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Businesses from the Rising Powers: Traditional or Progressive Development Partners for Africa?

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Abbreviations

ABDI	Agência Brasileira de Desenvolvimento Industrial (Brazilian Agency for Industrial Development)
ABF	Associação Brasileira de Franquias (Brazilian Franchise Association, BFA)
AIDS	acquired immune deficiency syndrome
APEX	Agência Brasileira de Promoção de Exportações e Investimentos (export promotion agency)
BEDIA	Botswana Export Development and Investment Agency
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazilian National Economic and Social Development Bank)
BOT	build, operate and transfer
BRICS	Brazil, Russia, India, China and South Africa
CDM	Cervejas de Moçambique
CFR	Council on Foreign Relations
CINDES	Centro de Estudos de Integração e Desenvolvimento
CIS	Commonwealth of Independent States
CNI	Confederação Nacional da Indústria (National Confederation of Industries)
CNMC	China Nonferrous Metal Mining Group Co.
CSR	corporate social responsibility
DRC	Democratic Republic of Congo
EGPC	Egyptian General Petroleum Company
EIU	Economist Intelligence Unit
FDC	Fundação Dom Cabral
FDI	foreign direct investment
GDP	gross domestic product
ICMM	International Council on Mining and Metals
ICTSD	International Centre for Trade and Sustainable Development
IFC	International Finance Corporation
IFZ	Industrial Free Zone
IMF	International Monetary Fund
INSS	National Institute of Social Security
IT	information technology
LDC	Least Developed Countries
LNG	liquefied natural gas
MNC	multinational companies
MoU	Memoranda of Understanding
MT	Mozambican Metical
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organisation
ODA	overseas development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	public–private partnership
RPID	Rising Powers in International Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADPA	South African Development Partnership Agency
SAIIA	South African Institute of International Affairs
SASAC	State-owned Assets Supervision and Administration Commission
SEMOS	Société d'Exploitation des Mines d'Or
SENAI	Serviço Nacional de Adiestramento Industrial (National Agency for Industrial and Vocational Training)

SMEELP	SME Empowerment and Linkages Programme
SOE	state-owned enterprise
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
US	United States
USAID	United States Agency for International Development
WEEM	West Esch El Mallaha
WTO	World Trade Organization

1 The role of business in development: traditional vs progressive

Expectations about the role of businesses as development actors have become almost unrecognisable from the ones summarised by Milton Friedman: 'The only social responsibility of business is to increase its profits' (Friedman 1970). Despite Friedman's relative abruptness, the role of business in contributing to the overall economic growth of a given country cannot be overstated. Businesses create employment, a taxation base for the state, generate innovation and provide goods and services for the population. No country has been able to develop (including the BRICS – Brazil, Russia, India, China and South Africa – and other rising powers) without a vibrant and competitive business sector. However, there is growing pressure on businesses nowadays to go well beyond their contribution to overall economic growth (which may be called the 'traditional' role of business in development) and become directly involved in poverty alleviation schemes, environmental regeneration activities and even the promotion of human rights.

This second set of expectations depicts a more 'progressive' role for businesses in development. It may have begun with the more general term 'corporate social responsibility' but this progressive role keeps on evolving and can take many different forms, including business models such as the 'Base of the Pyramid' approach (first espoused by C.K. Prahalad), which proposes that business can involve the poorest inhabitants of a country both as consumers and as producers for their economic benefit as well as for the improvement of the businesses' bottom line (Prahalad 2004). Other such business models are 'inclusive business' (ensuring that businesses include poor people within their core operations and not only as charity activities which do not challenge the companies' business model), 'making markets work for the poor' (tackling the systemic market failures that exclude the poor from productive activities), and 'pro-poor value chains' (removing inefficiencies that prevent the poor from getting greater shares of the profits generated in a given chain).

As globalisation of business has spread around the world, these expectations about the role of businesses in development extend to the operation of business in developing countries and particularly in low-income countries in Africa. There are, however, concerns about the capacity and intent of any foreign business operating in Africa and claiming to be a responsible corporate citizen. Businesses from the global North have been the usual targets of these concerns but as firms from the BRICS increase their presence beyond their 'near abroad'¹ and venture into African markets, their role as true progressive partners in development has been increasingly scrutinised.

It could be argued that this heightened scrutiny has been brought about by South–South cooperation discourses often espoused by the BRICS and other rising powers highlighting the differences between BRICS and Organisation for Economic Co-operation and Development (OECD) countries with regard to their modes of engagement with low-income developing countries. Claims of egalitarian relationships where donor and recipient are considered equal partners in a 'mutually beneficial' arrangement abound within South–South cooperation discourses (Brautigam 2009; Kragelund 2010; Younis *et al.* 2013). Even when these cooperation arrangements are taking place between a country such as China and a low-income country in Africa, the discourse remains. Clearly these claims of egalitarianism, mutual benefit and lack of conditionality (all traits which are used to distinguish South–South

¹ The exception here being South Africa for whom the rest of Africa is part of its 'near abroad'.

cooperation from OECD aid flows) raise questions as to whether they are, in fact, being put into practice and not only in discourse. Questions about whether businesses from these countries also apply or abide by these principles also deserve attention.

Business activity from some BRICS countries in Africa (particularly China and to a lesser extent India) is more widely reported than for other members of the bloc and there is often a critical tone. The role of Brazilian firms has been reported more favourably with some exceptions, notably the mining giant, Vale. The role of South African firms in the rest of Africa has been studied in more depth and perhaps with more sophistication given the penetration of South African business in a variety of industrial and retail sectors in Africa, giving a more nuanced picture. Russian firms and their presence in Africa is rarely covered by the mainstream media and there are few academic sources available.

This study will therefore provide original material on the lesser-known presence of businesses from a subset of the BRICS as potential partners for development in Africa. Based on interviews with firms from Brazil, Russia and South Africa as well as the review of secondary material, the following sections discuss a variety of activities deployed by these firms in Africa, which they consider to be developmental, and the justification behind them. Section 2 reports on the case of Brazilian firms operating in Africa; Sections 3 and 4 do the same for South Africa and Russia, respectively. Section 5 summarises how the operations of Chinese and Indian firms are viewed in the literature with regard to their corporate social responsibility (CSR) involvement (used as a proxy for 'developmental engagement') and compares those views with the evidence provided in this study for the other three BRICS countries: Brazil, Russia and South Africa. Section 6 concludes.

2 Brazilian business in Africa²

The presence of Brazilian businesses in Africa has never been as large as that of the other rising powers, but during the government of ex-President Lula da Silva (2003–10) the country saw an increase both in its volume as well as in the way it was promoted as part of Brazil's economic diplomacy strategy. Motivations for this diplomatic and economic 'expansion' towards the continent are varied and some have been explained by a renewed emphasis on the South–South cooperation discourse as a counterweight to the traditional North–West model of delivering cooperation to Africa (Costa Leite *et al.* 2014). Other analysts explain that the Lula presidency aimed to show its economic orthodox credentials (business friendliness) by supporting the internationalisation of Brazilian firms with large loans and/or simply by inviting them to join Presidential visits to several African countries (CINDES 2011). Another explanation is the need to strengthen the Brazilian economic presence in Africa in order to compete with other rising powers such as China and India for a share of the continent's growing markets as well as its resources.

Trade between Brazil and the African continent grew from US\$5bn to US\$27bn in ten years (Lula da Silva's government and the first two years of Dilma Rouseff's government, up to 2012). This represents an impressive growth of 500 per cent (albeit from a very low base) which contrasts with a more moderate growth in trade between Brazil and Europe (240 per cent) and with Brazil's largest single trade partner, the United States (US) (140 per cent) (Revista Cidade 2011). However, trade patterns did not change much from previous decades in as much as it continued to be concentrated in a few countries and products (African exports to Brazil have not diversified much from natural resources) (CINDES 2011).

It is therefore difficult to see whether the 'diplomacy offensive' that characterised the Lula governments had any developmental impact (traditional or progressive) linked to changes in trade patterns that could benefit Brazil's trade partners in Africa. Trade concentration was quite high, with Brazilian exports directed to a few countries in West Africa, North Africa and South Africa. Brazil imported oil mostly from Nigeria and Angola and 48 per cent of Brazilian exports went to only three African countries (CINDES 2011).

When it comes to the composition of those trading relations, the developmental impacts are even more ambiguous beyond increased volumes (and increased revenues) of items exported from Africa to Brazil. Brazil tended to export manufactured products to Africa (including those coming from the food processing industry) and import mostly oil (85 per cent of imports) from Africa (CINDES 2011).

With regard to more traditional forms of development cooperation that also involves (and benefits) Brazilian companies, Angola seems to have been the country that benefited the most. The Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social – Brazilian National Economic and Social Development Bank) opened credit lines for large Brazilian construction firms such as Odebrecht and Camargo Corrêa to carry out important infrastructure projects in housing, transport, communications, energy stations, water provision and sewage systems. Angola was allocated a credit line of US\$3.2bn by BNDES. Other countries with BNDES credit lines were Ghana, Mozambique (which benefited the Brazilian mining company, Vale) and South Africa (CINDES 2011).

² The material in Section 2 is based on face-to-face interviews with Brazilian private and public enterprises operating in Africa, as well as with some governmental agencies involved in industrial development policy. The interviews were carried out in October and November 2012 at the headquarters of these businesses and government organisations in Brazil.

These loans have a ‘concessional’ aspect as they recognise the ‘developing nature’ of the beneficiary countries and fix low interest rates of 2 per cent or lower for the life of the loan.

These loans were justified to the Brazilian public – and complied with the Brazilian legal framework that regulates international cooperation – in such a way that they were not meant to support development objectives in Africa but were given to support the internationalisation of Brazilian firms and their exports to the African continent. However, the framing given to this support during the Lula governments aimed to show a more progressive and disinterested motivation for this brand of economic diplomacy than the one followed by his successor, Dilma Rousseff, who has tended to emphasise the mutual commercial benefits of these loans and initiatives instead of dressing them up as ‘solidarity projects’ with the African nations.

2.1 Main trends from interviews with government agencies

When compared with the outward-looking government programmes during ex-President Lula’s terms, the current trend amongst government agencies working with the Brazilian private sector is one of slow disengagement with Africa. Agencies like ABDI (Agência Brasileira de Desenvolvimento Industrial – Brazilian Agency for Industrial Development) have redirected their efforts from countries like Mozambique and Angola to Mercosur and other parts of Latin America. Projects to develop processing and manufacturing plants in Africa had been seen as audacious in the past, even by some of ABDI’s own staff, but as ties have grown stronger with beneficiaries in Africa there is a sense that opportunities for investment are being lost now that – due to the domestic and regional new priorities set by the team of President Dilma Rousseff – those projects will not be finished.

Commercial ties rather than grants or solidarity loans are the new orthodoxy with regard to Brazilian industrial engagement with Africa. A new focus on markets in the global North has also ensued, viewed as a way to upgrade Brazilian firms’ capabilities by supporting them to export to ‘more sophisticated’ (for example, North America and Europe) markets and hence become more globally competitive. This shift is also aimed at increasing the export of manufactures instead of natural resource-based products to Asia, particularly to China. In October 2012 there was growing alarm that for the first time the balance of trade between China and Brazil had tipped to the benefit of the former.

Other agencies such as APEX (Agência Brasileira de Promoção de Exportações e Investimentos, an export promotion agency) have been assigned fewer resources in general, but this is particularly true in the case of resources destined to support exports to Africa. This is compounded by reluctance amongst medium-sized enterprises to venture outside of the large and lucrative Brazilian domestic market, which had been growing for over a decade. Medium-sized firms (usually the target for support by APEX) see few reasons to invest and take risks in the African market, leaving this task to the largest firms in Brazil in the sectors of construction, mining and natural resource-based products.

The Ministry of Trade and Commerce (which oversees ABDI and APEX) contended that the presence of Brazilian private and public industries in Africa has not been reduced nor have economic flows diminished. A shift from grants and low-interest loans to commercial relationships and investment that seeks higher returns for Brazil has ensued. The official position is that this will actually improve conditions for Brazilian investment in Africa, which in turn will encourage higher numbers of projects and exports for the benefit of African economies whilst also promoting Brazilian economic interests. Emphasis on pragmatism and mutual benefit seems to have replaced discourses of solidarity and support to Africa.

2.2 Brazilian business in Africa: an overview

It is difficult to know how much Brazil invests in Africa every year. Brazilian companies are highly protective of their data and although they comply with data-gathering requirements from the government, they register many foreign assets in fiscal paradises such as the Cayman Islands instead of clarifying the real final market (Hiratuka and Sarti 2011).

According to the 2014 ranking of Brazilian multinational companies (MNC) prepared by Fundação Dom Cabral, a well-known business school, Africa as a continent is placed fifth in terms of preferred locations for opening a subsidiary. Latin America, Europe, Asia and North America are all much more popular choices (FDC 2014). In 2006, from the top 20 Brazilian MNC only six had a presence in Africa: Vale do Rio Doce (mining), Petrobras (oil and gas), Odebrecht (construction), Camargo Corrêa (construction), WEG (industrial engineering) and Marcopolo (vehicles) (Hiratuka and Sarti 2011). Most of these companies were interviewed for this report, with the exception of WEG and Marcopolo which are headquartered in the South of Brazil, away from the main cities visited for this research.

However, in recent years an increasingly higher amount of Brazilian investment is going to Africa, making the region one of its fastest-growing destinations, particularly for franchises (FDC 2014). Brazilian firms may bring complementary sectors to Africa. For instance, construction companies have been invited to bid for large infrastructure projects linked to the activities of Brazilian mining industries. A large-scale example of this is the mining–construction partnership between Vale and Odebrecht in Mozambique and particularly with the construction of the Nacala Corridor. These two sectors (mining and construction) are where Brazilian firms are mostly represented, but there is an increasing number of Brazilian manufacturing firms in other sectors (including franchising and small- and medium-sized enterprises) with a presence in Africa.

A review of Vale's website³ shows the company has been operating in Angola, Mozambique, Guinea and Zambia. Its most important operations are in Mozambique where the company is trying to mitigate the impacts of its operations by engaging in social projects led by the Vale Foundation. One project is to combat malaria by training its staff, distributing mosquito nets and other treatments to both its employees and contractors. The company has also been contributing US\$3m every year for three years to the Global Fund to Fight AIDS, Tuberculosis and Malaria since 2013. Another social programme (aimed at their African personnel) is outlined in Box 2.1.

³ www.vale.com.

Box 2.1 An example of a vocational/social programme by Vale in Africa

Below is a case study taken from Vale's 2013 Sustainability Report:

'Workers qualified by program in Mozambique

The program Acreditar (Believe) was developed by Vale in partnership with one of the companies responsible for the construction of the Moatize Project, to empower neighbouring communities, where the company operates a coal mining complex. The initiative sought to qualify the local workforce to operate in the project, through specific technical courses. In 2012 and 2013, more than 1.3 thousand people were trained.

Actions have been developed in partnership with Dom Bosco Centre and the National Institute of Employment and Vocational Training (Inefp in Portuguese). The selection process was implemented in several stages. First, the local communities received numbers, followed by a process of evaluation of basic requirements. Tete residents over 18 years old that had completed the 6th grade (local education) could apply. Once selected, the candidate took Portuguese and mathematics tests. Those that passed with 50 per cent or more went through medical and psychological tests, after which only the final selected were left.

The initiative began in 2012 and was completed in 2013. In all, 942 people completed the Basic Module, and 389 completed the Specific Module. In addition to being strategic to operations – the level of local hiring in Mozambique is higher than 80% – the initiative rose the level of local professional qualifications, as graduates may act as multipliers and transfer knowledge to others.

Acreditar is the result of our commitment to acting in the development of the local workforce and raising the educational level in projects and in regions where we operate.'

Source: Vale (2013b: 44).

An interesting aspect of Vale's Sustainability Report (Vale 2014), as well as the Ethics and Values section of its website, is the inclusion of the list of codes, commitments, treaties and organisations of social development the business is linked to:

- Vale Human Rights Policy (created in 2009 following the United Nations (UN) Framework for Business and Human Rights; Vale published a second version in 2012 and it was updated in 2013 to include 'advances since its publication, in 2009' (*op. cit.*). Its social and environmental reporting has become much more detailed and sophisticated since 2009. Social expenditure was estimated at US\$270.4m (*op. cit.*: 44).
- Vale Code of Ethics and Conduct (*op. cit.*); and
- Vale Sustainable Development Policy (*op. cit.*).

The main codes Vale has signed are:

- International Council on Mining and Metals (ICMM);
- United Nations Global Compact initiative; and
- International Labour Organization conventions for decent work, elimination of all the worst forms of child labour and commitment against slave labour.

Angola has been an important node to link Brazil with sub-Saharan Africa. Petrobras (the main oil company in Brazil) and Odebrecht both started operations in Angola towards the end of the 1970s and even though the civil war affected Odebrecht's operations, the company

made the strategic decision not to leave Angola. Brazil was also the first country to recognise Angola after the civil war, which paved the way for a 'special relationship' between Angola and Brazil to emerge. This closeness was also reinforced by a common language (Portuguese) and other perceived cultural similarities.

Odebrecht was the second largest construction company (after a number of Chinese firms) to get involved in large construction projects in the housing sector in Angola. However, recent analyses have shown that mismanagement of the oil-backed loans used to finance construction companies (not only Brazilian, but also Chinese) have led to the failure to attain the Angolan Government's housing goals (Croese 2011).

2.3 Main trends from interviews with Brazilian companies operating in Africa

Moving towards the private sector side of the Brazilian complex spectrum of organisations that provide support to businesses, there is SENAI (Serviço Nacional de Adiestramento Industrial – National Agency for Industrial and Vocational Training). This is one of the flagship agencies of the CNI (Confederação Nacional da Indústria – National Confederation of Industries), a private sector-led organisation which was created by government policy and provides public goods to the Brazilian population in employment and their families. During President Lula da Silva's two terms, SENAI spearheaded a number of centres for vocational training in several African countries but these projects are no longer being encouraged. The new priority for SENAI is to strengthen industrial skills and capabilities amongst the Brazilian poor.

When talking to private firms in the mining, oil and gas, construction and agriculture sectors, words such as 'hardship', 'opportunity' and 'accomplishment' emerge – 'hardship' being used to express how investment and work conditions in Africa seem to them much more difficult than, according to one interviewee, 'even in the poorest areas of the north-east [of Brazil]'. For these reasons, some of the firms said it has been a challenge to find staff willing to move to Africa to lead and implement projects. This challenge has been compounded by a labour shortage within Brazil, given the expansion of the economy for more than a decade up to 2012 when these interviews were carried out (2009 and 2012 being the exceptions) and the creation of new local jobs. Institutional challenges such as contract enforcement, facilitation of payments and competition with Chinese and Indian firms in Africa have added to this sense of hardship.

'Opportunity' was the other notion that firms expressed when referring to their work in Africa. Construction firms in particular view African weak infrastructure as an opportunity for investment and for obtaining support from BNDES in the shape of loans geared towards the internationalisation of Brazilian firms. According to some interviewees, over the last decade many new Brazilian multimillionaires were created as a result of large infrastructural projects but also thanks to the increased demand for engineering services and other technical maintenance services for mining and construction provided by small Brazilian firms. Brazilian construction firms represent the sector that has spent most time in Africa and had the most nuanced view of Africa – they stayed in countries such as Angola during war and conflict and even claim to be regarded as 'local' companies, a status they say has been reinforced by their commitment to employing and training local people to work for them. This was also part of the model they wanted to foster, to be seen as 'African' construction firms instead of Brazilian. Odebrecht was frequently mentioned (by other firms as well as government agencies) as the Brazilian construction firm that had the best reputation in Africa linked to high quality standards and timeliness in finishing projects, as well as involvement in social housing projects. Although this study did not carry out interviews in Africa, a review of Odebrecht's annual reports shows a clear intention to showcase its operations in Africa and

the number, variety and complexity of its programmes seem to be setting an example for other Brazilian companies operating in Africa.

Mining companies such as the giant Vale have also seen in Africa a land of opportunity with large projects in Mozambique leading the way. However, this is the Brazilian firm which has been internationally criticised the most, including an embarrassing award of 'Worst Company' as a result of 25,000 online votes in an annual poll organised by Swiss non-profit Public Eye (Chaudhuri 2012). In addition, political instability and complex relationships with partners have seen their investments shadowed by scandal in places such as Guinea (EXAME 2012; Pearson 2012).

During the interviews in Brazil, exporters of manufactures tended to be more conservative about their assessments of opportunities in Africa as local competition from South African and Chinese manufacturers thwarted many ambitious plans, such as those of Brazilian cosmetics firm O Boticário which closed operations in Africa after a few years or the many small- and medium-sized enterprises that did not benefit from the 'Brazilian content' clause included in the BNDES internationalisation loans to large companies. Regardless of these limitations, a number of personal services franchises ranging from hairdressers to language schools are now expanding to Africa according to the Brazilian Franchise Association (interview with adviser to ABF – Associação Brasileira de Franquicias).

'Accomplishment' and 'responsibility' were also frequently mentioned by interviewees from the private sector when referring to their operations in Africa. Several interviewees expressed that in Africa their social responsibility projects are even more important than in Brazil because of the dire social and economic conditions in which their African employees live. A mining company engineer explained how their company became involved in sponsoring orphanages for children whose parents had died of AIDS, which is something they would never attempt in Brazil to avoid being accused of creating projects that foster dependency (*assistencialistas* in the original Portuguese) instead of empowerment. In many geographically remote areas where these companies operate, they have decided to fill the vacuum left by the absence of a strong state (for health, education and security) to help their employees and their families. Given that Brazilian firms tend to employ African labour, these social initiatives for employees benefit the local community. Much has been said about the fact that Brazilian firms invest in training the local workforce and regardless of their motives (i.e. Brazilian shortage of labour or genuine desire to build local capabilities), this is a key feature of Brazilian business practice in Africa with clear links to development objectives.

Surprisingly, the largest oil and gas company from Brazil, Petrobras (which is invested with a large percentage of government capital), never got involved in social programmes in Africa and is now disinvesting in order to focus on Brazilian domestic priorities. This finding goes against the assumption linking state-owned companies with social programmes and privately owned companies being associated with little investment in the area of social development.

3 South African business in the rest of Africa⁴

3.1 The South African private sector and the region

The standard response from South African business people, when asked about why they do so well in Africa, is often 'because we know Africa so well'. Although there is some truth in this assessment, the key feature distinguishing South Africa from other foreign investors in their assessment of risk relates to the issue of expectation. South African investors expect to be faced with logistical and bureaucratic hurdles when contemplating investment in the continent, even though many would agree that they evaluate risk in exactly the same way as their foreign competitors do. There is no magic bullet to overcome the many barriers and pitfalls that accompany investment in Africa. However, South African investors who are often relative newcomers to other countries on the continent outside the Southern African Customs Union (SACU),⁵ and more recently the Southern African Development Community (SADC), have shown remarkable skill at developing coping strategies to deal with the challenges inherent to many African economies, including a lack of infrastructure (power, water, roads, rail) and a difficult political and economic environment.

Arguably, for the South African private sector the business case matters even more than for government-driven investments given the risk inherent to an expansion strategy outside their home market. On the whole, large South African companies have had to bankroll and trust their own business instincts in making a success of their ventures across South Africa's borders. However, they have also found, like other investors in Africa, that although the risks are great, the returns are high. The average return on investment in Africa, depending on the sector, is up to four times higher than in the G8 countries, and twice as high as in Asia.

3.2 A profile of South African investment in Africa

South African involvement is weakest in parts of francophone and North Africa. South Africa's latecomer status to French-speaking Africa is illustrated by the fact that Standard Bank only opened a representative office in Côte d'Ivoire in February 2014. This makes it the first South African bank to expand into francophone West Africa. The company indicated that while it is following its clients into the region as per its standard strategy, it would use the office to familiarise itself with the francophone West Africa region. Standard Bank views its office in Côte d'Ivoire as a potential hub for the West African Economic and Monetary Union, which is made up of Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo. The opening of the Côte d'Ivoire office expands Standard Bank's operations into 19 African countries. Nedbank, one of the four main South African banks, indicated that it would be exploring opportunities in West Africa with a local partner, Ecobank, one of the main banks in Côte d'Ivoire, signalling a growing interest by South African business in this region (Ndzamela 2013).

South Africa is also one among many players in Africa's big economies (Kenya, Egypt, Nigeria and Angola) where it faces significant competition from traditional European but also many new investors from the emerging South. However, it is dominant in its immediate neighbourhood. South Africa is the leading investor in SACU because of its long-standing institutionalised relationship and history and the country also has a well-established foothold in all sectors in its other immediate neighbours, Zimbabwe and Mozambique. This prominence as a leading investor has rapidly expanded into the rest of the member states of

⁴ Section 3 is an extract from a report commissioned by the RPID programme to specifically contribute to the present study: 'Business from the BRICS: South Africa' by Neuma Grobbelaar, South African Institute of International Affairs (SAIIA), March 2014.

⁵ The members of SACU are South Africa, Botswana, Lesotho, Namibia and Swaziland. SACU was established in 1910.

the SADC,⁶ even into such challenging environments as the Democratic Republic of Congo (DRC). But, as noted earlier, South African corporates are also extending their reach into other African countries as far flung as Nigeria, Mali, Ghana, Senegal and Egypt.

However, an overview of the type of South African investment into the rest of Africa shows that, generally, so-called big or 'mega' South African investments – such as the building of the Mozal aluminium smelter (total outlay US\$2.2bn), the laying of the Sasol pipeline (US\$1.2bn) and the merger of AngloGold and Ashanti Goldfields of Ghana (US\$1.4bn) – are rare. The South African Institute of International Affairs (SAIIA) study found that medium-sized investments in agribusiness, particularly sugar production, railways, finance and insurance, telecommunications, utilities, tourism, health, entertainment and breweries are more common. However, the majority of investments, especially in the retail sector, are generally much smaller, although ironically much more visible as evident in the changing cityscapes across the continent.

This finding seems to correlate with a 2003 United Nations Industrial Development Organisation (UNIDO) study that found that 40 per cent of all foreign investors in Africa invested less than US\$1m per project (UNIDO 2003: xii). In Mozambique, the largest recipient of South African foreign direct investment (FDI), figures provided by the Mozambican investment promotion agency show that 85 per cent of individual South African investments or outlays were less than US\$1m each between 1998 and 2002. This is despite the fact that South Africa was considered to be the leading investor there, representing 49 per cent of total FDI by the end of 2003.

South African investments are a mix of greenfield investments (especially in energy, mining and property) and mergers and acquisitions linked to privatisation, especially in agribusiness, finance, tourism and manufacturing (mainly breweries). Investment in telecommunications straddled both types. 'Investments' in the case of South African parastatals are often linked to a specific concession for a limited period, often a maximum of 15 years.

Whereas several South African companies choose to operate on their own, when given the choice many opt to take on a local partner as a risk mitigating choice. In strategic investments there is a mandatory obligation to take on the government as an active partner. In both Ghana and Mali the government reserves the right to retain a free share in any investment in the mining sector.⁷ However, some companies believe that the appointment of members of the government or prominent individuals that are close to the government onto their boards (where it is mandatory and/or allowed) brings certain advantages in navigating the operating environment better.

It is important to note that the most visible South African investments in the region are implemented by a relatively small but prominent group of South African companies.⁸ This does cast some doubt over the perspective held in some quarters that South Africa is an economic hegemon bent on dominating the region (see Daniel, Naidoo and Naidu 2003;

⁶ Businessmap found that South Africa was ranked in SADC member states in the period 1994–2003 in the following manner: Angola (1 per cent of total foreign direct investment – FDI) ranked sixth; Botswana (58 per cent of total FDI) ranked first; DRC (71 per cent of total FDI) ranked first; Lesotho (86 per cent of total FDI) ranked first; Malawi (80 per cent of total FDI) ranked first; Mozambique (31 per cent of total FDI) ranked first; Namibia (21 per cent of total FDI) ranked third; Swaziland (71 per cent of total FDI) ranked first; Tanzania (35 per cent of total FDI) ranked second; Zambia (29 per cent of total FDI) ranked first; and Zimbabwe (24 per cent of total FDI) ranked third. See Rumney and Pingo (2004).

⁷ In Ghana, the government has reserved the right to retain a 10 per cent free share in any investment in the mining and energy sector, with an option to acquire a further 20 per cent in mining explorations and investments. In Mali, the government also retains a share in 10 per cent of shares as mandatory royalty, with an option to increase this share to 20 per cent.

⁸ The same group of just over 20 key players was encountered repeatedly throughout the region in the SAIIA study, namely SABMiller, Shoprite Checkers, Unitrans, Barloworld, Standard Bank, ABSA Bank, Game Stores, Southern Sun, AngloGold Ashanti, Randgold Resources, Illovo Sugar, Debonnairs, Dimension Data, Nandos, BHP-Billiton, Engen, Sasol, Vodacom, MTN and Tongaat Hulett.

Cling 2001). The scale of South African investment both in terms of the number of companies and the value of investment does not support this notion.

Of course, South Africa's investment profile differs quite substantially in its immediate neighbourhood and in the SACU states when compared with Central, West and North Africa where South African companies are finding it much harder to penetrate markets. Whereas language and cultural barriers are important, and geographical distance seems to play a role amongst many other factors, the level of competition is a key factor in some of these markets. Thus South African companies have to be very selective in identifying niche markets in carefully selected sectors when venturing beyond the borders of the SADC.

Outside the SADC, South African investment tends to follow the traditional investor approach to Africa, namely focusing mainly on trade and the extractive industry sector, with a few rare exceptions such as telecommunications and energy supply. However, a wide range of small entrepreneurs in the form of one-man businesses are very active in South Africa's immediate neighbours such as Mozambique and Botswana, especially in farming, tourism and trading. Although their activities are very difficult to track and monitor, they are important players in the small markets of these economies.

Lastly, if there is anything unique about the 'first-mover' advantage profiled in the South African investor presence in the region, it is the sheer diversity of investment outside Africa's extractive industry sector.

3.3 The impact of South African companies in the region

On the whole, when considering the South African private sector's contribution to development, it is important to note that they are actors mainly driven by a profit incentive. Given that this is the primary drive for their engagements, socioeconomic and developmental impacts are not necessarily their key priority. Nevertheless, because of the unique under-developed status of many African countries signified in the small size of their markets, there is no doubt that South African corporates are having a significant developmental impact in the region. These are often described as economic effects, rather than development effects. The impact is most visible on the development of the private sector in the region and its various participants and beneficiaries. Section 3.3 draws on the results of SAlIA's Business in Africa Research Project (Games 2004).

3.3.1 The impact of South African companies on the labour market in the region

South African business involvement in the region has had a marked effect on the structure of the labour market, more specifically on wage levels, job creation, benefits and training.

For example, in Mozambique the minimum monthly wage established by law is MT814,602 (Mozambican Metical) (ZAR325) for industry, commerce and services, and MT570,000 (ZAR228) for agriculture.⁹ However, the entry of some of the South African companies into the job market has had a striking impact on wage structures. The highest-paid labour group in Mozambique is the highly skilled workers at the Mozal smelter. According to the Mozambique News Agency, the lowest wage paid to a smelter worker is US\$4,000 per annum or US\$416 per month. This salary is ten times the statutory minimum wage (Mozambique News Agency 2001). Cervejas de Moçambique (CDM), a subsidiary of SABMiller and another important investor in Mozambique, pays a minimum wage which is more than two-and-a-half times the statutory minimum (Goldstein 2003: 47). This impact on

⁹ An exchange rate of MT2,500=R1.00 was used. Only 12 per cent of the entire workforce was in paid employment in 1999; 60 per cent of them in the private sector. Eighty-four per cent of the labour force can be described as unskilled. Unemployment is considered to be about 21 per cent. See UNECA (2003: 144).

wages correlated with SAIIA's findings in all of the countries that formed part of its sample group. In Mali, the mining sector pays salaries that are easily three times higher than the national private sector average. For example, a driver employed by one of the South African mines said that he earned CFCA280,000 a month, or just over US\$500, which is linked to a productivity bonus. In his previous job as a driver with an international corporation he earned US\$150 a month. In Botswana, one company paid 2 per cent more to its general staff other than management over the last five years, in line with the minimum wage framework outlined in the Government's Vision 2016, which was developed to eradicate poverty in Botswana by 2016.¹⁰ The same company pays a driver P1,900 per month, in contrast to the going rate of P700.

Table 3.1 Minimum wages in the SAIIA survey sample compared to South Africa, 2006

Country	Minimum wage per day (US\$)	Minimum wage per month (US\$)	Length of work week (hours)	Statutorily enforced?
Botswana	3.15	–	48	Yes
Egypt	–	33	48	Yes
Ghana	2	–	40	Yes
Kenya	–	72.70	52	Yes
Mali	–	53*	40	Yes
Mozambique	–	58**	40–48	Yes
Nigeria	–	41.70	40	Yes
Senegal	–	76	40–48	Yes
Zimbabwe	–	10–12	54	No****
South Africa	–	142***	45	Yes

Notes: * Employees in agricultural sector get US\$33; ** Employees in agricultural sector get US\$40; *** Employees in urban areas; the minimum wage in rural areas is US\$126; **** Minimum wage has only been set for agricultural and domestic workers.

Source: Data compiled from US Department of State (n.d.).

As can be seen from Table 3.1, wages in South Africa are the highest in the region, which may explain why South African firms coming to other parts of Africa offer better salaries than local companies. These findings correlate with the general assessment that foreign-owned companies offer higher real wages and better working conditions than local companies. A study conducted by te Velde and Morrissey (2002) of wage levels in foreign-owned companies in five African countries confirms that foreign ownership of a company is associated with higher wages at the individual worker level because jobs are generally more skills intensive. This finding corroborates with the SAIIA findings that in general, significantly higher levels of productivity are achieved in some of the South African-owned firms. For example, in Mozambique it is estimated that the productivity per worker in Mozal is 18 times higher than that in the average domestic firm (Castel-Branco 2002: 16).

However, this positive news is somewhat tempered by the relatively modest creation of new employment opportunities by foreign investors.

¹⁰ Although there is a statutory minimum wage for industry employees of about R500 per month that is set by the Minister of Labour, this varies from sector to sector and is much lower in agriculture (personal interview by Neuma Grobbelaar with BEDIA, 20 April 2004). In the construction industry, for example, labour costs are considered to be much lower than in South Africa. The lowest level of skilled worker is paid about P2.60 per hour, which is a statutory requirement. Minimum wages are set for the building industry, the car service and distributing sector, road transport, the hospitality and entertainment industry, manufacturing and retail and wholesale trade. See also UNCTAD (2003: 32).

South African investment in Mozambique, as is the case with FDI in other parts in the world, has not necessarily led to the creation of new, permanent positions on the large scale that the Mozambican economy needs. However, the addition of 24,355 jobs (1998–2002) to the Mozambican economy by South African employers is not insignificant given the context of a formal economy that employs just 15 per cent of the workforce, as shown in Table 3.2.

Table 3.2 South African investment in Mozambique: employment figures, 1998–2002

Sector	1998	1999	2000	2001	2002	Total
Agriculture	607	2,669	6,551	472	80	10,379
Aquaculture and fisheries	18		100		18	136
Industry	1,218	554	229	162	197	2,360
Resources and minerals	0	17		41	0	58
Transport and communication	25	172	74	390	10	671
Banking, insurance and leasing		16		8	0	24
Construction		399	3,337	2,168	437	6,341
Tourism and hotel industry	346	172	560	71	22	1,171
Others	438	289	167	576	1,745	3,215
Total	2,652	4,288	11,018	3,888	2,509	24,355

Source: Grobbelaar and Besada (2008).

SALIA's research found that job creation in construction is cyclical and project-bound. The Mozal project created 5,033 temporary positions (70 per cent for Mozambicans) during its construction and expansion phases. However, its full staff complement after completion of the expansion is about 800. More than 300 Mozambican contractors worked on the construction of the Sasol pipeline, generating wages in excess of US\$5m, although once the pipeline was laid, its full staff requirement shrunk dramatically, to under 200. However, both examples represent snapshots in the lifecycles of these two projects and do not reflect the expected increase in jobs related to upstream and downstream activities flowing from them in the longer term.

The agricultural and mining sectors are important exceptions because of their labour-intensive nature. South African investment in two sugar mills and estates in Mozambique at a fraction of the cost of the Mozal and Sasol mega-projects created 3,034 permanent positions and 5,398 temporary positions for seasonal workers. This finding is consistent across the agricultural sector in Africa and highlights the need for African governments to do more to attract investment into this critical sector.

In some of Africa's resource-rich economies, mining is a significant job creator. For example, despite Debswana's capital-intensive mining activities, it is the second largest employer in Botswana outside the government with a total of 6,300 workers.¹¹ The Malian gold mining sector (in which South African companies have a very significant stake) employs about 5,000 permanent workers and more than 6,000 contractors, and also indirectly creates thousands of jobs. This represents a significant boost to the formal economy. FDI into Ghana's gold mining industry (where AngloGold Ashanti and Goldfields are important players) has

¹¹ See www.debswana.com/Sustainability/Pages/Our-People.aspx (home page, accessed 3 September 2015).

generated a large amount of investment and capital, and the employment of approximately 20,000 workers representing 5 per cent of total formal employment.

In Mali, the activities of mining companies have boosted local economic development through both downstream and upstream businesses that service the mines. These effects are felt both at the national and provincial level, and include the introduction of regular chartered flights (the consequent demand for logistical services) and the provision of job opportunities for the owners of bus companies, taxis, plumbers, electricians and other artisans. The economic activity linked to mining also has a significant impact on housing. Villages in close proximity to the mines have grown into active business nodes through direct and indirect job creation. The mines have also established liaison structures with local communities, and have developed extensive outreach programmes. For example, the SEMOS (Société d'Exploitation des Mines d'Or) Community Development Foundation, established by the Sadiola and Yatela mines, supports macro-projects in education, agriculture and water supply; provides microcredit for small businesses; and invests in capacity-building through training in literacy, numeracy, basic planning, business management skills and HIV/AIDS prevention. The Foundation has built classrooms and crèches, has contributed half the cost of a health centre in Kouroketo, which serves six villages close to the mine, and is actively involved, through the clinic, in the fight against malaria and bilharzia.

However, perhaps of greater but less measurable importance is the influence of the entry of South African companies on labour practices and the business culture in Africa's small formal economies. One of the main business chambers in Mozambique was unequivocally positive in its assessment of the influence of the large South African investors (especially blue chip companies such as CDM (SABMiller), BHP-Billiton and Sasol) on the Mozambican labour market, business culture and economy. The Head of the South African–Mozambican Business Chamber expressed the opinion that because South African companies are introducing best practice into the Mozambican economy through insistence on good corporate governance, their presence will influence the business culture positively in the long run. They are already making a significant social impact in their own spheres of activity, as illustrated by the creation of additional benefits for their employees. Private pension funds and medical aid schemes were previously non-existent in Mozambique. For example, although all companies are obliged to pay contributions into a government-led pension fund, the National Institute of Social Security (INSS), this has a limited financial reach.¹²

Some of the large South African investors in Mozambique have looked with other foreign investors at developing norms for salaries, company pension funds and company medical aid schemes. CDM (SABMiller), for example, introduced a HIV/AIDS staff education and prevention programme in 2001, and has added the provision of antiretroviral therapy to the programme. Employees and their families now have free access to confidential treatment, counselling and medication, fully funded by the company. This is also true for other companies in the region. In Mali, employees and their dependants of South African mining companies now have access to better health-care benefits (such as good medical evacuation mechanisms and adequate health services) and there is better compliance with social security requirements, while provision has been made for HIV/AIDS prevention programmes and appropriate working garments such as uniforms, hard hats, special boots and protective clothing. South African companies are applying the accredited South African standards in their operations and there has been a noticeable improvement in the levels of personal safety within the mines. Companies also hold regular workshops on industrial safety and

¹² The financial soundness of the INSS is suspect. It does not disclose reliable financial statements based on independent actuarial evaluation on a regular basis. It is also the regulator of the pension sector. The International Monetary Fund strongly recommended in its Financial System Stability Assessment that regulatory procedures should be strengthened (IMF 2004b: 7, 23).

social security for the trade unions, and trade union leaders interviewed during the survey gave high marks to South African firms for workplace safety.

This highlights another – perhaps less clearly anticipated – impact on the labour market, namely its broader impact on labour-management relations and increasing unionisation. In most of the countries that formed part of SALLA's research unionisation was low. However, the entry of South African companies in these markets is having a significant impact on the organisation of labour, especially in the mining sector. For example, in Botswana more than one company pointed out that the mining sector is the most strongly unionised, particularly workers at Debswana.¹³ This is also the case in Mozambique. Because of Mozambique's socialist past, aggressive labour union action against the government is unheard of, primarily because the trade union movement was previously government-driven and aligned. The growth of private, independent union movements is a recent occurrence and their strike actions are directed mostly at foreign businesses.¹⁴ Today, the country's best-paid labour force, namely the workers at the Mozal smelter, is also the most unionised. The entry of South African companies in the region has also facilitated contacts between South African and other African unions. In certain cases, such as Mali, this interaction is believed to contribute towards a better understanding among the labour force of the needs of a globally active multinational.

3.3.2 The impact on the trade balance, economic growth and revenue

However, the impact of South African investment in the region is also highly visible in other areas. One of Mozambique's outstanding economic success stories has been its almost uninterrupted high economic growth rate over the last 15 years. South African-led investment in conjunction with significant foreign aid flows into Mozambique has made the most immediate and visible impact on gross domestic product (GDP) growth and exports.

The first substantial inflow of South African FDI began in 1997 with the construction of the Mozal smelter. Investment inflows increased from US\$64m in 1997 to US\$235m in 1998. In 2002, when the smelter came onstream, this project single-handedly contributed about 2.1 per cent to real GDP growth. In the same year, Mozal was responsible for 53 per cent of total exports and 28 per cent of total imports.

Although some analysts regard the growth in imports that accompanies the establishment of mega-projects less positively than others, the Mozal project (see Table 3.3) resulted in a net positive impact on the balance of payments of around US\$100m in 2002.¹⁵

¹³ This perception was reinforced by the illegal strike action of 400 workers from Debswana in 2004 and the protracted negotiations following this action.

¹⁴ Interview with Mr Jeremias Timana, Secretary General of Consilmo on 20 March 2002 and Dr Astrid Becker, Resident Representative, Friedrich-Ebert Foundation, Maputo on 15 March 2002. See Grobbelaar and Lala (2003).

¹⁵ See Castel-Branco (2002: 17), who argues that imports from South Africa have grown with the increase in South African FDI and that export-orientated mega-projects (which are mainly focusing on primary goods) are making the Mozambican economy excessively vulnerable to the volatility of the world market.

Table 3.3 The impact of large projects on the Mozambican trade balance, 2000–04 (US\$m)

	2000	2001	Preliminary 2002	Revised 2003	Projected 2004
Trade balance	-799	-360	-581	-705	-229
Exports, f.o.b.	364	703	682	896	1,259
Large projects	127	441	468	632	973
Other exports	237	236	213	265	286
Imports	-1,163	-1,063	-1,263	-1,602	-1,488
Large projects	-119	-231	-390	-646	-450
Other imports	-1,044	-832	-873	-955	-1,038

Source: IMF Article IV, p. 36.

The International Monetary Fund (IMF) predictions that real GDP growth would increase to over 8 per cent in 2004 owing to the coming onstream of both the aluminium smelter (Mozal II) and the gas pipeline (Sasol) have proven to be true. At the time, the IMF predicted that exports would increase by 40 per cent, whereas imports were expected to decline somewhat because of reduced construction activity resulting from the completion of these mega-projects. At the same time, net international reserves were also projected to rise by US\$40m during 2004 to a level of US\$696m by the end of that year (translating into 5.5 months' worth of imports).

South African investment has also bolstered revenue for the Mozambican Government. Taxes paid by the Mozambican breweries have increased 700 per cent since the purchase by SABMiller of CDM in 1995 and the Laurentina brand in 2002, and CDM provided 5 per cent of total tax revenue in 2003. However, tax revenue generated by the Mozal smelter is much more limited, as the complex has been given the status of an Industrial Free Zone (IFZ). The impact of these increased revenues and economic growth on poverty reduction is important, despite the problems associated with disparate rates of development in different sectors of the economy.

In Mali, the most visible effect of South African investment has been to raise the volume of gold production dramatically (see Table 3.4). The increase is a direct result of the development of three new mines by South African companies, since artisanal gold panning has remained stable through the years at an annual production level of 2.2–2.4 tonnes since 1996. In 1997, national gold production tripled after the opening of the Sadiola mine, which produced 11.9 tonnes in its first year. This was followed soon after by the start-up of the Morila mine in 2000, which yielded 4.5 tonnes in its first year and, in 2001, the Yatéla mine with an output of 4.7 tonnes. Overall, gold production has grown almost eightfold in less than a decade, from 6.6 tonnes in 1996 to 51.6 tonnes in 2003. As a result, the contribution of gold to real GDP has doubled every four years, from 2.25 per cent in 1992 to 6 per cent in 1998 to 14 per cent in 2002 (WTO 2004: 64). Increased gold production has enabled the country to record an average rate of growth of about 5.2 per cent between 1999 and 2002. It also created a surplus in Mali's trade balance in 2002, owing to exceptional gold production that year (WTO 2004: ix).

Table 3.4 Gold production, 1996–2003 (tonnes)

	1996	1997	1998	1999	2000	2001	2002	2003
Industrial production	0.0	16.3	20.5	23.1	26.0	46.3	63.7	51.6
- Yatéla	0.0	0.0	0.0	0.0	0.0	4.7	8.6	7.2
- Morila	0.0	0.0	0.0	0.0	4.5	19.6	38.9	28.6
- Syama	4.4	4.1	4.8	6.1	5.7	2.1	0.0	0.0
- Sadiola	0.0	11.9	15.7	16.9	19.0	16.7	16.2	15.7
- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gold panning	2.2	2.2	2.3	2.3	2.3	2.4	2.4	N/A
Exports	6.6	18.5	22.8	25.3	28.3	53.7	66.1	51.6

Source: Malian authorities in WTO (2004).

The increase in production has also resulted in a surge in government revenues derived from gold. In 2001, the state received about US\$200m from gold exploitation.¹⁶ According to the World Trade Organization (WTO), royalties paid out by enterprises in the gold sector amounted to 1.3 per cent of GDP in 2002 (WTO 2004: 9). In addition, mining activities by South African companies have also bolstered tax and customs revenue, and added to payroll and social security charges paid to the government by South African companies. Gold exports brought in US\$525.6m in export earnings in 2001, while cotton, the second-largest export, earned US\$101.5m.¹⁷

A challenge for small Least Developed Countries (LDCs) is to sustain high growth levels between mega-projects because of the shallow base of the economy. Related to this is the effective management of spikes in the trade balance and exchange rate volatility linked to the implementation of some of the large projects. Although the economic effect of a mega-project is spectacular in the year that it is launched, its impact understandably tapers off in the following years.

3.3.3 The impact on technology transfers, industrialisation and local economic development

It is also clear that South African companies have made a meaningful contribution towards accelerating industrialisation and the formalisation of the private sector in many of the countries where they now operate. In Mozambique, their entry has led to a rapid increase of the contribution of industry towards GDP. The country's economy was dominated during the 1980s and the 1990s by the agriculture and services sectors, but the situation changed significantly from 1997 onwards. The contribution of agriculture to GDP decreased from 30.5 per cent in 1996 to 19.5 per cent in 2002. In contrast, the share of industry (mostly related to aluminium production and the construction of the gas pipeline) has grown considerably during the corresponding period, from 16 per cent to 30.6 per cent (EIU 2003: 51; IMF 2004a: 30).

¹⁶ USAID (2004).

¹⁷ See www.globalinsight.com.

Table 3.5 Mozambique: composition of GDP (in percentage of GDP), 1998–2002

Sector	1998	1999	2000	2001	2002
Agriculture	27.2	25.5	21.7	21.9	19.5
Fishing	3.0	2.5	2.4	2.3	1.6
Industry	21.5	22.2	23.9	24.9	30.6
- Mining	0.3	0.1	0.4	0.4	0.3
- Manufacturing	10.9	11.5	12.0	13.8	11.4
- Electricity and water	2.0	2.8	2.2	2.1	3.1
- Construction	8.3	7.7	9.3	8.7	15.9
Services	48.3	49.8	52.0	50.9	48.2
- Commerce	21.5	21.2	20.8	21.0	18.0
- Retail services	0.8	0.8	0.9	0.2	0.7
- Restaurants and hotels	1.1	1.2	1.4	1.2	1.0
-Transport/communication	9.2	9.5	9.3	9.6	11.1
- Financial services	2.7	2.0	3.9	3.9	3.5
- Real estate rentals	2.3	2.2	1.9	2.4	1.5
- Corporate services	1.3	0.9	0.8	n/a	n/a
- Government services	5.1	6.9	7.4	7.7	6.3
- Other services	4.3	5.1	5.5	4.9	6.2
GDP	100.0	100.0	100.0	100.0	100.0

Source: IMF (2004a).

However, Mozambique is still essentially an agriculturally based economy, and the vast majority of the Mozambican workforce (an estimated 8.9m) works in this sector. The 1997 census indicated that the services sector (including government) employed only 15 per cent of the workforce, while industry employed about 5 per cent (see World Bank 2001: 6).

The decline in the contribution of agriculture and fisheries to GDP was not only the result of the spectacular increase in the contribution of industry. Lower fish catches and the fall in international prawn prices since 2001, as well as adverse climatic conditions affecting agriculture, raises the spectre of uneven growth and the resultant negative impact on poverty reduction. The share of agriculture and fishing in relation to GDP shrank from 34.5 per cent in 1996 to 21.1 per cent in 2002. The export of prawns was the single most important foreign currency earner for Mozambique in 2000 (US\$91.5m or 25 per cent of total exports), prior to the start-up of the Mozal smelter in mid-2000. In 2001 aluminium exports were the country's largest foreign currency earner, at US\$383.3m (EIU 2003: 51; IMF 2004a: 30).

It is a particular challenge for the Mozambican Government to increase agricultural output and to develop this sector. Although Mozambique has vast tracts of arable land (estimated at 36m hectares), only 10 per cent of it is currently in productive use. The sector still suffers from logistical hurdles and bottlenecks. In particular, it lacks infrastructure (access roads, distribution networks, production and storage facilities); tenure security; credit services; and a domestic agricultural industry able to provide it with the required mechanical and other inputs (such as fertiliser and seed).

Foreign investment in the sugar industry has been welcomed, because not only has South African and Mauritian involvement led to the rehabilitation of Mozambique's four sugar estates and mills, adding to revenue and export growth, but as noted earlier the sugar industry has also emerged as a significant employer of Mozambicans in the agricultural sector. The entry of large agribusinesses has also assisted to place Mozambique's agriculture sector on a more competitive footing through the development of out-grower schemes and the provision of important inputs such as seeds, fertiliser and finance.

Other beneficial impacts have been the transfer of world-class technology. The Mozal smelter has the highest pot efficiency for AP30 technology in the world. Two important records were established during the construction phase of the smelter. The completion of the first phase of Mozal took place within 31 months, from approval to full commissioning, and came in at US\$100m under budget. The second phase was completed within 26 months and came in at US\$195m under budget. The Sasol investment in Mozambique provides a further spin-off in the future – a steady supply of gas to spur internal industrial growth.

Another important contribution by a South African company is the focus of Absa Bank through its acquisition of Austral bank in Mozambique on a more active role in financial retail services. Foreign banks in Africa tend to focus on corporate banking and essentially structure their activities to service large corporate clients from their home market. The decision by Absa Bank to roll-out and expand its services into retail could have a beneficial impact in that market by making financial services much more accessible and hopefully bringing down the cost of financial services in the long run.

3.3.4 The influence of South African retailers and franchising companies: a mixed bag

The impact of South African retailers on the region's economies is far more contested. More than ten South African retail groups are now actively involved in the rest of Africa and are highly visible in individual markets.¹⁸ Certainly, one of the most positive results of the expansion of South African retailers has been the increase of consumer choice and a consistent and reliable supply of quality goods to the local consumer. A spin-off effect of consistent supply is the creation of price stability in African markets, although not always at lower levels. One of the most strident complaints by consumers is that South African companies are charging their regional customers higher prices for the same goods for sale in South Africa. However, as South African retailers pointed out during the research, the prices they set are a true reflection of the duties and taxes that have to be paid by traders. This creates a new discipline and rigour in the local pricing of goods. Formerly, formal and informal traders could charge whatever they wished, especially in cases where stock was obtained through smuggling.¹⁹

However, the sector is also accused, among others, of flooding markets with South African products, displacing local informal markets and traders, and undermining local manufacturing capacity.²⁰ Indeed, it is true that South African businesses tend to source very few products locally – only about 10–30 per cent of goods and inputs – and retailers offer as the reason

¹⁸ They are Edcon, Foshini, JD Group, Massmart, Metcash, Mr Price, Nuclicks, Pepkor, Pick 'n Pay, Shoprite and Wooltru. See Benkenstein and Steiner (2004).

¹⁹ South African retailers respond that they have to compete on an uneven playing field. Their operating environment is dominated by the informal sector and therefore highly unregulated. Many well-established and long-standing informal traders do not pay income tax or duties and some deal in smuggled goods. In contrast, South African retailers are obliged to pay transport and high storage costs (because of a low turnover rate and customs delays which force companies to maintain higher stock levels than in South Africa) in addition to the normal taxes and duties (interview in Mozambique, 2003).

²⁰ Part of the reason why South African retailers seem to flood the market with their products is the tendency of South African retailers and restaurant franchises to take advantage of the construction of mall complexes by South African property developers in partnership with local entrepreneurs such as is the case in Botswana. In each case, a large South African retailer has acted as an anchor tenant, and most of the commercial space has been taken up by a mix of smaller South African retailers, restaurants and other lessees. The highly visible concentration of South African businesses tends to enlist the criticism of a domineering influence in the market.

considerations linked to quality, cost and volume. They point out that procurement decisions are taken at head office level with the purpose of just-in-time delivery to markets throughout their global supply chains at competitive rates. The shallow manufacturing base and high cost structure in African markets in conjunction with hard and soft infrastructure constraints in many African countries makes this an almost impossible feat. Where companies are urged by the authorities to source more products from the local market (such as in the case of Botswana), South African retailers are faced with the situation that local suppliers also tend to import their goods from South Africa. However, in the case of goods where African markets do have a comparative global advantage and adhere to the highest quality standards, companies will source products locally, such as Ugandan and Kenyan coffee, which is now distributed throughout Shoprite’s global supply chain. The withdrawal of Shoprite from Egypt has not prevented the company from sourcing some of its goods based on cost considerations in that market for its West African supply chains. It is inevitable that South African retailers will source the highest quality goods for the lowest prices where possible because of the price sensitivity in the African market.

What is perhaps of greater concern to some of the larger African economies, like Kenya, is the steady erosion of their market share in key neighbouring markets by South African products. The SAIIA survey found that a key concern for Kenya is South Africa’s emergence as a supplier of choice to its neighbours (Table 3.6).²¹ However, the direction of trade flows is largely the outcome of trade liberalisation within Africa’s many trade blocs. Kenya also faces stiff competition from other global players, such as producers from emerging markets like India and China.

Table 3.6 Market share in the imports of seven of Kenya’s neighbours: DRC, Ethiopia, Rwanda, Sudan, Tanzania, Uganda, Zambia (percentage of imports originating from the listed country, period average)

Country	1994–6	1997–9	2000–02
Kenya	8.5	7.9	7.7
China	2.2	4.4	5.5
Egypt	1.8	0.9	1.2
India	4.2	4.6	4.7
South Africa	6.2	11.7	14.5

Source: UN COMTRADE, data from importing countries.

Thus, the perception that South African retail and franchising activity in the rest of Africa is always negative, is much more nuanced than appears at face value. However, South African ventures into the retail sector seem to have had a disproportionate impact on the way that South African investment is perceived.

Another highly visible South African business presence in the region is the rapidly increasing number of restaurant franchises, which cater for the urban youth and the upwardly mobile middle class, business and donor community. Surprisingly, in contrast to investment by retailers, restaurant franchises are generally welcomed because they create local employment, transfer business skills (through capacity building and management training), train local chefs, and ‘produce’ meals made with some ingredients obtained locally. One of the most important outcomes is that these activities support small farmers and other agricultural producers, as already mentioned, the mainstay of most African economies.

²¹ See also UN (2005: 20).

3.3.5 The impact on foreign and local business confidence

One of the most intangible but important effects of South African investment has been to bolster the confidence of other foreign investors in the region. This is most aptly observed in Mozambique. The country has attracted investment from other countries steadily since 1997.

Moreover, many South African companies have followed in the footsteps of their countrymen. This 'tag-on' effect has been an important factor in determining the entry of new South African investors and the expansion of current projects. For example, the hospitality industry and financial services sector have followed their clients and have expanded their presence to cater specifically for South African investors. The cumulative effect has not been limited only to South African companies servicing other South African enterprises. The entry of businesses from Japan, the UK and Australia with South African partners into the mega-projects is a positive show of business confidence.

Indeed, the successful implementation of mega-projects such as the Mozal smelter and the Sasol pipeline (within budget and the projected time frame) has had a huge impact on general business confidence in Mozambique. Both projects have been used to demonstrate Mozambique's ability to absorb and respond to the demands and requirements of large investors.

In Kenya, another interesting phenomenon was observed: the threat of investors from South Africa entering specific sectors has spurred local companies (both foreign and domestic-owned) to improve their services and products. Thus the threat of greater competition has led to a more efficient allocation of resources and better services and products to customers.

3.3.6 Limited linkages with local businesses: a passing phase?

However, as can be gleaned from the above, clearly not all effects have been universally positive. The most significant failure of investment (not only South African) has been the relatively few linkages that have been established with the local business community. Although efforts have been made to address this problem, the results have been mixed. Part of the problem is that South African firms have high levels of knowledge specificity and are capital-intensive. Local companies are rarely equipped to respond to the needs of South African or indeed other foreign multinationals.

In Mozambique, there are some positive examples of cases where linkages with local business were actively pursued. One is the SME Empowerment and Linkages Programme (SMEELP) launched by the International Finance Corporation (IFC), in cooperation with Mozal, to set up specific training programmes for small- and medium-sized enterprises. The purpose of the project was to support those companies in the local industry employed to work as sub-contractors on the expansion of the smelter. The mentoring and training programme successfully linked 12 companies to 21 contracts with Mozal at a value in excess of US\$3m (Goldstein 2003: 28). Another example relates to the concession contract won by the Trans-African Concessionaires consortium in 1996 for the upgrading of N4 national highway from Witbank in South Africa to the Mozambican capital. The project, which was the first build, operate and transfer (BOT) undertaking in Mozambique, included the obligation to contract 40 per cent of the building work in Mozambique to local firms. The project was deliberately subdivided into contracts of a size that could be handled by small contractors (*ibid.*: 29). Local contractors were also employed to do the preparatory work for the laying of the Sasol gas pipeline in Mozambique.

However, some analysts argue that in Mozambique at least, South Africa's influence on domestic private investment has been fairly limited. Castel-Branco (2002: 15) states in his analysis that there has been no significant inducing, precluding or displacement of local investment because not only is domestic investment capacity poor, but even those firms that

have been displaced by foreign competition would in any case have been unable to continue their operations.

The superior technology, business knowledge and (relative) financial strength of South African companies in the Mozambican market have also contributed to the domination of the local industry. While this is also the case with other foreign investors, it seems that the sheer volume of South African investment in the market has created resentment. Because of their strong presence in the local economy, South Africans have been singled out as responsible for the crowding out of local business. This perception requires careful management by both the companies involved and the South African Government. As Goldstein has pointed out, political opposition to FDI is not uncommon in the rest of the world. It is often the result of the manipulation of public opinion by groups that previously benefited from the rents created under previously oligarchic economic systems and who now feel threatened by more efficient foreign competitors (Goldstein 2003: 75). This has important implications for South African political engagement in the region. However, this picture has begun to change rapidly as other foreign investors are crowding into Africa's small markets.

Throughout all the country studies the import dependency and low procurement rate from local suppliers by South African multinationals were flagged as a concern. However, this might be a temporary phenomenon. In Mali, the local economy's steady growth and increasing sophistication have made it possible for more South African firms to purchase goods and materials in the local market. For example, one construction company now buys 56 per cent of its goods locally, compared to only 10 per cent a decade ago. These local purchases include computers, fridges, vehicle spares, furniture, food, stationery, bricks, stone and pipes. However, certain supplies are still obtained abroad.

It seems that procurement policies are also company-specific. The procurement officer at one gold mine explained that the mine buys 70 per cent of its goods in South Africa. Although this introduces a three-week transport delay, the company concerned believes that the advantages offered by a reliable supply for standardised goods and stable prices are considerable. The remaining 30 per cent of goods bought by the same company locally include cars, spares, computers, stationery, some electrical and machinery items, medicines and food.

Only time will tell whether the import dependency of South African companies will improve, although South African retailers in the region are demonstrating a trend in this direction. But clearly, in the short term, the building of large projects in some of Africa's smaller economies does have a deleterious effect on the trade balance as explained earlier. However, it might be more useful to judge the contribution of these mega-projects (such as Mozal in Mozambique) against the backdrop of the government's industrialisation policy through export-led growth rather than through the narrow lens of its impact on imports.

3.4 Managing perceptions

One of the main questions that arise is the political impact of the expansion of South African corporate activity into the region. For many reasons, Africa looms large on South Africa's political and economic horizon. South African policymakers firmly believe that South Africa can only flourish in a prosperous, stable environment. At the same time, South African policymakers are wary of being viewed as prescriptive or overbearing in its regional engagement, given the historic sensitivities in Africa because of the continent's colonial legacy. It is in this sensitive political context that South African companies operate. The interface with South African policy towards the region is clear, especially where the potential exists to conflate company behaviour with official government policy.²²

²² However, a presentation by former President Jaochin Chissano representing a view from the SADC region on South African corporate expansion into the rest of Africa, demonstrated some impatience with attempts to stereotype South African

However, as noted earlier, while business has been ascribed a key role in the New Partnership for Africa's Development (NEPAD) initiative, the South African Government is not extending active financial support to South African multinationals. This hands-off approach and decision to allow the market to take its course is often weakly understood in the region.

Despite the generally positive signals to the global market of South African business engagement with Africa, South African corporates are not received everywhere with open arms. Allegations of South African economic dominance and the 'arrogant behaviour' of South African companies in the region have prompted the South African Government to moot the idea of regulation of South African businesses in the region. However, South African companies also have a strong track record of adopting best practice principles in their regional business operations which are informed by regulation in their home market (Grobbeelaar 2014). It is useful to look at the factors that inform the perceptions of company arrogance and dominance (as discussed earlier) before deciding whether further South African regulation is the appropriate response.

The research by SAIIA found that a variety of factors have coloured the way that South African companies are perceived in the region apart from the obvious dominance of South African companies in Africa's small markets, including the South African business style; the fact that South Africa is not a traditional aid donor; South Africa's 'unfair' competitive advantage; the behaviour of individual companies; and the unintended effects of South African policies. These are challenges that the South African Development Partnership Agency (SADPA) would have to take on board if it wishes to engage the South African private sector much more directly in its development partnership with the region.

3.5 Conclusion

As can be gleaned from the above, the significance of South African investment in the region is undeniable. But based on the evidence it is also clear that the impact is mixed, especially in the short term. Indeed, a proper assessment of the costs and benefits to economies in the region is possible only once a comprehensive benchmarking exercise against the performance and impact of other foreign investors in the region (notably newcomers such as China, Brazil, India and Malaysia and also established investors from Europe and Russia) and local businesses has been undertaken.

However, the preliminary evidence does show an evolving dynamic relationship with the region with interesting implications for private sector growth and longer-term economic integration. But, by all accounts for regional economic integration to flourish with the attendant supply chains that feed into regional production hubs of composite manufacturers,²³ there needs to be stronger intra-trade and inter-industry trade activities. This has not yet sufficiently emerged in Africa, notwithstanding South African investment. The possibility exists that this model of development could allow the continent's members to be integrated into a 'flying geese' model of trade and development, wherein countries with less advanced product structures can assume simple manufacturing and services activities to service supply chains of more advanced regional partners (South Africa in this instance)

engagement as necessarily negative or domineering. In responding to whether the conceptualisation of South Africa (and presumably corporates) as the big brother is appropriate he argues that 'conceptualisation and analysis must and should avoid stereotypical conceptions of South Africa as a big brother... Both the state and its private sector are considered – and correctly so – as the catalysts of growth and development within and outside the sub-region. This is something that the government of South Africa should not shy away from' (Chissano 2006).

²³ See UN (2004: 7), which argues that a new geography of trade is reshaping the global landscape and the South is gradually moving from the periphery of global trade to the centre. This phenomenon is echoed in international investment flows. A South–South cooperation strategy could consolidate and expand this transformation and could enable the South to play a stronger role in driving sustained economic growth, diversification, employment and poverty reduction in its own domain.

as they move towards more sophisticated manufacturing and services over time.²⁴ However, for that to develop a great deal more should happen to make it easier for companies across the continent to do business with each other.

Business, and especially South African companies amongst them, can be the catalyst for the continent to cast off its shackles of underdevelopment. But there is a role for multiple players in this environment – from governments, business, labour and civil society – in ensuring that Africa meets its true potential. Most important amongst these is governments that work with the market in exercising good and responsible governance as the key to realise the aspiration of a better life for all on this continent.

²⁴ A similar point is made by Visser and Hartzberg (2004) with regard to a restrictive labour policy within the SADC that has a similar impact on micro-firm behaviour, local markets and, eventually, market structure at a regional level. Thus, the potential exists that a similar pattern of industrial relocation could emerge in the SADC, following the flying geese model.

4 Russian business in Africa²⁵

Thirty years of Soviet presence in Africa left behind little basis for the Russian private sector to establish new partnerships in the continent. There is a substantially reduced scale of economic cooperation between the present Russian Federation and African countries when compared to the Soviet era. The current situation is characterised by a modest range of projects, implemented by African governments, firms or non-governmental organisations (NGOs) in cooperation with Russian mining industry companies.

The main Russian stakeholder from the extractive industry sector in North African countries is Gazprom. In 2007, the Algerian company SONATRACH signed an agreement in which Gazprom Netherlands, a Gazprom subsidiary, transferred the rights to explore and produce hydrocarbons in the El Assel area of the Berkine Basin. Gazprom holds a 49 per cent share in the project, which covers the liquefied natural gas (LNG) business, 'upstream asset swaps'.²⁶

Gazprom has also expressed its interest in participating in the construction of a gas pipeline across the Sahara Desert to establish a link between Algeria, Nigeria and Western Europe. The approximate cost of the project accounts for US\$13bn with a deadline in 2015.

The second Russian stakeholder operating in Africa is LUKOIL, which is a leader in exploring Egypt's natural resources potential. The main project of LUKOIL in Egypt is West Esch El Mallaha (WEEM), which is implemented in the form of a concession, where the company currently holds a 50 per cent stake. Other stakeholders in the project are the state-owned EGPC (Egyptian General Petroleum Company) and the Government of Egypt. Nowadays the project generates a positive cash flow, and income in 2012 totalled US\$14m. Another large-scale project of LUKOIL in the region is the Meleiha field development in the Libyan Desert, carried out jointly with Italian ENI-Agip. The LUKOIL share in the concession accounts for 12 per cent.²⁷

LUKOIL is also active in Ghana and Sierra Leone, which have become key destinations for its US\$3bn overseas investment programme. The company (in the framework of a partnership with the US company Vanco Energy) is currently working on two projects in the Gulf of Guinea.

The current engagement of Russian businesses with sub-Saharan African countries is smaller than in North Africa. Russia's cooperation with Sudan was minimal until 2001 when the Sudanese Government announced that the Russian–Belarus oil company Slavneft would join a consortium of oil companies to fulfil its plan to double the country's oil output by 2006.²⁸

A set of nuclear energy infrastructure development programmes are being implemented in Nigeria within Memoranda of Understanding (MoU) between the Nigerian authorities and ROSATOM with the aim of developing nuclear power plants and research reactors in Nigeria. The MoU covers the joint prospecting and development of uranium deposits in Nigeria (*World Nuclear News* 2012).

²⁵ Section 4 on Russia draws on a report commissioned by the RPID programme for this study: 'Russian Business in Africa' by Yuriy Zaytsev, Russian Presidential Academy of National Economy and Public Administration.

²⁶ See www.gazprom-neft.ru/press-center/news/?id=1690 (accessed 4 December 2014).

²⁷ LUKOIL Projects in Egypt, see www.lukoil.ru/static.asp?id=82 (accessed 4 December 2014).

²⁸ See MEED (2002).

When preparing the current study, the Russian business people and government officials interviewed frequently claimed that the main barrier for expansion of private investments in developing countries (and particularly Africa) is a poor investment climate. According to them, the situation has worsened after the global financial and economic crisis in 2008–09. Less often, and never in public, there was recognition that Russian Government and businesses lack the experience and capacity to be effective partners with regard to developmental objectives and even to risk large investments in Africa. Therefore, the trend is for Russian firms to invest in middle-income or OECD countries.

4.1 Government support for Russian business to invest in developing countries

At the current stage, the Government of the Russian Federation undertakes a wide range of measures to support Russian business abroad. Diplomatic cooperation is one of those mechanisms, applied to promote Russian business, which faces aggressive competition at the foreign markets. Nowadays, the Ministry of Foreign Affairs of the Russian Federation has concluded cooperation agreements with LUKOIL, Norilsk Nickel, Vnesheconombank, Association of Russian Banks and other companies (Ministry of Foreign Affairs of the Russian Federation 2010).

However, diplomatic cooperation is not enough to support Russian business in developing markets. Public–private partnership (PPP) and CSR are mechanisms which could complement existing and future development assistance programmes implemented by Russia and other international donors, as well as provide socioeconomic effects to support business activity.

4.1.1 Public–private partnership

PPP is one of the most effective mechanisms to expand the scale of Russian business engagement in governmental projects associated with international development assistance. PPP-relevant projects encompass enormous potential to contribute to achieving the Millennium Development Goals by 2015 and the implementation of the international development agenda as a whole.²⁹ What is more, cooperation with the private sector is one form of implementation of the Monterrey Consensus, focused on diversification of development finance (UN 2003).

There are three main advantages of PPP use in international development cooperation. First, PPP solves the problem of inefficiency associated with governmental regulation and market failures, and reduces the risks related to financing development programmes. Second, PPP is a new way to unite the resources and competencies of traditional and new development actors, which allows them to share the risks and benefits of development cooperation projects. Third, PPP projects create added value through the optimisation and synergy of joint cooperation. The application of PPP instruments contributes to the emergence of the unique product, addressing the needs of the poorest countries in the short and long term. Participation of business in socially oriented programmes in the fields of education, health and infrastructure also strengthens the investment climate in the region.

It is important to underline that there is a strong tendency to transform the traditional forms of PPP into multilateral partnerships, uniting public sector, business and NGOs. This tendency is a result of the complexity of international development cooperation, which implies different purposes of the economic development of the poorest nations. Multilateral partnerships also reduce the risks of a project's failure and contribute to consistency of development project results in the long term.

²⁹ See United Nations Millennium Development Goals (www.un.org/millenniumgoals/).

4.1.2 Corporate social responsibility

Another direction of Russian business participation in development assistance programmes is CSR. From a business perspective, the implementation of CSR-relevant projects is one of the main instruments to reduce social risks and to maintain client loyalty. It is why CSR projects implemented by businesses in developing countries often coincide with the activity of the donors in recipient countries. In international practice, the implementation of CSR projects in developing countries is associated with the realisation of international principles, regulating socially responsible finance, as recommended by the World Bank, IMF and regional development banks.

The reality is that Russian businesses are substantially lacking in the practice of socially responsible finance. This can be attributed to the absence of a CSR culture among Russian companies and the shortage of national regulation of CSR programmes and socially responsible investments. The existing environmental requirements do not always meet the standards of foreign investors, such as the IFC. These factors constitute serious barriers for Russian firms to invest abroad and particularly in developing countries.

To overcome these barriers, Russian businesses need to expand their cooperation with Russian and foreign NGOs that possess greater knowledge and experience in engaging with the problems of the poorest population in developing countries. Microcredit in developing countries also needs to be expanded as this type of credit often relates to solving ecological and social issues at the local level.

4.1.3 Perspectives from Russian stakeholders on the role of CSR in Russian businesses abroad

Several Russian stakeholders representing business, NGOs and the academic community were interviewed on the role of Russian business in developing countries. The interviews were semi-structured with special emphasis on Russian investments and development partnerships in Africa.

The interviews revealed that Russian firms in developing countries are mostly represented by large companies, both private such as LUKOIL and RUSAL, and companies with a substantial share of state-owned capital (for example, Gazprom and ROSATOM). Russian medium and small businesses are under-represented in such markets. Smaller businesses usually provide services for the large Russian companies operating in developing countries in Africa in the field of extractive industries. It is also common practice for large firms to acquire smaller businesses that provide essential services for their value chains.

The challenge to arrange effective cooperation frameworks with local and foreign businesses, as well as with the local governments and local communities in developing countries, was often mentioned. However, the main driver for Russian business presence in developing countries is profit and partnerships were viewed as key to providing stability for business operations.

Large Russian companies reported that generally they do not have to compete in the mining sector in Africa as they occupy their own niches, which originated as a mode of development assistance provided by the Soviet Union (the cases of Guinea and Nigeria) or as a result of oligopolistic market power distribution. The example of oligopolistic power distribution is projects where RUSAL cooperates with Chinese companies in the field of mining.

Some Russian companies, such as Gazprom, often do not have any regional competitors – which is also true with respect to other BRICS countries. There are no crossing points with countries such as China, Brazil, India and South Africa in the field of gas extraction and transportation in Africa. What is more, none of the other BRICS countries export gas from

Russia: it is logistically impossible to export the gas to South Africa and Brazil; China uses oil and coal in its industrial production; and there were no negotiations with India regarding gas export from Russia.

Gazprom does not coordinate its activity with OECD countries. There is no single gas global market and it is worth distinguishing regional gas markets. Gazprom is either the main or the only producer of gas in the regions where it operates. It is even harder to integrate within the markets of other countries because of technical and transportation limitations. That is why the only formal forum for gas companies to coordinate their activities is the Global Forum of Gas Exporters, which cannot meet the demands of all stakeholders simultaneously.

The situation in terms of regional diversification could be changed if Gazprom starts exporting LNG. Such work is already ongoing in Sakhalin (Russian Far Eastern province) oriented towards Japan and South Korea, with both countries buying Russian LNG.

The absence of a unique strategy can be also explained by the institutional factor. There are many governmental stakeholders in the field of regulating the mining industries in Russia, most of which originated in Soviet Union days and were inherited by modern Russia. There have been a number of international programmes aiming to restructure the industry – for instance, the World Bank granted a loan to this end to the Russian Federation – but despite being restructured, they have not improved the businesses' approach to development.

4.2 CSR practices in Russian businesses

CSR is not new to Russia. However, the concept is vague for Russian business and it is understood in different ways depending on where the projects are implemented – in Russia or abroad. Russian businesses do not usually use the term 'CSR' for the projects realised in the Russian Federation; the word 'charity' is more applicable. Such projects with local communities are effective in promoting a company's image.

Most of the Russian companies in Russia launch CSR programmes because of the need to compete with other companies in the same markets. However, CSR projects are also associated with networking, which is key in a society where contracts can be adjudicated in a less than transparent manner

The approach to CSR projects by Russian businesses operating abroad is very different to CSR/charity projects implemented in the Russian Federation. The big Russian businesses got used to calling them 'CSR' projects in response to the international standard of CSR set by Western countries, and companies such as LUKOIL, Gazprom and RUSAL use the term when operating in developing countries.

CSR programmes have become unavoidable for Russian businesses operating abroad primarily because of international standards. These practices are associated not only with stories of doing good for the local communities, but also with generating profit for business in this area. Such programmes help businesses to create a conducive investment environment and to prepare a skilled workforce to adequately meet the demands of the business in the field.

CSR programmes are a great challenge for Russian companies operating abroad. Usually the success of Russian business and CSR projects depends on a company's relationship with the local government. A change of government can influence business activities, sometimes to the extent that the government may want a business to be expropriated.

Financial provision for CSR projects varies from company to company. In general, the main source of funding for CSR projects is derived from public relations budgets and the

importance of CSR depends on the individual company's policy. What is more, in many Russian companies the CSR programme budget depends on the allocation of company profits by the board of directors. Not all companies are interested in allocating substantial resources to finance their CSR projects. If the board of directors supports them, it is likely that the company will implement CSR projects, conjunct with its business. If the business deals with the environment, it usually implements CSR projects to help decrease the negative influence on the environment.

If the local government fails to provide basic services to communities, such as heating, medical services, etc., the CSR programmes implemented by the business can fill in this gap. The CSR of a business can also be associated with programmes implemented in cooperation with NGOs, which can deliver projects favourable to local communities (see Box 4.1).

Box 4.1 The case of RUSAL

RUSAL, which is a public but not state-owned enterprise, is investing substantial amounts of resources to train Guineans at Russian universities in order to prepare a skilled workforce in engineering disciplines. This is financed by the company itself with no support from the government. The CSR and related practices are implemented not only in developing countries, but also in countries with a high GDP per capita. For example, in Italy and Ireland, where RUSAL also operates, social work is a part of the role of the employee. CSR projects are implemented only in cases where they address the needs and provide assistance to local communities in the fields of education, health and infrastructure.

RUSAL is implementing CSR projects in developing countries such as Guinea, Jamaica, Guyana and Nigeria. The company has been operating in Guinea for over a decade and during this time it has become the country's largest foreign employer. RUSAL supports the development of Guinean sports and culture, constructs social infrastructure facilities, runs projects for young people's professional training and reinforces cross-cultural relations between Russia and Guinea through educating Guinean students at the best universities in Russia. Details of RUSAL's CSR projects in Guinea are given below.

With respect to infrastructure development, RUSAL implements a wide range of projects associated with water and electricity supply, construction of schools and the repair of infrastructure.

Supplying water and electricity to the city of Fria

The shortage of water and electricity is one of the most pressing challenges for the residents of Fria. RUSAL uses the capacities of its Friguia bauxite and alumina complex to ensure a continuous supply of drinking water and electricity to the local residents. In areas where access to water is inhibited, RUSAL constructs artesian wells.

Construction of a secondary school in Fria

Fria, where RUSAL's facilities are located, has an insufficient number of schools, which are located some distance from the RUSAL complex. The company has constructed a state school for the underprivileged children of Fria.

Repairing Fria swimming pool

RUSAL's Friguia bauxite and alumina complex is equipped with a swimming pool. This is one of the country's three swimming pools and once it has been repaired, it will be not only a comfortable leisure place for RUSAL's employees, but also an extra venue for the annual sports competitions arranged by the National Olympic Committee of Guinea and the Swimming Federation.

(Cont'd).

Box 4.1 (Cont'd).

Supporting cultural heritage

RUSAL deeply respects the culture of Guinea, where the majority of the population are religious. The company is currently restoring a city mosque and a catholic church in Fria.

The Martial Arts Centre, constructed by Pechiney in 1968, is a popular leisure place for Guineans and expats living in the country. Repair of the centre will help to save the main sports venue in the city and restore the tradition of international sports tournaments.

Scholarships for Guinean students

In 2011, RUSAL launched its educational programme, RUSAL Scholarship 2011, which provides for 100 talented young Guineans to be educated in Russia's best universities. All accommodation, transportation costs and tuition fees are covered by RUSAL. Guinean students are able to study for degrees in mining, railroad operations, economics, building and construction, agriculture, water supply, medicine and human resources. After graduation, there is the opportunity for many of the students to work for RUSAL in their subsidiaries in Guinea.

International Educational Programme

RUSAL's large-scale educational programme is allocated US\$5.5m in resources and extends to young people from Guinea, Jamaica and Guyana.³⁰ The main objective of the programme is to prepare specialists in the mining industry who could work at the company's factories. The programme assumes that the students (aged 18–25) will study at the leading universities of the Russian Federation in Moscow and in Yekaterinburg. All the costs associated with each student's study abroad are covered by RUSAL and after graduation the company trains and employs them at its factories in their home country.

The educational programme is a vital component of RUSAL's CSR in these countries where it works. The training of skilled national labour is needed to raise the efficiency of the production process, as well as to increase the number of local specialists. In addition, the training of the national labour force contributes to the socioeconomic development of the poorest countries in Africa and Latin America where the company works. This is also a strengthening factor in the economic and political relationships between Russia and these countries.

In 2011, 100 students from Guinea were studying in Russia and during 2011–16, five students from Jamaica and five students from Guyana will study economics and mining at the People's Friendship University of Russia. RUSAL's educational programme for Guinea is therefore the biggest. The programme for training Guineans as specialists in the fields of economics, mining, medicine, engineering, agriculture and water supply as a priority is explained by the fact that RUSAL extracts about 40 per cent of the total volume of the country's natural resources.

Source: Interview and RUSAL's website (www.rusal.ru/en/).

A special approach for managing CSR practices can be identified for Russian gas extraction companies. It is important to distinguish CSR practices realised by such companies in regions/countries where it extracts the gas from those that are implemented by companies involved in transporting the gas.

There are a wide range of CSR-related projects in Russia where a company extracts gas. The case of Gazprom demonstrates a high degree of compliance with international environmental standards. With growing expectations that the leading industrial companies should redouble efforts to protect nature and comply with international environmental standards, Gazprom is implementing international regulations, such as United Nations Global Compact and Equator principles.

³⁰ See www.rusal.ru/career/edu.aspx (accessed 4 December 2014).

CSR relating to gas transportation projects deals more with compliance with international environment protection standards. Natural gas is the cleanest fuel from an environmental point of view and modern, energy-efficient equipment can burn gas with high efficiency and minimal emissions, including that of carbon dioxide which causes the greenhouse effect. Gazprom undertakes measures to comply with the Kyoto Protocol and the Copenhagen Accord principles, which are aimed at gradually reducing carbon dioxide emissions into the atmosphere and provide a market for trading these emissions. Gazprom's subsidiary company Gazprom Marketing & Trading, based in the UK, contributes to promoting and implementing these standards worldwide.

With respect to gas delivery, Gazprom conducts a series of projects to support the gas transportation network. These projects usually assume collaboration with the foreign and international authorities where the gas transport networks are located. Extrapolation of the gas leakage measurement results indicates that across the Gazprom Group's pipelines, including production facilities, the total loss of gas is only about 1 per cent. This low indicator of loss is why the supply of 'blue fuel' has a minimal environmental impact.

Generally, the transportation of gas does not affect local communities as much as extraction because the gas pipes are located in special zones and are operated under the special regulations of the local authorities. Hence, not so many CSR projects are implemented. However, as a global company, Gazprom has to comply with international standards with respect to digging activities.

4.3 How Russian businesses view risk when operating in Africa

Russian businesses are wary of a wide range of risks in the markets of African countries, which are perceived as being extremely severe for Russian businesses working in the mining industries. Most of the risks are associated with the poor investment climate in African countries, as discussed. However, there is a set of primary risks for Russian businesses indicated by the Russian stakeholders.

The most important risk for Russian business in African countries is still commercial risk. Such risk is mainly associated with returns on investment flows, which are identified by such factors as circumstances of insuperable force, transportation and paying capacity. Currently, Russian businesses in Africa are reducing the volume of their investment projects in the extractive industries, mainly because of lack of operations efficiency and low profit gains.

Russian mining companies operating in Africa have less competitive infrastructure in comparison with their partners from OECD countries and China. Russian businesses are falling behind in bringing new technologies and new methods of doing business to capture the markets of developing countries in Africa. Russian companies are substantially lacking industrial and managerial innovations.

What is more, Russian companies are suffering from the consequences of geopolitics and lack the position gained by the Soviet Union. Weak geopolitical positioning is not only due to a smaller physical presence of Russian stakeholders in Africa but also the issue of insufficient cultural ties. Previously, leaders of African countries were graduates from Soviet universities; now they are succeeded by young elites educated at universities in the US, UK, Canada, etc.

The second most important risk is the integration of new regulations into business operations at both the national and international level.

Another risk is labour movements, which Russian companies often face within African countries. For instance, in Guinea and Nigeria RUSAL has had to invest substantial

resources in order to stabilise the situation and reach agreements with both labour movements and the national NGOs. NGOs' activity is the main instrument to keep labour movements from becoming too radical. So, cooperation with the communities and establishing stable relations with them is one of the strategic priorities in managing this kind of risk.

An additional risk is political instability, which can exert substantial influence on the economic cycles of local companies. Of course, Russian companies in the extraction industries are too huge to fear such risk because they can always diversify with different projects elsewhere in the world.

The work of Russian companies on investment climate improvement in developing countries of Africa is one mechanism to help overcome risks associated with the business environment. The main international business instruments to improve investment climate are CSR and PPP. A special focus should be made on PPP as a new mechanism in mobilising resources for development needs and investment climate improvement.

4.4 Lack of capacity within Russian companies hinders their cooperation with local communities in Africa

International experience demonstrates that no single community in developing regions gains sufficient support from the donors who come to where they live – otherwise, they would not have the many socioeconomic problems they now have. For Russia, this applies to both Russian and foreign local communities.

There are a lot of communities in Russia, but the CSR project budgets allocated by Russian companies are not enough to meet the demands of them all. In particular cities and towns Russian companies are helping communities to overcome the problems inherited from Soviet Union times, such as mono towns (or single factory towns) where the population worked for many years at a few factories to produce particular products.

As mentioned in Section 4.2, Russian companies usually use the word 'charity' instead of the term 'CSR'. The charity programmes of many Russian companies are more developed in Russia than abroad. For example, Gazprom is actively carrying out charity projects aimed at helping children with disabilities. These projects are implemented on a long-term basis and involve a comprehensive approach to the treatment and rehabilitation of children. The Naked Heart Foundation is one of the main partners and works to enable children with autism spectrum disorders, who have pronounced communication disorders, intellectual disability and behavioural disorders, to study in school. The main focus is on training teachers working at special schools in the principles of teaching such children in Russia.³¹

There is a multitude of other problems, which both Russian companies and governments are failing to solve. In these cases the businesses usually prefer to ignore the problems and hope they will go away on their own.

Of course, some problems exist in developing countries where Gazprom either provides or extracts gas but were not directly caused by its operations. For instance, in one case Greenpeace claimed that Gazprom's activities were linked with the global problem of carbon dioxide emissions. However, Gazprom is not the only contributor; it is itself a global problem.

With respect to Commonwealth of Independent States (CIS) countries, there are no community development programmes which could help Russian business to overcome the

³¹ For the geography of the Naked Heart Foundation, see www.nakedheart.org/en/where-we-work/ (accessed 4 December 2014).

local institutional barriers. Most Russian businesses are interested in gaining profits from the local markets. Even though there are many social problems in CIS countries, the CSR programmes of Russian businesses are not always associated with social programmes addressing the needs of communities. However, often a business is allowed to implement its activities when it has agreed in return to meet certain demands made by the local government. Russian companies in these countries therefore have to agree to certain conditions in order to protect their business. Affiliated companies implement CSR projects, as agreed with the governments. Sometimes the local communities are dropped from the projects and their opinion is not considered during the planning stages.

Generally, NGOs are effective in assisting Russian businesses to implement their CSR activities not only in Russia, but also abroad. One of the most effective ways to improve the practice of CSR project implementation is to promote successful experiences of this type of cooperation between Russian businesses and NGOs.

4.5 The role of the Russian Government in assisting Russian businesses in developing countries of Africa

Russian businesses and the government are not two different actors when dealing with Russian business abroad. For Russian business abroad it is very important to have information and jurisprudence support in the countries where they are operating. Such cooperation implies a permanent process of decision-making that takes into consideration the positions of different stakeholders. What is more, new international regulations (including the WTO norms) require Russian businesses to work closely with the Russian Government, which is providing more and more significant support abroad.

Generally, Russian business programmes oriented towards the needs of local communities do not always meet their socioeconomic needs. In such a situation it would be useful for Russia to follow China, which unites CSR programmes with the relevant overseas development assistance (ODA) programmes initiated by the Chinese authorities. China operates in African countries not only from an economic perspective, but also from the point of view of cultural values. Chinese authorities provide a wide range of training and educational programmes in Chinese for the local population. This is a good example of how the soft power of the Chinese Government is supporting national business abroad. The Russian authorities could also follow China by launching combined business and government programmes to meet the needs of the poorest countries associated with socioeconomic development.

The idea of PPPs in the field of development assistance was widely discussed by the stakeholders from government, business, academia and NGOs. On the one hand, the government can boost Russian businesses' awareness of the economic advantages associated with doing business in Africa. On the other hand, PPPs are more relevant mechanisms, which could contribute to increasing the efficiency of the ODA resources provided by the Russian Government to developing countries in Africa.

5 How do Chinese and Indian businesses compare? A brief review of the literature

Over the last few years, Chinese and Indian investment in Africa has boosted bilateral trade, increased the competitiveness of the continent and promoted African economic growth. As a proxy for 'progressive' involvement in development, literature on CSR has been examined to find out whether Chinese and Indian firms have gone beyond the 'traditional' role of business in development and whether their practices abide by South–South cooperation principles.

The examination of CSR strategies of Chinese and Indian firms in Africa has thrown up mixed results. On the one hand, the influence of Chinese companies on improving the infrastructure across Africa to energise trade links within the region cannot be overstated. India has been a crucial player that is providing human resources training and technology to the region. However, companies from both countries have also reportedly been engaged in poor business practices that carry a negative impact in Africa. This section gives an overview of the main business features of both countries with Africa; it then provides an assessment of the positive and negative activities of these Asian firms in Africa; and finally, it compares the findings with the CSR practices of China and India with the Brazilian, Russian and South African firms.

5.1 China in Africa: all about resources?

A growing body of literature is drawing attention to the nature of Sino–African relationships, especially to the commercial and diplomatic links that China maintains in Africa. Whereas Africa has been depicted by the West as an aid recipient and a place of disease and poverty, China has advanced since the early 1980s with a more pragmatic approach (Brautigam 2009). The fact that China is a developing country and presents itself as a business partner rather than a donor has been an appealing rhetoric that has deepened the 'South–South' bonds with Africa (*ibid.*). Bilateral trade grew nearly tenfold between 1996 and 2005 (Lihua 2006)³² and by the end of 2013, it had dramatically risen to US\$210bn, making China Africa's biggest business partner (BBC 2014).

Although it has been reported that there are an estimated 800 state-owned companies operating in different African countries, Chinese authorities maintain secret the total number and the nature of Chinese firms abroad, especially in conflict-sensitive countries (Raine 2009). A large proportion of Chinese business in Africa is strongly grounded in the extraction of resources, as nearly 80 per cent of Chinese imports are mineral products (*The Economist* 2013b). Oil is the main business sector in which solely Chinese state-owned companies³³ are investing, whereas a growing number of private firms are investing in the African mining sector (Taylor 2006). The latter are securing the exploitation of minerals such as copper, bauxite, uranium, aluminium, manganese and iron ore, gas and other resources (*ibid.*: 938).

However, it would be a mistake to consider that Chinese relationships with Africa are exclusively resource-driven (Raine 2009). The Carnegie Endowment for International Peace noted in 2012 that Chinese investments cover more than 49 African countries in diverse sectors such as manufacturing (46 per cent), including textiles (15 per cent), mining (28 per cent), services (18 per cent) and agriculture (7 per cent) (Jafrani 2012).

³² Statistics from the Chinese customs show that in 1996 Sino–African trade totalled US\$4.03bn and in 2005 bilateral trade closed with US\$40bn.

³³ The three biggest Chinese oil companies in Africa are the China National Petroleum and Chemical Corporation, the China National Petroleum Corporation, and the China National Offshore Oil Corporation.

By the same token, Chinese firms control a vast share of the African infrastructure projects, and have access to important sectors such as telecommunications, transport, power plants, waste disposal and construction (Broadman 2007, 2008). In particular, Chinese multinationals are carrying out construction projects that range from large to small scale in 35 African countries, mostly funded by the China Exim (Export–Import) Bank (Mohan and Tan-Mullins 2009). Indeed, some small Chinese firms hold a monopoly of the engineering and construction markets in countries such as Angola, Equatorial Guinea and Côte d’Ivoire due to the lack of financial and technical capacity of local companies (Raine 2009; Chen *et al.* 2007). However, this is not to suggest that China’s engagement in the continent is entirely negative. These firms are building hospitals, dams, government offices, stadiums, power plants, airports and railways, and revamping infrastructure abandoned by Western companies across the continent and even reconstructing entire urban cities (Taylor 2006; Kaplinsky, McCormick and Morris 2007). This engagement has had a great potential to revitalise trade development between countries whose deficient infrastructure and major transport routes have discouraged foreign investment (Gadzala 2010). By at least one of the criteria for ‘traditional’ development approaches, Chinese businesses by and large can claim to be boosting local economies by investing in infrastructure. However, other ‘traditional’ criteria such as generating more local employment and more tax revenue for the government may still be in their initial stages.

5.2 A profile of Chinese businesses in Africa

There are three major reasons that explain the engagement of Chinese firms with Africa. First, they started by supporting development projects which helped to familiarise them with African markets; they apply this knowledge to develop further niches for investment (Gu 2009). Second, protectionist trade restrictions imposed by the US and the European Union over a number of Chinese manufacturers have motivated the latter to set up businesses in Africa and evade these restrictions by changing the country of origin of their products (*ibid.*). This strategy allows Chinese enterprises – under preferential trade agreements with Africa – to regain access to North American and European markets. Third, the need to both secure its long-term domestic supplies for energy and secure a leading position in the global oil market explains the intense commercial activity of China with Africa (Taylor 2006).

The main characteristic of Chinese firms – especially in extractive industries – is that they are vertical and capital intensive (Alden and Davies 2006). This means that they integrate themselves into well-defined markets acquiring upstream assets to secure commodities (CFR 2007). And most importantly, Chinese firms are largely state financed (Sirohi 2008). This capacity allows them to maintain a disproportionate advantage to outbid rival companies and obtain procurement contracts in Africa, due to the long-term capital and political support they receive from the Chinese Government (Broadman 2008).

Chinese firms in Africa tend to obtain their supplies from China rather than local markets (*ibid.*), especially in the construction sector. Evidence from a study of Chinese construction firms in North Africa highlights that Chinese contractors prefer to import materials from their home country: ‘In many African countries, their building material supply and equipment do not reach our demand and standards. Most of the material and equipment are from outside the host country’ (Chen *et al.* 2007: 459). However, the reasons are just as likely to be grounded in the lower prices of Chinese-made materials rather than quality (see Chen *et al.* 2007).

Moreover, Chinese firms rarely promote the integration of their workers into the African socioeconomic milieu (Broadman 2008), an issue that rarely attracts academic attention. In order to understand this behaviour it is necessary to incorporate the concept of ‘embeddedness’ into the analysis of Chinese business culture in the region (Mohan and Tan-Mullins 2009). This concept is useful to analyse the levels of integration of migrant workers,

belonging to one particular ethnic/racial group in a particular cultural and socioeconomic environment, and the reactions in the host society towards them (*ibid.*).

Cultural misconceptions, linguistic barriers and stereotypes are salient issues in the images of both groups. Chinese entrepreneurs prefer to focus on working directly with local governments and bring business practices that discourage integration of their workers into the African life (*ibid.*). In particular, Chinese firms prefer to bring their own workforce for a fixed period, openly discriminate against African workers and are hostile to labour unions and labour rights³⁴ (Gong 2007: 2). In addition, these firms prevent Chinese workers from forging personal relationships with local people³⁵ (Gong 2007).

On the other hand, Africans view the Chinese presence with mixed feelings (*The Economist* 2011). Many African countries suffer from high unemployment rates and labour unions encourage Chinese companies to hire more local labour (Pegg 2012). Similarly, the growing competition from the Chinese textile firms has affected negatively the local textiles industries. This issue has contributed to thousands of job losses in Kenya, Lesotho, Nigeria and South Africa (*ibid.*). The main reason is that Chinese firms rely on a pool of low-wage Chinese workers who are willing to work under difficult conditions (Cheng and Liang 2011). Nevertheless, numerous labour rights organisations are accusing Chinese firms of taking away job opportunities, hoarding their natural resources, deepening local corruption and violating African labour laws (*The Economist* 2011). As a result, African resentment towards the Chinese workforce has been visible in several episodes and even deadly clashes.³⁶

5.3 CSR of Chinese firms in Africa

There is scant academic attention towards the analysis of CSR practices of Chinese firms in the region. This concept refers to companies' strategies of social responsibility, social responsiveness, policies, programmes and the impact of this approach on society (Wood 1991). However, CSR is a relatively new concern in China and the government has not energetically advocated its implementation (Lin 2010). The reason seems to be grounded in its novelty and the alleged poor business etiquette of Chinese firms abroad (Cheng and Liang 2011). The corporate understanding of China about CSR practices gives less importance to community engagement and social responsibility, while prioritising the inclusion of sustainable environmental practices in their agendas. This is due to fears of liability, which is an urgent concern for Chinese firms in Africa (Roe 2014).

Besides labour-related poor practices, the environment is the area with the largest number of scandals that involve Chinese firms in Africa (Tan-Mullins and Mohan 2013). The country's operations have violated environmental regulations in many African countries (*The Economist* 2011). For example, state-owned oil companies have been seeking oil in national parks in Gabon and investing in the oil industry of complex regimes such as Sudan, where lakes of spilled crude have even been created (*ibid.*). The Chinese Government has addressed concerns about the negative image and irresponsible performance of its firms by enforcing the inclusion of CSR in the agendas of Chinese businesses.

For instance, since 2006 the Corporation Law of China requires companies to embrace social responsibility (Cheng and Liang 2011). Similarly, since 2008 the *Guidelines for Central State-Owned-Enterprises (SOEs) Regarding Implementation of Corporate Social*

³⁴ In 2010, two Chinese managers shot 11 Zambian miners over a pay dispute (see BBC 2010). Also, Mauritius witnessed a Chinese female workers' strike against their bosses due to wage delinquency, rude treatment and being forced to work 14–16 hours a day, seven days a week (Gong 2007: 2).

³⁵ It has been reported that Chinese companies 'forbid workers, mostly males, to have any relationship with local women, arguing that this system will prevent the contraction of AIDS or other STDs [sexually transmitted diseases]' (Gong 2007: 1).

³⁶ In 2012, Zambian miners killed a Chinese supervisor under allegations of abuses and underpayment (see *The Guardian* 2012). And in southern Nigeria, Chinese workers in the oil industry have become the target of crime and kidnapping (Gong 2007).

Responsibility compel firms abroad to 'achieve the harmony between enterprises' growth, society and environment' (*ibid.*). Currently, Chinese firms are under the supervision of the State-owned Assets Supervision and Administration Commission (SASAC) in Beijing (Tan-Mullins and Mohan 2013).

Moreover, there is evidence that Chinese firms are embracing CSR in their policies. Since its first project in Africa in 1997, Huawei Technology has hired over 65 per cent of its total staff from Africa, having created over 10,000 jobs indirectly. Huawei also set up six training centres across the continent which provide training to 12,000 African engineers and workers every year.

Sinohydro invested US\$900m in 30 projects in Angola, including hydropower, agriculture, hospitals, schools and transportation. It has trained and employed over 8,200 local workers. In 2010, China Nonferrous Metal Mining Group Co. (CNMC) donated ZMK30m to Kalulushi City Health Department to help the Zambian Government and medical institute promote malaria prevention in the area.

China Road and Bridge Corporation signed an agreement with Changsha University of Science and Technology on 'Training Angolan Students in China'. It also funded 34 Angolan students to study civil engineering in China and bring their knowledge back to Africa (Cheng and Liang 2011; Carter Center China Program 2011).

China Railway Group Ltd promoted the Environmental Friendly Enterprise Scheme, planted more than 10,000 trees in Africa, cleansed (from pollution) 16,000 hectares of farmland to make it fit for farming again and constructed more than 2,000 water wells for the Republic of Mali (Cheng and Liang 2011; Carter Center China Program 2011).

However, one of the most common criticisms about the implementation of CSR in Africa is that Chinese companies often donate money or equipment to communities in an inefficient manner (Roe 2014). This phenomenon has been linked to poor engagement of the Chinese companies with the local communities, which does not address the real needs of local groups. Rather, the companies address the problems that *they* perceive to be key. It could be argued that Western firms have also been known for deciding what is best for their host communities and that only the most progressive of firms engage in truly participatory processes with the community. Furthermore, Chinese CSR activities lack public campaigning and advertising as they advocate that 'actions speak louder than words' (Cheng and Liang 2011). Another major drawback is that CSR policies are often determined by the headquarters of a state agency in China. Additionally, the lack of social demands emerging from African communities also makes it difficult to stop irresponsible environmental practices in the region. Currently, there are no African official institutions that specialise in monitoring the CSR practices of Chinese firms in Africa (Tan-Mullins and Mohan 2013). Only the Chinese headquarters of the SASAC supervises the performance of its firms. This reduces the engagement of host communities and local stakeholders to demand higher standards of responsible practices by Chinese firms. Conversely, in the next section, we explain that India seems to be implementing a radically different way of conducting business and promoting sustainable development in Africa.

5.4 Indian business and African engagement: the softer approach

India's engagement with Africa has been described as the middle ground between the 'aggressive' expansion of Chinese firms and the 'strings-attached' Western aid in Africa

(Taylor 2012). The involvement of India in the region is not a recent phenomenon.³⁷ The intense commercial trade between the two began during the 1990s (Broadman 2007, 2008). Correspondingly, these links are rooted under South–South cooperation bonds (Alvarenga, Jansson and Naidu 2009). The sectors in which Indian firms are engaged in Africa range from mining, energy, telecommunications, information technology (IT) services, agriculture and pharmaceuticals (WTO 2013). Bilateral Indian–African trade has grown by nearly 32 per cent annually between 2005 and 2011 and is expected to rise up to US\$90bn by 2015 (WTO 2013).³⁸ Notwithstanding, the data of the total Indian investment in Africa are vague.

A primary concern for India is the need for energy. Currently, India has one-fifth of the world's population (over one billion) and is the sixth country with the biggest need for energy (Singh 2007). In order to enhance its partnership with resource-rich countries, India has promoted the Techno-economic Approach for Africa–India Movement (Team-9) to secure energy sources in West Africa (*ibid.*). Besides, multinational firms have a substantial interest in seeking for gold, diamonds, manganese, bauxite, iron ore and chrome in the region either by opening new mines or making alliances with local companies (Mawdsley and McCann 2011)

While Chinese entrepreneurs are developing the region's infrastructure, the salient feature of Indian firms is the supply of IT technical services, capacity building and training (Taylor 2006). Currently, India has a leading role in the telecommunications sector, transfer of technology and training of human resources in Africa (Broadman 2008). In addition, among BRICS countries India is the largest leaser and purchaser of land in Africa (Carmody 2013). As an example, Indians have invested more than US\$1bn in farms in Ethiopia (*The Economist* 2013a). This is due to the sharp decline of the agricultural productivity in central and northern India that is forcing India to invest in Africa to cover its internal demands for agro-fuels and food (Carmody 2013). However, in its quest to produce food and agro-fuels, India has been involved in numerous scandals of land-grabbing activities (*ibid.*).

5.5 Behaviour of Indian businesses in Africa

Numerous studies conducted about the features of Indian multinationals in Africa have identified that Indian firms exhibit greater integration into domestic markets, operate extensively through informal channels and have greater access to the local political and social economy, due to the long ties of the large Indian Diaspora in Africa (Taylor 2006; Broadman 2007, 2008; Alvarenga *et al.* 2009). Indeed, the Indian Government encourages the penetration of Indian businesses in African countries with large Indian Diaspora because it values their remittances for India's economic growth (Taylor 2006).

Another salient feature is that Indian firms tend to be privately owned, are varied in size and scale of their structures and are less vertically integrated than Chinese firms (Broadman 2008). Additionally, they prefer to enter in diversified markets and sell their products to private markets rather than African state agencies (*ibid.*). On the other hand, Indian firms obtain supplies from local African markets and promote the integration of the management and their workers into the socioeconomic African environment (*ibid.*). Indeed, an increasing number of international companies prefer to hire Indians as managers due to their integration and abilities to relate to the African culture and to interact with local communities (Alvarenga *et al.* 2009). According to Broadman (2008) in a survey of 450 business owners in Africa, almost half of the participants who were of Indian descent had also taken on African nationalities. This is an advantage that allows Indian firms to acquire existing businesses from the host society.

³⁷ Moreover, India's interest in Africa spurred during the emergence of the Non-Aligned Movement (1961) and continued with its support to different anti-colonialist and anti-apartheid struggles in the region (Naidu 2013).

³⁸ The value of bilateral trade jumped from US\$5.3bn in 2001 to US\$12bn in 2005 to US\$63bn in 2011 (WTO 2013: 15).

5.6 CSR of Indian firms in Africa

In August 2014, India became the first country in the world to enforce companies to spend 2 per cent of their net profits on social development initiatives (Prasad 2014). At the policy level, issuing a CSR programme or at least a set of principles has been welcomed as an important innovation; however, many Indian firms and even thinktanks have criticised the decision (*ibid.*). They argue that 2 per cent is a large proportion and it will be chaotic to monitor the expenditures on social welfare. However, CSR is not a new phenomenon and is already a common corporate strategy on the agenda of large Indian businesses. Unlike China, philanthropy and social duties are embedded features in the culture and religion of Indian firms. Sagar and Singla (2004) have noted that spirituality is rooted in the ethos of Indian corporations.

Indian firms consider that philanthropy is the most direct way to improve business responsibility in societies of developing countries. Due to the transition from an agricultural to an industrialised economy, India developed a myriad of social imbalances, and CSR was viewed as one way to address them (Lattemann *et al.* 2009). Many firms adopted the view that a company is not only responsible for itself, but also for its customers, workers, shareholders and community (*ibid.*). In addition, India – which once heavily depended on foreign aid from Britain – and Indian companies have internalised these dynamics and thus are replicating them in their business mentality (Visser 2008).

Some favourable reports claim that Indian businesses have prioritised labour issues, community engagement and sustainable environmental practices. It has been noted that Indian CSR practices in Africa are based on participatory projects and empowering local communities as stakeholders (Naidu 2013). The common phrase to describe this dynamic is 'capacity building'. One example is their involvement in the African educational sector. In fact, India's Pan-African e-network project is the biggest educational programme that connects 53 African countries with top Indian universities. Additionally, at least 15,000 African students are enrolled in Indian universities, and India has provided scholarships for 22,000 African students (Naidu 2013). However, as noted previously, little monitoring exists of the actual way in which these activities are carried out by independent bodies, particularly in Africa.

5.7 How do Chinese and Indian firms compare to those in the rest of the BRICS?

The main difference between Chinese and Indian firms in Africa in terms of CSR is their engagement with local communities. According to Taylor (2012) 'about 60 per cent of Indian aid is directed towards technical assistance. This reflects the central position of human resource development in India's development efforts in Africa' (Taylor 2012: 788). In contrast, the idea of CSR in Chinese firms is relatively new and much of the problem lies in their focus on short-term philanthropic activities. Chinese firms provide on a voluntary basis what the Chinese Government requires them to do in the region, instead of engaging with African communities and addressing their needs.

Indian companies have a better reputation in terms of CSR 'good corporate citizen' practices and care more about their image than Chinese firms (Taylor 2012). One example of evidence is that in 2006 Nigeria put in a bid of US\$2bn for an offshore Nigerian oil field, only to see that the Indian Government deemed the investment as commercially unfeasible. The Indian cabinet blocked the deal, arguing that political repercussions and risk were extremely high. On the other hand, the Chinese state-owned China National Offshore Oil Corporation bought a 45 per cent working interest in the field, while ethical considerations were not significant in its decision (Taylor 2012).

However, there are important setbacks that have affected negatively the image of the Indian presence in Africa. Indian firms have been criticised for low economic development, corruption, and cases of resistance to dialogue with stakeholders, among others (Naidu 2013). For example, in 2006 Indians gained the reputation of running the most corrupt firms: the Transparency International report *Bribe Payers Index 2006* ranked Indian companies as the worst offender companies that were more likely to engage in corruption activities and bribes in developing countries in that year. This issue remains particularly acute amongst the Indian firms investing in the African energy sector (Transparency International 2006).

Nonetheless, the activities of Indian and Chinese firms are probably no worse than those of other BRICS countries in the region. Alongside Brazil and South Africa, Russian companies were ranked at the top of the worst companies that routinely pay bribes as a way of doing business abroad (Transparency International 2011). Indeed, *Bribe Payers Index 2011* reported that Russian companies were ranked as the worst (28th place) followed by Chinese (27th), while Indians ranked 19th, South Africans 15th and Brazilians 14th (*ibid.*). Similarly, the reputations of multinational companies from Brazil, Russia and South Africa have been highly criticised by leading non-profit organisations such as the Berne Declaration (Switzerland) and Greenpeace. Brazil holds a reputation for developing human resources and training in Africa. Surprisingly, the Brazilian mining giant Vale was singled out as having the most 'contempt for the environment and human rights' in the world (Chaudhuri 2012). Similarly, the South African mining company AngloGold Ashanti has been accused of poisoning communities and contaminating lands that can no longer be farmed in Ghana (Greenpeace 2011). As a result, this company received the worst rating for social and environmental protection from the Ghanaian Environmental Protection Agency in 2011 (Chaudhuri 2012). Finally, the Russian firm Gazprom was awarded the 'distinction' of practising the worst CSR in 2014 due to severe damage to the environment and violation of environmental regulations through oil spills.

Overall, the CSR practices of the countries examined in this study are varied. China seems to have difficulty in changing its hard approach of poorly responsible business in the region, in many sectors, due to its voracious need for domestic economic growth (Broadman 2008). India seems to have a less expansionist agenda but that does not necessarily mean its agenda in Africa is altruistic. There is evidence that Indian companies have engaged in scandals or land-grabs and exacerbated local corruption with the complicity of African elites (Carmody 2013). Similarly, firms from Brazil, South Africa and Russia have also engaged in poor corporate practices in the region.

On the other hand, multinational companies are showing that they are willing to implement CSR policies, which can be a powerful force for African development. However, this study has shown that most of the strategies followed by the BRICS multinationals to maximise their profits and geopolitical influence in Africa do not suggest an overall positive assessment of their behaviour. Additionally, the lack of incentives to develop a strong civil society in Africa, and the lack of institutional empowerment for stakeholders to monitor the operation of these companies in the region, leaves it up to the companies to comply with their own commitments. With this set-up, it makes it more difficult to prove whether companies are in reality following through with their own CSR commitments.

6 Conclusions

Businesses from the BRICS in Africa are beginning to be scrutinised with regard to their role as potential development partners. This study has aimed to distinguish the contributions these businesses may make to development as ‘traditional’ (economic development, employment generation, building of infrastructure, generating tax revenue for the state) and ‘progressive’ (targeting poor communities, integrating local communities within the core operations of the firm, respect for the environment and protection of human rights).

Business activity from some BRICS countries in Africa – for example, China and India – is more widely known and reported on than for other members of the bloc. A review of the media coverage as well as the academic literature suggests that China engages in traditional development activities and that progressive development approaches are considered less helpful for local development (perhaps inspired by the Chinese development trajectory itself) and when they are applied, tend to be subsumed in incipient CSR activities which still lack a deep connection to the needs and desires of the local communities in Africa where they operate.

Indian businesses seem to offer a softer version of the Chinese traditional approach minus the abundant provision of support for infrastructure but counterbalanced by greater embeddedness in local communities, thanks to the large number of African citizens of Indian descent (Diaspora as well as African-born) which also are over-represented in the African business sector.

Other members of the bloc (Brazil, South Africa and Russia) have seen lower levels of scrutiny on their activities in Africa and therefore have received more attention in this study, which also provides original material from interviews carried out in those countries with business people and other stakeholders linked to their operations in Africa.

Brazil, South Africa and Russia have different modes of engagement in Africa, with Russia being the less experienced country with regard to partnership models for development. The Russian presence in Africa is small enough for its inexperience to be less likely to be analysed in the literature and even the media. However, Russia’s business practices with regard to development are even more traditional than those of Chinese and Indian firms. Russian firms lack the organisational capacity and the interest in engaging with African communities beyond short-term charity projects on a small scale. Brazilian and South African firms present a real mix of traditional and progressive approaches and activities to development in Africa.

BRICS countries’ business behaviour abroad may differ markedly from how it is conducted at home, depending on the host country’s regulatory framework, needs and enforcement capacity. However, it is clear that businesses from those countries where a more progressive approach is favoured in their own domestic markets (such as Brazil, South Africa and India) tend to attempt carrying out more progressive projects and approaches to development when they operate in Africa (even if in the case of South Africa there are some anxieties in other African countries with regard to their ‘regional dominance’ intentions). One of the main lessons from this study is that BRICS countries, just like their Western predecessors, tend to apply the approaches that work in their own countries to their new markets, often without analysing whether these approaches can be transferred or whether they only worked because of a particular set of conditions that no longer exist.

The trend amongst BRICS country businesses operating in Africa nowadays is to emphasise economic partnerships and mutual benefits in modalities that are much closer to the 'traditional' role of business in development than the 'progressive' one. Perhaps because the recent history of all BRICS countries shows that it was economic partnerships rather than pure aid which supported their development pathways.

All in all, expectations of business behaviour from the BRICS that may lead to more progressive roles for business in development are yet to be realised. The type of partnerships and development projects between BRICS country businesses and African governments continue to evolve towards a more commercial pathway, and one that is more traditional than progressive.

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