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Growth with Obstacles

Highlights on the Economic Development in Sub-Saharan Africa

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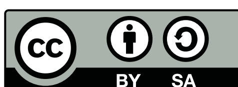

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Growth with Obstacles

Highlights on the Economic Development in Sub-Saharan Africa

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Contents

Introduction 3

Demography and Economic Development in Africa – Opportunity or Trap? 4

Mathias Kamp

Vision and Reality of Economic Integration in Sub-Saharan Africa 9

Florian Karner

Automation and the Future of Work in Sub-Saharan Africa 14

Gunter Rieck Moncayo

Nigeria: A Country with Potential? 18

Dr Vladimir Kreck

A Breath of Fresh Air for Young Entrepreneurs in Ghana 24

Burkhardt Hellemann, Benjamin Kalkum, and Fawziyya Issah

Economic Promotion as Part of Development Cooperation 29

Daniel El-Noshokaty

Introduction

Barely any issues in Germany have witnessed such an increase of attention over the past few years as the economic development of Africa. Africa's increasing relevance to Germany and Europe brings up matters on the agenda that used to be considered niche issues. Numerous initiatives notably attest to this new attention. For instance, the "Compact with Africa", ratified under the German presidency of the G20, aims at more private investment in Africa that is to be translated into local growth and employment.

The African continent is home to the fastest-growing population in the world but so far, its economic growth has been unable to keep up with its demographical challenges – even though the high growth rates of African economies over the past few years might give a different impression. This volume, which provides particular highlights on the situation on the ground from the Konrad-Adenauer-Stiftung's perspective, begins with analysis of the relationship between demography and economic growth in sub-Saharan Africa (p. 4).

Weak regional trade in sub-Saharan Africa overlooks much potential for economic growth, as the article on the vision and the reality of economic integration in sub-Saharan Africa shows (p. 9). Time will tell whether the transcontinental free-trade agreement (AfCFTA), can be brought to life to give trade in the continent the urgently needed economic boost. This would also contribute to greater resilience for African economies, which must face the global megatrends of digitization and automation in the coming years. The Konrad-Adenauer-Stiftung recently commissioned a study of the drivers and possible effects on the ground, and the most important insights are introduced here (p. 14).

The most problematic areas these three general analyses focus on found an excellent case study of Nigeria – which is the largest economy on the continent: little diversification, rapid population growth, and paralysing protectionism keep the oilrich giant well away from its potential (p. 18). And the start-up scene in Ghana, often represented as a model, has a number of challenges to deal with despite a few promising developments (p. 24).

In view of all these difficulties, support for economic growth and the enhancement of private investment seem to be a logical step for German development cooperation. In fact, there is no way around more investment in Africa, more growth and employment, if the local population are to be offered a perspective that does not leave them in poverty, resignation or involuntary migration. The fact that this re-orientation of German development cooperation faces certain dichotomies that give rise to their own challenges is addressed at the end of this volume (p. 29).

This collection of highlights makes it clearer that targeted orientation of African and German policy appears more important than ever if our common interests are to be achieved.

Demography and Economic Development in Africa – Opportunity or Trap?

Additional jobs are urgently needed, but the economy is growing too slowly and the population too fast

by Mathias Kamp

Euphoria has been followed by disillusionment. Just a few years ago, many observers were carried away by forecasts of a big boom on the African continent, where economic growth faster than almost anywhere else in the world. Between 2000 and 2015, the economy in sub-Saharan Africa grew by an average of 5% per year. But in recent years, that growth has greatly slowed because of falling raw materials prices and decreasing Chinese demand, among other factors. According to current World Bank figures, the average growth in 2018 was only 2.3%, putting it below population growth for the fourth year in a row. The demographic factor relativizes the economic growth, which was so impressive only at a first glance. Even in what were thought to be the boom years, the per capita income growth was far less impressive at 2%. It is currently stagnating at a persistently low level. And there is another important qualification to be mentioned: the growth of the last two decades is termed as "jobless growth" because it was not accompanied by sustainable economic transformation that would lead to job creation.

Growth in sub-Saharan Africa has slowed greatly.

The population explosion continues

Nowhere in the world is the population younger than in Africa – and nowhere is it growing faster. United Nations estimations are that the population of the countries in Africa south of the Sahara are currently home to 1.2 billion people, and the number will double to 2.4 billion by 2050. The average age on the continent is already below 20. The reason for this development is the persistently high birth rate. In sub-Saharan Africa, the average woman bears five children. Life expectancy has also risen, and child mortality has fallen. While fertility rates on all other continents have dropped fast in recent decades, the decline in Africa is much slower. The population explosion is going full blast and it must be assumed that it will continue for a long time – with dramatic consequences for social support, career prospects, and poverty reduction.

The population explosion is going full blast and will continue for a long time.

The demographic dividend is a long way off

The immense population growth is seen in many quarters as a great opportunity. After all, it has resulted in an "advantageous age structure" in comparison to the aging societies of the West. One that has positive effects on productivity, innovation, competitiveness, and consumption as optimists say. However, it is important to be cautious here. The so-called demographic dividend will not arise on its own simply because the population is young. It requires a demographic transition from a high birth rate to a low one. The decisive factor is the dependence rate, that is, the relationship between the working-age population (15–64) and those who cannot work (children and seniors). If the proportion of the population of working age grows, economic utility can follow: There is a great deal of labour available to produce and invest, contributing to the economy. At the same time, the drag of necessary support to the non-working population falls. Most countries in sub-Saharan Africa are far from such a development. The persistently high population growth and a birth rate that is falling very slowly will not result in a demographic bonus because the number of dependent children remains high and will grow even further for a very long time. Considering the demographic and economic forecasts, the demographic transition will be very slow, and no corresponding dividend is to be expected in the next four to five decades.

Even if the population dynamic changes and the dependency ratio becomes more positive, most countries in sub-Saharan Africa lack what the OECD says are the conditions for a demographic dividend: high education levels, integration on the labour market, macroeconomic stability, and great social cohesiveness. The most important calculation is a simple one: only when the growing number of people who are able to work actually find work will there be a positive effect. Precisely this is not happening. Across the entire continent, masses of young people are entering a labour market that is not in a position to offer them prospects for the future. The International Monetary Fund calculates that in Africa around 20 million new jobs would have to be created every year to absorb them. The current rate of job creation is not even a quarter of that. And even today, unemployment is extremely high in many African countries, especially among young people.

The conditions for a demographic dividend are mostly lacking.

Population growth as a risk factor

No positive population effect is to be expected for a long time. Instead, the demographic dynamic in Africa will have negative effects in the coming decades. It eats up a great part of economic growth and undermines efforts to reduce poverty. If nothing is done to stop population growth, the number of poor people in Africa will grow no matter despite all efforts. Experts emphasise the great risks and warn of dramatic consequences of population growth. Even now, many African countries are barely able to adequately provide basic services in the areas of health and education. The infrastructure, which is already weak, will be further overloaded by the population pressure. Water and food could become increasingly scarce. There may be humanitarian crises, especially if climate change further exacerbates the situation. The Sahel region in particular is facing population growth that threatens to exceed food production capacity. Famine of unprecedented scale could occur.

If nothing is done, the number of poor people in Africa will rise despite all efforts.

In addition to the direct humanitarian effects, social upheaval and decreasing prospects for large parts of the population might also lead to political unrest and instability. Growing migration flows are to be expected – on the continent and in the direction of Europe. The growth of a politically marginalised young generation without economic prospects is especially worrying. Research has long shown that a disproportionate number of young adults – the so-called youth bulge – contributes to instability within a society and exacerbates conflict potential. South of the Sahara, Africa already has a massive excess of young people due to high birth rates. Facing poverty and unemployment, these young people may well migrate or seek an outlet for their frustration. The latter could mean unrest, riots, and violent conflict. German Federal Minister for Economic Cooperation Gerd Müller therefore calls the strong population growth a “time bomb”: “This is not a marginal issue – it is a global challenge that we must respond to.”

Investments for jobs

The only escape from the demographic trap is for employment opportunities to be created for the young generation. The majority of the employable population must have productive employment if any part of a demographic dividend is to be achieved. African governments must create the right framework conditions for this employment: increased investment in education and training for the young population, diversification of economy, enhancement of productivity, promotion of entrepreneurship, and improvement of framework conditions for private-sector investment. The latter includes guaranteeing political stability and good government leadership. In this context, the great heterogeneity of African governments must of course be addressed. While a few countries are on relatively good footing thanks to stable democratic conditions and reformed economic policy, many will continue to struggle with severe difficulties, including political instability, insufficient rule of law, corruption and inefficient administration, fragility, state failure, and violent conflict. The chances of successfully meeting demographic challenges in such places are extremely poor.

The majority of the population must have productive employment if a demographic dividend is to be achieved.

In any case, African governments will hardly be able to perform this feat of strength without external support. The necessary reform efforts require systematic support as part of development cooperation. More importantly, they will require much more foreign direct investment, without which the necessary economic growth will not occur. Even if growth rates rise again, as current forecasts say they will, reaching 5%–7% in the future, most countries in sub-Saharan Africa will fail to meet their development goals. Given the population growth described above, Africa will need continuous double-digit economic growth for a positive outcome – the specific number experts give is about 15%. This is the only way to integrate the growing number of young people on the labour market.

Wanted: an agenda for reducing birth rates

A reasonable, reformed economic policy on the part of African countries can attenuate the upheaval caused by the population explosion and perhaps even approach a demographic dividend. However, there can be long-term success only under one condition: a quick, significant drop in the birth rate. It is therefore not enough to talk about economic growth and jobs. It will take an explicit agenda that checks the uncontrolled population growth. This requires examining the reasons for the high birth rate. Among them are insufficient dissemination of information about and opportunities for family planning, discrimination against women, low levels of education, poor social security, and cultural attitudes. A list of possible interventions can be derived from these problems:

It will take an agenda that focuses on population growth.

- Improved family planning capabilities and access to contraceptives.
- Expansion of available sex education and medical advice.
- Promotion of education for girls and women.
- Improved healthcare and social security.
- General education and a dialogue concerning traditions, cultural norms, and stereotypes.

The question of contraception is a central one, especially considering the fact that almost half of the pregnancies in Africa are unwanted, and many women become pregnant while they are still girls. But the concern is not merely avoidance of unwanted pregnancies, but rather a long-term shift in consciousness, since the idea that having many children is not only a blessing and a status symbol, but also an economic advantage is widespread. In the context of poverty and uncertainty – and in the absence of social security systems – children are considered security and a guarantee that parents will be cared for when they are old. This perception can be countered with improved education and information. At the same time, improving healthcare, especially by reducing child mortality, can help. Experts say that increasing confidence that their children will survive will, over time, lead to a shift in parent consciousness, making them more willing to limit the size of their families. The question of equal rights for women is also a decisive factor. Sexual self-determination for women can reduce the num-

The question of equal rights for women is a decisive factor.

ber of unwanted pregnancies. Research also clearly shows that birth rates fall when women are more educated, exert more influence in the household and society, and are active in the economy.

In view of the extent of the challenge, it is unfortunate that there is still no consensus on the goal of reducing birth rates, and that the issue is given insufficient attention in the context of development cooperation. Of course it is a highly sensitive issue: procreation is a very private matter, and self-determination in family planning is recognised as a human right. However, the situation requires that issues be discussed openly, sensitively, and not made taboo. Concerns include how to deal with resistance, such as that from religious groups, and how to constructively involve those who bear political responsibility. The issue must also be addressed more explicitly in development cooperation projects.

Ideas for debate and political action

A heated debate on the issue of birth rates and population growth is unavoidable. But this debate must be conducted primarily within Africa itself. The hope is that those with political responsibility are aware of the problem's urgency – or can be made aware of it. This is a decisive factor that can determine whether the continent is able to integrate its economy and achieve central development goals.

The issue of demography belongs on the agendas of international and African fora, in parliamentary debates, and in governmental and development cooperation negotiations. And it must reach the public consciousness. This is a task for academic experts, think tanks, and forces in civil society, all of whom must expend more effort on this issue, initiate discussions, provide information, and use their advisory capacity to indicate solutions. The goal is ultimately to influence public opinion and government action – on the basis of facts, scientific analysis, and clear messaging that helps overcome prejudices and incorrect assumptions.

Mathias Kamp heads the Konrad-Adenauer-Stiftung's Uganda office.

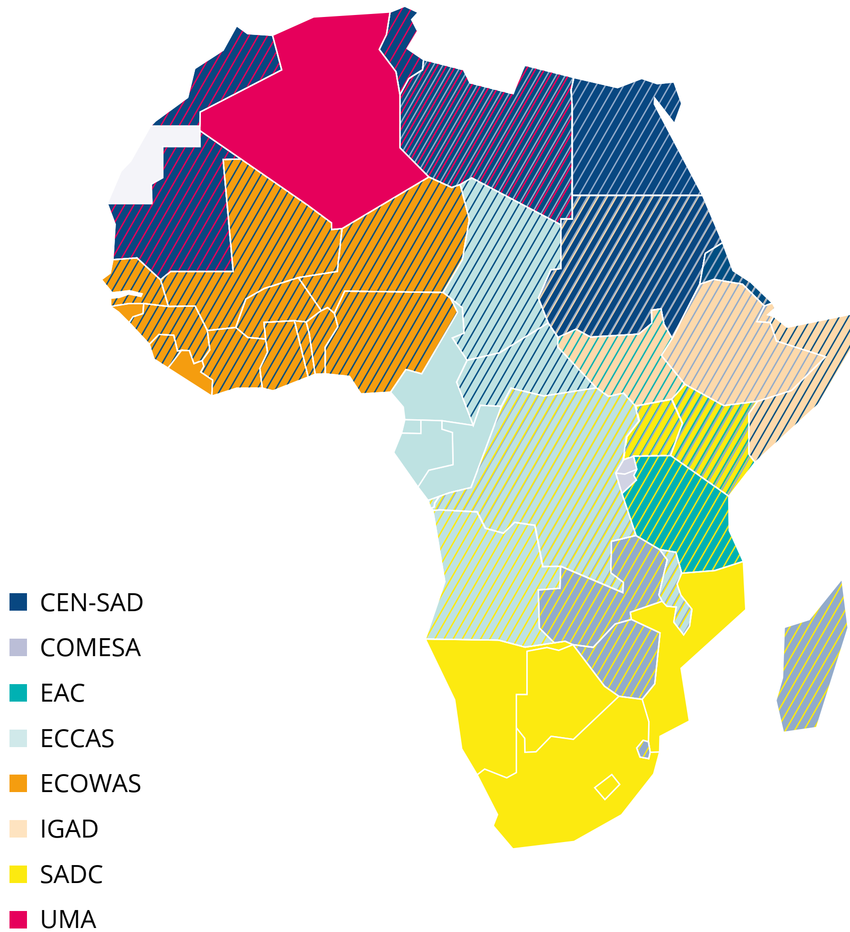
Vision and Reality of Economic Integration in Sub-Saharan Africa

Current dynamics and ongoing challenges of AfCFTA and ECOWAS

by Florian Karner

The historical process of regional integration in Africa dates back to the beginning of the 1960s, when a large part of the colonial states gained independence. Intraregional trade in Africa however, still lags far behind the rest of the world. The African Development Bank (AfDB) puts its percentage at 13% in Africa. In growth centres such as the Asia-Pacific region, 39% of overall trade happens within the region, in Eastern Europe 31%, and in Western Europe more than 61%. Sub-Saharan African countries have closer commercial ties to the rest of the world than to each other. These ties do not translate well to investment: according to the United Nations Conference on Trade and Development (UNCTAD), African countries received a paltry 3.3% of global foreign direct investment in 2017,despite eight of them being in regional economic communities recognised by the AU (see figure). But whether the economic community in question is the East African Community (EAC), the Southern African Development Community (SADC), or the Economic Community of West African States (ECOWAS), fragmentation and divergence unfortunately too often drown out the advantages of regional integration.

Intraregional trade in Africa lags far behind the rest of the world.



Source: Author's own compilation

ECOWAS community of nations fails to realise its potential

The position of ECOWAS, which was founded in May 1975, is a bit better being that it enjoys 28% of intraregional trade, but is nevertheless neglecting the potential of the integration rules it has imposed on itself. Back in 1993, the ECOWAS member states adhered to the Trade Liberalisation Scheme, which requires them to allow free movement of people, goods, and services amongst each other, eliminating all tariff and non-tariff trade barriers and reducing border formalities. As of today, only free movement of people appears to have been implemented but to a limited extent. A study of the Abidjan-Lagos Corridor shows that, despite some progress, smooth transportation and free trade of goods still encounter great difficulties in practice. The 1,022 km corridor that crosses five countries (Côte d'Ivoire, Ghana, Togo, Benin, and Nigeria) is one of the most important economic axes in West Africa, accounting for 65% of ECOWAS economic activity. It can be considered the economic lungs of the entire region.

Free transport of goods and services has so far not been implemented.

There must be a fundamental distinction between four categories of obstacles:

1. Formal obstacles rising from ignorance of agreement texts and implementing regulations on the official side, uneven or non-existent implementation due to government negligence, and insufficient human and financial resources.

2. Informal barriers like crime and corruption.

3. Political barriers outside the range of ECOWAS treaties, such as the refusal of the West African and Nigerian central banks to allow cost-effective payments from CFA franc to naira and vice versa.

4. The geographical fragmentation of the continent: the distances between metropolises are much longer than those on other continents, flight durations are long, infrastructure abysmal in some places, and transaction costs exorbitant as a result.

The informal sector continues to dominate on the African continent.

The consequences are severe and stand as an example for those suffered by most regional economic communities on the African continent. The informal sector continues to dominate. The Formal cross-border commercial and economic activity that could lead to job creation and tax revenue are impaired. As a result, high transaction costs limit the competitiveness of local businesses and products thus hindering any export opportunities. In addition to the obstacles faced, there is overlapping membership in various regional economic communities which comes with the associated institutional rivalries. Overall, the African market remains deeply fragmented and characterised by high transaction costs and non-tariff trade barriers, which in turn impair regional and continental integration – a vicious cycle.

Can AfCFTA become a single market?

The Gambian parliament ratified the African Continental Free Trade Agreement (AfCFTA) on 2 April 2019. This means that the threshold of 22 necessary ratifications has been achieved. In March 2018, 44 AU member states signed the agreement. In July 2019, as part of the AU Summit in Niamey, the official inception of the free-trade agreement is to be resolved. From then henceforth, member states must negotiate a detailed implementation of the agreement and clarify issues such as rules of origin, terms of payment, tariff concessions for traffic of goods, and the dismantling of non-tariff barriers to trade. Experience has shown that determining rules of origin can be particularly contentious.

Negotiations for a pan-African free-trade agreement are now at an historic point. The timetable for creating a pan-African single market dates to 1991. The decisive impetus came in 2012 at the 18th Summit of AU heads of state and government in Addis Ababa in the form of AfCFTA and the signature of two protocols for creating a common single market for goods and services. The AfCFTA is intended to create a single continental market for goods and services with free movement of people and capital. The free

transfer of services is to be introduced in the first stage of implementation; one goal is to make Africa more attractive to foreign direct investment. At the same time, the Single African Air Transport Market Initiative of January 2018 is to be incrementally implemented to improve the disastrous connectivity affecting intra-African flight connections.

The AU commissioner for trade and industry, Albert Muchanga, recently announced that the AfCFTA was the kick-off for development in regional value chains and that it offered great market opportunities for long-term investment. He indicated that the desired single market would have common rules of origin, tariff reductions for transport of goods, mechanisms for monitoring non-tariff barriers to trade, a platform for digital payments and invoices, and a monitoring office, the African Union Trade Observatory. The latter is to collect and analyse cross-border trade data, ending the current dearth of reliable statistics. The information gathered is to be made available to companies and political decision-makers.

The transcontinental free-trade area is to have, among other things, a platform for digital payments.

Germany, the European Union, and other donors support this project and hope that the AfCFTA will be a success. For the EU, the continental free-trade area is an essential element of the "Africa-Europe Alliance for Sustainable Investment and Jobs" initiated by Commission President Juncker in September 2018, which aims to deepen economic and trade ties between Africa and Europe. The EU recently provided 50 million euros to support the AfCFTA for the period from 2018 to 2020. An initial step is to provide support, along with the United Nations Economic Commission for Africa (UNECA), for the development of national implementation strategies.

The economy overwhelmingly sees enormous potential in the new trade agreement. The goal is to overcome the fragmentation into small local markets and enable companies to access larger and more lucrative markets. There is a similar level of political interest. Developing companies are expected to create 20–30 million jobs each year, providing paying jobs for the masses of young people flooding into the labour market. Trade within the continent is expected to increase in the next ten years reaching at least 25%, contributing to economic growth and general attractiveness for investment.

The goal is to overcome the fragmentation into small local and therefore not very lucrative markets.

It remains unclear whether the AU can take advantage of this momentum and convince heavyweight Nigeria, which is dominated by oil exports, to join the trade union. This undertaking may require guarantees and interim solutions. Numerous Nigerian industries have so far been worried that they would be the losers in a new free trade area. It is clear is that the agreement will apply only to its signatories that have ratified the agreement. So far there are no set rules that would govern whether, after negotiations are completed, the acquis would be open for possible new members such as Nigeria.

Critical reactions to the free-trade agreement

While the international donor society and other institutional actors have great hopes for the continental free-trade agreement, other reactions have ranged from neutral to critical. Sceptics expect that a continental agreement would suffer the same inadequacies as so many regional associations have.

As part of the last inter-institutional meeting between ECOWAS and the West African Economic and Monetary Union at the beginning of March, the chairmen of the commissions of both organisations kept their reservations on AfCFTA, whose entry into force was foreseeable. Official statements indicated that they were both aware of the AfCFTA and the negative consequences on integration it could have in West Africa by its coming into force if not signed and ratified by all the countries in the region. So far, two West African countries (Benin and Nigeria) have failed to sign the agreement, and three (Guinea-Bissau, Liberia, and Burkina Faso) have signed but not ratified.

Is deeper integration possible in the foreseeable future?

Effective regional integration requires more than simply ending tariffs; the goal is to overcome local obstacles that paralyse daily operation of common producers and merchants, says a representative of the World Bank. The World Bank has for years supported African integration efforts. If integrated markets are to be created and investments for the agricultural sector and services attracted, participating countries must work together intensively to achieve a holistic process of a deep regional integration that goes beyond tariff reduction. But this will require regulation reform and capacity expansion in the institutions responsible for implementing the regulations. Many commentators consider such openness to reform and harmonisation to be unrealistic in the short term. At the moment, the region's level of integration is so poor that even in an organisation such as ECOWAS, not even uniform regulations for technical vehicle inspections can be agreed upon. For many, this means that further-reaching steps towards integration at a continental level are improbable. In this context, a fundamental doubt is often expressed: are the governments in question actually prepared to combat corrupt officials, slow, mushrooming bureaucracy, and disproportionate security controls and forego tariff income, which in some countries is quite large? Certain divergences can in some cases be avoided thanks to external factors. The East African dynamic, driven to a great extent by Ethiopia, Kenya, and Rwanda, is supported by Chinese involvement in the area of infrastructure, which is expanding towards West Africa as part of the One Belt, One Road initiative. In the absence of such infrastructure connectivity, it is hard to see how sustainable economic integration might arise, no matter how willing states are to advance integration.

What is needed is capacity expansion and greater openness for harmonisation.

Florian Karner heads the Konrad-Adenauer-Stiftung's regional "Political Dialogue West Africa" programme, which is headquartered in Abidjan, Côte d'Ivoire.

Automation and the Future of Work in Sub-Saharan Africa

How well-prepared is the continent for the digital transformation process?

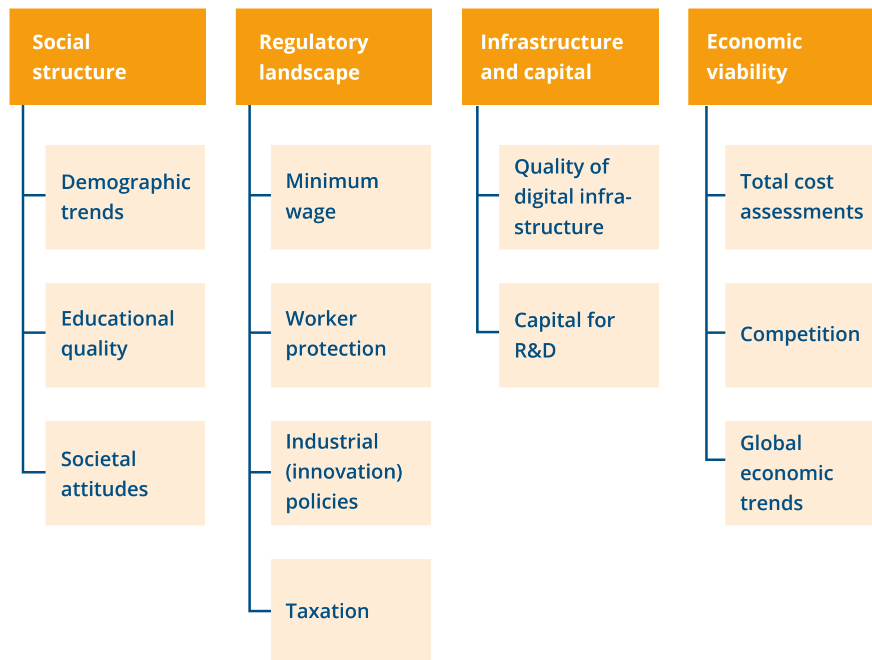
by Gunter Rieck Moncayo

The digital transformation of economy and society is clearly one of the greatest issues of our time. This technological transformation will deeply and permanently change the way we live and work. In public debates about the consequences of this transformation, the worry is about loss of jobs and the challenges that could arise from such a disruptive process.

It is clear that the starting conditions vary from country to country and region to region, and sometimes greatly. The question of specific social effects of digitalisation and automation must be analysed and answered in a correspondingly individual manner. To answer this question, Alexander Gaus and Wade Hoxtell of the Global Public Policy Institute in Berlin have case studied sub-Saharan African countries for the Konrad-Adenauer-Stiftung. In their study published in April 2019, the authors analyse what possible effects increasing automation of work processes might have on work in sub-Saharan Africa (https://www.kas.de/en/single-title/-/content/automation-and-the-future-of-work-in-sub-saharan-africa).

Key factors for automation

The authors first identify key factors that affect possible automation and assess them according to social structure, regulatory landscape, infrastructure and capital, and economic viability:



Source: Alexander Gaus und Wade Hoxtell

The analysis arrives at mixed results. Some factors seem to indicate that greater automation in sub-Saharan Africa is probable in the near future, while others speak against such a conclusion.

Drivers of automation in sub-Saharan Africa

Poor education systems can be drivers of automation.

According to the study, the growing local consumer market supports a potentially stronger automation of work processes in sub-Saharan Africa. Paradoxically, the education and vocational training systems offered by many African governments could as well be considered further drivers of automation on the continent precisely because they are often of such poor quality. Even today, many companies complain that they cannot find enough well-trained, skilled workers on the labour market. In places where the quality of the education system is better, graduates often do not have the skills companies need – a classic mismatch. Wherever skilled workers are scarce, automated processes become attractive.

The worker rights and minimum wages introduced by some countries could have a similar effect, since, as the authors believe, they could lead companies to be cautious about hiring new workers and therefore willing to consider automating work processes as an alternative.

Curbs on automation in sub-Saharan Africa

As it has been mentioned elsewhere in this volume, the economic growth in the vast majority of countries in sub-Saharan Africa is too slow to keep up with population growth. Every year, young people entering the labour market outnumber new jobs created. A constant growth rate in the double digits would be necessary to absorb this demographic growth. The excess of labour leads to low wages and thus to relatively low labour costs. These low costs, in turn, give companies little incentive to replace human labour with machines via automation.

Another consideration that plays a decisive role and must not be ignored, especially in the African context, is the high degree of informality on the labour market. Up to 81% of total employment is in the informal sector. Informal employment is naturally far less vulnerable to crowding out from automation.

In sub-Saharan Africa, 81% of employment is in the informal sector.

The scarcity of well-trained, skilled workers outlined above is also an important factor that impairs so far the growth of the industrial and service sectors in sub-Saharan Africa that is urgently needed. Unlike industrialised high income countries, where the vast majority of people are employed in the service sector (about three-quarters of overall employment), sub-Saharan Africa has only about 31% of its workers currently employed in this area. Africa is also the least industrialised region in the world and has the least added value in its processing industry. That is why a number of countries are pursuing active industrial policy intended to correct this situation. The authors believe that this policy is formulated in a manner that will tend to prevent greater automation, but will at least not promote it.

Further, very decisive factors opposing quick automation in sub-Saharan Africa are insufficient infrastructure, including digital infrastructure, in many parts of the region and insufficient access to capital. As the article on the start-up scene in Ghana explains, power supply is often unreliable, and quick, stable internet access usually costs a great deal if it is available at all. In rural areas in particular, the “last mile” problem, that is, the problem of connecting the consumer to the network, will persist for a long time and prevent new digital technologies from reaching agriculture. From an African perspective, this is particularly unfortunate, since agriculture has a large share in many of the continent’s economies and its automation would bring great efficiency increases and thus great prosperity growth.

The infrastructure and access to capital necessary for quick automation are not present.

Authors’ conclusions

Given the factors above, the authors conclude that automation of work processes does not threaten most African workers at present. Most countries in sub-Saharan Africa have neither the necessary infrastructure nor sufficient capital to implement the technology necessary for automation. In addition to this a widespread informal labour market and an excess of labour based on the demographic development in many countries in sub-Saharan Africa make human labour less expensive than robotic or software-supported work. However, the situation is not completely in the clear, as the following issues show:

Automation does not threaten most African workers at present.

1. The jobs that, despite reasons given above, are eliminated by automation are relatively well-paying jobs in the service industry, such as those in retail. This is worrisome because it affects precisely the weak middle class that is employed in the formal sector and pays taxes and social contributions.

2. Based on the raw material industry's capability of bearing large investment sums, increasing automation of work processes is expected in the industry, which is so important in Africa. Relatively high labour costs, strict safety requirements, and large potential losses due to recurring labour conflicts are all incentives to automate work processes and to become less dependent on human labour.

3. From an African point of view, one danger of automation is that of reshoring, that is, recapturing production that has been offshored. A frequently cited example of reshoring in Germany is Adidas with its Speedfactory, in which single pairs of highly individualised products can be made at marketable prices thanks to automation. Such shifts back to industrialised countries could mean tough losses for sub-Saharan Africa, where the processing industry is already weak. For this reason as well, sub-Saharan African countries are unable to emulate Asia's growth model.

4. The insufficient relevance and applicability of automation processes for the majority of businesses in sub-Saharan Africa poses a medium- to long-term problem: It makes the majority of African countries even more dependent on developed countries, which use those technologies to increase their productivity and competitiveness. This prevents their stronger integration into global value-added chains and impedes job creation. Export-driven economic growth beyond raw materials extraction and sale is thus even further off.

Digital transformation must be designed so as to prevent a digital divide.

This last point is an especially dangerous one. The development policy challenges of the coming years will therefore be associated with preventing a digital divide and shaping the digital transformation of business and society in such a way that the gap between highly-developed and less developed societies does not widen. Sub-Saharan Africa, on the other hand, is especially dependent on the creation of a large number of productive jobs and on massive expansion of infrastructure, including digital infrastructure.

Without expansion of infrastructure, which is currently inadequate, without improved access to capital, without greater integration into global value chains and without expansion of regional trade, hopes for technological leapfrogging into the fourth industrial revolution will remain unfulfilled. The innovative success stories of such endeavours as the M-Pesa mobile payment service will not make up these deficits.

It is absolutely necessary for political leadership in African countries and scientists and experts in Africa to consider the effects of increasing automation of work processes on their respective countries and develop appropriate strategies in this regard.

Gunter Rieck Moncayo is economic policy advisor at Konrad-Adenauer-Stiftung's department for sub-Saharan Africa in Berlin.

Nigeria: A Country with Potential?

Great hopes are placed in the economic giant, but its development is slow

by Dr Vladimir Kreck

Its nearly 200 million inhabitants make Nigeria not only the Africa's most populous country, but also for several years now, the largest economy on the continent. According to the World Bank, its gross domestic product (GDP) was $375.7 billion in 2017, putting it about $27 billion ahead of South Africa, the second-largest economy. This is why Nigeria is often referred to as a country with enormous potential: lots of people, a large market, and good growth opportunities. But what is actually happening? A glance at GDP per capita reveals the biggest difference between Nigeria and other African countries. By this measure, Nigeria reached only the 18th place in Africa in 2017, right behind countries such as Morocco, Egypt, and the Republic of Congo. Per-capita GDP was $1,968, while South Africa's was $6,151. Nigeria's position as the largest economy on the continent thus says little about the country's actual economic power.

The position as the largest economy in Africa says little about the country's actual economic power.

Nigeria is recovering slowly from its last economic crisis

The economic problems of a country that is so rich in natural resources are primarily due to dependence on oil and gas exports. Nigeria is Africa's largest oil exporter. Oil exports make up to 90% of Nigeria's total exports, and the proceeds from these sales constitute up to 70% of the government's budget. This makes the West African giant particularly vulnerable to volatility on the international raw materials market. In addition, the industrial sector is responsible for only 9% of Nigerian GDP and is not particularly labour-intensive. This means that the sector is not in a position to provide future prospects to the country's unemployed.

Nigeria's dependence on oil was particularly disastrous in 2014, when oil price fell rapidly. The Nigerian economy plunged into a deep recession from which it is still recovering. Economic growth, once high and up to 7%, reached its lowest point in 2016, when the International Monetary Fund (IMF) says that the country's economic output shrank by 1.62%. Oil prices have recovered over the last two to three years, and as a result, Nigeria's economy grew again slightly in 2017 by 1%. The estimates for 2018 are about 1.8%. International experts forecast constant growth in 2019 and 2020 of about 2% per year.

Dependence on oil and gas exports leads to particular vulnerability to price fluctuations.

Since the beginning of the economic crisis, the number of unemployed has risen each year. At the end of 2018, Nigeria's National Bureau of Statistics said that 23.2% of the employable population, about 20.9 million people, were unemployed. This is a 5% rise over the previous year. The statistics also indicate that another 20.1%, about 18.21 million people, are underemployed. This means that, in total, 43.3% of Nigeria's employable population live without secure income or on very low incomes. In 2018, Nigeria also replaced India as the country with the most people in extreme poverty. The American Brookings Institution estimates that in Nigeria today, about 87 million people live on less than $1.90 per day, and this number is growing. This means that about 43% of Nigeria's population live below the poverty line.

The demographic dividend is a long way off

Given a birth rate that has been high for decades, these developments are particularly worrying. The birth rate is currently about 5.5 children per woman. The country's population thus grows each year by about five million, and the U.N. estimates that Nigeria's rapid population growth means that the country will overtake the U.S. by 2050. Nigeria will then have more than 400 million people, placing it third behind India and China on the list of the world's most populous countries. In the face of this demographic development, double-digit growth figures would be necessary to offer economic prospects to Nigeria's young people, who are already numerous and whose numbers will grow over the next few years.

Given more than 400 million inhabitants by 2050, double-digit growth would actually be necessary.

Given Nigeria's young population (the average age is about 18), there are often talks of a demographic dividend. This dividend is used to express hope that Nigeria will soon be able to benefit from its human resources. The theory goes as follows: The more young people a country has, the larger its proportion of employable people, and the more productive its society. Doubts that the mass of young people will soon work in Nigeria's favour are more than justified: certain conditions are necessary if a demographic divi-

dend is to be gained. The United Nations Population Fund (UNFPA) considers the following conditions to be decisive: The population between the ages of 15 and 64 must be healthy, well-educated, and have opportunities to work under humane conditions. The number of newborns per household must also fall significantly.

However, healthcare in Nigeria is worse than deficient throughout the country. That is why, according to the World Health Organization (WHO), life expectancy is between 55 and 56. Education urgently needs reform and expansion. The state does not enforce compulsory education. Nigeria has 13.2 million children who do not attend school, heading UNICEF's negative list in this category. Most of these children are girls and live in the country's Muslim north. According to the International Labour Organisation (ILO), 15 million children throughout Nigeria below the age of 14 are compelled to work. ILO says that Nigeria's illiteracy rate is very high (42% for men and 59% for women). In many parts of the country, it is almost impossible to find humane work. Because of growing unemployment, low levels of education, and widespread poverty, many people live from hand to mouth.

Problems include growing unemployment, low levels of education, and widespread poverty.

But the real problem for decades has been the high fertility rate, which has fallen by only 0.6 percentage points in the last 20 years. Having many children is ethnoculturally desirable and thought to be economically beneficial both in the Muslim north and the Christian south. The large majority of Nigerians are also devout. Christian and Muslim religious representatives alike take advantage of this fact. In their sermons, they regularly call on the people to have children. This call is based on a perfidious notion: More children lead to more poverty and slow the country's growth, but also benefit the churches, since needier people are more likely to turn to religion for salvation. A persistently high birth rate also means that churches can count on large numbers of faithful in future. There are virtually no political debates on how the high birth rate can be lowered via state-sponsored family planning measures. There is taboo-like public silence on the issue, even though many politicians are conscious of the problem and, behind closed doors, express criticism of the country's population growth.

Is diversification the solution to the economic problems?

The solution to Nigeria's economic problems has been known for a long time. For the country to free itself from dependence on oil and gas and create jobs for many people, its economy must diversify.

The country's economy must diversify.

Nigeria's president, Muhammadu Buhari, who was re-elected in February 2019, won the 2015 election on the promise of accomplishing that diversification. At the beginning of 2017, his government presented the Economic Recovery and Growth Plan (ERGP), which was to broaden the country's economic activity. Focus was to be on the agricultural, energy, and transport industries. But not much has happened since then. According to World Bank estimates, most measures intended by the plan are in preliminary phases of implementation. That is why Nigeria missed its goal of 4.8% economic growth in 2018, and the 7% goal for 2020 will not be achievable, either.

A large problem which is also a great opportunity for the country is the processing industry. For instance, Nigeria is the largest cassava producer in the world, ahead

of Thailand, Indonesia, and Brazil, and also one of the largest cocoa exporters. However, cassava is planted primarily by small farmers for their own consumption and not processed for the national market or for export. The cocoa planted in Nigeria, on the other hand, is largely exported to Europe and the U.S. – as unprocessed goods. Incidentally, the case is similar with the country's oil. Only a fraction of the volume extracted is refined in Nigeria. The much larger portion is sold abroad as crude oil. One of the effects of this is that Nigeria is forced to pay high prices to import the petroleum products it needs. In order for petrol and diesel prices to remain affordable to the end user, these fuels are subsidised by the state. For 2018, $3.85 billion dollars were provided, equalling almost 50% of government revenues from the sale of oil. But because of the rising prices on the world market, the responsible ministry was forced to admit at the end of the year that subsidies will be much higher.

Differentiated value chains would attract investors and create jobs.

Processing or refining raw materials and agricultural goods locally could in turn initiate local and regional value chains that would not only be attractive to foreign and domestic investors, but also create a large number of jobs. In order to differentiate value chains, the Nigerian state would have to establish important conditions:

1. It would have to improve the quality of its roads, since transporting goods is currently a hazardous undertaking. Accidents and overturned lorries are common occurrences in overland transport. Moreover, during the rainy season, which lasts several months, floods and mud make many roads risky or even impassable. There is no rail alternative for transport.

2. Nigeria would have to correct its severely deficient energy provision. Bloomberg calculated that, each year, Nigeria can produce only about one-sixth of the energy used in South Africa, whose population of 56 million is about one-quarter of Nigeria's. Currently, about 40% of Nigeria's population are not connected to the power grid, and the other 60% require diesel generators to deal with the daily blackouts that often last for several hours. This is also true of industry, retail, and other businesses. The costs of alternative power generation during blackouts are immense, especially in power-intensive industries.

3. The country needs to solve its security problems as soon as possible, since many parts of the country are economically fallow. One such part is the northeast, which Boko Haram and now a splinter group called the Islamic State West Africa Province has destabilised for years. At least 1,200 people died in violent conflict and terrorists attacks in 2018. Hundreds of thousands were forced to flee. According to UNHCR, the number of domestic refugees is about two million. In the northwest, organised gangs also rampage largely unopposed. They murder and force thousands to leave their homes. In central Nigeria, a war is raging between farmers and herders. It claimed at least 1,600 lives in 2018, more than the conflict with the terrorists in the northeast. Many other parts of the country, including the south, suffer daily from robbery, violence, and kidnappings.

4. Widespread corruption is among the country's largest obstacles to development and investment. International investors and companies avoid the Nigerian market because they do not want to be involved in corrupt dealings. President Buhari has

declared war on corruption, and his government has made progress over the last four years, but Nigeria still suffers from one of the highest rates of corruption in Africa and from illegal financial outflows to foreign countries. In the most recent Transparency International Corruption Perceptions Index, Nigeria was placed 144 of 180, falling eight places since Buhari took power.

Protectionism strengthens cartels and monopolists

A further obstacle to economic growth is restrictive trade policy.

A further obstacle to economic growth is Nigeria's restrictive trade policy. Years ago, the Nigerian government adopted the protectionist position that domestic industry and agriculture needed time to become internationally competitive. More than 45 goods are therefore on an import index and either may not be imported or are subjected to high tariffs; among them are rice, cement, and most recently, textiles. Private import of new furniture is completely banned.

The government's restrictive trade policy has a counterproductive effect. Cartels and pseudo-monopolies have risen in Nigeria, charging excessive prices for shoddy products. As early as 2014, German newspaper DIE ZEIT reported that a 50-kg sack of cement from Dangote, a Nigerian company, cost 40% more than a similar quantity in Germany. Today, the difference is still at least 30%. Furniture from Nigerian manufacturers are often poorly made and costs several times what is charged in Europe for better-quality products. In February 2019, Buhari did sign a new law that was intended to protect the national market from cartels and monopolies. But, like so many previous Nigerian laws, it will be difficult to enforce. Nigeria has no efficient legal system and thus little legal security.

Additionally, the country refuses to enter into international trade agreements. It is a founding member of the Economic Community of West African States (ECOWAS), which since 1975 has been working towards economic integration following the European model among a group of countries that has grown to 15. Nigeria however, is the only member who did not sign the Economic Partnership Agreements (EPA) between the EU and ECOWAS in 2014. Buhari's government rejects the agreement, arguing that Nigeria's industry and its small entrepreneurs are not yet ready to compete with European economies. Even though the EU had negotiated an EPA with ECOWAS that would largely put ECOWAS member states at an advantage for many years. The EPA drops European tariffs on West African goods immediately, while tariffs in West Africa for industrial goods will be decreased incrementally. The same is true of consumer goods, for which tariffs will fall incrementally over a period of 20 years. In sensitive economic areas such as the food industry, to which agriculture of course belongs, West African countries can even raise tariffs without time limits in order to avoid pressure from European competition. The EU also agreed to provide 6.5 billion euros to support the EPA's first five years of implementation. Further investment funds were also promised.

The president rejected entry into the transcontinental free-trade agreement.

Buhari is now using arguments similar to those he used against the EPA to oppose Nigeria entry into the African Continental Free Trade Area (AfCFTA). The Manufacturers Association of Nigeria even calls the agreement "an extremely dangerous and radioactive neo-liberal

policy initiative [...] that seeks to open our seaports, airports and other businesses to unbridled foreign interference never before witnessed in the history of the country". Of the 55 African Union (AU) member states, 49 hold a different view and, in 2018, signed the agreement to establish a continental free trade area. In just a few years, 90% of goods manufactured in Africa are to enjoy tariff-free trade.

What can be expected of the new government?

In February 2019, Buhari and his party, the All Progressives Congress (APC), were re-elected for four more years in the presidential and parliamentary elections. Buhari and his government were not convincing in the last legislative period. He failed to deliver on his promises to defeat Boko Haram in a few months, to stimulate the economy, and to decisively curb corruption. A glance at the APC election programme shows that the last election was won on the same promises: The country's security situation should be improved, the war against endemic corruption should continue mercilessly, and the economy should be stimulated with state funds, creating millions of jobs. Buhari's party intends to create 7.5 million new jobs in the agricultural industry by means of government-subsidised programmes. More than 10 million people are also to qualify for the labour market in state-financed education programmes. The technology and creative industries are to receive support amounting to $500 million, creating 500,000 jobs and allow training for 200,000 young people. Industrial parks are to be created in all parts of the country, creating more jobs. There is to be massive investment in the country's infrastructure.

But experts correctly point out that neither Buhari nor the APC say where the funds for these large government projects are to come from. Under Buhari's leadership, the country has already gone deep in debt. In 2018 alone, the debt rose by 12.25% to about $80 billion. This means that debt has increased by more than 100% in the last three years and, according to Bloomberg, may well have risen to about 25% of GDP. At first glance, this may not appear to be much, but Bloomberg points out that 60% of government revenues are already going towards loan repayment. This could rise to 80% by 2022.

There is hardly any way to achieve the ambitious goals the APC has set besides taking on more debt. Countries like Saudi Arabia and especially China are prepared to grant loans. In his last legislative period, Buhari actively courted China. Now, the vast majority of large projects in road work, rail network expansion, and airport terminal and industrial plant construction are being financed with Chinese funds and carried out by Chinese companies. The American Enterprise Institute estimates that the total volume of Chinese investment funds and orders in Nigeria in the period of 2015 to 2018 alone was $27 billion. Under Buhari, Nigeria's dependence on China's financial munificence may well continue to grow in the next four years. Even now, Germany Trade and Invest says that at least $23 billion of Chinese infrastructure projects are planned in Nigeria for the next few years.

More debt will be hard to avoid, and Saudi Arabia and especially China are prepared to grant loans.

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A Breath of Fresh Air for Young Entrepreneurs in Ghana

The dynamic start-up scene struggles with structural challenges

by Burkhardt Hellemann, Benjamin Kalkum, and Fawziyya Issah

The issue of entrepreneurship in African countries has garnered a great deal of attention in recent years – often in combination with the issue of "digitization". Many countries have institutions and even ministries to deal with the issue. It is a hot topic even in so-called donor states and development cooperation organisations. The background is similar in most African countries: high birth rates neutralise the economic growth and even lead to incremental impoverishment of large parts of the population. Each year, more young people enter the labour market than it can absorb, and even those with good educations are not certain of finding jobs. The problem of youth unemployment generates great political pressure, and no government can afford to give the impression that it is not doing what it can to solve this problem.

In 2014, there were about 200,000 vacancies for more than 500,000 people entering the labour market.

The example of Ghana is an especially good one: according to macro-economic indicators, it appears to be well-positioned and is often referred to as an example of success. But its population growth is lower than that of the vast majority of its neighbours. According

to the Ghana Statistical Service's 2014 figures, there were about 200,000 vacancies against more than 500,000 people entering the labour market. Only 10% of the 60,000 university graduates Ghana generates each year find employment in their first year after graduation. The others find themselves at the beginning of an odyssey that may take several years. The current government is trying to ameliorate the immediate consequences with job creation schemes such as the National Service and the Nation Builders Corps. The introduction of Free Senior High School in 2017 also takes pressure off the system, at least in the short term, since it makes it easier for many young people to stay longer in school.

However, it is clear ultimately that more people, especially more young people, need paying jobs. This makes promotion of entrepreneurs, including young ones, an important instrument for getting control of youth unemployment. Successful start-ups create jobs, and even those that fail provide valuable knowledge of entrepreneurship and important professional qualifications.

Challenges for young entrepreneurs

As in countries outside of Africa, young entrepreneurs face a number of challenges, and it is not always obvious whether the failure of a new company is due to structural difficulties or to individual miscalculations or management errors. It is conspicuous that entrepreneurs in Africa generally have no professional experience before attempting to start a company, in contrast to those in Germany, where 50% of all founders have at least six years of professional experience.
In Ghana, many young entrepreneurs navigate a comprehensive learning process encompassing communication, the establishment of a customer network, and questions of financial management only after they have founded their company. Until they have completed this process, they are excluded from consideration by established companies – unlike start-ups in developed markets, which often enter partnerships early on.

Many founders are not sufficiently prepared and thus not suitable partners for established companies.

Even if mobile networks now reach remote areas, the availability of fast, stable internet in large cities is usually available, but associated with high costs – and this is a decisive factor for digital start-ups, which are dependent on reliable internet. Recently, exacerbating political measures have been added: In order to prevent unrest, the internet is simply shut down, pulling the plug on the entire start-up scene as well.

What is often even more important for young founders is the "soft" infrastructure, which includes the availability of capital. In Ghana, interest on loans is very high – up to 40% per year for start-ups – if young entrepreneurs can get loans from banks at all. Banks are often very conservative in granting loans, since the pay-back culture is not as well-developed as it is elsewhere. Experts in the area of entrepreneurship report the challenge young entrepreneurs have in refraining from misusing their seed capital for private purposes.

Access to capital is important to many young founders.

The next obstacle for start-ups is the transition to the growth stage, when a company that has established itself on the market wants to expand. If it is a bit easier at first to attract initial investment with convincing corporate or product ideas, it becomes

significantly more difficult to find funds to expand a business that is still small. Still too small for banks and most investors, but already too large for most public support, these companies enter the so-called valley of death. Start-ups that survive this stage often complain of a shortage of specialist personnel, especially in technical areas, that hampers their growth.

And not to be forgotten are the numerous stumbling blocks strewn in the way of young entrepreneurs by governmental bureaucracy – and these can be expensive, since corrupt practices repeatedly surface. In Ghana, it is not uncommon for founding a business to take three months or longer. From cumbersome registration to challenging tax legislation and industry-specific regulations to the special challenges of cross-border activity, company founders require a great deal of patience and perseverance.

Bureaucracy makes founding a company lengthy and expensive.

The number of African migrants in Ghana who have taken the step of founding their own companies is not small, and they are confronted with the additional challenge of legislation that restricts their ability to participate in entrepreneurial activities without Ghanaian participation. Six-figure dollar investments are required, and these sums are impossible for many foreign young people to raise.

Support options for young founders

Even before governments became increasingly interested in the issue of entrepreneurship, as they have been in the past few years, most countries developed an environment that supports founders and those interested in founding companies in meeting the challenges outlined above. For instance, Ghana has between 30 and 40 incubators (usually called "hubs"), most of them in the two large cities, Accra and Kumasi. These hubs offer young entrepreneurs co-working spaces in which they can work on their business ideas, enjoy reliable internet access, and take advantage of the existing network and the experience of the hub owner or advisors. In practice, hubs often support existing, previously informal companies in professionalising their business: the smoothie saleswoman receives assistance in building up her brand, the seamstress gets pointers on selling her products on social media, and the hairdresser learns basic bookkeeping skills that will allow her to keep an eye on income and expenses and plan investments. Most hubs also offer training to provide guidance to young people during the process of founding a company, addressing such areas as developing a business idea, preparing a business plan, developing a product prototype, marketing products, and looking for financing options. If Ghana's hub landscape is significantly better developed than those of its francophone neighbours, it can be criticised for the fact that so far, few hubs pursue their core business – guiding founders from the development of a business idea to establishing products on the market. More than a few are forced for financial reasons to implement projects for development organisations, usually international ones, which do not target the core area of supporting start-ups.

In addition to hubs, international networks and so-called accelerators also play an important role, especially when they are run by large companies. They contribute greatly to professionalising the scene with large conferences on the one hand, and on

the other, they are very attractive to many company founders because of their training and internship offers. Many young entrepreneurs hope to use these international networks to meet investors or potential partners. Companies, in turn, see an opportunity to gain qualified, devoted personnel and new, creative ideas.

International organisations are also involved in the entrepreneurship environment. Some of them operate their own hubs and offer training programmes, sometimes in cooperation with local partners, sometimes via the government. The funds often come from migration management programmes that aim to improve local living conditions. The fact that what they offer is often free of charge is a great challenge for the private hubs, which are forced to offer their services for very little or for free. Income in this area comes only when the hubs can serve as partners or service providers for international organisations by executing their training programmes.

Free-of-charge competition from international organizations is a great challenge for private hubs.

Government support programmes for founders

In Ghana, there has long been support programmes specially tailored to young entrepreneurs, most of them in cooperation with foreign aid organisations. Recently, the government has set up an entirely new ministry focused especially on young entrepreneurs, the Ministry of Business Development. Among other things, it is intended to create an entrepreneurial strategy that outlines how the government, the corporate world, and Ghanaian civil society can create optimum conditions for allowing people to establish their own businesses. Moreover, various training programmes are offered, sometimes in cooperation with private organisations. Sometimes, however, these government efforts appear more focused on political PR, on training as many people as possible, than on actually creating new businesses.

At the same time, the government is attempting to meet the difficulties young entrepreneurs have in finding cheap loans by granting loans at low interest rates. Because of scarce funds, however, only small loans are available, and only to a few. It often appears that in granting loans, as elsewhere, supporters of the party in power are much better served than anyone else. Since no monitoring committees that could curb such developments have been established in the ministries yet, it has become difficult to rebut this charge.

The diverse offerings of governmental support programmes are confusing because, including the ministry mentioned above, Ghana has a total of seven ministries that feel responsible for young entrepreneurs, and each has a slightly different orientation: training for women, training for people in rural areas, specific training for information technology, agriculture, etc. As is familiar from countries outside of Africa, there is even a turf war among the ministries over who can speak authoritatively on the issue of entrepreneurship. At the same time, it is a special challenge for the newly established ministries, which often have limited personnel who also, depending on political persuasion, do not necessarily have the requisite competencies for the role and responsibility in question. And the ministries are not always familiar with the actual difficulties of entrepreneurs, which can lead to well-meaning changes instead complicating processes.

Opaque areas of responsibility make governmental programmes confusing.

Critical government dialogue with affected entrepreneurs

The fact remains that the Ghanaian government under President Akufo-Addo (like other African governments) has recognised that supporting entrepreneurship is an important key to Ghana's further development. The government's programmes take into account the fact that entrepreneurship requires additional education and a start-up friendly, venturesome mentality. At the same time, it is clear to everyone that societal change will require perseverance. The extent to which comprehensive but ultimately very compact training measures will bring about success and pave the way to entrepreneurship is something that remains to be examined and critically discussed.

This discussion and the conversation about improving framework conditions should be brought up and hashed out with dedicated interest groups in society. History shows that sometimes a little less state regulation can be a help to young entrepreneurs. The amalgamation of Ghanaian hubs (the Ghanaian Hub Network) or a possible interest group of universities that are studying the issue could not only develop important insights and solutions, but also provide critical guidance to the government's initiatives. The government guidelines are good for entrepreneurship, but how the initiatives are implemented will be decisive.

Less state regulation can be a help for young entrepreneurs.

Wherever this cooperation between governments and young entrepreneurs has been tried, the results have been promising. "We are now witnessing real momentum in policy innovation," said Alexandre Laure of the World Bank in a blog entry. But governments must be prepared to relinquish a bit of control and truly listen. On the other hand, they need an interlocutor who is on equal footing and can truly represent the concerns of young entrepreneurs and of hubs. Establishing such structures, which currently tend to be weak or non-existent, will be a challenge for the future. Entrepreneurs must recognise this and act accordingly. It is up to them to show that they are reputable, constructive partners – and that investing political and actual capital in them is a good bet for politicians.

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Economic Promotion as Part of Development Cooperation

Why no one-size-fits-all solution will work on the African continent

by Daniel El-Noshokaty

Over the last three years, the reasons for the development policy challenges on the African continent have become the focus of debates in Europe, partially due to concerns about a wave of migration. The question of why large parts of Africa, unlike Asia, remain so undeveloped after almost 60 years of uninterrupted development cooperation is a particularly persistent one. In theory, the continent has everything that would provide the raw material for growth: natural resources, low costs of labour, human capital, and good investment opportunities. Then there is the long period of clear willingness of the Western world to provide large sums in financing even without adequate reform measures from the national governments in question. Germany, the world's second-largest donor, provided almost 22 billion euros in development funds in the 2017 reporting year. Most of that went to the African continent.

Positive course change: from pure development aid toward targeted private sector stimulation.

The total development funds in the continental status quo show that "pure development aid", that is, providing basic necessities for people, will not by itself have the desired effect in African recipient countries in the long term. Under the current leadership of the German Federal Ministry for Economic Cooperation and Development, there has been a very

positive change in ideology: Away from pure development aid and toward proactive economic promotion and targeted stimulation of the private sector. This course change is promising. The challenge here is implementing this strategy locally so that it remains effective in the long run.

The arena of classical development cooperation and its effectiveness

Classical development aid – the supply of basic necessities in the areas of health, education, food and access to clean drinking water – does not focus on promoting private investment. It focuses on developing the poorest strata of the population. Development donors reach agreements (usually bilateral ones) with development recipients and provide funding, usually without requiring any actions by the recipient countries in return. These funds are paid from one government to another and are to be used for the construction of schools, hospitals, or transport infrastructure. If the funds are allocated effectively by a well-functioning state apparatus, there is no doubt that they can improve living conditions for many people. And there are indeed many positive examples of successful projects in development cooperation. However, sub-optimal distribution of aid due to insufficient government organisation, the absence of needs analysis, or corruption can cause the funds to peter out, have a detrimental effect, or leave questions of sustainability unanswered. In extreme cases, they lead to dependence on Western donors, lethargic investment, and unwillingness to save on the part of recipients. Despite the best efforts of development cooperation, it has rarely resulted in the creation of an African middle class that pays taxes and can require services of its government. Furthermore, international competitiveness of a country can suffer if government planning provides funds to industries whose product markets are saturated. This results in governmental price controls, and such items as agricultural products become uncompetitive on the global market because of price structure and quality. These and other arguments used to express scepticism towards bilateral development aid are not new and are continuously revisited in development policy debates. No matter how such discussions play out, the fact is that development cooperation normally proceeds within state players, is subject to government planning, and therefore remains outside of market mechanisms.

So far, development cooperation has rarely resulted in the creation of a tax-paying middle class.

Objective: investment promotion and profit focus

The idea of focusing on proactive investment promotion and stimulation of the private sector in the development policy arena is a promising one. Beyond classical development cooperation, it offers an instrument for promoting self-responsibility in developing countries and giving the broader population room for development cooperation outside of the state apparatus and the government elite. Investment promotion has framework conditions that are different from those of development cooperation. Because of globalisation and the challenge to competitiveness, entrepreneurship and investment activity requires quick and, at times, courageous decisions. If expectations are negative or political and economic developments unfavourable, donors withdraw in order to suffer as few losses as possible. Investors, on the other hand, look for

Investment promotion has framework conditions that are different from those of development cooperation.

projects that promise good returns and are subject to market mechanisms. They are familiar with the industry in which they operate and usually have a sense of the regularities of the market they are trying to serve. While development cooperation moves within the system of international relations and national politics, the investor and the private sector is subject to the laws of national or international markets and business decisions. Companies and investors are also substantially dependent on government framework conditions, however. To attract foreign or national investment, they require investment security anchored by the rule of law, a reliable infrastructure (roads, electricity, information technology), and reduction of corruption, excessive bureaucracy, and regulatory, protectionist, or fiscal policy capriciousness.

The important role that investment from the private sector could play in complementing development goals must become a much stronger focus than it has been – it must be a complementary instrument for the advancement of the African continent. To this end, specific investment incentives must be put in place to animate the national and international private sector to contribute to countries' economic and social development. The idea is that some of this contribution comes from other countries, but a large part comes from the economies and populations of the development aid recipients themselves. To achieve this objective, investment in strategically important sectors besides natural resource extraction must be attractive. Labour-intensive areas must be promoted in order to support sustainable growth and a local value chain. Promotion of the local private sector is the key to creating the jobs that the African continent so desperately needs. At the same time, the independence of the private sector and those employed there must be protected against the ubiquitous dominance of the state. This will give rise to a growing middle class that can require better government leadership. Economic growth and good governmental leadership and use of tax revenues will make African countries less dependent on transfer payments in the long run.

Enhancing the private sector in developing countries is therefore important and the right thing to do. It creates jobs and generates both prosperity and tax revenue. Entrepreneurs gain leverage via their tax contributions by which they can demand economic reforms and market liberalisation. Therefore, investment promotion must not remain solely a matter for development cooperation.

Rethinking is the key to success

Coordination of all participants necessary for a coherent, long-term development strategy.

As important as investment promotion is as a development policy approach, it must be channeled in the right direction from the very beginning. Coordination of all players involved in Germany's Africa policy is important if a coherent, long-term development strategy is to be guaranteed. The "Compact with Africa" and the "Marshall Plan with Africa" are placing emphasis on principles such as self-responsibility, entrepreneurship, and private-sector investment. This is extremely positive. Nevertheless, the actual Marshall Plan approach of linking economic policy closely to development cooperation also harbours challenges. Coordination among the Ministries involved is important and even necessary. The development aid provider can generate strong investment promotion only if he works closely with the private sector without shifting tasks or

responsibilities. The private sector is the key to sustainable development and promotion of jobs in Africa. It must be enhanced in ways that do not also slow or hinder it.

Germany can help with its existing structures. Its strong association structure means that it has the capability of providing targeted incentives via private-sector associations (such as VDI, Germany's association of engineers; VDA, the German Association of the Automotive Industry; BMVW, Germany's SME association; VCI, Germany's chemicals industry association; and many more) without becoming an active part of the private sector. Supporting investors, especially among the strong German SMEs, with contacts and expertise in African business is one way of approaching this coordination. Local chambers of commerce and representatives of private-sector associations can do this better than development aid providers. The German federal government has recognised the importance of chambers and other bodies with private-sector orientation and announced in a key issues paper the expansion of the corresponding network in Africa.

What must be done

Development cooperation is not and cannot be the same thing as economic promotion.

The understanding that development cooperation is not and cannot be the same thing as economic promotion must be sharpened. There can be no single monolithic approach to the immense, complex development policy challenges on the African continent. Specific circumstances must be met with precise, sometimes tailored, approaches. To reduce poverty, enhance the economy, and achieve improved democratic governmental leadership, we must do the following:

1. Use development cooperation in a more target manner than in the past to combat poverty and support national governments in their efforts to secure basic necessities in the area of health, education, and infrastructure. At the same time, the donor governments must use mechanisms to move recipient governments themselves to provide these basic necessities to their citizens.

2. Establish economic promotion within the private sector with the goal of funneling investment into labour-intensive industries and securing expertise transfer in order to enhance local competitiveness and establish value chains that can compete at the global level.

3. Pursue policies that aim at establishing good governmental leadership in recipient countries, and combat corruption and obstacles to investment and development there. This policies should work towards removing excessive bureaucracy and trade barriers and ultimately require improved rule of law to enhance investment security.

Such an orientation of German involvement in Africa would lay the foundation for poverty reduction, job creation, and a flourishing economy on the continent. This would bring prosperity among the population and promote freedom, the rule of law, and democracy.

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