Development Policy Forum

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EUROPE, JAPAN, AND AFRICA

COOPERATION FOR DEVELOPMENT, PEACE AND STABILITY

REPORT

This event is part of our Development Policy Forum (DPF), which brings together a number of crucial development actors, including the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Agence Française de Développement (AFD), the Japan International Cooperation Agency (JICA), the European Investment Bank (EIB), the United Nations and the World Bank to contribute to the global and European conversation on development. Through its activities and publications, the DPF reflects the rapidly-changing global debate on growth and development and seeks to encourage fresh, up-to-date thinking on the multiple challenges facing the development community.

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INTRODUCTION

International organisations, development agencies and individual states across Africa and beyond are increasingly aware of the development opportunities and challenges in Africa, including the building and upgrading of infrastructure connectivity across the continent. They are placing continental connectivity and infrastructure development high on their political and economic agendas.

"There is a financing gap of $100bn to meet Africa's infrastructure needs. This money needs to be found in the next ten or twenty years"

Shada Islam
Director for Europe & Geopolitics
at Friends of Europe

"There is no question about commitment to infrastructure development on the continental and national levels in Africa," stressed Mthuli Ncube, Chief Economist and Vice President of the African Development Bank (AfDB) (2010-2015).

This commitment can be seen in the inclusion of infrastructure as one of the pillars of the African Union's (AU) Agenda 2063, the continent's strategic framework for socio-economic transformation, and in the Programme for Infrastructure Development in Africa (PIDA) led by the AU Commission and the AfDB.

The financing needs of such development are enormous, however, with the latest AfDB estimates suggesting that upwards of €200bn will be needed to update Africa's infrastructure and keep up the continent's rather resilient economic performance, noted Shada Islam, Director for Europe & Geopolitics at Friends of Europe.

"There is a financing gap of $100bn to meet Africa's infrastructure needs," she added. "This money needs to be found in the next ten or twenty years."

With this financing gap, funding these projects remains daunting, though the European Union, Japan, the United States, China, India, and a host of others are focusing their efforts on the continent through development aid and public investment.

In addition, private sector perspectives on financing are shifting worldwide, as investors increasingly consider Africa's economic growth possibilities and resilience as positive indicators for investment.

As domestic revenues increase across Africa and foreign investors see business opportunities coalesce, it is becoming clearer to many in the development community that much remains to be done to improve governance, stakeholder management, and maintenance of infrastructure.

"Africa's weak institutional situation means that we must really work on improving coordination," said Francesca Di Mauro, Head of Unit for Central Africa at the European Commission Directorate General for International Cooperation and Development.

"Lack of access to water is the most fundamental reason why poverty remains entrenched in Africa and why economic inequality continues to grow"

Hiroyuki Hino
Visiting Professor in the Poverty and Inequality Initiative at the University of Cape Town

Infrastructure development alone is not enough to ensure sustained development in Africa. "When you have fragility and poverty, it reads as terrorism, radicalisation, conflict, and unhappiness," Islam said. "For stability in Africa, we need to work on peace and security at the same time as development."

One of the key issues in peace and security for Europe and Africa is the migration crisis. Participants agreed that dealing with the current influx of refugees and economic migrants from Africa to Europe requires efforts on both continents, most notably in education and in fostering a more positive narrative about Africa.

PLACING INFRASTRUCTURE ON THE AGENDA

Throughout the continent, local, national and regional infrastructure projects have been initiated and costed for commercial viability. The impediments to the success of these projects lie mainly in the areas of financial capacity, project preparation and management, skills shortages, maintenance, and the development of infrastructure as an asset class for investment.

Awareness of these impediments is shaping countries' responses to a certain degree, for example in Kenya, which recently issued a series of infrastructure bonds that are helping to develop the bond market. Yet much remains to be done to streamline processes for infrastructure development in Africa.

One area that requires significantly more attention is maintenance. Maintenance costs are seldom calculated or included in projects though in many cases, these costs over time far outstrip initial investments for planning and construction.

"The existing infrastructure financing gap does not even take into account the maintenance costs of current and future infrastructure projects," stressed Ncube.

In terms of sectoral development, Hiroyuki Hino, Visiting Professor in the Poverty and Inequality Initiative at the University of Cape Town, noted that of the various sectors for infrastructure development – energy, transportation, health, and so on – the most essential and often overlooked is water infrastructure.

"Lack of access to water is the most fundamental reason why poverty remains entrenched in Africa and why economic inequality continues to grow," he said.

Water is abundant in Africa. Even in arid areas, there are trillions of litres of water in large aquifers or underground rivers that can be used to access and store water. Desalination and decontamination technologies exist and are accessible but there is a lack of political will and economic opportunity in the sector holding back development.

FINANCING INFRASTRUCTURE DEVELOPMENT IN AFRICA

In recent years, the outlook for financing infrastructure development in Africa has improved. In addition to Official Development Assistance (ODA), Africa is boosting its domestic revenues and the amount of remittances flowing back to the continent are on the rise.

Furthermore, figures from the International Monetary Fund and World Bank show around $60bn of Foreign Direct Investment (FDI) inflows to the African continent in 2016, while the EU has just launched its External Investment Plan (EEIP), aiming to leverage up to €44bn in private investments by 2020.

"There is a long history of the EU supporting infrastructure in Africa," noted Di Mauro of the European Commission, "but the realisation we have had is that public funding is not going to be enough."

The new EEIP emphasises blending public grant money with private investment to enhance the attractiveness of infrastructure projects aimed at economic growth and jobs development, particularly in regions that are struggling, such as Central Africa.

In addition to blending, the EEIP offers the possibility of a guarantee for private investors to manage risk and emphasises project preparation, technical assistance, and a review of social and environmental impacts for projects in the development phase.

From the private investment perspective, Alaa Alessa, Managing Director of Endeavor Energy, noted that lack of capital is less of a problem than gaps in credit markets in Africa. For countries without credit ratings to gain access to capital, investors are looking for much higher returns on their investments – 20 or 30%, in some cases. This means additional costs to the continent.

"Private investors have been waiting for credit reform to place their capital in Africa," she said. "Higher credit ratings help fundamentally unlock value. We've seen this already in some projects where an enhanced credit rating has made a project more competitive from a cost perspective for the country, from a return perspective for investors, and from a debt perspective for the lenders."

Over time, development agencies' participation in a country prove instrumental in developing the economy and capital markets, as in the case of Japan's long-standing presence in Kenya.

As a result of Japan's involvement, Kenya is one of the first countries in Africa with a capital market that issues infrastructure bonds that allow the country to reduce its dependence on FDI and ODA and unlock the potential of local capital for funding, making a more resilient and sustainable economy in the long-term.

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Mthuli Ncube
Chief Economist and Vice President of the African Development Bank (AfDB) (2010-2015)

Hino, drawing on the Japanese Ministry of International Trade and Industry’s post-war experience in reconstruction, stressed the value of public-private partnerships to infrastructure projects.

“Without a long-term perspective, it is difficult for the private sector to invest and grow. Asking the private sector to assume all the risk in developing any major project or industry is difficult and expensive. There is a proper role for public sector stakeholders to reduce this risk and make it easier to adopt long-term perspectives,” he said.

These partnerships, though clearly beneficial to development in Africa, should not be considered a panacea, stressed Ncube. “Capacity shortages in both the public and private sectors in Africa mean that there is a lack of skills available to conceive, initiate, and launch development projects,” he said.

In addition, while African development needs private sector support to create growth, support education and skills acquisition, and create jobs, public financing institutions need to be careful about contracting private sector actors to achieve development objectives.

ISSUES IN GOVERNANCE AND STAKEHOLDER MANAGEMENT

Through a combination of official development assistance, foreign direct investment, private sector investments and public-private partnerships, the money needed to close the projected financing gap for infrastructure development can be made available. However, there are a host of governance issues that need to be addressed.

“In terms of governance, there is a shift towards more quality infrastructure projects. In order to achieve this, we need to ensure that everything related to public investment management is considered, including the issues of design, proper execution, fair competition and procurement processes, and maintenance,” Di Mauro noted.

One participant, speaking under the Chatham House Rule, noted that entrepreneurs from Africa and Europe are willing to participate in projects but what is lacking in many cases is a proper enabling environment for these projects.

European institutions, including the European Investment Bank, are working with African governments to create enabling environments, work which includes communications technology, education, access to energy, market support and anti-corruption measures.

“We’ve seen that projects that are initiated by the government and supported by the private sector as facilitators are the most successful,” said Alessa. “Getting everyone around the same table means stakeholder management and making sure all parties work together to achieve a project.”

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Managing Director of Endeavor Energy

Using an example of a small-scale project in Guinea, she stressed the worth of local community engagement. In this project, the community that would ultimately benefit from the new infrastructure was involved in all stages of its development, from conception to implementation and maintenance.

“We have to imbed the community perspective into our projects,” Di Mauro said. “We must systematically consider the social impact on the community and include local populations in construction and maintenance.”

By the same token, on the government level, projects need to be customised to the specific fiscal situation of the country, a fundamental and sometimes overlooked element of any project’s success.

“In every African country, there are various projects underway but there is not enough coordination between financing agencies,” noted Di Mauro. “This coordination needs to come from the different ministries involved.”

For any set of infrastructure projects, stakeholders must use a whole of government approach implicating the financing entities, the national government ministries involved in implementation, the ministries overseeing the use of said infrastructure, and the ministries of finance.

“Encouraging dialogue between the ministries and financiers is the core of our work on infrastructure support,” she concluded. “Inter-ministerial coordination is one of the biggest challenges we have in terms of policy dialogue.”

"We have to reflect on how to work within our regulatory frameworks to ensure speed and quality while safeguarding environmental and social standards"

Hiroyuki Hino
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COMPETING WITH CHINA

As global investments in Africa grow, China has emerged as a real economic powerhouse and partner on the continent.

"Projects funded by the US or the EU or Japan take time to implement, while China is able to accomplish the same projects in a fraction of the time," noted Hino. "This is appreciated by many African governments, whose economies are now being dominated by Beijing."

There is concern that Chinese-funded projects are of poorer quality than projects supported by European or other actors due to economic, social and environmental cost-cutting.

Though true to a certain extent, there are other factors at play, Alessa said. In the first place, the line between companies and the central government in China is blurred, providing African governments a 'one-stop shop' when cooperating with China on development projects.

"Once there is a Chinese company at the table, everything is ready to fall into place," she noted. "They bring the construction force, risk guarantees, extra credit ratings for debt, cheaper financing, and the support of the Chinese government to facilitate an expedited process for approval of the various elements of the project."

Chinese and African governments often have a bilateral treaty in place that enhances institutional cooperation, putting investors, developers, and ministries at ease about risk, economic returns, debt exposure, and contingent liability.

"The Chinese have to deal with the same weak African institutions as all of us but are able to achieve projects more quickly," Hino stressed. "We have to reflect on how to work within our regulatory frameworks to ensure speed and quality while safeguarding environmental and social standards."

The standards and regulations set out by the Organisation for Economic Cooperation and Development (OECD) and the OECD Development Assistance Committee (DAC) limit developed countries' investments in developing countries in order to promote fairness between donors.

However, once China, India, Brazil, and other non-OECD countries initiate development projects in Africa, the rules of the game change and these standards and regulations need to be re-examined.

"In many ways, the rules set out by the OECD constrain development projects," said Hino. "This was alright as long as there was no competition but maybe we now need to ask ourselves how to rebalance the development dynamic in Africa."

"China does not seem to be restrained by OECD parameters," Alessa stressed, "but as Chinese involvement grows in Africa, they are facing the same challenges faced by more developed economies."

OPPORTUNITIES FOR INCREASED EU-JAPAN COOPERATION

Though the EU-Japan relationship on infrastructure, development, and security in Africa is already quite active, there are certain areas where there is room for improvement.

"On infrastructure," noted Di Mauro, "we can strengthen coordination between the EU and Japan on the regional level in Africa." By offering more support to the Regional Economic Communities (RECs) to implement the economic master plans outlined in PIDA, the EU and Japan can strengthen the coordination between regional actors.

Other areas for increased EU-Japan cooperation in Africa's infrastructure development are capacity-building, governance, maintenance, and cross-border infrastructure, noted Ncube.

Infrastructure development in Africa is only one area where the EU and Japan share interests and values. Both actors are also heavily involved in peace and security initiatives on the continent. The EU's General Strategy on Foreign and Security Policy (EUGS) outlines the EU's commitment to a broader definition of security than only military conflict.

The concept of human security in EUGS is a comprehensive approach that includes migration, health, and other development topics alongside military issues. In parallel, Japanese foreign policy organisations are also shifting towards a focus on human security.

"The EU and Japan share a perspective on human security, a perspective on protection and empowerment," noted one participant. "Protection alone cannot accomplish stability, we need to work together with our African colleagues to empower them to build resilience."

"We see a natural partner in the EU for African development," said one participant, "whether in economic development or the furthering of peace and security goals."

Indeed, one of the results of the EU-AU Summit held in Abidjan in November 2017 was an agreement to work more closely with international partners such as Japan to support Africa without overlap and wasted effort.

While the EU still exerts soft power in the world, with Japan and other partners it is possible to actively engage in a more inclusive concept of security than just having troops on the ground. Diplomatic efforts and governance initiatives to support more inclusive societies on the continent could be an antidote against violence.

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FOCUSING ON A MORE PEACEFUL AFRICAN NARRATIVE

For various reasons, the EU is very active in Africa in terms of security and peace. Proximity plays a role, as well as history and the defence of common interests. The EUGS addresses common problems shared by Europe and Africa. Whether piracy, counter-terrorism, or irregular migration, many African problems are also European problems. These are compounded on both continents by a public and institutional narrative that focuses chiefly on bad news, creating an overall narrative that reinforces negative perspectives.

A potent example can be found in conflict and post-conflict areas in Africa. In Rwanda, Northern Nigeria, South Sudan and others, youth – particularly young men – are presented as vulnerable and likely to be recruited into armed groups. In response, development agencies support Disarmament, Demobilisation, and Reintegration (DDR) initiatives to rehabilitate violent youth.

Though laudable, the resources committed to DDR greatly outstrip resources that are provided to youth who navigate and fight against armed conflict through non-violent means. This focus on violent actors and marginalisation of non-violent ones often reinforces existing power structures and suppresses genuine efforts towards peace.

“The EU, Japan, and other actors are actually marginalising the youth and values they should be promoting,” stressed one participant. “You need to be clear about your values and identify the groups that share these values in Africa.”

The UN is working to develop a strong positive narrative around peace-building. “There are so many good things happening in the field and so many people for whom the future has improved but we have been unable to shape this narrative for communities here in Europe,” said another participant. “The UN is committed to changing this.”

ADDRESSING THE MIGRATION ISSUE

At the moment, an important issue in peace and security in Africa, particularly for Europe, is migration. The EU and its member states have responded to the migration crisis at home by trying to stem the flow of illegal migrants through increased border protection and expatriation deals with neighbouring countries.

Many participants agreed that the largely short-term solutions to resolving this issue are clouding the long-term perspective and even creating conditions for more refugees and illegal migrants in the future.

"When looking at the needs of our African partners, we must focus on resilience of social and economic structures. The way to reduce migration flows is not by creating barriers or borders but by anchoring people to the place where they were born," one participant noted.

With Africa's population set to double by 2050, the EU and its partners must invest massively in the continent to create a context that will work to reduce the push factors for migration and encourage Africans to remain in their countries for security and economic reasons.

Creating a peaceful and secure context in Africa must come about as a result of politics as well as purely technical concerns, noted one participant. "We have to determine how to improve the political conditions in Africa that will ultimately affect Europe."

There are two solutions to the migration issue, concluded one participant. In the first place, Europeans need to stand strongly by the European values of diversity and dignity and be more open to this diversity in their societies. Secondly, investments in economic growth, peace, stability, and education in Africa will serve to reduce conflict, promote peace and stem migration flows.

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> **“The solution to extending this growth into the future and retaining African ownership of development is education”**

EDUCATION IS THE KEY TO DEVELOPMENT

“From a business perspective, Africa is on a roll,” one participant said. “As it stands, there is a lot happening there in terms of economic development and opportunities. The solution to extending this growth into the future and retaining African ownership of development is education.”

It has been shown time and time again that increasing access to, and quality of, education brings knock-on effects in almost every area of development, including health, population growth, security, job growth, and wealth creation.

The main challenge as regards developing education in Africa is that the education sector is not attractive to private sector investors who are looking for returns on their investments. There is a role however for public financing entities to support those projects that do not have high enough rewards for the private sector, particularly education for marginalised groups such as women.

Education needs to be combined with other development projects to promote peace and stability in Africa. One participant noted that “half the population in Africa is without electricity, notably in rural areas. We are a long way away from seeing significantly higher levels of education in Africa. We need to focus on basic infrastructure and services before moving forward on education.”

CONCLUSIONS

Though perspectives towards development in Africa are changing, with 54 countries having different problems and different challenges, finding solutions for the whole continent is difficult.

Development agencies in the EU, Japan, the US and throughout the world are demonstrating increasing interest and commitment to improving the economic, social, environmental and political situations in Africa.

Synergies between international partners, private sector actors, local communities and civil society in Africa are on the rise as the realisation grows that Africa's demographic, economic and security concerns are converging on opportunities for peace and stability.

Infrastructure development is being placed high on continental, national and international agendas, and partners in the EU and elsewhere are re-examining their development aid and investment processes to try and create more resilient projects, growth and jobs, and more stable countries on the continent.

As populations grow, new political and economic structures can help to ensure peace and stability, not only for African countries but for their neighbours as well, including addressing the illegal migration that has challenged Europe's commitment to the values of dignity, diversity and human rights over the past years.

While policymakers and development agencies seek to improve the state of affairs in Africa, the media and political actors in Africa and Europe must seek to shift the narrative of violence, extremism, poverty and chaos coming out of the continent, and to seek out those in Africa whose stories are positive.

"This is a defining moment," concluded Islam. "We are seeing change in Africa and taking a fresh look at the problems on the ground. The EU and Japan have similar values and interests and should not buy into the idea of African development as a zero-sum game. The only way forward is to work together."

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