BRIEFING NOTE #1



CANADA & AFRICA



MATCHING REPUTATION WITH ACTION IN THE 21ST CENTURY

SEPTEMBER 2004

EXECUTIVE SUMMARY

Africa is the least understood continent. Yet it is full of challenges and rich in opportunities for Canada. We have natural advantages there, but other countries have moved ahead of us.

Canada shares many characteristics with Africa that provide compelling reasons for greater and sustained engagement and partnership. These commonalities include a shared colonial and legal heritage, multicultural diversity, a similar rich resource base and economic geography, and, of course, the English and French languages. Since the Second World War Canada established a very good reputation in Africa by working bilaterally and multilaterally (e.g. United Nations, World Bank, la Francophonie, and the Commonwealth) on issues ranging from aid and development to regional conflict, governance, and education.

In the 1990s, however, Canada's actual engagement with Africa declined. Due to budget cuts at home and the growing involvement of other countries there, Canada's real and relative profile across the continent decreased drastically. In response to NEPAD (the New Partnership for Africa's Development), however, Canada has launched a number of recent initiatives: the Canadian Council on Africa; a G8 Africa Action Plan including a \$500 million Canada Fund for Africa,

Least Developed Country tariff elimination, and an annual 8% increase in aid; a \$200 million Canadian Investment Fund for Africa (CIFA); various HIV/AIDS initiatives; "Unleashing Entrepreneurship" report for the United Nations, co-chaired by Prime Minister Martin; expanded debt relief; Finance Minister Goodale's participation on the Commission for Africa; and significant policy shifts with the Canadian International Development Agency (CIDA). However, a better coordinated and more coherent "Africa Policy" based on the following three principles would benefit both Africa and Canada: **1**. *Recognize and build on the special Africa-Canada relationship;* **2**. *Recognize the link between weak private sector development, poverty, state failure, & regional and international insecurity;* **and, 3**. *Recognize the value and ensure a central role for Canadian expertise and abilities as a key player in Canada's relationship with Africa and response to NEPAD*.

Seven short-term policy challenges illustrate the need for a better coordinated "Africa Policy": Challenge 1) Ensure meaningful access to and participation of Canadian business in the Canadian Investment Fund for Africa. Challenge 2) Ensure Canadian SMEs can find and develop business opportunities in Africa. Challenge 3) Ensure that CIDA's Private Sector Development (PSD) policy and bilateral programming harness the abilities of the Canadian private sector. Challenge 4) Adapt CIDA's Industrial Cooperation Program (CIDA INC) to fit the demand for Canadian knowhow in the economic development of Africa. Challenge 5) Ensure more efficient access to Canada by African business people, in regard to immigration and customs services. Challenge 6) Ensure Export Development Canada products and services are accessible and relevant for Africa. Challenge 7) Develop a mechanism to leverage Corporate Social Responsibility (CSR) programs in Africa.

On behalf of the Canadian Council on Africa, I welcome your comments on our Briefing Note. We are happy to elaborate on any of the points raised in this paper further, in personal briefings or in writing.

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Lucien Bradet, President



BRIEFING NOTE #1

CANADA & AFRICA MATCHING REPUTATION WITH ACTION IN THE 21ST CENTURY

SEPTEMBER 2004

The Canadian Council on Africa (CCAfrica) is dedicated to the sustainable development of Africa and to increasing Canadian trade and investment in and with Africa. Launched in May 2002, CCAfrica is a national organization representing large corporations, small and medium sized firms, national and regional business associations, and educational institutions. CCAfrica is the principal representative of the Canadian private sector in partnering with Canadian (federal and provincial) and African Governments, African firms and business groups, as well as the Secretariat of the New Partnership for Africa's Development (NEPAD) initiative.

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Ce document est aussi disponible en francais.

I. Introduction: A unique and important relationship

Since the 1960s African independence era, Canada has established a unique and important profile in and relationship with much of Africa. The intensity of that relationship has waxed and waned over the years due to both domestic and international factors, but the underlying reasons for that strong bond remain.

Africa is the continent most misunderstood by outsiders. But Africa's challenges remain significant and our increasingly interconnected geopolitical and economic world dictate Canada's engagement beyond North America, Europe, and the "War on Terrorism."

Canada shares many characteristics with Africa that provide compelling reasons for greater and sustained engagement and partnership. **First**, Canada's two official languages are common across the continent. **Second**, Canada's multicultural character often makes cross-cultural, overseas linkages easier to establish and maintain, partly but not solely as a result of our growing AfricanCanadian population. **Third**, our legal traditions are often shared to some degree with African states, not only facilitating commerce but also opening the door to transferring highly regarded Canadian legal, administrative, financial (including Co-operatives), and regulatory expertise.

Fourth, Canada is the only G7 country that never possessed any overseas colonies: Canadians do not carry any "imperial baggage" in Africa. In fact, since the Second World War, successive Canadian governments established a very good reputation in Africa by working bilaterally via the Canadian International Development Agency (CIDA) or via multilateral institutions like the United Nations, World Bank, la Francophonie, and the Commonwealth, on issues ranging from aid, apartheid, and development to regional conflict, governance, military training, and education. Escott Reid, a pivotal figure in post-war Canadian diplomacy, credited Canada's



Countries: **53** Population: **832 million** Land Area: **29,364 sq km** Life Expectancy at Birth: **50 years** Annual Population Growth Since 1995: **2.4%**

(Latest 2002 statistics from World Bank's "African Development Indicators 2004")

Millennium Development Goals (MDGs) - Eight

ambitious development targets to be reached by 2015 were released by the United Nations in 2000. The first MDG calls for reducing the proportion of people living on less than \$1 a day to half the 1990 level by 2015 (from 28.3 % of all people in low and middle income economies to 14.2 %). Half of all Africans live on less than \$1-\$2 a day.

(Complete list of MDGs at www.developmentgoals.org)

involvement in multilateral organizations like the Commonwealth as helping "inoculate Canada from some of the misleading simplicities of much of the cold war propaganda of the time." This legacy allowed Canada to take divergent positions from NATO allies on some key African issues from the independence era onwards (e.g. South Africa in the early 1960s and mid-1980s).

Fifth, from a shared economic and geographic perspective, most African countries are sparsely populated with an often harsh climate and topography with a only a few urban centres. African governments face the same problems today that Canada and its provinces have mostly overcome over the last 100 years, that is, providing far-flung citizens access to education and health services as well as building transportation, communication, and energy infrastructure across vast territories. From federalism and intergovernmental relations to technological and engineering solutions, Canada has considerable expertise to offer.

Sixth, Canada and Africa are both resource rich and need to foster internationally-linked, diversified economies. The North American Free Trade Agreement is only the most obvious manifestation of Canada's dependence on trade. While Canada's economic health is less linked to the vagaries of international commodity prices than twenty years ago, African economies are usually based on a large subsistence agricultural sector and just one or two export commodities with minimal local value added (e.g. oil, gold, coffee, cotton, cocoa). In Foreign Policy magazine's annual "Globalization Index", Canada ranked 6th in 2004, ahead of the United States, the United Kingdom, and most of the rest of Europe. The most "globalized" African state is Botswana, ranked 30th. Canada's efforts to create an internationally oriented, mixed economy on the

foundation of its rich resources is certainly a model that many African states wish to replicate.

Taken together, these shared characteristics illustrate that the promotion of "Canadian values" abroad, a cornerstone of Canadian foreign policy, could find a natural home in Africa. In the 1990s, however, Canada's actual engagement with Africa declined. Due to budget cuts at home and the growing interest of South Africa, Japan, China, and Malaysia, in addition to well-established France, UK, USA, Portugal, Germany, and Italy, Canada's real and relative profile across the continent decreased drastically. However, our established good reputation lingers. Canada still has time to harness that goodwill to become a leading development and business partner to Africa in the 21st Century.

II. Recent Canadian Commitments to Africa

Over the last three years, there has been a resurgence of Canadian private and government interest in Africa, mostly in response to African leaders' formal vision for the future, the New Partnership for Africa's Development or NEPAD. Many African countries have made great strides in improving governance, economic reform, and improving the environment for business over the last decade, and NEPAD aims to institutionalize and build on that difficult work. Some of the most important recent developments include the following (some of this information is taken verbatim from Government of Canada sources):

Canadian Council on Africa (CCAfrica). Launched in May 2002, CCAfrica brings together Canada's large corporations, small and medium enterprises (SMEs), educational institutions, and business associations that are active



Canadian investment in Africa has **increased** twelvefold since 1988, particularly in mining and energy, although overall it is still quite modest: officially about \$3.5 billion in 2002, although the actual total is likely marginally higher. Canada's cumulative FDI in Africa is thus not much more than Canada's annual aid budget and barely matches the assets under management of ACTIS, the fund management firm spun off from CDC Capital Partners that will run CIFA (with IFPT of Montreal).

or interested in Africa. Over 80 members and growing, including 10 federal and provincial government agencies as associate members, CCAfrica is dedicated to the sustainable development of Africa and to increasing Canadian trade with and investment in Africa. CCAfrica also works closely with the African diplomatic corps in Ottawa and Washington, DC.

G8 Summit (2002) and Africa Action **Plan**. In response to NEPAD, the G8 announced an Action Plan at the June 2002 Kananaskis Summit hosted by then Prime Minister Chretien. For its part, Canada announced its own initiatives under this plan, which included a \$500 million Canada Fund for Africa with various education, health, trade, and Information Technology initiatives; Least Developed Country Tariff elimination, benefiting 48 of the world's poorest nations (34 of them in Africa) by providing duty-free access to the Canadian market for all products except certain agricultural goods; and annual increases in international assistance of 8% during the next decade, with one-half of the increases devoted to Africa.

Canadian Investment Fund for Africa (CIFA). As part of the Canada Fund for Africa, \$100 million was committed to a new \$200 million, privately run equity fund that would invest in commercially and socially viable projects in Africa. This marked a completely new and positive direction in Canada's approach to African development. An international competition was conducted in 2002-03 to select a fund manager. Canada, unlike nearly all other OECD countries, has never had a development finance institution or related investment fund. (See Section IV below for more about CIFA and its current challenges.)

Business Finance for Africa Conference. CCAfrica will host this critical conference in Toronto in late November 2004 to highlight and promote CIFA, African Development Bank, and other International Financial Institution (IFI) and private sources of investment and trade finance.

HIV/AIDS. As well as recently passing legislation permitting drug companies to provide anti-HIV/AIDS drugs at low cost to African countries (making medical treatment more accessible to the estimated 30 million African citizens currently suffering from HIV/AIDS), Canada has committed significant funding (over \$100 million) to assist with research and treatment programs. Placer Dome, active in South Africa, has an internationally recognized Corporate Social Responsibility program that assists workers and their families afflicted with AIDS.

Unleashing Entrepreneurship: Making business work for the poor (UNDP Report/March 2004). Prime Minister Martin co-chaired this Commission with former Mexican president Ernesto Zedillo. The Commission focused on how business can create domestic employment and wealth, free local entrepreneurial energies, and help achieve the Millennium Development Goals (MDGs). One of the reports key findings is the critical importance of SMEs for development and the need to create an enabling environment to formalize the informal economy. Canada's response includes two pilot programs spearheaded by CIDA in cooperation with UNDP: an international brokering mechanism for SMEs; and support for an Entrepreneurship Centre in Bangladesh. These pilot projects are still at the planning stages.

Commission For Africa (CFA). UK Prime Minister Tony Blair, host of the 2005 G8 Summit, launched CFA in February 2004 at the urging of Sir Bob Geldof. CFA first met in May. Finance Minister Ralph Goodale is the sole Canadian representative, sitting on the "African Economy" working group with South Africa's Finance Minister and



The Challenge of Economic Decline in Africa

One half of the African continent lives below the poverty line.

In Sub-Saharan Africa, per capita GDP is now less than it was in 1974, having declined over 11%.

In 1970, one in ten poor citizens in the world lived in Africa; by 2000, the number was closer to one in two.

(Source: National Bureau of Economic Research - NBER Working Paper No. 9865, January 2004) Britain's Chancellor of the Exchequer. CFA is to report its findings to the 2005 G8 Summit. CFA builds on the Africa agenda of the 2002 G8 Summit at Kanananskis which included four African leaders and the release of the G8 Africa Action Plan. CCAfrica has offered its assistance to Minister Goodale.

Debt relief. Championed by Paul Martin while he was Finance Minister, debt relief for developing countries remains an ongoing element of Africa policy. Budget 2004 announced a debt moratorium for Rwanda and the Democratic Republic of the Congo under the Canadian Debt Initiative, joining Ghana, Madagascar and Zambia. All debts owed to Canada by Ethiopia, Senegal, Tanzania and Benin have been, or are in the process of being, eliminated under this program.

African Mining Partnership. Natural Resources Canada is contributing to the African Mining Partnership. Working with NEPAD, this initiative is an integrated and multi-regional approach to mineral development whose principal outcome would be to increase the governance of this fast-growing economic sector in Africa.

CIDA Policy Shifts. Over the last few years, CIDA's method of delivering its programming has changed dramatically. Sector Wide Approaches (SWAPs) and greater donor coordination has led to increased monetary transfers to IFI's like the World Bank and direct to governments, institutions, and enterprises in developing countries and other initiatives that reduce visibility and involvement of Canadians. In other words, the expertise of Canadian firms, NGOs, educational institutions, and individuals (and thus, "Canadian values") are less directly utilized by Canada's bilateral aid program than ever before, despite recent substantial increases in aid to Africa.

III. Improving Canada-Africa Relations to Enhance African Development Prospects

Canadian foreign policy is currently built around three main objectives: the promotion of prosperity and employment; the protection of our security, within a stable global framework; and, the projection of Canadian values and culture (including respect for human rights, democracy, the rule of law, and the environment).

Given the good reputation of Canada in most of Africa, combined with many shared economic, historic, and geographic characteristics, Canada should be at the forefront of G8 interaction with Africa. A more coherent Africa Policy would better coordinate our initiatives and responsible departments. More importantly, a more coherent Africa Policy would harness wider Canadian foreign policy objectives to Africa's benefit.

Three Africa Policy guiding principles would provide both short and long term focus for policymakers:

1. Recognize and build on the special Africa-Canada relationship.

2. Recognize the link between weak private sector development, poverty, state failure, & regional and international insecurity.

3. Recognize the value and ensure a central role for Canadian expertise and abilities as a key player in Canada's relationship with Africa and response to NEPAD.

Some of the recent initiatives outlined in the previous section fit within this framework. But there remains a lack of overall policy coherence when it comes to Africa.

At a CCAfrica event in Ottawa in April 2004, participants lamented the lack of a well articulated "Africa Policy," which leads to limited coordination among the different functional areas: aid policy,



NEPAD Main Principles

• Good governance as a basic requirement for peace, security and sustainable political and socio-economic development;

 African ownership and leadership, as well as broad and deep participation by all sectors of society;

- Anchoring the development of Africa on its resources and resourcefulness of its people;
- Partnership between and amongst African peoples;
- Building the competitiveness of African countries & the continent;
- Acceleration of regional and continental integration;

 Forging a new international partnership that changes the unequal relationship between
Africa and the developed world;

• Ensuring that all Partnerships with NEPAD are linked to the Millenium Development Goals and other agreed development goals and targets.

(Source: www.nepad.org)

international security policy, trade policy, immigration policy, etc. And it is the lack of recognition of the first guiding principle (the special Africa-Canada relationship) that ultimately undermines Canada's overall efforts to match reputation to action. The current comprehensive Canadian Foreign Policy Review, which will incorporate defence and aid policy, provides a great opportunity for a better, more coherent Africa Policy to emerge. CCAfrica has emphasized to government its eagerness to contribute to this policy development task.

IV. Current Policy Challenges

A review of seven immediate policy challenges keenly illustrates the need for a more coordinated and better Africa Policy:

Challenge 1) Ensure meaningful access to and participation of Canadian business in the Canadian Investment Fund for Africa.

A Canadian financial mechanism that understands Africa has been needed for forty years. Canadian firms, especially SMEs, wanting to work or invest in Africa have always been at a disadvantage to their OECD competitors. Other countries have Development Finance Institutions (DFIs), banks with international appetites and presence, investment funds, robust export promotion programs, shorter travel distances, etc. While some large Canadian firms and a few SMEs have experience in Africa, for most, there were only three ways to get there: aid projects via CIDA or an IFI, PEMD, and CIDA's Industrial Cooperation program (see below for comments on each of these options). This has markedly limited Canadian business involvement in Africa.

CCAfrica has followed the CIFA selection process from the outset. We've submitted our ideas for making CIFA a uniquely "Made-in-Canada" fund, ensuring it is open to SMEs as well as larger firms across sectors, and that it is in fact accessible to Canadian firms and their African partners. CIFA should be a catalyst for increased Canadian investment in Africa, from other institutions and individuals. The creation of CIFA underscores the growing realization that Africa's development requires investment and a dynamic private sector. CCAfrica has offered to work closely with the fund managers and Government of Canada to ensure its success.

Challenge 2) Ensure Canadian SMEs can find and develop business opportunities in Africa.

Canada's only export promotion program for SME's (PEMD or Program for Export Market Development) was curtailed in April 2004. This cost-recovery program was not perfect, but its absence will prevent many Canadian SMEs from attending critical trade shows and gaining a beachhead internationally, whether in Chicago, Osaka, or Nairobi. This puts our firms at a tremendous disadvantage internationally. And it limits African SMEs' opportunities for building international partnerships.

Challenge 3) Ensure that CIDA's Private Sector Development (PSD) policy and bilateral programming harness the abilities of the Canadian private sector.

Released in July 2003, CIDA's new approach to PSD hits some of the right notes. Unfortunately, there is no reference to the contribution of Canada's private sector nor to its recognition as a critical



NEPAD Priorities:

INFRASTRUCTURE: NEPAD has identified infrastructure as one of the major parameters for economic growth and poverty reduction in Africa. This includes water and sanitation, energy, transport and information communication technology.

PRIVATE SECTOR DEVELOPMENT:

"The private sector must help us to become fully functional and efficient. We must find a way to ensure permanent contact between governments and business.

"If we don't work with the private sector and reinforce it, nothing will change in Africa.

"The private sector is the foundation of the NEPAD process through partnerships with the international private sector."

Dr Alpha Konare, Chairman of the African Union Commission and former President of Mali, January 2004.

(Source: www.nepad.org, NEPAD Dialogue) ingredient to help developing countries establish the conditions for a vibrant and job-creating private sector (whether in agriculture, financial services and cooperatives, infrastructure, energy, etc.). Especially in the case of Africa, this is counter to all the shared characteristics and special relationship outlined in section one. Combined with CIDA Bilateral's move to transfer tendering responsibilities abroad, CIDA's non-support of the critical infrastructure and energy sectors, the loss of PEMD, possible changes at CIDA INC, and still unknown CIFA guidelines, Canadian firms (especially SMEs) are losing ground on the already limited opportunity they had for finding and working with African partners. And Africans want to work with Canadians.

Challenge 4) Adapt CIDA INC to fit the demand for Canadian knowhow in the economic development of Africa.

CIDA's Industrial Cooperation program assists Canadian firms undertake feasibility studies (including social development, gender, and environmental impact) prior to making investments or bidding on IFI projects in developing or emerging markets. Due to downstream financing requirements and other guideline restrictions, INC has never received a lot of applications from Canadian SMEs for African projects (CIFA should improve this situation somewhat). CCAfrica is also concerned about new INC initiatives that will be directed to firms in developing countries, with or without Canadian partners.

Challenge 5) *Ensure more efficient access to Canada by African business people, in regard to immigration and customs services.*

Strengthening relations with Africa requires faster processing of visas for African business people and customs clearance for goods. Business deals have faltered as African partner's visas were delayed or refused, or goods held up.

Challenge 6) Ensure Export Development Canada (EDC) and Canadian Commercial Corporation (CCC) products and services are accessible and relevant for Africa.

Many CCAfrica members find it difficult to access EDC and CCC. Some African "Priority Countries" promoted by CIDA and International Trade Canada are effectively "off-cover."

Challenge 7) Develop a mechanism to leverage Corporate Social Responsibility (CSR) programs in Africa.

A responsive mechanism that would work with the Canadian private sector to co-finance CSR investments would be an innovative, proven, and cost-effective means of helping CIDA to deliver on Canada's commitment to the UN's MDGs.

CCAfrica "Briefing Notes" are prepared by our staff on an occasional basis for Ministers, Parliamentarians, government officials, diplomats, our members & others interested in Canada-Africa relations and economic development policy issues. Briefing Note #1 Project Director: Chris Roberts, VP-Western Canada, with input from staff and members. Ce document est aussi disponible en francais.

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V. Glossary of Acronyms

CCAfrica	Canadian Council on Africa	IFI	International Financial Institution (e.g. World	
			Bank, African Development Bank)	
CCC	Canadian Commercial Corporation	MDGs	Millennium Development Goals	
CFA	Commission for Africa (UK Prime Minister	NATO	North Atlantic Treaty Organization	
	Tony Blair's "Africa Commission")			
CIDA	Canadian International Development Agency	NEPAD	New Partnership for Africa's Development	
CIDA INC	CIDA Industrial Cooperation Program	NGO	Non-Governmental Organization	
CIFA	Canadian Investment Fund for Africa	OECD	Organization of Economic Co-operation and	
			Development	
CSR	Corporate Social Responsibility	PEMD	Program for Export Market Development	
DFI	Development Finance Institution (e.g. US	PSD	Private Sector Development	
	OPIC, Dutch FMO, French PROPARCO)			
EDC	Export Development Canada	SMEs	Small and Medium Enterprises	
G7/G8	G7: Canada, France, Germany, Italy, Japan,	UNDP	United Nations Development Program	
	UK, USA; G8 includes Russia			

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Online Resources

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