

ISB THESES

**REGIONAL COOPERATION RUSSIA – AFRICA:
PROMOTIONAL EXPERIENCE IN SOUTHERN AFRICA**

**FOR
UNIDO BUSINESS FORUM
INVESTMENT PROMOTION SUPPORT FOR DIVERSIFICATION
IN AFRICA**

**IN THE FRAME
AU-UNIDO CONFERENCE ON ECONOMIC
DIVERSIFICATION
AND MANUFACTURING IN AFRICA**

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INTRODUCED BY



**TECHNOLOGY PROVIDER
INTERNATIONAL SCIENCE
BRIDGE (RUSADC)**

**UNIDO CENTRE FOR
INTERNATIONAL INDUSTRIAL
COOPERATION IN THE
RUSSIAN FEDERATION**





UNIDO CIIC Moscow for International Industrial Co-operation was established in 1989 within a framework of the Agreement between UNIDO and the Government of the USSR. The Agreement was renewed in 1992 with the Government of Russian Federation.

The main purpose of the UNIDO Centre, defined by the Agreement, is to promote international cooperation in the economic, technological, industrial and scientific spheres between Russian enterprises, associations and organizations and firms from developed and developing countries.

The UNIDO Centre acts as a catalyst and source of technical expertise in the design, organization and implementation of key events related to investment promotion in the Russian Federation. It will act, if required, as an efficient channel of communication to bring UNIDO programs, expertise, documentation, studies to the attention of interested authorities, organizations and enterprises in the Russian Federation.

The UNIDO Centre takes full advantage of UNIDO's integrated programs in other countries as well as of the programs and projects implemented by UNIDO in the Russian Federation.



Major target beneficiaries of the UNIDO Centre are enterprises and organizations in the Russian Federation including industrial SMEs interested in cooperation with foreign partners.

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INTRODUCTION OF TECHNOLOGY PROVIDER



INTERNATIONAL SCIENCE BRIDGE (RUSADC) - Non-profit organization for promoting & facilitating of International Industrial Partnership and Innovation Cooperation between SOE & SME enterprises of SADC countries and Russian Manufacturers and Technology Holders basing on modern technologies, technology equipment, know-how, engineering, training specialists. ISB is focusing on SADC countries priority Development Programs with currently framing & developing joint industrial projects in South Africa, Namibia, Botswana, Tanzania and Angola.

ISB is focusing on medium terms of joint projects with Medium Business for participation in international industrial cooperation enabling access to modern technologies to African partners in vital priority clusters of development programs – Agro processing, Affordable Housing, Renewable Energy, Metal Fabrication, etc.

Basing on international experience of Russian potential partners, ISB proposes to Southern African private and public sectors mutually profitable possibilities for establishing industrial cooperation with potential Russian partners in the fields of Industry which are pivotal for economy development.

Southern African and Russian partners are participating jointly in all Projects stages from idea to operation including JV framing and establishment, development to bankability, key-turn implementation, training and skilling local specialists, assisting testing and certification, operation and technology supervising with further expanding and diversifying of MVA products manufacturing.



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Theses introduced on behalf of ISB (RUSADC) and UNIDO CIIC (Russian Federation) at UNIDO Business Forum in the frame of AU-UNIDO Conference on Diversification and Manufacturing in Africa by ISB Founding Board member, GR & PR Principal, Development Director Victor Kulkov in Addis Ababa, Ethiopia on 4 -5 June 2012.

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REGIONAL COOPERATION RUSSIA – AFRICA: PROMOTIONAL EXPERIENCE IN SOUTHERN AFRICA

It is a high honor to have an opportunity of kind invitation for the meeting in the frame of AU – UNIDO Conference and to have introductory remarks for so esteemed audience.

I am making this introduction on behalf of International Science Bridge which is with promotion assistance of UNIDO Moscow Centre facilitating industrial partnership between Southern African and Russian enterprises focusing on involvement of Medium Business in economy diversification including Agro Industries.

The subject of these Theses is Agro processing promotional experience but the first part of this introduction is more related to participation of Medium Business in Economy diversification all together in below short 10 points.

I. Objectives guidelines for private sector

In our daily practical Business activities in SADC region & in Russia we are always keeping in mind long term & strategic objectives & goals raised at International, regional & national levels.

I may refer to: UN Millennium Development Goals, AU NEPAD PPP Policy, UNIDO Analytical Reports, SADC Protocols, SADC countries Development Visions, Programs & Plans.

The most of Participants knows these documents perfectly and I am only emphasizing their importance for private sector as the road map for planning doing Business in Africa.

National development Programs of African countries indicating priority industrial clusters of economy diversification are the best guideline identifying potential demand at the market and perspective directions for establishment of international cooperation.

II. Diversification importance

Long time period of one sided economic development in Africa based on dominating primary use of natural resources (exploration, enrichment and production of semi products) restricted adequate diversification of other industrial clusters of manufacturing and processing.

That is why goal raised by AU & UNIDO at this Conference for promotion of economy diversification & manufacturing is still pivotal in Africa as core of economic wealth.

Implementation of Development plans requires not only own national efforts of African countries but also activating of international cooperation for reaching of Diversification goals.

Accumulated Technical, Technological & Engineering potential of modern world community of XXI Century makes it possible to raise tasks for international industrial cooperation basing on world achievements for assisting to development national economy of African countries.

III. Key Participants

The core of real economy is industrial sector providing development of main clusters vitally important for each country: natural sources, energy, infrastructure, agro processing, social and consuming sectors.

There are three key sectors participating in Implementation of development programs: State sector, private companies of Big Business and private enterprises of Medium Business.

1. State sector is self sufficient for implementation of industrial projects, but is not capable to spread the whole volume and range of development and Programs require private participants.
2. Private Big Business is self sufficient as well for Projects implementation but they are focused mainly on raw material clusters and companies prefer role of dominating partners deciding concrete questions of own corporations as sole or main beneficiary.
3. Medium business is **the Third Pillar of Economy** of the most countries all over the world assisting in providing of socio - economic sustainability of society.

Numerous middle term projects of Medium Business can add and sometime to change long term Mega projects of State & Big Business. It may also become dynamic & efficient field of international cooperation.

Private Medium Business is important factor of economic development which takes active position in the most pivotal & demanded branches of economy. Main tasks of industrial development & supporting programs aimed for assistance to Medium Business.

IV. New Players

For improving of competitiveness environment in African countries and reducing dependence on raw material based economy new players are required for implementations of national development programs. In addition to State sector & Big Business it can be Medium Business.

But in comparison with two self sufficient sectors Medium business requires more assistance for participation in industrial projects to access modern equipment, technology, as well as organizational and financial support from early pre project stage to project implementation.

And it should be more supported by State in the frame of PPP to enable to develop national industry. At Angola Investment Forum in Moscow last November it was underlined that State will support financially those private Projects where Angolan part will possess majority interest.

Importance of collaboration between State and Medium Business for Implementation of Industrial development Programs and for expanding, modernization and diversification of Industrial sectors was emphasized as well at Investment Forums in Moscow organized by authorities of Tanzania, Botswana, South Africa, Seminars of SADC Ambassadors & UNIDO.

New local African Players of private Medium Business will require new players from international market. This approach requires foreign technology & development partners for international cooperation who can meet requirements of African private Medium Business participating in implementation of national development programs.

New International Technology and Development partners can be introduced by complex groups of independent Engineering, Designing companies, Technology Holders and Equipment Manufacturers united by Project drivers for Projects implementation.

It has following advantages for joint cooperation in partnership with African Medium Business:

- They possess intellectual, technological and industrial potential for projects implementation;

- They have experience of implementing of industrial Projects at international markets;
- They possess their own tangible & intangible actives & capable to share their part of equities;
- Being not trading companies Technology partners do not pretend for Project majority interest;
- They are assisting to access modern technology to Medium Business of African countries;
- They are meeting requirements of African partners for main beneficiation in the Projects;
- They are able to make qualified working out of the Projects from conception framing to further Projects development, implementation and participation in operation and management.
- They are able to train local specialist and to assist to certifications and accreditations
- They can provide technology supervising, technology transfer, production diversification

V. New Partnership

Technology and Development international Partners jointly with African Medium Business can be considered as new Players at development markets for strengthening national economy by industrial diversification adding efforts of State and Big Business.

Partnership in Joint industrial international Projects is becoming leading way of international cooperation in Africa and Medium Business is becoming active factor of NEPAD PPP Policy.

To above mentioned UN & UNIDO, SADC references we may add BRICS Delhi Declaration of 29 March 2012 supporting Industrialization of African Countries in the frame of AU "New Partnership for Africa's Development "(NEPAD).

It is well known that emerging BRICS countries are huge industrializing with expected 60% of global growth in 2015 and vast population 40 % of the world all showing middle class growth. BRICS could be considered as one of strategic partner of African Union as well as UNIDO.

We believe that Medium Business is capable to share participation in sustainable development of world economy declared by UN Millennium Development Goals which will be summarized at forthcoming jubilee UN Conference on Sustainable development in Brazil 26-29 June 2012.

Medium Business is capable to participate in New Partnership policy implementation and Sustainability development by following factors:

- For African countries development of Medium Business is assisting to implementation of key tasks of development programs.
- New players of Medium Business are assisting to improvement of competitive environment in African countries at local and international markets.
- Beside new Medium business assisting in solving of socio – economic tasks by creating new jobs and participating in national human resources training programs as well as creating additional possibility for development of accompanying Small business,
- Creating of New Medium & Small Business is strategic task for development of Middle class in African countries which is hard-working and prosperous part of population providing wealth of Society and socio-economic sustainability.
- Medium Business is developing mainly in real sector of Economy assisting to stabilization of Economical, Financial and Social situations.

VI. Russian Technology partners

Africa – Russia are used to be traditional partners for industrial cooperation. With Russia technical assistance there were built 359 objects in Africa before 1991 including 132 industrial projects based on Russian technology, equipment and services in various national economy sectors of African countries including Transport, Energy, Mining, Oil-Gas, Construction, Fisheries, Water Resources, Education and Training.

It is remarkable that, in the frame of Program Russian-UNIDO cooperation, contemporary Russian Federation is appeared as technological donor for developing countries.

Also NEPAD Seminar, held some time ago in Moscow with the subject “**NEPAD: A CALL FOR A NEW PARTNERSHIP BETWEEN AFRICA AND RUSSIA**”, emphasized the expected role of the Russian Federation as Development Partner of International Community.

Undoubtedly, as Development partners, **Russian Medium Business Enterprises** have enough experience of international cooperation and possess enough resources including intellectual, technological and industrial as well as international cooperation experience based on science achievements and modern technologies.

They possess experience with modern leading companies of the world in various fields as well many years of previous experience assisting to economic of developing countries of Africa.

It makes Russian enterprises as potential partners capable high professional participants of joint Industrial and Innovation projects.

Noting above mentioned points it becomes clear that there is an excellent basis existing for development of wide range of cooperation between Russia and Africa in a new for traditional links conditions and level – at the level of Medium Business; at new principles of business partnership and with new consolidated possibilities of promotion and support of regional, national and UNIDO programs of new joint projects.

VII. Technology & Development cooperation in SADC

a. Cooperation in Agro Industry

ISB & Russian enterprises proposals currently developing or offered in Southern Africa include following Agro Processing Projects which serve to diversification goals:

- Citrus wastes processing to Food Pectin (“manufacture value added” – MVA)
- Wheat (feed grain) deep processing to high MVA
(*Gluten, Starch, Brewery syrup, Mixed fodder + Dietary fibers + Bran*)
- Sunflower seeds processing to food oil
- Bamboo and bamboo wastes processing to modern construction materials
- Cane Sugar production and molasses processing to high MVA
(*Sugar syrup, Amino & organic acids & betaine (Cosmetics), Organic dyes and melanoidins (Food industry), Potash & nitrogen Fertilizers (Agriculture)*)

Cotton and Textile sector Industries - we are currently at the stage of framing proposal.

ISB efforts for Agro Industry in Southern African region supported by such experienced and respectable companies as:

- JC “PPS”– established in 1938 having experience of 2700 projects in Agro processing in Russian and International markets.
- Holding Company “Energys Group”, established in 1992 having experience in bio fuel, patented Sugar cane processing technology.

b. Industrial Conceptions and Projects

Beside Agro Industry ISB is promoting industrial cooperation and partnership in other fields basing on agreements on cooperation in SADC countries signed with complex groups of Equipment Manufacturers, Engineering & Designing companies and Technology Holders with ISB as Projects Driver and Technology Provider.

ISB has created Developing Conceptions for priority clusters like Metallurgy & Energy for introduction to State organizations, State Owned Enterprises and Developing Corporations:

- * Conception of Small Metallurgy for SADC countries
- * Conception of Small Energy for SADC countries

Basing on above Conceptions ISB worked out and currently is framing and developing following joint industrial Projects with private companies in collaboration with State sector:

- * Mini & Micro Steel Mills for Steel production and metal fabrication by Scrap Processing
- * Mini power stations based on technology Green Coal for Autonomous Consumers and IPP

Additionally to above following joint projects are developing with private companies:

- * Production and Assembly plant of Solar Water Heaters
- * Production of new building materials and construction of Affordable Housing

c. Practical Example - Production of Food Pectin

I would like to show you the Project as an example not only as advantageous & mutually beneficial but also as example of routine difficulties preventing from efficient solutions making it long pending.

The Project for production line basing on very new technology of Food Pectin and dietary Fibers processing from Citrus wastes – peels, currently used for cattle feeding or just mixing with soil.

Should be noted that traditional technologies based on acid application which is spoiling remaining waste of Pectin Processing and should be dig to soil causing definite ecological harm and production are harmful for staff.

Proposed by Russian partners Project is safe, environmentally friendly (excluding acid application) and technologically proved as well as very high productivity and benefit of this MVA project: each 50t of peels in cost of 600 \$ makes 1t of Food Pectin of costing up to 12 000 \$. It also will not upset balance of existing links between peels owners & cattle farmers as beside Pectin and food fibers remains the third product rich cattle fodder (assimilability 80% in comparison with 20% of wet peels).

It was big job was done by ISB for Project framing including preliminary marketing, visits, chosen recommended parties, preparing MOU, identification of location & raw sources, working out of Pre Feasibility Plan. Project was positively pre-evaluated by DTI Agro Sector but became long pending at provincial level where Project was motivated to be located:

- BEE Partner recommended by provincial Development Corporation was not able to participate efficiently in the Project having no experience in Production activity.
- Another qualified private party recommended by provincial Development Corporation by own reasons preferred to use obsolete technology with ecology harmful acid application.
- Development corporation and SOE involved in the Project did not assist to BEE in duly share participation in the Project and to access to technology as well was not able to prove another partner to use ecology technology instead of harmful.

We are not giving up and hoping on positive development noting experience other practical and routine difficulties are emphasized in the next chapter.

VIII. Implementation difficulties

In our practical activities we met difficulties from both sides of cooperation which require mutual understanding and new solutions especially at the initial part of Project framing.

Here we can meet some traditional forms of cooperation becoming old in new world and which slow down making joint decisions of potential partners:

- a) Some companies directors of African countries are still awaiting when FDI will come and will decide and settle everything. Joint industrial Projects presume active position and responsibility of both parties.
- b) Foreign partners are awaiting from branch departments of African Ministers and Organizations recommendations on potential local partners of Medium business capable to participate in joint projects aiming implementation of industrial development programs. It is one of narrow point of joint Project Framing including matching and benchmarking.
- c) Another narrow point is long pending organizational part of support of pre project stage where African Medium Business participating.
- d) Previous experience shows that procedures proposed by some authorized provincial development organizations are slow, long pending and does not give opportunity to carry out efficiently into practice BEE rights for getting assistance to participate in joint Projects.
- e) In our practice we sometimes met non adequate recommendations by parastatal companies or state organizations on SA BEE companies who are practically were not able to participate in Projects due to absent of experience in such complicated fields alike Metallurgy for as example.
- f) Considering the narrowest bottle neck of the most joint production projects is Pre Project stage it is important to support of exchange of delegations for acquaintance with technology, operation and management from one part and for technical and economical adaptation to local terms from other part.

XI. Development Projects Advantages

Implementation of development programs with participation of Medium Business in Africans countries creates new industrial markets basing on new international Technology partnership efficiently expanding potential of direct investments and state cooperation.

a.

Establishing of partnership for implementation of joint Industrial Projects in SADC has mutual benefit for both Southern African and Russian partners as well will has following **advantages** for South African partners and participants as the main beneficiaries in the Projects:

- Assisting Medium sector to acquire productivity-enhancing technology;
- Controlling Majority interest of Southern African Partners in joint Industrial Projects;
- Production Value Manufacturing Added Products for local use and export;
- Establishing of labor absorbing production in the medium term Projects;
- Creation of employment opportunities in the form of skilled specialists.
- Technology transfer included in the Projects creating additional possibilities of further technology franchising in the region.
- Being co-founders Technology partners are interested in the most efficient Projects that is why beside own technology & equipment they will involve into technological line the most efficient international units.
- Participation of Technology partners allow to further expanding of created JV by developing of production diversification.

b.

Such way of new Projects development will serve to multi development goals of SADC countries development programs focusing on:

- Increase of **Industrial Capacity** in priority industrial Clusters and improve competitive environment by involving of new Players from Medium **Business** in industrial cooperation.
- Participating in establishment Southern Africa **Green Economy** which is one of strategic tasks.

Development of **Waste Management** by application of Industrial & Agricultural wastes for production of Manufacture Value Added and improving of ecological environment as well as participation in the programs of **National Cleaner Production Centers** (NCPC) developing with UNIDO assistance for application of ecological Projects of the most clean production.

X. Promotion Support

There are various supporting programs for establishment, development and implementation of Projects in SADC countries assisting to local companies to enter to production business.

It is important that Support to be focused mostly on Medium Business which needs assistance much more than self sufficient State Sector and Private Big Business.

For example in South Africa about 15 development Funds and Financial Instruments assist to implementation of industrial projects in the frame of private-public partnership.

Support is organized at national level like DTI EMIA or DTI Incentives for IPAP implementation or IDC, NEF, CEF & DBSA from early stage to implementation and operation including not only funding & loaning but sometimes equity participation.

Support is organized at Provincial and Municipal level by development Corporations like ECDC & CDC. Support also concerns R & D stage like CSIR, MINTEK and TIA. It is presumed support of branches by SOEs like ESKOM or special programs like NWMP & NCPC.

ISB in its practical activity assisting in consolidating efforts of partners with possibilities of various financial instruments for supporting of concrete industrial Projects in complex as well in Projects development facilitating for avoiding routine difficulties and pending.

By our opinion complex approach allow to unite the best advantages, experience, knowledge and links of African and International partners for mutual benefit and most efficient implementation of industrial development projects.

UNIDO support to African countries like locomotive driver provides great organizing and financial assistance both to African countries and to their international partners for establishment of international industrial cooperation for development of African Economy.

From our part we are full of intention to devote our effort for maximum involvement to AU and UNIDO initiatives and **to use potential of cooperation with BRICS countries** for implementation of vital task of development new economy in Africa continent considering diversification as priority and backbone of modern economy development.

Thank you for your kind attention,

Victor Kulkov,

ISB Founding Board member,

GR & PR Principal, Development Director

Ababa, Ethiopia, 4 - 5 June 2012

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