Changing the Business Landscape in Africa: South African Business Moving Northwards

Neuma Grobbelaar[1]

Introduction

South African trade with and investment in Africa over the last decade has precipitated a sea change across the continent. Not only has it propelled the growth of Africa's private sector, it is fundamentally changing the way governments across the continent assess that sector's role in addressing the development challenges facing their societies. However, the growth of South African investment and trade with the continent is not viewed benevolently everywhere. They are changing the way that business has been done traditionally and crowding out formerly protected monopolies with close links to governing elites evoking a wave of criticism in many countries. On the whole though, South African investment, rather than trade alone, has been welcomed in Africa.

South Africa is an economic giant comparative to other African economies. Its GDP of $159 billion (R845 billion)[2] is 80 times larger than the GDP of the average state in Africa. Since 1994, South Africa has not only reasserted its economic dominance in its bilateral trade with Africa, but has also expanded this relationship into significant investment. South Africa's total trade with Africa has grown by just under 400% since 1994. Exports have increased from R8.6 billion in 1994 to R38.8 billion in 2003. However, there has been an equivalent increase of imports from Africa during the same period from a low base of R2.3 billion to R8.1 billion currently.[3] Much of South Africa's export growth into the continent has been fuelled by the growth of South African investment, especially in the food, retail, tourism and construction sectors. Many of the companies in

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1 NEUMA GROBBELAAR is the deputy director of studies and the head of the Business in Africa project at the South African Institute of International Affairs (SAIIA), based at the University of the Witwatersrand, Johannesburg.

2 See The World Bank Group, 'Total GDP 2003, Quick Reference Tables', online at *http://www.worldbank.org/data/quickreference/quickref.html*. Exchange rate used: $1= R6.5.

3 See Department of Trade and Industry, *www.thedti.gov.za*.

these sectors depend on imports. The proximity and the reliability of the South African market, combined with the suitability of South African products to prevailing conditions in Africa, have supported the sourcing of such products from South Africa and resulted in an increasing trade surplus with the continent.

South African investment into Africa has grown just as significantly over the last decade following the end of South Africa's international isolation. Its magnitude is difficult to establish and the figures are often outdated; however, the South African Reserve Bank (SARB) estimates that investment into Africa has grown from R8 billion in 1996 to just over R26 billion in 2001. Although this figure represents only 3% of total South African investment of R818 billion abroad in 2001,[4] the impact of this investment on African societies far outweighs its fairly modest value.

Table 1. South African foreign assets by region, 31 December 2001

Region	*Value (Rand millions)*	%
Africa	26.8	3.3
Asia	13.0	1.6
Europe	564.5	68.9
International organisations	50.3	6.1
North and South America	157.6	19.3
Oceania	6.4	0.8
Total	818.7	100.0
Source: SARB, *SARB Quarterly Bulletin*, September 2003		

South African company involvement in Africa

South African investors distinguish themselves from other traditional investors in Africa by their willingness to invest in sectors, which those who are more risk-averse have eschewed. A study conducted in 2003 by the UN Industrial Development Organisation (UNIDO) found that 82% of investment in Africa is still resource-based, thus it is predominantly in extractive industries and low-technology sectors. South African investors, in contrast, have moved aggressively beyond investment in mining (although it is still the leading sector in terms of value), to include banking, retail, tourism, manufacturing, construction and telecommunications. Many South African investors in these sectors have therefore emerged as leaders in the markets where they operate because of a lack of both international and local competition.

An analysis of the African strategies of three South African companies outside the mining sector that have aggressively pursued opportunities in

[4] SARB, 'Sixth census of foreign transactions, liabilities and assets, 31 December 2001', supplement to the *SARB Quarterly Bulletin,* September 2003, pp.B6–9.

Africa demonstrates the seriousness with which they are approaching this market.[5]

The food chain Shoprite Checkers is today the largest food retailer in Africa. Represented in over 14 African countries through over 70 stores and still expanding, its aim is to increase its operating income from other African countries to 50% of its group revenue. At the end of 2003, its African operations contributed 10% or R2.6 billion to group revenue.

The MTN Group, a telecommunications company, has expanded aggressively into Africa since 1998. It is now the leading service provider in the five countries outside South Africa where it is operating, namely Rwanda, Uganda, Swaziland, Cameroon and Nigeria. More impressively, by the end of 2003, 38% of the group's adjusted headline earnings, amounting to R2.4 billion, came from outside South Africa. Its market share in South Africa is estimated to be 38%, on target for the group, which hopes to maintain a South African market share of around 40%. Of all its African operations, Nigeria has proved the most profitable and has surpassed all expectations.[6]

Both of the listed companies referred to above have focused on the African market to expand their operations and are responding typically as fledging South African multinationals.[7] Of the two, the MTN Group could be described as a truly African multinational with a particular Africa focus.[8]

SABMiller, in contrast, is a truly international player, the second largest brewer in the world with estimated adjusted earnings of $12.6 billion in 2003. Active in 13 countries across Africa, it is the leading player in every market in which it operates. It is listed on the stock exchanges of Mozambique, Botswana, Zambia, Ghana and Tanzania.

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5 This analysis is based on a survey of the annual reports (1994–2003) of the top 100 South African companies listed on the South African stock exchange, commissioned by the South African Institute of International Affairs (SAIIA) in 2004. See Benkenstein A, Brink C, Burden K & D Prins, 'African footprints: Top 100 South African companies', in *Investment in Africa*. Charlotte Brink Consulting, May 2004 (unpublished).

6 *Ibid.* During the first year of its entry into Nigeria, MTN's subscriber base grew by 217% from 330,000 to one million customers and is still growing.

7 Andrea Goldstein of the OECD Development Centre describes the investment behaviour of emerging South African companies as typical of developing country multinationals. Faced with growing competition domestically as South Africa opened itself to international markets, companies found that profit margins began dropping significantly. Their investment drive into neighbouring states has been motivated by the belief that they will face less competition from local firms there, and that they can use their superior business practices to position themselves advantageously, even in relation to the subsidiaries of foreign multinationals. See Goldstein A, 'Regional integration, FDI and competitiveness: The case of SADC'. Paper presented at the OECD African Investment Roundtable, 19 November 2003, pp.21–23.

8 Comments made by Yvonne Muthien, MTN corporate relations manager at the ESKOM African Business Leaders Forum, Sandton, November 2003.

SABMiller's African experience has been impressive despite problems related to weak currencies, high duties and low disposable income. For example its operations in Angola after the end of the civil war in 2002 posted organic growth of 41.2%. However, group earnings from its African operations are considered so insignificant in relation to total revenue that they are lumped together with its Asian earnings.

The examples listed above offer just a small sample of South African corporate involvement in Africa. An analysis of the top 100 listed companies on the Johannesburg Securities Exchange finds that only six of these companies do not have an African focus. [9]

Why are South African companies so successful?

There are several reasons for the success of South African companies in Africa. Their overwhelmingly positive track record is directly related to the peer learning and coping strategies they have adopted to address many of the challenges they face on the continent. They often use the latest technology available to achieve this goal. Shoprite Checkers makes use of global tracking systems to follow its delivery trucks throughout Africa and has invested substantially in information technology to streamline its procedures for ordering and stock control. Some companies have opted to use a pre-paid billing system in a continent where individual economies are predominantly cash-based and driven by informal markets. It is this decision that is fuelling the spectacular growth of the two South African telecommunications companies, MTN and Vodacom, and which has enabled them to avoid the pitfalls created by a lack of access to or adequate credit information about the average consumer in Africa.

Often companies have been forced to invest in essential infrastructure to ensure that they can operate effectively. Many thus have invested in water-purification schemes and company sewerage farms (especially in the tourism industry); have sunk boreholes to ensure a regular supply of water for their operations; have built access roads to plants, ports and markets; and have installed back-up diesel generators to overcome regular power cuts. Many companies also choose to transport goods by sea rather than hauling bulk cargo from one destination to another by land.

However, key among all these efforts to learn from peers and develop coping mechanisms has been a continuing commitment to educate governments about the needs of the private sector. SABMiller's experience in Zambia offers a relevant example.[10] The company acknowledges that excise duties on alcohol sales are a vital revenue

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9 See Benkenstein *et al*., *op. cit*.

10 *Ibid*., p.283.

earner for governments across the globe. At the time of its entry into the Zambian market in 1994, duty rates amounted to 100% of the wholesale beer selling price, raising about 72 billion Zambian kwacha ($15 million) per annum in government revenues, but at a cost of doubling the selling price of beer to consumers. The company attempted to persuade the government to reduce the duty rates to boost sales. It argued that a growth in sales would in turn increase government revenue despite the drop in duties. It was only when the company guaranteed a minimum revenue recovery of ZMK82 billion ($18 million) in return for a reduction in duties to 85% that the government relented in 2002. The cut in duties caused a 7% price reduction for consumers. Sales mushroomed, resulting in a 27% increase in government revenues to a total of ZMK92 billion ($20 million). In the 2003 financial year, the Zambian government agreed to a further reduction in the excise rate from 85% to 70%.

Some of the 'big' South African investors have also been able to convince governments of the need to accommodate their particular requirements. The successful completion of the multi-stakeholder investment in the Mozal aluminium smelter and the Sasol gas pipeline in Mozambique would not have been possible without the co-operation of the government. Effective implementation was facilitated on both projects through the establishment of special task groups with various government departments. This allowed investors to leapfrog many of the traditional bureaucratic hurdles and bottlenecks facing companies wishing to invest. The process was so successful that the construction and expansion of the Mozal smelter set two records. The first phase of Mozal, from approval to full commissioning, was completed within 31 months, and came in at $100 million under budget. The second phase was completed within 26 months and came in at $195 million under budget. Today, both the Mozal and Sasol projects are used to demonstrate Mozambique's ability to absorb and respond to the demands and requirements of large investors.

However, the case of Mozambique also demonstrates the sea change that South African companies have brought about in the societies throughout Africa where they have invested.

The impact of South African investment in Mozambique

South Africa is a leading investor in Mozambique representing 49% of total foreign direct investment (FDI) from 1997 to 2002. More than 262 South African projects have been registered by the Mozambican Investment Promotion Centre (CPI) since its establishment in 1985, resulting in an accumulated investment value of $1.330 billion by the end of 2003.

A breakdown of South African investment between 1998 and 2002 shows that the leading sector that has attracted South African investment, both in terms of the value and the number of companies involved, is industry. However, there is also significant investment in resources and minerals, construction, agriculture and tourism.

Table 2. South African investment in Mozambique by sector ($ millions)

Sector	*1998*	*1999*	*2000*	*2001*	*2002*	*Total*
Agriculture/ agro-industry	0.35	1.81	11.46	12.67	1.48	**27.77**
Aquaculture and fisheries	0.59	0.10	0.04		0.07	**0.80**
Industry	3.22	0.39	1.92	841.21	11.33	**858.07**
Resources and minerals	13.05	0.12		1.15	48.0	**62.32**
Transport and communications	0.23	0.29	0.78	17.70	0.05	**19.05**
Banking, insurance and leasing	0.10			0.69	10.0	**10.79**
Construction		0.60	1.35	11.17	20.11	**33.23**
Tourism and hotel industry	5.15	0.43	6.0	0.61	8.30	**20.49**
Others	2.56	0.39	0.22	7.14	6.21	**16.52**
Total	**25.25**	**4.13**	**21.77**	**892.34**	**105.55**	**1,049.04**

Source: CPI, Mozambique, 2004

Apart from the 'big' investments in Mozal and the Sasol gas pipeline (in excess of $1 billion each), a further breakdown of investment in this period shows that 85% of individual investments or outlays were less than $1 million. This is in line with international findings such as the 2003 UNIDO study, which found that 37% of all foreign investors in Africa invested less than $1 million per project.[11] There are also some medium-sized investments in the sugar industry, railways, finance and breweries.

However, despite the relatively insignificant value of individual outlays in global terms, the entry of South African companies into every possible sector in Mozambique has had a profound effect on the structure of the economy, the business culture and the labour market. Of course these effects have been both positive and negative. The positive effects are as follows.

- Firstly, the so-called mega-projects have had a significant and not unexpected positive effect on Mozambique's trade balance, economic growth and revenue. For example, when the Mozal smelter came on line in 2002 this project alone contributed 2.1% to real GDP growth and

[11] See Africa Foreign Investor Survey 2003, *Motivations, Operations, Perceptions and Future Plans — Implications for Investment Promotion*. Vienna: UNIDO, 2003.

exports grew by 53%. The International Monetary Fund (IMF) predicted that real GDP growth will increase to over 8% in 2004 owing to the coming on stream of both the aluminium smelter (Mozal II) and the gas pipeline (Sasol). Exports are expected to increase by 40%, whereas imports are expected to decline because of reduced construction activity resulting from the completion of these projects. At the same time, net international reserves are also projected to rise by $40 million during 2004 to a level of $696 million by the end of the year (translating into 5½ months' worth of imports). Medium-sized investments have also had a positive impact. SABMiller's purchase and operation of three breweries in Mozambique increased tax revenue paid by the breweries by 700% and SABMiller's operations now provide 5% of total tax revenue.

- Secondly, South African investment has also improved the transfer of cutting-edge technology to Mozambique and the general standard of industrialisation in the country. For example, the Mozal smelter has the highest pot efficiency for AP30 technology in the world. The share of industry's contribution to GDP grew from 16% in 1996 to 30.9% in 2002. At the same time, agriculture's contribution dropped from 30.5% to 19.5% in the same period.[12] The Sasol investment in Mozambique will provide a further spin-off in the future, providing energy that will spur internal industrial growth.
- Thirdly, South African investment has led to an increase in consumer choice and to a consistent and reliable supply of goods to local consumers, which in turn results in greater price stability. This is particularly important in the context of a market dominated by the informal sector where formal and informal traders previously could charge whatever they wished, especially in cases where stock was obtained through smuggling. The prices charged by South African retailers are a true reflection of the duties and taxes that have to be paid by traders. This has created a new discipline and rigour in the local pricing of goods and has also resulted in greater consumer awareness among the population.
- Fourthly, South African investment has led to the bolstering of foreign business confidence in Mozambique, leading to a crowding in of other foreign investors, both from South Africa and elsewhere. The multi-stakeholder nature of the investment into Mozal, which included South African, British and Japanese investors in addition to institutional investors, is a relevant example. As mentioned before, Mozambique's mega-projects have been used to demonstrate the government's ability to respond to the demands and requirements of large investors.

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[12] However, this poses some challenges to the Mozambican government, as 80% of the population is self-employed in subsistence agriculture.

- Lastly, South African investment has made a significant impact on the local labour market in terms of wage levels, job creation, skills levels, productivity and good corporate practice. South African investment between 1998 and 2002 led to the creation of 24,355 jobs, which is not insignificant in a country where only 12% of the entire workforce was in paid employment in the formal economy in 1999. Of those employed, 60% were working in the private sector. The majority of the population is self-employed in the agricultural sector at subsistence levels. About 84% of the labour force can be described as unskilled. Unemployment levels are estimated at about 21%.[13] Significantly South African investment in the agricultural sector has led to substantial job creation, in fact, in a far more effective way than in industry, if measured in terms of value of investment.

Table 3: South African investment: Employment figures, 1998-2002

Sector	***1998***	***1999***	***2000***	***2001***	***2002***	***Total***
Agriculture	607	2,669	6,551	472	80	10,379
Aquaculture & fisheries	18		100		18	136
Industry	1,218	554	229	162	197	2,360
Resources and minerals	0	17	0	41	0	58
Transport and communication	25	172	74	390	10	671
Banking, insurance and leasing	0	16	0	8	0	24
Construction		399	3,337	2,168	437	6,341
Tourism and hotel industry	346	172	560	71	22	1,171
Others	438	289	167	576	1,745	3,215
Total	2,652	4,288	11,018	3,888	2,509	24,355

Source: CPI, Mozambique, 2004

However, there have also been some less positive impacts on the Mozambican economy and society.

- Firstly, the most significant failure (not only in investment from South Africa) has been the limited linkages developed between investing companies and the local business community. The knowledge specificity and the capital-intensive nature of South African business have been advanced as the main reasons for this situation. However, the mega-projects such as the Mozal, the Maputo Development Corridor and the construction of the Sasol pipeline, instituted special training and mentoring programmes to enable local business to work as subcontractors.
- Secondly, South African business is highly import-dependent and companies procure less than 10% of their production inputs from local

[13] Sirimanne S, Belayneh B, Boateng K, Degefa D, Kishtainy N, Mwau G, Osakwe P, Paddison O & A Seyoum, *Economic Report on Africa 2003*. UNECA, 2003, p.144.

suppliers. This situation further limits linkages with domestic manufacturers. The reasons often advanced by South African companies for not procuring more locally are inferior quality, inadequate and inconsistent supply (because of the low volumes produced) and the high cost. Although certain inputs such as diesel are sourced largely in the domestic economy, companies turn to South African or other suppliers as soon as they need refined or value-added inputs.

- Thirdly, the construction of the mega-projects has also led to spikes in Mozambique's trade deficit because of the projects' high import dependency during the construction phase. It also remains a particular challenge for the Mozambican government to sustain high growth levels in the years between the launch of mega-projects. Although the economic effect of a mega-project is spectacular in the year in which it is launched, its impact understandably tapers off in the ensuing years.
- Fourthly, although a reduction in the overall poverty rate has been achieved in terms of the average growth in income per person, the spread of socio-economic benefits has been uneven. South African investment has contributed (although not caused) the distortion of the Mozambican economy across wage and income levels, between the north and south of the country, and between urban and rural areas. For example, the average GDP per person in Maputo is six times higher than the national average.
- Lastly, the superior technology, business knowledge and relative financial strength of South African business have contributed to their dominance of the Mozambican economy. While this is also the case with other foreign investors, the sheer volume of South African investment in the market has created resentment. Careful management of local sensitivities and meticulous adherence to good corporate governance principles by South African companies are required to ensure the continued positive reception of South African investors in many countries throughout the continent.

However, this last issue also raises the question about the need for regulation of South African corporate behaviour in Africa.

Is there a need for regulation?

Support for regulation of South African companies in other African countries is mainly rooted in resentment that has built up in these states because of:

- the weakness of the local business sector in African societies;

- the lack of access for local businesses (especially small and medium-sized businesses), with the exception of the well-connected elite, to government;
- the use of incentive schemes to attract foreign investors, but the exclusion of local business from their benefits, which lead to distortions in the economy;
- the so-called psychological factor of dominance by a fellow African peer linked with associations of neo-colonialism, without the sweetener of development assistance associated with former colonial rulers; and
- the perception that South African private sector activities are undertaken at the behest of the South African government. This belies a fundamental misunderstanding of the role of the public as opposed to the private sector.[14]

However, it could be argued that ensuring a virtuous FDI cycle in African countries remains the primary responsibility of the recipient government. Indeed, more should be done to strengthen and support local business communities, as foreign investors cannot be expected to lead in areas where domestic business should be leading.

This raises the fundamental question of whether regulation is required at the source of investment or in the recipient country.[15] The answer is most certainly both, although the primary onus is on the recipient government to develop appropriate institutions and frameworks within which the market can operate efficiently, improve public governance, encourage private investment and boost productivity. Fostering transparency and equal access by reducing the amount of red tape, reforming the justice system and combating corruption more effectively will bear their own fruits.

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[14] There is a belief in some African societies that the private sector is an instrument of government and should do its bidding. In essence, this mindset reflects the experiences in many countries where the distinction between the public and private domain is weak and governing elites are heavily involved in business activities.

[15] For example, OECD countries have recently committed to an anti-corruption policy in their operations in developing countries as encapsulated in the *OECD Guidelines for Multinational Enterprises*. The UN-supported Global Compact is another example of greater transparency in the international operations of multinationals, although this is a wholly voluntary endeavour. The Sullivan principles adopted by the US during the apartheid years is a more extreme form of 'regulation at home'. It is questionable whether regulation of this kind is workable or necessary in the South African case in view of the generally positive impact that South African business activity has had on the business culture and environment in Africa. Many businesses would also argue that they face enough hurdles in Africa and that any effort to make it more onerous to invest on the continent would certainly serve to dissuade them from pursuing investments there.