



INSTITUTE OF DIRECTORS  
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# African Governance Showcase 2016

Bevcan Ethical Practice in Angola



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## Bevcan Case Study

Towards the end of 2009, the board of packaging company, Nampak, received notice that the Angolan government had now made the opening of a Bevcan factory conditional on the company entering into a local equity partnership. This was one of several delays in a process that began in 2004, when the Angolan government had approached Bevcan with a request to build a factory in that country. The Nampak board had anticipated that the factory would open in 2009.

Given that the government had requested the company to open a factory in Angola, Nampak had thought the process would be straightforward. But this had not turned out to be the case. By 2009, Nampak had already spent R189 million on the new plant and the estimated total cost of the project had risen from R600 million to more than R1 billion. "At this point, the company was burning a lot of cash by sitting and waiting for approvals, and this was making the board nervous," noted Eric Smuts, the Nampak group executive responsible for Bevcan.

The company had committed from the outset to doing everything by the book, but there remained the question about whether the project might not be progressing as anticipated because the company was not paying the right people or making the right connections. In this case, was it even worth pursuing the investment? The board had to decide on the next move.

## Background on Bevcan

Bevcan was a division of Nampak Ltd, a JSE-listed packaging organisation. Bevcan produced aluminium and tinsplate beverage cans for alcoholic drinks, carbonated soft drinks fruit juice, energy drinks, vegetable juice and iced tea. In 2009, all of Bevcan's factories were in South Africa, although Nampak had a presence in Nigeria and in ten other Anglophone African countries, including Kenya, Tanzania and Zimbabwe.

Bevcan start exporting cans from South Africa to Angola in 2002, the year that the leader of the National Union for the Total Independence of Angola (UNITA), Jonas Savimbi, died and the Angolan civil war ended.<sup>1</sup> Exports quickly grew to 400 million cans a year.<sup>2</sup> But importing cans into Angola was proving to be difficult for Bevcan's customers. Lead times were long and costs were high. So they and the Angolan government approached the company with a request to establish a factory in the country. The investment fit with Nampak's Africa expansion strategy, in that the company had no manufacturing presence in Angola and the country's economy was growing at a rate of 20% a year, thus indicating that there would be still greater demand for Bevcan's products.

Three years later, in 2007, the company was awarded the tender to build the factory. Nampak announced then that it had embarked on an R600 million project to build a factory that would produce 700 million steel beverage cans a year in Angola. The company anticipated that the plant would come on-stream in early 2009.

In the meantime, the political situation in Angola had remained unpredictable. Elections only took place in 2008 – six years after the end of the civil war. Thereafter, presidential elections had been scheduled for 2009, but the promulgation of a new constitution looked set to delay these until 2010.

Operating in Angola was difficult. "There is very little infrastructure. There are limited tar roads. There is no electricity at the site of the plant and it is difficult to access water there," said Smuts. Bevcan would have to build its own infrastructure to be able to operate in Angola.

Added to this, noted Smuts, was the fact that the 'rules of the game' in Angola were not very clear. Lack of local knowledge made it difficult to ascertain which information was publicly available and how to find it. The language barrier was also a problem. Even when working through local advisors, most processes were not formalised and it was therefore very difficult to know what compliance entailed. The imposition of fines on companies was common practice, but it was difficult to understand whether or not a fine was legitimate, and therefore how to deal with it.

<sup>1</sup> [https://en.wikipedia.org/wiki/Elections\\_in\\_Angola](https://en.wikipedia.org/wiki/Elections_in_Angola) (accessed 29 April 2017).

<sup>2</sup> Nampak Annual Report 2007.

Then, in mid-2009, Nampak realised that the delays in the project had been the result of a requirement to enter a local equity partnership. “No-one ever told the company that this was a definite requirement,” said Smuts. “In addition, this was not a written rule or a documented policy that one could look up before investing in Angola.”

### Where does Nampak go next...?

The delays in being able to commission the plant in Angola were among the factors which were causing Nampak’s return on net assets to decline in 2009.<sup>3</sup> Now with a further hurdle being placed in the way, Nampak’s board had to decide how to proceed.

### Questions

What are the corporate governance challenges facing the board of directors of Bevcam when doing business in Angola



What are the practicalities of ethical leadership that the Bevcam directors need to consider when doing business in Angola



What are some of the solutions/ recommendations to these challenges and practicalities



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<sup>3</sup> Nampak Annual Report, 2009 (accessed 29 April 2017).