

# Foreign Direct Investment in Africa Searching for Impact in Mali and South Africa

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## **FOREIGN DIRECT INVESTMENT IN AFRICA. SEARCHING FOR IMPACT IN MALI AND SOUTH AFRICA**

*Soeren Jeppesen and Claire Mainguy*

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# FOREIGN DIRECT INVESTMENT IN AFRICA. SEARCHING FOR IMPACT IN MALI AND SOUTH AFRICA

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## **Abstract:**

*Little is known about impact of FDI on economic development in Africa compared to other developing countries, which the paper seeks to address by focusing on examples of impact in Mali and South Africa. The argument put forward is that the impact has to be identified at the level of the industry or sector and the level of the firm with regard to employment effect, income generation and skills development. The mining and electricity and railway sectors in Mali are investigated and compared to the automobile industry in South Africa. The paper ends with suggestions for future investigations which can shed more light on the pertinent issues about impact of FDI in Africa.*

**Keywords:** *FDI, Impact, Africa, Mali, South Africa*

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## Foreign Direct Investment in Africa<sup>1</sup>

The expansion of global capitalism and neo-liberal policies has been promoted by Northern governments and international organisations arguing in favour of an opening of economies to FDI, and by developing country governments implementing more and more open policies (World Bank, 2004). This has led to a relative increase in the amount of FDI going to developing countries, though unevenly distributed on regional, country and intra-country level. The international literature tends to support that FDI promotes economic growth, while relationships for the enhancement of technology transfer through linkages and employment are difficult to establish, and the literature becomes especially weak when focusing on poverty reduction. Whether FDI does promote economic growth, enhance technology transfer through linkages, stimulate employment and reduce poverty – among others, are issues that we know even less about in the African context compared to other developing countries (see for example Sumner, 2005a and 2005b). Accordingly, this paper seeks to shed light on the issue.

We will focus on the direct effects of FDI, while the in-direct effects (demonstration effects and spillovers) are only assessed to a limited extent. While the paper follows on from the Rugraff et al. (forthcoming) observations about the lack of empirical foundations (and solid arguments) for positive impact of FDI beyond the promotion of economic growth, the findings highlight the complexity of the undertaking. As we want to move to the firm level in our analysis, this requires substantial depth and investigations of firm practices (UNIDO, 2006). A particular issue is the lack of data in regards to pursuing the ambition of sufficient depth, which is a challenge in itself. Accordingly, the paper is of a more explorative nature as it builds on an ideal approach to conducting such studies of impact of FDI in Africa, the outcome is more limited due to the lack of data.

The paper starts out by presenting data on FDI in Africa to sketch the backcloth of the discussions that we will undertake. It then shortly touches upon key literature on FDI in Africa and will continue with a brief introduction to the main streams of literature on the impact of FDI on developing countries. This will in turn be related to the discussions about the advantages vs. disadvantages being argued theoretically and empirically regarding FDI, growth, transfer of technology and linkages, employment and maybe poverty reduction (see for example Sumner, 2005a and Rugraff et al. forthcoming, which highlights numerous and substantial lacunas in our knowledge on impact of FDI). The next section elaborates on the FDI and macro economic impact in Africa, using Mali and South Africa as two examples. Finally, a section with concluding remarks ends the paper by discussing the findings and how our empirical observations can be viewed in the light of various theoretical debates. The contributions from the findings are highlighted with respect to the outline of a research agenda, which could take us closer to an understanding of the role and impact of FDI in Africa.

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<sup>1</sup> We would like to thank the participants in the two workshops in London June 2006 and Strasbourg June 2007 arranged by the EADI Working Group on TNCs & Impact on Development for their contributions and Henrik Schaumburg-Müller and Michael W. Hansen, CBDS, CBS for their constructive review. We are grateful to research assistant Mariene Ferguson Amores, CBDS, CBS for collecting the materials used for the sections on South Africa.

While Africa has been receiving less FDI in relative terms, the continent nevertheless also reflects the global trend that FDI has been concentrated in a few countries while the majority has received limited FDI. Also in Africa the level of South-South investment is on the rise, as it is globally, in terms of both Chinese and Indian capital flowing in and from East Asian countries like Malaysia, Brazil and South Africa.

Africa's share of annual FDI is today smaller than in the 1970s (approximately two per cent compared to 3.8 per cent), but has remained stable since 2001, at a level of 1.3 to 1.9 per cent of total FDI in the world (UNCTAD, 2006a, Annex Table B1). Similarly, while the share of FDI to Developing Countries has increased over the last five-ten years, now being about 1/3, Africa's share of this FDI has fallen since the 1970s (at nearly 15 per cent) and is now around five per cent.

**Table 1 Annual inflows of FDI, globally, in Africa, South Africa and Mali 1990-2005 (million USD)**

Area / period	1990-2000*	2002	2003	2004	2005
Mali	30	244	132	101	159
South Africa	854	757	1 281	1 530	7 108
Africa	6 869	12 999	18 513	17199	30 672
Developing countries	134670	163583	175 138	275 032	334 285
World	495 391	617 732	557 869	710 755	916 277

Source: UNCTAD, 2006a, annex table B.1 \* Average figures

As globally, FDI in Africa is highly concentrated and varies substantially among countries. Five countries receive about 2/3 of all inward FDI in 2005 (UNCTAD, 2006a, p. 45) and many countries receive very limited FDI. Similarly the outflow of FDI is also dominated by five countries. The global shift from manufacturing towards services is less pronounced in Africa as the importance of FDI in the primary sector (and natural resources) is significant, while the manufacturing sector is of minor importance (UNCTAD, 2006a, p. 45-46) - though again more variation applies when looking beyond the main recipients of FDI (Kragelund, 2007, p. 8). However, the focus on services in FDI, followed by investments in primary sector and leaving manufacturing behind, is a reflection of the general modest development of the secondary sector in Africa, which is far from generating the amount of jobs and input to the economies as in more or less all other places around the globe. An issue, which has been re-emphasised with the phase out of the MFA (the Multi Fibre Agreement) and the relocation of textiles production beyond the borders of Africa.

FDI in Africa does not show a similar shift in entry from Greenfield and other types of investment towards Mergers and Acquisitions (M&As - or Brownfield investment) as globally, rather fluctuating between 30-85 per cent in the period from 2001-04. While this can be ascribed to the importance of FDI in the primary sector where Greenfield investments are preferred, still, M&As do dominate in manufacturing and services

(Kragelund, 2007, p. 9-10). And while FDI through privatisation initiatives have been quite important, they decreased in 2005 compared to FDI in private entities (UNCTAD, 2006a, p. 46).

Even if many African countries do not attract great amounts of FDI, total inward stock of FDI has almost five-doubled over the last 15 years and in some cases, like South Africa, increased even more (see table 2).

**Table 2. Inward stock of FDI in Africa, South Africa and Mali, selected years (1990, 2000 and 2005), million USD**

	1990	2000	2005
Africa:	58443	151003	264495
South Africa:	9207	43442	69372
Mali:	229	132	915

Source: UNCTAD, 2006a, Annex table B.2

Furthermore, while FDI might be limited in absolute terms, these resources can represent a significant part of the total financial resources to a number of countries. In 2005, they amounted to 19 per cent of the Gross Fixed Capital Formation (GFCF) in Africa (12.8 per cent for all the developing countries) (UNCTAD, 2006a). And even in South Africa, a similar, substantial percentage is seen in selected years like 2005 (see table 3).

**Table 3 Inward flows FDI as percentage of gross fixed capital formation (GFCF) for Mali, South Africa, West Africa, Africa, Developing Countries and the World (1990-2000 and 2003-2005)**

	1990-2000	2003	2004	2005
Mali	5.3	17.2	10.5	15.8
South Africa	4.5	2.8	2.3	15.8
West Africa	18.3	22.7	15	20
Africa	7.1	15.8	11.8	19.1
Developing countries	8.9	9.3	10.7	12.8
World	7.6	7.3	7.7	9.4

Source: UNCTAD, 2006a, Annex table B.3.

To identify the relevant issues concerning the impacts of FDI in sub-Saharan Africa (SSA), it is first necessary to consider the specificities of these economies. Of over 50 LDCs, 34 are located in SSA. The level of the per capita GDP (349 USD in 2004) reveals a weak demand and small markets, which do not attract market-seeking FDI, though South Africa is an exception. The manufacturing sector represents 12 per cent of

the added value in 2004 and only 0.54 per cent of world exports come from LDCs (UNCTAD, 2006b). FDI is mainly oriented towards natural resources and the flows are closely linked to price fluctuations and create instability. The rise of FDI from 17 billion dollars in 2004 to 31 billion in 2005 in Africa, due to the rise of oil prices, provides a significant example (UNCTAD, 2006a).

As mentioned above one recent trend is the increase of South outward FDI reaching around 17 per cent of global outward FDI in 2005 (133 billion USD of a total of 916 billion USD), with South-South FDI now constituting 60 billions of 334 billions equivalent of 18 per cent or nearly 1/5 of global FDI to developing countries (UNCTAD, 2006a, p. xxiv). While Brazil, Malaysia, China and India are among the major investor countries, intra-African FDI is also on the rise, in particular through the increase in South African FDI into a number of African countries. Total outflows from African countries constitute a minor percentage (3.6 in 2003) of the South-South FDI (Page & te Velde, 2004, p. 16), but the intra-African part of this is higher, 2 billions out of 30 billions in total or around 6.5 per cent (UNCTAD, 2006a, p. xxiv).

South Africa is the third largest investor in Africa, measured by FDI stock, only UK and US are bigger. While Africa is by far not the most important investment location for South African FDI, the share is increasing from just below five per cent of total FDI outward stock in 1990 to seven per cent in 2003 (Page & te Velde, 2004, p. 20) and nine per cent in 2005 (UNCTAD, 2006a) and South African FDI is important to a number of African countries (Page & te Velde, 2004, p. 38). With 90 per cent of FDI going to Southern African countries, it is hardly surprising that South African FDI constitute from around 30 per cent up to 86 per cent of total inward FDI in the SADC (Page & te Velde, 2004, p. 22). And South African FDI made up 53 per cent of total South-South FDI in Africa and over 60 per cent of total 'African' FDI stock in Africa in 2003 (Page & te Velde, 2004, p. 17-18).

This has taken the form of major investments in a few selected sectors (mining, finances and telecommunication), followed by quite a number of smaller investments in retail, textiles, security, IT and so on (Goldstein, 2004; Page & te Velde, 2004; Gelb, 2005). Overall, it is estimated that about 15 per cent of the projects are in the primary sector, 20 per cent in secondary/manufacturing and about 65 per cent in the tertiary/service sector (Gelb, 2005).

In sum, while FDI flows to and FDI stock in Africa have risen over time in absolute terms, the relative importance in global terms has decreased and if we look at the individual countries FDI flows continue to represent a fluctuating and hence unstable resource. In spite of this, and in spite of FDI being small in absolute terms, it has importance in some countries where for example FDI as a percentage of GFCF is relatively high as in the case of Mali. Other sources of finance, such as ODA and remittances, however, are potentially more important, so why the interest in FDI? The answer is the potential impact, which we turn to now.

## **FDI and impact at the macroeconomic level on growth, employment – and poverty**

Although literature on FDI seldom focuses on Africa, it is possible to identify debates, which, at the macro level, seem of critical importance for the role of FDI in Africa's development. Following the Dollar and Kraay assertion (2000), the debate is centred on the effects of FDI on growth and poverty reduction (Jalilian & Weiss, 2002). At the macroeconomic level, the econometric analyses generally do not include African developing countries in their sample. Being instable, the results show no evidence of positive impacts on developing economies and are highly dependent on other factors such as development of financial markets, domestic investments (Agosin & Meyer, 2000), infrastructures, and human capital (Sumner, 2005a; Mainguy, 2004). As a matter of fact, the link between FDI and poverty reduction is too indirect and dependent on many other factors to draw some relevant conclusion (see Rugraff et al forthcoming). Accordingly, we here focus on the link to growth and employment and hence the direct effects of FDI.

Growth can be driven by three variables: exports, domestic consumption and investment. As the level of consumption is low in Africa, apart from in Nigeria, South Africa and a few other examples, the main focus here is exports and investments. The debate about external accounts generally focuses on the trade balance. TNCs often import most of the inputs or intermediary goods they need, given the unavailability locally or the unsuitable quality of domestic products. In addition, they often use transfer prices, which reduce their profits (and taxes) by increasing the import value.

In Africa the debate has to be extended to the shift of export structure due to FDI, a major issue for many African countries, which are generally specialized in regressive products.<sup>2</sup> An increase in exports by efficiency-seeking TNCs undertaking Greenfield investments could imply increased employment and probably a reduction of poverty if those exports come from labour-intensive industries employing low skilled labour. However, as FDI tends to be resource seeking or M&As in the service sector, this is hardly the case in most of the LDCs in Africa. FDI in the natural resources sector provide limited employment (see below the case of the gold mining sector in Mali) and the consequences of M&As is often reduction in employment in the short run, though with potential employment options in the medium to long run, but among (high) skilled workers. Still, FDI in the natural resources can contribute to fiscal revenue (see section 3, B), which might be used for the poverty reduction, especially by spending money for education, if the governments are willing and able to implement the necessary policies (Slaughter, 2001). FDI in the primary sector (mining) might be a source of investment in high technological goods, but with few spillovers on the host economies. The natural resource sector is also highly dependent on the quality of governance (Leite & Weidmann, 1999; Sandbu, 2006).

Concerning investment, the relationship between domestic and foreign investment is important for example expressed in the ratio of FDI/GCFC (or FDI/GDP). Furthermore,

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<sup>2</sup> The 'regressive' products concept is used by UNCTAD in its Trade and Development Report to characterize products having low or negative rates of growth, hence decreasing prices. Raw materials and unskilled labour intensive products are examples of 'regressive' products.

the potential of securing investments in the private sector versus the public sector (through privatisation) is also significant. Again in the African situation, as many countries have a limited private sector, privatisation has been a major source for investment, strongly promoted by the structural adjustment programmes and other donor policies.

The privatisations are generally assessed with regard to their impact on public budget, on employment, on firm efficiency and on the quality and price of provided services (OCDE, 2002). They are often linked to conditionalities of ODA (Official Development Assistance) from bilateral collaboration agreements. In most cases (except the telecommunication sector), public services in infrastructures (water, electricity, railways, and so on) are said to be difficult to privatise completely for different reasons (Bullock, 2005). Generally, a) they were (or are) in very bad shape before privatisation, b) they need huge investments, and c) the markets are not very large. The impact of privatisation on public finances can take different shapes and have mixed effects: the amount of the sale, the level of taxes, and the reduction of the expenses (subsidies and investments). In the infrastructure sector, the sale is quite often accompanied, first, by commitment from the TNCs to invest in the forthcoming years and, second, by important loans from the donor agencies and the government. On one hand, the privatisation of public companies might improve the consumption of public services with a greater access to electricity and water and sanitation for example. It might also increase the level of investment in the infrastructure. On the other hand, privatisation is quite often synonymous with rationalisation and lay-offs leading to decreasing employment possibilities.

It appears that capital, and hence FDI flows, do not go where they are rare, but rather where they are already abundant, which is a matter of concern in an African context as capital stock and the level of investments are low in many – or actually most - countries. This then questions the causality of the relationship between FDI and growth. Positive impacts are dependent on the development level of the host countries (Borensztein et al., 1998) and the threshold issue would be one to include in a agenda for further research on FDI's impact in LDCs and in particular in Africa. According to Rugraff and al. (forthcoming), studies on threshold concern three dimensions: Human development and technological level, quality of institutions, and trade policy regime of the host country. The level of the threshold, under which FDI can have no, or negative, effects on the host countries, may vary according to the methodology and the sample used, and according to the sector of activity.

Some of the determinants of FDI are also potential benefits of FDI. For instance, Carr et al., (2002) show that US TNCs' location is partly determined by the importance of skilled labour in the host country while Blomström and Kokko (2001) focus on the effects of FDI on human capital through training and spillovers. Infrastructure provides another example; their availability and quality can be an important determinant of FDI, but better access to water and sanitation and better network coverage in telecommunication is expected to be brought about by FDI through privatisation too (Berthélémy et al., 2004).

The lack of studies and statistics is a major explanation of the weak representation of Africa in the macro level studies of FDI impacts. Another explanation might be that the introduction of African economies in the regression reduces the lack of signification of the growth-FDI relationship coefficient. According to Asiedu (2001), this might be due to the nature of FDI towards Africa. Most of the studies on FDI impacts focus on emerging countries with market seeking FDI, while African countries receive non-market seeking FDI (mostly natural resource based FDI). In some cases this distinction can provide an explanation for differences between potential impact in Mali and South Africa, especially as far as government policies are concerned. Irrespectively of the amount of studies, the macro perspective only reveals a part of the story concerning the impact of FDI. If we want to make a more in-depth investigation of the impact, the analyses have to be taken to less aggregated levels in terms of focusing on linkages between domestic and foreign firms, the technology transfer, and the human development taking place through such linkages.

### **Impact of FDI on technology transfer, linkages and human development**

Taking a less aggregated level of assessment and focusing on linkages between domestic and foreign firms means that analyses at the sector and at the firm level are needed if we want to establish the impact of FDI on the domestic private sector in developing countries (UNIDO, 2006). We focus on two important aspects of this, namely technology transfers and learning processes, and the human development side of employment (what type of employment, skill requirements, etc).<sup>3</sup>

The relationship between the foreign and the local firms is essential if a positive impact is to stem from FDI and, hence, a focus on the type of technology transfer, and to what extent the relationship provides options for the local firms to learn and improve their performance, is crucial (Goldstein, 2004; Hansen & Schaumburg-Müller, 2006). If FDI just enters a developing country as an enclave (for example being physically located in an Export Promotion Zone), drawing on inputs from outside the country and exporting the products to foreign markets, the potential for transfers and learning is highly limited. And, as Altenburg, among others, has argued, not only the linkage itself is then important, the type of linkage (backward, forward, competitor) is important too. In policy terms, this should be reflected in dedicated government policies enhancing the various types of linkages (Altenburg, 2002. See also UNCTAD, 2005a and UNIDO/Luetkenhorst, 2004).

Analysing at the firm level also allow us to clarify whether the employment created is benefiting the skilled or the non-skilled workers. Crudely speaking, more capital-intensive types of FDI tend to benefit the better-educated, often urban-based part of the population, while more labour intensive types benefit the non-educated, un-skilled segments. And if the FDI (Greenfield or Brownfield) is placed in a rural setting, the potential of benefiting the poorest is increased. This again, however, relates to both the

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<sup>3</sup> Keeping in mind that the overall employment generated by FDI is modest in developing countries compared to the total workforce, but can be significant in certain countries and/or sectors (Sumner, 2005, p. 280).

infrastructure situation and how the investment (read: the foreign company) can manage the logistics of the activities and the presence of local and/or foreign firms and organisations to collaborate with. In Africa, as in many other settings, there seems to be a concentration in and around the capital and major centres of economic activities not supporting a wider spread of benefits from FDI (Martin & Rose-Innes, 2004, quoted in Kragelund, 2007, p. 8). In addition to this, national systems of learning are weak, fragmented, and poorly financed. Hence, in terms of securing the widest range of benefits from FDI, the developing country governments have a major task and responsibility in designing appropriate policies and supporting the local/domestic industry through technology transfer and the establishment of linkages to foreign firms, in relation to providing the necessary infrastructure (Wad and Jeppesen, 2006). Still, it is, nevertheless, a difficult task when the large share of FDI is aimed at natural resources, where few linkages are found and the potentials of upgrading are limited.

In order to move beyond the aggregated – and inconclusive – analysis often found among FDI-contributions, this paper seeks to explore the issue of the impact of FDI further by discussing two country-examples from Africa, namely South Africa and Mali. Rather than talking about 55 countries as one (Africa), we need to take a country-look in order to investigate the impact of FDI more in depth: Mali is a landlocked country in the western part of Africa with 13.5 million inhabitants, a size of 1.24 million square km and is the 185th economy (equivalent to a GDP per capital of 440 USD) in the World Bank classification. South Africa is situated at the southern tip of Africa with its 45 million inhabitants and 1.2 million square km of land. The country is the biggest economy in Africa and had a GDP of 5390 USD per capita in 2006 (using the World Bank Atlas method).

The contributions from investigating these two - very different - countries are among others that a) they illustrate the debate on differences in impact in a 'larger' developing country economy (South Africa) compared to a 'smaller' developing country economy (Mali), b) the importance of the context or the 'country and market situation' and the role of different forms of FDI (market seeking versus natural resource seeking FDI plus FDI in the private sector versus FDI in the public sector through privatisation), c) the need for sector information in order to make in-depth analyses, and d) the role of government with regard to FDI.<sup>4</sup> We will compare and discuss the data with FDI, for example yearly inflow, stock and change in stock, and sector distribution over the last five-ten years in the two African countries of Mali and South Africa. Based on this, we then turn to the issues concerning the more in-depth impacts of FDI. These impacts stem from technology transfer, linkage formation, and skills development in local firms in selected key sectors in South Africa and Mali.

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<sup>4</sup> The paper mainly draws on secondary sources from official institutions (UNCTAD, World Bank, OECD, Government agencies etc) and international journal articles, supplemented by previous and additional research by the authors (including interviews with key respondents in South Africa, February 2007, and email communication and interview). About 40 interviews were held in Mali in January, September 2005 and, mostly, in April 2006. Among others they concerned representatives of Malian and foreign firms, representatives of the BCEAO (Banque Centrale des Etats d'Afrique de l'Ouest), donor agencies, the ministries of geology and mines, economy and finances, investment promotion, NGOs, and Malian academics.

Concerning FDI, the primary sector is important in both countries (mining in particular), but it is relatively more important in Mali than in South Africa.<sup>5</sup> Telecommunication has also been a target sector in both countries, while cotton, water, electricity banking and construction work are key sectors of FDI activities in Mali; and food and beverages, automotives, the financial sector, and water have been key investment sectors in South Africa.

The relative importance of FDI in relation to other sources of finance differs too. South Africa has attracted substantial portfolio investments, while FDI and ODA play minor roles in comparison to GDP. In Mali, FDI has some importance but ODA plays a major role amounting to 16.4 per cent of GDP. Similarly, remittances also play an important role in Mali, as their share of 137.6 million USD is close to the level of FDI; and it is probably even higher, since the figure does not include all remittances. In the South African case, the amount is weak compared to GDP (0.22 per cent) (see table 4).

**Table 4. Financial resources in relation to GDP (FDI, ODA, remittances and portfolio investments for Mali; ODA) in South Africa and Mali, year 2003/4**

Financial resources / Country	South Africa	Mali
FDI *	0.6	3.4
ODA *	0.5	16.4
Remittances	0.2***	3.5***
Portfolio investment (**)	12.5	Na

Sources: \*World Bank, 2004, p. 256ff and Gelb, 2002, \*\*Gelb and Black, 2004a, \*\*\*on-line UNCTAD Handbook of statistics <http://www.unctad.org/Templates/Page.asp?intItemID=1890>

Greenfield investments in the private sector have been the dominant form of FDI in South Africa, followed by M&As. Only a minor share of FDI has come from/through privatisation. In contrast, privatisation as a means for raising FDI has been of key importance in Mali. M&As and Greenfield investments highly fluctuate from year to year as they generally depend on a few large operations or events.<sup>6</sup>

**Table 5. Comparison of the nature of FDI in the two countries (Greenfield investments versus Brown field (M&As) and the relative importance of privatisation versus FDI in the private sector)**

<sup>5</sup> Historically, the mining sector has played a very significant role in the industrial development of South Africa, as the substantial value of production enabled capital accumulation already in the first part of the 20th century, which in turn financed the build up of the manufacturing sector and enabled the state to undertake large scale infrastructure development. Hence, ensuring that the mining sector was South African owned had a major positive impact on the development. There is a long tradition of small-scale industry exploitation in Malian rural areas. Looking for gold is an activity complementary to agriculture, which provides monetary incomes<sup>5</sup> but with significant ecological and health consequences. Large scale-industries have developed following the openness of the economy. The mining code was modified in 1991, then in 1999. The South African firms, Anglogold-Ashanti and Randgold, have formed joint ventures with the Malian state, whose stake is 20 per cent, in order to exploit several mines in Mali (for example Sadiola, Yatela, Morila, and Loulo). Due to these investments, gold production has considerably increased, from 16.4 tons in 1997 to 53.6 tons in 2006, and Mali has become the third African exporter after South Africa and Ghana.

<sup>6</sup> For instance in 2002, the investments by Ikatel (France Telecom subsidiary) and the CAN (Coupe d'Afrique des Nations) led to unusual flows of FDI.

Type of FDI / Country	South Africa	Mali
FDI (in billion USD - 2005)	6.334	0.159
share FDI as Greenfield invest*	50-55%	ns <sup>7</sup>
share FDI as M&As*	45-50%	ns
FDI from privatisation**	minor (approximately 10%)	major (% not known)

Sources: \*Gelb and Black, 2004a<sup>8</sup>, \*\*Gelb 2002 and personal interviews with stakeholders in Mali

ns: not significant

Using privatisation as a route to attract FDI has shown to be a politically sensitive issue in both countries. The privatisations of electricity in Mali and of water in South Africa, in both cases lengthy processes that eventually led to privatisations, have been reverted and the sectors re-nationalised.

### Impact of FDI in Mali

Mali receives a small part of FDI in Africa (0.005 per cent in 2005, equivalent to 159 million US dollars) but, nevertheless, FDI represents a significant part of its resources (15.8 per cent of GFCF in 2005 - see tables 2 and 3). The main motives for FDI are natural resource and efficiency seeking in the sense that acquisitions of former state owned entities incorporate the possibility of enhancing the performance of these entities. As FDI in particular has come through privatisation activities, we will first focus on this and then on a major area of natural resource seeking FDI, namely the gold sector.<sup>9</sup>

#### *FDI through privatisation*

As in most African countries (Kayizzi-Mugerwa, 2002), the first step to privatisation in Mali was quite easy and uncontested. It took place in the 1980s and concerned small and non-strategic firms (CNUCED, 2004). In the 1990s, following the democratisation and the economic openness of Mali, a new phase was initiated. The recent privatisations have, conversely, been much contested as they have much wider implications due to their inclusion of main parts of the national production system with major importance for the employment level.<sup>10</sup> They concern mainly the public services (water, energy, railways) and agriculture.<sup>11</sup> The privatisations of the remaining ones (telecommunication and the cotton sector) have been postponed several times.

<sup>7</sup> According to UNCTAD (2006a, p. 45), higher in 2005 compared to M&As.

<sup>8</sup> While some figures are available for South Africa, the figure on privatisation is an estimate. In the case of Mali, figures on privatisation are available, but not for greenfield and brownfield investments.

<sup>9</sup> These two forms of FDI are common in a number of LDCs and might highlight impact, which is of relevance to these countries.

<sup>10</sup> In most of the developing countries (Alfaro, 2003), the effects of privatisation on the economies vary from sector to sector. In the water and electricity sector for example, the quality degradation of infrastructure in Africa induces a vital need for high cost investments (Bullock, 2005). On the other hand, the telecommunications sector has generally shown positive results thanks to the huge productivity increase due to new technologies.

<sup>11</sup> HUICOMA, Huilerie Cotonnière du Mali was privatised in 2005. The enterprise was sold to TOMOTA, a Malian firm.

EDM (Électricité Du Mali) was the first emblematic firm to be privatised in Mali, in 2000. The investors were SAUR<sup>12</sup>, IPS (Aga Khan) and the Malian authorities. SAUR was the exploitation society receiving the concession. After years of conflicts between the government and the SAUR, the latter left in 2005. The departure automatically led to a re-nationalisation and 2/3 of the capital is now held by the Malian government.

The number of employees was maintained by EDM (Berthélémy, 2006). The investors had also committed themselves to invest in infrastructure and one of the government's critiques was precisely that EDM didn't meet this commitment while the SAUR reproached the government to impose a price too low. Another source of public revenue consists of so-called benefit payment; revenue which in this case has led to misinterpretation: in the mind of the CEO of EDM, making profit and distributing it to ones shareholders (one of them being the Malian state) was a sign of efficiency. Unfortunately, Malian authorities considered it as evidence of the foreign shareholders making profit at Mali's expenses (Hibou & Vallée, 2007).

The railway sector provides another example of privatisation of public services. A concession has been allocated to a new company (Transrail), owned by a Franco-Canadian consortium (Getma-Canac), which acquired 51 per cent of the capital in 2003. The sale amounted to 16 million US dollars and GETMA-CANAC committed itself to invest 19 million US dollars over five years in infrastructure and 21 million dollars in rolling stock. A loan of 43 million dollar was obtained from the World Bank and the AfDB. But 1150 employees lost their jobs after the creation of Transrail (which took place after the privatisation of the Malian and Senegalese firms, which used to handle the transportation). This privatisation is seen as a success because of an increase in traffic and profits of the firm. Nevertheless, it would be also necessary to first assess the impact on consumers' services and second on poverty because many stops in small stations were removed and, as a consequence, small activities which took place in all these stations where passengers could get on and off the train disappeared.

As the next privatisation concerned vital Malian sectors, a compromise had been found between the government and the donor agencies to postpone the CMDT (Compagnie Malienne pour le Développement des Textiles) (cotton) and SOTELMA (telecommunication) privatisations until after the presidential elections in May 2007.<sup>13</sup>

However, while the telecommunication and cotton sectors have not been included in the assessment because the process is still ongoing, some observations of the process can be made. As in many other countries, FDI in telecommunications is seen as a success with regards to decreasing prices and increasing network coverage. The arrival of Ikatel, a France Telecom affiliate, has indeed introduced competition with visible benefits to consumers, but with obvious drawbacks for the Malian companies. Indeed, conversely to what generally happened elsewhere, the telecommunication sector has been liberalized before the privatisation of the public firm, SOTELMA, probably as a consequence of many delays in the privatisation process. The privatisation of

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<sup>12</sup> An affiliate of Bouygues, which is a French conglomerate involved in media, telecommunication, construction, property development and road works sectors.

<sup>13</sup> President Amadou Toumani Touré was re-elected.

SOTELMA and MALITEL, its mobile affiliate, is supposed to take place in 2007. Both companies will be sold to the same investor.

The cotton sector is vital in Mali and concerns millions of people in the rural areas, but it encounters many problems at the moment. On one hand, even if the sector is competitive (cost-prices are comparable or below those of the main competitors), the low and instable international prices make it difficult for Mali to be profitable. On the other hand, the CMDT's deficit has been a recurring phenomenon over a number of years, and, similarly, the donor community has not agreed to the measures taken to improve this situation. The opinions are now in favour of privatisation, which should occur in 2008, even if the modalities are still not always clear on the details. Some steps have already been taken with the major effect that the lion share of the international price instability has been passed on to the producers, presumably leading to deteriorating living conditions.

The assessment of FDI through privatisation encounters several limitations. Firstly, the apprehension of the impacts and comparison (between countries or before and after privatisation) are often constrained by the lack of statistics (Berthélémy et al., 2004) and of transparency in the processes. Secondly, a key issue is when an assessment of impact should to be carried out, which influences the short term and long-term effects observed, and might lead to different results. Thirdly, some authors have mentioned the differences to expect from privatisation in LDCs compared to other developing countries (Nellis, 2006). One of them is the role of the regulatory authorities, which are of importance, but often have failed to play their role in African countries (Berthélémy, 2006; Jérôme, 2004). In any case, the assessment of FDI has to be put into perspective as shown by the two following examples: In the case of EDM, the amount of electricity provided by the Manantali dam is limited and Mali has already reached its quota<sup>14</sup>. This means that rising consumption of electricity in Mali will lead to higher costs until the connections with neighbouring countries are installed. The TRANSRAIL privatisation has been done in the context of the Ivory Coast crisis, which impacted on the transport flows, which in turn will influence the activities of the new company, whatever the strategy of the firm was.

In the review of the literature, we have mentioned the importance of human capital, underlined by several authors, especially in the case of LDCs. This problem has been mentioned in all the sectors of activity and especially where FDI are present. The Malian education sector faces high challenges with the rise of the population and the lack of means to provide a high quality education at every level. Even if the amounts are not as large as in the case of privatisation of the gold sector, the foreign firms are involved in sectors such as hotel or catering business, construction and road works, bakery trade, air transport, textiles and apparel, handling equipment and so on. Most of them have their own training programme for their employees, in order to take into account their sector specificities but also to compensate the low level of human capital. This issue is one of extreme importance, first of all for the FDI attractiveness and impacts of FDI, but of course also for the whole development strategy of Mali (Mainguy, 2007).

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<sup>14</sup> The dam was built on the Senegal river and the electricity production is shared between Mali, Mauritania and Senegal.

### *FDI in the mining sector in Mali*

Gold is currently the biggest export earner (355 billion CFA francs in 2005), followed by cotton fibre (150 billion CFA francs, or about 228 700 000 euros) in Mali. The effects on fiscal revenues are difficult to assess given different kinds of tax exemptions. Taking this into account, the contribution to fiscal revenue can be estimated between five-ten per cent in 2005 (IMF, 2006; Mainguy, 2007). The recent increase in international gold prices (from 280 \$/oz in 2003 to 670 \$/oz in 2007) should have some effects on government revenues, as an IMF calculation (IMF, 2006) shows that a 100\$/oz increase in the gold price would result in a 0.5 per cent increase in GDP.<sup>15</sup>

It is difficult to expect technology transfers and upgrading from the FDI in the mining sector. This is mainly because the technologies and the skills employed by the TNCs are so different from that of the small, local firms, and accordingly no significant spillovers from the TNCs to the small, local firms can be expected or found. Presently, hardly any links are established, and the local firms do generally lack the capabilities to link up with the TNCs or to draw benefits from spillovers. Moreover, most of the intermediate consumption and equipment are imported by the TNCs, with negative impacts on the external trade account of Mali. Some studies have recently been carried out in order to identify cases of medium-sized exploitations, which would be locally managed and better positioned to enable economical and social spillovers to the local industry in Mali.

On the positive side, the people employed at the foreign firms usually acquire a higher level of knowledge due to internal training: French skills, drivers licence, knowledge about security norms, management skills and so on (AngloGold Ashanti, 2006). The question is whether and where the employees will be able to use them if and when some of the mines close - a question of critical importance for many workers.

The participation of the Malian authorities in the executive committee and in meetings as a shareholder is not sufficient to avoid conflicts based on asymmetric information. It is clear that the control of the company decisions not only depends on capital sharing, but also on technology control, market information and so on.<sup>16</sup> Another explanation of the weakness of bargaining power felt by Malian actors could, in some cases, be the lack of skills in technical matters of the government representatives, as there is a habit of a high rotation rate in the administration<sup>17</sup> and the lack of means to realize real control for example on gold weight and so on. This sometimes results in conflicts and misunderstandings (personal communication with representatives from industry and government).

There might be positive impacts due to the additional fiscal revenue if they result in increasing social expenses. According to the mining code, the TNCs have to finance development projects and take the ecological aspects into account (Belem, 2006). In the

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<sup>15</sup> In 2002, the mining sector contributed of 11.4 per cent to GDP (IMF, 2006).

<sup>16</sup> AngloGold-Ashanti's public communication takes place through reports, which on a regular basis deals with economical, environmental and security aspects (see e.g. AngloGold-Ashanti, 2006).

<sup>17</sup> Though according to a director, the rotation rate is lower in the case of the geology department compared to the government in general.

cases of mines that have been placed close to the villages and/or have induced to move the village, some financial compensation has been negotiated. The funds, managed by local authorities, are dedicated to financing some small-scale economic activities (like garden products) of the villagers and improvements of the sanitation standard, for example. But it seems that the negative impacts were underestimated by villagers (Godinot, 2003), as the local workers have taken up relatively few jobs<sup>18</sup> In addition to this other consequences are, for example, generally higher costs of living, increasing levels of dust due to truck circulation, and prostitution (hence AIDS expansion).<sup>19</sup>

Regarding employment impact, gold mining only creates about 3500 jobs. But we have to keep in mind that there are not many jobs in the official sector in Mali (about 30,000 jobs), that salaries in the gold sector are higher than in the others and, as just mentioned, that training of employees is emphasised by the TNCs. So, the income generation is important at the macro level, however, attached to this are diverse (other) social impacts. Even if the exploitation of gold has many disadvantages for villagers, the main one will probably be due to the departure of the foreign firms. When the Sadiola and the Yatela mines close around 2010, many workers will be without a job and the economic environment will be less dynamic.

### **The impact of FDI in South Africa**

South Africa is the major receiver of FDI in Africa, as the text and table 1 have highlighted, and should as such constitute a straightforward example of investigating the impacts of FDI. However, while South Africa has experienced certain impacts of FDI during the last 10-12 years, the following assessment also illustrates the difficulties in tracing these impacts – and hence supports Rugraff et al. points.

South Africa has since 1990 received between 7.1-46.2 per cent of the total annual inflows of FDI into Africa (calculated from table 1). What table 1 also illustrates is a) that the percentage fluctuates from year to year, and b) in absolute terms the percentage differs a lot from year to year from small/modest figures to more substantial figures. This is due to the importance of investments in other countries and in particular the importance of major FDIs in South Africa. Accordingly, as different contributions have pointed out, even in South Africa, FDI is not a stable type of finance and is dominated by a few very large investments (Kragelund, 2007; Thomas & Leape, 2005; Gelb & Black, 2004a).

Nevertheless, FDI also comes in through a range of smaller investments, as the market seeking TNCs set up, for example, local sales and marketing offices and usually gain experience of the South African market before making further investments (expanding the facilities, making brown field investments by taking over local competitors, or in some cases also making additional green field investments).

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<sup>18</sup> On the other hand, the villagers were not keen to have young people deserting the crops fields. The report by AngloGold-Ashanti (2006) indicates that 95 per cent of the employees are Malian (Sadiola and Yatela), and for every expatriate employed by the firm, a Malian successor is trained.

<sup>19</sup> In addition, gold exploitation is harmful to the environment, especially in the case of small-scale enterprises. The environmental impacts seem more under control in the case of FDI, as certain financial means have been allocated to the ecological restoration after a mine closing (1999 mining code).

Viewing this development over the years from the total stock of FDI and FDI as a percentage of GFCF gives a more comprehensive picture of FDI. Table 2 shows that the stock of FDI has continued to grow over the period 1990-2005 with a major increase between 1990 and 2000. Still, FDI compared to GFCF constitutes a smaller percentage (apart from exceptional years like 2005 – see table 3), indicating the crucial importance of domestic investments and the size of the South African economy, the biggest in Africa.

Investigating impact of FDI through linkages with regards to technology transfer (and upgrading) and human development requires a more detailed or in depth study at a sector or firm level. Such analyses, first of all, include investigating 1) the type of investment (for example market versus efficiency versus resource seeking and Greenfield versus Brownfield or M&As), 2) the number and size of the investments, and 3) the distribution of FDI on sectors.

There is general agreement that the main motive of FDI into South Africa is market seeking, aimed at exploiting the large domestic market whether it is business-to-business or the end-consumer market. 80 per cent or more of the investments have this motive (Gelb, 2002; Gelb & Black, 2004b; Jeppesen, 2006), while only a minor part is efficiency seeking. Gelb assesses that (by 2004) roughly 800 investments have been conducted since 1994 and the vast majority being small in size (Gelb, 2006, p. 10), as the average investment was less than 2 million USD. On the other hand, the overall picture is influenced by a few, very large investments in 2002 and 2005 in the financial sector and in the retail part of the petrol industry, as mentioned above.

The distribution of FDI on sectors reveals two major developments. Firstly, a few sectors have received the major part of the FDI, including automotive, telecommunications/IT, and the financial sector (Hesse, 2000; Gelb, 2002; Gelb & Black, 2004b), and hold the majority of the stock of FDI. However, the current data foundation is fragmented, as some of the single large investments have been investigated, but not the large investments, and the large number of small investments in a large number of sectors typically have not been invested – and are difficult to assess concerning impact.

Concerning technology transfer and upgrading, the picture is one of a general improvement of productivity among domestic firms. Case studies also have shown that linkages between foreign and local firms, both backward and forward, seem to have led to upgrading of the involved local firms (Jeppesen, 2006). However, the impact of FDI compared to the impact of ending the isolation of South Africa in the beginning of 1990s, the liberalisation of the economy, including the increased export orientation of South African firms is difficult to establish. As Jenkins (2006) highlights, technology changes have led to increased productivity. What we can say is that while the foreign firms have targeted certain domestic market opportunities, typically aimed at the middle and rich parts of the populations or business-to-business segments, local firms have in many cases had difficulties in competing with foreign firms and, hence, been forced to reduce their staff or close. And, though the competition is still limited in a number of sectors (furniture, metal, rubber, woods among others), the opening of the economy and

the domestic competition itself has spurred technology changes, transfers and upgrading too.

The overall employment situation seems to have improved since 1994, with the formal employment level being around eight million people, but is still marked by a (very) high level of unemployment, ranging from 25-30 per cent depending on the source. Furthermore, the official data foundation is insufficient, has been changed and is contested. While growth rates have been positive and increasing, little change has been seen on the overall employment situation. This has been termed 'jobless growth' of the South African economy (Pawu & Mncube, 2007), though positive assessments of the recent development call it 'the end of jobless growth' (for example Business Day, 10 April 2007). The various sources agree that the development has benefited the skilled sections of the labour market, while the low or un-skilled have not benefited. Concerning the role of FDI, the general impression is that the foreign firms have provided some but limited employment opportunities mainly for the skilled workers, as a) the (Greenfield) investments generally are small or even very small in nature, but numerous and accordingly making up for approx. 50-55 per cent of the investments, b) M&As and joint ventures are fewer, but bigger in value and include close to half of the investments, and c) only few expatriates and mostly locals are being employed.

Only concerning the automotive industry the amount of FDI has been substantial enough and the investigations numerous enough to make a more in-depth and micro level assessment of the impact of FDI on employment and technology transfer. Regarding the other major receiving sectors, and all other sectors, FDI and the data foundation are insufficient to make a more in-depth assessment of the impact.<sup>20</sup> The automotive sector is not the biggest sector in terms of output (food & beverages and the metal industries are bigger), however it is ranked 3rd – and hence of major importance - in terms of value-added and employment. And, just as importantly, it has been subject to thorough investigations both under and after apartheid. Major changes have happened since 1994, including large investment by foreign firms transferring ownership to TNCs among the assemblers and first tier suppliers and in upgrading of technology.

Concerning technology transfer the changes have included import of new technology/machinery, implementation of new management standards (international standards and expansion of benchmarking approaches), changed types of collaboration between various tiers (assemblers to first tier, first tier to second and third tiers). Foreign firms have taken more or less full ownership at the assembler's level and substantial foreign investments have been seen at the first tier level. The outcome has been major improvements and upgrading of capabilities among foreign and local firms concerning their productivity (B&M analysts, 2006). While a general development and upgrading of the industry has taken place, the impact varies among the local firms. From having rather uniform and low productivity and, hence, lacking well behind its international competitors in the mid 1990s, substantial changes have taken place. Some are ahead, others are performing on par with global competitors, while yet others may have closed the gap to the competitors, but continue to trail behind (B&M Analysts,

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<sup>20</sup> Though an intensified focus on the textiles and clothing sector has led to more in-depth and qualified data gathering through the South African Textiles and Clothing Benchmarking Club (see [www.bmanalysts.com](http://www.bmanalysts.com))

2006). And, important to note, many local suppliers have gone out of competition being forced to close.<sup>21</sup>

The industry directly employed about 85.000 persons in 1994 (Barnes, 2001, p. 51), and an additional number were indirectly employed by second and third tier suppliers; in 2005/2006 this was estimated to be about 75.000 persons – a change and decrease of 13 per cent. However, this is also a general figure which hides the transformation in the industry, which has witnessed entrance of many new firms, expansion of existing firms (local and in particular foreign), but also restructuring, downsizing and closure of many firms, in particular local (Barnes, 2001; Barnes & Morris, forthcoming). From a development angle, we still need even further information to assess for example the impact in terms of income generation, which jobs have disappeared and which have been created, at what skills level and in which income brackets.

In sum, FDI into South Africa is relatively high compared to the rest of Africa. The inflows have been fluctuating, but have continued to grow over the period (new investments have been larger than disinvestments). FDI constitutes a modest percentage compared to GFCF due to a relatively well-developed domestic economy with large investments. This is also indicated by the share of FDI to GDP, being 0.5 in 2003 as shown above in table 4 (World Bank, 2004).

### **Concluding remarks**

In assessing the form and impact of FDI in the two selected countries, a number of perspectives could potentially be useful. First of all, the firm or TNC perspectives concerning drivers and motives for undertaking the FDI can assist in explaining the form (market versus efficiency versus resource seeking, Greenfield vs. Brownfield (M&As)). Secondly, the factor endowment, the size of the economy and composition of sectors and available resources is of influence. Third, the role of the developing country governments, FDI-policies and relations to donors and international organisations influences the openness of the economy, the amount of emphasis on privatisation and the level of support to the domestic firms. Effectively, it is the combination of the three, for example as expressed in Porters Diamond framework that gives a through understanding of the development.

The assessment of FDI into and the impact of it in Mali and South Africa has shown a number of similarities and differences between the two countries. Regarding the nature of the flows, FDI to Mali is more traditional being focused on natural resources (mining) and coming in through privatisation programmes, while FDI to South Africa is predominantly market seeking, which is unusual in Africa. The size and nature of the economy certainly plays a role, including as argued by Rodrik (2004), the need of having local (private and public) investments first, then foreign investment, which also Borensztein et al. (1998) point to. Both Mali and South Africa have attempted to liberalize their trade regime and open up to FDI, however, in none of the cases FDI has

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<sup>21</sup> Another important issue concerns the effects of the transfer of ownership from domestic firms to foreign firms and whether this is positive or negative seen from a development angle. Pros and cons exist and the present observations are inconclusive (see Barnes and Morris forthcoming).

met expectations. As the general pattern in Africa, FDI to Mali and South Africa has been fluctuating, and characterised by a few large investments and many or a number of small.

FDI into South Africa are the biggest in Africa, as expected from the literature, as South Africa is both the biggest economy offers in particular domestic market options in the business-to-business and end consumer markets as well as some efficiency options, though only in certain sectors (textiles is one sector and call-centres another sector). The market seeking motives has been the main reason for foreign firms to move in South Africa (Gelb, 2002; Jeppesen, 2006). Still due to the size of the economy, FDI in South Africa is of relatively minor importance compared to domestic investment and GDP. The government policies have supported FDI as expressed in all major strategy documents over the last ten years (The Presidency, 2006; Gelb, 2005). While FDI has been conceived to bring growth, employment and increasing exports, the reality has disappointed as only exports have increased according to the goals. While it has been argued that FDI in South Africa could provide a platform for moving into rest of Africa, it seems like if the liberalisation of the economy in particular has benefited the South African firms investing in many parts of Africa. However the market seeking motives drawing foreign firms to South Africa can not be extended to other parts of Africa where South African firms have been at a different stage of internationalisation and maybe also more willing to take risk.

Regarding the impacts, as a consequence of the focus on linkages, including type, number, size and sectoral distribution of FDI in the two countries, the literature shed more light on this issue in the South African case than in the Malian one. For instance, the sectors of activity where backward and forward linkages could be observed are few and they represent a small percentage of FDI in Mali. Nevertheless, human capital determinant of attractiveness and impact of FDI is a critical issue for the two countries, although not in the same terms. Referring to the literature that mentions the threshold question, Mali seems to be in a situation where initial conditions (infrastructure, education, health) are not at a level, which makes it possible to take advantage of FDI. Relatively to the size of the economy, the FDI macroeconomic impacts are definitely higher in Mali.

Focusing only on FDI is too limited in itself. While FDI might be a necessary element in increasing growth, it is insufficient in doing so, and it becomes even more limited when we focus on employment and poverty reduction. The importance of government is much higher in terms of setting up the policies to attract FDI, develop the domestic firms and more importantly to ensure that revenues are collected and redistributed. As noted by a number of authors, this is the main reason why poverty has been reduced in South Africa (Pawu & Mncube, 2007). It is also difficult to reconcile fighting against poverty and firms' profitability in short term. In 2000, just after the privatisation, the Malian government preferred to give a subsidy in order to avoid a large increase in water and electricity prices (26 per cent), which many people could not afford. This five per cent increase was supposed to increase EDM's results and thus allow expenses and investment in order to improve the distribution of water and electricity. With regard to a reduction in number of power cuts and a larger access to water and electricity, some improvements were registered, but they remained limited.

Another difference between Mali and South Africa concerns the role of the bilateral donors and the international organisations. Their weight is important at different levels concerning FDI in Mali. The World Bank and the IMF have often been involved in the design and initiation of the processes of privatisation. They are often, with other donors, committed in the negotiation and in the implementation of the decisions. They are also often actively involved in the privatisation with heavy loans or taking stakes in the foreign firm. In some case they also support the host country administration facing the TNC. The situation and relationship are then necessarily sometimes ambiguous and complex.

Taking our point of departure in the selected sector studies, we attempted to shed some light on the details conditions regarding technology transfer and upgrading and employment. The South African automotive industry provides an example of a sector where substantial technology transfer and upgrading have taken place over the last 13 years. However, the upgrading has mainly taken place at the assembler level, which has experienced foreign ownership, while the effects, through linkages, including spillover, among local firms are more diverse and mixed. Furthermore, the direct employment has decreased, and in spite of comprehensive studies of the sector, information concerning the poverty implications is not available in Mali. While the mining, including gold mining, sector is an important provider of employment, which has led to skills upgrading, the jobs are only to a limited extent benefiting the poor part of the population. The big gap in technology usage means that few, if any, linkages and spillovers can be found and hardly any upgrading has taken place among the local firms.

In sum, the information we have access to shows that the FDI have some importance through linkage formation, in terms of technology transfer, employment (wages and skills upgrading) in particular in the case of the South African automobile industry. However due to the nature of the investment and the configuration of the local private sector the potential for technology transfer and upgrading is very limited or almost non-existent in a natural resource sector like the mining sector in Mali. Since the liberalization in the 1980s and 1990s, investment and mining codes are no more a selection criteria for the localisation choice of the TNCs. Nevertheless, there is not much room left at this level to take better advantages of mine exploitation, given their short life duration, in terms of budget and effects on population.

In the Malian mining sector, as well as in other cases of privatisation, the relationship between the TNCs and the authorities has been confrontational. This situation is due to misinterpretation, to asymmetric and a lack of information, which implies a lack of trust. Historical issues might also partly explain the conflicts. The situation is different in SA, where the interaction between foreign firms and the government in the automotive sector has been much better. However, the water services sector in South Africa and the privatisation did also led to substantial conflict and the government being forced to change its original decision.

In general there is ample room for further studies on FDI in Africa. We have pointed to the lack of data in our deliberations on the cases of Mali and South Africa, but it applies more or less to all countries on the continent. Accordingly, such a research agenda first

and foremost need buy in from government side. Basically in terms of recording the FDI and keeping track of disinvestments, level of stocks and so on. While the South African government to a large extent does so – and has the capacity to, this is not the case for Mali yet. A second step is the need for in-depth studies on key sectors, for example in line with the ones used here the automotive sector in South Africa and moreover in the various sectors experiencing foreign investment in Mali. Again, the basic information is important and the persistence in terms of following the development over time through longitudinal studies is central.

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