

## **For more effective support of Africa's economic development**

### **Courses of economic action proposed by the German-African Business Association to address the causes of flight**

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Addressing the causes of flight has been the dominant theme in the debate on the increasing migration pressure in the direction of Germany and Europe. A significant amount of migrants come to us from African countries too. The German Federal Government and the EU want to counter migration pressure primarily through partnerships on migration with African countries, and greater humanitarian support in refugee camps. At the same time, traditional development assistance is being increasingly called into question, and justifiably so.

The German Federal Government's assumption of the Presidency of the G20 on 1 December 2016 presents an opportunity to lay important groundwork now: for future cooperation with Africa and for its economic development, with a clear focus on the private sector. The German-African Business Association (Afrika-Verein der deutschen Wirtschaft - AV) emphatically supports the German Federal Government's initiative to place cooperation with Africa at the centre of its G20 Presidency. The AV also takes it as an opportunity to place the flight and migration situation in general context, and submit proposals of how economic cooperation can be improved effectively.

#### **Current situation**

**Flight from African countries:** In many contexts, the view of Africa is too general – as is the case with the debate on migration. Africa is often cited as one of the main regions migrants come from. Indeed, flight and other forms of migration are a depressing part of everyday life on the African continent: of the 65.3 million refugees in the world, 18 million are Africans<sup>1</sup>. However, most of these are not fleeing to Europe, but to their neighbouring countries. This is partly as they hope to return to their country of origin in the near future, but also because they don't have the financial means to flee further. As such, 29% of the world's refugees live in Africa and only 6% in Europe.

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<sup>1</sup> <http://www.unhcr.org/africa.html>, <http://www.unhcr.org/figures-at-a-glance.html>, figures from 20 June 2016, retrieved on 23 November 2016

This being the case, Africans do not currently constitute the main source of migration pressure towards Germany. In addition, immigration to Germany has declined in total since 2015. The main countries of origin include Syria (160,000 initial asylum applications in 2015), Albania (54,000), Kosovo (33,000) and Afghanistan (31,000). An African country first appears in sixth position – Eritrea with only 11,000 initial asylum applications in 2015. Most African refugees originate from Somalia, South Sudan, Sudan, Eritrea and DR Congo.

### **However: A wave of refugees from Africa potentially awaits us**

**Migration despite economic upturn:** In economic terms, Africa has been a burgeoning continent for years. Nevertheless, migration flows are growing. This, however, is only a contradiction on the surface: as the per capita income of a country increases, so does the number of people who afford to migrate to industrialised countries in the hope of education, training and jobs with better remuneration. Poor refugees can only look to survive in their neighbouring countries or other states within Africa. Only when per capita income is relatively high (around USD 7,000) does pressure to migrate fall again.

It follows that, in the medium-term, we will have to prepare ourselves for an increase rather than a decrease in migration from African countries. We can profit from this economically when these people (often highly motivated and committed) can be successfully integrated into society and the economy. It can also be advantageous for African countries when migrants find employment in industrialised countries and support their families and native countries: in 2015, remittances totalled 2.5% of Sub-Saharan Africa's GDP<sup>2</sup>. With this in mind, the German-African Business Association supports a labour market oriented, open migration policy in Germany.

**The previous set of measures:** Historically, the German Federal Government has reacted to increasing migration pressure from Africa largely through humanitarian assistance and strengthening borders by means of partnerships on migration. Individual measures such as Cash for Work also have sensible ambitions of helping refugees remain in their region of origin. However, it should be clear to all parties that such measures can have only a limited impact on migration flows. Niger, an example of one of the main transit countries, is a thinly settled country around three and a half times as big as Germany - it cannot effectively control its 950 kilometre border with Algeria or its 1,600 kilometre border with Nigeria.

This being the case, there is no alternative to concrete international efforts, in cooperation with African countries, to reducing the economic divide. It is especially important from a medium-term perspective to accelerate the process of helping the African continent catch up economically, and to facilitate local employment. German industry has already been called upon to increase their involvement with Africa. For this to happen, the prevailing conditions have to be appropriately adjusted. The German-African Business Association has accordingly made the following suggestions for discussion, as well as concrete proposals.

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<sup>2</sup> Including: Liberia: 31.2%; Ghana: 13.2%; Cape Verde: 12.3%; Senegal: 11.7%; no data available for 14 countries.

[http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=ZG&year\\_high\\_desc=false](http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=ZG&year_high_desc=false)

## **Courses of action**

**Reorient development assistance:** The entire framework of development assistance needs to be reoriented. The focus of this reorientation should be accelerating the process of catching up economically for African countries, so that they gain access to the global economy. To this purpose, conditions need to be improved with respect to strengthening economic diversification, developing industrial manufacturing capacities and employment, and foreign direct investment.

**Strengthen the private sector:** People's prospects improve when the structures and prerequisites for strong economies are established locally. Development assistance can contribute to this process, but it has to be shaped and supported by local and international companies. As such, both the strengthening of the private sector and the promotion of the economic involvement of foreign (including German) companies are necessary areas of focus for development assistance.

**Provide development assistance not only to “weak” countries:** Development assistance should support not only the economically weakest countries but also (and especially) countries that have established good conditions and can serve as driving forces for development for entire regions or the whole continent. This would also serve as a good incentive for other countries.

**More development funding with better economic policy:** African partners secure borders and receive support from Europe and Germany for this – this causality in partnerships on migration should be given at least the same weight with respect to development assistance. If African countries can sustainably improve their economic conditions, they could receive more funds from development assistance. This would allow innovation as well as better conditions for investment and more jobs.

**Support job creation directly:** As an alternative to conventional development assistance, measures should be considered that directly create jobs – this can support the development of industrial parks and special economic zones. African countries could, for example, use concepts to apply for funds to be provided for the corresponding activities. This would establish an incentive with the cooperating countries for the development of free market structures and good governance. Development assistance could support education and training activities, so that hubs arise from which further regions can be supplied with education, specialists, infrastructure and production facilities.

**Improve the trading opportunities for African partners:** The European Union should promote the fair integration of African countries into the global value chain for their mutual benefit. For this to happen, tariffs and other barriers to trade have to be removed, and African partners need to be supported with respect to compliance with sanitary and phytosanitary regulations. In Europe, agricultural subsidies that undermine the competitiveness of non-European suppliers in local agricultural markets need to be dropped. To support German importers, the BMZ-financed Import Promotion Desks (IPDs) should be expanded to additional African countries.

**Encourage diversification:** Economic diversification provides the opportunity to drive industrial development on the continent forward, and thus create jobs and local supply chains. Development assistance needs to contribute more here, for example in countries that have established good conditions in recent years, such as Ethiopia, Botswana, the Ivory Coast, Cameroon, Kenya, Namibia, Rwanda, Tanzania and Uganda.

**Support infrastructure projects:** Africa needs investment above all in power supply and transport infrastructure. To mobilise the required capital, funds should be established that facilitate the financing of the corresponding projects through public and private investment.

**Improve financing options:** The German Federal Government already offers wide-ranging finance for development policy projects and private sector involvement in developing companies through the activities of the KfW and the Deutschen Investitions- und Entwicklungsgesellschaft (DEG). Instruments such as investment guarantees and Hermes guarantees are also helpful, although deductible amounts need to be brought down to internationally competitive levels. In addition, the issue of creating local employment should receive the same level of attention as the condition of domestic employment effects, and the developmental and structural significance of the business should receive greater consideration. Nothing makes this clearer than the current refugee predicament. As such, the German Federal Government should also review the establishment of a guarantee instrument that facilitates the financing of the involvement of German companies where this is developmentally beneficial (Development Hermes). In addition, it is worth considering funding Hermes guarantees with elements from the development budget.

**More double taxation treaties:** The number of double taxation treaties is in urgent need of expansion. With only 13 treaties in place, Germany has only half as many as countries such as France or the United Kingdom. This gap has actually grown in recent years, which is a development that needs to be reversed.

**Insure the initial phases of projects:** The largest obstacle in the development of new, development-promoting projects is finding companies that are willing to invest a significant their own capital in the initial phases of project development. Anyone putting up a large amount to establish the project foundations (e.g., commissioning environmental studies, researching grid connections, negotiating supply contracts) also has to bring a large appetite for risk. Project development insurance should be established for developmentally beneficial projects, which would serve as a combination of development assistance and foreign trade support. If a project is successful, the entrepreneur pays a portion of the profits into a pot. If, however, the project is not realised, the insurance should reimburse a portion of the development costs.

**Provide greater support for feasibility studies:** SMEs can apply to the DEG for a BMZ-financed grant in order to conduct feasibility studies for developmentally beneficial projects. However, the DEG can take on a maximum of EUR 200,000. This upper limit needs to be extended as it is insufficient to cover such important areas as energy or transport infrastructure projects.

**Revise the OECD Consensus:** The current OECD Consensus results in German companies often having no chance against competition from China and parties from other BRIC countries. There is a further need to drive forward harmonisation also between industrialised countries to establish a level playing field with respect to the rules of trade with Africa. At the same time, the assessment of country risks (which are also relevant to Hermes guarantees) needs to be updated on a more regular basis. The German Federal Government should address these issues and others as part of its G20 presidency.

**Amend the DAC Guidelines:** The DAC Guidelines need to be reworked with respect to the statistical reporting on Official Development Assistance (ODA) to make private sector contributions more visible and enable more synergetic development assistance.