



# **Business: the real poverty killer**

## **Sustainable development in Africa**

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Jeroen van der Veer joined Shell in 1971 and worked in manufacturing and marketing in the Netherlands, Curaçao and the United Kingdom.

In 1992, he became a Managing Director of Shell Nederland. Three years later he became President and Chief Executive of the Shell Chemical Company in the United States. He was appointed a Group Managing Director in 1997.

Jeroen was born in the Netherlands, and is married with three daughters. He has two degrees – one in mechanical engineering from Delft University and another in economics from Rotterdam University.

He is a Non-executive Director of Unilever.

**In this speech, Royal Dutch Shell's Chief Executive, Jeroen van der Veer, gives his vision of how to drive forward Africa's economic development. He stresses two points, the first being that for Africans to climb the prosperity ladder, they must also climb the energy ladder and switch from burning biomass to more modern and cleaner energy. The second point is that business is the real poverty killer. Governments and industry should work together to encourage Africa's entrepreneurial spirit. Royal Dutch Shell is one of Africa's largest private investors. The Shell Foundation, a charity, uses micro-credits to help Africans set up small and medium enterprises.**

### **Introduction**

When thinking about sustainable solutions for Africa, the first question we should ask ourselves is: "Which Africa?"

Africa, one continent, yes. But 53 countries. And about a thousand languages. With almost 900 million people – as many as the European Union and the USA combined. A continent with countless opportunities and just as many shattered dreams and broken promises.

What is Africa? Is it Nigeria, with 140 million people, with abundant oil and gas reserves? Or is it landlocked Mali, with 12 million people amidst desert, with less than four per cent of its territory fit for agricultural production? Africa is all of that, and so it is a rather misleading heading for a continent with countries with wide-ranging development levels.

In this presentation I would like to stress two main points about the future of Africa:

- First, that in Africa, sustainable development means using more, not less, energy.
- Second, that entrepreneurship is essential for an Africa's economic development.

### **Sustainable energy**

Branding Africa as "highly sustainable" because Africa's energy use is low and partly renewable to my mind would be cynical.

When I take the International Energy Agency's figures for 2005, for instance, renewable energy delivers up to 50 per cent of Africa's primary energy consumption – way above the challenging targets set by environmentally conscious European and American politicians for futures as distant as

2050. Unfortunately, for the most part, Africa uses the wrong kind of sustainable energy: charcoal, firewood, animal dung and harvest residues. In fact, this energy is just the opposite of "sustainable", since it degrades the environment and affects negatively the health of people. Burning biomass to cook or heat houses release gases and fine particles, which shorten life expectancy. Africa's limited energy footprint on the Planet Earth is the footprint of poverty. Whereas Europeans and North Americans have to reduce their footprint, Africans are entitled to a bigger one. The statistics of the Energy Information Administration of the US Department of Energy speak a clear language: in 2005, the average per capita primary energy consumption for Africa was almost 16 mln British thermal units (Btu), a European consumed 146 mln Btu and an American 343 mln. You can forget the details, as long as you remember this: gains in African energy consumption per capita have been almost zero for 25 years.

Focused as we are on energy conservation, reduction and efficiency, rich societies easily forget that for the majority of Africans, sustainability is not about CO<sub>2</sub>, biodiversity, energy-efficiency or the superiority of cycling over driving a SUV.

For them sustainability is about health, food on the table, safety and sanitation, all of which require energy.

Indeed, modern energy is "the mother of all economic development". People can only climb the prosperity ladder after having made the first steps on the energy ladder. Hundreds of millions of Africans haven't reached the first rung of this ladder. Small-scale innovations can

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make a big difference. The poor rural masses can be helped with small windmills, water mills, solar panels, biomass furnaces and LPG burners. Such measures increase prosperity and reduce environmental pollution and sickness. That is why people in Africa must get all the help of the world to *increase* their energy consumption.

A lot of governments in Africa have become enthusiastic about the prospects of biofuels that could replace crude oil. This is fully understandable, given that in many countries oil imports are the largest cost factor in the national budget. Biofuels also hold the promise of offering local communities an opportunity to earn a living and set up small businesses. The best way would be to produce biofuels from non-edible crops and plant residues.

But the challenge of biofuels in Africa will be a logistical one, involving harvesting, collection, processing, blending and distribution to the fuelling stations. And this will require good organisation and good infrastructure.

### **Development cooperation**

Fortunately, Africa is making economic progress. Economic growth in Africa could reach nearly 6 per cent this year, say the specialists. And six percent growth really *is* positive news – parts of Africa are picking up with globalisation.

Some of this growth takes place in resource-rich countries like Angola. But other countries too, like commodity-poor Ghana, Liberia, Uganda, Senegal and South Africa and even Kenya, are climbing the ladder of social and economic development.

This is evidence that peace, stability and good governance is more important for economic growth than possessing oil or natural gas reserves. Which, in turn, shows that the emphasis on good governance in development cooperation strategies is a good one.

At the same time, much still needs to be done. The majority of the African economies have yet to enter the global economy. The continent is a supplier of commodities, rather than a consumer of products and services. And

here, governments in Europe and America have some soul-searching to do. For the aid to Africa has not been a great success story so far.

I would like to quote Kurt Hoffman in this regard. Kurt is managing director of the Shell Foundation, an independent charity with an endowment of \$250 million from Shell.

He says this: “We have poured \$2.3 trillion of aid into Africa in the past 50 years and yet most Africans are poorer now than they were two decades ago. That is hardly a record to be proud of. Yet, the aid community convinced rich-world governments to double their budgets. Can you imagine a private-sector company convincing investors to do the same based on a similar record?”

I personally believe there is still a lot of merit in the approach taken by many Western governments, with an emphasis on good governance and untied aid. And I know the effectiveness of the Dutch effort is rated particularly high – as is that of the European Nordic countries, and some others.

But all in all, from my perspective as a businessman, I believe that past decades of development aid did not pay sufficient attention to the development of a business-oriented middle class, the engine for sustainable development. In my view, a new approach is needed.

The essence of that new approach must be ‘self help with ready access to risk bearing capital’.

Perhaps Africa can learn from the Asian experience, where the business sector has been allowed to flourish. South Korea and Taiwan – and I would add countries like Singapore and Malaysia – successfully eradicated poverty and turned their economies within one generation from pre-industrial into ones that are globally competitive. And China manages her meteoric economic rise without development aid.

Asian societies have a strong desire to be masters of their own fate – but not in isolation from the rest of the world. Asian countries have rallied the most precious commodity there is: people.

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I don't know whether there is a specifically Asian model that could serve as an example to Africa. In my heart I believe that Africans will have to formulate a model of their own. East is East, and West is West, as Rudyard Kipling wrote, and Africa is Africa.

### ***Business is the real poverty killer***

One thing is clear to me: whichever development model African countries choose to apply, it takes a functioning market economy for development to take root. Business is the real poverty killer.

Up to now, in Africa the business sector has had trouble playing its natural role. The private sector in Africa is too weak and the barriers to its expansion, such as poor infrastructure and lack of a developed financial sector, are too great. For markets to flourish, societies need an entrepreneurial spirit, a level playing field for businesses, underpinned by a transparent and effective legal framework, with checks and balances against the abuse of power. Only the citizens of Africa themselves can deliver these virtues. Africa is bursting with entrepreneurs who often only need just a little initial assistance to make huge gains.

The Shell Foundation tries to tap into this reservoir of talent and, in fact, does a lot of business in Africa. I hear you think: "A lot of business, for a charity?" Yes, business: - this means less emphasis on grants and more on helping private entrepreneurs. For instance with seed capital for training, the recruitment of key staff and new computer systems. The Foundation also helps in obtaining loans from local banks – commercial loans.

In the first five years of its existence the Shell Foundation committed some \$100 million to small and medium size enterprises in six African countries. For every single dollar the Shell Foundation has committed via her programme Aspire, nine dollars were leveraged from other organisations. For the next five years the Foundation wants to have tripled the money invested in Aspire.

The Foundation also sells cooking stoves that drastically reduce health-damaging indoor

smoke pollution. It wants to sell twenty million of these stoves over the next five years, thus increasing the number of people that are benefiting of clean air to 100 million. You heard me correctly: the Foundation is not giving the stoves away, but selling them, in order to create business opportunities for local entrepreneurs.

Trans-national companies like Royal Dutch Shell can set positive learning examples by applying a corporate governance style identical to the standards we use in our global operations. This means:

- We don't pay or accept bribes.
- We are an equal opportunity employer.
- We train staff and bring them into our international circuits for a transfer of knowledge.
- At present three quarters of our country chairs in African countries are Africans, including in Nigeria, where we have our biggest investments.
- We are transparent in our payments to governments.
- We have a company policy for HIV/Aids, from prevention to supplying medicines.
- And we apply the Shell Group Health Safety and Environment rules in all African operations.

Shell has operated in Africa for over a century and has activities ranging from large upstream oil and gas projects to downstream oil products retailing businesses. Shell directly employs over 8,000 people, of whom more than 92 per cent are African country nationals. On almost 2,500 Shell branded retail sites over 50,000 Africans are employed.

In 2006 we paid \$500 million in salaries to employees, \$2 billion to African suppliers and we paid \$6 billion in corporation and sales taxes and royalties. In addition, we made substantial contributions to social investment in Nigeria and elsewhere.

The Bonny Island liquefied natural gas plant in Nigeria is the largest single industrial enterprise by Shell in Africa – and most likely the largest industrial complex of Africa.

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Big numbers, and of great importance to create a backbone of related business activities.

So we know first hand that doing business in Africa can really be challenging: poor compliance with health and safety standards, inadequate infrastructure, corruption, weak government, lawlessness and inefficiencies in many aspects of daily life.

But we also know the potential of the African markets – sound business returns can be earned there.

The very fact that Shell has been in Africa for such a long time underlines the confidence we have in the continent and its people.

Yet at the same time we look at Africa with the same standards of business and economics we do everywhere. Sometimes that means taking tough decisions to ensure long-term success. A recent review of our strategy confirms our commitment to a balanced and sustainable Downstream portfolio in Africa. We will retain or build strong market positions and capture business in high-growth African economies. It's a reflection of the overarching Shell strategy of 'More Upstream and Profitable Downstream'.

So I flatly reject criticisms that Shell is only in Africa to "rob" the continent of resources while spoiling the environment.

Producing minerals, oil and gas creates financial resources that - when used well - can

be a driving part of national prosperity. We create part of the cake, it's up to the governments to give people a fair share of it.

### **Conclusion**

I have no definitive answers to Africa's sustainable development challenge.

To suggest as much would be paternalistic and also unrealistic. But I have given you my thoughts on the future of Africa.

Africans have the opportunity to be eclectic, they can pick the best elements of proven successful economies elsewhere and transplant them into their own rich cultures. There is no "European, American or Chinese way" to copy, neither by choice nor by imposition.

Africa's main resource is its 900 million people. Educating them and giving them skills would create a huge reservoir of talent and entrepreneurship that companies could tap in to. Responsible private sector engagement could improve the lives of these people immensely, turning them from "aid victims" into "consumers with freedom of choice." More prosperity will translate in higher energy use. But if Africans can use this energy in cleaner and more efficient ways than they do today, we all will have truly advanced the cause of sustainable development – in Africa and elsewhere.

*Thank you for your kind attention.*

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***"Africa's main resource is its 900 million people."***

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