A NEW TYPE OF CONTRACT:
THE EXAMINATION OF THE ROLE OF BIG BUSINESS IN STRENGTHENING THE SOCIAL CONTRACTS IN SUB-SAHARAN AFRICA

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This paper will argue one of the most promising ways to push African countries up in human development rankings is to consciously work at this point of nexus between people, business, and government: the social contract. Through the acknowledgement of the social contract, and why it is different across sub-Saharan Africa, business and government will be better equipped to work together and bring positive change across the continent. This paper will place the discussion of the social contract in African states in the context of changing trends of development and corporate responsibility, and provide recommendations and examples as to how this approach has the potential to accelerate long-term sustainable development through product design, self-regulation, and complementary community support. The academic study of the social contract on the African continent, and particularly related to business, is limited. It is therefore the intent that this paper serves as a first step to bringing a philosophical concept into the discourse, and providing new avenues to be explored and results quantified as business and governments continue to work together for development on the continent.

Introduction

The nexus at which relationships between people, business, and government interacts is shifting as we move through the twenty first century, and nowhere is this shift needed more than across sub-Saharan Africa. Despite recent growth and general “Afro-optimism,” many African countries still feature consistently at the bottom of economic and human development rankings, despite receive billions of dollars of aid since the 1980s. One of the more promising ways to push African countries up in human development rankings, that is currently being explored, is to consciously work at this point of nexus between people, business, and government: the social contract. Through the acknowledgement of the social contract, and why it is different across sub-Saharan Africa, business and government will be better equipped to work together and bring positive change across the continent. Against a backdrop of changing modes of development, and broader understandings of the role of institutions, businesses must now take more responsibility in their actions on the continent, and governments must seek to enable them. Some companies are doing this already, through product creation, self-regulation, and complementary community support. As more businesses and governments engage to strengthen the social contract, this understanding of responsibility and accountability has the
potential to continue accelerating human development in weak states, and fundamentally change the way business is understood to operate in society.

A Changing Development Landscape

While there are still many discussion revolving around the Sachs-Easterly debate, there is one thing that most academics and practitioners agree on – the Washington Consensus did not work. The imposition of policies intended to increase economic growth varied from tax reform to deregulation, and included strong measures to promote financial and trade liberalization and privatization of state enterprises. These measures were imposed under the guidance of the World Bank and IMF by instituting a policy of aid conditionality to countries. In their implementation these measures specifically sought to reduce the role of the state in favor of industry and enterprise; a neoliberal vision to promote growth. This growth however was focused on economic development, rather than human development, which was one of the key criticisms of the program in the post-Washington Consensus analysis. The other acknowledgement has been that without the right institutional conditions, any policy reforms would always have limited effect. As Dani Rodrik writes, “Sound policies needed to be embedded in solid institutions.”

The post-Washington Consensus, established in the 2000s, attempted to move away from the market-based approach of the 1990s, and instead focused on more managed liberalized trade and finance, more standards and regulation, and a self-defined “poverty-focused” approach. The focus on development for poverty alleviation materialized through the mandate of Poverty Reduction Strategy Papers, that were required from all IMF and World

1 “Washington Consensus.”
2 Rodrik, “Goodbye Washington Consensus, Hello Washington Confusion?” 974
3 Ibid, 978
4 Ibid.
5 “Post-Washington Consensus.”
Bank members to define the current action plan and status of each country’s progress towards poverty alleviation.\(^6\) The post-Washington Consensus also saw the inclusion of businesses in the dialogue for the first time, with the establishment of the UN Global Compact in 2004. Many of the changes in policy promotion took direct learnings from the previous focus on pure economic development and shifted towards national institution building. This view was particularly supported by Joseph Stiglitz, who openly criticized the Washington Consensus for working from “The unspoken premise is that governments are presumed to be worse than markets.”\(^7\) Stiglitz also emphasized the need for developing countries to take ownership in their development, another post-Washington Consensus trend that encouraged foreign aid to focus on financial sustainability in the projects so that communities could sustainably provide their own public goods.\(^8\)

The focus on institutional support for market liberalization, and financial sustainability for aid projects, has continued over the past fifteen years. Today there is a strong focus on corporate engagement in development, which has materialized in business commitments through the 2015 Paris Accords and the signing of the UN Sustainable Development Goals. The Global Compact today has more than 8,000 business signatories in over 170 countries, who have committed to the Ten Principles of responsible business derived from the UN’s foundational documents.\(^9\) This institutional commitment has been accompanied by a changing rhetoric around development, with social enterprise, impact investing, and Public-Private-Partnerships featured as buzz-words across many industries and organizations. This shift has occurred after a financial crisis that exposed many of the flaws of the modern capitalist system, and whereby leaders are looking to reconcile the roles of business and government. It is in this

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\(^6\)“Poverty Reduction Strategy Papers (PRSP).”

\(^7\) Joseph E. Stiglitz, “More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus.”

\(^8\) Kremer and Miguel, “The Illusion of Sustainability.” 1008.

\(^9\) The UN Global Compact’s Ten Principles are derived from: The Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.
context that today’s leaders, both at the head of companies and countries, are balancing their financial obligations with their social and environmental obligations. This precarious balance is particularly acute in sub-Saharan Africa, where there is a consolidation of focus for development and a renewed appetite for business development.

**A Changing Corporate Landscape**

While ideas of Corporate Social Responsibility (CSR) have been referenced since the early 20th Century it is in these past 10 years, as the development landscape has changed, that there has been a significant rise in the rhetoric and practice of CSR at an institutional level within business.\(^\text{10}\) Today this concept takes diverse forms: the implementation of charity programs, sustainable supply chains, and the installation of LED light bulbs, all of which have become fashionable among the Fortune 500. Despite many projects falling under this idea of CSR, and being published in glossy sustainability reports, the reality is that most companies define, and consequently implement, CSR differently. This plurality of understanding of how CSR should be defined creates a significant limitation in the study and analysis of CSR practices. One of the more general definitions has been produced by the European Commission that defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations in their interaction with their stakeholders on a voluntary basis.”\(^\text{11}\) Building on this definition, and narrowing the focus of the field, Simon Zadek defines “Corporate Responsibility” as “the domains within and processes by which business renegotiates and realigns its basis of accountability.”\(^\text{12}\) It is this concept of accountability and definition of Corporate Responsibility that will be used the basis for this paper’s understanding of business’ responsibility in sub-Saharan Africa.

\(^\text{10}\) A.B. Carroll, “Corporate Social Responsibility,” 268.
\(^\text{12}\) Ibid., 15.
As the modern views of development mark a shift from the Washington Consensus model of development, today’s focus on CSR challenges Milton Friedman’s argument on the role of the corporation. His seminal article, “The Social Responsibility of Business Is to Increase Its Profits,” outlines his argument that businesses as entities cannot have responsibilities, only people can have responsibilities. He writes of the responsibility of managers and executives to the business, and the contract they have with a company’s shareholders to increase profits. He concludes that market forces will ultimately lead to the changes needed for society, following Adam Smith’s invisible hand theory.\(^\text{13}\) While a number of business leader’s still follow Friedman’s normative argument, there is an increasingly vocal group academics and practitioners who disagree in the context of the new attitudes towards development. In particular, it must be noted that Friedman’s argument assumes ideal market conditions, as well as a functioning political system and strong institutions. As illustrated by the failure of the Washington Consensus it seems that there is reason to doubt the applicability of his theory in the context of developing countries in general, and sub-Saharan Africa in particular.

The rise of CSR on a macro level is first driven by the sheer size of corporations and the business sector today. Businesses are growing in their global reach and size, with some businesses counting revenues much greater than many countries’ GDP. This shift gives them significantly more influence towards government and institutional policies, and as such includes them in the negotiations for many social and environment discussions such as the Paris negotiations and Sustainable Development Goals (SDGs).\(^\text{14}\) With such a diverse array of companies; from AngloAmerican to Facebook, and GSK to Safaricom, pledging specific and quantifiable support for the SDGs, there is on going assurance that businesses are committed

\(^{13}\) Milton Friedman, “The Social Responsibility of Business Is to Increase Its Profits.”
\(^{14}\) Zadek, 25.
to being part of the next wave of development solutions.\textsuperscript{15} While smaller local businesses are also embracing principles of CSR, and recognizing their own social responsibility, it is the ability of the Multi-National-Companies (MNCs) to generate change through their scale and reach that has been of particular focus in recent years. This is in parallel to the development trend of supporting social entrepreneurs; businesses that are able to generate revenue and profit while also providing a social good. The landscape of development today is dominated by a focus on these two business-driven solutions, but it is on the impact of MNCs, due to their global nature, that this paper will seek to address the role of business on the African continent.

While engagement in CSR has been an effective public relations tools for many corporations, CSR programs can also have significant financial returns. Due to the long term nature of impact, and rapidly changing environment, these returns are still difficult to quantify, however as demonstrated through their continued involvement, there is certainly a return for corporations, if not an easily measured one. As per Zadek’s analysis, there are four factors instrumental to businesses’ increased involvement in CSR over the past years.\textsuperscript{16} First, the importance of reputation has become much higher in the age of social media. Images of sweat shops and natural disasters can now be shared instantaneously, as was illustrated with both the Rana Plaza disaster and BP Deepwater Horizon spill. A recent study has also shown that 87% of global consumers believe business needs to place at least equal weight on social issues as business issues, giving clear consumer pull to a change in business behavior.\textsuperscript{17} Secondly, public value is driving economic value, with partnerships to deliver public goods in new markets increasing local reputation while also giving additional local knowledge to companies. The third reason is linked to the scale of businesses today. As companies consolidate and grow, an incident in one site can have negative repercussions across many sites. As supply chains grow

\textsuperscript{15} “Our Participants.” UN Global Compact.
\textsuperscript{16} Zadek, 11.
\textsuperscript{17} Cheryl J Grise and Valerie Keller, “The Power of Purpose for Innovation and Transformation.”
longer and more complex, they are at greater risk of malfunctioning, and therefore need higher protection. And finally, the global nature of business today means that an incident in the remotest part of the world can create backlash in a core market. Media creates a “global fishbowl” that is a significant risk for large corporations in their operations, and further enhances the need for their proactive consideration of CSR. As outlined, many of these incentives towards CSR are derived from risk mitigation principles, but as the companies get larger the financial implications of some of these risks to both reputation and direct business can be significant, and warrant the right attention by executives and business strategists.

In business operations in sub-Saharan Africa specifically this use of CSR as a risk mitigation and reputation management strategy has been pronounced. As FDI into the continent continues to grow, reaching $87bn in 2015, the variety of CSR programs also continues to grow, although largely with a philanthropic focus. In 2010 a group of African leaders came together to develop the Monrovia Principles, a set of CSR guidelines for the continent. This initiative shows the importance leaders are attributing to CSR as businesses expand on the continent, and indicates a recognition that a more united strategy will be more effective in driving the initiatives in directions that are relevant for governments. These guidelines however focused primarily on philanthropic efforts, with the strongest principle of the document requesting businesses to donate at least 0.7% of their profits to “CSR”. In the post-financial crisis world, and as the Sustainable Development Goals take hold, it is expected for this attitude to shift on a country level. In particular, as China has invested more in the continent this notion of CSR has expanded to include many of their infrastructure investments, and reflects a

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18 Zadek, 12.
different perspective of Chinese companies on CSR. In particular Chinese companies have typically entered with an end to end operations model, meaning that they create all infrastructure needed to proceed with their project. This is in line with their idea that “social responsibility for us means ensuring that enterprises are able to operate on a stable basis, and that the support from us is sustainable.” Furthermore Chinese companies typically view any social and environmental causes as risk mitigation principles rather than philanthropic causes. In between these opposing views of CSR by large corporations on the continent: with the Western focus on philanthropy, and the Eastern view of risk mitigation and convenience, there is a shift towards a third way, one that embraces the new approaches to development seen globally, and prioritize partnership with government, and understand accountability to stakeholders, as its guiding principles.

A Changing Institutional Landscape

As outlined by the post-Washington Consensus model, a new focus on institutions was promoted, acknowledging that economic policy changes alone were not enough for long-term economic growth. Within this belief system however it is important to define what is meant as an “institution.” It is crucial to highlight that an institution is not only an organization and its rules, but also includes the surrounding norms and beliefs that provide it the legitimacy to function. Avner Greif succinctly defines an institution as “a system of rules, beliefs, norms, and organizations that together generate a regularity of behavior.” This understanding of institutions, taking into account the beliefs and norms that surround the physical and

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23 Ibid, 22.
24 Ibid.
25 Greif, Institutions and the Path to the Modern Economy.
organizational construct, will be used as applied to the argument for the role of business in shaping their development.

The understanding of institutions as transformational in economic performance has been qualified by a much-cited study by Acemoglu, Johnson, and Robinson. They acknowledge the “obvious” view that institutions matter, but look specifically to understand the quantifiable estimates of the impact of institutions on economic performance.26 Their study determines that differences in institutions can explain about three quarters of income per capita differences by looking at the way institutions were established in various former colonies. They conclude that European colonies were established differently according to the feasibility of European settlement, and this consequently determined how institutions were established. This conclusion is important as it puts institution building, and the root cause of institutions at the heart of economic development, however is also clear in stating that institutions are able to change and develop from their colonial legacies. It is this how these changes can and should occur that must be focused on as economic development is furthered in a post-Washington Consensus debate.

In another part of their work, Acemoglu and Robinson go further to define two different types of political and economic institutions: extractive and inclusive.27 Economic institutions that are defined as inclusive will support open markets, protect consumers, secure property rights, and promote fair employer-labor relations. Inclusive political institutions have clear voting rights, free media and speech, and provide general checks and balances in government. In contrast, extractive institutions feature crony capitalism, forced labor, anti-competitive monopolies on an economic level, and single-party rule, a system of elites and patronage networks, and suppression of freedoms of expression.28 These distinctions lead to the clear

27 Acemoglu and Robinson, Why Nations Fail.
28 Rebecca Henderson and Tony He, “Business and the Building of Inclusive Institutions.”
question of whether inclusive institutions are “better” than extractive institutions on both an economic and social level. Examples such as Angola show the challenge of the question, with extractive institutions creating high economic growth on a GDP basis, but significant gaps in the Human Development Index and Gini Coefficient. This makes it clear that while extractive institutions can indeed drive higher growth, this growth is not sustainable, and does not distribute wealth evenly. Countries with inclusive political and economic institutions have more stable economies, experience higher-quality economic growth, and seem to recover faster from economic downturns.

This acknowledgement that institutions are one of the key lynchpins to human development, and that “inclusive” institutions are the most effective in creating sustainable economic and social value, create a strong foundation for where the focus of governments and progress should and can be placed. An example of the success of inclusive institution building can be observed in Mauritius, where starting in the 1970s the government began to institutionalize its business-state relations, with a Joint Economic Sector, and the private sector represented in trade delegations. Despite having few natural resources, Mauritius has seen both consistent GDP growth as well as strong improvements in social indicators [data]. These changes however did not happen overnight, they were over the past 30 years, and was enabled by a proactive economic elite that supported the development of state capacity and the creation of shared economic growth. This example illustrates the long term process of building inclusive institutions, and the positive impact they can have on a country’s economic and social development. This process however is difficult, and the creation of inclusive institutions, both on economic and political, relies on engagement of the relevant parties in a country, and of a

29 Henderson and He, 6.
30 Rodrik, One Economics, Many Recipes.
31 Henderson and He, 13.
32 Ibid, 14.
33 Ibid, 13.
strong local awareness of norms and beliefs. In addition, the on-going discussion of the role of
the private sector in this institution building, and the extent of their engagement, has been
questioned.

**A Challenging Social Contract**

This evolving debate on the most effective method of development, the increasing
involvement of the private sector, and the clear role of inclusive institutions has all to date been
examined through economic and political lenses. In these analyses however there has been
limited research or acknowledgement of the role of social contract, despite it being at the heart
of the interaction of people and government. This may partly be due to the fact that the phrase
“social contract” has been appropriated and misappropriated across multiple sectors, forums,
and arguments over the year.\(^\text{34}\) Originally, and philosophically, the concept has evolved from
Thomas Hobbes’ idea of a social contract as a way to escape the State of Nature, maintaining
order among people through the creation of a state.\(^\text{35}\) Rousseau’s version of the social contract
is founded on the belief of the shared responsibility among people to act in the common good
of all people.\(^\text{36}\) Rawls then continues this thinking but includes the creation of the legitimacy
of institutions into the social contract. He specifically looks at the underlying motivations for
people to subject themselves to political will, and hypothesizes that they will only to do this to
ensure basic freedom and equality.\(^\text{37}\) Both Rawls and Rousseau look at the way in which people
come together to legitimize political institutions along these lines of a common objective for
basic well-being. Over the years this narrative of social contract has been appropriated to mean
more colloquially an unspoken contract between two bodies of people. Particularly in the realm

Approach?!” 6.
\(^\text{36}\) Hickey, 8.
\(^\text{37}\) Hickey, 7.
of political science, these theories have been synthesized to mean the agreement that citizens give up some individual rights to the governing institution for the common good, in the form of protection from outside invasion, provision of services such as education and healthcare, and the attribution of basic human rights. When these are not provided, or are not provided adequately, writers and lecturers alike will claim that the proverbial social contract is “broken.” 38 While governance challenges in emerging markets are well documented, and the potential for business well cited, there is limited discourse around the social contract. And when the social contract is discussed it seems to be missing a key stakeholder – the private sector. The discussion of development, and the relationship between government and society, without taking businesses into account, misrepresents the reality of relationships and interactions that take place to further development and build stable states and societies.

The study of social contracts on the African continent, beyond arbitrarily stating their absence as a reason for the lack of development, has been limited. Governance and state building however have been studied widely, and it is through this lens that the presence or absence of the development of a social contract is most evident. The colonial history of sub-Saharan Africa in particular creates a different dynamic in which a social contract was forged. Pierre Englebert cites the effect that colonialism had on disconnecting any pre-colonial governing structures from the state both during colonialism and subsequently post-colonialism. This led to the creation of states that had limited legitimacy, a key tenet of the social contract, and consequently very weak capacity to honor that contract. 39 Aside from the colonial impact on the social contract, Jeffrey Herbst explains the weak state by the highly dispersed populations across the continent that make the creation of a cohesive population to make a social contract difficult. 40 Compounding both of these challenges are the attitudes of the ruling

40 Ibid., 39.
elites that came to power in the post-colonial period, who looked to build their fortunes, typically in extractive contexts, rather than serve their populations.\textsuperscript{41} This can be seen in varying degrees in countries such as Angola and Nigeria, where a population of ruling elites has been able to profit from the revenues coming out of the oil industry, and historically has not dispersed this to the state. This arguably undermines the financial and legitimate capabilities of the state to serve the wider population. As Chabal and Doloz write, this phenomenon has to do with the strong social networks present within states, a further undermining of a wider social contract.\textsuperscript{42}

Paul Nugent has classified the social contracts that have developed in sub-Saharan Africa in the post-colonial period into three categories: Coercive, Productive, and Permissive. He sees these contracts developing as a “product of historical compromises,” an important understanding to ensure that the colonial history and legacy is taken into account when analyzing the structure of social contracts in the region.\textsuperscript{43} The coercive social contract is one where the right to govern is enforced by the physical power the state has over its subjects, the productive social contract occurs when there is a negotiation between the subjects paying taxes and the state providing services, and the permissive social contract is an in between agreement whereby the ruling body claims sovereign rights, but chooses selectively when to apply them.\textsuperscript{44} This permissive social contract could be considered the most damaging to a population’s protection by the state, whereby the uncertainty of the agreement effectively undermines the objective of the presence of a contract at all. These many forms of social contracts highlight an important tenet in this argument, that there is no single form of social contract on the continent – within the plurality of states there are a plurality of state models, and a variety of ways in which governments have created and upheld legitimacy among their people. As Nugent

\textsuperscript{41} \textit{Ibid.}, 41.
\textsuperscript{42} Nugent, 36.
\textsuperscript{43} \textit{Ibid.}, 43.
\textsuperscript{44} \textit{Ibid.}, 43.
describes, Ghana represents an example of a productive social contract, Angola an example of a coercive social contract, and many smaller states as going through iterations of the permissive social contract.45

Looking at the social contract in the reality of today’s African states, there are changing dynamics that have re-invigorated the need for a strong social contract and the need to discuss its role in the legitimacy of the state. The two key factors cited by Nugent are firstly the lack of economic development that has surfaced on the continent, despite many political reforms since independence. Secondly, the new trends within states and across the continent of hyper-urbanization, migration, and the impact of climate change, are putting additional strains on the ability of the state to provide for its people.46 John Luiz also takes this position, however specifically looks at the need for a strong social contract to enable inclusive development on an institutional level as these challenges are addressed.47 Luiz defines two different social compacts that are most commonly used to lead to strong social contracts: the implicit social compact, and the explicit social compact. The implicit social contract is one that resembles the ideal of the ‘American Dream’ whereby governments make it easier for citizens to achieve prosperity, for example by creating laws conducive to setting up a new business, or creating favorable entrepreneurial regulations. The explicit social contract follows a more European model whereby the government provides citizens with the resources to thrive, such as universal healthcare and education.48 Luiz’s move to instill the social contract on an institutional level targets the need for a more proactive approach in the context of post-colonial states that do not have a legacy of a strong institutional social contract.

Both Luiz and Nugent are clear on the need for a social contract to be redefined and established for the effective and inclusive development of the economies of sub-Saharan

45 Ibid., 44.
46 Nugent, 63.
48 Ibid., 30.
Africa. Nugent states in his assessment that one of the key challenges for legitimate state building in many African states today is a lack of revenue from direct channels, with most countries relying on indirect revenue from various tariffs, which in an era of free trade negotiations are declining.\textsuperscript{49} He builds a strong case for increased direct revenue both to fund the needed development of healthcare, educational, and infrastructure within states, as well as to increase the link between “revenue collection and service delivery.”\textsuperscript{50} This could have particularly strong effects in countries that currently rely on rents from extractive industries to fund any government projects, and where consequently citizens see a strong link of accountability between the companies and the government, but not between the people and their government. Luiz uses the example of South Africa and its lack of a strong social contract in the post apartheid era, as the welfare state developed without addressing the root causes of the inequality in the system and without increasing its revenue base.\textsuperscript{51} Luiz suggests that developing countries must adopt “social compacts”, an effective institutionalization of the social contract, to create government accountability, encourage business engagement in the process of inclusive development, and ensure that civil society is upheld.\textsuperscript{52} This creation of an institutionalized social contract would enable the business world to be involved, however it is limited in its approach to creating a truly legitimate state through a social contract. Fundamentally, one of the challenges of the discussions of the social contract in today’s political science discourse is the missing role of the private sector. As the private sector expands in many parts of sub-Saharan Africa, with multinational companies spreading their reach and local companies growing in size and scale, it is crucial that this key stakeholder becomes part of the discourse in the social contract. Luiz’s social compact puts the onus on the government to “encourage business” and “compel governments to be accountable to its…

\textsuperscript{49} Nugent, 65.
\textsuperscript{50} Ibid.
business community” however the role of business within the social contract should arguably also be acknowledged by businesses themselves, and be part of a company’s fundamental approach to business in sub-Saharan Africa.53

**Examples of Business in the Social Contract**

Within this context of a weakened social contract in many African countries and the global review of the responsibility and accountability of business, against the backdrop of an evolving understanding of what is needed for effective human development, there is an opportunity today to explore a new engagement of the private sector on the African continent. By adopting a strategy that is more intentionally supportive of the social contract, businesses will be more likely to show stronger responsibility and accountability, and ultimately drive higher returns for all parties in the social contract. Supporting the strengthening of the social contract also represents a long term view on the part of businesses with regards to the opportunity in sub-Saharan markets. As the social contract is strengthened, it can be anticipated that inclusive institutions will be built, and economic and social development will accelerate, ultimately leading to more consumers and business opportunities. The way in which businesses can pro-actively help strengthen the social contract is first and foremost by helping fill institutional voids. Tarun Khanna defines emerging markets as markets where buyers and sellers are not easily or efficiently able to come together, creating an institutional void that creates different challenges and opportunities for businesses.54 These institutional voids lie at the heart of some of the shortcomings of the social contract in many states – where governments are unable to provide the correct institutions to enable their people to effectively operate and prosper. It is within this space that businesses should position their strategies and bridge the

53 Ibid, 34.
relationship between the government and people. As some businesses have found already, this gap can be rich in financial opportunity and can create strong linkages with both the state and the consumers through the types of products designed, self-regulations implemented, and the support of complementary capacity building.

Creating products that fill institutional voids demands a deep consumer understanding, as well as an awareness of the surrounding environment. A well-cited example of a business that has effectively filled an institutional void and strengthened the social contract is Vodafone’s M-PESA. Today 62% of Kenyans actively use mobile money, following the pioneering innovation of sending money through simple mobile phones from Vodafone’s Safaricom in 2007.\textsuperscript{55} Notably, this spread of mobile money has also occurred among low income people in Kenya, with 72% of the population outside of Nairobi living on less than $1.25 a day now using M-PESA.\textsuperscript{56} This is remarkable progress in financial inclusion, and the model of mobile money has quickly spread across the continent. By filling the institutional void of financial inclusion in Kenya, M-PESA has been credited widely with being able to build better relations between institutions and citizens, helping improve livelihoods and reduce corruption.\textsuperscript{57}

Another example of a large corporation creating products to fill an institutional void is the drug-manufacturer GSK. In 2014 it committed up to $200 million to expand manufacturing capabilities on the continent by growing existing facilities and building new ones.\textsuperscript{58} And, even more relevant to building the social contract, it has built the world’s first R&D Open Lab for non-communicable diseases (NCDs) in Africa, based in Nairobi, Kenya.\textsuperscript{59} This commitment is

\begin{itemize}
  \item \textsuperscript{55} CGAP. \textit{10 Myths About M-PESA: 2014 Update.}
  \item \textsuperscript{56} Ibid.
  \item \textsuperscript{57} Daniel Runde, “M-Pesa And The Rise Of The Global Mobile Money Market.”
  \item \textsuperscript{58} “Drugmaker GSK to Invest $200 Mln in African Factories, R&D.”
  \item \textsuperscript{59} “GSK Announces New Strategic Investments in Africa to Increase Access to Medicines, Build Capacity and Deliver Sustainable Growth | GSK.”
\end{itemize}
important in the absence of strong central funding for research into Africa-specific diseases in
the context of a continent that carries 25% of the world’s disease burden but manufactures less
than 2% of the medicines it consumes.\textsuperscript{60} It shows the recognition from GSK that investing in
this space has the potential to generate both strong financial returns for the firm, as well as
breakthrough health benefits for the continent. The combination of these investments, as well
as the work they have announced with various African universities, is expected to help reduce
the reliance of many African countries on imported medicines. This will also lower the time it
takes for medicines to reach their destination, ultimately lowering the cost for the consumer.\textsuperscript{61}
In investing in these products and research GSK is working in a sector crucial for the various
countries’ well-being, and filling a void that governments with their current resources are
unable to fill. They are creating a healthier society that will be healthier voters, and ultimately
creating a market for themselves in the long run.

It is well documented that the African continent for many years has served as a
commodity market for the rest of the world, providing everything from oil, cocoa, gold, coffee,
all in its raw and unprocessed form. The most recent report from UNCTAD indicates that out
of the two thirds of developing countries that are considered a Commodity Dependent
Developing Country,\textsuperscript{62} half are located in Africa.\textsuperscript{63} This dependency creates significant risks
to a country’s social contract through high sensibility to price shocks, increased exposure to
civil war, and the association of commodity dependency with poor governance.\textsuperscript{64} In this
context there have been many publicized failings of the private sector to help promote good
governance and improve local situations, from the buying of blood diamonds, to the polluting
of deltas for oil, to the use of children for cocoa farming. Among these highly mediatized

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\textsuperscript{60} Carlos Lopes, “Manufacturing Pharmaceuticals: An Untapped Opportunity.”
\textsuperscript{61} Ibid.
\textsuperscript{62} When commodity export revenues contribute for more than 60 per cent of total good export earnings.
\textsuperscript{63} UNCTAD, “The State of Commodity Dependence 2014.”
\textsuperscript{64} Paul Collier, “Primary Commodity Dependence and Africa’s Future.”
\end{flushright}
negative examples however there are positive examples of industries and companies acknowledging the leverage they have with commodity-driven governments, and using that to the greater advantage of the countries in which they are operating. These companies are acutely aware of the short term risks to their businesses in the case of civil wars or a media scandal, and becoming increasingly aware of the long term benefits to their businesses in the case of a stable economy and satisfied employees.

One perhaps unlikely industry to adopt self-regulation in the absence of formal governance has been the project finance industry. With project finance typically operating in fragile environments, and the consequent risks banks face in their financing, the Equator Principles (EP) were developed in 2003. Today these principles are on their third iteration, and are currently the most comprehensive example of a clear approach to bringing corporate sustainability to financial institutions with application across project finance advisory service, project finance, project-related corporate loans and bridge loans. The 10 EPs address issues ranging from defining methods of assessment, to explaining applicable environmental and social standards, to requiring an EP action plan of all project finance projects, and are aligned with with the IFC’s Performance Standards on Environmental and Social Sustainability and World Bank’s Environmental, Health, and Safety Guidelines. This institutional credibility has enabled their widespread use, effectively creating the industry standard, rather than each bank creating its own standards, or doing just the minimum for their own competitive advantage. The scope of these standards is also important, with the latest framework covering climate change, social rights, and human rights. In particular, they have evolved their purview from requesting consultation with local communities, to now requiring consent from local communities before the start of any new project. This represents an important

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acknowledgement of human rights in the scope of project finance, and as Weber writes, an “anthropocentricity” that recognizes the role of project finance within the social contract.\textsuperscript{67} The Equator Principles are not without criticism, typically around their non-legally binding nature and their focus on the process of regulation rather than the outcomes of the regulations themselves.\textsuperscript{68} Specifically on the African continent however, where there is a huge need for project finance investment to support the growth of infrastructure, a known enabler of development a currently a lagging part of development in many African countries.\textsuperscript{69} It is estimated that sub-Saharan Africa’s infrastructure needs are around $93 billion a year, of which approximately a third is currently not funded, mainly in power investment.\textsuperscript{70} Private participation in infrastructure financing has grew by 9.5 percent on average over the past 10 years, and as this grows the responsibility of the private institutions must grow with it. By influencing the financial institutions behind these increases the Equator Principles show that the industry is taking responsibility of its impact, and acknowledging its role in the absence of strong government regulation. To date sub-Saharan Africa has had limited project finance investment, however the number of projects is growing, and with Standard Bank as the first African bank to chair the Equator Principles in the 2015/2016 term there is a positive outlook that this trend will continue and will do so sustainably.\textsuperscript{71 72}

Moving from industry engagement to company specific engagement in self-regulation to help build the social contract is a company that has been applauded globally for its efforts, Unilever. Its management of the Kericho tea estate in Kenya highlights its commitment to human rights and sustainability, and illustrates a company going beyond the government

\textsuperscript{67} Weber and Acheta, “The Equator Principles: Ten Teenage Years of Implementation and a Search for Outcome,” 5.
\textsuperscript{68} Ibid, 6.
\textsuperscript{69} Jeffrey Gutman, Amadou Sy, and Soumya Chattopadhyay, “Financing African Infrastructure: Can the World Deliver?” 11
\textsuperscript{70} Ibid.
\textsuperscript{71} “Standard Bank Becomes First African Bank to Chair Equator Principles Association.”
\textsuperscript{72} Arnaud Dornel, “Project Finance for Infrastructure in Africa.”
standards to promote change and build a better societal-government relationship. The Kericho tea estate employs over 12,000 permanent employees and an additional 4,000 seasonal workers, which creates a community on the estate of over 50,000 people, creating a large critical mass of responsibility for the corporation. Unilever made the proactive choice to source its tea directly from its own plantations, as opposed to buying on the open market, for both control of the quality of the product, as well as control over the working conditions of its suppliers. These working conditions are significantly higher than the industry average, with Unilever providing wages that are 2.5 times higher than the statutory minimum agricultural income nationally, as well as providing access to housing, annual pay leave, transport allowances, and maternity and paternity leave. This is in conjunction with free health care and access to education through secondary school for all workers and their dependents.

Kericho is an important sourcing region for Unilever, a global leader in the tea industry, and these measures are crucial for their risk mitigation and quality assurance, while also providing a positive example for other industry players and the government. The tea estate has not been without its challenges, but Unilever has proven to be reactive to any reports of worker dissatisfaction, and has remained committed to the standards it established. This commitment and the subsequent example has seen strong results for Unilever, both qualitatively with global recognition for its Sustainable Living Plan and activation, and quantitatively with long-term investor focus. By taking this step it is clearly setting the right examples as the government continues to work on its institutions as business investment and interest in the region expands.

As Unilever’s commitment to regulating its own actions in a market, it also shows the attention paid to peripheral activities surrounding industry that can be important to companies.

73 “Kericho Tea Estates: Working Conditions.”  
74 Ibid.  
75 Ibid.  
76 Ibid.  
77 “Unilever Plans Sh17bn Investment in Kenya.”
These peripheral activities are often where the role of business in society is impacted the most, such as education, healthcare, and access to employment or markets. One of the most significant externalities that provide a potential risk to corporations across sub-Saharan Africa is the difficult environment in which there is high and systemic youth unemployment, that can destabilize markets, and make finding quality talent a significant challenge. For countries this phenomenon also hinders economic progress with a large part of the population staying idle, and of course also provides the risk of social unrest. South Africa for example has 63% youth unemployment, significantly higher than the adult average unemployment rate of 34%.\(^{78}\) The root cause of this problem, in South Africa and other markets, is the lack of effective policy interventions, both on the supply side of improving education and training, and the demand side of encouraging companies to hire young people.\(^{79}\) In South Africa in particular this is linked strongly to the social contract, where since apartheid ended there has been a push by the government to create a large social security system to “buy political stability in the face of high inequality.”\(^{80}\) In another attempt to improve the social contract, the South African government introduced the Black Economic Empowerment initiative as a clear attempt to bring the private sector into the rebuilding of the social contract between the previously discriminated against black population of South Africa, and the government, creating incentives for governments to hire black workers. In practice however this has not yielded sustainable results, with a small black elite effectively benefiting from the program.\(^{81}\) As inequality continues to worsen there is no sign that the government alone is able to strengthen the social contract and continue to develop the country in the post-apartheid context.\(^{82}\) Some businesses however are looking to mitigate some of these risks in the local market, by working explicitly on this youth

\(^{79}\) Ibid.
\(^{81}\) Ibid., 32.
\(^{82}\) Ibid., 33.
unemployment challenge. Nando’s has been at the forefront of these efforts, and has partnered with the charity Harambee over the past 4 years to promote youth employment in its restaurants around South Africa. This reflects their company purpose of Nando’s being about “pride, courage, passion, integrity, and family.” This purpose, and their partnership with Harambee, enabled them to overcome the key challenge they had of inconsistent quality of employees in their restaurants. Today, Nando’s has seen their labour turnover reduce significantly, which saves them in training costs and improves their product and service quality. Peet Opperman, their inland regional manager, has said their partnership with Harambee has been a “game changer” for their operations. This targeting of a key tenet where the government has not been able to reach young people has the potential to make significant inroads into improving the lives of South Africans, and making them productive members of society, who in turn will contribute to both the political and economic development of South Africa.

SAB Miller, like Nando’s, has used its company purpose to pro-actively engage with the social contract in the communities in which it operates. SABMiller has been explicit in its purpose of “Bringing refreshment and sociability to millions of people all over the world who enjoy our drinks. We do business in a way that improves livelihoods and helps build communities.” This purpose has been activated through the SABMiller Prosper initiative, with key components of its business model, from the supply chain to distribution, given objectives directly linked to the UN Sustainable Development Goals. Across sub-Saharan Africa specifically it has defined 5 key markets where it sources from smallholder farmers, and continues to work with its breweries to lead partnerships with local governments and other companies to address water resource issues. This has materialized in the SAB Go-Farming

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83 Harambee. “It’s the people who make the chicken.”.
84 Ibid.
85 Business Day Live. BUSINESS AND THE NDP: People Know Harambee Gets You Jobs
86 Available on the SAB Miller website www.SABmiller.com
87 SAB Miller Annual Report 2015.
Initiative that specifically looks to create a strong supply chain for malt and barley by including and enabling local farmers.\textsuperscript{88} Through this initiative SAB Miller has also worked hard to maximize it’s impact, and worked with academics and non-profits to improve its operations. The result is a cost saving for the company, that is able to remove cross-border logistics and tariffs costs from its sourcing, and a high impact in the communities.\textsuperscript{89} Based on research done with INSEAD, for every person SAB Miller employs on the continent there are 56 additional jobs supported – leading to a total of 765,000 jobs.\textsuperscript{90} This proactive consciousness of the important role of SAB Miller in the communities it operates, outside of just the consumers it sells its beverages to, enables it to gain strong legitimacy on the continent, and provide opportunities for communities the government is not yet able to reach.

These inspiring examples of company engagement with the social contract on the continent are however still the exception rather than the rule. This level of engagement must be long-term focused to justify the upfront investment and requires a high level of trust in collective action, with the belief that its actions will eventually pay off. There is also a tangible challenge from the diversity of countries on the continent, and the tailored approaches that are needed for each country, creating higher complexity and ultimately higher costs. The companies that are cited as leaders in community engagement on the African continent are typically market leaders already: Unilever, Coca-Cola, SAB Miller, Olam, Safaricom. This makes the embracing of their role in the social contract a key risk mitigation tool and growth enabler for their business. For the followers in their industries, who perhaps have other geographic or segment priorities, this cost-benefit analysis may look very different. It is in this respect that the need for collective action becomes more important, and a broader understanding of how corporate engagement in the social contract can lead to economic growth.

\textsuperscript{88} “SABs Go-Farming Sustainable Agriculture Initiative.”
\textsuperscript{89} “Working with Africa’s Farmers.”
\textsuperscript{90} Hloni Matsela, “Our Impact in Africa.”
and ultimately to larger market opportunities for all. McKinsey quantified this opportunity as a $2.6 trillion opportunity by 2020, with particular opportunities in consumer products, agriculture, infrastructure, and resources. As industry leaders see these opportunities it should be in their interest to promote sustainable engagement in the social contract and reap the benefits from the subsequent market growth.

**The Enabling Role of the Government**

While the private sector must be actively more engaged in strengthening the social contract, there is ultimately a large amount of responsibility on the government to enable this strengthening through the creation of inclusive institutions. There has been progress by various African states in improving the business environment for companies, with significant improvements in the World Bank’s Doing Business Report, however there is still quite a way to go. The current trend of ‘Public-Private Partnerships,’ and engagement of business in the social contract, is one way that trust is being established between the private and public sector, and provides governments with a unique window of opportunity to begin to shape their institutions. This trust is especially important across sub-Saharan Africa in the context of the high rates of corruption in the past, and the bad reputation many governments have earned. As discussed, both social contracts and institutions are highly localized, reflecting local norms and beliefs, putting the onus on individual governments to make the most of the private sector filling their institutional voids in the short term to establish long term solutions.

Rwanda’s development since the 1994 genocide has shown the positive impact a government can have in building, or in this case re-building, the social contract with the help and engagement of the private sector. Since 2000 Rwanda has doubled its income per capita,

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91 Acha Leke and Mutsa Chironga, “Africa’s Growth Story.”
reduced inequality, and has improved its UN Human Development Index more than any other
country over the past 25 years.\textsuperscript{93} This success has been linked to effective governance, which
has created a business-friendly environment including strengthened property rights, enforced
laws against corruption, and limited bureaucracy.\textsuperscript{94} These measures, as well as policies towards
taxes, focusing on the top 200 taxpayers who can afford it, and strictly enforcing it, show a
strong recognition of the need to strengthen the social contract and provide government
legitimacy.\textsuperscript{95} This building of inclusive institutions has made Rwanda the poster child for
development on the continent, and Paul Kagame has been recognized globally for the
leadership and direction he has set in his country. It is yet to be seen whether his running for a
third term in office, which maintains consistency in office but potentially threatens the state’s
democratic constitution, will continue or hinder these efforts towards inclusive and democratic
institutions.\textsuperscript{96}

Rwanda provides the most comprehensive example of an African country taking a
proactive stance at engaging the private sector in its social contract, establishing inclusive
institutions, and now beginning to reap the benefits from them. This however is an example of
a country that had a fundamentally broken social contract following the genocide, and rebuilt
effectively from the ruins. The countries that have recently recovered from the Ebola crisis, or
are still emerging from conflict, such as CAR and DRC, can learn from this example, and work
pro-actively to develop the right inclusive institutions to attract the private sector engagement
that can help them accelerate development. For the many countries that are now past the point
of a broken social contract, and are working to strengthen it rather than create it, institutions
must continue to be furthered and molded in ways that are conducive to private sector
engagement. Countries such as Kenya and Ghana have shown willingness to engage on this,

\textsuperscript{93} “A Hilly Dilemma.”
\textsuperscript{94} “Africa’s Singapore?”
\textsuperscript{95} Ibid.
\textsuperscript{96} “A Hilly Dilemma.”
and are seeing the benefits with increased investments, while Nigeria and South Africa, despite being Africa’s largest markets, are struggling with ongoing challenges of bureaucracy in addition to lowering commodity prices that are severely influencing their economic growth. As a result of their history and demographics, each African country has had a different path to its current social contract, and its institution building must reflect that. The CEO of Main One Cable, Funke Opeke, is quoted as saying, “To be honest, I sometimes wonder if government officials are trying to help the private sector, or society at large, achieve what they state as their policy goals. They’re more there as gate checkers and blockers and fee takers and obstructionists. Society is not holding our government officials to high standards in terms of what their expectations are. That’s why Africa is not developed.”

It is precisely this impression of government that the private sector holds that today’s officials must seek to change pro-actively and inclusively.

**Conclusion**

The role of the private sector in development has been a much cited topic over the past 10 years as the world looks to find the right solution to problems of poverty and inequality that despite the best intentions it still can’t seem to fix. This paper has sought to advance the conversation of private sector engagement from one of purely policy, to one that also has its root in social and philosophical motivations. As the role of inclusive institutions continues to be promoted, the private sector and public sector should look at how the social contract lies at the heart of why institutions need to be inclusive, and be conscious of how policy and strategy decisions influence this fragile relationship. Sub-Saharan Africa has been much cited as the world’s next frontier for business development, but it should also be considered the next

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97 Berman, *Success in Africa*, 120.
frontier for doing business development differently, in a way that is sustainable to the populations it influences and the environment it inhabits. Through an acknowledgement that business has both a responsibility towards the social contract, and a crucial role to play in it, some companies have already shown that this can be achieved. It is imperative for the economic and social development of the continent that other companies follow suit, and governments enable them. With a strengthened social contract and inclusive institutions, the recent Afro-optimism around business will continue, and perhaps even serve as a model for sustainable business development around the world.
Bibliography


