



**Alliances for Integrity –
Government and Business Roles in Enhancing African Standards of Living
Addis Ababa, Ethiopia – facilities of the Economic Commission for Africa**

March 7-8, 2005

Jointly organised by the Investment Committee of the Organisation for Economic Cooperation and Development (OECD), the New Partnership for African Development (NEPAD) and the United Nations Global Compact in partnership with Transparency International

SUMMARY REPORT

Background – Venue, Participation and Context

1. More than 90 participants representing African business, civil society and labour organizations, international organizations and governments, gathered in Addis Ababa on 7-8 March for “Alliance for Integrity – Government and Business Roles in Enhancing African Standards of Living”. About 70 of the participants were Africa-based – they included representatives from business, business associations, state-owned enterprises, trade unions, civil society, national governments and regional organisations. Co-organized by the OECD Investment Secretariat, the UN Global Compact, the New Partnership for Africa’s Development (NEPAD) and Transparency International, the conference took place at the facilities of the Economic Commission for Africa (ECA). On the OECD side, the conference was organised by the Investment Division, with the participation of Corporate Affairs and Anti-corruption Division. The final agenda for the event is provided in the Annex to this summary.

2. The main objective of the two-day conference was to strengthen alliances between business, civil society and governments to promote integrity and foster positive frameworks for investment and job creation. In the words of Peter Eigen, Chairman of Transparency International, “Africa is on the path to liberate itself for a second time, not from colonialism, but from corruption, poverty and violence.” Participants showed a clear sense of urgency to seize on the present momentum.

3. K.Y. Amoako, Executive Director of the Economic Commission for Africa (ECA) called attention to the important African initiatives. In June, UNECA will publish its African Governance Report 2005 surveying the progress in 28 countries based on information gathered by hundreds of researchers. The fight against corruption, he noted, “cuts across all the main issues Africa faces today -- Aids, trade and debt -- it is necessary to find synergies to overcome them all.” The Report of the Commission for Africa cites the role of NEPAD, the OECD integrity instruments (including many references to the OECD Guidelines for Multinational Enterprises, a government-backed code of conduct for international business) and the UN

Global Compact as the basis for partnerships that aim to improve public and private governance in Africa. Both the promise of and difficult challenges facing NEPAD's African Peer Review Mechanism ("APRM") were noted, as was the signing up of several African governments to the Extractive Industry Transparency Initiative ("EITI"). Against this backdrop, the conference participants focused their efforts on the root causes of corruption and on identifying areas where business, civil society and government can best work together to find solutions.

Emerging National, Regional and International Frameworks

4. Africa has started to move forward in the fight against corruption – the discussions revealed clear awareness of the issue as well as various national, regional and international initiatives. Although experience with these initiatives has been variable, the emerging framework was viewed as holding great promise for the countries of Africa, 32 of which have signed the UN Convention. Discussion focused on the emerging framework supporting transparency and integrity at the national, regional and international levels.

5. The UN and African Union Conventions and the ongoing work in support of the OECD Anti-Bribery Convention were seen as supporting for the fight against corruption in Africa, but many questions were raised as to the process of implementation and monitoring. How, if at all, will the NEPAD APRM link into the monitoring of the conventions? Why are signatories allowed to invoke an "opt out" clause in the African Union Convention? How will a possible monitoring system of the UN convention link into the system of the other conventions? How can OECD home governments improve their anti-corruption record with respect to development assistance and export credit programmes? The multitude of questions and the diverging opinions in the discussion that ensued indicate that actors from all walks of life will need to work together to see that the momentum is seized and used to maximum advantage. While the discussion identified much scope for cooperation and mutual reinforcement, it also underlined the urgent need for more dialogue and cooperation among the four international organizations. This will be necessary if the many remaining obstacles to a process of concerted and successful reform are to be overcome in many African countries.

Voluntary Initiatives

6. Samuel Sitta, Executive Director of the Tanzania Investment Center, described the process in his country which started with a country-wide assessment of the current situation leading to the development of numerous institutions mandated with fighting corruption. He mentioned open communication and genuine 'ownership' from the country enacting reforms - both with the public and government - as essential elements in the process. Similarly, several participants from a variety of other African countries reiterated the need for changing the mentality of the bureaucracy and limiting its discretion, strengthening the judiciary system and a coherent tax structure.

7. Both Bunmi Oni, Chief Executive Officer of Cadbury Nigeria, and Soji Apampa, Managing Director of SAP Nigeria, described the Convention on Business Integrity in Nigeria, a voluntary anti-corruption initiative which requires companies to publicly denounce corruption, adopt a code of conduct and a road map for its implementation. The convention also includes a peer review system – involving a group of highly committed companies and one government ministry -- to promote compliance.

8. Rory More O'Ferrall, Director External Affairs of De Beers Group of Companies, described the Kimberly Process. It was the result of a joint effort by the South African government, the diamond industry and civil society organizations to stem the flow of conflict diamonds - rough diamonds that are used by rebel movements to finance wars.

9. The success of these initiatives demonstrated the potential power of collective action and voluntary approaches, particularly in cases where business, civil society and governments work together.

The Informal and State-Owned Enterprise Sectors

10. All participants acknowledged the importance of the informal sector in the daily lives of Africans. However, there was general agreement that this sector – especially the many large and well organised companies that flourish there – were focal points for corruption. Bunmi Oni called the informal sector a “Weapon of Mass Diversion” and noted that the informal economy grows from the failure of the formal system. What emerged from the discussion was the notion that, in Africa today, there are many different types of informal economies. A participant from Sierra Leone described the “shadow state” in her country where the informal sector operates in the absence of any system of checks and balances (e.g. civil society, professional associations).

11. Martin Kisuu of Deloitte Touche Tohmatsu East Africa outlined another example where the informal sector is embedded into the formal structure with key business leaders and politicians holding ownership of informal networks, importing goods, funnelling proceeds through bank accounts and using the money to buy property and invest in legal operations. While Mr. Kisuu believed that this type of informal sector could be reached by anti-corruption efforts, he criticized the lack of political will to do so. He also underlined the role of middlemen who acted as brokers between the business and the political class. The roles of agents, middlemen and facilitation payments were identified by all participants as issues where there was urgent need for further action.

12. State-owned enterprises (SOEs) were also seen as a focal point for corrupt practices in many African economies. The Addis Ababa conference provided an opportunity to survey country experiences with SOEs (countries covered were the DRC, Ethiopia, Namibia, Nigeria, Senegal, South Africa and Tanzania). The sector was described by conference participants as “obstacle to development” and as a “liability to the African economy” and participants urged governments to assume their responsibilities for concerted reform of the sector. Thus, the Addis Ababa conference underscored the significance that African actors attach to improving standards of conduct in the SOE sector.

13. Although the *tour de table* showed some differences among countries in terms of the degree of privatisation realised to date, the overall picture painted was one of serious, but strikingly similar problems (including inefficiency and corruption, especially political corruption). SOE governance problems mentioned by conference participants include:

- *Regulator and ownership roles of the state not separated.* SOE relations with Ministries and top political actors are generally close. This gives rise to conflicts of interest in the formulation of a number of policies, including regulation, competition and procurement. Many SOEs enjoy monopoly powers in their sectors.
- *Ineffective Boards of Directors.* Boards of directors often do not have *de facto* rights to exercise their responsibility to set the strategic direction of the company and to ensure that management acts in the best interest of the shareholders (for example, real control may reside outside the Board with political parties or top government officials). Board appointments are made on the basis of political connections, not business competence. SOE Board nominations can be a channel for political patronage and Boards are often beset with conflicts of interest.
- *Slack Internal Management Systems and Other Controls.* SOEs’ internal control systems are often defective or non-existent. SOEs are frequently “excluded from the Auditor General’s purview” and sometimes hire their own auditors, who do not follow international audit standards and are subject to conflicts of interest.
- *Low standards of disclosure.* One participant suggested that SOEs, because they act in trust for the public, should adhere to higher transparency standards than privately owned companies. In reality, however, the average standard of information disclosure observed by SOEs in most countries surveyed is low.

14. Conference acknowledged that prime responsibility for SOE reform lies with governments. The also agreed that state-owned enterprises present integrity risks for any private company wishing to conduct business for them. Some felt that business transactions should be evaluated on a case-by-case basis to ensure that the reputation of the company would not be undermined because of its relations with SOEs. Others favoured looking at the degree to which SOEs adhere to international governance standards (the OECD Corporate Governance Principles and the second King Report on Corporate Governance for South Africa were mentioned) and then taking steps to promote improvements in SOE governance.

Regions with Weak Governments or no Governments

15. While participants described a variety of different levels of corruption, the situation which appeared to be most challenging were those in which the state itself was so weak and ineffective that it had no capacity to address the issue at all. Sierra Leone and Liberia were described as dramatic examples of failed states where millions of dollars in aid or trade revenues had disappeared without a trace.

16. Lemma Argaw, the Auditor General of Ethiopia, highlighted the need to develop integrity-enhancing institutions, particularly in the area of internal and external audit. He explained that the Institute of Internal Auditors had as its main objective to assure the integrity of internal audits through the development of tools and standards. This type of professional association, he noted, had a direct impact on creating greater transparency in both the public and the private sectors. Mr. Kisuu also underlined the role of external auditors and the importance of integrity policies by the accounting firms.

17. The discussion on the situation in the DRC made it clear that companies themselves are at a loss on how to operate in zones with no effective government. Accordingly, Mr. O'Ferrall called for the development of a practical code of conduct which sets out criteria for how companies should operate in regions with weak governance. He went further to argue for the need for proper mechanisms to deal with breaches of such standards and international monitoring.

18. One of the goals of the conference was to collect African inputs into the OECD Investment Committee's work on the development of a risk management tool for investors in weak governance zones. The development of this tool – scheduled for publication in mid-2005 -- is part of the Committee's follow up on the UN Expert Panel's references to the OECD Guidelines for Multinational Enterprises in its reports to the UN Security Council on illegal exploitation of natural resources in the Democratic Republic of Congo. The conference provided inputs in the area of appropriate corporate governance practices when supporting institutions are weak and in structuring business relations with state-owned enterprises.

Conclusions and Next Steps

19. Speaking for the institutions charged with implementing the OECD Guidelines for Multinational Enterprises, Anna-Maj Hultgaard (Swedish Ministry for Foreign Affairs and Chair of the Working Party of the OECD Investment Committee) promised to integrate conference participants' comments into the risk management tool being developed by the OECD Investment Committee as follow up to the UN process on illegal exploitation of natural resources in the DRC. Conference participants will have an opportunity to comment on the draft after it has been discussed by the Investment Committee in April 2005.

20. NEPAD reiterated their commitment to work on fighting corruption, an issue they have incorporated into their peer review process while expressing possible difficulties inherent to it. In addition, they expressed interest in working with the OECD, the Global Compact and the business community especially through their Investment Climate facility. The possibility of a jointly organized conference to bring together all African countries that have ratified the UN Convention against Corruption was also presented.

21. The UN Global Compact is planning to put a stronger emphasis on Africa and is opening its first regional office in South Africa in March. Furthermore, follow up meetings to exchange experiences and

foster learning on the implementation the 10th principle against corruption will be held in various African countries.

22. In his concluding remarks, Peter Eigen emphasized the fact that all sectors and actors shared responsibility for the problems created by corruption and failed governance. Governments of the North, he stated, had acknowledged the negative effect of their companies and organizations in the supply side, and, through national legislation and international instruments such as the UN and the OECD Convention and the OECD Guidelines for Multinational Enterprises, had put into place mechanism to combat corruption. He went on to state that in Africa, through the African Union Convention and the NEPAD process, governments were also tackling the demand side. He called upon participants and the many organizations they represent, to work together to further such efforts. In Africa, he noted, leadership can only come from Africa itself.

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