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Focussing on the Economy

The Opportunities and Challenges of Germany's Africa Policy

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No German head of government has made a stronger, more constructive, and more sustained commitment to our neighbouring continent than Angela Merkel. The next German government would do well to continue along this path and to place Africa even more firmly at the centre of its policies. The positive steps taken in recent years should be used as a springboard for taking our relations with African partners to a whole new level.

Merkel's Africa Policy Legacy

Anyone who has accompanied outgoing German Chancellor Angela Merkel on one of her many trips to Africa, or observed her in dialogue with African politicians, will swiftly have noticed how the subject of Africa and its people are dear to her heart. For her, it was never just about “combating the causes of flight”. Better life opportunities and true partnership were the goal. Despite the many crises that have had to be faced, Merkel regularly visited African countries during her time in office and devoted a great deal of time to welcoming African political guests in Germany. In Africa in particular, she enjoys an excellent reputation, which radiates back to Germany and the EU. She has given the economy an increasingly central role. This became clear during Germany's G20 and G7 presidencies and in the context of the Compact with Africa (CwA), an initiative that she played a key role in promoting. Long after its G20 presidency, Germany continues to be a pacesetter for the Africa policies of industrialised countries.

Quite rightly, the aim of the CwA is to bring more investment to Africa. Its premise is not one of simply increasing development aid but of promoting and supporting job-creating investment from industrialised nations. In return, the participating African countries have committed to reforming their frameworks and making them more transparent. With the three CwA conferences in Berlin, Angela Merkel has created a kind of German “Africa summit” in which investment and investment conditions

play a central role. This framework includes, inter alia, the creation of the German Development Investment Fund, with state guarantees being cautiously improved. This process is far from complete. And yet the tender seedling of German direct investment in Africa has already produced some new blooms in the form of growing and more diversified engagement. The initiative is definitely a step in the right direction for Germany's Africa policy, even if it certainly still needs to be adjusted, for example in terms of the participating countries or the support and financing instruments in Germany and Europe.

What Should the Next German Government's Africa Policy Look Like?

Germany's Africa policy is approaching a turning point, and not only because Development Minister Gerd Müller will not be part of the next government. African partners are playing an increasingly important role in solving global challenges: in climate and environmental protection; in economic and geopolitical global competition – not least with China; in migration; and in pandemic control and prevention. The African continent plays a key role in all these issues, if only because of its population size and dynamics, precisely because it is located in our immediate neighbourhood. There is therefore no alternative to forming a closer partnership with Africa. This should be one of the core tasks of a future German government. We have outlined a desirable structure for this partnership, below:

The basis should be a modern and differentiated image of Africa. The African continent has undergone major changes in recent decades. Africa is still all too seldom seen as a continent with numerous stable democracies, an ambitious young generation, great economic dynamism, and significant innovative strength. A modern German and European Africa policy must reflect the diversity of the African continent's 54 different states, choose differentiated approaches to cooperation, and be equally committed to exploiting opportunities and jointly solving problems.

There is more to discuss with our partners in Africa than development aid and local or regional crises.

Germany and Europe need partners in order to assert their interests. Our neighbouring African continent, as well as individual African states, can be important allies in a time of growing global friction. Germany enjoys an excellent reputation on the African continent – not least due to the strong and appreciated commitment of Angela Merkel – and is valued as a partner. It is in our own interest to invest even more in our relations with the continent and with individual African states, and we should articulate and assert our own interests. This is also what our African partners expect of us.

An essential element is shuttle diplomacy at the senior and the highest levels. There is plenty of room for improvement here in many departments of the federal cabinet. There is more to discuss with our partners in Africa than development aid and local or regional crises. At the forefront is economic exchange. Partnerships in the scientific and technical field are just as much a part of this as genuine youth exchanges and grants for stays by young Africans in Germany and young Germans in Africa.

This includes, in particular, supporting the economic activities of German companies on the

African continent with high-level political assistance at the local level. To this end, political visits should be augmented with business delegations and economic diplomacy expanded. This approach has always been part of France's Africa policy, which is still clearly ahead of Germany's in this respect. In the African context in particular, however, this personal level is of key importance.

Right at the beginning of the legislative period, the structures of departments and budgets must be designed to reduce barriers to effective initiatives on the African continent. The urgent need to strengthen resources for managing foreign economic relations – particularly with the Global South – could justify a separate ministry. A minister of state with appropriate responsibilities could be a step in that direction. There is still a need for effective coordination of Africa policy in the Chancellery. In any case, though, use of budget funds for direct promotion of entrepreneurial projects should not continue to fall short due to limitations such as the ODA ratio or the taboo subject of tied aid. Alongside poverty alleviation and promotion of the rule of law, democracy, and education, this is a central pillar that helps determine the success or failure of development. Effectiveness must be the decisive criterion here.

Focussing on Business and the Economy

The economic development of African states and stronger integration of the African continent into global value chains need to become a key priority of Germany's Africa policy. This should be designed and implemented proactively with Africa and oriented towards future potential. Issues with key importance for the African continent include: improving economic prospects through growth, diversifying national economies, creating millions of jobs, ensuring a climate-friendly energy supply and industrialisation process, and building efficient health systems. In all these areas, private sector involvement by German companies can contribute considerably more than in the past.

This is also in our own interests. After all, Africa is a continent full of opportunities that have not





Seizing opportunities: Economic growth and job creation are crucial for the African continent. Source: © Thomas Mukoya, Reuters.

yet been (or cannot be) fully exploited by the German economy. Progress within the framework of the pan-African free trade area, AfCFTA, in particular, promises great opportunities. However, China's continued attention and the growing interest of the US, the EU, and the G7 will also help Africa to develop strong, dynamic economies. This is of paramount importance for Germany as an international economy in terms of its own economic dynamism but also with a view to additional cooperation projects. Last but not least, the COVID-19 crisis has further stimulated considerations about greater diversification of global value chains; this will also serve to increase the relevance of the African continent.

In this context, the next German government should rely on the principles of the social market

economy as regards its economic cooperation with Africa. Specifically, this means stimulating entrepreneurial initiative through good general conditions but also through financing. Of particular importance are access to capital and state guarantees to protect against risk in trade, investment, and projects. The aim must be to render it easier for businesses to invest and trade. In principle, there is consensus on this, but, in terms of implementation, there is still considerable need for improvement, not least because of the still unresolved artificial conflict between foreign trade promotion and development cooperation.

African countries must be regarded as economic partners with equal status and not always as mere aid recipients. This requires an even more

radical rethink of policy. More specifically, it means turning the spotlight on businesses and their projects while sharpening and synchronising the tools of development cooperation and the promotion of foreign trade. Africa is home to future markets and investment locations – especially in times of necessary changes in the international division of labour and the emergence of value chains based on green hydrogen. German SMEs in particular should be supported in gaining a stronger foothold on the African continent. If successful, this will lead to employment opportunities for the local population, a strengthening of local demand, and sustainable activities in the field of vocational training geared towards real employment – in short, to development.

German dependence on supply chains from Asia could be reduced by shifting focus to Africa.

In terms of sharpening the tools, it is equally about trade and investment. State guarantees are a market-based instrument that should be strengthened wherever possible. Exports to African countries must be further facilitated by Hermes covers, export credit guarantees by the German Federal Government, and their conditions must be made internationally competitive. For this to happen, policy-makers must significantly reduce the risk borne by German companies in their transactions. The benchmark for this should be the most favourable conditions granted by other OECD countries. In some cases, these provide a close to zero per cent deductible, while Germany has a five to ten per cent deductible, i.e. costs borne by the company. Plans for an Economic Fund for Africa have

already been drawn up – an instrument that the next German government can utilise to support eligible German exports to Africa with more favourable credit conditions and grant elements, topping up the instrument as needed and providing it with the required follow-up financing. This would promote development and significantly improve the competitiveness of German companies in African markets.

Exports also stimulate investment. In order to specifically promote German investment in African countries and thus contribute to job creation, selected economic risks in countries on the African continent must also be covered



Success factor education:
African countries are in need of a skilled
workforce to achieve economic success.

Source: © Feisal Oma, Reuters.

by government instruments – in addition to the political risks covered by federal investment guarantees – at least when investments have a particularly positive impact on local development or climate protection. The economic risks to be hedged include payment and currency risks, which continue to be key obstacles for German companies in financing investments in Africa using outside capital.

Development cooperation funds could also be used to secure and promote job-creating investment in African states. The next federal government could place particular emphasis on the areas of climate, environment, mobility, nutrition,

and health. The local relocation and diversification of supply and value chains to African countries is an obvious option here. This would reduce German dependence on supply chains from Asia. This requires suitable frameworks and financial incentives for German companies wanting to relocate individual production stages or entire production operations to African countries. In return, companies will create what the young continent needs most urgently, namely jobs with high added value that improve people's lives.

The establishment of the pan-African free trade area, AfCFTA, also plays an important role, especially for investments that satisfy local demand.



If the fragmentation into countless small national markets is overcome, enormous opportunities will arise for intra-continental trade, which is still completely underdeveloped. But international investment will also naturally become much more attractive if larger integrated markets can be served. The next German government should support AfCFTA in the European framework through close cooperation with the African Union (AU). An African continent that represents a common economic area offers previously unheeded opportunities for Germany and Europe to place the economic relations between the almost two billion inhabitants of the two continents on a completely new and joint basis.

Energy and Climate

Access to reliable energy supply on the African continent is a basic prerequisite for economic development and remains a major deficit. The next German government must provide more support to German companies engaging in sustainable and climate-friendly activities on the African continent, especially in the environmental technology and renewable energy sectors. After all, the need for additional energy is nowhere greater than in Africa. Growth and industrialisation should therefore be designed to be as climate-friendly as possible and not fuelled by new coal-fired power plants.

German companies, which have extensive expertise in the field of renewable energy, are particularly well placed to drive Africa's climate-friendly industrialisation through investment. However, this requires innovative financing and risk hedging instruments that also take into account project development and the often poor creditworthiness of local electricity consumers. At the same time, German policy should advocate a mechanism that expands the CO₂ emissions trading system regionally, and holds out the prospect of an Africa-Europe climate protection zone. If German companies implement climate-friendly projects in Africa, and thus contribute to avoiding further emissions, they should receive a bonus in the form of certificates. This will stimulate more investment in Africa, which will protect

the climate and also create much-needed jobs in the process. The leverage effect of such projects in preventing CO₂ emissions is enormous compared to the possibilities of achieving savings within the national framework.

Green hydrogen will be an essential energy source of the future. The hydrogen partnership with Africa initiated by the current government must be further extended and aggressively driven forward. This is about local energy needs as well as exports to Europe. The involvement of German companies is of strategic interest. Flexible funding instruments are required in order to be able to enter into targeted partnerships with interested African states. Many African countries are ideally suited for the production of green hydrogen. Entire new industries can be created here – with significant job and wealth creation potential for the whole continent.

The German government must work closely with the private sector to build up a medical industry in Africa.

Health

The current pandemic has revealed how dependent Africa is on the import of vaccines, medicines, and medical and hygiene products. The need to build an independent industry including the production of medicines, vaccines, and medical equipment is recognised by the German government, which has finally also strengthened bilateral cooperation in the health sector. The next federal government must quickly address this issue and implement corresponding projects with selected African partner countries. German industry is ready for this, but for such a partnership between the German health sector and suitable African countries to succeed, policy-makers must provide tailored measures and strengthen existing instruments. The pandemic has shown us how important it is for sufficient vaccinations to be carried out everywhere in the world. In the

short term, the aim is to provide vaccines and medical equipment – especially bilaterally – to African countries. In the long term, however, the next German government must work closely with the private sector to build up a medical industry at multiple locations in Africa.

Education and Science

Promotion of practical and business-oriented vocational and higher education in Africa requires targeted funding. This applies in particular to activities in the education sector that arise as a result of the involvement of German companies. The opportunities currently available to young Africans to complete vocational or higher education in Germany should be massively expanded. These are still far too narrow in scope. Africa needs a skilled workforce for economic success. To achieve this, the barriers to Africans gaining qualifications in Germany and in German companies must be largely dismantled. In addition, scientific research on African issues in Germany also needs to be promoted, and scientific exchange strengthened. Instead of creating more and more new positions and institutes for this purpose, the next federal government should rely on existing institutions, improve functioning networks, bundle competences, network the actors more closely, and increase their financial resources.

Migration Policy

Germany's next government will also have to deal with the issue of migration from Africa to Europe. It is important to note that the aim should not be to prevent all migration from Africa. An essential element of modern migration policy is regular flows of labour and educational migration to Germany. At the same time, the most important goal of migration policy should be to ensure that young Africans have good professional and economic prospects in their home countries and on the African continent. A much stronger focus on expanding economic cooperation and creating high-potential jobs is by far the most effective and sustainable way to combat the causes of flight and migration.

Conclusion

Outgoing Chancellor Angela Merkel has massively raised awareness of Africa in Germany and Europe. She has acted on the conviction that there are more opportunities than risks in Africa. She not only understood how much remains to be done, but also launched initiatives at national, European, and global levels that would never have come about without her intervention.

As far as the new German government is concerned, it is to be hoped that the understanding will continue to increase that investment – and the economic growth it triggers – is the only sustainable way to offer local people real prospects for the future. To achieve this, Africa must be removed even further from the “sole responsibility” of the Development Ministry than it has been in recent years. A cross-departmental and holistic policy approach is required. The importance of Africa has undoubtedly grown in many ministries. However, development is still not sufficiently linked to foreign trade, for instance, and foreign trade is not sufficiently linked to the African continent. All in all, despite the undeniably great merits of the outgoing chancellor, Germany's Africa policy is still dominated by caution and small steps rather than by the bold, ambitious approach that is required. For the future development of Germany, Europe, and Africa, it would not only be desirable but in fact necessary if the new German government were to take bold and powerful initiatives in cooperation with Africa, the continent of opportunity – keeping in mind that this will only work if we place the economy at the heart of our actions.

– translated from German –

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