India in Africa

CUTS International 1983 2012

4/2012

Indian Firms Reap Bitter Harvest in Africa

Aman Sethi*

Have Emami and Karuturi bitten off more than they can chew in their land quest?

Indian companies which invested in controversial deals involving hundreds of thousands of acres of land in Ethiopia have found themselves out of their depth in a fast-growing African economy that is still in the process of building critical transport and irrigation networks.

Indian companies are the second largest investors in the Ethiopian economy with approved investments worth nearly US$5bn.

While a majority of the businesses are small manufacturing and trading enterprises run by business families long settled in East Africa, the big money has come with the recent entry of large Indian investors.

A number of Indian companies have signed agreements to lease more than 4,40,000 hectares of land across Ethiopia, 1,00,000 hectares of which has been granted to a single Bangalore-based company, Karuturi Global Ltd. International. Rights organisations and NGOs have characterised the deals as instances of land grab and have accused the government of forcibly resettling pastoral communities.

The Ethiopian government has denied these allegations, insisting that large-scale commercial agriculture is a vital part of an ambitious project to transform the national economy. Yet, the failure of Emami Biotech's plantation and the glacial progress of Karuturi's 1,00,000-hectare project in Gambella have led some to question the ability of these companies to manage such large plots of land.

In August 2009, the company announced it was investing Rs. 400 crore to acquire 100,000 acres to plant Jatropha and other oil seeds and to set up an oil extraction plant. Mott McDonald, a reputed engineering and development consultancy, conducted a feasibility study. The Ethiopian government welcomed the investment and even appointed Emami Director Aditya V. Aggarwal as Honorary Ethiopian Consul at its newly opened Consular Office in Kolkata.

Pulling out

The following year however, Emami was ready to pull out. On December 22, 2010, the company wrote to the Oromia Investment Commission, claiming that only half the land initially allotted to Emami was suitable for agriculture, and even that land didn't have enough water.

As per the letter, the company invested US$1.5mn in the project, dug several bore wells, and constructed a check dam. It also tried to grow maize, pulses, soya bean and sunflower, "but all our hard works becomes in vain [sic]," the letter said. The other parts of the land, the company claimed, lay along a disputed border between Oromia and the neighbouring province of Somaliland.

www.farmlandgrab.org

The letter lists seven additional problems, including crop damage by local villagers and their cattle and a lack of cooperation from the local administration. While Oromia officials said there were no clashes between the company and the local villagers, a researcher acquainted with the project said the company and the villagers had clashed over scarce water supplies.

The Ethiopian government is sceptical of the company's claims.

Global recession

Analysts said the global recession could have led to a slump in demand for biofuels, affecting the viability of Emami's project.

"Since Jatropha plantation does not require [much] water, the land allocated was arid and the lease rental was extremely low," said an analyst, adding Emami realised that the Jatropha plantation was not lucrative and tried to cultivate other crops, "This led Emami to request the government to reallocate the land and give them land that has much better water resources."

"[In Ethiopia] the cost of clearing land and making it into a farm is about US$1,500 per hectare," said Bharat Kulkarni, Director, Stalwart Management Consultancy Services, a firm that advises those looking to invest in Africa. "Unfortunately, investors land up in Ethiopia without actually realising this challenge." Other factors include the high internal cost of transport, the absence of trained labour, government inefficiencies and the high costs of equipment.

* *Abridged from an article that appeared in The Hindu, on October 26, 2012*

Indo-African Banking Alliance for Trade

Ecobank, the leading pan African bank and ICICI Bank of India signed an Memorandum of Understanding (MoU) to promote and facilitate trade and investments between India and Africa.

Under the MoU, ICICI Bank and Ecobank will cooperate to create a One Bank experience for their respective customers doing business in Africa and India. The focus will be on the day-to day banking and investment requirements of their customers such as trade finance, payments and remittances and also on major projects when these arise.

India's trade with Africa has doubled in the past four years to over US$50bn in 2010-11. Stronger investment ties are complementing this steady growth in trade, with Indian investments in Africa across a range of sectors, including oil & gas, pharmaceuticals, petrochemicals, fertilisers, IT and infrastructure, reaching US$33bn in 2011. *(www.allafrica.com, 12.10.12)*

India to Invest in African Cotton

Some of the major Indian companies have started considering a multi-country production strategy. The segments where Indian companies are looking for investment outside the country are yarn, garment and home textiles manufacturing.

India has a history of trade relations with African countries since centuries. In order to meet the larger objective of generating employment, technology transfer, exposure to world class manufacturing systems and indigenising the CTA manufacturing value chain, it is imperative that governments work towards creating an investment friendly environment by formulating policies and taking steps that help to address the existing challenges.

With changing global trends, cross border investments are surely going to happen and Indian players can emerge a major force. For Africa, it is a matter of taking the right policy steps and showcasing the opportunities to Indian investors and attract investments which will bring prosperity to the region also.

(www.magazine.cottonafrica.com, 29.10.12)

SA to become Call Center Capital

India may be the world leader in call centres but in South Africa the government is hoping to grow its own industry, so the person calling you in the future could be a South African. Amazon and Aegis are among the internationally renowned companies using South African call centres.

British company Coracall has also opened a call centre in South Africa. The company's CEO, Philip Lightfoot said that the main reason for coming to South Africa was the pool of talent.

But it was the South African accent that's proved particularly compelling for his business interests. It's unlikely that South Africa's call center industry will outflank India's, even with its rising labor costs.

(www.edition.cnn.com, 06.12.12)

SA to change India Trade Basket

South Africa would like to change the composition of its India trade basket, 85 percent of which is currently made up of raw materials, and manufacture more value-added products for export.

South Africa's Department of Trade and Industry has a scheme aimed at developing export markets for South African products and services, and recruiting new foreign direct investment into the country.

India has a vibrant handicraft tradition and our aim for the crafters is to find long-term sustainable markets. South Africa is again coming back in 2013 to IITF with these kind of companies.

(www.indiaafricaconnect.in, 21.11.12)

Zambia Seeks Long-term Investments

The Zambian Vice-President Guy Scott urged Indian business entities to increase their long-term investment in Zambia because the country has viable opportunities.

He urged foreign investors to realise that the government was facing a number of challenges and that there was a high unemployment rate in the country. He said the Indian business community should cushion the deficit by investing and creating jobs for the local community.

Dr Scott said Zambia and India shared cordial relations of more than 90 years and that the Indian community in the country was huge.

(ToZ, 05.11.12)

India-Africa Trade Relationship

Trade between India and Africa has a long and distinguished history. It goes back thousands of years to the days when Indian traders, using the seasonal monsoon winds, sailed to the East coast of Africa in search of mangrove poles, elephant tusks, and gold and gemstones that made their way up from what is now Zimbabwe.

At present, Africa enjoys a positive trade balance with the subcontinent. India's imports from Africa reached US$18.8bn in 2009 while exports from India to Africa were US$13.2bn in the same year. Exports from Africa are typically raw materials, including oil and minerals, while exports from India tend to be manufactured and finished goods, including transport equipment, industrial machinery and pharmaceuticals.

(www.global-briefing.org/Global/Global_12/Global_issue_12)

Sources: ToZ: Times of Zambia

India in Africa: Published by CUTS International Lusaka , Plot Number 24 at the Corner of Mapepe and Kwacha Road, Olympia, Lusaka, Zambia, Ph: +260.211.294892, Fax: + 260.211.294892, E-mail: lusaka@cuts.org, and CUTS Nairobi, Yaya Court- 2nd Floor, No.5, Ring Road Kilimani off Argwings Kodhek Road, PO Box 8188, 00200, Nairobi, Kenya, Ph: +254.20.3862149, 3862150, 20.2329112, Fax: +254.20.3862149, Email: nairobi@cuts.org. **Head office:** D-217, Bhaskar Marg, Bani Park, Jaipur 302016, India, Ph: 91.141.2282821, Fx: 91.141.2282485, E-mail: cuts@cuts.org, Web Site: www.cuts-international.org