ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

JUNE 20–22, 2013

The Global Growth Agenda

CAN THE SUB-SAHARAN AFRICA SUCCESS STORY CONTINUE?

Panel

JUNE 20, 2013

11:45–13:00, Pavilion 8, Conference Hall 8.2

St. Petersburg, Russia

2013

Moderator:

Michael Elliott, President, Chief Executive Officer, ONE

Panellists:

Helen Clark, Administrator of the United Nations Development Programme

Mikhail Margelov, Special Presidential Envoy for Cooperation with Africa

Charles Okeahalam, Managing Director, AGH Capital

M. Elliott:

Good morning, ladies and gentlemen. I am sure people are still drifting in, but we will get this session under way pretty much on schedule. It is lovely to be here in St. Petersburg on very nearly Midsummer's Day; I tested all the legends last night and went out for a walk at midnight, and indeed, it was a white night. So it is beautiful to be here. My name is Michael Elliott; I am the President and CEO of the ONE Campaign, a global advocacy movement fighting for resources to challenge extreme poverty and preventable disease, and I am here with a really terrific panel, a really super panel, to ask a question that keeps coming up at international forums as one goes around the world: can the Sub-Saharan African success story continue? Is it sustainable? Is everything that we have heard about the African lions, the African gazelles, and what have you, over the last few years, something that is really a world game changer, and is it going to be continued? On my immediate left is someone who I am sure needs no introduction: Helen Clark, the very distinguished administrator of the UNDP, the United Nations Development Programme. To her left, John Porter from Renaissance Capital, with 10 years' experience in the private sector in Africa. On my immediate right, it is a real delight to have Mikhail Margelov, the senator and Special Presidential Envoy for Cooperation with Africa from the Russian Federation; and Charles Okeahalam, Managing Director of AGH Capital. So we will have a quick round of initial comments from the panel, and then, as I always like to do, I will sort of mix it up, and we will have a conversation among ourselves here, and then we will open it up to the floor for questions.

So, Helen, through the work that you do with the UNDP, of course you see an awful lot of Africa, the good and the bad, and, as we were saying just a second ago, occasionally the tragic. We have heard a lot in the last few years about how the economic prospects of Africa have really moved on to a new plane, a new level of optimism, a new level of achievement; that development, which is really what counts, is spreading rapidly across the continent; that life chances are improving substantially. How do you see it? Do you buy into that optimistic picture?

H. Clark:

Well, yes, and I think we are looking at a success story to the extent that Africa has emerged as one of the fastest-growing regions in the world, and around six of the top ten fastest-growing economies in the world are in Africa at this time. But of course there is always the story within the story, and that is: what is it doing for human development? And the truth is that, at a similar stage of, say, East and Southeast Asia's development, with similar sorts of growth rates, that region was seeing more poverty reduction and human development than Africa is for the rates of growth that it is experiencing at the moment. So I think that always leads us to a discussion about the quality of the growth. Is it job-rich? Is it inclusive? Is it able to lift people? And the answer is, not yet enough. Now, I would not want to imply that there is not poverty reduction; there is. But it needs to speed up, and it will speed up, I think, with much more deliberate strategies around the quality of the growth, and, I should add, not just inclusive but inclusive and green growth. There are some wonderful and world-leading strategies for this. I often cite Ethiopia, which under late Prime Minister Meles Zenawi launched the low-carbon Climate-Resilient Green Economy strategy. Ethiopia is a least-developed country; its people are still among the world's poorest, but they are making a very clear statement that, while eradicating poverty and lifting human development is a top priority, so is doing it within the ecological boundaries that nature has set for them. I think we should be inspired by these examples of leadership and what could be. One of the sectors that has been relatively neglected over quite a long period of time is agriculture, which is still where most of Africa's poor are living and working, and strategies to lift smallholder farmers (particularly women, who are not able to be as productive for a wide range of reasons) are very important. The basic infrastructure is critical – the energy, the water, the sanitation. I think if we look at Africa's fast urbanization now, we can see that rural development of course is not enough in itself: we have fast-growing urban populations who need jobs in services, need jobs in manufacturing. But you do not attract a lot of offshore investment into processing and manufacturing unless the energy, the water, the roads, the railways, the ports, et cetera, are in place. The third thing I would add to agriculture and basic infrastructure is, of course, human capital. You can never invest too much in education, in health, in the basics that make for human development, a skilled workforce. So those would be the sort of things that I would put into context alongside the stellar growth figures.

M. Elliott:

I think that very first point you made is something that is well worth lodging in our synapses and not losing: that is to say, that you can have very substantial growth, but you do not necessarily have a concomitant increase in human development and in poverty reduction. You have to actually have pro-human development policies to make sure that growth ends up in the right place, which is very much the lesson of this year's really terrific Human Development Report that came out from the UNDP. I am proud to say that I am on the Advisory Panel for the Report. Anyway, Mikhail Margelov, tell us how this looks from Russia.

M. Margelov:

Being here in St. Petersburg, in the cultural capital of the Russian Federation, it is more appropriate to speak in Russian, of course, but to make life easier, I can speak in the English language.

Needless to say, Russia is back in Africa. The process started in 2006, when President Vladimir Putin paid his first official visit to a country that lies beyond the equator, that lies beyond the Sahara Desert. He went to South Africa; he made his first official visit to Cape Town in 2006, and this is how Russia officially started getting back into Africa. We have always been there, with a positive image. We have never been a colonial power. The first Russian hospital was built in Addis Ababa in the nineteenth century, and it is still there, and I should say that the only workforce that Russia imported from Africa was Alexander Pushkin – actually, his grandfather – and today there is a great dispute between Ethiopia and Eritrea about where this family really came from. Russia has always invested in Africa's modernization. During the Soviet era, we pursued our project, which we considered at that time to be positive and correct. We bred the African intelligentsia; we created economies in many African countries. For example, when you go to South Sudan, to the youngest country in Africa, you see that the factory that was built to can fruits there in the early 1970s is still there. So I should say that Russia made a big mistake – a big geostrategic mistake – in the 1990s, when we were focused on putting our own house in order and neglected Africa. For us, during the Soviet era, Africa was a battleground with world imperialism, as we said at that time, but in the 1990s we forgot about it, and I think that was a big mistake for our economy, and it was a big mistake for our politics. Now we are there, we are back; we are investing in the African economy. Vladimir Putin took part in the BRICS Summit in Durban, and on the margins of that Summit, he met with 20 African leaders. I represented Russia at the 50th Anniversary Summit of the African Union. So we genuinely think that African institutions should become stronger, and we really believe that only Africans have the right and the ability to solve all the problems in Africa. That is why we are very much in favour of strengthening the African Union; we are very much in favour of strengthening BRICS, of strengthening ECOWAS, NEPAD, and all the regional and subregional African organizations. Our general trade turnover with Africa is about USD 3 billion; it is not much, but we are expanding; we are growing; and we are not just investing in mining or in natural resources on the African continent. We do a lot of high-tech stuff with African countries. For example, in South Africa, there is a great project in the energy sphere to produce solar batteries, and it is a joint project between South African and Russian companies. It provides an opportunity to reduce the volume of diesel fuel used by diesel generators to produce electricity by 75%. Angosat, an Angolan space satellite, is another high-tech project that Russia is working on with African countries. So we do think that there is great potential. Africa is a growing continent. It is on the rise, and we are there as a responsible country, as a permanent member of the 'Big Five', and we will never withdraw from Africa.

M. Elliott:

Very interesting. Very interesting, indeed. Charles, how does the ‘Africa rising’, Africa lions, Africa success story look to you?

C. Okeahalam:

Well, first of all, thank you very much. I would like to start by thanking the organizers for having this session. I came here last year, and we did not have a session on Africa, so Africa is rising, and just the fact that we have a session on Africa is the first step. So I want to thank the organizers for that.

Secondly, I would like to answer your question by saying yes, a resounding yes. Africa is on the move. Will this be sustained? I believe so, yes. And I will tell you why. First of all, demographic factors, the population. In 30 years’ time, Africa will have the highest proportion of people under 30 in the population. That growth rate means something. It does not mean poverty, as in the old days; it means an increase in numbers and technology that will lead to consumption and buying power. So there are good things happening. Helen Clark pointed out that six of the fastest-growing economies in the world are African. We see that macroeconomic policies are improving and are sounder. We see increased stability. There is only one really sore point on the continent, and that is the DRC, in that area there, and Sudan, and some of those areas. But that is a lot less than the kind of problems that we had 20 years ago.

So we see some of these fundamentals that are sound, which would lead to Africa’s story not being one of war and famine, war and violence and degradation, but those problems are still there. So this is a story of optimism. You then have to be realistic, though. An issue that was also pointed out by Helen Clark is that you can have growth, but if you have inequality, then you do not get the growth that you would get, simply because you have a number of factors working and militating against that growth, and you will not sustain it. So that is one very key issue; we have to try to find ways to address inclusive growth.

The next and perhaps the biggest impediment to Africa's sustained growth is the issue of basic infrastructure. If you look at Africa's numbers, for example, you see that Sub-Saharan Africa generates the same amount of electricity as Spain. If you then translate this into issues of the real economy, for example: sitting in the private sector, how can you get firms to manufacture effectively and efficiently? They are nowhere near their efficiency frontier, not because the managers are not working hard, not because the labourer is not moving or trying to work as fast as he or she possibly can, but because the input costs of power are simply too high. So with prices where they are, you cannot get the manufacturing sector to take on the kind of role it could take.

Then, there is another issue which is even more pernicious. You go to some places and you might find a lady at the marketplace who has a mobile phone so that she can use M-Pesa, which is this mobile money system that you can use to send money, which is wonderful. But the fact is that this same lady has no good access to clean water. If you then look at the proportion of time that women in particular spend on basic things – and as Nkosazana Dlamini-Zuma so elegantly put it, women make up about 50% of the population and give birth to the other 50% – you find that your labour market is artificially unsound. And so there is the issue of education; there is the issue of provision of infrastructure.

I will just make one more point on that issue there. If you look at the issue of malaria, for example, this is a multiplier of the absence of infrastructure. The problem of malaria has been solved in a number of places, and it has been solved because cleanliness and hygiene have increased. There is less stagnant water. So, the issue is not really bed nets – and I am going to make this point very strongly – the issue is not provision of bed nets; it is an increase in sanitation that is going to reduce malaria. I know that that is contrary to the view in some quarters, but when people are working on a farm, the mosquito does not select them and say, "Oh, you are not under a bed net now; I will not bite you now." It bites you whether you are in the barn, whether you are in the bathroom; the mosquito will bite you quite happily anywhere it can bite you, to be frank. If you can reduce the level of dirt and improve sanitation, then that will solve a major issue. And I could go on about infrastructure. My last point would be this. Africa does not want more aid. This is not our time; we are not asking now for more aid. We are here asking for more trade. We want to trade increasingly amongst ourselves, and we are doing that, and I represent a company that does that actively. But we want to trade with other partners; we want to contribute to that. I will put it this way. If you consider that there are three forms of financing – aid, debt, and equity – Africans want equity investment. The marginal productivity of aid is low. It is low without institutions, because it is wasted. When you receive it, you say, “This is something that is a free good. We will spend it any old way we want.” And that is followed by debt. If I can get concessional debt and debt on good terms, it is even better than having pure equity or pure financing. So this is a time when we are very, very encouraged by what is going on in Africa. We see the challenges, but we recognize the opportunities.

M. Elliott:

There are so many points there that I want to pick up on: a lot of the infrastructure stuff, a lot of the aid stuff. The electricity point, of course, is very hard. We are all talking about power in Africa, and I will make sure we come back to that later on. That figure that you used is one which people should really think about: the total electricity capacity in Sub-Saharan Africa, or electricity production in Sub-Saharan Africa, is broadly equal to that of Spain, and we should not forget that something like 40% of that capacity is South Africa alone, right?

C. Okeahalam:

Correct, and let me expand on that. If you look at South Africa, South Africa is Africa’s major economy, and, as you know, there have been difficulties in South Africa. The press that South Africa is receiving at the moment is not perfect; the press is also a bit apprehensive about Madiba Nelson Mandela’s state and condition, and we pray for him all the time. I am based in Johannesburg, but being

Nigerian, I always go and tell Nigerians that in 1994, the South Africans arrived, the ANC Government arrived, and it found that 50% of households had no potable water. In 2012, 93% of households have potable water. Now, that has been achieved through government expenditure. There is a type of funding – and I deliberately use the word ‘funding’ – which has to be provided by the government, with clear and transparent institutions that will not rob the people. That can only be done when the government says, “We are going to do this.” There is a false debate taking place about the role of the private sector in infrastructure. There is a reason why South Africa, despite its difficulties continues to provide infrastructure effectively. There are many difficulties in South Africa; there are issues that are arising that are beyond this Forum, but where they do get it right, and where they proved it in 2010, for example, with the World Cup, is that they deliver infrastructure. That is critical to sustainable growth. There are some other countries that could grow, that could really do dramatic, great things – look at Nigeria, for example, and look at the fuel subsidy issue. They have removed the fuel subsidy. They have put banking reforms in place. This shows that the present government is doing very sound things. The President of Nigeria is doing sound things. But that also means that you have to have a leadership that is willing to pay the political costs of carrying out these reforms, because when the public fuel subsidy was being removed, for example, there was opprobrium, there was political opprobrium, there was contestation. But with persistence, you can get these reforms in place, and you will get the results that the country really needs, and then you will sustain the growth effectively.

M. Elliott:

Excellent. John, as a long-time private investor in Africa, how does it sound to you?

J. Porter:

I agree with all the points that have been made so far. I think that at Renaissance we do not underestimate the magnitude of some of these challenges that have been mentioned, specifically with respect to the human issues and the infrastructure, but we do buy into the growth, and we think that this is a story that is not just going to continue; it is going to accelerate. I think there is a difference between the GDP growth that has led Africa to where it is over the last five years, and the factors that are going to drive growth going forward. So I think the mantra has to be ‘progress, not perfection’. I do not know if you know the acronym MEAT – mining, energy, agriculture, and tourism? MEAT is very much what has driven the spectacular GDP growth that we have seen in the last five years. But as other panellists have pointed out, MEAT is not enough. It is not enough to depend on extractive industries. There has been progress in agriculture, but probably not enough, and there is commitment to progress tourism, but that is not going to be enough to lift those economies from the basis that they have achieved.

But we do have optimism. We do think that there are signs of change, and Africa remains one of the bright spots in the global economy. I think there are two main areas that have had huge underinvestment in the past, and which are going to see, going forward, much greater investment. Firstly, in infrastructure, and clearly the number one issue in Africa, we agree, is power. Renaissance projects 7% GDP growth for Nigeria next year. But we see a drag on the economy of 2 to 3% because of lack of power and roads. So that 7% could be 9–10% if there was the investment in infrastructure. We think that is changing. There is a programme in Nigeria, a two-billion programme going forward to invest in power. We have seen this morning a very progressive budget from Kenya, with 40% of the budget being spent on infrastructure, and the biggest share of that infrastructure budget is going to roads. So this issue is not lost on governments, and I think they are doing what they can to be progressive and to effect change.

The other driver, I think, is going to be entrepreneurial companies. I started my career in India in the 1990s, and I think that there are many analogies now between what is going on in Africa and what happened in India at the beginning of the 1990s. There are many entrepreneurial companies. There are many talented Africans who are going home to start up companies.

To address the malaria issue, just a few weeks ago, I was in Uganda visiting a state-of-the-art plant which had been built, WHO-approved, to manufacture HIV and malaria drugs for a huge, unmet medical need. They were already seeing substantial reductions in malaria instances around Uganda, where they were operating.

M-Pesa has been mentioned. To turn that one around to the positive – and you know, obviously the anecdote is awful – M-Pesa, which is the money transfer system, is the first revolutionary technology which is acknowledged to have come out of Africa, and in our view, it is not going to be the last. There are a lot of enterprising entrepreneurial companies and people who are surmounting the obstacles and challenges of lack of infrastructure with technology. And they are going to build companies; they are going to overcome these hurdles, and that is going to be a driver going forward.

So now, the infrastructure question, the last point. And I know the question is: where does the money come from to invest in the infrastructure? Because obviously the cost of infrastructure is immense. We have all seen the statistics that foreign direct investment, the international community's investment in Africa, has actually gone down. It is very low; it is at 2003 levels. You know, the international community has not invested in Africa. The private community has not invested in those sectors in the past. But money is starting to become available to governments where it was not in the past. I think if you go back five years, the only avenue available to governments to raise money was to sell off their prize assets, privatization, 'sell what we have got cheap', sell another oil block, privatize the telecoms company, sell this asset to a foreign company, and hope that you get a return in terms of investment. But the world has changed, if you look at the credit markets, and I think the credit markets do not lie. That has given African governments access to a whole range of funding that was not available to them in the past. You have had Nigeria and Gabon borrow at lower rates than Italy. You have had Angola recently borrow at lower rates than its former colonizer, Portugal. You have had Rwanda borrow at 15 basis points wide of South Africa. You know, these figures are stunning. If you go back 12 or 18 months, you would probably have twice those rates. That money, at rates which could be put to work in a way that could earn a commercial return, has not been available, but now it is available.

I think the second driver is intra-Africa investment. While the international community, in our view, has not invested as much as it should have done in Africa, we are starting to see a lot of investment from one African country into another. Last week, we placed 1.5% of Dangote Cement, which is the largest private company in Sub-Saharan Africa, with PIC, which is the largest sovereign wealth fund in Africa. There will be many more such transactions. We think this is very much a blueprint for the future. We are seeing a lot of cross-border investment in Africa. There are 10 sovereign wealth funds which have been set up to benefit from the bonus of reserves. So, clearly, there are immense challenges, but there is hope. We think that the growth will continue, and this is a story that we very much believe in.

M. Elliott:

What a great collection of opening remarks. I want to go back to some of Helen Clark's opening points, and kind of bring in Mikhail and Charles again. If we get back to the central point, that the growth that we are seeing needs to be inclusive growth, needs to reduce poverty, needs to increase human development for it to be really sustainable, then what the UNDP's analysis has demonstrated, among other things, is the importance of government structures that genuinely have development, poverty reduction, and inclusive growth at their core. Charles, you made an excellent point about South Africa, that with all of South Africa's problems and with all the kind of easy ways in which you can criticize South Africa, you have a state apparatus, if you like, a kind of government apparatus, that gets things done, that has increased the proportion of households with potable water from 50% to 90%. Mikhail, you were stressing that one of Russia's key objectives is to strengthen African institutions, to strengthen the AU, ECOWAS, NEPAD, and so on. John, I am sure you agree, but this in some ways is a little bit of a counterintuitive message, or if not a counterintuitive message, then a message that sometimes gets forgotten, because we all talk about private sector investment as a key thing here, but I think what all three of you are reminding us is that the role of effective governance is really, really important. Helen, do you want to discuss this?

H. Clark:

Yes, I am very keen to pick up on that point following on from what John said. At this year's G20, Russia as host has put investment finance fair and square on the agenda, which is very important. Now, the problem is not a lack of liquidity in investment funds out there; the problem is a lack of places where people want to put them, and that brings us back to the enabling environment for investment, investment readiness, capacity to attract the substantial amount of funding that is out there. This is the territory we work in. How do you strengthen institutions, rule of law, ability to arbitrate disputes, et cetera, so that countries can get themselves on the radar to attract that funding? I think this is going to be so critical for infrastructure investment. I come from a country where the state borrowed and developed; that is actually a very tough model these days. These days, it is going to be public–private partnerships which will carry a lot of that burden, but countries have to get themselves ready to get the money. The same applies to the climate finance that is going to be out there. Great mechanisms were designed under the Kyoto Protocol for clean development, a mechanism for developing countries to access finance on the basis of good projects, but very few small LDCs got anything out of that, because they were not climate-finance ready. Now, with the Green Fund coming, with substantial carbon trading markets, with private sector interest in this area, this institutional strengthening capacity, the ability not just to devise strategies and plans, but execute, monitor, report, and have a rule-of-law backup for investors is so critical; I cannot emphasize that enough.

M. Elliott:

Great point. Mikhail, would you say the same?

M. Margelov:

Well, of course, strengthening institutions in Africa is a crucial issue. We all remember 2011, when it all started in Libya, and we all remember how difficult the situation was in the African Union as an institution. Today, the African Union has managed to overcome the so-called post-Gaddafi syndrome. It is becoming stronger; it is becoming more visible and more active on the African arena *vis-à-vis* the security challenges, *vis-à-vis* the economic challenges, with Dlamini-Zuma as the new Secretary General; it is becoming more energetic. So we think that Africa today has reached the period of time when the aid story is over, and I fully agree with Charles that Africa does not need aid; Africa needs development and modernization, and for development and modernization, it needs strong institutions, because without institutions, there will be chaos.

M. Elliott:

So, Charles, without institutions, there will be chaos. So there is a cue. I was really taken by your comments about South Africa, because South Africa is often in the news for bad reasons, and it is worth remembering what it manages to do. You mentioned the reforms that are taking place in Nigeria, but do you see that improvement in governance, so that capital markets can actually say it is worth putting money in XYZ, spreading across the continent?

C. Okeahalam:

Yes, I can actually see this taking place – look, for example, at the number of elections that have taken place. I will also add as a footnote that the number of elections is not an indication of an improvement in governance, because in some places you will have elections, but governance does not actually improve. But it is the robustness of institutions, the kind of things that Helen Clark talked about, you know, the rule of law, due process under the law, property rights, et cetera. The transferability of rights, the transparency of rights. Those are the things that build robust institutions: the relationship between the civil service and the government, the recognition that the two are different, and the recognition that the civil service has to be both civil and give you service. And those are the issues that build a robust set of institutions that enable people to look at this. If you look at the African countries, there used to be a time – and they still do it – when none of the African countries would be on the left-hand side of any of the world investment indicators. Now you find Rwanda way up there: a strong government – some say very firm, some say too firm in some instances, but nonetheless getting results – well to the left of the curve. A large number of African countries are bunched up on the right-hand side from the point of view of the investment indicators that you want. This reflects the absence of institutions.

Following on from John's point, you have countries that are doing well, so well, in fact, that they are issuing bonds at much more competitive rates than countries which hitherto you would have thought might be different, with Portugal at 9.7%. And you look at the situation, and you see Angola at 5.9%, Namibia at 3.7%, South Africa at 4.3%, Gabon at 3.9%. And so we are turning some of these things on their heads. But that is not really enough. Without long-term investment, some of these things will be just short-term blips, and my fear for Africa, while being very optimistic at the same time, is this: what happens when Europe sorts itself out? As Helen rightly pointed out, there is not a shortage of money. What money does is that it sits and waits, sometimes, and it asks itself questions about where it should be placed. And if it is not sure, it holds on and looks for a yield at the minimum place. The issue is, it is all relative, so when, not if, Europe sorts itself out, you might find that the marginal cost of funds will rise. If Africa has not taken this opportunity to get its house in order, to increase its competitiveness, it will not get those flows.

And so, this takes me to my last point on this issue, which is that if you look at the numbers, there is an argument that says that between now and 2050, Africans will need to invest, on an annual basis, between USD 12 and 43 billion every year to bridge the infrastructure deficit. Every single year. If you do the arithmetic, that is 43 times 37 years, and 12 times 37 years, somewhere between that. Not into the trillions of dollars. Africans, as Mikhail pointed out, or I think John pointed out, are not going to be able to fund that directly from their own budgets. What they are going to be able to do is issue these bonds and translate them into financing long-term infrastructure. But for that to work effectively, they are going to have to do what you pointed out, Michael. The institutions are going to have to be robust, because after a while, if they are not, the cost of funds will go up, and then the delivery from the borrowings (and they have to be borrowings and not aid received) will not be visible. So they will have to see tangible results, and they will have to see that this transfer that has taken place has yielded outcomes. Finally, private capital will not, in my opinion, sort out this long-term infrastructure problem. It just will not do it, and there is no experience in the world of this having been the case. Sometimes it is said: "Well, in the United States, you know, this was done in the nineteenth century." Actually, what happened in the United States was that private capital funded infrastructure for commercial reasons that had an alternative use for social reasons. So the Vanderbilts and the Carnegies and the Mellons from Pittsburgh were funding commercial infrastructure, which had social spin-offs. That is a really important distinction. So, if we have a net infrastructure deficit to fill, we have to get our institutions right.

M. Elliott:

Let us just stay on that point, because there is one element of funding that is directly tied to the reliability and effectiveness of institutions that we have not discussed, and we should. It was squarely on the agenda of the G8 and the pre-G8 meetings just this last weekend, which I have just come from, and that is taxes. Government revenues. And the question here is not just about whether African state institutions have the capacity to collect revenues and use them effectively, but also whether tax revenues are not being collected, either because they are being spirited away to tax havens – a kind of key issue at the G8 last weekend – or because extractive companies (oil, gas, and mineral companies) are simply not paying enough for the right to extract African resources. We have passed legislation in the United States that addresses that through transparency requirements; we have passed legislation in the European Union that addresses that; we have not yet multilateralized it as a kind of global standard. I would think that we need to. But, Charles, let me just stay with you on the taxes point, because that is an issue, is it not?

C. Okeahalam:

Yes, and I will just use Europe as an example here. If you look at the problem with the euro, there is an issue where you have terms of trade which are not sustainable. Basically, if you have a currency peg, there are going to be countries that will forever run a current account deficit with other countries. And that has fiscal implications, because the revenues within that currency union will be such that some countries will never generate sufficient funds. So that is a supply-side issue, that there are inadequate revenues from the tax base.

But you see, Africa's issue is not so different from that. I like John's point about MEAT. For the most part, we drill things, we bore things, we package them, and then we send them away. Unless we have some way of putting in value-added processes, we will forever run a deficit on a current account basis with Western countries. And that has fiscal implications. If you then have a situation where your taxes-to-GDP ratio is unbalanced and you have social expenditure requirements, you are not able to fund that directly from account to account. That means you have to borrow. That means you go into a deficit. When you have this deficit, it affects your ability to sustain economic growth, because after a while you simply cannot fund it from the government. That leads to the issue of: how effectively are tax revenues being used? And that is an institutional issue. As countries get into difficulties, you find that institutions tend to collapse. You tend to find that the monitoring process that would otherwise check on people also is not fundable, that people are not able to do the sorts of things that they want to do. In fact, I am going to be encouraging lots of people to come to Russia. This is my second time here, and I would say that next year I intend to bring about 30 or 40 business people here with me, because when I came here, I looked – and I do this everywhere I go – at the infrastructure of the country. That is the first thing that gives me an idea about issues, about whether or not you can solve some of the governance issues. Solving fiscal issues, believe it or not, is linked strongly to fiscal stability. Because you find government departments that do not function. I made that quip earlier about civil service. In many places, there is not a service at all, and whether it is civil or not is a debate, but the service does not exist, simply because there is not a fiscal base and fiscal efficacy to make sure that you get those things to happen.

M. Elliott:

John, let us come back to MEAT, because I think one of the things that the audience is going to take away, actually, is the idea of MEAT and the importance of each element of MEAT to the African economy. But here is one of the problems, is it not? You look at the first of those: mining, minerals. Everyone knows there is extraordinary mineral wealth in Africa, and much of the terrain has not really been surveyed to the level that it has been on other continents, like North America, and so on. I mean, as a friend of mine in America says, every time you look for oil properly in Africa, you find it. There are tremendous reserves of oil and gas – almost an announcement every week, it seems – and precious metals, and so on and so forth. It is not a massive employment-generating industry, though. We all know that there is this demographic bulge coming in Africa, and that, handled correctly, is a blessing and not a curse. But if you look at the East Asian experience of economic growth, it was based on labour-intensive industrial development, was it not?

J. Porter:

Yes, and I would agree with that. You specifically picked mining, but I think you can throw in energy as well, the first two letters of the acronym. Both of those industries tend to be quite polarized between very large legacy companies, which have been operating for many generations on the African continent, and a new generation of growth companies at the other end, junior companies. There is no arguing that some of the big companies that have been there for generations should have done more in terms of investment, in terms of investing in the local community, in terms of job creation. I think there is recognition of that now. I think, again, things are starting to change, probably not as quickly as many would like, but there is hope for change. But I think that the way, from what we are seeing, that you get real change is when governments are awarding new concessions. This is an area that is really within their gift, really within their power to control, rather than laying down the rules more strictly in terms of investment. What are you going to do for the community; how is the pie going to be split up more appropriately in terms of returns? I think you have to bear in mind that in the last couple of years, if we look at the public market and the performance of mining companies, especially junior mining companies, it has been very challenging. So the returns have not been made to be shared because of that. Just to throw out some statistics, 15 years ago there were fewer than 100 listed mining companies worldwide; now there are more than 1,500. Out of those, 1,200 will probably never earn a commercial return. So the public market has gone to a model where it is overpunishing, overdiscounting the cost or the probability of success, and it is charging companies for that. In the energy sector, you used to see first movers coming to African countries when there was an oil discovery and trying to mop up all the blocks or keep call options on them, invest the minimum required not to lose the licences, but never really develop them, just roll over the licences for years and years. But we are seeing governments being more proactive in taking those licences back now.

M. Elliott:

I think it is great that the governments are laying down new rules for investment in the extractive sector; I mean, that is wonderful as long as it is transparent, right? As long as you have clear and transparent rules, so that it is perfectly plain where the money is going, how it is being spent, so that you can follow it. There has been a big international push on that in the last couple of years. We hope that Russia, South Africa, China, and others will join the emerging global norms on transparency in the extractive sector. That is a really huge deal, I think. Helen, do you want to come in?

H. Clark:

Yes. Whatever the G8 decided around tax havens, trying to deal with illicit flows: it is tremendously helpful to have the weight of the G8 put behind that. I want to make a broader comment about the extractive industries, because, you know, we rightly underlined that they do not necessarily generate many jobs or much broad-based growth. But we do, of course, have models of developed economies, like Australia, like Norway, like Canada, which have got very rich and attained very high levels of human development, not least fuelled by some of the great mineral and extractive industry wealth the countries have. So there are good models of making extractive industry work for your country. I think what Botswana did with the regime around diamonds is a very good example in Africa. The way Ghana, as kind of a late mover on oil extraction, has moved to set up institutions and arrangements is another good example. So we can work with countries to turn the extractive industry potential into a blessing and not into a curse. The key thing is to be getting more domestic resource mobilization out of this, which again comes back to institutions and transparency. What is the regime? Can the tax revenue be collected? Will it go into the budget? Will it be allocated? Then there are the priorities of infrastructure and human development: the virtuous cycle, as it were. And then looking, as others have said, at the value added; do not just dig it up, pump it up, and ship it out. What is going to be the added value, the processing possibilities, the things that could generate more jobs and potential for skilled labour? So there is a whole package here, if it can be got right. Africa should not positioned in perpetuity as a place that people take things from; it needs to be positioned, as increasingly it will be, as a place that people invest in, and its people will be the beneficiaries of that investment.

M. Elliott:

Great. Let us see if we can scare up some questions from the floor. We are really having a very lively and extraordinarily interesting and stimulating conversation. The lady in the second row, here?

C. Buckley:

Thank you. I am Caoimhe Buckley from BHP Billiton. I wanted to address the transparency point. You said in your previous remark that the G8 Summit over the weekend discussed extractive companies not paying enough taxes. Well, that actually was not what was discussed. I was there myself. Our effective tax rate is 38%; our corporate tax…

M. Elliott:

I do not think I said not paying enough tax. I said a transparency initiative along the lines of what was discussed, both on Saturday and then again in the Lough Erne Declaration.

C. Buckley:

So, the effective tax rate that we pay as a company is 38%, and we do not take advantage of tax havens, and I would say that is pretty much the case for most of our peers. The rules that have been agreed in the US and the EU do not apply to the 15 to 20 million artisanal and small-scale miners. They do apply to listed companies in the EU and the US. So I just wanted to make that point, and also to make the point that BHP Billiton, Rio Tinto, and Statoil are the three most transparent companies in the world, according to Transparency International. For me, I think the point that Helen Clark made was very important, about our broader economic contribution, and I agree: we are not big employers, with the exception of the construction phase of the mine, but we are able to foster development through the supply chain. I think if you look at the example of Chile, which is an OECD country but nonetheless still has issues with inequality, our economic contribution there in terms of taxes is USD 1 billion, but our broader economic contribution is

USD 11 billion. I think that is the sweet spot; that is where we can actually make a much bigger contribution in Africa, by helping to develop the mining services industry that supports mining.

M. Elliott:
Great. Excellent intervention. Mikhail?

M. Margelov:
Yes, if I can make one brief point on taxation. After the world financial crisis broke out, for several African countries, for several African states, the Russian banking system became kind of attractive, and to hedge their risks, some African countries are putting money in Russian state-owned banks as a deposit, depositing their free currency reserves, and some of them transfer these portions of their free currency reserves in Russian roubles. With Western banks, you have negative interest. With Cyprus banks, you have a catastrophe. With Russian banks, you earn money, and with a 13% flat tax, which is the normal tax rate in the Russian Federation, it is becoming more attractive. So, yes, there are some safe havens, but the EIB is not one of them.

M. Elliott:
Thank you. Very good. More questions. Yes, the gentleman here?

M. Mpahlwa:
Good day, everybody. I am the South African Ambassador to the Russian Federation, and I am very thankful for what we have heard from all of the speakers. One thing that particularly struck me is that I think John, you have got a very good grasp of what is happening there, and I think it is because you do something many people do not do, which is to study what is happening in the individual countries, and stop talking about Africa as this big mass. There are individual countries there,

and there are actually some very good things that are going in individual countries, so I think that is something that I would like to comment on.

I would like to hear the views of some of the speakers on the points that I am going to make, which flow from what they have said, but also include my own observations. Mikhail just spoke largely about the macro institutions in Africa, and I think that is a very critical element of the African agenda right now, but in terms of a lot of what the other speakers have been talking about, we also need a big effort on the micro institutions, and these are your regulatory institutions, the myriad of institutions that you need in order to run a modern economy. I think this is one area that needs particular attention, and this can only happen in individual countries, in my view. Because once you do that, you begin to introduce objective criteria, in terms of how companies engage. The rules are clear, and you improve efficiency. In my view, the difference between South Africa and many countries is the existence of that multiplicity of institutions, and I think this is one area that needs particular attention. If you ask me as a South African, I think a well-governed, institutionally anchored Nigeria holds a lot of potential because of its inherent dynamism as a country. It has a very well-educated population; it can go very far. I think the confidence which also flows from having institutions is something that narrows the space for direct political influence and for corruption. So that is the first point that I would like to comment on. If you ask me what the three key priorities for Africa are, I would say this is the first one: the issue of institutions. The second one is infrastructure, which has been mentioned. The third one, I would say, is human capital, because both of the other two that we have mentioned depend on the availability of skilled people. Institutions are not buildings. Institutions are the people who populate those particular institutions.

The last point that I would like to raise is on this issue of infrastructure. I do not think that there is a lack of understanding of the need for this, and I think there are actually some quite good plans and programmes that have been identified. I think the real challenge is twofold. There is an Africa infrastructure programme that has identified a whole range of infrastructure initiatives across the continent. The first issue is moving from that to actual implementation, and I do believe that at some point, you need to start engaging the private sector around these infrastructure projects.

The second element is the financing one, and I believe the solution will come from a multiplicity of initiatives, sources, and so on. One will be tax, because there is money in Africa. It is there. It is flowing. It crosses borders; it circulates among people and so on. That is one of the strengths of South Africa, again; that is one of the first things we did when we became a democracy. With lots of unemployment and poverty, we undertook heavy tax reform, and that was able to generate resources for the state to start doing the things that it started to address. That is why we can provide so much more potable water to people, and electricity, and so on. So you have got to undertake that in the individual countries.

Secondly, as you said, John, there are a lot of potential intra-African initiatives: you know, the stuff you talked about between the PIC and Dangote. Thirdly, we have to prevail on multilateral institutions to fund multi-country projects, because that is part of what makes the so-called BRICS Development Bank attractive: you do not have existing institutions that can actually fund multi-country projects. And lastly, I think that part of the reason Africa is entering into these many partnerships is because of this particular problem. We want these Russian banks to get involved, to start financing, and I think Renaissance Capital has done quite well in getting involved in Africa. Thank you very much.

M. Elliott:

John, do you want to respond to the comment about Renaissance Capital doing quite well?

J. Porter:

We do our best. I would respond that from what we see on the ground, South Africa has been ahead of everybody in terms of investing in other African countries. You tend to get headlines about Chinese companies investing in infrastructure, or investment from this country or that country, but there are so many times when I am in a specific country in Africa and I ask, “Who built that shopping centre?” “It was Shoprite.” “Who built that timber plant?” “It was Steinhoff.” Individual companies have become advanced and are implementing investment strategies, and just are way ahead of everybody in many other African countries. So I think that South Africa is much more developed in investment as well as other areas. Institutions like the PIC have come to the conclusion that we have reached a tipping point in many Sub-Saharan countries where it is more risky not to invest than to invest. And so, they need to do it. They need to stop waiting and start investing in some of these companies, because it is happening; they are growing; and it has reached a point where it is more risky not to invest than to invest.

M. Margelov:

If I may respond to what His Excellency the Ambassador said about the Russian banks, when I am in Angola, I normally use the ATM machines of VTB Africa. That is the Russian state-owned bank. Russian banks are already in Africa, and they are expanding. We also want African banks to come to Russia. The idea of the BRICS Development Bank is a great idea. I was in Durban at the BRICS Summit, and I remember all the discussions on that. I am sure it will be created soon, and I am really optimistic. I would like to make one brief point on micro institutions. You should be careful when creating micro institutions, and not just in Africa. There was a politician in Africa who was very much in favour of creating micro institutions. His slogan was, “There is no democracy without people’s congresses and commissions in every place.” And his name was Muammar Gaddafi.

M. Elliott:

Good. I have two questions from the front row.

M. Nkosi:

Thank you. I am Monde Nkosi, also from South Africa, here as part of the Y20 delegation from South Africa. Firstly, John, just to back up your point on South Africa and the rest of Africa, the growth of the rest of Africa, and Sub-Saharan Africa in particular, benefits us a lot. Take the example of Nigeria. MTN, which is a South African telecoms company, has 45 million customers in Nigeria. That is the equivalent of South Africa's population, basically, so without the growth of the rest of Africa, we cannot go anywhere. So we are heavily invested in the rest of Africa and in the rest of Africa's growth. I will now come to my two questions. Helen, you mentioned the importance of public–private partnerships and the development of infrastructure going forward. Charles, you spoke a bit about what you termed a false debate, somewhat, about the role of the private sector in developing infrastructure, and you used the US as an example. So, just to ask the question a bit more directly, Charles, what do you think is the role of the private sector in developing infrastructure? And then my second question is a bit more personal. As young Africans, we have a lot of options, just from a very micro and personal point of view. You have got a lot of friends in the diaspora, a lot of friends working in government, and in the private sector, et cetera. From a very personal point of view – and this is an open question to the group – what do you think the role of young Africans is in moving our continent forward?

M. Elliott:

Charles, do you want to take the investment and infrastructure point? And then everyone can come in. You can talk about the second one, too, but then everyone else can join in. You are quite young yourself, are you not?

C. Okeahalam:

Yes, I am young; I am 50. I feel young; only sometimes when I try to exercise, it does not feel the same as it was 30 years ago, but nonetheless. I will try to answer that question on the role of the private sector and infrastructure. The way I would look at is that there are two forms of infrastructure. Infrastructure is a false debate because there is basic infrastructure and there is non-basic infrastructure. Basic infrastructure is water, roads, railways (non-commercial railways). Non-basic infrastructure can either ride on those systems or would typically in my view be telecoms and commercial railways. Why am I making this distinction? Because the private sector is looking for a return. It is not going to fund, and that is the thing. It finances, it does not fund. It is not just a semantic difference; it is actually a practical difference. The private sector is looking for a financial return. Therefore, it is not going to fund; it finances. And because it is financing, it is looking for that return. It will not finance a rural electricity network; it will finance an independent power producer (IPP). It will not fund a passenger railway to a place where there happen to be people; it will finance it. In Nigeria, there are people in the northeast who have not been to the south of the country. When somebody wakes up in the morning on a Friday and goes to a mosque – with all due respect to Muslim people, I happen to be Christian, but I am married to a Muslim woman – and then decides that they want to go and work people up and that they are going to place bombs somewhere because some people are from the south of the country and some happen to be from the north, sometimes the people doing this have never been anywhere outside of where they are from. They are disconnected; they are physically disconnected; there is an absence of basic infrastructure. That basic infrastructure has to be provided by government, and to do that, governments have to reform. And unless they reform, the costs of doing that will not materialize. They will be high in the first place, and even after applying the monies, those monies will be stolen; they will end up in Swiss bank accounts; they will not yield those returns.

Now for your final question about what young people can do. A lot. Not that story about, you know, ‘the young are the future’ and all that. No. The fact is, one of the reasons that one is encouraged is that, with information technology, as everybody above the age of 45 here will readily admit – and if they do not, they have to go and ask themselves this question – everyone who is half their age is likely to be more technologically adept than they are. I know that is a fact that applies to me. I believe that the combination of IT, and the spread of information, and the role that information plays in young people’s minds is going to yield the kind of innovation, the kind of solutions that John touched upon. There will be more M-Pesas. There will be more ideas. There will be more ways of doing things than the standard ways of doing things. I really believe strongly that you have this major role to play. Do not let your voice be quieted. Say more; do more.

M. Elliott:

Let us squeeze in one more question at least, and then I will let the panel have some closing remarks.

C. Orman:

Hello. My name is Cafer Orman. I am the leader for the Turkish Youth Delegation for the G20. I want to start off by saying that I really appreciate the emphasis on African success. I feel like the narrative, when Africa comes up, usually focuses on Africa as an object of pity. I also want to emphasize that there was a Gallup poll recently indicating that most Africans believe that the future will be bright, and they believe that their children will have a better future. As was mentioned before, scarce goods like mobile phones are more easily available, and actually, Nigeria produces more films in a year than the United States. Since the Cold War, the number of democratic countries has skyrocketed from three to currently 25, and there has been a drastic decline in big-man governments, coups, and wars. When there are occasionally conflicts, they are less deadly in scale than they were. There has also been a major shift from centrally planned economies to market-based economies, and doing business, in particular in Kenya and Nigeria, has become drastically easier. The World Bank estimated that over a period of about 10 years, the majority of African countries will become middle-income countries.

M. Elliott:

Do you have a question?

C. Orman:

Yes, I was just getting to it. My question is regarding Mr. Okeahalam's point about aid over trade. Currently, Turkey is pushing for more free trade agreements with many African countries. I would like to hear more about where Africa is heading in terms of trade and commercial engagements.

C. Okeahalam:

Maybe Helen should take this one.

H. Clark:

I came two weeks ago from the major Japan–Africa development conference, the Tokyo International Conference on African Development, and at that conference, Japan announced some quite generous ODA commitments, and the African leaders said, "Thank you, but we want your trade and investment." You know, people really are thinking beyond aid. They do not want charity; they want opportunity. Trade and investment. Now, to liberate that, then, a lot of the things we have talked about here – about getting the environment for investment right so that investment will flow into infrastructure, which will make the manufacturing and processing revolution possible, as it has in Southeast Asia – are going to be incredibly important. I do think, with infrastructure, Africa is in a position to actually leapfrog a lot of the hard yards of infrastructure development, which was the traditional path. For example, my own country rolled out a national electricity grid over 2,000 kilometres, up remote roads and valleys: very expensive. You do not do that now. You go to off-grid, decentralize. So I think smart strategies which use the latest technologies to get energy out to everyone are going to be incredibly important. And there will be a role for everyone. There will be a role for government–private sector partnerships. There will still be a role for the well-intentioned development agencies and partners to help with some of the more remote stuff. But we can do it. Similarly, with ICT, phone development in the past meant running physical phone lines out everywhere.

Not anymore. Africa is at the forefront, as others have emphasized, of ICT, mobile banking services, et cetera.

Can I just finally address that question about Africa and youth? I think we are talking here about the repositioning of Africa, and it is not just rebranding and spin, right? Africa is emerging. I think young people are attracted to opportunity and to emergence, and so ‘take your talent home’ would be my message. See the career there; see the opportunities there with that emergence. But I hope that people will be as motivated by the economic opportunities as they are by the opportunities to contribute to human development, because in the end, it is Africa’s people who are going to drive this forward, and it is about human development, their education, their health status, their housing. Have we got a job? Can we contribute? Do we have a voice? But I think it is a very exciting time to be young in Africa, and to make a contribution.

M. Elliott:

John, last remarks, and then I am going to treat Mikhail as our host and give him the last word.

J. Porter:

That is great, and I think the subject of young people is a great topic to end this panel on, because I think that as far as the rate of change of institutions and what will happen with transparency in governments go, we honestly have no idea. But the great hope that I have that these changes will happen is in what you see going on with young people going back to Africa and the businesses they are setting up, and in the talent and hope of young people. I will just tell you one anecdote. I was in Africa last week, and I met a young technology entrepreneur who had been on the west coast of America and was returning from Menlo Park to his native Mozambique to set up a technology company. During his first week, a friend said, “Can we just go by our cashew factory?” So he went to the cashew factory expecting to pass a few idle hours, and he learned that they were picking the cashew nuts and then shipping them off wholesale to India to be shelled and put in boxes. And he turned around to his friend and he said, “Why don’t you shell them and put them in boxes? That’s a hundred jobs from India to Mozambique.” You know, there are hundreds and hundreds of little stories like that. I think, if you go back to Africa, you will make more of a difference than you can possibly imagine, and in ways that you cannot possibly imagine.

M. Margelov:

Well, I was born in 1964, and I was brought to the African continent in 1967, and I spent a large part of my childhood in Africa, so I consider myself to be a young African. Every time I visit IDP camps in Darfur, I am surprised by the attitude of young people there, which completely contradicts the attitude to life of the older generation. The older generation always complains and talks about the past. The younger generation never complains, and talks about possible opportunities and about the future. And this is the answer to your question. If the younger generation in Africa does not follow two principles of their fathers – ‘one day, one business’ and ‘any moment but now’ – they will be very successful. Thank you.

M. Elliott:

Thank you. Give them a round of applause. This was an absolutely fantastic panel, tremendously enjoyable. Thank you all: Charles, Mikhail, John, and Helen. Have a terrific day, everyone, and I will see you all later on. Thanks a lot.