

The Role of the Private Sector to Poverty Eradication

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It is clear that while government and donor input into healthcare, education and infrastructure is vital to addressing poverty, a lasting solution is to build economic activity so that sustainable livelihoods are created.

The basic contribution of business

The basic contribution of companies to economies through fiscal payments and multiplier effects should not be forgotten. Let me give you a few figures from my own company Anglo American. I do so not because the contribution of Anglo is remarkable, but the figures are available readily from our Report to Society and illustrate how the economic benefits are shared.

In 2005, we made record underlying profits of \$5.5 billion, supported by very strong commodity prices. We paid over to governments \$4.46 billion in taxes, 64 percent of which went to developing countries. Of this \$3.12 billion was in the form of corporate taxes and royalties and \$1.34 billion in value added taxes and employee taxes. This compares with \$3.22 billion to shareholders in dividends and \$0.4 billion to banks in interest. Payments to our employees amounted to \$4.86 billion, \$ 2.78 billion or 57 percent of which was to 86,000 employees Africa and Latin America.

The multiplier effect of our 86,000 employees in Africa and Latin America spending the bulk of their earnings locally on housing, services, education etc. is substantial. Using conservative family and other multipliers shows that the business supports well over a million people directly and indirectly in developing countries. But this is dwarfed by the \$17.2 billion that we paid to suppliers, of which \$9.17 billion or 53 percent in Africa and Latin America. That sum in turn goes on tax, employment, further local supplies and so on down the chain.

My point in giving you all these figures is to demonstrate that a single profitable business, albeit a large one, is putting billions of dollars into developing economies and providing economic support to millions of people.

Additional efforts to grow enterprises

If one then applies special efforts to boost local suppliers and develop sustainable businesses in the local supply, the effect can be magnified at no great cost. For example in South Africa, \$1.7 billion, or 26 percent of local procurement now goes to black owned or controlled businesses, a figure that has increased by 30-50 percent a year over the last few years.

Many companies go further and put special efforts into development of small and medium sized enterprises. In the Anglo model, called Anglo Zimele in South Africa, Anglo co-invests – typically a 20 percent shareholding - with budding local entrepreneurs to build new businesses. This is done at a rate of about 20 businesses a year on commercial terms, but with advice on business planning and methods. Once

the business is on its feet, usually after three years, Anglo Zimele sells out to the entrepreneur, leaving the business as completely independent. There are currently investments in 37 businesses, with a collective annual turnover of \$135 million.

In the context of business development I should also mention work started under the auspices of the Global Compact in the run up to the Johannesburg World Summit on Sustainable Development in 2002 and now lead by the UNDP on “Growing Sustainable Businesses” in the least developed countries. The idea was for businesses in various sectors from communications through beverages and personal products to energy to look at ways in which they could grow their normal business, perhaps with some adaptation, to serve the poorest sectors of society.

Capacity Building

A major contribution of businesses to capacity building is through training of employees. This often amounts to 3 or 4 percent of employee costs. Many entrepreneurs starting in business get their first business experience through employment of major companies or for example by becoming dealers or distributors for major companies, for example in the beverage business or transport fuel retailing..

In many cases the local supply of people with sufficient education to work in technological industries is insufficient. It is therefore in the self interest of companies to invest in education. Again to give some figures from Anglo experience, we have over a 1000 bursars, some 500 graduate trainees and some 2000 apprentices in training. In addition to this, Anglo has a programme of some \$5 million a year to strengthen critical maths and science teaching in schools in South Africa, building on existing centres of excellence in both the public and private sector.

Co-investment in infrastructure

Many major operations, particularly in the resource industries, require major investments in transport and port infrastructure. The longer term utility of such infrastructure to serve other sectors of society can be greatly improved if planning is integrated with government or donor funded infrastructure investment. This concept can be extended further if both the company requirement and the public infrastructure are contracted at the same time, perhaps using the contracting capacity of the private sector to oversee the contract, thus supplementing sometimes weak government capacity.

The barriers to this happening on the company side are concerns about delays – government infrastructure planning timetables are often understandably more protracted than those for a single project – and concerns about funding. These barriers can perhaps be overcome or reduced by commencing planning at a very early stage of a project and involving international financial institutions as guarantors of payments.

Co-investment, with potential to serve the poor, is also very important in the healthcare field. Consider a company addressing the threats of HIV/AIDS, TB or malaria in its workforce. With a major programme on HIV/AIDS prevention and

treatment running for some years now, we have the statistics to demonstrate that, apart from any moral imperative, the cost of provision of antiretroviral treatment for AIDS is offset by reduction in absenteeism and in treatment costs for other infections.

But the viruses, bacteria or insects responsible for these diseases are no respecters of factory or plant boundaries. They cannot be treated unless families are also treated. But where should the line be drawn in extended families, neighbours, fellow pupils at school and the community at large. Furthermore families are often located relatively remotely to corporate facilities, meaning that company clinics, suitable for employees, are not suitable for families or the wider community. The answer here has to be co-investment with government health services or donors to provide facilities. Often the skills of the private sector can be used to run such facilities. A barrier to such co-investment is a concern on the part of the company that donor funding from such sources as the Global fund for HIV/AIDS, TB and Malaria, or from PEPFAR, is often in relatively short term tranches. Should such funding not be continued the company will be potentially left holding the baby, or all the babies so to speak.

Co-ordination between different sectors of society and different companies.

In all of the above co-operation and consultation between different companies as well as civil society and labour organisations is critical. The Local Networks of the Global compact are an important way of achieving this, bringing together businesses of all sizes as well as the civil society and labour. Through this mechanism, within a framework of the principles of the Global Compact, key concerns can be identified and local priorities established.

Conclusion

Through the effective running of its normal business, with extensions into its supply chain and using its skills in enterprise development, a company can have a very considerable impact on the establishment and growth of sustainable livelihoods which are essential to poverty reduction. In addition contributions can be made to the development of capacity, both within the company and through support for the education system. Co-investment with governments and donors in both infrastructure and possibly in healthcare can be effective. Given planning and co-operation with others all of this can be accomplished at very modest additional cost to the company.