Africa Post-Gleneagles: threats and opportunities
(or "Will a year of talk be followed by a year of walk?")
Speech by Niall Fitzgerald to the CBI Annual Lecture, 18 January 2006

The Romans named the first month of the year after the god Janus, who was depicted with two faces looking in opposite directions. This allowed him to see backward and forward at the same time and at the end of the year, the Romans imagined Janus looking back at the old year and forward to the new.

In that spirit, I would like to spend this evening reflecting on 2005- the Year of Africa- and more importantly, looking forward to the challenges for 2006 and beyond.

I first encountered Africa in 1976. Within a brief 96 hours in Kenya, I experienced the colour and excitement of daily market life – creativity and innovation unmatched elsewhere. I met talented and energetic business people for which the press, with its tendency to depict Africa as the heart of darkness, had not prepared me. I came the closest I have ever been to death on the Nairobi – Mombassa Road. And I encountered corruption in its rawest form – I had to pay for my life. Africa had entrapped me.

Four years later, with a deep sense of foreboding and much reluctance, I went to work and live in apartheid South Africa. I went with a clear agreement that should I wish to leave at 24 hours notice it required only a phone call.

Five years later when I was called to move elsewhere, I said – why now, it's too soon, there is still too much to do? It was the defining experience of my life which taught me that if you believe passionately enough about an issue then be prepared to work from within and develop first hand insights rather than comment polemically from outside. From then on I have been a frequent visitor to Africa – explored most corners – and become both searingly critical and hugely supportive.

So what is happening in Africa today?

- 800m people, half of them under 20, aspire and are hungry for a better standard of life.

- African economies are growing on average 5% a year - twice the rate of the EU.

- Democracy and its institutions are spreading, slowly but steadily. In the last 5 years two thirds of the countries of Sub-Saharan Africa have had some form of multi-party elections – some freer than others.

- African leaders have declared their intention to set the agenda for change and be judged on its success through NEPAD, The New Partnership for Africa's Development. They have put in place a peer review mechanism which if suggested in Europe would have been more roundly rejected than the European constitution. Can you imagine the response of a peer review of the UK by France, Germany and Slovenia! Some 27 countries have now agreed to be reviewed and evaluators are looking at South Africa and Kenya after the completion of the first reports on Rwanda and Ghana. The peer review mechanism is designed as a candid effort at selfanalysis and has won top marks from international and African watchers. South Africa's process has sought to draw in all sectors of society with strong grassroots participation, and could be an example to the rest of the continent of how to conclude a successful review.

Success stories are emerging from some of the most unexpected of places. Did anyone expect that war torn Mozambique would experience an economic growth rate of 10% on average in the last 7 years? Or that we would see a similar turnaround in neighbouring Tanzania? That both countries would quietly transition to new Presidents through the ballot box?

Or what about South Africa, which has achieved a truly stunning transformation, economically and socially, in a mere ten years? While there is of course still a massive amount to do, the economic, racial and social progress has been outstanding. Given its history the despairing but understandable expectation might have been rivers of blood. Instead, we have a nation well on the way to building a true multicultural democracy – a genuine rainbow nation alive with possibilities. And all underpinned by exceptionally skilled macro economic management.

As a testament to these changing tides, foreign direct investment is increasing, though Africa's share of total global flows is still less than 2%. There are ample examples of foreign investor interest in Africa where conditions are right, such as Barclays purchase of Absa for more than $5 billion, Vodafone's commitment of more than $2 billion to up its stake in Vodacom of South Africa and the decision of China's CNOOC's this month to purchase oil interests in Nigeria for $2.4 billion.

At Reuters, we have increased our coverage of Africa because our financial services clients have a growing interest in the emerging economic opportunities on the continent. Since January 2004, the proportion of financial items in our African newsfile has increased by more than 25%, reflecting that growing interest.

And so on. Many of the pieces are falling into place for economic renewal and renaissance, notwithstanding the continuing massive challenges posed by the triple scourges of extreme poverty, endemic disease and destructive conflict.

Sub-Saharan Africa is the only region of the world where poverty has continued to rise in the last generation. 350 million Africans live on less than $1 a day. You should try it. 11m children under the age of 5 die each year. The equivalent of the entire population of the UK under the age of 16. More than 25m people are infected with HIV/AIDS, a consequence of cultural behaviour, government ineptitude and widespread disinterest in the developed world.

Ethnic violence continues to dominate many regions – Darfur, Somalia, Cote D'Ivoire, and makes for dramatic news and harrowing pictures. Zimbabwe continues to self destruct and an authoritarian regime seems to have taken hold in The Gambia. Incumbent regimes in Uganda, Gabon and Burkina Faso have extended their grip over the political reins.

But 2005 was the 'Year of Africa'; a year in which we would "Make Poverty History". When the rich nations of the earth, as represented by the G8, would finally step up and move from promise to delivery. When hundreds of millions of Africans who live in despair and destitution would sense that hope could move to help. What did we achieve?

In February 2005, the Commission for Africa published a global blueprint for recovery on the continent. Specifically the Commission called for:

- Immediate $25bn a year increase in aid to Africa, followed by further $25bn a year from 2010.
- Debts of poor countries in sub-Saharan Africa to the World Bank, IMF and African Development Bank to be written off.
- Donor countries to aim to spend 0.7% of their GNP on development aid.
- Western nations to agree immediately to eliminate trade-distorting support to cotton and sugar and commit by 2010 to end all subsidies and all trade-distorting support in agriculture.

The Commission also recommended a range of measures to improve governance and security on the continent, as well as targeted investments in specific areas that enable growth, such as tertiary education and health care.

These recommendations were largely endorsed by the G-8 at Gleneagles and later in the year, the World Bank and IMF backed a deal to cancel $55bn of debt. And in the final days of 2005, the EU announced a 166 million euros aid package for 10 African countries. So yes progress was made, but the focus now must shift to translating more of these alluring promises into measurable actions.

Progress, however, marred by the failure in Hong Kong to make significant strides towards giving Africa a real chance to compete on equal terms. Trade stimulates investment, investment accelerates growth and growth reduces poverty.

Africa's share in global trade has fallen from 6% in the early 1980s to 2%. Increasing this share by only 1% would result in $70 billion for sub-Saharan Africa. What Hong Kong gave the developing world- a progressive elimination of export subsidies on farm products, a reduction in cotton subsidies, free access to all markets except those deemed sensitive by rich countries and vague promises about aid for trade- make the prospect for such an increase more elusive than ever.

A successful conclusion of the Doha Round will require a commitment to "walk the talk" on trade liberalisation, and the courage to reject compromises that protect few and impoverish many.

The start of the New Year provides an opportunity to take stock and re-focus efforts. The report of the Commission for Africa contained a wide range of recommendations but large aid and debt deals make the best headlines and risk- unintentionally- to distract our attention from what offers the only real hope for sustainable development in Africa- the growth agenda. As the Commission stated, "Africa is poor, ultimately because its economy has not grown."

Not to say that aid is unimportant. But evidence suggests that in the long run aid does little to promote economic growth and in some cases, has crowded out private sector investment and propped up corrupt regimes. Between 1970-2000, Africa received approximately $400 billion in aid and in periods when the ratio of aid to Gross National Income increased, growth actually declined.

The question of the effectiveness of aid is the subject of much debate, but there is relative consensus that aid works best in countries with sound fiscal, monetary and trade policies. In such circumstances, aid helps lock in reforms already in progress, rather than stimulate reform. Furthermore, an overemphasis on aid can reinforce the perception that Africa is unable to help itself.

Promoting growth is the only sustainable way to help Africa help itself. Sustained growth requires strong private sector development and a sound investment climate to attract business interest. A good investment climate creates incentives for all types of firms to grow. And society as a whole benefits from more jobs and more affordable and better quality goods and services.

Look at Botswana, one of Africa's unsung success stories. Although Botswana faces serious challenges- one of the world's highest incidences of HIV/AIDS- it has maintained one of the world's fastest economic growth rates since independence in 1966.

Like many African countries, it started from an unfavourable position. When the British left in 1966, Botswana had 13 kilometres of paved roads and 100 graduates of secondary school. It is a tropical, landlocked county. Yes it is blessed with abundance of diamonds, though such national resource wealth has been a curse in other developing countries. Think of Sierra Leone. What explains Botswana's success?

Aid certainly played a role, in reinforcing the reform agenda, but research points in particular to good political and economic institutions that ensured effective property rights for a broad cross section of the society. Property rights by providing security for finance enable investment, both foreign and domestic.

Africa today receives less than 5% of total private sector investment in developing countries. Why are businesses reluctant to invest in Africa?

Firstly, conventional wisdom suggests that that Africa is a poor place for business. Africa is certainly not an easy place to do business but the potential rewards are significant. Africa is probably the world's last untapped market.

This perception is reinforced by the stereotyped image of Africa we encounter all too often in the popular press. If we are continuously confronted with words 'corruption', 'disease' and poverty' when we read about Africa, how does that impact our image of Africa? Does it induce a sort of mental fatigue that drains our interest and makes us less receptive to stories that break the mould? If what little attention international media gives to Africa is focused on political news and is predominantly negative in tone is this approaching a sort of "institutional prejudice"?

I am certainly not suggesting that the media should confine itself to positive stories about Africa - that would be an odd message from the Chairman of Reuters - but it's about balanced context. Reporting exclusively on politics, conflict, famine and disease may be perpetuating an unbalanced picture of Africa and thereby obscuring the positive and indeed undermining investor confidence in the continent.

Part of the problem is the tendency to refer to one Africa. The continent of Africa is hugely diverse, but press coverage often refers to Africa as if it were a monolithic entity. No other region is described with such sweeping generalisations. Bad news in one of 54 countries rubs off on the entire continent.

Secondly, and more insidiously, there appears to be a stigma attached to being a successful international company in Africa, as if making profits were synonymous with exploitation. The very business of doing business, if done responsibly, has a huge positive impact on society. Businesses generate employment, both directly, and indirectly through their supply chains and distribution channels. Big business probably creates four or five jobs for every one person they employ directly. And businesses create less directly measurable but very tangible social and economic benefits such as training and the transfer of skills, technology, and know-how. The most important impact business can have on the development agenda is through its core business activities.

Thirdly, and most importantly, there are real barriers to doing business in Africa. High transaction costs, lack of infrastructure, absence of a well developed internal market- tariffs among African countries stand at about 27% or four times higher than OECD countries- an uncertain legal environment, corruption—these are just some of the challenges businesses face in Africa.

The World Bank 'Doing Business Report' provides an insight into the relative ease of doing business in 145 countries. Of the 20 countries with the most difficult business conditions, four-fifths are in Sub-Saharan Africa. On average it takes nearly 64 days to start a business in Sub-Saharan Africa, versus 20 in the OECD countries, and costs the equivalent of 215% of gross national income per capita. To export goods from Rwanda requires 14 documents and 27 signatures compared to 6 documents and 7 signatures in China. What about registering property? 21 procedures and 247 days in Nigeria compared to 6 procedures and 67 days in India.

Despite all these issues, I remain convinced that the opportunities for business in Africa are immense. What is the key to doing business successfully in Africa? Let me make a few general observations, and offer some examples based on my experiences in Unilever, as well as from what other companies are doing in Africa.

There are a number of assumptions that we commonly make about underdeveloped markets that cloud our assessment of their attractiveness.

One such assumption is that there is no money to be made from poor consumers. We also tend to think that such consumers are not brand conscious.

Well, if that were the case, Unilever would certainly not be doing $2b worth of business in sub-Saharan Africa; it has seen real growth of 7% annually over the last seven years and has achieved operating margins close to the Unilever average and an ROI in the 30's. The aggregate potential purchasing power of these economies is enormous. Take West Africa: where the combined population of Cote d'Ivoire, Ghana and Nigeria is 4 times that of South Africa – or about that of France, Germany and the UK.

In the last few years Unilever has invested hundreds of millions of dollars in Africa. So why is Unilever investing in Africa? For the same reason it is investing in Europe, Asia, Latin America, North America: to do business, grow and make money.

And we have learnt that that the poorest consumers are the most brand loyal consumers. Why? Because they cannot afford to make a mistake with their meagre income. If your brand has earned their trust, it will be rewarded with fierce loyalty.

We've all heard the parable of the shoe manufacturer that sends two people to Africa to study the prospects for expanding its business. The two travelled together and observed similar things. After a few days, the first sent back a telegram saying, "Situation hopeless. Stop. No one wears shoes." The other wrote back triumphantly, "Glorious opportunity. Stop."

Nigeria is a huge potential market for oral care but less than 10% of Nigerians use any form of toothpaste. Great possibilities for brand-led market growth, but at Unilever we had to develop the habit of oral care. So we equipped the local dental surgeries, we arranged for free check-ups, we provided low cost brushes and paste; we made the local dentists very popular. And it's a win, win, win – the community was looked after, health was improved, and we had a business which was profitable to us.

What I'm suggesting with these simple examples is that being successful in Africa requires an entrepreneurial attitude and a willingness to help create the market and infrastructure around it, not just enter it. An understanding that operating in Africa may entail investment in the wider environment, such as in the supply chain, distribution channels and in the workforce, in terms of training and health care. Such investments not only enable business, they also help society as a whole.

There is big business to be done in Africa − and the key to success lies, as ever, in knowing the market and the consumers.

So Unilever in Ghana sold Knorr stock cubes in a vast range of flavours from prawn to Dawadawa fruit extract. But a few hundred miles away in Nigeria, people wanted beef stock cubes and little else − and want them so much that they bought over 2 billion of them in 2004 alone!

Having identified special nutritional needs we developed an iodised salt product and vitamin reinforced biscuits. Using local SMEs we made these available at affordable prices and also with strong support and involvement of UNICEF. In Ghana in just three years 50% of the market converted to iodised salt.

Unilever has 1000 managers in Sub-Saharan Africa and well over 90% of them are African. So it is an African business run for and by Africans yet able to draw on Unilever's global know how and technology.

And just as local needs differ, so did the way Unilever sold its products. In markets where people have comparatively little disposable income, the efficient response is to sell small packs of the product that people can afford, often on a daily basis. So an important part of the growth potential that we saw in the African market came from retailing small packs that sell for the equivalent of 10 US cents each or less. Which had implications for everything we did throughout our supply chain − including product design, manufacturing, packaging, distribution, transport and branding.

Having emphasised the importance of understanding the local market, a word of reassurance: Africa is not a different planet. African consumer markets share many of the characteristics we see anywhere else in the world: consumers make decisions based on a traditional mix of price, quality and availability.

Let’s take some examples from other companies and sectors.

Similar to Unilever, Nestle has been building a commercial and manufacturing presence in Africa since the 19^{th} century. They continue to invest heavily in the continent and in 2004 their business generated CHF 2.4 billion in sales. The secret of their success? No secret really: a strategy that emphasises long term business development over short-term returns, products adapted to local culture and taste and a prominent role in the community that extends from HIV prevention to improving labour standards in cocoa farming.

Mobile phones- a classic example of technology leapfrogging. There are more people using mobile phones across the continent than fixed line phones, thanks to the dismal state of most fixed line networks. Africa has only 2% of global telephone lines. A terrific opportunity for a mobile phone operator, as Vodafone’s recent investment in South Africa attests.

Taking advantage of this opportunity, however, has required some innovative business practices adapted to local consumer behaviour. In developed markets, mobile phones have traditional been a complement to fixed line telephones, an additional device that allows us to extend an existing behaviour beyond the home or office. In Africa, where poor infrastructure and prohibitive costs have kept fixed lines phones beyond the reach of most consumers, mobile phones have created a new behaviour and market.

Most of us pay for our mobile phones through monthly service plans. But in countries without well functioning postal networks and systems to check consumer credit, this is not a viable option. So most mobile operators sell ‘pay as you go’ cards, often offering as little as $2 of airtime.

Vodacom, the South African mobile operator, took this one step further by creating phone shops in disadvantaged communities, where consumers can make cheap phone calls from mobile phones. Often housed in modified shipping containers, these phone shops operate as franchises, thereby creating employment and entrepreneurial opportunity.

Vodacom developed this franchise programme to meet a government mandate to improve telecommunications services to poor communities and it is an example of initiatives that are both good for business and the community. For Vodacom, it’s about building its brand and developing a new distribution channel. For the community, it’s about job creation and having access to a vital service that allows individuals to manage their lives and businesses to operate more efficiently.

What about the brewing industry?

SABMiller has become a thriving global company from an African base. Africa has provided it with real and tangible business opportunities and the company has consistently delivered profit growth in Africa. Even in its worst years it has reported 5% earnings growth in Africa and it is currently looking at an average growth rate of 17%.

And talk about the strength of brands- did you know that of the top ten Guinness markets for Diageo, four are in Africa: Nigeria, Ghana, Cameroon and Kenya. Africans drink more than one-third of all Guinness in the world – more than the Irish!

And look at what the Chinese are doing in Africa. Offering everything from cheap home electronics for consumers to football stadiums for governments, China has "discovered" the African market. Although China's immediate interest is oil to fuel its burgeoning economy, its presence in other sectors, such as railways, mining, pharmaceutics and construction, is growing.

In 2004, China's total exports to Africa were nearly $14bn, up 36% over the previous year while imports rose 81% to about $16bn. China increased its investment in Africa by 64% in 2004, with nearly 80 new Chinese funded companies establishing operations on the continent. More than 700 Chinese firms now operate in China, in what many see as a coordinated, strategic move to secure control of key assets for the future.

And where China goes, India will follow, as evidenced by substantial new Indian investment in Africa. Most recently Mittal Steel and the TATA Group.

So the opportunities are there for those with the ability to see beyond the conventional image of Africa. But what can we as business leaders do to encourage more investment in Africa?

The Commission for Africa report called for a sea change in the way the business community engages in the development process in Africa. One such way is through the Investment Climate Facility (ICF) for Africa, a unique public-private partnership funded by companies and donors to be launched in 2006. It is the combined response of the international community and Africa, and will work closely with such organisations as NEPAD, and the African Union.

The ICF offers business an opportunity to drive the development agenda and contribute to the global campaign to eradicate poverty, while at the same time lowering the cost of doing business in Africa and creating room for new business development. The ICF aims to facilitate the removal of real and perceived obstacles to doing business in Africa, by bringing about more business friendly policies, laws and regulations across Africa, and promoting a more effective dialogue on investment climate reform between governments and the business community. The ICF will also work towards improving Africa's image as an attractive investment destination.

Eight areas have been identified as priority:

- Property rights including intellectual property and contract enforcement
- Business registration and licensing
- Taxation and customs
- Financial markets
- Infrastructure facilitation

- Labour markets
- Competition
- Corruption and crime

All areas that today impede business operations across the continent. Let me give you some practical examples that illustrate the potential impact of reform.

Uganda has a successful pilot programme in Entebbe focused on streamlining business licensing. As a result, the time that Ugandan entrepreneurs need to register a business fell from 2 days to just 30 minutes. An estimated four times as many businesses registered in Entebbe the year after the pilot. Maybe we need a bit of that in the UK!

In Mozambique a customs reform project reduced the amount of time required to clear goods 40 fold. This resulted in a 175% increase in revenue for Mozambique's government.

Good for business, governments and ultimately the people of Africa.

Importantly the ICF will not finance commercial ventures or hard infrastructure. No projects that are to the benefit of one particular company or small group of companies may be funded by the ICF. All projects will be for the benefit of the business community as a whole.

It will be an independent trust, with strong African representation on its board of trustees and will be managed according to business principles. Funding of US$550 million is being sought from both the private and public sectors for a seven-year programme. $500m will be provided by sovereign and international institutions and $50m by corporates. It will be run on private sector lines. The gearing is heavily in favour of the private corporate sector and consequently there is a heavy onus on corporates to show that they are prepared to invest in improving the business climate.

For those who remain sceptical about Africa, not to say deeply cynical, and see only corrupt politicians, incompetent administrators and unskilled workers, let me give you three wholly selfish and self-centred reasons why you should care and act.

Africa is the epicentre of a clash of religious beliefs: Islam and Christianity. Two communities that lived peacefully together for many centuries are in danger of slipping into mutual hatred and killing. Business needs to be a force for healing not horror, through engagement and investment, otherwise the ensuing chaos will eventually engulf our prosperous ghettos.

Second, migration can unbalance societies and undermine security. Migration is most effectively dealt with at source, by helping to ensure there is opportunity and hope, bread and jobs, not hunger and guns. The over 350m people in sub-Saharan Africa that live on $1 a day are right to look at our prosperity with envy and growing resentment.

And then there is oil, the commodity on which our lives and lifestyle most depend. Most oil resources are concentrated in areas of greatest unrest and volatility. Africa is likely to be the most important source of new oil. We have a vested interest in helping to create a secure and stable environment through the growth and spread of prosperity in this oil-rich region.

Put simply, if we want to protect our own prosperity we had better be part of the attack on poverty in Africa - poverty of resource, hope and opportunity.

A recent report from the UNDP suggests that “unless there is a change of gear in human development, almost all of the Millennium Development goals will be missed by most countries . . . some of them by epic margins.” On current trends, the world will achieve a two-thirds reduction in child deaths only by 2045, 30 years later than called for in the MDGs. That would mean an additional “4.4 million child deaths in 2015”. This is about the population of the island of Ireland.

If we are to make any progress in reversing these trends, business must engage. The ambitions for Africa cannot be achieved without widespread business partnership. We must be an active part of the communities where our consumers live. We must contribute to the wider society on whose goodwill we depend. And this is just not some ‘feel good’ argument about Corporate Social Responsibility. The potential dividends for businesses which are bold and forward-thinking are huge.

The Commission declaration says “we.. find the conditions of the lives of the majority of Africans to be intolerable and an affront to the dignity of mankind.” At this moment Business cannot stand aloof. When trust in Business and its leadership is very low, we must not reinforce the perceptions of greed and short termism. The citizens of Africa expect Business, which depends on them as consumers, to play its part in their communities. They and history will judge us harshly if we do not build on the promises of 2005 and drive real change in 2006 and beyond.

I believe our generation will be judged on whether they positively contribute to resolving the two great issues of our day – Africa and climate change. I do not want to be recorded as “went missing”. I accept that I have a personal responsibility. What role do you want to play?

Thank you.

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