

Collective Action - Business Responses to Political Risk in Africa

By Richard Reeve

Any business investing in a high risk environment develops its own strategy for mitigating local political risk. One innovation of the last three years is the pooling of business advocacy resources to promote and influence the international development agenda on Africa, which still suffers the perception of being a high risk investment destination.

In the present decade, the private sector has responded to, and at times led, a change in the terms of debate on African development with its own rhetorical shift from philanthropy to private-sector development (PSD) partnerships. This should mean that corporate social responsibility is no longer primarily about MNCs replicating or replacing donor agencies in disbursing 'development' aid to the communities in which they operate but about mainstreaming development work into their core business activities, sharing their expertise with communities and engaging them in a mutually profitable relationship.

The core argument – embraced since 2002 by the African Union's New Partnership for African Development (NEPAD) and UN – is that poverty reduction is impossible without economic growth. Business is better equipped than the public sector to generate this growth but, in a virtuous circle, relies on government to generate a stable climate for investment.

In short, African and international businesses, governments and civil society are expected to work in partnership to reduce political risk, real and perceptual. There is no single means or tool to mitigate such risks but collective voluntary action – from codes of conduct to joint advocacy – can be presented as one alternative to more formal, institutional responses.

Business responses

The origins of the most significant collective action initiative by business lie with the 2004-05 Commission for Africa, which organized a UK-based Business Outreach Group and six regional outreach seminars in Africa as part of its consultations on improving the continent's investment climate. Since the expiration of the Commission's mandate in mid-2005, promotion of its PSD agenda for Africa has, in part, been taken on by Business Action for Africa (BAA), a global business-led not-for-profit coalition launched concurrently with the Gleneagles summit in July 2005. At launch, BAA described its aims as:

- to present a clear African and international business voice to promote growth and poverty reduction;

- to promote more positive, balanced perceptions of Africa; and
- to develop and showcase good business practice.

With reference to political risk, three of the six workstreams delineated by BAA since 2005 are worthy of attention: governance and transparency; trade [facilitation]; and climate for business.

Governance and transparency

Politics and governance are not something that PSD initiatives usually attempt to address and BAA has followed the G8 lead in endorsing the NEPAD African Peer Review Mechanism (APRM) as the best approach to encouraging good governance. However, legitimate businesses, domestic and foreign, and national governments do all have overt interests in addressing corruption and its attendant risks.

The flagship transparency project for BAA is Business Action Against Corruption (BAAC), which has now been rolled out in five countries. BAAC was begun by the Southern African Forum Against Corruption as a way to bring national anti-corruption bodies together in partnerships with domestic and foreign businesses. Chaired by Shell and with input from other MNCs, it is now a partnership of four dedicated civil society groups, including the Commonwealth Business Council, which provides strategic management.

BAAC was pioneered in Botswana, Malawi and Zambia in late 2005 and subsequently rolled out in Nigeria and Cameroon in the second half of 2006. BAAC-affiliated working groups operate separately in each country but can share their experience and learning through the BAAC network. Examples of activities include codes of conduct in Malawi, guidelines for disclosure in Botswana and a new integrity code in Nigeria. As of mid-2007, there was in-country interest in expanding BAAC activities to Egypt, Lesotho, Madagascar, Mauritius, Namibia and Tanzania.

Trade

BAA has found a useful niche in focusing on improving Africa's capacity to trade. This covers two sectors, facilitating trade by reform of customs regimes, and facilitating trade by improvements to transport infrastructure. The former is of most interest since it necessarily overlaps with governance and transparency.

BAA's trade project is Business Action for Improvement of Customs Administrations in Africa (BAFICAA), a direct response from the private sector to the Commission for Africa's work on customs reform. Its corporate sponsors are British American Tobacco, Unilever and Diageo, all major players in Africa's 'fast-moving consumer goods' sector, including intra-African trade. The subjects of innumerable delays occasioned by inefficient or corrupt local customs services

and of somewhat arbitrary trade policy and implementation, they have clear business incentives to promote sectoral reform.

The project was launched in March 2006, with a survey of customs regimes and their impacts on business activities in twelve African states. A second phase applying its recommendations was subsequently launched in the East African Community (EAC) states. Lessons learned from BAFICAA are intended to be implemented by national or regional working groups of business and government agencies. The concept is being extended by Maersk to Nigeria and ECOWAS in 2007 and plans for a SADC case study are under way.

Climate for business

'Investment climate' is a vague term that necessarily includes issues of governance, transparency and facility to trade, including infrastructure. One idea for future BAA networking is the creation of in-country action groups in key African states, linking local and international business as well as the national government to communicate on the overall climate for investment and business. BAAC provides a specific template for this that could be expanded or replicated at a more general level.

The outcome of the Commission for Africa on the subject has been the Investment Climate Facility (ICF), an organization with an extraordinarily broad and as yet untested mandate. Initiated at the same time as BAA and launched officially in June 2006, the ICF has now appointed its CEO, set up an office in Dar es Salaam and earmarked Rwanda as its inaugural project but remains far from being a fully functional organization.

The ICF is not a BAA project, although BAA has endorsed it and presented it as a showcase of public-private partnership. Anglo American and Shell are the two founder private-sector investors in the ICF and have used the BAA network to help recruit additional corporate investors. There is now a close overlap between the corporate sponsors of BAA and the ICF. BAA projects are intended to inform the work of the ICF and it may be in time that the ICF takes on the advocacy and project development work of BAA, itself an explicitly temporary network.

With a projected budget of around USD550 million over seven years (BAA's budget is about USD270,000 per year), including project financing capital, the ICF is envisaged to have the means to make a significant impact in mediating the high risk environment of a finite number of African states. Indeed, reducing perceptions of political risk is one of eight benchmarks against which the ICF's progress is to be measured. As with all assessments of political risk, developing metrics to assess this work accurately and fairly will be a major challenge for the ICF and those that must hold it to account.

Limitations of collective action

There are many more challenges and caveats that must be cited in relation to the business-led collective action projects of recent years. Regarding BAA, its greatest limitation is the relative un-representativeness of its membership and board (oversight group). While BAA has a broad membership of approaching 150 businesses, business alliances, civil society organizations and government departments, its UK origins remain conspicuous. Ten UK government departments and agencies are keen network members but no other government has directly joined the initiative and just over half of all members are currently British-based, including 11 of 14 sponsors (thus board members).

In contrast, African participants, especially businesses, are a relatively small component and count only one board member (De Beers). Only one network member comes from non-Commonwealth Africa. Numerous African firms participate in BAA projects but few have joined the network, indicating a perception problem for BAA in Africa. Firms and organizations from other countries are also under-represented given that BAA is intended to be a global partnership. Moreover, there are relatively few small and especially medium sized enterprises – the lifeblood of African business – represented.

Thus, BAA has effectively carried on the work of the Commission for Africa Business Outreach Group since 2005, linking Africa-oriented MNCs and UK Government in collective action projects, but the partnership still falls short of its goal to present a clear *African and international* business voice to international fora such as the G8, WTO or IFIs.

The ICF could be one solution to this problem, concentrating its greater resources only on reforms proposed by African governments themselves. However, since the ICF demands demonstrable commitment from the governments of states it works in, it is probable that its resources will be prioritized towards those states that already have the best records of improving economic policy and governance, potentially accentuating a crude division of risk environments between good (reformist), bad (unresponsive) and ugly (failing) African states.

Moreover, the ICF has had similar problems to BAA in attracting support from non-UK sources. Only a few other governments, notably Ireland and Netherlands, have backed it and June's German G8 summit offered only muted 'collective or individual' support. Most G8 states seem happier with the continuance of domestic business initiatives towards Africa, often in competition with each other.

The question of whether the private sector can be effective in African development by promoting reforms that improve the investment climate and reduce political risk can thus only be answered with a provisional affirmative. Firms and governments certainly have individual and collective commercial

interests in such outcomes but whether they can truly work in multi-sector partnerships that outweigh competitive individual and national interests remains to be proven.

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