FROM CRISIS TO OPPORTUNITY
HARNESSING THE POWER OF BUSINESS TO SUSTAIN PROGRESS TOWARDS THE MDGS

BUSINESS ACTION FOR AFRICA
The economic crisis, with its origins in developed countries, is hitting Africa hard and is underscoring the region’s continued vulnerability. It also reminds us of the great progress Africa has been making in recent years, and what can be achieved amidst adversity.

The world needs to emerge from this crisis with an economic system that is more sustainable and more equitable, one that not only better integrates African and other emerging nations into the global system, but that includes them in the architecture of international institutions, with a voice commensurate with their role in human development.

Emerging from the crisis is also a clear opportunity for Africa to pioneer a low-carbon development model. As the recently launched Africa Progress Panel Annual Report points out, the economic, climate change and food security crises are all linked. They cannot be tackled separately.

More investment is needed in Africa’s real economy, particularly infrastructure, renewable energy, agriculture and communications. Investment in these sectors will not only generate jobs and boost trade in Africa, but also create markets for the world. Priority also needs to be given to job creation, integrating climate change into development strategies, and addressing food security.

Africa now faces the extraordinary task, at a time of economic crisis, of maintaining stability and progress, including growth, poverty reduction and achievement of the Millennium Development Goals.

Everyone needs to contribute. Business has a key role, as do Africa’s trading and donor partners. But the primary responsibility to make it happen rests with Africa’s political leaders, who must heed their commitments regarding governance, accountability and transparency. Africa needs to drive its own development agenda as the basis for partnership and shared responsibility for progress.

www.africaprogresspanel.org

Introduction

The global economic and financial crisis has the potential to undermine the recent economic and social progress made across sub-Saharan Africa. At the same time, it presents an opportunity to stimulate new thinking on how to generate innovative and more sustainable ways to support the region’s growth and development.

Our last report, MDGs at the midpoint, focused on the private sector’s role in accelerating Africa’s progress towards the Millennium Development Goals – the internationally-agreed goals to cut poverty by 2015. This publication is an urgent update of that story for what is a transformed context.

Business Action for Africa has invited a wide range of leading thinkers from business, government and the NGO community – both international and from Africa – to share their views on how to ensure the private sector continues to act as the engine room of growth and development, and the type of policies required to help businesses to manage and innovate through the crisis.

Our contributors provide a wealth of insights that will be of value to both policy makers and practitioners. How is the global economic downturn impacting Africa’s development and how can we mitigate the worst effects? What are the policy responses required from the G8 and other stakeholders to sustain and stimulate private investment, trade, innovation and enterprise? Where are the opportunities for growth and how do we continue to innovate to release the region’s potential? How can business best contribute to maintaining momentum towards the MDGs and how can we improve the quality of collective action?

I would like to thank all of the contributors, and encourage others to engage in the online discussion that accompanies this report (www.africa.businessfightspoverty.org). The complexity of the challenges and scale of the opportunities only serve to strengthen the need to harness our collective wisdom and energy.

June 2009

www.businessactionforafrica.org
## Contents

### Section 1
**THE CHALLENGES AND OPPORTUNITIES FOR AFRICA IN THE NEW GLOBAL ECONOMIC CONTEXT**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Malloch-Brown</td>
<td>Minister for Africa, Asia and the UN, Foreign and Commonwealth Office</td>
</tr>
<tr>
<td>Sir Mark Moody-Stuart</td>
<td>Chairman, Anglo American</td>
</tr>
<tr>
<td>Professor Paul Collier</td>
<td>Professor of Economics, Oxford University, Director for the Study of African Economies</td>
</tr>
<tr>
<td>Obiageli Ezekwesili</td>
<td>Vice President of the Africa Region, World Bank</td>
</tr>
<tr>
<td>Jim Kolbe</td>
<td>Senior Transatlantic Fellow, German Marshall Fund of the United States</td>
</tr>
</tbody>
</table>

### Section 2
**ACTION TO BOOST GROWTH, INVESTMENT AND ENTERPRISE**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicky Oppenheimer</td>
<td>Chairman, De Beers Group</td>
</tr>
<tr>
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<td>Chairman of the Extractive Industries Transparency Initiative, Member of the Africa Progress Panel</td>
</tr>
<tr>
<td>Omari Issa</td>
<td>CEO of the Investment Climate Facility for Africa (ICF)</td>
</tr>
<tr>
<td>Gareth Thomas</td>
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</tr>
<tr>
<td>Miguel Veiga-Pestana</td>
<td>Vice-President Global External Affairs, Unilever</td>
</tr>
<tr>
<td>Richard Laing</td>
<td>Chief Executive, CDC</td>
</tr>
<tr>
<td>Gabriel Solomon</td>
<td>Senior Vice President, GSMA</td>
</tr>
<tr>
<td>Petter Mathews</td>
<td>Director, Engineers Against Poverty</td>
</tr>
</tbody>
</table>

### Section 3
**ACTION TO SUPPORT INNOVATION, PARTNERSHIP AND HUMAN DEVELOPMENT**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Nick Blazquez</td>
<td>Managing Director, Diageo Africa</td>
</tr>
<tr>
<td>Arne Cartridge &amp; Sean De Cleene</td>
<td>Executive Vice President, Vice President, Yara International</td>
</tr>
<tr>
<td>Keith Palmer</td>
<td>Chairman of InfraCo and AgDevCo</td>
</tr>
<tr>
<td>Brenda D. Colatrella</td>
<td>Executive Director, Corporate Responsibility &amp; Global Policy Support, Merck &amp; Co., Inc.</td>
</tr>
</tbody>
</table>

### Section 4
**LOOKING FORWARD**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adam Leach</td>
<td>Chief Executive, International Business Leaders Forum</td>
</tr>
<tr>
<td>Alison Evans &amp; Karen Ellis</td>
<td>Executive Director, ODI, Research Fellow &amp; Programme Leader, Business and Development Programme</td>
</tr>
<tr>
<td>Mark Bowman</td>
<td>Managing Director, SABMiller Africa</td>
</tr>
</tbody>
</table>
Section 1

The challenges and opportunities for Africa in the new global economic context

Section Contents

Page 05  
Lord Malloch-Brown  
Minister for Africa, Asia & the UN, Foreign & Commonwealth Office

Page 05  
Sir Mark Moody-Stuart  
Chairman, Anglo American

Page 07  
Professor Paul Collier  
Professor of Economics, Oxford University, Director for the Study of African Economies

Page 08  
Obiageli Ezekwesili  
Vice President of the Africa Region, World Bank

Page 09  
Jim Kolbe  
Senior Transatlantic Fellow, German Marshall Fund of the United States
The challenges and opportunities for Africa in the new global economic context

I met a range of business leaders at the recent Cape Town World Economic Forum on Africa, all of them dynamic proof that you can do good business in Africa and that good business is the most sustainable way to achieve development. As we all know and reinforced at the Business Call to Action event in Cape Town, every notch up in GDP is a significant notch up also on the Millennium Development Goals. So how do we improve our collective performance in this area?

As I said in my speech in Mozambique in June (“Weathering the storm, charting the recovery”), Africa needs to use the crisis as an opportunity to speed up necessary structural reform such as larger regional markets. It needs to involve business leaders more strategically in this if it is going to deliver the conditions for business to thrive. And we all need to talk it up more positively. It’s not about a conspiratorial collusion over preferential rates with backhanders for officials, it’s about facilitating trade for all including the hitherto more marginalised. It’s about a frank, open and efficient exchange whereby business can help government improve the practicalities of doing business, picking up on examples of good practice that can be scaled up and replicated.

It is important businessmen don’t feel that they are going along as window-dressing for a system that won’t or can’t in reality deliver change. By the same token they have to come along prepared to address the wider issues. The Investment Climate Facility, co-funded and run by the public and private sector, is an example of a greater willingness to tackle the broader systemic and strategic issues and get away from the old practice of a few ad hoc symbolic gestures.

This won’t just happen on its own with a few WEF meetings. It requires both business and government to think differently and put people into that dialogue who have real power to influence the way their organisations act and are prepared to hold each other to account. But if we achieve it, it is a mindset change that should help us go beyond the false aid-versus-trade debate and give more people a stake in both the economy and governance of their countries. I welcome the efforts of Business Action for Africa in helping create a platform for this engagement. It is an important ongoing task.

Africa needs to use the crisis as an opportunity to speed up necessary structural reform such as larger regional markets. It needs to involve business leaders more strategically in this if it is going to deliver the conditions for business to thrive.

Business and governments must maintain commitment to Africa’s development

A year ago we stood at the mid-point of the period which governments had designated for the achievement of the Millennium Development Goals (MDGs). At that point global leaders recognised the reality that, especially in Africa, the Goals were unlikely to be achieved. Progress had been patchy and China, in particular, had been notable in its achievement of lifting hundreds of millions of people out of poverty. But it is sobering to reflect that Africa had done relatively poorly even after its best decade of economic performance since the 1960s.

Twelve months on, the prospects for achieving the Goals look even dimmer. Ironically, this is one economic downturn which cannot be blamed upon poor governance, conflict, the ‘resource curse’ or upon poor macro-economic management in Africa. This recession clearly has its roots in failures of governance, regulation and markets in the political North.

The fact that African leaders may be relatively blameless does not, however, change the severity of the impacts upon ordinary Africans. Indeed the impacts will probably be worse in the short-term than they might once have been, because of Africa’s growing integration into the global economy.

I should, though, underline that I do not see this as an argument, taken over the cycle, for Africa to go into reverse in its embrace of globalisation. Indeed Africa has a palpable interest in attracting greater investment, in securing freer access to overseas markets and in securing reform of rich countries’ agricultural practices and policies.

www.fco.gov.uk
However, amid mounting debts, the ability of leading donor nations to expand their development aid will almost certainly come into question. This means that Africa will need to look at mobilising a greater proportion of the capital it needs from the private sector and major investors in Africa will, in turn, need to maximise their linkages into their host economies.

Top of the agenda should be an acceleration of reforms to improve the investment climate. Each year, the World Bank publishes a league table ranking the ease of doing business in around 190 countries. Africa has a number of strong reformers including Ghana, Botswana and Burkina Faso; in 2008 Mauritius was the first African country to rank in the top 25 investment destinations. But, when the continent so badly needs to attract inward investment, to keep more of its own capital at home and to generate new small and medium sized companies, it is a sad fact that the average ranking for African countries was 138th – by far the worst ranking for any continent. My principal interest in this is not to make life easier for multinational investors; rather it is to see regulatory reforms which make it easier for companies to start and grow in the formal sector. In many developed countries, smaller firms account for anything up to 50% of GDP; in Africa this rarely rises much above 10%.

Alongside the Bank’s work, the Investment Climate Facility for Africa (ICF) is now working to see what melding public and private sector funding and skills can achieve. Anglo American was the first business to pledge funding for the ICF which now has commitments totaling $175 million from donors and companies. It is early days, but the Facility is supporting almost 30 worthwhile projects in eleven countries plus a number of cross-border initiatives. At the head of the list of project implementers are post-conflict countries like Rwanda and Liberia; Senegal, Tanzania and Burkina Faso also figure prominently. But the Facility needs to make inroads into Africa’s bigger economies and to scale-up what is being learned from its early projects. If the results of the ICF’s upcoming two year review are positive, then G8 governments should be looking to expand the resources available to investment climate reform.

The next big challenge is infrastructure. China is bringing interesting models to Africa based on its own development experiences. Finally, it would be perverse for me not to note progress in the extractive sector. The good news is that during the recent commodity price boom it seems that the development outcomes achieved by most resource-rich countries in Africa were better than in previous cycles. This reflects the steady improvements in governance, democratisation and conflict prevention made over the last decade together with sector specific measures such as the Extractive Industries Transparency Initiative (EITI). Some people question whether international businesses should be easing back on sustainable development initiatives during the recession. But for most major investors in Africa, especially those in the extractive sector, this would be short-sighted. Major companies need to maintain their commitments if we are to remain welcome in the countries and communities where we work. Similarly, the G8 governments should not be scaling back on their commitments to Africa just because of their difficulties at home.
Industrial development offers the potential to transform Africa

Although the financial crisis and subsequent economic downturn originated in developed countries, one of the consequences of globalisation is that the effects are being felt in Africa. The key transmission mechanisms have been the puncturing of the commodity boom, hitting the tax revenues of many African governments, and the decline in foreign investment to the region, much of which was for resource extraction.

The boom-bust cycle is not new to Africa: the downturn has reinforced the case for diversifying away from resource extraction. But diversifying into what? The prospects for agriculture, currently the largest sector, do not look promising. Global changes in climate will disadvantage African agriculture while advantaging other major regions, notably northern Eurasia. With continued population growth on an increasingly stressed land base, Africa needs to industrialise in order to create jobs.

Africa’s previous attempts at industrialisation failed because they were focused on domestic markets. The region’s domestic markets are too fragmented and slow-growing for such a strategy to be viable. Industrialisation will only be feasible for Africa if it succeeds in breaking into global markets. With China an established low-wage producer this is far from easy, but over the next decade Chinese wages are likely to rise substantially. Further, in a political environment of mounting protectionism, Africa’s secure and privileged market access to the USA and Europe through the Africa Growth and Opportunities Act and the Economic Partnership Agreements, are starting to look valuable.

Recent developments in global industry favour new entrants as long as domestic policies are supportive, ideas which are set out in the Industrial Development Report I recently co-authored for UNIDO. Whereas thirty years ago industry was highly vertically integrated, favouring large scale, nowadays industrial production is typically split up into many different tasks, undertaken in different locations. Such vertical disintegration enables late entrants to manufacturing to specialize in a single niche task. In turn this implies that only a narrow range of skills and infrastructure are necessary to get started. However, the downside of modern industry is that the typical task is most efficiently undertaken by clustering many firms together in the same place. This creates a chicken-and-egg problem in that no firm wants to be the first to produce in a new location. African governments can help to counter this coordination problem by promoting export zones at ports, ensuring that infrastructure and the regulatory environment is supportive.

Industrialisation will only be feasible for Africa if it succeeds in breaking into global markets.

Recent developments in global industry favour new entrants as long as domestic policies are supportive.

In summary, if we truly believe that economic growth is the only long-term viable route out of aid dependency for Africa, the region must find new ways to improve competitiveness by developing manufacturing capabilities that enable it to compete effectively in global markets.

http://users.ox.ac.uk/~econpco/
www.economics.ox.ac.uk
Despite a decade of growth, Africa is still far behind other continents in the quest for the Millennium Development Goals. The current global economic crisis, coming in the wake of a food and fuel crisis, will further slow down Africa’s progress. Growth decreased from 6.1 percent in 2007 to 1.7 percent in 2009, pushing more people into poverty and reducing government resources available for health, education, and infrastructure. It is therefore urgent for richer countries to strengthen their resolve to help African countries maintain their hard-won gains, and deliver on their aid commitments despite the crisis.

The private sector also has a key role to play in accelerating progress towards the MDGs, by improving social infrastructure and creating the jobs that will lift poor households out of poverty. The private sector cannot replace efforts at building effective government institutions in health care, but it can have an important complementary role in making healthcare accessible for the poor. For example, we are supporting Hygeia, the largest public private partnership in the health sector in Nigeria – Hygeia has 14 worksite clinics and provides managed health coverage through a network of 1400 clinics and hospitals. Similarly, in education, the private sector is delivering quality education to the poor for a dollar a month tuition fee. The International Finance Corporation (IFC) is supporting the growth of private schools in Rwanda through a risk-sharing facility – a project that should benefit 40,000 students by 2011.

Infrastructure is essential to help the poor access critical social services and can even save lives – for example, improved water supply reduces deaths from diarrhea by 21 percent. Better infrastructure, including the removal of regional bottlenecks, will be key for regaining growth momentum. Estimates are that Africa could reduce its infrastructure financing gap by 45 percent by managing investments better, improving operations, and recovering more costs. In times of tight budgets, the private sector can both help expand access and improve efficiency in infrastructure, and set standards that can be emulated by public sector entities. World Bank lending to African infrastructure has grown fivefold since 2000, reaching $2.5 billion in fiscal 2009, and drawing on public private partnerships wherever possible. For example, we are supporting a rural electrification program in Mali consisting of 41 privately operated mini-grids – the program has already connected 36,000 households.

Private microfinance institutions have the potential to help lift the incomes of poor households. The World Bank helped rebuild the Union des Banques Populaires in Rwanda into a successful network of microfinance cooperatives. Further, the number of firms getting finance from IFC-supported intermediaries reached 222,000 in 2008.

The great potential of the private sector will only be achieved if African countries strive to improve their business environment – most are still at the bottom of the Doing Business indicator rankings. The World Bank Group is committed to supporting countries’ efforts to achieve progress in this area, based on strong government leadership. Our programs helped Senegal and Burkina Faso to join the ranks of the top 10 Doing Business reformers in 2008, and we have helped Kenya to eliminate or simplify half of its 1365 business licenses.

Going forward, donors such as the World Bank must step up efforts to help African countries build their institutional capacity to lead on this vast and complex agenda – there will be no sustained and strong private sector-led growth without supportive and effective governments. But progress is not only about effective governments. The contribution of private sector enterprises to progress in Africa will also depend greatly on their own standards of corporate governance, ethics, and concern for the environmental and social impacts of their activities.
Leveraging transatlantic understanding for positive change in the developing world

In the context of G8 Africa dialogue, I believe it is imperative that leaders attending this year’s Summit act on The Transatlantic Taskforce on Development’s recommendations where a solid basis of transatlantic understanding can be leveraged for positive change in the developing world.

Civilian non-military sector expertise and risk-taking can be vital to restoring economic growth in post-conflict situations. Greater use of mechanisms such as the Extractive Industries Transparency Initiative to track the revenues from oil and gas are needed. The private sector can help provide technical solutions to such thorny issues as clean energy and efficient use of water for household, industry and especially agriculture.

A stronger focus is needed on building human and technical capacity in the private sector. The Taskforce recommendations emphasise the need for generating private sector opportunities and economic growth. Increased investment in infrastructure, particularly in Sub-Saharan Africa is vital, but should not come at the expense of social programs. Jobs cannot be created without a healthy and educated workforce. Large, multi-national companies can provide financial assistance, training and mentoring, while international institutions and national governments work to create the macroeconomic (including regulatory) conditions and stability that are preconditions for effective investment.

To protect the poor in a time of economic crisis, governments, the private sector, and civil society must work together to expand food production, restore trust in markets, and promote food security. Governments must create the economic environment for the private sector to supply safe and nutritious food. The private sector is the engine for production of consumer products and services, the maintenance of food safety standards, and support for an effective supply chain. The private sector can play a role in affecting policy reforms and investments in infrastructure, agriculture, renewable energy, and R&D. Governments must take steps to eliminate or at least minimise existing subsidies and mandates for biofuels.

Multilateral agreements to liberalise international trade are the most effective way to promote food security for both food importers and exporters. Even if the Doha Round cannot be completed to achieve its goal of greater market access, it must establish agreed global rules to provide a bulwark against the escalation of protectionist measures in the current global financial crisis. Developed countries should deliver on their oft-stated commitment to ensure 100 percent duty-free, quota-free (DFQF) treatment for imports from all 49 Least Developed Countries and extend DFQF to other countries where appropriate.

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As a former member of our national legislature and an individual committed to lifting millions from poverty, I hope to continue to engage with leaders from government and civil society in Europe and the developing world to exchange views on these issues that are—literally—a matter of life and death. Only by working together will we be successful in realizing these goals that are so important for peace and prosperity—rather than working alone, or worse, in separate and often opposite directions.
Section 2

Action to boost growth, investment and enterprise

Section Contents

Page 11
Nicky Oppenheimer
Chairman, De Beers Group

Page 12
Dr Peter Eigen
Chairman of the Extractive Industries Transparency Initiative, Member of the Africa Progress Panel

Page 13
Omari Issa
CEO of the Investment Climate Facility for Africa

Page 14
Gareth Thomas
Minister of State for International Development, DFID

Page 15
Miguel Veiga-Pestana
Vice-President Global External Affairs, Unilever

Page 16
Richard Laing
Chief Executive, CDC

Page 17
Gabriel Solomon
Senior Vice President, GSMA

Page 18
Petter Mathews
Director, Engineers Against Poverty
As a consequence of the global economic down turn, African leaders face many difficult challenges and tough policy choices. How should Africa respond to the economic crisis and what are the lessons and opportunities we should pay attention to over the coming months? I am confident that Africa can rise to the challenge if we act collectively and if we accelerate our ongoing reform efforts aimed at greater competitiveness and economic diversity.

From my perspective, there are five key lessons to take out of the current crisis. Despite the evident weaknesses in global financial systems and regulation, globalisation remains a powerful force for good. The first lesson we need to recognise is that international trade and the flows of real investment across borders as drivers of growth are not what have failed and led to our current predicament. While it may be appealing to think so, my long term optimism about the benefits of globalisation remains as resolute as ever. If anything, we should ensure we do not default to tempting protectionist measures. In fact we should actively take steps to open our markets and press others to do the same. The second lesson we have learned, in this respect, is that African leaders need to continuously engage with, and play a constructive leadership role in the global forums that address these key issues.

Falling remittances, commodity prices and aid flows will hit African countries hard. There is no doubt that many states, already fragile, could become even more so as a result. Recent experience has shown us that we can no longer assume a commodity super cycle. Lesson number three is thus a reminder that how well we prepare for the future depends on how well we use commodity inflows to broaden our economic base.

We need to ensure that efforts to reform global financial systems do not hinder the emergence of effective developing country financial institutions. We cannot remain at the mercy of costly finance provided by weak institutions. We need to build confidence amongst consumers that banks can be trusted with their savings, reinstate a sense of value in the banking sector and build a reputation for fairness and fair returns. Lesson number four is that in order for confidence in investment and credit systems to return we must seek appropriate reforms and greater transparency. In the short-term African leaders will have to manage the economic and political fall out of lower revenues and aid flows. African nations will need to resist the temptation to play politics and roll back reforms to ease temporary domestic pressure. Key policies need to be protected, for example trade reform and health, education and infrastructure projects, which create the long term conditions for growth. We cannot discard the market related reforms which have acted as drivers of growth. Good governance, open markets and strong institutions remain fundamental to Africa’s development.

Finally, the fifth lesson is that there is an urgent need to improve Africa’s competitiveness. Competitiveness is the life blood of growth, and growth is the lynchpin of social harmony and political stability. By improving competitiveness and deepening integration with global markets, we can reduce vulnerability and increase growth. As the Spence Commission emphasised, sustained growth is not a miracle and it is attainable for developing countries with the right mix of ingredients. We need leaders who know how to advance growth, seize global opportunities, and who understand how to incentivise private sector investment to enable economic diversification and global integration.

In conclusion, long term priorities should not change despite the economic turbulence. On the contrary goals associated with the promotion of competitiveness should be accelerated. With growth and competitiveness as a national and regional priority, resources can be mobilised, policies written and new solutions brought to bear. This is our opportunity and it must be grasped.
In the land of the blind, the one-eyed man is king. When it comes to knowing how the global financial crisis will affect Africa, we are all living in the land of the blind. Usually we can rely on the IMF to be the one-eyed man, but the IMF’s growth predictions for 2009 give such a mixture of signals that it is impossible to form a clear overall picture. We do know, however, that 2009 will see a series of difficult social and political changes in Africa: elections, strikes, civil unrest, rising fuel and food prices, and a more challenging environment for exports. Because of Africa’s unique finance and liquidity circumstances, and due to volatile exchange rates and commodities prices, it is safe to assume that the financial crisis will be felt differently in Africa than elsewhere. Given all of the above, the question is how to avoid the global financial crisis becoming a social crisis in Africa.

This is where I believe that transparency comes in. We have all seen cases in the extractive sector where opacity and silence has created mistrust and suspicion. Affected communities and ordinary citizens often assume that the government and companies are in cahoots to keep the wealth for themselves. Sometimes companies feel that governments and citizens are ganging up on them to reset the rules and renegotiate contracts.

The Extractive Industries Transparency Initiative (EITI) has long been held up as a shining example of how multi-stakeholder initiatives can address these kinds of challenges. But much of this praise has been premature. The initiative is still young. In the past 18 months the number of EITI implementing countries has doubled to 30, with 20 of them in Africa. 8 African countries have now produced EITI reports. As these countries approach validation – the test of whether they have met all of the indicators in the EITI governance standard – we are for the first time getting a clear picture of how the relationship between transparency, multi-stakeholderism and development works.

In many countries we have seen specific cases of civil society being given increased voice, legitimacy and democratic space, as part of the EITI process. In others, where this voice has been threatened or intimidated, the EITI has proven to be a critical instrument for demanding that civil society plays its rightful role in governance and society. I expected to see all of that though I am heartened by the extent of EITI as part of the process. What I am more surprised to note, is how countries are seeing the initiative contributing to trust-building.

Building on this, most of the countries who are now joining the initiative are not those plagued by corruption in the extractives sector. Governments, like Zambia with their sorry copper history, want to use the EITI to inform the public on revenues and address some misunderstandings about contracts and deals. Others like Tanzania and Madagascar, use it as a way to engage communities on a wider set of issues. For post-conflict countries, like the DRC, Liberia and Sierra Leone, it is a part of a wider peace and reconciliation process. And I am pleased to see how some companies are embracing it, like Newmont in Ghana, to show communities how much they are paying to various levels of Government.

EITI is morphing well beyond a ‘resource-curse’ initiative and into a vehicle to build trust at the regional/local level. This, I believe, could provide some salutary lessons for a world and a continent facing the dangers and difficulties of financial volatility and distrust.
The G8’s discussions will inevitably focus on how the world’s biggest economies can survive the current financial crisis. They will also debate its potential impact on developing economies that have enjoyed record levels of investment – including Africa’s average annual growth rate of six per cent over the last ten years.

The world is being shaken by a global economic crisis that is unprecedented in its causes or breadth. However, let us not forget that foreign investment is only one part of Africa’s growth equation. As such, we should not create an unwelcome distraction from those measures we can still improve from within.

ICF’s raison d’être is focused on doing just that – namely making the continent an even better place to do business by systematically improving practical struggles with bureaucracy, regulation, red tape and infrastructure. ICF is achieving its objectives by working with receptive governments, private companies and development partners.

We are supporting more than 20 projects in 10 countries and, while each tackles unique challenges, all are held together by a common bond of public-private partnership. Just as the Commission for Africa Report concluded, it is unrealistic to expect growth in social, economic and political gains made in recent years, or in their contribution towards the MDGs or beyond, through Governmental effort alone.

An example of collaborative public and private partners working together to improve the fundamentals that can hamper business growth can be seen in judicial modernisation projects in Mali, Sierra Leone, Rwanda, Tanzania and Zambia, all supported by ICF. Disputes may be an unavoidable aspect of life, but both public and private investors need assurances that any disagreements will be resolved simply, quickly, efficiently and transparently.

Of course, engaging the private sector in a time of tightened budgets does present challenges.

However, support does not solely manifest itself in the form of financial contributions. There are also huge opportunities for the private sector to impart expertise and even time to simply share experience that inspires and drives entrepreneurial spirit.

The good news may be that the private sector can give so much more than money in order to improve Africa’s investment climate. But the even better news is that the rewards, for those governments and businesses that get involved now, will be profound.

Africa needs sustainable and holistic solutions, rather than quick fix policies developed in isolation. If Africa can create an enabling business environment now, as a result of partnerships between both the public and private sector, then the results will have a truly measurable impact on the investment climate.
2.4 Trade

On the road to growth: the North South Corridor can transform infrastructure and increase trade throughout Africa

Transporting a single cargo of copper from the Democratic Republic of Congo to South Africa currently takes between two to three weeks. In Europe, a journey of the same distance would take 48 hours. Delays like these make doing business extremely costly.

To help improve transport links and remove the barriers which create these hold ups, the UK is funding a project called the North South Corridor. This unprecedented initiative will eliminate the bottlenecks that currently exist along the main trading routes throughout Southern and Eastern Africa by speeding up border crossings, improving railways, roads and ports across the region.

In April the UK Government committed £100m to the project. At the same time, Presidents from Kenya, Uganda, South Africa and Zambia, representatives from the Regional Economic Communities and senior figures from the EC, World Bank and African Development Bank also came together in Lusaka to commit some $1 billion to support the North South Corridor.

The Corridor will help to open up crucial new business opportunities in Tanzania, DRC, Zambia, Malawi, Botswana, Zimbabwe, Mozambique and South Africa. The project will upgrade 8000 km of road – equivalent to the road distance between Paris and Beijing - and rehabilitate 600 km of rail track.

It will also work with governments to remove red tape, allowing trade between countries to increase and products to be transported more quickly.

The North South Corridor project forms part of DFID’s new Trademark South programme that will help deliver more trade, growth and regional integration across Southern Africa. We are supporting an equally ambitious regional project for Eastern Africa focused on 5 countries - Uganda, Tanzania, Kenya, Rwanda and Burundi – and we are in the process of designing a similar project for West Africa. While each project is unique, their aims are the same – to help make trade easier across Africa and give local people better access to markets, so they can sell their goods and provide for their families.

Altogether, the UK now spends some £800 million on Aid for Trade, strengthening infrastructure and supporting trade and economic growth. Partner countries also need to do their part. Too often, trade is overlooked when considering growth and development strategies, and trade ministries are marginalised. We need to work together to address the factors that constrain business in Africa. Bureaucracy can act as a major barrier.

The North South Corridor initiative is a perfect example of governments and donors working together at the highest level, and the carefully sequenced structure of the programme is helping to ensure that our investment will have the greatest possible impact.
The global economic downturn is exacerbating well-documented infrastructure constraints in Southern and Eastern Africa, which are already contributing to low levels of trade, economic growth and poverty reduction, with landlocked countries especially affected. The OECD recently reported that inter-regional trade still only accounts for 9.5% of trade in Africa. Increasing regional integration and trade is vital to enabling higher levels of economic diversification and foreign direct investment.

For companies doing business in the region, it is not just the poor quality of physical infrastructure that remains a problem. Significant delays in moving goods across borders due to inefficient regulatory and customs procedures make transportation costs prohibitively expensive. It is estimated that in Southern and Eastern Africa, regional transport costs are 75% higher than the international benchmark.

Poor quality infrastructure does not just impede growth in regional and international trade volumes. It also inhibits foreign direct investment, job creation and economic growth. According to the World Bank, the potential contribution of infrastructure development to growth across African regions ranges from 1.5% in North Africa to almost 3% in East Africa and Central Africa.

To unlock the region’s undoubted potential, especially across the agricultural value chain, producers need a faster and more reliable transport system which will reduce costs, ensure products reach markets faster and deliver supply and distribution chain efficiencies for both importers and exporters.

The COMESA-SADC-EAC initiated North-South Corridor programme, which spans Southern and Eastern Africa, is to be welcomed, with its potential to create a modern, low-cost and reliable transport network. We are particularly encouraged by the holistic nature of the solution, which uniquely aims to tackle both hard and soft infrastructure constraints through an integrated process, offering a model for potential replication across the entire region.

However, the task of addressing infrastructure constraints such as weak customs administration and other barriers to doing business cannot fall just to governments and development organisations. Beyond providing investment and delivery expertise, the private sector can and must be a key stakeholder in the process. As infrastructure users, we have already demonstrated we can add significant value to tackling soft constraints like customs procedures.

One example is Business Action for Improving Customs Administration in Africa (BAFICAA), a private sector-led trade facilitation programme that emerged from Business Action for Africa. BAFICAA’s primary objective is to build a cooperative dialogue between business and governments based on a relationship of trust and the recognition that the private sector can be an active partner in improving the customs environment. In East Africa, BAFICAA has been working in partnership with other leading companies, SITPRO (the UK’s trade facilitation agency), the East African Business Council and government authorities, to recommend real and practical improvements in the customs environment to benefit the broader local economy and to change the culture of customs administration from a controlling function to a facilitating one. We are also addressing these issues in West Africa.

BAFICAA activities are focused on six key areas, which include addressing the need for fast-track customs services for compliant and low risk taxpayers and traders, the need for greater automation of customs processes and procedures, and the development of valuation processes and training, accreditation and certification for customs agencies.

More funding and support for programmes like BAFICAA will boost Africa’s capacity to trade, improve the environment for business and deliver significant economic benefits to governments and the wider community. The private sector is ready and willing to play its part in scaling up these important initiatives.
Much has already been said about the impact of the global downturn on Africa, but a great deal of the talk about solutions has been empty rhetoric full of generalisms that regard Africa as one homogenous place. Any simple prognosis for the continent’s economic future ignores the fact that there are 48 countries in sub-Saharan Africa with differing economies and at varying stages of development. It is action, not talk, that is required.

Of course, as the global financial crisis brings about falls in foreign aid, commodity prices and remittances, it is clear that no country will emerge unscathed. Some nations like South Africa are already in recession and those economies with a greater reliance on exports and trade with the West are undoubtedly bearing the brunt of the crisis. However, we should caution against too much doom-mongering. Many African countries are still growing on the back of strong domestic demand and consumer markets, with Uganda, Ghana, Nigeria and Rwanda as prime examples.

While Africa has been badly affected by global recessions in the past, it has entered this one in better shape thanks to a record of improved economic management and good governance in many states. GDP growth is expected to be cut in half across the continent this year, but unlike most Western economies there is still positive economic growth. And if that continues, so will interest from foreign investors.

As the world’s biggest private equity investor in Africa, we at CDC see a clear and continuing demand for capital in all the African countries in which we work. Those companies that in particular are serving domestic and African markets are hungry for investment and can play a vital role in helping the continent buck the global economic trend.

CDC is about one thing: getting much needed capital to work in promising businesses so that those businesses can contribute to economic growth – without which there is no possibility of long term poverty alleviation. Last year we invested almost £200m in promising African businesses and we have a further £800m-plus committed for local African fund managers, ready and waiting to be invested in businesses. And it is not just us who are committing to African businesses. The Indians and Chinese, who have traditionally focused on mining and natural resources, are seeing real potential in telecoms, pharmaceutical and other sectors too.

What I have also seen is that as the global recession bites, members of the African Diaspora are returning home because they see prospects that they cannot find in the US and Europe. This ‘reverse’ brain-drain can have a positive impact, particularly in countries like Ghana where recent oil and gas finds are big news and offer good prospects. They have seen the huge potential of their homeland and are doing something about it.

There is good and bad news to come out of the economic crisis that we now face. While the poorest people of Africa are amongst the least able to handle the effects of the downturn, it is apparent that many African nations also have a unique capacity to come through the tough times.
2.6 Infrastructure

Towards a digital revolution in Africa

Information and communications technologies (ICTs) play a vital, enabling role towards achieving the Millennium Development Goals (MDGs). Connecting isolated ICTs to form smart, interactive webs of intelligence that seamlessly cross physical and political boundaries exponentially increases their effectiveness and value: Metcalf’s law quantifies this, stating that the value increase is proportional to the square of the number of connections. To maximise their potential in Africa, ICTs require a broad blanket of connectivity, covering the continent and linking the continent to the global information economy.

When the MDGs were agreed in 2000, achieving a blanket of connectivity across Africa was a dream only a few people imagined could be realised. Since then, many African governments have liberalised their communications sectors catalysing some $50 billion of private investment to date with a further $40 billion pledged over the next 4 years. This level of investment has extended connectivity to more than two thirds of the population and the next wave of investment will increase this to over 90% and also start the roll out of mobile broadband.

New world class African businesses, such as MTN, Vodacom and Celtel (now Zain), have been born. Across Africa the mobile industry employs more than 3.5 million people today. It will generate $71 billion in tax revenues between 2000-2012. And it is a substantial generator of economic growth, responsible for around 6% of East Africa’s GDP in 2008. A 10% increase in mobile penetration boosts GDP by 1.2% in a typical emerging market.

This year Eastern Africa should finally be connected to undersea fibre optic cables that will provide the region with an umbilical cord to the global information economy, stimulating a new wave of ICT-led investment and growth on the continent. On the Western side there is hope that new cables will be laid to drive down the price of international bandwidth substantially. Regional cross border cables bring affordable bandwidth across Africa’s vast geography.

In terms of mobile-led ICT development, Africa has come so far in such a short period of time, but it is still in its infancy. It is incumbent upon governments to establish clear policies and incentives so that the great remaining potential is realised.

Mobile broadband, for example, requires the release of harmonised low frequency spectrum in large contiguous chunks, the so called “digital dividend”, that can lower network coverage costs substantially. Punitive sector specific taxation on handsets, equipment and air time should be lowered and removed. Doing so will not only increase affordability of services but also boost the total tax generated from the sector in the medium term. The trend to liberalise international gateways needs to continue; these artificial bottlenecks choke local businesses and stifle inward investment.

Government policy needs also to address how mobile can be leveraged by other sectors. Mobile payments and finance, for example, require new enabling financial regulations. Other infrastructure players, such as power companies, railways, water and roads should be asked to indentify common solutions to lower costs. Creating ducts when roads are constructed, for example, slashes the cost of rolling out fibre backbones by a factor of 10.

Smart industry and cross sector policies can accelerate the mobile revolution even during this period of economic uncertainty. Doing so will further underpin the ICT sectors’ contributions to MDGs.
Using investments in infrastructure to create jobs and promote enterprise development during the downturn.

Africa's infrastructure deficit is greater than had previously been thought. The Africa Infrastructure Country Diagnostic study revealed that close to US$38 billion per year is needed for investment and a further US$37 billion per year for maintenance. This is double the estimate of the Commission for Africa and translates into an existing funding gap of approximately US$35 billion per year.

Mobilising investment on this scale during the current global economic crisis is an extremely remote possibility. In fact it is predicted that Sub-Saharan Africa will experience a 13 percent decline in financial inflows and export earnings in 2009 and that the average growth rate of 5.6 percent achieved during 2003-07 will decline to 2.8 percent in 2009. Efforts to minimise these effects are important but they are only part of the solution.

Engineers Against Poverty and the Institution of Civil Engineers have been exploring how to maximise the local economic and social development opportunities that occur through the processes of procuring, building, operating and maintaining infrastructure. Given that close to half of capital expenditure on infrastructure in Africa is from domestic sources and that public finance accounts for the vast majority of this in all but the most fragile states, public procurement is an obvious area of intervention.

Only a small proportion of the resources currently invested in infrastructure benefit domestic suppliers, contractors and workers. Increasing ‘local content’ (that is, the proportion of goods, services and labour sourced locally) in the delivery of infrastructure would help create jobs, promote enterprise development and accelerate progress towards the Millennium Development Goals. The development of domestic capacity should also lead to increased efficiency and better value for money in the longer term.

Our research has identified opportunities to promote local content at all stages of the project cycle including:

- **Initial planning**: Decisions taken at this stage can have the biggest impact. There are many different ways of meeting needs and consideration should be given to the options that allow for building local capacity while providing cost efficiencies to clients and investors.

- **Detailed design**: Specify technologies and materials that are within the capabilities of local contractors. Designing for labour based approaches for example can boost employment opportunities and save foreign exchange.

Given that close to half of capital expenditure on infrastructure in Africa is from domestic sources and that public finance accounts for the vast majority of this in all but the most fragile states, public procurement is an obvious area of intervention.

**Appointment of consultants**: Employ consultants with a track record of promoting local content. Clients should spell out their requirements and ask that technical submissions include suggestions for maximising local content throughout the supply chain.

**Procurement strategy**: Support local contractors through measures such as waiving the requirement for financial bonds, introducing a prompt-payment regime and separating the procurement of labour and materials.

**Appointment of contractor**: Use prequalification and local registers to ensure contractors with the right experience are invited to tender. Unbundling contracts into smaller work packages can enable local contractors to bid and provides a route for them to develop.

Conventional procurement systems tend to be inflexible and elevate the principle of open competitive bidding and lowest cost above all other considerations, including the building of local capacity. The measures outlined here and detailed in the research report introduce some flexibility into those systems and in the current economic crisis, they could also help to offset the impact of declining levels of investment.
Section 3

Action to support innovation, partnership and human development

Section Contents

Page 20
Dr Nick Blazquez  
Managing Director, Diageo Africa

Page 21
Arne Cartridge & Sean De Cleene  
Executive Vice President, Yara International  
Vice President, Yara International

Page 22
Keith Palmer  
Chairman of InfraCo and AgDevCo

Page 23
Brenda D. Colatrella  
Executive Director, Corporate Responsibility & Global Policy Support, Merck & Co., Inc.
Over the last five years we have seen Africa’s economic growth averaging more than 4% per annum and private capital flows increasing from US$11 billion in 2000 to US$53 billion in 2007. For Diageo the African region delivered 65% of Diageo’s net sales value (NSV) growth and 38% of Diageo’s operating profit in the first half of 2009. Diageo’s businesses in Africa employ over 4,500 people and last year we provided £317 million in tax contributions to African exchequers. However, this very foundation is being undermined by a financial crisis and economic downturn that is none of Africa’s making.

As is the case everywhere we work, we do have to be conscious that governance gains made by many African nations are not threatened as tougher economic conditions and food price rises can lead to societal tensions. For Diageo in Africa, a major part of how we do good business is recognising that we have a responsibility that stretches beyond those we employ to the communities they are part of and to the localities where our brands are enjoyed – and it is this that we must protect as much as the bottom line.

Diageo is only one part of this puzzle – but we are playing our part. This crisis calls for inventiveness. It demands new ways of thinking and new momentum to tackle Africa’s infrastructure and trade deficits. This can only be truly delivered in partnership with the private sector. Challenge funds, which allow companies and development organisations to share the risks associated with enabling private sector-led innovation, are becoming increasingly important. One example is the work we are doing to develop the cultivation of sorghum for brewing in Cameroon, which is supported by the Africa Enterprise Challenge Fund. The project aims to create a sustainable market for local grain, raise agricultural standards, yields and farm incomes.

The challenge we face is to replicate and scale up these important initiatives. To do this, we have to create more flexible partnership and funding mechanisms that allow local companies and organisations operating at the grass roots to more easily unlock vital sources of financial and technical support. Greater local ownership will allow us to tap in to key local knowledge and experience, and potentially offers a more effective way to manage and deliver these type of projects, by-passing more centralised corporate and donor structures. This will require a change in thinking and approach that currently predominantly favours larger scale initiatives.

Africa offers immense opportunities for companies to do good business and I truly believe that G8 governments can help themselves during this economic recession by helping to foster an investment climate in Africa so that businesses, like mine, can provide employment opportunities that balance the gender gap; to generate tax revenues that assist governments to implement social and education programmes; to develop and provide technologies to improve agricultural productivity and increase food security; to train staff and build our human capacity; and to provide investments in the community that address basic needs such as access to clean drinking water.

It will happen when businesses can thrive, wealth can be created and poverty can be reduced. Vijay Mahajan in his excellent book ‘Africa Rising’ said it straight: ‘The future of the world is Africa.’
Agriculture has the potential to be Africa’s engine of growth, but the opportunity must be seized now

The current global economic recession on top of last year’s food and fuel crisis has delivered yet another blow to Africa, and has reminded the world of the critical importance of investing in and releasing the region’s considerable agricultural potential. Our efforts should not just be limited to achieving food security. In the longer-term, Africa’s agricultural sector has the potential to be the engine room of regional growth, especially as we no longer can expect the same level of revenues traditionally delivered by other commodities.

Cereal consumption has now surpassed production capacity in Africa with the region now a net cereal importer, a situation made more precarious by low reserves of key staples in many countries. This comes at a time when global demand for food is projected to double over the next twenty years, with only a 7% increase in potential arable farm land available for cultivation.

This underlines the need for a renewed and concerted effort to develop agriculture as a core component of Africa’s economic development. Despite the downturn, now is the time to increase investment into agriculture and to drive forward policies and action to support innovation and sector growth. The barriers to agricultural development are well documented and understood, including a lack of financing and rural credit, the need for effective agri dealership networks, and the lack of properly functioning infrastructure, especially in landlocked countries. The key overarching challenge is to harmonise a complex agricultural value chain and make it work more effectively, from farm to marketplace with a particular emphasis on upgrading the commercial viability of the vast number of African small scale farmers and agri-business entrepreneurs.

The work we are doing to create an agriculture growth corridor along the existing Beira infrastructure and trading corridor in Mozambique illustrates a new way forward. Initiated in partnership with the Government of Mozambique, and organisations including the Norwegian Government, AGRA, World Bank, African Development Bank and InfraCo, the concept provides an example of how to tackle constraints, such as low yields, limited access to finance and poor quality infrastructure, through a holistic and co-ordinated approach. Crucially, the initiative is underpinned by an innovative financing structure, which combines commercial and concessional sources of finance.

Yara has committed $35m to the initiative, which will develop fertiliser bulk handling and blending facilities at Beira port, to enable it to function as a more effective costal agricultural trading hub, especially for neighbouring landlocked countries. Yara’s financial commitment will also serve as an anchor investment with the aim of leveraging additional capital flows along the wider agricultural growth corridor.

Although the Beira Agricultural Growth Corridor offers a replicable model, we need a step change in the way stakeholders collaborate to achieve real and transformative scale, and the appropriate mechanisms and frameworks to deliver this, particularly as it relates to small holder farmers. This includes, for example, a greater willingness to share the risks associated with early stage investment in agricultural innovation, especially as it takes time and patience for new approaches to bear fruit. We also require more creative and flexible ways to leverage sources of finance to support and fast track promising new business models.

In summary, we need to combine technical innovation with new financing and investment models, driven forward through more concerted and co-ordinated action being undertaken at scale. Perhaps most of all, we need to inject a sense of urgency – the opportunity to substantially grow African agricultural productivity and market capacity is now and we must seize it.
New financing approaches to make an African green revolution a reality

Africa’s agricultural potential is enormous. But agricultural productivity and farmers’ incomes are low. On paper improving productivity is simple – better seeds, more fertiliser and irrigation, better crop protection and lower-cost delivery systems between farms, suppliers and end-customers. But in practice higher productivity has proven very difficult to achieve. Pervasive constraints include under-investment in infrastructure, especially irrigation, limited access to finance and a shortage of experienced farm management. Consequently investment in agriculture has been low, productivity improvement disappointing and the potential of agriculture has remained largely unrealised.

There are several major constraints which must be addressed if a major increase in commercial investment in agriculture is to be achieved. First, the high front-end costs and risks of ‘greenfield’ agricultural ventures raise production costs, reduce profitability and therefore deter private investment. Second, very limited access to long term ‘patient’ capital to fund development of early-stage agriculture-supporting infrastructure creates a strong barrier to entry by commercial investors. Innovative financing approaches like AgDevCo directly address these constraints. It invests development capital to mitigate front-end costs and risks, bringing ventures to the point where they can attract private capital from domestic, regional and international investors. It deploys ‘patient’ capital to develop, and lease to farmers, new infrastructure services, especially irrigation, thereby stimulating greater commercial investment into irrigated farming. It ensures that the benefits accrue to small farmers as well as commercial farmers, thereby achieving direct as well as indirect poverty reduction goals. It achieves high ‘leverage’ mobilising at least 10 dollars of private capital for every dollar of public money that it invests.

AgDevCo is a spin-off from InfraCo, a similar PPP operating in ‘hard’ infrastructure sectors. InfraCo has already begun development of agriculture-supporting infrastructure in Kenya, Mozambique, Uganda and Zambia. It has shown that the approach works. Chanyanya is a good example. Irrigation services are already being provided to small farmers and annual crop yields are expected to increase by 3-4 times. This would not have been possible without investment of $2.5 million of development capital invested by InfraCo. The venture is a commercial business in which the small farmers have a substantial stake. They are not receiving a handout, they are participating in profitable business enterprise. Now that this small initial venture has proven the concept, there is enormous scope to scale-up across a much larger area in Zambia.

The promise of the AgDevCo approach has been demonstrated, in Chanyanya and elsewhere, by InfraCo. But to make a real impact AgDevCo needs to operate at much greater scale. A commitment of development capital and patient capital of about $120 million over 5 years will mobilise in excess of $3 billion of commercial investment into agriculture in Africa over the long term. It will also directly benefit millions of small farmers. AgDevCo is a practical response to the global food crisis and particularly to Africa’s growing dependence on imported food. It will create a platform on which Africa’s Green Revolution can become a reality. It already has the strong support of African leadership including NEPAD/CAADP and AGRA. Now is the time for it to take off at scale!
The collapse of global financial markets and the resulting economic crisis are affecting more and more sectors of the world’s economy as we face the biggest economic downturn in recent history. The global slowdown in growth comes at a time when investments in service delivery and health capacity-building in Africa by private, public, governmental and non-governmental organizations (NGOs) are making good progress in addressing the complex health issues that Africa faces.

A primary challenge is the HIV/AIDS epidemic, one of the most significant threats to Africa’s ongoing economic growth and development. But progress has been made on treatment and the global community is mobilizing and scaling up resources to tackle this devastating pandemic. In 2000, the Government of Botswana, the Bill & Melinda Gates Foundation and Merck & Co., Inc./The Merck Company Foundation established the African Comprehensive HIV/AIDS Partnerships (ACHAP) to address HIV/AIDS in Botswana. As of March 2009, approximately 125,000 people were on treatment, and Botswana is one of the few countries in the world to have achieved universal access to HIV medicines. ACHAP demonstrates the value of collective action. Yet there is still much that needs to be done.

The current economic crisis may derail some investment and assistance plans as many institutions face declining resources. But for most African countries, the need for development assistance remains critical, particularly if progress made in achieving the Millennium Development Goals is to be sustained.

One of the most successful mechanisms for addressing global health challenges has been public-private partnerships. Partnerships among governments, NGOs and the private sector, with each bringing its comparative advantage to bear on issues of critical importance, are helping to realize measurable improvements in public health in the developing world. Bringing together stakeholders who have expertise and resources that can contribute to solutions has facilitated the development of comprehensive approaches that yield sustainable impact.

The need for health infrastructure, including human resources for health, that is scalable, replicable and sustainable is one of the highest priorities in global health today. One example of how Merck is addressing the need for strengthened health capacity in Africa is the Merck Vaccine Network – Africa, where partners are leveraging private-sector skills to develop sustainable immunization training programs in Africa.

The global health agenda is now at a moment of uncertainty. It has never been more essential to establish a global health agenda that preserves the pivotal gains made in the last few years, while charting a way forward in the new environment. Private sector efforts to development challenges must not only be sustained, but must be more efficient, effective and integrated. This economic reality also demands that developing world governments take additional leadership in building a sustainable future for their populations. Perhaps the toughest challenge will be identifying where to focus resources to achieve the greatest impact.

And the value of public-private partnerships has never been greater. Public-private partnerships need to be scaled up, not back, to maintain momentum towards the Millennium Development Goals. The current climate of constrained resources highlights the need for the private sector, and other stakeholders, to continue to invest in global health in a manner that is increasingly strategic, targeted and accountable.

**Merck Vaccine Network – Africa**

Through the Merck Vaccine Network, centers have been created in Kenya, Mali, Uganda and Zambia, providing hands-on training in vaccine management and immunization services. Merck and our partners share expertise and best practices for vaccine storage, supply chain management and forecasting. These training efforts are built on partnerships with key stakeholders, including Ministries of Health, the World Health Organization and UNICEF.
Section 4

Looking forward

Section Contents

Page 25
Adam Leach
CEO International Business Leaders Forum

Page 26
Alison Evans & Karen Ellis
Executive Director, ODI
Programme Leader, Business and Development Programme

Page 27
Mark Bowman
Managing Director, SABMiller Africa
Promoting investment and protecting development in Africa through responsible business and collective action

At the World Economic Forum on Africa in June, Kofi Annan, Graça Machel and Linah Mohohlo launched a report that stated that the global economic crisis imported from the North is hitting Africa harder than any other region.

In different parts of Africa, the recession threatens to increase unrest in conflict prone areas; undermine nutrition and sanitation for millions at risk from disease; and stifle the striving economies that have powered much of Africa’s recent growth. Meanwhile confidence in business and its leaders has hit rock bottom.

In an increasingly interdependent world economy in which the responsibility for growth is shared between both advanced and emerging markets, business has an important role to play in addressing development challenges and helping to shape the “inclusive, green and sustainable recovery” called for in April's G20 communiqué.

While many companies have been in the news for their poor behaviour, there are examples of the positive contribution business can make to development, and of African governments creating some of the conditions for responsible business to prosper. It is possible to get this right. What is needed is more concerted effort, from governments and businesses, African and international.

G8 governments can follow the OECD example, where governments are making the case to their MENA counterparts for responsible business practices as a means to maximise both investment – from domestic entrepreneurs and international companies – and the development benefits that follow. Raised business standards and improved governance can help move domestic entrepreneurs out of the informal economy and attract investment from international companies, who must meet international requirements for responsible behaviour.

G8 governments can also encourage their companies operating in Africa to engage in more local dialogue with domestic and international companies, and take more collective action on areas of shared value: boosting the vocational skills and entrepreneurial culture of local people through training centres and enterprise academies are key steps in creating local jobs and increasing employability; working together in conflict-prone regions can raise business standards and deliver peace-building initiatives; forming coalitions can increase transparency and reduce corruption.

All of these areas companies can act more collectively. Firstly, because the constrained environment of a recession demands it. Secondly, because we have seen that collective action works.

Raised business standards and improved governance can help move domestic entrepreneurs out of the informal economy and attract investment from international companies.

This is also the time for African governments to show confidence and leadership, to honour their commitments on governance and transparency, to invest in infrastructure, and to build on their ability to partner with companies and non-profit organisations.

The North-South transport corridor rehabilitation project offers to dramatically reduce transit times and will be a test case for inter-regional economic cooperation. Its development will allow greater investment in Africa and, crucially, enhanced trade between African nations.

Boosting the vocational skills and entrepreneurial culture of local people through training centres and enterprise academies are key steps in creating local jobs and increasing employability.

Investment, jobs and enterprise can further be supported through investing in telecommunications infrastructure – which is already supporting much of the most innovative private developments in the lives of people across the continent.

As investment from non-G8 countries becomes more important to African countries, African governments can re-assert the importance of responsible business standards with all inward investment.

Finally, African governments can increase their own capacity to form and deliver on cross-sector partnerships - as a way to create sustainable solutions to the challenges they face. Partnerships offer much but the practice of partnering is not easy. From almost two decades of work, a more systematic approach to partnering is emerging which can bring far more productive working relationships and greater development impact. For example IBLF is working with the governments of Zambia, Madagascar, South Africa, Ghana and Gabon, the German Sustainable Development Agency (GTZ) and international companies to explore how best to help each government to partner more effectively with business.

www.iblf.org
Business plays a crucial and fundamental role in development, as it drives the economic growth that is needed to alleviate poverty. The private sector creates jobs and wealth, and is responsible for most of the investment, innovation and technological progress that underpins economic growth.

However the global economic downturn is having a major impact on private sector activity in developing countries, both through reduced volumes of trade and financial flows, and by changing the way that business engages in developing countries.

A recent ODI consultation of businesses has shown that different sectors are affected in different ways, but most of them are feeling the effects of reduced demand and the downward pressure on prices. This has led to reduced demand for some developing country goods, and has generated significant pressure to reduce costs, which is being passed down the supply chain to producers. With weaker businesses failing, consolidation in some sectors is likely. This may hurt small and local businesses most, though it presents opportunities for stronger businesses to increase their market share.

The consultation also indicates that new investments are being postponed, that there is a reduced appetite for risk, and that innovation is suffering. Businesses expressed a greater need at this time for risk sharing partnerships with donors, which can make it easier for them to maintain innovation, for example in new, inclusive products and business models that meet the needs of the poor.

CSR and ethical business practices seem to be suffering where they are seen as optional add-ons, but are being maintained where they are fully embedded and seen as crucial to the firm’s core business. Where consumer demand in developed countries for ethical produce holds up, business will have stronger incentives to maintain standards, but shifts in demand towards cheaper goods and a desire to ‘Buy Local’ to protect domestic jobs, may jeopardize this. Protection, subsidisation and incentives for increased lending to business at home, while patriotic in nature, may also create unfair competition to business in the developing world, to the detriment of the poorest producers.

As the effects of the downturn are transmitted to the developing world through business operations, this is straining relationships with host country governments, with possible contract renegotiations, policies preventing the repatriation of profits by multinationals, and even talk of renationalisation in some cases.

The state clearly has an important role in tackling the downturn, but a move away from market-led approaches and towards policies such as protection and renationalisation – in the developed or the developing world – could have long term repercussions for growth and development.
Despite many of the gloomy predictions about how the financial crisis and global economic downturn will impact Africa’s development, we remain optimistic and excited by the potential of the region. Whilst the impacts of the downturn are being felt in different ways across different sectors and countries, there is now an overarching sense of forward momentum developing across the continent, evidenced by greater political stability, a strengthening investment climate and improving infrastructure.

Although we are undoubtedly experiencing difficult and uncertain times, it is critical that all those with a stake in Africa’s future continue to work hard to protect these hard won gains and continue to advance progress towards the MDGs. Business needs to continue to play a central role, especially at a time when local governments and development partners come under increasing domestic pressure. More than ever before, sustainable development will need to be at the heart of successful business.

Despite the economic uncertainty, we continue to explore new business opportunities and to invest in our communities for the long-term, albeit with a relentless focus on disciplined decision making. By focusing on core business fundamentals, we are better positioned to generate the most effective and sustainable contribution to Africa’s economic and social development. It is this approach that has enabled us to continue to build new capacity and expand our operations in Angola, Mozambique, Tanzania and South Sudan.

By maximising our business linkages in the countries where we do business we can create economic opportunity and improve livelihoods by sourcing from, distributing through or selling to small enterprises and farmers. We can also play a key role in transferring skills, technologies and standards along our value chains. Strengthening our local supply chain is becoming an increasingly important business priority for us, especially as we seek to mitigate against volatility in commodity prices by ensuring a more predictable and secure local source of supply of key raw materials like sorghum and barley. We currently buy raw materials from around 12,000 smallholder farmers in Africa, but are exploring additional indigenous crops as raw materials for brewing which would allow us to increase our local sourcing to include much larger numbers. Trials are currently taking place with cassava, which will initially be introduced as an ingredient in Angolan beers, with longer term plans to extend its use in all countries where it grows successfully.

Overcoming these challenges will require a new type of relationship with our development partners, built around deeper, longer-term and more strategic relationships and a greater willingness to share financial resources and the risks associated with entering relatively un-chartered territory.

Combined with new projects to grow sorghum and barley in countries such as Tanzania and Ghana, this will increase the number of local farmers to approximately 44,000 by 2012.

In some cases these linkages can be made viable in the short-term, in others funding, ongoing support and local capacity building will be required. A key challenge is how we continue to upscale our existing efforts in a difficult economic climate, especially in areas that require the provision of technical and financial assistance, and the fostering of innovation. Growing concerns over the impact of climate change adds a greater urgency.

Overcoming these challenges will require a new type of relationship with our development partners, built around deeper, longer-term and more strategic relationships and a greater willingness to share financial resources and the risks associated with entering relatively un-chartered territory. As a company with strong roots in Africa, we are familiar with managing these challenges and deeply committed to playing a leadership role in the region’s future.
Join the discussion at
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