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MEETING DOCUMENT

From:	Presidency
To:	Financial Counsellors - ECOFIN preparation
Subject:	Bruegel paper on 'Boosting private investment in North Africa and beyond: what role for European Institutions?'

On behalf of the Presidency, delegations will find attached a Bruegel paper on 'Boosting private investment in North Africa and beyond: what role for European Institutions?'. This is for Session II on Saturday 8 April 2017 at the Informal Meeting of Finance Ministers in Valletta. The format for this session is Minister + 3.

Boosting private investment in North Africa and beyond: what role for European Institutions?

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Abstract

Africa is a large neighbour of the EU, whose population is projected to reach almost 2.5 billion by 2050. Immigration from Africa to the EU is relatively stable, at around half a million per year or 0.1% of EU population, yet illegal immigration has increased more recently. Development is often seen as the way to reduce migration but the development-migration nexus is complex. At low levels of development, migration may increase with rising GDP per capita. North African countries are among the more developed economies of the continent and their geographical position makes them natural partners to the EU. The region is diverse but political instability has been a common feature which in recent years has hindered economic development. Cyclical factors as well as deep-rooted structural weaknesses have also contributed to weak economic performance. Conditions for business relatively poor and trade barriers in some sectors have prevented integration either between these countries or in global value chains. We propose five ways in which EU policy makers can contribute to developing North Africa and build partnerships on trade, investment and migration.

1. Introduction

Africa is the continent with the fastest growing population in the world. Its population is projected to be more than twice its current size by 2050, reaching almost 2.5billion, which represents 25% of world population. Population growth is very high in Sub-Saharan Africa, while population growth in the North African Countries (NAC, consisting of Algeria, Egypt, Libya, Morocco, Tunisia) has slowed with sharply falling fertility rates. Still, the population of NAC is projected to grow by some 100 million over the next 35 years (see Table A1 in annex).

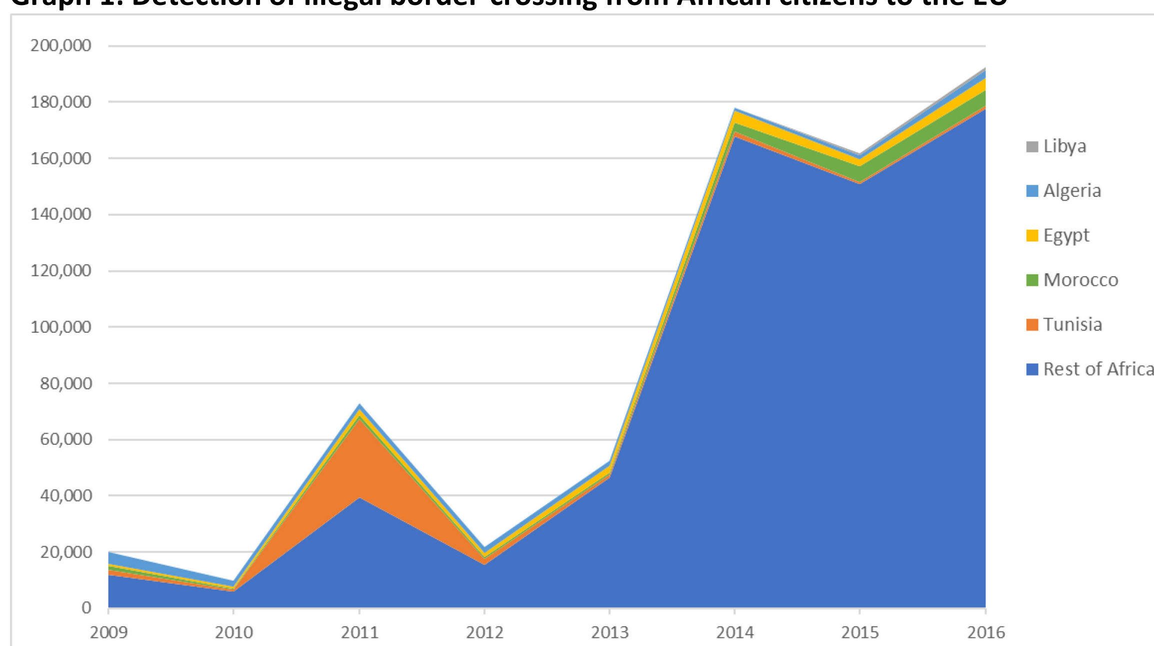
Higher GDP growth in Africa is a necessary condition for alleviating poverty. It also represents opportunities for the EU. It is imperative for Africa to accelerate its development to be able to improve living conditions for its rapidly increasing population. For the EU, Africa is a geographically close market, which is in need of many investments.

[1] We thank Enrico Nano and Filippo Biondi for excellent research assistance. All remaining errors are our own.

With more growth, there are more opportunities, including to contribute to a green and sustainable development of the continent.

Contributing to the development of Africa is a priority of global policy makers. Sub-Saharan Africa has an average GDP per capita in purchasing power terms of PPPUS $3500, or only about one tenth of the EU's average GDP per capita. The G20 has been working on a "compact" for Africa to support private investment and growth on the continent. The EU plays a lead role in this global effort, partly motivated by the desire to contain immigration. The focus is certainly strongly influenced by the increase in 'boat' immigrants. Illegal border crossing from Africa has increased significantly in the last few years and is now above 200k per year. Those immigrants from Africa come predominantly from sub-Saharan Africa (see Graph 1).

Graph 1: Detection of illegal border-crossing from African citizens to the EU



Source: Frontex, accessed in March 2017.
Note: The data presented refer to detections of illegal border-crossing rather than the number of persons, as the same person may cross the external border several times. However, there is currently no EU system in place capable of tracing each person's movements following an illegal border-crossing. Therefore, it is not possible to establish the precise number of persons who have illegally crossed the external border.

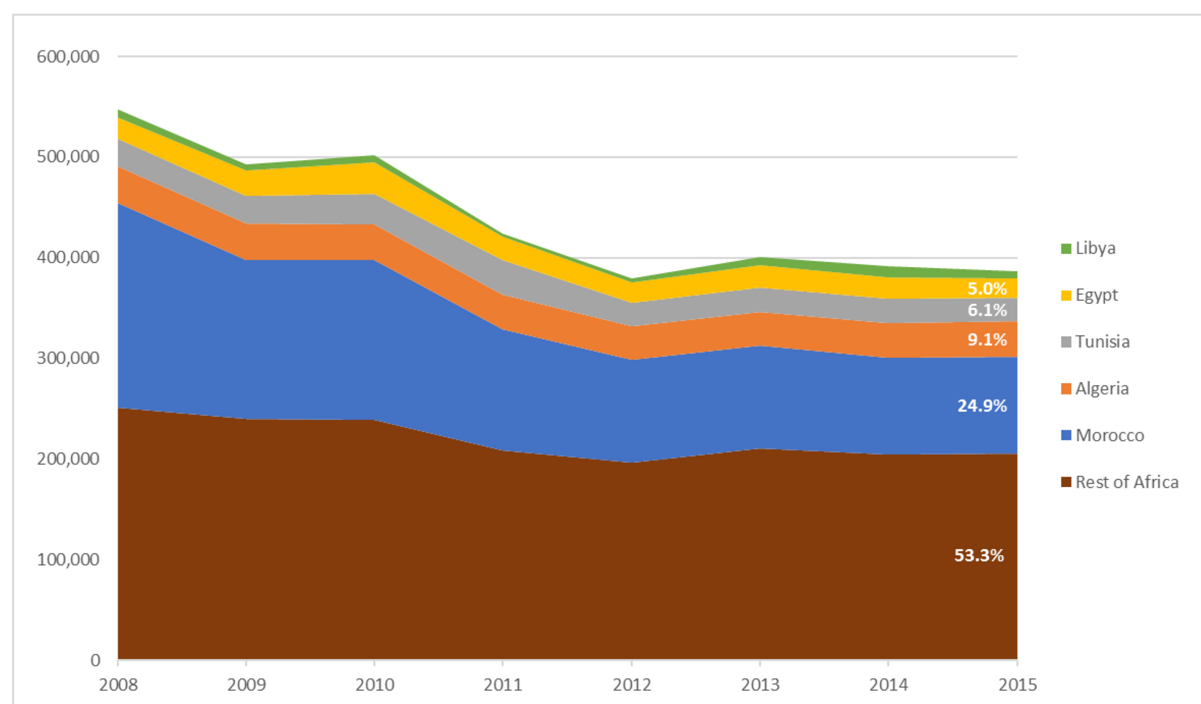
Overall legal migration from Africa has been rather stable. Graphs 2 shows the number of residence permits given to citizens from Africa.[2] The numbers are down by some 5% since 2008. In particular, immigration from Morocco has fallen substantially. Some of the immigrants that have arrived illegally (as measured in the Frontex data) are not yet recorded in these statistics. The more recent increase in people arriving with boats has a lot

[2] Note that these data are not really comparable to the 2016 border-crossings, since to obtain a residence permit there is a delay and permits data arrives only to 2015.

to do with an increase of efforts to rescue people at sea.[3] The two data sources partially double count so that one cannot just add the Frontex data with the Eurostat data.

Overall numbers of immigrants from Africa to the EU seem to be close to around 500 thousand per year, or roughly 0.1% of EU population. Immigration from North Africa is falling. North Africa does not play a significant role in illegal border crossings.

Graph 2: First residence permits in EU28 to African citizens by citizenship



Source: Eurostat, table *migr_resfirst*, accessed in March 2017. Note: data refer to the number of first (unique) residence permits granted in an EU28 country to African nationals during the reference year, disaggregated by citizenship, with a minimum duration of 3 months.

Economic development is a critical objective but is not a panacea to reducing migration. The EU and other institutions often refer to development as a key to reducing migration numbers to the EU[4]. **Yet, determinants of emigration and immigration are complex.** Demographic pressures, youth unemployment, job opportunities in the country of destination, the growth of migrant networks and the desire to reunite families all play a role in migration. The recent recession in Europe certainly played a significant role in reducing immigration numbers, as have tighter immigration restrictions.

[3] This has effectively increased the people attempting to cross. See EPSC, https://ec.europa.eu/epsc/sites/epsc/files/strategic_note_issue_22_0.pdf

[4] See, for example Mogherini (2017), Opening remarks at debate on managing migration along the central Mediterranean route, February. https://eeas.europa.eu/headquarters/headquarters-homepage_en/19755/Opening%20remarks%20by%20the%20HRVP%20Federica%20Mogherini%20at%20the%20debate%20on%20managing%20migration%20along%20the%20Central%20Mediterranean%20route

With rising incomes in Sub-Saharan Africa, emigration numbers are likely to increase at first. A significant literature has established that below certain GDP per capita levels, an increase in income will increase immigration numbers. Clemens (2014) establishes that up to US$ 7000-9000 GDP per capita PPP levels, increases in GDP increase emigration. Only at higher GDP levels, does the data support that emigration numbers would start to fall. Of 47 Sub-Saharan countries, only seven have currently above US$ 9000 GDP per capita PPP levels while 39 countries have levels below US$7000. Applying a 2 per cent annual per capita growth rate mechanically suggests that by 2030, 35 countries would still be below that level. The population of these countries would increase to 1.05 billion.[5]

By contrast, North African countries are now in an income range where rising incomes may reduce the incidence of migration. All 5 countries of North Africa, have income levels that are at or above the threshold.[6] Reduced incidence of migration does not necessarily mean smaller numbers of migrants over the next few years as the population is growing and other factors are at play such as improved economic conditions in Europe. However, it does mean that provided a deterioration of political stability is avoided and provided the region's economies continue to grow, large scale migration from North Africa may become a thing of the past.

The rest of this paper focuses mainly on development in North Africa. The countries of North Africa are direct EU neighbours whose economic and political stability is of great importance to Europe. Not only are they still the origin of migrants, especially of young people who cannot find jobs, but they are major transit countries of migration from Sub-Saharan Africa. We consider North Africa a gateway between Africa and Europe. The paper therefore discusses the current economic and political situation in the countries of North Africa and makes a number of policy proposals to European leaders.

2. The current state of the North African economies

The NAC economies are diverse, making generalizations hazardous. The countries that span the Southern coast of the Mediterranean share Arabic as the principal language and Islam as the principal religion. But they are otherwise diverse. Egypt, Morocco, and Tunisia still have large parts of their population in agriculture (as much as 40% in Morocco) and depend on a variety of service and manufacturing activities, remittances and tourism for their foreign exchange. By contrast, Algeria and Libya are wealthier oil-and-gas-state-driven economies. At plausible rates of extraction Algeria's proven oil and gas reserves could become exhausted in two generations whereas Libya's will last as far as the eye can see.

Table 1: An overview of main economic variables

[5] This computation should be seen for illustrative purposes only as long-term growth projections are uncertain. Nevertheless, the 2% real growth rate per capita is often labelled as an "iron law", see for example Barro (2015). http://onlinelibrary.wiley.com/doi/10.1111/ecoj.12247/full

[6] The precise threshold in the data should be treated with caution as it may shift in the future.

	Algeria	Egypt	Libya	Morocco	Tunisia	Sub-Saharan Africa	EU28	Year (source)
Population (mln)[1]	39.7	91.5	6.3	34.4	11.3	962.3	510.1	2015 (UNESCO)
Population aged 15-34 (mln)[1]	13.9	31.5	2.1	11.8	3.7	329.1	119.8	2015 (UNESCO)
Old-age dependency ratio (%)[2]	9.1%	8.5%	6.9%	9.3%	11.0%	5.7%	29.4%	2015 (World Bank)
Fertility rate (births per woman)[2]	2.9	3.3	2.5	2.5	2.2	5	1.5	2014 (World Bank)
Adult literacy rate (15+)[3]	79.6%	75.8%	91.4%	71.7%	81.1%	64.4%	99.2%	2015 (UNESCO)
Mean years of education[4]	7.6	6.5	7.3	4.4	6.8	4.8 *(avg)*	11.4 *(avg)*	2014 (UNDP)
Youth employment ratio (female, 15-24)[5]	5.8%	9.6%	7.4%	14.0%	13.9%	45.2%	32.2%	2016 (ILOSTAT)
Youth employment ratio (male, 15-24)[5]	35.3%	33.9%	29.2%	41.1%	30.4%	51.0%	36.2%	2016 (ILOSTAT)
Unemployment rate[5]	11.2%	12.0%	19.2%	10.0%	14.8%	7.2%	8.6%	2016 (ILOSTAT)
Youth unemployment rate (15-24)[5]	26.6%	33.4%	48.1%	20.6%	35.7%	11.1%	18.7%	2016 (ILOSTAT)
GINI coefficient (0-100)[6]	34.2	46.4	-	39.6	36.7	42.5 *(avg)*	29.8 *(avg)*	2015 (SWIID)
Ease of Doing Business (rank)[7]	156	122	188	68	77	141 *(avg)*	30 *(avg)*	2017 (World Bank)
GDP (constant 2010 USD bln)[2]	190.2	247.7	28.4 *(2011)*	113.2	48.1	1661.6	17878.7	2015 (World Bank)
GDP per capita (constant 2011 USD PPP)[2]	13822.6	10250	11023.4 *(2011)*	7364.8	10769.9	3488.3	35622.2	2015 (World Bank)
GDP per capita growth (2011 USD PPP)[2]	1.2%	2.2%	-	2.6%	2.6%	1.3%	1.4%	1990-2015 avg (WB)
Gross savings (% of GDP)[8]	43.6%	12.6%	-	27.2%	14.7%	18.1%	21.3%	2011-15 avg (IMF)
Total investment (% of GDP)[8]	44.6%	15.2%	22.3%	33.6%	23.1%	20.8%	19.9%	2011-15 avg (IMF)
Current account balance (% of GDP)[8]	-0.9%	-2.6%	-3.6%	-6.4%	-8.4%	-2.7%	1.4%	2011-15 avg (IMF)
FDI net inflows (% of GDP)[2]	0.7%	1.2%	4.0% *(2006-10)*	3.0%	2.2%	2.5%	3.6%	2011-15 avg (WB)
Personal remittances received (% of GDP)[2]	0.1%	6.3%	0% *(2007-11)*	6.9%	4.8%	2.4%	0.6%	2011-15 avg (WB)
ODA net loans and grants (% of GDP)[9]	0.1%	1.0%	0.6%	1.7%	1.8%	3.0%	-	2011-15 avg (OECD)

Notes: Detailed sources are in the annex. (avg) stands for simple average across the Sub-Saharan or EU28 countries, when aggregate measures were not available. All GDP are expressed in real terms (constant USD). The GDP per capita growth rate is computed as compound annual growth rate (CAGR) between 1990 and 2021.

All the NACs are low-ranked in the UN's Human Development Index, but with important differences. For example, whereas adult female illiteracy is as high as 42% in Morocco, it is 15% in Libya. Morocco has the world's largest reserves of phosphates. But the country is completely dependent for energy on oil and gas imports, as is Tunisia, while Egypt's energy trade is roughly balanced. Whereas the Maghreb economies are closely tied to Europe, Egypt's more significant ties are to the Gulf countries.

Economic Growth has not been sufficient to absorb the bulge in the young labour force. Prior to the Arab uprisings in 2011 and 2012, the North African economy had seen an extended period of moderate economic growth. This was not, however, sufficient to absorb the large cohorts of young people entering the labour force, nor to meet the high expectations of the growing number of educated men and women. Table 2 illustrates the sharp deceleration of growth in recent years, and also illustrates the narrowing gap between GDP growth and the growth of population of working age, despite the fact that the latter has also slowed. The unemployment problem in the region remains grave and is not adequately conveyed by official statistics which only cover parts of the formal economy.

Table 2: GDP and Population growth

	GDP growth		Population ages 15-64 growth	
	2000-2011	**2011-2016**	**2000-2011**	**2011-2016**
Algeria	3.8%	3.5%	2.3%	1.3%
Egypt	4.6%	3.0%	2.6%	1.6%
Libya	-4.7%	-	2.0%	-0.1%
Morocco	5.0%	3.2%	1.8%	1.5%
Tunisia	3.6%	2.6%	1.8%	0.8%
Sub-Saharan Africa	5.5%	3.5%	2.9%	3.0%
European Union	1.4%	1.1%	0.2%	-0.3%

Source: World Bank databases. GDP: World Development Indicators and Global Economic Prospects. Population: Health Nutrition and Population Statistics: Population estimates and projections. Notes: GDP and population for year 2016 are projections. GDP is at constant 2010 US$. Growth rates are calculated as compound annual growth rates (CAGR).

The sharp slowdown of the North African economy in recent years is primarily the result of political instability. Enterprise surveys illustrate that political instability has been the main cause behind the sharp decline in tourism and foreign investment across most of the region.[7] Domestic divisions in North Africa had been long kept under cover by authoritarian governments, but now that they are out in the open, it is evident that they run deep, are complex, and will not be quickly bridged. These differences are fundamental and concern whether the state should be secular or be governed by religious laws, the prevalence of different religious groups, and whether men and women should play an equal role in society, regimes should be republics or monarchies, and about who, the central government or a specific tribe or geographic region, should have control over natural resources. The ongoing civil wars in Iraq, Libya, Syria, and Yemen, and the uncertainty about the willingness and capacity of the United States and of European powers to engage in the region, following failed interventions, greatly add to the political uncertainty in North Africa. The long-standing hostility between Morocco and Algeria, which separates Morocco from the rest of North Africa geographically, and the fear of potentially contagious political instability throughout North Africa and beyond to the Levant clearly have not helped the cause of economic growth and integration.

The outside environment has not helped NACs economies in the recent past. The collapse of oil prices severely affected Algeria and Libya but has also helped partially redress external deficits in Morocco and Tunisia. Lower oil prices also meant that government deficits in Egypt, Morocco and Tunisia improved as they facilitated reforms that reduced expenditure on energy subsidies. The persistent slow growth and recession in the Mediterranean countries of Europe, as North Africa's main export markets have certainly reduced the

[7] de Lima, P (2016) joint EBRD, EIB and World Bank report.

region's growth rate since 2008[8]. The sharp slowdown in world trade since the crisis also contributed to the growth deceleration.

However, beyond political divisions, one-time shocks and cyclical effects, there are structural impediments that account for North Africa's weak economic performance. Despite free trade agreements which span the region, a salient feature of the North African economy is the nearly complete absence of intraregional trade. This reflects, in large part, the lack of complementarity in production structures and the region's modest income and size compared to neighbouring Europe to which North Africa is gravitationally attracted. But even with Europe, North Africa's trade pattern is of the traditional kind, reflecting the exchange of finished goods and raw materials, rather than components as part of international value chains.

NACs have failed to integrate in international value chains. One can point to three main reasons for North Africa's failure to become part of international value chains. **First**, Algeria and Libya are energy exporting economies whose labour cost (as proxied by their income per capita) is far higher than that of countries with comparable levels of skill and institutional development that are well integrated, (like for example Vietnam). **Second**, the environment for doing business, including in aspects important for the operation of value chains, such as ease of trading across borders and enforcing contracts is relatively low (and worse than those of Romania or Mexico). **Third**, North Africa appears to have suffered disproportionately from the competition of Eastern Europe. With enlargement, European production chains – involving both trade and FDI - have extended East instead of South.

Table 3: 2017 Ease of Doing Business Rank, selected countries

	Ease of Doing Business	Trading across borders	Enforcing Contracts
Algeria	156	178	102
Egypt	122	168	162
Libya	188	114	143
Morocco	68	63	57
Tunisia	77	92	76
Romania	36	1	26
Mexico	47	61	40
Vietnam	82	93	69

Source: World Bank 2017 Ease of Doing Business report. Data refer to the world ranking of the selected countries.

Trade has not been a strong engine of growth for the region and trade agreements have not delivered. Using gravity models, which predict countries' trade flows as a function of their economic size and distance, suggest that the volume of trade between the European Union and the MENA countries could be 3.5 to 4 times larger than it currently is if the two

[8] Zachmann et al (2012), have called for a strategy to broaden the relations of the NACs with other countries of the EU in order to reduce dependency on a relatively slow growing part of the EU.

regions were to reach the EU's level of integration.[9] Intra-regional trade within MENA is also low relative to that predicted by gravity models and worse than that in sub-Saharan Africa. In part, this is because the trade agreements of Algeria, Egypt, Morocco and Tunisia with the EU, have by and large failed to deliver on their promise.

Four reasons the results from trade agreements have been so disappointing: **First**, prior to the current set of EU-Med trade agreements, the North African countries already had largely free access to European markets in manufactures—which account for the lion's share of their trade—and they also enjoyed a small margin of preference vis-à-vis most other large exporters under GSP (Generalised Scheme of Preferences) arrangements. Therefore, the impact of the agreements on exports to the EU was naturally small. **Second**, a variety of impediments—including subsidies, quotas, reference prices, and seasonal barriers—continue to hobble exports in the areas where North Africa has a revealed comparative advantage, notably agriculture (a large source of value added and even greater source of jobs in North Africa), while a schedule for moving toward free trade was set for manufacturing, in which the EU has a comparative advantage. **Third**, restrictive rules of origin and limited cumulation further restrict the North African countries' effective market access to the EU. **Fourth**, the aid flows associated with the EU trade agreements with North Africa are small compared to the needs. Again here EU funds were primarily oriented to the accession countries which naturally benefited both from increased public and private investment and from the discipline of adopting the acquis.

3. Contributing to development in North Africa and steering migration – an EU policy agenda

To achieve lasting and significantly higher growth, both public and private investment is needed. Public investments can build infrastructure and provide education and health services. However, public resources cannot be the main driver of a modern, competitive economy. The main issue in the region is not so much the quantity of capital but the quality of the environment in which capital is deployed. Algeria and Libya have large resource endowments that, rationally exploited, can allow for high savings. And the region's low dependency ratio (few children and old people relative to the population of working age) allows or should allow for an adequate savings rate and the ability to self-fund significant investments (Table 1). The critical question is then how to improve conditions for private investment. These conditions depend on the willingness of the NACs to reform, not on the EU. However, the EU can help provide some anchors to reform, even though it cannot replicate the strategy employed towards Central and Eastern Europe, where institutional reform was linked to eventual EU membership.[10]

We see five policy directions that are of particular importance.

[9] Ferragina et. al (2005).
[10] Sapir and Zachmann (2011) discuss Eastern European lessons for the Southern Mediterranean.

1. **Political stability and enhancing security are critical factors.** This falls largely outside the remit of finance ministers and economists but political stability in the region is a prerequisite for achieving development and managing migration. Without greater political and security stability, for example in Libya, it will be difficult to tackle migration pressures. The EU should follow a comprehensive policy that combines foreign policy tools with development policies, granting market access and financial initiatives.

2. **Improving access to markets**. Trade is important for boosting productivity, raising living standards and boosting long-term growth. Open trade by itself, however, is not enough. Strengthening the business environment and improving skills – discussed below – are preconditions for deriving the full benefits from trade. However, much more needs to be done to facilitate the region's trade intra-regionally and with the EU. Services sectors remain protected, and even as tariffs have come down, many non-tariff barriers to trade exist. In agriculture, trade is still impeded by tariff and non-tariff barriers, including by the use of various kinds of quotas. While overall effectively applied tariff rates have fallen (see Graph A2), they remain comparatively high in some sectors. FDI and access to land is impeded in numerous ways.

   The EU has launched negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA) with Tunisia and Morocco (negotiations with Morocco have been suspended since 2013). The DCFTA is intended to go further than traditional free trade agreements by establishing a framework for economic development that not only opens markets but also achieves an extensive harmonization of laws, norms and regulations, aligning key sectors to EU standards. The DCFTA is also intended to provide for freedom of establishment in services and non-services sectors on condition that the EU acquis is implemented. While laudable, it is unclear whether the DCFTA initiative as currently structured can provide the impetus to reform that is needed in the NACs. Recognizing that accession is not envisaged, consideration should be given to DCFTAs that demand more of the NACs on the reform front but also offer more in the form of market access and development funds. A platform for dialogue between private and public actors could help establish a way forward.

3. **Promoting good governance and strengthening the institutions that underpin private entrepreneurship.** The NACs generally rank low in terms of ease of doing business, good governance, competition and rule of law. All these factors are central for economic growth.[11] The EU can deploy official development aid and lending programs to support these reform efforts. Recent initiatives include, for example, the increased support coming from the EIB to provide additional funding at preferential rates.[12] The project-based funding of EIB, EBRD and the World Bank contributes not only financial resources, but also and more importantly through the transfer of technical expertise and

[11] Bouis et al (2016), for example document that product market reforms, for example opening regulated sectors such as telecoms to competition, can yield substantial benefits in GDP.
[12] Annual EIB lending in the framework of the economic resilience initiative is around €1.6bn annually.

encouragement of reforms that have been shown to work elsewhere.[13] ODA net loans and grants to the five NACs range on average between 0.1% of GDP in Algeria to 1.8% in Tunisia.[14] Before expanding such programmes, a rigorous evaluation of the most effective approaches should be undertaken, focusing especially on the catalytic effect of such interventions. IMF programmes in Egypt, Morocco and Tunisia, and the ongoing surveillance and technical assistance programs throughout the region also play a significant role in promoting growth-and-stability-friendly reforms.

4. **Reforming education and containing youth unemployment.** Youth unemployment has been an important drag on these countries' performance, a source of dissatisfaction and unrest, and an important factor behind decisions to emigrate. The inability for the young to enter the labour market has detrimental effects on their future employability due to depreciation of skills and their life time income. It affects labour markets and hinders inclusive growth and leads to the loss of entire generations. With the exception of Morocco, all other countries in the sample have about double the level of youth unemployment than observed in EU28.[15] The level of youth unemployment is particularly high for women, and in some cases twice as high as those of men, and has typically deteriorated since 2010 for both genders. Importantly also, the highly educated are more likely to be unemployed - a factor that points to a grave misallocation of resources.[16]

   Demographics is one of the factors driving youth unemployment. Whether growth is driven by capital intensive sectors also matters for employment as does the tax system and labour market institutions. Also, poor education and inadequate skills reduces the employability of the young. Lastly, these economies have large informal sectors that favour incumbents to the detriment of new entrants in the labour markets, mostly the young.

   A credible strategy to tackle youth unemployment therefore has to go beyond the general reform agenda (improving the business environment, the rule of law, and market access) and focus on reducing the gap between the formal and the informal sector. Containing the reservation wage by moderating wage increases in the public sector in particular in rentier economies, is also important. These are necessary conditions that need to be complemented with targeted programmes to correct the pronounced skill mismatch between graduates and what employers demand (McKinsey 2011). Programs that provide on-the-job training are equally important.

5. **Step-up collaboration on containing migration pressures in Sub Saharan Africa.** As Sub Saharan Africa is developing and the size of its young population increases, emigration pressures are likely to mount in the next 20 years. The destination of this emigration will be determined by numerous factors, including the opportunities in Europe, in North

[13] De Lima et al (2016). See Table A2 for an overview.
[14] See graph A1 for a description of ODA to North Africa by donor.
[15] See, for example Boot et al (2016).
[16] Dine (2012).

Africa and the Middle East. North African countries themselves will increasingly become a destination for immigration. There is no alternative to encouraging the integration of markets within Africa and improving the conditions for investment in Sub Saharan Africa as the long-term solution to Africa's problems and also to create potentially vast new markets for both the EU and the NACs. Research shows that one of the most effective ways to deploy public resources is to enhance the education of girls, which not only tends to accelerate the demographic transition, sharply reducing the fertility rate, but also contributes to improved health and education outcomes among children.

In short, development policies need to be combined with a strategy on migration**.** The EU and its members have an active development policy in Sub Saharan Africa and the G20 initiative tries to further leverage private investment. However, the deployment of ODA does not sufficiently account for the impact on immigration.[17] The EU should explore partnership frameworks on migration with the countries of North Africa. Promoting development, granting greater access to EU markets, including for services workers, enhancing collaboration on university education and providing for temporary work opportunities for highly skilled workers could all be elements of a "compact" on migration. In turn, readmission agreements could be established. Moreover, the EU could establish admission centres in the region that would grant a certain number of legal immigration permits to Sub-Saharan African wishing to immigrate in the EU.[18] Such a policy would also contribute to disrupting the business model behind illegal human trafficking.

Overall, the EU should strengthen its partnership with North Africa and offer increasing links in trade, investment but also cross-border service provisioning. The aim of that policy compact would be to establish stability, foster growth, and build a prosperous neighbourhood within which collaboration on migration is recognized as an important aspect.

[17] See Belloc (2015).

[18] There is considerable academic debate on how to allocate immigration visas. They range from approaches based on humanitarian needs, qualification and chances of labour market integration in the destination countries, to random allocation or even auctioning of visas.

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Annex

Detailed sources used in Table 1

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Table A1: Current and projected populations

Current and projected African population (millions)								
	1980	1990	2000	2010	2020(p)	2030(p)	2040(p)	2050(p)
Libya	3,191	4,398	5,337	6,266	6,700	7,418	7,980	8,375
Tunisia	6,368	8,233	9,699	10,639	11,835	12,686	13,166	13,476
Morocco	20,072	24,950	28,951	32,108	36,444	39,787	42,148	43,696
Algeria	19,338	25,912	31,184	36,036	43,008	48,274	52,496	56,461
Egypt	43,370	56,397	68,335	82,041	100,518	117,102	134,428	151,111
Total North Africa	92,339	119,891	143,506	167,090	198,505	225,267	250,219	273,119
10-year Delta	-	27,552	23,615	23,584	31,415	26,762	24,952	22,901
% change	-	29.8%	19.7%	16.4%	18.8%	13.5%	11.1%	9.2%
Rest of Africa	385,626	511,723	670,558	877,017	1,141,598	1,454,034	1,812,811	2,204,417
10-year Delta	-	126,097	158,834	206,460	264,581	312,436	358,777	391,606
% change	-	32.7%	31.0%	30.8%	30.2%	27.4%	24.7%	21.6%
Total Africa	**477,965**	**631,614**	**814,063**	**1,044,107**	**1,340,103**	**1,679,301**	**2,063,030**	**2,477,536**
10-year Delta	-	153,649	182,449	230,044	295,996	339,198	383,729	414,506
% change	-	32.1%	28.9%	28.3%	28.3%	25.3%	22.9%	20.1%

Source: UNDESA, 2015 revision.

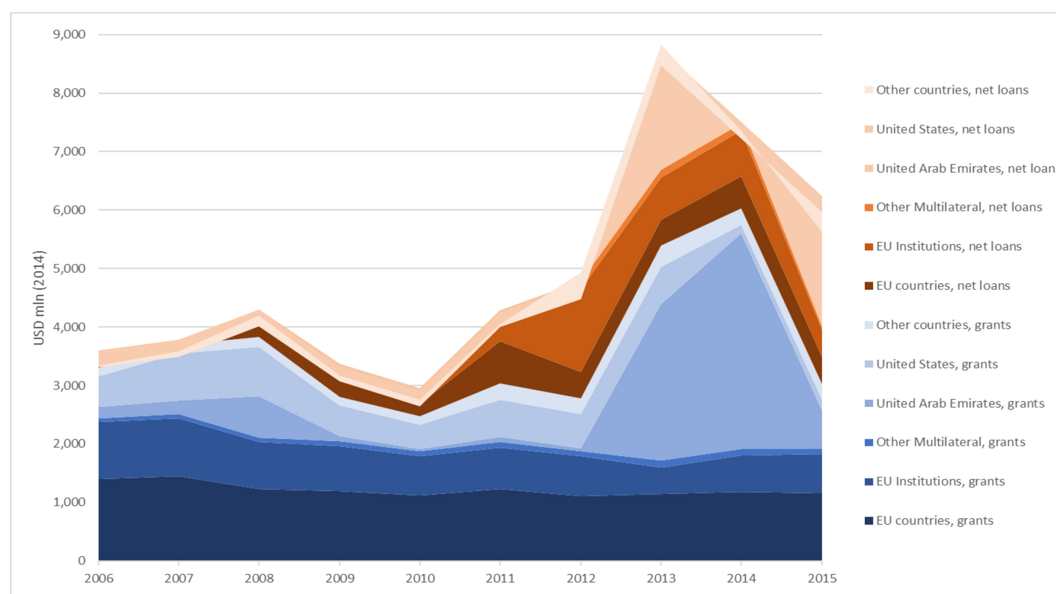
Table A2: Overview of the activities of major multilateral development banks in the region

	Activities in the Mediterranean neighbourhood countries (MENA/SEMED/FEMIP)
WB	• World Bank lending to the MENA region in FY2013 amounted to US$2.1 bn ($1.8bn from IBRD, $249mn from IDA and $56.4mn in special financing for the West Bank and Gaza). • IBRD/IDA lending increased to $2.8bn in FY14, $3.5bn in FY15 and $5.2bn (**€4.7bn**) in FY16. The increase in FY16 occurred particularly in Egypt and Iraq. • Around 20% of the lending is for climate change initiatives, reaching $1.2bn in 2016. • The FY17 Q1 lending (July-September) is expected to account for close to $1bn, including the Emergency Crisis Response Project for Yemen, Lebanon and Jordan.
EBRD	• In 2012-2016 invested over €5bn in more than 100 projects in Egypt, Jordan, Morocco and Tunisia. Lebanon is becoming a shareholder and country of operations in the near future. • In 2016 invested **€1.7bn** in the SEMED region, 5.6% of the total (€30bn), with large majority in loans and the rest (~20%) in equity investments. • 75% of EBRD's lending to SEMED countries is to the private sector, although also PPPs. Main industries of investment: Bank FI (22.6%), Energy (22.3%), Infrastructure (20.1%). • SEMED receives around 20% of EBRD's SME funding and more than 28% of the microfinance portfolio.

EIB	• Committed €9.6bn for lending activity for the 2014-2020 period in FEMIP countries (Southern Neighbourhood). Total lending of €14.6bn from 2007 to date.
	• Already signed €1.6bn in 2014, €1.4bn in 2015 and **€1.6bn** in 2016, i.e. 19% of EIB's non-EU activity (€8.4bn). Total EIB's lending in 2016 was €84bn.
	• 2007-2016: 27.7% of activities in Egypt, 26% in Morocco, 23% in Tunisia.
	• 2007-2016: 30% of activities in Energy (target of 35% for outside-EU lending for climate action by 2020), 16% in Transport and 15% in SME financing.
	• Its lending activity is project-linked, financing of the fixed asset component, up to 50% of total project costs. Direct loans only for amounts above €25 mn and maturities extend up to 25 years.
	• EIB's Economic Resilience Initiative: additional lending of €4.2bn over the next five years in the Southern Neighbourhood, of which:
	    o €1.5bn of additional lending to the public and private sector within existing frameworks;
	    o €900m additional lending on especially favourable terms to the local public sector;
	    o €1.8bn for higher risk, higher impact financing to support the private sector.

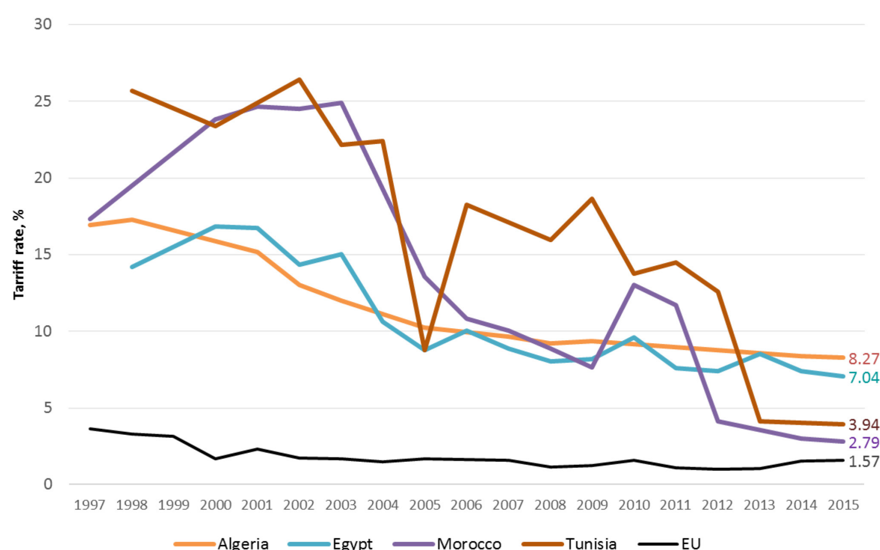
Source: Institutional reports, websites and presentations, accessed in March 2017. SEMED is the EBRD acronym for the Southern and Eastern Mediterranean region. FEMIP stands for Facility for Euro-Mediterranean Investment and Partnership, which brings together all the instruments implemented by the EIB in support of economic development in the Mediterranean partner countries, namely Algeria, Egypt, Gaza-West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and in the future Libya. International Bank for Reconstruction and Development (IBRD).

Graph A1: Total grants (blue) and ODA net loans (orange) to North Africa, by donor



Source: OECD International Development Statistics, Aid (ODA) disbursements to countries and regions [Table DAC2a], accessed in March 2017. Notes: ODA (Official Development Assistance) net loans display disbursement minus repayment. To be classified as ODA, a loan must be provided at concessional financial terms, i.e. including at least a 25% grant component.

Graph A2: Overall effectively applied tariff rates (AHS), weighted by partner/product flows



Source: World Bank staff estimates using the World Integrated Trade Solution (WITS) system, based on data from United Nations Conference on Trade and Development's Trade Analysis and Information System (TRAINS) database and the World Trade Organization's (WTO) Integrated Data Base (IDB) and Consolidated Tariff Schedules (CTS) database. Notes: Weighted mean applied tariff is the average of **effectively applied rates** weighted by the product import shares corresponding to each partner country. Effectively applied tariff rates at the six- and eight-digit product level are averaged for products in each commodity group. If a preferential tariff exists (and is available), it has been used as the effectively applied tariff (otherwise, MFN applied). Missing data, (1999-all countries, 2010-2013 for Algeria) were replaced by linear interpolation.