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"Investing in Africa: a European Commission's perspective"

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

Conference "Outlook Africa: Investing in Africa's Growth and Health" - Solvay Library

Brussels, 29 April 2009

Ladies and Gentlemen,

I wish to thank *Friends of Europe* for their invitation to take part in this debate on "Investing in Africa's Growth and Health".

In these times of global economic crisis which has left no country or continent unscathed, some might think that investing in Africa would not make good economic sense, or is simply a humanist softy dream.

It is true that Africa is hit hard by the impact of the crisis in socio-economic terms.

However, the crisis also represents an opportunity for Africa: this crisis is in fact hastening the reshuffling of the cards in the world in terms of wealth, power and world governance.

With its rich economic and human potential, Africa is poised to play a greater role in this emerging new world order. It is in the economic and political interests of Europe to help it do so.

Investing in Africa is therefore the right strategic choice.

I say this on the basis of my own convictions and commitment. This is the reason why, in my capacity as Commissioner responsible for development and for relations with Africa, I have striven in recent years to build a strategic alliance between Africa and Europe.

The globalisation of the economy and the multi-polarisation of power that we have experienced over the past two decades have pushed Africa back into the geopolitical arena.

First and foremost, this renewed importance of Africa owes much to its tremendous natural resources, including oil and huge base metal and rare mineral deposits which are crucial for the energy sector but also to sustain industrial growth and the upsurge in new technologies.

Next, Africa is in a position to take advantage of the rapid changes in the international division of labour. Emerging economies, China and India in the first place, are progressively moving up the manufacturing value-chain and development ladder, as Japan and South Korea did in the 1950s and 1960s. Africa would therefore become more competitive on the world market to attract low-cost manufacturing and processing activities and to find niche markets – northern Africa has already embarked on this route. *Africa, the next workshop of the world?* This may no longer be as remote a dream.

Africa's political power is also a sought-after commodity. The many partnerships established with countries and regions in the rest of the world – China, Japan, Latin America, Turkey and Russia, to name but a few – are all proof that Africa is courted and has now been woven into the "web" of global politics.

Another reason to invest politically in Africa has to do with global challenges.

Concluding an international agreement on climate change in Copenhagen at the end of 2009 will clearly require cooperation with the African continent: Europe is working on this.

Another extremely topical issue is the question of migration, a constant cause of tension between African and European countries. First, there are those illegal African migrants who – at all cost including that of their life- try to reach the European shore. Then there is the economic reality of ageing European societies lacking in labour force. Yet again, there are migrants who have settled down in Europe and are sending up to €20 billion back to Africa, that is almost as much as Official Development Assistance for Africa. Lastly, there is the brain drain, particularly of health care workers who are leaving Africa to settle in Europe or the United States. If you think about it, the brain drain is a kind of subsidy we are receiving from developing countries which have invested in educating and training these workers. In short, migration is a complex phenomenon which requires strong cooperation between European and African countries cooperate to find suitable solutions involving for example circulatory migration, and also to offer young Africans alternatives at home to illegal immigration.

Some people might feel that this whole analysis is based on an over-estimation of Africa's real power, and that it is excessively positive as regards Africa's assets and not negative enough as regards the problems it is exporting.

True, its current economic position is marginal, representing only 2.5% of global GDP and roughly the same percentage of international trade. True, in the great international geopolitical game, Africa is still a playing field rather than a decisive player. True African development is hampered by many domestic problems.

However, Africa has the potential to change this situation. And given our interdependence with Africa, we in Europe have an interest in helping it.

Otherwise others will step in and reap the benefits. In reply to those who criticise the growing influence of China and India in Africa, I would say quite simply that China and India are right. What will make a difference is not ethical arguments, but concrete economic investments. European governments and companies must look at Africa in the same way as others: as a place of opportunities for both.

Europe has a lot to offer Africa: not just financial resources but also a true partnership based on sustainable development, shared values and a common destiny stemming from geographic proximity, a common history and intense cultural ties maintained in particular by the diaspora.

Now, at a time of global crisis, this Europe-Africa partnership is proving its value.

The report on the impact of the crisis in Africa produced by the African Development Bank on the eve of the G20 meeting in London shows how hard the global crisis hits the African economy.

The African growth rate of over 5% on average since 2000 will plummet to 2.8% in 2009. GDP growth rate per inhabitant will drop from an average of 3% in the past to 0.5% in 2009. The influx of private capital and the value of African exports will be halved in 2009.

The drop in income and tax revenue is already worsening the public deficits affected by the sudden rise in food and energy prices in 2007-2008. A number of countries risk falling back into the trap of over-indebtedness from which many have only just managed to emerge.

All of this will have a huge social and human cost and the Millennium Development Goals will be forfeited as a result of smaller budgets for education, fewer social safety nets, and a 10% increase in the number of poor people in Africa, in other words those living on less than one euro per day.

Europe has, more than others, mobilised its efforts towards ensuring that the poorest countries, in particular those of Africa, are not the flotsam and jetsam of international recovery schemes. We must help Africa recover the momentum of economic expansion it has been building up for several years.

The recent G20 Summit in London is an important step forward with Africa at the table and a package of measures aimed at kickstarting global recovery also benefitting developing countries. But as the impact of the crisis in regions like Africa is better understood, the measures such as those agreed at the G20 will need to be scaled up. Not to mention that for countries affected by a crisis which is not of their making, there is obviously a shocking discrepancy between the USD 4000 billion for recovery plans (IMF figure) and the shortfall of USD 20 billion in the development aid promised at Gleneagles.

I said this before the G20 summit, I said it at the time of the G20 summit, and I will say it again here: the economic recession must not, cannot and will not be used as an excuse or pretext for failing to meet our promises to increase aid.

This was the significance of the package of European measures proposed by the European Commission less than a week after the London summit in order to help developing countries overcome the crisis, by committing Europe to do "more, better and faster" for development.

More = It is important to recall that the EU collectively remains, and by far, the first and principal donor of aid in 2008 with €49 billion in Official Development Assistance, with an increase of €3 billion compared to 2007. We will maintain our commitments in terms of ODA increase. At the same time the EU will strive to mobilise all possible non-ODA resources which have a pro-development impact.

Faster, with a frontloading of financial measures having an economic counter-cyclical effect and cushioning the social effects. Specifically, €3 billion need to be released now for the ACP countries in order to safeguard welfare expenditure, and €500 million have to be provided before the end of the year for a new flexibility measure designed to offset losses from our partners' falling exports.

Better = this is about maximising the impact of each euro spent on development. The EU is the first donor to have undertaken a study to quantify the cost of "non Europe" in development. Preliminary results show that for the 27 EU Member States alone, this efficiency requirement results in an annual saving of € 5 to 7 billion.

Apart from these measures which will benefit African countries in the first instance – they receive about half of EU development aid, the EU and especially the European Commission will continue to support the active and enhanced participation of Africa in international governance, whether in the context of the G20, the G8-Africa dialogue or the International Financial Institutions.

Africa's clout on the international scene and capacity to generate endogenous growth will also rest on its ability to further its integration process both at regional and continental level. This is a unique enterprise.

And so is the nature of the EU-Africa partnership established between Africa and the EU at the Lisbon Summit in December 2007 reflects this interdependence uniting our two continents, which I have called "*the indispensable alliance*". This strategic partnership is geared to help strengthen this African architecture and foster African growth. African and EU leaders have committed at the Lisbon Summit to implement a joint Action Plan covering 8 thematic partnerships. Through these partnerships, Africa and African countries can strengthen the domestic drivers of growth in order to harness their enormous potential and further attract investment and business. Let me stress a few aspects which in my view are critical in this respect.

- Improving governance and macro-economic management can only serve Africa's own interests. This should not be seen as an externally imposed condition but rather as a *sine qua non* for Africa's own development. Africa must protect itself against the 'curse of natural resources' and a rentier economy. Revenue from natural resources should be better accounted for in national budgets.

African countries and especially those which depend for a large part of their income on the export of one or two basic products have every interest in setting up savings funds in times of prosperity which will help them through bad times as Botswana did with its diamond revenues.

Tax evasion should be prevented. Investment security should be guaranteed. If these elements are in place, foreign investors and international credit are easier to attract. I note that the 2009 edition of the now famous *Doing Business* report indicates that African economies have implemented more 'doing business' reforms than ever before.

The EU has taken a modern approach to support governance reforms, with its "*Governance Tranche*", a financial incentive which supports Africa's own governance efforts. Governance is also part and parcel of our political dialogue with partner African countries. Countries like Rwanda, Ghana, Mauritius or Mali show that governance and economic reforms pay off.

- Fostering regional integration is a 'must' for Africa. Regional trade and integration are among the main vehicles of internal growth and stability. Building regional markets can generate a 'virtuous circle' thanks to the bigger size of markets, economies of scale, the free flow of goods and services, and the harmonisation of rules and standards. The European Union's own experience illustrates the transforming power of regional integration.

Europe fully supports African regional economic integration, notably through Economic Partnership Agreements and aid for trade regional packages. We are almost on target with our promise to find an additional € 2 billion in aid for trade by 2010. We are helping, for example, countries and regions to develop one-stop-shop customs procedures or to comply with European sanitary and phytosanitary standards.

We have also virtually doubled the amount for regional integration programmes which total €1.8 billion under the 10th EDF.

- Infrastructure is the backbone of economic development. The lack of access to affordable energy is one of the main obstacles to the development of African business. The price of a kilowatt of electricity in West Africa is one of the highest in the world, more than double the average price in Europe. Transport costs are also weakening African competitiveness. Developing the links between the main infrastructures within and between African regions is therefore the name of the game.

With the EIB and nine EU Member States, we have created an *Infrastructure Partnership Trust Fund* to support Africa's regional interconnectivity in infrastructure sectors like transport, energy, water and Information and Communication Technologies (ICTs). The funding is expected to reach €500 million, which should allow us to leverage over €2 billion in loans from other financial sources and more from the private sector. Let me give two examples illustrating the type of project that this fund finances:

part of the 10 000 kilometre submarine optical fibre cable along the Eastern coast of Africa, which will enable all countries in East Africa to have a high speed connection to the rest of the world.

hydro power plants in Western Africa (Felou Dam) and Central Africa (Ruzizi).

This comes on top of the €700 million spent each year by the Commission in support of regional infrastructure projects in Africa, such as the North-South Road Corridor, or the East Africa Power pool.

- Potentially, agriculture can become a key asset in Africa's economic development. The sustained rise in demand for food worldwide should provide strong incentives for African farmers to produce and export. But more investment should be made in this sector in order to boost production. The stunning example of Malawi, which, some years ago, was still a net importer of agricultural products and is now an exporter, should be duplicated elsewhere in Africa. With this mind, the European Union adopted last year the Commission's plan for a Food Facility. This Facility represents €1 billion additional development assistance for boosting agriculture and improving food safety in developing countries.

Not least, this partnership has the further important advantage of not being confined to an institutional partnership. We set out to develop the Africa-EU business forum as a place where economic players can meet and exchange views. We also want to consolidate public-private partnerships involving European and African players. The EU-Africa partnership is a catalyst for such business initiatives. Much can be done. And I must admit, this task is enough to keep a Commissioner busy for a whole term of office.

The reason once again relates to the extraordinary economic opportunities which are out there. One should not underestimate the potential for growth and development in Africa through what I would call '*technological shortcuts*'. Take telecommunications: Africa has jumped directly to mobile networks, saving itself the high costs of telephone landline infrastructure. Mobile phones have proved to be a blessing for farmers who can find out about market prices and best price production. Or take the energy sector. I read the other day about the example of the city of Accra, Ghana, which has invested in low-energy light bulbs, and as a consequence can respond to the growing demand for power with the same level of production.

This also applies to business models: there is an untapped potential in Africa for social business ventures following the model developed by Mohamed Yunus, which can combine economic development with social welfare and social justice. The poor are not destined to remain poor forever. If they are offered opportunities, they can be entrepreneurs and consumers. This is what has led, for example, Danone employ women's distribution networks to sell low-cost yoghurt and dairy products in the destitute slums of South Africa.

To conclude: above all, we have to change our perception – a key factor where investment is concerned – and regard Africa as an emerging market in the process of being created, with a middle class developing in several countries and with businesses geared to populations with very low incomes.

Helping Africa to make the most of its advantages and overcome its weaknesses, and, in doing so, respond to our own economic and political interests, is the purpose of this Africa-Europe partnership. This is the reason why I believe against the current gloom and doom, that investing in Africa is a promising business.

Ladies and Gentlemen, I thank you for your attention.