

A Report for Potential Investors HIGH LEVEL 4

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**INFRACan CANADIAN INFRASTRUCTURE
AND AGRICULTURAL ENGINEERS**

**2005 COMPANY PLANS:
INTERNATIONAL EXPANSION TO
BURUNDI**

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EXECUTIVE SUMMARY

INFRACan is a Canadian infrastructure and agricultural engineering company that specializes in transportation, irrigation and telecommunication systems. Founded in 1978, it is one of Canada's larger national infrastructure firms. *INFRACan* has been incredibly successful in the Canadian market and having reached its twenty-fifth anniversary, the company is seriously considering expanding internationally, particularly in the agricultural engineering sector.

The current Canadian market for agricultural engineering is small and as there are few competitors, *INFRACan* holds a large percentage of the market share. Currently there is a lack of opportunity for expansion in the Canadian market and most areas that would use irrigation systems have already implemented them.

INFRACan has chosen Burundi, located in Eastern Africa, as the location of its new international office. Burundi is a small, poverty-stricken, densely populated country inhabited by 6.4 million people. It has a tropical climate, enhancing the national agricultural potential, which accounts for a significant percentage of annual exports and employs over 90 percent of all Burundians. The country is technologically limited, with poor communication and transportation systems and has experienced slow economic growth due to longstanding intertribal hostilities.

Water is essentially the major engine that drives the Burundian economy. The people need water for survival, both to drink as well as to irrigate the crops that they rely on for consumption. Irrigated crops would also produce higher revenues and thus increase the significantly low per capita GDP. As well, having access to irrigation would allow Burundians to cultivate areas that are presently barren which would also increase productivity and revenues.

Several factors such as culture, the economy, and legal factors, as well as transportation methods, must be considered before implementing the project. In Burundi there are two dominant ethnic groups, the Hutus and the Tutsis, who have a lengthy history of intertribal hostilities and violence. There are several religions prevalent throughout the nation. Communication issues must be considered because the two official languages are French and Kirundi. Burundi's national currency is the Burundian Franc (BIF), which currently exchanges at a rate of 755.562 Burundi Franc (BIF) for one Canadian dollar. This will affect contracts as exchange rates vary over time. Burundi has yet to accept compulsory International Court of Justice jurisdiction. This situation requires consideration in order for the company to avoid any possible future legal issues. There are no direct routes for equipment and machinery to be shipped to Burundi and high transportation costs must be factored into the expansion costs.

As Burundi is a poor, technologically limited country, *INFRACan* would have to modify its advanced technology services and dig wells instead of installing high-tech pumping stations. The company plans to start with areas that are most in need of irrigation, as well as those that need clean water. The international office will be situated in the capital city as it is the central area of activity and the main town. It is also close to Lake Tanganyika, which will be the location for the pumping and distribution plant. This will greatly decrease travel time to and from the construction sites.

Several cost factors need to be considered. Burundi lacks the monetary resources to pay for these water projects. *INFRACan* plans to apply to the Canadian International Development Agency (CIDA) and the African Development Bank (AfDB) for funding. Overall *INFRACan* envisions much potential in Burundi and is eager to begin expanding internationally.

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I. COMPANY PROFILE

THE COMPANY: *INFRACan*, Infrastructure and Agricultural Engineers

Background

INFRACan is a Canadian infrastructure and agricultural engineering company that specializes in transportation, irrigation and telecommunication systems. Founded in 1978 by two individuals, it has gained four more partners and expanded from a single office into one of Canada's larger national infrastructure firms. The company serves millions of people by developing and enhancing transportation networks and water distribution systems as well as advanced telecommunication systems that provide widespread usage and accessibility. Its headquarters are located in Alberta, and the company currently has offices throughout all provinces in Canada.

Current Situation

Though *INFRACan*'s services were originally focused toward agriculture and transportation, the technology boom of the late 80's and early 90's initiated an expansion into the Canadian telecommunications sector.

Future Plans

INFRACan has been incredibly successful in the Canadian market and having reached its twenty-fifth anniversary, the company is seriously considering expanding internationally, particularly in the agricultural engineering sector.

INFRACan's Services

INFRACan offers a wide variety of infrastructural and agricultural engineering services. The company has a well-educated, professional staff working throughout Canada. These individuals provide high-quality work in the engineering of infrastructure projects such as communal water systems, wells and irrigation canals; transportation services such as roads and railway planning and construction, as well as advanced telecommunications systems.

The Firm's Potential

INFRACan has experienced a continual increase in annual profits for the past eighteen years and the company's staff has developed into a group of very experienced professionals who are eager to take on new challenges. Thus, the firm has resources and significant potential to begin expanding into the international market where multiple business and moneymaking opportunities currently exist.

Principal Characteristics of the Current Canadian Market

Although Canada occasionally experiences drought, irrigation systems are not widespread. Most systems are located close to water sources and are generally used for cash crops and in small field projects. Most areas that would use irrigation systems have already implemented them and thus, there is a lack of opportunity to expand further in the current Canadian market.

Major Industry Competitors

Canada does have a *Canadian Irrigation Association* (CIA), which is headquartered in Ontario. However, there are currently very few competitors in the Canadian agricultural engineering sector that focus on agriculture and crop irrigation. Many irrigation companies and consultants focus their work on irrigating lawns and golf courses. Thus, though the market is small, *INFRACan* holds a large percentage of the market share and has few concerns about competition in the Canadian market at the current time.

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Industry Trends

The current Canadian infrastructure and agricultural engineering markets, particularly the irrigations sector, have been mostly fulfilled by the work of Canadian infrastructure companies. INFRACan holds a large percentage of market share and does not envision itself expanding any further in the Canadian marketplace.

Rationale for Expanding Internationally

INFRACan has experienced increasing success throughout Canada on an annual basis. Though the Canadian market provides opportunities for the company in the transportation and telecommunication sectors, it is a mature market for irrigation expertise, as illustrated by the relatively large farming and agricultural sectors. INFRACan, along with its competitors, has saturated the Canadian irrigation market with its water services and has decided to expand internationally in order to discover more business opportunities and increase company profits.

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II. HOST COUNTRY PROFILE**POTENTIAL HOST COUNTRY:** Burundi, East Africa**Background**

Though INFRACan would like to expand to various areas throughout the world, it is currently proceeding with caution and has chosen to begin with Burundi, as the location of its new office. Burundi, known as the Republic of Burundi¹ and often referred to as “the heart of Africa”² is located in Eastern Africa, landlocked between Tanzania, Rwanda and the Congo (Zaire). It is a small, poverty-stricken, densely populated country inhabited by 6.4 million people³ living on a total area of 27, 830 square kilometres, 2,180 square kilometres of which are comprised of water⁴. Overall it is a small, mountainous country and its official languages are French and Kirundi, though only 35 percent⁵ of the population is literate. It has a tropical climate, enhancing the national agricultural potential, which accounts for a significant percentage of annual exports and employs over 90 percent⁶ of all Burundians. The country is technologically limited, with poor communication and transportation systems⁷ and has experienced longstanding slow economic growth. This is largely because of ongoing traditional hostilities between the Hutus and Tutsis⁸, Burundi’s dominant ethnic groups. The hostilities have resulted in political instability, contributing to the overly high mortality rate for the populace and in addition to deaths cause by HIV and AIDS⁹.

Needs and Wants of Foreign Market Consumers

The needs and wants of the local Burundians, who comprise the target market, are very basic. The people need water for survival, both to drink as well as to irrigate the crops that they rely on for consumption. Water is essentially the major engine that drives the economy. Due to the extremely low per capita GDP of US\$110¹⁰, however, most Burundians cannot afford to purchase pure water or machinery and equipment needed to irrigate their land and crops. The majority of the population lives in mud huts built on hills outside the capital city, Bujumbura, and pure water in Burundi only reaches 78 percent¹¹ of the population at the current time. Thus, local Burundians would highly appreciate access to better quality water as it would improve their health and possibly their lifespan which currently resides at a low 45.94 years¹². Irrigated crops would likely also produce higher revenues and thus increase the significantly low per capita GDP. As well, having access to irrigation would allow Burundians to cultivate areas that are presently barren which would also increase productivity and revenues.

Target Market and Existing Market Conditions

Agriculture is the second largest market sector in Burundi. It accounts for a significant percentage of annual exports, employs over 90 percent¹³ of all Burundians and is a major economic driver. This market however, depends largely on the annual weather conditions and while the tropical climate generally enhances agricultural potential, droughts often occur¹⁴, significantly hindering the crops. In order for Burundians to maintain their existing crops and fight against drought, irrigation is required. Although the country does use some irrigation, it does so in very limited amounts and as of March 2001, a low 3 percent of the 2.2 million ha of land in the country is irrigated¹⁵. Currently there is an overall lack of infrastructure such as wells and canals throughout Burundi, as well as a lack of equipment and other means necessary for the transfer of water, which is inaccessibility to much of the population. Thus, there is much opportunity for expansion in this sector that INFRACan intends to utilize.

Sociocultural Factors to Consider

Two dominant ethnic groups, the Hutus and the Tutsis have a lengthy history of intertribal hostilities and violence. There are several religions prevalent throughout the nation such as Muslim,

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indigenous beliefs and various sects of the Christian Faith¹⁶. Certain religions (such as Muslim) involve practices such as fasting during certain seasons of the year which could influence worker productivity during those seasons. Legend and folklore are also considerably important to Burundians, the most important themes being local history and traditional beliefs, the travels of the god Imana, and cattle¹⁷ as the cow is considered sacred by Burundians. These things are important to know when working in the country or travelling on business trips so as not to offend the nation's local population. Very few people speak English¹⁸, which also needs to be considered when sending Canadians abroad who will be communicating with the Burundians. Thus, in order to work well in Burundi, INFRACan staff needs to become more aware of Burundian beliefs and ways of life, and also needs to learn the language.

Economic Factors to Consider

Burundi is one of the world's smallest and poorest nations. Agriculture is the basis of its economy and large amounts of fertile land have been left undeveloped due to both intertribal tensions¹⁹ and a major lack of infrastructure. Burundi's gross domestic product was around US\$900 million²⁰ in 2000 though the nation still experienced an imbalance of payments²¹. The nation's overall economic well being depends greatly on the agricultural sector and the ability of this sector to maintain a balance of payments. This is a sector that relies heavily on the weather²² and Africa frequently experiences drought. But with increased irrigation, drought would be less of a concern and more crops would be produced, subsequently increasing national agriculture profits and the GDP. Burundi's national currency is the Burundian Franc (BIF), which currently exchanges at a rate of 755.562 Burundi Franc (BIF) for one Canadian dollar²³. This is important to be aware of as contracts will involve exchange rates, which can change over time.

Government and Political Factors to Consider

Burundi is currently a Unitary Multiparty Republic with a Transitional Government²⁴. The national government consists of a president, Pierre Buyoya, who was voted into power through public elections, a vice-president, a 140-member National Assembly as well as a 54-member senate²⁵. The country continually experiences severe political tensions due to intertribal hostilities and violence²⁶ which can be quite dangerous for both the local population as well as tourists and can stall project work in the country for certain periods of time.

Legal Factors to Consider

Burundi's legal system was originally founded during the 19th century and is based on German and Belgian civil codes and customary law²⁷. It is headed by a supreme court and corruption within the system is quite common²⁸. Burundi has yet to accept compulsory International Court of Justice jurisdiction²⁹. This could present problems for the company should it ever run into legal problems in regards to its Burundian projects.

Transportation Factors to Consider

All people traveling to Burundi will use air travel to the Bujumbura International Airport located near the capital. All machinery and equipment required for these projects will be shipped from Canada to Tanzania, and then transferred by truck or train to Lake Tanganyika where they would be shipped across the lake by barge³⁰ to the Burundian port at Kigoma³¹. This is the most commonly used route and is advantageous to INFRACan as the supplies would end up in a prime location, within close proximity to the initial construction sites. Some transportation-related costs arise when machinery and equipment are imported into Burundi. Most imports entering Burundi require import licenses, which are generally automatically granted³². Burundi's "major trade policy instrument is customs duties"³³ on imports. This reserve duty, which is applied on an ad valorem basis, averages between 15 and 35 percent, and the import duty ranges from 2 to 5 percent³⁴. The government however, does grant compensations for the impact of custom duties through reductions and exemptions for certain sectors such as many agricultural

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activities which INFRACan will likely receive, especially since the company will be hiring local labour and transferring technology on a long-term basis.

Necessary Modifications to the Service

In irrigation projects INFRACan makes sure to properly encase wells with steel and concrete to ensure no contamination occurs and uses top-of-the-line machinery and equipment to install water pumps and pipeline systems for Canadians. Due to the poverty inherent throughout Burundi, the needs overall, and the primitive development stage that the country is currently in, many modifications would be required to the agricultural engineering. Instead of installing large pumping stations adjacent to lakes and running an extensive pipeline system throughout the country which would be quite costly, less advanced technology would be implemented. This would involve digging wells to serve certain areas, digging ditches in place of pipes and putting in smaller, less costly pumping systems that would pump water from the wells into the ditches to serve the area. Currently, many families plant crops on different levels and altitudes to decrease the chance of major crop failures³⁵. However, with the implementation of new irrigation systems, the humid valleys will be able to be used for agriculture as well, thus, greatly increasing the productivity levels.

Existing Competition

Though several small water projects have been done in Burundi such as the recent water supply systems upgrades made in two northern Burundian towns³⁶, they have all been done on behalf of international aid organizations. Currently there are no agricultural engineering or irrigation firms located in Burundi. Thus, there is virtually no competition at the present time.

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III. DISTRIBUTION AND COST PROFILE

DISTRIBUTION PLAN: Establish an office in Bujumbura and provide services from there.

Mode of Delivery

The company plans to start with areas that are most in need of irrigation, as well as those that need clean water. There are two major critical service areas; major cities and rural villages. The major cities such as the capital Bujumbura do not need water for agriculture but are inhabited by a high percentage of the national population and thus require clean, healthy drinking water, which INFRACan's projects will enable local Burundians to enjoy. INFRACan would install a small pumping and purification station near the capital city and run a short pipeline through it underground, drawing water from Burundi's major body of water, Lake Tanganyika, purifying it and making it accessible to the residents in the capital city. This pipeline might then be extended further east to give access to the second largest city, Gitega.

The international office would be situated in the capital city as it is the central area of activity and the main town. It is also close to Lake Tanganyika, which is the location for the pumping and distribution plant, which will greatly decrease travel time to and from the construction sites. More people in the capital city speak English than anywhere else in the country. The Burundians are beginning to realize the importance of the English language as they open up their country to the international business world. However, the professionals sent abroad will all be bilingual, many coming from the Quebec City office.

The many rural villages spread throughout the country are generally inhabited by subsistence farmers³⁷ who work in the fields. These are the areas where the majority of agricultural production occurs. Irrigation systems would greatly help these farmers, especially in times of high humidity and droughts. Waters in these areas would come from wells that INFRACan would plan, and implement with the help of local labour.

Cost Factors

Several cost factors need to be considered. These include: labour, machinery and equipment, accommodation costs, transportation, capital overhead costs, and building costs. INFRACan will employ mainly local Burundian labour. Thus, overall labour costs will not be expensive. Since Burundi has very limited financial resources to pay for these projects, INFRACan plans to apply to the Canadian International Development Agency (CIDA)^{xxxviii} to supply the funds. INFRACan will also approach the African Development Bank (AfDB) which is dedicated to "[contributing] to the economic development and social progress of its regional members"³⁸. Both the AfDB and CIDA will likely help fund the project on the basis that INFRACan will transfer the technology to the country by training the local workers so that in the future, the people are more aware of the advantages of clean water and irrigation systems in enhancing the national economy and have the experience to advance it. Support from the Burundian government would be essential in obtaining the international financing from CIDA and the AfDB.

Development Plan

Once INFRACan obtains the contracts enabling the firm to begin work in Burundi, the firm will immediately proceed to establish its Burundian office, locating it in the capital city Bujumbura as it will then have a steady cash flow. This is a major benefit to working through international organizations such as CIDA and AfDB as INFRACan is guaranteed payment, and doesn't face the uncertainty that can arise when working overseas if the foreign contractors or government refuses to pay the amounts agreed upon. The firm would then hire local Burundian to assist in the projects, become educated about agricultural engineering and irrigation methods and thus, be able to simulate similar projects on their own in the future. While these initial irrigation projects are being implemented, INFRACan staff will assess the success of the work. If the projects appear successful then the staff will scan the market for other project

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opportunities that the firm could develop as well as search for other sources of funding. Depending upon the success that the company has in Burundi, INFRACan may approach the governments of neighbouring countries that require similar services for future work.

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IV. CONCLUSIONS

Consistent annual success in the Canadian marketplace resulting in substantial human and capital resources has caused INFRACan to make the decision to pursue new growth in the international marketplace. The firm has chosen to expand into Burundi in East Africa because of the current lack of need for agricultural infrastructure within Canada and the obvious need for clean water and irrigation systems in Burundi. Though faced with the challenge of adapting to a new culture, varying legal systems and governments, language barriers and ethnic tensions, INFRACan is eager to begin digging wells and setting up small pumping stations throughout Burundi with funding from CIDA and the African Development Bank. The firm has done a significant amount of market research and believes there is great future potential in the African marketplace for its agricultural engineering services.

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- ¹ CIA. *The World Factbook*. 19 Mar. 2003. 22 May 2003. <<http://www.cia.gov/cia/publications/factbook/geos/by.html>>.
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- ³ CIA. *The World Factbook*. 19 Mar. 2003. 22 May 2003. <<http://www.cia.gov/cia/publications/factbook/geos/by.html>>.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ World Trade Organization. Report by the Secretariat. "Trade Policy Review: Burundi." 5 Mar. 2003. 2 June 2003. <http://www.wto.org/english/tratop_e/tpr_e/s113-0_e.doc>.
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- ²² CIA. *The World Factbook*. 19 Mar. 2003. 22 May 2003. <<http://www.cia.gov/cia/publications/factbook/geos/by.html>>.
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- ²⁷ Ibid.
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Teacher's Notes

Knowledge/Understanding

- The student describes current market conditions in the Burundi with a high degree of accuracy. He or she includes a careful review of the risks involved for potential investors (e.g., "adapting to a new culture, varying legal systems and governments, language barriers and ethnic tensions"), supported by a variety of statistical references from reputable sources. The student highlights the country's heavy reliance on agriculture (e.g., "It accounts for a significant percentage of annual exports, employs over 90 percent of all Burundians and is a major economic driver"), the frequent occurrence of droughts, and the lack of adequate irrigation systems. The student also explains that there are no agricultural engineering or irrigation firms currently located in Burundi.

Thinking/Inquiry

- The student interprets the needs and wants of new consumers with outstanding effectiveness. He or she points out that "the local Burundians, who comprise the target market . . . need water for survival, both to drink as well as to irrigate the crops that they rely on for consumption". The student also explains that, owing to the poverty of the country, "most Burundians cannot afford to purchase pure water or machinery and equipment needed to irrigate their land and crops". He or she then takes the discussion a stage further and considers the long-term benefits of an effective irrigation system in Burundi (e.g., "better quality water" would improve the health of the Burundian people and also allow them "to cultivate areas that are presently barren", thus providing a more plentiful supply of food and higher incomes for the people in this "densely populated country").
- The student analyses modifications to the existing product with outstanding effectiveness. He or she contrasts the "large pumping stations" and "extensive pipeline system" used in Canada with the requirements of the Burundian market, and proposes significant and appropriate changes to the company's approach. Since Burundi is a poor and undeveloped country, the student recommends using less high-tech solutions (e.g., "digging wells to

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serve certain areas, digging ditches in place of pipes and putting in smaller, less costly pumping systems that would pump water from the wells into the ditches to serve the area”).

Communication

- The student communicates the potential of the proposed expansion for success with outstanding clarity. The report is thoroughly researched and well written. The student provides a complete profile of the work of the company in Canada and describes its potential to expand into an international market. He or she presents detailed information about water and irrigation needs in Burundi and produces a detailed and feasible plan for transporting material and equipment to an advantageous location in the country, and for the recruitment and training of local people. The student is well aware of the challenges that may be encountered (e.g., the need to be sensitive to local customs and laws, and possible work delays because of civil unrest), but convincingly argues that, with the company’s experience and resources, and the lasting impact of its services in an area of high need, “there is great future potential in the African marketplace for its agricultural engineering services”.

Application

- The student provides a highly effective rationale for the international expansion. He or she explains that INFRACan has a large share of the infrastructure and agricultural engineering markets in Canada and sees limited opportunities for further domestic growth. The company has therefore “decided to expand internationally in order to discover more business opportunities and increase company profits”. The student identifies several valid reasons for selecting Burundi for an initial project: the high need for its services, the likelihood of funding from the Canadian International Development Agency (CIDA) and the African Development Bank (AfDB), and the lack of competing companies operating in the country.

Comments

This work is representative of a high level-4 performance. The student demonstrates a high degree of achievement of the expectations in the Knowledge/Understanding and Application categories of knowledge and skills. However, in the Thinking/Inquiry and Communication categories, the student demonstrates outstanding achievement of the expectations.

The result is an extremely informative and persuasive report that presents a clear set of priorities and clearly conveys how these will be achieved.

Next Steps

In order to improve his or her performance, the student could provide a little more information about the process of obtaining grants from CIDA and AfDB, and how subsequent projects will be funded.