

Foreign Direct Investments in Africa: Labour Issues, Experiences and Perspectives

Hilma Mote, ITUC-Africa (ALREI) & Henry Chingaipe,
(IPRSE)

CPDE, TUDCN & ATUDN Seminar on the role of the
private sector in development, Lusaka Zambia, 26-27
March 2019

Outline

1. Introduction

2. A focus on the mining sector and the Special Economic Zones/ Export Processing Zones

-Why are the conditions so bad in SEZs?

3. Labour Rights and Challenges of TU organizing

4. Working conditions

- Employment contracts
- hours, leaves & rest periods
- Wages & taxes
- Safety & Health

5. Women in EPZS

7. Conclusion

8. Recommendations



Picture: ITUC Chinese investments mission files 2018

“Inside the Corporate Utopias Where Capitalism Rules and Labor Laws Don’t Apply” (Matt Kend, Claire Provost, 2016)

Introduction

The impact of FDIs on labour rights protection has been the subject of scholarly debate in recent years.

- Proponents of globalization argue that the internationalization of production positively affects labor protection by promoting economic growth through technology transfer and employment creation.
- Critics argue that FDI generates a “race to the bottom,” as developing countries compete to lower wage levels and labor standards so as to lower the cost of production for multinational corporations (MNCs). In most cases the interests of firms are privileged over those of workers.

FDIs in Africa are Carrot and Stick Deals

We now know that most African governments provide a number of unimaginable concessions in a bid to attract FDIs including:

- Minimum wage freezes
- Banning/limiting of trade union activities in specific sectors (EPZs or Special Economic Zones)
- Subsidized utilities (water & electricity) cost passed on to the local consumers [the case of the defunct Ramatex factory in Namibia]
- Almost free land usage (99 years lease free land),
- 100% repatriation of profits → precarious labour, short-term contracts
- low wages, higher income taxes → incomes far below the cost of living

Even the mining sector is no longer a beacon of hope...

The African mining sector has always been mostly a preserve of foreign players. It was (is) the sector that governments relied as one of the biggest (if not the biggest) contributor to GDP. Consider this:

Namibian mining sector by the 1990s:

3 big mining companies (NAMDEB (Diamond), ROSSING (Uranium), Tsumeb and Roshpinah (Copper Mine). One of the biggest contributor to employment and GDP, full-time employment, decent wages, decent housing for workers and their families, full medical and educational benefits etc. Sector was dominated by South African and European MNCs.

Contemporary Namibian mining sector:

Almost 8 mines operating in Namibia, still biggest contributor to GDP (25%) but employment is recorded as +_9,643 (2017 figures, Chamber of Mines), but the Mine Workers are saying full employment is a mere +_4000.

Many workers are employed on short-term contracts through sub-contractors. In addition to the South African MNCs, the sector has new kids on the block-the **Chinese**, Russians etc.

Main problems in the mining sector

- Technological advancement → sector no longer labour intensive;
- Companies no longer procure locally-government regulations absent or too weak to force them to procure locally → exportation of much needed jobs to foreign countries;
- No real forward linkages to the rest of the economy forward linkages in terms of industries developed to add value to copper (case of Zambia), diamonds (case of Namibia) which could have created additional jobs;
- Heavy reliance on foreign expatriates even when their quota has been surpassed or no evidence of skills transfers.

Low tax contributions

- **Namibia:** mining revenue contribution to government revenue is about 25%;
- **Botswana:** mining contribution to government revenue is 45% ;
- **Zambia:** mining contribution to Government revenue is estimated at a mere 4% of GDP. The contribution of the mining sector to the national budget has remained low even after the Government doubled the mineral royalty rate from 3 to 6 %.

“Most African countries have no **national supplier development (procurement) policy** for the industry. Consequently, *95% of goods and services used by the mining industry are imported.*”

Unethical business practices

Tax avoidance/dodging

Mining companies all over Africa have been involved in complex tax avoidance schemes. In some countries mines have been operating for over 20 years and have never paid any income tax as they declare tax losses all the time but in the meantime their shareholders are duly receiving dividends.

THE Namibian government lost N\$219 million in taxes from the sale of shares in one of the world's largest uranium mines, Langer Heinrich, because the country's tax avoidance law is not up to scratch...

When presented with details of the investigation, the Namibian tax office said they were unaware of the Langer Heinrich deal, but in their view, taxes should have been paid on the proceeds.

Descriptions of SEZs

Ask three people to describe a special economic zone (SEZ) and three very different responses/images may emerge.

Descriptions

Crecentia

“A fenced industrial estate in Ethiopia populated by footloose multinational corporations (MNCs) enjoying tax breaks, with laborers in garment factories working in substandard conditions”

Diego

“The “miracle of Shenzhen,” a fishing village transformed into a cosmopolitan city of 14 million, with per capita gross domestic product (GDP) growing 100-fold, in the 30 years since it was designated as an SEZ”.

Tendai

“I think it’s a place like Dubai or Singapore, whose ports serve as the basis for wide range of trade- and logistics-oriented activities”

Whatever the image or description
‘the voices of the millions of workers that power these spaces are seldom heard’ (Thomas Farole, Economist 2015).

SEZ/EPZs have to be seen for what they truly are...

The truth is that Clothing, toy and shoe factories, in particular, are moving from other countries to African countries because of lower wages or no minimum wage laws or weak environmental laws/standards or enforcement capacity.

“That’s the whole name of the game in the global economy: to play countries off one another. And the idea of the special economic zone was sort of to allow countries to have different jurisdictions, even within their own national jurisdictions”

Labour Rights and Challenges of Trade Union organizing

Under many labour laws in Africa, the right to organize is supposed to be ironclad. No employer, government agent or citizen may impede union activity. However, inside the walls of many of Africa's largest special economic zones (SEZs), however, *we have witnessed* a system designed to tightly control the workforce by keeping workers fenced in and unions out.

Many workers, trade unions confirms that, while it's not easy to independently organize workers in Africa in general at the moment given the anti-union laws in some countries, EPZ laws generally flagrantly violate the basic labour rights such as the **right to belong to trade unions and collective bargaining**. The result is seething discontent among employees.

The concessions at work...

- **Togo:** government labor inspectors struggle to enter the zones because of laws that restricts their access.
- **Nigeria:** export processing zones enjoy a ten year 'holiday' on freedom of association and collective bargaining, despite the fact that freedom of association is enshrined within the country's constitution, and that Nigeria has ratified ILO conventions protecting this right.

Chinese companies are specially notorious!

- **Ethiopia:** the ITUC mission on Chinese investments was informed by the unions about how when workers threatened to strike, they got calls from the mother company in China threatening to relocate their operations and management often saying to workers, *“inside here its not your country’s laws that apply but China law”*.

Working Conditions in SEZs

Rampant violations of the ILO's Decent Work Agenda:

- Standards and rights at work,
- Social protection and social dialogue.
- The Sustainable Development Goals and the AU's agenda 20130 also proclaims decent work for sustainable economic growth.

We throw these out of the window when African governments give the type of concessions they give to foreign direct investors.

Contracts, working hours, leaves & rest periods

Across different industries, there have been multiple reports of workers without written employment contracts, wages below the national minimum wage level, excessively long working hours with no overtime payment, and major occupational health and safety risks.

- Short term contracts-6 months to one year. No written employment contracts and in Ethiopia we found that most employment contracts in the leather and textile sectors were verbal.

Wages and Taxes

In one of the shoe factories in Ethiopia, the Gross salary of a worker was 1200 Birr, after deductions of tax and pension contribution etc, the Net pay was 650 Birr. Some Employers only pay 600 Birr.

Some workers got pay outs of only 190, 000 birr for unfair dismissal.

Often governments offer tax holidays for companies including 100% profit repatriation but workers do not get tax holidays despite their meager incomes.

Safety & Health: Injuries

Too much use of chemicals and routine health checks are not done on workers.

In Ethiopia we heard of cases where workers have lost both hands and others became partially blind due to the machines they use at work with little or no training.

“One lady lost her hand within three days and she was only 18 years old due to lack of proper training to operate the machines. She is now a street beggar”.

The visage of lack of skills

Some firms tend to bring many of their own workers to these countries under the justification that local skills cannot be found. Governments often agree to the temporary use of high-skilled workers as part of a policy of 'skill transfer'- whereby such workers ought to train and transfer their skills on to local workers. In practice, however, some firms recruit Chinese workers in lower-skilled jobs (cooks, drivers, secretaries, day laborers) that local workers would be able to do, and employ them for long periods of time (10 years or more)

Women in SEZs

“We are very tired of these companies: no maternity protection, no changing rooms at all or separate rooms for men and women, low salaries, no contracts, discrimination based on physical appearance and also sexual harassment.

Sometimes recruitments are done based on physical appearance. Women in SEZs have generally report a high number of reproductive health problems (i.e. miscarriages) due to exposure to chemicals.

Conclusion

Overall, trade unions are not opposed to Foreign investments, as such investments can present important opportunities to create jobs, improve infrastructure and support economic development. Nevertheless, unions are strongly opposed to the creation of jobs at the expense of decent work. Freedom of association, collective bargaining, safe and healthy working conditions, living wages and social protection must all be ensured.

Foreign Direct Investments (FDIs) especially Special Economic Zones/ Export Processing Zones should not be celebrated as a way to achieve industrialization and especially the creation of sustainable employment in Africa.

They should be seen/exposed for what they truly are. These are developed and emerging countries trying to increase their production for export through cheap labour. Where do you find that? Africa where leaders are desperate to be seen as if they've created employment during their tenure, where labour rights are not fully enforced and where trade unions are weak and workers vulnerable”

when citizens and workers in particular are beating the drum; that means its news...often it's bad news...workers don't just beat the drum for nothing. They are alerting us to something and we should listen.

Recommendations

Lets take a pause and do an objective assessment of the real value of Special Economic Zones. *Who is most likely to win and lose? Those countries that are successful, what makes them successful? What are the enablers, could geography and location play a role?* Just because it has worked in one country for instance, it does not mean it will work easily in another. We are at different levels of development, geographical locations, environment/climate, natural endowments including skills. One country's development path cannot be the same for the other.

- ✓ **Strengthened support for union organizing and collective bargaining in SEZs in general especially in Chinese Owned firms where the practice of anti-union tactics seem to be prevalent;**
- ✓ **Assist AU member states to strengthened their labour administration so that they are able to enforce labour rights and effectively carry out labour inspections;**

- ✓ **Use of ILO supervisory mechanisms when rights are systematically violated;**
- ✓ **Greater participation of social partners in the processes around investment decisions, industrial policies and public procurement, such as participation on national investment boards, industrial development boards and public procurement bodies);**

- ✓ Explore possibilities for **cross border social dialogue/global framework agreements** in the case of multi-national enterprises;
- ✓ **Strengthened dialogue between trade unions and the African Union** to ensure that labour considerations are effectively considered within regional strategies for trade and industrial policy.
- ✓ Introduce Performance-based incentive mechanisms (the example of Ethiopia SEZ Law)-it should not be a carte blanche affair that makes FIs believe that Africa is a play ground and the continent workers are just there to be used and amused.
- ✓ Review National SEZs laws to include sustainable development chapters' containing social clauses (labour and environmental provisions) and monitoring frameworks which should be multi-stakeholder including trade unions as direct stakeholders

- ✓ Support the ITUC's living Wage Campaign to arrest the growing phenomenon of working poor in Africa.
- ✓ Without national or regional minimum wage standards, most workers are at the mercy of employers and they work and get paid something that cannot even take them home.

I thank you!

Hilma.mote@ituc-africa.org (official)

Alternatively

hilma.shindondola@gmail.com