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ACRONYMS and ABBREVIATIONS

ACP	African Caribbean and Pacific
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency
ANIP	National Private Investment Agency
BCM	Central Bank of Madagascar
BEE	Black Economic Empowerment
BESA	Board Exchange of South Africa
BOT	Bank of Tanzania
BoZ	Bank of Zambia
CAS	Country Assistance Strategy
CIA	Central Intelligence Agency
CDC	Commonwealth Development Corporation
CMA	Common Monetary Area
COMESA	Common Market of Eastern and Southern Africa
CPI	Investment Promotion Centre
CPLP	Community of Portuguese Speaking Countries
CSR	Corporate Social Responsibility
DBSA	Development Bank of South Africa
DFID	UK Department for International Development
DRC	Democratic Republic of Congo
DTI	Department of Trade and Investment, South Africa
EAC	East African Community
EC	European Commission
EIU	Economic Intelligence Unit
EPZ	Export Processing Zone
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	German Technical Cooperation
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IDA	International Development Association
IDC	Industrial Development Corporation
IDZ	Industrial Development Zones
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
LuSE	Lusaka Stock Exchange
JSE	Johannesburg Stock Exchange
LDC	Least Developed Countries
MIGA	Multilateral Investment Guarantee Agency
MIPA	Malawi Investment Promotion Agency
NDC	National Development Corporation
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organizations

ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation
PPP	Public-Private Partnerships
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PTA	Preferential Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African
SARS	South African Revenue Services
SDI	Spatial Development Initiatives
SOE	State Owned Enterprise
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprises
STD	Sexually Transmitted Diseases
TAZ	Tanzanian Assistance Strategy
TIC	Tanzanian Investment Centre
TISA	Trade and Investment South Africa
TNC	Transnational Corporations
TNDP	Transitional National Development Plan
UK	United Kingdom
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
US	United States of America
USAID	US Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization
ZIC	Zimbabwe Investment Centre

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1. BOTSWANA

1.1. Trends of Macro Economy, Industry, Trade and Industry

1.1.1. Macro Economy

Botswana stands out as the only graduate from the category of least developed countries (LDC). At independence in 1966, it was one of the poorest countries of the world with an annual per capita income of less than US$100. After three decades of one of the fastest rates of economic growth in the world, Botswana is now an upper middle-income developing economy with a per capita GNP of US$3,312. Its enormous progress was spearheaded by the discovery of rich and profitable deposits of diamonds in 1967, which initiated a process of structural change from an economy heavily dependent on low productivity in agriculture to an economy where mining and services became the dominant sectors. Various reviews of Botswana’s economic and political performance since independence give credit to the wise management of natural resources and good governance, enabling political and economic stability to prevail. In the earlier years, much of its mineral revenue as well as foreign aid were invested in health, education and infrastructure, creating foundations for long-term growth. Equally important was that revenue that could not be invested sensibly was saved. Botswana’s early success, which has continued until today, has ensured a long-term macroeconomic environment conducive to a sound investment climate, a rare occurrence for a developing country.

Botswana also stands out in its choice of economic system and policies and attitudes towards FDI. During the 1960s and 1970s, State control, based on central planning, took firm hold in many African countries. Botswana, however, opted for a market-based system. It did not undertake widespread nationalization and it decided to exploit its most precious national resource – diamonds – in joint ventures with foreign investors. It must be pointed out that Botswana is taking a stronger line with the foreign investors in its strategic sectors in order to increase the benefits for the country versus the profit margins of the investors. Banking, too, remained foreign-owned, even though many countries at that time considered them to be the main pillars of their economies. Since the creation of a national currency in 1976, Botswana typically maintained more liberal exchange controls than its neighbors, including South Africa. All in all, Botswana has been open to FDI since independence and has constantly improved its FDI framework.

From independence Botswana hardly had any location advantages. Its market was small due to a small and poor population, living in rural areas and herding cattle as its main economic activity. As a member of the SACU, Botswana had free access to the large market of South Africa, but due to a lack of capabilities and infrastructure, it was unable to turn this access into a location advantage. The discovery of diamonds (as well as copper, nickel and soda ash) improved Botswana’s attractiveness to foreign investors. The investment climate also improved due to prudent and, for that time, imaginative policies, combined with an increase in the supply of an urban labor force, improved skills and infrastructure and small, but fast growing, urban markets. The recent SADC investor survey of the investment climate in its member countries singled out Botswana as a “best practice” example on indicators of good governance, sound fiscal policies and high growth rates over a sustained period.

According to the Economist Intelligence Unit (EIU), the government will continue to pursue largely prudent economic policies in 2005-2006, and the Ministry of Finance and Development Planning will be keen to establish its authority following the election. However, it is facing an increasingly difficult task in maintaining macroeconomic balance at a time when fiscal control is imperative. The implementation of some difficult economic policy choices, such as privatization and cost-recovery measures, may continue to be delayed and the influence of prominent businessmen (new to parliament and appointed straight into the cabinet) may affect the direction of policy, particularly in the crucial area of striking a balance between attracting investors and promoting the economic interests of citizens.

The Ninth National Development Plan (NDP 9; April 2003-March 2009) reflects the goals of the government's long-term policy document, Vision 2016. As the main policy objectives of NDP 9, a lack of skilled labor and overambitious goals are (1) economic diversification, (2) employment creation and poverty alleviation, (3) maintaining macroeconomic stability and financial discipline and (4) development of the country's human resources (which includes the fight against HIV/AIDS).

Diversification of the economy away from diamond mining will remain a policy goal. The EIU is, however, of the opinion that the plethora of government agencies trying to attract foreign investment, excessive bureaucracy and small market size will remain a constraint. The timetable for privatization may soon become clearer, as the government is scheduled to approve the much-delayed Privatization Masterplan in the next few months. The government has been encouraged by its attempts to stimulate the development of local capital markets, and may once again be considering issuing a benchmark international bond, but it will not proceed with this until it is clear that fiscal discipline has been fully restored.

Although the budget for fiscal year 2004/05 (April-March) projected a small surplus of P70m (US$15m; around 0.2% of GDP), revised estimates released at the time of the annual budget speech in February 2005 showed a deficit of P1.4bn (US$300m). The 2005/06 budget is roughly balanced, showing a surplus of P110m. In its annual monetary policy statement presented in February, the Bank of Botswana (the central bank) lowered its target range for inflation from 4-7% to 3-6%, in line with that prevailing in South Africa and reflecting the bank's confidence that much of the recent rise in inflation was due to the impact of the devaluation of the pula in February 2004.

Botswana possesses long-term vision entitled Vision 2016. This is a national vision, adopted in 1997 after consultation with all sectors of Botswana's society. It presents a perspective of where the country should be in 2016. It is a multi-dimensional vision, encompassing the social, economic, cultural, political and spiritual aspects of the lives of the Botswana. Vision 2016 re-affirms and builds upon Botswana's existing development objectives, agreed nationally many years ago. They are (1) sustained development, (2) rapid economic growth, (3) economic independence and (4) social justice.

Table 1.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	0.6	0.8	1.1	1.5	1.6	1.6	1.7	1.7	1.7	1.7
Population ages 0-14 (% of total)	49.6	49.7	47.1	43.7	42.9	42.6	42.3	42.0	41.8	41.5
Population ages 15-64 (% of total)	47.5	48.0	50.8	54.0	54.8	55.2	55.5	55.7	56.0	56.2
Population ages 65 and above (% of total)	2.9	2.3	2.1	2.4	2.3	2.2	2.2	2.2	2.3	2.3
GDP (constant million 2000 US$)	181.9	707.2	2,063.3	4,127.8	4,628.5	4,877.9	5,251.1	5,526.4	5,771.4	6,083.8
GDP growth (annual %)	8.7	15.2	10.9	5.2	6.0	5.4	7.6	5.2	4.4	5.4
GDP per capita (constant 2000 US$)	321.4	889.4	1,834.2	2,724.7	2,867.4	2,962.3	3,135.0	3,260.4	3,371.6	3,532.0
Official exchange rate (LCU per US$, period average)	0.7	0.8	1.5	3.3	4.2	4.6	5.1	5.8	6.3	4.9
Inflation, consumer prices (annual %)	-	11.9	10.6	10.5	6.7	7.7	8.6	6.6	8.0	9.2
Money and quasi money (M2) as % of GDP	-	18.0	23.1	22.8	23.6	27.9	27.2	28.0	28.0	27.5
Real interest rate (%)	-	-1.6	0.1	5.1	9.6	8.5	7.8	7.8	7.7	12.3
Foreign direct investment, net inflows (% of GDP)	0.0	2.8	3.8	0.1	1.9	0.7	1.1	0.4	7.5	1.1

Foreign direct investment, net inflows (% of gross capital formation)	0.0	7.9	14.7	0.7	5.8	2.6	5.5	1.9	26.7	4.2
Agriculture, value added (% of GDP)	37.7	24.5	7.0	3.8	3.2	2.8	2.7	2.6	2.4	2.4
Industry, value added (% of GDP)	17.0	35.3	53.7	48.7	47.6	45.7	47.2	47.6	47.2	45.2
Manufacturing, value added (% of GDP)	8.5	6.5	5.5	4.9	5.1	5.1	4.8	4.5	4.3	4.3
Services, etc., value added (% of GDP)	45.3	40.1	39.4	47.5	49.2	51.4	50.1	49.9	50.4	52.5
General government final consumption expenditure (% of GDP)	22.6	18.9	24.6	27.9	28.9	30.4	30.4	31.9	33.3	35.5
Household final consumption expenditure, etc. (% of GDP)	80.3	57.5	38.5	32.8	31.4	30.9	28.0	27.6	28.1	26.5
Final consumption expenditure (% of GDP)	102.9	76.3	63.1	60.8	60.2	61.3	58.3	59.5	61.4	61.9
Gross capital formation (% of GDP)	21.1	43.0	29.7	27.8	33.5	28.0	20.0	23.0	28.0	27.5
Exports of goods and services (% of GDP)	30.2	55.4	62.2	52.6	51.4	54.6	61.4	54.7	46.4	44.5
Imports of goods and services (% of GDP)	54.2	74.7	55.0	41.2	45.2	43.9	39.6	37.2	35.8	33.9
Gross domestic savings (% of GDP)	-2.9	23.7	36.9	39.2	39.8	38.7	41.7	40.5	38.6	38.1
Gross capital formation (% of GDP)	21.1	43.0	29.7	27.8	33.5	28.0	20.0	23.0	28.0	27.5
Food exports (% of merchandise exports)	-	-	-	2.8	-	-	2.8	3.1	-	-
Food imports (% of merchandise imports)	-	-	-	14.2	-	-	14.2	13.9	-	-
Agricultural raw materials exports (% of merchandise exports)	-	-	-	0.3	-	-	0.3	0.5	-	-
Agricultural raw materials imports (% of merchandise imports)	-	-	-	0.9	-	-	0.9	0.8	-	-
Ores and metals exports (% of merchandise exports)	-	-	-	7.0	-	-	7.0	5.5	-	-
Ores and metals imports (% of merchandise imports)	-	-	-	2.2	-	-	2.2	2.0	-	-
Fuel exports (% of merchandise exports)	-	-	-	0.1	-	-	0.1	0.1	-	-
Fuel imports (% of merchandise imports)	-	-	-	4.7	-	-	4.7	6.5	-	-
Manufactures exports (% of merchandise exports)	-	-	-	89.6	-	-	89.6	90.6	-	-
Manufactures imports (% of merchandise imports)	-	-	-	74.6	-	-	74.6	71.8	-	-
Aid per capita (current US$)	20.1	67.4	109.5	64.1	65.9	37.0	18.3	17.2	21.9	17.5
Total debt service (% of exports of goods and services)	-	2.1	3.6	3.3	2.6	2.2	2.0	1.7	2.0	1.3
Total reserves in months of imports	-	3.7	10.8	22.7	23.7	24.5	24.9	27.1	21.1	18.6

Source: The World Bank (2005), *World Development Indicators: 2005*

1.1.2 Industry

Botswana and four other nations including South Africa compose the Southern African Customs Union (SACU). At the moment of independence, there was no noticeable industry other than agriculture, but active investment of private South African capital mainly in the development of mining resources provided the support for sustainable economic growth and industrial diversification, making it the country with the second highest income level in the region. A great part of the industrial structure is made up of the service industry at 52.5% with mining and manufacturing at 45.2%. The relative importance of agriculture is the lowest in the region.

In regard to agriculture, the majority of the nation's land is not suitable for cultivation. In contrast, cattle-breeding accounts for 80% of the total agricultural production. Approximately 2.5 million head of cattle are being bred commercially with 95% exported to South Africa and other countries through processing plants at three domestic locations. Water resources are limited and the degree of self-sufficiency of forage is low at around 20%.

The mining industry stays mainly on diamonds. Joint ventures between the government and South African companies are responsible for mining operation and export. Production in 2002 was on a world leading scale of 26.2 million carats. The diamond sector supports 90% of the nation's exports, and yearly production volume and international market price have a significant impact on the domestic economy. Other mining resources are nickel, copper, coal and soda ash. Similar to diamonds, South African capital engaged in many parts of investments, and in regard to the first two listed, production is propped up partly by the participation of Canadian capital as well.

A large part of the manufacturing industry consists of primary processing of the above-mentioned mineral resources and the food industry including meat processing. The remainder is light manufacturing industries for the domestic market, which operate on a small-scale. Recently, as an approved nation under the African Growth and Opportunity Act (AGOA), Asian capital has started investing in textiles and garments, which are expected to develop into a new export industry.

In the service sector, making in use of South African capital and infrastructure are developing public utilities, commerce and the financial industry. In the financial sector, South African and European financial institutions have entered the market. The size of the nation's stock exchange market is $2.13 billion (market capitalization in 2003), a scale ranking after South Africa and Zimbabwe. Tourism focuses mainly on safaris and the number of tourists in 2002 was 1.04 million, double that of 1990 with revenues also reaching $310 million.

1.1.3 Trade and Investment

(1) Trade

Along with the decline of export share in total GDP, Botswana’s total export value is has been decreasing since 2000. Although the international diamond market remained buoyant, the value of Botswana diamond exports declined due to the appreciation of the Pula against the US dollar, the currency in which diamonds are priced and sold. Diamond output is expanding its share of export earnings of Botswana, due in part to the sharp reduction in export of vehicles and parts following the closure of the Hyundai vehicle assembly plant in 1998, and also a reduction in the value of textiles.

The main source of imports of Botswana is SACU countries, in particular, South Africa. In spite of the declining tendency of import from 1998 to 2000, Botswana’s has a basic import structure that increase of import of fuels, wood, food, and other basic products will expand the total import. Therefore, forecast weakening of the local currency (pula), growing consumer and government spending will cause imports to rise, as will high oil prices.

The Southern African Customs Union (SACU) agreement is Botswana’s main multilateral trade agreement. SACU provides for a common external tariff structure and duty-free movement of goods originating from within the Customs Union, which includes Botswana, South Africa, Namibia, Lesotho, and Swaziland.

Although South Africa has been the principal destination for non-traditional exports (those other than minerals and beef), it is hoped that other markets will open in Europe and the United States of America as a result of trade liberalization initiatives. Botswana has duty and quota-free access to the United States market, particularly for textiles, under the Africa Growth and Opportunity Act (AGOA).

Table 1.2: Trade tendency and main partners

		1998	1999	2000	2001	2002
Export (US$ million)		2,537	2,743	3,220	2,845	2,667
Import (US$ million)		2,229	2,204	2,076	1,902	1,947
Main trading partners （1,000P）						
Export	United Kingdom	4,830,026	8,130,083	9,644,333	12,283,285	3,363,40
	Zimbabwe	249,892	290,968	540,563	373,766	114,553
	United States	90,011	86,475	81,613	35,259	12,822

Import	SACU	7,111,419	7,783,613	7,846,092	8,193,389	2,188,744
	United Kingdom	320,512	272,481	442,262	467,793	123,481
	Zimbabwe	374,644	396,600	366,635	335,232	74,148

Source：World Bank, *World Development Indicators*; Central Statistics Office of Botswana, *Statistical Bulletin*;

(2) Foreign Direct Investment

FDI inflow in Botswana had been in decline until 2001. This was because of slower inflow to the mining sector, particularly as diamond output appeared to reach a plateau. Another factor was suppose to be the limited domestic market. However, FDI in 2002 recorded a remarkable increase, reflecting recovery in confidence in the economy by foreign firms following the discovery of new diamond mines.

Table 1.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
95.8	36.6	57.3	30.8	404.6	86.3

Source: UNCTAD, FDI On-line.

1.2. Policy Issues Promoting FDI

1.2.1 Industrial Policies and Development Plans

The Botswana government's overall industrial policy is basically to promote import substitutes and to diversify export industries. In agriculture, there is an emphasis on strengthening sanitary control for meats and improving self-sufficiency in food crops and dairy products. In the mining and manufacturing sector, augmenting competitiveness through improving productivity is being stressed. Concerning the service industry, attention is being focused on tourism. The government enhances external public relations and develops related facilities.

1.2.2 FDI Promoting Policies

The Government, the second in southern Africa to do so, abolished all foreign exchange controls in February 1999. It has undertaken largely successful efforts to combat crime, including corruption, and to improve the delivery of the judicial system. The Government has instituted low corporate tax rates, the increasingly speedy processing of applications for business ventures, a stable macroeconomic environment, and a commitment to transparency. The Ministry of Trade and Industry recently announced that it has taken measures to simplify and expedite the issuance of work and residence licenses. The Registrar of Companies has progressed in implementing its commitment to reduce the turnaround time to register a company from twelve weeks to ten working days.

In addition, the Government has attempted to provide assistance to investors through investment incentive schemes, including grants and tax relief. Investment of foreign capital in job-creating industrial projects, particularly those that have an import substitution component or have export potential, is strongly encouraged.

Botswana has no specific investment code. Investment bylaws exist and are contained in the Companies Act, the Factories Act, the Employment Act, the Financial Assistance Policy and the Income Tax Act of 1995. These acts are very explicit on the investment position of the country.

Investment protection and promotion have been an integral part of the incentives in Botswana.

However, a Foreign Direct Investment Strategy is scheduled to be completed by the Government in 2005, which will outline the government's ideals and express the commitment of the Government to attracting investors.

(1) Opportunities Promoted

Government policy is to diversify investment into any profitable and sustainable sector of the economy to ease current dependence on mining. Investment is particularly encouraged in manufacturing, tourism and its infrastructure, in the "knowledge economy" and in financial services through the new International Financial Service Centre.

The Botswana Export Development and Investment Authority (BEDIA) places emphasis on the manufacturing sector in order to produce an export stream and tackle widespread unemployment. BEDIA is particularly interested to help investors in the following sectors:

- Textiles and garments;
- The establishment of a modern tannery;
- Diamond cutting and polishing;
- Jewellery manufacturing;
- Glass manufacturing;
- Engineering products;
- Printing and publishing;
- Plastics;
- Ceramics;
- Information technology and telecommunications – The cellular telephone industry deregulated and further liberalization under consideration;
- Data processing; and
- Tourism - Eco-tourism, hotels/restaurants.

Further opportunities have been identified in:

- International Financial Services - The International Financial Services Centre (IFSC) plans to encourage banking and finance companies, broking and trading, insurance, investment advice and banking, the flotation of unit trusts, money market funds, equity funds and retirement funds;
- Energy - Morepule Power Plant expansion and proposed Mmamabula Export Power Station; Solar energy equipment; Development of natural gas reserves discovery;
- Mineral Sector - Mining equipment and services; construction; consulting; engineering; and
- Healthcare - Services and medical/surgical equipment.

The Botswana Development Corporation (BDC) also promotes investment in the following industries:

- Downstream manufacturing using locally available raw materials and by-products e.g. cattle by-products;
- Assembly/Piece Together e.g. electronic components for telephones and others;
- Packaging/Bulk Breaking of perishable items, most of which are currently imported from

South Africa; and

- Manufacturing e.g. pharmaceuticals, packaging materials, jewelry, leather goods, and others.

(2) Local Procurement Policy

The Government's local procurement policy (LPP) sets aside a portion of Government supplies procurement needs to be filled by manufacturing firms based in Botswana. The LPP is an incentive offered by Government of Botswana for the promotion of the manufacturing and service sectors, administered by the Industrial Support Services Division. The LPP seeks to develop and stimulate local entrepreneurship capacity and international competitiveness where 30% of Central Government purchases are reserved exclusively for local manufacturing companies. To qualify for the program, manufacturing companies must achieve a minimum Local Content of 25% and meet any two of the following conditions:

- Employ between 10 and 200 people;
- Have an annual turnover ranging between P200 000 (US$40 000) and P500 000 (US$100 000); and
- Local firms can still tender for the remaining 70% with international companies.

All foreign investors wishing to invest in Botswana are required to transfer technology and skills by promoting the involvement and participation of local citizens in positions of supervisory, middle and senior management levels in the company in an effort to localize the companies within an agreed period. (There are no ownership transference requirements.)

1.3. Incentives and Impediments for/to FDI

1.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

<u>1) Botswana Export Development and Investment Authority (BEDIA)</u>

A growing recognition of the importance of private investment, particularly foreign direct investment, in the creation of sustainable employment, economic diversification and poverty reduction led to the formation of the Botswana Export Development and Investment Authority (BEDIA) in 1998. BEDIA is an autonomous organisation established to:

- Promote investment into Botswana with special emphasis on export-oriented manufacture;
- Identify market outlets for products manufactured in Botswana; and
- Construct factory buildings.
- It is virtually an autonomous organisation with its Board of Directors comprising mostly of private sector representatives, including its chairman, and two government representatives, from the Ministry of Trade and Industry and the Ministry of Finance and Development Planning respectively.

The Authority is designed to serve as the primary government contact point for both domestic and foreign investors. Since its inception, BEDIA has assisted fourteen companies which are now operational. The total level of investment from these companies is estimated at US$12 million, which according to BEDIA has led to the creation of some 3,600 new jobs. The Centre focuses on enabling investors in both the manufacturing and service sectors to secure all clearances and approvals as quickly as possible under one roof. The BEDIA has two regional offices: one in South Africa and one in the United Kingdom.

2) Botswana Development Corporation (BDC)

Botswana Development Corporation (BDC) is the principal development finance institution in Botswana. Its financing efforts are focused on local and foreign investors capable of creating and growing viable businesses which will provide sustainable employment and bring added value to the economy. The Corporation assists investors to establish and develop businesses through financing, infrastructure and equity participation. BDC's strategies are designed to allow the Corporation to achieve market-related returns from its investments and lending activities, and wherever possible, to ensure transfer of skills and technology to citizens.

The Corporation's total investments grew by 17.7% from P0.9 million in 2002 to P1.1 billion in 2003. Some of the achievements include the commissioning of a confectionary factory with a manufacturing capacity of 150 tonnes of sweets per month in Gaborone; the completion of the refurbishment of Lobatse Clay Works operations in Lobatse; the commissioning of an electric geyser manufacturing venture in Gaborone; and financing the construction of light industrial warehouse units and a large-scale poultry project both in Francistown.

(2) Free Trade Zones/Export Zones

Botswana does not have any EPZ or FTZ areas.

(3) Incentives for FDI

Botswana has a range of incentives for FDI initiatives and has been described as probably the most advantageous economy to commit FDI to in the region. The government of Botswana offers foreign investors equal access to incentives designed to promote export-oriented industries. Foreign investors are also given equal access to general investment incentive schemes for medium and large projects in most economic sectors. Foreign investors can thus approach the Botswana Development Corporation (BDC), an institution dedicated to financing development projects, for the financing of investment projects. Such a major action will also reinforce the position of the BDC and strengthen its lending position for other investors.

1) Exchange Controls

Botswana was the second country in the Southern African Development Community (SADC) to abolish exchange controls. The complete elimination of controls on current and capital accounts enhances Botswana's competitive position as a regional investment destination. In addition, the abolition of exchange controls has allowed the further development of Botswana's financial markets through the creation of new portfolio investment options.

There are no restrictions on converting or transferring funds associated with an investment into a freely convertible currency and at a legal clearing rate. Investors are allowed to remit funds through a legal parallel market. Non-residents can trade in and issue Botswana Pula-denominated bonds with maturity periods of over one year, provided such instruments are listed on the Botswana Stock Exchange. This is a move to encourage portfolio investments, the development of domestic capital markets, and the diversification of investment instruments. Foreigners can hold shares in Botswana companies. Residents are permitted to invest overseas and borrow offshore. Travellers are not restricted as to the amount of currency they may carry on their person or in their baggage, but they are required to declare to customs at the port of departure any cash amount in excess of Pula 10 000 (US$2 100). All quantitative limits on foreign currency access for current account transactions have been removed. Dual listings are permitted on the Botswana Stock Exchange.

2) Foreign Currency Accounts and Repatriation

The government permits the establishment of foreign currency-denominated accounts in Botswana. At present, commercial banks offer accounts denominated in U.S. Dollars, British Pounds, Euros and South African Rands. Businesses and other bodies incorporated or registered under the laws of Botswana may open such accounts without prior approval from the Bank of Botswana. The government also permits the issuance of foreign currency denominated loans. Upon disinvestment by a non-resident, the person is allowed immediate repatriation of all proceeds. Investment returns such as profits and dividends, debt service, capital gains, returns on intellectual property, royalties, franchise fees and service fees can all be repatriated without limits. There is no difficulty in obtaining foreign exchange. Shortages of foreign exchange that would lead banks to block transactions are highly unlikely. With international reserves of approximately US$5,7 billion, Botswana will not experience foreign exchange difficulties in the foreseeable future, covering roughly 2 years of import liabilities. The Botswana Pula is, to all intents and purposes, freely convertible.

(4) Impediments to Attract FDI (Closed Sectors for Foreign Investors)

While generally open to foreign participation in its economy, Botswana does reserve some sectors solely for citizen participation, and has a number of citizen empowerment programs that are closed to foreign investors. Most were imposed by Parliament out of a fear that other non-citizen African and South Asian residents were opening businesses in areas traditionally controlled by Botswana. The restrictions are not retroactive and businesses in existence prior to the law's passage remain in the hands of their non-citizen owners. In addition, many foreign investors have continued to invest in certain areas, such as gas stations, through franchising to Botswana citizens.

The Ministry of Trade and Industry, which has responsibility for licensing businesses, has generally issued licences to foreigners to operate businesses related to these areas whenever there has been any ambiguity as to whether the licensing prohibition applied. At present, the law prohibits foreign participation in school furniture manufacturing and the welding and bricklaying trades. The law also limits various trades or businesses to those ventures wholly controlled by Botswana, including petrol stations, liquor stores, bars, and supermarkets (excluding chain stores and franchise operations), etc.

Despite these restrictions, the Ministry of Trade and Industry has taken an expansive interpretation of "chain stores" to mean any store with more than one outlet and has allowed the exemption to apply not only to supermarkets, but also to simple speciality operations and general trading stores. Hence, large general merchandise markets, restaurants and the dominant grocery network, all owned by foreigners, operate without restriction. Foreign investors are allowed to participate in all other sectors, provided the investments are in line with the criteria set forth in the country’s Foreign Investment principles. Business licences are issued following a routine review of proposed commercial activities, which is carried out in a transparent and non-discriminatory manner.

1.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

Botswana's infrastructure is reasonably good, including a strong transport infrastructure, but problems of high utility rates compared with other countries in the region and slow progress in privatisation of public enterprises could hinder foreign investment. Many development initiatives are underway including large governmental infrastructural projects aimed at improving the country’s infrastructure while stimulating the entire economy.

There is a total of 888 km of railways and 10,217 km of roads, of which 5,619 km are paved. There are no ports or harbours but three dry ports, namely Gabcon, Francon and Selebi-Phikwe, are run by Botswana railway. Botswana has 85 airports, 10 with paved runways.

Botswana's energy capacity is thermal, mainly coal-fired, with some small diesel generators in rural areas. More than half of Botswana’s power requirements are imported from South Africa and Zambia. The Botswana Power Corporation states that it is committed to making electricity available to as many people as possible and thus improving the nation’s standard of living. But the whole Southern African region is heading for a crisis in the supply of electricity, especially as countries develop. This is an area where a major investor with innovation, experience, and concepts could not only build a successful business in the provision of energy, but also actively contribute to the welfare of the country and the sub-region, especially if Botswana could eventually become a net exporter of electricity. Nearly all Botswana’s refined oil needs are supplied from South Africa, with storage tanks providing several months' reserves. There are five major international oil companies operating in Botswana marketing and distributing fuels and lubricants. The country’s long-term water supplies largely depend on the international rivers and Botswana continues to actively participate in international river commission negotiations. Botswana’s National Water Master Plan is progressing well.

The telephone system is expanding with the growth of mobile cellular service and participation in regional development. There is small system of open-wire lines, microwave radio relay links, and a few radiotelephone communication stations. The mobile cellular service is growing fast.

(2) Regional Programme

The Trans Kalahari Highway completed construction work in 1998 which enables to cross the continent from Maputo in Mozambique to Walvis Bay in Namibia. The country has been taking part in the southern African power pools project.

(3) Trend in Privatisation and Some Observations on Current PPPs

The Botswana Government is attempting to walk a narrow tightrope on the issue of privatisation. It desires, on the one hand, to use privatisation as a tool to increase FDI and portfolio investment in the country, while on the other addressing concerns that privatisation will cost jobs and only reward wealthy foreign interests. After the Government of Botswana adopted the Privatisation Policy for Botswana, Government Paper No.1 of 2002, the Public Enterprise Evaluation and Privatisation Agency (PEEPA) was established to oversee the implementation of the Privatisation Policy. PEEPA will ultimately decide the extent of foreign participation in the privatisation process and determine the mechanics that will be used to promote citizen participation. With the release of the Privatisation Master Plan, privatisation of public enterprises is expected to accelerate, especially since most of the public enterprises were profitable in 2002/2003 fiscal year. As part of the preparations for implementation of the plan, PEEPA will be carrying out extensive diagnostic reviews covering the performance of public enterprises.

Public-Private Partnerships (PPP) falls under the responsibility of the PEEPA and are usually aimed at fighting the scourge of HIV/AIDS or other such social projects. At a workshop for Construction Industry Stakeholders on Public-Private Partnerships (PPP) in Gaborone in 2004, the UK government, through its High Commissioner in Botswana, urged the Botswana government to expand PPP projects and enterprises especially to relieve the pressure on the government of the fight against HIV/AIDS. In March 2005, the Minister of Foreign Affairs and International Co-operation announced that government has embarked on the PPP initiative in recognition of the limited resources. He confirmed that funds had been approved for the development of a comprehensive PPP implementation strategy as well as procedures and guidelines for the implementation and regulation of PPP by PEEPA. The planned strategy would guide the government on the type of projects to be conducted and introduce structures, which would facilitate the smooth implementation and management of PPP projects. The minister indicated that Botswana was moving towards a new model of service that is decentralised, non-bureaucratic, catalytic results-oriented and empowering. Botswana is looking at eventually having some government agencies transformed into Performance-Base Organisations (PBOs) that have both accountability and flexibility to achieve publicly defined goals, and letting organisations, both public and private, compete to deliver public services.

1.3.3 Currency and Monetary Systems

(1) General Conditions

The biggest challenge for Botswana economy is departure from its dependence on diamond and diversification of industry. Several government agencies are making efforts to invite foreign investment, but ineffective government and small market size are still obstacles for inflow of foreign funds. Issuance of international bonds which are designed to be benchmark bonds is conceived in order to foster a domestic capital market, but will not be realized until the market discipline is successfully recovered. However, Botswana government bonds are ranked A by S&P and Moody's.

As the inflation rate in 2004 fell within the predictable range, there is no need to take tight monetary policy immediately. The central bank adopts restrictive lending policy and the Government also takes expenditure restraint measures in order to prevent risk from occurring in terms of inflation target.

Pula, the Botswana currency, is linked to a currencies basket predominated by South African Rand and was devalued in April 2004. For a while there would be no possibility of further devaluation, but Pula is dependent of Rand as South Africa is one of the biggest trading partners of Botswana. The value of Pula against US$ will be expected to fall from P4.92/US$ to P5.14/US$[1].

[1] Predictions quoted from EIU Report, January 2005.

(2) Financial Sector

As for financial matters, a monetary authority will be established with the cooperation of IMF and Financial Sector Reform and Strengthening Initiative (a multi-donor program). A five-year plan is also under study as anti-money-laundering program. Funding in the bond market is very active, as is seen in two issues of P150 million (US$34 million) of mid-term bonds by Barclays Bank of Botswana, Botswana's biggest bank, issues of money-market fund by Stanbic Bank for institutional and private investors and prospective issue of P500 million of mid-term bonds by Botswana Building Society. Debentures of Botswana Telecommunications Corporation are also in circulation.

Main players of the banking sector are: The Central Bank (Bank of Botswana), 5 commercial banks (Bank of Baroda Botswana Ltd, Barclays Bank of Botswana, First National Bank of Botswana Ltd, Standard Chartered Bank of Botswana Ltd, Stanbic Bank of Botswana） and an investment bank (Investec Group) and a finance lease company (African Banking Corporation of Botswana).

In addition, there are 6 development financing organizations, two of which are quasi state-owned corporations: Botswana Development Corporation (BDC) and National Development Bank (NDB). BDC suffers a plenty of bad debts which have arisen from past loans for unprofitable projects. Its situation has been improved after loan policy reform in recent years. Loans are now directed mainly toward the manufacturing sector. Loans outstanding stands at P127.37 million (US$25.48 million). On the other hand, NDB, the first African development bank that has obtained ISO 9001, recorded a net profit of P50 million (US$10.6 million) in 2002. There is no discriminatory treating between foreign firms and domestic firms in granting loans. Short-term foreign trade financing is also relatively developed. Botswana Export Credit Insurance (BECI) is in charge of foreign trade insurance.

The Government established International Financial Services Center (IFSC) in June 2000 in charge of joint ventures, corporate finance, insurance business, foreign firms management, etc. It aims to play a regional hub of all financial matters. As of 2004, 9 projects have been approved, including Barclays Bank, African Alliance, Natgilt Trading Ltd, ABC Holding Co., ABC Bank, Seed Co. International, Arup Africa, Metcash Africa (Botswana) Cyberplex Holding, Kingdom Financial Holdings and RPC Data International. These IFSC operators are awarded a license from Bank of Botswana, by which such privileges as tax preference (15% instead of 25% corporate tax, no withholding tax), application of double taxation treaties, tax credit for joint venture are approved.

(3) Stock Exchange Market

As for the trend of capital market, the Botswana Stock Exchange was perking up toward the end of 2004. It reflected the fact that commercial banks and Sechaba (brewery and beverage manufacturer) made a brilliant performance. Number of trade was 7,740, volume of trade was P400 million (US$80 million) in 2003. 17 domestic companies and 5 overseas companies were listed on the Exchange. The average stock prices of overseas companies in 2003 were up by 13.5% over the preceding year.

(4) Foreign Exchange Controls

All foreign exchange controls were abolished in February 1999. The complete elimination of controls on current and capital accounts enhance Botswana's competitive position as a regional investment destination. In addition, the abolition of exchange controls has allowed the further development of Botswana's financial markets through the creation of new portfolio investment options.

1.3.4 Labour and Management

Botswana has a large, well-educated, English speaking workforce and many unemployed workers[2] eager for work and training in new jobs. Over 90% of schoolchildren get a primary education. Expansion is now concentrated on secondary education. However, given that Botswana has undergone a remarkable economic transformation in less than 30 years, there are bound to be gaps in skills and experience of the workforce. Surveys have indicated that there are still gaps in managerial, professional and technical skills for business, despite the new priority that has been given to vocational training over the last 20 years.

The normal working time varies between 45 and 48 hours per week. The minimum wage is only P1.90 per hour. Workers are entitled to 14 days paid holiday yearly. Employment of expatriates is regulated and all foreigners, engaged in any occupation receiving reward or profit, need work permits, which are obliged to be issued after the necessary licenses for specific economic activity have been acquired. Botswana clearly does not want to issue permits to foreigners unless local skilled workers are not available. Thus, the issue of work permits has become highly contentious. It is difficult to employ expatriates in Botswana. However, seeing the spread of HIV/AIDS even to the skilled workforce in Botswana, the need for skilled foreign manpower has gets more important. This is recognized by BEDIA and BDC, which both offer help to investors in securing the foreign technicians they need. It should also be noted that non-resident consultants, supervisors, or directors visiting and staying temporary in Botswana do not require work permits.

Labor - management relations have generally been harmonious with labor laws under continual review. Recently a labor court was established to ensure impartiality in labor disputes. The Botswana Labor Act is a relatively uncomplicated law, and is generally regarded as well harmonized, even if it is not 'employer-friendly'. In the business community, it is regarded more advantageous for employers than that of neighboring South Africa.

Unionized labor represents only a small portion of the formal sector workforce in Botswana, concentrated in the mining sector, and, to a lesser extent, in the banking sectors. Botswana law provides for the right of organization, but most foreign investors will not encounter a fully unionized workforce in the near term. Only on very rare occasions have broad and highly unionized strikes, but this type of activity is slowly increasing as the unions discover their powers[3].

The results of the Botswana AIDS Impact Survey (BAIS) released at the end of 2004 indicated a

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[2] Official government report point out that a major problem in Botswana is unemployment. Though the unemployment level dropped marginally over the last five years it still stands at a massive 19.6%. This is despite the fact that the economy grew at almost 10% during that period. One reason for this is that mining, which still accounts for most of the growth of the economy, creates very little direct employment due to the transformation of mining sector to be relatively capital intensive.

[3] IRIN reported that the Botswana National Productivity Centre (BNPC), an independent labor research institute, has called for the urgent tripartite forum comprising government, the private sector and trade unionists in order to take necessary measures against falling productivity and worsening labor - management relations. The BNPC made this call at the labor - management relations workshop held in Gaborone, in early June 2005. The BNPC presented a paper at this workshop that noted that national output was under threat by frequent strikes, which it said was a result of the hostile relationship between government, employers and the trade unions.

national HIV/AIDS infection rate of 17.3%, much lower than the commonly used figures suggesting an infection rate closer to 35-40%. The latter figure refers only to the most risky age groups <younger generation>, and the BAIS result is comparable to a 2004 UN estimate of an 18-21% overall national infection rate. Similarly, the BAIS found noticeably higher infection rates in some particular groups. As well as estimating infection rates (the survey included an anonymous HIV test), the survey also looked at sexual behaviors and the way of thinking towards the disease. Reaction from the authorities to the results was mixed: perhaps understandably, given the negative publicity Botswana has received through the misquoting of the higher infection rates, there was some tendency to stress the lower overall rate. However, spokesmen also expressed concern that this could result in excessive complacency among both the population and donors. HIV/AIDS has had an impact on the economic development of Botswana and will continue to do so. The average life expectancy has already dropped from over 60 to close to 40 years of age, mainly due to the impact of HIV/AIDS.

A potential investor would do well to complete a proper study of the latest situation of labor market in Botswana before investing. The investment promotion authorities highlight the advantages of Botswana’s educated workforce, but it is seen from the above that things are not always what they seem. As the government is on the way of withdrawing from some economic sectors, there will be more business opportunity for private sector to take over the left projects. Considering high rate of unemployment, new business chance will also be found in some labor-intensive industries as textile, in which the firms optimize the preferential tax regime in the frame of US-AGOA or another FTA concluded by the government of Botswana. But elsewhere entrepreneurs should recognize that they must compete within a fairly small and unprotected internal market or find niche areas in which exports can be made despite Botswana's strong foreign currency.

2. MAURITIUS

2.1. Trends of Macro Economy, Industry, Trade and Industry

2.1.1. Macro Economy

In early 2004, Prime Minister Berenger said the government plans to reduce unemployment to 5%, cut budgetary deficit and transform Mauritius into a fisheries and skills centre to achieve economic recovery and social justice. In the next two years, the government would focus on reforming the electoral system, financing of political parties, reviewing the existing labor laws, introducing a 'family doctor' health scheme and examining and reforming the old age pension scheme. In addition, more than 70% of the government's ongoing program has been implemented since the coalition came to power in 2000. Deputy Prime Minister Pravind Jugnauth said government has concentrated on improving mid- and long-term economic parameters, specifically adjusting the monetary policy to control inflation. This has facilitated a cut in the budget deficit from 5.6 to 5.5%, and reduced inflation from 6.9% in 1999 to 3.9% in 2003. More than US$1 billion have been invested in improving the infrastructure and nearly 32,000 new jobs were created in the economy. Furthermore, as part of government's poverty reduction program, at least 545 community development projects amounting to just over US$5 million were launched during the past three years, with priority given to renovation and construction of houses. Other poverty reduction programmers include the Anou Diboute Ensam Project, which is financed by the EU to improve the island's social infrastructure, as well as the Leve Deboute Project, financed by the UNDP to address exclusion problems on Rodrigues Island.

In 2004, government intensified its efforts to diversify the economy away from sugar and textiles, which are dependent on world markets and trade regulations. The EU said it was satisfied with the measures being undertaken, in anticipation of the termination of the period of preferential status products have enjoyed on European commercial markets. Mauritius is in favour of a quota system with guaranteed prices and balanced supervision for all parties concerned in terms of the market.

In the 2004/2005 budget, its objective being to empower the most needy people, measures to induce economic growth were income tax reform, increased taxes on good purchased by wealthy citizens, and the abolition of a basic retirement pension for the wealthy. The distribution of land to small-scale planters, an employee share ownership plan, and tough legislative and institutional reforms to improve efficiency, discourage wastage and bring more equity to the people also formed part of the budget. However, it contained no new business incentives and few growth-inducing measures likely to stimulate investment and job creation outside small and medium enterprises (SMEs).

In its Article IV consultation with Mauritius, the IMF said although GDP growth is expected to recover from the disappointing 2.75% in 2003 to 4.5% in 2004, growth prospects have weakened as the traditional industries, such as sugar and textiles, face the loss of protection and a more competitive environment. The IMF warned that public debt could become unsustainable as government continues to run up fiscal deficits. In addition to this, unemployment has also increased. Although approving of the direction taken in the 2004/2005 budget, the IMF urged the government to undertake the necessary adjustments while the economy is still relatively strong. In December 2004, the CSO made a downward revision to its 2004 growth estimate. The CSO said that real economic expansion would be 4.6% for 2004, rather than 4.7% as previously forecast. This revision was the result of the disappointing growth in financial services, mainly due to problems in both the banking and insurance sectors. This resulted in financial services expected to register growth of only 2.6%, and not 6% as forecast earlier in 2004. According to the Mauritius Chamber of Commerce's Economic Review 2004, business confidence appeared to be quite timid in 2004. However, in spite of an overall deceleration in the rate of investment, which grew by 5.5% compared to 10% in 2003, private sector investment grew by a high 13.2% as opposed to a negative 2.2% in 2003. Moreover, international perception about Mauritius remained positive, and foreign investments in hotels and ICT projects were at a relatively high level. In early January 2005, Prime Minister Berenger invited the private sector to invest more in the economy and to support the democratization of land ownership in the country. Legislation in Mauritius was recently amended to allow foreign ownership of residential property in terms of the Integrated Resort Schemes (IRS). Previously, foreign investors were only permitted to acquire property if they invested a minimum of US$500 in thousand into the economy via a business or other form of financial investment, and only then could they apply to purchase property.

According to the EIU's report in 2005, the government is expected to continue to promote stronger economic ties with Western countries and other major trading partners. The main thrust of foreign policy will be to negotiate suitable transition arrangements to protect preferential access to developed markets and to cultivate inflows of FDI and financial relationships. The fiscal policy in Mauritius is directed primarily at promoting long-term economic growth while, at the same time, ascertaining public expenditure management. Monetary policy has been geared towards concentrating on its primary goal of ensuring price stability and preserving confidence in the domestic currency. Regarding its currency policy, the exchange rate of the rupee is determined by market forces, and with the liberalization of the exchange control system in July 1994, all restrictions on transactions involving foreign currencies were abolished. Major foreign currencies are freely traded in the commercial banks.

Government will continue to strive to diversify the economy and move towards more service-oriented economy. However, unemployment is expected to remain a problem and will be addressed through vocational training and education programs aimed at providing workers with the necessary skills to take advantage of opportunities in ICT, including the Cyber City project, and by upgrading service levels in other areas, such as tourism. It is expected that the policy will continue until the new government will have to decide on whether to raise taxes if it wants to continue the current economic strategy without undermining economic stability. The Joint Economic Council, the island's business lobby, said that the first thing is to get a respectable level of investment up to 27% of GDP from its current 22%, as well as take the private sector share of growth from 63 to 75%.

Table 2.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Population ages 0-14 (% of total)	45.7	39.2	31.8	27.2	25.9	25.4	25.6	25.4	25.2	25.0
Population ages 15-64 (% of total)	51.8	57.7	63.4	66.9	67.9	68.4	68.2	68.4	68.5	68.6
Population ages 65 and above (% of total)	2.5	3.1	4.8	5.9	6.1	6.2	6.2	6.2	6.3	6.4
GDP (constant million 2000 US$)	-	1,510.9	2,040.8	3,577.8	4,039.6	4,253.7	4,423.8	4,720.3	4,927.9	5,085.6
GDP growth (annual %)	-	-	5.9	5.2	6.0	5.3	4.0	6.7	4.4	3.2
GDP per capita (constant 2000 US$)	-	1,564.0	1,993.7	3,159.4	3,483.2	3,622.0	3,726.9	3,933.5	4,072.7	4,161.1
Official exchange rate (LCU per US$, period average)	5.0	6.1	13.1	19.9	24.0	25.2	26.3	29.1	30.0	27.9
Inflation, consumer prices (annual %)	2.7	15.0	8.3	6.7	6.8	6.9	4.2	5.4	6.4	3.9
Money and quasi money (M2) as % of GDP	-	43.1	49.7	73.5	76.4	78.3	80.5	80.1	81.7	83.6
Real interest rate (%)	-	-	4.4	12.2	13.6	15.8	15.3	16.8	15.2	14.6
Foreign direct investment, net inflows (% of GDP)	-	0.1	0.8	1.2	0.3	1.2	6.0	-0.6	0.7	1.2

Foreign direct investment, net inflows (% of gross capital formation)	-	0.4	2.9	4.6	1.1	4.5	23.0	-2.6	3.3	5.2
Agriculture, value added (% of GDP)	-	19.6	15.0	9.7	8.8	8.6	5.9	6.6	7.0	6.1
Industry, value added (% of GDP)	-	26.1	29.3	32.2	31.5	31.5	31.6	31.3	31.1	30.6
Manufacturing, value added (% of GDP)	-	15.4	20.9	23.6	23.8	24.1	24.0	23.3	22.9	22.0
Services, etc., value added (% of GDP)	-	54.3	55.7	58.1	59.8	59.9	62.5	62.1	61.9	63.3
General government final consumption expenditure (% of GDP)	-	14.9	13.3	13.0	12.9	13.0	13.2	12.9	12.8	13.0
Household final consumption expenditure, etc. (% of GDP)	-	66.8	65.7	62.7	62.2	63.2	62.6	61.0	62.0	61.7
Final consumption expenditure (% of GDP)	-	81.7	79.1	75.8	75.1	76.2	75.8	74.0	74.8	74.7
Gross capital formation (% of GDP)	-	29.1	24.0	28.0	27.6	26.0	26.1	23.3	21.4	22.9
Exports of goods and services (% of GDP)	-	46.0	54.9	61.5	64.0	65.0	63.3	65.8	60.7	59.7
Imports of goods and services (% of GDP)	-	56.8	57.9	65.3	66.7	67.3	65.3	63.1	56.9	57.3
Gross domestic savings (% of GDP)	-	18.3	20.9	24.2	24.9	23.8	24.2	26.0	25.2	25.3
Gross capital formation (% of GDP)	-	29.1	24.0	28.0	27.6	26.0	26.1	23.3	21.4	22.9
Food exports (% of merchandise exports)	98.1	85.6	49.0	27.4	25.9	23.8	17.8	24.4	26.1	24.8
Food imports (% of merchandise imports)	36.4	28.1	19.0	14.6	15.8	13.8	14.3	15.8	19.0	17.5
Agricultural raw materials exports (% of merchandise exports)	0.1	0.2	0.3	0.6	0.5	0.5	0.5	0.5	0.5	0.4
Agricultural raw materials imports (% of merchandise imports)	1.3	2.1	3.5	2.7	3.1	2.2	2.4	2.4	2.1	2.0
Ores and metals exports (% of merchandise exports)	0.0	0.0	0.1	0.2	0.4	0.4	0.2	0.2	0.2	0.3
Ores and metals imports (% of merchandise imports)	1.1	1.0	0.9	1.0	1.2	1.2	1.1	1.1	1.2	0.9
Fuel exports (% of merchandise exports)	-	0.0	0.3	0.4	0.1	0.0	0.0	0.0	0.0	0.1
Fuel imports (% of merchandise imports)	7.1	9.1	12.3	8.0	6.4	7.1	11.8	11.2	10.4	11.0
Manufactures exports (% of merchandise exports)	1.8	14.2	47.2	71.0	72.6	74.7	80.8	74.2	72.6	73.6
Manufactures imports (% of merchandise imports)	54.1	59.7	62.9	73.6	73.5	75.8	70.4	69.4	67.3	68.6
Aid per capita (current US$)	6.4	25.9	51.8	30.6	35.9	35.5	17.2	18.1	19.8	-12.4
Total debt service (% of exports of goods and services)	-	4.6	16.8	9.2	9.2	7.1	18.2	6.9	8.3	7.2
Total reserves in months of imports	-	1.7	2.2	3.9	2.5	3.1	4.0	3.8	5.2	6.0

Source: World Bank (2005), *World Development Indicators: 2005*

2.1.2 Industry

The island nation of Mauritius has shifted in a short period from a monoculture economy of sugarcane to a nation based on manufacturing and services, which allows the highest per capita GDP in the region at $12,000 on purchasing power parity.

Viewing the industrial structure in 2003 (as a ratio of GDP), agriculture and fishing declined to 6.1%. The secondary industries represent 30.6% with manufacturing accounting for a noticeably high percentage of 22.0%. The service industry, which is tending toward an expansion, has reached 63.3%.

The agriculture sector specializes in the production of sugarcane, which occupies 90% of cultivated acreage. Other than sugarcane, the mainstream commercial crops include tea, tobacco and flowers, and the nation is dependent on imports for basic foodstuffs with the exception of some meats and grains. In regard to fishing, while being surrounded by ocean, annual catches are small amounting to around 10 thousand tons, so there is room for promotion measures including a processing industry.

The backbone of the secondary industries is the manufacturing sector, which is primarily settled in Export Processing Zones (EPZ, where 500 companies have operations) established in the 1970s. Of these, clothing and textile materials account for the majority of total exports, making the nation a global production center. In addition to local capital, there are number of production sites owned and operated by foreign investors from East Asian countries such as Hong Kong, China and Taiwan as well as Europe. In recent years, there have been increases in FDI seeking to increase exports to the United States through utilization of the AGOA framework. Other kinds of industry have continued to lose their market shares, but the sugar refining industry for local raw materials has been added as a second-tier industry. With the textile sector facing the abolition of the Multilateral Fiber Agreement at the end of 2004 and sugar sector suffered from the reduction of import price by EU, export industry relying on specific items are at a turning point.

In the service sector, tourism and financial service are the mainstays. Mild climate through a year, coastal line surrounded by Indian Ocean and highly developed infrastructure has doubled the number of tourists since 1990 (680 thousand in 2002), and tourism revenue has risen to $610 million. On the other hand, inflows of capital from India and other nations which have focused their attention on the nation's low tax rate and treaty for prevention of double taxation, the reliability of the nation's domestic financial institutions, and its time difference with major international markets have worked to turn the country into an offshore banking center since the 1990s.

2.1.3 Trade and Investment

(1) Trade

The trade balance of Mauritius has been slight deficit or surplus, however, merchandise account is constantly on deficit. The most important import items are textile yarn and fabrics used in the production of apparels and clothing accessories in the EPZ sector. Fuel, lubricants and related products as well as food and live animals constitute other major import items. Mauritius imports mostly from France, South Africa, India, China and Germany..

On the export side, sugar, which is the traditional commodity, represented around 15 % of total exports, while clothing contributed more than 40 %. Mauritius's major export partners are France, the United Kingdom and the United States of America; the three countries importing around 80 percent of Mauritian exports.

The services account generally contributes positively to the overall balance of payments mostly due to the significant gross earnings from the tourism industry.

Mauritian government is making effort to broaden export outlets, especially in Africa. Mauritius signed an agreement in 2000 in SADC to liberalize 85 % of trade with it by 2008. It also belongs to the nine-member COMESA free trade area.

Table 2.1: Trade tendency and main partners

（US$ million）

		1998	1999	2000	2001	2002
Export		2,653	2,716	2,801	2,978	2,749
Import		2,767	2,808	2,888	2,854	2,577
Main trading partners						
Export	United Kingdom	563.13	508.15	431.71	477.30	462.07
	France	332.08	313.73	326.96	308.76	425.71
	United States	284.89	279.15	301.12	302.37	274.00
Import	South Africa	229.00	244.76	310.85	275.73	299.24
	France	244.17	333.67	201.75	188.47	407.99
	India	202.49	187.20	183.65	159.86	173.49

Source：World Bank, *World Development Indicators*; IMF, *Direction of Trade Statistics*

(2) Foreign Direct Investment

According to the World Investment Report 2004, inflows of FDI increased from US$12 million in 1998 to US$277 million in 2000, then declined to US$70 million in 2003. The sharp increase in 2000 was mainly due to the partial sale of Mauritius Telecom to France Telecom for US$261 million.

Table 2.2: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
12.2	49.4	276.8	32.1	32.7	70.1

Source: UNCTAD, FDI On-line.

Looking at investment by country, France and South Africa are the prominent investors throughout the 1990’s and the beginning of the 21the century.

Table 2.3: Foreign Direct Investment in Mauritius by Country of Origin (Rs million)

	1990	1995	1998	1999	2000	2001	2002
China	17	0	0	0	0	0	18
Dubai	0	0	32	156	11	0	5
France	75	17	48	25	7214	25	225
Germany	27	80	0	0	0	0	4
Hong Kong	65	10	0	0	0	0	9
India	78	157	55	1	0	0	2
Luxemburg	0	0	69	0	0	0	0
Malaysia	10	11	0	25	0	0	30
Pakistan	0	0	17	15	0	0	0
Panama	15	0	0	0	0	0	0
Reunion Island	55	0	0	0	30	0	0
Singapore	18	0	0	0	0	0	13
South Africa	2	0	0	574	1	600	325
Switzerland	45	12	3	5	5	274	0
Taiwan	91	0	0	0	0	0	0
UK	7	20	50	405	0	0	150
USA	1	0	0	0	3	3	29
Other	114	0	14	10	1	34	19
Total	620	307	288	1,216	7,265	936	829

Source: UNCTAD; Central Bank of Mauritius

Table 2.4: Foreign Direct Investment in Mauritius by Sector: 1990-2004

	1990	1995	1998	1999	2000	2001	2002	2003	2004
EPZ	270	245	27	300	8	3	41	27	246
Tourism	152	70	75	27	10	0	100	103	121
Banking	0	0	117	215	0	500	315	1,301	310
Telecom-munication	0	0	0	0	7,204	0	0	0	35
Other	187	10	75	701	43	335	522	485	1,079
Total	609	325	294	1,243	7,265	838	978	1,916	1,791

Source: UNCTAD; Central Bank of Mauritius

Table 2.5: The largest foreign affiliates TNCs, 2002

Company	Home Economy	Industry	Sales (US$ million)	Employment
SBI International	India	Finance	157	13
Banque Nationale De Paris Intercontinentale	France	Finance	...	155
Kuoni Asian Investments	Switzerland	Finance	...	...
Zurich Financial	Switzerland	Insurance	...	...
Union Textiles	Hong Kong	Textiles	17	440
New Island Clothing	Britain	Textiles	8	700
International Fashion	Hong Kong	Textiles	5	...
Henkel Chemicals	Germany	Chemicals	2	6
Blue Track	France	Textiles	1	...
Hy Q International	Australia	Electrical and electronic equipment	1	...
Mon Tressor & Mon Desert	Britain	Agriculture	...	5,400
Medical Trading Company	Britain	Chemicals	...	...
Indian Ocean Tuna	Britain	Textiles	...	1,100
Bowman International Sports	Britain	Computer and related activities	233	200
Courts	Britain	Trade	42	...
Singapore Airlines	Singapore	Transport	3	...
Sterling Products International SARL	US	Trade	...	20
Sherwood International	US	Other business services	...	...
Parmalat Africa	Italy	Other business services	...	...
N.H. Mauritius	Italy	Other business services	...	...
Multek Technologies	Singapore	Computer and related activities	...	...
Agilent Technologies Mauritius	US	Other business services	...	...
Merville Beach Hotel	Britain	Other business services	...	...
Mon Tresor (Holiday & Leisure)	Britain	Other business services	...	...
Merville	Britain	Other business services	...	...
Mon Tresor Agricultural Diversification	Britain	Other business services	...	...
Tourism Development Co	Britain	Other business services	...	...
AJ Maurel Construction Ltee	France	Other business services	...	...

Source: UNCTAD

2.2. Policy Issues Promoting FDI

2.2.1 Industrial Policies and Development Plans

The government is shrewdly shifting its priorities from sugarcane crop to sugar refining, textiles, finance and tourism for industrial development in response to external needs. The policymaking process for this shift is taking the form of a dialogue and accord among industry, government and labor. The government has focused its attention on IT related-industry as a future core industry, and is promoting call-centers, system design and other services as priority sub sectors by developing the necessary infrastructure (e.g. Cybercity) and fostering human resources. At the same time, reinforcement of Free Port is now on place so as to be a regional distribution hub, which makes a bridge between South East Africa and Asian region. Among the foreign firms, some are interested in further cost cutting through the amelioration of effectiveness and additional incentives in near future.

2.2.2 FDI Promoting Policies

According to the Mauritius Board of Investment (BOI), Mauritius covets a position as a prime investment location for businesses looking to compete successfully and flourish in the global economy. Government policies have been designed to create a climate favourable to attracting FDI in all sectors of the economy, especially in manufacturing, the hospitality industry, ICT and financial services. Owing to its long-established democratic tradition and its free-market economy, the island is recognized internationally as a safe investment location.

The legal authority for the screening of proposed FDI appears to rest in the Non-citizens (Property Restriction) Act of 1975. Foreign investment in “immovable property” or in a company owning immovable property requires approval. This extends to the lease of property for more than six months in any year. The only significant exception to this requirement is for the acquisition of shares in a listed Mauritius company or unit trust - both of which are intended to be more relevant to portfolio than direct foreign investment.

The 1975 Act does not set out the criteria under which applications for approval are judged. It does not indicate priority or reserved sectors or give guidance on what conditions may be placed on approved investments. It is not a usual kind of FDI law in this respect. Moreover, there is no guidance given to prospective investors by any comprehensive Government policy statement on the entry regime for FDI. It is understood that part of the rationale for screening all FDI is to guard against the entry of drug running and money laundering activities.

In practice FDI is welcomed and encouraged in selected sectors and discreetly not encouraged in many others. The areas open to FDI broadly include:

- Manufacturing, especially with an export orientation;
- Hotel development and management (but not tourist services);
- Financial and business services, including offshore and Freeport centre activities;
- Regional headquarters.

Particular priority is attached currently to the development of Mauritius as a regional financial and business services hub, which includes the Regional Headquarters Scheme to promote the country as a prime base for regional headquarters. The Government sees this set of activities as potentially forming a fourth “ pillar” of the economy to add to sugar, textiles and tourism. The Government does not encourage new FDI in traditional agriculture or in a wide range of services including wholesale and retail trade, engineering, and construction. The presumption is that FDI is not welcome. Nevertheless, these activities are not legally prohibited for FDI. A determined foreign investor can apply for authorization to invest and await the outcome. Although the criteria used to judge an application remains unpublished, there is some basis for believing the Government will look more favourably on larger investments.

In achieving diversification of the economy, the ICT sector has been expanded with the construction of a 'Cyber City', which is located in Ebene outside the capital city of Port Louis. Government expects to attract big companies to make use of the availability of prospects in the ICT sector, with Hewlett-Packard already signed up as a partner in the 'Cyber City' project. Other companies that have shown an interest in using Mauritius as their regional headquarters include IBM and Microsoft. The government plans to attract more foreign investment by offering tax incentives and supplying affordable power.

The 'Cyber City' project would also serve to strengthen co-operation between India, Mauritius and Africa. The Indian government has already extended a credit of US$100 million and technical support for this project, with most of the construction workers brought over from India. The 'Cyber City', which will include a business zone, a hotel, a multi-media complex, as well as residential and recreational facilities, is scheduled for completion in 2005. It will provide a world-class telecommunications network, by means of satellite and an underwater fibre optic cable to provide high-speed connectivity

(1) Investment Promotion Act 2004

Investment Promotion (Miscellaneous Provisions) Act 2004, which was recently introduced with a view to streamlining the procedures for the issuance of permits, licences and clearances for all investment projects, the role of the Board of Investment (BOI) as a "one-stop shop" has been further reinforced. Moreover, Clause 5 of the Act establishes clearly defined guidelines for the processing and granting of permits, licences and clearances by public agencies and it highlights the role of the BOI as the "facilitator" in the implementation of all investment projects, including those that require, or have, an Investment Certificate issued by the BOI.

The Act is regarded as a paradigm shift from bureaucratic red-tape to a transparent framework based on non-discretionary criteria as well as clearly defined processing time for the handling of all investment application dossiers. By this Act, government has sent a clear signal regarding its determination to improve the investment climate on the island with a view to giving a boost to private investment in Mauritius.

2.3. Incentives and Impediments for/to FDI

2.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

1) The Board of Investment (BOI)

The BOI was established in March 2001 under the Investment Promotion Act 2000 to streamline the legal framework and to make better provisions for the promotion and facilitation of investments in Mauritius. The BOI is the first contact point for investing in Mauritius.

Operating under the aegis of the Ministry of Finance, the BOI is responsible for promoting and facilitating investment in Mauritius.

BOI is a non-profit organisation and its services are free of charge.

The services of BOI include:

- Provision of information to potential investors;
- Receipt, appraisal, approval of investment projects as well as issue of Investment Certificates after the approval of projects;
- Assistance with identifying potential local partners for joint ventures;
- Assistance with identifying and selecting sites, factory buildings and office space;
- Organisation of visits and meetings with public agencies and economic operators on the island;
- Provision of market intelligence and information on costs of doing business on the island as well as on market opportunities; and
- Assistance with obtaining work and resident permits and all required licenses and clearances from relevant authorities.

(2) Export Processing Zones (EPZ)

Contrary to the practice in many other countries, the Export Processing Zone in Mauritius is not limited to a specific geographical area. Firms eligible for EPZ certificates can operate anywhere on the island. A number of the large textile factories in the Mauritius EPZ have either expanded or relocated their low-skill, highly labour-intensive operations to Madagascar, mainly to take advantage of the abundant and cheap labour (about a third of Mauritian labour costs). Consequently, textile operations in large factories in Mauritius have, through the past 15 years, gradually been automated, focusing on the high-end of the market. The capital-to-labour ratio in the EPZ has doubled between 1985 and 1998. The EPZ contributes significantly to the manufacturing sector, although its share has been declining since 1999. According to the Mauritius Chamber of Commerce Economic Review 2004, it accounted for 43.8% of the manufacturing sector in 2004 compared to 46,6% in the previous year.

(3) Free Trade Zones / Free Ports

The Mauritius government set up the Mauritius free port or free trade zone in 1992 to promote the country as a regional warehousing, distribution and marketing centre for Eastern and Southern Africa and the Indian Ocean rim. Through its membership of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission (IOC), Mauritius offers preferential access to a market of 350 million consumers. The free port comprises of two free trade zones, one at the seaport and the other at the airport.

The free port facilities for warehousing, breaking bulk, and re-export enable businesses to ship containerised goods to Mauritius, warehouse them in secure low-cost facilities, then break bulk and re-export them in an efficient and timely manner to African and Indian Ocean rim destinations. Goods, such as computers and accessories, audio & videotapes, bikes, etc., can also be assembled in the Free port for export to the African and Indian Ocean markets.

As of May 2001, 813 companies were registered to operate in the free port, with 203 operational in such activities as re-export, transhipment, minor processing, and assembly. In the year 2000, the free port imported US$160 million and re-exported US$182 million worth of goods. Main products re-exported include frozen fish (41%), textile products and accessories (18%), vehicle parts (8%), machinery and electronic equipment (6%), chemical and pharmaceutical products (3%), and foodstuff (3%).

Companies in the Mauritius free port receive exemption from company tax and tax on dividends, preferential rates for warehousing, reduced port handling charges, and exemption from import duty and value added tax on finished goods, machinery, equipment and materials. Free port operations may be 100% foreign-owned and use offshore banking facilities.

Following the enactment of the Free Port Act 2004, a free port unit was created within the BOI to oversee the development of the free port sector and to cater for the specific needs of free port developers and operators and of other free port stakeholders. On 4 January 2005, the former MFA officially integrated with the BOI.

Free port companies can now benefit from all mechanisms in place at the BOI for new projects. These mechanisms include the single contact through the one-stop shop, the declared-project framework (approval within 24 hours), and eligibility for a consolidated package of incentives including the Permanent Residence Scheme and the Regional Headquarters Scheme.

(4) Incentives for FDI

In February 2005, according to the BOI, the number of incentive schemes managed by the BOI to develop new sectors and activities for the sustained growth of the Mauritian economy has increased over the years. At present there are 21 such schemes. In the 2004/2005 budget speech, it was stated that existing schemes should be rationalised. The BOI has consequently come up with a paper outlining a series of recommendations regarding the re-engineering and consolidation of these schemes so that they may be simpler to administer while at the same time reflecting policy priorities and meeting investors' needs. The Board of the BOI has taken note of the paper and has referred it to the Joint Economic Council (JEC) and the Mauritius Chamber of Commerce and Industry (MCCI) for their views and input. The recommendations have also been submitted to the Ministry of Finance and they are currently being studied by a committee presided by the Director - Fiscal Policies.

Incentives are available in the EPZ, the free port, and offshore business. The most recently introduced incentive schemes are Permanent Residence Scheme and the Regional Headquarters Scheme. In early 2000, government introduced the Regional Headquarters Scheme and the Permanent Residence Scheme in order to attract new FDI. The Regional Headquarters Scheme is aimed at companies wishing to provide headquarters services to related corporations in countries of the region.

(5) Tax Exemptions and Reductions

The income tax regime provides for a conventional range of deductions and unlimited loss carry forward. Capital allowances are moderately favourable and a 25% investment allowance is available in the first year for new industrial premises, plant and machinery and for computer software. Employee welfare deductions, such as pension fund contributions, seem especially favourable. The corporate tax rate is 35% but many businesses qualify for reduced rates of corporate tax in the zero to 25% range. Payments of dividends to both residents and non-residents are tax-exempt. Interest and royalties paid to non-residents are taxable. Typical treaty rates are zero to 15% for interest and royalties.

EPZ incentives include 15% corporate tax (as against a 25% normal tax rate), no tax on dividends, free repatriation of capital, profits, and dividends, and relief from customs duty and value added tax on raw materials, machinery and spare parts. In July 2000, the 15% corporate tax facility was extended to Internet service providers, network service providers, ITC training schools, and other providers of services such as multimedia development and hosting of web sites.

In the offshore sector, the main incentives include exemption from withholding tax on interest, royalties and dividends; no capital gains tax; exemption from customs duty, excise duty and VAT on essential imported office equipment and furniture. From 1 July 2003, both offshore and onshore companies were taxed at 15%.

1) Tariffs and Customs

Mauritius operates a relatively streamlined trade regime, although peculiarities remain. The most significant is a two-tiered system whereby imports from certain countries are given preferential duties. Countries on the preferred list include the United States, members of the EU and India.

Over the years, the government has undertaken a number of customs tariff reform measures to rationalise the tariff structure. One such major reform carried out in 1994 was the combination of three separate import levies into one single tariff and the reduction of tariff rates from 60 to 9. Combined duties on most imports vary between 0 and 80% for countries on the preferred list. Imports of goods with duty at 55% from countries currently under general tariff (i.e., non-preferential tariff) are subject to an additional duty of 10%. A Value Added Tax (VAT) of 12% is payable by importers on the Cost, Insurance, and Freight (CIF) value of their imports. Vehicles, petroleum, alcoholic drinks, and cigarettes are subject to excise duties in addition to the basic import duties, ranging from zero to 360%. In the context of the government's on going tariff reform program, in July 2000, significant reductions in import tariffs went into effect that eliminated the customs duty on about 1 500 raw materials and intermediates, while reducing it on another 300 items. In June 2001, a range of other products, including various industrial inputs as well as specialised spare parts for production equipment, were exempted from customs duty. Customs duties have also been reduced on several items, including infant feeding bottles, infant car seats and carriages, electric bicycles, magnetic tapes, rubberised textile fabrics, motor vehicle batteries and packing materials for industrial use.

As a matter of policy, all rates of duty on essential items such as foodstuffs, etc. are either zero-rated or low-rated. Similarly raw materials and machinery destined to the Export Processing Zones (EPZ) are free of customs duty. However, luxury goods carry high rates of duty. In this way, import duties, as applied in Mauritius, have a progressive character. No export duty, whatsoever, is applicable on goods manufactured locally as well as on agricultural produce, exported from Mauritius.

(6) Impediments to Attract FDI

Business regulations are generally transparent but sometimes cumbersome. Complaints from the business community relate more to bureaucratic delays rather than transparency shortfalls. In terms of labour, according to UNCTAD, there can still be prolonged delays and embarrassing incidents in the issue of permits and some private sector investors are of the firm view that the system is sub-standard.

2.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

Although Mauritius has much better infrastructure and regulatory apparatus than other African countries, it faces major structural problems linked to erosion of its traditional comparative advantages. The government is trying to ensure a secure supply of energy and draft a national policy, but Mauritius has no oil and does not produce or consume natural gas and coal. At the same time, the transport sector in the country faces a number of challenges. Some of these are acute urban traffic congestion due to rapid growth in private automobile, poorly organised transit and para-transit services, poorly implemented traffic management measures including weak vehicular parking regulation, and inadequate major roads and road maintenance. Traffic congestion is a matter of growing concern particularly in Port Louis. Commutes to work are often constrained by excessive delays in the city. The cost of congestion is high and the government is planning to divert traffic from the city centre through effective traffic management measures, public transport system such as light rail transit, and the construction of bypasses.

The road network is 1,910km long and provides easy access to all parts of the country. There are a total of 2,000km of highways, of which 1,960 are paved and 40km are unpaved. A highway links the Sir Seewoosagur Ramgoolam (SSR) International Airport to the north of the country. The construction of new roads and upgrading of existing ones have been ongoing to cope with demands made by the expanding economy. Port Louis harbour consists of five deep-water quays, two fishing quays and three litterage quays. It includes a container terminal and terminals for the handling of bulk sugar, oil, wheat and cement. The SSR International Airport situated at Plaisance in the south east of the island has recently been modernised. Mauritius has regular air connections with most European, Asian and African cities. Founded in 1967, Air Mauritius is the national flag carrier. The airline serves 29 destinations across four continents and has more than 80 departures per week from Mauritius.

Heavy investment in infrastructure has guaranteed a reliable and regular supply of electricity and water in Mauritius. The whole country is serviced with electricity. However, the island has recently experienced power blackouts, so the national electricity supplier, the Central Electricity Board (CEB) is cooperating with Electricite de France (EDF) on various technical issues. Electricity consumption was 1,707 billion kWh in 2002, while electricity production was 1,836 billion kWh during the same period. Adequate storage facilities have been ensuring a regular supply of petroleum. CEB is preparing for restructuring and eventual privatisation of production and supply. The Development Bank of Mauritius has a loan scheme with an interest rate of 6% to encourage the use of solar water heaters, and a new thermal power plant, expected to generate 30 megawatts for the CEB from October 2005, is being constructed at Saint Aubin. 52% of all the water distributed for consumption is sourced from underground waterbeds, while the remaining 48% consists of surface water collected in reservoirs. The government has, among others, embarked on a programme to upgrade water distribution networks and for the maintenance and rehabilitation of dams and feeder canals.

Reforms to liberalise the telecommunications industry have been undertaken, and were accelerated by government's early termination of the exclusivity of the incumbent operator, Mauritius Telecom, as from 1 January 2003. A new licensing framework was introduced in July 2003 to provide full and open competition in the sector. As such, new operators have entered the local telecommunications industry offering value added services in the field of International Telephony, Internet Service Provider and Voice over IP. Mauritius has been connected to the new South Africa Far East (SAFE) undersea fibre optic cable, which links the island to Malaysia, South Africa and then onwards to West Africa and Europe. From the present 10 megabits per second, the SAFE cable will provide Mauritius with bandwidth of 10-40 gigabits. The islands' telephone network is fully digitalised with computer controlled electronic exchanges. The system provides International Direct Dialling facilities to all subscribers and automatic telex and facsimile links to most parts of the world. A Packet Switched Data Service for high-speed transfer of data and a cellular telephone system are also available, as are courier services to other countries.

(2) Regional Programme

As mentioned previously, Mauritius has been connected to the new South Africa Far East (SAFE) undersea fibre optic cable, which links the island to Malaysia, South Africa and then onwards to West Africa and Europe.

(3) Trend in Privatisation and Some Observations on Current PPPs

The privatisation and reform of loss-making parastatals will remain contentious, particularly if there are associated job losses, but fiscal considerations will force more decisive action after the elections in September, or in 2006. In order to make parastatals attractive to private sector investors, it will first be necessary to raise state-administered prices and probably to cut jobs as well, both of which are highly sensitive politically. As a result, the speed at which privatisation will be tackled will depend on the strength of the newly elected government’s mandate. the UNCTAD (2001) points out that Mauritius has not offered a profile of opportunities for large-scale FDI due to its late start in privatizing major utilities. It is argued that this has also been a strategic misstep with wider implications. But current legislation allows private companies to pursue infrastructure projects on a build-operate-and-transfer basis, thus opening the possibility of direct private investment in energy and other public services.

2.3.3 Currency and Monetary Systems

(1) General Conditions

In October 2004, the Central Bank, Bank of Mauritius (BoM), raised the benchmark Lombard rate to 9.75% in order to control the inflation due to the hike of petroleum price. Generally it is not at an alarming level thanks to stabilization of the exchange rate. BoM is consolidating its status independent of the Government and it is expected that BoM promotes its function to control the inflation. In addition to petroleum, major factors of inflation are: food prices that have a 30% share in price index basket and cost of logistics. The inflation rate is likely to be 4.2%. in 2004, 4.7% in 2005 and 4.5% p.a. in 2006 in anticipation of drop of petroleum price[4].

Mauritian rupee is appreciated against US dollar. BoM has, however, taken steps to devaluate its own currency in order to be competitive in the US market that is main export outlet of Mauritian textile products. The exchange rate will be devaluated from MR 28.2/US$ at the end of 2004 to MS28.34/ US$ in 2005 and MR 28.37/US$ in 2006[5].

At the end of 2004, foreign exchange reserves increased to US$1,606 million from US$1,599

[4] Predictions quoted from EIU Report, February 2005.
[5] Ibid.

million at the end of 2003, according to the EIU and IMF.

(2) Financial Sector

The financial sector which includes banks, insurers, securities houses, offshore banking houses and other financial intermediaries has a 14% share in GDP at present. According to UNCTAD, the financial services sector is one of the pillars of the Mauritian economy. The banks which have a 6% share in GDP are the most important industry in the financial sector.

Mauritius has a relatively sophisticated banking sector with 10 commercial banks(seven foreign-owned) and about 10 financial intermediaries, including the Development Bank of Mauritius, the State Investment Corporation, the Mauritius Venture Capita Fund, and 9 leasing companies. As of march 2001, commercial banks held assets worth more than US$4 billion. In addition, there are 11 offshore banks, which are branches or subsidiaries of major international banks, with a total asset base of US$3.8 billion.

At present India is the dominant market in the sector. Investors use the Mauritius global business jurisdiction to benefit from the advantages of the favourable treaty between Mauritius and India, particularly with respect to capital gains. Most offshore funds in Mauritius are structured to invest in Indian securities and shares, as well as in major technology, power and communication projects.

(3) Stock Exchange Market

Both All-share index and Semdex are considerably improved in 2004 in Mauritian Stock Exchange which was founded in 1989 thanks to the strong banking sector, the favourable world economy, well-managed domestic economy, the relatively low level of interest rate, etc. Banks and insurers have a 34% share in the market capitalization as of the end of 2004, followed by leisure and hotel industries (14%), investment finance (11%), sugar (10%), manufacturing industries (5%) and transportation (4%). The number of listed companies was 40, their market capitalization amounted to US$1.3 billion as of June 2001. The weakness of the stock market consists mainly in low liquidity. Listed companies generally float only 15 through 25 % of their stocks issued in the stock market.

(4) Foreign Exchange Regulations

Until July 1998, the approval of the exchange control was required for current and capital account transactions. A gradual liberalization of the exchange control started as from that day and in July 1994, all provisions under Exchange Control Act have been suspended. Mauritius also adopted Article 8 status of the IMF articles of Agreement. Both the current and capital accounts are fully convertible. Local banks sometimes experience foreign exchange shortages (due to seasonal export receipts), which can delay such transfers.

2.3.4 Labour and Management

FDI has provided managerial skills and training of local personnel, particularly in the services sector. In hotel management, international hotel chains have introduced modern reservation systems and marketing know-how. In banking, foreign banks have helped bridge the gap in professional management personnel through training schemes. Local banks have been able to enter new areas and manage new products. On the contrary to service sector, the manufacturing and the construction sectors are the main areas where foreign labor is required to fulfill demand for skilled labor. Although Mauritius has attained a high literacy rate, the quality of its labor force falls short of what is needed. As Mauritius has a high primary and secondary school enrolment rate, comparable to the dynamic Asian economies, there will be a hope to realize a further skill up of labor market in total through the additional OJT opportunity offered by foreign firms. In reality, tertiary enrolment rate is still in low level and past curriculum in public education have underemphasized technical and vocational subjects. The education system has largely failed to evolve. The result is increasing skills mismatch on the labor market, with high risk of unemployment even for those coming out of the secondary school and tertiary education system. The unemployment rate has picked up over the last decade from a low 2.7% in 1992 to 9.7% in 2002 and.10.2% in 2003.

Foreign investors are required to invest a minimum of US$500,000 to be eligible for permanent resident status. Non-citizen personnel are required to have a work permit and a residence permit. There is no minimum or maximum number of such positions per investor. For key positions, each employee receives initial work and residence permit for one year and subsequently for next three-year periods. For other positions, the issuance of work and residence permits to non-citizens is granted if a person meets one of two criteria—introducing expertise to Mauritius or providing labor force unavailable in the country. Foreign skilled workers are normally granted work permits for a maximum period of four years. They may take up employment for another term of four years provided they have spent one year abroad at the expiry of their first term of employment. Expatriates employed at managerial or supervisory or technical level may be allowed to work for a period of five years or more. For certain grades, employers may be required, within 3 months of the date of issue of a work permit, to appoint a suitable Mauritian counterpart to be trained by the expatriate during his posting in Mauritius. In the recent past, there have been delays in the grant of permits, but a fast track procedure has now been introduced, which has sped up the process.
An employer based in Mauritius should apply for a work permit in respect of an expatriate who will be employed to do a specific job for the employer on a full-time basis. The work permit is non-transferable. An overseas company cannot make an application for a work permit unless it is incorporated in Mauritius as a foreign company, under the Company Laws of Mauritius. Recruitment agencies are not authorized to apply for work permits on behalf of a company.

For employment of entire groups of foreign skilled workers, the employer should provide, free of charge, decent accommodation (comprising water, electricity and gas) in line with the sanitary and fire-safety requirements. The employer has to pay a processing fee of Rs 500 for each expatriate on submission of an application for a work permit, as well as work permit fees etc. on approval.

The Mauritian Labor Law is intended to be ‘employer-friendly’ so as to help attract FDI. Minimum wages are set for a vast range of unskilled, skilled and even professional occupations. Recent estimates suggest actual wages in many key industries are typically at least twice as high as the minimum wage. The government has mandated that the minimum wage rise each year based on the inflation rate. The standard legal work time in the industrial sector was 45 hour per week.
Business executives view existing labor laws as onerous and inefficient. For example, employers do not have the flexibility to lay off workers without following cumbersome procedures. Laid-off workers receive generous severance pay. Workers in most manufacturing enterprises work on a piece rate basis and work for a minimum of 45 hours per week. Labor laws that cover the EPZ allow for 10 hours of compulsory overtime a week and compulsory work on public holidays, although at a higher hourly wage should be paid..

Labour - management relations are generally good. Unions, which account for less than 25% of the workforce, act responsibly and rarely disrupt business. There has not been a major strike since 1979. The government seeks to preempt strikes.

The constitution explicitly protects the right of workers to associate in trade unions, and there was an active trade union movement. Approximately 350 unions represent 115,000 workers. Many unions are small, having less than 1,000 members, and 10 major labor federations served as umbrella organizations for these smaller unions.

The law protects the right of employees to bargain collectively with their employers, and the law provides for the right to strike. In the past, some strikes took in place. However, the Industrial Relations Act (IRA) requires a 21-day cooling-off period, followed by binding arbitration; in practice, this had the effect of making most strikes illegal.

National labor laws covered EPZ workers; however, only 10% of EPZ workers were unionised. There are some EPZ specific labour laws, including the provision for 10 hours per week of mandatory paid overtime at a higher wage than for ordinary working hours. The social, political, and economic stability of Mauritius has, in part, been achieved through effective control of the labors - management relations.

The problem of HIV/AIDS has not reached the epidemic proportion that it has attained in some other southern African countries. The prevalence rate is less than 0.1%. However, the rising incidence in recent years has been alarming. The number of reported new patients was doubled, comparing to that in 2000. To nip the problem in the bud, the Government has designed the National Strategic HIV/AIDS Plan (2001-2005) to combat the pandemic.

3. DR CONGO

3.1. Trends of Macro Economy, Industry, Trade and Industry

3.1.1. Macro Economy

Although the government committed itself to policy reform, reconstruction and economic recovery, the economic scene is still dominated by the informal market and rampant corruption. According to the US Department of Commerce, the institutionalized corruption of the Mobutu regime evolved a dual economy. Individuals and businesses in the ‘formal’ sector-both private and state-owned-operated with high costs under extensive and unpredictably enforced laws, kept double books, and frequently colluded with corrupt officials to secure commercial advantage or simply to remain in business. In the ‘second’ (‘informal’ or ‘parallel’) economy, operators sought to evade taxes and regulation altogether.

The government estimates real GDP growth at 6.6% in 2004, below the EIU’s last estimate of 7.5% but still the country's best growth rate since the early 1970s. Mining contributed almost half of real GDP growth in the year, with the recorded value of mining production up by 24% in real terms on 2003, owing to a significant increase in diamond output and a rise too in base metal production. Officially recorded diamond production was 10.6% higher in 2004 than in 2003, and earnings were 13.2% higher in US dollar terms, totaling US$727.5m. Average monthly production in 2004 was 1.8m carats, which was exceeded during the final quarter of the year, when average artisanal output alone was around 2.4m carats a month. Among the 15 licensed diamond dealers, Congo Diam, Ashley, Millennium, Primogen and Margaux accounted for over 80% of export earnings from the artisanal sector. Production by the state-owned diamond company, Minières de Bakwanga (MIBA), was 16% higher in 2004 than in 2003, but earnings were only 3.9% higher, because the average value of its diamonds fell during the year from US$15.1/carat in 2003 to US$13.5/carat in 2004. The other main growth areas were construction, which saw a 21.1% real increase in recorded value on 2003, and transport, which recorded a 13.2% real year-on-year increase in output value.

Despite continuing problems surrounding their implementation, new mining and investment codes are already contributing to the resumption of investment in mining, which will begin to have a marked impact on private-sector output. In the short term, the growth of services will be the main source of economic expansion, as the sector has the greatest capacity for a rapid supply response, but much of this will remain, as now, unrecorded and not reflected in official statistics. The inflow of donor funds, together with policy reforms and the opportunities for post-conflict catch-up growth, will lay the foundations for a robust recovery. The World Bank, the IMF, the African Development Bank (AfDB) and major donors are encouraging the international community to move ahead with their support to DRC. The Bank organized a series of donor meetings to discuss further steps, including two Consultative Group meetings, one in December 2002 and the other in December 2003. Two follow-up donor meetings took place in Kinshasa in June 2004 and again in November 2004.

The EIU forecast that real GDP growth will reach 9% in 2005 (the government forecasts 7%), slipping back to a still healthy 8% in 2006. The Congolese franc is currently depreciating much faster than had earlier been expected and, despite higher interest rates, this will continue until the government genuinely tightens its fiscal stance.

Export earnings will increase steadily over the forecast period. Despite widespread fraud, diamond exports will continue to recover as the domestic, economic and regulatory environments improvement. Exports of other minerals, particularly copper and cobalt will rise when new investments in ore processing start to deliver results towards the end of the forecast period. Imports will expand strongly, owing to the import-intensiveness of growth and as donor assistance, including capital investment, flows in. The deficit on the trade account is, therefore, expected to widen. The deficit on the services account will widen in line with the rise in imports. The deficit on the income account will widen as mining companies repatriate their growing profits. The surplus on the current transfers account will widen as inflows of assistance from foreign donors gather pace in 2005-06. As a result, current-account deficit is expected to widen to 4.3% of GDP in 2005 and 6.7% of GDP in 2006.

The inflation rate rose strongly during the final quarter of 2004, when consumer prices rose by 2.9% quarter on quarter, giving a year-end inflation rate of 9.2% according to Banque centrale du Congo (BCC, the central bank). Prices rose by 1.9% in January 2005, giving a projected annual average rate of 39%. The high rate of inflation has been caused partly by external factors such as the high international price of oil and a fall in the international price of diamonds.

The 2005 budget was presented to the National Assembly by the finance minister, André Philippe Futa on 16 February 2005, three months later than had originally been scheduled by the government. According to the government's figures for the outturn in 2004, spending was substantially lower than was budgeted in the final supplementary budget (September 2004, Economic policy). However, donors, particularly the IMF, are suspicious of the official statistics and strongly suspect that they disguise escalating government spending. Expenditure on wages and salaries is budgeted to increase by 32% in nominal terms on its budgeted 2004 level, although by only 3% (again in nominal terms) on its actual 2004 level. This implies a real reduction in salary expenditure, which will be hard for the government to sell to civil servants in the build-up to elections.

In mid-December the World Food Programme (WFP) appealed to donors for more money. According to the WFP, it was so short of funds that it might soon have to cut in half the rations it was providing to the 650,000-750,000 people in urgent need of food aid.

Table 3.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	18.1	24.4	32.8	44.4	47.7	48.3	48.6	50.1	51.6	53.2
Population ages 0-14 (% of total)	44.1	45.3	46.7	47.3	47.4	47.6	47.6	47.7	47.8	47.9
Population ages 15-64 (% of total)	53.1	51.9	50.4	49.9	49.8	49.8	49.7	49.6	49.6	49.5
Population ages 65 and above (% of total)	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.6	2.6
GDP (constant million 2000 US$)	5,830.0	7,279.1	7,754.9	5,317.2	4,841.3	4,628.3	4,304.3	4,218.3	4,365.9	4,610.4
GDP growth (annual %)	3.3	0.5	0.9	-5.5	-1.6	-4.4	-7.0	-2.0	3.5	5.6
GDP per capita (constant 2000 US$)	321.4	301.5	237.3	121.7	101.5	95.9	88.6	84.3	84.6	86.7
Official exchange rate (LCU per US$, period average)	0.0	0.0	0.0	2.9	1.6	4.0	21.8	206.6	346.5	405.3
Inflation, consumer prices (annual %)	21.8	44.1	60.4	3,413.1	29.1	284.9	513.9	359.9	31.5	-
Money and quasi money (M2) as % of GDP	8.4	8.7	11.9	5.8	-	-	-	-	4.2	4.8
Real interest rate (%)	-	-	-	-45.1	1.6	-58.6	-57.0	-46.7	31.5	-
Foreign direct investment, net inflows (% of GDP)	0.1	0.6	-0.2	0.1	1.0	0.2	0.5	1.7	2.1	2.8
Foreign direct investment, net inflows (% of gross capital formation)	0.9	4.5	-1.7	5.2	54.8	7.8	15.6	31.1	29.0	20.4
Agriculture, value added (% of GDP)	19.6	19.7	29.5	49.7	46.5	52.4	62.6	59.8	57.9	-
Industry, value added (% of GDP)	34.5	32.4	28.2	19.6	20.4	18.7	20.1	19.9	19.3	-
Manufacturing, value added (% of GDP)	-	14.3	11.4	6.2	5.9	5.0	4.8	4.1	4.0	-
Services, etc., value added (% of GDP)	45.8	47.9	42.2	30.7	33.1	28.9	17.4	20.2	22.8	-
General government final consumption expenditure (% of GDP)	10.9	10.5	9.3	9.5	8.1	6.0	7.5	5.0	3.8	-
Household final consumption expenditure, etc. (% of GDP)	78.4	76.9	79.8	82.2	93.2	84.9	87.7	88.5	92.1	-

Final consumption expenditure (% of GDP)	89.3	87.3	89.1	91.7	101.3	90.9	95.2	93.4	95.9	-
Gross capital formation (% of GDP)	12.4	15.9	11.6	7.0	1.8	3.1	3.5	5.4	7.3	13.7
Exports of goods and services (% of GDP)	19.9	12.7	22.7	22.4	29.8	23.5	22.4	18.9	18.9	-
Imports of goods and services (% of GDP)	21.5	15.9	23.5	21.1	32.9	17.6	21.0	17.8	22.1	-
Gross domestic savings (% of GDP)	10.7	12.7	10.9	8.3	-1.3	9.1	4.8	6.6	4.1	-
Gross capital formation (% of GDP)	12.4	15.9	11.6	7.0	1.8	3.1	3.5	5.4	7.3	13.7
Food exports (% of merchandise exports)	25.6	19.8	-	-	-	-	-	-	-	-
Food imports (% of merchandise imports)	20.2	18.7	20.6	-	-	-	-	-	-	-
Agricultural raw materials exports (% of merchandise exports)	11.1	4.2	-	-	-	-	-	-	-	-
Agricultural raw materials imports (% of merchandise imports)	2.0	1.4	1.8	-	-	-	-	-	-	-
Ores and metals exports (% of merchandise exports)	55.0	67.2	-	-	-	-	-	-	-	15.6
Ores and metals imports (% of merchandise imports)	1.2	1.3	1.2	-	-	-	-	-	-	1.3
Fuel exports (% of merchandise exports)	0.2	2.6	-	-	-	-	-	-	-	-
Fuel imports (% of merchandise imports)	7.3	8.4	13.4	-	-	-	-	-	-	-
Manufactures exports (% of merchandise exports)	8.2	5.3	-	-	-	-	-	-	-	9.6
Manufactures imports (% of merchandise imports)	69.0	69.3	62.2	-	-	-	-	-	-	62.7
Aid per capita (current US$)	5.4	9.4	14.7	5.0	2.6	2.7	3.8	5.2	22.7	101.2
Total debt service (% of exports of goods and services)	-	-	-	-	-	-	-	-	-	-
Total reserves in months of imports	-	-	-	-	-	-	-	-	-	-

Source: The World Bank (2005), *World Development Indicators: 2005*

3.1.2 Industry

The Democratic Republic of the Congo, which has been blessed with rich mineral resources, the largest population and territory in the region as well as abundant water resources, had, since its independence in the 1960s, achieved favorable economic growth with its mainstay copper industry. However, since the mid-1970s, continuing misadministration such as the concentration of power and interests in the presidency and its surrounding groups, neglecting to foster and diversify industries other than mining in addition to the prolonged stagnation of the copper market have exacerbated the country's economic slump. Since the 1990s, the nation's chaotic political situation has developed into a civil war, and economic mechanisms and domestic industry have fallen into a state of devastation. After the comprehensive Pretoria Peace Accord in 2002, economic conditions have slowly moved toward improvement, and the rehabilitation of public-sector companies sustaining the national industry as a whole as well as the opening of markets to domestic and foreign private investment have begun. Foreign investors are watching carefully and calculating the business potentiality of the post-conflict market, participating in infrastructure development projects, development of resources and other areas. The great majority of the people continues to avoid the flare-ups of the still smoldering domestic conflict, and is dispersed over most of the nation's vast territory, engaging in agriculture and economic activities in informal sectors.

As for the GDP ratios of principal industries, the collapse of the domestic manufacturing base may also be corroborated numerically, with agriculture's rise from 30% in 1990 to 56% in 2002 compared to mining and manufacturing's significant retreat from 28% to 19% (with the manufacturing industry down from 11% to 4%), and the service sector falling significantly from 42% to 25%. As for the GDP growth rate (since the 1990s), only agriculture showed zero growth with all other sectors having negative growth.

The majority of agriculture is related to the production of food crops for self-sufficiency with the proportion of cassava (tapioca) prominent among these. This is followed by plantain bananas, maize, peanuts and rice. Coffee (raw beans) accounts for a large portion of crops for export such as cacao, rubber and tea. If the amount produced in 2003 is compared with that of 1990, food crops declined by 20% and export crops by 50%. Taking into account the fact that the population increases and the domestic distribution systems of agricultural products is under development, foreign food aid is still a vital tool for the nation. Fishing is mainly in inland waters due to the short coastline. In lakes and rivers along the Great Rift Valley, freshwater fish such as tilapia bring in annual catches of around 170 thousand tons, which are forwarded for domestic consumption. Elsewhere, forestry is principally lumbering for fuel or to secure farmland. Some raw timber is exported unprocessed.

In the mainstay secondary industries, mining has been under the exclusive possession of state enterprises. Production levels in 2002 were 30 thousand tons of copper, 16 million carats of diamonds, 3600 tons of cobalt, declining approximately 30% from 5 years ago. The DRC is also an oil-producer. The amount of oil produced in 2000 was 25,000 barrels a day, which is a decline of 20% from the first half of the 1990s. About 30% of this is shipped to domestic refineries, and the remainder exported as crude oil. Gas production mainly consists of associated gas, and has not been commercialized. The state oil company in collaboration with United States and Japanese capital undertakes crude oil production. These mineral products account for the majority of the DRC's exports. The manufacturing industry is mainly geared toward the domestic market with limited production of construction materials such as cement, food products and metal processing.

In the service industry, state monopolization of utility services has continued, but some phased privatization and opening of markets has been seen. In the financial sector, public financial institutions coexist beside private financial institutions that have affiliations with foreign capital, but because of the long-term political and economic confusion, it seems that quite a large portion of domestic funds are circulating outside the framework of formal financial institutions. In regard to commerce, although it appears that the ratio of the informal sector is high, formal wholesale and retail routes are operated mainly among Lebanese businesspersons.

3.1.3 Trade and Investment

(1) Trade

DRC's Exports include diamonds, copper, cobalt, crude oil and coffee. The country's traditional trading partners has been Western countries such as Belgium, Finland, France, and African countries including Kenya, Nigeria, South Africa, and the United States of America. However, Korea and China have become the most important countries for DRC's export for recent years. Imports constitute of foodstuffs, mining and other machinery, transport equipment and fuels. Those products are still mainly imported from France, Italy, and the United States of America.

Table 3.2: Trade tendency and main partners

（US$ million）

		1998	1999	2000	2001	2002
Export		1,487	1,702	2,586	2,232	2,434
Import		1,416	1,391	1,404	1,490	1,629
Main trading partners						
Export	Korea	288.00	261.82	491.68	353.58	462.49
	United States	305.82	390.64	437.27	479.36	191.36
	China	38.00	54.48	294.29	165.23	211.28
Imports	France	255.33	166.61	178.04	213.53	245.80
	Italy	60.74	56.14	64.54	112.95	95.18
	United States	101.42	54.34	85.03	99.33	57.53

Source：World Bank, *World Development Indicators*; IMF, *Direction of Trade Statistics*

(2) Foreign Direct Investment

New investment totaling US$2.4 billion was approved in 2003 and 2004. The target sectors were services, the food industry, construction and natural resources. The biggest operations include the cell phone project of the South African firm Vodacom (an investment of US$94 million) and the Congo Korea Telecom project for the installation of telecommunications infrastructure (US$1.6 billion). Actual disbursements are much lower, however.

No exact data is available regarding the implementation rate of these projects. It is important to note that the bulk of investment has gone to a ‘cash’ sector (cellular telephones)with a relatively quick turnaround regarding return-on-investment.

Table 3.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
61.3	11.3	23.1	82.0	117.0	158.0

Source: UNCTAD, FDI On-line.

From January to December 2003, ANAPI (Agence Nationale de Promotion des Investissements) approved 112 investments projects to be implemented in the next 3 to 5 years, of which an important one is already in process, valued to US $ 2,461 million distributed. 65% of the total cost of implemented investments was used for equipment and 35% were for local expenses. In 2002, four investments projects were approved for an amount of US $ 10 million.

1) Companies

The British company Vodaphone and Congo Korea Telecom have invested US$94 million and US$600 million respectively by installing communications infrastructure.

A Chevron-Texaco-led consortium has launched a three-year program to increase offshore petroleum production. Chevron (renamed Chevron Corporation in 2005) is the fifth-largest integrated energy company in the world. Headquartered in San Ramon, California, and conducting business in approximately 180 countries, this corporation is engaged in every aspect of the oil and natural gas industry, including exploration and production; refining, marketing and transportation; chemicals manufacturing and sales; and power generation.

In 2004 Chevron Overseas Congo Ltd, a subsidiary of Chevron Corp. announced a significant discovery at the Lianzi-1 exploration well in the deepwater area between Angola and the DRC. The well encountered two oil bearing reservoirs and a drill stem test of one of the intervals flowed at a rate of more than 5,000 barrels of oil per day.

The production of beer increased by 12 percent and of carbonated beverages by 26.8 percent between 2002 and 2003, benefiting the brewers Bralima (owned by Heineken) and Bracongo. Sugar production at the Compagnie Sucrière de Kwilu-Ngongo, in which the national government has a 40 percent interest, rose by 16 percent in 2003. The Cimenterie de Lukala, responsible for 77 percent of the country's cement production, saw a 16 percent increase in sales in 2003, with 27 percent of its production exported.

Mining is one of the key driving forces for FDI. Of specific significance is the gradual return of major mining companies since 2002 and plans by existing companies to expand operations. This as a result of, amongst others, the adoption of a new mining code in 2002 and the implementation of various other measures to effect economic recovery.

The gap between the current level of mineral production in the DRC and what the country is capable of producing is the biggest gap of any country in the world. Until 1990, the country was ranked number five in copper production with annual output of 500,000 tonnes of copper. It ranked number one in terms of cobalt and diamond production. The gold potential of the country is virtually untouched. Because of its tremendous resource endowment, it is expected that the DRC will in time become one of the most favoured destinations for international mining and exploration companies.

3.2. Policy Issues Promoting FDI

3.2.1 Industrial Policies and Development Plans

Reconstruction of the impoverished domestic industry will likely be a rigorous process. The government, together with international donor nations and institutions, has given top priority to the task of developing the basic infrastructure. In the fields of transportation, electricity and telecommunications particularly, international aid, private capital and government disbursements are working together, and large-scale projects are expected to evolve in the short- to medium-term. In the field of electric power generation, the restoration and amplification of power generating capacity with the Inga Dam is being planned with the participation of South African capital. Through its integration into the regional power network, this project is expected to widely stabilize power supplies and lower prices as well as increase revenue from power sales, all of which will expand the market for household appliances. In the telecommunications sector, interest from foreign investors is increasing in the development of a network to respond to the sudden increase in cellular phone service subscribers.

Looking at each individual industry, there is likely to be an increase in new FDI in the mining sector. South African and North American capital has already begun to enter the market through the acquisition of development rights or equity participation in state enterprises, starting a rebound in the production of major products. The government is stepping up its efforts to bring in foreign investment by opening corresponding sectors to the private sector as well as improving the legal system and preferential measures.

3.2.2 FDI Promoting Policies

In February 2002, the DRC enacted a new Investment Code with the technical assistance of FIAS. The new code incorporates international best practice on a series of important concepts such as the coverage of the law, the obligations of the State and of the investors, the equality of treatment between national and foreign investors, and the use of disputes and arbitration mechanisms. The new Code also attempts to simplify the existing fiscal regimes and the approval mechanisms for obtaining the authorization to invest in the country that were included in the Investment Code of April 1986.

In terms of the Investment Code setting up a business entails, amongst others, the following:

- Foreign companies must establish a branch in the DRC;
- Submit a licence application to ANAPI;
- Investments should be US$ 200.000 for large companies and US$ 10.000 for SMEs & SMIs;

- Submit EIAs;
- Commit to train national personnel for specific technical functions, supervision and responsibility; and
- Guarantee a growth rate of more than 35 %.

Licences are issued depending on the location of the company:

- Three (3) Years if the company is situated in zone A i.e. Kinshasa;
- Four (4) years for companies located in zone B : Bas-Congo, Lubumbashi; Likasi ; Kolwezi; and
- Five (5) years for companies located in zone C : Bandundu, Equateur, Western Kasaï, Eastern Kasaï, Maniema, Northern Kivu, Southern Kivu, Eastern Province and Katanga.

In spite of the war, the DRC offers many opportunities for foreign investors. The government has committed itself to encourage new local and foreign investment to stimulate the economy and to uplift the social environment. Opportunities exist in the following sectors:

- Food and related products;
- Textile, clothing and footwear;
- Wood and related products;
- Chemicals and chemical products;
- Machinery;
- Basic metals and metal products;
- Mining; and
- Tourism.

(1) Environmental Issues

The new Forest Code replaces the previous legislation dated 1949. It introduces major innovations in DRC including: protected areas are to cover 15% of the national territory; mandatory implementation of forest management plans; public auctioning of forest concessions with the distribution of 40% of the resulting receipts to decentralized entities; rights for local communities to directly manage their own forest concessions; and the setting up of Forest Consultative Councils at national and provincial levels. Detailed regulations are still to be defined.

The new code formalizes a company's obligation to implement management plans for all production forests and to contribute to local community development; and it provides for the preservation of customary user rights in all production forests.

It establishes that 40% of the tax revenues from legal logging will go directly to local authorities in order for the local population to share in the benefits of forestry activities. In addition, forest communities are expected to obtain additional benefits through formal contracts with the central government and forest companies. Benefits will include investments such as dispensaries, schools, and feeder roads.

In addition, the code provides for the preservation of the customary rights of local communities in the framework of any concession contract with logging companies, as well as consultation with local communities as a mandatory step for all procedures leading to the designation of forest areas.

Six million hectares of concessions, which were exchanged despite the moratorium, will be re-assessed, along with the legitimacy of all other current concessions.

3.3. Incentives and Impediments for/to FDI

3.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

1) ANAPI (Agence Nationale de Promotion des Investissements)

ANAPI was set up in February 2002 as the new Investments Code (Law n° 004/2002 of February 21, 2002) to help investors deal with administrative procedures and to provide fiscal and customs advantages for approved projects.

ABAPI currently employs 30 people and has offices in Lumbumbashi and Kananga (Kasai province).

Under the World Bank private sector development and competitiveness project for the DRC, ANAPI will receive US$2.5 million in World Bank support for institutional and strategic development and the implementation of a multi-year investment promotion program, focusing primarily on investor servicing and investment climate improvement.

ANAPI is still a young organization and lacks the experience to effectively assist foreign investors.

ANAPI grants licence approval in the following sectors:

- Agriculture, Agro-Industry, cattle breeding and poultry, fishing, factories, Hotelry and restaurant, building, and public works, social Housing, Timber and Lumbering, Air, Sea and Road Transportation, Telecommunication, Technologies of information, energy, Textiles, other services.

ANAPI’s mandate includes:

- To search and promote investments both within the country and abroad;
- Approve investment;
- Assist investors with setting up businesses and ease the administrative processes;
- Information campaign through the Media and debates;
- Meetings with the local and foreign business men;
- Opening of a Web Site : www.anapi.org;
- Issuing and distributing folders and promotional brochures;
- Various missions within the country and abroad to sensitize and promote investments (at least thirty delegations of foreign investors have already been welcomed by ANAPI since 2002); and
- Organization of workshops on the improved investments climate in the DRC.

ANAPI assists investors to set up offices in the DRC, obtain relevant documentation within 4 days, facilitate interaction between investors and the government and eliminate administrative barriers and harassments.

(2) Export Processing Zones / Free Trade Zones

The DRC does not currently possess any export processing zones or free trade zones.

(3) Incentives for FDI

A new Investments Code, Law 004 of 21 February 2002 includes 11 titles dealing with the general provisions, the administrative procedure, the regime, the guarantees and safety of the investors, the obligations, the certified companies, the mechanism, the follow-up and evaluation, the certified investments, with the sanctions, the settling of litigations and finally the transitional and final provisions. Article 42 repeals the Ordinance law 028 of the 05/04/1986 related to the Investments Code the ordinance law 010 of the 02/04/1981 instituting a frank mode of zone to industrial calling like all the contrary texts legislative and lawful with present the law.

Incentives include:

- Ensures equal treatment for national and foreign investors;
- A single system for all investments;
- The simplification and the speeding up of the licence procedure;
- All investors, i.e., nationals or foreigners-are submitted to the same conditions;
- Exemption for a period of 3 to 5 years, of all the import rights and taxes for machines, equipments and spare parts;
- Exemption from all export rights and taxes for all or a part of all finished products;
- Exemption for a period of 3 to 5 years of all the main taxes required by the General Taxation Department;
- Exemption of the proportional right during the constitution or increase of the capital of a shareholding companies;
- Exemption of customs duties and taxes for the first import of new equipment spares not exceeding 10 % CIF, except for the administrative charges of 5 % for any new imported equipment;
- Exemption of customs duties and taxes for the export of finished products;
- Total exemption of professional contribution on incomes from approved investments;
- Exemption of fixed rights for approved companies other than Limited Liability Companies;
- Exemption of tax due to real estate related to the approved project;
- Exemption of adjustment rights when constituting or increasing the social capital of Limited Liability Companies and fixed rights for the other types of companies;
- Exemption of tax on incomes inside the country on local products or on allowances related to property works by approved companies buying equipment from local producers; and
- Specific provisions for SMEs and SMIs: Exemption of duties and taxes for the import of materials or new or second-hand equipment except for the administrative tax.

<u>1) Tax Exemptions/Tax Holidays</u>

With a view to raising investor confidence, the government plans to make the customs and tax administrations more efficient, eliminate quasi taxation, and make the tax system more transparent.

The tax regime is undergoing a number of changes aimed at securing government revenue and reducing the regulatory and tax burden on the formal private sector. Increasing focus is being placed on administrative capacity in the provinces:

- Turnover tax on services at 18%; and
- VAT to be introduced in 2006.

The enactments of the March 2003 tax and tariff reforms and the related legislation (eliminating excise taxes on sugar, cement, and matches, abolishing the proportionality principle for the turnover tax-ICA-deductibility and confining it to large enterprises, and eliminating the ICA on exports) was adopted by the government in November 2003 and by parliament in January 2004. A number of agreements (conventions) authorizing unjustified tax or customs exemptions have been revised. At the same time, the Customs and Excise Office (OFIDA) has continued to implement its modernization program, with technical assistance from the IMF. It focuses primarily on the reorganization of the provincial directorate of the Bas-Congo Province, together with the establishment of the Matadi one-stop window.

2) Tariffs and Customs

Trade liberalisation, launched in 2001, has brought a reduction in customs tariffs. The DRC is participating in the liberalisation efforts of several regional economic organisations, including the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). It also enjoys preferential trade terms with the United States under the African Growth and Opportunity Act (AGOA) and with the European Union under the Everything But Arms initiative. In addition, the government has initiated a reform of the customs service and set up a one-stop reception point at the port of Matadi to streamline customs formalities and allow better control of government fiscal revenue.

The National Arbitration Center was created by Ministerial Order of June 18, 2003, its offices were inaugurated, and about 30 arbitrators have been registered. The one-stop customs window in Matadi has been operational since June 2003.

(4) Impediments to Attract FDI

Doing business in the DRC is still risky. Since 2001, several new laws conducive to investment were passed, however this has not yet dramatically improved the investment climate in practice. Following years of civil war and given the dominance of the informal sector, the accuracy of FDI figures is doubtful. The chaotic state of the DRC, and the ongoing delays in establishing a new elected unity government mean that the country remains a high-risk area for investment. There are no substantive guarantees that can be offered, although all the indications are that the future government will honour licences and concessions allocated during the war years and earlier.

3.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

The poor state of Congo's infrastructure has been a major barrier to the country's economic growth. The international donor community and the Congolese government realise that any future economic growth prospects depend on the development of infrastructure, particularly in the transport sector.

The land transportation system is a network of railways, roads, and inland rivers and lakes linked at strategic points so whether domestic or external, the transport of goods usually requires more than one mode. DRC has 157,000 km of roads, but only 2,800 km are paved and much of the road network is in poor condition owing to lack of maintenance. The most important commercial road is the Kinshasa-Matadi road[6]. As for air travel, there are approximately 230 local airports around the country, of which 24 are paved, and a new national airline (Hewa Bora Airways) has recently launched operations. Railway services are limited, mostly concentrated in Katanga for the export of minerals. The lamentable road links are often preferred to rail transport. Port facilities are inadequate. For the eastern and southern regions, which are completely landlocked, sea traffic passes through the ports of Dares Salaam in Tanzania and Lobito in Angola. Matadi, the major port, which plays a very important role in the DRC's economy, needs extensive rehabilitation.

The Congo River, second only to the Amazon River in terms of water volume, stretches a distance of almost 4,300 km. For electricity production as well as water, the potential of the Congo River remains largely unused. The DRC has the potential to produce 150,000 megawatts of power, approximately three times Africa's present consumption. However, only 7% of the country's population has access to electricity. The Inga Falls on the Congo River has a potential generating capacity that equals that of all Southern African countries put together. There are plans to raise the generation capacity of the Inga hydroelectric power station to 44,000 megawatts by 2010. As for water, drinking water supply and sanitation (DWSS) in rural areas is critical. The rate of access to drinking water dropped from 19% in 1991 to 16% in 2002. The rate of access to sanitation is barely 5%. The primary cause of such decline is lack of financing, resources, and maintenance. Most of the rural population drink unsafe water from unprotected sources, rivers, lakes or shallow wells. This situation leads to a deterioration of the health status of the population. In addition to the rich water endowment, The DRC has 104.8 billion cu m of proven natural gas reserves as a energy source and one gas field exists so far that has not been exploited.

The telecommunication system in the DRC is the least developed in the region and is extremely unreliable. The domestic telephone system is poor, with a barely adequate wire and microwave radio relay service in and between urban areas. Most public offices do not have phone lines, and the few that exist either need upgrading or are not operational at all. However, cellular phones are used extensively.

(2) Regional Programme

Agreements were signed in late October 2004 to launch the Western Power and Telecommunications Corridor (Westcor) project, a joint project of the DRC, Angola, Namibia, Botswana and South Africa. Five national power utilities were involved in the third project[7], which has four stages in total. More than two-thirds of the project's investment, estimated at US$4.7 billion, will be in the Congo.Westcor's aim is to develop Inga III, a hydroelectric project

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[6] Recent roadwork financed by the EU has improved the road between Kinshasa and Mbanza Ngungu and is to be extended further to Matadi.

[7] South Africa's Eskom, the DRC's Société Nationale d'électricité, Angola's Empresa Nacional de Electricidade, Namibia's Nampower and the Botswana Power Corporation-are now working towards establishing the Westcor headquarters in Gaborone, Botswana.

on the Congo River, just north of Matadi, intended to generate 2,000 mw of power. Financing for the project will be sought when a pre-feasibility study has been completed.

(3) Trend in Privatisation and Some Observations on Current PPPs

Eskom of South Africa is going to be involved in the fourth stage of grand Inga development plan. In February 2005 Eskom announced plans to build a 50-billion-dollar hydroelectric plant on the Congo River to provide low-cost power to southern African nations. The DRC government has agreements with Eskom to strengthen the Inga-Kolwezi and Inga-South Africa interconnections, as well as to construct a second power line that will supply power to Kinshasa. A feasibility study looking at how to make use of this electrical potential by exporting it to Angola, Namibia, Egypt and South Africa is also being conducted[8]. Eskom is seeking funding for the project from southern African governments and multilateral organizations such as World Bank and International Finance Corporation. Once constructed, the plant will initially supply power to the 14 members of the SADC. Other African nations would eventually be linked to the plant through a grid and also possibly export power to southern Europe. The project could take a decade or more to build in the currently unstable situation in the DRC according to Eskom.

3.3.3 Currency and Monetary Systems

(1) General Conditions

Despite political instability, Congo's economy is in the direction of growth with the commitment by the Government toward macroeconomic stability, having IMF and World Bank at its back. The Government's fiscal policy focuses on increase of domestic revenues, improvement of social infrastructure by investing Government funds to social sectors including healthcare and education, for the purpose of poverty reduction. More than $1 billion of overseas funds annually flow in this country mainly through donor countries. However, serious fiscal deficit still remains. The financial sector has virtually no funds intermediation function.

Banque Centrale du Congo (BCC) , an independent central bank, is in charge of financial policy and focuses on prices stabilization under the regime of floating system since 2001. Congo franc is likely to depreciate moderately from FC440/US$ to FC460/US$[9]. The inflation rate of about 9.3% in 2004 was caused by a hike of petroleum price and the accompanying rise of foods prices in urban areas. The monetary authorities raised the discount rate from 6 % to 9% and further to 14% gradually in the last year to control the inflationary pressure.

Balance of payments maintains its equilibrium (official statistics published by the Central Bank indicate a trade surplus, but are likely to be dressed fraudulently) .
There has been no record of the DRC's foreign-exchange reserves in the IMF's International Financial Statsitics since 1996. However, according to the BCC, at the end of December 2004, the country's reserves stood at US$244.6 million. According to the BCC, this was equivalent of 5.1 weeks of imports, compared with 2.5 weels at the end of December 2003.

The Central Bank estimates that accrued and unpaid external debts of Congo Democratic Republic stands at US$14 billion including principal and interest in arrears, of which US$ 10 billion are owed to Paris Club creditor countries, the remaining US$ 3 billion to international organizations.

[8] The Kinshasa city electricity distribution network will be managed by Eskom.
[9] Prediction quoted from EIU Report, December 2004.

(2) Banking Sector

The banking system has largely collapsed, and the banks that remain in operation are hampered by unpredictable monetary policy and unrecoverable loans. According to the EIU, “The financial sector has suffered from the chaotic political and economic conditions in the country. These have included hyperinflation, currency distortions, war and political instability, frequent policy changes, and a lack of companies with properly audited accounts or collateral. As a result, many of the banks have accumulated unrecoverable loans. In such risky conditions, loan credit has entirely ceased except for short-term trade finance.”

The activities of the banking sector are limited to financing trade and foreign exchange transactions. Credit amounted to less than 1 per cent of GDP in 2003. Loans are generally granted in dollars for a period not exceeding six months. There are few transactions on the inter-bank market, although the BCC has been issuing Treasury notes since late 2002. The banking system has undergone a major restructuring, recapitalisation and liquidation programme. In 2004, nine banks were put into liquidation, including three public sector establishments, and seven are being restructured.

(3) Foreign Exchange Controls

The IMF reports that there are no restrictions on foreign exchange accounts for credit or debit of international transactions for either residents or non-residents.

3.3.4 Labour and Management

Skilled industrial labour is in short supply in the DRC and must often be trained by individual companies. Most citizens were engaged in subsistence agriculture or commerce outside the formal wage sector. The average wage did not provide a decent standard of living for a worker and family, and most workers relied on extended family and informal economic activity to survive. In areas under marginal government control, most citizens relied on informal economic activities, humanitarian aid and scavenging in the forest to survive. Due to extended pillaging, extortion by armed groups, and instability forcing families to flee their homes and crops, poverty and economic hardship generally were more severe in the Kivus, Maniema, Northern Katanga, and Ituri than in areas under government control. Salary arrears for police, soldiers, and other public officials encouraged extortion and theft from the population.

There are no restrictions on Local Managerial Ratio Regulations, and there are no expatriate labour restrictions. Minimum wage laws continue to be suspended. Civil servant salaries remained very low, ranging between US$4 and US$20 per month, and salary arrears continued to be a problem. However, depending on their position, civil servants, including police and soldiers, frequently supplemented their incomes through extracting bribes and various other practices of corruption. The maximum legal workweek (excluding voluntary overtime) was 48 hours. One 24-hour rest period was required every 7 days. No provisions in the Labour Code permit workers to remove themselves from dangerous work situations without jeopardizing their continued employment.

The prevalence of HIV/AIDS continued to place an increasing burden on the country's resources through rising healthcare expenditures, absenteeism from work, labour shortages resulting from morbidity and mortality, and training of replacement labour.

4. NAMIBIA

4.1. Trends of Macro Economy, Industry, Trade and Industry

4.1.1. Macro Economy

The 2005/06 budget speech of the Minister of Finance, Saara Kuugongelwa-Amadhila, in May 2005 focused on fiscal prudence. However, various analysts indicated that it was doubtful whether its targets for GDP growth and a reduction in the Budget deficit could be achieved. Last year Kuugongelwa-Amadhila projected that Namibia's Budget deficit would amount to 1.6% of the country's Gross Domestic Product this financial year (2005-06). This year it was revised upwards, to 2.4% of GDP. Mr. Pohamba indicated that his government intends to give land reform a high priority. At a farewell function at the Ministry of Lands and Resettlement, which he had previously headed, he stressed that land expropriation did not mean confiscation, but selling land to the government “at fair prices as provided for in the constitution”. However, his startling claim that the SWAPO leadership feared a “revolution” if land redistribution did not move forward should perhaps be regarded as an attempt to increase the pressure on white farmers to sell their land to the state at an acceptable price. Land reform has so far involved the redistribution of some 3m ha of the total commercial farming land area of 36m ha. On 9 June 2005, President Pohamba delivered his first State of the Nation address to parliament.

Regarding the economic policy reforms, the President said it would continue to focus on addressing unemployment and poverty. According to the address, the necessary reforms should include the enhancement of skills, promotion of labour-absorbing export sectors, improvement of access to finance, establishment of new financing vehicles, such as venture capital and by increasing the local ownership of the financial sector. He has directed government to pursue in earnest projects that have the potential to create employment in the country, including fish farming, the Green Scheme and other agricultural projects. According to President Pohamba, government aimed to transform the economy from its heavy reliance on the production and export of raw materials towards industrialization and manufacturing and in so doing, expand the country's productive base, create jobs and effect skills and technology transfer. He also pledged to work closely with the private sector and trade unions to improve Namibia’s competitive ranking in Africa.

Following its Article IV consultation with the government, completed at the end of January 2005, the IMF projected a budget deficit in 2004/05 of 2% of GDP. The 2% figure assumes that the government will have met its aim of curtailing non-priority spending and of addressing tax administration problems, and that overall revenue has benefited from a sharp increase in the SACU payments, which the IMF describes as a one-time windfall affecting 2004/05 only. The EIU considers that the IMF may be mistaken in this, as an analysis of the impact of the new SACU revenue-sharing formula on Namibia, published by the Bank of Namibia (the central bank), suggests that receipts will increase again in 2005/06.

Provisional figures published by the central bank put real GDP growth at 5.7% in 2004. Growth is forecast to drop back to 5% in 2005 and to 4.6% in 2006 as diamond and uranium production slows. In 2004 diamond output by Namdeb Diamond Corporation, the 50:50 joint-venture partnership between the government and De Beers rose by 28% and uranium output increased by almost one-half. Growth in 2005-06 will be driven by the continued expansion of offshore diamond production, coupled with the first year of full-capacity production at the Skorpion zinc mine and refinery. Year to year inflation, as measured by the new Namibia Consumer Price Index, fell sharply in January 2005 to 2.5%, and was only fractionally higher in February 2005.

The fall in overall inflation was largely due to substantially lower inflation in the housing, utilities and fuel component of the index, and to a lesser extent to lower food price inflation. The expected good cereal harvest in 2005 should help to moderate food price inflation further and, as world oil prices have probably peaked, import prices will be constrained in the short term by the continued strength of the Namibia dollar.

The Heritage Foundation's 2005 Index of Economic Freedom measures 161 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom. Countries are scored on the different categories from one (best) to five (worst). Namibia is ranked 81 out of the 161 countries and is scored overall at 3.10 (mostly unfree).

Table 4.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	0.7	0.9	1.2	1.7	1.8	1.8	1.9	1.9	2.0	2.0
Population ages 0-14 (% of total)	42.0	42.8	43.0	42.1	41.9	41.8	41.6	41.7	41.8	41.9
Population ages 15-64 (% of total)	54.6	53.8	53.4	54.1	54.4	54.5	54.6	54.5	54.4	54.3
Population ages 65 and above (% of total)	3.4	3.5	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8
GDP (constant million 2000 US$)	-	2,002.2	2,082.8	2,923.0	3,191.0	3,298.6	3,413.6	3,495.5	3,583.0	3,716.8
GDP growth (annual %)	-	-	1.2	4.2	3.3	3.4	3.5	2.4	2.5	3.7
GDP per capita (constant 2000 US$)	-	1,966.8	1,762.2	1,743.1	1,792.1	1,797.9	1,802.3	1,797.8	1,805.3	1,845.0
Official exchange rate (LCU per US$, period average)	0.7	0.8	1.9	4.4	5.5	6.1	6.9	8.6	10.5	7.6
Inflation, consumer prices (annual %)	-	-	12.9	10.0	6.2	8.6	9.0	9.5	11.3	7.2
Money and quasi money (M2) as % of GDP	-	-	-	32.8	36.2	37.8	38.1	35.4	32.8	36.5
Real interest rate (%)	-	-	-	8.4	11.2	11.3	4.2	0.4	2.4	16.2
Foreign direct investment, net inflows (% of GDP)	-	-	-	-	-	-	-	-	-	-
Foreign direct investment, net inflows (% of gross capital formation)	-	-	-	-	-	-	-	-	-	-
Agriculture, value added (% of GDP)	-	11.2	11.2	11.2	11.0	11.4	11.0	10.4	10.7	10.8
Industry, value added (% of GDP)	-	55.8	42.5	29.7	29.0	27.7	28.4	30.8	30.4	25.6
Manufacturing, value added (% of GDP)	-	9.2	12.0	12.3	12.2	11.4	11.1	10.5	11.3	12.3
Services, etc., value added (% of GDP)	-	33.0	46.3	59.1	60.0	61.0	60.7	58.8	58.9	63.6
General government final consumption expenditure (% of GDP)	-	17.4	29.2	30.8	29.6	30.3	28.8	28.4	27.4	28.8
Household final consumption expenditure, etc. (% of GDP)	-	44.2	62.0	56.9	56.7	57.2	57.1	54.6	59.1	55.8
Final consumption expenditure (% of GDP)	-	61.6	91.2	87.7	86.3	87.5	86.0	83.0	86.5	84.6
Gross capital formation (% of GDP)	-	30.6	18.7	21.2	25.8	23.3	19.5	23.4	17.2	22.7
Exports of goods and services (% of GDP)	-	78.9	58.5	49.1	46.0	46.2	45.6	45.0	46.5	39.4
Imports of goods and services (% of GDP)	-	71.1	68.4	58.1	58.0	56.9	51.2	51.4	50.1	46.7
Gross domestic savings (% of GDP)	-	38.4	8.8	12.3	13.7	12.5	14.0	17.0	13.5	15.4
Gross capital formation (% of GDP)	-	30.6	18.7	21.2	25.8	23.3	19.5	23.4	17.2	22.7
Food exports (% of merchandise exports)	-	-	-	29.1	-	-	29.1	36.3	37.5	48.3
Food imports (% of merchandise imports)	-	-	-	16.8	-	-	16.8	13.1	12.5	14.9
Agricultural raw materials exports (% of merchandise exports)	-	-	-	1.0	-	-	1.0	0.9	1.0	1.3
Agricultural raw materials imports (% of merchandise imports)	-	-	-	0.7	-	-	0.7	0.6	1.3	0.7
Ores and metals exports (% of merchandise exports)	-	-	-	11.1	-	-	11.1	9.4	10.9	7.3
Ores and metals imports (% of merchandise imports)	-	-	-	0.9	-	-	0.9	1.8	2.3	3.6
Fuel exports (% of merchandise exports)	-	-	-	2.1	-	-	2.1	0.7	0.7	1.0
Fuel imports (% of merchandise imports)	-	-	-	3.1	-	-	3.1	10.3	12.1	10.4
Manufactures exports (% of merchandise exports)	-	-	-	55.8	-	-	55.8	51.7	49.2	40.9
Manufactures imports (% of merchandise imports)	-	-	-	78.0	-	-	78.0	73.8	71.4	69.4
Aid per capita (current US$)	-	0.1	25.6	100.6	101.8	97.5	80.6	56.6	68.1	72.5
Total debt service (% of exports of goods and services)	-	-	-	-	-	-	-	-	-	-
Total reserves in months of imports	-	-	-	1.2	1.5	1.9	1.7	1.5	2.4	1.9

Source: The World Bank (2005), *World Development Indicators: 2005*

4.1.2 Industry

Namibia is a member of the Southern African Customs Union (SACU) which has South Africa as its nucleus. From 1914 until independence in March 1990, South Africa effectively governed the country, and domestic industry was integrated into that economic bloc. The structure of the principal domestic industries (2002) is agriculture and fishing at 11%, mining and manufacturing at 31% (manufacturing accounted for 11%), and the service industry at 58%.

The nation, which is covered by a vast arid region, has limited cultivable lands. Among them, some northern areas are introduced the irrigation system, where cash crops including fruits such as edible grapes, dates, cotton and tobacco are produced mainly by white farmers settled from South Africa and Europe. Additionally, the livestock industry, including ostriches, goats and sheep, has grown in recent years; and meat, leather and wool are increasing exports. The fishing industry is also flourishing due to favourable fishing grounds along the coast, and annual catching volume of such fish as mackerel, merluza, sardines, anglerfish and crab have got to 500 thousand tons.

In the mining sector, by employing capital and technology from South African companies, a variety of mineral resources are being developed and exploited from diamonds mined on the ocean floor on down to gold, uranium, zinc, arsenic, rock salt, precious stones and so on. The manufacturing industry is amassed at Walvis Bay where an Export Processing Zone (EPZ) has been established near the capital of Windhoek. Production is mainly for the domestic market. The processing of food, agricultural and marine raw products accounts for more than 80% of the total amount of production with the remainder filled by metal processing, textiles, garments, chemicals and other items.

In the service industry, there is a comparatively refined financial sector due to introduction of South Africa's know-how, and the stock market (market capitalization of $300 million dollars in 2003) has 13 companies listed, most of them South African. In the tourism sector, 670 thousand people mainly from South Africa and Europe visit the country annually, and in 2002 tourism revenues reached up to $400 million, rising to account for 10% of GDP. The principal tourism resources are safaris, the Namib Desert and inland canyons.

4.1.3 Trade and Investment

(1) Trade

In Namibian export, primary products in largely unprocessed form have traditionally accounted for 80 percent. This has made earnings exceptionally vulnerable to fluctuating international commodity prices and changes in the value of the Rand. Namibian major trading partners are the European Union, Japan, the United States of America, Switzerland, Zimbabwe and member States of both SADC and SACU.

Namibian export products enjoy preferential access to a number of regional and international markets. Through SACU, there is duty-free access to the member markets of South Africa, Botswana, Lesotho and Swaziland. The country’s exports have preferential market access to the European Union through the Cotonou Agreement and to the United States of America through the Africa Growth and Opportunity Act (AGOA) and the Generalised System of Preferences (GSP).

Table 4.2: Trade Tendency and main partners

		1998	1999	2000	2001	2002
Export（US$ million）		1,562	1,563	1,558	1,403	1,403
Import（US$ million）		1,972	1,927	1,746	1,717	1,421
Main trading partners（1,000N$）						
Export	United Kingdom	n.a.	2,298,661	2,995,084	n.a.	n.a.
	South Africa	n.a.	2,318,107	2,304,365	n.a.	n.a.
	Spain	n.a.	1,033,996	908,742	n.a.	n.a.
Import	South Africa	n.a.	7,669,274	8,423,569	n.a.	n.a.
	Germany	n.a.	177,880	191,254	n.a.	n.a.
	United States	n.a.	255,489	124,147	n.a.	n.a.

Source：World Bank, *World Development Indicators*; Central Statistical Office of Namibia.

(2) Foreign Direct Investment

FDI inflow to Namibia sharply increased from 1999 to 2001, after that, decreased until 2003. It is estimated that the Skorpion zinc mine (Anglo American) will contribute US$118 million annually to Namibia's GDP. On average, during its operation, the mine and refinery will source goods and services from the Namibian economy of some N$190 million per year. Over the life of the operation, it is estimated that some N$7200 million will be paid into the Namibian economy in respect of wages and goods and services.

In addition, significant regional infrastructure is being constructed as a consequence of the Skorpion project. A 400 kV power line constructed for Skorpion will provide the possibility of further secondary power distribution in the region. A 40 km long pipeline is under construction to supply water to Rosh Pinah for the increased demand there and to the Skorpion site.

Table 4.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
77.3	19.6	186.4	365.2	181.4	83.5

Source: UNCTAD, FDI On-line.

The five major foreign investor countries in Namibia are South Africa, Germany, Britain, the US and Malaysia. Investors operating particularly in the EPZ include Germany, US, China, South Africa, UK and Saudi Arabia.

The Namibian Investment Centre (NIC) has sent investment missions to countries including India, China, Indonesia, South Korea and Malaysia to promote sectors such as textiles, fisheries, agriculture and tourism.

1) Sectors

So far, NIC has concentrated on attracting value-added investment into the mining sector. The Skorpion Zinc Mine and Refinery, an Anglo-American investment worth US$454m serves as an example. The refinery part of the project, not the mine part, has EPZ status as it has provided value-added jobs. A training plant has been built for refinery staff and key personnel will be trained in Europe.

2) Companies

Companies investing in Namibia in recent years include Pescanova (Spain – who have been the single largest investor in the country since independence), Schweppes (which has located a soft-drink concentrate plant in Windhoek, one of only three in the world), Ocean Diamond Mining, Anglo American, Barden International, Tata of India, and Prima Foods.

In a serious setback for the government’s strategy of promoting foreign investment in export-orientated manufacturing activities, the Rhino Garments factory, a subsidiary of the Malaysian company, Ramatex Textiles, closed its doors at the end of March after worker protests over conditions of service. Retrenchment packages for 1,600 workers were finalised in May 2005, following negotiations with the Namibia Food and Allied Workers' Union (NAFAU).

Ramatex opened shop in Namibia in 2002, in a bid to take advantage of the US Africa Growth and Opportunity Act (AGOA), which gave apparel from African countries preferential access to the US market. The company invested about US $150 million in the venture. However, allegations of poor wages, unfair labour conditions and dismissals from the 6,000 strong workforce at the main factory - as well as concerns about the factory's environmental impact - haunted Ramatex from the start.

3) FDI Job Creation

FDI job creation, particularly in the Export Processing Zones (EPZ) is the subject of major debate in Namibia and statistics are conflicting and mostly dated. Independent data is not available.

A study undertaken by the Labour Resource and Research Institute (LaRRI) in 2000 discovered that EPZs had fallen far short in transferring the technology needed to kick-start Namibian manufacturing industries, and that only 400 jobs had been created, despite government targets of 25,000 jobs. The study also highlighted poor labour conditions, with wages, health and safety standards and labour relations receiving the most criticism.

However, according to Namibian government figures, in 1999, 32 companies were fully operational under the EPZ regime and have invested more than N$5.5 billion, with over 10,000 direct job opportunities.

The Namibian Economic Policy Research Unit (Nepru) also indicated that several incentives put in place by Government to attract investors in the more labour-intensive manufacturing sector have not helped curtail the unemployment situation in the country.

4.2. Policy Issues Promoting FDI

4.2.1 Industrial Policies and Development Plans

The government is striving to improve the processing grade and diversification of agricultural and marine products produced domestically. In the external trade and investment policies, the government is ambitious to strengthen exports to the United States which enacted the African Growth and Opportunity Act (AGOA) and neighbouring South African and Angolan markets. Other focal points on economic policies are to promote the exploitation of domestic mineral resources as well as to upgrade tourist services (increasing profitability). The EPZ, which was established in 1995 with the expectation of attracting foreign capital, has the advantage of being located in the proximity of a port. New operations have already been launched by 22 companies (by the end of 2003).

4.2.2 FDI Promoting Policies

A number of policy and legislative measures have been initiated since independence in pursuit of the broad goal of economic growth and development. They include:

- The Foreign Investment Protection Act (No. 27 of 1990) which guarantees foreign investors against expropriation and ensures them of their right to repatriation of profits and dividends;
- The 1992 White Paper on Industrial Development constituted the basis for the introduction of a special package of incentives for manufacturing activity in 1993;
- The Export Processing Zone Act (No. 9 of 1995) established Namibia's EPZ regime to serve as a tax haven for export-oriented manufacturing enterprises in exchange for technology transfer, capital inflow, skills development and job creation; and
- The Policy and Programme for the Development of SMEs approved by Cabinet in 1997, provides the policy framework for the development of this sector as key to the creation of employment and wealth.

The Ministry of Trade and Industry is responsible for the promotion of growth and development of the economy. To achieve these objectives, the ministry pursues programmes and activities aimed at transforming the Namibian economy from its present heavy reliance on the production and export of raw materials to one in which manufacturing becomes a key component.

Over the last nine years, the ministry's efforts have been directed at four key activities: (1) investment promotion; (2) facilitating manufacturing activity; (3) promotion of the growth and development of SMEs; and (4) growth and diversification of Namibia's exports.

The Namibia Development Corporation (NDC) implements and co-ordinates a number of agricultural development projects in the country, such as, the Etunda Irrigation Scheme, and the establishment of commercial date production at Naute Dam in the Karas Region and at Eersbegin in the Erongo Region. The NDC also administers various loan programmes on behalf of government ministries. These include programmes to finance rural electrification on behalf of the Ministry of Mines and Energy; tractor, resettlement, special agronomic and communal farmers loans on behalf of the Ministry of Agriculture, Water and Rural Development; and a Traders Aid Fund on behalf of the Ministry of Trade and Industry.

For existing and expanding entrepreneurs, the corporation provides various lending facilities similar and comparable to those on the commercial financial market. These are backed up with additional assistance, such as, advisory, loan monitoring and after-care services, assistance with business plans and feasibility studies, training and help with capacity building, exposure visits, and a sourcing and linkages programme. Lending facilities include agro-industries assistance scheme, business assistance development scheme, franchise financing, wholesale financing, and lease financing.

(1) Spatial Development Initiatives

Namibia is also involved in the Spatial Development Initiatives (SDI) that is being pursued in collaboration with neighbouring partners. SDI's primary objective is the creation of employment through innovative methods of investment facilitation. Areas with high growth potential for internationally competitive industries are targeted, usually linked to a port for easy trade access. The government's efforts with regard to the promotion of Walvis Bay as a gateway to the region and the completion of the Trans-Kalahari Highway as a transport route have drawn particular interest and attention of South Africa. Area scans to examine mining and minerals, tourism and other potential labour-intensive industries have been conducted and serve as groundwork for a series of full-scale feasibility studies.

1) Privatization

Although there has been much talk of privatization of SOEs, globally and regionally, during April 2005 the Namibian government once again indicated that Namibia is not yet ready for fully fledged privatization, due to the possible negative repercussions of this action on the economy in terms of job losses and retrenchments.

The bill governing the over 50 State Owned Enterprises (SOEs) will be tabled and passed in Parliament during its current session which started on 10 May 2005. Once the bill has been passed by Parliament and signed by President Pohamba, it would provide government with a legal framework against which to measure the competency and efficiency of SOEs and the duties and functions of the Central Governance Council (CGC) would be determined. Parastatals would be expected to enter into performance-based contracts where it will be outlined in the contract as to what criteria and qualifications the SOE should have.

2) Empowerment Policy

It will become increasingly necessary (although not legally required) for every new foreign investor to form a partnership with a local Black Economic Empowerment (BEE) firm or trust.

Regarding the direction of BEE, President Pohamba gave a clear indication of his line of thinking on the issue during a function marking the opening of the offices of Diamdel Namibia (wholly-owned by the De Beers group) on 1 July 2005. He stated that it was not enough to appoint black Namibians in senior positions but that adding value locally would create wealth and employment opportunities. Referring to the diamond industry he asked why Namibia, which produces the best diamonds by value in the world, failed to add value locally and have a high level of unemployment.

4.3. Incentives and Impediments for/to FDI

4.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

1) Namibia Investment Centre

The Namibia Investment Centre (NIC), created under the Foreign Investment Act, 1990, is the country's official investment promotion agency. It resorts under the Ministry of Trade and Industry.

In 1997 the NIC was elevated to the level of a Department in order to give greater effect to the Government's vision of increased levels of private sector investment, both domestic and foreign. The four distinct units within the Centre perform the following tasks:

- Investment Promotion Division: developing strategies for targeting foreign investors promoting investment through outward missions and publications advertising, media relations and preparations of press releases and videos handling inquiries on investment opportunities information dissemination and advice.
- Investor Services: investor support/facilitation/trouble shooting immigration services customs services streamlining of procedures inward missions logistics and committees.
- Projects and Evaluation Division: brokering of projects and ideas, joint ventures evaluation of incentives, status investment identification of funding (including feasibility studies) economic research and sectoral studies EPZ incentives facilitation industrial park facilitation.
- Information Services Division: information gathering and dissemination Information Management System (IMS) (databases, investor tracking systems, Internet connectivity) back-stopping for External Offices.

It facilitates interaction between the Government and the private sector and assists investors in minimising bureaucratic obstacles. The NIC works closely with key productive sector ministries, as well as with service and regulatory bodies. In addition to general promotion and facilitation services to local and foreign investors, the NIC administers Certificates of Status Investment (for foreign investment) and investment incentive packages. The NIC has also been central to the launching of the Export Processing Zone (EPZ) regime in Namibia, and now works closely with the Offshore Development Company (ODC) in the promotion of the EPZ regime and general export-led industrialisation of the Namibian economy. It operates as a one-stop shop.

NIC only has a Windhoek office and employs 20 people. NIC 's budget is part of the Department of Trade and Industry's budget and info on this is confidential.

2) The Offshore Development Company (ODC)

The Export Processing Zone Act, 1995 provided for the formation of the ODC as a joint public-private sector enterprise in which government would hold a minority shareholding. It is a one-stop shop centre, resenting under the Ministry of Trade and Industry.

The main mandate of ODC is the monitoring, regulation and promotion of Namibia's EPZ regime. It runs the EPZ secretariat that handles investors' applications for EPZ status. Applications are assessed by an EPZ Committee chaired by the Minister of Trade and Industry, with the assistance of the Minister of Finance and the Governor of the Bank of Namibia.

Besides EPZ management, the government has also assigned ODC the task of managing two lines of credit worth some N$66 million. The first, worth some N$36 million from the Eximbank of China, is intended for on-lending purposes to the Northern Tannery Project.

(2) Export Processing Zones

The Namibian Government adopted a policy for the establishment of an Export Processing Zone (EPZ) regime through the passage of an Export Processing Zone Act. Enterprises which undertake manufacturing, assembly, re-packaging and break-bulk operation and gear all or almost all of their production for export, earn foreign exchange and employ Namibians, will be eligible for EPZ status, which confers an attractive range of both tax and non-tax benefits.

Incentives for EPZ Enterprises are:

- Exemption of corporate tax, import tax, sales tax, stamp and transfer duties on goods and services required for EPZ activities;
- EPZ enterprises are allowed to hold foreign currency accounts in local banks;
- Companies operating under the regime are free to locate their operations anywhere in Namibia; and
- Through the Offshore Development Company (ODC), EPZ enterprises also have access to factory facilities rented at economical rates.

Several EPZ companies have either dropped their EPZ status or ceased their operations completely after a few months only. According to the ODC, a total of 21 EPZ companies have withdrawn the EPZ status including NAMTEX and Global Manufacturers in Walvis Bay, Charex in Tsumeb and Oshikango Foam & Mattress in Oshikango. The reasons given by some of the companies and by the EPZ Management Company range form poor planning and lack of seriousness on the side of the investors to labour problems and problems with the conditions attached to local sales of EPZ companies.

(3) Incentives for FDI

The Foreign Investment Act provides for:

- Liberal foreign investment conditions;
- Equal treatment of foreign and local investors;
- Openness of all sectors of the economy to foreign investment;
- No local participation requirement;
- Full protection of investments; and
- The granting of a Certificate of Status Investment (CSI).

Special incentives for manufacturers and exporters are:

- Exemption from VAT on purchase and import of machinery and equipment;
- Factory buildings written off at 20% in the first year and the balance at 8% for 10 years;
- Export promotion allowance of 25% is deducted from taxable income;
- Additional deduction of incentives for training and production wages of between 25% and 75%;
- Deduction of 50% of cash grants for direct cost of approved export promotion activities; and
- Corporate tax abatement of 50% for 5 years and phasing out of abatement over the following 10 years.

There is also an incentive package for exporters which consists of a tax exemption on 80% of the profits accruing from the exports of manufactured goods with the exception of fish and meat products, whether the goods are produced in Namibia or not. This translates into an effective tax rate of 7% if the entire product is exported from Namibia.

The CSI provides preferential access to foreign exchange in order to repay foreign debt, royalty, remit branch profits and dividends as well as proceeds of sale of enterprise. It gives the right to retain abroad all part of foreign exchange earnings from exports. It also gives right to international arbitration in the event of dispute with the government, as well as payment of just compensation without undue delay and in freely convertible currency.

1) Tax Exemptions/Tax Holidays

A comprehensive review of the taxation system was carried out during 2002 and has been approved by Cabinet. As a result the following changes to the taxation system were implemented during 2003/2004:

- An increase in the threshold from which tax will be levied from N$20,000 to N$24,000;
- A maximum rate of 35% applicable to taxable incomes exceeding N$200,000 and a marginal reduction of the rates for each of the brackets below;
- Introduction of anti-avoidance rules;
- The reduction and simplification of Transfer Duty rates; and
- The introduction of a Tax Tribunal to handle 'lower value' tax cases.

Manufacturing taxable income may be reduced by 50% of income from manufacturing in the first five years of registration as a manufacturer, 45% in the sixth year and 40% for the next eight years. An assessed loss cannot be created.

Namibia has no capital gains tax, estate duty, inheritance tax, or donation tax. Partnerships are treated as separate taxable entities and partners are taxed on their share of net partnership income.

2) Tariffs and Customs

Being a member-state of SACU, Namibia’s Customs Administration is obliged to use the same laws, regulations, tariffs and procedures relating to the importation, exportation and transiting of goods as those applied in the other SACU member-states. The majority of imports from outside SACU are subject to high import tariffs. These tariffs comprise a basic customs duty and in case of luxury items, an additional scaled tax.

3) Subsidies

Training allowances include:

- An additional 25% of remuneration, pension or benefit contributions in respect of employees directly engaged in the manufacturing operation; and
- An additional 25% of training expenditure for employees directly engaged in the manufacturing operation provided the programme content has been approved.

(4) Impediments to Attract FDI

As noted above, the majority of imports from outside SACU are subject to high import tariffs (basic customs duty and additional scaled tax). .

While Namibia actively seeks foreign investment, some sectors have experienced aggressive "Namibianization" of existing investments. In particular, some foreign companies with fishing licenses in Namibia have alleged that they have been forced into partnerships with local individuals or firms, chosen by the government, in order to renew their licences.

Non-residents may hold foreign currency accounts only if they operate in an export-processing zone. Transactions, transfers, and payments are subject to various restrictions, approvals, and quantitative limits.

4.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

Namibia's road network consists of 45,000 km of trunk, main, district and farm roads of which 5,477 km (12%) are bituminised. It is a largely gravel road network, but large sections of the trunk road network form parts of identified regional transport corridors. The government has the long-term goal of developing private sector expertise in the construction and maintenance of roads on a tender/contract basis. As for airport, Hosea Kutako International Airport, previously Windhoek International Airport, caters for international as well as regional air traffic and all major Namibian tourist destinations have airports. Although Namibia has over 300 known airfields, only 17 are licensed. As for rail, the main line of the country's rail network runs from the South African border via Keetmanshoop to Windhoek, Okahandja, Swakopmund and Walvis Bay, and a northern section links up with Omaruru, Otjiwarongo, Otavi, Tsumeb and Grootfontein. The Walvis Bay corridor provides access to landlocked Southern Africa for destinations west of the continent by the shortest possible route. Namibia has two harbours, Walvis Bay and Lüderitz. Walvis Bay, the only deep-sea harbour, is a safe and economical option for the country's export and import trade.

Although Namibia consumes 603.1 million kWh of electricity, most of the electricity are dependant on imports from South Africa[10]. Nam-Power is responsible for the country's electricity network, the main sources of power being thermal, hydroelectric, and diesel-driven. The country is currently focusing on major projects such as the Lower Kunene hydropower scheme. As for water, the management of Namibia's water resources is a contentious issue. The government view is that it should play a purely regulatory role with the actual supply portions open for operation by the private sector. Since the establishment of the Namibia Water Corporation (Namwater) in April 1998, it holds the position of a national monopoly on water supply. Its sole shareholder is still the government. Failure to pay rising water charges results in disconnection or even eviction, causing major health hazards throughout the country. By July 2003, several towns had already had their bulk water supply reduced for failing to pay debts. Regarding gas, progress is being made in preparing the way for implementing the large-scale project to bring the Kudu offshore gas field into production. This will help to meet expanding domestic demand for electricity and provide surplus power for export. At the same time, China's efforts to secure overseas exploration acreage with the potential to provide its future oil and gas supplies, in the absence of known domestic resources, have extended to Namibia.

The domestic telephone system is generally good, with about 6 telephones for every 100 persons, good urban services, fair rural service, and microwave radio relay links major towns. There are fiber-optic cable links to South Africa, microwave radio relay links to Botswana, and direct links to other neighboring countries. Telecom Namibia, a public commercialised corporation established following the commercialisation of post and telecommunications in 1992, has replaced the largely outdated and inadequate telecommunications infrastructure with

[10] Domestic production is only 26.95 million KWh.

field-proven state-of-the-art technology, an exceptional network design, around-the-clock management and field support. Digital fibre systems and switches now criss-cross the huge but sparsely populated country. The capacity for multi-media traffic on the fibre routes is unlimited and waiting for commercial exploitation. Namibia has value-added services (VAS), including ISDN; Toll Free Services, Call Forwarding, Conference or Three Party Calls, etc. Telemail Service or Voicemail has also been introduced as a free addition to most telephones countrywide. Services soon to be introduced include Virtual Telephony, Pre-Paid Telephony, Fax-Mail, Universal Information Delivery Service, Wake-Up and Reminder Calls. The cellular phone system is also well established.

(2) Regional Programme

An extension of the Namibian rail network is currently under construction from Tsumeb to Oshikango on the Angolan border. As for electric power, Namibia is focusing on the Caprivi Link inter-connector into Zambia, and is also a member of Wescor, a regional company established to harness the untapped hydropower potential of the Inga Dam in the DRC[11].

(3) Trend in Privatisation and Some Observations on Current PPPs

Government responsibility in services provision is focused on the creation of a legal and institutional framework conducive to privatization.The provision of basic services is being outsourced to private companies and the responsibilities for making decisions about the provision of basic services are being delegated to the local and regional government authorities. These institutions have the task of deciding whether to have the municipal infrastructure and services operated by private firms. The ability of the local authorities, particularly the poorer ones, to effectively carry out these functions is severely curtailed by the lack of funds, by their indebtedness and by the withdrawal of government subsidies over the last few years. The process of privatization has also created many opportunities for corruption, bribery and theft. For instance, most of the contracts for the privatization of water services are not processed in a transparent manner, indeed the terms are often cloaked in secrecy and the general public is excluded from the decision-making process and consideration. Incidents of councillors and administrators, benefiting from the outsourcing contracts, through shares and kick-backs, are frequent.

A programme of privatising parastatals, as advocated by the IMF, is not likely to be adopted in the short term, as the government prefers to improve the performance of state-owned enterprises by commercialisation and better management. However, in line with Mr. Pohamba's pledge to manage parastatals more efficiently, a system of performance-related contracts is expected to be introduced by the new Central Governance Agency12.

4.3.3 Currency and Monetary Systems

(1) General Conditions

Namibia is a member of Common Monetary Area within which capital transaction is liberalized. Namibian dollar is pegged to South African Rand. Interest rates are directly linked to repurchase rate (repo rate) established by South African Reserve Bank. The repo rate is developing stably in 2005 and is likely to decrease in 2006. The increase of petroleum price and devaluation of Rand are of particular importance in terms of this prediction. South Africa is constantly

[11] Refer to the previous chapter (DR Congo) for Wescor.
[12] The IMF has urged the agency should be given adequate powers to enable it to carry out its functions effectively.

pressured by trade unionists and workers to promote competitiveness of Rand (i.e. to devaluate Rand) faced with lowering international comparative advantage and increasing unemployment of the country.

Inflation rate in 2004 was 3.9% being about a half of that in the preceding year. As the inflation of South Africa on which Namibia depends for 80 % of its import is likely to develop low, the inflation rate of Namibia will be also below 4.5% in 2005[13].

As Namibian dollar is pegged one to one to South African Rand, it will depreciate in tandem with a mild devaluation of Rand. The exchange rate of Rand is expected to be R6.5/US$ in 6.5% and R7.0/US$ in 2006[14].

(2) Banking Sector

The Banking Institutions Act of 1998 incorporates the requirements of the Basle Core Principles as a minimum standard of regulation and to foster monetary conditions to assist sustained economic development in the country.

Five commercial banks(Bank Windhoek, City Savings and Investment Bank, Commercial bank of Namibia, First National Bank of Namibia and Standard Bank Namibia), one building society, one investment bank (Nedcor Investment Bank Holdings Ltd) and five insurance companies, account for Namibia's banking industry. With the exception of one, all the aforementioned commercial banks have substantive South African shareholding interest.

Among these banks, Nedcor Investment Bank Holding Ltd (NIB) provides financing and related consultancy services to corporate clients and sponsors of projects. Funding is provided by NIB or sourced from the appropriate sources, including through the Nedcor Group, as well as local banks and other Namibian financial institutions.

The Development Bank of Namibia(DBN) was established in 2004 to finance infrastructure and private sector investment. So far, DBN ha appraised 56 applications worth N$1.5 billion of which projects amounting to N$377milion are under serious consideration.

Guarantee scheme: A credit guarantee scheme has been set up with the assistance of the EU and the GTZ to enable small enterprises to access loans from commercial banks and other financial institutions. Absence of collateral has traditionally made banks shy away from financing small entrepreneurs. Through the scheme, the government would provide guarantee for 80% of any loan amount in case of proven default. The lending bank and SME borrower would between them bear the remaining 20% risk. Interest revenue will secure coverage of both risk and administration costs. In this way, the ministry plans to motivate commercial banks to increase lending to SMEs. The scheme was launched in 1999.

(3) Stock Exchange Market

Stocks are traded on Namibian Stock Exchange (NSX). NSX is the second largest market in Africa in terms of market capitalization, likely to be due to double listing of South African big businesses.

The Government is actively introducing such investment tools as investment trust for overseas

[13] Predictions based on EIU Report, February 2005.
[14] Ibid.

portfolio investors in order to vitalize its developing stock market.

(4) Foreign Exchange Regulations

Foreign investors are not affected by exchange controls and repatriation of capital and dividends occurs freely.

Namibia is a member of the CMA, which is an exchange control territory comprising Lesotho, Namibia, South Africa, and Swaziland. The local currency, the Namibian Dollar, is pegged at 1:1 to the South African Rand. Under the CMA Agreement, the Rand is also legal tender in Namibia. In its relations with countries outside the CMA, Namibia applies exchange controls that are the same as those imposed by the South African Reserve Bank (which were relaxed during 1997).

Exchange Control in Namibia falls under the control of the Minister of Finance and the Treasury who have delegated the administration thereof to the Bank of Namibia, who, in turn have appointed the commercial banks as Authorised Dealers in foreign exchange.

4.3.4 Labour and Management

Agriculture and the fishery industry provide the most jobs, along with employment in the private sector. Namibia has a relatively small informal sector compared to the rest of sub-Saharan Africa. 83% of the employed population has some formal education but only 9% finished secondary or superior education. The educational attainment of female workers tends to be higher than male. There is a lack of vocational skills with a large part of unemployed population and many more with little public education. The 60% illiteracy rate and lack of skills are acute among the under-20s who make up 55% of the population. Only 10% speak English fluently although Afrikaans is spoken by most people. Highly qualified professionals are also in short supply. In the formal economy, official estimates of unemployment range from 30% to 40% of the work force. A large number of Namibians seeking jobs in the formal sector are held back due to a lack of necessary skills or training. The government is aggressively pursuing education reform to address this problem.

Labour regulations are equally applicable to all employers, local and foreign, except for companies with EPZ status. Government reimburses companies for costs directly related to employee training under approved conditions. Namibia enjoys a relatively high level of managerial standards as its economy having been tightly integrated with that of South Africa for so long.

Non-Namibians should apply for a work permit in order to work in Namibia. The application process has been reduced to seven working days.

Namibia passed a new "Labour Act", which will be stricter with respect to discrimination in the workplace and will establish new protections for pregnant workers.

The Government mandates safety and health standards in the work place but does not mandate any minimum wage. The new Labour Act includes the extension of guaranteed paid leave from 18 to 24 working days and for up to 5 days’ paid family care leave. Businesses community claim that the new low will harm especially SME, by increasing payroll costs and preventing the additional employment of staff. The IMF expressed the view that these changes, together with restrictions on the hiring of temporary workers, would make labour markets less flexible and raise costs.

Normal working hours are not to exceed 45 hours a week. With 5 working days per week, working hours are not to exceed 9 hours a day, and with 6 working days, no more than 7.5 hours.

Shift workers have a maximum of 7.5 hours per shift. With overtime, maximum is 3 hours per day or 10 hours per week, with rates being 1.5 times the hourly salary on normal working days, and double on Sundays and public holidays.
After 12 months of continuous service, female employees are entitled to 4 weeks of maternity leave before the date of confinement and at least 8 weeks of leave after the date of confinement. For paid annual leave, an employee is entitled to 24 consecutive days for each 12 months employment, extended by any public holiday falling on an ordinary working day within the period of leave. Leave must be granted within 4 months of completed annual leave cycle or by written agreement of employee within 2 further months. Substitute staffs are not excluded but should be granted pro-rata leave in line with hours/days worked. With sick leave, employees working 5 days per week are entitled to 30 working days of sick leave annually, and those working 6 days per week are entitled to 36 working days in each 36 months period of employment. A medical certificate is required for sick leave in excess of 2 consecutive days or more. Maximum social security contribution is N$27.00. The Law requires employers to ensure the health, safety, and welfare of their employees. It provides employees with the right to remove themselves from dangerous working environment; however, some workers do not have this right in practice.

Resolution of disputes between labour and management from a predominantly legal process is now to one based on conciliation and arbitration. Also for the first time, the Labour Act prohibits discrimination against employees or job applicants with HIV/AIDS. The simplified arbitration procedures should speed up the resolution of such disputes, which will also benefit employers seeking to dismiss workers. Some trade unions have criticised the government for delaying introducing all the provisions of the new act, including the dispute resolution mechanism, and the act itself is not expected to come fully into force until August 2005.

The IMF estimates that one-fifth of Namibia’s population is currently infected by HIV/AIDS, and that the effective preventable programme against the disease needs to be implemented this year to avoid a progressively worsening effect on Namibia’s medium-term economic prospects.

5. ZIMBABWE

5.1. Trends of Macro Economy, Industry, Trade and Industry

5.1.1. Macro Economy

Although the government does not have what could be called a coherent economic policy in place, since the start of 2004, under the guidance of Gideon Gono, governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), it has implemented a number of measures that are helping to slow the country's economic decline. These include a range of exchange rates and export subsidies, which have helped to maintain the inflows of foreign exchange passing through official channels. Against the background of a modest recovery in the agricultural sector, it appears that a new, lower, economic equilibrium has been reached, with the country's reduced foreign exchange earnings much more closely in line with the reduced level of demand for foreign exchange. Financial remittances from the substantial expatriate community have created an additional source of income for a large proportion of the population. This is supporting the domestic economy, but is also generating a false impression of economic stability. Given the country's huge external debt arrears and lack of domestic resources, a real recovery will only be possible with international support.

The acting minister of finance, Herbert Murerwa, estimated a budget deficit of 6.5% of GDP for 2004 when presenting his 2005 budget in November. However, it is expected that higher spending in the final months of 2004 to have pushed the deficit up to 7% of GDP. Fiscal forecasts for 2005 depend heavily on the rate of inflation and the rate of nominal GDP growth used. However, having benefited in 2004 from gains in income tax due to fiscal creep and, more importantly, from buoyant customs revenue owing to the use of the auction exchange rate to value imports, revenue growth will slow in 2005. Therefore, coupled with the fact that expenditure will remain high, the budget deficit will edge up to 7.5% of GDP. Only in 2006, as the government tries to improve economic management, will the deficit be brought slowly under control, at a forecast 4.2% of GDP. As it has no access to international fundings, the government will continue to fund the deficits from domestic sources, although the cost will rise as real interest rates become positive again in 2005-06. Although the deficit does not appear to be excessively large, it should be noted that the government's figures exclude expenditure by parastatals. The government has outlined its plans to turn these around, but many will remain loss-making for years to come and the true extent of the deficit could turn out to be much greater. The data also conceal the fact that expenditure is falling drastically in real terms, which is leading to a massive reduction in the quality of spending, notably on health and education.

The Zimbabwean economy is rapidly collapsing. Officials say the shortage of goods and fuel together with power cuts are temporary and will end in a few weeks, but economists see a deeper crisis. The government has recently taken a number of crisis measures. The key indicator is the complete breakdown in fuel supplies, necessary to keep goods moving, together with persistent power outages, officially blamed on lack of forex and on transmission difficulties. In Matabeleland South, for instance, both government and private vehicles have been stranded and only ambulances have had a limited supply of fuel. At a recent Reserve Bank weekly auction of foreign currency, only an amount equal to US$11 million was available when fuel importers alone needed US$230 million.

The current tobacco crop, traditionally the country's major foreign currency earner, is 70 percent down from figures in 2000. The crop has also been fetching low prices due to poor quality. Earnings from gold mining have also fallen, and manufacturing exports are uncompetitive due to artificial pegging of the exchange rate. The use of subsidies by the Reserve Bank of Zimbabwe (RBZ) for gold, tobacco and fuel is tacit admission of the Zimbabwe Dollar's overvaluation. However, not even a devaluation of the currency will revive exports due to forex and agriculture constraints; it will be hugely inflationary; and it will have a huge impact on food prices, especially imports. However, the government has few options since exports are, under the present circumstances, not viable and all sectors are being slowly strangled by forex shortages. The danger is that the RBZ will retain multiple rates and not devalue enough, one economist says, adding that the exchange rate is politically determined and economic fundamentals are regularly ignored.

It seems as if the RBZ is assuming that inflation and interest rates will fall; the Zim Dollar will continue to drift lower; exports will increase; GDP growth will resume - mainly due to an expected surge in agriculture; investment will be driven by massive public sector capital spending and will rebound strongly. In reality, agriculture is unlikely to grow at all; export growth - at most 10% - will be due mostly to prices and subsidies and not volumes; inflation and interest rates will be higher in December 2005 than at present; 2005 output will fall by at least 2%; forex shortage will worsen; investment will decline further; the skills exodus will continue; 2005 year-end inflation will be higher than in 2004; and there will be a financing crisis. The 80% inflation target in average means the budget deficit will be much larger than projected (ZD10 trillion). The gold, tobacco and fuel subsidies and bank bailout will cost ZD4.5 trillion, leaving nothing for private sector investment. Proposed borrowings (ZD49 trillion) are incompatible with money supply restraint. The 55% export growth projected is incompatible with the overvalued exchange rate and six percent growth in world trade; lower interest rates are incompatible with inflation and borrowing targets.

Domestic debt increased 180% so far this year. Treasury bill issue trebled in two months. Interest liabilities, also trebled, are now at ZD3.5 trillion. This is four-and-a-half times the amount provided in the 2005 budget. The implications are that the RBZ will have to print money to provide funds for borrowing. This will spill over into higher inflation, Zim Dollar devaluation, upward pressure on the parallel exchange rate and booming equity and property prices.

The 'revival policy' launched last year by RBZ governor, Gideon Gono, is now stuck in the sand. Inflation has been the sole target met and that is only temporary. The resurrection of price controls is an admission of failure and the RBZ will have to go back to the drawing board to try again.

Table 5.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	4.5	6.2	8.8	11.6	12.2	12.4	12.7	12.9	13.0	13.1
Population ages 0-14 (% of total)	48.3	48.7	45.9	43.2	41.7	41.2	45.2	44.6	44.0	43.4
Population ages 15-64 (% of total)	48.9	48.7	51.3	53.9	55.5	56.1	51.6	52.2	52.8	53.5
Population ages 65 and above (% of total)	2.8	2.6	2.7	2.8	2.8	2.7	3.2	3.2	3.1	3.1
GDP (constant million 2000 US$)	2,047.3	3,586.9	5,089.5	6,851.5	7,627.5	7,574.2	7,204.3	6,597.8	6,229.6	-
GDP growth (annual %)	6.5	3.3	4.5	1.7	2.9	-0.7	-4.9	-8.4	-5.6	-
GDP per capita (constant 2000 US$)	455.6	581.6	579.2	590.6	627.1	610.6	569.5	513.5	479.2	-
Official exchange rate (LCU per US$, period average)	0.7	0.6	1.5	16.1	23.7	38.3	44.4	55.1	55.0	697.4
Inflation, consumer prices (annual %)	2.0	7.6	14.0	32.4	31.8	58.5	55.9	76.7	140.1	-
Money and quasi money (M2) as % of GDP	-	16.7	22.5	20.7	24.2	19.4	19.7	26.1	36.4	-
Real interest rate (%)	-	6.1	4.1	6.4	9.9	-0.5	5.2	-18.9	-34.2	-
Foreign direct investment, net inflows (% of GDP)	0.0	0.0	-0.1	1.5	7.8	1.1	0.3	0.0	0.1	-
Foreign direct investment, net inflows (% of gross capital formation)	0.0	0.0	-0.5	8.2	45.2	6.7	2.6	0.5	1.8	-
Agriculture, value added (% of GDP)	20.0	17.5	16.3	17.2	21.8	19.4	18.5	17.6	17.4	-

Industry, value added (% of GDP)	29.6	31.7	30.7	29.7	24.0	24.0	25.0	24.4	23.8	-
Manufacturing, value added (% of GDP)	16.7	20.1	22.2	20.8	16.6	16.6	15.8	13.9	13.0	-
Services, etc., value added (% of GDP)	50.3	50.8	53.1	53.0	54.2	56.6	56.5	57.9	58.8	-
General government final consumption expenditure (% of GDP)	11.8	14.0	20.2	18.0	17.5	15.2	24.2	19.3	16.9	-
Household final consumption expenditure, etc. (% of GDP)	71.4	67.3	62.9	65.8	67.2	69.1	60.9	71.8	72.5	-
Final consumption expenditure (% of GDP)	83.1	81.3	83.1	83.8	84.7	84.3	85.2	91.0	89.4	-
Gross capital formation (% of GDP)	16.1	18.7	17.3	18.8	17.1	16.1	12.6	7.8	8.3	-
Exports of goods and services (% of GDP)	-	22.2	21.4	35.0	45.9	46.2	29.4	21.8	24.1	-
Imports of goods and services (% of GDP)	-	22.2	21.8	37.6	47.8	46.6	27.2	20.7	21.8	-
Gross domestic savings (% of GDP)	17.1	18.7	16.9	16.2	15.3	15.7	14.8	9.0	10.6	-
Gross capital formation (% of GDP)	16.1	18.7	17.3	18.8	17.1	16.1	12.6	7.8	8.3	-
Food exports (% of merchandise exports)	-	-	41.3	47.4	-	50.7	47.2	56.6	25.8	-
Food imports (% of merchandise imports)	-	-	5.0	8.5	-	8.8	-	3.9	11.1	-
Agricultural raw materials exports (% of merchandise exports)	-	-	9.6	7.9	-	9.8	12.5	9.9	12.4	-
Agricultural raw materials imports (% of merchandise imports)	-	-	2.7	2.1	-	1.7	-	1.5	1.9	-
Ores and metals exports (% of merchandise exports)	-	-	16.2	11.7	-	10.7	11.0	18.1	22.1	-
Ores and metals imports (% of merchandise imports)	-	-	2.7	2.1	-	2.6	-	2.6	2.3	-
Fuel exports (% of merchandise exports)	-	-	1.0	1.0	-	1.8	1.1	0.7	1.2	-
Fuel imports (% of merchandise imports)	-	-	19.0	11.3	-	11.5	-	42.5	8.3	-
Manufactures exports (% of merchandise exports)	-	-	29.9	31.6	-	26.9	28.1	14.6	38.4	-
Manufactures imports (% of merchandise imports)	-	-	68.0	73.7	-	74.8	-	48.3	75.9	-
Aid per capita (current US$)	0.6	3.0	29.1	36.4	21.5	19.7	14.1	12.7	15.4	14.2
Total debt service (% of exports of goods and services)	-	1.6	24.9	27.9	-	-	-	-	-	-
Total reserves in months of imports	-	2.5	2.1	2.2	-	-	-	-	-	-

Source: The World Bank (2005), *World Development Indicators: 2005*

5.1.2 Industry

Since independence in 1980, Zimbabwe had utilized the infrastructure developed by white residents, the import substitution industrial base, and the nation's rich natural resources to maintain relatively high income levels and employment opportunities. However, since the end of 1990s, the forcible expropriation of farmland held by whites, the dispatch of forces to the Democratic Republic of the Congo, delays in democratization as well as diplomatic isolation resulted above mentioned events have brought about an exodus of capital and human resources and a reduction in economic activity, impoverishing the domestic industry.

The industrial of Zimbabwe (in 2002) consists of agriculture (17%), mining and manufacturing (24% as total in which manufacturing industry accounted for 13%) and service sector (59%). In recent years, there has been a noticeable decline in the proportion of mining and manufacturing due to the economic devastation.

In the agriculture, maize, pulse, tobacco, oil seeds, vegetables, fruits, sugarcane, coffee, spices and meat are produced, and used to be Southern Africa's richest farming zone. However, in recent years, drought has added to the confusion over land expropriation, and there has been a notable return from export oriented farming to self-sufficiency one declining rapidly the productivity. The mining sector is blessed with rich mineral resources such as chromium, platinum and other minerals. United States, South African and Australian mining companies have continued to invest in development of these resources. Food, machinery, metal processing, textiles and chemicals characterize the main manufacturing industries. In these subsector, the food industry processes the nation's abundant agricultural products, which are continuing to be exported to South Africa and Europe. Metal processing is mainly primary processing of domestic minerals. In the service sector, the nation has a private financial sector and stock market (81 companies listed, market capitalization of $5 billion in 2003) second only to South

Africa. Also, with its wealth of tourism resources such as the Victoria Falls and wildlife preserves as well as a developed infrastructure, the number of tourists increased from 610 thousand in 1990 to 2.07 million in 2002 (second in the region). While exports of goods are sluggish, tourism is bringing in precious foreign currency revenue.

5.1.3 Trade and Investment

(1) Trade

Zimbabwe's export and import both have been declining since 1998, following the collapse of the country's economy.

Zimbabwe's principal exports are commodities, minerals and low value added products. These include unmanufactured tobacco, ferro-alloys, gold, nickel and ginned cotton. Horticultural produce and fresh-cut flower exports are growing rapidly. The tourism sector has, over the last few years, increasingly become an important earner of foreign currency. To reduce the dependency on unprocessed exports, deliberate efforts are being made, through export-led economic reforms, to broaden the export base while also encouraging exports of value added products, which yield better returns. Manufactured exports cover all the industrial products. Zimbabwe's principal imports are chemicals, machinery and equipment, motor vehicles, manufactured goods and petroleum products.

Zimbabwe's major trading partners are South Africa, United Kingdom, Germany, the United States of America, China, Japan and other neighbouring southern African countries. Significant trade also takes place under the auspices of SADC and COMESA.

The country has updated its trade agreements with Malawi and Namibia and is negotiating a new agreement with Mozambique. The trade agreement with South Africa has been revised and improved and Zimbabwe has initiated cooperation on numerous bilateral projects with South Africa to broaden the country's industrial base and improve infrastructure.

Table 5.2: Trade tendency and main partners

（US$ million）

			1998	1999	2000	2001	2002
Export			2,632	2,538	2,118	1,978	1,999
Import			2,737	2,561	1,956	1,873	1,807
Main trading partners							
	Export	South Africa	227.63	219.34	274.47	127.12	137.96
		United Kingdom	184.27	181.89	159.90	170.64	116.33
		Germany	134.65	149.98	142.31	157.47	130.32
	Import	South Africa	965.97	857.73	692.85	806.53	875.30
		United Kingdom	171.61	142.39	86.62	58.55	56.06
		United States	145.52	101.31	107.79	48.86	54.34

Source：World Bank, *World Development Indicators*; IMF, *Direction of Trade Statistics*

(2) Foreign Direct Investment

FDI and long-and-short-term capital inflow to Zimbabwe in the last three years has all but dried up, due to the poor macroeconomic and socio-political environment, the private sector's loss of confidence, and the continued withdrawal of donor funding. At the end of the 1970's, foreigners owned an estimated 70-80% of listed corporations. Today, offshore ownership of shares on the Zimbabwe Stock Exchange has fallen to approximately 25% (about 5%

individuals, the remainder institutional or corporate).

Table 5.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
444.3	59.0	23.2	3.8	25.9	20.0

Source: UNCTAD, FDI On-line.

5.2. Policy Issues Promoting FDI

5.2.1 Industrial Policies and Development Plans

As the international isolation and economic devastation continue, the government has finally begun to revise its populist and haphazard policies. It takes currently realistic measures such as agricultural assistance for those newly engaged in farming after the series of land expropriation, deregulation of the foreign currency mandatory exchange order for exporters, and formulation of a tourism promotion program. Nevertheless, there has been no change in an early return to the international community, the necessary funding for domestic companies, or facilitation of procuring capital equipment and materials which are vital conditions to revitalize domestic industry.

5.2.2 FDI Promoting Policies

The Government’s guidelines for foreign investors are found in the volume, "The Promotion of Investment: Policy and Regulations," commonly referred to as Zimbabwe’s "Investment Code." It has two dominant themes; recognizing that foreign capital has played an important role in Zimbabwe’s development; but stressing that Zimbabweans should participate more fully in the country’s economy. Accordingly, it notes that the Government prefers majority Zimbabwean participation in new investment projects and specifies that the degree of local ownership will be a prime criterion in the evaluation of investment proposals. This bias toward local control has grown since 2001.

The Government will consider majority foreign ownership in high-priority projects, but will also encourage arrangements for the eventual transfer of majority control to Zimbabwean interests. It has often been Government practice to take part in new investments by entering into joint ventures with private or domestic investors in strategic and basic infrastructure projects. However, given the Government’s cumulative deficit and resultant capital shortage, this type of activity is moribund at present.

(1) Privatization

Regarding privatization of Zimbabwe's parastatal companies, progress has been very slow since the Government identified it as a priority in the mid-1990s, with only about six out of the 57 earmarked organizations making the transition. Moreover, arguments about the allowable extent of foreign investment, retention amount for indigenization, pricing and means of offering have yet to be clearly or transparently resolved.

The Privatization Agency of Zimbabwe (PAZ) was established by government in September 1999 to lead and manage the Privatization Programme. The PAZ is a semi-autonomous institution, housed in the Office of the President and Cabinet (OPC) with its Director reporting to the Cabinet through the Chief Secretary. The authority of the PAZ derives directly from the Cabinet.

(2) Land Nationalization

The ruling party, Zimbabwe African National Union-Patriotic Front (ZANU-PF) spokesperson Nathan Shamuyarira, announced during May 2005 that his ruling party would soon amend the constitution to abolish all private ownership rights to land and nationalize all productive farmland[15]. Shamuyarira said the constitutional amendment to Zimbabwe's land tenure system, declaring all productive farmland as state land would end "ceaseless litigation" by white farmers, many of whom have gone to the courts to get their property back. Some of the white farmers have, in fact, been winning their cases, further frustrating the government's attempts to take their land.

The constitutional amendment's primary aim would be to deal with the white farmers "once and for all", local sources indicated. According to an unnamed cabinet minister[16], of the 6 320 farms targeted for acquisition since the eviction of their white owners in the past few years, only 1 126 had been cleared of the "seemingly ceaseless litigation from the former farmers with the majority still being contested in courts. Through the amendments, we are going to push for when parliament resumes sitting in June, all land will become state land with farmers leasing it on a 99-year lease basis. This will dispense with the ownership litigation process. All the former farmers can do after these amendments would be to contest the amount of compensation," Shamuyarira announced.

5.3. Incentives and Impediments for/to FDI

5.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

<u>1) Zimbabwe Investment Centre (ZIC)</u>

A government agency “The Zimbabwe Investment Centre” (ZIC) deals with new projects and investments. Staff at the centre is usually helpful. Local participation in any investment project is encouraged but certain types of business activity such as primary agriculture, transportation and retailing are reserved for indigenous Zimbabweans.

ZIC was established by an Act of Parliament in 1993 and tasked with the following functions:

- Co-ordinate and facilitate non-resident investment proposals for acceptance;
- Promote and facilitate investment by both domestic and foreign investors;
- Promote joint ventures between local and foreign investors;
- Promote decentralisation of investment; and
- Advise government on policies that relate to the private sector.

Other than ZIC, there are several agencies and organizations to promote private investment as follows:

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[15] Shamuyarira's announcement was published in the state-owned Sunday Mail on 29 May 2005.
[16] Published Interview with the internet site ZimOnline.

2) Empretec Zimbabwe

The United Nations Development Programme (UNDP) and ZIC initiated the Empretec Zimbabwe Programme in order to stimulate entrepreneurship. Prior to 1990 the state pursued economic polices which emphasised the role of the state and did not adequately cater for the development of entrepreneurship especially among the previously disadvantaged majority. With the launch of Economic Structural Adjustment Programme, the government joined forces with UNDP in establishing the Empretec programme. Empretec Zimbabwe's mission is to build a high quality growth oriented community of Zimbabwean entrepreneurs, provide business advice and act as an agent for change through advocacy.

3) The Centre for the Development of Enterprise (CDE)

The Centre for the Development of Enterprise (CDE) is an ACP-EU institution, funded by the European Development Fund (EDF) under the ACP-EU Convention. Its purpose is to encourage and support the creation, extension and restructuring of industrial companies (mainly in manufacturing industry and agro-industry) in African Caribbean and Pacific countries and European countries. It fosters partnerships between ACP and European businesses. This partnership may take various forms: financial, technical and commercial partnership, Management contracts, licensing or franchising agreements, subcontracting, etc. In Zimbabwe, CDE activities are co-ordinated by ZIC. The Centre is the antenna for all projects in Zimbabwe that require CDE assistance. The assistance is in form of definition and search for financial backing and not project financing. Requests for assistance submitted to the CDE are evaluated on the basis of the financial and technical viability of projects and their contribution to the development of the country.

4) The Small Enterprise Assistance Centre (SEAC)

ZIC is planning a project to promote small and medium scale enterprises (SME's) with the assistance and funding of the Indian Government in conjunction with the Ministry of Industry and Commerce. When it becomes operational the project will involve:

- Introducing appropriate Indian technologies together with requisite training both locally and in India;.
- Undertaking studies on the policy framework for SME growth;
- Cover various sectors but being limited to establishment with no more than 50 employees and an investment other than costs of no more than US$200 000; and
- A core team of three experts from India will be based in Harare for the duration of the project to assist with the implementation of the project and will be housed at ZIC.

5) ZimTrade

Zimbabwe's international trade development organization is a joint venture partnership between the private sector and the Government of Zimbabwe. Its mission is to assist businesses in Zimbabwe develop and expand profitable international trade in products and services. A wide range of product and market development activities and services is available including identification of export markets, market and product research, matching buyers and sellers, participation in trade fairs, training and development, introduction to design, and influencing the creation of a positive trading and general business policy environment.

(2) Export Processing Zones/Free-Trade Zones

At the urging of western donors, the IMF and the World Bank, the Government promulgated legislation appointing an (Export Processing Zone) EPZ authority in 1996. The EPZ's were created to spearhead exports and revitalize the economy. The zones benefit from a range of tax and tariff concessions as well as relaxed labour laws.

Companies in the zones have, in the past, been making sure that their earnings were placed offshore, which was possible as a result of the initial lack of exchange control regulations in the zones and which in turn leads to less investment in Zimbabwe. 66% of companies in the zones are locally owned, which in turn means that fairly few foreign companies are relocating to the zones. Recent reports by the Reserve Bank of Zimbabwe indicate that only 5 percent of foreign exchange is generated from EPZ areas, and only 0.2 percent of formal employment stems from these zones.

Since January 2004, the government of Zimbabwe has generally required that foreign capital comprise a majority of the investment. A trade performance statute requires eligible companies to export at least 80% of output, a requirement that has limited foreign investment in the new zones. Other benefits include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising from the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ. The government has noticed the need for reform in the EPZ's and has implemented actions to prevent foreign currency 'leaks'. This will, however, make the EPZ's even less attractive to foreign companies.

Under the original legislation, the provisions of the Labour Relations Act (LRA) do not apply within the zones. However, due to strong advocacy from the labour movement, the Ministry of Public Service, Labour and Social Welfare has entered into discussions with the Ministry of Justice to amend the act so that the LRA will apply.

(3) Incentives for FDI

Several tax breaks are available for new investment by foreign and domestic companies. Capital expenditures on new factories, machinery and improvements are fully deductible, and the Government waives import tax and surtax on capital equipment.

There are other incentives as follows:

- Investment allowance of 15% in the year of purchase of industrial and commercial buildings; staff housing and articles; implements and machinery;
- Investment allowance of 50% in the year of purchase for training, buildings and equipment;
- 25% special initial allowance on cost of industrial and commercial buildings and machinery in growth point areas is granted as a rebate for the first four years;
- Special mining lease provisions entitle the holder to specific incentive packages to be negotiated with the Ministry of Mines;
- Refund of sales taxes (15%) for capital goods purchased in Zimbabwe and intended for use in priority projects or investment in growth points;
- Import duties (the reduction of which had been under discussion with both the IMF and the World Bank) and related taxes range up to more than 100%. Any investment proposal that involves the employment of expatriates must present a strong case for doing so in

order to obtain a work and residence permit. Normally, the maximum contract period for an expatriate is three years, but this will be extended to five years for expatriates with highly specialized skills. Expatriates who have prior permission from the Reserve Bank's exchange control department will be permitted to remit one-third of their salaries; and

- No general performance requirements. Official policy, however, especially welcomes investment in enterprises that contribute to rural development, job creation, exports, use of local materials, and transfer of appropriate technology. There are no discriminatory import or export policies affecting foreign firms, although as noted earlier, the Government's approval criteria are heavily weighted toward export-oriented projects, especially from foreign investors.

<u>1) Tariffs and Customs</u>

In general, the Government charges higher import duties on finished goods than raw materials, as a means of assisting the country's productive sector. For the most part, however, duties are high by regional or international standards.

The government controls, via the Grain Marketing Board, export and domestic trading of major agricultural commodities (maize and cereals), and it imposes price controls on a wide array of basic goods and food staples, including energy.

All base minerals from mines are exported through the Minerals Marketing Corporation (a state-owned company), with the exception of coal and asbestos. All gold produced in the country is required by law to be sold to the Reserve Bank, which then controls its disposition.

EPZ authority has been created to attract and facilitate export-oriented investment.

(4) Impediments to Attract FDI

For anyone doing business in Zimbabwe, uncertainties abound. The macroeconomic environment could improve as there is enormous capacity underutilization, but this is far from a given. Over the past years, the Government has shown little ability to spend within its means and allow market forces to run their course. During 2003 and 2004, for example, the Government imposed price controls on most retail goods and services, causing widespread shortages. During the same period, the Government refused to recognize the effects of rampant inflation on reserve money. Unwilling to print larger denomination banknotes, the country operated for several months without legal tender.

Government has ignored international investment agreements when expropriating farms and nature conservancies belonging to foreigners. At times, President Mugabe has threatened to redistribute foreign-owned companies as well, causing the country's risk factor to skyrocket.

In addition to challenging economic conditions and the omnipresent threat of expropriation without compensation or due process, investors should be aware that the zimdollar is now heavily overvalued. As a consequence, investing converting hard currency into zimdollars may find local real estate, living expenses and other prices high by regional standards.

5.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

Among the critical infrastructure projects would be dams for irrigation, roads, railway lines, bridges, schools, service centres and industrial parks, among others. Apart from benefiting Zimbabwe economically, decentralised infrastructure development would lessen the strain on urban facilities, which have been forced to sustain more than their carrying capacity due to uncontrolled rural to urban migration.

Zimbabwe has an extensive rail and road transport network linking it to principal ports in Mozambique, South Africa and all neighbouring countries. An integrated port-rail-road system; a network of freight forwarding; shipping agents and road transport brokers ensure competitive rates for handling and storage of freight. The main roads throughout Zimbabwe are generally well maintained. The national airline, Air Zimbabwe, provides a domestic service linking all major cities and popular tourist resorts, and direct services to regional and international destinations.

The planning and development of the country's water resources is of prime importance as water is a scarce commodity in this semi-arid land. The growth of the population, industry, and mining, coupled with the rapid rise in the requirements of water for agriculture has contributed to the substantial increase in demand for water throughout the country. Zimbabwe has various dams under construction and these dams will provide water for irrigation as well as household and commercial purposes. Hydroelectric power is generated from the Zambezi River at Kariba, and is complemented by four thermal power stations. Although Zimbabwe has no proven oil or natural gas reserves, it has good potential for coal-bed methane gas production. The potential to exploit methane gas to make diesel and petrol, generate electricity and to produce fertilisers and paraffin, would be a major benefit to the country in light of its fuel crisis and shortage of foreign currency to pay for fuel imports. Power interruptions have become a major business impediment in Zimbabwe and the country's lack of foreign currency is likely to see this trend continue. People have experienced constraints and difficulties as a result of the shortage in fuel and electricity, which are a result of the general economic challenges facing the nation. The situation had been worsened by the fact that the little available foreign currency was being overwhelmed by the numerous demands by other national priorities such as the need to import food in view of the drought situation in the country.

Zimbabwe has telephone, telex, fax and package switching facilities in place and is in the process of introducing a modern digital telephone. A fibre optic cable network is being laid throughout the country. For international traffic, there are two earth satellite stations. The communications system was once one of the best in Africa, but now suffers from a lack of maintenance and upgrading. Although there are many unused lines available, they have not been assigned.

(2) Regional Programme

Zimbabwe is on the regional power grid linking it to sources in Zambia, the Democratic Republic of Congo, South Africa and Mozambique. Zimbabwe Electricity Supply Authority (ZESA) is working on a number of major rehabilitations and new projects that will extend over a 20-year period, mostly in conjunction with neighbouring states.

(3) Trend in Privatisation and Some Observations on Current PPPs

The Department of Roads is to be commercialised into a State Highways Authority and a Road Fund is to be set up. To recover some of the costs spent on road upgrading, government will put in place tollgates on the major exit routes in partnership with the private sector.

Private power stations have recently been allowed to feed the ZESA grid and accelerate development especially to those areas without electricity. The country's first independent private power project was commissioned in 1996. The Russitu mini hydro plant was developed by the Rusity Power Corporation, which has signed a 20-year power purchase agreement with ZESA.

The new Postal and Telecommunication Bill aims to usher extensive reforms into Zimbabwe's telecommunications sector, which will facilitate the implementation of government's policy to liberalize the sector. This will permit private sector participation through strategic partnerships with PTC and the entry of new players into the sector.

5.3.3 Currency and Monetary Systems

(1) General Conditions

Financial policy focuses on foreign exchange rate and interest rates, while fundamental reforms are almost neglected. Exporters enjoy loans of very favourable interest rate from the Central Bank.

The inflation rate, though decreasing from a level of 623% as of January 2004, is expected to be as high as 198% in 2005 and 156% in 2006. Foreign exchange is obtained by auction since 2004, but it is open only to players of very important economic activities. Special rates are applied to export proceeds of gold, platinum, agricultural products including tobacco or to proceeds of overseas remittance from emigrants. Such foreign exchange policy makes the foreign currency transaction very complicated. Zimbabwe dollar is likely to depreciate Z$4,303/US$ in 2004 to Z$6,976/US$ in 2005[17].

(2) Financial Sector

Zimbabwe's financial sector is quite large and well-developed. An impressive variety of financial instruments are traded, though thinly, including debentures, private sector bonds, bankers acceptances, treasury bills, municipal and utility bonds. Two major international commercial banks and a number of regional and domestic banks operate with over 200 branches total. The merchant banks are quite sophisticated and agile. However, the well-publicized failure of a number of financial institutions, primarily due to fraud and inept management, has raised concern over the oversight capability of the Reserve Bank and the financial soundness of a number of the smaller players.

(3) Capital Markets

New portfolio investment in Zimbabwe has been very limited in recent quarters as the country's macro-economic outlook and fundamentals continue to decline. Zimbabwe's stock market (about 80 companies listed) is small, trading is quite thin, and the public stock float of many of the smaller companies is closely held. In September 1996, the Government opened the stock and money markets to limited foreign portfolio investment. Since then, a maximum of 40% of

[17] Predictions quoted from EIU Report, February 2005.

any locally listed company can be foreign-owned with a single investor acquiring a maximum of 10% of the shares on offer.

Foreign participation in the bond market is restricted to the primary market and only 35% of invested capital may be placed in bonds. The equity market is the major opportunity for foreign investors.

(4) Foreign Exchange Controls

Zimbabwe is currently experiencing an acute hard currency shortage that, among other things, has caused fuel shortages, default on sovereign debt, shortages of imported goods and components, and a sharp decline in industrial, agricultural and mining operations.

The Foreign Exchange Control Act does not prohibit foreign investors from moving assets between Zimbabwean and foreign accounts, but it does require accommodation exchange at a fixed, artificially low rate. The Foreign Exchange Control Act extends to prospective outward investment, as well as dividend remittances. Relatively few Zimbabwean firms have made investments outside the country, and most of these are in neighbouring nations.

Dividend remittances in respect of projects approved by the Zimbabwe Investment Centre are allowed at 100% of current after tax revenue profits. Capital is blocked and may be remitted through 20 year 4% government bonds, denominated in Zimbabwe dollars. Capital is paid in 10 equal annual instalments at the end of years 11 to 20. Interest is 4% per annum, tax free and payable half yearly.

Traditionally, investment by Zimbabweans outside their country has been something of a sore point with the Government, which suspects, often correctly, that companies may actually be simply relocating from Zimbabwe. A case in point is a number of textile manufacturers who relocated to Botswana a few years ago in order to take advantage of that country's easy access to imports and foreign exchange for the purpose of exporting back into Zimbabwe.

It is illegal to exchange foreign currency for local currency with anyone other than an authorized currency dealer affiliated with the Reserve Bank of Zimbabwe. Authorized currency dealers include the major banks, such as Standard Chartered and Barclays. Street vendors and private individuals may also offer this service, but they should be avoided. Travellers observed by the police engaging in illegal money transactions will be immediately arrested and jailed pending a hearing before a magistrate court.

5.3.4 Labour and Management

There is a growing shortage of manageable, technical and service skills in the workforce, caused primarily by emigration brought about by political and economic crises. Despite many negative factors, Zimbabwe still has one of the best-educated labour forces in the region. Shrinkage of the economy in recent years and land expropriation to white farmers in the same period, have caused formal sector employment to drop fairly precipitously. The unemployment rate has been steadily rising, and now stands at a minimum of 75%.

The law prohibits forced or compulsory labour, including by children; however, there were reports that such practices occurred in common. Under the Labour Relations Amendment Act (LRAA), child labour and forced labour is punishable by a fine, 2 years' imprisonment, or both. The law further states that no person under 18 shall perform any work likely to jeopardize their health, safety, or morals. According to the 2000 National Child Labour Survey, approximately 25% of children between the ages of 5 and 17 were involved in some form of labour. The children working in the informal sector continued to increase under the pressure to fill the income gap in family caused by sick, loss of employment, or deceased relatives. Few new government initiatives to prevent child labour were implemented, but less than 18% of children benefited from them.

There is no nationally unified minimum wage, except for agricultural and domestic workers. In place of it, government regulations for each of the 22 industrial sectors continued to specify minimum wages, hours, holidays, and required safety measures. However, the minimum wage did not provide a minimum standard of living for a worker and his family, and approximately 80% of the population lived below the Government's setting poverty line. Due to an ineffective monitoring system, many agricultural and domestic workers were remunerated below the minimum wage. Minimum wages in the formal sector change continuously as a result of multiple increases in salaries to offset the high inflation rate.

The maximum legal workweek is 54 hours, and the law prescribes a minimum of one 24- hour rest period per week. In addition, no worker is allowed to work more than 12 continuous hours.

Many of the basic legal protections did not apply to the vast majority of farming, mining, and domestic workers. Health and safety standards were determined on an industry specific basis. Labour relations officers were assigned and dispatched to every plant to monitor that government minimum wage policy and health and safety regulations in work place were respected. However, in practice, these offices were understaffed and could not afford to inspect work places routinely. Now is it relied on voluntary compliance and reporting by employers. Although workers have a legal right to remove themselves from dangerous work environment without jeopardy to continued employment, in practice they risked the loss of their job if they did so.

The LRAA provides workers with freedom of association and the right to organize or join trade unions without prior authorization from employers, and workers exercised these rights. The LRAA allows the same status to the employees of public service institutions as well as government, except for those occupied with some regulated services. At the end of 2003, approximately 25% of the formal sector work force belonged to the 31 unions that form the ZCTU. During the year, approximately 65% of workers were unionised in industrial sector The Government and the ZCTU regularly clashed sharply over economic policy. The Government often did not consult with either the ZCTU or employers before implementing policy decisions that affected the workplace and disrupted labour management relations. Troubles are often discussed to be resolved on the table of Tripartite Negotiating Forum (TFN).

The LRAA prohibits discrimination by employers against union members; however, in practice, union members faced discrimination and harassment. The authority may direct that workers fired due to anti-union discrimination should be reinstated, although this did not happen in practice.

There is no mention on the right of strike in the Constitution. Although the LRAA explicitly recognizes this right, it has been circumscribed with procedural hurdles including advance notice of 14 days, attempt for conciliation for 30 days, and possible mandatory referral to binding arbitration.

The country's HIV/AIDS epidemic infection rate stands at a highest level in the world. The Government percieves the epidemic seriously and has pursued policies to encourage testing, prevention and care. However, considering the lowered capacity of administration, shortage of finance and economic decline, the epidemic will almost certainly worsen in short run.

6. LESOTHO

6.1. Trends of Macro Economy, Industry, Trade and Industry

6.1.1. Macro Economy

Lesotho is now the largest exporter of textiles and clothing in sub-Saharan Africa and textiles have become the main source of economic growth and employment in Lesotho. Lesotho is geographically surrounded by and economically integrated with South Africa. The majority of households subsist on farming or migrant labor, primarily miners in South Africa for 3 to 9 months. Almost 50% of the population earns some income through crop cultivation or animal husbandry, with over half the country's income coming from the agricultural sector. The number of migrant Basotho miners working in South Africa has stabilized but will probably resume its downward trend, with a resulting downturn in remittances. The surplus on the income account is therefore expected to narrow. Water is Lesotho's only significant natural resource. It is being exploited through the 30-year, multi-billion dollar Lesotho Highlands Water Project (LHWP), which was initiated in 1986. The LHWP is designed to capture, store, and transfer water from the Orange River system and send it to South Africa's Free State and greater Johannesburg area, which comprises a large concentration of South African industry, population and agriculture. Completion of the first phase of the project has made Lesotho almost completely self-sufficient in the production of electricity and generated approximately US$24 million annually from the sale of electricity and water to South Africa. The World Bank, the AfDB, the EIB and many other bilateral donors financed the project.

In the last quarter of 2004 six companies closed down, leading to nearly 7,000 redundancies (total employment in the industry was approximately 50,000), and this was interpreted in some quarters, particularly by the trade unions, as the beginning of a flood of exits. The government is taking the situation seriously. The budget speech included measures to ease the cash-flow problems of textile companies - for example by allowing refunds on value added tax to be claimed in advance.

The export sector will remain heavily dependent on imports of both capital goods and textile-related raw materials, although this dependency will be reduced to some extent by the planned investment in upstream textile production facilities. Continuing food shortages and high world oil prices will also raise imports over the short term. Imports associated with the LHWP will largely cease until a decision on whether or not to proceed with Phase 2 of the project is made (the feasibility study for Phase 2 was scheduled to commence in April 2005). Despite royalties on water and power from the LHWP (which may be reduced if more water is diverted to alleviate local shortages), the services account will post a moderate deficit over the forecast period, mainly because of trade costs.

The successful commencement of production at the reopened Letseng-la-Terae diamond mine has stimulated increased interest in the mining sector. The new Liqhobong mine is set to open and prospecting is underway at Kao in the Botha-Buthe district. The Liqhobong mine, with an expected life of 15 years, is backed by London-based investors, with the Lesotho government having a 26% share as well as royalty rights. The Kao operation is being undertaken by a Canadian company, Serious View Trading. Export-oriented manufacturing linked to privileged access to international markets has been the driving force of FDI in Lesotho. With the phasing out of the Multi-Fiber Agreement (MFA) beginning in 2005, Lesotho will face intense competition from low- cost regions, notably Asian countries. In order to remain competitive and diversify its export base, Lesotho will have to define a clear strategy to reduce production costs, improve the investment climate, and attract sizable FDI. One is related to the fact that the competitive base for apparel exports, the dominant activity for FDI, and Lesotho's greatest success in attracting FDI, is heavily dependent on temporary trade privileges in the US market, granted to Lesotho and other countries under the US's AGOA. Lesotho has also not yet been able to capitalize satisfactorily on long-term trade privileges in the EU (under the Cotonou Agreement and Everything But Arms initiative). Even more notably, permanent free access to the large South African market under SACU has hardly been exploited.

Away from manufacturing, mining output will grow strongly in the short term, albeit from a small base, as the Letseng-la-Terae diamond mine reaches full capacity after re-opening, with a second (although smaller) mine expected to commence production in mid-2005. Despite the completion of Phase 1 of the LHWP, construction activity (a large part of GDP) should be reasonably healthy owing to the further development of industrial and urban infrastructure. Agricultural output will continue to stagnate because of both the recent drought and the chronically low levels of productivity, which are being held back by the HIV/AIDS pandemic. However, this will not have much effect on overall growth, as agriculture accounts for only a small part of GDP.

The current-account deficit is expected to be 7.8% of GDP in 2005 and 7.5% of GDP in 2006. Falls in exports will be largely offset by lower imports, as most raw materials continue to be imported. After the abolition of textile export quotas at the beginning of 2005, Lesotho will continue to benefit from the preferential tariff treatment under the AGOA, but the future of the textile industry (which now accounts for more than 90% of merchandise exports) depends crucially on how it adapts to competition from Asian producers.

Lesotho has received economic aid from a variety of sources, including the US, the WB, Ireland, the UK, the EU and Germany. It is a member of the SACU, in which tariffs have been eliminated on the trade of goods between other member countries, which also include Botswana, Namibia, South Africa, and Swaziland. Lesotho, Swaziland, Namibia, and South Africa also form a common currency and exchange control area known as the Common Monetary Area (CMA). The South African rand can be used interchangeably with the loti, the Lesotho currency. The level of economic interaction with South Africa is high. South Africa supplies more than 90 percent of Lesotho's imports and, until recently, purchased the bulk of its exports. Although East Asian investors have probably invested more in Lesotho's economy, South African owned firms play an important role in services and manufactures.

Table 6.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	0.9	1.2	1.4	1.7	1.7	1.7	1.7	1.8	1.8	1.8
Population ages 0-14 (% of total)	40.9	41.7	41.6	40.7	40.1	40.0	42.3	42.0	41.7	41.4
Population ages 15-64 (% of total)	55.4	54.5	54.3	55.2	55.9	56.0	52.5	52.8	53.1	53.4
Population ages 65 and above (% of total)	3.7	3.8	4.1	4.2	4.1	4.1	5.2	5.2	5.1	5.1
GDP (constant million 2000 US$)	134.2	275.1	479.6	772.0	846.1	848.2	859.3	886.9	920.6	950.9
GDP growth (annual %)	5.2	10.5	4.5	3.5	-4.6	0.2	1.3	3.2	3.8	3.3
GDP per capita (constant 2000 US$)	141.4	235.0	329.6	461.8	495.0	491.3	492.7	503.8	518.2	530.4
Official exchange rate (LCU per US$, period average)	0.7	0.8	1.9	4.4	5.5	6.1	6.9	8.6	10.5	7.6
Inflation, consumer prices (annual %)	-	14.5	13.4	-2.4	-	-	6.1	-9.6	33.8	6.7
Money and quasi money (M2) as % of GDP	-	17.7	40.2	31.3	33.5	31.0	28.3	27.9	26.8	25.9
Real interest rate (%)	-	-13.3	3.9	6.7	9.8	5.5	10.7	8.6	3.4	8.1
Foreign direct investment, net inflows (% of GDP)	0.0	0.1	1.5	15.3	29.7	17.9	13.7	15.2	11.0	3.7
Foreign direct investment, net inflows (% of gross capital formation)	0.0	0.5	4.3	29.2	63.2	36.9	32.4	38.4	33.7	12.4
Agriculture, value added (% of GDP)	69.9	40.1	23.9	17.8	17.8	17.3	18.6	18.2	17.3	16.6
Industry, value added (% of GDP)	8.2	18.6	27.5	39.8	38.8	41.2	41.1	41.5	43.1	43.5

Manufacturing, value added (% of GDP)	2.9	5.9	12.8	16.2	17.5	16.4	16.8	17.6	19.9	20.2
Services, etc., value added (% of GDP)	28.0	41.3	48.6	42.4	43.4	41.4	40.4	40.3	39.6	39.8
General government final consumption expenditure (% of GDP)	15.4	13.8	18.6	17.6	21.0	21.4	20.1	17.8	18.9	18.4
Household final consumption expenditure, etc. (% of GDP)	113.2	143.9	155.2	117.3	112.4	101.0	100.3	101.6	108.3	105.7
Final consumption expenditure (% of GDP)	128.6	157.7	173.8	134.9	133.5	122.4	120.4	119.4	127.2	124.1
Gross capital formation (% of GDP)	9.7	21.0	34.1	55.3	47.1	48.6	42.2	39.7	32.5	29.8
Exports of goods and services (% of GDP)	13.4	16.0	15.4	22.9	26.8	23.8	29.8	38.6	43.7	41.4
Imports of goods and services (% of GDP)	51.6	94.7	123.4	113.0	107.4	94.8	92.4	97.6	103.4	95.2
Gross domestic savings (% of GDP)	-28.6	-57.7	-73.8	-34.9	-33.5	-22.4	-20.4	-19.4	-27.2	-24.1
Gross capital formation (% of GDP)	9.7	21.0	34.1	55.3	47.1	48.6	42.2	39.7	32.5	29.8
Food exports (% of merchandise exports)	-	-	-	-	-	-	-	-	-	-
Food imports (% of merchandise imports)	-	-	-	-	-	-	-	-	-	-
Agricultural raw materials exports (% of merchandise exports)	-	-	-	-	-	-	-	-	-	-
Agricultural raw materials imports (% of merchandise imports)	-	-	-	-	-	-	-	-	-	-
Ores and metals exports (% of merchandise exports)	-	-	-	-	-	-	-	-	-	-
Ores and metals imports (% of merchandise imports)	-	-	-	-	-	-	-	-	-	-
Fuel exports (% of merchandise exports)	-	-	-	-	-	-	-	-	-	-
Fuel imports (% of merchandise imports)	-	-	-	-	-	-	-	-	-	-
Manufactures exports (% of merchandise exports)	-	-	-	-	-	-	-	-	-	-
Manufactures imports (% of merchandise imports)	-	-	-	-	-	-	-	-	-	-
Aid per capita (current US$)	9.6	31.6	74.5	58.8	35.9	18.0	21.0	32.0	43.0	44.1
Total debt service (% of exports of goods and services)	-	0.7	4.1	6.9	8.5	10.1	11.3	12.3	11.7	8.8
Total reserves in months of imports	-	1.3	1.3	4.6	6.6	6.6	6.0	5.9	6.0	5.3

Source: The World Bank (2005), *World Development Indicators: 2005*

6.1.2 Industry

Lesotho is located within the territory of South Africa and has a small population of 1.8 million. Core industry is agriculture. Migrant workers in South Africa, with which it forms part of the Southern Africa Customs Union (SACU), remit their revenue to families in Lesotho, whose total amount reached 50% of that of goods export.

Looking at the principal industrial sectors in 2003, agriculture was 16.6% of GDP, mining and manufacturing 43.5% (manufacturing accounted for 20.2%), and the service industry occupied 39.8%. A comparison with the employment structure highlights the low ratio of agriculture.

Value added per person engaged in the agriculture sector (for the 2000-02 period based on a 1995 price) was $575, a level one-fourth that of Swaziland, which is also located within the territory of South Africa. The majority of the nation's land is in highlands and mountains. The low productivity per unit land and strong influence of weather are disadvantageous points. Maize, wheat, sorghum, pulse and other products are cultivated for domestic consumption, but neither reaches self-sufficiency and depends on South African products to cover the shortages. There is nothing that might be regarded as a cash crop. In this situation, production and export of wool, mohair and other livestock products is being increased, bringing in cash revenues to farms. Commercial eucalyptus plantations are also being operated.

The mining sector has confirmed mineral reserves of diamonds, base metals, uranium, stone and others, but development of these has not moved forward. At the same time, the manufacturing industry has grown in recent years to be a core industry. The growth of textile exports to the United States since the enforcetment of the AGOA has been particularly remarkable with 50,000 people employed in this industry (2003) mainly with capital from Hong Kong, Taiwan, Singapore and other Asian nations.

The service sector consists mainly wholesaling and retailing of South African products. In the financial sector, government and South African banks are operating. In 2002, tourism revenues were limited at $20 million, but the industry is on the way of growth using the country's mountains and ravines as resources. The hopeful areas are trekking, eco-tourism, skiing, fishing, historical and ethnic tourism etc.

6.1.3 Trade and Investment

(1) Trade

Lesotho has a constant structural imbalance (deficit) in external trade. The export sector heavily dependents on imports of both capital goods and textile-related raw materials, although this dependency will be reduced to some extent by the planned investment in upstream textile production facilities. Continuing food shortages and high world oil prices also raises imports over the short term.

Lesotho’s exports are dominated by clothing and textiles destined mainly to the United States of America and South Africa. The challenge for the country now is to diversify its export base into agricultural and other industrial productions in order to exploit trade agreements.

Table 6.2: Trade tendency and main partners

（US$ million）

		1998	1999	2000	2001	2002
Export (US$ million)		235	231	265	332	367
Import (US$ million)		888	836	790	751	761
Main trading partners (M million)						
Export	North America	373.0	480.6	736.5	1,522.5	2,981.5
	SACU	726.9	568.2	727.3	897.0	916.4
	EU	5.9	2.4	1.2	3.5	7.3
Import	SACU	4,612.2	4,734.1	4,870.0	5,296.6	6,389.9
	Asia	372.2	372.4	526.0	953.3	2,021.6
	EU	103.6	82.7	42.7	44.5	82.5

Source: World Bank, *World Development Indicators*; Central Bank of Lesotho, *Annual Report*.

(2) Foreign Direct Investment

FDI data in Lesotho do not at this time meet the needs of policy making. The inclusion of inflows for the Lesotho Highlands Water Project (LHWP) inflates the figures for FDI inflows. In addition, there are other problems with the data reported in the balance of payments figures. The Bank of Lesotho estimates FDI from information received from the Lesotho National Development Corporation (LNDC). These inflows include planned, not actual, investment expenditures of the companies that approached LNDC for assistance.

Table 6.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
26.8	32.7	31.5	28.2	27.2	41.9

Source: UNCTAD, FDI On-line.

Taiwan is the most important source country for FDI in Lesotho.

In earlier decades most foreign affiliates in Lesotho originated from South Africa and Taiwan, in part attempting to escape international sanctions against the apartheid regime in South Africa. While South Africa is still a significant investor in Lesotho, East Asian investors have played a growing role over the past decade. European manufacturing firms that had invested in the 1980s because of Lesotho's preferential access to EU markets are no longer present.

FDI from other countries includes mining interests from Canada, food-processing from the US and China and an Austrian ski venture.

Table 6.4: Privatised enterprises sold to foreign buyers

COMPANY	NATIONALITY OF BUYER	YEAR	AMOUNT (US $ MILLION)
Lesotho Airways	South Africa	1997	2.4.
Avis Rent-A- Car	South Africa	1998	0.05
Lesotho Flour Mills	United States	1998	10.8
Plant Vehicle Pool Services	South Africa	2000	11.5
Minot Kingsway (insurance)	United Kingdom and Lesotho (increased shares)	2000	0.22.
Tele-Com Lesotho	South Africa, Mauritius, local consortium	2000	17.0

Source: World Bank. Calculated from data provided by the Privatization Unit.

1) Sectors

FDI inflows have been concentrated in export-oriented textiles manufacturing and activities related to the LHWP. Foreign entrepreneurs have been instrumental in setting up the textiles industry in Lesotho. Of a total of 40 textiles factories in 2002, owners of 26 were based in Taiwan Province of China, and another four had their headquarters in Hong Kong, China (mainland), and Singapore.

About 90% of the FDI has gone into export-oriented garments manufacturing, but firm estimates are not available. Preferential market access provided under trade arrangements with the EU and the US is the critical factor that has determined the flow of FDI into the garments sector. In addition, the global quota regime under the MFA has also influenced the evolution of the industry

South African FDI is present in Lesotho's three footwear firms (selling entirely to South Africa), four electrical or electronic firms (of which two are large, one in television assembly the other in simple electrical products, again selling to the South African market), two food-processing firms, the Sun Hotel chain, car rental and air travel, insurance and telecommunications, financial services and mining.

FDI has been attracted to telecommunications since the 1995 joint-venture between the state-owned Lesotho Telecommunications Corporation and South Africa's Vodacom led to the establishment of a cellular telephone service. Further privatizations saw a 70% share in Lesotho Telecommunications Corporation sold to the Mountain Kingdom Communications Consortium, a joint venture between South Africa's power company ESKOM, Zimbabwe’s Econet Wireless International and Mauritius Telecom. Lesotho has a relatively high penetration of telephony relative to per capita income, and services have been extensively modernized and expanded in recent years.

2) Companies

There are 40 clothing factories (of a total of 55 foreign factories, accounting for the entire formal manufacturing sector), almost all owned by East Asians, led by Taiwanese.

The East Asian firms in Lesotho had tight links with ‘full package’ apparel suppliers from Hong Kong. These are the main exporters of apparel from Asia, with subcontractors throughout East, Southeast and South Asia. They are highly organised supply networks that act as intermediaries between buyers from the US, Europe and Japan and apparel manufacturers. They win orders and contract them to producers (with or without direct equity links) in Asia and other regions, ensuring quality, price and delivery. In managing the supply chain, they provide subcontractors with designs, specifications, inputs, technical assistance and help with staff recruitment and logistics. Most Lesotho firms belonged to groups with other operations in Asia and established links with full package firms: these information and trust relations are an important competitive advantage.

The single largest investment in 2001, around US$90 million, came from an existing investor, Nien Hsing, from Taiwan at its plant in the Thetsane Industrial Estate. The scale of this investment is second only to the LHWP.

Lesotho Fancy Garments Group, a wholly-owned foreign company from Taiwan, is an example of a foreign affiliate with long-term commitment to Lesotho. Almost all its exports are to the US where its customers include Gap, Sears, Walmart and K-Mart. The company’s strategy for a long-term commitment consists of two components. First, in anticipation of the new rules of origin on fabrics when the first phase of AGOA ends, Fancy Garments plans to expand its present CMT operations to include integrated operations. The second component includes an elaborate training and incentives system aimed at increasing productivity and quality, permitting it to move to higher value-added operations. The training system, started in August 2002, spanned over 18 months, up to February 2004.

Table 6.5: Largest foreign affiliates in Lesotho (2002) (ranked according to number of employees)

COMPANY	HOME COUNTRY	INDUSTRY	EMPLOYMENT	YEAR OF ENTRY
Lesotho Precious	Taiwan, Province of China	Garments	3,620	1999
Presitex	Taiwan, Province of China	Garments	2,800	2000
CGM	Taiwan, Province of China	Garments	2,000	1987
C& Y	Taiwan, Province of China	Garments	1,900	1990
P&T Garments	Taiwan, Province of China	Garments	1,840	2001
Nien Hsing Textile Co	Taiwan, Province of China	Garments	1,800	2001
United Clothing	Taiwan, Province of China	Garments	1,700	1996
Evergreen Textiles	Taiwan, Province of China	Garments	1,673	1995
Lesotho Fancy	Taiwan, Province of China	Garments	1,540	2001
Springfield Footwear	South Africa	Shoes	1,641	1995
Tzicc	Taiwan, Province of China	Garments	1,210	2000
Teboho Textiles	Taiwan, Province of China	Garments	1,090	1997
Lekim	Singapore	Garments	1,071	1997
Tai Yuan	Taiwan, Province of China	Garments	960	2000
Suntextiles	Taiwan, Province of China	Garments	952	1994
King Ang	Taiwan, Province of China	Garments	920	2001
Lesotho Hinebo	Taiwan, Province of China	Garments	900	1989
Hippo Knitting	Taiwan, Province of China	Garments	850	2000
N-River	Taiwan, Province of China	Garments	850	2001
C-River	Taiwan, Province of China	Garments	768	2001

Vogue Landmark	Taiwan, Province of China	Garments	700	1996
Standard Bank	South Africa	Banking	650	
Supreme Bright	Hong Kong	Garments	635	2001
Superknit	Taiwan, Province of China	Garments	600	1989
J&S	Taiwan, Province of China	Garments	575	1996
Hong Kong Int.	Taiwan, Province of China	Garments	550	2001
Carca Footwear	South Africa	Shoes	500	1997
TW Garments	South Africa	Garments	500	2000
Mountain Eagle	Fiji	Garments	490	2002
Sun Hotels (Maseru and Lesotho)	South Africa	Tourism	450	1975
E-River	Taiwan, Province of China	Garments	429	2001
San-Yong	Taiwan, Province of China	Garments	350	2002
Lesotho Milling Co.	South Africa	Food	335	1980
Maluti Textiles	Taiwan, Province of China	Garments	392	1998
Maseru Textile	Taiwan, Province of China	Garments	315	2001
Kiota Electronics	South Africa	Manufacturing	256	1990
Maseru Clothing	South Africa	Garments	225	1986
Lesotho Brewing Co.	South Africa	Beverages	222	1980
Nedbank	South Africa	Banking	140	
OK Bazaars	South Africa	Trade	120	1980
Lesotho Bakery.	South Africa	Food	121	1988

Sources: LNDC, UNCTAD, World Investment Directory

3) FDI Job Creation

Foreign affiliates account for less than 3% of the number of establishments covered by the Bureau of Statistics' 'Establishment Survey' but for over half of employment by these establishments.

The textile sector has become the primary formal employer in the country. The contribution of the textile sector to poverty reduction is considerable. Employment reached over 50,000 in the manufacturing sector in 2002, marking the first time that manufacturing sector workers outnumbered government employees. 2004 estimates for employment in the manufacturing is 60,000.

6.2. Policy Issues Promoting FDI

6.2.1 Industrial Policies and Development Plans

Beside with its high dependence on the South African economy, Lesotho's economy is also influenced by the American market circumstances to which the textile industry exports heavily owing to the free market access under AGOA. The government is emphasizing the introduction of foreign capital, opening up the public sector to private investment, improving access to funds for all industrial sectors, and promoting industries that acquire foreign currency (such as the processing of agricultural and forestry goods as well as tourism).

6.2.2 FDI Promoting Policies

Lesotho has no Foreign Investment Law.

Lesotho is largely open to FDI and treats foreign investors well. However, the legal framework for investment is weakly developed and requires streamlining to enhance transparency and consistency. The taxation and regulation of business is a mixture of good and poor practice that does not fully address investor needs and in some areas it is already under administrative pressure despite modest levels of FDI and business activity.

Lesotho does not have the endowments to attract significant amounts of market-seeking FDI, because its internal market is small. However, it has several advantages. As a member of the Southern Africa Customs Union (SACU), Lesotho has free access to the South African market and can attract labour-intensive operations from its more industrialized neighbour or from other countries wishing to export to South Africa. It has also privileged access to the more distant markets of the US (although this access is time-bound) and the EU.

In early 2005 the Lesotho government announced initiatives to improve the general investment climate, including:

- a bill to assist long-term investors with security of land tenure;
- the provision of additional industrial infrastructure; and
- enhanced efforts to diversify the industrial base to industries such as agro-processing.

The Central Bank of Lesotho has been active in undertaking reforms to facilitate the introduction of limited liberalization of the Capital Account transactions in Lesotho, which became effective on June 27, 2003.

The primary objective of the reforms was to improve Lesotho's attractiveness as an investment destination to foreign investors, and in addition, give local entrepreneurs the opportunity to invest outside the CMA. In comparison with other members of the CMA, Namibia, South Africa, and Swaziland, controls on the capital account of Lesotho had remained largely in place.

As an ACP member state, Lesotho has signed the Cotonou Agreement. The agreement offers improved non-reciprocal trade benefits and concessions including unlimited entry for a wider range - over 99% of industrial goods from ACP countries, especially least developed ones like Lesotho. This access into the 400 million European Union consumer market is for a twenty year period which started in 2000.

Switzerland allows duty-free entry for some agricultural products and Austria grants tariff reductions and allows some agricultural products duty-free entry.

Under the GSP schemes operated by Canada, Australia and New Zealand, handcrafted goods from Lesotho may enter these markets duty-free.

Investment opportunities exist in the following sectors:

- Manufacturing;
- Garments/textiles: In addition to garment manufacturing there are opportunities for weaving, knitting and dyeing facilities to service the garment industry and increase the overall integration of the sector;
- Footwear: Opportunities exist to service the Southern African and the European Union markets;
- Consumer products: Companies have already found the skills and infrastructure to produce electrical/electronic, pharmaceutical and agro-business products for regional and world markets; and
- Tourism: Investments in facilities to cater for tourists interested in: snow skiing; water

skiing; ice skating; fresh water fishing; mountain hiking; pony trekking. Ecotourism is also being promoted and covers some of the most scenic beauty in the region and highly interesting historical sights.

(1) Privatization

Lesotho's government is committed to the development of the private sector and is currently involved in an extensive privatization programme. Privatization and liquidation of formerly state-owned enterprises in the agro-industrial and agribusiness sectors was completed by the beginning of 2005.

The Project was, however, designed to support the more general process of privatization, and does not provide for any regulatory reform, necessary when addressing issues of greater private sector participation in business and basic infrastructure. The ongoing Project's initial focus has been overtaken by a rapid deterioration in public enterprises key to the provision of essential business and basic infrastructure (banks, telecommunications and utilities). The deterioration of these services and the resulting increase in the fiscal burden has prompted Government to include the major utilities and the banks in the ongoing privatization program, and indeed for them to become the central focus of the program.

(2) Environmental Issues

Modern and comprehensive environmental management legislation was introduced in 2001. All significant investment projects may be required to submit an environmental impact assessment to the Environment Authority established under the Act. Prior to this step an intending investor submits a project brief to the Authority, which may determine that a full environmental impact assessment is not required. This is a helpful procedure to expedite smaller investments. Full consideration of the environmental impact assessment is an elaborate procedure that includes public hearings.

There are problems with the treatment of effluent from the garment factories, and recycling of water is not practised (or anticipated). Water taken from the Caledon River reduces flow rates and the availability of water to residents of Maseru. Discharge of untreated effluents in the watercourse creates pollution (this is about to be banned in Lesotho, and is illegal internationally). The burning of solid waste creates air pollution. The Lesotho Government has not imposed any penalties for pollution, but the clothing industry may face future pressures from buyers. The South African government (which shares the Caledon River) has already complained about water pollution.

6.3. Incentives and Impediments for/to FDI

6.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

The IPC was set up in 1992/93, with financial support by the World Bank till 1997. Thereafter it became dependent entirely on the Lesotho National Development Corporation (LNDC) for its budget, and over time its resources were severely reduced.

There is confusion over the role of IPC in dealing with foreign investors, since other units of LNDC also participate in this. Moreover, IPC has the mandate to promote FDI only in the manufacturing sector: FDI in tourism or agriculture are not covered.

The activities of the IPC tend to be constrained by its budgetary resources and more often it reacts mainly to initiatives from investors and, it lacks a coherent marketing strategy of its own in terms of regions or investors .It does not utilize 'best practice' investment promotion techniques used by Pisa in advanced countries. It does not have a database on prospective investors or on the activities of investors in the country (apart from employment generated). Its main function is to help prospective investors with site visits; its promotion activities are relatively weak or minimal. Its advertising is unfocused. It does not have a functioning website, able to provide prospective investors with comprehensive information on Lesotho.

The IPC is the marketing arm of the LNDC and is charged with attracting and facilitating FDI, though it shares with other units of the LNDC.

(2) Export Processing Zones

There are no declared export processing zones.

Manufacturers are afforded a full duty rebate on imported raw material or components for use solely in the processing or manufacture of goods for the export market. This facility assists exporters to avoid the strain imposed on their liquidity by customs and other duties for the importation of raw material or components at the time of importation.

This facility ensures that a company located anywhere in Lesotho can have effective "Export Processing Zone" status.

(3) Incentives for FDI

Lesotho is largely open to FDI and treats foreign investors well although some services businesses have been formally closed to FDI in 2002. However, FDI policy and the legal framework are not well developed.

General Incentives include:

- A non-repayable skills training grant which covers 50% of the wage bill during the initial training period for a newly established manufacturing company;
- Loan guarantees for loan finance provided to clients of the LNDC by other financial institutions;
- Loans from the LNDC to projects which can demonstrate long-term viability;
- Equity participation (in selected cases) by the LNDC, in the absence of a private investor;
- Manufacturers receive a full rebate on imported raw materials or components for use solely in the processing or manufacturing of goods for the export market;
- Provision of serviced industrial plots, customised factories, commercial and residential properties for lease;
- A free enterprise and free market economic system; and
- No withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders.

1) Tax Exemptions/Tax Holidays

Corporate income tax heavily favours investment in manufacturing and to a lesser extent commercial agriculture. Manufacturing and farming income are taxed at 15% and there is no withholding tax on dividends paid to non-residents from manufacturing profits.

2) Tariffs and Customs

The SACU agreement calls for all members to apply the same customs and excise duties (as well as related trade laws) to goods imported into the common customs area from outside. Goods imported from outside the common customs area are subject to a Common External Tariff (CET). Under the old SACU agreement, South Africa primarily determined tariff rates. Under the new agreement that was initiated on October 21, 2002, tariff rates will be determined by a separate Tariff Setting Board. Due to tariff liberalization and simplification conducted in the 1990s, SACU has a relatively open trade regime. There are significant tariff peaks on garments in the CET, however, which creates an anti-export bias for Lesotho. Additionally, the CET is plagued by a number of specific, compound, mixed and formula duties, which are less transparent than simple ad valorem tariffs and therefore facilitate protectionist lobbying.

The new agreement is expected to become operational in 2005/2006. Free trade negotiations with the EU, the US and Common Market of the South (Mercosur) are also in progress. These agreements will result in reduced tariffs and thus lower customs revenue. Each SACU member's revenue will be based on a share of the customs and excise pools and a development component. IMF simulations and estimates have shown that the customs pool could be reduced by 40% in 2005/2006 and that Lesotho could lose almost 6% of GDP. It could be the biggest loser under the new dispensation.

(4) Impediments to Attract FDI

Lesotho has no foreign investment law and there are foreign investment restrictions in licensing of business and consumer services and in a de facto form of FDI screening for very small-scale manufacturing.

FDI entry restrictions in business and consumer services were introduced in 1999 into Lesotho's ubiquitous trade licensing system. Trading licences are required for a wide range of services. FDI is not permitted in designated services that require a reserved trading licence.

By ministerial regulations issued in 1999 these currently comprise small-scale retail and personal services businesses. No foreign ownership of any level or even board directorship by a non-citizen is permitted in reserved trading licence businesses.

The new trading enterprises' regulations introduced reserved licences that prohibited FDI in 17 business activities, principally retailing. Existing foreign businesses in these activities were given up to the end of their remaining licence periods (no more that 12 months) to cease business, although some leeway was granted. A number of foreign businesses closed as a result.

1) Land Acquisition

The Lesotho land system is problematic for business in general and foreign investors in particular. The Constitution vests all land in the nation. The 1979 Land Act abolished the chiefs rights of land allocation and introduced a leasehold title system for land in designated urban, agricultural and "development" areas and thus available for commercial use. The remaining "rural" land is held in a less formal system of "allocation". Foreigners may only sub-lease land. Every such transaction requires ministerial approval and it is understood that the maximum duration granted is 30 years. The Lesotho National Development Corporation provides a stopgap solution by obtaining leases and developing industrial and commercial property for rental to foreign investors. However, this is not a competitive or sustainable solution.

<u>2) Corruption and crime</u>

The EIU reports that corruption and bribery in Lesotho's large bureaucracy are common. The government has pledged to address labour market inflexibility and the inefficient public sector as part of its International Monetary Fund agreement, but specific results have yet to be seen.

Lesotho has a high level of crime and foreigners have been targeted, robbed and killed. Lesotho's high unemployment rate, aggravated by the return of large numbers of unemployed miners from South Africa, and the ongoing effects of social upheaval due to high HIV/AIDS rates of infection, have contributed to an increasing number of armed robberies, break-ins, and incidents of carjacking.

The main problem for Lesotho, however, is that there are so few real attractive FDI opportunities. The most significant recent growth is in the mining sector, but on a scale that is relatively minor in regional context. The entire economic environment is essentially a 'backwater' of the South African economy, and new investment opportunities will be niche areas. The major FDI in recent years has been primarily drawn into the Lesotho Highlands Water scheme, something that will never be repeated.

6.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

There is only limited competition over international freight service between the road, air and rail modes because its small scale of market provided by the country hinder each modes from competition. The country's international airport, Moshoeshoe I International Airport (MIA)[18] has only scheduled flights by South African Airways (SAA), who run a passenger service, consisting of three flights every day. International airfreight to Lesotho is unloaded at Johannesburg International Airport, South Africa, from where it is freighted by road to Maseru.
There are no railways within Lesotho But Maseru is linked to the South African railway system for freight. The Maputsoe Industrial Area (85 kms north of Maseru) is about two kilometres from the railhead at Ficksburg in the Republic of South Africa, from there, accessible to the Durban Port. Problem of the railhead is that the area is not paved and container handling facilities are inadequate and outdated. While the handling facilities are owned and operated by a South African company (Spoornet), the firm has no lease or tenure on the government-owned site. This deters Spoornet from investing in improving the facilities. Unsuitable storage and inadequate handling facilities mean that containers cannot be stored in Lesotho and have to be kept waiting in South Africa, at a cost to the companies. Those are reasons why goods often have to be sent by road rather than train nor airplane. Obtaining truck space in South Africa is sometimes a problem as well. The bottleneck at the railhead raises costs for exporters and affects timely shipments. With regard to roads sector, Upgrading of roads within and in the outskirts of Maseru to bitumen standard and improvement of roads in other urban centres are

[18] It is located at Mazenod some 22 km south-east of the capital, Maseru. The main runway is 3,200 metres long with a specification that restricts operations by large aircraft.

ongoing[19]. Expansion of the national road network throughout the most remote locations in the country is continuing[20]. The Ministry of Public Works and Transport (MoPW&T) is charged with construction and maintenance of all roads outside the urban centres and the interconnecting roads through them, and with overall transport policies and transport regulation. The Ministry of Local Government (MoLG) and Maseru City Council (MCC) are responsible for the urban roads. The establishment of an independent Road Authority is under consideration. Main challenge for the sector is the issue for maintenance because, as mentioned earlier, dominant mode of freight is roads. At present, the Road Fund, established in 1996 can only partially (about 50%) fund the requirement for the total road maintenance budget although it is understood that ultimately all funding for road maintenance and rehabilitation should be channelled through the Road Fund. The remainder of periodic maintenance still comes from the Maintenance of Public Asset Vote. Road maintenance programming and administration have now become more difficult for the agencies having to deal with two separate sources of funding. So it definitely needs some coordination between them.

There have been problems in the past with electricity supplies (erratic cuts and inefficient billing), and while the situation has improved recently, investors still complain about the unreliability of power supply. Electricity charges are considerably higher than in South Africa (the World Bank, 2002, estimates them to be 40% higher). Total water resources in Lesotho are abundant in relation to the demand. Nevertheless, there are severe water shortage problems. For surface water sources, variability of flows and lack of regulation facilities lead to seasonal shortages, and for groundwater sources, the boreholes that are available are often over used, leading to local depletion and a shortfall in supply. In addition, problems due to inadequate development of the distribution network, pollution and institutional and management constraints are very significant. The water sector plays a very important role in Lesotho’s economy, with the Lesotho Highlands Water Project (LHWP) contributing 5% of the country’s GDP.

With communications, there’s a modest but growing number of landlines, a small microwave radio relay system; a minor radiotelephone communication system; cellular mobile telephone system is growing; and a satellite earth station. There are about 92,000 cellular mobile telephone users and 21,000 internet users.

(2) Regional Programme

As a regional programme, there is the Lesotho Highlands Water Project (LHWP) mentioned the above section. The Project is proceeding in collaboration with South Africa. For the detail, refer to 6.1.1. Macro Economy in this volume2

(3) Trend in Privatisation and Some Observations on Current PPPs

Impressive progress has been made in privatising state-owned assets, which resulted in a significant improvement of an overall investment climate, as privatisation included many services crucial to the conduct of business (e.g. financial services, transportation, and telecommunications). By the end of 2001, over 30 companies were privatised and the process is ongoing.

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19 The current road network is approximately 6,302 km in length of which some 1,176 km is paved. The remainder is made up of 2,662 km of gravel roads and 2,464 km of earth tracks.

20 For example, a total of M289 million was proposed to be allocated to Public Works and Transport in the 2004/2005 budget.

The Government of Lesotho has made a policy commitment to transfer responsibility for provision of electricity and telecommunications services to the private sector, while reserving strategic planning and policy functions for the State. The broad policy guidelines formulated in the Power Sector Policy Statement propose, in particular, the removal of monopoly for transmission and distribution, and the restructuring of the tariff structure to cover operating costs and recover costs associated with investments.

The objective of the Privatisation project is to improve the provision of utility services with the involvement of the private sector. However, the present low levels of utility service coverage have proved to be a major bottleneck to promoting local private sector development and to attracting private investment.

The Privatisation and Private Sector Development Project became effective in December 1995. Specific objectives are to:

(a) restore business infrastructure services in the financial and telecommunications sectors through inflow of private capital and improve efficiency through introduction of private managerial practices and competition;

(b) reform basic infrastructure services such as water and energy sectors in order to expand the very limited customer base, and offer to the majority of the population efficient (low-cost and high quality) provision of water and electricity services through the strengthening of the existing infrastructure and introduction of private sector participation;

(c) design a regulatory framework for future development of utilities in particular support capacity building of agencies involved in the process; and (d) establish the multi-sectoral regulatory agency in charge of supervising the liberalization of the telecommunications, utilities sectors, and the Privatisation Unit (PU); and

(d) launch investment vehicles to ensure and promote local participation in the privatisation program.

The cabinet decided in 2002 that the Ministry of Finance and Development Planning would appoint a Transactions Advisory Consulting Group with legal, financial, and technical expertise to assist the government in establishing a policy, legal and procedural framework for the use of PPPs.

6.3.3 Currency and Monetary Systems

(1) General Conditions

As Loti, Lesotho's currency, continues to be strong, the inflation rate will be held as low as 5% in 2005 and 5.2% in 2006. Although the inflation target is not adopted domestically, this is within the range of 3 to 6% which South African Reserve Bank (SARB) has indicated.

One of the most important monetary policies is to hold a stable one-to-one peg of the national currency, Loti, to South African Rand. Target of foreign reserves holding is 400 to 500 million dollar. Intervention in the exchange market will be implemented only in order to adjust periodical imbalance of international payment. Financial stability is to be attained by regional exchange policy in the framework of Common Monetary Area (Lesotho, Namibia, South Africa and Swaziland). Interest rates are manipulated normally following the policies of SARB. Thanks to Southern African Customs Union (SACU), the banking system is able to collect Government bonds and thus direct the corresponding amount of funds to private sector without undermining financial stability.

Loti will develop from M6.9/US$ in 2005 on average to M7.2/US$[21]. Foreign reserves held by SARB may be sometimes used to stabilize Loti and to reduce its risk.

(2) Banking Sector

The government privatized the state-owned Lesotho Bank in 1999 and completed the liquidation of the Lesotho Agricultural Development Bank in 2000. The Central Bank of Lesotho has sought to encourage greater competition, particularly by increasing the participation of foreign banks. Despite an overhaul of the regulatory environment through the 1999 Financial Institutions Act and the 2000 Central Bank Act, the banking system remains small, underdeveloped, and hindered by non-performing loans. According to the Economist Intelligence Unit, "This is owing to a culture of non-repayment, which stems from historical reasons—politicians exploited Lesotho Bank and parastatals crowded out the private sector. Potential new entrants are also concerned about problems with commercial courts, which are under-resourced and have a huge case backlog." The state remains active in the financial system through two state-owned development banks that provide industrial credits and other services. In August 2003, the Central Bank established a Rural Credit Guarantee Fund to encourage lending to residents in rural areas.
In October 2004, First National Bank of South Africa commenced its business in Lesotho, thereby increasing the number of banks in Lesotho to four.

Government Financing Scheme: Lesotho ha an Export Finance Scheme, enabling exports to compete better in world markets The main component of this scheme are: Credit Guarantee Scheme; Preshipment Credit Scheme; Postshipment Credit Scheme; Refinance Arrangement; Counter-Guarantee Arrangement; Central Export Development Fund; and Investment Guarantees.
Lesotho is unusual in that industrial and commercial credit to foreign as well as local enterprises is also provided by the LNDC(Lesotho National Development Corporation-the Government parastatal agency for the industrial development policies) and its sister organization the Basotho Enterprises Development Corporation. The LNDC prefers to confine itself to the provision of serviced sites, factories, training grants and loan finance.

(3) Foreign Exchange Controls

Lesotho's foreign exchange arrangements are functional but could be more investor friendly.

Lesotho has traditional foreign exchange controls, with the additional feature that it is part of the CMA. Under the CMA the South African rand is legal tender in Lesotho - possibly up to 30% of Lesotho transactions are made in rand. According to the CMA rules, including an ancillary bilateral agreement concluded in 1986 with South Africa, the Maloti must be exchanged at par with the rand and the issue of maloti must be backed with reserves in rand and other foreign exchange. There are no exchange controls between Lesotho and South Africa but CMA members including Lesotho agree to have exchange controls with third parties no less stringent than those of South Africa.

The Central Bank is very cautious about liberalizing foreign exchange controls. It is considering requests from investors to enable them to hold foreign currency accounts (FCA's) in the domestic banks. It has rebuffed requests from exporters to maintain offshore accounts on the grounds that it does not want to introduce piecemeal measures and is concerned at loss of

[21] Predictions quoted from EIU Report, January 2005.

control. The much bolder step of complete abolition of exchange controls is far away in official thinking. There is a concern about capital flight and the experience of reversals of this step in other countries is pointed to.

While Lesotho is a member of the CMA its scope for liberalizing foreign exchange control depends on relaxation of South Africa's controls. The primary benefit of the current regime for Lesotho is that foreign investment from South Africa into Lesotho is free of domestic foreign exchange control. Also, Lesotho residents can borrow and raise equity in the South Africa capital market.

6.3.4 Labour and Management

Worker's productivity is low[22] in Lesotho as they are given less demanding tasks than those in Asia, not undertaking multiple functions. Lesotho has a average level of literacy and basic education in the region, but it lacks the necessary supporting industry and skilled workers that foreign affiliates would need to start the production of goods using the technology in relative high levels.

One of the main constraints to relocation in Lesotho is shortages of skilled workers (particularly management and technique)[23].Where specialised technology or skills are required and suitably qualified Sotho nationals are not available, expatriates may be employed subject to obtaining work permits from the Ministry of Employment, as well as residence permits from the Ministry of Home Affairs. Obtaining these permits is frequently cited by investors as an irritating and time consuming feature befor doing business.

There are major deficiencies in Lesotho in the area of employee's vocational training particularly for manufacturing, and there are no institutions for such formation in the main industrial activity, clothing, or in other activities of interest to foreign investors. Most training is on-the-job. A few companies have in-house training and motivation improvement programmes, but this does not, however, appear to be the norm and specific policy support may be needed to stimulate enterprise investments in job training.

There is a very low entry by the Sotho nationals at the managerial and supervisory levels - the only exception is labour management. A few firms have also introduced modern personnel management system linked to the promotion, in-house training and performance. Many supervisory, technical and managerial jobs are still in hands of expatriates, even in firms that have been in Lesotho for a decade or more.

All employers are required by law to pay at least the statutory minimum wage to their employees. The labour minister, who acts upon recommendations from a Tripartite Wages Advisory Board, fixes statutory minimum wages annually. The Labour Code provides for basic worker rights, including a maximum 45-hour workweek, a weekly rest period of at least 24 hours, 12 days of paid leave per year, and paid sick and public holidays. Required overtime was legal as long as overtime wages were paid. The law provides for a compensation system for industrial injuries and diseases related to employment. The Labour Code does not protect explicitly the right of workers to remove themselves from hazardous environment without prejudice to employment; however, sections on safety in the workplace and dismissal implied

[22] According to a Background paper, the estimation of productivity for "Cut, Make and Trim" operation for shirts production vary 70% at the highest to 33% at the lowest relative to levels in similar operations elsewhere.
[23] Others pointed out in a Background paper are high border transaction costs, the threat of VAT advance deposits and infrastructure costs, particularly telecommunications.

that such a dismissal would be illegal.

The government announced that a bill amending the labour code to include provisions relating to HIV/AIDS and the workplace was finalised and presented before parliament by June. This is a reflection of the concern that employers, who have a ready supply of cheap unskilled labour to draw upon, pay too little attention to their employees' health. According to recent estimates, the HIV/AIDS prevalence rate in Lesotho is about 30%, one of the highest rates in the world. In 1999, the government finalized its Strategic Plan on HIV/AIDS, a diagram for addressing the education, prevention, counselling, and treatment needs of the populace. The high rate of HIV infection rates threatens the workforce in the clothing industry, and over time such high infection rates will affect productivity. There may also be a large loss of trained workers and greater absence from work.

7. SWAZILAND

7.1. Trends of Macro Economy, Industry, Trade and Industry

7.1.1. Macro Economy

The minister of finance, Majozi Sithole, presented the budget for 2005/06 (April-March) to parliament on 9 March 2005. With many critical challenges facing the economy and a fiscal deficit that the minister stressed was not sustainable, Mr. Sithole was left with little option but to emphasize the need for prudent fiscal management throughout the civil service.

The followings are some of the main features of the 2005/06 budget: (1) The government is committed to meeting developmental challenges. (2) Poverty alleviation is a priority, and the Poverty Reduction Strategy and Action Plan (PRSAP) will be operational before the end of the financial year. All government projects will be subjected to appraisal with regard to their role in poverty reduction. (3) The first demographic and health survey will be undertaken in 2005/06. (4) A comprehensive agricultural sector policy and an irrigation policy are to be developed. (5) Recent foreign direct investment has been directed mainly into the textile industry but because of uncertainties facing the industry, attention should be paid to potential investment in resource-based industries that add value to local raw materials. (6) The policy on small and medium enterprises has been completed and awaits cabinet approval. (7) A survey of foreign visitors is being conducted in order to improve tourism statistics. (8) The Ministry of Finance is finalizing legislation to provide a legal framework for regulating and supervising the activities of non-bank financial institutions, including capital markets, insurance companies and pension funds. It is hoped that a regulatory agency will be established before the end of 2005. (9) The government will review the sustainability of the weekly auctions of 91-day Treasury bills. (10) Draft legislation for the establishment of a revenue authority will soon be tabled in parliament, and it is expected that the board of directors and commissioner-general of the authority will be appointed by the end of 2005.

Value-added tax (VAT) is scheduled to be introduced in the 2007/08 fiscal year (in his previous budget the finance minister, Majozi Sithole, stated that VAT would be introduced in 2006/07). The road levy on light vehicles will be increased from E5 to E50 (80 US cents to US$8) from April 1st 2005. The revised road levy for heavy vehicles will be announced in due course. The question of introducing a road authority, a civil aviation authority and road testing centers, all mentioned in the previous budget speech, will continue to be examined, as will a study of personalized vehicle registration. All these have a high potential for generating revenue. The government will consider providing an additional tax rebate to reduce tax liability on pensioner’s incomes. The government will also consider the provision of tax relief on contributions towards financial and material assistance to orphans and vulnerable children. The Ministry of Finance will present a bill to parliament to formalize the tax advisory committee, which provides technical advice on issues relating to tax policy.
A bill to give more power to the Anti-corruption Unit will be presented to parliament in 2005.
Legislation to regulate telecommunications and energy has been drafted and awaits parliamentary approval.

Import growth of consumer goods will be sluggish, in line with weak real GDP growth, but food imports will be required to offset the effects of drought. Increased capital imports will also be required for the Lower Usutu Smallholder Irrigation Project. High import-related transport costs and a weak tourism sector will keep the services account in deficit.

Total revenue and grants are forecast to be E5.2bn (US$839m), with total expenditure (excluding redemption of loans) forecast at E5.9bn in 2005/06. The forecast deficit of E726m (US$117m) represents 4.4% of GDP, compared with the estimated deficit of 3.6% of GDP for 2004/05. The actual outturn for the 2003/04 financial year was a deficit of E434m, or 3% of GDP.

Table 7.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (million)	0.4	0.5	0.7	0.9	1.0	1.0	1.0	1.1	1.1	1.1
Population ages 0-14 (% of total)	44.7	45.7	46.7	43.4	42.6	42.4	42.2	42.2	42.1	42.1
Population ages 15-64 (% of total)	52.5	51.5	50.3	54.0	54.7	54.9	55.0	55.0	55.1	55.1
Population ages 65 and above (% of total)	2.8	2.8	2.9	2.7	2.7	2.7	2.8	2.8	2.8	2.8
GDP (constant million 2000 US$)	304.5	448.5	730.8	1,215.6	1,321.3	1,367.9	1,395.7	1,420.8	1,469.4	1,501.7
GDP growth (annual %)	-	6.4	6.4	3.1	3.2	3.5	2.0	1.8	3.4	2.2
GDP per capita (constant 2000 US$)	726.6	906.3	1,074.8	1,324.0	1,333.9	1,341.7	1,335.6	1,330.4	1,350.3	1,358.4
Official exchange rate (LCU per US$, period average)	0.7	0.8	1.9	4.4	5.5	6.1	6.9	8.6	10.5	7.6
Inflation, consumer prices (annual %)	2.7	11.9	14.4	9.5	8.1	6.1	12.2	5.9	12.0	7.3
Money and quasi money (M2) as % of GDP	-	24.2	29.4	26.0	24.4	24.7	22.3	20.0	19.7	20.1
Real interest rate (%)	-	-1.1	4.2	4.0	9.5	7.7	1.5	1.3	5.1	5.1
Foreign direct investment, net inflows (% of GDP)	0.0	4.1	4.4	6.0	11.2	7.3	6.5	3.9	3.8	2.4
Foreign direct investment, net inflows (% of gross capital formation)	0.0	12.7	21.0	27.8	50.2	38.9	35.0	22.9	21.2	12.2
Agriculture, value added (% of GDP)	33.7	31.5	18.6	15.6	16.9	17.0	15.6	14.5	15.7	12.2
Industry, value added (% of GDP)	30.4	26.0	33.6	43.3	44.3	44.0	44.7	46.1	49.8	51.5
Manufacturing, value added (% of GDP)	13.9	18.0	25.2	35.6	36.6	35.7	35.8	38.0	38.5	39.9
Services, etc., value added (% of GDP)	35.6	42.5	47.8	41.1	38.7	39.0	39.7	39.4	34.5	36.2
General government final consumption expenditure (% of GDP)	17.8	19.0	20.8	21.3	24.2	22.2	20.0	18.2	16.6	25.1
Household final consumption expenditure, etc. (% of GDP)	53.2	52.6	68.2	76.2	72.5	77.6	76.8	76.1	74.4	65.7
Final consumption expenditure (% of GDP)	70.9	71.6	89.0	97.6	96.7	99.7	96.8	94.3	91.0	90.8
Gross capital formation (% of GDP)	24.5	28.8	25.0	22.4	22.4	18.7	18.5	16.9	17.9	19.4
Exports of goods and services (% of GDP)	58.3	72.6	70.3	75.8	79.4	73.1	80.5	91.1	90.8	83.5
Imports of goods and services (% of GDP)	53.8	73.0	84.3	95.8	98.5	91.6	95.9	102.3	99.7	93.7
Gross domestic savings (% of GDP)	29.1	28.4	11.0	2.4	3.3	0.3	3.2	5.7	9.0	9.2
Gross capital formation (% of GDP)	24.5	28.8	25.0	22.4	22.4	18.7	18.5	16.9	17.9	19.4
Food exports (% of merchandise exports)	-	-	-	33.6	-	-	33.6	39.3	14.6	-
Food imports (% of merchandise imports)	-	-	-	18.7	-	-	18.7	19.4	20.4	-
Agricultural raw materials exports (% of merchandise exports)	-	-	-	10.7	-	-	10.7	12.2	7.8	-
Agricultural raw materials imports (% of merchandise imports)	-	-	-	2.3	-	-	2.3	2.9	2.5	-
Ores and metals exports (% of merchandise exports)	-	-	-	0.4	-	-	0.4	0.5	0.2	-
Ores and metals imports (% of merchandise imports)	-	-	-	0.8	-	-	0.8	1.2	1.1	-
Fuel exports (% of merchandise exports)	-	-	-	0.7	-	-	0.7	0.9	0.7	-
Fuel imports (% of merchandise imports)	-	-	-	12.6	-	-	12.6	11.4	2.4	-
Manufactures exports (% of merchandise exports)	-	-	-	54.4	-	-	54.4	46.8	76.4	-
Manufactures imports (% of merchandise imports)	-	-	-	64.3	-	-	64.3	64.4	71.9	-
Aid per capita (current US$)	25.6	47.1	52.4	47.3	35.1	28.4	12.6	27.4	20.7	24.5
Total debt service (% of exports of goods and services)	-	2.1	6.6	2.6	2.4	3.1	2.8	2.2	1.7	1.6
Total reserves in months of imports	-	3.2	2.4	2.8	3.0	3.4	2.9	2.3	2.6	1.8

Source: The World Bank (2005), *World Development Indicators: 2005*

7.1.2 Industry

Similar to Lesotho, Swaziland is a small country floating like an island within the territory of South Africa. As a member of the Southern Africa Customs Union (SACU), the nation's currency is tied to South Africa's and it entrusts South Africa with customs clearance and the collection of customs duties as well. Its industry, market, technology and capital, employment opportunities and economic performance also have a strong coalescence with the South African economy. During the era that South Africa was placed under economic sanctions accused its apartheid regime, both foreign and South African companies were foraying in Swaziland seen as a platform between international market and South African one. Consequently, the nation's industrial structure naturally differs from other nations within the region.

The principal industries are mining and manufacturing, which account for 50% of GDP (manufacturing was 38% in 2002) and agriculture, the area's core industry, was no more than 16%. While the proportions of both have risen since the early 1990s, the service industry, which has been expanding in other countries within the region, contracted to 35%.

Swaziland, which is small enough with a population of 1.1 million, has a strong orientation toward agriculture exports, and the value added per worker was a little less than $2,000, which is an outstanding amount for the region (50% of the leader South Africa). Its principal products are fruits, which are mainly citrus fruits (such as oranges, grapefruits and citrons), sugarcane, cotton cultivation, cattle-breeding, forestry and other products. Manufacturing, which is the mainstay of the secondary industry, concentrates on processing the above-mentioned agricultural and forestry products, and turns outs canning, bottling, fruit juices, jams, refined sugar, pulp, wood products and other items for export to Europe and Southern African countries including South Africa. As for other types of industry, Asian companies have launched new operations targeting the United States market by utilizing the AGOA scheme in addition to producing products for South Africa, revitalizing the textile industry.

As for the service industry, tourism is a source of precious foreign currency revenue ($30 million and 250 thousand tourists), but many travellers visit together with South Africa due to the country's small territory. The development of this sector is tied to the growth of South Africa's tourism sector.

7.1.3 Trade and Investment

(1) Trade

Swaziland's economy is export-oriented, with exports amounting to 70 percent of GDP. The major export products are soft drink concentrates, sugar, unbleached kraft pulp, refrigerators, citrus fruits and textiles. Swaziland is the biggest supplier of soft drink concentrate in Africa. Major imports are food and live animals, inedible crude materials, manufacturing materials and machinery and equipment. Imports tends to increase when the capital imports are required for public works, such as repairing of Maloma Colliery and Swaziland Railways and the Lower Usutu Smallholder Irrigation Project. The drought situation compelles the country to rely on food imports from international agencies. High import-related transport costs and a weak tourism sector will keep the services account in deficit.

The most important trading partners are South Africa, the United States of America, the Far East, Mozambique, Zimbabwe, the European Union and the United Kingdom. Swaziland is a member of the Rand Monetary Area, the Cotonou Agreement, the Generalised System of Preferences and AGOA.

Table 7.2: Trade tendency and main partners

（US$ million）

		1998	1999	2000	2001	2002
Export（US$ million）		1,080	1,006	1,124	1,176	1,078
Import（US$ million）		1,339	1,260	1,338	1,321	1,183
Main trading partners（E million）						
Export	South Africa	3,462.6	4,067.9	3,711.7	6,370.7	n.a.
	United States	277.8	195.4	550.2	457.7	n.a.
	Mozambique	583.0	208.7	387.2	406.2	n.a.
Import	South Africa	5,365.1	6,305.4	7,380.2	7,943.6	n.a.
	Japan	101.7	124.3	40.6	71.7	n.a.
	United KIngdom	92.7	78.3	239.8	16.1	n.a.

Source：World Bank, *World Development Indicators*; Statistical Office of Swaziland, Department of Customs and Excise.

(2) Foreign Direct Investment

South African investment has consistently accounted for around 45 percent of FDI. British entities inject the largest portion of the remaining 55 percent, followed by Taiwan. The US, Denmark, the Netherlands, and Germany are also present.

Table 7.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
108.8	100.3	90.6	51.4	47.5	43.5

Source: UNCTAD, FDI On-line

1) Sectors

The manufacturing sector accounts for around 65% of FDI. As an employer, the manufacturing sector is second only to agriculture, and provides jobs for 26% of the work force. The majority of goods manufactured in Swaziland are exported to South Africa.

2) Companies

During 2003/04 a total of 18 new entities began operating in the country, while four new companies were expected to open between November 2004 and June 2005. This represents investment in excess of E700 million and 18,000 job openings.

Between 1998 and 2003, 33 new foreign investor companies started up businesses in Swaziland. This represents investment of E535 million and 28,103 new jobs.

During the 2002/03 financial year, the Swazi Investment Promotion Authority (SIPA) was able to attract the following FDI companies, which are now operating:

Company	Location	Job Creation
Texray (Indonesia)	Matsapha	2,000 Swazis
Taitex (Taiwan)	Matsapha	1,500 Swazis
Ho Enterprises (Taiwan/SA)-Expansion	Matsapha	1,000 Swazis
Sharp Knitting (Taiwan)	Matsapha	560 Swazis

First Garments (Taiwan)	Matsapha	1,000 Swazis
Shirley Garments (Taiwan/SA)	Matsapha	400 Swazis
Shu-Li Garments (Taiwan)	Matsapha	260 Swazis
Sun Taylon (Taiwan)	Matsapha	2,500 Swazis
Unique Garments (Taiwan)	Matsapha	700 Swazis
Transvaal Clothing (SA)	Matsapha	320 Swazis
Perkasak LDA (Portugal)	Matsapha	30 Swazis

Source: Swazi Investment Promotion Authority (SIPA)

SIPA was also able to positively influence the expansion of the following FDI companies that started operations during the previous financial year:

- Leo Textile limited (Taiwan/SA) -150 (additional jobs); and
- Zheng Yong Garments (Taiwan) - 1 700 (additional jobs)

The world-renowned company Cadbury, which has produced high quality confectionery products in South Africa since 1938, established its Swaziland operation in 1989 when the Candy World factory was commissioned at Matsapha. The venture has proved to be one of the country's most successful investments, quickly growing with several expansion projects taking place over the years. The name was changed to Cadbury Swaziland in 1992 when a major extension to the factory was implemented, effectively doubling production. A major expansion project involving investment of E12.5 million was completed and commissioned in 1996 to provide for increased production of the two major brands in order to meet market demand. The company is a major purchaser of locally refined sugar. Cadbury employs 350 permanent staff with additional seasonal personnel recruited during peak periods. The factory operates on a three-shift system, 24 hours a day, five days a week.

3) FDI Job Creation

During the past 17 years, the Swaziland Industrial Development Company (SIDC) has financed over 170 projects valued at more than E981 million, to which the company has contributed over E341 million. These investments are in the manufacturing, mining, agri-business, tourism commercial and service sectors throughout the country. Up to 15,000 jobs have been created through them.

7.2. Policy Issues Promoting FDI

7.2.1 Industrial Policies and Development Plans

Due to its small population and economic size, the government is emphasizing rational and efficient government expenditure to supplement private funding. Also, because the nation's own capital is minute and attracting foreign investment is vital to the creation of a strong economic base, public support is offered to new projects on necessary development of infrastructures or facilities, provision of long term soft loan or investments etc.

7.2.2 FDI Promoting Policies

In light of the Investment Promotion Strategy adopted by Government the Industry Section of the Ministry of Enterprise and Employment requested technical assistance from the United Nations Industrial Development Organisation (UNIDO) to develop an industrial development policy. The policy once promulgated will address issues pertaining to industrialisation that include creating an enabling environment, market access, high value-added, technology transfer, skills development and linkages with other enterprises.

Tibiyo Taka Ngwane was established through a royal charter by King Sobhuza II in 1968 to complement government's development efforts. Tibiyo's significant growth enables it to be funded entirely through internally generated resources. The organisation possesses a portfolio of some 30 diverse interests embracing mining, manufacturing, property, finance, agriculture, tourism and transport, among others.

Tibiyo invests mainly in large joint ventures with foreign and local technical partners, taking equity stakes and occasionally providing shareholder loans not exceeding 50% of the total cost of the project. Its shareholding is usually between 25% and 50% and the technical partners are expected to provide management.

Investment opportunities in Swaziland are mainly found in processing of the country’s natural resources, both agricultural and mineral. Sugar is produced from the vast sugarcane plantations, but could also be used to manufacture sweets and confectioneries. Tobacco, pineapple and vegetables are currently grown and canned, but there is scope for further processing of these goods. With regard to Swaziland's mineral resources, kaolin and limestone may be used to produce ceramic ware, paper, pharmaceuticals and glass. Coal could be processed to make chemicals, cement and fertilisers. There are also favourable opportunities to further develop the country’s tourism potential.

(1) Privatization

Privatization of parastatals has become an issue in Swaziland. Key parastatals are targeted for privatization, with the possibility of joint ventures for foreign investors. Swazi Post and Telecommunications Corporation (SPTC) is one such potential opportunity. However, as of December 2004, the Swaziland government maintained monopolies in insurance, telephones, water, and electricity. Parastatals successfully privatized include the Swaziland Dairy Board and Royal Swazi Airways, which formed a joint venture with South African Airways to form Swazi Airlink. In sectors that are in public hands, the country is not large enough to support many competing companies.

The cabinet has approved a privatization policy, and the establishment of industry regulators and the preparation of concessioning agreements are being discussed for the Swaziland Electricity Board and Swaziland Railway. However, progress towards actual sales will be slow owing to low political commitment.

(2) Restrictions or Special Provisions on Sectors and Areas

Environmental Impact Assessment (EIA) is mandatory and must be done before any project commences. This is done under the auspices of the Swaziland Environmental Authority (SEA). The EIA process is effectively a decision making tool aimed at avoiding environmental problems and is a legal requirement under the Swaziland Environment Act.

(3) Local Content Ratios

Local export authorities require that the local content of products of exporters who wish to be able to label their product as made in Swaziland be at least 25 percent. This determination, however, is often difficult to make and seems to be conducted on a case-by-case basis.

(4) Export Obligations

An export permit must be obtained from the Ministry of Finance. These permits can be issued either on a consignment basis or on an annual export limit basis. For goods whose place of final destination falls outside the SACU, a Bill of Entry/Export accompanied by an Exchange Control Declaration Form F178 must be lodged with customs before the goods are exported from Swaziland.

For goods exported to places within SACU, Customs Form B must be completed and lodged with customs at the place of exportation from Swaziland.Where goods are exported to EU countries, evidence of origin must be given by means of a "EUR1 Movement Certificate" issued by the Department of Customs and Excise.

Swaziland exporters also need a PTA (Preferential Trade Area for Eastern and Southern Africa) Certificate of Origin to avail themselves of the PTA tariff facility; this can be obtained from the Ministry of Enterprise and Employment.

There are various other preferences and requirements depending on the destination of export goods. Approval can be obtained from the Central Bank for permissible and necessary disbursements incurred in respect of exports. A declaration that export proceeds will be repatriated has to be made through a commercial bank and submitted to the customs or postal authorities.

7.3. Incentives and Impediments for/to FDI

7.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

1) Swaziland Investment Promotion Authority (SIPA)

The Swaziland Investment Promotion Authority (SIPA) is entrusted with the responsibility of promoting investments and creating jobs in Swaziland

SIPA was created through an Act of Parliament, the Swaziland Investment Promotion Act 1998 and was formally launched in April of the same year. SIPA is a Category A Public Enterprise and is wholly funded by the Government of Swaziland with assistance from the EU. It's divisions are the Foreign Direct Investment (FDI), Small Medium Enterprises Development (SME), and Investor Facilitation and Aftercare divisions.

In its Investment Promotion and Marketing, SIPA began diversifying both the investment sectors and Investor Markets (sources) in order to attract higher value investments that provide employment opportunities to college and university graduates as well as enhancing higher technology transfer. Investments are sought in sectors such as Pharmaceuticals, Information Technology and Communications (ITC), Leather Works, Food Processing, Timber Processing, Mining, Components Manufacture and Assembly, Light Engineering. Significant success in raising interest and investor enquiries has been created in Leather Works, Pharmaceuticals, Mining, Call Centres (ITC) and Food Processing.

Information provided covers basic cost factors, availability and costs of utilities labour and transport costs. In addition, information is provided on business registration and licensing, work and residence permits, factory shells and available factory sites. In this regard a SIPA Marketing Brochure and A Guide to Investing in Swaziland Handbook have been developed and distributed to potential investors.

Investment opportunities in Swaziland are also presented to companies in seminars in groups or to individual companies on "one-on-one" basis based on direct targeting of companies. Marketing visits in the recent past were undertaken Taipei, Mauritius, South Africa, Indonesia, Italy and China.

The Investor Facilitation and Aftercare Division provide the following services:

Provision of investment information at SIPA Offices to all potential investors;

- Applying and obtaining work and resident permits for investors, which is now done in less than one month;
- Registration and licensing of new business ventures;
- Identifying and obtaining factory shells for investors;
- Facilitating customs clearances of machinery and equipment for investors; and
- Delivery of utility services for investors.

Within the Investor Aftercare Programme, the Department visits and assists established businesses on difficulties they may be experiencing so as to try and retain such investors in the country.

The Investor facilitation service has the objective of providing a one-stop service facility for investment information and support to local and foreign direct investors who decide to establish business in Swaziland.

(2) Export Processing Zones

Swaziland's plans for provision of Duty Free Status (DFS) to manufacturers would provide the same benefits as an EPZ does in such countries as Mauritius aside from the more generous corporate tax rate accorded to EPZ companies.

(3) Incentives for FDI

<u>1) Tax Exemptions/Tax Holidays</u>

The new Income Tax Act, widely regarded as being somewhat harsh, came into effect on 1 July 2003. This rules that any benefits received by employees, including housing, cars, education and utilities, will be taxed. Initially, this tax will apply to 20% of the value of the benefits and gradually increase to 100% for certain categories of benefits over a five-year period.

In 2001/2 corporate tax was revised downward from 37.5% to a flat rate of 30%, making Swaziland more competitive by bringing the country into line with other SADC states. Other changes include a 15% withholding tax for royalties and non-resident management fees, and a withholding tax of 10% on interest paid to residents.

Among further proposed changes are bringing the parastatals, farmers on Swaziland and other untaxed entities into the tax net.

Expenses deemed to be incurred in the course of generating an income may be tax deductible, provided they are of a recurrent and not a capital nature.

Arrangements for payment of provisional tax may be granted to companies and self-employed individuals. The Swaziland tax year runs from 1 July to 30 June. Individuals and companies are given 30 days and four months respectively to complete tax returns.

It is now proposed that a Revenue Authority be established, under which will fall the Departments of Taxes and Customs.

Sales Tax is payable on most goods and services and is charged on imported items, with the exception of food, at the point of entry. The flat rate is 14% but luxury goods, such as tobacco products and alcoholic drinks, are taxed at 25%. The Sales Tax Amendment Bill seeks to replace sales tax with VAT from 2006/7 in an effort to close loopholes and generate additional income by taxing more services.

2) Tariff and Customs

Being a member-state of SACU, Swaziland's Customs Administration is obliged to use the same laws, regulations, tariffs and procedures relating to the importation, exportation and transiting of goods as those applied in the other SACU member-states: Botswana, Lesotho, Namibia and South Africa.

Whilst South Africa is a contracting party to the SACU with the authority to make fiscal policies for approval and implementation by the rest of the SACU membership, South Africa is also a party to the World Customs Organisation (WCO), hence it's liability to adopt all the resolutions taken by the WCO at South Africa's national level. It is in this connection, therefore that the implementation of the WCO conventions by South Africa automatically applies to the entire SACU region regardless of whether the other SACU member-states have acceded to the WCO.

Tariff and Customs incentives are:

- Factory Machinery: Most fixed plants and machinery for factory installation whether in their CKD or SKD form, may be imported into Swaziland duty-free as well as exempt from paying sales tax. However, spare parts for the above mentioned goods are excluded from enjoying this facility;
- Raw Materials: Importation of raw materials approved by the Commissioner may also be imported without payment of sales tax provided such goods are intended to be used in the manufacture that such goods or element thereof will form an integral part of the completely manufactured goods by a registered manufacturer in Swaziland;
- Small Traders: Small traders constitute a majority of the trading community in Swaziland. Likewise, a daily allowance of tax-free imports per trader to the value of E1000-00 is provided for in the Sales Tax Act, subject to the production of a valid trading license and completion of a baggage declaration form; and

- Promotion of Export Trade (Rebate Item 470.03): Local manufacturers are afforded the facility to promote their export market under the provisions of rebate item 470.03 of Schedule No. 4 to the SACU tariff. This rebate item provides for a full rebate of duty on imported raw material or components for use solely in the processing or manufacture of goods for the export market.

(4) Impediments to Attract FDI

Amendments to the Income Tax Act will bring commercial activities on Swaziland into the tax net, put in place a branch profit tax of 37.5% for branches of foreign companies operating in Swaziland and review the tax free level of terminal benefits, including increasing the ceiling from E10, 000 to E30, 000.

The five-year tax exemption (tax holiday) for new manufacturing concerns is being phased out and training allowances is to be withdrawn. The latter two items are widely criticised on the grounds that they are not conducive to encouraging new investment and to upgrading the work force.

The 25% tax-free gratuity payable to expatriates at the end of their contracts is likely to fall away.

7.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

The Ministry of Public Works and Transport is responsible for the public infrastructure including roads network, government offices and residential houses, road transportation, civil aviation and railways.

Swaziland's road system is in good condition with all the main routes tarred to provide easy access to points throughout the country. The entire network connects the major producing areas with the administration and production centres and also provides links into South Africa and Mozambique. The national carrier Airlink Swaziland, which is a joint venture between the Swaziland government and Airlink South Africa at a ratio of 60% and 40% respectively, provides four services a day between Matsapha and Johannesburg. These flights link conveniently to international long-haul flights to most destinations in the world. The railway provides cargo transport and logistics services linking Swaziland's main industrial centres with Mozambique and South Africa. The system supports around 4.5 million tonnes of freight a year providing a vital transport link for the country's diverse import and export commodities. An inland clearance depot established at Matsapha Industrial Site is a dry port, offering all the services normally associated with a seaport.

The Swaziland Electricity Board (SEB) is the single major supplier of electricity in Swaziland with a market share of about 95% in the electricity supply industry. SEB tariffs, which are regulated by Government, are designed to be cost reflective. However, intensive energy users may be afforded negotiated tariff rates. The Swaziland Water Services Corporation (SWSC) supplies around 85% of the water consumed in urban areas. Water is readily available in the urban residential areas as well as at industrial sites. Agriculture involving irrigation is the largest consumer of water. The potential exists to double the area under irrigation by further development of the water resources. The Corporation is also involved in many projects, to ensure that water and sewerage services are adequate to meet current and future demand.

Several of the international oil companies are represented in Swaziland, running depots at Matsapha from where petrol, diesel, oil and gas are distributed by road throughout the country.

The kingdom's fully digital telephone network includes ISDN services. All the copper systems have been replaced with optic fibre systems to improve quality of service and make it possible to extend all the services available in the parent switch such as the ISDN services, data circuits and high-speed Internet connections. These systems are installed in 14 areas. Swazi.net is an Internet gateway, involving investment of E6 million, which connects Swaziland direct to the US with a back-up link in South Africa for reliability. Current MTN cellular coverage exceeds 77% of the country's geographical area and over 60 base stations have been erected to achieve this. This financial year's rollout will further increase the coverage to more than 82%.

(2) Regional Programme

Within the SADC region the rehabilitation and enhancement of regional transport corridors became a priority focus areas. The three main development corridors or initiatives, which were initiated by the three governments (Mozambique, South Africa and Swaziland) are:
1) Lubombo Spatial Development Initiative (LSDI) - covers the eastern side of Swaziland, the southern part of Mozambique's Maputo Province and the North Eastern area of Kwazulu Natal in South Africa;
2) Maputo Development Corridor (MDC) - links the Gauteng Province in South Africa-the economic heartland of South Africa to Maputo City in Mozambique which is the closest port city in Gauteng, the Hhohho Region which is the northern part of Swaziland; and
3) Tourism Biodiversity Corridor (STBC) - covers the southeastern part of the Mpumalamga Province in South Africa, the Hhhohho region around Bulembu, Piggs Peak, Motshane and the southern part of Mozambique.

SEB has invested substantially in the construction of a 400 kV transmission power line, which is an inter-connector between Swaziland and the Region. This line is a multinational asset owned by MOTRACO, a joint venture company made up of equal equity shares of 33% between EDM of Mozambique, SEB of Swaziland and ESKOM of South Africa. The available capacity of 5,400MVA is sufficient to meet any amount of electricity needs and at the current rate, may last for over 20 years.

(3) Trend in Privatisation and Some Observations on Current PPPs

The focus of the road sub-sector policy and strategy as articulated in the National Transport Strategy (NTS) is on strengthening the institutional capacity of the Ministry of Public Works and Transport (MPWT), reforming the institutional environment, and establishing new financing mechanisms for road development. Of importance is that the policy addresses issues of providing the enabling environment to the private sector, attracting private sector finance and investment, encouraging partnerships with the private sector and participation of stakeholders in the operations of the sector.

Electricity sector is advance to some extent. A new Electricity Act is in the pipeline to facilitate the organisation being transformed into a company. SEB has already been reorganised and the operations have been ring-fenced in preparation for the commercialisation exercise.

PPP's and industrial clusters are not a well-developed concept in Swaziland. However all indications are that the government intends to prioritise these issues. In his speech at the opening of Parliament in February 2005 King Mswati III stated amongst others that the government intends to expand participation of the private sector. He further announced that the Swazi government would need to mobilise E1 billion for new private sector projects to be implemented in this financial year, through public/private sector partnerships. The government in particular intends to allocate funds to the Swaziland national Housing Board, to establish a public private sector partnership scheme for the construction of hostels and other structures.

7.3.3 Currency and Monetary Systems

(1) General Conditions

As Swaziland will remains hereafter a member of Common Monetary Area, its own currency, lilangni is pegged one to one to South African Rand. Rand, still now developing strong due to rise in the price of gold and platinum, a relative depreciation of US dollar and the rise of real interest rate, will be weaker due to a low level of foreign reserve, scarce inflow of foreign direct investment and a high inflation rate in comparison to that of trade partners. Exchange rate of Rand (i. e. lilangeni) is expected to be R$6.9/US$ in 6.9% and N$7.2/US$ in 2006.

Inflation in Swaziland will develop in tandem with that in South Africa, i. e. the inflation rate will be in a level of 4.5%, slightly lower than that expected in South Africa in 2005/6.

The monetary policy focuses on the inflation target that is established as 3 to 6 % by South African Reserve Bank (SARB). The inflation rate on average in 2004 was 4.3%. In 2005 and thereafter it will be expected to develop in a lower half of the target range due to decrease of petroleum price and price curb of foods and other imported goods by the strong Rand.

The exchange rate needs continued and careful observation, as trade unionists and workers in South Africa put pressure upon its Government to make Rand competitive (i. e. devaluate Rand) to resolve decreasing international competitiveness and increasing unemployment of the country. Seen from economic fundamentals Rand is devaluating in a long run, the foreign reserve will, however, be expected, at least temporarily, to increase thanks to a rise in the international price of metals, acquisition of Amalgamated Banks of South Africa by Barclays Bank, etc. This will contribute to stabilization of foreign exchange market. Rand will be expected to develop from R6.20/US$ in 2005 to R6.90/US$ in 2006[24].

(2) Banking Sector

Efficient capital markets in Swaziland are in their infancy, yet policy-or rather an under-presence of policy -supports the relatively free flow of financial resources in the product and factor markets. The Kingdom's financial market is closely tied to that of South Africa and operates under conditions generally similar to the conditions of that market. In the part of the market in which foreign investment is prevalent, credit is allocated on market terms. If any discrimination is practiced, it tends to favor the foreign investor. Commercial banks offer credit on market terms, but the rules of the CMA forbid non-Swazis from raising domestic loan capital, although they can apply to the Central Bank for exception. This restriction has not greatly discouraged foreign capital flows into Swaziland in the past, but could increasingly sour the Swazi investment climate as regional competitors build investment regimes more attractive to foreign business.

Three lending schemes are operated by the Central Bank: the Ex 歩 rtCredit Guarantee Scheme,

[24] Predictions quoted from EIU Report, January 2005.

the Small-Scale Enterprise Loan Guarantee Scheme and the Public Enterprise Loan Guarantee Fund.

There are four commercial banks in Swaziland including First National Bank, Nedbank Swaziland, Standard Bank Swaziland and SwaziBank. All commercial banks have branch networks around the country offering both personal and corporate banking services. The Swaziland Building Society offers mortgage loans, which account for almost 60% of its loan portfolio, and savings and investment accounts.

SIDC is a private development finance company, incorporated in 1986 to mobilise domestic and external resources to finance private sector projects. SIDC finances joint ventures through the provision of long-term loans, equity participation and asset leasing. In addition, the company acts as a point of contact
for prospective foreign investors wishing to go into joint ventures with local investment finance entities.

(3) Stock Exchange Market

Swaziland's fledgling stock market is far too small to invite significant portfolio investments. Rather it offers people a chance to participate in Swazi enterprises in the long term.

(4) Foreign Exchange Regulations

As government policy encourages foreign investment, the inflow of capital by non-residents is welcomed. To avoid inconvenience on subsequent repatriation of interest dividends, profits and other income accrued, the Central Bank's prior approval is necessary for all capital transfers into Swaziland from outside the CMA. In practice, approval is routinely granted when required for genuine investment activity; however, frustrating bureaucratic delays are not uncommon. Raising capital in Swaziland by issue of bonds, shares, etc. in aggregate amounts of more than E100, 000 during a 12-month period requires approval. Applications, with supporting details, should be routed through a bank in Swaziland for consideration by the Central Bank.

7.3.4 Labour and Management

Up to 40% of the working age population is either unemployed or incompletely employed. Indications are that about 300,000 people are employed or engaged in some form of income-earning activities. A shortage of skilled workers in each specialized fields results in a heavy reliance on expatriate technicians, accountants, and engineers. The cost for human resources training is written off around 150% of total cost from the corporate tax, however current system is now considered to be withdrawn.

The Government of Swaziland maintains a strict localisation policy and expatriates may fill posts only where no suitably qualified Swazis are available. All foreign nationals working in Swaziland require work and residence permits. Although they almost always are, expatriate businesspersons complain that the process is cumbersome and exasperating. The Chamber of Commerce has proposed a more streamlined procedure, but at present, foreign nationals who have lived and worked in Swaziland for years still feel a degree of anxiety as their presence in the Kingdom is subject to the periodic review.

There are wages councils whose job is to set minimum wages for each industry. The council comprises of representatives from the employers, employees and government. There is a legally mandated indexation of minimum wages depending on the type of work. These minimum wages should generally provide a worker and family with a adequate standard of living. Labour, management, and government representatives have negotiated a maximum 48-hour workweek in the industrial sector except for security guards, who work up to six 12-hour shifts per week. The law permits all workers 1 day of rest per week. Most workers receive a minimum of 12 days paid annual holiday. There are extensive provisions allowing workers to seek redress for alleged wrongful dismissal. There are also penalties for employers who conduct unauthorized lockouts.

The law protects worker health and safety. Recent growth in industrial production has necessitated more government action on safety issues. However, the Labour Commissioner's office has conducted few safety inspections in recent years because of staffing deficiencies. Workers have no formal statutory rights to remove themselves from dangerous working environment without jeopardizing their continued employment; nor do any collective bargaining agreements address the matter.

With a 38% prevalence rate, the highest in the world, HIV/AIDS among Swazis is a serious fear for management side.

8. SEYCHELLES

8.1. Trends of Macro Economy, Industry, Trade and Industry

8.1.1. Macro Economy

Seychelles, an Indian Ocean island state with a total land mass of some 455 km², has developed considerably since the 1970s, in particular since the opening of the international airport in 1971 and the subsequent growth of the tourism industry. Tourism became a vital pillar of the economy in the decades that followed, replacing agriculture as a major employer and generator of foreign exchange. By the end of the 1990s, however, while tourism remained important, efforts to diversify the economy had resulted in the development of a manufacturing sector, in particular in the form of tuna canning for export. More recently still, a financial services sector has developed.

Socialist in nature, the ruling SPPF ideals permeate both the Seychelles economy and society in general. Social welfare, which includes free access to education and health care, has always been a major Government priority, and has resulted in a high literacy rate, an impressively low infant mortality rate and in good housing provision. Seychelles is among the top ten countries in the world in terms of gender equality. The result has been a growing budget deficit, difficulties in attracting foreign investment and, by the end of the decade, an acute shortage of foreign exchange having a negative impact on business and individuals alike. Government spending has been significantly reduced, but without radical macroeconomic reform of a nature which the government considers unwise to implement. Economist observers have noted that the government has started to move away from the strong socialistic nature of the past and closer to a free-market system, although there are still areas of the economy that the government controls tightly.

The IMF brought out a report in October 2004 on the Seychelles' financial situation. Prominent among the policies of the government are a fixed exchange rate, foreign exchange restrictions and a foreign exchange allocation system, price controls, the monopoly of the Seychelles Marketing Board over the import and sale of key consumer goods, and large capital projects such as the East Coast Land Reclamation Program and subsidized public housing. Large external current account and fiscal deficits have been financed by substantial accumulation of both external debt in foreign currency and domestic government debt in local currency (including arrears), together equivalent to more than 200 percent of GDP at end 2001.

Operations of the financial system and its regulation in Seychelles must be seen in the macroeconomic context. In practice, the Central Bank works closely with the Ministry of Finance and with the Ministry of Planning to see that the fiscal deficit is financed. At the same time, commercial bank activity consists mainly of intermediating government deposits and the purchase of government securities. The bulk of the total assets of the banking system were held in government securities or loans to the public sector at end-2001, with only 17 percent of assets in loans to the private sector. Seychelles has affirmed its commitment to the COMESA and its initiatives to liberalize regional trade and investment. However, Seychelles withdrew from the SADC, citing cost of membership fees and the lack of perceived benefits, but may rejoin when its economy is in a healthier state.

The 2005 budget speech promised some reforms. The president and Finance Minister, James Michel, fleshed out his proposals for further economic reform when presenting the 2005 budget. He promised significant privatization and liberalization of the trade and investment regime.

Although similar promises have been made in the past, these have not been carried out, a situation that may not change. Moreover, the government remains reluctant to devalue the rupee, which is perhaps the most significant reform that it could undertake, largely because of fears about inflation in what is a highly import dependent economy, even though the over-valued rupee is a root cause of the ongoing foreign exchange shortages. In another key development, the monopoly of the Seychelles Marketing Board (SMB) on the import of numerous goods, including most essential food items, was scrapped in January 2005, although implementation will be gradual during the year. The government will now maintain strategic reserves of basic foodstuffs and issue calls for tender for import.

The main medium and long term aim is to improve social conditions and to enhance economic growth and self-reliance. In view of recent financial constraints, particularly the acute shortage of foreign exchange, an immediate priority has also necessarily been to reduce the budgetary deficit and demands on foreign exchange through a considerable reduction in government spending. In the social sectors, Government policy continues to aim at meeting the basic needs of its people, especially in health care, education, nutrition and other social development. The education sector has for many years been another high government priority, with the result that the country now has a very respectable literacy rate of 88% and the objective of government is to completely eradicate illiteracy by 2020).

A study of the government’s publicity material reveals a definite bias towards the development of tourism. The importance of the tourism sector in the Seychelles economy cannot be understated. Currently the sector accounts for more than 12% of GDP, employs 17% of the labor force and is a significant foreign exchange earner. Seychelles is now marketed not only as an exclusive destination for traditional tourism, but also as a nature and adventure tourism destination. The aim is to reach a 200,000 tourists per annum target in the near future and to increase average spending per tourist by some 15%. With high prices and sometimes indifferent service in hotels, this target may be difficult to achieve without corrective measures, taking into account that the yearly average increase of number of arrivals from 1995 (121 000) to 2000 (130 000) has been only 4%, much lower than in other similar countries such as Mauritius (14%).

The manufacturing sector is dominated primarily by tuna canning, an important economic activity for the Seychelles economy, particularly for its capacity to generate foreign exchange. The majority of tuna vessels are flagged and owned by foreigners though they provide employment for a limited number of Seychellois. Artisanal fishing has traditionally been an important activity, especially since it provides employment for a significant number of local fishermen. Policy with regard to the agricultural sector is to provide an enabling environment for enhanced local agricultural production and to promote appropriate agricultural technologies. At the same time, due regard to biodiversity and the environment is encouraged. The importance of the agricultural sector in the overall economy is now considerably less than it was at independence in 1977.

More recently, a new Environmental Management Plan has been prepared for the period 2000-2010, which emphasizes the need for private sector, NGO and community involvement in the national efforts to preserve the environment and natural resources. Environmental protection is also closely linked to the social policies which lie at the heart of government policy. The continuous effort to enhance the standard of living of every Seychellois goes hand in hand with providing a clean and safe environment for all, including the poor. This is reflected in the policy measures listed in the new Environmental Management Plan, such as the need for gradual replacement of bucket/pit latrines by proper sewerage amenities, even in the poor areas of the country, to reduce the risks of intestinal and other diseases. The efficient and environmentally sound disposal of solid wastes, throughout the islands of the archipelago, is another high priority.

Domestic trade is limited by the size of the local market, though efforts have been made lately to target the expansion of agro-industry – particularly with a view to import substitution. Externally, the government of Seychelles is committed to four separate regional integration processes – COI, RIFF, COMESA and SADC (as well as to acceding to WTO and becoming a member of the Indian Ocean Rim Association).

The EIU reports that the government ran a budget surplus estimated at SRs179m (4.7% of GDP) in 2004, mainly because of the imposition of a 12% goods and services tax (GST) in July 2003. However, the surplus was only half that originally budgeted for, because of revenue shortfalls and spending overruns. The 2005 budget forecasts a surplus of SRs279m (7.1% of GDP) based on a very modest rise in revenues: the stagnation of revenues partly reflects the implementation of a new round of business and trade tax cuts, which are intended to help stimulate the moribund economy.

Table 8.1: Major Macroeconomic Data

	1960s	1970s	1980s	1990s	1998	1999	2000	2001	2002	2003
Population (thousand)	48.2	59.9	67.6	75.8	78.9	80.4	81.1	81.2	82.4	83.6
Population ages 0-14 (% of total)	-	-	-	28.9	-	-	28.9	28.6	28.3	27.9
Population ages 15-64 (% of total)	-	-	-	63.8	-	-	63.8	64.3	64.7	65.1
Population ages 65 and above (% of total)	-	-	-	7.2	-	-	7.2	7.1	7.0	6.9
GDP (constant million 2000 US$)	119.1	223.0	308.0	501.3	578.8	589.6	618.1	604.4	606.3	575.5
GDP growth (annual %)	3.8	7.8	3.2	4.6	8.4	1.9	4.8	-2.2	0.3	-5.1
GDP per capita (constant 2000 US$)	2,466.1	3,693.2	4,545.2	6,583.6	7,340.3	7,332.6	7,618.6	7,443.4	7,354.5	6,881.2
Official exchange rate (LCU per US$, period average)	5.0	6.3	6.2	5.2	5.3	5.3	5.7	5.9	5.5	5.4
Inflation, consumer prices (annual %)	-	16.4	3.1	2.3	2.6	6.3	6.3	6.0	0.2	3.3
Money and quasi money (M2) as % of GDP	-	30.4	33.0	64.6	75.5	85.3	89.3	94.5	99.5	106.2
Real interest rate (%)	-	-	11.1	13.2	9.6	9.8	10.1	6.1	5.3	3.8
Foreign direct investment, net inflows (% of GDP)	0.0	4.3	6.8	6.3	8.7	8.9	3.9	9.6	8.8	8.1
Foreign direct investment, net inflows (% of gross capital formation)	-	22.4	28.1	20.5	25.3	20.5	14.5	23.3	28.9	42.3
Agriculture, value added (% of GDP)	-	8.3	5.9	3.7	2.6	3.1	2.8	2.8	2.9	3.3
Industry, value added (% of GDP)	-	14.9	16.5	22.7	25.8	27.1	28.9	28.3	30.0	35.1
Manufacturing, value added (% of GDP)	-	6.1	9.2	13.4	15.1	15.1	19.1	18.1	18.2	22.6
Services, etc., value added (% of GDP)	-	76.8	77.5	73.6	71.5	69.8	68.3	68.9	67.1	61.7
General government final consumption expenditure (% of GDP)	-	25.2	33.0	28.7	31.2	26.9	25.2	30.8	25.9	24.4
Household final consumption expenditure, etc. (% of GDP)	-	43.8	43.5	49.2	50.0	47.4	50.5	46.0	46.3	56.2
Final consumption expenditure (% of GDP)	-	69.0	76.5	77.9	81.3	74.4	75.7	76.9	72.2	80.6
Gross capital formation (% of GDP)	-	38.7	25.0	30.5	34.6	43.3	27.2	41.3	30.5	19.0
Exports of goods and services (% of GDP)	-	75.0	61.6	61.1	60.9	67.7	75.1	80.9	78.2	77.4
Imports of goods and services (% of GDP)	-	82.7	63.2	69.6	76.7	85.3	78.0	99.1	80.9	77.0
Gross domestic savings (% of GDP)	-	31.0	23.5	22.1	18.7	25.6	24.3	23.1	27.8	19.4
Gross capital formation (% of GDP)	-	38.7	25.0	30.5	34.6	43.3	27.2	41.3	30.5	19.0
Food exports (% of merchandise exports)	-	91.6	79.7	99.0	-	-	-	94.3	95.2	-
Food imports (% of merchandise imports)	-	25.7	20.1	20.7	-	-	-	13.3	21.9	-
Agricultural raw materials exports (% of merchandise exports)	-	1.3	0.9	0.2	-	-	-	-	0.0	-
Agricultural raw materials imports (% of merchandise imports)	-	1.0	1.2	1.5	-	-	-	0.5	1.0	-
Ores and metals exports (% of merchandise exports)	-	5.2	0.5	0.2	-	-	-	0.2	0.1	-
Ores and metals imports (% of merchandise imports)	-	0.4	0.8	0.8	-	-	-	0.4	0.4	-
Fuel exports (% of merchandise exports)	-	-	80.6	0.0	-	-	-	-	-	-
Fuel imports (% of merchandise imports)	-	16.1	20.7	14.9	-	-	-	2.4	1.1	-
Manufactures exports (% of merchandise exports)	-	1.6	2.8	0.6	-	-	-	5.4	4.6	-
Manufactures imports (% of merchandise imports)	-	55.8	56.6	62.0	-	-	-	67.7	52.9	-
Aid per capita (current US$)	31.2	200.2	320.7	237.3	308.1	162.5	225.3	166.3	95.2	110.1
Total debt service (% of exports of goods and services)	-	36.2	7.7	5.8	5.9	6.2	4.2	7.8	15.6	14.0
Total reserves in months of imports	-	1.6	0.8	1.0	0.5	0.7	1.0	0.7	1.2	1.3

Source: The World Bank (2005), *World Development Indicators: 2005*

8.1.2 Industry

The Seychelles, an island nation in the Indian Ocean, has an area of 443,000 m^2, a population of 80,000, and is the smallest nation in the Southern Africa region. The domestic political situation is stable with income levels the highest in the region at a per capita GDP of $8,500 (in 2003). Taking advantage of its location surrounded by water on all sides, tourism and fishing sustain the domestic industry accompanying foreign currency revenue and employment.

Overlooking the industries by their GDP ratios (in 2002), primary industries accounted for 3%, secondary industries were at 31% and tertiary industries at 66%. This structure is similar to South Africa that has the largest economy and industrial bases in the region. A recent trend is the expansion of the secondary industries.

Agriculture is concentrated in the production and export of cash crops such as copra, cinnamon and green tea. Domestic consumption of food crops is dependent on imports. The fishing industry, with its bountiful exclusive economic zone, catches about 300 thousand tons annually of tuna, sea bream, shrimp (including aquaculture) and others. Divided into a individual small scale fishing and a large-scale commercial fishing largely operated by foreign capitals, the majority of marine products are either transhipped in large refrigerator ships of foreign commercial fishing companies or transferred to inland marine product processing facilities.

Of the secondary industries, the ratio of manufacturing is increasing every year, and in 2002, had come to account for 19% of GDP. The growth of canned tuna and shrimp production for export has been particularly noticeable. Other manufacturing industries are limited to such activities as food processing for domestic consumption and the production of handicrafts. Another corresponding mainstay industry is the construction industry at 10% of GDP. Continuous construction of tourism facilities is connected to bullish production.

Of the tertiary industries, above mentioned tourism is the mainstay at 23% of GDP. European citizens account for 80% of the tourists who visit the Seychelles. Increases in this number are continuing to be maintained reaching an annual number of 130 thousand (in 2002), exceeding the national population. Seychelles is popular as a destination for long vacations, and a distinguishing feature is the high average number of days that visitors stay, approximately 10. It is estimated that tourism accounts for about 70% of foreign currency revenues. In other types of industries, growth is being seen in the transportation and telecommunications sectors at 17% due to the rapid popularization of IT services such as cellular phones and the internet.

8.1.3 Trade and Investment

(1) Trade

Seychelles' main export commodities include cinnamon, fruit, herbs and spices, petroleum products, seafood and tuna. The main import commodities include chemical products, fuel, machinery, petroleum products, pharmaceuticals, tobaccos and transport equipment.

Seychelles is currently highly dependent on ACP-EU preferential trading arrangements, particularly its physical production activities in the Seychelles International Trade Zone (SITZ), including the Indian Ocean Tuna (IOT) plant. IOT's production is currently internationally competitive only in the context of the preferential trading arrangements under Lomé/Cotonou. However, with the gradual erosion of the present preferential access to the EU market, IOT may have to look for other markets for its produce, e.g. the COMESA and SADC regions. In addition, the rate of transformation of foreign exchange into local currency of companies operating in SITZ, such as IOT (owned by Heinz), is very low (20%), with a limited benefit for the country.

Table 8.2: Trade tendency and main partners

（US$ million）

		1998	1999	2000	2001	2002
Export		370	422	464	500	546
Import		467	531	482	612	565
Main trading partners						
Export	United Kingdom	26.53	52.26	52.41	62.65	84.69
	France	15.96	16.15	27.15	36.49	59.17
	Italy	15.37	24.74	16.59	22.38	25.88
Import	France	35.56	43.99	31.34	41.83	46.50
	South Africa	49.62	46.29	35.51	28.32	30.74
	Saudi Arabia	3.74	39.83	49.39	53.29	56.67

Source：World Bank, *World Development Indicators*; IMF, *Direction of Trade Statistics*

(2) Foreign Direct Investment

Inward FDI to Seychelles averaged US$57million per year between 2000 and 2003, according to the UNCTAD. FDI fell slightly to US$48m in 2002, but recovered to US$58m in 2003. FDI comprised 28% of gross fixed capital formation in Seychelles between 2000 and 2003, an exceptionally high level. Seychelles also held its own against Mauritius and Madagascar in attracting FDI, and the total stock of FDI reached US$748million at the end of 2003.

Major foreign investors in the Seychelles include Cable and Wireless (Seychelles) Ltd.; Guinness; two U.K. companies that manufacture medical and dental equipment; and several companies from South Africa, Great Britain, Malaysia and Mauritius in the hotel and tourism industry.

Commercial banks with offices in the Seychelles include Barclays Bank; Bank of Baroda; Banque Francaise Commerciale; Nouvobanq; and Habib Bank.

Table 8.3: FDI Inflow

（US$ million）

1998	1999	2000	2001	2002	2003
55.0	60.0	56.2	65.0	48.0	58.0

Source: UNCTAD, FDI On-line.

8.2. Policy Issues Promoting FDI

8.2.1 Industrial Policies and Development Plans

In aiming to reform the import dependent economy and limited industrial bases as well as strengthen foreign currency reserves, the government has adopted a policy of seeking to improve the rate of food self-sufficiency (vegetables, fruits and livestock products), develop niches products for export market, and ameliorate the quality and quantity of tourist services.

8.2.2 FDI Promoting Policies

Following the establishment in 2004 of the new Seychelles Investment Bureau (SIB), the government plans to implement a new "investment code" in the first part of 2005. To improve its credibility, the new code is being drawn up in consultation with the private sector and international institutions such as the World Bank’s Foreign Investment Advisory Service. According to the government, it will act on recommendations made by the World Bank to make decisions on investment "less discretionary and more automatic, transparent and simple". The government claims that investment of SRs1.42 billion (US$258 million) has been secured since the SIB was established: 94% by foreign investors in 58 projects, mostly in tourism. Full details are lacking, however, and not all plans will be carried out. The government concedes that the persistent shortage of foreign exchange is a significant impediment to FDI, meaning that most investors are obliged to negotiate specific retention deals, otherwise their access to hard currency is minimal.

There is no discrimination against foreigners with a serious business purpose, except that they need official approval to own land. There are licensing regimes for financial institutions and trust managers. There is an adequate level of secrecy in professional transactions, but the Court can order disclosure under a number of international agreements. The Anti-Money Laundering Act 1996 allows the Central Bank to overturn suspect transactions.

The Seychelles government itself and the investment authority (SIBA) is looking to light and non-polluting manufacturing and service industries based on import-substitution, exports and job creation. The economy is dominated by service industries which contribute around 60 percent of GDP, led by tourism.

On the other hand, manufacturing and construction are together responsible for 23% of GDP. This is due in part to the outstanding performance of Indian Ocean Tuna. The ongoing boom in construction and a sustained increase in demand for construction materials have also led to continued improvements in the performance of construction related industries. Other activities have also had an important role to play in helping the economy become more broadly based. These include boat building, printing, furniture making, cigarette manufacturing, production of gold jewellery, the production of beverages and repairs and maintenance services.

Particularly encouraged are entrepreneurs who use local materials to manufacture or assemble high quality goods or use technology to add value to semi-finished goods. The government also welcomes activities that bring new technology and skills into the country.

The Ministry of Industries & International Business (MIIB) also promotes domestic investments in industry. The structure reflects the Government’s policy of aiming to integrate the international business sector into the mainstream local business community

(1) Small enterprises

In promoting smaller businesses at grass roots level, the government aims to foster self-employment and enterprises that have the potential to expand. In this way, they may eventually diversify into the export-oriented sector and graduate into the Seychelles International Trade Zone (SITZ). Financial institutions such as the Development Bank of Seychelles (DBS), various schemes like the Technical Assistance to Small Industries and the Youth Enterprise Scheme (YES) exist to provide soft loan packages to small and medium size businesses. As facilitator, MIIB together with the Seychelles Industrial Development

Corporation (SIDEC) is setting up micro enterprise centres in various districts to boost small industries such as carpentry and tailoring. It is also encouraging the Association of Small Businesses (ASB), established in 1995, to have a stronger voice in industrial policy.

A foreign investor that enters the Seychelles environment with a business plan that places a strong focus on creating jobs, partnering with small to medium local enterprises and assisting local entrepreneurs to set up businesses that are aimed at the export market would be very welcome. Such an investor would be able to negotiate even better concessions and incentives for his enterprise than normally available.

8.3. Incentives and Impediments for/to FDI

8.3.1 FDI Promoting Regimes

(1) Investment Promotion Agencies

1) Seychelles International Business Authority (SIBA)

Formed in February or 1995, the Seychelles International Business Authority is in the heart of Victoria, the Seychelles' capital. SIBA is a body corporate with board members being prominent persons of both government and the private sector. SIBA is essentially a one-stop shop, licensing and regulating primary offshore activities. It is the Registrar for International Business Companies and trusts and regulates International Trade Zone activities. Through a blending of dedicated professionals and efficient systems, SIBA is able to provide swift name approvals, incorporation and licensing with minimal bureaucracy. The result is that certificates of incorporation may be issued within an hour, ensuring that SIBA is one of the fastest Registrars in the world. SIBA falls under the portfolio responsibility of the Ministry of Industries & International Business (MIIB).

2) Seychelles Investment Bureau (SIB)

The creation of Seychelles Investment Bureau (SIB) announced in June 2004 is set to bring the country's promotion and facilitation of investments under one umbrella, offering a focal point of contact for all matters relating to investment in Seychelles. The main objectives of the bureau are to promote the Seychelles as the ultimate environment for business and to create an investor-friendly culture in the country. One of the immediate priorities of SIB is the setting up of its website, where potential investors will have access to information on the web and will be able to address some of the steps in the investment process by having information and forms online at their convenience. SIB has also been mandated to coordinate the development of the Investment Code, an instrument that will allow a more transparent and assuring investment environment. Tourism-related projects is said to be topping the Investment Bureau's list of business activities. The core activities of the SIB are:

Investment Promotion
- Organise and coordinate events such as investment/trade missions, road shows, trade fairs, seminars, workshops and conferences;
- Advertise in local and foreign business media;
- Create and maintain a national website on investment and business;
- Publish, package and maintain desired information for investors through various print

medias such as brochures, newsletter and investment guides;Organise visits and meetings with local private agencies and economic operators.

Investment Facilitation

- Act as the focal point of contact between local and foreign entrepreneurs and all government agencies/departments;
- Advice and assist in relation to all formalities and procedures for investment and establishing a business;
- Identify potential local and foreign partners to foster investment match-making;

Investment Appraisal

- Discuss and assist investors with their business plan;
- Conduct feasibility studies on investment proposals;
- Liaise with relevant organisations for comments on investment proposals;
- Prepare project memorandum for submission to Government;

Research & Development

- Best practices and policy issues on investment;
- Investment and market opportunities in different sectors of the economy; and
- Information on costs of doing business in Seychelles.

(2) Free Trade Zones/Export Zones.

Seychelles International Business Authority (SIBA) Provides explicit information about the free trade zone, the Seychelles International Trade Zone (SITZ). The International Trade Zone Act of 1995 and the International Trade Zone Regulations of 1995 provide for the establishment of free trade zones, which are delimited by a declaration of the Finance and Communications Minister, and can be for one company or many. The existing Seychelles International Trade Zone (SITZ) on Mahé is established under the Act. Activities within the Zone are governed by the SIBA, which issues licences to incoming companies. The concessions available to licence holders in SITZ include:

- Exemption from customs duties on capital equipment to be used in SITZ;
- Exemption from social security contributions;
- Exemption from fees in respect of 'gainful occupation permits' (work permits);
- Entitlement to employ 100% foreign labour;
- Companies established in the Free Zone are largely free of taxes; and
- A licence holder can apply for permission to sell within the domestic sector.

SITZ Companies pay annual license fees and application processing fees as follows:

- Redistribution license: $550;
- Light Assembly License: $550;
- Manufacturing License: $2,700 plus $1,300 initial processing fee;
- Processing License: $2,700 plus $1,300 initial processing fee; and
- Export Services License: $1,500 plus $500 initial processing fee.

These license fees are fixed for the life of a licensed company.
SITZ companies are exempt from the Business Tax, from withholding taxes, from customs duties and from Stamp Duty. SITZ employers are also exempt from the need to pay social security contributions in respect of directors or employees.

(3) Incentives for FDI

Seychelles is one of the fastest IBC registrars in the world. The systems and personnel are geared to provide same day incorporation. The International Business Companies Act, 1994, governs the operations of offshore companies. The registration process in Seychelles is straightforward and includes the following key features:

- competitive licence fees fixed for life;
- no requirement to disclose the beneficial owners of an IBC;
- directors may be elected at the first company board meeting;
- no minimum capital stipulation;
- bearer shares are allowed;
- only one director or shareholder is required;
- no need to file accounts with the Registrar;
- confidentiality is guaranteed by law;
- all civil proceeding in respect of IBC's may be heard by a judge in chambers; and
- an IBC may own or manage a vessel or aircraft registered in Seychelles register of directors may not be filed with the registrar.

With the new legislations unfolding, Seychelles profile abroad as an emerging offshore financial centre is reaching new heights. In particular, the International Corporate Service Providers Act 2003 that commenced in March 2004 is proving to be a modern and comprehensive platform for the offshore financial services management and development. This Act has introduced a modern system of licensing and regulation of corporate and trust service providers in line with current international standards. It has been welcomed by the Seychelles' Service Providers and the international community and offers potential investors an excellent operating platform. The drive for the Seychelles Practitioners to provide professional and efficient services and to respond to the changing needs and wants of the clients, continue to be one of the high priorities.

(4) Impediments to Attract FDI

Access to foreign exchange is administratively controlled. Other deficient areas include customs valuation and the protection of intellectual property and some sanitary and phytosanitary measures. The government-run Seychelles Petroleum Company is the only organization authorized to import petroleum products.

However, it is in this area, and internationalized services, that Seychelles holds the most promise in terms of FDI.

8.3.2 Infrastructure

(1) Basics of Domestic Infrastructures

Modern housing and office buildings, efficient utilities, reliable transport and a first-class education and health care system put Seychelles infrastructure on a par with virtually any country in the developed world.

The Seychelles is serviced by more than forty flights per week. The state-owned Air Seychelles is in the midst of painful restructuring following the start of competition. There has been a major expansion of capacity without any change in the number of visitors. Port Victoria is seen as the most efficient and deepest port in the region with its modern facilities. It is free of cyclones and provides for trans-shipment to regional and international markets as well as handling of break-bulk and containerised international cargo.

Seychelles produces (218 million kWh) slightly more electricity than it consumes (202.8 million kWh). The Public Utility Cooperation is in charge of electricity supply as well as water and sewerage services for the islands of Seychelles. Even though it is not an oil producer25, Seychelles Petroreum Company (SEPEC) is doing business in oil transportation.

In a move to strengthen and expand the telecommunications services available in Seychelles, the government recently licensed Seychelles Telecom, a company set up to provide further high-tech telecommunication facilities. The key advantages Seychelles offer are 2 major telephone carriers, 2 major ISP's, GSM 900 cellular system with international roaming with over 50 countries, ISDN services, internet services and local & international digital leased circuits.

(2) Regional Programme

There is no report on joint projects developing together with the neighbouring countries. But major infrastructure investments are financed by both bilateral donors such as France, Kuwait and China and multilateral agencies such as the World Bank, the European Development Bank and the African Development Bank.

(3) Trend in Privatisation and Some Observations on Current PPPs

The government aims to revitalise its long-stalled privatisation programme in the first half of 2005. But the Seychelles Petroleum Company, Air Seychelles, the Public Utilities Corporation, Nouvobanq[26] and the Seychelles Public Transport Corporation are not for sale, for strategic reasons. Furthermore, the government will retain a 50% share in all enterprises, at least in the short term, and will offer another 20% to employees (although many will not have the funds to take advantage of this), leaving just 30% for investors.

The official website of the Seychelles government, Virtualseychelles[27], covers some of the public-private partnership (PPP) developments in the Seychelles. The objective is to strengthen public-private partnership in tourism development mainly.

8.3.3 Currency and Monetary Systems

(1) General Conditions

As the Seychelles rely on import for most parts of their consumer goods, domestic monetary policy is limited and less effective to control inflation. Instead foreign exchange policy is more relevant tool for that purpose. Holding Seychelles rupee stronger and restricting outflow of foreign exchange drastically are imperatives of this country. As businesses are not allowed to pay dividend and royalty to overseas partners, they hold excessive liquid funds with domestic banks. The banks, however, cannot find the way to utilize these funds in order to activate and promote industries effectively. The rigid foreign exchange policy above mentioned is thus disturbing private business. The Government is planning the independence of central bank

[25] After a ten-year hiatus, oil exploration is due to restart in Seychelles' waters following the signing of a deal between the Seychelles National Oil Company and the US-registered Petroquest in early February 2005. The first three years will focus on exploration.

[26] The bank is a joint venture between the Seychelles Government and the Standard Chartered Bank African PLC.

[27] http://www.virtualseychelles.sc/pages/vs_ie.htm

functions which are now a part of Finance Ministry. It constitutes a further welcome step, but nobody knows when it is realized.

The inflation will develop mild, as low as 3% in 2005 in average. The exchange rate of Seychelles Rupee has been stable and SRs5.5/US$ since October 2003. Rupee is pegged to Seychelles Trade and Tourism Weighted Basket, which is constituted by Euro (38%) , US dollar (26%) and others. Under the current exchange regulations the rate to US dollar is not changeable. Unless the Government succumbs to devaluation pressure, the exchange rate of Srs5.5/US$ is held for the time being.

(2) Banking Sector

The domestic onshore financial sector in Seychelles comprises six commercial banks, a specialised development bank, a housing finance company, a credit union, and two insurance companies. The banking sector is dominated by state and foreign institutions. Of the commercial banks, one (the Seychelles Savings Bank) is fully state-owned, another is majority state-owned (Nuovobanq, owned 78 percent by the state and 22 percent by Standard Chartered Bank of the UK), three others (Banque Française Commerciale, Habib Bank, and Bank of Baroda) are branches of foreign banks, headquartered respectively in Reunion, Pakistan, and India, and one (Barclays Bank) has recently converted from a foreign branch to a foreign subsidiary. The Development Bank of Seychelles is owned 55.5 percent by the government and the remainder by international institutions and a commercial bank. The Seychelles Housing Development Corporation is a parastatal and falls under the Ministry of Finance and the Ministry of Land Use and Habitat. One of the insurance companies is state owned and the other is privately owned.

(3) Foreign Exchange Controls

In 2001 the government amended exchange control and money and trade taxation laws to tackle the problem of growing black market activity. The amendments closed loopholes in laws such as the Exchange Control Act. Individuals who possess any foreign currency must show evidence that it is obtained from a registered dealer and the rules prohibit the buying and selling foreign currency by authorised dealers at rates above the maximum rate or below the minimum rate determined by the Central Bank as well as prohibiting the export and import of Seychelles currency notes and coins in excess of R2,000.

8.3.4 Labour and Management

Seeing the degradation of national financial status, the expenditure on national education is no longer be free from cost cutting target. Government is now strengthening the budgetary control in this sector. Cost-saving measures are to be introduced such as employing more local teachers, establishing training centres to enter into remote education system with overseas universities and reducing the budgets of post-secondary educational facilities. Today, educational priorities have shifted from equal accessibility to basic education, to the enhancement of its quality, the localisation of teaching posts in primary and secondary schools, the establishment of training linkages between education and industry and the implementation of cost effectiveness in the education system. A new Strategic Plan for the sector is currently under preparation, and will necessarily incorporate a number of such cost saving measures. Vocational training is another priority for the Seychelles government aiming to attain a balance between demand and supply of human resources. Achieving this objective will also enable to develop a learning culture, create a productive society with the required competitive edge and correct the gender discrimination.

In addition, Government aims to rationalize various national qualifications. In order to work in the Seychelles, a 'Gainful Occupation Permit' is needed, which must be applied for by the employer. In addition, there are restrictions on the percentage of foreign employees allowed in a company. Only in the Seychelles International Trade Zone (SITZ) can 100% of the workforce be foreigners, and Permits are not required; normally the percentage is quite low.

The law prohibits forced or compulsory labour, including by children. The Constitution states that the minimum age for employment is 15, "subject to exceptions for children who are employed part time in light work prescribed by law without harm to their health, morals, or education," and in practice, these requirements were respected. There is no official minimum wage imposed to private sector. Independent trade unions insist that a minimum salary currently paid does not provide a decent standard of living for a worker and family. Private employers historically paid higher wages than the Government to attract qualified workers, however, recent economic stagnation have led to downward pressures on wages. The legal maximum workweek varies from 45 to 55 hours, but depending on the economic sector. In practice, some workers may work up to 60 hours per week. Government employees work fewer hours. Each full time worker is entitled to a 30minuts break per day and a minimum of 21 days of paid annual leave. Workers are allowed to work overtime up to 60 additional hours per month. Foreign workers do not enjoy the same legal protections. These workers are sometimes paid lower wages and forced to work longer hours than citizens.
An International Labour Organization (ILO) team has found serious deficiencies in the management and effectiveness of government monitoring and enforcement efforts. Occupational injuries were most common in the construction, marine and port industries. Safety and health inspectors rarely visit job sites. Workers do not have the right to remove themselves from dangerous or unhealthy work conditions without risking their continued employment, and if they took such action, they were considered as having resigned.

Seychelles law provides workers with the right to organize and join trade unions of their choosing; however, police, military, prison guard, and fire fighters may not unionise. Between 15% and 20% of the workforce is unionised. The law provides workers with the right to engage in collective bargaining; however, free collective bargaining does not take place. The Government has the right to review and approve all collective bargaining agreements in the public and private sectors. There’s little flexibility in setting wages. The employer generally set wages in the private sector in individual agreements with the employee, but, in the few larger businesses, the Government set wage rates. The law authorizes the Ministry of Employment and Social Affairs to establish and enforce employment terms, conditions, and benefits, and in practice, workers frequently obtained recourse against their employers through the Ministry. Strikes are illegal without arbitration procedures and are rare.

HIV/AIDS has not had an visible impact on firm’s management in Seychelles yet.

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