



**Background note for the "Conference on Alliances on Integrity, OECD/NEPAD/GC/Transparency International" in Addis Ababa, 7-8 March**

The Millennium Development Goals adopted at the Millennium Summit in 2000 are quantified targets for addressing extreme poverty in its various dimensions. Many countries are on track to achieve at least some of the Goals by the appointed year, 2015. Between 1990 and 2002 average overall incomes increased by approximately 21 percent. The number of people in extreme poverty has declined by an estimated 130 million. However, progress has been far from uniform across the world – or across the Goals. As the “Investing in Development – A Practical Plan to Achieve the Millennium development Goals”<sup>1</sup> report indicates, most countries in Africa are far from achieving many or all of the Goals. Africa is the only continent in the world where, in the past two decades, income per capita has been in decline. 314 million people in Africa are living on \$1 dollar a day or less. With 10% of the world’s population, Africa’s share of the global GDP is little over 1%. In order for the countries of Africa to achieve the MDGs, both the public and private sectors will have to assume their responsibilities - the private sector will need to create wealth (e.g. through job creation and investment) and the public sector to provide the enabling environment.

During the past two decades, governance has become a key concept in the international debate around the issues of development and poverty eradication. Recent empirical evidence suggests a positive correlation between democratic governance and the levels of income, investment, human capital, economic liberalization, and distributive income growth in society. The state has a central role in promoting economic and human development, but often fails to deliver, because of a weak governance structure and/or the lack of institutional capacity. Without addressing the issues of capacity-building, legal and judicial reform, financial sector reform and in addition, a concerted effort made in the fight against corruption can good governance be achieved.

“Good governance is perhaps the single most important factor in eradicating poverty and promoting development”.

UN Secretary-General Kofi Annan

The New Partnership for Africa’s Development (NEPAD) has highlighted these difficulties as being the root of many of Africa’s development problems and lists a number of prerequisites for African countries to move forward in their quest for sustainable development. Key among these is the proper adherence to good political, economic and corporate governance. There is a lot to be done on both sides of the

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<sup>1</sup> Jeffrey D. Sachs, “Investing in Development – A Practical Plan to Achieve the Millennium development Goals”, UN Millennium Project.

corruption situation, both the demand and the supply-side. The private sector, for their part is beginning to realize that they too share the responsibility in eliminating corruption. Not only has consumer confidence been eroded by the wave of business ethics scandals in recent years, but businesses are also becoming increasingly aware of the extent to which they can be held responsible for their actions at home and abroad.

Many African countries have made great progress with the development agenda, illustrated by the fact that the last few years have seen far less conflict and far more democratic governments elected than in the 1980s. Transparency and accountability has increased, and there is unprecedented macro-economic stability, which is contributing to better economic growth rates achieved in decades. The IMF is projecting economic growth for Africa for over 5.3 percent for 2005, and average inflation of 9.9 percent compared to 41 percent over 10 years ago. According to the World Bank indexes, governance has been improving faster in Africa than in most other areas in the developing world. The African Union (AU) is providing new political leadership. Through NEPAD, and in many other ways at the country level, Africa is taking on its own economic and social problems

However, Africa's problems have constituted a complex set of barriers that have constrained development. When whole economies lack even the most basic infrastructure and human capital, globalization can have significant adverse effects - including brain drain, environmental degradation, biodiversity loss, capital flight, and terms-of-trade declines – rather than bring benefits through increased foreign direct investment inflows and technological advances. In addition, of particular importance to Africa's human and economic development is the fight against HIV/AIDS. If immediate steps are not taken now, HIV/AIDS will further ravage the social fabric. 50 million Africans have contracted AIDS and 22 million have died, leaving 12 million orphans. There are very clear synergies between HIV/AIDS and governance which need to be recognised by all those concerned with governance in Africa.

That corruption adversely affects economic development has become a commonplace assertion in public discussion. Recent research has revealed that an increase in corruption lowers productivity and decreases net annual capital inflows. An improvement of 6 points on the Transparency International Corruption Perception Index – for example, Tanzania improving to the level of the United Kingdom – increases GDP by more than 20 percent and increases net annual capital inflows by 3 percent of GDP. It is said that corruption is costing Africa more than \$148 billion a year, increasing the cost of goods by as much as 20%, deterring investment and holding back development. A state that applies rules and policies predictably and fairly, ensures order and the rule of law, and protects property rights will generate confidence and attract more domestic and foreign investment. That, in turn, generates trade and faster economic growth and provides the wherewithal for sustainable development.

Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social actors – can help realize the Secretary-General’s vision: a more sustainable and inclusive global economy. On 24 June 2004, during the Global Compact Leaders Summit, UN Secretary-General Kofi Annan announced that “at your urging, and after extensive consultations with all participants that yielded overwhelming expressions of support, the Global Compact henceforth will include a tenth principle, against corruption.” Over the past month, the initiative has been focusing on providing background information, guidance and tools to more than 2,000 participating businesses and other organizations around the world. Partnering with the UN Office on Drugs and Crime (UNODC), Transparency International (TI) and the International Chamber of Commerce (ICC), the Global Compact is holding several dialogue events and supports the collection of corporate practice cases which will be showcased in a publication to be released in the fall of 2005.