The Africa Sustainability Barometer

Gauging the state of sustainable business practice in Africa

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The United Nations Global Compact is proud to jointly launch the Africa Sustainability Barometer with This is Africa. Now is a time ripe with potential for economic growth and inclusion in Africa – with private sector investments and operations providing the backbone for long-term growth, prosperity and opportunity. But investment and business activity must be sustainable – bringing value not just financially, but also in social, environmental and ethical terms. Across the continent, African businesses are tuning into corporate sustainability and recognising the relevance and urgency of addressing environmental, social and ethical challenges.

With the Africa Sustainability Barometer, we hope to shine a light on the current efforts by companies to report on their sustainability, make the case for the value of comprehensive reporting, and encourage more companies across the continent to commit to responsible practices.

Transparency and access to information are guiding tenets of the UN Global Compact – the world’s largest corporate sustainability movement. Today, our initiative includes 8,000 companies from 145 countries – including 36 African countries – committed to embedding 10 principles in the areas of human rights, labour, environment and anti-corruption into their strategies and operations. A requisite for participation in the initiative is annual reporting on how the company is respecting and supporting these principles in their corporate actions, including measurement of outcomes.

Public availability of sustainability information is a pivotal factor in holding companies accountable for their commitments on social, environmental and ethical issues, but also for moving the broader corporate sustainability movement forward.

The provision of information also provides key insights for the investment community. In addition to checking the stock prices and financial statements of a particular company, investors are increasingly also looking for a closely aligned set of data points on sustainability performance.

The case for such reporting is strong. For example, companies with robust anti-corruption policies are in a better position to avoid unnecessary costs, not to mention deeply damaging scandals and legal infractions. The same can be said about specific measures to reduce carbon footprints and improve environmental impact, and to undertake due diligence on human rights records and labour relations.

In addition to addressing issues of risk management, there is also a financial upside of sustainable business practices: the value they add to a company’s worth.

Strong corporate performance on sustainability indicators provides a competitive edge. By reducing risk it strengthens access to credit markets. Strong personnel relations improve productivity. Reputable corporate standing in the community builds consumer loyalty and positive branding.

Transparency and its application to responsible business practices is an active factor in the work of the UN Global Compact. In addition, the Global Reporting Initiative (GRI) provides a reporting framework and

Georg Kell

The value of comprehensive reporting

Foreword
standards to drive corporate disclosure on sustainability. Stock exchanges are also getting on board, most recently with the New York Stock Exchange committing to promote sustainable investment. And of course, the Johannesburg Stock Exchange is one of the early adherents to this movement.

The private sector is willing and able to be part of the solution to achieving a better future for all. As we look to Africa, we need business across the continent to mobilise the resources, technology and innovation required for sustainability.

Africa is among the fastest growing regions in the world, offering high returns on investment, and the opportunity to consolidate these gains and move ahead is enormous. Corporate sustainability on the continent will also have to move to the next level. The Africa Sustainability Barometer is a guide for companies to enhance their performance and reporting on sustainability issues. It is also a call for a new wave of responsible corporate practices in Africa that can drive inclusive and sustainable markets which benefit businesses, societies and communities across the continent.

Georg Kell is executive director of the UN Global Compact

“We need business across the continent to mobilise the resources, technology and innovation required for sustainability”
Expanding the corporate reporting net
Once a generic buzzword, sustainability is increasingly a core consideration for investors. The Africa Sustainability Barometer measures the progress.

The reporting responsibilities on companies are growing by the day, and ‘sustainability’ - once confined to vague comments on social responsibility initiatives and environmental impact - now spans a much wider remit, ranging from employee healthcare to human rights.

In the case of Banro Corporation, a gold company operating in the Democratic Republic of Congo, data stretches as far as to the cost of moving graves to make way for its Twangiza mine.

Today, international companies publish more than 5,000 sustainability and corporate responsibility reports a year, to meet criteria including stock exchange rules, public procurement provisions, and health and safety laws. Between 2006 and 2013, the number of countries and regions with mandatory and voluntary reporting measures increased from 19 to 45, according to research by KPMG.

But big questions still hang over the nature of sustainability reporting. How uniform are the data collection methods and performance indicators? Where is the pressure to report coming from – CEOs, regulators, NGOs or multilateral institutions? And how much of this information makes it into core business practice, through a company’s annual reports? The Africa Sustainability Barometer, a collaboration between This is Africa and the UN Global Compact, seeks to investigate those problems.

Building the sustainability profile

The pressure to publish performance information on sustainability has been mounting since the dark days of the 1980s, 90s and early 2000s, when multinational companies were caught in a string of social and environmental disasters, ranging from the Bhopal gas explosion in India to the environmental degradation in the Niger Delta. The recent collapse of a garment factory in Rana Plaza, Bangladesh, shows that issues of corporate impact and governance are far from resolved. In South Africa, Lonmin’s decision to pay the education costs for the children of mine workers killed the Marikana shootings last year points to the sustained impacts of governance disasters on a company’s bottom line.

Reviewing the annual reports of more
than 1,000 companies listed on the continent, the Africa Sustainability Barometer found that data on sustainability metrics were scattered, rarely found in the singular location of the annual report, and had a scale bias: the smaller the company, the less information was available. Outside of the continent’s established stock market – the Johannesburg Stock Exchange – there was a significant reporting drop-off.

To gauge a company’s full sustainability profile, one must go beyond annual reports and look to submissions to stock exchanges (if they are listed), specific health, safety and impact reports, financial reporting, and membership to voluntary initiatives and guidelines. The current lack of consistent, integrated reporting in a single place makes it harder for stakeholders to understand the scale and scope of a company’s operations. But it also suggests that sustainability itself, as an issue, is scattered within organisations. A 2013 report by Ernst and Young phrases this problem succinctly: “Integrated reporting leads to integrated thinking.”

But who decides where companies start and end their sustainability agenda? Much pressure to report has come from outside of business. In child labour, for instance, NGOs have pushed companies in certain sectors to spend meaningful effort auditing their supply chains. And the Africa Sustainability Barometer found that some of the largest companies in Africa now have policies covering this issue.

70% North African companies constituted just 5 percent of the total companies on the Barometer and 70 percent of those were Egyptian

There may be some sectoral skew in this reporting. A number of the companies reporting on the issue stem from the mining, retail, and food and beverage sectors, including BHP Billiton, SABMiller, Massmart and Anglo American. “If you are a company operating in an industry that has been highlighted for child labour - cocoa, cotton, sugar - you are much more aware and concerned than if you are in other retail or commerce sectors,” says Constance Thomas, director of the International Labour Organisation’s International Programme on the Elimination of Child Labour (IPEC). “Where there has been pressure by NGOs, by campaigns, there is a little bit more action.”

But pressure does not just come from NGOs. CEOs are also a major driver of the sustainability agenda, and the ‘C-suite’ needs to be on board to raise the issue to a strategic, managerial level. For that to happen, companies need to view sustainability reporting, and corporate governance generally, as a core business issue that can promote their productivity. Ms. Thomas cites Coca Cola and Mars as “deeply engaged” in child labour issues especially compared to 10 years ago.

Despite this, the barometer found that the vast majority of companies have no clear child labour policy, even in the more established JSE. That is not to say those companies have child labour in their supply chains, but it may indicate they do not know and have not audited. Ms. Thomas points out that ignorance would be no excuse were underage workers to be found.

The problem is harder to monitor amongst smaller businesses. Ally Samaje, Tanzania’s acting commissioner for minerals, admits that his country is still grappling with issues of child labour in local gold supply chains, but argues that for the most part licensed miners are not the perpetrators. “The government is always making sure that there is no child labour in mining activities, but artisanal mining is the area where there is a chance there is child labour,” he says. “They know that when the government is not present there is no monitoring, and to control it government would need to be there all the time.” The way to fix the problem, he argues, is to formalise artisanal miners. “By formalising those workers you put in a system whereby you can control such activities because you can penalise them using the license that they have.”

Reporting on other areas of non-environmental sustainability also remains patchy. However, a meaningful minority of companies have gone beyond the most basic rights issues like child labour, to begin looking at issues such as employee health in a more comprehensive way.

Tens of businesses surveyed in the sustainability barometer, particularly South African and Nigerian groups, now offer their employees HIV/AIDS testing and treatment. Again, those efforts are led by the largest multinationals on the continent, including the likes of mining groups BHP Billiton, Anglo American, Kumba Iron Ore and Lonmin; food and beverage players such as SABMiller, Tiger Brands and Guinness Nigeria (owned by Diageo); the retailers Massmart and Woolworths; and a handful of banks such as Standard Bank and Investec. Other South African giants including Naspers, the media group, and Aspen Pharmacare also feature on this list.

Anglo American was a trailblazer here, creating its HIV support programme over a decade ago. The company’s move was prompted when it recognised the link between the HIV/AIDS and tuberculosis – a disease for which it had a long history of providing treatment, given the prevalence of lung disease amongst miners.

“Anglo American was the first major employer to offer HIV counselling and testing coupled with

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2: Businesses should make sure that they are not complicit in human rights abuses

Labour
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 5: The effective abolition of child labour
Principle 6: The elimination of discrimination in respect of employment and occupation

Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges
Principle 8: Businesses should encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption
Principle 9: Businesses should work against corruption in all its forms, including extortion and bribery
free anti-retroviral therapy (ART) for HIV infected employees, and extended this free treatment to employees’ dependents with HIV in 2008. This marked the important integration of the HIV/Aids and TB prevention and treatment programmes,” says Dr Brian Brink, chief medical officer with the group.

In southern Africa, where HIV rates are still the highest in the world, the group tested over 95,000 employees last year, and says that over 90 percent of its employees in the region check their status every year.

In TB, incidents amongst employees are also on a downward trajectory, and are, at 958 per 100,000 employees, lower than both the national and industry averages. “With the escalating TB epidemic in South Africa – a direct result of the high burden of HIV in the country – we are focusing on earlier diagnosis and treatment,” Dr Brink explains.

The reasons are not only moral: companies have realised that running such initiatives, though costly, makes financial sense. “There is no doubt that HIV/Aids represents a significant cost to the business in sub-Saharan Africa,” he says. Without antiretroviral therapy, the total cost of HIV to Anglo American in South Africa is on average 6.4 percent of company payroll per year. But a 10-year study commissioned by the group showed that its prevention and treatment programmes had reduced the overall cost of HIV/Aids to the business by 9 percent.

“These savings are achieved through re-

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**SOUTH AFRICA**

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Companies listed represent the largest ones by market capitalisation on Africa’s biggest exchanges and do not cover all companies tracked by the Barometer. To access the full barometer, visit www.thisisafricaonline.com. All data is based on the most recent annual integrated reports and/or sustainability reports published.
duced death and disability benefits paid, reduced absenteeism, savings on inpatient and outpatient HIV-related medical costs and reduced recruitment and training costs. These findings led the researchers to conclude that company-provided ART has been cost-saving to the business,” Dr Brink says.

A mounting tally of corruption scandals in emerging markets has also pushed corruption and bribery issues into the broader sustainability agenda. Driven by activists, civil society groups and governments, more is being done to report on these problems. A number of companies assessed in the Africa Sustainability Barometer are making efforts to limit corporate gifts, while others are putting safeguards in place to ensure their suppliers enforce their anti-corruption policies.

For instance, Massmart, the Walmart-owned South African retailer, says that its formal trading agreements detail the ethical practices that suppliers are expected to uphold. The company states that it “regularly communicates its ethical standards to suppliers and service providers, and attempts to ensure that they comply with these standards”. But the moderate language is a clue to the difficulty of upholding those standards amongst distant elements of a supply chain.

More significant, perhaps, is the development of specialised anti-corruption offices within listed businesses themselves, pointing to a more systemic, integrated handling of ethical issues.

But those efforts are still limited. Taken from annual reports, only just over a dozen companies featured in the barometer appear to have developed such units. Again, the continent’s biggest groups – including BHP Billiton, Standard Bank, Sasol and Nigeria’s Access Bank – feature on that list. Massmart, too, runs its own ethics office, which takes calls and reports on corruption issues, and distributes communications on problems including bribery, profiteering and whistle-blowing to employees.

**Battle of the regulators**

The strongest drivers of corporate governance are the official regulatory bodies, and they are gradually ratcheting up the pressure on companies. The 500 companies on the JSE are now required to file ‘integrated’ sustainability reports, or explain why they cannot. And each stock exchange around the world has a different set of rules, meaning companies listed on multiple exchanges have the greatest overall reporting profile.

This is relevant for Africa, where many companies – notably in the mining sector – have several listings. Canada hosts Barrick Gold Corporation & African Barrick Gold (listed on the TSX, AMEX and LSE), Kinross Gold Corporation (active in Ghana and Mauritania and listed on the TSX and NYSE) and First Quantum, in Mauritania and Zambia (listed on the TSX and the LSE).

But regulators face resistance in their efforts to ramp up reporting. In the US, two sections of the Dodd Frank Act – 1502 and 1504 – sought to make major changes in company reporting; covering payments made to governments, and supply chain verification to avoid fuelling conflict, respectively. Both items have faced pushback.

Nigerian companies, which form 14 percent of the Barometer, invest in varied CSR programmes, with around 50 percent of the companies funding programmes in all categories – Education, Health and Infrastructure – while the rest direct funds to one or more target programmes.
Companies and industry bodies complained that 1504 was leading to a de facto moratorium on all minerals from the Great Lakes region, because of the difficulties associated with tracking. Section 1502 – which requires companies to publish payments made to governments on a project-by-project basis, amounting to over $100,000 – sparked a lawsuit against the US Securities and Exchange Commission in which several extractive industry companies and associations claim the article violates the US constitution, and that certain countries (including the likes of Angola and Qatar) prohibit the disclosure of payments made to their governments anyway.

But this is contested. “We looked at those countries and could not find evidence of any law prohibiting disclosure of payments,” says Joseph Williams, senior advocacy officer at Publish What You Pay. He gives short shrift to company objections over the constitution. “Companies are not people,” he says.

Not all companies objected to the rulings, however. The Norwegian oil and gas major Statoil pulled out of the SEC lawsuit and Newmont Mining, the third largest mining company in the world by market capitalisation, is not supporting it. “Being transparent about our tax and royalty payments ensures local communities are aware of the significant tax revenues that are generated and potentially available for public works and social investments,” says Omar Jabara, a spokesperson for the company.
which endorsed the underlying Senate legislation in 2009.

The momentum created by Dodd Frank is having repercussions in other regions. This year the EU approved new Accounting and Transparency Directives - similar legislation to 1504, compelling oil, gas and mining companies to publish payments over EUR 10,000 ($13,100) made to governments, and to release information on their earnings in each country. Unlike Dodd Frank, the EU legislation extends as far as the forestry industry, and also captures private companies over a certain threshold - affecting any groups that meet two of the following 3 criteria: a balance sheet of over EUR 20m ($26.2m), net turnover of over EUR40m ($52.4) or an average number of employees of above 250. Canada will also establish mandatory reporting standards for its extractive companies.

The private life of public money
While most reporting pressure is on big, publicly listed companies, and on larger private companies, there is also a lively debate over the private equity sector – which is growing fast in Africa.

Key metrics are emerging for measuring the sustainability of the sector. “We have spent significant time over the years evaluating how we track progress with regards to ESG (environmental, social and governance) and we have worked with key investors to work out the right mix of metrics,” says Namita Shah, vice president and head of ESG at Emerging Capital Partners (ECP), a pan-African PE firm. “A number of our investors have also collaborated to streamline the reporting requirements of general partners. As a result, the key areas for quantitative measurement have evolved into turnover, EBITDA, taxes paid and employment numbers, with a breakdown of male and female employees.”

The quantitative measure is only one of the instruments for tracking impact. Core business decisions can also further sustainability goals, says Ms Shah. “We have invested in a chain of restaurants called Nairobi Java House. When we initially invested, the company was well run, but we saw an opportunity for the company to become the first operator in the region in the fast-casual space to achieve food safety certification. This is a significant commitment to the social part of ESG, but it is also highly important from a returns point of view – we are building a business into a world-class company. When we look to exit, Nairobi Java House will be attractive to all buyers – including the well established international ones.”

PE funds occasionally work with development finance institutions, and here there should be more rigorous reporting requirements, critics say. “Given

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Kenyan companies form 10 percent of the total companies in the Barometer. Ninety-three percent of them fund education-centric CSR programmes.
the public nature of its funds and the development mandate of these institutions, DFI-backed companies should comply with high transparency standards to ensure they are accountable to affected communities, shareholders and the citizens those shareholders are accountable to,” says María José Romero, policy and advocacy officer at the European Network on Debt and Development, an NGO.

This is particularly important when it comes to funding involving major DFIs like the IFC, part of the World Bank.

**Putting it into practice**

Outside the purview of official regulators, and the improvised reporting of the private sector, a proliferation of voluntary standards aim to make sustainability reporting more consistent, international and comparable - with the international non-government sector a critical stakeholders.

The Global Reporting Initiative (GRI) offers the world’s only international reporting standard, while the United Nations-supported Principles for Responsible Investment (PRI) initiative and the UNGC’s Ten Principles of Responsible Business also provide targets to investors who can submit performance data annually.

The most recent iteration of GRI standards encompasses a widening range of categories and criteria, including performance in respecting ‘freedom of association’ rights and supplier human rights assessments. And by focusing on the four key areas of sustainability - economic, environmental, social and governance performance – the GRI aims to make sustainability reporting by all organisations as routine and comparable as financial reporting. This process helps companies by providing them a functional framework which they can use to develop their own sustainability reporting initiatives. Establishing a sustainability reporting process thus helps companies to “set goals, measure performance, and manage change” according to the GRI mission statement.

Other voluntary initiatives are varied, ranging from the Equator Principles (the framework by which banks can manage environmental and social issues in project financing), and the Extrac...
tive Industries Transparency Initiative (EITI), to organisations such as the Responsible Jewellery Council. Particular headway is being achieved by focused initiatives, which are able to secure genuine buy-in from stakeholders. The Carbon Disclosure Project, for instance – an international organisation providing a global system for companies to measure, disclose, manage and share environmental information, with a particularly strong focus on water – now has strong support from JSE-listed companies, according to the Africa Sustainability Barometer.

Those initiatives have provided an important medium for collaboration between corporations on sustainability issues. Others have gone further by establishing their own partnership programmes. Coca Cola, for instance, has partnered with the NGO WWF in an initiative focused on sustainable sugar cane production, which operates in a handful of countries including South Africa.

On a larger-scale, SABMiller co-chairs a unique and progressive multi-stakeholder platform for water resource management alongside the South African Department of Water Affairs. The public-private collaboration, known as the ‘Strategic Water Partners Network of South Africa’ includes the likes of Coca Cola, Anglo American and Nestlé, the Development Bank of South Africa, the South African Water Research Commission and WWF, and provides practical ideas designed to reduce the water volume supply-demand gap by 2030.

When surveying both industry associations and international frameworks and technical standards, it is clear that companies can no longer plead that sustainability reporting is too unfamiliar or burdensome a terrain for them to navigate. Much help is at hand.

**Core business**

Bringing together these different streams of reporting remains a huge challenge, but putting sustainability at the heart of business practices will not be achieved by reporting alone. That requires the guarantee that all such principles reach deeply into company operations, rather than sitting on the periphery.

Progress here is increasingly encouraging. The global financial crisis caused a shift in thinking, and at Harvard Business School, the strategy guru Michael Porter pioneered the concept of ‘shared value’ as a way of ‘fixing capitalism’. The idea was an antidote to the perceived failure of simple corporate social responsibility, and it stated that the creation of economic value would also require value creation for society. To sustain financial performance and social progress, businesses would need to rethink the way in which they operate, Mr Porter argued.

“A turnaround in companies [occurs] when it becomes part of their business plan and not just part of their marketing. This has to be part of their delivery mechanism, of their marketing strategy, of their product delivery and quality,” Ms Thomas of the ILO says.
More and more companies – including a number of those featured in the Barometer – have made important efforts to re-conceive the way they operate with the aim of meeting those criteria. For these groups, the concept of sustainability has been shifted from the margins of business to the core, as they recognise the link between sustainability and financial performance.

Amongst the companies listed in the Barometer, a handful stand out as having developed a strategy for sustainability which is holistically integrated into their business model. Prominent amongst them are agriculture and food and beverage groups whose core performance relies on developing sustainable local value chains. Illovo Sugar, Africa’s biggest sugar producer, and Botswana’s Sechaba Brewery are both examples, as is Pick n Pay, the South African retailer. That group performs the best of any company in the Barometer on issues of supply chain management - an underreported area of sustainability.

Like other international food, drink and consumer goods giants who have developed holistic approaches to sustainability, Pick n Pay is developing an entire business model centred on the sustainability of its sourcing.

In its sustainability report, the company explains that the challenges of rising food and energy prices, volatile commodity prices and climate risks are likely to mount. In South Africa, high levels of unemployment and inequality are intensifying these pressures. “Events of the past year have confirmed that ESG issues are having an impact on businesses more overtly and with greater urgency. Global debates on the interconnectedness of water, food and energy challenges are finding local expression,” the group states. “Given all these trends, we see value in strengthening our sustainability management and reporting systems.”

CEO Richard Brasher says: “Changing market conditions require quality products produced in a socially and environmentally responsible way. This in turn requires us to work in partnership with suppliers, to understand their business needs and risks, and to work to achieve shared goals.”

Other groups are meeting those challenges in the same way. Notable internationally are the likes of Diageo and Unilever. Of those African-listed companies featured in the Barometer, PZ Cussons Nigeria and SABMiller both excel for similar reasons. The South African brewer has mapped out 10 sustainable development priorities which it says identifies “the issues material to our business”. Ranked highest amongst those are water and enterprise development within its value chains. To map its gains, the company has created its own technology, the ‘Sustainability Assessment Matrix’, which tracks and reports performance on a country-level against clearly-defined criteria. The group says it aims to become 25 percent more water-efficient by 2015, over a 2008 base, and has already made gains of 13 percent.

But the companies internalising their sustainability strategies still remain too few, and for the most part, reporting on issues of sustainability is still patchy.

For those who understand how sustainability affects their corporate performance, increased reporting and integration of the sustainability agenda looks likely. For companies who operate in a more isolated manner, and for the many smaller companies who are not in the public eye, the advocacy work has a long way to go.
When Africa’s resources hit their sweet spot early in the last decade, governments offered heavily concessional terms to attract investors. Post-conflict economies, including Mozambique and Angola, were compelled to offer major breaks to compensate for the perceived risk of investment.

But as resource estimates grew, commodities markets stayed buoyant and internal conflict risks dropped, policymakers sought new ways to ensure that their countries take a bigger share of the winnings. “It is clear that Africa sits on top of extraordinary wealth and that these natural resources could be transformational for the continent,” says Makhtar Diop, the World Bank’s vice president for Africa.

Policy initiatives are afoot to ensure the non-renewables boom provides a window of opportunity for sustainable growth. Local equity participation – in which a percentage of a company is reserved for local private companies – is popular, although success rates vary widely. In the oil and gas sector, the state has traditionally held significant shares through production sharing agreements. In Nigeria, more than 90 percent of the country’s oil is pumped through joint ventures with the state-owned NNPC.

Sustaining the resource boom

Policy interventions can help ensure natural resources catalyse growth, but they must be wielded carefully

By Cate Reid
gerian National Petroleum Corporation, which often owns the majority stake. The continent’s second biggest oil producer, Angola, holds large state shares through the national company Sonangol.

“In Angola, local content laws have been instrumental in encouraging an entrepreneurship culture and broadening the participation of Angolans in the economy at large, and the oil industry in particular. By increasing the extent to which Angolans own and manage enterprises, local content legislation has unequivocally improved the performance of oil industry businesses, their competitiveness, standards of service, productivity and innovation,” says Fatima Freitas Advogados, a local lawyer with the Angolan branch of Miranda, the law firm.

In principle, investors acknowledge that local populations should benefit from their resource endowments – be it through state revenue or through the transfer of skills and increased job opportunities. BP speaks favourably of local content rules that mean their operations “contribute to the wellbeing and productivity of Angolan society”. A spokesman told This is Africa that, when it comes to local content rules, “there are no losers from these arrangements – the host country gets a new generation of skilled workers and the company gets access to the brightest and the best”. In Mozambique, negotiations have resulted in companies, including Brazilian mining giant Vale, delivering significant training to locals, benefiting local industry.

But transparency is key in determining whether these local equity laws work. In Angola, agreements over state shares in the oil and gas sector tend to be reached through negotiation, with the government simply stipulating that companies must “adopt measures to guarantee, promote and encourage investment in the petroleum sector by companies held by Angolan citizens”. Contracts in Angola are kept secret and critics doubt the benefit to the wider population, instead seeing evidence of local political elites enriching themselves in the name of their largely impoverished electorate.

“Promoting local content is important for developing local industry, but we have regularly seen this principle abused,” says Global Witness campaigner Brendan O’Donnell. “Obscurely-owned local companies with questionable grounds for qualifying for shares in extractive deals are a classic means of siphoning off millions of dollars corruptly – robbing the state and cutting out potentially legitimate, qualified local partners. This is why governments should implement exacting open contracting processes and international companies should refuse to partner up with obscurely-owned local companies.”

As well as corruption, some economies lack companies able to capitalise on the opportunity of their legislation, and the insertion of ill-equipped companies can slow down the delivery of the resource project itself.

Mining for a better stake
A second option, appealing to governments who are nervous about local equity rules, is ‘free carry’ – where the government owns a stake and thus a share of profits, but do not have to pay the corresponding share of operating and capital costs. This maximises the governments take, providing revenues which can support public spending. At the same time, it avoids the corruption and efficacy-related risks of local equity rulings.
In the case of Kenya, free carry is being tabled as a replacement to the local equity rule, which was introduced in 2012. The ruling had required 35 percent of every mining license to go to local investors. Under a new draft mining act due to come before parliament in the coming months, the nation is proposing to instead require that the state be entitled to a 10 percent free carried stake.

Speaking to This is Africa when the change was tabled, the chief executive officer of the Kenya Chamber of Mines, Monica Gichuhi, said that the previous local equity rule “was perceived as being not the right way to promote Kenya as a competitive investment destination”. She also questioned whether Kenyan companies were in practice likely to purchase a 35 percent stake. Under a free carry investment, Kenya could be a more attractive investment destination, Ms Gichuhi explained: “We are trying to ensure that both locals and investors benefit from resource endowments. The question is whether a free carry is a less punitive option for local investors, while still benefitting the people of Kenya.”

With the profit from a free carry going into government coffers rather than the pockets of local elites, there is an argument that this is a better model. It is proving popular with other countries in reviews of mining codes, with over 10 adopting or increasing the percentages allocated to the state. Countries with relatively new mining sectors have kept these low to attract investors – such as Ethiopia, which only requires 5 percent. But more established players including DRC are more confident of retaining their investors in spite of plans to significantly increase the state free carry.

But when it comes to raising revenue that can then transform into benefits for the wider population as part of a larger government budget, the free carry model can be weighed up against royalties and taxation policy. Whereas certain taxes begin to flow from the start of a project, the state will typically wait around five years before receiving any benefit from a free carry. Usually it must first wait for the investors to recoup their original capital. This year, the Extractive Industries Transparency Initiative, which campaigns for revenue transparency in the extractive sector globally, reported that Ghana’s revenue from its natural resources quadrupled in 2011 - in part due to increased tax.

But there is more for the government to consider than revenue alone – politics is often high on the agenda. Owning stakes in the concessions themselves may be seen as a more persuasive way to show the electorate that the country is getting a fair share. Certainly the local equity stakes allocated in conjunction with empowerment laws in countries including Zimbabwe and South Africa are politically motivated – but particularly in the case of Zimbabwe, contracts are negotiated with little transparency and local equity rules are applied very selectively.

All of this can deter investment. Analysts believe DRC’s plans to dramatically increase the state’s free carry from 5 percent to 35 percent could drive away investors by increasing already high operating costs to the point where projects are no longer viable – though the 35 percent may simply act as a starting point for negotiations.

New legislation in Guinea, passed in 2011, raised the state free carry to 15 percent with the option of the state purchasing a further 20 percent. But it is less the higher costs of operations than the unstable political environment that has concerned investors. Frequent renegotiation of contracts has created uncertainty and companies say unstable taxation is far less manageable than high taxation. In DRC, proposals to reduce stability guarantees from 10 to three years, for example, are a concern.

Broader strife in the mining industry weakens the hands of government. While the consensus has been that African nations should revise their laws in order to benefit from lucrative operations in their extractive industries, in the time it has taken for legislative reform to take place commodity prices have fallen.

In Ghana’s gold mining sector, despite providing an initial boost to government revenue in 2011, significant tax and royalty increases have come just as the price of gold has dropped. Tanzania has introduced a tougher fiscal regime on gold mining companies. But the key to a successful fiscal policy is flexibility and, although it has a high 35 percent corporate tax rate, Ghana’s charge of a 5 percent royalty fee on the current value rather than a fixed rate fee per tonne is seen by analysts as potentially a good model because it adapts to fluctuating prices.

How will the mining industries woes affect the tone of negotiations? Masuma Farooki, policy analyst with the mining data company IntierraRMB, explained: “Mining companies have been cutting back on exploration over the last two years and have not strongly contested moves to increase free carry shares for the state in mining projects. But it is expected that mining exploration and investment will pick up in 2014, so the share of the state will be more likely than before to become contested.”

African governments must carefully manage their domestic legislation if they are to draw in investment, while ensuring that it brings with it sustainable gains for local communities.

“It is clear that Africa sits on top of extraordinary wealth and that these natural resources could be transformational for the continent”

Makhtar Diop
Corruption, high start-up costs, poor infrastructure, incoherent regulation and weak governance - these are the oft-cited barriers to foreign investment and regional integration in Africa. But this storyline is rapidly changing. With recent increases in the disposable income of the citizenry, demographic trends favouring new entrants to the workforce, urbanisation - and with that, the diversification of incomes outside of traditional, rural sectors - Africans are turning inward, investing at home and setting the trend for how future business will and should be conducted on the continent. Sustainable business solutions are helping to underpin this encouraging trend.

No one wants to do business in an unpredictable environment and African investors are just as discerning and cautious as their international counterparts. But with a closer vantage point, perhaps we see the opportunities more clearly.

Togo-based Ecobank Group, supported initially by the Ecowas fund, was one of the first to focus on cross-border expansion to “Middle Africa,” then dominated by foreign and state-owned banks. The company now provides financial services in 33 African countries with assets valued at $19bn. Others like United Bank of Africa are following suit. According to Ernst & Young’s Africa Attractiveness Survey, Nigerian and South African FDI flows to other African countries are over $1bn each, and growing. Over the last decade, Kenya Commercial Bank (KCB) Group investments were higher than multinationals such as Coca Cola, Total, French cement conglomerate Lafarge and beer maker SABMiller among others, ranking it among the top five investors on the continent.

This burgeoning phenomenon runs contrary to our historical trade patterns, which have tended strongly toward the export of raw materials both to the West and to the East. Despite sustained GDP growth over the past decade, the vast majority of the population does not experience any ‘trickle-down’ benefits. The frustration is growing: Africans are creating their own solutions. The focus on value-added processing before domestic or international sale; service-oriented businesses for the growing consumer class; and expansion into neighbouring countries with similar legal or socio-cultural practices to achieve economies of scale are all clear indications of movement towards more sustainable growth. And, when companies engage in sustainable business practices, this also helps support intra-African trade, enabling companies to build scale quickly by tapping international capital and expanding regionally and outside of Africa.

We’re also being creative about addressing market failures and taking the initiative to better place our development partners’ monies in order to catalyse sustainable new opportunities for the private sector. For example, African agriculture – a sector attracting both domestic and international investors – is particularly exposed to the vagaries of the weather. Every time we have a severe drought or flood, lives are lost, assets are depleted, and development gains suffer major setbacks – forcing more people into chronic destitution and food insecurity in the world’s least developed countries. We rely on cost-ineffective ad hoc charity for each disaster, while developed countries use insurance-like risk management systems. So why don’t we? African Union member states have bonded together to create the African Risk Capacity (Arc), a ground-breaking extreme weather insurance scheme designed to model and price Africa’s weather risk – where the private sector failed to invest.

The Arc is a disruptive innovation, which aims to create a new market and value network not only for the global (re)insurance industry, but also for capital contributors interested in protecting investments in the continent’s agricultural sector. By utilising modern risk management techniques to protect investments and accumulated assets, Arc aims to contribute toward building resilience among vulnerable populations, promoting fiscal stability by preventing budget dislocation, and increasing productivity and economic diversification in some of the world’s fastest growing economies.

It is sustainable business ventures like the Arc and others that pave the way to an improved investment environment on the continent. And shortly, we expect that this trend will crowd in other investors, both continental and international, at an accelerated pace. As we cease to rely exclusively on extractive industries, we can focus rather on the rising and powerful consumer class to fuel the continent’s more sustainable growth.

Ngozi Okonjo-Iweala is Nigeria’s coordinating minister for the economy and former managing director at the World Bank.
Shared value: Partnering up

“Philanthropy that does not value and engage the private sector, and its immense expertise, resources, and financing potential, is not fully maximising impacts for the vulnerable people it aims to serve”

The notion of “doing well by doing good” was once among the best kept business secrets of forward-looking CEOs. Now it is a common call to action and repeated refrain in the boardrooms of multinationals looking to remain competitive in global and emerging markets. For evidence, look no further than the fact that there are now 800 certified B-Corporations, a designation for companies that commit to meeting rigorous standards of social and environmental performance, in 27 countries around the world.

The motivation for these businesses comes not only from the goodness of their hearts but the future of their bottom line – and that’s okay. Philanthropy, governments, and business all have unique reasons for working toward sustainable and equitable outcomes in every region of the world, but the only way we’ll meet them is by creating new ways to work together.

Nowhere in the world are the potential rewards greater for both business and development than in Africa. Of the world’s 10 fastest growing economies, seven are in Africa. According to McKinsey, consumer-facing industries are expected to grow by $400bn by 2020, and by 2040, Africa will be home to 40 percent of the world’s population, thanks to a burgeoning youth bulge that is outpacing India and China.

Businesses entering Africa are poised to benefit enormously from the continent’s growth. But those who do so without also addressing social inequities and environmental degradation are actively working against their long-term goals. Effective CEOs recognise the inherent opportunity in providing consumers with needed products and services, while also contributing to the inputs that create healthy, more productive workforces, and strengthening value chains in ways that address social inequities, improve livelihoods, and ensure the supply of agricultural commodities and natural resources remains safe and steady.

Philanthropy that does not value and engage the private sector, and its immense expertise, resources, and financing potential, is not fully maximising impacts for the vulnerable people it aims to serve. Between us, philanthropy and governments do not have enough capital to solve all the world’s staggering social and environmental needs. Trillions of dollars are locked up in private capital.

One way to unleash some of that capital is through impact investing: an approach intended to generate social and environmental impact, which is gaining momentum in Africa. Just as impact investors are seeking a double-bottom line return, sustainable businesses are working to create shared value and prosperity for shareholders, employees and consumers alike. Take Unilever, which recently entered the water business in Kenya with a home purifier that works without electricity or gas. Not only will this improve the quality of water Kenyans have access to in their homes, it will also allow Unilever to capitalise on the growing number of consumers entering the bottled water market.

Public-private partnerships have the ability to bring impact to even greater scale. The non-profit Switchboard has partnered with Vodafone and MTN to create a free calling network for doctors in Liberia and Ghana. Healthcare workers can contact one another free of charge, enabling greater sharing of medical knowledge and alerts to public health emergencies. As doctors make free calls, they also use additional paid services, generating revenues for the partner mobile operators.

Philanthropy can play two important roles in support of sustainable business practices. The first is derisking these kinds of investments. In Ethiopia, The Rockefeller Foundation, along with Swiss Re, provided early capital which helped Oxfam and several national and community-based partners bring in private insurance providers to protect farmers. Enabled by a large government safety net, these groups were able to scale and reach cash-poor farmers with risk management packages, including insurance and credit, and are helping smallholders protect themselves from the impacts of climate change and drought. The pilot has since grown into Oxfam’s Rural Resilience Initiative.

Philanthropy can also serve to connect actors across sectors and geographies. For example, The Rockefeller Foundation’s Digital Jobs Africa initiative, a nearly $100m investment with the goal of improving 1 million lives by connecting disadvantage youth to digital job opportunities, is working to bring together governments and businesses to create a market for job creation and skills training that will last long after our initial commitment has ended.

Governments also play a role in creating the enabling policies that draw in investment, building the stability required for innovation to occur, and ensuring that infrastructure allows for distribution chains to function effectively.

Each sector stands to gain something different from the prosperity of Africa and its people. But only by working together, learning from each other, and charting a shared path forward will we get there.

Judith Rodin is president of The Rockefeller Foundation

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