

Translation

The Federal Government

Africa's economic development – challenges and possibilities

As stipulated in the Federal Government Policy Guidelines for Africa, we intend to adopt a comprehensive approach to Africa policy which is coherent in itself and which is coordinated both within the Federal Government and in an international and multilateral context.

This thinking is also behind the multilateral Compact with Africa (CwA) initiative, which is a central pillar of the G20-Africa partnership launched during the German G20 Presidency. It aims to bolster the conditions for long-term private investment in African states, in infrastructure and other areas. The Federal Ministry for Economic Cooperation and Development (Marshall Plan with Africa) and the Federal Ministry for Economic Affairs and Energy (Pro! Africa initiative) have also submitted proposals for Africa's economic development.

The number of people on the African continent is expected to double by 2050; according to the World Bank, already by now 60 per cent of the population is under 25 years old. Realistic employment prospects, i.e. sufficient training opportunities and jobs for young people in particular, are therefore crucial for the development and the stability of various regions of Africa. Economic development which creates jobs could also help reducing migratory pressure.

This will only be achieved if, alongside the countries' own efforts and those of the international community, the private sector also increases its engagement in African states. Specific political, institutional and infrastructural conditions need to be met for sustainable private investment to take place.

Despite tangible progress in many African states, parts of the continent are still afflicted by crises. A vital aspect of a closer partnership with Africa is therefore strengthening African approaches to fostering peace and stability on the continent. With this in mind, the Federal Government intends to continue its long tradition of cooperation with the African Union and other regional organisations with the aim of building a strong African peace and security architecture. Border management measures and the development of police forces are helping to reduce border conflicts and boost state legitimacy. In addition, the Federal Government is supporting security sector reforms, mediation, migration management, promotion of the rule of law and democratisation processes in various countries in order to strengthen state structures and democratic institutions.

Many African countries are failing to reach their full potential despite vast economic possibilities. For this reason it is important that, firstly, changed conditions *in* Africa make long-term economic engagement more attractive and encourage further growth in trade and investment. This requires a basic regulatory framework in the individual African countries (including legal certainty, guarantee of personal freedom and property, promotion of self-financing and expenditure management and transparent tax structures). Sound education structures and functional academic systems are further central prerequisites for innovation, employment, economic growth and societal participation. At the same time,

secondly, relevant measures need to be implemented to improve the conditions *for* Africa at global level, also in line with the 2030 Agenda for Sustainable Development.

The German business community has made little use of Africa's potential so far. We therefore intend to further intensify the foreign trade and investment promotion and development cooperation tools available at government level, tailor them more closely to circumstances in Africa and dovetail them more effectively in order to boost bilateral economic relations and promote sustainable development in Africa. Duplication needs to be avoided.

Bilateral measures introduced by the Federal Government in this area focus on the needs of the African partners and their willingness to cooperate, build on their readiness to undertake reforms to improve the business environment and create incentives by setting conditions that need to be met. A bilateral contribution by Germany to the CwA initiative could potentially include the measures listed below. They also include proposals from the Marshall Plan with Africa and the Pro! Africa initiative. Whether those measures which require funding can be implemented depends on the legal budgetary framework and approval from the German Bundestag.

Measures

Coordinating measures, establishing a platform

To more effectively coordinate and track the implementation of the current economic strategy, and where necessary, related measures, the State Secretaries' meeting (Federal Chancellery, Federal Foreign Office, Federal Ministry of Finance, Federal Ministry for Economic Affairs and Energy, Federal Ministry for Economic Cooperation and Development, Federal Ministry of Education and Research, Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety) will convene at regular intervals in future. Other members of the Federal Government may be involved where the topics fall within their remit. The meetings will be prepared at working level.

In order to improve networking and information transparency, the plan is also to develop the internet platform "Portal Afrika" of the Germany Trade & Invest (GTAI) / German Chambers of Commerce Abroad (AHK) as central point of contact. Round tables for individual sectors, the development of mixed business commissions and other exchange platforms will supplement the support available to potential investors in and exporters to Africa.

A) Improving local financing structure and financing

1. Improving conditions through capacity building

Germany helps finance the five "Africa Regional Technical Assistance Centers" (AFRITAC) hosted by the IMF, which provide technical support for building stable financial institutions and promoting compliance with fiscal, monetary and financial policy standards. Coordination with bilateral development cooperation projects is to be driven forward.

Within the context of the G7 action plan for “Good Financial Governance in Africa”, Germany supports the African regional organisations with projects designed to strengthen the institutional capacity of tax authorities, not least by providing initial and further training programmes for tax officials, in order to make public budgeting more transparent and investment-oriented. The plan is to intensify the support in the area of taxation as a contribution to the Addis Tax Initiative.

2. Bilateral support measures for financial sector development and promotion of local capital markets

Germany is already helping several countries to develop their local financial sectors and their supervision/regulation, not least through the “Making Finance Work for Africa” initiative. Furthermore, Germany is supporting multilateral instruments to improve capacity building in financial sector development (e.g. “Financial Sector Reform and Strengthening Initiative – FIRST” – at the IMF and the World Bank).

The fact that local currency loans cannot be provided in many countries is regarded as a major obstacle to further developing financial markets in Africa. The Federal Government therefore intends to examine whether the scope of financial cooperation instruments can be extended to allow loans to be issued in local currency, particularly in the least developed countries (LDC). At the same time, the existing opportunities for enterprises to hedge against local currency risks in the market are to be extended further, e.g. by expanding TCX (the Currency Exchange Fund) designed to protect against exchange rate risks, which is co-financed by the Federal Ministry for Economic Cooperation and Development. In addition, efforts to improve framework conditions, including the regulatory environment, ought to be supported to facilitate the sustainable development of local capital markets.

The goal is to extend these measures.

3. Strengthening the German Investment and Development Company (DEG), expanding “German Desks – Financial Support and Solutions”

DEG uses the instrument of regional financial cooperation with a special focus on reform-oriented countries in Africa.

Furthermore, the Federal Ministry for Economic Cooperation and Development and the Federal Ministry of Finance, together with KfW/DEG, are looking into extending the provision of governmental guarantee instruments for DEG. This could indirectly create a scope for the DEG, as a private contributor, to expand new business in Africa, too.

The existing gap in the financing options for local partners trading with German enterprises and in the general bank services available to German small and medium-sized companies should be reduced. “German Desks – Financial Support and Solutions” will therefore be established at local DEG customer banks within the context of a long-term cooperation partnership between the network of German Chambers of Commerce Abroad and DEG. The first German Desks in Africa are due to be set up in the course of 2017. If they are successful, the concept could be expanded.

DEG could indirectly reduce transaction costs for smaller investments in Africa via cooperation with local banks. In Africa specific steps are to be taken to expand the network of more than 200 partner banks by targeting local small and medium-sized enterprises as catalysts for prosperity and development. In addition, DEG is examining other possible measures (local currency loans, support of private equity) to stimulate investment in Africa.

4. Making use of innovative tools for the leverage of private capital

Mobilising private capital for investment in sustainable development is becoming increasingly important in view of mounting challenges in the areas of development and climate policy. The structural funds in which KfW is involved on behalf of the Federal Ministry for Economic Cooperation and Development and the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety focus primarily on development policy goals. By mobilising market resources from development banks and private capital, these funds can, as a rule, obtain a certain volume of development financing with a lower amount of public funding than would be the case with budgetary financing alone (e.g. Africa Agriculture and Trade Investment Fund (AATIF)).

5. Expanding tools to finance small and medium-sized enterprises as well as start-ups

KfW is involved in the European Investment Bank's "Small and Growing Business Fund" (GroFin), founded in 2014. The capital is used to provide financial support for small and rapidly growing SMEs in nine African countries in particular, as well as to establish points of contact for the fund in the relevant countries and thereby intensify strategic technical assistance services for SMEs. More use could be made of instruments such as the GroFin.

Another goal is for the Federal Ministry for Economic Affairs and Energy to establish a specific start-up financing fund to operate in selected African cities with a high level of start-up activity and make venture capital available to start-ups with high growth potential.

To supplement the established ERP Export Financing Programme, additional fixed interest financing at the OECD Commercial Interest Reference Rate (CIRR) is being made available for transactions in Africa. This is boosting planning security for African customers and making financing conditions more attractive.

6. Participation in multilateral financing instruments

The Federal Government will examine whether it can increase its financial and conceptual contribution to relevant funds as well as to the work of multilateral development banks (MDBs) in order to support MDB activities in promoting investment in Africa. The aim is also to incorporate German goals more effectively into existing multilateral structures and new initiatives as well as to facilitate the leverage of funds.

Relevant enterprises need to be made more aware of the MDB services available for the private sector in order to foster the mobilisation of private capital and the development of the private sector.

B) Intensifying foreign trade and investment promotion

7. Extending double taxation agreements

By creating tax certainty particularly for investors, double taxation agreements can promote foreign investment and thus foster economic growth. In its negotiations on agreements with developing countries, the Federal Government takes the specific situation of these countries into account. Negotiations on double taxation agreements are complex and consume considerable resources. They should therefore go hand in hand with capacity-building measures in the finance ministries of the development cooperation partner countries.

8. Extending export credit guarantees (Hermes cover) and investment guarantees

Hermes guarantees can help promote development in the states concerned, as they allow less developed countries to import the latest technology or to finance and implement infrastructure projects.

For African countries which successfully implement the Compact with Africa, thereby reducing risks and improving business conditions, we plan to lower the non-reimbursable portion of Hermes guarantees from ten to five per cent for public customers, too. The same conditions are to apply to other African countries following a case-by-case risk-based assessment.

In addition, Germany will work in an international context for an increase in the permissible local costs in the OECD regulations on export credit guarantees which reflects a balance between the demands of ever more globalised value chains on the one hand and the desire to preserve German jobs on the other hand. Such an increase would create even wider scope for generating substantial added value in Africa.

In view of the large number of bilateral investment protection agreements it maintains, the Federal Government is already in a position to take on federal investment guarantees for projects in most African countries as insurance against political risks. Moreover, for smaller projects with a volume of less than five million euros, no charge is made for processing applications. Insurance is also available from multilateral institutions, e.g. via the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). Enterprises need to be better informed about investment guarantees and other available insurance options.

9. Strengthening the German Chamber of Commerce Abroad network and the Foreign Market Entry programme, consolidating the presence of Germany Trade & Invest, expanding Manager Training Programme.

Technical assistance services for enterprises in Africa need to be reinforced by expanding the network of German Chambers of Commerce Abroad as required. The Foreign Market Entry programme is being extended for German SMEs. The further training programme for managers is being expanded to include selected African countries with the goal of teaching African entrepreneurs advanced management and cooperation skills in Germany. In addition, the presence of Germany Trade & Invest in Africa is to be strengthened, and reporting on African

market conditions placed on a broader footing. Trade fair participation in Africa is also to be increased.

10. Expanding energy partnerships and dialogue with Africa

Additional energy-related dialogue with African countries is to be initiated over and above existing energy partnerships and development cooperation measures with the aim of expanding energy supply in 25 African countries. This reflects a comprehensive energy policy approach which supports all sustainable central and decentralised forms of energy production in the African partner countries and helps boost local added value and sustainable conditions in these countries. Formats such as energy conferences and business-to-government events could supplement this approach. Germany is also increasingly involved in international initiatives such as the *Africa Renewable Energy Initiative* (AREI) and the multi-donor partnership *Energising Development* (EnDev).

Moreover, the ongoing activities of the German Energy Solutions Initiative in Africa are to be expanded and intensified.

11. Using the “major strategic projects” export strategy

The newly created office for strategic projects abroad at the Federal Ministry for Economic Affairs and Energy accompanies strategic projects abroad by providing political support and combined financing options. It also offers assistance for strategic projects in Africa and will in future play a supporting role in projects of this nature in African countries.

12. Promoting business cooperation and exchange, particularly start-ups

The Federal Ministry for Economic Cooperation and Development is promoting the development of the private sector in Africa, not least by assisting new start-ups, particularly with company financing, by eliminating red tape and by promoting exchange within the context of innovation hubs. The Federal Ministry for Economic Affairs and Energy is examining ways to expand further funding programmes for Africa, for example to boost exchange between German and African start-ups and their ecosystems. Both ministries are focusing particularly on start-ups in the digital sector. The Federal Ministry of Education and Research is placing a focus on Africa to ensure that initial and continuing training services from German providers can be developed and implemented in line with demand.

In addition, the EXIST Start-Up Germany programme is to be tailored to the African market and developed in conjunction with existing university and research institution networks in Germany and Africa.

The Federal Ministry of Education and Research plans to focus its cooperation with Africa more strongly on innovation and the exploitation of research findings, promote networks between academia and business in the interests of improving knowledge transfer and support African research and innovation systems, e.g. through cluster projects / innovation networks.

Research cooperation between innovative small and medium-sized German enterprises involved in the Central Innovation Programme for SMEs and African partners is also to be promoted more intensively.

Building on technical cooperation to improve quality infrastructure in Africa, cooperation between institutions on both sides is to be placed on a firmer footing (in particular the National Metrology Institute of Germany (PTB) and the DIN German Institute for Standardization on the German side).

C) Strengthening development cooperation for trade-related and private sector development

13. Advising business stakeholders on development cooperation tools

The Federal Government intends to dovetail its foreign trade and investment promotion and development cooperation tools more closely. The Federal Ministry for Economic Cooperation and Development and the Federal Ministry for Economic Affairs and Energy plan to build on their successful cooperation regarding the secondment of integrated development cooperation experts to the German Chambers of Commerce Abroad or to bilateral business associations (“ExperTS”), in the short term, for example, with the opening of a new office of the German Chambers of Commerce Abroad in Tanzania. German Business & Cooperation Desks are also to be established in other African states via the Global Business Network programme (GBN), which is currently being set up.

The Agency for Business and Economic Development serves as a point of contact for enterprises with regard to issues concerning development cooperation tools, with the aim of boosting interaction between business and development cooperation. To this end, the Agency coordinates with the German missions abroad and the existing network of German Chambers of Commerce Abroad.

14. Promoting project development

Project development and preparation is complex, often time-consuming and involves considerable financial risk. There is a lack of expertise in local markets. One reason for the low volume of investment in Africa is the lack of capacity in state structures to identify projects suitable for investment. Moreover, the costs of project preparation are often a barrier to effective implementation. In such cases project preparation facilities can help. In recent years, also in response to demands from the G20, several such facilities have been established (e.g. World Bank/MDB Global Infrastructure Facility; African Development Bank Africa 50 initiative). These will be driven forward and expanded.

- a. The feasibility study programme from the budget item “development partnerships with business” helps promote the preparation of investments by European enterprises that would be expedient from a development policy perspective. Opening up the programme to local SMEs and local project developers is currently being examined.
- b. The idea of providing risk insurance for the early stages of project development via a risk premium to be paid by enterprises is also under examination.

15. Shaping and supporting a trade policy conducive to development

Trade agreements (e.g. the economic partnership agreements - EPAs) with African countries need to deliver benefits for both sides, whereby appropriate consideration should be given to the sensitive interests of developing countries. At the same time, intra-African trade and regional integration need to be strengthened, as is also set out in the Agenda 2063 of the African Union.

The Federal Government supports a corresponding implementation of the EPAs as an important step towards the continental free trade area that the AU is working to realise. German development cooperation measures can support these processes, e.g. by effectively monitoring the impact of the EPAs on establishing value chains and regional integration or by helping regional organisations to promote economic integration. German development cooperation can also support African partners in voicing their concerns more effectively in international trade negotiations by providing targeted capacity-building and advice services.

16. Expanding vocational training

The Federal Government has been supporting its African partner countries for many years in the areas of vocational training and employment, not least in the context of German development cooperation. By imparting key elements of the dual training system, which has proved its worth in Germany and is in great demand worldwide, it is playing a particularly valuable role in optimising interaction between state vocational training institutions and in-company training. The local coordination of vocational training activities through the round tables set up by German missions abroad is also of great importance.

- a. Strengthening national vocational training systems through system consultancy services provided by the Federal Ministry of Education and Research. This takes place through cooperation with the relevant local stakeholders and the tailored use of the tools available.
- b. Intensifying long-term support for local initial and further training for experts and staff, for example by establishing national Sector Education Training Authorities (SETAs) and involving enterprises and business associations. The aim here is to create training capacity for African apprentices in local and German/international enterprises.
- c. Training for teachers involved in vocational training – along the lines of the East African-German University of Applied Sciences project in Nairobi – is also to be introduced in other locations in Africa. The possibility of intensifying university cooperation is also under examination.
- d. In order to effectively address the lack of labour-market-relevant, customised qualifications among African university graduates, the Federal Ministry of Education and Research intends to promote projects to improve teaching quality and develop practical teaching and learning approaches with an emphasis on employability. In addition, the development of labour-market-relevant study courses is to be flanked by programmes to improve the skills of university teachers and develop curricula.

- e. The creation of partnerships between individual German and African institutions and exchanges among vocational school teachers is to be tested in pilot projects.
- f. The “Skills Experts” programme is to be extended to selected German Chambers of Commerce Abroad in Africa which help German enterprises to train local experts according to requirements along the lines of the dual training system.
- g. Expanding development policy engagement in the area of vocational training to encompass all the African partner countries of the Federal Ministry for Economic Cooperation and Development, involving African business associations and particularly training companies using goal-oriented incentive systems to mobilise training places within companies.
- h. Building on the transregional Skills Initiative launched by the Federal Ministry for Economic Cooperation and Development with the African Union to train experts for enterprises throughout the region.

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