ZAMBIA

Budget (2004)
(Kwacha 1000 = £0.11/$0.20/€0.16)

A desire to reach the HIPC point characterises this austerity bill.

Zambia’s Finance Minister Ng’andu Magande on February 6th presented to parliament a fiscal budget under which the government plans to spend kwacha 8.3 trillion (US$1.8bn) in 2004 or approximately 33% of the Gross Domestic Product.

Unlike in previous years “the premise in mind, in the 2004 budget . . . has focused expenditures on areas that will directly involve and benefit the people and curb waste within the public sector,” said Magande, who is also in charge of national planning.

“Only by observing prudence in expenditure can the limited resources be directed at priority investments, which will reduce poverty and create wealth,” he said.

Of the K8.3tn budget K5.2tn (about US$1.1bn) or 63.5% will be domestically raised from tax revenues and domestic borrowing while co-operating partners are expected to provide K3.1tn (US$640.3m).

In 2003 the then minister of finance, Emmanuel Kasonde, had presented a fiscal budget of K6.9tn (about US$1.4bn) or 36.1% of the GDP.

Out of this, K3.9tn (about US$836.8bn) came from domestic revenues while K2,956.5bn (about US$622.4m) or 42.7%, was supposed to come from external partners.

However, the anticipated revenues from external partners failed to materialise after the Zambian government abandoned a poverty reduction budget agreed with foreign donors.

“Out of a programmed amount of US$111m only US$56.8m, representing 50.5%, was received,” Magande lamented.

The low level of expected programme
financing “was a result of some donors withholding disbursement due to the fact that Zambia did not reach agreement on a new Poverty Reduction and Growth Facility programme” with the International Monetary Fund (IMF) and the World Bank.

Magande clarified that though donors had declined to give Zambia balance of payments support, Lusaka had continued to receive significant resources for capital projects—most of which were related to road building, social services infrastructure, capacity building and combating the HIV/AIDS pandemic.

Zambia, whose debt stock stands at US$6.5bn, spent US$113.1m in debt service in 2003. It projects to pay K541.7bn in 2004, of which K349.7bn is for principal while K192.2bn is for interest payments.

Lusaka’s optimism of having US$3.8bn written off by the end of 2003 did not materialise because the government failed to reach the completion point of the Highly Indebted and Poor Countries (HIPC) programme by year-end.

“The country is now under a Staff Monitoring Programme (SMP) which will be assessed sometime in April. Depending on the performance, the IMF will consider and approve a new PRGF,” Magande said.

Wandering in the Wilderness

The government proposes to spend about K26bn on the Constitution Review Commission (CRC) and elections and a further K12bn for “unforeseen” expenditures. Magande said government has set aside a small contingency reserve of K12bn to cover unforeseen and unavoidable expenditure.

On the Poverty Reduction Programmes (PRPs) about K521.7bn has been proposed and a further K56bn, slightly higher by K6bn from 2003’s amount, for the procurement of maize from small holders farmers for the strategic food reserves.

Government will also spend about K70bn on the continuation of the fertiliser subsidy programme but the level of the subsidy will be reduced to 25%.

A further K119.6bn has been provided for financial restructuring of some parastatals, which includes the further capitalisation of Nitrogen Chemicals of Zambia and Kafue Textiles of Zambia.

Other allocations include the Public Service Pensions Fund K24bn to reduce the indebtedness of K263bn accrued as a result of unpaid pensions contributions over the

years. The commercialisation of agricultural lands for farm block, K14bn, out-growers schemes for tobacco, coffee, cotton, paprika and cashew nut K1.5bn, animal control disease K2bn, livestock re-stocking programme K2bn.

Under the social sector provisions the Basic Education Sub Sector Investment Programme (BESSIP) will receive K6.5bn with K13.6bn for infrastructure development and Education support services K3bn.

In the Health Sector about K3.8bn is allocated for the Roll Back Malaria programme. Child Survival/Child Health will receive K4.7bn, procurement of essential drugs K2.8bn and training schools rehabilitation K3.3bn.

Mr Magande stated that of the K354.7bn allocated for domestically financed non-PRP capital projects that K75bn will go towards the road fund, K80bn for the non PRP road/infrastructure projects, K17bn for defence procurement, K10bn to the Zambia Police, K4.5bn for Constituency Development Fund (CDF) and K1bn for the house of chiefs.

However provisions for recurrent Departmental Charges and other grants would be constrained in 2004 to K558.9bn and K507.4bn respectively due to the need for government to contain the 2.0% domestic borrowing.

In winding up his presentation, Mr Magande said now is the time to act to redeem the country from the shame of being one of the poorest countries but which is immensely endowed with natural resources and beauty, “Our motherland must not continue to bleed and weep from loss of her daughters and sons due to disease, ignorance, hunger and migration. I call upon each one of the Honorable members and every Zambian citizen to declare that we have had enough share of wandering in the wilderness,” said the Finance minister.

Germany’s Ambassador to Zambia Dr Erick Kristof has said that the donor community is ready and willing to fund Zambia’s national budget. The Envoy said so long as the principles of transparency and accountability were observed the donor community would continue to support Zambia. He, however, said he was happy that the 2004 budget had reduced its dependence on the donor community.

In an interview with the Zambia News Agency (ZANA) he implored government adhere to strict fiscal discipline.

World Bank country representative Ohene Nyanin expressed optimism that the 2004 budget would enable Zambia to reach the HIPC point. He said that his institution would however have to study the budget before making a comprehensive comment. (PANA, Lusaka 6/2)

Trouble Ahead

In his budget speech Magande said the government will maintain strict “fiscal discipline” in 2004 to qualify for IMF financing and a $3.8bn debt write-off.

The measure rules out salary rises for Zambia’s 100,000 public workers, who downed tools twice in 2003 to press for better pay and benefits, and have already warned they would not accept a salary freeze.

Magande said the US$1.8bn austerity budget was designed to curb waste in the public sector. “Only by observing prudence in expenditure can the limited resources be directed at priority investments, which will reduce poverty and create wealth,” he told parliament.

Economic growth was forecast to slow to 3.5% in 2004, compared with a GDP growth rate of 4.2% in 2003, Magande said. Inflation, which officially fell to 17.2% by the end of 2003, was expected to drop to 15%, based on increased food production, which should keep food inflation low.

Leonard Hikaumba, president of Zambia Congress of Trade Unions, asked the government to re-think its position. “I do not see why the government will achieve whatever targets they have set for themselves, or even reach a stage where they

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will access debt relief from the IMF, without taking the workers on board,” he told *IRIN*.

Magande has argued that Zambia’s failure to reach the HIPC completion point, which would have wiped out $3.8bn of its $6.5bn foreign debt stock, was due to a salary rise and improved housing allowances awarded to public workers. “There will be no general wage award in 2004,” he said.

But Hikaumba warned that if the government fails to address union salary demands, “there definitely will be trouble” in 2004. He added that the unions were disappointed over the increase in PAYE contributions. “Our demand was that those who earn 500,000 kwacha (about $100) and below should escape the tax bracket, but that has not happened and it makes us sad,” Hikaumba said. (*IRIN, UN 6/2*)

### Continental Developments

#### COOPERATION AND TRADE

### AFRICA–US

#### AGOA: Serious Questions

The fundamental problem of agri-cultural exports has not been addressed.

As final figures for the second—2002—year of the African Growth and Opportunity Act (Agoa) of the United States become available, some serious questions have arisen. Critics of the scheme are already claiming it has failed while supporters can only say that it must still have time to prove itself.

However, what has become obvious is that Agoa gives the US administration considerable political leverage. Over the past year it has become clear through diplomatic channels that increasing pressure is being put on African countries to support policies such as the “war on terror.”

And it has also become clear that, since the advent of Agoa, US foreign aid to Africa has significantly declined. This is in line with the argument by President George Bush that trade and not aid is the best way forward for Africa’s development.

But in 2002, two-way trade between the US and Africa declined and most of the US imports were energy related—oil and gas.

AgOA has benefited a few textile and clothing exporting African countries such as Lesotho, Kenya, Mauritius and South Africa. But it has failed to address the fundamental problem of agricultural exports.

Protests by Malian cotton farmers about the hefty subsidy to US producers, for example, fell on deaf ears. But the guaranteed price to US producers of 72 cents/lb, resulted in a US surplus that was dumped on the market, driving world prices down to below the cost of inputs.

Estimates of the situation over the past year indicate no real improvement, although oil producers such as Nigeria should boost the overall trade figures because of oil exports. (*Africa Analysis 6/2*)

#### ANGOLA–DR CONGO

### Border Dispute Settled

The agreement could add considerably to Congolese oil output.

Maritime boundary disputes in the lower half of the Gulf of Guinea continue to obstruct licensing of large areas of potentially oil rich territory. Only seven out of the 33 potential maritime boundaries in the region have actually been delimited and oil companies are naturally wary of committing large sums of money, including license fees, that could be lost if a neighbouring state makes a claim on disputed reserves. Moreover, the sovereignty of some developed oil fields has become disputed as a result of greater interest in settling maritime political boundaries throughout the world.

One of the main disputes concerns two oil producers at opposite ends of the scale. While Angolan production looks set to breach the 1m barrels a day (b/d) barrier during the course of next year, Democratic Republic of Congo (DRC) remains among the minnows of African oil production. Output from its tiny current offshore acreage is achieved via gas and water injection, while total national output stands at just 27,000 b/d, although even this is higher than the 7,000 b/d recorded just four years ago.

A memorandum of understanding on the dispute had already been signed and talks were held between technical experts from the two countries, even before the latest breakthrough. Then in August, Syanga Abilio, the vice president of the Angolan state oil company Sonangol said: “We’re sitting down together to find an area of common interest. The next move is to find out how we can create a joint committee between both parties and see who will be the operator.”

Abilio added: “It’s too early to talk about reserves. So far, we only have leads that we need to turn into projects and then into prospects. After that we can estimate and talk about reserves.”

He said that it was unlikely that a joint development zone (JDZ) along the lines of that devised by the governments of Nigeria and Sao Tome e Principe would be developed but declined to give further details.

The province of Ituri in the north-east of DR Congo is also considered to be a good prospect for oil exploration but the province is also the most troubled parts of the country. Nevertheless, *Heritage Oil of Canada* is currently negotiating a contract to carry out exploration work in the area, as well as on adjacent acreage across the border in *Uganda*.

*Perenco* has also been active in the country, taking complete control of five onshore blocks, including the East-Mibale, Liawenda-Kinkasi and Muanda-Banana fields, following its purchase of stakes held by *TotalFinaElf* and *Shell*. It has had some success with the development of the Kinkasi field, which is now in production, and the company’s total output in the country stands at 7,000 b/d. *ChevronTexaco’s* M’isato wildcat exploration well on DR Congo’s continental shelf made a small discovery in 2000, which was brought into production in March 2001. The government of DRC argues that the current generally accepted boundary is not the result of
any international political agreement, but rather the result of an arbitrary agreement drawn up with Gulf Oil after the Second World War. Gulf Oil became part of ChevronTexaco (then just Chevron) in 1984, and both ChevronTexaco and TotalFinaElf continue to work in the country today.

According to officials in Kinshasa, the dispute is depriving DRC of production of up to 200,000 b/d. Given current interest in offshore exploration in the Gulf of Guinea, the area would be of particular worth to DRC because of its very short coastline of around 22km, which results in limited offshore acreage.

Despite Abilio’s assertion, the only solution seems to be to follow in the footsteps of other nations in the region by setting up some form of JDZ. Angola itself has set up a JDZ with Congo covering maritime territory beyond the area disputed by Angola and DR Congo. Developed along the lines of the Nigeria-Sao Tomé e Principe JDZ, revenues are to be split 50:50. As with the contention between Angola and DRC, the dispute between the two nations had held up licensing and exploration work along their common maritime borderlands.

The JDZ, or Common Interest Zone as it is known, lies mainly in deepwater and is to encompass part of Congo’s Haute Mer field, as well as Angola’s Block 14. (African Business)

### CHILD LABOUR

**Education, Not Work**

The economic case for ending child labour in the developing world has been made.

Eliminating child labour in the developing world would produce economic benefits of an estimated \( \$5,100bn \) (€4,060bn, £2,780bn), nearly seven times greater than the costs, the International Labour Organisation says in a study published on February 4th.

The costs of removing 180m children from work and putting them into school by 2020 would amount to some $760bn at today’s values, the study says. While the ILO admits this is a daunting figure, on an annual basis the $95bn cost is less than 10% of developing countries’ debt service payments and a fifth of what they spend on defence.

Frans Röseleraar, director of the ILO’s child labour elimination programme, said on February 3rd: “The upfront costs are considerable but feasible, while the benefits are astronomical.”

The bulk of the benefits come from improved productivity and earnings generated by more schooling and, to a lesser extent, improved health. But even assuming much lower returns to education, benefits would exceed costs by more than two to one, the study says.

“Eliminating child labour will yield an enormous return on investment—and a priceless impact on the lives of children and families,” said Juan Somavia, the ILO director-general.

The study points out that eliminating child labour is a “generational investment” that would involve a net cost for about 16 years before showing dramatic benefits as children start work. After 2020, when costs cease, benefits could total $60bn a year.

The ILO estimates that about 250m children aged from five to 17 are working, of whom 180m—one in eight—are young children or in work that endangers their health or well-being, involving hazards, sexual exploitation, trafficking and debt bondage.

The study uses data from various countries to cost a national worldwide programme to achieve universal primary education by 2015 (one of the United Nations’ millennium development goals) and universal secondary education by 2020.

This would include expanding school capacity for all children up to age 14 and instituting an income transfer programme for poor families, along the lines of Brazil’s successful bolsa escola scheme, that would compensate them for the loss of a child’s earnings.

On the assumption that a child’s contribution to family income is 20% that of an adult, the study puts the global loss of earnings over 20 years at about $250bn at today’s values.

*Investing in every child: An economic study of the costs and benefits of eliminating child labour*, see www.ilo.org/childlabour. (The Financial Times, London 4/2)

### FOREIGN DIRECT INVESTMENT

**Missed Opportunities**

The risks and rewards of doing business in Africa.

You hear them before you see them. Low, throaty grunts echo from either side of the path, but the forest canopy is too thick for...
you to spot the gorillas until you are in their midst. Your heart stops. And then the alpha male charges you. Your guide holds your shoulders to make sure you do not run away: that would be a mistake. The charging beast stops a few feet short of you and, his point made, goes back to munching fruit.

Few thrills match gorilla-watching, and there are few places where you can do it. The Kahuzi-Biega national park, near Bukavu, is one of the most beautiful. It has startling mountain views, a vast forest flecked with red and purple flowers, and an abundance of birds, butterflies, wild pigs and leopards. But no tourists, because it is in the Democratic Republic of Congo.

Africa is a continent of squandered opportunities. Bukavu, a town of lakeside villas and throbbing nightclubs, was once a popular resort. It could be again, if something were done about the guerrillas in the forest, the chasms in the roads and the officials at the border who try to confiscate your passport “for security reasons.” Few parts of Africa have such a concentration of these ills as eastern Congo, but many have enough to scare off investors, both foreign and local.

Net private direct investment south of the Sahara was $3.9bn in 2002—a paltry sum, and worse than in six of the seven previous years. Ah yes, return optimists, but the return on foreign direct investment in Africa is higher than in any other region. The UN Economic Commission for Africa calculates that, for Africa as a whole, including North Africa, the average return on FDI is four times that in G-7 countries, and twice that in Asia. This is partly because the continent is considered so risky that investors will sink money only into ventures that promise big and quick profits. But it also suggests that the risks are exaggerated.

A typical African country has a GDP of $2bn–3bn, equivalent to that of a medium-sized town in a rich country. In China, firms can market to 1.3bn people under one set of laws (or two, if you count Hong Kong). Africa’s 700m citizens are scattered among 48 countries (or more, if you count the bits that have broken away from Somalia). So a pan-African investor faces a tangle of different regulatory systems, most of them cumbersome, capricious and subject to frequent change.

Consider what it takes to incorporate a new business in Africa. This should be simple: it requires the new firm to be registered for tax and for statistical purposes. In rich countries, it is indeed quick and cheap: in Australia it takes two days and costs the equivalent of 2% of the country’s average annual income per person. There are no minimum capital requirements. In Congo, by contrast, it takes 215 days, costs close to nine times the average annual income per person, and firms must start with a minimum paid-up capital of more than a third of that preposterous fee.

In Africa as a whole, the average cost of registration is nearly twice the average annual income per head. The rules that make it so expensive for a business to get started are often pointless. In francophone Africa, for example, registration usually requires notaries and judicial approval. In Ethiopia, a firm has to place a costly advertisement in the state-owned press. Other rules purport to have a social value, but are more bureaucratic. A Ghanaian firm wanting to register must spend 90 days doing an environmental audit of its business plan. The net effect of this rule is probably more pollution, because many firms would rather remain unregistered and unregulated than incur that sort of cost.

Over-Regulation Stifles Growth

Contracts are a problem, too. In Singapore, it takes about 50 days to enforce a simple commercial contract through the courts. In Angola, it requires 46 steps and takes 865 days to enforce a similar contract. No prizes for guessing which country has the better reputation for probity. In Malawi, the cost of recovering a $100 debt through the courts is close to $900, so Malawian businessfolk tend to deal only with people they know. This is true all over Africa: entrepreneurs from elsewhere in Africa are heading for the sleepless lights and smooth roads of Johannesburg. If any country can head off the competition, it is South Africa. (The Economist (UK) 17/1) Downturn in 2002 Vol. 40 p. 15767
COMESA representative: China has taken a very important step in cementing its relations with the Common Market for Eastern and Southern Africa (Comesa) by appointing a special representative to the regional body. On February 3rd, China’s foreign minister Li Zhaoxing sent a letter to Comesa secretary-general, Erastus Mwencha, saying that he has appointed China’s ambassador to Zambia, Hu Shouqin, as his country’s special representative to Comesa. From now on Hu will represent China on all matters concerning Comesa, Africa’s largest economic grouping with a population of over 380m people and a combined GDP of about $388bn.

China becomes the third non-African country to appoint a special representative to Comesa, following France and the US in 2002 and 2003 respectively. In January 2001, it became the first non-African state to join a Comesa institution when it joined the Eastern and Southern African Trade and Development Bank (PTA Bank), a deal that saw Beijing subscribe to 1,700 shares in the bank valued at $22m.

China is one of the major development partners of Comesa member-states, in different fields particularly transport, telecommunication and agriculture. (Africa Analysis 6/2)

2003 trade figures: Two-way trade volume between China and Africa exceeded $18bn in 2003.

China and Africa have a promising prospect in their cooperation in the fields of agriculture, light industry, machinery, infrastructure construction, information technology and tourism. China is advanced in agricultural technology, seed cultivation, oil exploration and has relatively cheap and durable light industry products and machinery. Chinese enterprises also have a competitive edge in road and railway building, communications, irrigation works and energy generation. (Xinhua, Beijing 25/1: BBC Mon.)

Algerian agreements: Five co-operation agreements have been signed during a state visit by President Hu Jintao. These agreements are in the fields of gas and oil; education and research. An economic and technical co-operation and framework agreement for a loan of $48m was also signed. (PANA 4/2)

Gabon visit: During President Hu Jintao’s visit to Gabon on February 2nd, three co-operation accords were signed in the fields of oil exports, prospecting and refining. A donation of $1.2m and a loan of $6m will go to various areas such as construction and agriculture. (RFI, Paris 2/2: BBC Mon.) Previous reference Vol. 40 p. 15914A

Africa–China

Chancellor Schroeder’s Visit

Ethiopia: On the first leg of his tour of Africa on January 19th, Chancellor Gerhard Schroeder said relations between Europe and Africa need to be placed on a new basis—a “new spirit of partnership.”

In an address to African diplomats in Addis Ababa, Schroeder also pledged that Germany would help Africa succeed in its regional cooperation initiatives, peace and economic development. He announced that Germany will give the African Union (AU) €650m ($800m) to fund its peacekeeping missions in Africa, and improve its communications network.

He said Berlin would also support the New Partnership for Africa’s Development (NEPAD), an African initiative that aims to develop the continent through massive injection of investment, and which places heavy emphasis on good governance and democracy.

Ethiopian PM Meles Zenawi and Chancellor Schroeder signed a mutual investment guarantee under which the two states will insure the assets of their nationals investing in each country.

Several German companies in Ethiopia had their assets nationalised during the era of Mengitsu Haile Mariam (1974–1991). (Cameroon Tribune, Yaounde 22/1)

Kenya: On January 19th Schroeder arrived in Kenya where he held talks with President Mwai Kibaki. He announced an increase of German aid to Kenya of €50mn ($60m) for 2004–2005. The money is aimed at promoting private farming, the water supply and the health sector. (Deutschlandfunk radio, Cologne 20/1: BBC Mon.)

South Africa: Germany is South Africa’s largest import partner and fourth-largest export partner. (SAPA, Johannesburg 21/1: BBC Mon.)

Ghana: The four-nation tour ended with an agreement to cancel Ghana’s debt to Germany amounting to $16.4m. Germany also agreed to rehabilitate a 50km stretch of the 270-km Accra-Kumasi road. (PANA 24/1)

Kenya had met all the conditions imposed on its exports two years ago.

All stringent conditions that restricted Kenya’s fish exports to the EU have now been removed. This positive development is a breakthrough for Kenya’s fish industry, giving Kenya access to the lucrative EU market and enabling it to raise additional foreign revenue from its fish exports. Bilateral trade agreements with individual EU member states will no longer be necessary.

The EU arrived at a consensus following satisfactory results of an inspection carried out by the Food and Veterinary Commission of the EU. Kenya produces approximately 200,000 metric tons of fish annually, worth Sh6.5bn. Almost 30% (60,000 tonnes) is exported to fish processing countries. Over the past years, Kenya has had a limited access to the EU market due to the restrictions. The Kenyan department of fisheries will now be competent to verify and certify compliance of fish products in accordance with EU standards. (News Africa 27/2)

Foreign investment incentive: The government has announced it will exempt foreign investors from paying tax for a period of 10 years. This is in addition to waiving tax on machinery and manufacturing material.

Finance Minister David Mwiraria made the remarks when he signed a cooperation agreement with the visiting German Minister for Economic Cooperation and Development, Heidemarie [Wieczorek]-Zeul. He assured investors that exports from Kenya enjoy preferential treatment within the east, central Africa region and the Common Market for East and Central Africa (Comesa).

The German minister described Kenya has a strategic partner whose record in fighting corruption and bureaucracy was encouraging. (KBC radio, Nairobi 20/1: BBC Mon.)

IN BRIEF

Equatorial Guinea–Gabon: The two countries have accepted UN mediation to settle their dispute over three small islands in Corisco Bay which are believed to hold large oil reserves. (Africa Analysis)

Mauritius: The country recorded a trade deficit of Rupees 13.1bn ($44m) in 2003. The UK, France and US remain the country’s main export markets, accounting for 75% of total exports. (PANA 14/1)

Morocco: The country recorded a trade deficit of Dirhams 52.3bn in 2003, 18.7% worse than in 2002. (AFP 6/2)
NATIONS OVERSEAS

Algeria: France is to grant Euros 5m for the reconstruction of 6,000 housing units, destroyed in the earthquake of May 2003. (Marches Tropicaux 6/2)

Cape Verde: Portugal has granted Euro 137,000 to finance anti-poverty projects. The financial assistance from the Portuguese Social Security and Labour Ministry to Cape Verde has now risen from Euro 525,000 in 1999 to a current €2.2m. (PANA, Praia, 5/2)

Equatorial Guinea: China has provided a line of credit worth yuan 40m (US$5m) spread over five years to enhance capacity building of the Equatorial Guinea government.

The allocation of the credit to sectors is to be discussed by both parties.

The interest-free loan will be repayable over ten years, starting from 2014.

China and Equatorial Guinea have shared diplomatic and co-operation ties since 1971.

Initially centred on telecommunications, radio and television, health and training,

Economic Aid

co-operation between the Asian and African states now focuses on health and road construction. (PANA, Malabo, 3/2)

Guinea Bissau: France has pledged about Euros 500,000 to the Guinea Bissau Emergency Fund for economic management under a draft agreement signed with the UN Development Programme (UNDP) which manages the fund.

The fund seeks to co-ordinate contributions from development partners to enable the Bissau government to cover the 2004 National Budget deficit estimated at CFA Fr 10.7bn, through a multi-donor trust fund that channels the donations to the emergency economic management plan.

Priority will be given to current expenses such as payment of salaries and basic social services, as well as the expenses of vital import for the running of the state apparatus. (PANA, Bissau, 5/2)

Kenya: Kenya is to receive Euros 50m (US $6.17m) to promote agriculture, water and the health sector from the German government following an agreement signed by Chancellor Gerhard Schroeder and President Mwai Kibaki in the capital, Nairobi.

The funds will be disbursed in the form of technical cooperation grants and low-interest loans over the next two years. (IRIN, UN, 20/1)

Niger: Kuwait has provided financial aid worth CFA F257m (US$485,445) to Niger to purchase cereals locally for the West African nation’s needy population.

Niger recorded a cereal surplus of more than 400,000 tonnes last farming season, but many villages across the country’s eight regions are showing a cereal deficit and require food supplements. (PANA, Niamey, 19/1)

Sudan: The Arab Fund for Economic and Social Development has made a $100m loan to help finance the Merowe power station.

The construction of the Merowe dam has already begun. The project is being funded by China and several Arab funds. Work will be completed in 2008 and will produce 1,250 megawatts and double current capacity. (Marches Tropicaux, Paris, 6/2)

Policy and Practice

ECONOMIC TRENDS

ALGERIA

IMF Thumbs Up

An improving economy still faces problems. A gas explosion is the country’s worst industrial accident since independence. The explosion destroyed three liquefaction units. Algerian Radio reported that two new factories would be built on the site. Meanwhile energies lost would soon be replaced by operating the Mechria pressure station. (Radio Algiers, 20, 22/1; BBC Mon.) Budget 2004 Vol. 40, p. 15887

REDEVELOPMENT OF LA MITIDJA

One of the reasons behind the improvement in agriculture is the more peaceful atmosphere. The civil war emptied the vast, fertile agricultural plain, La Mitidja. Now the armed groups have gone, the state has injected money into helping farmers redevelop the orchards and fields of crops. Over the last five years large sums of public money has helped prepare ground, buy and plant trees, mend irrigation systems and supply refrigerators. (Le Monde, Paris, 1/2)

GAS EXPLOSION

An unexplained explosion at the liquefied Natural Gas Complex in the industrial zone in Skikda, on January 19th, left 27 dead and over 70 injured. The state energy group, Sonatrach, said it was the country’s worst industrial accident since independence. The explosion destroyed three liquefaction units. Algerian Radio reported that two new factories would be built on the site. Meanwhile energies lost would soon be replaced by operating the Mechria pressure station. (Radio Algiers, 20, 22/1; BBC Mon.) Budget 2004 Vol. 40, p. 15887

ANGOLA

HWR Report

The issue of financial irregularities continues to cloud international attitudes to the MPLA government and rules out large-scale support.

The International Monetary Fund (IMF) insists that $900m of oil revenues was unaccounted for in 2001 alone, and although the Fund and the Angolan government have agreed programmes to improve transparency on four occasions, each attempt has collapsed. Luanda argues that an accounting problem was responsible for the shortfall in 2001 and denies that oil revenues are siphoned off into the bank accounts of government and parasitai officials. However, the allegations refuse to go away.

The authors of a recent report by NGO Human Rights Watch, HWR, entitled Some Transparency, No Accountability:
The Use of Oil Revenue in Angola and Its Impact on Human Rights

analysed IMF figures and concluded that $4.22bn of state revenues disappeared between 1997 and 2002 during which period the oil sector generated $17.8bn. Says Arvind Ganesan, director of the business and human rights programme at HRW, “While ordinary Angolans suffered a profound humanitarian crisis, their government oversaw the suspicious disappearance of a truly colossal sum of money.”

A spokesperson for the office of the Angolan presidency, who claimed that the HRW was attempting to tarnish the country’s image, says, “The government can’t be held responsible for estimated income that is based on non-credible sources, bearing in mind that none of the international financial institutions have to date proven those accusations.”

Nevertheless, some funding has been directed at high priority projects but much of this has not been funnelled through the government. The World Bank has provided $100m to fund the rehabilitation and settlement of former UNITA fighters and their dependents. Although some of the money was directed to government agencies, most of it is being spent by NGOs and UN agencies. The World Bank has warned that further financial packages will depend upon improvements in government transparency, both financial and in terms of policy.

Stability Needs Diversification

The key to ensuring economic stability and job creation will be for Angola to move beyond the twin obsessions of oil and diamonds, but this will be easier said than done. It is all too tempting for any country rich in a valuable natural resource to focus its attention on exploiting its reserves rather than targeting a more broad-based economic strategy, which may generate smaller revenues in the short-term but will ultimately pay long-term dividends. A less narrow economy is also less prone to severe fluctuations in commodity prices and there is nothing that investors like more than stability.

The temptation for Angola to ignore agriculture and manufacturing is great: oil production is set to double within five years, while the diamond sector is only now being brought back under the control of the central government, having been a key funding source for the National Union for the Total Independence of Angola (UNITA) during the many bitter years of civil conflict.

Yet, although GDP will continue to rise rapidly for years to come on the back of new oil discoveries, the resettlement of the displaced millions is a far more pressing need than overall economic growth. If the many former UNITA soldiers and their families cannot be given hope that their standard of living is going to increase, then the desperately needed stability may remain forever just out of reach. While a return to full scale hostility is unlikely, many former rebels may feel that their best option is to return to the bush to make whatever life they can for themselves, with a degree of freedom and a gun in their hands.

While the debate over the use of government revenues is an important one, most reconstruction will be carried out by Angolans themselves on a local basis. Providing their land has been cleared of mines, farmers will now hopefully be prepared to improve their fields, whether through fertilisers or irrigation channels, in the knowledge that they would be around long enough to enjoy the fruit of their labour. Similarly, people will be better focussed to set up small scale businesses as shopkeepers, mechanics or traders, secure that they will not be forced to abandon any buildings they construct.

While displaced adults need work or at least some tangible means of supporting themselves, placing millions of children in school would also help to stabilise the country and improve the nation’s economic base in the years to come. Towards the end of 2003, Unicef launched a scheme to return one million Angolan children to school by the end of 2004. In practice however, many of the children have never been to school in the first place. The United Nations aims at training 29,000 new teachers with $40m support from the Angolan government.

BENIN

Steady Growth

The satisfactory economic performance needs consolidating.

Benin’s growth rate stood at 6.7% in 2003 against 4.6% the previous year, compared to an average of 3% in the West African Economic and Monetary Union (UEMOA), according to the country’s Finance and Economy Minister Gregoire Laourou.

The Use of Oil Revenue in Angola and Its Impact on Human Rights

The analysis of IMF figures and concluded that $4.22 billion of state revenues disappeared between 1997 and 2002 during which period the oil sector generated $17.8 billion. Arvind Ganesan, director of the business and human rights programme at HRW, claimed that “while ordinary Angolans suffered a profound humanitarian crisis, their government oversaw the suspicious disappearance of a truly colossal sum of money.”

A spokesperson for the office of the Angolan presidency, who claimed that the HRW was attempting to tarnish the country’s image, stated that the government cannot be held responsible for estimated income that is based on non-credible sources, bearing in mind that none of the international financial institutions have to date proven those accusations.

Nevertheless, some funding has been directed at high priority projects, but much of this has not been funnelled through the government. The World Bank has provided $100 million to fund the rehabilitation and settlement of former UNITA fighters and their dependents. Although some of the money was directed to government agencies, most of it is being spent by NGOs and UN agencies. The World Bank has warned that further financial packages will depend upon improvements in government transparency, both financial and in terms of policy.

Stability Needs Diversification

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In an exclusive interview with PANA in Cotonou, Laourou said that the 6.7% growth of the Gross Domestic Product (GDP) was close to the 7% growth projected by the government in its bid to halve poverty levels throughout the country by 2005.

According to Benin’s 2003–2005 Poverty Reduction Strategy paper, the country’s economic situation was satisfactory over the past five years.

“The average real economic growth stood at 5.2% during the 1997–2001 period, while the average inflation rate measured by the consumer price index was 3.8%,” said the document, which revealed that the growth rate was based on an investment rate of 17.8%.

However, the low level of national savings of 11.28% of the GDP was not adequate to finance it. Consequently, says the document, there was an average deficit of 6.6% of the GDP in current external payments during the period.

“At the same time, significant progress was made in terms of public finance because the budgetary deficit in the GDP was limited to a level of 2.9%, to which can be added the big reduction in the payment of internal arrears, which represented around 2% of the GDP,” the document added.

Certain analysts attributed the satisfactory economic performance primarily to the rigorous implementation of public financial and structural reform measures.

Nonetheless, the poverty reduction strategy document cautioned that the economic performance must be consolidated to cater for the high annual population growth of 3.2%.

A real growth rate of 7% is required to reduce poverty in a significant and sustainable manner in Benin, it said. (PANA, Cotonou, 23/1)

Corruption Charges

The government of Benin has put on trial 27 of its own judges on charges of embezzling millions of dollars of state funds.

They form part of a group of 99 court and finance ministry officials charged with illegally pocketing more than US$15m of state funds over a period of four years.

The case appears to indicate that the justice system in this small West African country is rotten to the core. The defendants include 45 court clerks and judges from 12 of Benin’s 13 district courts. (IRIN, UN, 29/1)
said public spending had ballooned as a result of generous pay settlements for civil servants, teachers and health workers over the past four years, whereas the anticipated additional revenues from the privatisation of state enterprises had failed to materialise because of delays in selling off loss-making companies.

CEPA noted that the government had so far failed to deliver on its promises to complete the sale of Tema Oil Refinery, Ghana Airways, Ghana Railways and the Electricity Corporation of Ghana. As a result, donors, including the World Bank and the IMF, failed to disburse loans worth about $147m in 2002. Ghana also failed to qualify for the full amount of debt relief anticipated under an agreement signed with its main creditors in 2001, it noted.

CEPA said public sector domestic debt had risen sharply to 29% of gross domestic product (GDP) because government was borrowing money on local financial markets and allowing arrears to accumulate on its debts in order to meet its spending commitments. CEPA urged the government of President John Kufuor to negotiate an economic programme with donors that set more realistic targets which it had a real chance of meeting.

One bright spot in the economy was a strong export performance. CEPA said Ghana was benefiting from favourable world prices for gold and cocoa.

The strong export performance and a fall in imports enabled Ghana to slash its trade gap by nearly half in 2002 to its lowest level for five years. The deficit shrank to $641m in 2002 from $1.1bn in 2001, (Africa Today, December)

**Corruption Charges**

On January 22nd President John Kufuor’s 90-min State of the Nation address to parliament failed to mention corruption at all; the chorus of opposition protests was led by Professor John Evans Atta Mills of the National Democratic Congress (NDC), who will challenge Kufuor in the parliamentary and presidential polls in November.

In fact, all the high-profile corruption cases involve officials or friends of the former NDC government such as the Ghana National Petroleum Corporation’s former chief, Tsatsu Tsikata; Sherry Ayittey, confidante and colleague of former first lady Nana Konadu Agyeman Rawlings, in connection with the sale of a parastatal rubber company. The prosecutions have been handled so badly, though, that leading New Patriotic Party (NPP) figures accuse each other of covertly helping their NDC opponents. Private investigators have been hired to trace government assets allegedly stolen by top NDC officials but no prosecutions have ensued, leaving the public to conclude that the Kufuor government wanted the information only for its election campaign or that the claims of grand corruption against the regime of Flight Lieutenant Jerry John Rawlings can’t be proven.

Some influential think-tanks want the government to do much more about corruption.

The present government is blamed for concentrating on private-sector corruption instead of the public-sector demand (notorious in the road-building business) which drives the process in Ghana. Transparency International’s latest Corruption Perception Index (Vol. 40, p. 15804) demoted Ghana from 51st to 73rd of 133 countries surveyed worldwide. This reputation does “incalculable damage to Ghana’s attractiveness as an investment destination.” (Africa Confidential 6/2)

**LIBERIA**

**Donors Pledge $520m**

**Reconstruction of this war-torn country is critical to peace in the region.**

Donors meeting at the United Nations in New York pledged $520m to help Liberia to meet a host of reconstruction and humanitarian needs, including disarming fighters, creating jobs, retooling the country’s infrastructure and stopping the spread of HIV/AIDS.

On the second day of the International Reconstruction Conference on Liberia at UN Headquarters, representatives from dozens of countries promised to support the West African nation with the $487.7m needed for the next two years, to begin the rebuilding process after a ruinous 14-year civil war. Another $180m will be required for humanitarian activities.

In a communiqué adopted at the close of the two-day event, representatives from 96 countries and 45 organisations noted agreement on an inclusive, community-based approach to reintegration and reconstruction which fully incorporates the needs of all segments of the population affected by the conflict, with special focus on women and children.

C. Gyude Bryant, chairman of the National Transitional Government of Liberia, described measures under way to begin the process of national renewal, including centralising the collection of State revenues through the Central Bank of Liberia, reducing the price of rice and petroleum products, opening the market for importation of basic commodities and paying civil servant salaries. (United Nations, New York, 6/2)

**MADAGASCAR**

**Pro-Poor Initiative**

Just over a year after the political upheaval, the country is firmly on the road to economic recovery.

Aggressive attempts by Madagascar to curb corruption and kick-start economic development have begun to bear fruit after the political crisis in 2002 threatened to undo many of the economic gains made in recent years.

According to official figures, the Indian Ocean island’s economy grew in 2003 at an unprecedented 9.6%, outperforming expectations. The commercial and industrial sectors were the main sources of growth.

Evidence of the turnaround is the return of essential goods, which disappeared from the shelves during the crisis. More significant, however, is the vast improvement of the main roads leading to the capital city, after the government prioritised road rehabilitation and an overall improvement in infrastructure. Much of the credit for the economic turnaround has been attributed to President Marc Ravalomanana, who, after assuming power in 2002, moved swiftly to court the international community with the promise of further economic reforms and a clampdown on government graft.

“Since taking office Ravalomanana has managed successfully to woo investors and convince the international community of his government’s commitment to a ‘clean’ government. This is obviously very pleasing to the donors. But he has also acted on some of his promises, which is an indication that behind the talk there is some action,” Andrianomana added.

Ravalomanana managed to curtail government corruption through measures such as pay increases for government ministers, and possibly civil servants, shortly after he took power.

But Andrianomana noted that while efforts by the government were commendable, the real challenge facing the auth-
orities now was economic sustainability. “The government still has several major issues to deal with, the biggest being pov-
erty—many ordinary people have not benefited from this economic improvement.”

In view of this Prime Minister Jacques Sylla recently launched a programme in Antananarivo, Madagascar, to have inter-
national companies and local businesses promote business activity to reduce pov-
erty and help achieve the Millennium Development Goals.

The launch of the Growing Sustainable Business for Poverty Reduction Initiative drew 120 participants from government, business, civil society, the UN system and the donor community. UNDP Madagascar is coordinating the initiative.

Electricité de France is proposing three projects to supply power to rural areas and poor communities near urban areas, and a fourth to improve community water supply. The rural electricity project, the furth-
est along, has received government approval, completed a full assessment of engineering and environmental require-
ments, and will likely start within two months. It will help set up locally managed utilities using mini-hydro technology to generate power for villages, part of the Government’s electrification strategy.

Total, a global energy and chemical company, is proposing to help small and medium-sized fuel transport enterprises expand and improve their operations. It will work with communities to ensure that fuel transport is safe and environmentally friendly, and is expected to highlight trans-
port constraints, such as poor roads and inadequate safety regulations, to encourage dialogue and problem-solving.

It may also promote access to loans to help the enterprises expand, helping overcome a key impediment to growth faced by many businesses in developing countries.

Other participating international businesses include Rio Tinto, a mining company; Soci-
eté Générale, a financial services group; Coca cola; and Tata, a major Indian company. Representatives of a number of Mal-
agasy companies and business associations also attended the launch. More companies are expected to take part in the initiative. (IRIN, UN, 7/1, UNDP 5/1) Economic Indicators Vol. 40, p. 1577/1, Donor meeting p. 15848, Budget p. 15888

MALAWI

Strategies For Growth

Poor management has left potential untapped and a large budget deficit.

Malawi is predominantly a rural economy, relying on favourable climatic conditions for its agricultural production. Agriculture supports 90% of the population, contribu-
ting 45% of the Gross Domestic Product (GDP) and over 90% of export earnings. Overall, the economic performance of the Malawi economy in recent years has been very weak. It has been characterised by low or negative GNP growth rates, currency devaluation, high inflation, a large budget deficit, and high interest rates, which have impacted negatively on the fight against poverty. In response, the Malawi Poverty Reduction Strategy Paper (MPRSP), launched by government in April 2002, provided a pro-poor economic growth strategy to directly tackle poverty. One of the main pillars of the MPRSP is the stimulation of the private sector. In Malawi there is too much government and too little private capital, according to the Minister of Commerce and Industry.

Meanwhile, a comprehensive business plan to stimulate private sector growth was put forward by the National Action Group (NAG). Matthew Chikaonda, economist and chief executive of Press Corporation Limited, one of the largest employers in Malawi, explains the goals of the NAG: “It is a gathering of key players in the private sector who meet to decide what to do to unlock the potential for growth in Malawi. For each sector there is now a lead player, who works in conjunction with the govern-
ment to see what the constraints and opportunities are for that specific sector. Several public sector entities are also active in this process: the Ministries of Commerce and Industry, Economic Planning and Development, Finance, and also the Central Bank.”

Malawi has also an ongoing Poverty Reduction and Growth Facility (PRGF) programme with the International Monet-
ary Fund (IMF).

In 2001, the disbursements were sus-
pended due to lack of progress on achieving the macroeconomic stabilisation tar-
gets, but following an IMF mission to Malawi in July 2003, disbursements resumed in October 2003 (Vol. 40, p. 15855).

Following the approval of Malawi’s PRGF arrangement review, four European donors providing budgetary support under the

Common Approach to budget Support (CABS) pledged to resume their €45m aid package. However, the CABS, which is made up of the European Union (EU)/UK, Norway, and Sweden, in a common state-
ment declared that “should government fail to meet the requirements, there will be no alternative but to re-evaluate budget pov-
erty programmes.”

Working together, the private sector and the government have launched a compre-
hen sive Economic Growth Strategy (EGS) whose objectives are: to create an overall macro-economic environment conducive to broad-based growth of at least six per cent, to be maintained in the long term; to ensure wide participation in and sharing of the benefits from higher economic growth. Several constraints affecting the business sector have been identified in the EGS. The major ones relate to the poor macro-
economic conditions of the country. “The business environment is simply not con-
ducive for doing business. Many firms have shut down; others still operate but only because they need to recover their initial costs. The poor management of the economy is the result of a lack of vision of our leaders: too many people just look at the short term,” says Mr Chancellor Kaferapanjira, chief executive of the Malawi Confederation of Chambers of Commerce and Industry (MCCCI).

The primary cause of slow growth in the private sector is the large budget deficit and the consequent need for government to borrow from local banks. This has resulted in an increase in the real interest rates, which are over 40%. Inflation rates, though, having declined substantially as of the beginning of 2003, remain unstable and higher than anticipated; the exchange rate is volatile and unpredictable. Furthermore, the level of savings is too low.

In addition to further improvement in the tobacco, tea and sugar sectors, which at the moment constitute the sole foreign exchange earner in the country, the growth strategy focuses mainly on three sectors which can quickly generate growth: manu-
facturing, tourism, and mining.

Manufacturing: Manufacturing has been
in constant decline over the last decade, accounting in 2001 for only 11.5% of GDP. Therefore, there is an urgent need to improve the incentives to encourage investment, particularly in export and employment-oriented activities. Two main sectors have been identified: agro/food processing and textiles.

Agro/food processing has potential for growth especially for fruit, vegetables, rice, Macadamia nuts and in the production of starch from cassava.

Where Malawi cannot compete because of freight costs, concentration should be on organic products and horticulture, high value products. Further, there is knowledge within the country to grow several species of trees and plants, which would yield high returns with their use in medical fields. These include the neem tree and prunus africana.

Tourism: Tourism represents a negligible part of GDP (about 1.8% in 2001). It is constrained by several factors, which affect both the number of visitors and the further development of the sector. It is under-exploited, but the government needs to put money into the necessary infrastructures to capitalise on the country’s significant attributes.

Mining: Even though no big mines operate in Malawi, mining is one of the sectors with the highest growth potential. Yet, the mining industry remains one of the under-exploited areas within the economy, contributing only 1.6% of GDP. A recent study from the department of geology noted that the absence of a mining culture among Malawians is making it difficult for government to fully appreciate the benefits that the country could gain from increased mining activities. Efforts must be made at two levels: small-scale and medium/large-scale. In the short term, support is needed to help small-scale mining cope with low productivity, low value-added, and limited access to market outlets. In particular, gemstones, monazite, silica and bauxite are already being mined in several districts of Malawi. For the medium/large-scale mining, a new Mining Policy and Act is necessary: this could provide investor protection, incentives for investment, support infrastructures and guard against the risk of environmental damage.

The plan developed in the Economic Growth Strategy is ambitious. Now, the implementation stage is very critical. (The Courier, EU-ACP, Brussels)

**Presidential Patronage**

Facing polls in May, President Bakili Muluzi’s United Democratic Front (UDF) is accused of the same offences as its autocratic predecessor under the late Kamuzu Hastings Banda. Malawi’s most effective non-governmental organisations, its churches, blame it for human-rights abuses, corruption, nepotism and economic mismanagement. The main campaigning force of Muluzi’s UDF, the violent Young Democrats (YDs), resemble Banda’s feared Young Pioneers. Political opponents are bought off with state funds. The President appears to be using his business ties to help his chosen successor, Bingu wa Mutharika, into the presidency.

Muluzi’s patronage extends across the party. Like the UDF women praise-singers, the YDs are paid campaign aggressively. Significant opponents, meanwhile, are paid to defect. UDF headquarters are in the President’s Atupele business premises; the party’s properties and assets are hard to distinguish from his own and produce funds for parliamentarians and party officials.

The Atupele Group, linked to the Asian-owned Kalaria Group in Lilongwe, is part of Muluzi’s Asian business network. Together with South African and Arab-owned companies, its members have done well out of privatisation. In joint ventures with these foreign partners, Muluzi and his associates control large chunks of Malawi’s fuel distribution, real estate, retail and service industries.

Funds from the Middle East are reportedly directed to politically important companies, rather than to agro-processing and marketing ventures that could create jobs and wealth. Rumours abound of Islamist infiltration of the government, more so since four alleged Al Qaeda supporters were arrested in 2003 in Blantyre. The Public Accounts Committee reports that 16bn kwacha (US$150m) went missing between 1999 and 2001 from government ministries, as a result of overspending, mismanagement or embezzlement. The failure of the British-funded Anti-Corruption bureau to prosecute corruption cases is blamed on political pressure.

Muluzi is a skillful politician and campaigner, adept at persuading Western officials of his democratic credentials. Yet World Bank officials were not satisfied with the implementation of his government’s anti-poverty strategy. The weak economy remains vulnerable to the vagaries of regional powers, such as South Africa, and to aid flows. The staple maize harvest was lower than hoped in 2002–3, leaving areas of hunger. A good harvest in the coming months will favour the UDF, but the rains were late in many areas. Some Western aid, suspended because of corruption, is to be resumed in the run-up to the elections, to the delight of the UDF and the horror of opposition parties. (Africa Confidential 23/1) IMF approval Vol. 40, p. 15855, Hard times p. 15811

**SOUTH AFRICA**

**Union Confederation?**

Unemployment is still high and de-industrialisation, if it happens, would make the situation worse.

The South African labour movement, faced with increasing unemployment and falling membership lists, is contemplating forming a united front, joining up rival union federations to make a super federation of two and a half million workers. It is part of a strategy aimed at stemming the loss of jobs in the formal sector and building more protection for casual labour, but also of increasing its negotiating strength with government.

Unemployment in South Africa has reached record levels and there is little relief ahead, while mass poverty is cited by the government as the prime threat to social stability. Writing in the African National Congress’ online publication, ANC Today, South African President Thabo Mbeki said the struggle against poverty and underdevelopment was directly and immediately relevant to the struggle to achieve national unity and reconciliation. Analysts believe that in promoting his Black Economic Empowerment programme, Mbeki has been countering criticism that it has been government economic policy that has widened the gap between rich and poor.

Yet there has been a 16% rise in unemployment since the government came to power in 1994. Even by the definition that excludes people who have given up looking for work, 31.5% of the South African workforce is out of a job. By the broader definition, the figure is well over 40%, close to eight million people. Most of these unemployed workers are earning nothing at all, while others have had to rely on insecure, casual jobs, which do not pay enough money to feed their families. At least 22m people live in desperate poverty and 5.3m children suffer from hunger.

The political way out is to stress a shift in economic power from white to black, and
the unions appear to be going down this road. In an end of year review Cosatu chief Zwelinzima Vavi commented that the main reason why unemployment was growing was that the economy was still “unrestructured” from apartheid days. He blamed “the structural problems we inherited from apartheid mismanagement still in place.”

“The economy remains firmly in white hands, dominated by the few companies operating in the mining and financial sectors of the economy,” he added.

Yet he appeared also to acknowledge factors associated with globalisation—the dropping of tariff protection, and the increasingly capital intensive nature of more competitive industry.

Today, according to Vavi, there is “a real possibility that South Africa could become deindustrialised.” One of his main gripes concerns the lifting of tariff barriers, hitting in particular the textile industry. In the clothing, textile and leather industries alone, about 13,000 workers had been retrenched by the end of October 2003, with close to another 5,000 notices of retrenchment being given in November and December.

The rand has been strengthening and the unions now say it is overvalued and has placed South African producers at a disadvantage in both the home and export markets and has led to a flood of cheap imports into the country. Current clothing and textile imports account for 70% of the total sold, up from about 45% a year ago. Clothing imports from China were up by 60% in the first six months of the year.

Similar trends are emerging in other industries, like food canning, where the impact is becoming just as severe.

As 2004 opens, it is clear that the struggle against poverty, the change in the racial balance of capital ownership in the formal economy, and the fight against unemployment are all being subsumed into one overall goal on which the unions and the ANC can agree.

In the view of many economists much of the reason for the increasing unemployment is related to the end of protectionism, restructuring, capital intensive industry and commercial agriculture, and the failure of government attempts to secure foreign investment or to boost local small and medium-sized enterprises.

South Africa’s auto industry is one of the fastest growing sectors and the racial composition of capital is hardly relevant there—these are foreign owned subsidi-

aries. Motor vehicle exports grew from 12% of total exports in 1996 to 24% in the first nine months of 2003, but failed to boost jobs.

Government’s reliance on foreign direct investment stemming from privatisation has also been a flaw. It now admits that the proceeds from privatisation will be nowhere near what was initially anticipated and has decided instead to go to the bond market and borrow R23bn more in the next few years. A successful $1bn bond issue followed 2003’s similar exercise on the European market and showed continued international approval of the country’s economic management policies. Reliance on increased borrowing was another of the arguments from the long-buried macro-economic “Merg” plan, a Keynesian programme ditched in favour of Gear when the ANC government came to power in 1994, but with elements now being quietly resuscitated. Another Merg theme was higher state spending and a larger deficit, which the Merg authors said, a country like South Africa could easily sustain. Again, the government has agreed the deficit budget can grow to 3% of gross domestic product, after years of tight control. Resources will go into social security and development programmes.

It is also taking a more interventionist approach in industrial policy and last year set up 20 strategic investment programmes with a total value of R26bn, to start producing between now and 2005, and expected to create 3,000 direct and 57,000 indirect jobs. It is also promoting procurement policies geared towards small business and has put the Small Business Bill through parliament.

Government defenders say this could only be done because of earlier tight fiscal policy which secured the necessary resources. Critics say it is 10 years too late and now faces a haemorrhage of resources because of the AIDS crisis.

In this context Cosatu, learning from its earlier and failed attacks on government macro-economic policy, is seeking to build up its reserves and to develop unity with other labour organisations. In a recruitment drive it is seeking a 10% increase in membership every year, aiming by 2006 to reach 2.6m; it is also seeking more actively to build a larger labour confederation with other union federations. (SouthScan 9/1)

New land law Vol. 40 p. 15923; mid-term budget p. 15888; Black economic empowerment p. 15839

**BUDGETS**

**BOTSWANA**

**Budget 2004/05**

(Pulas 10 = £1.07/$1.99/€1.57)

Under the theme of “improving economic performance” comes a budget which is balanced—just.

Finance Minister Baleedzi Gaolathe presented the 2004/05 budget to parliament on February 9th. He gave details of the 2002/03 outturn and revised estimates for 2003/04. He said that the 2002/03 figures, where revenue had been adversely affected by the appreciation of the pula against the US dollar, show a smaller deficit than was anticipated at the time of the 2003 Budget Speech. However, savings by some ministries, particularly Health; and Minerals, Energy and Water Resources, partly offset the reduced revenues. Total revenues and grants amounted to P14.31bn against total expenditure and net lending of P15.71bn, resulting in a final budget deficit of P1.40bn, compared to the original estimated budget deficit of P1.6bn for 2002/03.

The 2003/2004 budget has also been adversely affected by international exchange rate developments. Since early 2002 the US dollar has weakened dramatically against the pula and other international currencies. On the other hand, diamond prices did not increase significantly to compensate for the weakness of the US dollar. The result has been a substantial drop in mineral revenues. Over the same period, the rand strengthened against the pula and major industrial countries’ currencies. Consequently, what the country earns in the international markets for exports has fallen in real terms, while the imports purchased from South Africa cost more in real terms. The net effect has been a substantial real income loss, not only to government, but also to the nation as a whole, “something which is beyond our control,” he explained.

The original 2003/2004 forecast revenue of P17.54bn, which was sufficient to yield a balanced budget, has been reduced to P15.13bn, which is P2.41bn or 13.7% loss in revenue. On the expenditure side, the addition of the two supplementary estimates on the recurrent budget, while maintaining development budget as P4.43bn would have resulted in expenditure and net lending of P17.33bn, which would have contributed to a P2.20bn budget deficit. “Such an outcome would be unacceptable,
as we cannot persistently live beyond our means. Several remedial measures have, therefore, been taken by government in order to achieve a balanced budget as originally planned. These included withdrawing 5% of the recurrent budget, scaling down the development budget by P4bn, asking ministries to exercise strict controls and continuing with the sale of the PDSF loan book. Putting all these measures together, the revised revenue forecast is P16.18bn, while total expenditure and net lending is P16.20bn, resulting in a marginal overall revised budget deficit of P20m for the 2003/2004 financial year, which is essentially a balanced budget,” he explained.

Mr Gaolathe said the revenue picture remained uncertain for 2004/2005. “Performance of the two major revenue sources—Minerals and Customs and Excise depends crucially on what happens to the US dollar and the South African rand in the international currency markets. Government has no control or influence over these developments, therefore, revenue forecasts presented in the 2004/2005 budget are subject to wide margins of error. Total revenues and grants for 2004/2005 are estimated at P18.21bn, of which major items, such as Mineral revenue of P8.07bn constitutes 44%; while Customs and Excise revenue of P3.29bn constitutes 18%; Non-mineral Income Tax revenue estimated at P2.55bn represents an increase of P469m from the 2003/2004 revised estimate, and constitutes 14%; and Value Added Tax revenue of P2.07bn, represents an increase of P345m from the 2003/2004 revised estimate, and constitutes 11%. The Bank of Botswana revenue estimate has declined from P755m in the 2003/2004 revised budget, and constitutes 14%; and Value Added Tax revenue of P2.07bn, represents an increase of P345m from the 2003/2004 revised estimate, and constitutes 11%. The Bank of Botswana revenue estimate has declined from P755m in the 2003/2004 revised budget, and constitutes 14%; and Value Added Tax revenue of P2.07bn, represents an increase of P345m from the 2003/2004 revised estimate, and constitutes 11%.

The remaining P379m (11%) is shared among Communications, Science and Technology (P75m), Trade & Industry (P66m), Environment, Wildlife and Tourism (P63m), Agriculture (P56m), Finance (P46m), Labour (P46m), Foreign Affairs (P2m), Justice Administration (P23m), Parliament (P2m). Total development budget is P3.61bn. (Budget speech, government website)

### Botswana Development Budget

| Ministry | Share | Details | Amount (in millions of pula) |
|----------|-------|---------|-------------------------------|
| State President (P977m) | 27% | HIV/AIDS Programme | 415 |
| | | Botswana Defence Force | 391 |
| | | Police Facilities | 120 |
| Local Government (P695m) | 19% | Primary Schools Programme | 216 |
| | | Village Water + Sewerage | 199 |
| | | Local Authorities Infrastructure | 60 |
| | | Maintenance | 50 |
| | | Urban Land Servicing | 35 |
| | | Public Works Programme | 33 |
| | | Primary Health Facilities | 32 |
| Health (P412m) | 11% | Improvement to Hospitals | 398 |
| | | Institute of Health Sciences | 7 |
| | | Primary Health Care | 3 |
| | | Computerisation | 2 |
| Works and Transport (P345m) | 10% | Secondary Roads Construction | 136 |
| | | Trunk Roads Improvement | 134 |
| | | Government Infrastructure | 46 |
| | | Improvements | 9 |
| Minerals, Energy and Water Resources (P341m) | 9% | Major Villages Water Supply | 197 |
| | | Renewable Energy and Power | 44 |
| | | Facilities | 25 |
| | | Water Planning and Development | 19 |
| Education (P315m) | 9% | Secondary Schools | 148 |
| | | Colleges of Education | 106 |
| | | Brigades Development | 42 |
| Lands and Housing (P147m) | 4% | Government Office Blocks | 71 |
| | | SHHA Development | 32 |
| | | Land Boards | 16 |
| | | Botswana Housing Corporation | 13 |
| The remaining P379m (11%) is shared among Communications, Science and Technology (P75m), Trade & Industry (P66m), Environment, Wildlife and Tourism (P63m), Agriculture (P55m), Finance (P46m), Labour (P46m), Foreign Affairs (P2m), Justice Administration (P23m), Parliament (P2m). Total development budget is P3.61bn. (Budget speech, government website) |

### Improving Efficiency

The proposed development budget for the year is P3.61bn; of which P3.44bn or 95% is for normal development projects; 4% is for implementation of the development programme of parastatals and autonomous organisations; and 1% is for completion of drought-related activities, which will be carried over from the preceding year. This budget is lower than the 2003/2004 revised development budget by P390m. Efficiency gains on all projects will be insisted on.

The Ministry of State President has been allocated the largest share of P977m or 27% of the total development budget. Funding in this Ministry will mainly go to three major projects, namely: the HIV/AIDS Programme with P415m, up from the original estimate of P183m in 2003/04; the Botswana Defence Force with P391m, down from the original estimate of P415m in 2003/2004 and Police Facilities with P120m. These three projects take up 95% of the total State President budget (see box for details).
Total revenues and grants for the 2004/2005 financial year are estimated at P18.21bn, while total expenditures and net lending are set at P18.14bn. The net result is a small surplus of P70m. In the light of the recent series of budget deficits, the attainment of this balanced budget is crucial, said the Finance Minister.

Overall the budget aims to improve economic performance and be a vehicle for sustainable and diversified development. In his conclusion Mr Gaolathe said the budget was presented in the face of a society that is devastated by the scourge of HIV/AIDS. It, therefore, reflects a delicate balance between prudent financial management and maintenance of the social safety nets, especially for the most vulnerable in society. He warned that, unless there was a change in behaviour, the scourge would continue and thanked development partners as well as private foundations for their support in this regard. (Extracted from budget speech to parliament www.gov.botswana)

**Pula Devaluation**

Immediately prior to the budget on February 4th, the Bank of Botswana (BoB) announced a 7.5% devaluation of the pula against other currencies.

In a statement issued by the Minister of Finance and Development Planning, Baledzi Gaolathe, the devaluation was authorised by President Festus Mogae as stipulated under the law. The devaluation follows Gaolathe’s recommendation, after consultations with the BoB.

The pula is pegged to a basket of currencies comprising the South African rand, the US dollar, the euro, the British pound, and the Japanese yen, with weights reflecting Botswana’s trading patterns. A critical element in the country’s overall exchange rate strategy is to maintain a stable and competitive real exchange rate of the pula, primarily through control of domestic inflation but also, when necessary, by changing the fixed nominal exchange rate of the pula against the basket. A stable real exchange rate is important in achieving macro-economic stability, sustained diversified development and job creation, explained The Reporter newspaper (Gaborone). (The Reporter, Gaborone 5/1)

In its post-budget edition The Reporter said that observers had suggested the budget might well have recorded another deficit if it were not for the last minute devaluation. It is clear from the Minister’s speech that he is having problems finding the revenues to finance the development and recurrent budget, the paper said.

He proposes to amend the Income Tax Act to limit or remove various allowances and exemptions, to tax any business income accruing to religious organisations and Charitable Trusts, and generally to remove loopholes and to tighten income tax collection.

One of the several reasons given by the Minister for tightening the budget is government’s decision to accept the recommendations, as amended, of the Presidential Commission on the Review of the Public Service Pay Structures, which will result in an average increase in salaries of 15%. This will cost P600m. (This happened in 2001/02, as well).

Several observers are of the opinion that the timing of the salary increases has to do with the forthcoming elections in which the votes of the 100,000 or so civil servants are critical to a sound victory of the BDP. (The Reporter, Gaborone 13/2) Budget Deficit p. 15851, 2002/03 Budget p. 15072

**THE GAMBIA**

**Budget 2004**

(Dalasis 10 = £0.18/$0.33/€0.26)

The country is dealing with a heavy debt burden and serious trade deficit.

For 2004, the Finance Secretary states, “there are two distinct but interrelated themes that underpin the economic and financial agenda of the government—Empowerment and Stable Growth.”

As another financial year begins, reports indicate that the Gambia’s economic variables have largely deteriorated. Fiscal deficits worsened by 8.4% to D545m in 2002 and further deteriorated by 9.1% to D595.1m in 2003. The worsening deficit is mainly due to increased debt service payments. The deficit for 2004 is D1218.45m.

This means that the debt burden has been increased, with the external debt increased by 15% from D490m in 2002 to D576m in 2003. The total debt of the country (both external and domestic) also increased from D289m in 1994 to D601m at the end of 2002.

And as at November 30th 2003 total debt stands at D666.06m or D20.03bn. Debt service charges accounted for 36% of the budget of D417m in 2002, 31.6% or D539.9m in 2003 and is expected to be 41% or D9994.7m for interest payments alone. These heavy debt burden and high rates of debt service will no doubt affect efforts on fiscal adjustment and to mobilise current and future resources for enhancing economic growth and private and public investments.

In the trade sector, the country has not done better, as the trade deficit grows yearly. It was D1.7bn in 1994, D2bn in 2000, D2.4bn in 2001, D2.5bn in 2002 and D3.9bn in 2003, resulting mainly from escalating imports and decreasing exports. For instance, exports declined by 24% in 1986 to 14.3% in 1995. The value of exports was D417.5m in 2002 and D93.7m in 2003, which represent a massive decline, mainly due to a poor farming season.

The heavy debt burden and the massive trade deficit have contributed to the depreciation of the dalasi and the increased rate of inflation. The dalasi depreciated by 10.9% in 2002. From December 2003 to September 2003 the dalasi depreciated by 43%, 50% and 58% against the US dollar, the pound sterling and the euro, respectively. This has worsened the inflation rate by almost 100% from 8.6% in 2002 to 15% in 2003. The fact that the food and drink category accounts for 72.7% of the rise signals further hardship for the majority of the poor. And this is why the Finance Secretary categorically states “we seem to be on track on education and health, but less successful in improving incomes and purchasing power.” Thus, a key economic determinant factor for poverty reduction is still elusive, that is, increased income.

However, with GDP increase of 8.6% in 2003, increase of re-distributive trade by 14.3%, tourism by 2.16%, communication by 2.2% and a bumper harvest in the agricultural sector, there is hope for a better future. Notwithstanding, there is still an insufficient marketing arrangement for the agricultural sector, which will impact on foreign exchange earning potentials and the earning capacity of some of the poorest in society. (The Independent, Banjul 4/2)

**Dalasi Problems**

Gambia is hoping for an upturn in its financial fortunes in 2004, following a 41% slide in the value of the dalasi against the pound sterling over the last year. Drought hit Gambia hard in 2002, leading to a shortfall in earnings from its principal export, groundnuts, and a rising food (mainly rice) and petroleum import bill in 2003. Skyrocketing prices for basic commodities like rice, oil, soap and meat have hit ordinary Gambians hard. But good
weather last year means food output is looking much better, which should reduce pressure on the local currency. It is hoped that the dalasi’s loss of value over the last 12 months will boost tourist numbers during the current high season.

President Yahya Jammeh has blamed the dalasi’s problems on “economic sabotage being perpetrated by some unpatriotic Gambians in connivance with some foreigners in a scheme designed to destroy the economy.” A blossoming parallel market, along with the government’s own penchant for issuing licences to favoured individuals and companies, has created massive competition, leaving commercial banks unable to keep up. One central bank manager was even alleged to run his own private forex bureau. Gambia has become a hub for buying foreign currencies, which are then sold across the sub-region.

As a result, Jammeh launched “Operation No Compromise” in October, with new measures to regulate foreign exchange dealings and deal with corruption in government. It is yielding some surprisingly positive results. Gambians are pleased to see the exit of Jammeh’s right-hand man Yankuba Touray who was sacked as secretary of state for communication, information and technology in December after failing to refund the unauthorised payment of D3m into one of his own business accounts. The ongoing “Babagate” trial of Baba Jobe, another former presidential aide and House majority leader, is being followed avidly. Jobe, who is wanted by the Sierra Leone war crimes tribunal for gun running and diamond smuggling, is on trial for economic crimes against the Gambian state. He faces multiple charges for failing to pay import duty and other taxes on imports for his business. (Africa Analysis 23/1) 2003 Budget p. 15518

GHANA
Budget 2004
(Cedis 1,000 = £0.06/£0.11/€0.09)

There are no tax increases in this “business-friendly” finance bill.

Ghana’s Minister of Finance and Economic Planning, Yaw Osafo Maafo, on February 5th presented the budget and financial statement to parliament.

details of the budget squarely fit his assertion that the government has designated 2004 a business-friendly year. He said there would be no increase in any tax in 2004 in view of the good partnership Ghanaian workers had forged with government in the face of difficult times. He said the threshold of tax had been increased from cedis 1.2m (about $140) to cedis 1.5m.

The Minister also announced a corporate tax relief of 25% instead of 30%. Structural income tax with regard to agro-food processing will attract tax holiday for five years. Setting up agro-processing ventures in the northern, upper east and upper west regions will attract zero corporate tax. In addition, wood processing companies which process waste will also enjoy a tax holiday for the first seven years.

On the Ghana Commercial Bank, Mr Osafo Maafo said payment of VAT on imported raw materials was abolished. Logs and lumber imported into the country will not attract import duty and neither will irrigation pumps.

The Finance Minister told parliament that foreign exchange reserves at the Bank of Ghana could cover imports for four months; the highest since 1990. He said the ministry of Works and Housing is to take stock of low cost houses with a view to selling them to sitting tenants. Proceeds from such sales will be used as seed money for rural housing projects.

The Minister added that the government had been able, within three years, to move the economy from “a state of desperation to that of hope.”

Total receipts for 2004 are estimated at €24,853.0bn. The contribution from tax revenue is projected at €16,854.8bn, while non-tax revenue is estimated at €517.0bn.

Foreign grants disbursements are projected at €3,053.8bn, of which HIPC assistance from multilateral development partners is €995.1bn. This is in addition to the traditional programme grants estimated at €1,188.0bn, and project grants of €870.7bn.

Revenue from other receipts is estimated at €4,427.3bn, which includes divestiture receipts of €426.8bn, project loans of €1,621.5bn and programme loans of €980.0bn.

The total receipts includes exceptional financing of €2,950.7bn, comprising traditional debt rescheduling of €1,147.4bn and HIPC relief of €512.9bn from non-multilateral development partners. A gap of €965.4bn is included in the exceptional financing for which the country will call upon its development partners to provide additional concessional programme funding.

Total payments are estimated at €24,853.0bn, made up of Statutory Payments of €9,870.5bn and Discretionary Payments of €14,982.5bn.

Statutory payments include external debt service of €3,658.8bn on accrual basis, out of which €972.1bn is earmarked for external interest payments. Domestic interest payments are estimated at €2,456.5bn including accrued interest payments for the restructured TOR debt that was taken over the government.

For 2004, the District Assemblies Common Fund (DAVF) is projected to receive €787.2bn, while an amount of €810.5bn is estimated to be transferred to the Ghana Education Trust Fund (GETF). The government will remain current on all transfers to the GETF and the DACF, and will pay the €97bn due under the medium-term plan for eliminating arrears to those statutory Funds.

Transfers to households, which include pensions, gratuities and social security payments on behalf of workers, are programmed at €1,475.3bn.

An amount of €420.4bn has been allocated to the National Health Fund under transfers, to support the implementation of the National Health Insurance scheme.

An amount of €607.7bn has also been earmarked for the Road Fund, while other Petroleum-related Funds will receive €74.6bn.

Personal Emoluments are estimated at €6,631.9bn, while expenditures in respect of Administration and Service are programmed at €2,734.3bn. Total investments are also estimated at €3,725.7bn, out of which €2,492.2bn will be foreign-financed.

Government has earmarked an amount of €392.0bn for utility price subsidies to ameliorate the adverse price effect on life-line consumers.

Poverty reduction activities for the year will benefit from an additional allocation of €1,206.4bn through the HIPC Relief. (Budget speech, Ghana government website, R. Accra 5/2: BBC Mon.)
Too Little Too Late?

The minority spokesman on Finance, Mr Moses Asaga, described the 2004 budget statement as an “electioneering budget.” Speaking in an interview with The Chronicle, Mr Asaga said the tax relief announced in the budget was “too little, too late,” and vindicated the NDC (National Democratic Congress) presidential candidate, Professor John Atta Mills’ statement that a heavy tax burden was stifling private industry and the general business environment.

He said it was a pity that these tax breaks were now coming at a time when many businesses had collapsed and people had lost their source of livelihood.

He described some of the tax relief as nothing new, especially the five-year holiday for the agro-processing industry. Tax breaks for rural industry were also not new.

He said the budget failed to address the issue of unemployment which had increased from 30% to 45% and did not put forward any proposals to cushion low income workers who could not afford to pay high hospital fees, high school fees, high electricity and water tariffs which had increased by over 200% in the last three years and very expensive housing rents.

Life could get harder with the prospect of petroleum price deregulation to start this quarter as announced by the Minister and the expected increase in utility tariffs especially in electricity and water, he said.

Mr Asaga said the government had failed to achieve a single-digit inflation target it promised Ghanaians for the year ending 2002. Inflation bounced back from 15% to 30% and 22%, far above the single digit. (Ghanaian Chronicle, Accra 6/2) 2003 Budget

FINANCE AND MARKETS

COMESA

Single Currency Dream

The enlargement of the market means there are huge challenges ahead.

Coming up with a single currency in the Common Market for Eastern and Southern Africa (Comesa) will take some time, secretary general Erastus Mwencha has said.

Mr Mwencha said in Lusaka recently that though a single regional unit would be a very ideal situation, a lot of factors would have to be taken into consideration before member states could think of doing so.

“Economies in the region are different, and situations differ from one country to another. Regional economies have to be harmonised before Comesa can think of coming up with a single currency,” Mr Mwencha said. He said individual governments had to be committed to meeting strict economic goals. “But this is where the problem is. Some governments continue to borrow heavily and tend to crowd out the private sector, while there are also other factors like peace and stability that have continued to be lacking in most parts of the region. “It is things like this that make it very difficult for Comesa to harmonise regional economies and come up with one currency.”

And Mr Mwencha said it was good that Burundi and Rwanda had finally joined the regional grouping. He said though Rwanda had indicated its intentions earlier, it was good that the final formalities had been concluded: “Rwanda has always been there in Comesa and its government had shown commitment to being a member.” Mr Mwencha envisaged further growth in 2004 and lauded the joining of the two counties into the regional grouping.

Africa Analysis pointed out that Burundi and Rwanda, are countries still struggling to establish peace, both domestically and with their neighbours. With insecurity still a major problem, they are years away from being able to focus on meeting strict macroeconomic goals, like lowering inflation, reducing budget deficits and eliminating central bank financing of government spending-prerequisites for establishing a monetary union. Those targets will prove troublesome even for the region’s most developed states, like Egypt. Many members also have tremendous debt service ratios (annual debt service as a ratio of annual exports) of 20% to 30%, which are a major constraint on development. The creation of a Comesa customs union with a common external tariff, scheduled for 2014, is in itself a very ambitious goal.

The dream of a regional currency is a potent symbol that is popular with many regional leaders, but it will not address Comesa’s problems, says Africa Analysis. It may produce low inflation but it will never guarantee growth. If launched too early, it could simply depreciate and become a symbol of Comesa’s weakness. At worst, it could distract from more important, basic issues like ending regional conflicts and improving transport and communication links.

For Comesa to develop a single currency, it would best be built around one single, strong currency, ideally the East African shilling, if Kenya, Uganda and Tanzania succeed in developing a credible monetary union, or else be linked to the euro, as the CFA franc zone is. This would give it a vital anchor of stability. States must also be forced to choose one regional grouping to tie themselves to, instead of straddling several as the Democratic Republic of Congo currently does. (The Times of Zambia, 26/1, Africa Analysis, 6/2) World bank loan p. 15696

GUINEA

Precarious Currency

Political uncertainties are behind an unstable franc.

Officially in the last year, the Guinean franc has lost less than 1.5% of its value in relationship to the dollar. Since October
The same phenomenon can be seen for the lel market.

The shilling has fallen to new lows, widely attributed to a government policy of export promotion. Prices for tea have stagnated and coffee has hit an all-time low. However, a weak currency could help efforts to boost the tourist industry, which is also down. (Africa Analysis 23/1)

French Financing

The French financing agency, Proparco, has extended a US$4m (Sh312m) credit line to I&M Bank Limited.

Proparco chief executive officer, Mr Claude Periou, said the long-term credit line is intended to support the bank’s foreign currency lending to corporates.

The financing agreement was signed on February 5th at the bank’s offices, I&M Bank building.

The facility, according to the signed agreement, is expected to meet the bank’s corporate clients’ demand for euros and dollars to finance their capital expenditures. “We are happy to sign this new line of credit to increase the bank’s capacity to support long-term financing to corporates,” said Periou. He said the bank will also be in a better financial position to offer long-term US dollar project financing at competitive rates to companies seeking to make investments in Kenya.

Having been established in 1977 as a private Limited company, wholly owned by the French bilateral donor agency—Agence Francaise de Development (AFD) Group—Proparco, is committed to promoting sound and profitable private ventures. (East African Standard, Nairobi 6/2) Donor pledges p. 15932

NAMIBIA

IMF Urges Privatisation

There is strong opposition to selling off state-owned assets.

The IMF is growing increasingly frustrated with the slow pace of public sector reform in Namibia, and in particular, the Namibian government’s reluctance to commit itself to the kind of far-reaching privatisation programme that Fund officials regard as essential to reduce the substantial subsidies being paid to loss-making parastatals.

Following its latest Article IV consultation with the government in the latter part of 2003, the IMF’s recently-published account praises Namibia’s pursuit of “generally sound” macro-economic policies and welcomes the steps taken so far to reform public enterprises. But although high-level governance and divestiture cabi-
net sub-committees have been established and the government plans to set up a corporate governance agency, little has changed on the ground and corruption within parastatals has escalated.

The “urgency” of privatisation is stressed by the IMF as crucial to reduce the impact of loss-making parastatals on public resources, underpin continued fiscal restraint and improve service delivery and economic performance.

The IMF recognises that this will require “efforts to build political support.” However, it is unlikely that the ruling South West African People’s Organisation (Swapo) will risk alienating its affiliated trade unions, who remain strongly opposed to selling off state-owned assets, in advance of the end-2004 presidential and parliamentary elections.

The IMF has little real power to insist on its policy prescriptions being adopted as Namibia has never borrowed from the Fund and has no intention of doing so.

Following independence, when the incoming Namibian government inherited some $500m of inherited bilateral debt to South Africa, Swapo has stuck by its original commitment not to borrow externally to meet recurrent budget deficits.

Rather, the government prefers to accept interest-free or low-interest bilateral loans, from China and Germany in particular.

This is so mainly because Namibia is classified as a medium-income nation rather than a least-developed country, which means it cannot borrow from most multilateral institutions on concession terms. (Africa Analysis 6/2) Additional budget p. 1585C

SOUTH AFRICA
Strong Rand Erodes Profits

There are signs that the rise of the currency is ending.

Soaring gold prices have sent mineral stocks surging, but in resource-rich South Africa, there is one place that gold’s soft glow may not show up: the profit columns of gold-mining companies.

Analysts say that earnings of South African gold miners for the last quarter of 2003 will rival the companies’ poor results in the third quarter. A two-year advance in the value of the rand, South Africa’s currency, has depressed earnings.

Though the rand weakened in January, its overall strength virtually cancelled out the benefits of high gold prices to miners in the last quarter. The rand remains volatile.

The 28% appreciation in the rand from 2002 to 2003 actually reduced, by 16%, the price in rand that South African producers received for their gold, said Roger Baxter, chief economist at the Chamber of Mines of South Africa. (New York Times 28/1)

The Financial Mail, Johannesburg warned that ignoring history by calling for a weak rand could prove costly for the economy. It pointed out that a mere two years earlier the falling rand was blamed for all the country’s economic woes.

Two years on and a strong rand is the whipping boy for South Africa’s economic ills. But is a weak rand really the recipe for economic growth and job creation? Not according to Martin Jankelowitz, head of market and economic research at Investment Solutions, who says, “A weaker rand is not a panacea for South Africa’s economy.”

Chamber of Mines economist Roger Baxter says productivity and flexibility are needed to enable the economy to weather periods of uncertainty. “It is disturbing that a Bank for International Settlements report ranks the rand as one of the world’s most volatile currencies and the one most prone to emerging-market crises,” says Baxter. (Financial Mail, Johannesburg 16/1)

Africa Analysis commented that the rand’s “peculiar bull run” might be coming to an end. (Africa Analysis 23/1)

Effect on Neighbours

The powerful, sustained performance of the rand is leaving a trail of destruction not only through the domestic economy, but is also exerting strain on South Africa’s neighbours and fiscal partners in the common monetary area (CMA).

SADC and other of South Africa’s trading partners in eastern and western Africa are also being battered by the rampant rand. South Africa’s traditionally weak currency was a boon to African importers and contributed to a roaring, if lopsided, trade with them.

A more powerful rand has made South African goods unaffordable to its regional trading partners, and they are now turning to cheaper markets for their imported goods; China, for one, is picking up much of the South African slack while even the traditionally more expensive markets of the US and UK are more affordable by comparison. Quite simply, many African importers are finding it cheaper to buy from distant markets, because the one next door has become too expensive.

The countries in the southern African CMA are dragged along in the wake of the rand’s rampage, and there is little they can do about it. Swaziland, Lesotho and Namibian currencies are all linked to the rand so their own fiscal performances have little to do with the strength of their economies.

In currency scenarios like the present one, the effects can be devastating. Swaziland is a good case in point. “The rand’s strength contributed to a plunge in net foreign assets, and poses a threat to the country’s exports in terms of loss of competitiveness,” says the Central Bank of Swaziland. According to the bank’s most recent quarterly report, the net value of Swaziland’s foreign assets dropped by 20.2% to R2.025bn. That negative impact is also being keenly felt in Namibia and Lesotho. (African Business, December) Interest rate cut p. 15931

STOCK MARKETS

Africa

Investment returns exceeded 50% in some cases.

Nigeria and Ghana topped the six best performing stock markets of Africa on a global rating in 2003. Others are the Uganda, Kenya, Egypt and Mauritius stock markets. According to a statement from the United States Embassy in Lagos, Africa was home to the world’s best performing stock markets in 2003, with returns on investment exceeding 50% in US dollar terms.

The statement said a report from Data Financial Services Limited indicated that average returns on African stock during the year reached 44%. This, it noted, compared favourably with a 30% return by the Morgan Stanley Capital International (MSCI) global index; 32% in Europe, 26% in the US (Standard & Poors); and 36% in Japan (Nikkei).

President, Corporate Council on Africa (CCA), Mr Stephen Hayes, hailed the findings, saying the performance of African markets is “another reason why investors should seriously consider Africa’s emerging markets as places ripe for investment.”

The CCA is a Washington-based organisation of more than 190 US companies dedicated to the strengthening of the US–Africa trade relationship. CCA, quoting Databank, said Ghana Bourse recorded a US dollar return of 144%, outpacing 61
other markets around the world. It observed that the Ghana Bourse over a two-year period from 2002–2003, led the world with a compounded index return in US dollar terms of 256%.

The performance of the Ghana Bourse was driven by cheap evaluations and an improving macroeconomic environment; accordingly, the Standard & Poor’s upgraded Ghana’s Sovereign rating to B+, the statement said. For the Nigerian Stock Market, the release observed that rising crude oil prices, exchange and interest rate stability and cheap valuations were the factors that gave strength to its performance.

Databank, also, found out that Kenyan stocks attracted new attention because of a successful political training in the country, the governments commitment to macroeconomic reforms, government steps to tackle corruption and the resumption of foreign aid. (Daily Champion, Lagos 5/2)

Nigeria

The banking and oil sectors underpin a bullish performance.

Things may be looking up for the Nigerian Stock Exchange. In 2003, the total value of the 265 listed securities surged 78%. Market capitalisation crossed the one-trillion-Naira mark for the first time on September 25th 2003, hitting an all-time high of ₦1,365trn by November 19th. This closed the year at ₦1,359trn, up from ₦763.9bn at the end of 2002. Market turnover rose 100%, from ₦60.3bn to ₦120bn, with equities accounting for ₦113.88bn of the turnover value. Average daily turnover rose from ₦237.2m in 2002 to ₦474.79m in 2003. Whereas ₦67.3bn new issues were approved in 2002, ₦118.02bn new issues were approved in 2003. The number of listed companies rose from 195 in 2002 to 200 in 2003.

Foreign portfolio investment in the Nigerian market in 2003 amounted to ₦1bn and comes mainly from the United Kingdom and Denmark.

Banks accounted for 13 of the 20 most active stocks by turnover volume. While Access Bank was the most traded stock in 2002 and 2003, Nigerian Breweries was the most capitalised stock in both years. Between 2002 and 2003 year end, the market value of Nigerian Breweries rose from ₦114.1bn to ₦238.8bn.

For three years now, Nigerian Breweries has been the stock market’s quoted company. Its market value has grown more than ten-fold in five years, rising from ₦19.9bn at the end of 1998.

The second most capitalised stock in the Nigerian market in 2003 was Guinness Nigeria, with a market value of ₦991bn, up from ₦31.1bn a year before. Companies in the food and beverages sector as well as petroleum marketing sectors recorded the best performance in 2003.

Among big cap stocks, the highest share price gain of 655% was recorded by Conoil, followed by Seven-Up with 356% and Texaco 185%. The all-share index of theNSE rose 65.84% in 2003 to close the year at 20,128.94. It had attained an all-time high of 21,127.24 on November 19th. An ebullient Ndì Okereke-Onyиuke, director general of theNSE, said “the performance of the index attests to the resilience of our quoted companies, which in spite of the difficult operating environment have continued to excel.” Okereke-Onyиuke was in 2002 elected chairperson of the African Stock Exchange Association, ASEA.

A subsidiary of the NSE, the Central Securities Clearing System Limited, CSCS, operates a computerised clearing, settlement and delivery system for transactions in shares listed on the Exchange. This automated trading system has operated since April 1997. It has created a custodian service that meets the needs of local and foreign investors. Stanbic Bank Nigeria, a subsidiary of Standard Bank of South Africa, has set up Stanbic Nominees as a custodian institution through which many foreign investors buy shares on the Nigeria Stock market. To consolidate on its “visionary use of information technology”, the NSE has established an on-line stock monitoring system as part of an interactive website. The NSE says its e-business platform/internet portal is the first of its kind in Africa. According to the Exchange, it is “in the vanguard of securities market development in Africa, deploying technology to accelerate the growth and development of stock market in the continent”.

By the end of 2003, the NSE had concluded its systems upgrade that has boosted its capacity for efficient service delivery. For quoted companies and investors, the market’s impressive performance in 2003 made their dealings with the NSE more than worth the while. (NewsAfrica 27/2)

TANZANIA

Falling Currency

A combination of factors has pushed the shilling down.

The Tanzanian shilling has dropped almost 5% against the US dollar in the first weeks of 2004 after drought hit the country’s agricultural exports hard. As several regions of the vast country suffered severe food shortages in late 2003, the government tried to ease the situation by waiving some taxes for the food importers. The importers grabbed the government’s offer with both hands and scrambled round for precious greenbacks to fund massive food shipments in January. But there were not many to go round. The drop in exports of Tanzanian staples, like coffee and cashew nuts caused by the low rainfall, meant fewer dollars were entering the market. Both factors forced the Tanzanian shilling lower against the US currency.

“The low rainfall we saw really hit agricultural exports hard,” said one currency trader at Standard Chartered in Dar es Salaam. “The cashew nut crop was predicted to come in at something like 80,000 tonnes but it only reached 50,000. Meanwhile, the government reacted to domestic food shortages by lifting some restrictions for importers. The shilling dropped as they took advantage and bought dollars to fund huge importation of foodstuffs.”

Compared with neighbouring Kenya, traders in Tanzania say there is little in the way of market-moving news to change the price of the shilling. Instead, dealers watch for fluctuations in imports and exports that affect the liquidity—or amount of dollars on offer—in the market. These fluctuations are generally cyclical and as they follow Tanzania’s agricultural seasons they are at their mercy. For instance, the rains like those in 2003. As a result, the shilling fell from around TSh1,067/TSh1,070:$1 on December 17th

| Nigeria’s Top 20 In 2003 | Market Capitalisation (₦’Bn) | 1 yr share price change (%) |
|--------------------------|-----------------------------|-----------------------------|
| 1) Nigerian Breweries Plc | 238.83                      | +109.3                      |
| 2) Guinness Nigeria Plc  | 99.11                       | +90.9                       |
| 3) Union Bank Nigeria Plc| 83.93                       | +18.8                       |
| 4) Nestle Nigeria Plc    | 66.05                       | +44.3                       |
| 5) First Bank of Nigeria Plc | 50.97                     | -6.2                        |
| 6) Nigeria Bottling Co. Plc | 60.42                    | +96.88                      |
| 7) Unilever Nigeria Plc  | 55.99                       | +14.6                       |
| 8) Total Nigeria Plc     | 51.99                       | +153                        |
| 9) Cadbury Nigeria Plc   | 48.60                       | +85.8                       |
| 10) Conoil Plc           | 39.44                       | +655                        |
| 11) Mobil Oil Nigeria Plc| 34.61                       | +124                        |
| 12) Guaranty Trust Bank Plc | 32.97                  | +115                        |
| 13) WAPOCO Plc           | 31.75                       | +30                         |
| 14) Texaco Nigeria Plc   | 29.03                       | +185                        |
| 15) Unpetrol Nigeria Plc | 27.85                       | +64                         |
| 16) UBA Plc              | 26.49                       | +79                         |
| 17) M-Net/Supersport Plc | 23.99                       | -4                          |
| 18) PZ Industries Plc    | 15.91                       | +18                         |
| 19) Ashaka Cem Plc       | 15.58                       | +26                         |
| 20) Afrinbank Nigeria Plc| 15.8                        | -2                          |

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to Sh1,110/Sh1,115 on January 28th. But traders said they thought the worst of the falls were now behind them. While they see further depreciation, they expected it to be at a lower pace after the central bank entered the fray.

“Bank of Tanzania said they had enough for any bank that wanted to buy dollars,” said Alex Bgusaru, head of treasury of Citibank in Tanzania. “They sold at around the Sh1,106 level and moved about $25m that day. That cooled off the speculation and gave corporate customers confidence that the government does not really want to see any further depreciation.” “I think it will eventually hit Sh1,120/Sh1,125 in February, but then it will level off as lots of our customers have been hedging their positions,” the Standard Chartered trader said. *(Africa Analysts 6/2)* Food shortfall p. 15899

**ZIMBABWE**

Can the Banking System Survive?

The New Reserve Bank governor’s shake-up is leading to casualties in the shrinking economy.

All the key economic indicators are horrendous. Zimbabwe is again set to keep its position as the world’s fastest shrinking economy, losing almost 9% of its gross domestic product, according to forecasts based on International Monetary Fund (IMF) figures. The official exchange rate of US$1 = ZS55, a convenient and profitable bureaucratic fiction, contrasts with reality on the streets of a current exchange rate of US$1 = ZS4,500. Money market interest rates have surged to 900% from less than 100% a year earlier. In one year, inflation has trebled to 600%.

Since the crisis began five years ago, Zimbabwe’s economy has provided some respite for the wealthy; both the property market and stock market continued to boom, almost in inverse proportion to the bad news elsewhere in the rest of the economy. Even these have succumbed to the gloom: industrial share prices have halved on average in the past quarter (companies that borrowed heavily during the last four years of negative interest rates are now being squeezed by astronomic lending rates). Property prices, too, are beginning to fall: that is due partly to banks and companies, hit by the liquidity crisis, selling property. Market conditions push property prices downwards: banks have less money to lend and interest rates are heading skywards, so there are fewer buyers for more property on the market.

But will the banking system survive the current crisis? Few companies believe it can emerge unscathed because about a third of Zimbabwe’s 17 banks have been ejected from the national bank clearing arrangements. Given the interconnections in the financial system, it will be difficult to quarantine specific banks. A primary cause of the crisis is new Reserve Bank governor Gideon Gono’s insistence on a shake-up of the financial system; he tightened monetary policy, sending interest rates rocketing, and warned banks that they could no longer expect automatic bail-outs from the Bank if in difficulties.

Gono has established a troubled bank fund (he will not say how much it is worth) from which he will draw to help qualifying banks: that is, those that agree to restructure their organisations and operations from which he will not say how much it is worth) Gono has established a troubled bank fund (he will not say how much it is worth) from the Bank if in difficulties.

**AFRICAN CURRENCIES**

Latest market or official rates of African currencies against the pound sterling, US dollar and euro.

| Country or Area | Local Unit | Value of Sterling | Value of Dollar | Value of Euro |
|-----------------|------------|-------------------|----------------|--------------|
| Algeria         | Dinar      | 130.66            | 70.73          | 89.91        |
| Angola          | Kwanza     | 148.32            | 80.28          | 102.06       |
| Botswana        | Pula **    | 9.26              | 5.01           | 6.37         |
| Burundi         | Burundi Franc | 1958.25  | 1060.00        | 1347.58      |
| Comoros Islands | Comoro Franc | 714.90     | 360.98         | 491.96       |
| DR Congo        | Congolese Franc | 714.02      | 386.50         | 491.35       |
| Djibouti Rep.   | Djibouti Franc | 323.29       | 175.00         | 222.47       |
| Egypt           | Egyptian £ | 11.39             | 6.17           | 7.84         |
| Ethiopia        | Nakfa      | 15.88             | 8.60           | 10.93        |
| Ethiopia        | Ethiopian Birr | 15.88        | 8.60           | 10.93        |
| Franc Zone*     | CFA Franc  | 953.21            | 515.97         | 655.95       |
| Gambia          | Dalasi     | 54.96             | 29.95          | 37.82        |
| Ghana           | Cedi       | 16404.90          | 8880.00        | 11289.20     |
| Guinea          | Guinean Franc | 3704.04     | 2005.00        | 2548.96      |
| Kenya           | Shilling   | 141.04            | 76.35          | 97.06        |
| Liberia         | Liberian $ | 1.84              | 1.00           | 1.27         |
| Libya           | Libyan Dinar | 2.39           | 1.29           | 1.64         |
| Madagascar      | Malagasy Franc | 10678.00  | 5780.00        | 7348.11      |
| Malawi          | Kwacha     | 197.30            | 106.80         | 135.77       |
| Mauritania      | Ouguyu     | 490.67            | 265.60         | 373.65       |
| Mauritius       | Maur. Rupee | 47.20           | 25.55          | 32.48        |
| Morocco         | Dirham     | 16.10             | 8.72           | 11.08        |
| Mozambique      | Metical    | 43598.70          | 23600.00       | 30002.70     |
| Nigeria         | Naira      | 252.54            | 136.70         | 173.78       |
| Rwanda          | Kwanda Franc | 1033.71     | 559.55         | 711.35       |
| Sao Tome e Principe | Dobra ** | 16072.40  | 8700.00        | 11060.30     |
| Seychelles      | Sey. Rupee | 10.19             | 5.52           | 7.01         |
| Sierra Leone    | Leone      | 4526.14           | 2450.00        | 3114.70      |
| Somalia Republic | Som. Shilling | 4840.00  | 2620.00        | 3330.81      |
| South African Rand† | Rand     | 12.87            | 6.47           | 8.86         |
| Sudan           | Sudan Dinar | 481.15           | 260.45         | 331.11       |
| Tanzania        | Shilling   | 2042.30           | 1105.00        | 1405.42      |
| Tunisia         | Tun. Dinar | 2.23              | 1.20           | 1.53         |
| Uganda          | Shilling   | 3450.62           | 1067.50        | 2374.15      |
| Zambia          | Kwacha     | 8867.53           | 4800.00        | 6102.25      |
| Zimbabwe        | Zimbabwe $ | 6601.33           | 3573.31        | 4542.75      |

* Franc Zone in Africa includes Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Republic, Cote d’Ivoire, Equatorial Guinea, Gabon, Guinea-

† South African Rand Parity includes Lesotho Maloti, South Africa, Namibian Dollar, Swaziland Emalangeni.

** Pula devalued by 7.5% on February 5th (p. 15965).
Africa and Stanbic—have not been upset by the crisis and are mopping up business from their locally owned rivals.

**Liberalisation At Gunpoint**

It may be humiliating for the ZANU-backed entrepreneurs but it means the current crisis may just stop short of financial meltdown, in the same way that the government’s deregulation of fuel prices has stanchened the worst fuel shortages, although prices have gone sky high. The parallel market in fuel is over now that filling stations can charge what they like. Initially, the price per litre of petrol jumped to Z$3,200 but has now fallen back to Z$2,900 as more imported fuel has come in. In reality, there was usually plenty of fuel in the country but most traders had sought to capitalise on the crisis by stockpiling it as the ZS continued to plummet and take bigger profits later. Fuel liberalisation and a strengthening (albeit temporarily) dollar make such deals far less lucrative. Gono’s changes in exchange rate policy also cut into some of the profiteering on the dollar’s slide. These measures, however, will put the squeeze on the elite, who have been able to survive in the crisis by adopting West-African style commercial tactics of making money out of the bureaucracy.

One economist describes the government’s current strategy as “liberalisation at gunpoint” but argues that this is only crisis management and does not begin to tackle the underlying causes. Paradoxically, the current crisis has forced the government to impose policies it had previously rejected from the IMF. This is just at the point when the Fund is considering expelling Zimbabwe for non-payment of some US$270m of arrears.

Senior IMF officials hope that some political solution may be found to delay any such move but with total foreign payments arrears of over US$1.4bn, Zimbabwe will be hard-pressed to restart payments. The cost of not doing so would be terribly high. Already, most foreign credit lines have been cut; expulsion from the IMF would mean the loss of most of those remaining and a huge delay in economic recovery when the political situation stabilises.

Most people are exercised by more mundane imperatives: finding food. On January 20th, the European Commission donated Euros 20m (US$25m) to the United Nations World Food Programme’s food pipeline for Zimbabwe after its shortfall of cereals (in which it was formerly self-sufficient) was estimated at 1.28m tonnes. Food shortages rather than ailing banks are likely to be the most powerful driver of political change. (Africa Confidential, London 23/1) Bank crisis Vol. 40, p. 15948

**IN BRIEF**

**Burundi**: Over $1bn has been pledged by foreign donors for the rebuilding of the war-torn country. (SouthScan 23/1)

**Lesotho**: The IMF has completed the fifth review of the country’s economic performance under an SDR 24.5m PRGF arrangement. This opens the way for release of a further SDR 3.5m (about $5.2m). (IMF press release 21/1)

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**Communications and Transport**

**AIRPORTS AND SERVICES**

**Nigeria**

The former head of *Nigeria Airways* resurfaces as its managing director.

Drama and confusion were the order of the day at the premises of *Nigeria Airways* (NAL) in January as Jonathan Jiya, who resigned a year ago in protest at government interference in the management of the airline, took over from Andrew Okunuga, who had been acting as managing director.

The reinstatement of Jiya, according to some aviation experts who spoke to *Newswatch* under anonymity, shows government’s insincerity in the whole liquidation saga. The question they are asking is: what is Jiya coming to do in view of the fact that NAL is currently undergoing liquidation? It was speculated that government might have decided to bring Jiya back due to widespread criticism over the liquidation of NAL.

Aviation industry watchdog, the Nigerian Aviation Safety Initiative, NASI, however, commended the federal government over the reinstatement of Jiya, saying the development has brought into focus the flawed procedure adopted for its ill-considered liquidation.

Jerry Agbeyegbe, executive director of NASI said, “For his return to Nigeria Airways to be meaningful, our hope is that government will cause a review to be conducted on the highly irregular process employed in the privatisation of the airline.”

Prior to the liquidation, Aviation Grand Alliance, an umbrella body of the National Association of Aircraft Pilots and Engineers, NAAPE; National Union of Air Transport Employees, NUATE; and Air Traffic Senior Staff Association of Nigeria, ATSSSAN, had gone to court to stop government from liquidating the airline.

They had insisted that before any sale or liquidation could happen, all labour issues vis-a-vis wages, terminal and severance benefits and pension as provided by the Pension Act 1979 Decree 102 of 1979 and the Privatisation Act of 1999 must be strictly adhered to. Their prayers were granted by the now controversial Justice Wilson Egbo-Egbo. But this court injunction did not deter government from the liquidation. NAL pensioners are owed about N6.2bn.

According to Agbeyegbe, “for the avoidance of any doubt, NASI wishes to restate its unequivocal commitment to the privatisation of Nigeria Airways which we believe is the only way forward for the national carrier, a view we believe also holds true for most progressive elements in the industry. It is equally our firm belief that to guard against the pitfalls of the past and guarantee a successful privatisation exercise, the federal government, particularly the Ministry of Aviation and the Bureau of Public Enterprise, BPE, must display a change of attitude towards the management of the beleaguered airline and its staff,” he added. (*Newswatch* 26/1) Seeking lost airline money p. 15893

**South Africa**

*South African Airways* (SAA) is revamping its aircraft in order to comply with environmental laws set by the International Civil Aviation Organisation.

SAA, which has 66 aircraft in the Boeing 747-400 series which carry 352 passengers, is replacing them with the Airbus
A340-600 aircraft which carries 339 passengers. It has 10 Airbus aircraft and the latest was bought in January. “The airbus’s engine has low noise emissions and this is more environmentally friendly, unlike the Boeing 747,” Rethabile Matsheke, the regional manager, recently said.

She said they hoped to phase out the Boeing series by the end of this year.

SAA is celebrating 70 years in the business and has been named the best airline in Africa for the 13th consecutive time by the Travel Weekly Globe Awards. The airline reached 700 destinations worldwide. (New Vision, Kampala 6/2)

Meanwhile PANA reports that passenger traffic between Reunion and South Africa surged 24% in 2003, according to sources at the island’s Roland Garros International Airport.

Traffic to and from South Africa was highest compared to other destinations, with the opening last year of a second direct weekly flight between Saint-Denis and Johannesberg by the Air Austral company. (PANA 4/2)

**Zimbabwe**

The International Air Transport Association (IATA) has suspended Air Zimbabwe’s membership over a debt of US$1.3m.

Air Zimbabwe chief executive, Rangai Chingwena said the airline was suspended on February 3rd over debt owed to IATA, the global aviation body, which had been outstanding for a protracted period.

The suspension means Air Zimbabwe cannot book passengers onto other airlines on routes it does not cover.

Chingwena said the state-owned carrier had appealed to the government to bail it out of the arrears owed IATA.

“We are hoping that the issue will be resolved as soon as possible,” he said. The IATA Clearing House is an internationally-recognised entity through which airlines settle their bills owed each other.

Meanwhile, the airline has embarked on a major restructuring exercise that is expected to result in the reduction of costs and the emergence of a leaner, efficient workforce.

The exercise, which started in January, has already seen some changes in top management where second-level managers were reduced from seven to four through the merger of different departments. Mr Chingwena said that like all restructuring exercises he could not rule out possibilities of job losses due to the merger of departments.

On the issue of pilots, Mr Chingwena said they were expecting to beef up the number of their pilots during the next four months.

The airline, which has been losing pilots to other international airlines, expected to engage three pilots due to complete their flight training courses at the end of February.

An additional eight pilots were expected to join the airline during the next three to four months to bring the staff complement in that department to 45. (The Herald, Harare, 5/2)

**PORTS AND SHIPPING**

**Benin**

Cotonou fishing port is to be modernised.

According to Victor Akpachossou, head of the industrial maritime fishery division at the Fisheries department, work was due to begin on February 5th. The Japanese International Cooperation Agency will fund 92.38% of the work, while the Beninese government will contribute $554,960 toward the project, which will cost about $7.3m.

The works will include the construction of two unloading docks, warehouses for fishing engines, a repair workshop, a water tank and a pump room.

The port will also be equipped with an ice plant and a cold storage, a cold chamber, a power generator, a laboratory, offices with research materials, rescue arsenal and communication equipment.

Local fishermen, particularly those using Cotonou port, who have long complained about the unsuitability of the obsolete port facilities dating to 1960, will reap vast advantages from the new infrastructure. Some 4,000 fishermen will increase their activities, which represent more than 2% of GDP.

The project, expected to be completed in four months, will boost revenue receipts of the Cotonou fishing port that currently earns over $19.14m annually. (PANA 4/2)

**Economic Aid**

**EUROPEAN UNION**

**Zambia:** The European Community (EC) has set aside Euros 30m for Zambia’s 2004 budgetary support. The EC might release the money to Zambia in May depending on how the government executed the public staff monitoring programme.

The EC was among the major players in 2003 that released some balance of payment support to Zambia, and released Euros 28m towards the close of the year. (The Times of Zambia, Lusaka, 2/1)

**UNITED NATIONS**

**Burundi:** Burundi expects to get US$99m from the World Bank in the form of aid and loans to finance various social economic sectors, as well as formate projects of the specific programme for the Development of Agriculture in Africa (PDAA). (PANA, Praia, 2/1/1)

**Cape Verde:** Cape Verde has received $120,000 from the Food and Agriculture Organisation (FAO) to prepare a medium-term national investment programme, as well as formulate projects of the specific programme for the Development of Agriculture in Africa (PDAA). (PANA, Praia, 2/1/1)

**Guinea Bissau:** The World Bank has agreed to provide $13m of emergency aid to the cash-strapped transitional government of Guinea-Bissau to help it pay compensation for damage to private property inflicted during the civil war of 1998–99 and to finance a demobilisation programme for former combatants. Part of the money will also be used to compensate depositors in a collapsed state-run bank, Banco International da Guine-Bissau. (IRIN, UN, 7/1)
ROADS AND RAILWAYS

Congo

Services between two key economic centres are set to resume.

The first passenger train from Brazzaville to Pointe Noire left in early January. The heavily guarded train pulled out of the station on a journey that has in the past been synonymous with attacks by uncontrolled militia and corruption and insecurity on board.

“This is a test train. If all goes well—by that I mean that if there are no incidents during the journey—we will organise several trains between Brazzaville and Pointe Noire and vice-versa from [February],” said senior railway official Kodia Mankessi.

Passenger services were halted in April 2002 on the railway—a 500 kilometre (300-mile) stretch between the capital and the coast—after a series of attacks on trains by the Ninja militia, a remnant of the private armies used by political parties in Congo during civil wars in the 1990s.

Freight service continued after the Congolese authorities placed army units on board the trains to protect goods and staff.

However, the soldiers were accused of extorting money from the few passengers on board, stealing from the trains’ cargos and allowing clandestine passengers to travel on the train on payment of an illegal fee.

The troops were replaced in October 2003 by officers from the national gendarmerie—the force police administered by the Defence Ministry.

The line is vital to the Congolese economy as it is the primary communication route between Brazzaville and Pointe-Noire.

Every sort of cargo, including oil and industrial products, is carried on the line between the two cities. (AFP 25/1) Railway “liberated” Vol. 39 p. 15178

Ghana

Road building is essential to development.

As work began on a new stretch of road that will improve Ghana’s infrastructure links with neighbouring Burkina Faso, World Bank Country director Mats Karlsson revealed that his institution had committed a further US$1bn to projects, including road building.

Vice-President Alhaji Aliu Mahama inaugurated work on the 33km Dzindzin-Dodo Pepesu section of the Jasikan-Breweniase trunk road on the Volta Region (southeast). The 41.6bn-cedi road project is expected to be completed in 24 months and will shorten considerably the travelling distance and time between southern and northern Ghana. The Jasikan-Breweniase trunk road is an integral part of the Trans West African Sahelean Highway which stretches from the Tema Motorway in the south through Kulungugu in the northeastern part of the country to neighbouring Burkina Faso.

Top International Engineering Corporation of China is constructing the Dzindzin-Dodo Pepesu section of the trunk road.

Alhaji Aliu regretted the neglect of the road despite the fact that the area is the highest producer of cocoa and other agricultural products in the region.

The Minister of Roads and Transport, Dr Richard Anane, hoped the construction of the road would improve social and economic activities as well as reduce road accidents in the area. Ghana has about 32,250km of roads, of which about 12,000km are main roads, yet only about 6,000km are paved. The remainder are dirt roads, at best graded and levelled by machines. The money will be made available over a four-year period. A World Bank employee, who declined to be named, said the funds could be dispersed over more than four years subject to the efficiency of the Ghana government. Government action plans are typically derailed in election years, and with legislative and presidential polls due to be held this coming December, the World Bank’s commitment could well stretch out beyond the planned cut-off date of 2007.

According to John Mahama, member of parliament for the Bole/Bamboi Constituency on north-eastern Ghana, road building is a “critical” element in speeding up Ghana’s progress.

There is no tarred road linking Bole/Bamboi with the south of the country. In fact, the road is so bad that the State Transport Company, which runs the national bus service, recently threatened to end its service to Bole unless something was done about the potholed dirt roads.

Though Bole/Bamboi is one of the most fertile regions in Ghana, farmers struggle to get their produce, yams, cassava and shea nut, south to market. Similarly, all the region’s petroleum needs have to be supplied via tankers that laboriously crawl along the bumpy tracks. (Ghanaian GBC radio 19/1; BBC Mon., IRIN 20/1) Road contract Vol. 39 p. 15230

Kenya

New safety regulations cause problems for public transport vehicles and passengers.

The new safety regulations which took effect on January 31st caused the over 44,000 PSV operators to suspend business countrywide, as vehicle owners made last-ditch efforts to comply. Kenyans without personal transport means were walking to work as the government insisted that all PSV must have speed governors and seatbelts fitted to forestall mass road accidents.

Transport and Communication Minister John Michuku said the government identified the transport sector as the “third pillar” of economic recovery efforts towards achieving an ambitious 7% annual economic growth rate.

Under the new law, PSV operators are required to cut down the number of passengers from 18 to 14, paint yellow stripes on their vehicles and obtain identification badges from the Kenya Revenue Authority.

It also requires the notorious touts to obtain certificates of good conduct, maroon uniforms and become permanently employed staff, who will be taxed by the government.

PSV owners vehemently protested the new regulations after their vehicles were forced off the roads. Several fatal accidents had occurred as people struggled to get to their work places, PANA reported on February 5th.

“The cost of accidents to the economy is enormous, road accidents are currently the third highest cause of death after HIV/AIDS and malaria. We estimate that we could be losing about 0.7% of Gross Domestic Product (GDP) because of accidents,” Michuku said in defence of the new regulations.

Road accidents kill about 3,000 Kenyans every year in an average of 13,000 accidents caused by 26,000 vehicles. Michuku said that the government records about 2,600 fatalities and 11,000 injuries annually. (PANA 5/2)

Meanwhile Sweden has provided about $9m to construct and maintain roads throughout Kenya. The funding was based on the realisation that improved road network was cardinal in jumpstarting economic development, especially in the rural areas, Swedish International Development Agency (SIDA) country coordinator Mariah Stridman explained. (PANA 6/2)

The government has, The Nation (Nairobi)
reports, contracted the Japanese International Cooperation Agency (JICA) to carry out a feasibility study on a Nairobi street plan, aimed at easing traffic congestion and improving road safety. It will assess the impact of the construction of the southern bypass and its links to primary roads and junctions and improve current road structures. (*The Nation, Nairobi 6/2*)

**IN BRIEF**

**Angola:** The bridge over Lumeje river, on the route linking Luene and Luau districts, eastern Mozico province, will be concluded in March. Repair work on the bridge, destroyed in 1975, started in November and has cost about $225m (US$284,000). It will enable a better flow of goods and people within the districts situated along the Benguela Railway (CFB). (*Angop 2/2*)

**Sudan:** The Arab Fund for Economic and Social Development, based in Kuwait, has granted a loan of $31.5m for construction of the Gedaref-Dokai-Galabat road, linking the east of the country with *Ethiopia*. The loan is repayable in 25 years with a six-year grace period and an interest rate of 3%. (*Marches Tropicaux, Paris, 6/2*)

**TELECOMMUNICATIONS**

**Algeria**

The state-owned phone company *Algerie Telecom’s* distribution plan is behind schedule.

Algerie Telecom, operator of the first GSM phone licence, will distribute its 500,000 GSM lines beginning in the first quarter of 2004. The network, which is currently under construction, was to be operational on January 10th, 2004 according to the company’s CEO Messaoud Chettih. The company is behind schedule, since the lines were initially slated to be made available to subscribers in December 2003. According to Mr Chettih there was a delay in receiving the equipment ordered from European supplier *Ericsson*.

In addition to the actual equipment, the head of Algerie Telecom also reported that his company faced unexpected difficulties from the financing side, which led the negotiations with banks to last more than a month. The financing difficulties relate to the new rules issued by the Algerian financial authorities on credits and loans, following the Khalifa Bank and BCIA Bank scandals that have rocked the Algerian banking system. With new banking rules in place, Algerie Telecom had to provide additional guarantees to secure its loans. The telecom company’s own investment needs amount to some Algerian Dinars 70bn, with the goal of boosting Algeria’s teledensity to 12%. Teledensity today in Algeria is just 6% with 2.7m fixed lines. The rate of saturation of the fixed network in many regions has reached the critical rate of 80%, while the backlog for new lines is 730,000. Algerie Telecom generates about AD 27bn in revenue each year from its fixed telephony service and employs 20,500 workers.

The Algerian GSM market will likely reach 10m subscribers in 2010 but Algerie Telecom still controls the fixed telephony market. The company says it plans to provide service to all areas with at least 1,000 residents. Chettih also announced that 58 companies have been pre-qualified for the distribution of the mobile phone chips. (*North Africa Journal 19/1*)

**Nigeria**

Mobile phone operators continue to make a fortune despite providing poor services.

Ever since the two major GSM operators in Nigeria temporarily suspended the sale of their lines to allow for an upgrade of the capacity of their systems in early 2003, the fast-growing industry has never been the same. Services have slumped to an all time low and seem to be getting worse even a year after.

Before the beginning of 2004, all the networks except public telecoms corporation *Nitel* had similar problems: “busy network” that made calls impossible, unsolicited diversion of calls, text message failures and even artificial scarcity of recharge cards. Particularly disturbing were issues of call drops and the surcharging of undeivered text messages.

All through the Christmas period it was near impossible to make calls. Worse still, dealers hiked prices of recharge cards indiscriminately as artificial scarcity reigned. But all these put together were as nothing compared to the problem of interconnectivity, in spite of repeated promises by the operators to improve on the situation. The problem has become such that most heavy phone users now have to carry three or more handsets belonging to different operators to make up for problems of interconnectivity.

The Nigerian Communications Commission (NCC), whose duty is to protect the consumer’s rights seems to have been rendered impotent despite its long list of

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regulatory guidelines. Its chief executive Ernest Ndubue says, “The telecoms environment cannot be hitch-free until the year 2004/2005. It will take years before telecoms in Nigeria become perfect…”

With or without NCC, Nigerians are determined relenting in their bid to get a better service from GSM operators. The House of Representatives’ committee on communications chairman, Yemi Arokode- are, says the parliament would work out the appropriate legislation that would enable consumers to seek redress. It is one area the committee has decided to concen- trate on in 2004. (Africa Today, February) Competition brings reduced tariffs hopes vol. 40, p. 15824

Sudan

With the peace initiative in the south gaining momentum, Arab investors are eyeing potentially lucrative deals.

United Arab Emirates’ satellite-based telecom service provider Thuraya has entered into a joint venture with Sudan Telecom (SudaTel) to offer its comprehen- sive IT packages in Sudan. The assessment in Dubai is that the Sudanese economy should start to improve in the near future and that this will lead to increased demand for telecommunication services across the country.

Market penetration for mobile phones in Sudan has been rapid. With a second GSM service coming on stream in February it is expected that the number of mobile phone subscribers will have surpassed fixed line connections.

The new company will operate as Thu- raya-SudaTel, with a capital base of $2.5m. Thuraya holds 80% and SudaTel the remaining 20%.

The new company will be responsible for all sales, distribution, marketing and cus- tomer support activities for Thuraya ser- vices in Sudan. These will be extended throughout the country to provide mobile, fixed and rural satellite telephony to remote areas.

Thuraya-SudaTel intends to market its fixed line satellite pay phones at a 25% dis- count to mobile sets and gradually reduce the charges. These costings are based on estimates that revenues will reach $30m a year by the end of the first five years.

By then it is expected that the GSM service will have 40,000 subscribers using hand- sets and 5,000 satellite-based public call offices across Sudan. Once established in Sudan, the new venture plans to expand its operations to other markets in Africa.

Thuraya is now linked, via SudaTel, with a group of UAE business people who bought a 20% stake in the Sudanese operators last August.

SudaTel is listed on the Bahrain and Abu Dhabi Stock Exchanges. On its own behalf, Thuraya is also a shareholder in SudaTel. (Africa Analysis 23/1)

Commodities

MARKET REVIEW

OIL

OPEC Cuts Output

The oil cartel aims to avoid past mistakes.

The Organisation of Petroleum Exporting Countries (OPEC) has promised to cut 10% of its output by April, in a bid to prop up prices before the summer, when demand in its largest markets falls steeply.

The powerful 11-country oil cartel, meet- ing in Algiers on February 10th, resolved to stop cheating on its 24.5m barrel a day quota immediately, a move that would cut output by 1.5m barrels a day.

OPEC’s 10 active members then intend to reduce their quota on April 1st by a further 1m barrels a day to 23.5m.

Recently, oil prices have been consistently above OPEC’s preferred range of $22–$28 a barrel, although this was defined before the dollar’s decline.

Ali Naimi, Saudi Arabia’s Energy Minis- ter, said, “The price now is high, but do you know what the price will be in April, May, June? Should we wait until we have a crash and then work like we did last time? In 1998 it took us almost two years to get things back to normal.”

Analysts said the impact of the announce- ment was expected to be limited by the fact that OPEC members, desperate for reve- nue, were unlikely to adhere to all the cuts.

The February 10th decision came as a sur- prise to investors in commodity futures and crude oil prices moved higher as a result.

“Reducing output by this amount is feas- ible, but it is a bigger cut than our numbers suggest,” said Kevin Norrish, strategist at Barclays Capital. “This is likely to mean very high and volatile prices going into peak demand season.”

OPEC will hold its next meeting on March 31st in Vienna, just ahead of the planned cut, to judge whether its implementation is still needed.

The pre-emptive move was seen by some analysts as a signal that OPEC means to keep prices at the top end of its target range and perhaps increase that range.

THE $22–$28 RANGE IS NOW MEANINGLESS AS PRICES HAVE ALREADY BEEN ABOVE THIS FOR MANY DAYS,” SAID EDWARD MEIR AT MAN Financial. “They should raise the band in alignment with where prices are currently moving—somewhere between $27 and $32. (Financial Times, London, 11/2)

Positive Start for Minor Metals

Cobalt was once again the most exciting of the minor metals markets, as prices for the high grades rushed through the US$30,000/lb barrier on news that Chi- na’s cobalt consumption is estimated to be 6,786 tonnes in 2003, up 36% year-on-year. Potential supply-side disruptions have also fuelled a sharp price rise.
Following the recent surge in base metals prices, the current consensus among analysts is that prices are already close to their peaks for 2004.

The latest Reuters poll of base-metals analysts (see box) predicts that prices will, on average, be 25% higher in 2004 than in 2003.

Despite the recent retrenchment in prices on the London Metal Exchange, prices are already, averaged across the board, 35% higher than their 2003 averages.

Clive Burstow, a cobalt analyst with Metal Bulletin Research, is cautious that the current high price levels may prove damaging for the cobalt market in the longer term. He says the battery sector is already, where possible, reducing the amount of cobalt used in batteries, and users from the aerospace industry are buying on a hand-to-mouth basis.

He feels the price may well move higher in coming months, although the record peak of US$45/lb in 1978 is unlikely to be matched. He expects the price to soften later in the year. (Mining Journal 16/1)

Gold-Investment Up, Fabrication Down

GFMS Ltd believes that in the first half of 2004 rising investment demand will be the main driver for gold prices.

It notes there has been some widening of investor interest in gold, a trend GFMS expects to gather pace in 2004.

However, the outlook for jewellery demand is poor. GFMS forecasts that following an estimated 7.1% decline in jewellery demand in 2003 (to its lowest level since 1991), a fall of over 9% is expected for the first half of 2004.

Meanwhile, mine supply increased slightly in 2003 to 2,601t, the second-highest level since records began and the first rise in mine production in five years. GFMS estimates that the global hedging book contracted by 13% (310t) in 2003, and this trend is expected to continue into 2004 with a forecast reduction of 110t in the first half of the year.

Based on its analysis of the gold market, GFMS forecasts that the gold price will climb over US$450/oz by the middle of the year.

GFMS did not participate in the Reuters poll of analysts’ precious metals forecasts, a summary of which can be seen in the tables. (Mining Journal 16/1)

Meanwhile, South Africa is losing out, writes Financial Mail (Johannesburg). This is a direct result of the strength of the rand, and the cost to the country is huge. Investments worth billions of rand to increase or maintain output are being delayed or shelved. Gold mining groups are looking for growth in other countries, where costs are dollar-denominated. The cost of missing out on the gold boom is also high for South Africa’s investors, who are restricted in their access to foreign mining stocks by the country’s foreign exchange controls.

Unless the rand weakens, the outlook is that South Africa’s gold output will continue to decline after holding steady for a couple of years. South Africa produced 395t of gold in 2002, marginally up on the 2001 level of 393t.

But indications are that 2003’s output will be 5% lower than 2002’s. (Financial Mail, Johannesburg, 16/1)

Platinum Soars

The white metal hit $868 a troy ounce in January, its highest level since it slid from its lifetime high of $1,050 in 1980. Most deposits are controlled by just two companies: Norilsk of Russia, and Anglo-Platinum of South Africa.

While platinum demand has exploded in the past few years, particularly as a result of demand from China, what has not occurred is any significant increase in production of the metal. On the contrary, global usage of platinum has been outstripping production in each of the past seven years, leading in effect to a decline in global stocks and adding to the metal’s image of rarity and luxury for global consumers.

The mining industry blames this shortage on the foreign exchange market and industrial problems. Indeed, the three South African miners, Anglo Platinum, Impala and Lonmin—which between them produce more than three-quarters of the world’s platinum—argue that the cost of producing the metal is now rising faster than the selling price because of a combination of the rapid rise of the South African rand and the decline of palladium and rhodium, two metals that are often mined with platinum. (Financial Times, London 18/1)

Africa Analysis said that most South African mining houses were now taking a long-term view that the rand is bound to weaken over the next decade and are, at least cautiously, gearing up for higher production. But the volatility of exchange rates will still largely determine output levels.

The bulk of production growth will come from Anglo Platinum (Angloplat), which already accounts for nearly 35% of global output. Despite having cut back on expansion plans, the company plans to produce 2.45m ounces in 2004, a 6.5% increase over 2003. But production is bound to show even greater increases among some of the smaller players. Aquarius, a 300,000oz producer with holdings in South Africa and Zimbabwe, for example, is pressing ahead with its plans to double output within two years.

London-listed Eurasia Mining is also about to embark on an aggressive exploration programme in a 3,340 hectare site over which it has held rights since 2001. Eurasia will operate in South Africa in the form of 90% subsidiary, Masedi Platinum. Some of the biggest increases in production seem likely to come from Zimbabwe where a number of expansion projects are underway. South Africa’s Impala Platinum (Implats) plans to increase Zimbabwe’s production from 100,000oz to 465,000oz within the next decade. (Africa Analysis 23/1)
AGRICULTURAL

COFFEE

Kenya

The government is planning to introduce reforms that will add value to the ailing coffee sub-sector. Agriculture Minister, Kipruto arap Kirwa, announced on February 4th that value-added will form a key strategy in the government-supported rehabilitation programme. Kirwa said the latest recovery programme is expected to halt the sub-sector’s declining profitability.

“As we aspire to venture in the value addition business, we must remember that it is the high quality of the end product that will enable us to remain in the market,” Kirwa said.

The Minister said the imbalance between supply and demand has led to a glut in the world market causing the collapse of international prices. Coffee prices in the international market averaged US$160 (Sh12,240) per 60kg in the 1980s.

“Currently, the price is about US$70 (Sh5,355) for the same bag, which is the lowest ever for the commodity,” Kirwa told a stakeholders meeting held on February 4th.

The meeting followed an earlier one at the Kenya Agricultural Research Institute (KARI) which examined the report of a government-appointed rehabilitation programme. Kirwa said the latest recovery programme is expected to halt the sub-sector’s declining profitability.

“Agriculture Minister, Kipruto arap Kirwa, announced on February 4th that value-added will form a key strategy in the government-supported rehabilitation programme. Kirwa said the latest recovery programme is expected to halt the sub-sector’s declining profitability.

Socfinaf chief executive, Etienne Delbar, announced that the company would scale down its coffee operations by more than half in the next two years to concentrate on horticulture. According to Delbar, this may only be a first step to total withdrawal unless prices improve. The move by Socfinaf came barely a week after the second largest producer, NSE-quoted Kakuzi Ltd., announced its complete withdrawal from the coffee sector in favour of horticulture, forestry and livestock farming.

The problems of these two major companies highlight those facing the sector countrywide. (Africa Analysis 23/1) Licences for coffee marketing agencies Vol. 40 p. 15530

COTTON

Burkina Faso

European banks have agreed to lend money to boost the cotton sector.

A consortium of European banks has agreed to pump a further €62m (US$78m) into Burkina Faso’s booming cotton sector, which provides a cash income for hundreds of thousands of subsistence farmers.

Good rains in 2003 helped Burkinabe farmers harvest a record crop of 500,000 tonnes and strong demand by China has pushed up world prices for the fibre to 80 US cents per pound—the highest level since 1997.

Burkina Faso’s parastatal cotton processing company Softex said that with the help of the new loan it aims to raise cotton production by a further 20% to 600,000 tonnes in the coming year, through the improved application of fertilisers and pesticides. Cotton is Burkina Faso’s largest source of foreign exchange and the main cash crop of its poor farmers.

Softex has increased the price it pays producers from 185 CFA F (40 US cents) per kilo to 210 CFA F (35 US cents) in the coming 2004/5 planting season as an incentive to raise output.

Company officials said cotton farmers were expected to earn CFA F125bn (US$240m) in the 2004/5 crop year, provided the rains are good, allowing production targets to be met.

The new loan agreement will provide money for Softex to buy fertiliser and pesticides for the coming planting season and cash to pay farmers for the current crop. Celestin Tiendrebeogo, the managing director of Softex, said the bank loan would benefit everyone involved in the Burkinabe cotton industry.

“I am now satisfied because the producers will receive their money, the truck owners will be paid, the packing companies will be paid, the electricity company and so on and so forth,” he said. “Everyone in the chain will receive their money.”

The chairman of the Burkina National Union of Cotton Producers (UNPCB), Francois Traore, said the working capital provided by the bank loan was crucial because “it allows us to get our money as soon as our cotton is weighed and carried away”.

The UNPCB has seven members on the board of Sofitex, which is based in Burkina Faso’s second city Bobo Dioulasso, in the southwest of the landlocked country. The government has agreed to let cotton farmers directly take a 30% stake in the company.

Traore urged farmers to use fertilisers more effectively to boost output. The UNPCB has used information campaigns on local radio stations to explain the importance of fertilisers and pesticides. Cotton currently takes up 15% of all cultivated land in Burkina Faso, which has risen to become Africa’s second largest cotton producer. But Traore said that the UNPCB planned to raise output further by improving yields rather than by planting more land to cotton at the expense of food crops.

“We do not need to increase the planted area to increase production—we just need to nurture our land better so as to raise yields to 1.3 tonnes per hectare,” he said.

The government hopes 540,000 hectares will be planted to cotton in the coming year.

Speaking on behalf of the European banks lending money to Sofitex, Pierre Francon of Anglo-French banking group HSBC-CCEF praised the Burkinabe company’s sound financial record.

“We started funding Sofitex when the situation was much more difficult, but we are comforted that the company keeps performing well every year,” said Francon.

He also praised Burkinabe producers for “keeping up the momentum” by raising output without sacrificing quality. About 2.5m of Burkina Faso’s 12m population depend on the cash raised from growing cotton. It is sometimes referred to as the “white gold” of the Sahel.

Production has increased more than four-fold since the government launched a campaign to boost the cotton sector in 1996 and farmers now earn eight times as much...
from selling their crop to local buyers as they did 10 years ago.

However, President Blaise Compaore has joined with other leaders of developing countries in strongly criticising China, the United States and the European Union (EU) for subsidising their own cotton farmers at the expense of producers in some of the world’s poorest countries for whom the cash earned from cotton is a lifeline.

West African producers reckon they have been losing US$150m a year in export earnings since 1997 as a result of US subsidies.

Burkina Faso’s cotton boom has coincided with a slump in the industry just over the border in Cote d’Ivoire. Cotton producers in the rebel-held north of the partitioned country have been isolated from their main markets in the south by a 16-month-old civil war. (IRIN, UN, 4/2) Biggest harvest Vol. 40, p. 15641

**Central African Republic**

The planned rehabilitation of damaged cotton factories is expected to contribute to the improvement of living conditions in war-afflicted areas, where most cotton farmers live.

Central African Republic (CAR) Prime Minister Celestin Gaombalet has appointed a committee to coordinate the rehabilitation of two cotton factories that were vandalised during the six-month civil war that ended March 2003, Radio Centrafrique reported.

The committee, chaired by Albert Ouakanga, who is the presidential economic adviser, will oversee the importation of equipment from the Cameroonian seaport of Douala to the CAR capital, Bangui. The committee will then oversee the installation of the equipment in the factories in Bossangoa, 305km north of Bangui, and Bambari, 385km northeast of Bangui.

Gaombalet directed the committee to complete the rehabilitation before the 2004 cotton planting season that is due to begin in late February to early March. The radio reported that the team will be expected to submit weekly reports to Gaombalet. Members of the committee include other presidential advisors, officials from the prime minister’s office and those from the ministries of finance and agriculture as well as those from customs and tax services. Managed by the Societe de Developpement des Textiles en Centrafrique (Socadetex), the two factories were damaged during the civil war that ended on March 15th 2003 with Francois Bozize overthrowing President Ange-Felix Patasse. The Bossangoa cotton factory was reported to have been looted and its engines taken to neighbouring Chad.

Cotton cultivation was also badly affected during the civil strife, as farmers were in hiding and could not harvest their crops on time. Cotton is the third major source of revenue for the government, after timber and diamonds. It is mainly cultivated by farmers in the north and the east central part of the country. (IRIN, UN, 4/2) Harvest sent to Chad for ginning Vol. 40, p. 15641

**FISHERIES**

**Atlantic Coast Countries**

African countries on the Atlantic coast are seeking to strengthen cooperation in the management of marine resources.

The fifth meeting of the office of the Ministerial Conference on Marine Cooperation between countries bordering the Atlantic (Comhafat) was held from January 19th to 22nd and reaffirmed the need for increased cooperation and information exchange in training and research.

The countries are keen to protect their common resources, which are increasingly scarce. Francois Engoungah Owono, Camerounese Fisheries Minister, reiterated the organisation’s desire to move towards harmonisation of their position on accords with northern countries. It was within this framework that the Conference—which has 22 coastal member countries—has set up a regional project to create an African network of marine research and marine science institutes (Rafismer). It also plans a grouping of maritime training establishments in order to pool these bodies’ technical and pedagogical capacities. To confront the problem of dwindling catches, the Comhafat states reaffirmed the need to develop aquaculture in order to conserve marine resources. African aquaculture production accounts for less than 19% of global production. The next Comhafat meeting will take place this June in Cote d’Ivoire. (Marches Tropicaux, Paris, 6/2)

Meanwhile in Mauritania, the Banc d’Arquin National Park took another step in the protection of species, in particular cet achiens. On December 20th an agreement was reached between the park authorities and local people on a definitive ending to fishing of rays and sharks. This activity, which had become a mainstay of the Imraguen people—traditional fishermen within the park area—supplied the lucrative market especially in Asia—for shark fins.

The local authorities and organisations such as the World Wildlife Fund (WWF) are now encouraging the locals to return to fishing mullet and courbines. (Marches Tropicaux, Paris, 6/2)

**Indian Ocean Commission**

The European Union and the IOC have signed a funding agreement worth €14m for a programme to conserve tuna resources in the region.

European Commission delegate Juan Carlos Rey said the initiative would help improve knowledge of tuna stocks with a view to ensuring sustainable fishing of the species.

“Tuna exports are vital to the economy of the Seychelles, but that is not the case on the other islands,” he noted, while IOC secretary general Wilfried Bertile said the ocean that washes on their shores was a common heritage for all five member countries.

“Fishing occupies an important place in the daily life of the people and economies of the south-west Indian Ocean,” Bertile observed.

He noted that fishing accounts for 250,000 jobs, and generates 350m in annual export earnings for the five IOC member states.

The conservation programme jointly undertaken by the European Commission and the Indian Ocean Tuna Commission involves control and supervision of fishing activities.

More than that, some 80,000—100,000 tunas would, over a 30-month period, be caught, marked, labelled and released back into the ocean.

They would be monitored for their return rate, assessed by the number fished back. Fishermen in the area and elsewhere in the world would get bonuses for turning in any of the marked fish.

IOC groups the Comoros, Reunion, Madagascar, Mauritius and the Seychelles. (PANA 16/1)

**IN BRIEF**

Oil palm: In a move to replace ageing trees on oil palm plantations, the Cameroonian government has launched a project to support rural farmers to boost oil palm farming on 8,000 hectares of village palm groves. The plan is to overcome the annual deficit of 200,000 tonnes of oil.
The two-year programme provides for the establishment of 3,750 hectares of palm plantation for as many peasants in rural areas in the seven provinces of Centre, East, Littoral, North-West, West, South and South-West.

Funds supporting the programme come from the World Bank’s Highly Indebted Poor Countries (HIPC) initiative. (PANA 29/1)

Tobacco: The Zimbabwe Tobacco association (ZBA) said in late January that the country earned a total of $318m from exports of the crop, down from $425m in 2002. A total of 103.4m kg was exported in 2003.

It said the figure includes about 20m kg in carry-over stocks from 2002 which were marked last year.

Tobacco is Zimbabwe’s biggest single export, accounting for up to 40% in total foreign currency earnings, but production has been falling in recent years because of government land policies, which have driven most growers off their farms.

ZTA said that much of 2003’s crop was exported to Europe, with Asia coming in second. (PANA 23/1)

MINERAL

DIAMONDS

Angola

Endiama has plans which will give a major boost to the sector.

Angola’s state-owned diamond company, Endiama, has started training diamond cutters as it moves ahead with plans to set up a domestic diamond cutting and polishing industry by 2006. This would offer a major boost to the diamond sector, creating thousands of jobs and encouraging domestic jewellery sales. Endiama recently set up a prospecting and production subsidiary, charged with upgrading human resources, accumulating expertise and studying domestic potential, to encourage local employment in its diamond production.

The idea of building a $5m cutting factory emerged in 2003, along with plans to end Ascorp’s four-year monopoly on diamond marketing. Ascorp, 49%-owned by Israel’s Lev Leviev, has been criticised for selling diamonds below the going rate even though it managed to boost the governments diamond revenues massively, from $10m in 1998 to $739m in 2000.

One of the initial reasons for the government’s deal with Ascorp was to use its expertise to develop a domestic lapidary industry. Leviev is the world’s largest private diamond manufacturer, with diamond polishing plants in South Africa, Russia and elsewhere. But now it seems the government is determined to tighten its grip on the industry, which for years was under the control of the former rebel group UNITA and plagued by the “blood diamond” label. Since the end of the war, legislation has been introduced to ensure that all alluvial diamond projects are Angolan-owned and 50% of kimberlite mines are owned by Endiama. Endiama is not worried about alienating the big players. It has been in a lengthy legal battle with De Beers for several years over claims that Endiama expropriated their Angolan properties and failed to repay a $50m loan.

With diamond reserves predicted to last another 35 years and revenues likely to reach $1bn in 2004, Endiama’s confidence is understandable. By the end of the year, Russia’s Alrosa mining company is expected to finish building its new ore mill at the Catoca mine in Lunda Sul, Angola’s only active kimberlite mine. This will double output at the mine, in which Alrosa and Endiama each have a 33% stake, to 7.5m tonnes of ore per annum. (Africa Analysis 23/1)

Endiama has signed an exploration contract with South African Petra for a project in the Alto Cuiio in Lunda Sul. (RTP Internacional TV, Lisbon, 6/2: BBC Mon.) Profit Vol. 40, p. 15831

Central African Republic

The country’s new mining code lacks transparency.

The CAR’s new mining code was passed on February 4th after extensive consultations with officials from the World Bank, International Monetary Fund (IMF), and African Development Bank (ADB) who visited Bangui in January. According to a delegation source, given the information available, there is “surprise” that some of its key recommendations have not been taken on board.

According to the new law, “the government can issue special buying and export licences to individuals or companies...when circumstances dictate,” state radio reported.

The new law also gives the government the right to be directly involved in buying and export activities, it said. The country is the world’s fifth-largest diamond producer, exporting some 500,000 carats every year.

But at least twice that amount turns up on the diamond exchanges in Antwerp, Belgium—the unofficial gems having being smuggled out of the country.

Also, until now, licences have been issued personally by presidents—a system which is open to corruption and delay and that donors wanted changed.

The government insists however the code will curb fraud in the industry. It says brigades of mining police will be despatched to the diamond zones to prevent visitors from slipping into the country and buying diamonds directly from the diamond collectors and exporting them without paying tax. There are also plans for a state diamond buying body. But there had been hope that development of the mining sector would be left more to private enterprise. President Francois Bozize, who seized control last March, pledged to fight corruption and begin economic reforms which would pave the way for a resumption of aid by international financial institutions.

The revision of the mining code was seen as an area in which he could prove his resolve. (BBC News Online 5/2) Mining conference Vol. 40, p. 15756

South Africa

A new mining law has prompted a De Beers shake up.

Diamond company De Beers is set to reorganise its South African operations ahead of the implementation of a stringent new minerals law, in effect ring-fencing its non-mining operations from the effects of the law.

The move, dubbed Operation Rainbow, will leave all of De Beers’ South African operations in De Beers Consolidated Mining (DBCM) and strip out the businesses that provide common services for the international De Beers group. They will fall under the Luxembourg-registered De Beers Societe Anonyme.

The restructuring has been prompted by South Africa’s new minerals legislation, and is an indication of how companies operating in South Africa are positioning themselves ahead of the implementation of the new regulatory environment. The law demands that companies bring black investors into the mining industry and sets out stipulations on increasing the number of black people they employ.

“Faced with the Minerals Development Act and the need to prepare ourselves for black economic empowerment, we realised the group in South Africa had grown up
under DBCM, but is not linked to DBCM,” De Beers MD Gary Ralfe said on February 5th.

Analysts said the planned restructuring was intended to move De Beers’ international operations out of DBCM so that they would not be affected by the new minerals legislation.

“They are putting central services into an offshore entity. You don’t want empowerment access to get a slice of that action. It makes sense,” an analyst said.

Ralfe said another reason for the move was that DBCM wanted to get more definite value out of the South African operations.

The shake-up follows comments in 2003 by De Beers chairman Nicky Oppenheimer, who said, “We are absolutely determined to do our empowerment properly. A great number of people have expressed an interest in becoming DBCM’s partner of choice.”

A spokesman said on the 5th that much of the detail had to be decided upon and the new structure would not be in place until July.

In July, Jonathan Oppenheimer, the great-grandson of Sir Ernest Oppenheimer, will become the new MD of DBCM.

The analyst said he thought aspects of DBCM’s business, such as diamond market intelligence and exploration, which were still part of DBCM in South Africa because the company was founded there, were still particularly relevant to the South African operations.

De Beers said that when the restructuring was completed later in the year, the main companies in the group would be DBCM in South Africa, Debswana in Botswana, Namdeb in Namibia, De Beers Canada, the Diamond Trading Company in London, and De Beers Societe Anonyme.

“They will simply be stripping back DBCM to what it really is the South African operations,” the analyst said. (Business Day, Johannesburg 6/2)

OIL AND GAS

Libya

Libya is attracting European and Australian oil companies.

In December Libya’s National Oil Corporation signed a $100m (£83m, £58m) oil and gas exploration agreement with an Australian-led consortium, the first deal involving foreign investors since United Nations (UN) sanctions were lifted in September.

Libya is seeking international partners to develop new oilfields in a bid to increase production from the current 1.25m barrels daily to 2m bpd. It is also preparing to sell natural gas to cover domestic requirements and increasing demand for gas in south European countries.

While the UN lifted all sanctions after Libya accepted responsibility for the bombing of an aircraft over Lockerbie in Scotland, the US still maintains a ban on trade and commercial contacts. With US oil companies excluded, smaller international energy companies are trying to gain a foothold in the Libyan market.

Woodside Energy of Australia, Repsol-YPF of Spain and Greece’s Hellenic Petroleum have teamed up to explore for onshore oil and gas around Sirte, the main oil-producing region, and in the Murzuq area of western Libya. The 30-year contract with NOC involves an initial six-year exploration phase covering five blocks.

Woodside, who will be the operator, has a 45% interest in the exploration and production sharing agreement, Repsol 35% and Hellenic Petroleum 20%.

Woodside and its partners will conduct geological studies, seismic acquisition, and 13 exploration wells over six years. Included in the work commitment is a three-year feasibility study for the development of a remote field in the Murzuq Basin. This study includes an option to negotiate an agreement for the appraisal and development of this remote field within a further three years. With this deal, Woodside and its partners will have access to “20,000 square kilometres of acreage with oil and gas potential in two basins which, together, have an undiscovered potential of 35bn barrels.”

Although Woodside is the first Australian company to enter the Libyan oil exploration sector, several western oil companies have already signed deals with Libya. They include Repsol, Italy’s Agip, France’s Total, Germany’s Wintershall, RWE and Repsol YPF.

Meanwhile, the state-owned Turkish company Turkish Petroleum Overseas Company (TPOC) and its partner ONGC Videsh Limited (OVL), a wholly-owned subsidiary of the Oil and Natural Gas Corporation Limited, India’s largest integrated oil and gas company, announced that they started drilling operations at Libya’s NC-100 oil block, following the completion of a seismic campaign of 2D and 3D data acquisition. TPOC holds a 51% majority stake in the exploration blocks NC188 and NC189 in Libya, while OVL owns 49%. (North Africa Journal, Financial Times 22/12)

Meanwhile the firms Crosco Integrated Drilling & Well Services and Arab Drilling and Workover Company (Advoc) announced in January that they were supplying drilling services in Libya for Agip.

Crosco is based in Zagreb (Croatia) and has a 50% stake in Noble Crosco Drilling, (Marches Tropicaux, Paris, 6/2) Oil talks Vol 40, p. 15867

IN BRIEF

Gold: Etruscan Resources are racing ahead to develop their newly-acquired Youga mine in Burkina Faso. When drilling ends in March, construction will begin and gold will start being produced in early 2005. The 1.2m ounce mine is expected to produce 100,000oz a year.

Youga is the Canadian mining company’s second mine in the west African gold fields. They hope to start producing gold from their 2m oz Samira Hill mine in Niger by the end of the year. After this, focus will shift to the 1.1m oz Agbaou permit in Cote d’Ivoire.

Gold producers are also busy on Africa’s east coast. Tanzania, already Africa’s third largest gold producer, is preparing to open its sixth gold mine. Canada’s Barrick Gold, the world’s third largest bullion producer, is putting $50m into the construction of the Tulawaka mine on the south-west shore of Lake Victoria. Production of some 100,000oz a year is scheduled to start in early 2005. (Africa Analysis 23/1)

Meanwhile St Jude Resources Ltd has discovered two new parallel gold-bearing zones at its Goulagou gold property in Burkina Faso. (Mining Journal 16/1)

Oil and Gas: Prospecting for further deposits of natural gas in the central Mozambican province of Sofala are set to gain a new impetus this year, with drilling planned in the Inhaminga block, soon after the end of the rainy season in April.

Mozambican energy authorities said that about $20m dollars was available for gas prospecting in the region.

Meanwhile, other work is in hand to search for oil in the Zambezi delta. Geological indications showed that the delta could contain enough oil to be commercially exploited.

A US company DNO Widrusco has been allocated the Inhaminga Block, while the Malaysian state oil company Petronas is working in the Zambezi delta. (PANA 7/2)
Industries

COMPANY BRIEF
Call Centres
South Africa: People2Contact is one of two call centres that opened in Cape Town in early February, handling incoming calls for Airmiles Netherlands, KLM’s customer loyalty programme.

Its agents are South Africans who, after a 12-week course on converting their Afrikaans to Dutch, are proficient in answering customer queries in 100 different situations.

People2Contact MD Hans Koreman says that though Dutch companies have opened call centres in Asia for the English market, South Africa presents a unique opportunity to outsource call-centre services for the Dutch-speaking market.

“South Africa is an interesting option, not only because of the language, but also because of the quality of the infrastructure and the fact that the countries are in a similar time zone,” says Koreman.

The second call centre in Cape Town was opened by the expanding UK insurance group Budget.

“We have 900,000 policyholders with contracts in place to grow that to 1.6m. We are going to have to employ another 800–1,000 people to service those contracts,” says Budget CEO Peter Winslow.

With unemployment at a low level in the UK and potentially big cost savings to be realised, Budget investigated the idea of outsourcing its call centre to India, the Philippines or Malaysia. In the end, South Africa was considered the best choice because, as a smaller player, Budget felt it would not necessarily get the best service from the Indian market, which it regards as overtraded. Also, South Africa has a similar time zone to the UK, a similar dic-
tion and there is a cultural affinity.

There are signs that South Africa’s call-centre market is stirring, raising hopes the country can still catch the wave that has seen thousands of call-centre jobs outsourced from developed markets to Asia and elsewhere since 2000. The rationale arises out of the differences between wages and the cost of skills in different parts of the global telecommunications network—creating the “global financial village”. Investors and financial institutions can cut costs by surveying a vastly expanded workforce, picking the most cost-effective for their purposes.

The market is expanding in new ways, too, with some companies now investigating “offshoring” other business-processing functions. The idea is that any administrative or routine job being done at a desk in the US or Europe can be done cheaper in developing markets.

South Africa has lagged behind India and other Asian markets in attracting this business. India has led the market because of its high education levels, its flexible labour policies, good IT platforms and generous government incentives, which exempt earnings on exported services from being taxed.

Soft Skills
Last year India and the Philippines created 200,000 jobs from offshoring business; South Africa created 5,000, according to Jonathan Hackner, a customer contact services specialist at Call Centre Nucleus.

South Africa’s Trade and Industry Department (DTI) believes 100,000 new jobs can be created by the end of 2006, but two challenges stand out: costs and the absence of competitive government incentives.

Angelo Manzoni, the DTI’s director for business-process outsourcing, says South Africa’s call centre costs per hour, per seat are $16–$18, against India’s $12–$14. Nonetheless, Dimension Data research suggests South Africa is still able to offer a 30%–50% reduction on European and US call centre costs (see table).

High telecom costs remain problematic, though. The DTI intensified pressure on Telkom in December, holding “fruitful” discussions. Already, Telkom offers substantial discounts to call-centre businesses.

Labour costs are also comparatively higher in South Africa, says Brendan Hughes of consultancy ShoreTec International. “India works at night without a shift allowance or overtime pay. South Africa cannot offer a 24/7 operation without a cost impact.”

However, Hughes stresses it is not only cost that will determine whether South Africa wins a share of the global market.

Ironically, despite South Africa having a skills shortage in many areas of technology, it appears to have the soft skills that offshore call centres need: language, customer-friendliness and basic computer skills. Budget and 11 other Western Cape firms surveyed by ShoreTec and Infonomics, another consultancy, all point to South Africa’s skills advantages. The strong financial services industry is an added advantage, says Hughes.

Government is formulating an incentives package focused on training. Though straight tax incentives or grants are not on the cards, the package being considered by the DTI will allow companies to recoup training costs. (Financial Mail, Johannesburg 6/2)

POWER
Kenya
Power transmission is set to become more reliable.
The World Bank has given Kenya KSh3.5bn to strengthen power transmission and distribution. Energy Minister ochillo Ayacko said the project would help reduce frequent blackouts, which had cost leading companies millions of shillings. The project, the minister added, would help increase the number of people supplied with electricity in urban centres from the current 40% to 60%. The government would also achieve its plan of supplying more than 1,500 new customers with electricity every year.
The Kenya Power and Lighting Company had set aside another KSh200m to improve supply in rural areas from the current 3.8% to 10%, the minister said. He added that fishermen in Lake Victoria, Lake Naivasha and the Coast would be helped to put up cold storage facilities.
The engineers, led by Mr Martin Ndenge, who is in charge of the Rural Electrifi-
cation Programme, and West Kenya distribution manager Michael Abraham, are carrying out surveys on the Imbo, Majiwa and Nyalkiniy power lines, before the area is supplied with electricity. The team will then proceed to Suba, Migori, Kuria and Rachuonyo districts to carry out similar checks. (East African Standard website, Nairobi 3/2)

South Africa

Africa’s grid comes a step closer to reality.

The longstanding vision of power utility Eskom to harness the hydroelectric potential of the Congo River is poised to become reality with an imminent signing of an intergovernmental memorandum of understanding. The governments of the five southern African national utilities participating in the project are expected to endorse the initiative. The result will be the world’s largest hydroelectric scheme. It will have the capacity to supply the entire continent with electricity.

An Eskom spokesman has said that the company and four other southern African power utilities were closer to signing a memorandum of understanding to build a 3,500MW Inga III hydropower station in the Democratic Republic of Congo. Botswana Power Corporation, Empresa Nacional de Electridade de Angola, NamPower of Namibia and Societe Nationale d’Electricity of the Congo are the other key players of the Inga III project. The five stakeholders will have equal shareholding in the firm. About $1bn has been earmarked for the gigantic project. (News Africa 27/2)

TEXTILES

Africa

The used clothes market is stifling local industry.

European and American used clothes donated for “a good cause” are stifling African textile industries. It is believed that the dumping of used clothes from industrialised nations has caused the loss of more than 40,000 jobs in Africa’s emerging textile industry. In Malawi, the country’s leading textile company has been forced to close down because it could not compete with cheap imports under the guise of development aid. Similar trends are being observed in Mozambique and Kenya.

Western consumers put used clothes into “charity” drop-in boxes, believing that this will help the poor. The Scandinavian countries are among the industrialised nations that are flooding Africa with cheap imports. One of the key players operating in the so-called drop-in boxes is the controversial Danish organisation Tvind, which runs lucrative commercial operations under its cover name Development Aid from People to People. The operations of Tvind are increasingly criticised as its practices are exposed. Recently, Norway’s main trade union (LO) advised against donating used clothes to Tvind (locally known as UFF) because these clothes are “breaking the back of the textile and ready-made clothing industry in Africa’s poor countries”.

Bankruptcies of local textile businesses have also been observed in Uganda and Zambia. In the Mozambican capital Maputo, large quantities of used clothes from Europe are sold at very low prices in town squares where small and medium-sized companies run clothing workrooms. There is no level playing field for the local textile industry. Tvind is believed to control more than half of the country’s used clothes business. (News Africa 27/2)

Namibia

The Malaysian-owned Ramatex is to be probed again.

There has been a new twist to the ongoing controversy over the operations of the Malaysian-owned Ramatex textile and garment-manufacturing complex in Windhoek. The Windhoek municipal authority has approved an investigation of its water usage and waste management practices due to renewed concerns over possible pollution of the capital’s fresh water supplies.

Windhoek mayor Mathew Shikongo has confirmed that a “thorough” survey is being conducted by the Department of Water Affairs (DWA). Preliminary tests indicated that toxic substances and other solid waste pollution might have seeped into local aquifers, the Goreangab dam and the city’s high-tech Gemmams water reclamation plant.

The pollution probe is being conducted by Danish environmental consultants on behalf of the DWA. In 2003, Ramatex made clear it would only accept monitoring by the Danes as regional environmental consultants were deemed to be biased against the company.

The development has brought renewed denials of any problems by the Ramatex management. Ramatex maintains that all the material is being stored securely and that it is awaiting permission from the municipality on how and where to dispose of it. However, while industrial waste water is treated at the company’s own reclamation plant for re-use, and the liquid effluent and sludge stored on site pending an agreement on disposal, other waste water is pumped directly into the Gammans reclamation plant. In addition, following the heavy rains and flooding in Windhoek during January, some of the onsite storage facilities are reported to have overflowed, sending toxic effluents directly into streams leading to Gammans.

In a threat to the independent local media, Trade and Industry Minister Jesaya Nyamu has threatened legal proceedings over any publication of “malicious rumours” about possible water contamination by Ramatex. Nyamu charged that negative reports were being generated by “our adversaries” in South Africa who wanted to sabotage the project by pressuring Ramatex to pull out of Namibia for their own advantage. (Africa Analysis 6/2)

TOURISM

Libya

Gaddafi’s embrace of the West will open the door to a tourist boom.

Two thousand years after Leptis Magna blossomed into one of the great cities of antiquity, Libyans are hoping that the Roman site’s cobbled streets will bustle once more, this time with Western tourists eager to explore one of the last hidden corners of the Mediterranean.

“This is one of our greatest treasures,” said Mbsah Idqat, a bored young guide at Leptis Magna, who spends his days eagerly awaiting the tourist boom that has yet to materialise. “People visit from all over the world, but not very many. We hope that now we have made peace with America, everyone will want to come.”

As Libya emerges from decades of isolation, it wants to capitalise on its fast-improving relations with the West by attracting foreign investment. While American oil companies will need no encouragement to restake their claims in the energy sector, transforming the tourist business into a multibillion-pound industry, as neighbouring Tunisia and Egypt have done, will be much harder.

The centrepiece of the campaign, launched five years ago without much success, is Leptis Magna, a Roman city 75 miles east of Tripoli. At its peak, under Emperor Septimius Severus, the city rivalled Rome, with a population of 90,000 people, two theatres, a sporting complex, temples,
shops and even a market for wild animals, captured in Africa and shipped to Rome. But in late January, aside from a few workers restoring the stage at the amphitheatre and a couple of Libyan families having a picnic on the beach, the sprawling site was deserted.

“Tourism is a resource that has not been tapped. We think that the development of the last and biggest shore on the Mediterranean will be a win-win situation for investors and Libya,” Shukri Ghanem, the Prime Minister, said, “but we need to build an infrastructure and we need to lift travel restrictions.”

**Ambitious Reforms**

Getting people into Libya is less difficult than it was since the lifting of sanctions, including a ban on international flights, in 1998. Yet once foreigners navigate the strict visa controls, the country is ill-equipped to look after them. Visitors arriving in Tripoli are greeted at the airport with a warning from Colonel Gaddafi that “wine and drugs are total destruction weapons [sic].”

Exploring the beautiful landscape of the desert interior, where some of the epic battles of the Second World War were fought, is also difficult because privately owned four-wheel-drive vehicles are banned from off-road excursions.

The authorities are adamant that these vestiges of the regime’s past will be swept away in the ambitious reforms planned for the country. So confident are they that signs have already gone up across Tripoli claiming that Libya and Tunisia will be joint hosts of the 2010 World Cup. Nevertheless, despite the promises, foreign investors may think twice before committing themselves to a state that still tightly controls the economy and where, according to Colonel Gaddafi’s own philosophy, “employment is slavery” and businesses should employ “partners not wage slaves”.

Alexia Mizzi, an assistant manager at the Corinthia Towers Hotel, said that the country will have a lot to learn in developing tourism. The five-star hotel, owned by a Maltese company, opened in 2003.

It has done well from foreign businessmen and a small group of intrepid tourists, but she predicted that opening the country for mass tourism would be tough. “It could take as long as 15 years to really develop”, she said. “There is no infrastructure here.”

(Source: The Times, London 28/1)

### Rwanda

**The country gets its first five-star hotel.**

Rwandan President Paul Kagame has inaugurated the country’s first ever five-star hotel, l’Intercontinental de Kigali, built at a cost of about Rwandan Francs 5bn ($8.5m).

The hotel has 104 well-equipped rooms, including 24 suites, with a night in an ordinary room costing $150, according to officials of the South African resort firm, Southern Sun, which will manage the facility.

Other features are two conference rooms with capacities of 500 and 800 seats respectively, a pool, new information and communications technologies as well as games and sport rooms, the management said.

“We expect to attract more tourists to Rwanda with this international standard hotel,” President Kagame said at the opening ceremony on February 6th.

L’Intercontinental de Kigali emerges from transformation works that began in November 2002 on the Diplomates Hotel that went into operation in 1960. The works were completed in December 2003.

The South African firm, Prime Holding, carried out the refurbishing works. (PANA 8/2)

### South Africa

**Arrivals go down as prices go up.**

It comes as no surprise that the tourism industry has taken a knock in the past few months. Like most sectors it was hit by the stronger rand. In addition, the global travel market suffered a downturn. But there is more to South Africa’s tourism woes than simply blaming the currency and international trends.

For many tourists, even at the best of times, South Africa is not cheap compared with destinations such as Thailand, India, Zanzibar, Mauritius and Australia. And getting here from abroad not only costs a packet but air tickets in high season are scarce, especially from Europe. Accommodation too, can be pricey. Irrespective of how the currency performs, hotel prices, particularly in Cape Town, rocket during the holiday season. Travel agencies say the general impression is that the tourism industry is shooting itself in the foot.

However, this is not the case everywhere. Durban, for example, prides itself on being an affordable destination both for local and international tourists.

Whether South Africa’s tourism offering is globally competitive has been robustly debated for years. Some say the country is great value for money, others say they would rather go elsewhere next time. But in the absence of thorough research, anecdotal views dictate opinion. Certainly, some hotel groups and game lodges charge excessively high prices but there are decent guest houses and three-star hotels and affordable restaurants.

A clearer picture of how South Africa compares with other destinations, judging not simply on the price of a cup of coffee, but from a broader perspective, will emerge once South Africa Tourism completes its research on competitiveness.

Whatever the verdict though, government will not dictate prices. “That would be a silly thing to do,” says Environmental Affairs and Tourism Minister Valli Moosa. However, he says the industry “should never give people the impression that they are being ripped off”.

The official figures for November and December are not yet out, but reports from the industry show a decline.

Cape Town Tourism manager Sheryl Ozinsky says it would be fair to say numbers have dropped. But she is optimistic that February will be better—it is the peak season for foreign arrivals. The downturn is an opportunity for the industry to review itself and find innovative ways of coping in the context of a strong rand, Ozinsky says.

### Tapping The Asian Market

South Africa had cashed in after the September 11th terror attacks in the US and the SARS virus in the Far East. The World Summit on Sustainable Development in 2001 and the cricket World Cup in Febru
ary also helped prop up the figures. The weak rand in 2002 was an added bonus for tourism. None of those features applies in the current year.

Now the tourism industry has to operate under more normal circumstances and live with a strong or volatile currency.

Initiatives under way bring some optimism. In so far as airline prices and availability of tickets go, charter flights might be the answer. The arrival of three European charter companies this season—operating from Cape Town and Durban, is a good start.

More emphasis by South Africa Tourism on drawing tourists from Africa through better marketing and air travel is also bound to capture this market more effectively. 2003’s figures released by Statistics South Africa show that, of the 6.8m foreign tourists visiting South Africa, 5m were from Africa.

Marshall Finlay, CEO of Leisure Initiatives, which owns the Park Hyatt complex, says Africans are visiting South Africa in large numbers: for business, shopping and medical purposes. They tend to stay for longer periods than most tourists. It makes sense then, that SA Airways is expanding into Africa, through partnerships and alliances.

Furthermore, liberalisation of African airspace—a much talked about idea, now seems to be making some headway.

Aside from the traditional European and US destinations, South Africa Tourism is also tapping into Asian markets such as India and China through co-operation agreements. Japan is also being looked at seriously.

On the domestic tourism side, low interest rates brought positive spin-offs in some areas, especially Durban. On the negative side though, the more affluent took advantage of the currency to go abroad.

Moosa says there is no need to change the country’s tourism strategy, unless an analysis of the official figures yet to be released shows otherwise. France, Germany, the UK and the US remain target destinations though some in the industry believe too much attention is being paid to those markets, at the expense of Africa. (Financial Mail, Johannesburg, 16/1)

**WATER**

**Nile Treaty Under Threat**

The East African signatories to the water-sharing agreement consider pulling out.

The 1929 Nile Basin Treaty regulates Nile water usage among the 10 countries that share the Nile River’s watershed. Egypt, Sudan, Ethiopia, Eritrea, Kenya, Tanzania, Uganda, Rwanda, Burundi and Democratic Republic of Congo all have an interest in the waters.

The 1929 agreement was concluded between Britain (on behalf of Sudan) and Egypt. Britain pledged on behalf of its colonies then not to undertake works that would reduce the volume of Nile waters reaching Egypt.

The 10 riparian states of today came into the picture in 1959 after Sudan gained independence in 1956 and called for revision or abrogation of the 1929 Anglo-Egyptian agreement. Sudan demanded a more rational and fair distribution of the waters of the Nile.

The 1959 agreement provides little for the riparian states. It says only that “once other upstream riparian states claim a share of the Nile waters, both countries (Egypt and Sudan) will study together these claims and adopt a unified view thereon. If such studies result in the allocation of a specified volume of Nile water to one or the other of the upper riparian states, then the amount shall be deducted in equal shares from the share of the two countries.”

A water row between Cairo and Addis Ababa has been simmering for years.

Ethiopia’s Minister for Trade and Industry Ato Girma Birru accused Egypt last August of using devious tactics to prevent Ethiopia from developing its water resources.

“Egypt has been pressuring international financial institutions to desist from assisting Ethiopia in carrying out development projects in the Nile basin,” he said. “It has used its influence to persuade the Arab world not to provide Ethiopia with any loans or grants for Nile water development.”

Egyptian foreign minister Fayaza Aboulnaga said on a visit to Ethiopia in December that Cairo was willing to help develop Ethiopia’s irrigation systems for agriculture. She spoke of Egypt’s readiness to provide technical assistance to Ethiopia on utilisation of Nile water resources.

Egypt wants a strong say in Ethiopia’s efforts to develop its hydroelectric and irrigation projects in the Nile River Basin, officials in Addis Ababa say.

At the same time East African countries at the source of the world’s longest river have grumbled for years about the treaty. They say it was crafted to serve colonial interests in Egypt. The treaty requires Kenya, Tanzania and Uganda to seek permission from Cairo, 6,000km away, before drawing water from Lake Victoria to cultivate their parched fields.

“Kenyans are today importing agricultural produce from Egypt as a result of their use of the Nile water,” member of parliament Paul Muite said in the Kenyan parliament recently. “Why shouldn’t we use the same water to grow fruits in our country?”

The grumbling became a roar in December when Kenya’s assistant minister for foreign affairs Moses Wetang’ula said his government considers the Nile Basin Treaty invalid and is seeking a new arrangement.

“Kenya will not accept any restrictions on use of Lake Victoria or the River Nile,” he said. “It however does not wish to be a lone ranger in deciding how to use the waters, and has consequently sought the involvement of involved countries.”

Egypt reacted swiftly. A Kenyan daily quoted Egypt’s Minister for Water Resources Mahmoud Abu Zeid as saying Kenya’s statements were “a declaration of war” against Egypt. He threatened political and economic sanctions against Kenya, and said Nairobi could “not lay claim to sovereignty to protect itself from any action that Egypt may want to take.”

Egypt relies on the Nile for 98% of its irrigation water. Its population of 70m already uses considerably more than its annual quota. With the population expected to grow to 86m over the coming 25 years, securing the Nile’s waters is for Egyptians literally a matter of life and death.

“The Nile is Egypt’s lifeline, so it can’t accept any decline or decrease of water,” says Ahmed El-Naggar of the Al-Ahram Centre for Political and Strategic Studies in Cairo. “Each country has water rights, but if any country takes more than its rights, Egypt will not forgive it.”

Uganda’s parliament recently proposed to drop the treaty in favour of a water-sharing scheme in which it would charge Egypt and Sudan for water use.

In Tanzania, currently in the midst of a severe drought, legislators have tabled similar proposals. (Inter Press Service, South Africa 16/1)

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