South Africa in Africa

Articles to the African Diamond Mining Network on HIV/AIDS
Volume 1

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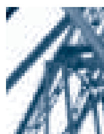

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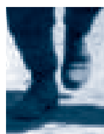

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Is FDI all its trumped up to be?

In a Mail & Guardian article in 2003, Raenette Taljaard of the Democratic Alliance, urged South Africa to enter the “no-go zone”. She was referring to export processing zones (EPZ) which she feels, “provide a platform to increase exports, attract foreign direct investment and employ lower-skilled workers.”

In that same year, Absa Bank came out in support of government’s industrial development zones (IDZ) strategy. For the bank, “IDZs are highly effective in attracting foreign investment and technology to developing countries, creating jobs, improving skills and earning hard currencies.” (Business Day, 4 June 2003)

The much publicised New Partnership for Africa’s Development (NEPAD) is put forward as an African solution to African economic problems. However, central to NEPAD is the notion that it is a strategy to ensure that African infrastructure and government is appropriate to attract foreign direct investment (FDI).

Everything we read and hear – from statements made by government ministers to academic economists - speaks about FDI as being the key to growth and development. Some of the language used in this discourse includes, “getting the economic fundamentals right”, practising “sound economic management”, “opening up the economy to attract FDI”, “good democratic governance”… These are presented as necessary conditions to reduce the risk profile of doing business in Africa and, in so doing, attract foreign investment.

What is FDI and what is it meant to address? These are the questions that we hope to discuss in this article. But in doing so we will draw on arguments that are critical of how FDI is defined and question the notion that FDI is the holy grail of development.

What are the problems in SA?

Currently in South Africa, we are in a period of economic growth. Gross Domestic Product[1] (GDP) is of the order of 4.5%, inflows of FDI into the country have increased, inflation is low and business confidence high. These are usually presented as signs of economic prosperity. The school of neo-liberalism defines growth and development as an increase in GDP and FDI inflows, and it is assumed that the increase in wealth will trickle down to the bulk of the population.

The fact that the immediate source of the growth is an increase in middle class consumer spending and that more and more people are borrowing money is not given any prominence.

However, there is another view as to what represents growth and development. This view addresses issues relating to the impact of economic activity on the poor and includes issues of rates of unemployment, access to education and health care and the provision of services.

Kiely presents Seers’ argument that development must include attention to basic needs which uses different criteria (other than GDP and FDI inflow) for measuring development (Kiely, 1998[2]). These include:

- the capacity to buy goods,
- access to employment

- relatively equal distribution of income
- adequate education levels
- participation in politics

To many of the poor and working class, the experience is that the South African economy is seriously ailing, what with the incredibly high levels of unemployment, and ever increasing job losses, increasing food insecurity and the increasingly high rate of the informal forms of work. In 2005 the official, narrow, unemployment rate was set at about 29%, but as we do not exclude what the state calls “discouraged work seekers”, the reality sits closer to 40%[3]. Protests against housing evictions, water and electricity cut-offs have been taking place around the country throughout 2005.

In a recent report of an enquiry into social security system, about 23 % of children in SA suffer from malnutrition and that between 20 and 28 million people live in poverty with 21.9% of households reporting hunger resulting from an inability to buy food.

The country is characterised by high levels of poverty, especially in rural areas where approximately 70% of the country’s poor live. In the category of households with an income of below R1200 the majority report difficulties with access to food. There are about 7,5 million such households. About 50% of these have an income of less than R399 and have difficulty in securing access to food.

The wealthiest 2,4 million South Africans accounted for more than 40% of all consumption, while the poorest 21 million accounted for less than 10%. The poorest 20% of the population earns only 3% of the national income, while the income share of the top 20% of the population exceeds 60%.

The promotion of FDI

> *“There is an urgent need to attract investment, to consolidate South Africa’s manufacturing base and strategically position this in the global economy, thereby realising the key aim of employment creation set out in our economic policy. Industrial development zones (IDZs) are proposed as one of the policy tools to realise this aim… Trade and industrial policies in South Africa historically sheltered domestic manufacturers from international competition and led to the economic isolation of the country from the rest of the global economy. “*
>
> (Industrial Development Zones: An integrated Development Model to Strategically Position and Develop South Africa as a Global Export Manufacturing Platform, Dept. of Trade and Industry)

This view, that Foreign Direct Investment (FDI) is somehow special and can lead to the solving of our economic problems and bring about growth and development has been put forward for some time. However, the protagonists of this formula argue, FDI does not appear like magic, but we have to put in place certain measures that will attract FDI. At a very basic level, the argument goes like this. If we create a favourable climate for investment, foreign companies will invest, which will lead to job creation, transfer of technology and skills into our economy. Job creation will stimulate consumption which in turn, will stimulate even more investment, and so on, and so on…

UNCTAD asserts that "FDI has assumed a prominent place in the strategies of economic renewal being advocated by policy makers at national, regional and international levels." (UNCTAD, 2005) This is not a new concept in policy relating to economic development. The designers of Structural Adjustment Programmes (SAPs) already saw increased FDI as key to sustained economic recovery, during the 1980's after the debt crisis imploded. SAPs were therefore justified because the attraction of FDI was unlikely to happen without incentive packages.

In some Asian countries some growth and development has been achieved (Malaysia and China) but in many other countries on the continent, FDI has remained insignificant and growth and development has not been satisfactory. On the African continent, it has been noted that, despite the structural adjustments undertaken by most African governments in the last two decades, the levels of FDI inflows into the continent have been disappointing as were the results of FDI inflows in relation to reducing poverty or creating jobs. (UNCTAD, 2005)

Gordon Hansen concluded that the evidence that FDI brings about growth and development is very weak and Arthur MacEwan found that Japan, South Korea and Taiwan achieved relatively higher levels of development by adopting policies that discouraged FDI and encouraged domestic investment.

What is FDI?

> *"…an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign investor) in an enterprise resident in an economy other than that of the investor. FDI has three components: equity capital, reinvested earnings and intra-company loans".*
>
> (UNCTAD definition of FDI)

Essentially, this means that FDI is investment that is in some way of a long term nature. It does not include investment that is speculative in nature like portfolio investment. In FDI, investors do exercise some control over management while in speculative investment, investors only provide money capital which is often short term. An example of speculative capital could be trade in currencies.

The components of FDI are:

- Equity capital, which relates to the purchase of shares in a company.
- Reinvested earnings relate to profits made in a company that are put back into that same company to continue operations or even expand
- Intra-company loans refer to one company lending money to another company (within the same group) for the purpose of expansion. This does not include bank loans.

Simply put FDI, in terms of the UNCTAD definition relates in some way to investment in production and could contribute to the creation of jobs while speculative investment refers to short term investments for the purpose of quick generation of profits through buying and selling of currencies. This latter kind of investment generally does not contribute to either job creation or the production of goods or services.

However there have been many questions raised about the UNCTAD definition of FDI. For instance, is it true to say that "FDI is long term?" An example is that of a pension fund investing

and buying stocks in a company in a different country. What if a problem occurs in the host country and the investor is forced to withdraw the investment within a week to prevent great losses? While, according to the component of equity capital, this would be classified as FDI, the investment was only short term.

Other questions raised are in relation to:

Reinvested earnings. Should not reinvested earnings be regarded as domestic savings rather than as new FDI inflows?"

Secondly, how does one define **intra-company loans** as new FDI inflows? These loans are from within the same company, and these loans are meant to be repaid (with interest).

Lastly the UNCTAD definition of FDI says nothing about the issues of **ownership** of capital and therefore the related point about the **repatriation of profits**. This occurs where profits made are taken out of the host country and not reinvested there. Can one regard this as being a benefit to the host country? (Tandon, 2002)[4]

Moreover, we live in a world of globalisation, under which economies are being restructured which includes the key questions of public accountability (or lack thereof) and ability (or otherwise) of national governments to regulate investment. There are a number of changes taking place in the realm of investment under globalisation, but suffice it to say that one of the simplest difficulties within the above logic to note is the failure to address the increasing marginalisation of public authorities over the nature, direction and objectives of investment. The fact that many different countries are competing for the self same FDI means that international investors and Transnational Corporations (TNCs) can become a law unto themselves.

There are three forms of FDI:

- "Greenfield" investments
- Mergers and acquisitions or M & As, and
- "Brownfield investments".

Greenfield projects refer to investments which are essentially new projects which did not exist before such investment. It would involve setting up a new workplace, installing new equipment and employing new workers.

M & As refer to investment projects where a Transnational company (TNC) either merges or acquires (takes over) an existing company in the host country. This includes taking over the existing workplace, existing equipment as well as the existing workforce. Often restructuring is undertaken where skilled employees are expatriated from the domestic country of the TNC and the workers in the host country are retrenched. In terms of the two forms, many people believe that greenfield investments are more useful because they can create jobs, transfer technology as well as bring new skills into the host country.

A new term as a form of investment has emerged called "brownfield" investment and essentially refers to a hybrid of greenfield and M & As. Here a foreign investor acquires a company and replaces existing infrastructure with new plant and equipment (often product lines and labour are replaced). (CUTS, 2001)

Globalisation and the changing investment regime

After many years of the period of capitalist growth (1940s to 1960s), which saw the advent of mass production and mass consumption, coupled with relatively full employment, a social wage – in the form of subsidised social services – and a deal between capital and labour, the spectre of overproduction re-emerged in the late 1960s. Capital found itself unable to sustain the balance between mass production and mass consumption. The problem was that ever-increasing capacity to enhance production eclipsed the capacity of consumption and once again another periodic downturn of capitalist production occurred. Production (which is performed for the purpose of making profit) becomes less profitable because the capacity to consume (demand) decreased. This slowed down production which in turn shed jobs and the slowed down demand even more.

This resulted in a situation where capital is not reinvested into expanding production because that is no longer at favourable rates of profit. Thus profits generated by production needed to find other avenues to make money. More and more of this was invested into speculation. Rather than expand production profits began to be increasingly used to buy and sell stock and/or currencies. What followed was that money capital increasingly became independent from productive capital and began to assume a primary role for itself, as opposed to the secondary role it played while production was the primary function of investments.

The process of changing investment regimes and patterns involved firstly the abandonment of the regime of fixed exchange rates in the early 1970s. Other changes involved increased securitisation of debt, the stagnation of industrial investment, the decline of commercial banks and the growth of mutual and pension funds.

> *"The process of finance has assumed greater significance and power than that of production, especially in recent years. The volume and mobility of global finance capital has surprised many observers. In 1986, about $188 billion passed through the hands of currency traders in New York, London and Tokyo every day. By 1995 the daily turnover reached almost $1.2 trillion."* (Singh,1998)

These changes did not mean that capitalism no longer invested in production. Indeed capital can only exist to the extent that surplus value is created in production. As long as capital requires the exploitation of human labour, we will have production. But under globalisation there is a growing tension between those capitalist concerned with production (industrial capital) and those concerned with money (finance capital). This is a tension over the surplus produced ultimately by workers in production. Within this struggle between industrial and money capital, industrial capital finds itself in a position forcing it to restructure how it invests. In the search for profits, industrial capital has placed its onerous burdens squarely on the shoulder of the working class.

Industrial capital now uses investment (FDI) as a threat, and places certain demands on governments of developing countries who are desperately in need of FDI (or so they are made to believe). One of the demands is for the creation of Export Processing Zones (EPZs). These are special geographical areas set aside from the host country's economy. In these zones a range of investment incentives are required. These include, among others, partial or full suspension of labour legislation, tax relief or holidays, duty free import of raw materials or equipment,

subsidised infrastructure and cheaper services. In these areas, production is mainly done for export and the requirement for EPZ status is often that as high as 80% of products must be for export.

In South Africa, such zones are called Industrial Development Zones (IDZs). While the name may be different, the concept and policies comply with those of EPZs. IDZs are geographical areas set aside from the rest of the country, for the purposes of production for export. Government provides much of the infrastructure, and offers tax holidays and other incentives in order to attract FDI.

The messiah FDI: Myth or reality?

Many viewpoints have been put forward. Of course there are those who believe in FDI and those who can show that it's much spoken about powers are overrated.

In an UNCTAD commissioned study, Gordon Hansen (Feb 2001) had the following to say:

> *There is weak evidence that FDI generates positive spill-overs for host economies. While multinationals are attracted to high-productivity countries, and to high-productivity industries within these countries, there is little evidence at the firm or plant level that FDI raises the productivity of domestic enterprises… Empirical research thus provides little support for the idea that promoting FDI is warranted on welfare grounds. (Should countries promote foreign direct investment?)*

Often Japan, South Korea and Taiwan are used as shining examples of phenomenal growth. But according to Arthur MacEwan (1999)"

> *…foreign investment in Japan was virtually prohibited, allowed only in so far as it contributed to the development of the domestic industry.*

A similar strategy was used in South Korea who followed policies of protecting domestic markets, heavily favouring Korean-owned firms and using state-owned industries to develop national production in certain 'strategic' sectors.

This did not imply that exports were discouraged for an inward-looking policy, but the dominant policy was to promote domestic capital. In both South Korea and Taiwan, the levels of foreign participation in production were relatively low during that period of growth (late 1970s) – 19% and 16% respectively – compared to Latin American countries with Brazil at 44% and Mexico at 35%. Yet the East Asian countries recorded higher economic growth than the Latin American countries. (MacEwan, 1999)

Both South Korea and Taiwan, did offer highly attractive incentives to foreign investors, but these were combined with very detailed agreements on what benefits the host country was to receive and a high degree of selectivity was practised, with FDI only encouraged in sectors when government believed it had no alternative means to obtain raw materials or technology.

According to Arthur MacEwan, this data shows that there is no correlation between FDI and growth and development. In fact, he claims that the opposite holds true. Where countries regulate foreign investment policies more strictly and have policies to promote domestic firms, much more growth and development takes place.

The Case of Malaysia[5]

The Malaysian government shifted towards an open, export-led industrialisation strategy in the late 1960s. The Investment Incentives Act, promulgated in 1969, provided export-oriented industries with generous tax incentives and financial and infrastructure facilities. In 1971, the Act was amended to include incentives for employment and provided special incentives depending on the size of the workforce.

During the 1970s EPZs were established in Malaysia and the incentives for investors in these zones included:

- Full or partial exemption from relevant laws and regulations
- Tax exemptions, including waiving of company tax (export-oriented industries were exempted for 10 years)
- No restrictions on repatriation of profits
- No restrictions on imports
- Low rentals and subsidised rates for use of public amenities
- Availability of cheap labour, together with laws restricting strikes

The strategy recorded significant successes initially. In 1970 the manufacturing sector contributed 12,2% of GDP and five years later had grown to 14%. During the decade from 1970 to 1980 the average annual industrial growth was set at 12,5%. However, this was less than the rate achieved in the previous decade under their then import substitution strategy (ISI) and manufacturing growth actually dropped in Malaysia. Job creation was put as a priority of the strategy and largely the targets were met. In the late 1940s 17% of the Malaysian population were wage earners while, by 1980, this had risen to 56%. Many of the new jobs were in the manufacturing sector and most of them were filled by women.[6]

While many jobs were created in Malaysia, it was found that the labour force inside the EPZs were having a raw deal because of low wages and poor working conditions and job security was non-existent. The main bait for investment was low wages. The Malaysian government trade missions proudly announced to prospective investors that workers in Malaysia can be employed for 8 hours at rates as low as US$1 – 1,50 per day. Other conditions include overtime of 8 – 16 hours weekly, penalisation for non-fulfilment of production targets and two weeks continuous night-shift with a rest period of 36 hours (compared with night shift workers outside the zones, who got a rest period of 96 hours after one week of night shift).

The case of China[7]

China began to shift its economic policy towards economic liberalisation at the end of 1978. The policy of development of the socialised production was effectively abandoned and market reforms were implemented. These included increased autonomy for enterprises, the abolition of the commune system in agriculture, development of the private sector and greater openness to foreign trade. At this time there was however still significant state control.

Later, state control became more relaxed (while some control was still exercised) and special economic zones were established in 1979. These were established to attract investment, including foreign investment from TNCs. In these zones incentives mainly included cheap and controllable labour as well as infrastructure financed by the state.

From the mid-1980s a significant shift towards manufacturing investment took place mostly inside mainland China but close to the neighbouring border with Hong Kong. Most investment was in labour-intensive manufacturing and was an attempt by capital to escape the rising cost of labour in Hong Kong. They also took advantage of extremely long working hours and fewer regulations, like health and safety and environmental legislation.

Since the early 1990s, China has become the second largest recipient of foreign investment in the world after the USA.

Critics however argue that this is based on the exploitative nature of labour relations in these zones. Bello and Rosenfeld – Dragons in Distress (1992)[8] – argue that the "miracle" is based on long working hours, low wages, state repression, damage to the environment and repression of women and questions whether China could be seen as a model for other countries.

The case of Africa

Coming back to Africa, Yash Tandon, one of the critics of FDI-as-panacea, tells the story of ex-Zambian president, Frederick Chiluba. Tandon cites Chiluba as complaining that, six years after he took all the required steps that were asked of him by the IMF and the World Bank (including large scale privatisation of state-owned enterprises, and generous incentives to foreign capital), no FDI has come to his country.

South Africa has also experienced that more capital has left the country than flowed in. in 2001 it was recorded that the $9.8 billion outflow of capital exceeded the inflow by about $1.6 billion. The investment trend in our economy is that more FDI is going out than coming into our borders. Between 1994 and 2000, FDI leaving South Africa was R89 billion while FDI flowing into SA was R66 billion. At the same time more investment (about 80% of all investment) was speculative rather than investment in production. But even this form of investment is extremely volatile. In 1999 portfolio investment was R83 billion but R12 billion in 2000.

The UNCTAD documents remind us that the increase in FDI inflow into Africa has stagnated over the last two years and that an increasing amount of all FDI is in the form of M & As, which does not create jobs. In its Sept 2005 document entitled "Economic Development in Africa: Rethinking the role of FDI" UNCTAD questions whether FDI on its own can contribute to economic growth and development and has found that the history of FDI flowing into Africa has up until now not contributed in any significant way to Africa's development. In fact Africa has experienced very little, if any, economic growth and development.

Endnotes

1. GDP refers to the amount of goods produced within the national boundaries of a particular country.
2. Development Theory: four critical Essays – D Seers (1979) – cited in Ray Kiely
3. Some say it is as high as 60%
4. Tandon defines FDI as "a package of capital, technological know-how and management specific to a particular type of production of goods or services, market knowledge and access, and contacts".
5. The information is sourced from Export Processing Zones in Five Countries – The Economic and Human Consequences – edited by Dennis Shoesmith (1986)

[6] In the same publication, it was stated that the other Asian countries investigated did not fulfil the employment targets as a result of the strategy. In Malaysia the strategy contributed to 11% employment in the manufacturing sector while only 3,1%, 1,2% and 2,7% in Taiwan, Philippines and Sri Lanka respectively.

[7] Information is sourced from Ray Kiely

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South Africa's economic expansion into Africa

Introduction

"That the ending of apartheid would open up the African market to South African capital was never in doubt; however, few predicted the rapidity with which it would seek to exploit its new market opportunity or the sheer volume of its flow into Africa."

(Daniel, et al, 2003)

At one level, the quote itself speaks volumes. Yet at another level, much is left unsaid, referring to the role of the South African government, both in the expansion of South African capital into Africa as well as in the process of regional and continental integration. The question is, will its economic strength translate into political domination leading to South African hegemony over the continent?

We should remember that the end of South African apartheid happened in the era of what has come to be known as globalisation. Here one refers to the restructuring of the world economy, which happened at many levels, involving important economic and political changes. Particular reference should be made to the changing regimes of trade and investment. Here the emphasis has been placed on the notion of the "free market" as the way to expand international trade and the promotion of foreign direct investment (FDI) as the way to economic growth and development.

At a political level, notwithstanding the role that government plays in determining domestic economic strategy and policy, there is the stated requirement for certain regional or continental powers to maintain regional or continental peace and keeping the "backyard" clean. Witness the role the South African government plays in promoting the New Economic Policy for Africa's Development (NEPAD) and insisting on the Peer Review process, and in so doing, undermining previous policies. Schoeman refers to South Africa as an emerging "middle power" in Africa and a regional "big power". (2003)

It is therefore not surprising that on both the economic and the political spheres, South Africa has taken on the mantle of superpower. South Africa's export trade within Africa has increased (as a percentage of export destinations by region) from 4% in 1991 to 12% in 2001. (Daniel, et al, 2003) Looking at the imbalance of the relationship, an even greater sense of dominance is revealed. Of South Africa's trade with SADC states in 1999, R17, 7 billion of the R20, 3 billion (Daniel, et al, 2003) represents South Africa's exports, all of 87%. In 2002, South Africa's imports from the SADC states totalled R127 million, while its exports totalled a whopping R2, 784 billion.

Between 1994 and 2000, South African outflow of FDI into SADC amounted to the equivalent of $5, 4 billion and South Africa has emerged as the continent's largest source of FDI. (Daniel, et al, 2003) The main investment drive into Africa has been from South Africa's main investors in its domestic economy. These include mining, retail, construction, banking and financial services, telecommunications and tourism/leisure. There has also been investment into other sectors but to a lesser extent. The South African state has also played an economic role in Africa, through the Industrial Development Corporation (IDC) a state-owned financial institution. The IDC has not only provided funding, but has also providing investment funding for certain projects.

The investment environment

According to the United Nations Conference on Trade and Development (UNCTAD), world FDI inflows have steadily decreased between 2000 and 2003. In 2001 the decrease was by 41.1%, in 2002, by 17% and 17.6% in 2003. However, the first half of 2004, showed some promise with an increase of 3%, mainly from reinvested earnings. (UNCTAD, 2004)

What was noted by UNCTAD, (as the title of the WIR[1] suggests) was that there has been a significant shift towards investment in services. As a percentage of global FDI, services represented 25% during the 1970s, by 1990, it represented 45%, but by 2002, services represented 60% of global FDI. Manufacturing flows was down from 42% to 34% and the primary sector decreased from 9% to 6%. It was also noted that the character of investment in services was also changing from trade and finance, increasingly towards electricity, water, telecommunications, broadcasting, business services and IT services. (UNCTAD, 2004)

Another factor to note is that the slight increase in FDI flows was mainly led by mergers and acquisitions (M & As) and not investment into new production activities. In keeping with the "shift towards services", at the end of the 1990s M & As in services represented 60%, up from the 40% of global M&As of the 1980s.

UNCTAD (2004) explains the shift towards services as a reflection of:

- The ascendancy of services in economies generally – 72% of GDP in developed countries and 52% in developing countries
- Most services are not tradable – they need to be produced when and where they are consumed – making the principal way to bring services to foreign markets through FDI
- The liberalisation of FDI regimes of services through policies of privatisation of state-owned utilities

FDI inflows into Africa increased by 28% in 2003. The recovery was prompted by investment in natural resources and the continued liberalisation of FDI policies as well as by privatisation where resource-rich countries were the main target of investors. While generally FDI outflows from Africa remained insignificant, South Africa is a notable exception. Sikwebu notes that South Africa has surpassed the US and Britain as a source of FDI in Africa and that, over the last decade, the continent has become the fourth largest destination for South African exports. (Sikwebu, 09/2004)

World FDI inflows continued to increase (marginally) during 2004 and were 2% higher than in 2003. The trend of increased investment into services (mainly financial services) continued and accounted for more than 50% of all FDI stock. The trend of investment, increasingly taking on the form of mergers and acquisitions (M & As) has continued, however, UNCTAD (2005) noted that greenfield investments have also increased, mainly in Asia, with China and India accounting for nearly half of all newly-registered greenfield projects. More than two thirds of these projects took the form of equity investments. Intra-company loans and reinvested earnings were on average 23% and 12% respectively. The dominant form of all foreign investment in services remain M & As and services accounted for about 63% of all cross-border investment in 2004. According to UNCTAD, low interest rates, higher returns and the recovery of asset prices contributed to the continued upturn in M & As (28% more than in 2003).

FDI outflows increased by 18% in 2004 to $730 billion and almost half of all outflows originated from 3 sources, the US, the UK and Luxembourg while outflows from the EU declined by 25% (net outflows exceeded net inflows by $260 billion). (UNCTAD, 2005)

However, while FDI flows have increased significantly in Asia and Latin America[2], inflows recorded in Africa have not increased, but remained the same ($18 billion) as in 2003. As a reflection of the increased profitability of investment in raw materials, FDI inflows to Africa, remained highest in natural resources and several large cross-border M & As were conducted in the mining industry. Despite these developments, Africa's share of world FDI inflows remains very low at 3%. At the same time, FDI outflows from Africa more than doubled in 2004, to $2.8 billion. (UNCTAD, 2005)

The FDI surge in 2005 was mainly the result of increased M & A activity, which increased by 40% while greenfield activity dropped and was particularly pronounced in Latin America where greenfield FDI activity fell by about 30%. (UNCTAD, 2006)

The source of most of African FDI outflows is from South Africa and reflects the country's new wave of cross-border investments into the rest of the continent. South African firms are making significant inroads into Africa and since 1994, more than 40 companies invested in African countries and in 1992 outflows amounted to R5.3 billion but by 2002 had increased six-fold to R30 billion.

South African expansion into Africa

In 1992, Rob Davies sketched three options for regional integration. In the first option, he spoke about a "South Africa first" approach where South African state and capital pursued economic interest above the interest of regional integration – even to the detriment of the region. In the second option, dubbed "integration under South African hegemony", South Africa would attempt to secure a regional integration and co-operation agreement, but which was shaped mainly by South African interests. Lastly, Davies spoke about the option of "non-hegemonic regional co-operation and integration" where all states would benefit without anyone gaining hegemony over the others. (1992)

The last option raised by Davies, also his personal choice of options, however, for him, seemed the least likely to happen because it required both the South African government as well as capital to exercise restraint and work towards the good of the region and not pursue narrow interests. At some levels, it seems however, that South African capital has plunged head-first into the African market and immediately reaped the benefits.

South Africa's role in Africa prior to 1994

Throughout the period of apartheid rule in South Africa, successive governments viewed the Southern African region as their "backyard". Initially, the main form of regional integration for these regimes was to use these countries as a source of cheap and disorganised migrant labour, and siphoned off millions of workers to work in the burgeoning South African mining sector. It is estimated that during the 1970s, almost 120 000 migrant mineworkers were from Mozambique, representing about 25% of total Mozambican wage earners – not an insignificant number. A large percentage of people in the south of Mozambique implicitly relied on the income of the migrant workers in South Africa. The South African government made use of this fact and incorporated the ports of Beira and Maputo (then called Lorenzo Marques) into the

South African economy. And, according to Castel-Branco (2002), the transport system of the port of Maputo contributed about 40% of foreign income – charged as export levies on South African minerals.

In another instance, we remember the political dominance of Namibia (what was then called South West Africa) in the form of South African administration of what was referred to as the "fifth province". South Africa ignored the United Nations (UN) and rulings by the World Court that its occupation of Namibia was illegal. We remember the deployment of South African Police to confront the rise of resistance from the South West Africa People's Organisation (SWAPO). We also remember South Africa's "covert" support of Renamo through military support and supply of arms, with the aim of preventing the end of the Portuguese occupation of Mozambique.

However, from the 1980s, South Africa experienced a decade of economic stagnation as a result of sanctions against the apartheid regime. By the 1990s, the superpower of South Africa was comparatively weakened (albeit still as the stronger economy in Southern Africa). The recruitment of migrant labour was significantly slowed, the market was being closed down and South African capital was being isolated.

South Africa's post apartheid expansion

Expectations of post apartheid South Africa's role on the continent seem to be high. Former US ambassador to South Africa spoke about the "South African Promise" and in the US view of South Africa, Warren Christopher said, "When I look around the world, I see very few countries with greater potential to help shape the 21st century than the new South Africa." (1996)

In an article, Dot Keet identifies South African government as departing from Africa's position on the World Trade Organisation (WTO), in its preparation conference. She contends that this is no surprise and relates to the fact that South Africa is seen as the leading power in Africa and is sometimes used to sway the rest of Africa. The British Minister of Trade said that "Britain is expecting South Africa to be a key partner in a new multilateral drive to reform the WTO". The then EU trade Commissioner, Pascal Lamy said "South Africa and the European Union could play a leading role in rekindling the move towards a new WTO round." (Keet, 11/15/2001)This was all happening while many of the developing countries from Africa, Asia and Latin America were calling for "no new round". "South Africa is thus seen by many African countries to be doing so in direct as well as indirect collaboration with the WTO and the major powers… This includes repeated meetings with the SADC ministers of trade where South Africa can use its political influence and economic and financial leverage with particularly the weaker southern African states, which are so tightly inter-linked with and dependent upon the South African economy." (Keet, 2001)

Historically, Southern Africa has been the main area for South African investments north of the Limpopo, for obvious reasons of proximity and culture and logistics. Relationship has been mainly with Zimbabwe and Mozambique. Exports from South Africa amounted to R6, 4 billion and R7, 31 billion to Mozambique and Zimbabwe respectively in 2002. (Games, 2004)

However, subsequently, South Africa has extended its tentacles further into Africa as far afield as West Africa, East Africa and North Africa.

South African companies in Africa

With returns routinely over 30% - in some cases 50%-60% - compared to the 16%-20% of South Africa, Africa's allure can be irresistible.

(Financial Mail 07/02/2003)

The profitability of stores in other countries is generally better than South African stores because of the limited competition in those countries and because we take slightly higher margins.

(Business Report 15/04/2004)[3]

State owned enterprises

The role played by the Industrial Development Corporation (IDC) reflects the South African government's role and the IDC not only provides financial support, but also invests in activities. An example is the Mozambique Aluminium Project (Mozal) in which the IDC has a 24.04% interest. Between 1997 and 2001, South African companies invested some R9 billion in Mozambique and there are more than 250 South African companies operating there. (Daniel et al, 2003) During the construction phase of Mozal[4], all the construction companies used were South African. It was deemed that Mozambican construction companies did not have the expertise for the activity. The skilled employees, during this phase, were South African and (to a lesser extent) Zimbabwean expatriates. The government of Mozambique only has a 3.85% share in Mozal, while South Africa's BHP Billiton, holds 47% share in Mozal, which is the single largest FDI in Mozambique[5]. (Games, 2004)

The concerns raised regarding the Mozal project range from the limited linkages that South African operations have with domestic sectors, which could limit the transfer of technology and skills. Secondly, the capital intensity of investment in Mozambique has created about 24 355 jobs, which means that it cost about R240 000 to create a single job. The other concern raised is that of fragmentation of the labour market. In Mozal, the lowest monthly wage is R2 495, while the national minimum stands at R325 and R228 for industry and agriculture respectively. (Sikwebu, 2004)

By providing export finance, the IDC has facilitated the growing participation of South African industry in projects throughout Africa. The countries include Nigeria, Senegal and Ghana in West Africa, Egypt and Algeria in North Africa. Others include Sudan, Uganda, Kenya and Tanzania, Malawi and Swaziland

In Nigeria, the IDC has invested more than the equivalent of $1, 4 billion in telecommunications, tourism and resources. The IDC's portfolio includes about 60 projects in 21 countries. (Daniel et al, 2003)

Eskom, in 1999, established a wholly-owned subsidiary with the purpose of expanding into Africa, called Eskom Enterprises and in its 2000 – 2005 investment plan, allocated $240 million to southern Africa, $445 million to West Africa, $86 million to North and Central Africa and $245 million to East Africa. While Eskom's pan-African agenda is already evident in its operations in Africa (see table 1), its flagship operation is the development of an energy grid across Africa. This involves linking the Southern African Power Pool[6] to a power-generation plant at Grand Inga Falls in the DRC, allowing Eskom to develop a power network from Grand Inga into Angola, Tanzania, Kenya and Malawi. (Daniel et al, 2003)

Retail and food

According to Games, the retail and food sector has been the most visible and accessible businesses in the northward trek by South African businesses, because of the wide exposure to the public. Shopping centres and malls, lined with South African brands, increasingly dominate the landscape in African capitals and are juxtaposed to the usual informal trading markets and rows of tiny shops along narrow streets, we are so used to. (2004)

The problems identified are that these well-capitalised companies from South Africa put local business in a difficult situation, many of which have been forced to close down. Another problem is the accusation that the supermarkets send second grade perishables or those that have outlived the expiry date. An accusation which has been denied.

As one can see from Table 1, the retail trade sector has also made significant investment into Africa with Shoprite operating 89 stores in 14 countries[7] and Massmart over 300 outlets with SAB Millar, expanding its breweries' operations. In recent reports, both Shoprite and Game (Massmart) are continuing this trajectory into Africa. (Business Report 15/04/2004) Other sectors have not remained behind. However, what can be noted from Table 1 is that the significant majority of FDI outflows from South Africa into Africa are in the services sector, with the exceptions of mining (three companies) and two manufacturing companies, thus reflecting the general trend of world investment flows. According to Shoprite, expansion beyond the borders is an essential development… they have always supported the idea of the African Renaissance and "we believe our successes in Africa show the way for others to make this Renaissance a reality". (Shoprite website, Dec 2005)

Shoprite currently has 135 outlets in 17 countries[8] in Africa and has recently opened an outlet in Mumbai, India. Shoprite plans to build 2 new shopping centres each in Angola and Mozambique in 2006. (Shoprite website – Dec 2005)

Other retailers operating in Africa include the JD Group, (which trades under the names Hi-Fi Corporation, Morkels, Bradlows and Price 'n Pride) with 17 stores in SADC, Pep Stores which have about 160 stores in SADC. Pick, n Pay has shares in the 54-store TM chain in Zimbabwe. Fast food chains line the streets of African countries including, Nandos, Debonairs and St Elmo's. Steers have licences in 21 countries and over 60 outlets in 13 countries. (Games, 2004)

Mining

Africa has always been recognised as a mineral rich continent. However, the mining sector is generally considered to be a high risk sector, and margins need to be high to justify costs. The key risk factor is identified as political factors, because mining operations rely on agreements and contracts with governments for their being.

One example of the risks involved, is the operations of De Beers in Angola, which relationship has had its ups and downs. De Beers began prospecting in Angola in the early 1970s in a joint venture with the company Diameng. After independence in 1975, the MPLA nationalised the company and transferred the rights of diamond mining to government[9]. De Beers still continued prospecting until 1985, when the rebel movement, UNITA, threatened to disrupt diamond mining operations. Finally De Beers pulled out of Angola in 2001, after a dispute with the government. During 2003, De Beers and the Angolan government re-entered negotiations regarding De Beers' return to the country. The proposal was for a joint venture between

Endiama[10], who would have exploration and mining rights in Angola and De Beers who would market the diamonds world wide.

Currently De Beers operates in Zimbabwe through its wholly owned subsidiary DebZim, Botswana in a 50:50 joint venture with the government through a company called Debswana and Namibia through a 50:50 joint venture with the government called Namdeb.

Anglo American has widespread operations in Africa through various shareholdings in a number of companies including Anglogold, De Beers, Angloplatinum, Anglo Base Metals, Anglo Industrial Minerals and Anglo Ferrous Metals. Anglogold has mining operations in Mali, Tanzania and Namibia and in 2003, announced its plans to secure a merger with Ashanti Goldfields in Ghana. Outside of Ghana, Ashanti has gold mines in Zimbabwe, Guinea and Tanzania. The government of Ghana held 17% shares in Ashanti, including what was called a "golden" share[11] and had to finally give approval of the merger. The merger was agreed to and as from 23 April 2004, AngloGold Ashanti has been in operation, and jointly has 25 operations in 11 countries.

AngloGold offered Ashanti shareholders R0.26 per R1 of shares and the final agreement was R0.29 per Ashanti share and AngloGold shareholders own 87% of all shares of the merged Anglogold Ashanti. Prior to the merger, Anglogold had 3 operations in Africa[12] but now AngloGold Ashanti has operations in 7 countries[13] on the continent.

AngloGold Ashanti signed an agreement called the "Stability Agreement" which (among other clauses) accords the government 2,658,000 AngloGold Ashanti shares as well as a cash amount of US$5 million to be paid to the government. The government of Ghana agreed to extend the mining Obuasi lease until the year 2054, authorise the company in Ghana retain up to 80% of exportation earnings in foreign currencies offshore and guarantee that the Ghanaian operations will not be adversely affected by any new enactments (like customs duty, taxes or any other fiscal or import regulations) for 15 years.

AngloGold Ashanti agreed to spend US$220 million on the existing Obuasi mine between the date of the agreement and the end of December 2008, establish a community trust in Ghana, into which the company will contribute a total amount of 1% of profits and will not implement any retrenchments for a period of 2 years.

BHP Billiton's investment in the Mozal project (an aluminium smelter in Maputo) (mentioned earlier) has been identified as the country's single largest source of FDI. It holds a significant 47% of shares. In February 2003, BHP Billiton formed a strategic alliance with Petra Diamonds, in an attempt to receive rights for diamond exploration in Angola. BHP Billiton offers to pay R10 million upfront which will be converted to Petra shares, when the agreement on the joint venture is agreed upon. Petra is listed on London's Alternative Investment Market. At the same time, De Beers has indicated its willingness to negotiate with the state diamond company, Endiama, but the negotiations have been stalled. Endiama has indicated that it has received more than 17 000 requests from businesses wanting to invest in Angola's diamond mining sector. (Business Report, 23/02/2004)

Conclusion

FDI has become more and more important in the design of economic development strategies as a prominent component for development on the African continent. However, an UNCTAD

report notes that despite the efforts of African governments to comply with policy advice, the record of the past 2 decades with respect to reducing poverty and attracting FDI in Africa has been "disappointing at best". They note that in the extractive sectors, competition to attract investment has led to an inflation of incentives leading to what has been described as "a race to the bottom". (UNCTAD (ii), 2005)

Expectations that FDI would create jobs and lead to transfer of technology and skills have not been met, with most of the FDI inflows taking the form of M&As rather than Greenfield investments. According to UNCTAD, 'Neither theory nor history suggests that economic catch-up can be left to the interplay of global market forces and large international firms from advanced industrial countries. (UNCTAD (ii), 2005)

Not even South African investments in Africa promises to contribute to Africa's economic development. The take-over of AngloGold of Ashanti in Ghana has not created a single new job and the agreement only guarantees no retrenchments for two years from 2004. By the end of 2006 retrenchments could be implemented. The Ghanaian government made some compromises on policy in order to attract this investment, however, the desired expectations of attracting FDI are not being seen.

Darlene Miller speaks about a "Different Renaissance for Workers" when she interviewed Shoprite workers in Maputo, Mozambique. They earn between R580 (for temporary workers) and R820 (for permanent workers) per month and of the 200 employees, only 50 are permanent workers. The rest are employed as casual labour with no leave benefits. In an interview, one of the Shoprite workers had the following to say: "I am permanent but if I get injured, I get no compensation. No-one pays you for the first three days that you are sick…In two years my salary hasn't changed, even though I am permanent. (Miller, 2000)

While South African companies are making significant inroads in Africa, the South African government is playing the role of "big brother". They are taking a leading role in the NEPAD process and the Reserve Bank governor, Tito Mboweni, has been quoted as saying that "South Africa should not be afraid of, or hold back from, exercising its political power in shaping integration or the regional economy". (Creamer, 2005)

According to Creamer, Mboweni was unequivocal on the need for strict macroeconomic convergence criteria to which member states should be legally bound. This would appear that South Africa should set the terms of membership to SADC and set conditions for macroeconomic policies – much like the conditions of structural adjustment. This raises questions that have been recently asked, is South Africa a middle power or is it an imperialist power?

Endnotes

1 The World Investment Report (WIR) 2004 is entitled "The shift Towards Services"

2 while Latin America's FDI inflows were much less than Asia, it was significantly higher than in Africa

3 Quote from Fanus Nothnagel, MD of Game Stores (set to open stores in Kampala and Maputo)

4 During 1998, ILRIG conducted an exchange programme between Mexico, Canada, South Africa, Zimbabwe, Mozambique and Namibia. The research was to assess the extent of the

development of EPZs in Southern Africa, which included the Belelouane Industrial Free Zone in Maputo. The Mozal project is located within this IFZ.

[5] Mitsubishi Corp holds the other 25% shares in Mozal

[6] the Southern African Power Pool is a SADC project to supply power to countries in southern Africa, of which Eskom is the driving force

[7] This figure was in 2003

[8] Angola, Botswana, Egypt, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe

[9] The Angolan constitution stipulates that all natural resources are the property of the state, which can determine how it will be used and explored.

[10] Endiama is the state diamond mining company in Angola

[11] The golden share allows the government to block any deal made between Ashanti and another mining company

[12] Daniel et al, 2003

[13] South Africa, Ghana, Mali, Tanzania, Zimbabwe, Guinea and Namibia

[14] Stanlib is a joint venture between Standard Bank and Liberty Bank

[15] Massmart includes Makro, Game, Dion and Cash & Carry

[16] IDC is a South African state-owned financial utility

[17] CSIR is the Council for Scientific and Industrial Research

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www.shoprite.co.za

Table 1: South African major corporations in Africa by sector

SECTOR	CORPORATIONS	WHERE
Aviation and airport services	Airports Company of SA	In 9 countries
Airlines	South African Airways	3 joint ventures
Banking and financial services	Stanbic Absa Stanlib[14] Alexander Forbes	In 18 countries In 4 countries In 9 countries In 11 countries
Construction	Murray and Roberts Group Five	Offices in 3 countries and 13 country contracts 12 country contracts
Energy	Sasol Petro SA	3 country contracts 3 country contracts
Manufacturing	Nampak Sappi	In 10 countries In 3 countries
Media and broadcasting	Multichoice TV Africa	TV and subscriber services in 21 countries Supplies programmes to 33 countries
Mining	De Beers Anglogold Goldfields	In 3 countries In 3 countries In 3 countries
Retail trade	Shoprite Massmart[15] SAB Millar	89 stores in 14 countries over 300 outlets in SACU states 13 breweries in 10 countries and 35 sorghum breweries in 5 countries
Research and development	Industrial Development Corporation (IDC)[16] CSIR[17]	Financing projects in 20 countries Conducting research projects in 17 countries
Telecommunications	MTN/M-Cell Vodacom Eskom - Telecommunications	Cellular fixed-line contracts in 6 countries Cellular contracts in 5 countries 1 fixed-line cellular contract

Transport	Transnet Unitrans	8 country contracts 7 country contracts
Tourism and leisure	Protea Hotels Southern Sun Imperial Car Rental	Resorts in 9 countries Resorts in 6 countries 110 locations in 8 southern African countries
Utilities - power	Eskom	3 utility management contracts, 1 joint venture and 28 country contracts
Utilities - water	Umgeni Water Rand Water	3 country contracts 4 country contracts

Source: (Daniel et al 2003) – constructed from Corporate Mapping data set.

Eskom in Africa

"It's going to happen, it's just a question of how fast we can do it… Africa's got everything – the resources, the raw materials and the energy… It's just a matter of developing it… If things go well, we'll have an African grid within four or five years… When Africa is all linked up, so the plan goes, supply will far outstrip local demand, allow Africa to export cheap power across the Mediterranean to Spain, Jordan and beyond."

(Jan de Beer, Managing Director of Eskom Enterprises, Oct 2002)

"If NEPAD succeeds, it will provide an important backdrop for foreign investment… Eskom Enterprises is already emerging as a key ingredient in the recipe for the successful implementation of NEPAD projects in the energy sector."

(Thulani Gcabashe, CEO of Eskom holdings and former chair of Eskom Enterprises)

Introduction

Africa has been embarking on a process of liberalising its energy sector with various governments looking to the private sector to assume the role of electricity supply because energy supply utilities are unable to meet the needs of electricity demand in the various countries. Eskom has been taking advantage of this and its aim is to establish itself as Africa's premier and, some would believe, only source of electrical energy on the continent.

Eskom, South Africa's national electricity utility, supplies 95% of all electricity requirements in the country, and in the process it generates more electricity than all the other suppliers on the whole of the African continent combined. 90% of this is sourced from coal, 7% from nuclear-generated power and 2% from hydro-electric facilities. Eskom is recognised as a "world class" electricity company and is said to supply more than 50% of the continent's electricity needs. Eskom is rated number eleven in world ranking according to capacity to generate electricity.

The setting up of Eskom Enterprises

In 1999, Eskom Enterprises (Pty) Ltd was formed as a wholly owned subsidiary of Eskom. Its function is to develop and commercialise the company's non-regulated activities. Eskom Enterprises has been in operation since 1 January 2000 and has its head office in Johannesburg, with other offices in Uganda, Nigeria, Mali and Zambia. Eskom Enterprises is responsible for all activities outside South Africa, motivated solely by profit and not controlled by regulation, and for 'non-core' activities in South Africa, including the highly controversial pebble-bed nuclear reactor.

Eskom Enterprises' line of business has four sectors:

- Infrastructure development
- Energy business operations
- Specialised energy services
- The pursuit of business operations (e.g. IT and telecoms)

Since the beginning of its operation, Eskom Enterprises has been responsible for the construction of more than 26 000 km of transmission lines covering the whole of the southern African region.

The Eskom website provides some insights into its priorities. It reports the need to assess new projects in the rest of Africa, on a "strictly commercial basis' and its environmental policy includes the "prevention of pollution where economically viable and sustainable".[1] With regard to labour, it makes the rather euphemistic statement that "tough calls will be made around delivery of results and commitment to Eskom Enterprises values".[2]

Eskom's investments primarily go into state utilities in other countries. Usually it's involvement with other utilities is only partial - it either owns shares, buys particular power plants, or has a contract to manage a particular part of the service. It also has an investment division that generates income by buying shares. Its investments sometimes fund major new power plants, or the rehabilitation and improvement of infrastructure, but often it simply takes over a utility that already exists. This feeds into the argument that FDI often fails to fuel 'growth', because it simply involves the transfer of domestic assets into foreign hands.

While Eskom itself employs over 37 000 people, only 1370 of those are employed by Eskom Enterprises. Of these, around 70% are managers, brought in on higher income than local people. Another interesting statistic is that in 2001 under 40% of Eskom Enterprises' managers were black, a figure significantly lower than the approximately 58% achieved by Eskom. This fits neatly with accusations made by workers that South Africa 'exports apartheid', sending a higher proportion of white managers abroad to improve national BEE ratings.

The small total number of employees given here is related also to the use of short term contracts. Sometimes these are for highly paid consultancy posts, but often it is casual labour. The Eskom annual report for 2003, for instance refers to six permanent staff at Eskom Enterprises Global West Africa, along with "up to 50 contract employees, seconded staff or local hire."[3]

Privatisation

Eskom is one of the most significant investors in other electricity utilities in Africa as they go through the process of privatisation. The ownership of utilities remains in the most case in government hands, but services are being, as the jargon goes, rapidly "unbundled". In other words the service is split into discrete areas, such as distribution and generation, and then frequently the more lucrative of these areas are out-sourced to companies. It is not yet clear whether this will lead to full-scale privatisation. Increasingly, conditions for World Bank / IMF loans and debt relief have depended on the privatisation of energy, a conditionality that NEPAD concurs with. This leaves governments in an even weaker position than if they had been implementing such policies more voluntarily: the process is often rushed through in order to keep pace with a funder-imposed programme, and contracts are weighted to provide unfairly lucrative returns to private companies. At the same time, however many concessions are made to the investor, questions are left as to whether electricity provision will ever be sufficiently profitable for full privatisation to happen. Uganda is one of the countries that have gone furthest, but many responsibilities are left with the state such as the rural electrification programme and funding past retrenchment payments.

Eskom Enterprises' involvement in privatisation in Africa takes three forms:

- Buying power plants and becoming an independent private provider
- Taking over or setting up new dams which operate hydro-electricity
- Taking over the management of utilities from other African parastatals

Eskom as Independent Power Provider

The most common position is for a state to have sold power plants, or at least handed over management so that an 'independent private provider' sells electricity to the national utility. The 'power purchase agreements' provide us with an illustration of how a government is forced to bend over backwards to attract an investor. The deal frequently involves binding the state to buy a certain amount of electricity at a price which guarantees a profit, often payable in foreign currency and fixed for a period of around twenty years, regardless of changes to the exchange rate or the availability of cheaper power from elsewhere. The same thing can occur when transmission lines are owned or managed by a private company which then charges fees for use.

Eskom acts as in independent power provider in many countries including Zambia, Zimbabwe, Mali, Uganda, Nigeria, Morocco, DRC, Mozambique, Swaziland, Senegal, Mauritania, Kenya, Cameroon, and Namibia, and has management and policy roles in Malawi, the Gambia, Libya, Zanzibar, Rwanda, the DRC and Uganda. In a few cases it is involved in distribution, but manages to focus this on the more lucrative areas. For example in the DRC it takes responsibility for Kinshasa where there are richer urban consumers who will pay for electricity, and leaves the rest for the state to care for, and in Zambia it provides primarily industrial loads.

Zimbabwe
In November 2001, Eskom signed a contract with the Zimbabwean power authorities ZESA to manage, operate and maintain the Hwange power station. The contract is valued at R3m and provides for a team from SA to fill key positions at Hwange.

Zambia
The Zambian government is reportedly reluctant to privatise, but is being forced to do so as part of applications for HIPC status and subsequent debt relief. Eskom is getting involved as a private power provider in conjunction with Zambian Management Buy Out Team. Eskom holds 51% shares in Lunsemfwa Hydro Power Company (LHPC). This involves the Mulungushi and Lunsemfwa power stations which are near Kabwe. It is also responsible for transmission lines into the town, and distribution for some townships, but primarily for industrial customers. This is reported as one of their profit successes, performing "at 11,5% earnings above budget in 2003" with limited employment creation, the number of permanent staff increased was between 31 and 35. The network infrastructure under the Mulungushi and Lunsemfwa facilities is under negotiation for sale to ZESCO, the Zambian state utility.[4]

Swaziland
In October 2001, an agreement was signed for Eskom to provide Swaziland's power needs, for a sum of 11million dollars. Usually, only 20 percent of the country's power is generated locally, with the rest imported.

Namibia
Eskom is involved in a new power plant to be built in the diamond-mining town of Oranjemund, which will be connected to an offshore gasfield at Kudu. The majority of the electricity produced is for consumption by Eskom, according to the memorandum of understanding they signed

with NamPower in July 2004. The plant is expected to generate 800MW, which is far in excess of the current national consumption of 500MW, so Eskom will be a very significant beneficiary. The 22-year contract stipulates that the cost of electricity must remain competitive with any Greenfield generation projects in the region, regardless of the cost of production.[5] It also states that Eskom will be involved in operation, maintenance and technical support.[6]

The project is expected to cost around N$7billion, and create around 2000 temporary jobs for Namibians, most of which would be lost after the construction phase.[7] Although this is a new project and not a take-over, the employment benefits it provides are therefore temporary and insecure.

Transmission

Nepskom, a joint venture between the National Electric Power Authority (NEPA) and Eskom Enterprises, part of the state-owned South African electricity company, was awarded a long distance carrier's licence in June 2002. Eskom Enterprises holds a 51% stake in the operator, which commercialises NEPA's existing private telecommunications network. Nepskom will build a 5,000-km fibre optic network along NEPA's power line infrastructure. It will become a carrier's carrier, providing backbone infrastructure to licensed operators but will not be able to sell services to end users. By mid 2000, Eskom had already strung some 1,300-km of fibre optic cabling along NEPA's power lines[8]

Eskom CEO Thulani Gcbashe holds the presidency of UPDEA (the Union of Producers, Conveyors and Distributors of Electrical Energy in Africa), which seeks to influence policy-makers and build towards the unification of Africa's power resources and linking of national utilities through interconnected power grids.[9]

Although Eskom is keen to assert that it enters the Southern African Power Pool as an equal partner and not a leader, it is often accused of dominating, and the statistics would seem to suggest that it is in a position to do so. Eskom accounts for 80% of the demand in the Southern African region. 90% of the exchange in SAPP is currently conducted through bilateral agreements, which are often fixed in its favour. The currency of these agreements is either South African rand or US dollars. This was most famously problematic with the Zimbabwean power authority, ZESA, where national currency devaluation led it into debt to Eskom worth millions of dollars. Eskom also demands payment in hard currency for rental of its power lines.[10]

One good example is the arrangement between Eskom and the Cahora Bassa dam, where Eskom benefits from a highly biased arrangement originally made in 1974 between the apartheid government and the colonial Portuguese government in Mozambique. Eskom buys electricity from this dam at the absurdly low price of 2 cents per kilowatt hour in US dollars, regardless of inflation, and then re-sells electricity to Mozambique, at a higher rate in US dollars, costing about $1.2 million a month.[11] This leaves the dam, still 82% owned by the Portuguese government, in debt to Eskom to the amount of US$2.5 million.

Management role

Another common means of partial privatisation is giving a management contract to a private company. This requires a very small capital outlay from the company, which usually need employ only a very few staff, and which then gets the opportunity not only to earn from the

contract in the short-term, but also to exert an influence prior to the more full-scale sale of the utility, so that firstly, it is more likely to be awarded the contract, and secondly, it has already had the chance to test and improve the profitability of the utility.

Uganda
Eskom's involvement in Uganda involved several stages, and perhaps provides a model of how management contracts early in the privatisation process can lead to more substantial involvement at a later stage. Eskom was contracted as a consultant in early 1999, in 2001 it took over all generation of electricity, and in 2004, in a joint venture with Globeleq Ltd, it took over responsibility for distribution.[12] The only functions the national utility has been left with responsibility for are non-profitable activities like, long term debts, the sale of the corporation's residential houses, payment of pensions and retrenchment benefits for former employees, operation of diesel systems in isolated areas, and the rural electrification programme.

Eskom's involvement was part of changes to the electricity system that had already started. By 1999, 30% of staff had been retrenched. It is tempting to see Eskom's influence behind 'Operation sigma', a major crackdown in 2001 on people obtaining electricity illegally, which led to a slump in the electrification rate through disconnections, 401 arrests, the installation of over 3000 new metres for domestic customers, and the collection of over a billion Ugandan shillings, (US$0.5 million, approx) in "penalties, energy loss payments, and capital contributions".[13] Only a small number of employees are expatriates, in Uganda Power Station for instance, out of 92 people in total, only 3 are permanent employees of Eskom South Africa, with others on temporary contracts. Given that Eskom is responsible for management, we can expect these smaller numbers of people to be better paid and exercise more power.

Within the terms of its contract, Eskom was highly successful. After years of making huge financial losses, electricity in Uganda started to generate profits of around 4 billion Ugandan shillings, and debt collection was increased by 20%.[14] However, although the Electricity Act, (amended 1999) included a rural electrification programme,[15] increases in electrification over the period 1996-2002 were slight overall, and negligible in rural areas, with 4% of the total population, and around 1% of rural dwellers having access to electricity.[16] Furthermore almost 100% of the rural population is calculated to live on less than US$1 a day.[17]

Lesotho
Eskom was one of three companies involved in the privatisation of Lesotho Telecommunications Corporation (LTC) in 2001, along with Mauritius Telecom, and Econet of Zimbabwe. As part of the sale agreement, the major shareholders are to bring in new capital for the expansion of the telecommunications network in the country.[18]

Senegal
The privatisation of the state utility in Senegal was strongly resisted by unions. Twenty six people were arrested and held in prison for six months for campaigning against the privatisation.[19] The government persisted, in spite of a partial privatisation attempt that had already failed because the company had not fulfilled its contract agreements in a year. Eskom is involved as a private power provider, but this was delayed by protests. They were also in a consortium with Cinergy Global Power, in the bid for the management contract, but dropped out at the last minute because they were 'not happy with the government's guarantees'.[20] Among other things, the government was demanding a limit on the number of South African expatriates employed, and for approved settlements to accompany any retrenchments.

Zanzibar

From 1997 Eskom was contracted as a management advisor, but since 2001 it has been operating customer services. It is paid according to performance, the criteria for which are very narrow (its success is measured entirely in terms of its success at revenue collection). This has to be seen in the context of the problems the utility had been having with indebtedness to the electricity provider in mainland Tanzania. In 1997, when Eskom was first involved, only 60% electricity used was billed for, and only 58%of bills were paid, so that only 34.8% of electricity was paid for. Eskom launched a punitive disconnection campaign and was allowed changes to tariffs in order to generate income. The World Bank was also engaged to oversee financial restructuring. Since these developments the total number of electricity consumers dropped by about 3000, although the initial targets for non-paid bills were bigger commercial consumers, rather than domestic users.

Libya

Eskom is involved in a joint venture in Libya, forming GESCO with the national utility, as a provider of 'support services' to the power sector. The senior management is all Eskom. [21]

The Gambia

As in Senegal, privatisation in the Gambia and Eskom's involvement have been highly problematic. In June 2000, Gambia's National Water and Electricity Company (Nawec) signed a deal with Eskom to take charge of its power, water and sewerage activities. Eskom was to acquire a 50% stake in NAWEC and participate in a $75-million investment program to overhaul NAWEC generating plants over the following five years. The World Bank was expected to provide a loan of US$60 million to back the project. Under Eskom's guidance, a twenty year programme was made to develop infrastructure and a short term capital plan and business model were put in place. Eskom was also to make recommendations about further privatisation and "strategic partnering." Three months later the agreement fell through.[22]

Malawi

The Malawian government asked Eskom Enterprises to provide a team of three specialists for Eskom to "turn around" the performance of the Malawi utility, (confusingly entitled Escom). Eskom achieved a rise in profits for the utility, largely by raising tariffs.[23] Pre-payment metering has also been introduced in Blantyre, Lilongwe and Mzuzu.[24] This is in a country where only 4% of the total population has access to the power grid, a figure that stands at 1% in rural areas.[25]

Big dams

Eskom Enterprises is involved in the financing of big dams in other parts of Africa as a means of producing hydro-electric power. The proposed third dam at Grand Inga Falls on the Congo River is the most famous example, and will be discussed later. Eskom (and the IDC) was involved in bidding for the highly controversial Bujagali dam in Uganda, although they didn't get the contract. Eskom is a key player in the proposed Mphanda Nkuwa dam on the Zambezi in Mozambique, and it manages two hydropower stations on the Nile in Uganda, and the Manantali dam in Mali, and is heavily reliant on the Kariba and Cahora Bassa dams in Zambia and Mozambique.

Although favoured by the World Bank, and sometimes claimed to be more environmentally 'clean' than other energy sources, big dam projects are almost always intensely locally destructive, and their clean status is hotly contested. Particularly in tropical regions, rotting

vegetation in large reservoirs can emit greenhouse gases at levels that are as high as thermal sources[26]. Dependency on hydro-electric power increases a region's vulnerability to the effects of climate change, as droughts will threaten the power supply and floods worsen sedimentation processes and cause reservoirs to fill up. Both Mphanda Nkuwa and Grand Inga-3, (see below), propose to generate income through carbon trading, which would significantly reduce the funds available for more genuinely renewable, small-scale sources of energy.[27] Furthermore, major hydro-electric projects usually high-voltage grids that provide power for urban centres and industries, but have little impact on population-wide electrification rates.

Manantali
Eskom has a fifteen year contract in Mali to manage the Manantali dam and provide electricity for Mali, Senegal and Mauritania. The reservoir was created long before the power plant was developed, which implies that Eskom became involved after the truly devastating social impacts had already taken place. 120 km^2 of forest was destroyed, and a staggering 12000 people were involuntarily displaced. Tensions in the area were heightened, as the promises of commercial agriculture led to changes in Mauritanian legislation, that stripped black Mauritanian subsistence farmers of their land rights, and allowed the white Moor elite of Mauritania to seize the land, displacing a further 70 000 people. This fed ethnic tensions in Senegal and led to the eviction of 10 000 Mauritanian shopkeepers. The agricultural programme was in the end disastrous, causing a change of crops to rice, which were unable to compete with foreign imports and caused the local farmers to go out of business. The reservoir further caused the spread of infectious diseases and had such an impact on local fishing that even fishing families were reduced to eating imported fish.

While Eskom cannot be held responsible for what happened before its involvement, the development of the power project and the fixing of the contract did however create a situation where the provision of electricity was legally binding for a period of fifteen years, and therefore power needs are prioritised over agriculture in times of shortage. It seems ironic that, with the plans for downstream irrigated agriculture failing because of the lack of electricity, power from the dam is being transported away in major high voltage cables to feed far-distant urban grids.

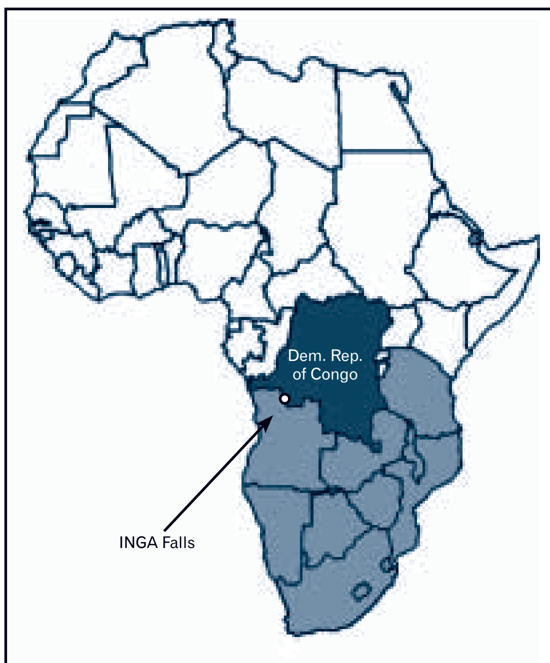
Mphanda Nkuwa
Eskom is involved in initial studies of the proposed Mphanda Nkuwa dam in Mozambique, and is a likely provider of funding. It would displace around 1400 people, and the proposed resettlement programme is at present only 'informal'. It would threaten sources of income further downstream also and involves a high base river flow and low seasonal variation, which would be bad for shrimp fishing; while the fact that the river level would be allowed a variation of 1.5 metres would threaten floodplain agriculture. It is estimated that the dam would cause a loss of income of around $10 million per year. Around 3000 jobs would be created during the construction phase, but this would drop to around 30 permanent jobs for unqualified staff, and 50 more in skilled / management posts that might not go to local people. Another issue already referred to is the proposal to generate income by selling 7 million tonnes of carbon credits per year, totalling 147 over 21 years, which would use up a vast proportion of the money available for smaller scale renewable energy projects. It will also be highly expensive – a proposed US$1.7 billion, which would rely to a large degree on foreign loans, and which would take a long time to recover, especially given that Mozambique already has an energy surplus thanks to the Cahora Bassa dam. The dam doesn't contribute to any of the objectives outlined in Mozambique's energy and development plan.

Bujagali

The IDC website reports that the company is "investigating … potential involvement in a major hydro-electric power plant in Uganda". If the website has not been updated, then this may refer to the Bujagali dam, which the IDC bid for, in a consortium with Eskom. The consortium was led by a little known British company rumoured to have strong links with former AES executive committee members. AES was the American company that was originally involved in the project when it received intense pressure from NGOs because it was "not in line with international standards" on environmental and social considerations,[28] and who were finally forced to pull out after accusations of corruption. This consortium did not win the bid, which went instead to an affiliate of the international private investors Aga Kahn Development Network.

Grand Inga Falls

The proposal to build a dam at Grand Inga Falls in the DRC is probably one of the most famous of Eskom's projects, and not only for the usual social and environmental issues attached to hydro-electric power projects. It is seen as a show-piece for Eskom's imperial ambitions, and illustrates what Eskom's alliance with NEPAD means. It will be very expensive, and reliant on loans, and it will be the means of generating power to supply an interconnected grid that is planned to span the continent. Although this is often referred to in conjunction with low rates of electrification among the population of many African nations, high-voltage transmission tends to link urban and industrial centres, and neglect poorer communities, and smaller scale, decentralised generation and distribution would provide much better services for ordinary people.[29]



Already the World Bank has granted loans amounting to US$178.6m to develop the transmission system from the dams already existing at Inga – these lines will go to South Africa, Kinshasa, where Eskom has a contract for distribution, of power, and Kolwezi, where the IDC[30] is involved in a copper/cobalt project. The new, third dam will be a joint project of five electricity utilities, from South Africa, Namibia, Angola, the DRC and Botswana, all contributing equal funds and incurring equal debt. Eskom, however, would dominate as an importer once the dam was built, [31] using it in part to supply the Coega smelter in South Africa. [32]

The dam is described as run-of-the-river, and would qualify as green energy under the Kyoto protocol, raising the same issues with carbon trading as with Mphanda Nkuwa. Also as discussed, run-of-the-river is a misleading term, and, although precise details are not yet available for Grand Inga, often involves reservoirs and displacement of population. The Inga dam would divert the flow of the river into the Bundi valley, and would involve 52 separate power plants, many of them nearly the size of Mphanda Nkuwa.

Eskom in SADC countries

South Africa and Zimbabwe

Zimbabwe provides an interesting example of a case where Eskom seems to be acting against its own interests, as well as demonstrating the effects of fixed contracts on countries which

are struggling. Under the original agreement, Zimbabwe was obliged to buy 150mw per hour at a fixed rate in dollars, so that, with their escalating hard currency problems, they had amassed a debt of US$20m, owed to Eskom. Eskom was attacked by trade unions for continuing to supply electricity despite this debt, and then allowing Zimbabwe Electricity Supply Authority, (ZESA), the state utility, to re-negotiate the contract in order to pay at a lower rate, and for whatever amount they could afford. There were even claims that Eskom was being paid in gold because of the lack of forex. This leniency can be seen as a subsidy on Mugabe's regime, and thus feeds into the debate about what Mbeki is playing at. What's of interest here however, is the evidence that Eskom, although it has been commercialised, and has management that is separate from the state, it can still be seen to serve political, as opposed to economic, strategic interests.

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The notion that foreign direct investment (FDI) brings about growth and development has assumed a prominent place in economic strategies of many countries around the world (who have offered many incentives to foreign companies for investment). Two decades later, reports show that there is no correlation between FDI and development.

While the South African government has implemented such policies to attract FDI, South African companies have taken advantage of other African countries' quest for investment and have made significant inroads north of the Limpopo river. This booklet looks at whether this trek into Africa has been beneficial to the host countries as promised and contributed to development.