

Speech of Ambassador Harro Adt at the South African Institute of International Affairs:

Linking aid and business development

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Ladies and Gentlemen

Thank you for your invitation and the opportunity to talk to you about a topic of ever increasing importance for Germany's development cooperation over the past ten years.

**What is development aid all about?**

What comes to our mind when we think of development aid? Perhaps you firstly think of food distribution or providing drinking water by building wells.

However, these two examples rather stand for emergency assistance, unfortunately still necessary in too many African countries which for a number of reasons are unable to guarantee the survival of their citizens. Compared to humanitarian aid, the objective of development assistance is more ambitious. This type of aid is about empowering people. The overall goal is to build up the capacity of our partner governments to deliver the basic services to their citizens. Fortunately, even this kind of development aid is not the top priority in South

Africa either. Thus, in our host country we can and have to concentrate on more sophisticated forms of support.

### **Development assistance in the South African context**

When one thinks about “business”, profit is a determining element that comes to mind. One could be lead to conclude that supporting the development of business means thus mainly contributing to the wealth of an individual entrepreneur or a group of shareholders. Is this not an antagonism with regard to the overall goal of development aid, which is – I may recall it –to foster the welfare of all citizens? Well, I would not dare to talk about this subject if there were no link between these two goals. In my mind, South Africa is a perfect example to show how this duality can be resolved and, to put it more bluntly, **why development assistance in this country is at all justified**. South Africa is a state with an important social budget, in principal economically strong enough to guarantee the survival of its citizens without external assistance. However, there remain widespread poverty and a persistently high unemployment rate in this country. Both problems are enormous challenges for any government aiming to create a healthy and stable society. In my view, neither government subsidies nor external aid transfers can solve these structural problems. A prospering economy is the basis to sustainably improve the well being of even the most disadvantaged South African citizens. To accelerate this process, both government and external assistance have to support the private sector. This is where aid and business development have to be linked and this is how I see the aim of the South African Governments Accelerated and Shared Growth Initiative.

## **Why is South Africa attractive to both, German business as well as development aid?**

In principle German development assistance is conditioned by five prerequisites. They are respect for human rights, establishment of the rule of law, effective participation of the people in political decision making, development orientation of our partner state's action and finally a market-friendly and socially conscious economic system. None of these elements is in doubt when we are looking at South Africa. Therefore I can concentrate on the link between development aid and the development of business. Modern South Africa knows about the connection between these two aspects and accordingly recognizes business as the engine for both, economic development and increased social welfare. As a result, it has a market system providing Germany as a partner in development with fitting starting-points for economic cooperation. You are probably well aware, Ladies and Gentlemen, that Germany is one of South Africa's most important trading partners. In 2005, the total volume of trade between our countries added up to over 10 billion Euros. We are South Africa's most important supplier of goods and services and at the same time its fourth largest customer. The German direct investment volume amounts to 3 billion Euro. About 700 German companies are operating in South Africa.

## **South Africa can draw upon German historical experiences**

Particular developments in our nations' history allow Germany to provide more than goods, services and capital. Germany has unique expertise on offer, too. In some ways similar to South Africa's recent history, Germany has in its past faced enormous challenges in terms of political, social and economic recovery. The Nazi dictatorship and the war it had initiated destroyed the sources of former German prosperity. But due to the efforts of German citizens and thanks to the financial support by other nations, our economy recovered faster than most experts had predicted. In the 1950's, Germans learnt that a market

economy is the way to welfare. Within a decade the gross national product had duplicated. Let me emphasize: Neither the support from the outside alone nor the citizens' and state's determination as such could have led to this fast recovery. Only the combination of both activated the engine of growth. More recently and currently the integration of the five eastern German Länder after the demise of the German Democratic Republic is providing similar challenges, which we are facing primarily with domestic strategies but also with instruments provided by our being rooted in the EU. In any case we continue to be a society in an ongoing transformation, a situation you are familiar with.

Let me now take my theoretical and historical remarks as a basis to review our current engagement in South Africa. What are the lessons learnt in Federal Republic of Germany which could be applied in South Africa? What sort of assistance do we provide to South Africa in support of its efforts to boost the economic performance? And how can we assist in translating economic growth into welfare gains for all citizens of the "rainbow nation"?

### **Links between development assistance and business**

As we know from experience, social and economic developments are deeply connected and determine each other. Consequently, German development cooperation addresses both aspects. Only in a balanced society can sustainable economic growth be achieved. Today, South Africa's economy is complex and changing, characterised by an increasing use of modern technology and a rise in the skills requirements of its workforce. Citizens have to adapt to the new challenges by increasing their occupational competence and showing willingness for lifelong learning. The government took both needs into account by introducing an up to date education and skills development system. However, there are challenges left: The capability, enthusiasm and flexibility of the South African workforce and management must be stimulated in order to raise

productivity, to increase investment both from domestic and international sources and to enhance labour market mobility. Only in a prosperous economy social improvements can be realized and sustained. Skills development is an obvious and very strong link between these two aspects. For that reason, improving vocational training has been a priority of Germany's contribution to South African development from the very beginning of our bilateral cooperation. The benefits are two-fold: On an individual level, training provides young people with skills necessary to pursue a qualified profession. At the same time, by aggregating the individual training efforts, the whole national economy will be affected positively. By having access to a labour market providing skilled professionals, South African companies improve their productivity which, in turn, boosts their competitiveness in the globalised world economy. Therefore, Germany and South Africa were right to concentrate their joint development efforts in the field of skills development, one of the three focal areas of our bilateral development cooperation. Since 1992, Germany has been providing around 250 million Rand in order to qualify South Africans for jobs in the first labour market. Germany's "dual" skills development system is internationally recognised for the integration of both, theoretical learning at colleges and practical training on the job. Adapting this approach to South African needs, the German Technical Co-operation, GTZ, supported the South African government in developing the first National Skills Development Strategy 2001-2005. In addition with funding from the European Union, GTZ assisted in the establishment of 25 Sector Education and Training Authorities. In these SETAs, representatives of all stakeholders work out the training needs and skills plans for each sector of formal employment.

Let me come to a second area where aid and business development are linked through German-South African cooperation. The activities mentioned so far are concentrated on the formal labour market. However, we must not forget that

nearly 40% of South Africans are held in “survivalist” employment in the so-called second economy. Growth in the first economy alone will not resolve the problem of persistently high unemployment rates. The flourishing informal labour market must be taken as a chance to solve one of South Africa’s biggest problems. German development aid addresses this opportunity with the Active Labour Market Strategy Programme, called ALMS. We assist the Department of Labour in its efforts to develop a range of integrated income-generation and skills development approaches that encourage self-employment in small and micro enterprises. ALMS aims at improving the prospects of unemployed persons from previously disadvantaged communities for sustainable self-employment.

Let me give you further examples where aid at the local level has impact on the national level and where development aid and business are linked. German support to the advancement of microfinance systems, programmes to fight HIV/AIDS at workplaces, assistance to the improved production and marketing of agricultural products deserve our attention as well as support to local economic development and good governance programmes. All these may be small but very effective measures for boosting South Africa’s economic, political and social development in general.

### **Consultative mechanisms between government, business and labour**

As I indicated earlier, Germans are proud of their socially balanced market economy as it helped us to overcome the destructions of the War and providing most Germans with a level of welfare unknown before. From our own historic experience, we know that the state alone cannot set the conditions for a prosperous economy. By all means, other important stake-holders, especially private enterprise and the trade unions, must play a decisive role, too.

Consequently, in Germany permanent consultation mechanisms and dialogue

boards were developed. They enable the German government to discuss future decisions regarding financial and economic policies with the private sector. For improving this public private dialogue, German private enterprise developed its own instruments to consult its members. The best-known is the index of business climate by the IFO institute for economic studies. These techniques are also well-suited for the African continent. In connection with the G8 goal to strengthen the economic competence of regional organisations in Africa, Germany supported the development of the Regional Business Climate Survey for the Southern African Development Community, SADC.

Once a year the survey collects data on the problems business people encounter when trading with and investing in other SADC member states. The results provide a sound base for a public private dialogue not only on a regional, but also on a national level. It is worth mentioning that a German business organisation, the “Afrika-Verein”, has been using the same questions for its own member surveys for the past two years. Thus, we can evaluate how the problems and perceptions of future business development differ between entrepreneurs in the Southern African region and foreign investors. On that basis, government and business organisations are able to identify which obstacles interfere with the improvement of business development. Politicians and government officials may thus see what laws and policies hamper economic growth. In addition to the projects just mentioned, the German development organisations offer specific counselling and qualification programmes for the private sector, its chambers and associations. But they also offer advice and support to labour unions.

### **German financial support to the development of business**

As you can see, Ladies and Gentlemen, linking traditional aid and business development is nothing new for German economic cooperation. We are well aware that good advice is a necessary but not sufficient ingredient for

stimulating economic growth. Taking this into account, Germany uses several financial instruments to create and improve the general framework for private entrepreneurship on the African Continent.

Germany's DEG is one of the largest European development finance institutions for long-term project and company financing. It facilitates sustainable development by investing in private enterprises in development and transition countries. In South Africa, DEG's total volume of investment amounts to over 50 million Euros. More than half of this was invested in 2006 alone. And each Euro invested has a strong multiplier effect. I would like to give a few examples. By offering a long-term loan to Kagiso Trust Investment, DEG provided one of South Africa's oldest black economic empowerment groups with the capital to fund future expansion. A 2.5 million Euro long-term-loan for the South African Sustainable Fibre Solutions Ltd. supports the use of natural fibres as a low-cost, easy-to-mould, renewable substitute for glass fibres which are used in the automotive industry. DEG's involvement attracted other investors, which resulted in a total investment of almost 10 million Euros in this project.

Additionally to DEG, the German development bank KfW finances investment in nearly all African countries. By doing so, KfW aims at providing reliable access to electricity, water and traffic infrastructure like roads and harbours for the private sector. In South Africa, KfW has invested around 200 Million Euros since 1994, supporting municipal infrastructure and rural electrification. In a current project, the Industrial Development Corporation of South Africa is supported with a credit of almost 31 million Euros. This credit line to IDC will directly assist small and medium enterprises in South Africa to improve their access to medium and long-term funds. As mentioned before, Germans know that a prosperous market economy means welfare for all in the end. Therefore, we try to support this process at different levels.



## **Public Private Partnerships as a new form of aid and business development**

The so called public private partnerships are a new area where development aid and business are linked to each other. PPP: these three letters stand for the simple idea to combine the planning capacity of the state with the technical competence of private companies. Reasonably applied, the cooperation between the government on the one hand and the private sector on the other leads to benefits for all parties involved. The companies profit, because guarantees given by the state lead to accountability in an otherwise uncertain environment and provide a reliable base for further decision-making. The national economy and thus the state itself benefits as foreign and local investment will lead to sustainable growth. And individual citizens have an advantage, too, as a growing economy creates jobs and thus income.

In the case of South Africa and atypical of Africa as a continent, international investment by private enterprises surpasses the official development assistance by far. This is a positive indication, as in the long run, private investment proves to be more sustainable and predictable than Official Development Assistance. While private investment should always be welcome in any country of this world, a few questions with regard to the nature of the investment have to be asked. For example, is the company investing taking environmental standards into account – or are these neglected? Within the framework of our PPP cooperation with private companies, Germany requires standards for decent employment conditions, supports sustainable forms of production, enforces environmental standards and pushes for fair terms of trade.

Ladies and Gentlemen, I tried to demonstrate that linking business and development aid is deeply rooted in the tradition of German development cooperation. Hopefully I convinced you that we are doing our best to provide

our expertise to those areas in South Africa. We are willing and prepared to continue accompanying your country on its way to a good future.

Thank you very much for your attention