, the national Treasury, in the 2005 Budget, lifted the maximum amount that companies could invest in Africa without prior approval from R750 million to R2 billion. The suggestion of further easing foreign exchange controls in the 2009-10 Budget was apparently partly in response to the demand for investment into the rest of Africa, possibly as a way of helping the South African economy to recover.

South African investment has changed the pattern of overall investment in Africa, which was typically in oil and gas (Shell and Exxon Mobil), financial services (Standard Chartered, Barclays and Citigroup) and consumer goods (companies such as Unilever and Heineken).

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<sup>39</sup> Shoprite's African operations showed turnover growth of 39,9% and trading profit of more than 50%, contributing 13,6% to total turnover in the financial year to June 2009 (Mathe, 2009).

Although there has been investment into some of these sectors, it also reached sectors such as ICT, property, advertising, insurance, hotels, retail, packaging and media.

South African companies kick-started the renewed interest in Africa by highlighting its opportunities. They reduced the risk through the size and scale of their investments and the measurable return on investment, which has attracted interest from other regions. They also helped to improve lifestyle choices in African capitals. Not only did some of the high-profile successes highlight the opportunities in this market of just under a billion people but Asian companies are also looking at South African companies as partners in their own expansion plans.

#### Top ten export destinations in Africa, 2005 to 2009 (R billion)<sup>40</sup>

Country	2005	2006	2007	2008	2009 to June
Mozambique	6,40	6,24	9,01	13,50	7,03
Zimbabwe	7,48	7,41	8,50	14,08	6,26
Zambia	5,44	7,98	10,08	16,35	5,90
Kenya	2,98	3,24	4,60	5,93	4,03
Angola	3,53	4,74	5,50	7,44	3,45
Nigeria	3,40	4,00	4,83	7,88	3,06
DRC	1,81	2,55	4,44	8,27	2,41
Tanzania	2,75	2,76	2,74	4,17	1,84
Malawi	1,64	1,68	2,17	3,84	1,80

Source: Department of Trade and Industry.

#### Top ten sources of imports from Africa, 2005 to 2009 (R billion)<sup>41</sup>

Country	2005	2006	2007	2008	2009 to June
Nigeria	4,16	9,28	12,48	15,74	5,75
Angola	1,89	2,47	11,58	22,35	5,12
Mozambique	0,20	0,32	2,38	3,31	1,92
Zimbabwe	3,13	4,63	6,03	6,53	0,77
Zambia	1,30	1,84	2,49	2,38	0,65
Botswana	1,92	1,80	1,54	1,37	0,45
Liberia	–	1,14	0,03	0,18	0,45
Gabon	0,68	1,15	0,18	0,17	0,41
Mauritius	0,17	0,26	0,44	0,54	0,28

Source: Department of Trade and Industry.

<sup>40</sup> The rankings are based on 2009 figures but the same countries have been in the top 10 in the past few years.

<sup>41</sup> The rankings are based on 2009 figures.

The move north of the Limpopo was also driven, to some extent, by the government, particularly in ensuring the success of some of the strategic investments into Africa. The building of Sasol's Mozambique pipeline, for example, was preceded by a range of bilateral agreements aimed at ensuring a supportive regulatory framework for a deal of this magnitude (Grobbelaar & Besada, 2008). The political relationship also underpinned the development of a successful public-private partnership, the Maputo Corridor, which links Gauteng with Mozambique.

The timing of economic reform in Africa coincided with South Africa's own political freedom, which made northern markets more attractive and more welcoming. South Africa's liberation-era ties were leveraged to boost business and South Africa benefited from its status as a post-liberation state and an economic power. This was cemented by the launch of the New Partnership for Africa's Development (NEPAD) in 2001. Many bilateral agreements were signed or updated, and binational commissions and joint ministerial commissions were established with countries such as Nigeria, the DRC, Zimbabwe, Algeria, Senegal, Equatorial Guinea, Gabon, Ghana and many other states.<sup>42</sup>

These links are valuable because they have resulted in the signing of many cooperation agreements, which include investment protection and double taxation agreements. However, it is hard to get information on what exactly has been signed and how companies can use it – the relevant government departments can be quite secretive about the information. Information is often issued on an ad hoc and need-to-know basis.

Strong political relationships backing business in African markets are a comfort for companies and a channel for them to use when there are problems. However, it is not clear how effective the investment protection agreements are as they can be undermined by political concerns. Traditionally, such agreements just protected private investors operating in other legal and sovereign jurisdictions. But the South African government, which takes into account the needs of the host country in terms of development, regional trade arrangements and black economic empowerment, is currently reviewing some of these arrangements (Erasmus, 2009). South Africa's need to address the perception of being the regional "bully" because of the size of its economy may make it less effective in protecting investors.

South Africa's Department of Trade and Industry arranges and supports business missions. The Department provides partial funding for accommodation and travel to potential exporters and investors through the Marketing and Investment Assistance scheme.<sup>43</sup> State visits have been used to foster business ties and are usually accompanied by business delegations.

<sup>42</sup> See the Department of Foreign Affairs website for full details: [www.dfa.gov.za/docs/2006pq/pq616.htm](http://www.dfa.gov.za/docs/2006pq/pq616.htm)

<sup>43</sup> See [www.thedti.gov.za/exporting/SSA\\_Project\\_Funding\\_Guidelines.pdf](http://www.thedti.gov.za/exporting/SSA_Project_Funding_Guidelines.pdf) for details of the sectors that qualify for the scheme.

One of the largest delegations to date – more than 100 companies – accompanied President Jacob Zuma on his August 2009 state visit to Angola, the first such visit ever (*Mail & Guardian online*, 2009).

Ultimately, business tends to go where it sees opportunity and the political linkages play only a part in facilitating interest in certain markets. But, broadly, the new South African political dispensation created a more welcoming climate for business, and treaties and agreements were signed with a view to facilitating investment. These include investment protection agreements, double taxation, visas and so on.

Unfortunately, the xenophobic attacks against foreigners in 2008, and the failure by the South African government to act swiftly and decisively against the attackers, allowed resentment against South Africa to fester. While this may not affect business deals directly, it has increased the hostility that had already built up around the success and market domination of South African companies on the continent.