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Draft Speech for Olav Kjorven

It is a pleasure to be here today and to have the opportunity to address such an accomplished and distinguished audience.

I have had the pleasure of visiting Japan on numerous occasions over the last years. Each time it is a very special and memorable experience. This visit is on the occasion of the G8 meeting of development ministers. Confession..

My intention in the next 20 minutes or so is to flag some of the key issues for private sector development in Sub-Saharan Africa and to explain how my organisation, UNDP, is responding to these issues in an attempt to promote inclusive private sector led growth.

I think we all know the development challenges facing Africa. Too often ignored however, is the progress being made in the continent and individual countries. Growth figures.. Why.. For example, Malawi has made great strides in reducing child mortality; primary school enrolment has increased in Ghana, Kenya, Tanzania, and Uganda. There is also impressive progress in malaria control. The distribution of bednets in countries like Niger, Togo, and Zambia has led to a dramatic fall in malaria incidence. In these success stories, we see what can be accomplished with investments in powerful and proven technologies.

Yet, as we pass the midpoint of the time we have to achieve the Millennium Development Goals from the Millennia to 2015, many countries are not making adequate progress towards the Goals. Pervasive challenges include poor access to health and nutrition services; rapid and unplanned urbanisation; deforestation; water scarcity; gender inequalities, increasing numbers of people living with HIV and AIDS, conflict and instability in some countries, and persistent youth unemployment.

But rather than list the problems, I would like to provide an illustration which I think will bring us closer to the realities and vulnerabilities facing the poor. The illustration suggests that governance reforms in support of private sector development have the potential to enhance opportunities for poverty reduction and economic development. This is the main argument of the Commission on the Legal Empowerment of the Poor which I will talk a bit more about later – This topic is particularly pertinent for this symposium because - as you'll see - the solution is very much about unleashing the potential of the private sector, the enormous, largely untapped entrepreneurial potential of African women and men.

Let me take you to Nairobi, Kenya.

Before the violence came, Margaret Atieno Okoth sold cabbage six days a week at a cramped stall in Nairobi's Toi market, alongside venders hawking everything from second-hand shoes to bicycle parts. Her meagre earnings allowed her to send only three of her twelve children to school, while her husband sought odd jobs. No matter how hard Margaret worked, her family had to subsist in a one-room tin shack with no electricity, water or sanitation. They were trapped in Kibera, a squalid slum where a million Kenyans struggle to survive and poverty is passed down from one generation to the next.

In thousands of such settlements around the world, people like Margaret have no legal identity: no birth certificate, no legal address, no rights to their shack or market stall. Without legal documents, their ability to make the most of their efforts and assets is limited, and they live in constant fear of being evicted by local officials or landlords.

Criminals prey on them; corrupt officials fleece them. And, as witnessed in the recent violence in Kenya, security eludes them.

Such problems may seem intractable. But change *is* possible. Just visit Delhi‘s Sewa Nagar market. Mehboob, a sales person at this market describes how impossible it used to be to survive through honest, hard work by noting “The police and local officials demanded bribes, threatening to evict me or confiscate my goods. I had to pay up, but I was still harassed and beaten up. My produce was seized and I lost count how many times I was evicted. I never thought things could be different.”

A visitor to Sewa Nagar nowadays will find a much different reality - the market throngs with shoppers looking for bargains. Madan Sal is selling dried fruit, Santosh tempts female clients with bangles and cosmetics, – and none of them is afraid any more.

The source of this remarkable transformation is simple yet profound. Whereas previously Santosh and the other traders were not legally entitled to trade, now they have obtained official licenses to do so. On paper that may not seem revolutionary, but in practice it empowers the market‘s poor traders to make their hard work pay. In exchange for a reasonable monthly rent, the traders now have secure rights for their pitches.

Sewa Nagar‘s metamorphosis demonstrates a basic, but often overlooked truth: legal exclusion and poverty go hand in hand, yet neither is inevitable. If Sewa Nagar can change, so could Kibera.

The Role of the Private Sector

Keeping this illustration in mind, I’d like to talk more broadly about the role of the private sector in addressing development challenges or rather the interaction between entrepreneurship and governance, the market and state.

It is now widely acknowledged that many challenges cannot be addressed effectively without vibrant economic growth spearheaded by the private sector.

The private sector contributes to inclusive growth and poverty reduction in many ways: by generating jobs, raising tax revenues and providing the goods and services that the poor need. A precondition to make this work, however, is an effective government with the will and capacity to foster an enabling environment for market development and ensure efficient and effective regulation that safeguards standards while promoting competition. Most importantly, the courage to break down the barriers residing in law, institutions, bureaucracies that shut people out and keep people down. What we are talking about here is really granting poor people—the majority—the chance, the right to claim economic citizenship.

This challenge should not be underestimated. And I am convinced that addressing it will require courage by policy makers and the willingness of the private sector and government of working together to achieve a more inclusive and fair order, and with that the mutually beneficial goals of growth and poverty reduction.

The private sector in most African countries is weak. In comparison to China and India, for example, Africa has fewer enterprises per head, and a disproportionately larger share of these are subsistence microenterprises operating in the informal sector or very large companies, including relatively inefficient state owned enterprises.

Foreign direct investment has surged, but much of this has been driven by investments in the extractive sectors (oil, gas and mining) that have had a disappointingly limited impact to date. Resource extraction is a big opportunity but has more often than not done more harm than good. Meanwhile, levels of manufacturing investment in African countries remain significantly below levels in other developing countries during the early stages of development.

The private sector in Africa is thus characterised by a relative absence of growth oriented small and medium sized enterprises (SMEs), as well as low productivity and competitiveness.

The problem, however, is not so much that the private sector is weak, but that governance structures are not conducive to an effective private sector. States in many African countries lack capacity in the area of economic governance and suffer from endemic corruption, so that even where policies to support private sector development and poverty reduction reach the statute book, they are incapable of being properly implemented and enforced. The result, all too frequently, is that the private sector is deprived of the protections and tools that they need to grow such as property rights, finance, organizational and risk sharing tools such as limited liability, whilst the state colludes with monopolistic or oligarchic private enterprises, to effectively stifle competition and initiative. Markets, where they operate at all, end up favouring elites and reinforcing existing patterns of inequality and social exclusion.

I do not worry about the state of the entrepreneurial spirit in Africa. It is there is droves and you see it in cities and villages everywhere. People know how to make a buck. That is how they survive. The problem is the lack of an enabling and inclusive legal and institutional system, or rather a system that is too often rigged against them.

Recent Trends

There is nothing inevitable about this scenario. It can change.

A growing body of evidence suggests that with the right mix of private initiative, public policy reform and judicious private and public investment, the private sector in Africa can realise its potential contribution to development.
The African region has now seen six consecutive years of GDP growth and a significant increase in international trade. And a number of countries, most notably Ghana, Rwanda, Tanzania have taken significant steps to 'upgrade' their business enabling environments, improving their ranking on the World Bank's 'Doing Business' index as a result.

A number of governments have committed to longer-term growth strategies that emphasise diversification into labour-intensive manufacturing and other non-traditional exports, as opposed to natural resource based primary production. And there are some signs that FDI, which has the potential not only to generate jobs, but also to transfer new skills and technologies and open up new 'Bottom of the Pyramid' markets, is increasing in non-extractive sectors, including agriculture, transportation, storage, manufacturing, construction and communications.

The UNDP Response

So how are we responding to these challenges and opportunities? UNDP is of course only one of a number of agencies that is advocating for inclusive market development in Africa. Our role is not to invest heavily in much needed initiatives to promote macro-economic stability or to fund large scale infrastructure provision.

Nevertheless, development needs and consultations with our government partners, suggest that UNDP should have a strong and active involvement in at least three areas of intervention which I will say something about shortly.

But first I want to return quickly to the big idea that I mentioned in my introduction – The idea of legal empowerment of the poor. This is an important driver of UNDP's work in private sector development and will likely be something that you will soon hear more about. The Commission on Legal Empowerment of the Poor will launch its report globally in early June of this year. UNDP hosted the Commission which was co-chaired by Madeleine Albright and Hernando de Soto.

The report boldly argues that exclusion from the law--or legal protections and opportunities--is a major barrier facing 4 billion people in the world. It makes the case for focusing on four interrelated domains: access to justice, property rights, labor rights and business rights. These are areas where reforms can yield big dividends: a larger and more inclusive market economy and a more legitimate state. It is about respecting rights, but is equally about unleashing the incredible, untapped development potential of four billion people kept down and out by policy and institutional failures. By ensuring secure legal rights to property, to operate businesses and to enjoy decent labor rights, I and the Commissioners believe that poor people in Africa and elsewhere will

reap significant benefits. Being able to get a loan in a bank is one thing, but think of what increased security means for people, in their daily lives. All of a sudden it makes sense to improve ones home. All of a sudden you can credibly ask for connection to the power grid, or get water piped into a neighbourhood. You know your home will not be demolished any day soon. I think this emphasis, is important for all working in development. Too often development efforts have neglected this. Yet, what industrialized country has managed to achieve broad prosperity without resolving these issues?
Now back to the three main UNDP areas of intervention on private sector development. You'll note, however, the pertinence of legal empowerment to all three areas.

i. ~~i.~~ Promoting Indigenous Private Sector Development

The first of these is the promotion of indigenous private sector development. In short we must address the 'missing middle', creating the conditions for larger numbers of growth oriented SMEs to flourish. This will generate new employment, allowing African nations to substitute more and more imported goods, diversify production and move into markets for higher valued added goods and services, gradually building the basis for new export sectors.

To achieve this, we have to address numerous issues. At the policy level, we must work with our partners to ensure that government policies support private enterprise and the development of competitive markets and do not hinder them. In this respect, taking forward the recommendations of the Commission on Legal Empowerment will be particularly important.

We also have to build the capacity of entrepreneurs and governments to ensure that the opportunities created are not squandered, paying particular attention to the operation of key factor and sector markets that are important to the poor, as producers, wage employees and consumers.

With the ILO we are helping to focus government attention on the importance of employment intensive growth strategies, and providing diagnostic tools and normative policy instruments needed to facilitate the operation of inclusive labour markets.

Similarly with our partners in the UN Capital Development Fund we are addressing the issue of access to affordable financial services, especially long-term lending and equity tools that enable African SMEs to invest in new valued adding processes and technologies. In this way we are trying to create new commercially sustainable markets for financial services that extend beyond ‘traditional’ short-term micro-lending. I hope the government of Japan and the private sector in this country will find this of interest.

Leveraging Global Supply Chains and Working with Lead Firms

The second approach for us to facilitate inclusive market development in Africa is to work with existing private sector investors, particularly lead firms and key first and second tier suppliers. This makes sense for a number of reasons.

One, as mentioned earlier, is that investment in Africa, including foreign direct investment, is starting to grow.

Another reason is that global value chains are changing, and that value chain leaders, particularly buyers, are playing an increasingly important role in structuring the terms of exchange and transferring knowledge to their suppliers. As our colleagues in UNCTAD have pointed out, this creates many new opportunities for Africa, including the opportunity to outsource value chain functions to local suppliers located near extraction or growing sites.

UNDP is helping to capitalise on these opportunities through two initiatives.

The *Growing Inclusive Markets* (or GIM) initiative is an applied research programme that aims to identify ‘emerging’ business models that are financially, socially and environmentally sustainable, and also provide significant direct benefits to the poor. GIM aims to disseminate practical knowledge and case studies on successful pro-poor investments.

Its aim is to encourage businesses and governments to take inspiration and practical knowledge from successful pro-poor investments and replicate them, making appropriate adjustments for local circumstances. This is path breaking work and am I pleased to say that the first GIM report, entitled *‘Business for the Poor: A Mutual Value Proposition’* is currently in final draft form and will be launched this Summer. The report was compiled by a network of over 20 leading policy institutions, including 4 in Africa.

Our second closely related initiative is called *Growing Sustainable Business* (or GSB for short). GSB brokers multi sectoral partnerships for pro-poor investments that increase access to needed goods and services, as well as employment and livelihood opportunities for the poor. GSB draws on innovative business models, such as those highlighted in GIM’s research.

GSB has worked with over 75 companies to date, from northern multinationals to local small and medium sized enterprises, and has supported investments ranging from US$ 10,000 to US$ 23 million.

Examples of GSB success stories in Africa include:

- In Tanzania, GSB and Unilever established a locally owned supply chain for Allanblackia oil, providing local farmers, who currently earn less than US$1 a day, with a promising new source of income.

- GSB has also partnered with Bionexx, a local Malagasy company, to strengthen the local value chain for artemisin, a key ingredient for malaria treatments.

We are honoured and delighted that the Government of Japan has, since October 2006 been a key supporter of the GSB programme and its implementation in Indonesia. To date this is yielding a number of very exciting investment projects involving Japanese investors and in the areas of low-cost housing, information and communication technologies (ICTs) and waste management. A key example is the GSB - Yamaha project that is developing a viable business to provide a stable supply of potable water to rural communities in Indonesia, through the distribution of an innovative new water filtration system.

Contributing to the Development of New Market Instruments

Finally, the third way in which we can contribute to growing inclusive markets, is through the development of new market based instruments, such as the use of tradable permits, to directly address key global and development problems such as climate change.

The global environment commodities markets received a boost in 2005 with the entry into force of the Kyoto protocol. It is already very clear that the global cap and trade carbon market established by the Kyoto Protocol can generate through the *Clean Development Mechanism* (CDM) financial flows to developing countries exceeding what is available through ODA. This financing can be used not only to help build low carbon emitting economies but also help countries and communities achieve the MDGs.

A good example of how this can be done is the MDG Carbon Facility. UNDP, has partnered with the Dutch-Belgian finance group Fortis to help countries design projects that meet Kyoto Protocol standards, earn carbon credits and sell them for a profit. In so doing, we are helping provide a new flow of resources from carbon markets to developing countries in order to finance much needed investment and advance progress towards the MDGs.

By putting a global price tag on greenhouse gas emissions, we can increase the profitability of environment friendly projects and create financial incentives for direct investment in energy efficiency and renewable energy development in low income countries. The real potential of carbon finance is the role it can play, together with ODA, in removing barriers to direct investment in climate friendly technologies and development.

The opportunities provided by new carbon markets are exciting and revolutionary. We see UNDP as uniquely qualified to do two things. One help expand access to carbon finance to those many countries that remain largely excluded, including, importantly the LDCs and two, help countries ‘make the money work’ for both environmental sustainability and poverty reduction and human development. We are in a very good dialogue with the Government of Japan on these issues and we look forward to collaboration. We do also hope that the private sector here will show interest in our work.

There is an interesting interface between what is happening with climate change and the carbon markets on the one hand and what is happening in the area of food prices and food security. Handled badly, the growing prices on food can become a serious challenge in Africa and lead to instability and hunger. However, policy agendas can be combined to create new opportunities. African agriculture can be revitalized by increased international investments, including from carbon markets. Africa can potentially supply itself as well as other parts of the world with high-quality and affordable food. But it will take serious reforms, legal empowerment included, investments in value chains, opening up of trade opportunities, etc. Again, Japan can potentially play a key role.

Conclusion and Next Steps

Let me conclude then by saying that in many ways that I unfortunately don't have time to highlight, we are working energetically and enthusiastically to assist the development of more inclusive markets in Africa. Indeed, this is an extremely high priority for UNDP.

I would also like to take this opportunity to thank the Japanese government for the support they have provided to us up until now and to look forward to our future cooperation and partnership.

We are currently in discussions with the Japanese government about the possibility of extending our successful collaboration in the GSB programme to Africa, and hopefully contributing to the Fourth Tokyo International Conference on African Development in late May 2008.

Unleashing entrepreneurship and harnessing the immense transformative power of markets to promote pro-poor growth in Africa is an immense challenge. We can best approach it in partnership. We look forward to deepening the partnership with the government of Japan. We look forward to exploring more possibilities for partnership with world renown Japanese businesses that have already brought so much employment and opportunity to many parts of the developing world, and that testify more cogently to the art of what is possible than any of my words ever could.

Together, we can give people like Margaret in Nairobi the support she deserves.

Thank you for your attention. I very much look forward to our deliberations over the course of today's event.