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South African Government announces 2004 Budget

The Government of South Africa presented its 2004 Budget on February 17. The Budget contains the Government's spending plans and expectations for economic growth over the forthcoming three calendar years.

Large expenditure increases were announced in the social sector, with an additional Rand19.7 billion set aside for spending in education, health, and other projects in the provinces. Other large increases were R6 billion in Black Economic Empowerment and R2.2 billion for public utilities. HIV / AIDS treatment programmes will have an additional R2.1 billion. Around one in nine South Africans have HIV, and the ANC Government's response to the epidemic have been subject to heavy criticism domestically and internationally. The expenditure per infected South African will increase by around R400, or US$60.

R1.5 billion will be earmarked to agricultural affairs, with half going to support the land reform program. Whilst South Africa has not yet seen social disruption comparable to its northern neighbour Zimbabwe, the unequal distribution of land has proved a cause of ongoing concern among both the black and white populations.

Positive economic outlook

Government economic expectations were upbeat, with growth forecast to rise from 1.9% in 2003 to 2.9% in 2004, and 4.0% in 2005 and 2006. Population growth has averaged 0.8% in recent years. The 2003 growth rate, described as disappointing by the Ministry of Finance, was accompanied by a 2.3% decline in exports and 8.2% rise in exports. A more positive note was struck by the 8.3% rise in capital formation, which is one of the factors behind the Government's predictions of increased growth in future years.

Key spending commitments for the next three years

Infrastructure
An additional R3.2 billion goes to provinces and municipalities for the Expanded Public Works Programme and infrastructure development.

Social
• R2.1 billion more for the HIV and Aids treatment programme.
• R6 billion for broad-based Black Economic Empowerment Initiatives.
• R2.2 billion more for municipal water, sanitation, electricity and refuse services.
• Provinces get an additional R19.7 billion for social grants, schools, hospitals and clinic services.

Land reform
• R700 million more for land reform and R750 million for a new farmer support programme.

Crime
• R1.9 billion extra for more police personnel, vehicles and IT infrastructure in the fight against crime.
• A further R475 million to improve the efficiency of the courts and to cater for vulnerable groups.

International responsibility
• An additional R1.1 billion for peacekeeping operations in Burundi and the DRC.

(Source: Ministry of Finance)

Vodacom takeover of Econet Nigeria

The acquisition of Econet Wireless Nigeria (EWN) by Vodacom of South Africa has been delayed by the abandonment of the proposed deal structure. Econet's corporate affairs manager Emeka Oparah said that the reason for the decision was to protect the deal from disruption by Econet Wireless International (EWI), another South Africa based suitor for EWN.

The acquisition contest has been bitterly contested for several years. EWI and its Chief Executive Strive Masiyiwa were among the founders of EWN, and they attempted to move from a 5% shareholding to 33% in 2001. The deal fell through, due to EWI's failure to pay for the purchase. EWI subsequently attempted to save the deal with a renewed offer, but other shareholders opposed it. The opposition of First Bank of Nigeria was believed to be particularly significant. Vodacom and an Egyptian mobile operator entered the bidding, and EWN agreed to cooperate on managerial issues with Vodacom last December.

The stakes are high. EWN is the second largest operator in Nigeria, and holds one of just four national digital mobile licenses. The contest will be watched closely by MTN, the South African mobile operator, who are second to Vodacom in their domestic market, but lead the Nigerian market.

United Phosphorus moves into Southern African market

United Phosphorus, the chemicals manufacturer based in the Indian state of Gujarat, purchased on 1 March a 20% shareholding in the South African company Cropserve. Cropserve markets agrochemicals in Malawi, Mozambique, Zambia, and Zimbabwe, and United hopes to use its new leverage to expand into these markets.

United Phosphorus is the fourth largest manufacturer of generic agro-chemicals in the world. It already has presence in Southern Africa through its subsidiaries in South Africa, Zambia, and Zimbabwe. Its purchase continues an ambitious plan of international expansion.

United Chemical are expanding into Southern Africa

In Brief

Coca Cola in Somalia
A Somali-Swedish businessman is starting a Coca-Cola bottling plant in Mogadishu, Reuters reports. The plant is due to open in the next month, and challenges the idea that no productive economic activity can occur in the war-afflicted nation.

More schoolwork for Angolan publisher
The Angolan publisher Socografica will invest US$0.5 million in new equipment, in preparation for the printing of new school books, reports AngolaPress. Demand for school equipment is expected to increase following the civil war's end last year.

Nightclub closures in Senegal
There was a small tragedy for the stylish in Senegal on 21 February, with the closure of seventeen nightclubs in the capital Dakar, including ones owned by the singers Youssou Ndour and Thione Ballago Seck. The Dakarois authorities enforced the closures, citing safety reasons.

UNCTAD report calls for new African trade approach
A report published on February 26 by UNCTAD identifies and analyses the reasons for Africa's low level of integration in global trade. "Economic Development in Africa: Trade Performance and Commodity Dependence" calls for measures to reduce commodity export dependence.

New South African management in Ethiopian reserve

The South African company African Parks has taken over the management of the Nech-Sar National Park in the South of Ethiopia. The transfer was made following a meeting in Addis Ababa between two of the company directors and the Ethiopian Prime Minister Meles Zenawi.

Nech-Sar is in an area of outstanding natural beauty, but has been poorly maintained. It is hoped that African Parks will revitalise the reserve, and move it to a position of financial sustainability. The company already runs parks in Malawi, South Africa, and Zambia.

Market Watch

(Week ending 27/2/2004)

Equity market leading indices and (increase in week)

Casablanca MASI	4,336 (+2.3%)
Bombay SENSEX	5,668 (-3.1%)
Cairo CASE 30	1,334 (+0.6%)
Mauritius SEMDEX	596 (+0.5%)
Uganda All Share	385 (-2.1%)
Lahore LSE-25	2,725 (-0.1%)
Indian National NIFTY	1,800 (-2.8%)

Selected currencies value to US$1 and (strengthening in week)

Ethiopia Birr	8.9 (-0.1%)
Gambia Dalasi	30.1 (0.0%)
Ghana Cedi	8,700 (+4.1%)
India Rupee	45.3 (0.0%)
Indonesia Rupiah	8,488.6 (-0.7%)
Kenya Shilling	76.7 (-0.1%)
Malawi Kwacha	105.3 (+2.7%)
Nigeria Naira	139.1 (+0.5%)
Pakistan Rupee	59.3 (-0.1%)
Tanzania Shilling	1,134.9 (-0.5%)

Nairobi Stock Exchange continues growth

The Nairobi Stock Exchange registered solid growth in the week ending February 27, with the market index rising 1.6%. Mumias Sugar was the largest riser, up 66% to KSh13.15. It has risen by 196% since the start of the year. East African Cables fell 33% to KSh22.75, correcting a rise of similar size the previous week. The electrical cable manufacturer, part of the Sameer group, started the year at KSh13.65.

The market is up 17.4% since the start of the year.

West African Stock Exchange closes up, lead by utilities

The West African Stock Exchange in Abidjan has closed up in February, with the BRVM Composite Index rising to 75 from 73.5 at the start of the month. The utility sector lead the market, with the sectoral index rising from 79 to 86. The sector consists of the Ivorian Electricity Company, the Water Distribution Company of Cote d'Ivoire, and the National Telecommunications Company.

The market seems to have stopped its downward course. Initiated at 100 on 15 September 1998, the Composite Index has fallen against the background of the civil war in Cote d'Ivoire. The Composite Index dropped sharply in January from its opening high of 77, with financials and transport notable casualties.

Trade talks in Kenya aim to end WTO impasse

Trade representatives of Africa, the European Union, and the US met in Kenya on February 19, to discuss issues relating to the further opening of markets between the regions. The discussions follow the collapse of the World Trade Organisation talks in Cancun, Mexico in 2003, where Western agricultural export subsidies proved to be an obstacle to agreement. Developing countries were reportedly unwilling to reach understanding on reduction of barriers to trade while these subsidies are not addressed.

US and EU representatives exchanged challenges on the lowering of subsidies and barriers, with the US representative Robert Zoellick calling for extensive tariff reductions. Mr Zoellick flew from a separate meeting with South African Trade Minister, where he received a favourable reception. The US African Growth and Opportunity Act, enacted by the US Administration in 2000, has provided tariff-free entry to many goods from the continent. Total volume of non-petroleum trade remains far higher with the European Union, however.

Harvest time. But are developing countries at the feast?

Swaziland declares state of emergency

The Government of Swaziland on February 18 declared a state of emergency in the country, in response to the challenge of HIV / AIDS and food shortages. The Prime Minister Themba Dlamini called for international bodies to provide assistance to the Southern African nation. The formal declaration means that international aid agencies can access funds specifically for the purpose of disaster relief.

Swaziland's geographical position makes it vulnerable to both famine and HIV. The prevalence of the disease in neighbouring South Africa means that migrant workers to the larger and richer state may return home with the disease, and infect their families. The country has the highest recognised rate of infection, 40%, in the world. The county lies in a region affected by drought over the last four years, leading to a famine compounded by recent severe storms.

Comment: Where giants meet

Two of the largest inter-African company acquisitions in the last year have involved South African businesses moving into West Africa. The Anglogold-Asante and planned Vodacom-Econet take-overs have occurred over huge distances and between companies in regions only loosely connected by the local free-trade agreements so common in the continent. The absence of high profile mergers among neighbouring states could at first glance be ascribed to very specific issues such as the unattractiveness of targets like Zambian copper mining enterprises and Zimbabwean industry. Even in Zimbabwe, the cheapness of assets has appealed to some suitors despite the difficult operating environment.

Whilst creation of free-trade areas may serve as an important stimulus, other circumstances are key for a successful acquisition. Simply put, the combined company must have more earning potential than the separate companies. Cost reductions may arise from management and overhead savings, and an agreement with a large multinational may offer these to a smaller business, depending on the geographical, operational, and structural features of the organisations. New opportunities are an attractive reason for an acquisition, either through Econet style entry into an expanding market, or through the ability to gain market share in the African or international market. Coffee producers find it impossible to form a cartel, let alone a supercompany, in their industry where competitors can erode market share easily, and prices are volatile and liable to fall. A large coffee producer would be sharply exposed to concentration of risk, very unlike from the diversification arising from the West African-South African links. The criss-crossing, evasive nature of African acquisitions is not an anomaly, but often an optimal business strategy.

Editor and writer: James Waters (j.m.waters@brad.ac.uk). AfricaAsia Enterprise is produced by students of the Bradford Centre for International Development. Any opinions expressed are the writer's own. Every effort is made to ensure accuracy, but no responsibility is taken for the results of use of the information here. Photographs are from freefoto.com