

REPORT

DE BEERS DIAMOND DIALOGUE

The Park Hyatt, 1201 24th Street NW, Washington, DC

Tuesday, December 9, 2008

12.00pm to 2.30pm

The Role of the Private Sector in Promoting Good Governance as a Driver for Economic Growth in Africa

Moderator: **The Honourable Jim Kolbe**
Senior Transatlantic Fellow, The German Marshall Fund of the
United States.

1 Introduction

The *De Beers Diamond Dialogues* are a series of low-key roundtable on issues relating to natural resource production and economic development in Africa that are of mutual concern to industry, NGOs and public policy makers. The topic for discussion at the *US Diamond Dialogue* was the role of the private sector in promoting good governance as a driver of economic growth in Africa.

The purpose of the *US Diamond Dialogue* was to (i) highlight examples of the way in which the private sector promotes good governance, including successes and challenges; and (ii) put forward practical recommendations for the way in which the private sector, working in partnership with local and international civil society, African governments, and US and international agencies, can better achieve this goal.

The *US Diamond Dialogue* was moderated by the Honorable Jim Kolbe. Representatives from the private sector, civil society, the US Government and African Union made brief remarks at the start of the dialogue. These remarks were then followed by a plenary discussion.

2 Summaries of Sector Remarks

2.1 *Stephen Lussier, Executive Director, De Beers Group*

The private sector has increasingly embraced an active role in development. Governance, specifically, is a new area of engagement for the private sector, but a crucial one because it affects business interests through its impact on political stability. However, it is also important to note that the private sector does not have as much

influence on governments in Africa as is sometimes perceived. Therefore, there is the need for fresh insights and ideas on how industry can help foster better governance. Some suggestions for businesses in achieving this objective include:

- taking partnerships with governments seriously, so that government understands what it takes to make the business work and business understands the needs and aspirations of the citizens that governments represent;
- helping governments build much needed capacity – for example, by seconding staff to the public sector or providing advice and expertise on a project basis in specialist areas; and
- working with government and civil society in a tripartite approach to address some of the most intractable issues of public concern. A prime example is the Kimberley Process certification scheme to prevent illicit diamonds from entering the legitimate market.

2.2 Nancy Boswell, President and CEO, Transparency International, US

The link between good governance and economic growth is well established. For instance, studies have shown that effective control of corruption can result in a four-fold increase in income per capita. The United States' Foreign Corrupt Practices Act (FCPA) is a powerful deterrent against corruption, but other developed countries do not have similarly strong pieces of legislation.

The fallout from bad governance can be wide and deep, for example:

- Corruption is expensive. There is an estimated one trillion dollars in tainted procurement globally each year
- Private sector suffers as a whole because the unethical companies are the ones that get the spoils. This is most prevalent in resource-rich countries
- Corruption compromises national security

Businesses must:

- be vocal about their activities;
- get their houses in order through internal programs for their employees on legal and ethical policies to counteract corruption – for example, an anti-bribery policy;
- extend best practice principles to their joint venture and supply chain partners;
- work in collective action with international organisations, such as UN Global Compact, World Economic Forum and UN institutions, and civil society on initiatives aimed at promoting good governance.

In addition, companies in the US and OECD countries must advocate for policies and legislation in these countries that would stem the source of practices and funds that breed corruption abroad.

2.3 Florie Liser, Assistant US Trade Representative, Africa

It is little wonder that countries at the bottom of governance indices are also the least developed and vice versa. The Africa Growth and Opportunities Act (AGOA), the Millennium Challenge Corporation (MCC) and similar regimes are useful mechanisms to reward good countries. Countries that are currently ineligible to participate in these initiatives are working hard to strengthen the areas to achieve eligibility. Nevertheless, it is important to note that no outsider can have as much impact on governance in Africa countries as Africans themselves.

Business can contribute to achieving good governance by:

- helping to boost local business environment by working with government to cut through red tape, minimize corruption and spur entrepreneurialism;
- helping government develop practical international and intra national trade strategies. This should be done in partnership with civil society in order to remove any suspicion, which may become an obstacle to implementation; and
- the US private sector should invest in the countries doing the right things and should be good examples in their dealings with such countries.

2.4 H.E. Amina S. Ali, Ambassador to the United States, Africa Union

African governments at both national and regional levels are increasingly embracing the private sector as important contributors to broader socio-economic development, especially poverty reduction through investment and job creation. The African Union (AU), at its Assembly of Heads of State and Governments held in Abuja, Nigeria in January 2005, institutionalized the Private Sector Forum as part of the AU structures to be held annually and serve as an interface between the AU policy makers and the private sector. One of the major objectives of this forum is to facilitate and mobilize private sector efforts in support of the implementation of the AU strategic plan and New Partnership for Africa's Development (NEPAD).

The AU sees good governance as essential for the efficient management of nations' resources and affairs in a way that it is participatory, equitable, accountable, transparent and responsive to people's needs. Recognizing the urgent need to improve governance, the AU itself has instituted initiatives such as the African Peer Review Mechanism (APRM) and NEPAD. In addition, many African countries have made strides in creating the right business environment, but have not seen a commensurate increase in investments.

With the current level of commitment from the African Union Commission as well as African governments, the African private sector needs to take serious its social responsibility as an active player in the economic development of Africa.

Business must :

- help finance the AU's Strategic Plan and NEPAD;

- share relevant business information and experience with governments and other businesses; and
- increase investments in countries that make clear progress in enhancing the environment for business to thrive.

3 Plenary Discussion

The subsequent discussion also brought out some relevant insights:

- US companies face competitive disadvantages on the ground against companies from other countries that do not necessarily have to abide by the same stringent standards to deter corrupt practices. It would therefore be helpful for developed country governments to work towards standardized guidelines for compliance by their firms operating abroad.
- The Equator Principles is one area in which the private sector has played a leading role in ensuring transparency and better governance, though this was with significant pressure from NGO's. But, overall, there have been significant changes in private sector practices
- The relative ease of access to information means governments are able to find information about best practices in a business and therefore demand those standards of the private sector investing in their countries
- There is a need to create more incentives for governments to participate in better governance initiatives.
- In its dealings with government, the private sector should expand beyond the executive and engage legislatures and other increasingly important actors in issues relating to governance. Engaging the legislature is especially vital in order to enable it to fulfil its oversight duties. Besides, it is the legislature that tends to set budgets, so a deeper knowledge of the context of the nation's natural resources and other sources of revenue helps drive better fiscal policies
- It is important to expand the notion of governance to cover all aspects of the legitimacy of a government's relationship with its people; therefore, issues such as education policy become elements of good governance
- The private sector, especially those involved in natural resources, should work to build municipal capacity so that those entities and institutions can put pressure on their central governments to ensure that the resources are well distributed and go to benefit the local communities
- Through annual reports and other forms of public communication, private sector entities need to be explicit in what they are achieving towards better governance. This will help remove some of the suspicion from civil society and also enable greater tripartite coordination

- Due to the long term nature of their operations natural resource companies have more responsibilities and opportunities to make a lasting contributions to the local communities and countries in which they operate.
- One should not assume that citizens demand accountability from their government. In some countries, people have become accustomed to graft; therefore, part of the effort of fostering better governance should go into educating citizens of the consequences thereof, and building that demand.
- Hiring local citizens and training them for technical and managerial positions helps give the youth positive, tangible role models in industry as an alternative to the culture of government work as the most profitable business in town.
- Corruption can be an effect of poverty, but many times, it is also the cause.

4 Summary of Recommendations

Five main recommendations were emphasized as concrete steps for the role of the private sector in promoting good governance as a driver for economic growth:

1. The private sector should direct investment to the countries that are working hard to promote good governance.
2. Engagement with government should expand beyond the executive to the legislative branch and other emerging actors in the governance framework.
3. The private sector should lend its knowledge and skills to governments that are making good faith efforts to improve governance but lack the requisite capacity.
4. Governments, especially those of OECD countries, should work towards common standards to guide the actions of their companies that invest and operate in African countries.
5. Initiatives aimed at better governance are most effective and sustainable when accomplished in tripartite fashion in partnership with international civil society and governments.