Business and Development:

Doing Responsible Business in the Southern Africa Region

FINAL REPORT

First Public Dialogue in the series: "15 Years of Democracy: A Public Dialogue Series on South Africa, Africa, Regional Integration and Development"

Thursday, 25 November 2010
Vulindlela Academy
Development Bank of Southern Africa
Midrand
South Africa

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1. Background and Introduction

With the support of the Flemish Government (Belgium EU), the Southern Africa Trust is convening a series of public dialogues on "Regional Integration and Development", especially in the context of 15 Years of Democracy in South Africa. Between November 2010 and September 2011, the Trust will have organised four (4) public dialogues in collaboration with other relevant partners. These dialogues will focus on the following main topics:-

- Business and development
- Cross border migration and social protection
- Food security in Southern Africa
- Governance, development and regional integration

The overall aim of these dialogues is to examine the challenges associated with making regional integration work for the poor and the specific role of South Africa in this noble endeavour. Accordingly, these dialogues are designed specifically to:-

- Bring researchers, practitioners, stakeholders, and policymakers together in public platforms on regional integration and poverty
- Focus on regional integration in specific thematic areas that are relevant to particular sectors;
- Generate mass media coverage of the specific issues raised in the discussions in order to widen and deepen dialogue to involve the general public;
- Build confidence amongst stakeholders in articulating views on regional integration; and
- Establish an informal non state actors' network on regional integration and poverty.

The first public dialogue of the series was held on November 25, 2010 in Midrand and jointly hosted by the Southern Africa Trust (the Trust) and the Development Bank of Southern Africa (DBSA) on : "Business and development: Doing responsible business in Southern Africa". The objective of the dialogue was to deepen the understanding between business and development and engage the stakeholders including researchers, practitioners, policy makers and the media on responsible business practices.

It is evident that in spite of all the efforts by governments, the level of poverty in Southern Africa remains high and is exacerbated by new challenges such as external shocks, natural disasters, recurring problems such as food insecurity and youth violence. This is because the model of development has not taken the social dimension of growth into consideration and has failed to tap the potential at the base of the pyramid.

There is need, therefore, to re-engineer the development plans and policies at national and regional levels to ensure that there is an effective and inclusive approach to economic growth and development. This can only be done in a comprehensive manner involving all stakeholders, especially the private sector as there is now widespread recognition that government alone cannot deal with the problem of poverty or for that matter achieve the Millennium Development Goals (MDGs). It has neither the resources nor the capacity to deal with such a complex issue. It has to enlist the support of other stakeholders, especially businesses which have the potential to create positive impacts at several levels for people living in poverty. At the same time governments need to provide the enabling environment to win the confidence of business and to make the region an attractive destination for investments.

As a key player, business can act responsibly by fulfilling their obligations in terms of national and international laws including specific bilateral agreements. But, they can also, within their core business activities, contribute to pro-poor development by creating opportunities for the poor to change their livelihoods in a sustainable manner. They can, with their resources and knowledge, find new and creative ways to capitalize on innovations, products and services to benefit the poor.

A number of case studies demonstrate that businesses like Unilever, Coca Cola, SABMiller and Vodacom have been successful in uplifting the livelihood of poor communities and contributing to sustainable development while at the same time leveraging financial gains.

Increasingly, the private sector is recognizing that working with and investing in pro-poor business models can bring about thriving markets. Companies around the world have introduced numerous profitable innovations to provide poor communities with access to health care, clean water, sanitation, communication technology financial services. Likewise, new public–private partnerships and initiatives seek to improve access to education, empower women and eliminate gender inequalities.

All these are positive and innovative developments that can be included in the framework of regional integration to make markets work for pro-poor growth development and mitigate marginalization and deprivation of communities. It is important, therefore, to have a platform which allows state and non state actors, in particular the private sector, to discuss openly how to make regional integration work for the poor and how South African business can play a leading role in this endeavor.

The Midrand Dialogue of 25th November 2010 paved the way for the establishment of such a platform. It was attended by some thirty participants drawn from the private sector, civil society organizations, business organizations, research organizations, academics and the media. The issues presented and discussed covered the following:-

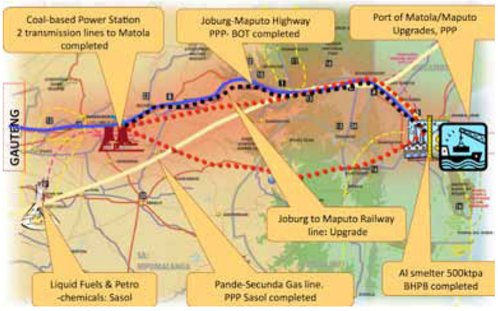
- Current concepts of regional integration in SADC region
- Business climate in the SADC region
- Role of business in sustainable development and poverty reduction in the SADC region
- Relevance of tripartite partnerships for the success of responsible business practices
- Way forward: moving together for a brighter future in southern Africa

Angelita Kiwekete - GLAFAD

This Discussion Paper is financed by the Flemish Government.

The meeting was opened by Angelita Kiwekete, Chief Executive Officer of the Global Action for Africa's Development (GLAFAD). In her introductory remarks, she indicated that this dialogue was supported by the Flemish Government and jointly organized by Southern Africa Trust and the Development Bank of Southern Africa (DBSA). She then called on the DBSA, the Southern Africa Trust and the Representative of the Flemish government respectively to address the gathering.

The Maputo Corridor



Source: Mintek 2006.

In his welcoming remarks, Mr David Jarvis (Division Executive of the Development Bank of Southern Africa, DBSA) highlighted the significance of this dialogue in shaping the architecture of regional integration. He informed the meeting that the DBSA views Southern Africa as a strategic region for its intervention. From 2009, DBSA's international lending has increased by 25% to reach over R5 billion. He pointed out that fortunately the global economic crisis did not hit the SADC region as hard as expected. 2008 and 2009 showed economic growth of about 2% for each year in the region. However, this did not lead to a reduction of poverty in southern Africa.

Obviously, it is clear that economic growth alone, if not combined with some elements of social benefits, cannot lead to poverty reduction. Likewise, there is need for improvements to business models that result in poverty reduction by enhancing positive effects on society and mitigating negative effects.

David Jarvis, DBSA

In his remarks, Neville Gabriel, the Executive Director of the Southern Africa Trust, asserted that business has an important role to play in combating poverty, promoting sustainable development and achieving positive social impact. In that regard, he called on business to be inclusive and responsible by incorporating the poor in their value chain rather than just being satisfied with corporate philanthropic giving.

The Southern Africa Trust, he said, along with several partners, through the Business for Development Pathfinder, aims to chart a path towards doing "good business" in the region. However business requires support in terms of an enabling environment and related mechanisms to make this shift happen. In this regard, he pointed out the role of government and civil society in bringing about this shift. Government, he said, has to make informed decisions based on accurate findings. Unfortunately, very often decisions are made independent of research and appropriate consultations. To a large extent, this explains failure of implementation. There is need, therefore, for the involvement of all stakeholders, including the private sector, in re-

Neville Gabriel, Southern Africa Trust engineering the models of development in Southern Africa to make them more responsive to the needs of the population. However, this will not be possible if there is no change of mindset amongst decision makers. The Trust, he said has developed new mechanisms like the poverty observatories, stakeholders' platforms and the B4D Pathfinder for engagement between policymaking institutions and voices of the poor for citizen ownership and participation in a pro-poor regional agenda.

Dr Leonardo Simao, CEO of the Joaquim Chissano Foundation

The development of an institutional environment for structured engagement between state and non-state actors at regional and national levels combined with the organizational development of key regional civil society apex bodies and focused interventions for pro-poor policy development will, no doubt, contribute to and support deeper and wider engagement of the voices of poor people in policy dialogue to overcome poverty.

David Maenaut, Counsellor at the Belgian Embassy, representing the Flemish Government, highlighted the importance of regionalization as a vehicle for growth and development. From the experience of the Flemish Government, it is evident that regionalization can contribute to correcting economic imbalances, as well as contributing towards pro-poor benefits. He also indicated the challenges and constraints, as well as the advantages and benefits of regionalisation, especially in southern Africa, and how the lessons learnt elsewhere, especially in the EU, can be shared and adapted to the region.

David Maenault, Flemish Government

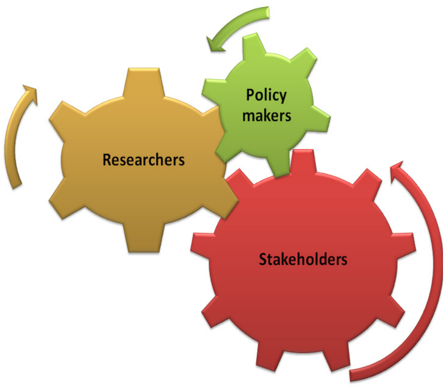
He stated that the process of regional integration in Europe took a long time and one of the steps the EU took to spread the benefits of integration was the creation of regional development funds. These funds are critical in maintaining growth and development in the European Union and in creating job opportunities at national level.

Perhaps some useful lessons can be drawn from the EU experience as it is clear that the strength of any regional grouping depends on the individual strength of its members. The strength of SADC would definitely be enhanced if there was an equitable distribution of regional benefits. This combined with deliberate efforts to improve political and economic governance would lead to sustainable economic growth and development as well as increased cross border trade and investments in the region. At times political decisions should prevail to move the process of regional integration further as at the technical levels decisions are based purely on economic gains.

2. Regional Integration in SADC

The key-note statement on regional integration was delivered by Leonardo Simao, the Chief Executive Director of the Joaquim Chissano Foundation and former Minister of Foreign Affairs and Cooperation of Mozambique. He focused on the status of regional integration within SADC, current challenges and opportunities, describing regional integration as a complex process which needs time to materialize. SADC, he said, started as a political organization which transformed itself into development community in 1992. Since then, the organization has tried to respond to regional and global challenges by restructuring itself and adapting its programme of action for the benefit of the people of the region. He recalled how after several months of discussions and consultations, the SADC Heads of State and Government adopted the report on the restructuring of SADC in March 2001 which was supposed to make SADC more responsive to the needs of its member States.

However, in spite of all the efforts made, the greatest challenge for SADC remains how to make regional integration work for the poor and how to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance, and durable peace and security, enabling the region to emerge as a competitive and effective player in international relations and the world economy. In that regard, he pointed out that after 30 years of existence, SADC is still struggling with the issue of poverty. Some 45% of its total population of 240 million still live on less than 2 US$ per day. Yet SADC is considered to be the richest sub-region in Africa producing significant quantities of major metals and minerals. It contributes about 53% of vanadium, 49% of platinum, 40% of chromite, 36% of gold, 50.1% of diamonds and 20% of cobalt to the world production.



Linkages amongst stakeholders, policy makers and researchers

He indicated that with the recent increase in the price of minerals and an increase in demand for African minerals, especially from the emerging countries, some improvements in economic growth had been registered in the SADC region. But it would be naïve to believe that economic growth automatically translates into inclusive social development and poverty eradication. The spreading of the benefits of growth depends on a number of factors including its sectoral and geographic pattern, job creation and value creation potential as well as government policy. Government intervention is crucial as a region moves from shallow to deeper integration to (i) ensure that the gains of trade and economic growth are distributed across the society rather than captured by a few within the region (ii) protect the vulnerable and the exposed groups as a result of reforms including trade liberalization and (iii) create the enabling environment for the creation of new job opportunities, especially by the private sector.

He indicated that, in fact, the Regional Indicative Strategic Development Plan of SADC (RISDP), singles out poverty eradication as the overarching priority of regional integration in SADC. What is required in earnest is the implementation of the RISDP supported by appropriate subsidiary frameworks. But again SADC needs to prioritize its interventions. With its resource and capacity constraints, it has first to concentrate on the drivers of regional integration and identify champions who can push its regional priorities forward. The usual mistake regional bodies make is to consider everything as a priority. This is not possible in reality.

He pointed out that, in its movement from shallow to deeper integration, SADC has not involved the participation of the non state actors in the process which makes implementation of agreed decisions difficult. Even the SADC National Committees, established to promote an inclusive approach to regional integration at the national level, were not working. Nontheless, some progress has been made in terms of creating a wider economic space in the region and sustaining positive growth rate in general.

Economic growth does not automatically translate into inclusive social development and poverty eradication. Accordingly, governments need to assure a fair distribution of gains of trade and economic growth across the society, the protection of the vulnerable and the creation of the enabling environment for new opportunities for the private sector. The SADC Free Trade Area is the right step forward. But supply constraints as well as the physical and non physical barriers to regional trade have to be removed, such as the challenges associated with infrastructure, energy, lack of industrialization and product diversification and business climate. It is also important to avoid polarization given the uneven development in the region. Therefore, within the Free Trade Area, serious consideration has to be given to the industrialization of SADC on the basis of beneficiation and value addition, the development and expansion of existing industries through innovation and clustering, facilitation of investments, development of the small scale sector as well as informal cross border trade.

Focusing on cross border trade, Simao informed the meeting that he had the opportunity to personally witness the flurry of activities by the informal traders at the South Africa/Mozambique border. He was very impressed by the rapidity and efficiency of the cross border traders who had their own regional network and distribution system. In the informal markets, traders usually act as a one stop shop. They use cell phones to get the products they do not stock from the other traders so that they hold on to their clients. This, he said, demonstrates sound marketing techniques combined with efficient use of information technology and resource management and yet these people have not been to universities to learn economics.

> *"It must always be remembered that it is impossible to survive on an island of prosperity in the midst of a sea of poverty. Sooner or later the waves of poverty will make inroads into the island of prosperity.*
>
> *Likewise, regional integration cannot work if there is no equitable distribution of benefits and a sense of ownership by both state and non-state actors."*
>
> *Dr Leonardo Simao, 25 November 2010, Midrand*

They are just practitioners of economic theory. These are the people that should be listened to in framing the regional trade and investment policies. They can add value to the work of policy makers. But there is a need to create the space for them to participate in development. It is for this reason that SADC has to enlist the support of organizations like the Southern Africa Trust, which spend time and resources to make the voice of the common people heard in policy development, he said.

Integration, he indicated, has to be inclusive, though it is the prerogative of government to drive it. A top down integration approach usually lacks broad based ownership and the risks of slow and erratic implementation are high. On the other hand, although a bottom up integration approach may take longer to materialize, the foundation is much stronger and there is more likelihood of walking the talk. One of the key players in the bottom up approach is the private sector.

He pointed out that the distribution of income in SADC looks like a pyramid with a small peak of some 5% of the population earning some 50 US$ a day and a very broad base of approximately 70% earning less than 2 US$ a day. Those at the base of this pyramid have limited economic power and limited economic opportunity. But they represent a huge market potential with high propensity to consume.

In recent years, he said, business leaders, including the international development agencies, have become increasingly interested in new business models and strategies to engage those at the base of the pyramid. In this regard, he pointed out that while some companies see them as end consumers, others, more pro-active and strategic, see them as partners capable of being actively involved in their value chains as entrepreneurs, suppliers, distributors, franchisees, retailers or even sources of innovation. He welcomed the development of the B4D Pathfinder Project by the ''Trust'' which he said was innovative as it has incorporated the value chain concept at the base of the pyramid for sustainable development. He noted that this project focuses on inclusive business and anchors on a tripartite partnership between government, the private sector and civil society.

He emphasized that regional integration provides both opportunities and challenges and the basis for regional integration is the equitable distribution of benefits and a sense of ownership by both state and non-state actors. In that regard, he pointed out that it is up to member states to design the appropriate program of action that can lead to sustainable development. He expressed the hope that during the dialogue some of the issues he had raised would be discussed and implementation road maps would be proposed as a way forward. He also hoped that SADC will take advantage of the outcomes of such dialogues to formulate the appropriate policies for pro-poor development.

He concluded by saying that it must always be remembered that it is impossible to survive on an island of prosperity in the midst of a sea of poverty. Sooner or later the waves of poverty will make inroads into the island of prosperity. Likewise, regional integration cannot work if there is no equitable distribution of benefits and a sense of ownership by both state and non-state actors.

3. The business climate in the SADC region

The former Minister of Finance and Economic Development of Zimbabwe, Simba Makoni shared his views on the business climate in SADC. He stated that the pre-requisite for doing business in the region, is doing business successfully at the national level. Regional integration is predicated on national integration and coherence. The profile of national business sectors is the measure of the level or state of development of the country and region. Unfortunately, in most SADC countries it is observed that private sector development is still in its infancy.

Dr Simba Makoni, Makonsult

Simba Makoni pointed out that within the SADC region there is no mutual recognition of quality and standards. Some countries do not recognize national standards of neighbouring countries, but accept third country standards, e.g. Mozambique may not accept Malawi standards, but recognizes Malawian goods if they carry a SABS certificate. Trade is made difficult as transport standards vary from country to country. Moreover, rules of origin vary between regional (SADC/COMESA) and bilateral agreements and create confusion for both business and customs administration.

He also pointed out that transparent agreements, rules and regulations are critical for regional integration, especially for promoting intra-regional investment and trade. Equally important is the strict observance, enforcement and compliance with such agreements, rules and regulations. Accordingly, he indicated that regional business should be predicated on the following:-

- Working capital and trade finance which can influence level of capacity utilization, economies of scale and price competitiveness;
- Availability of affordable competitive utilities and services (e.g. energy, communications, transport and logistics);
- Efficient public services, - customs, immigration, clearing and forwarding;
- Efficient research and advisory services;
- Labour laws and unionization;
- competitive wage rates ;
- good governance to combat corruption; and
- fair competition

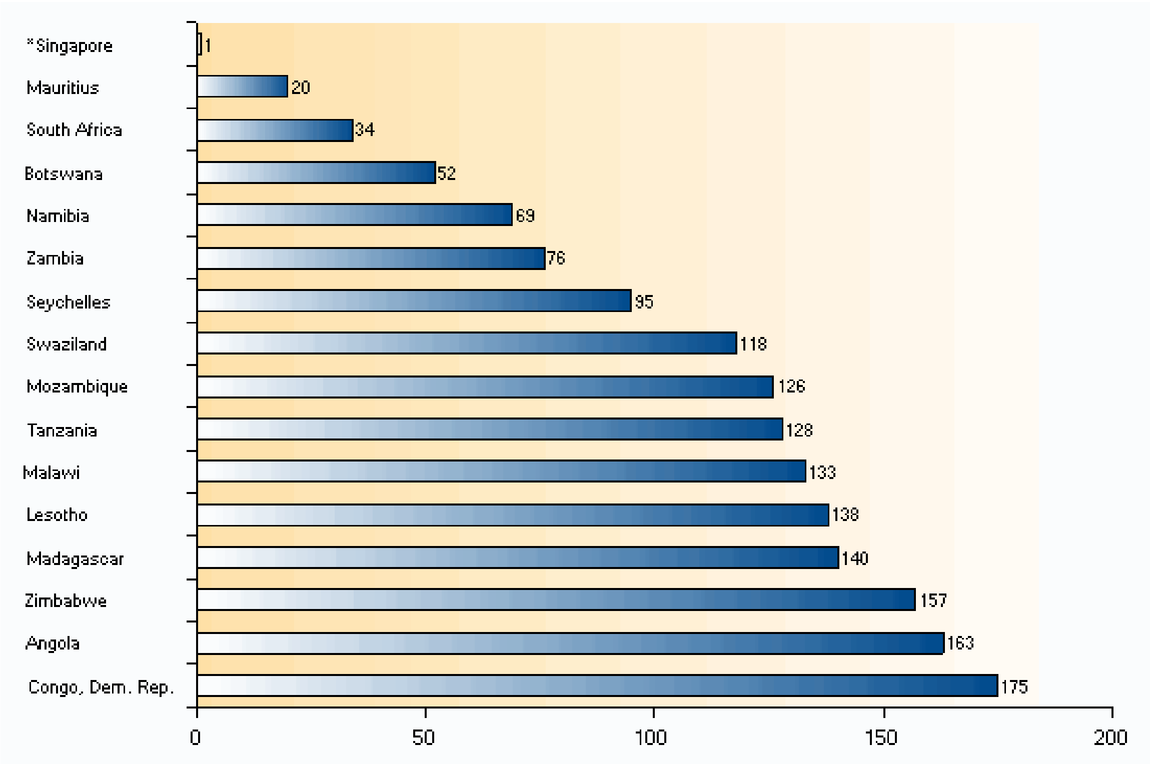
Finally, Simba Makoni indicated the results of the recently published "Doing Business" Report of the World Bank, which focuses on the business climate in more than 180 countries. He pointed out that, except for Mauritius, the costs of doing business in most SADC countries are prohibitive. Transportation remains one of the most constraining factors. There is need, therefore, to

> *"Wouldn't it be better to have one airplane with nine flags on it in the air rather the nine airplanes with one flag each on the ground?"*
>
> *Dr Simba Makoni, 25 November 2010, Midrand*

reduce the costs of doing business in SADC by the harmonization and rationalization of standards and to comply with agreed decisions taken to remove obstacles to free flow of goods and services.

He concluded by saying that, while there are a number of constraints affecting business in the region, the critical issue to be addressed is the creation of an enabling and predictable environment in mawhich business can plan ahead and take strategic decisions without fear of sudden reversal of changes in policies.

Southern African Development Community (SADC) - Aggregate rankings



Source: World Bank: June 2010

3.1. Discussion

During the discussions on the status of regional integration and doing business in the region, it was agreed that compliance and implementation remain the main challenges for SADC. It was pointed out that for meaningful investments to take place, a number of factors need to be addressed, the most critical being:

- Harmonization of standards, regulatory frameworks, policies.
- Contradiction in national and regional priorities.
- High level political commitment.
- Financing models for financing cross border transactions.

It was also pointed out that very often regional integration remains within the purview of state actors only with little engagement of non-state actors including the private sector. Given the limited capacity of the state to implement agreed decisions, protocols are not adequately domesticated and in many instances remain unimplemented. It was also observed that the SADC Secretariat has neither the capacity nor the authority to implement decisions.

After a deeper examination of the progress made in the SADC region with regard to the creation of a wider economic space and in deepening regional integration, the following emerged as a consensus among the participants:

- SADC needs to find ways to integrate the non state actors and the informal sector into decision making processes. Non state actors need to be strengthened to be part of the decision-making process.
- There is a general lack of governance and accountability throughout the region.
- A general lack of government capacity to implement protocols.
- A serious step to development can be achieved through the concept of inclusive business and responsible business that can target the opportunities at the base of the pyramid and to increase the purchasing power of the poor by including them in the value chain of business.
- Supply constraints need to be addressed as these are important factors that inhibit regional integration and intra-regional trade.
- SADC countries tend to be more satisfied with the idea of being part of a regional structure rather than implementing regional policies and standards. A shift of mindset is required.
- In depth knowledge on informal markets is missing as evidence based research is lacking.
- Very often, there is a tendency to replicate the European Union approach of regionalization without taking into consideration the dynamics of the SADC region. Research on new regional integration models is necessary.
- SADC needs an understanding of the socio-cultural factors affecting doing business in the region and learn from the experience of countries which have made significant progress in streamlining doing business procedures over the last few years.
- SADC's priorities should be refined to match its capacity to enable a better delivery.
- The SADC Secretariat should focus on what they can best do and avoid trying to get involved in too many activities.

It was strongly recommended to create a network of champions from government, business, civil society, academia and the informal sector to share knowledge and best practices on how to make the region a better place in which to live and do profitable business. Accordingly, a working group would be required to start the process.

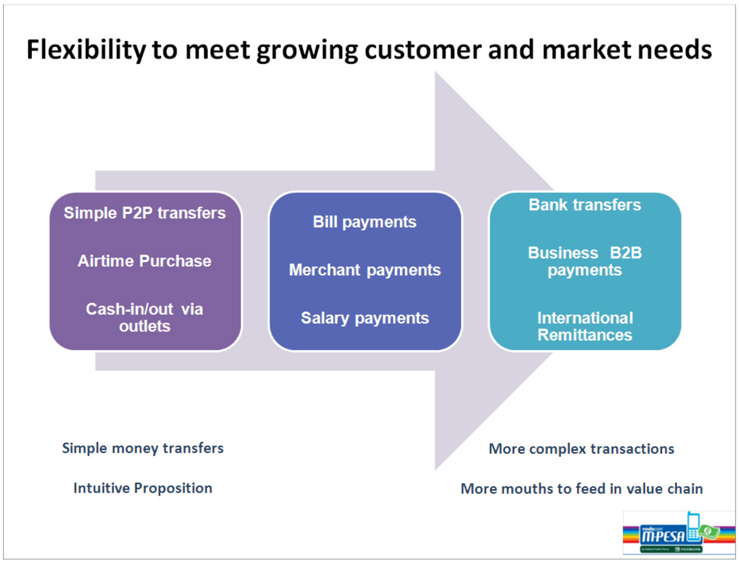
4. The role of business in sustainable development and poverty reduction

The chair, Matlotleng Matlou, Chief Executive Officer of the Africa Institute of South Africa (AI) introduced the panellists and pointed out that business should play an important role in poverty reduction. Already, a number of businesses are involved in Corporate Social Responsibility (CSR), but in the long run this is not sustainable. On the other hand, inclusive business practices seem to be more promising and initiatives like the B4D Pathfinder Project of the Southern Africa Trust need to be supported so that SADC can effectively make a dent in poverty and meet the objectives of the Millennium Development Goals. He then called on the panellists to share their experience on the role of business in poverty reduction.

Susie Lonie (Executive Head of Department, Vodacom Financial Services) introduced the concept of Vodacom's M-PESA mobile phone which enables people to transfer money without having a bank account. Having explained how the system works, she highlighted the importance of partnerships and seed funding from donor organizations to start such a venture. She pointed out that Vodacom would never have been able to start the project without funding from DFID.

Susie Lonie, Vodacom

The M-PESA project, which started in Kenya, demonstrates that inclusive business approaches can lead to company gains. It was pointed out that some 12 million people had already registered for M-PESA and there were some 10,000-12, 000 new customers per day.



Vodacom, 25 November 2011, Midrand

Some 12 billion Rand were transferred by the M-PESA mobile phone system. Susie Lonie recommended that it would be much easier to start this kind of project on a small level. Lastly she pointed out that differing country regulations make it difficult to simply duplicate the concept in other SADC countries. For instance, Vodacom had to partner with Nedbank to launch the M-PESA mobile phone system in South Africa, as the regulations of this country require a bank as partner in such ventures.

Prof. Wolfgang Thomas (Economics Department of the University of Stellenbosch, USB) highlighted the options for business using the Bottom of the Pyramid (BoP) approach. He explained that including business into development concepts firstly need to take into account corporate interest, which is profitability. Previous models of Corporate Social Responsibility (CSR) were not leading to significant changes regarding development and poverty reduction as they are seen as social giving which are not related to a company's core business and the related Return on Investment.

Prof. Wolfgang Thomas (Economics Department of the University of Stellenbosch, USB)

The concept of BoP is about expanding markets, but cannot be implemented by selling the same product to the poor: the product needs to be adapted to their needs and must also be affordable.

The approach of including the poor into the value chain of the companies can be undertaken within and across countries and clearly regional integration can facilitate that process. While there are some successful experiences of inclusive business practices which target at the creation of gainful employment opportunities at the BoP, there are also cases where companies continue to use their traditional methods of sourcing and marketing of goods and services. For instance, some South African businesses, especially in the food retail sector, operating in other SADC countries, import their products, equipment and employ South African staff rather than sourcing their requirements locally. To foster regional integration and inclusivity these companies should use the local sources of supplies. However, local products need to meet the required norms and standards.

> *"Is a retailer a new colonialist or a new partner in the development of a country and its co-supply chain?"*
>
> *Prof. Wolfgang Thomas, 25 November 2010, Midrand*

The above mind-shift cannot be achieved through SADC Protocols, but with the encouragement of the private sector to accept the idea of that they can make a significant difference in the society they operate by proving opportunities for sustainable growth and development. Competition between companies is also an important stimulus for inclusive business practices. In this context, it was pointed out that organized business, the academic and the research community, including the media, still do not significantly motivate companies to think out of the box and implement inclusive business concepts.

Kojo Parris, SPESA

There is a need to intensify research and motivate both the public and private sectors to base their decision- making process on the basis of research studies. Otherwise, there will be no

This Discussion Paper is financed by the Flemish Government.

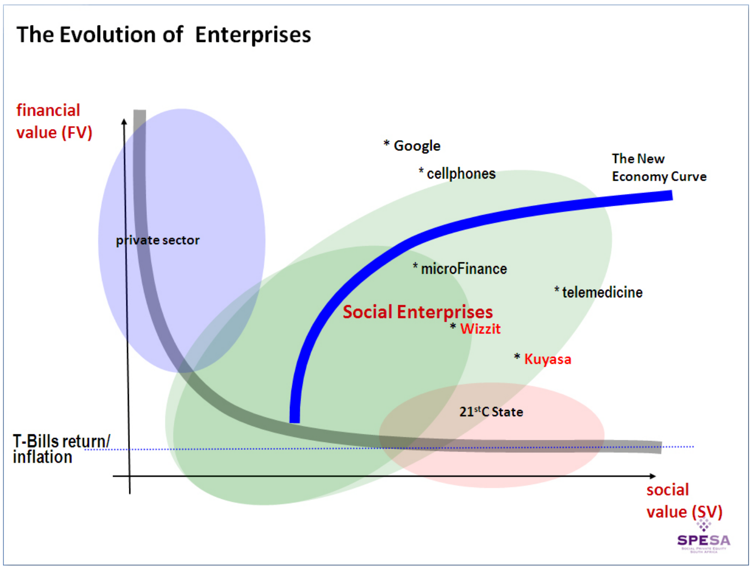
change of mindset which is so critical in this competitive global world .

Kojo Parris (Chief Executive Officer of the Social Private Equity South Africa, SPESA) introduced the concept of social enterprises. Up to now, in many countries and regions, the private sector is seen as the vehicle to create financial value, while government and civil society are responsible to create social value. However, in most developing countries, social capital is lacking.

He stated that the private sector needs to complement (not displace) the state and build up social capital and not only financial capital. The social capital which makes only a part of the capital gained by companies will be used e.g. in the field of health, education, public transport, low cost housing etc. Successful models have been proven by Whizzit, Google, in the fields of mobile phones, telemedicine and micro-finance.

In fact Google is highly profitable because of being active in the social space (helping people to connect, research, etc.). It is assessed positively by the consumers, e.g. compared to petrol producers. He concluded by suggesting that companies to receive licenses, concessions and permits need to prove that part of their business is directed to social purposes and creates social capital.

Markets will often not address the needs of the hardest to reach, poorest consumers, especially those with special needs, because there is no profit to be made from serving these consumers. Social enterprise is, therefore, essential for the establishment of a more creative capitalism that can adapt business and the market to better address unmet social needs. However, it is also essential that deliberate steps are taken to invest in the development of social capital.



SPESA concept of Social Entrepreneurship - Kojo Parris, Midrand, 25 November 2010

4.1. Discussion

In the discussion that ensued, it was pointed out that new ideas require seed funding otherwise it would be difficult for these ideas to mature into concrete projects. This is because of uncertainty and risk level associated with innovative projects. The M-PESA project was successful because of seed funding from DFID. However, it was also pointed out that funding should not interfere with free market competition among companies. Companies should be given equal chances to compete for donor funding on a transparent tendering process. In that regard, the participants called on the government, the private sector and the funders to provide appropriate support for the implementation of new ideas and for the creation of social capital. It was pointed out that social capital and economic performances are mutually interdependent.

With regard to M-PESA, it was pointed out that Vodacom did monitor the impact of the project on the poor. It was not just a matter of transferring money, but also creating employment opportunities and creating an environment of security for money transfer which was done earlier by bus drivers and other persons and the risks of money not reaching the final destination was high. Vodacom agreed to share more information on its experience from the M-PESA Project, especially on its impact. It was pointed out that the Barometer is being developed in the framework of the B4D Pathfinder of the Southern Africa Trust can be used to track progress of similar projects.

With regard to inclusive business, it was agreed that the potential in the SADC region is enormous. But there is need to involve the broad research community including universities to undertake further research on how to make the private sector more responsive to inclusive business as businesses seem to be locked into the idea of Corporate Social Responsibility as the only way of helping the community. Obviously, it was pointed out that such a mindset will not lead to sustainable development and poverty reduction. The B4D Pathfinder was considered a useful innovative approach to unlock the potential at the BoP as it provides business with the opportunity to contribute to sustainable development, while at the same time providing them with a wider profitable market. But for this to happen, there has to be the enabling environment with a conducive, predictable business climate combined with cost reduction measures and the empowerment of the poor through skills transfer and basic notion of business. Very often, especially at the initial stage of inclusive business practices, the income received by the poor by their inclusion in the value chain of business is not properly utilized and, they are not able to sustain productive livelihoods.

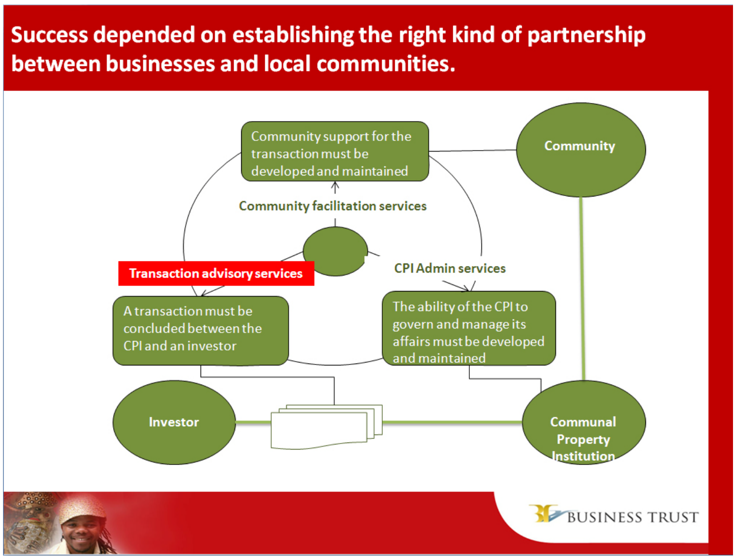
In conclusion, it was agreed that business must be properly engaged at the right levels so that they can meaningfully participate in sustainable development. The way to go about it is direct engagement with business captains. This is why it is important to have a platform for business to interact with other stakeholders including governments and regional bodies like SADC. It was also agreed that emerging projects, especially those that focus on poverty reduction, should be supported. Hence, it is critical to have funding for such projects. With regard to social capital, it was observed that Southern Africa has a social capital deficit that inhibits poverty-reducing growth. The social sector is not factored into development either because no proper attention has been given to it or its contribution is not well understood by decision makers. Government and business leaders look at the social sector as a destabilizing element to growth that needs to be regulated or controlled. However, this attitude may end up causing further destabilization and ineffective poverty reduction strategies, especially in the context of the global economic downturn

5. Tripartite partnerships and the success of responsible business practices

This session was chaired by David Monyae of the DBSA. Introducing the theme for discussion, he pointed out that while business has a key role to play in poverty reduction they need to work in close collaboration with other players like government and civil society. The DBSA, he indicated, is working in the SADC region and has some relevant experience on the importance of partnership for successful and responsible business practices. He then called on the panellists to share their experience on how partnership can promote responsible business practices.

Brian Whittaker, Business Trust

In his intervention, Brian Whittaker, (Chief Executive of the Business Trust) pointed out that the role of business in development is complex as companies are either regarded as the engine of growth or as a resource for development or as a subject of transformation. He indicated that for the Business Trust four major lessons have been learnt in its collaboration with the private sector, in particular referring to partnerships between government, business and other stakeholders. These lessons are also very valuable for partnerships between the key-stakeholders when it comes to regional integration in SADC.



Business Trust – Midrand, 25November 2010

Lesson 1: Business brings two things to development, namely a business-like approach and market acumen. Both generate considerable value for society as businesses risk their resources in pursuit of a profit resulting in employment and income, skills, public services, capital (e.g. via exports) and opportunities, for instance through outsourcing.

Lesson 2: Misleading perceptions on how to improve public services on the part of the private sector cannot lead to effective partnership, especially with government. The Business Trust, by working closely with the public sector, has been successful in improving public services, bearing in mind the following four misconceptions.

- Referring to government business believes that "We" know something "they" don't know
- Policies can be imposed on the administration (however it is not the policy but its implementation that causes the challenges)
- Practice can be changed by demonstrating superior approaches (the challenge is how to make these best practices happen on the broader level)

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- Business has to act “non business-like” to prove its commitment

> *“Avoid the destruction of assets: Asset transfer should be a route to market access. But it is destroying capital”*
>
> *Brian Whittaker, 25 November 2010, Midrand*

Regarding these mistaken assumptions there needs to be a change in the private sector’s mindset to enable proper partnerships between business, government and other stakeholders. However there is no quick fix for the improvement of public services and a change is required in the vision of the state if business shall be drawn e.g. into the process of improving service delivery. A sustained contribution will need a shift to more commercial relationships, which will require a change in the vision of the role of the state. To achieve this there is a need to change in the way external support is procured and managed.

Lesson 3: the market side of the development equation has received too little attention, particularly from business. Consequently, it is important to encourage for more inclusive markets, as

- poor communities cannot be developed through government action alone;
- business cannot maintain a market economy that excludes a large part of the population;
- an inclusive society cannot be built on a divided economy

As a result, a country will not meet its national objectives unless it takes these three points into consideration. This is even more the case as the level of participation in the market economy is low and the usual routes to market access are constrained by numerous challenges.

Lesson 4: If the key players are to build more inclusive markets they need to understand what models work, what institutional arrangements support a more market based approach to development, how to respond authentically to local enterprise challenges and where markets are being created and destroyed.

Mr. Whittaker ended by indicating how the Business Trust is using the above lessons to achieve proper results and successful partnerships for improving service delivery (see full presentation in the Annex).

Lynette Chen, the Chief Executive Officer of the NEPAD Business Foundation (NBF), explained the objectives, work and the structure of NEPAD. She indicated that the NBF is supporting NEPAD to implement its private sector development programme within the framework of regional integration. More specifically, the NBF is supporting the following:-

- Access (e.g. referring to information asymmetry, networking and conducive environment)

Lynette Chen, NEPAD Business Foundation

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- Coordination of partnerships between governments and business (e.g. sector coordination, NBF is working with 13 industry groups)
- Project Preparation (Facilitating project development to bankability)
- Financing/Capacitating secure project opportunities for members

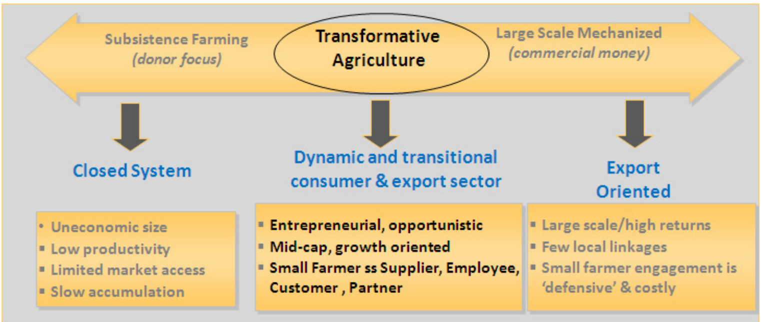
In addition, NBF's intervention strategy focuses on the Spatial Development Initiatives (SDI) which aims at:

- Areas with high economic potential that are vital and at the core of regional economic integration;
- Finding programmes and projects with high potential to leverage additional opportunities for business, including SMME development;
- Crowding in investment and intervention by facilitating the pooling of resources to maximize impact; and
- Ensuring alignment and integration of social development components within all projects.

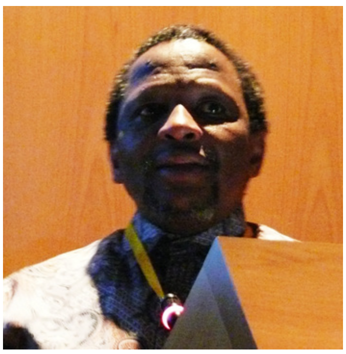
This approach is based on a decision from 2008 to use development corridors as a focus and organizing principle for private sector participation in regional integration in the North-South Corridor and the Central Development Corridor.

The Sector Specific Initiatives Programs and projects cover

- The NBF/WEF Water Initiative: It covers raising awareness, leveraging the competencies of international business address the water challenge, catalyzing new multi-stakeholder platforms and Public Private Partnerships.
- TransFarm Africa, which is about growing' agricultural investment along Africa's Regional Corridors: A programme proving and deploying scalable, sustainable financial and institutional interventions promoting inclusive modernisation of agriculture and acceleration of the Development Corridor process
- Capacity building/local resource mobilization, which mainly focuses on a Growth Optimization Centre to address the issues of technical and vocational education and training as well as business support services.



Evolving structure of African agriculture – Midrand, 25November 2010



Dr Matlotleng Matlou - Africa Institute South Africa

Development corridors have become useful mechanisms to prioritize and promote inter-related infrastructure and large-scale economic sectoral investments in defined geographic areas so as to promote trade and investment led economic growth. They also contribute to the optimisation the use of infrastructure; encourage value-added processing and enhance the competitiveness of African economies. At the regional level the development corridor model encourages integrated development within a given space defined by its economic potential rather than by political boundaries.

Matlotleng Matlou, Chief Executive Officer of the Africa Institute South Africa (AI), analysed the issue of regional integration and responsible business with a different perspective. His presentation was based on the Mo Ibrahim Index, which gives an indication on governance practices in a region and in the individual countries.

Matlou highlighted the comparably poor governance quality (average of 49 out of 100) within the region. However, with regard to the Ibrahim Index, in the sub-categories "Sustainable Economic Opportunity" and "Human Development" the movements for 10 countries were mainly positive and at least have shown some improvements for 40 more countries within Africa.

Negative movements - according to that index – were found in the fields of safety, rule of law, human rights and ratification of protocols. He pointed out that these indicators have an impact on the business climate which very often can affect the flow of foreign investments. He cited the case of countries in the SADC region which are attracting more investments because of their favourable business climate and pointed out those useful lessons can be learnt from the experience of such countries. He also stressed on the need to avoid re-inventing the wheel, especially within the framework of regionalism. Instead, best practices should be emulated and implemented within the region, especially on good governance practices.

He also pointed out that civil society has an important role to play in the promotion of good governance and CSOs should be strengthened to participate meaningfully in policy dialogue and to influence policy decisions.

The SADC region, in spite of the progress achieved thus far, is still facing the challenge of political and economic governance. It is now recognized that there is a direct correlation between good governance and development. It is for this reason that civil society should demand better governance and more enlightened leadership in both the public and private sectors. This can be achieved if civil society organizations are better organized and have more capacity to deal with these issues.

5.1. Discussion

During the discussions it became clear that the issue of good governance was critical to making the region an attractive destination for investments and the development of inclusive business practices. It was also agreed that good governance was needed within and across countries and all stakeholders should be held accountable for their actions. However, one major challenge was capacity constraints within the public and private sector as well as the CSOs. While subsidiary was considered as an important element in ensuring good governance, it was unclear how this would work in practice, especially at the level of local government.

In discussing the issue of leadership, it was agreed that leadership programs aimed at public and private sector should be encouraged. In that regard, it was pointed out that NBF is running a leadership program to improve the effectiveness and accountability of business leaders. Such programs would contribute to increase good governance at the leadership level which hopefully would trickle down to the other levels.

It was also pointed out that, increasingly, the importance of business in regional integration is being recognized. Hence, the importance of a strong regional business association that can meaningfully engage the regional inter governmental institutions like SADC and government ministries. However, the issue was whether SADC and national governments have the capacity to enter into constructive dialogue with the private sector.

Business, it was indicated, is already integrating the region through the construction of cross border infrastructure and development corridors. However, the success of regional infrastructure depends a lot on the political goodwill and support of participating countries.

6. The way forward: moving together for a brighter future in southern Africa

The final session was chaired by Thembinkosi Mhlongo, Head of the Policy Unit of the Southern Africa Trust. Panellists were

- David Govere (President, Employers' Confederation of Zimbabwe, EMCOZ)
- David Monyae (Policy Analyst, DBSA)
- Ulrich Klins (Coordinator for research & development: B4D Pathfinder)

Dr Thembinkosi Mhlongo – Southern Africa Trust

Drawing on the presentations and discussions of the previous sessions, the final session made a number of concrete recommendations as a way forward. It was emphasized that the role and responsibilities of institutions in creating an enabling environment for business needs to be further clarified. In that regard, business should come forward and request for such enabling environment. This would require that businesses organize themselves and engage policy makers. Given that the SADC region did not have a solid regional business organization, it was pointed out that business leaders should consult amongst themselves and propose the appropriate course of action. The Trust, with the assistance of its co-operating partners, could facilitate such consultation. However, the proposal should emanate from the private sector. The participation of the NBF would be very critical in this exercise.

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While it was agreed that regional infrastructure was key to the sustainable development of SADC, it was recognized that the SADC region comprises countries at different levels of development which makes it difficult for all countries to embark on the development of standardized infrastructure at the same time. However, an equitable distribution of regional benefits among member states of SADC would help the development regional infrastructure, promote regionalism, reduce poverty and create a ‘‘we-culture’’ where there is a sense of regional belonging and identity.

With regard to responsible business practices, it was agreed that a regional code of conduct should be established which would be based on best practices and a sense of shared common values. In this regard, SADC should be more pro-active and draw on the expertise of existing organizations which are active in promoting a regional business hub. The issue of how to make regional integration work for the poor was discussed at length. It was agreed that the best option would, inter-alia, be the following:-

- A bottom up approach to regional integration
- The mainstreaming of CSOs and businesses into the work of SADC to achieve a participatory approach to regional integration
- Domestication of SADC Protocols
- Strengthening of SADC National Committees
- Research studies to inform policy makers

In order to implement the above, Thembinkosi Mhlongo suggested the establishment of a Working Group comprising the Joaquim Chissano Foundation, the DBSA, the African Institute South Africa, the NEPAD Business Foundation, the Southern Africa Trust, the University of Stellenbosch and Vodacom. He pointed out that his suggestion was based on the need to have an inclusive approach to decision making within the framework of regionalism. Other regions in Africa were following the same route His suggestion was accepted by the participants.

It was agreed that the Trust in collaboration with the DBSA will convene the first meeting of the working group during the first quarter of 2011.

The Dialogue ended on a positive note with all the participants agreeing that it was quite positive and constructive. However, the follow up would be more important so that effective action can be taken to encourage responsible and inclusive business practices within the SADC region.

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