

**Results of a Survey Conducted by
Bateleur Research Solutions
Amongst Companies Doing
Business in Africa.**

Commissioned By:
The Nepad Business Group

Sponsored By:
Eskom and ABSA

Nepad:
Creating Opportunities for You

10 June 2003

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EXECUTIVE SUMMARY

South African companies are involved in various projects throughout the African continent. Countries that have the most the involvement from South African companies are in no order Angola, Botswana, Ghana, Kenya, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

Whilst almost all respondents indicated that doing business in Africa is not easy, they acknowledged that potential for good returns outweighs the difficulties of doing business in a continent that is in transition.

The common frustrations and challenges facing South African companies conducting business in these countries include:

- Poor or a lack of infrastructure (in particular transport and telecommunications);
- Corruption (at both government and private business levels);
- High costs involved in conducting business in the various African countries (high start-up costs, including skills training);
- High travel costs and irregular flights into Africa;
- Difficulty in obtaining visas and expatriate quotas;
- High corporate taxes;
- Currency fluctuations;
- Language and culture barriers;
- Government or political interference in decision making;
- Inconsistent or limited sector specific policy making.

The common attractors and encouraging aspects attracting the South African companies to conduct business in Africa are:

- The growth potential of the various African countries due to their emerging markets;
- The large size of many African markets;
- The political and economic stability of various African countries;
- The emerging democracy/ African optimism;
- The willingness of the various African countries to embrace new business; approaches and to conduct business with South African companies;
- The openness to Foreign Direct Investment;
- The fact that many Global/Multi National Corporations are already operating in the various African countries.

It was indicated by the majority of respondents that Corporate Governance does exist in some form or another in various African countries. However the degree of Corporate Governance varies from country to country. This was attributed to the fact that many of the African economies are in a transitional phase, and are still heavily under the influence of the various heads of state and are still relatively unsophisticated markets. Respondents also commented that in general, the various African countries do have acceptable levels of adherence to Accounting and Audit Standards. This is probably due to the influence of the large number of Multi National Corporations operating in Africa.

In order to improve or enhance Foreign Direct Investment in the African continent, respondents indicated that the African countries need to:

- Create more stable political and economic foundations;
- Create better economic policies;
- Combat the negative effects of corruption;
- Remove excessive governmental controls, like the difficulty and expense of getting licenses to operate in various sectors;

- To better utilise the funds arising from existing investments to further grow their country's infrastructures and skills.

There are 3 clear messages arising from the survey:

1. The Nepad Business Initiative needs to change business leader's perceptions that it is a politically run initiative.
2. The Nepad Business Initiative needs to include other countries/regions so that it does not acquire the perception that it is a South African dominated initiative. Business leaders from all over Africa need to be involved in order to make this initiative a success. The incorporation of these other African countries will further encourage the creation and maintenance of stable economies in Africa, and will encourage African leaders to rise to the challenge of creating economic wealth.
3. The Nepad Business Initiative has the potential to unlock the development opportunities that exist in Africa. Nepad can enable this by living up to its objectives and standards and by creating actionable agendas that identify and prioritise Nepad projects.

BACKGROUND

The research was commissioned by the Nepad Business Group to understand what South African business leaders attitudes are towards the Nepad initiative, and to determine the types of issues these business leaders encounter when conducting business in Africa. The survey was sponsored by Eskom and ABSA.

The purpose of the survey was to uncover from various business sectors, the projects, challenges and opportunities they experience in conducting business on the African continent.

METHODOLOGY

We conducted the research amongst 36 South African business leaders operating in various industry sectors such as:

- Energy
- Transport
- Financial services
- ICT (Information, Communication and Technology)
- Water
- Infrastructure
- Resources
- Accounting
- Retail
- FMCG (Fast Moving Consumer Goods)
- Advertising
- Leisure

From the 36 questionnaires that we sent out to the selected business leaders, we received 27 replies. In viewing the results of the study one must bear in mind that due to the small number of business leaders interviewed the results that follow are only indicative of the attitudes of South African business and not definitive.

THE INDUSTRY SECTORS IN MORE DETAIL

Due to a poor response rate from certain industry sectors some of the information presented below is merely an indication of the projects, challenges and opportunities that are experienced by the industries concerned.

1. Energy

The South African Energy sector is currently involved in various projects throughout the African continent.

Some of the frustrations that the Energy sector has experienced while conducting business in the various African countries, are:

- The impact of regional conflicts and wars;
- The high cost of travel and accommodation;
- Lack of or poor infrastructure;
- Corruption;
- The lack of local partners and qualified staff;
- Inadequate decision-making processes of government;
- The lack of integrated economic policies;
- Poverty.

Factors such the following have encouraged the South African energy companies to conduct business in various African countries.

- Potential business opportunities;
- Political stability of certain African countries;
- Political commitment to the improvement of the overall state of the country;
- The desire of various business leaders and up and coming executives, to improve existing conditions in their countries and a willingness to learn.

The challenges which this sector have faced while conducting business in Africa are:

- The lack of supporting infrastructure;
- The lack of local investors and skilled manpower;
- Political instability;
- The underdeveloped financial systems;
- The lack of appropriate legislation and regulatory frameworks.

2. Transport

The South African Transport sector participates in a number of projects throughout the African continent. particularly in Southern African, Central African and Eastern Africa, as well as a couple of countries in Western Africa.

Some of the frustrations experienced by this sector are:

- The lack of expertise/qualified staff;
- The high cost of travel (especially by air);
- The unfair advantages given to non-African consultants;
- The undue influence from non-African consultants proposing unaffordable first world solutions;
- Overly complex bureaucracy;
- High duties and taxes.

Various factors attracted South African Transport companies to conduct business in Africa. Some of these being:

- The demand for their services;
- The potential of stable financial returns in the future;
- Good growth opportunities;
- Political stability.

Some of the positive aspects of conducting business in Africa have been:

- The lowering of trade barriers to become more part of the global economy;
- The commitment of politicians and government officials to change;
- The support of various politicians has made it easier for potential investors to get involved in projects;
- The development of regional trading areas and the unification of regulations between countries.

The challenges which the South African Transport sector face are predominantly:

- Corruption;
- Political and economic instability;
- Slow decision making processes;
- Language barriers;
- Foreign exchange shortages;
- Indecisiveness of certain governments regarding the privatisation of state assets.

3. Financial Services

The financial institutions interviewed for this survey indicated that they conduct various transactions through the African continent. The scope of these transactions varies from retail, wholesale, trade finance, project finance as well as owning shares in various other African banks.

Some of the frustrations experienced by this sector when conducting business in other African countries are:

- Difficulties in obtaining work permits and visas;

- Lack of sound regulatory frameworks or differences of interpretation regarding certain regulatory requirements;
- Lack of banking infrastructures;
- Language/cultural barriers.

The economic viability and the investment opportunities apparent on the African continent have encouraged the South African financial institutions to conduct business in Africa.

The South African Financial Services sector commented on positive aspects regarding business in Africa:

- The willingness of the governments and population to learn;
- The goodwill shown towards South African companies;
- The commitment towards political and economic stability.

The primary challenges experienced by this industry sector are:

- The differences in culture;
- Corruption.

Other challenges also mentioned were the lack of skilled and trained labour, the lack of infrastructure and technology, and the state of the legal systems in many of the countries being below standard.

4. ICT (Information, Communication and Technology)

NOTE: Due to the poor response level from this sector, and the incompleteness of questionnaires some of the views described below are not necessarily representative of the ICT sector.

South African companies operating in the ICT sector are currently conducting projects in the following African countries: Lesotho, Tanzania, Democratic Republic of Congo, Swaziland, Uganda, Rwanda, Cameroon and Nigeria. These projects have been in operation from between one and eight years.

The main frustration/challenge, which this sector has experienced while conducting business in Africa, is the undefined regulatory frameworks/structures that make it difficult for companies to:

- Understand the objectives and constraints of privatisation;
- Understand and manage the inherent risk involved.

Other comments made about the challenges experienced by this sector are:

- The lack of or poor infrastructures in African countries;
- The difficulty in acquiring and managing project funding in Africa;
- The difficulty in developing sound business plans, as some countries are willing to liberalise their markets, but do not take the necessary steps to ensure that the regulatory, legal and commercial environments are conducive to this purpose.

The main attractors that have encouraged South African ICT companies to conduct business in African countries are the demand for their services, which in turn provide the South African companies with the opportunity for business growth.

5. Water

NOTE: Due to poor response rates from this sector the views detailed below are not comprehensive enough to provide insight into the opinions and attitudes of business leaders in this industry.

The lack of funding, an undefined regulatory environment and difficulty in logistics are some of the frustrations that are encountered by the Water sector when conducting business in Africa. However commitment from the “new breed” of politicians and the willingness expressed by specific African countries to accept new approaches, encourage this sector to develop business initiatives in Africa.

6. Infrastructure

The South African Infrastructure sector operates predominantly in countries in Southern Africa and Central Africa as well as a couple in North Africa. These operations have been in existence for between two and twenty years.

While conducting business in the various African countries, the main difficulty experienced by this sector has been in the receiving of payments for services rendered. Strong government interference in the economy, slow decision-making and corruption are some of the other difficulties experienced by this sector.

Factors such as economic and political stability, a warm and receptive population, growth in Public Private Partnership and visible efforts to attract investment, have encouraged the infrastructure sector to feel optimistic about conducting business in Africa.

7. Resources

The South African Resource sector have operated in Africa for the last 95 years in the mineral rich areas of Africa, such as Angola, Botswana, Gabon, Guinea, Malawi, Namibia, Tanzania, Zambia, and Zimbabwe.

Some of the difficulties which this sector experience in operating in these countries are:

- The lack of infrastructure;
- Political and governmental interference, such as:
 - The lack of stability of legal frameworks
 - The lack of transparency and the lack of predictability of legislation
 - Politicians influencing business decisions
 - Legal obstacles regarding ownership and mining/ property rights
- Corruption;
- High tax rates;
- Health issues such as HIV/AIDS.

The location of viable mineral deposits with critical mass, political stability and a favourable investment environment are some of the factors that have attracted this sector to conduct business in various African countries.

8. Accounting

The South African Accounting sector operates in many of the countries in Africa.

Common frustrations experienced by the companies within the Accounting sector are:

- Corruption;
- Poor communication;

- Lack of infrastructure
 - In particular lack of flights and road structure.

Other frustrations experienced are the lack of clear guidelines on policies, the high costs involved in conducting business in those countries, and attracting and retaining high quality professional staff.

The African continent offers the Professional Services Firms operating in South Africa an opportunity to increase their market share due to the lack of local Professional Services Firms, and the large number of Multi-National Corporations operating in the various African countries.

Certain aspects that make the SA accounting sector feel optimistic about conducting business in the various African countries are:

- Entrepreneurship;
- New developments on the West African coast;
- The privatisation of state assets;
- The warm receptive population of the African countries;
- Political stability of many conflict areas, which should encourage growth in these areas.

9. Retail

NOTE: Due to poor response levels from this sector and the incompleteness of questionnaires, some of the views described below are not necessarily representative of the Retail sector.

The South African Retail sector has been involved in business projects in Namibia, Botswana, Lesotho, Swaziland and Zimbabwe for between five and fifteen years.

“Red tape” / bureaucracy of the various countries is the common frustration/challenge experienced by the Retail sector when conducting business in African countries. Other frustrations/challenges mentioned, are the poor infrastructure of the countries and the threat of being barred from the countries when experiencing labour disputes.

The close proximity of the SADC countries, and their demand for formalised retailing, has attracted South African retailers to expand and conduct business in these countries.

10. FMCG (Fast Moving Consumer Goods)

The South African FMCG sector has the most involvement in Africa, as well as the longest operating period of the 12 industry sectors researched.

The frustrations that this sector has experienced while conducting business in the African continent, are primarily:

- Poor/inadequate infrastructure;
- Corruption;
- Lack of security and high levels of crime;
- Inefficient government bureaucracy and limited investment opportunity due to inconsistent economic policy making;
- Financial frustrations due to unstable currencies, high taxes and tariffs and foreign exchange shortages;
- A generally expensive business environment, within which to operate.

Other comments made regarding frustrations experienced are an increasing dependency on the private sector for employee welfare, limited market size, and low levels of local skills.

A large young population, emerging democracy and the prospect of economic stability, which in turn will increase the growth in consumption expenditure, are the major factors that have attracted the FMCG sector to African countries.

Challenges experienced by this sector are very country specific: Poor infrastructure; volatility of exchange rates; corruption; and uncertainty about the legal systems are a few of the challenges mentioned by the business leaders in the FMCG industry.

11. Advertising

South African Advertising agencies conduct business in a number of African countries, predominantly in Southern and Central Africa, as well as a few countries in West Africa. They operate in these countries in order to provide a service to their clients companies operating in these countries. Advertising agencies have operated in these African countries for between two and eleven years.

Common frustrations experienced by the advertising agencies conducting business in African countries are:

- Currency fluctuations;
- High import duties;
- Inconsistent telecommunication services;
- Payment delays;
- High taxes.

Other frustrations are:

- High travelling expenses;
- Economic instability of certain regions;
- South Africans are viewed with suspicion and are accused of arrogance;
- Hassles getting visas;

- The different ways in which each country conducts its business.

A willingness to work with foreign companies as well as to teach foreigners their approach to business has made the Advertising agencies optimistic about conducting business in the selected African countries. Encouraging better economic climates, emerging African optimism as well as interest from global companies in Africa has made the Advertising agencies feel hopeful about conducting business in the African continent.

Cultural and language barriers as well as strict government control, fraud and war are some of the challenges experience by the advertising agencies conducting business in African countries.

12. Leisure

Currently most of the projects being conducted by the South African leisure industry are generally in the Sub-Saharan African countries such as Tanzania, Zambia, Zimbabwe, Malawi, Namibia, Angola, Mozambique, Kenya, as well as a couple of countries in West Africa such as Ghana and Nigeria. The length of the time in which the industry sector has invested in these countries varies from one to eight years.

The primary obstructions inhibiting success in these countries are:

- High import duties, particularly on goods manufactured in SA;
- Difficulty in obtaining work permits for expatriates;
- Corruption, especially by custom officials.

Other hindrances experienced are:

- The lack of investor information available in these African countries;
- The political instability of certain African countries;
- Complex regulatory requirements of selected African countries;

- The lack of local funding;
- Irregular flights into Africa and the cost of these flights.

The main draw card for the South African leisure industry to conduct business in the African continent is the general lack of quality hotels in most African countries, and this provides companies in the leisure sector an opportunity to expand and add value to their brands.

The South African leisure industry commented on a few positive aspects of conducting business in specific African countries, these include:

- Talk regarding free trade in Africa;
- The fact that these African countries welcomed new investment into their country;
- The focus on improving political stability.

The challenges experienced by the SA leisure industry appear to vary from company to company but some of the comments made are:

- The lack of transparency;
- The high interest rates and inflation which certain countries experience;
- High import costs;
- The lack of infrastructure.

CONCLUSIONS

- There are many common denominators across industry sectors and countries in Africa; both in terms of positives and negatives.
- There is a generally optimistic outlook with regard to doing business in Africa – countries are seen to be willing to adopt global economic and political practices.
- The benefits of doing business in Africa outweigh the challenges and frustrations faced.
- Nepad must give clearly defined and actionable sector guidelines, as to how these business initiatives can be further developed to enhance Africa's role in the global economy.

Footnote: This survey was conducted under severe time constraints amongst key South African business leaders. Of the 36 executives interviewed, 27 responded before the deadline.

It is hoped that this document will lay the foundation for future research amongst a far bigger spread of companies active throughout Africa.

If you have any comments please email them to the following address: rentiav@jse.co.za