

Global Crises – African Challenges

Background Report for the 13th International Business Forum 2009 at the
2nd Regional Interdisciplinary Alumni Conference

4 to 6 November 2009, Accra, Ghana



Federal Ministry
for Economic Cooperation
and Development



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This Report was prepared by a team from Inspiris Limited, including Zahid Torres-Rahman, Natasha Ncube, Stephanie Shankland, Anne Stubert, Yvette Torres-Rahman and Richard Gilbert. We would like to thank the organisations who supplied case study information and gave their views on the themes covered in the Report. For more information on Inspiris, visit www.inspiris.co.uk

Preface

Dear participant of the 13th International Business Forum (IBF) and 2nd African Interdisciplinary Alumni Conference,

The world has changed dramatically since the last IBF in 2007. The implications of the economic crisis and climate change crisis are still unfolding but certain to be profound. Over the past 14 years, the International Business Forum has addressed the key challenges of the day from a business perspective.

In 2006, we focused our attention on Africa, and in 2007 climate change was one of our core themes. This year we return to Africa, with the aim of enhancing our collective understanding of what the economic and climate change crises mean for the continent.

As this Background Report highlights, the challenges are many, but so too are the opportunities. Working in partnership, business and government can enable Africa to emerge stronger and more vibrant.

On behalf of InWEnt-Capacity Building International, Germany and the World

Luiz Ramalho
*Director, Sustainable Business
Environment,*
InWEnt - Capacity Building International,
Germany

Bank Institute, we look forward to welcoming you to the 13th International Business Forum in Ghana from 4 to 6 November 2009. We also invite you to participate in the online discussion at www.ibf.businessfightspoverty.org.

Next year signifies the two-thirds point towards the Millennium Development Goals (MDGs), the internationally agreed targets to reduce poverty and promote development. What progress has been made – and there have been some remarkable achievements – is now under threat. We need urgent action to safeguard and accelerate growth and poverty reduction in Africa. We are convinced that business can and must play an important role.

Djordjija Petkoski
Program Leader
World Bank Institute

1. Overview

“Some may argue that the global financial crisis and economic downturn means that we should delay our efforts to tackle poverty and climate change. But delaying on poverty would condemn millions of people to many more years of hardship. And delaying on climate change would mean the stock of Green House Gases in the atmosphere grows, making the task of dealing with the problem more costly and difficult in the future.”

Lord Stern of Brentford, IG Patel Professor of Economics and Government and Chair of the Grantham Research Institute on Climate and the Environment, LSE¹

Global Crisis – African Challenges

The 13th International Business Forum (IBF), taking place from 4 to 6 November 2009 in Ghana in conjunction with InWEnt's 2nd Regional Alumni-Conference, will focus on the implications of and responses to the economic and climate change crises facing Africa.

This year's conference, organized by InWEnt with the support of the World Bank Institute, will explore the central role that business can and must play in helping Africa through the crises: from laying the foundations of long term growth to driving the innovation needed to ensure future growth is more green-house-gas efficient than in the past.

Accompanying this Report and the Ghana conference, an eConference will run from 5 October to stimulate a wider discussion on the challenges and opportunities that Africa now faces. To participate, visit www.ibf.businessfightspoverty.org

This Background Report

This Report outlines the new economic and climate change challenges facing Africa, as well as the opportunities that sit at the heart of these. It provides participants of the 13th IBF with an overview of the key facts, major trends and flash-point issues. We bring the story to life with examples and opinion pieces from leading practitioners. Core concepts are expanded upon and illustrated in “InfoBoxes”. Ultimately, our aim is to inform and stimulate debate.

Part I of the Report looks at the economic crisis. **Chapter 2** highlights the scale of the crisis, while **Chapters 3 and 4** look, respectively, at the responses of business and governments. **Part II** looks at the climate change crisis. **Chapter 5** scopes out the issues, **Chapter 6** explores business responses, and **Chapter 7**, government responses. **Chapter 8** sets out some questions to stimulate discussion among delegates of the Ghana conference and participants of the eConference.

The Report draws on interviews, blogs from around the web, and a recent publication from Business Action for Africa, “From Crisis to Opportunity: Harnessing the Power of Business to Sustain Progress Towards the MDGS”².

A central theme of this Background Report is that while the challenges are daunting, the opportunities are vast. Through an effective partnership between business and government, the conclusion is that Africa can emerge from the crises even stronger than before.



Opinion: Lord Stern, IG Patel Professor of Economics and Government, LSE

Low-carbon growth: the only sustainable way to overcome world poverty



The two great challenges of the 21st century are the battle against poverty and the management of climate change. On both we must act strongly now and expect to continue that action over the coming decades. Our response to climate change and poverty reduction will define our generation. If we fail on either one of them, we will fail on the other. The current crisis in the financial markets and the economic downturn is new and immediate, although some years in the making. All three challenges require urgent and decisive action, and all three can be overcome together through determined and concerted efforts across the world. But whilst recognising that we must respond, and respond strongly, to all three challenges, we should also recognise the opportunities: a well-constructed response to one can provide great direct advantages and opportunities for the other.

Some may argue that the global financial crisis and economic downturn means that we should delay our efforts to tackle poverty and climate change. But delaying on poverty would condemn millions of people to many more years of hardship. And delaying on climate change would mean the stock of greenhouse gases in the atmosphere grows, making the task of dealing with the problem more costly and difficult in the future. We cannot afford to delay. We can and must face up to all three challenges together.

So what do we need to do to combat the threat of climate change whilst boosting efforts to reduce poverty and tackling the global economic downturn?

We know what actions we need to take to cut emissions. They fall broadly into three categories: energy efficiency, low-carbon technologies, and a halt to deforestation. We also know what policies are necessary to drive these actions: tax, carbon trading and regulation; increased technology support; and measures that halt deforestation.

The G8 nations at recent summits have endorsed the goal of reducing global emissions by at least 50 per cent by 2050 (which should be relative to 1990). Such cuts are broadly in line with a path that could hold greenhouse gas levels below 500ppm CO₂e and then start to reduce them. This could reduce the probability of a 5°C increase in global temperature from around 50 per cent to 3 per cent or less. The target 50 per cent reduction means halving global emissions from 40 Gt CO₂ea year to 20, or little more than 2 t per capita with around 9 billion people in 2050; it also means little scope for deviation of actual emissions from the mean for any major country, developed or developing (note that similar per capita actual emissions does not mean similar per capita quotas).

Developing countries should ultimately want to go low-carbon. Not only is it the future, but it brings huge benefits beyond climate change. Renewable energy sources can free countries from a dependence on imported fossil fuels. Cleaner transport and cooling mean less pollution and better health. Halting deforestation protects water supplies, controls flooding and provides bio-diversity. The transition to a low-carbon future can bring major economic gains which appear soon. Energy efficiency can help boost incomes. Low-carbon technologies can open up new sources of growth and jobs. They can help even the poorest countries leap-frog old approaches – they can avoid some of the cost of large grids in the way cell phones helped cut the need for telephone wires. And smarter grids can both enhance energy efficiency and enable new technologies whilst cutting transmission costs. New sources of low-carbon energy – hydro, solar – could help create a comparative advantage for some of the poorest countries.

But the fact remains that no matter how successful we are with mitigation, we are now committed over the next few decades to some degree of climate change due to the levels of GHGs already in the

atmosphere and those which will be emitted in the coming years. That means all countries will have to adapt. The challenge is particularly urgent for developing countries as they are earliest and hardest hit. Adaptation is essentially development in a more hostile climate. It is disruptive, and practically and conceptually confusing, to attempt a rigid and comprehensive separation of elements of investments in physical or human capital which are marked for 'development' or 'adaptation'.

Many of the poorest people in the world will be the most exposed and vulnerable to the impacts of climate change that will occur over the next few decades. These are also the people who are least able to afford the costs of adaptation, and who have contributed much less than those in the rich world to the current levels of GHGs in the atmosphere. There is a fundamental inequity here and a strong imperative for the rich countries to provide more funds to developing countries, in addition to current development commitments, to fund the extra costs created by climate change. This is in the rich countries' direct interest as well: as Archbishop Desmond Tutu argued 'the problems of the poor will arrive at the doorstep of the wealthy, as the climate crisis gives way to despair, anger and collective security threats.'

Adaptation will increase the burden on developing governments and compensatory funding for this must be additional to current commitments on ODA. As we look forward to the challenges the developing world faces beyond 2015, and we must soon be examining and formulating the successors to the MDGs beyond 2015, I think that our targets for support from the public budgets of rich countries are likely to be closer to 1.0 per cent of GDP than 0.7 per cent for the coming 2 decades.

Since adaptation is basically development in a hostile climate, there is no sense in separating out funds and thereby distorting our efforts. Some aspects of the ways in which the funds should be allocated will differ from our usual methods for development assistance, for example, where 'compensation' for direct climate effects such as rising sea levels are involved, but even this does not imply that we need new institutions to manage them. One option would be a window alongside IDA. The same would apply for mitigation funding. With the private flows that could come with them and the growth and poverty reduction they could help foster, I think that these flows would constitute very wise investments for the world as a whole as well as being our duty as citizens of the world.

I have focused so far on the two big global challenges of this century. Let me now say something about the current financial and economic crisis; it is the most serious such crisis for 80 years. This crisis is having a deeply damaging effect on the developing world. We should learn two lessons from what has happened. First, the longer risks are ignored and allowed to grow, the bigger the consequences when the crash occurs – and we have seen this unfolding in the financial sector now. We know the scale of risk on the climate change front is altogether of a different and greater magnitude, and so will be the consequences of mismanaging or ignoring it.

Second, the financial and economic crisis brings the critical opportunity to find a driver of long-term sustainable economic growth to lead us out of this crisis: we do not want again to sow the seeds of the next bubble as we emerge from the crash of the last. The globally declared US\$2 trillion global fiscal stimulus for 2009/10, if implemented with a long-term vision, offers the chance to invest in new technologies and investments for low-carbon growth. This could enable us to grow out of this recession in a way that both reduces the risks for our planet and sparks off a wave of new technologies which will create 2 or 3 decades of strong growth and a more secure, cleaner and more attractive economy for all of us.

We can and must, now and simultaneously, handle the short-term crisis, foster sound development and economic growth in the medium term, and protect the planet from devastating climate change in the long term. To try to set the three tasks against each other as a three-horse race is as confused analytically as it is dangerous economically and environmentally. In particular, the developed world must demonstrate for all, especially the developing world, that low-carbon growth is not only possible, but that it can be a productive, efficient and attractive route to overcome world poverty. It is indeed the only sustainable route.

This opinion was first published on 24 March, 2009 on World Bank's blog "Development in a Changing Climate"³ (<http://blogs.worldbank.org/climatechange>). It is reproduced here with permission.



PART I
The Economic
Crisis:
Implications and
Responses

2. The Economic Crisis and Implications for Africa

“Despite a decade of growth, Africa is still far behind other continents in the quest for the Millennium Development Goals. The current global economic crisis, coming in the wake of a food and fuel crisis, will further slow down Africa’s progress.”

*Obiageli Ezekwesili
Vice President of the Africa Region, World Bank⁴.*

“As a consequence of the global economic down turn, African leaders face many difficult challenges and tough policy choices. How should Africa respond to the economic crisis and what are the lessons and opportunities we should pay attention to over the coming months? I am confident that Africa can rise to the challenge if we act collectively and if we accelerate our ongoing reform efforts aimed at greater competitiveness and economic diversity.”

*Nicky Oppenheimer
Chairman, De Beers Group⁵*

The Challenges

Africa faces its most severe economic crisis in history. While the region was spared the immediate effects of the financial crisis precipitated by the collapse of Western banks, the economic crisis that followed has hit hard. Growth forecasts have been downgraded and businesses are being squeezed by falling demand at home and abroad, as well as a drop off in the availability of affordable finance.

Governments are having to grapple with politically complex issues of soaring unemployment and poverty, and the temptation to increase trade barriers to protect their domestic economies. Drought across the region has aggravated an already difficult situation.

Back in April, the World Bank was warning that the economic crises could push an additional 53 million people around the world into extreme poverty, with Africa particularly at risk⁶. The InfoBox below illustrates some of the economic challenges facing the continent.



InfoBox

Impacts of the Economic Crisis on Africa

- Growth: A recent OCED report predicts overall growth for 2009 will be 2.8 per cent — less than half the 5.7 per cent expected before the global downturn⁷.
- Unemployment: In just one example, in the Katanga province of the Democratic Republic of Congo, 60 per cent of enterprises have closed and around 300,000 people have lost their jobs⁸.
- Finance: Sub-Saharan Africa is likely to experience a 8.3 per cent slowdown in its remittance flows, a key source of funding for small businesses⁹.
- Trade: Research by the Overseas Development Institute¹⁰ shows falling exports of flowers from Kenya and declines in tourism receipts in Kenya and Zambia.
- Public spending: The Economist Intelligence Unit (EIU) predicts that some governments will trim spending growth, alongside having to fund large fiscal stimulus packages.

The Opportunities

Fortunately, the picture is not quite as dark as the doom mongers would have us believe. Amidst the very real economic and human pain of the downturn, lie a number of remarkable opportunities that – if harnessed – would enable Africa to emerge even stronger.

For one thing, there is nothing like a crisis to stimulate innovation and change. While donor countries have repeatedly restated their commitment to increasing aid levels, an already patchy track record of implementing past commitments appears even more at risk. The possibility that aid may be under threat has thrown into sharp relief the fact that aid is not, in any case, the long term solution.

Countries are recognising the need to stimulate private enterprise. Fundamentally, it is only a thriving domestic and international private sector that generates the growth and jobs needed. What aid remains must be more precisely targeted to unleash Africa's entrepreneurial potential and enable poor people to grow their businesses or get a job.

African leaders appear to be also looking within their own continent for the drivers of economic growth. Regional trade has always been shockingly low compared to other regions. Infrastructure projects and regional co-operation are being pursued with renewed enthusiasm. Alongside this, national governments are pursuing agendas of economic diversification, critical for most countries which have tended to rely on a narrow band of economic activity. More generally, financial pressure will reinforce the drive for value for money in public spending.

For businesses too there are opportunities for innovation. More than ever, the business case for projects is paramount, suggesting that on average projects that get through will be better as a result. This extends to initiatives that have a strong development impact, such as local sourcing models.



Opinion: Mark Bowman, Managing Director, SABMiller Africa

A greater appetite for risk sharing and deeper collaboration between the private sector and development partners remain key priorities



Despite many of the gloomy predictions about how the financial crisis and global economic downturn will impact Africa's development, we remain optimistic and excited by the potential of the region. Whilst the impacts of the downturn are being felt in different ways across different sectors and countries, there is now an overarching sense of forward momentum developing across the continent, evidenced by greater political stability, a strengthening investment climate and improving infrastructure.

Although we are undoubtedly experiencing difficult and uncertain times, it is critical that all those with a stake in Africa's future continue to work hard to protect these hard won gains and continue to advance progress towards the MDGs. Business needs to continue to play a central role, especially at a time when local governments and development partners come under increasing domestic pressure. More than ever before, sustainable development will need to be at the heart of successful business.

Despite the economic uncertainty, we continue to explore new business opportunities and to invest in our communities for the long-term, albeit with a relentless focus on disciplined decision making. By focusing on core business fundamentals, we are better positioned to generate the most effective and sustainable contribution to Africa's economic and social development. It is this approach that has enabled us to continue to build new capacity and expand our operations in Angola, Mozambique, Tanzania and South Sudan.

By maximising our business linkages in the countries where we do business we can create economic opportunity and improve livelihoods by sourcing from, distributing through or selling to small enterprises and farmers. We can also play a key role in transferring skills, technologies and standards along our value chains. Strengthening our local supply chain is becoming an increasingly important business priority for us, especially as we seek to mitigate against volatility in commodity prices by ensuring a more predictable and secure local source of supply of key raw materials like sorghum and barley.

We currently buy raw materials from around 12,000 smallholder farmers in Africa, but are exploring additional indigenous crops as raw materials for brewing which would allow us to increase our local sourcing to include much larger numbers. Trials are currently taking place with cassava, which will initially be introduced as an ingredient in Angolan beers, with longer term plans to extend its use in all countries where it grows successfully. Combined with new projects to grow sorghum and barley in countries such as Tanzania and Ghana, this will increase the number of local farmers to approximately 44,000 by 2012.

In some cases these linkages can be made viable in the short-term, in others funding, ongoing support and local capacity building will be required. A key challenge is how we continue to upscale our existing efforts in a difficult economic climate, especially in areas that require the provision of technical and financial assistance, and the fostering of innovation. Growing concerns over the impact of climate change adds a greater urgency.

Overcoming these challenges will require a new type of relationship with our development partners, built around deeper, longer-term and more strategic relationships and a greater willingness to share financial resources and the risks associated with entering relatively un-chartered territory. As a company with strong roots in Africa, we are familiar with managing these challenges and deeply committed to playing a leadership role in the region's future.

This opinion was first published on 2 July 2009 by Business Action for Africa (BAA, 2009)¹¹. It is reproduced with permission.

3. Business Responses to the Economic Crisis

There has been a growing recognition of the role of business – from large multinationals to smallholder farmers – in generating growth and poverty reduction. A survey of 60,000 poor people by the World Bank earlier this year clearly demonstrated the priority placed on enterprise growth and employment as an exit strategy from poverty¹². Razia Khan, Africa Regional Head of Research at Standard Chartered Bank, notes that in the context of the economic crisis “many in the labour force are opening their own businesses just to get by¹³”

For larger businesses, the primary contribution they can make is by generating jobs, economic opportunities and tax revenues needed to fund public spending on health and education. In short, they can make perhaps their greatest contribution by focusing on doing good business.

Beyond that, business can play an important role in advocating for the policies needed to stimulate growth and enterprise, and those that enable people to take advantage of the opportunities that growth creates.

Core Business

A joint Oxfam-Unilever report back in 2005¹⁴ noted that Unilever Indonesia maintained its presence in Indonesia throughout the country’s economic crisis. The development community recognises that that decision was perhaps one of the most significant contributions Unilever could have made to the country’s recovery.

So too in Africa now. Businesses must focus on the long term investment opportunities that Africa presents. Economic and political reforms have propelled many countries in Africa into some of the best places to invest in the world. In the 2010 Doing Business Report, Rwanda is singled out as the top reforming country in the world, in terms of the ease and cost of doing business¹⁵. Mauritius remains one of the best places, globally, to do business.

For those who innovate, there are significant opportunities for commercial rewards that also have a positive development impact. Local sourcing of inputs, for example, offers new economic opportunities for small businesses, while creating a stable supply chain.

SABMiller, mentioned above, have been among companies pioneering the local sourcing of sorghum, barley and cassava. A report by INSEAD on their impact in Uganda, found that their sorghum project alone provides 8,000 farmers with approximately 70 per cent of their income¹⁶.

Coca-Cola, meanwhile, has been developing inclusive distribution models. Across Africa, there are now 2,500 “manual distribution centres” employing 12,000 people and generating \$500 million dollars in revenue each year¹⁷.

Firms that innovate to reduce cost and increase value for customers will be winners in the downturn. Mobile phones provide a clear example of this. A number of companies, such as Bankom in Uganda, have begun to explore the use of mobile phones and other innovative platforms to bring banking services to millions of people. The rise in so-called branchless banking is set to transform the way people access and manage their money.

In May 2008, the UK Prime Minister, Gordon Brown, and UN Secretary General Ban Ki-moon launched the Business Call to Action¹⁸ as a platform to encourage companies to use their core business to generate transformative change in developing countries (See InfoBox).



InfoBox

Business Call to Action

<http://bcta-initiative.org/>

The Business Call to Action aims to “accelerate progress towards the MDGs by encouraging companies operating in or trading with developing countries to adapt their business models, competencies and approaches to help improve the lives of people through innovation, investment and the creation of decent jobs while leveraging their core business expertise to realize commercial success”. Examples of company announcements include:

- **Cadbury – Increased productivity in farming in Ghana:** Will improve the productivity and incomes of over 1 million cocoa farmers over the next 10 years. They will initially focus on 100 cocoa farming communities in Ghana, reaching 80,000 people and investing £30 million over the next ten years. This is expected to increase farmer productivity by 20 per cent in the first five years, rising to a 100 per cent increase by year ten.
- **Cisco – Agricultural advice to farmers:** Cisco, in association with BT and OneWorld, plan to expand the LifeLines service which currently provides productivity enhancing agricultural advice to 40,000 farmers in 700 villages in India. Cisco estimates that the LifeLines service can be developed over five years to provide information on pesticides, crop yields, animal husbandry and market opportunities to 500 000 farmers in Kenya.
- **Diageo – local sourcing of raw materials:** Diageo will develop the cultivation of sorghum for brewing in Cameroon, identifying suitable strains, training farmers, providing finance and developing storage and transport infrastructure. They will provide a sustainable market for local grain, substituting as much as possible of the 16,000 tonnes that Diageo currently imports. The project is expected to benefit around 10,000 people, raising agricultural standards, yields and farm incomes.
- **Microsoft – new Innovation Centres in Africa:** Microsoft will open four new Microsoft Innovation Centres in Morocco, Rwanda, Nigeria and Uganda which will each year provide an estimated 6,000 businessmen and women with the technology and expert support they need to start up businesses or further their careers. These facilities will help people with great ideas to figure out how to turn them into products or new businesses.
- **Yara – Increased fertiliser supply to Africa:** Yara International, a Norwegian based fertilizer supplier, has announced an innovative way to tackle food shortages in Tanzania and Mozambique. Research shows that with better access to fertilizer, Africa’s food production could be tripled by 2015. In these countries, the current ports system is highly ineffective, with shipments of fertilizer taking 3-4 times longer to clear customs and be delivered to the farmers than in other ports. Yara’s “Growth Corridor” announcement will speed up the process making fertilizer available all year round to farmers by establishing a holding warehouse which has the ability to streamline effective distribution. If successful this project will be implemented in various locations in Africa.

Policy Advocacy

Aside from thinking creatively about how they can do business, the other key contribution that businesses can make is to engage governments on policy. Of particular importance is the need for investment climates that support private sector-led growth.

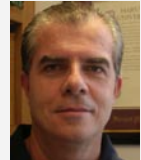
The Investment Climate Facility (ICF)¹⁹ is one example of business engaging constructively with governments and donors to deliver a better investment climate in Africa, with commitments totalling \$175 million from donors and companies. ICF CEO, Omari Issa, points out that “The good news may be that the private sector can give so much more than money in order to improve Africa’s investment climate. But the even better news is that the rewards, for those governments and businesses that get involved now, will be profound”²⁰.

Another focus area for business is regional trade and integration and the infrastructure needed to underpin it. This of course has large benefits to business, but also significant development benefits. Trade is perhaps the policy area that is most immediately under threat in the downturn, with governments are under significant pressure – both across Africa, as well as around the world – to protect their domestic economies. Business can play an important role in making the case for an open, rules-based trading system. Larger companies must make a coordinated effort to take this message to the international community.



Opinion: Pedro Lins, CSR Adviser, InWEnt

Building sustainable competitiveness will create the foundations for Africa's long-term development



The global economic crisis reminds us of Africa's vulnerability to economic shocks, and the need to create both a stable economic framework and a strong domestic private sector, which is less dependent on external sources of funding and investment. It is only by building a properly functioning private sector that a solid foundation for Africa's development can be created.

For this foundation to stand the test of time, we must address fundamental constraints that include poor infrastructure, a lack of basic education and skills, talents, competences and endemic corruption. More African enterprise must move from the informal to the formal economy, and African businesses must become more competitive in global markets.

Crucially, we have to move beyond supporting non sustainable economic development. This requires the international development community, governments and the private sector to work together to establish a renewed focus on building Africa's competitiveness, and to place more emphasis on leveraging Africa's strengths and value to the global economy.

We must build a clear and collective understanding of where Africa can, and crucially cannot compete in international markets. It is only by leveraging key areas of competitive advantage, and by investing for the long-term in innovation, education and skills that truly sustainable growth will be realised. African economies need to focus on their strengths, establish centres of competitive excellence and build on what they do best. It is difficult to imagine Africa successfully competing with Asia in the production of electronic components, but in agribusiness, tourism, clean and renewable energy, Africa has real and untapped potential.

The challenges of Africa's development must be seen as a business opportunity by the private sector. We need a long-term vision and commitment by the private sector to invest in sectors that offer the most potential for growth. To create the incentives, we have to ensure a more stable, predictable and low risk environment for business to invest and operate in.

Beyond paying taxes and creating jobs, large multi-national companies must also support the building of local capacity and skills, talents and competences and develop their supply chains. This is not charity, rather good business sense. Large international companies must apply the same standards of accountability and transparency in developing countries that they do in developed countries, and they must address environmental and social concerns by helping to conserve natural resources, and by acting responsibly.

Anglo American's commitment to supporting workers with HIV and AIDS in South Africa, InWEnt's work place program on HIV/AIDS in Africa in partnership with Ford, and Heineken and Coca-Cola's leveraging of their respective distribution networks for public good are just some examples of where companies have shown that they understand that supporting development makes good business sense.

Policy makers and business need to help African countries to identify and nurture their competitive advantage, enabling them to become the best and most competitive producers of a given product or service. This is a difficult task, requiring a long-term vision and commitment by all parties. But it can be done. In my country, Brazil, we took the decision to become the best and most competitive producers of key commodities including ethanol, sugar cane, meat (animal protein) and soya beans. We have enjoyed 20 years of growth and are attracting the most global investment, after the US and China.

4. Government Responses to the Economic Crisis

“Africa needs to use the crisis as an opportunity to speed up necessary structural reform such as larger regional markets. It needs to involve business leaders more strategically in this if it is going to deliver the conditions for business to thrive”.

Lord Malloch-Brown, then Minister for Africa, Asia and the UN, Foreign and Commonwealth Office, UK²¹

“The state clearly has an important role in tackling the downturn, but a move away from market-led approaches and towards policies such as protection and renationalisation – in the developed or the developing world – could have long term repercussions for growth and development, distorting incentives and worsening the already poor investment climate for business. Although markets are frequently seen – rightly or wrongly - as the cause of the world’s current woes, they are also clearly a big part of the solution. Efforts to tackle the downturn should not undermine the resurgence of private sector-led development, and the jobs and incomes it generates, which is so urgently needed.”

Alison Evans, Director, Overseas Development Institute (ODI) and Karen Ellis Business & Development Programme Leader, ODI²²

Policy context

Current research by the Overseas Development Institute shows that there is no general pattern to the way in which governments are responding to the economic crisis, with very different policy response across countries (See InfoBox).

The research notes that it is hard to separate ongoing policy processes with economic crisis responses. Rwanda, mentioned earlier, is in any case on a fast-track reform process to make its business climate more supportive to domestic and international businesses²³, and reforms have been part of a broader agenda of boosting competitiveness.



InfoBox

Examples of stated policy responses to the to the economic crisis, identified in forthcoming ODI research²⁴

- Reductions in government expenditure to preserve macroeconomic stability & reduce inflation (Kenya, Ghana);
- Increases in government expenditure as a fiscal stimulus (Zambia);
- Tax increases to cover spending (Sierra Leone)
- Tighter capital requirements and looser liquidity requirements for banks (Kenya)
- Increased reserve requirements to reduce private credit and tackle inflation (Ethiopia)
- Increased monitoring of financial sector (Tanzania)
- Reduction of trade barriers (Zambia)
- Reviewing mining and forestry contracts to curb repatriation (Ghana)
- New subsidies on food production and petrol prices (various countries)

An effective, business-friendly regulatory environment is important in the downturn as it enables existing firms to remain flexible and change direction, and helps new firms to enter the market and weak firms to declare bankruptcy²⁵. At the same time, competition policy is critical, not only to ensure effective and competitive markets, but also to safeguard businesses from unfair policies that protect particular incumbents. The latest picture across Africa is presented in this year's Doing Business Report from the World Bank and IFC (see InfoBox)

Alongside creating a conducive investment climate, governments must reprioritise infrastructure. Of particular importance is the regional infrastructure needed to stimulate regional trade and integration. As Sir Mark Moody-Stuart, former Chairman of Anglo American, put it, "African countries can do a great deal more to open up trade opportunities between themselves... the G8 should be active in one last attempt to deliver on the Doha 'development' round and...should also accelerate their commitments on Aid for Trade – building Africa's capacity to trade". He believes that the North-South Corridor programme²⁶, which recently received \$1.2 billion in commitments, "provides a good model of a multidonor, integrated Aid for Trade programme that tackles both soft and hard infrastructure constraints and will reduce the cost of trade in relevant regions"²⁷.

One area of infrastructure that has generated particular excitement is information and communications technology (ICT). Again, Rwanda has been a leader in creating a framework to attract investment in this area. Writing about the general opportunities ICT presents, Gabriel Solomon, Senior Vice President, GSMA comments that "When the MDGs were agreed in 2000, achieving a blanket of connectivity across Africa was a dream only a few people imagined could be realised. Since then, many African governments have liberalised their communications sectors catalysing some \$50 billion of private investment to date with a further \$40 billion pledged over the next 4 years. This level of investment has extended connectivity to more than two thirds of the population and the next wave of investment will increase this to over 90 per cent and also start the roll out of mobile broadband"²⁸.



InfoBox

World Bank Doing Business Report 2010

Sub-Saharan Africa remains the most difficult region in the world to do business, scoring an average of 139 on the World Bank ranking of the ease of doing business, compared with an average of 30 for OECD countries. The Middle East and North Africa fared slightly better, scoring above South Asia and Latin America with an average score of 92.

Nonetheless, 2008/2009 has been a record year for regulatory reforms aimed at increasing the ease of doing business, with 20 per cent more reforms being pushed through across the globe than the previous year. Developing countries have been the main reformers accounting for 66 per cent of the reforms. With the exception of a few Asian countries and the Russian federation these reforms have not been put forward as part of these economies' economic recovery packages, but rather "as part of longer-term efforts to increase competitiveness and encourage firm and job creation by improving the regulatory environment for businesses".²⁹

For the first time since the report came out in 2004, a Sub-Saharan African country has taken the title of the fastest reformer in the World. Rwanda, with reforms in 7 out of 10 of the Doing Business Report topics: starting a business, employing workers, registering property, getting credit, protecting investors, trading across borders, and closing a business.

Other countries in the region scored highly on individual indicator sets – Botswana scored in the top ten relating to enforcing contracts and Malawi was in the top ten for regulations related to closing a business.

Nevertheless, despite a number of reforms, very few African countries make the top 50 countries in terms of ease of doing business. Only Botswana, Mauritius, and South Africa make the top 50. And some reforms in the region made it more difficult to do business – in Kenya and Tanzania (in dealing with construction permits), and in Botswana, Sierra Leone and Suriname (in registering a property). Nonetheless, the majority of the reforms in the region make it easier to do business.

For the first time a subnational Doing Business Report has been produced by the WB, focusing on Kenya. The key finding from this report is that if regions learned from each other Kenya could fair much higher in the rankings than it currently does.³⁰

"Over the past 6 years 80 per cent of reforms in low- and lower-middle income economies were aimed at reducing the administrative burden for firms, mostly by easing business start-up and trade".³¹ This is welcome as this burden can often be one of the causes of shifting businesses into the informal sector – a sector which is particularly active in many African countries.

At the same time, "several postconflict economies, including Rwanda and Sierra Leone, introduced new company and collateral laws, laying the legal foundations for future markets".³²

Private Sector Partnerships

Governments must also look again at how they can support small enterprises, particular those constrained by lack of finance. For many African countries, agribusiness still offers the best way to generate improved livelihoods for poor people and achieve food security. "In the longer-term", say Arne Cartridge and Sean De Cleene of Yara International, "Africa's agricultural sector has the potential to be the engine room of regional growth"³³.

There are significant opportunities for private sector innovation in the crisis. There is a strong case for governments (and donors) to share the risk associated with these

investments. Often, the commercial benefits need to be proven, but once up and running the projects can achieve significant development benefits at scale. The Africa Enterprise Challenge Fund³⁴ is one example of an initiative that shares the risk of for-profit initiatives that have the potential to produce large benefits in rural markets and financial services.

The International Community

Ultimately the challenges presented by the economic crisis, as well as by the climate change crisis, need to be tackled collectively at the international level. The discussion at the recent G20 meeting in Pittsburgh is summarised in the InfoBox



InfoBox

2009 G-20 Pittsburgh Summit, 24 to 25 September

In Pittsburgh, the G20 adopted a new Framework for Strong, Sustainable and Balanced Growth and took stock of the implementation of its previous commitments³⁵. As Robert Zoellick, head of the World Bank says “The new danger is not freefall but complacency”.³⁶ The Framework integrates climate change solutions into its economic solutions, including a focus on renewable energy in developing countries and food security measures.

Recognising that developing countries are part of the solution to the global economic and climate change crisis, the new Framework includes greater global integration through the creation of a Financial Stability Board (FSB) to include major emerging economies to coordinate and monitor progress in strengthening financial regulation; and greater developing country representation in the World Bank and the IMF. It also recognises the need for greater access to finance – through the creation of new World Bank funds and through micro-financing initiatives such as its work with Rabobank to improve access to capital for small scale farmers and cooperatives, using small scale donations, technical assistance, fair trade-financing, microfinance lending, guarantees, and other innovative tools.

It also focuses on greater regional integration in Africa and value chain integration through its work with the Hewlett Foundation and others to increase market efficiencies and reduce barriers along regional development corridors.

The G20 has also recognised the importance of harnessing business experience and the role of public-private partnerships. A key focus has been the scaling up of proven business and market models. It is working with the World Economic Forum to develop scalable business models that contribute to sustainable food production.



Opinion: Miguel Veiga-Pestana, VP Global External Affairs, Unilever

The private sector can and must play a key role in building Africa's capacity to trade



The global economic downturn is exacerbating well-documented infrastructure constraints in Southern and Eastern Africa, which are already contributing to low levels of trade, economic growth and poverty reduction, with landlocked countries especially affected. The OECD recently reported that inter-regional trade still only accounts for 9.5 per cent of trade in Africa. Increasing regional integration and trade is vital to enabling higher levels of economic diversification and foreign direct investment.

For companies doing business in the region, it is not just the poor quality of physical infrastructure that remains a problem. Significant delays in moving goods across borders due to inefficient regulatory and customs procedures make transportation costs prohibitively expensive. It is estimated that in Southern and Eastern Africa, regional transport costs are 75 per cent higher than the international benchmark.

Poor quality infrastructure does not just impede growth in regional and international trade volumes. It also inhibits foreign direct investment, job creation and economic growth. According to the World Bank, the potential contribution of infrastructure development to growth across African regions ranges from 1.5 per cent in North Africa to almost 3 per cent in East Africa and Central Africa.

To unlock the region's undoubted potential, especially across the agricultural value chain, producers need a faster and more reliable transport system which will reduce costs, ensure products reach markets faster and deliver supply and distribution chain efficiencies for both importers and exporters.

The COMESA-SADC-EAC initiated North-South Corridor programme, which spans Southern and Eastern Africa, is to be welcomed, with its potential to create a modern, low-cost and reliable transport network. We are particularly encouraged by the holistic nature of the solution, which uniquely aims to tackle both hard and soft infrastructure constraints through an integrated process, offering a model for potential replication across the entire region.

However, the task of addressing infrastructure constraints such as weak customs administration and other barriers to doing business cannot fall just to governments and development organisations. Beyond providing investment and delivery expertise, the private sector can and must be a key stakeholder in the process. As infrastructure users, we have already demonstrated we can add significant value to tackling soft constraints like customs procedures.

One example is Business Action for Improving Customs Administration in Africa (BAFICAA), a private sector-led trade facilitation programme that emerged from Business Action for Africa. BAFICAA's primary objective is to build a cooperative dialogue between business and governments based on a relationship of trust and the recognition that the private sector can be an active partner in improving the customs environment. In East Africa, BAFICAA has been working in partnership with other leading companies, SITPRO (the UK's trade facilitation agency), the East African Business Council and government authorities, to recommend real and practical improvements in the customs environment to benefit the broader local economy and to change the culture of customs administration from a controlling function to a facilitating one.

More funding and support for programmes like BAFICAA will boost Africa's capacity to trade, improve the environment for business and deliver significant economic benefits to governments and the wider community. The private sector is ready and willing to play its part in scaling up these important initiatives.

This opinion was first published on 2 July 2009 by Business Action for Africa (BAA, 2009)³⁷. It is reproduced with permission.



Opinion: Richard Laing, Chief Executive, CDC

Africa remains an exciting investment opportunity



Much has already been said about the impact of the global downturn on Africa, but a great deal of the talk about solutions has been empty rhetoric full of generalisms that regard Africa as one homogenous place. Any simple prognosis for the continent's economic future ignores the fact that there are 48 countries in sub-Saharan Africa with differing economies and at varying stages of development. It is action, not talk, that is required.

Of course, as the global financial crisis brings about falls in foreign aid and remittances, it is clear that no country will emerge unscathed. Some nations like South Africa are already in recession and those economies with a greater reliance on exports and trade with the West are undoubtedly bearing the brunt of the crisis. However, we should caution against too much doom-mongering. Many African countries are still growing on the back of strong domestic demand and consumer markets, with Uganda, Ghana, Nigeria and Rwanda as prime examples.

While Africa has been badly affected by global recessions in the past, it has entered this one in better shape thanks to a record of improved economic management and good governance in many states. GDP growth is expected to be cut in half across the continent this year, but unlike most Western economies there – is still positive economic growth. And if that continues, so will interest from foreign investors.

As the world's biggest private equity investor in Africa, we at CDC see a clear and continuing demand for capital in all the African countries in which we work. Those companies that in particular are serving domestic and African markets are hungry for investment and can play a vital role in helping the continent buck the global economic trend.

CDC is about one thing: getting much needed capital to work in promising businesses so that those businesses can contribute to economic growth – without which there is no possibility of long term poverty alleviation. Last year we invested almost £200m in promising African businesses and we have a further £800m-plus committed for local African fund managers, ready and waiting to be invested in businesses. And it is not just us who are committing to African businesses. The Indians and Chinese, who have traditionally focused on mining and natural resources, are seeing real potential in telecoms, pharmaceutical and other sectors too.

What I have also seen is that as the global recession bites, members of the African Diaspora are returning home because they see prospects that they cannot find in the US and Europe. This 'reverse' brain-drain can have a positive impact, particularly in countries like Ghana where recent oil and gas finds are big news and offer good prospects. They have seen the huge potential of their homeland and are doing something about it.

There is good and bad news to come out of the economic crisis that we now face. While the poorest people of Africa are amongst the least able to handle the effects of the downturn, it is apparent that many African nations also have a unique capacity to come through the tough times.

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PART II
The Climate
Change Crisis:
Implications and
Responses

5. The Climate Change Crisis and Implications for Africa

“A look into the future of climate change reveals disruptions that will take on wartime proportions. Responses must therefore match the challenges. Declaring a state of ecological emergency in vulnerable regions of Africa will focus local and international attention on sustainable development in general and climate change in particular. The time to do it is now.”

Calestous Juma, Professor, Harvard Kennedy School, and co-author of the 2010 World Development Report³⁹

"It is essential that climate change be viewed as a major development opportunity for Africa given the anticipated increase in the energy requirements as growth accelerates...Agricultural carbon sequestration (uptake and storage of carbon dioxide) could generate annual revenues of close to \$1.5 billion."

Ngozi Okonjo-Iweala, Managing Director, World Bank⁴⁰

The impact of climate change

Africa, like other developing country regions, is more exposed and less resilient to the impacts of climate change than the developed countries that are largely responsible for it. The recently-published 2010 World Development Report identifies climate change as a threat to the development gains made, and urges immediate action⁴¹. The Report states that agriculture – which accounts for the bulk of employment – is particularly exposed to the expected increase in climate variability to which new higher yielding seed varieties are less resistant⁴². It is estimated that by 2020, yields will fall by 50 per cent and crop revenues by 90 per cent, with smallholder farmers bearing the brunt of this⁴³. The direct impact of food security is clear⁴⁴. When combined with expected increased water stress and increases in disease⁴⁵, the risk of conflict becomes high⁴⁶.

For larger businesses operating in Africa, the climate change impacts are also likely to be severe, whether in terms of their physical assets, outputs, inputs or supply chain⁴⁷. According to the Stern Report on the *Economics of Climate Change*⁴⁸, climate change could cost 5 to 20 per cent of global GDP. In contrast, action to reduce emissions would cost 1 per cent GDP per year.

While developed countries are the root cause of the problem, developing countries, including those in Africa, must be part of the solution. Historically, developed countries accounted for the majority of emissions: 47 low income countries contribute only around 8 per cent of global carbon emissions⁴⁹, but will face 75–80 per cent of the burden of climate damages⁵⁰.

The need for low-carbon growth

According to the UN Economic Commission for Africa, achievement of the Millennium Development Goals “will not happen unless there is sustained economic growth at a minimum level of 7 per cent per year – such growth will only come as a result of private sector efforts”⁵¹. With over half of the population in Sub-Saharan Africa living in extreme poverty⁵², sustaining and indeed accelerating economic growth must therefore remain a priority. Yet most past and current growth has been “high-carbon growth”. Future growth must be less “Green-House-Gas intensive”. According the 2010 World Development Report, it is possible for Africa to achieve this without compromising development.



InfoBox

Climate change: key concepts and frameworks

Climate change is defined as “the change in climate attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural variability observed over comparable time periods”⁵³. Climate change, also known as global warming and the Greenhouse Effect, has been much debated over recent years. However, it is now widely accepted – based on evidence from, among others, the **Intergovernmental Panel on Climate Change (IPCC)**⁵⁴ – the body established by the UN “to assess scientific, technical and socio-economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation” – as a very real phenomenon that is threatening many areas and resources in the world, including many of the world’s key trade and financial centres⁵⁵.

Climate change is caused by increased emissions of Greenhouse Gases (GHGs) – including carbon dioxide (CO₂), the most abundant human-caused GHG – that are now at levels unparalleled for tens of thousands of years⁵⁶. Climate change differs from normal climate variability that we have experienced historically. Recent figures show CO₂ emissions are now 16 per cent higher than they were in 1990⁵⁷. The sources of the increased GHG emissions are largely energy use, transport and land-use changes. Around 7 billion tons of CO₂ are emitted on a global scale each year as a result of the use of fossil fuels (natural stores of coal, oil and gas). A further 1.6 billion tonnes is emitted as a result of changes in land use, and particularly deforestation⁵⁸.

In per capita terms, emissions from higher and middle income countries are far greater than those from developing countries: the average Chinese citizen emits around 16 per cent of the average US citizen⁵⁹. In gross terms, however, China has now overtaken the US as the world’s largest emitter of CO₂⁶⁰. Other high growth areas such as India and Brazil are also high emitters. Brazil now produces more CO₂ per head than Germany⁶¹. In 2004, non-OECD emissions overtook, for the first time, those from the OECD, and on current trends will exceed OECD countries by 57 per cent by 2030⁶². Poor and middle-income countries now account for just over half of total carbon emissions⁶³.

Current attempts to curb climate change are based on two types of activities: *mitigation* (reducing current GHG levels); and *adaptation* (adjusting livelihood systems to cope with environmental changes resulting from elevated GHG levels). The two key global climate change frameworks, that focus on mitigation, are the Kyoto Protocol, which expires in 2012, and the UN Framework Convention on Climate Change. A critical meeting in December will look at a post-Kyoto framework.

- **Kyoto Protocol**⁶⁴: Agreed in 1997 but only came into actual legal force in 2005. Contains legally binding emissions targets for developed countries, with the aim of achieving a 5.2 per cent reduction below 1990 levels by 2012. Recent data shows that rich countries are largely off-track⁶⁵. It has set in place carbon trading mechanisms, such as Joint Implementation (JI) and the Clean Development Mechanism (CDM). These mechanisms enable industrialised nations to comply with their targets by means of investing in emissions reduction projects, including through investment in lesser industrialised nations and developing countries with no emission targets.
- **United Nations Framework Convention on Climate Change (UNFCCC)**⁶⁶: UN body providing the overall policy framework for addressing climate change. Adopted in 1992 and ‘entered into force’ in 1994⁶⁷. Its objectives are “stabilising GHG concentrations at levels which prevent dangerous interference with the global climate system; and achieving these reductions within a time frame that allows ecosystems to adapt naturally to climate change and to enable economic development to proceed in sustainable manner”⁶⁸.
- **UN Climate Change Conference, 7 – 18 Dec, Copenhagen**⁶⁹: The 15th Conference of Parties (COP15) of the UNFCCC. The task of the Copenhagen meeting, which will include developed and developing countries, is to create a new global protocol to address climate change, and that will succeed the Kyoto Protocol when it expires in 2012.



Opinion: Richard Gilbert, Director of Communications, Business Action for Africa

Latest World Development Report underlines the need to act now on climate change



As efforts intensify to secure a climate deal in Copenhagen in December 2009, the launch of the World Development Report by the World Bank in September provided a timely reminder of the potentially catastrophic consequences of climate change for developing countries.

The Report underlines the fact that development will get harder as a result of climate change. It is estimated that developing countries will bear 75 per cent – 80 per cent of the costs of damages caused by the changing climate. Even 2 per cent warming, the minimum the world is likely to experience, could, experts believe, result in permanent reduction in GDP of 4 to 5 per cent for Africa and South Asia.

The Report concludes that economic growth alone is unlikely to be fast or equitable enough to counter threats from climate change, particularly if it remains carbon intensive and accelerates global warming. Consequently, climate policy cannot be framed as a choice between growth and climate change and the Report calls for climate smart policies that enhance development, reduce vulnerability and enable the financing of the transition to low-carbon growth paths.

The Report emphasises the need to act now to minimise the costs of transition to low carbon technologies, and to ensure the widest range of options remain open. It calls for the world to act together to tackle both adaptation and mitigation, with high income countries taking aggressive action to reduce their own emissions to free “pollution space” for developing economies, which will stimulate innovation and demand for new technologies so that they can be rapidly scaled up. It would also help to create a sufficiently large and stable carbon market. Both these effects are required to enable developing countries to move to a low carbon trajectory while rapidly gaining access to the energy services required for development.

Finally, the Report underlines the importance of global policy makers to acting differently to ensure the world’s energy systems can be transformed to enable global emissions to drop by 50 per cent-80 per cent. Developing countries need financing and technological assistance to make this transition to ensure they they do not remain locked in to a cycle of low growth whilst also becoming increasingly vulnerable to the consequences of climate change.

Most of the innovation and financing required to move the world to a low carbon future will come from the private sector. As the Copenhagen Communique, developed by the Prince of Wales’s Corporate Leaders Group on Climate Change concludes:

“A strong, effective and equitable international climate framework will stimulate the domestic policy interventions, bilateral and regional deals that are needed as a matter of urgency to deliver on intermediate and long-term reduction targets and accelerate construction of the low-carbon economy. This will unlock the potential of business to do what it does best: to invest profitably, to innovate, and make affordable low carbon products and services to billions of consumers around the world. The more ambitious the framework, the more business will deliver.”

The stakes couldn’t be higher.

This opinion was first published on 30 September 2009 on the Business Fights Poverty blog. It is reproduced with permission⁷⁰

6. Business Responses to the Climate Change Crisis

“A shift to a low-carbon economy, supported by private sector participation and government, has the potential to drive next generation of technological innovation, address the environmental and economic challenges that climate change presents and contribute to global development”

Extract from "The Copenhagen Call" issued at the close of the World Business Summit on Climate Change, 26 May 2009⁷¹

The business community has emerged as a key proponent of action on climate change. This is despite the fact that many vocally lobbied against action in the run-up to the ratification of Kyoto. The shift was driven by the compelling scientific evidence on climate change, a better appreciation of the business opportunities and an understanding that the costs of inaction far exceed the costs of acting quickly.

Business opportunities

The low-carbon growth strategy that Africa will need to adopt opens up opportunities for innovation in energy efficiency and low-carbon technologies. Renewable energies, such as solar, hydro and wind, are receiving more attention in the African context. Almost all African countries have sufficient renewable resources to satisfy their energy demands if existing technologies were to be deployed. The private sector is increasingly aware of the vast business opportunities involved⁷². According to the UNFCCC, over 80 per cent of the investment for climate change mitigation and adaptation will need to be privately financed, including in the area of climate friendly technology⁷³.

Ngozi Okonjo-Iweala, Managing Director of the World Bank, believes that Africa should tap its renewable resources (of which it is currently only using 8 per cent), particularly hydropower, to meet increasing energy demand and boost both growth and development⁷⁴. Africa's first privately financed geo-thermal plant is under construction in Kenya. A programme of the World Bank and UNEP is hoping to replicate this initiative in the Greater Rift Valley⁷⁵. In 2008, the Ethiopian Electric Power Corporation signed a \$284 million agreement for the installation of 120 wind turbines. Uganda installed its first hydro plant and as the Africa Progress Panel reported “South Africa announced a feed-in-tariff that may propel the country to the forefront of renewables development on the continent”⁷⁶.

Biofuels also present important business opportunities. While rising food prices have focused attention on the negative consequences of using crops and land for producing fuel rather than food, there are crops that can be grown on land that is unsuitable for food production⁷⁷. Significant biofuel projects in Africa are the sorghum production project by the UK's CAMS Group in Tanzania and Germany's FloraEcoPower's purchase of 13,000 hectares in Ethiopia for biofuel production⁷⁸.

Recognising the particular challenges faced by agriculture, a number of schemes have been set up to encourage business investment in sustainable agriculture, including the African Agriculture Fund, established by the African Development Bank, the Agence Française de Développement, the International Fund for Agricultural Development and the Alliance for a Green Revolution in Africa⁷⁹. Sustainable farming may harness methods to increase food production whilst delivering environmental benefits.

The carbon market has also created opportunities for business in Africa, under which developed countries support carbon reduction projects in Africa or elsewhere. There are an

increasing number of financial instruments with which to develop clean energy that can benefit countries across Africa. These include the Clean Development Mechanism (CDM) and the newly created Climate Investment Funds (approved by the World Bank in 2008).

However, CDM has failed to take root across Africa. The region only accounts for 1.4 percent of CDM projects worldwide (53 out of 3,902 projects)⁸⁰, despite being similarly equipped with both the resources and facilities compared to other developing regions where CDM projects have been successfully implemented with commercially available technologies. A study by the World Bank reveals that there is a large, diversified range of CDM opportunities across Africa's energy sector: for the 44 countries and 22 technologies considered, the study estimated the potential for more than 3,200 clean energy projects⁸¹.

Managing Footprint

Progressive companies are measuring and acting to reduce their environmental footprint. For example, SABMiller recently conducted a water footprint analysis of its beer production in South Africa in order to identify strategic areas for water conservation. The results showed that 95-98 per cent of SABMiller's water footprint lies within agricultural production. The research concluded that only focusing on the amount used, rather than understanding the actual impact of water within the local context, is one of the major shortfalls in current water footprint methodologies⁸². Meanwhile, Coca-Cola has set an overarching target of becoming "water neutral". The Coca-Cola water stewardship framework focuses on three components: reduce, recycle, and replenish. The company is striving to have 100 per cent of facilities returning the water used in manufacturing processes, back to the environment by 2010⁸³.

Ford has developed a "Blueprint for Sustainability", a CO₂ strategy aiming to reach a target of 30 per cent reduction in CO₂ emissions by 2020. It is the first US auto firm to set such a target. Ford will introduce a new generation of fuel-saving, turbo-charged gasoline engines. Mid- and long-term plans include weight reductions and new fuel-saving programmes.⁸⁴ Timberland has set the overarching goal to become carbon neutral in 2010. Five steps are outlined and focal areas identified in order to reach this goal. Since 2006, the company has reduced direct emissions by 27 per cent by using less energy and expanding its use of renewable energy⁸⁵.

Disclosure

The demand from investors and other stakeholders for effective reporting on the business implications of climate change continues to grow. Overall, corporate sustainability reports increasingly include information about climate change. The Global Report Initiative G3 Sustainability Reporting Guidelines, has introduced a new indicator; "Financial implications and other risks and opportunities for organisation's activities due to climate change."⁸⁶

Advocacy

Business can also play an important role in persuading governments to act. At the UN Leadership Forum on Climate Change, 22 September 2009, New York, business leaders were urged, as part of a Seal the Deal! Campaign, to "help build positive momentum toward the 2009 UN Climate Change Conference and raise awareness about the importance of an ambitious global climate agreement"⁸⁷. This and other examples of business campaigns are outlined in the InfoBox below.

Central to the business message is a call for governments to put in place an effective global and national "post-Kyoto" legislative and fiscal framework that would stimulate a market-based approach to tackling climate change, with a particular emphasis on flexible mechanisms to create a stable price for carbon. A price that reflects the true environmental

impact is perhaps the most powerful incentive for climate-friendly investment decisions. This can be achieved through a tax (which fixes the price) or a so-called “cap and trade” carbon market as used in Europe (which fixes the quantity of total carbon a company can emit, and then allows the carbon price to vary as companies buy and sell the right to emit).



InfoBox

Examples of Business Action on Climate Change

- **UN Leadership Forum on Climate Change, September each year, New York:** held on an annual basis during the UN General Assembly negotiations, the forum engages the private sector to contribute to the inter-governmental negotiations. The 2009 Forum, organised by the UN Global Compact, among others, discussed how to build positive momentum for the 2009 climate negotiations (COP 15), with a particular focus on businesses’ role in a future climate deal⁸⁸. The Global Compact is reaching out to its participants to galvanise global business support for the UN Seal the Deal! campaign⁸⁹ calling for a fair, balanced and effective post-Kyoto climate agreement.
- **The World Business Summit on Climate Change, “The Copenhagen Call”⁹⁰:** a statement that called, among other things, for clear and long term regulatory signals and new financing mechanisms, such as green infrastructure funds.
- **US Climate Action Partnership (USCAP)⁹¹:** an alliance of businesses and leading environmental groups that issued a “call on the federal government to quickly enact strong national legislation to require significant reductions of greenhouse gas emissions” and to encourage the US Government to “become more involved in developing the post-2012 international arrangements for addressing climate change that are now being discussed”⁹².
- **UN Global Compact – Caring for Climate.** “Caring for Climate” is a complementary action platform for Global Compact members seeking to take leadership on the issue of climate change. It provides a framework for business leaders to advance practical solutions and help shape public policy. CEOs supporting the statement commit to set goals, develop strategies and publicly disclose emissions.⁹³
- **Combat Climate Change (3C Initiative)⁹⁴:** a business leaders’ initiative endorsed by 67 multinational corporations whose main objective is to mobilise companies and business leaders across the world to contribute knowledge, resources and leadership to the UNFCCC process.
- **Corporate Leaders’ Group (CLG)⁹⁵:** a cross-sector group consisting of business leaders from major UK, EU and international companies. The CLG has developed a Climate Leadership Programme
- **Carbon Disclosure Project (CDP)⁹⁶:** an independent organisation acting as an intermediary between shareholders and corporations on climate change related issues, providing primary climate change data from the world’s largest corporations. The data derives from responses to CDP’s annual Information Request and provides investors with insights into the companies’ climate change strategies.
- **Investor Network on Climate Risk (INCR)⁹⁷:** a network of institutional investors and financial institutions that seek to improve the understanding of the financial risks and investment opportunities posed by climate change. INCR has created a Global Framework for Climate Risk Disclosure, as well as a set of guidelines for improving corporate disclosure on climate change.



Opinion: Issa Ouedraogo, Managing Director, B-Bovid Limited

Issa Ouedraogo, Managing Director B-Bovid Limited Organic Biodiversity Farming



Companies need to be aware of the aspects of climate change likely to affect their particular businesses. But climate change also presents major business opportunities: business has an important role to play in both developing new low-carbon technologies and changing consumer behavior to adopt a low-carbon lifestyle.

In the past, businesses that have been running environmentally sustainable models have been, by and large, ignored by investors and venture capitalists. Now there is a better understanding of the value they can bring and a sense of urgency, so more investment is being geared towards new technology and practice, upgrading business infrastructure and energy efficiency.

In Africa, the case of Algeria and the European investment in Solar energy is a good example of new business growing in the environment arena with corresponding investment.

Business now knows that clients are aware of the climate issue and are seriously making climate-influenced choices in their daily consumption. They are adapting – recycling and cutting carbon emissions. Businesses are also proudly using their climate saving initiatives as a marketing strategy, using their labels to show what they are doing towards the global climate recovery.

However, the link between climate change, economic growth, human rights, and poverty alleviation is still not sufficiently high on the corporate agenda and is not being taken seriously enough. As climate change advances, environmental risks will affect the overall wellbeing of the economy. Unless the corporate community takes action to address climate change adaptation in the developing world, its adverse effects are likely to impact and destabilise businesses, markets and economies all over the world. Businesses should harness their core corporate competencies and value chains to increase climate change resilience in their own businesses and communities. Increasing investment in public-private financing mechanisms and partnering strategically with civil society actors will help build a network of support for adaptation. Promoting industry-wide sector initiatives to create and maintain competitive and environmentally sound practices have the potential to significantly curb emissions while continuing to promote growth.

There are some valuable examples across the world of how governments are influencing businesses and markets to reduce the scale of climate change. Europe has set a renewable portfolio standard mandating that investor-owned utilities acquire 20% of their electricity from renewable sources by 2015. Many developed country governments are looking to reduce greenhouse gases by promoting energy efficiency in building standards, agriculture, manufacturing, water systems, and processing functions. And public pressure is mounting for them to do even more.

In my view, developing countries can shift to lower- carbon trajectories without compromising development, but this depends on financial and technical assistance from high-income countries. Unless it is sustainable development, it is not development at all. Economic growth alone is unlikely to be enough to counter threats from climate change, particularly if it remains carbon intensive. Climate change policy cannot be framed as a choice between growth and climate change. Climate change and the economic crisis are global issues and they need global responses.

7. Government Responses to the Climate Change Crisis

“Urgent action needs to be taken by the international community to reduce global emissions. Africa is prepared to make a significant contribution to this effort. The Copenhagen agreement must recognize Africa’s legitimate development needs”

*Statement from Africa Partnership Forum’s Special session on Climate Change*⁹⁸

A broadly accepted target is that temperatures should be kept to 2°C per cent about pre-industrial levels, compared to 0.8°C now. The UK Department for International Development argues that “to achieve this, global emissions of greenhouse gases must start to fall within the next decade and be at least 50 per cent below 1990 levels by 2050”⁹⁹.

COP15

The next critical milestone in the process is when world governments come together from 7 to 18 December 2009 in Copenhagen. The task of the 15th Conference of Parties (COP15) of the UN Framework Convention on Climate Change (UNFCCC)¹⁰⁰ will be to create a new global protocol to address climate change to succeed the Kyoto Protocol when it expires in 2012. Dan Smith, Secretary General of International Alert (see Opinion piece, below), believes that the meetings “prospects are not good, however, and it is beset by multi-layered complexities. There needs to be much more political energy going into it now in order to achieve anything that can be politely called success”.

Unless the world’s governments can agree to a replacement for the Kyoto protocol, temperatures could rise by 5°C which would have a transformative effect on the earth’s climate. Warming of 2°C could result in a 4 to 5 per cent permanent reduction in annual per capita consumption in Africa, as opposed to minimal losses in high-income countries¹⁰¹.



InfoBox

COP15

It is increasingly recognised that COP15 in Copenhagen “represents more or less the last chance to reach an agreement” in time for the expiration of the Kyoto Protocol in 2012¹⁰². A ‘World Wide Views on Global Warming’ survey of 4,400 people in 38 countries of varying socio-economic levels conducted by the Danish Board of Technology and The Danish Cultural Institute found that 90% of respondents think it is “urgent to make a global climate deal” in Copenhagen.¹⁰³

Although it is unlikely that the details of the treaty will be finalized at this meeting, agreement on the basic points is likely and indeed necessary if the details and ratification process are to be fleshed out in time for 2012. Yvo de Boer, Executive Secretary of the UNFCCC, highlights, among other areas, the need for agreement on help for developing countries to reduce emissions and adapt to climate change and on how that money is to be managed¹⁰⁴. Action is already being taken in these areas with a lot of emphasis being placed on the Adaptation Fund that was set up “to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change.”¹⁰⁵

Discussions at the UN summit in New York in September 2009 pointed to significantly increased funding for climate change adaptation for developing countries. According to UN Secretary-General Ban Ki-moon, “At long last, leaders focused on climate change financing and got more concrete, with many expressing support for the proposal for 100 billion US dollars annually over the next decade.”¹⁰⁶

Mitigation and Adaptation

Donors must provide a step change in support for mitigation and adaptation. Funding, particularly for adaptation, has been far below what is needed. To keep global warming down to an increase of 2°C, the World Bank estimate that between \$140 billion and \$675 billion a year needs to be invested in mitigation in developing countries, compared to the current \$8 billion a year. Meanwhile, the cost of adapting to global warming is estimated at \$75 billion a year, compared to the \$1 billion a year currently being invested.¹⁰⁷

Building “climate smart economies”

Calestous Juma, co-author of the 2010 World Development Report, has identified a set of actions that governments need to take to develop what he describes as “climate smart economies”¹⁰⁸. This includes building the necessary infrastructure, technical education, business incubation of enterprises that promote sustainability, and international diplomacy. On the last, he argues that Africa must take a leadership role on climate-smart growth. The InfoBox below outlines the World Development Report’s call to action.

An area which would be of particular interest to business at COP15 is how to improve the investment climate for innovation and new technologies in developing countries. The Hydro power in DRC, for example, is a power source with “huge potential”¹⁰⁹, but is hampered by a poor investment climate. Also important will be a continuation of informal discussions held on the fringes of COP13 in Bali concerning reduced tariff agreements for low-emission products. It is expected that Denmark, Poland, the UK, the US, and Indonesia will take the lead on the trade aspects of climate change mitigation.¹¹⁰

Partnership will necessarily have to sit at the heart of effective action. Governments will need to cooperate at the regional level to support and boost agriculture, water management and health. And governments will need to work with business to encourage and share the risk around new business programmes that help contribution to lower carbon growth paths, including in the area of low carbon technologies and practices. As a statement issued by UN Global Compact business leaders argues, this requires significant public investment alongside and the appropriate regulatory and support frameworks¹¹¹.



InfoBox

World Bank World Development Report 2010 Calls for Action on Climate Change¹¹²

“Climate-smart development is possible, but only if advanced countries generously fund adaptation and mitigation in the rest of the world, since wealthier countries produced most of the emissions of the past. The challenge of climate change may make human advancement more complicated, but poor and middle income countries should not forfeit prosperity”

ACT NOW

- Otherwise see options disappear and costs increase as the world commits itself to “high carbon pathways”.
- Staying close to 2°C above preindustrial levels, requires an “energy revolution” with the immediate deployment of energy efficiency and available low-carbon technologies, as well as massive investments into the “next generation” of technologies.
- Immediate actions are also needed to cope with the changing climate and minimize the costs to people, infrastructure and ecosystems today as well as to prepare for the greater changes in store.

ACT TOGETHER

- Climate change threatens all countries and cannot be tackled without working together on a global scale. Working together is essential to keep costs down and ensure adaption and mitigation are tackled effectively.
- Past emissions mainly from higher- income countries, future emissions from developing countries.
- So current high emitters must act now to significantly reduce their emissions, “freeing” some pollution space for developing nations whilst also driving innovation in carbon reduced technologies.
- Developing countries will need funds and technology transfer to ‘ensure lower carbon paths’

ACT DIFFERENTLY

- “...cannot plan for the future based on the climate of the past”. Future infrastructure will need to withstand new conditions and support greater numbers of people; use limited land and water resources to supply sufficient food and biomass for fuel while preserving ecosystems; and reconfigure the world’s energy systems. This will require adaptation measures that are based on new information about changing patterns of temperature, precipitation, and species.
- These changes will require significant additional finance for adaptation and mitigation, and for research to scale up new approaches and explore “bold new ideas.”¹¹³

Reproduced from World Bank (2009).



Opinion: Dan Smith, Secretary General, International Alert

Climate change and the complex complications of the Copenhagen COP



The Copenhagen climate conference in December is crucial for the future well being of the vast majority of humanity alive today and the billions yet to be born. Its prospects are not good, however, and it is beset by multi-layered complexities. There needs to be much more political energy going into it now in order to achieve anything that can be politely called success in December.

The task of the Copenhagen meeting – the 15th Conference of Parties (COP15) of the UN Framework Convention on Climate Change (UNFCCC) – is to come up with the next global deal on mitigating global warming and responding to climate change. The arguments around this issue have been thoroughly aired by now. There is a scientific near-consensus about what is happening to the global climate and the necessity to limit global warming. The few scientists who reject the consensus get an inordinate amount of coverage fuelled by big money interests because the message is a tough one: business as usual will be the ruin of us.

That's simple enough, isn't it? All that's left, surely, is to keep piling up the evidence until the argument is won even more than it's won already and then to bring in the regulations that penalise high carbon emissions and reward low emissions. What's complicated?

Yet the UNFCCC negotiations are reportedly making infinitesimal progress. The optimists say the talks are moving at a snail's pace; the pessimists say they are stalled, and among their ranks should be counted UN Secretary General Ban Ki-moon. He hosted a UN summit on 22 September 2009 that was intended to be an occasion when additional political energy could be injected and a greater sense of urgency generated.

At the summit, President Hu Jintao of China made headlines with a commitment that China would "endeavour" to reduce its carbon emissions by a "notable" amount. This was almost certainly not empty rhetoric – China is actually doing quite a lot to green its economic development – but there were no specifics. And apart from what Hu said there was not much to cheer UNFCCC-watchers up.

In this context, what constitutes success?

Last year, especially when looking forward to a new US administration getting stuck in, "success" meant a new agreement to replace the Kyoto Protocol of 1997, an agreement that, basing itself on a difficult but achievable target (say, global mean temperature rise of no more than 2°C above pre-industrial levels), and recognising that the rich world did almost all the damage while the poor countries will bear the brunt of the ensuing problems, would work out who has to cut carbon emissions by how much, and design a series of schemes: one to encourage and reward low carbon emissions, one to monitor implementation and progress, one to finance adaptation to the consequences of the climate change that is already inevitable because of previous emissions.

Everybody acknowledged this would be complicated because of the different needs as well as views of some of the major players, but following the Bali COP in December 2007, there was a commitment from the developed and developing countries alike to get the deal done.

Today, expectations have been managed downwards. Agreement on the basic principles so there are only details to fill in after Copenhagen would now be regarded as outstanding success. Unless the UN summit registers a really big step forwards, that kind of success will be beyond most knowledgeable commentators' dreams. At this rate, by the time we get to Copenhagen, agreement on what the basic issues are will look like success.

Seen in this light, progress this year has not just been slow but actually in reverse. What can get things going again? Where will the necessary leadership come from?

It is too soon to tell whether Ban's UN summit managed to renew the energy in the talks but at this point it seems unlikely.

Many are still turning hopeful eyes to the US and the Obama administration. But it is bogged down trying to get health reform passed by Congress and has the economy and two wars to deal with. It seems as if climate is just going to have to wait its turn.

It is worth wondering whether there are others who could step into this leadership breach. If there is not decisive single leadership to be had, we need stronger voices to give practical support to the consensus.

Business has too often been seen as opposing any action on this issue but it is only a very narrow section of interest that has ever declared an interest.

The development of greener technologies in energy and mineral extraction, transport and construction engineering – to name but a few sectors – would be enormously beneficial, will generate jobs and profits and is bound to happen; the only question is when. Market leaders in green technologies are going to be both popular and prosperous.

It is perhaps time for entrepreneurs to step forward with some of the leadership that, at present, sadly enough, political leaders seem little able to offer.

This opinion is based on a blog first published on 16 September 2009 on Dan Smith's Blog¹¹⁴ and was expanded by Dan Smith for this Background Report.

8. Issues for Discussion at the 13th International Business Forum at the 2nd Regional Interdisciplinary Alumni Conference

Economic Crisis

1. What are the challenges and opportunities for Africa in light of the economic downturn?
2. How can large companies contribute to fostering local innovation, know-how and the strengthening of local businesses?
3. Against the backdrop of the economic crisis, how can governments and donors create the appropriate incentive framework to facilitate further innovation in inclusive business? Where do constraints need to be removed and what direct incentives should be provided to business?
4. Where does the role of business in contributing to global public goods – such as in the areas of good governance and climate change – begin and end?

Climate Change Crisis

5. What will be the impact should the global economic downturn take precedence over tackling climate change?
6. In what ways will climate change bring opportunities to the business sector?
7. How should governments respond to climate change?
8. Can developing countries shift to lower- carbon growth trajectories without compromising development?

13th International Business Forum

9. What would be your top recommendation for business and/or governments?
10. What actions can conference delegates take to best contribute to enabling Africa to emerge stronger from the crises?

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FORAFRICA**