

NEW IMPULSES FOR BUSINESS AND INVESTMENT IN AFRICA

Recommendations for the further development of guarantee and financing instruments to strengthen trade and investment with and on the African continent

For years, German policy-makers have worked to stimulate trade and investment on the African continent. Despite some progress in a challenging global economic environment, the results remain below what is needed. Germany still plays a relatively minor role in African markets compared to its global economic weight. Given Africa's growing importance in the global economy, stable and high growth in many parts of the continent, and the need for greater diversification in German foreign trade, further efforts and expanded government support are essential.

Key to these efforts are tailored instruments for financing trade transactions and investments. The federal government has made recent improvements in this area, particularly within its diversification strategy and climate-friendly projects. However, these measures are not enough to overcome existing financing bottlenecks. In a recent member survey, nearly 60 percent of companies operating in Africa identified financing constraints as their main business challenge. At the same time, these companies see competitors from other countries receiving better

support, a finding confirmed by scientific benchmark studies, including one commissioned by VDMA.

The global competitive environment makes exploring new paths for collaboration more urgent than ever. Improved frameworks and simplified processes can deepen partnerships with African countries and promote Ger-

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man investments. This requires financing tools tailored to the needs of German companies' clients, benefiting German companies as local growth drivers, advancing value creation in Africa, and stimulating employment and skills development within Africa's emerging societies.

Afrika-Verein recommends the following measures to develop financing tools further:

Expand Export Credit Guarantees and Improve Conditions

Hermes guarantees are a vital instrument for the German economy, proven over decades. Recent improvements include a program to reduce bureaucracy and lower deductibles for many African countries that participate in the Compact with Africa (CwA) or are part of the federal government's diversification strategy. However, companies still see disadvantages compared to competitors, particularly in deductible requirements. The benchmark here should be the most favorable terms granted by other OECD countries, such as Austria, which offers a coverage rate of up to 100 percent for political risks.

For projects in Africa that generate positive local impacts across sectors, the best conditions granted within Germany should be extended to all sectors. Afrika-Verein welcomes the reduction of deductibles to 2 percent for guarantees classified as green under climate sector guidelines for export credit guarantees. This coverage should be gradually extended to other sectors, with priority given to CwA

countries, while allowing limited exceptions where justified. Given Africa's strategic importance for Germany's export market and achieving global climate goals, coverage for African projects should be made easier, with exceptions applied as needed.

The renewable energy special initiative launched in 2020 under the federal climate strategy allows exports to be covered even if up to 70 percent of the supplies come

A key priority must be strengthening local value creation across Africa

from foreign sources, up from the previous limit of 49 percent. In this context, the German government should actively work within the OECD to eliminate the distinction between local costs and foreign supplies. This could promote higher value creation directly in the project country—strengthening local companies and the economy—and simplify contract structures, making project implementation more efficient.

Strengthening local value creation across Africa should be a central goal. Differences in deductibles should be harmonized. Currently, the deductible for exports to key target countries like Nigeria remains at 10 percent. This should be lowered at least to the CwA level to strengthen trade relations and support local economic cycles.

In this context, we advocate targeted use of development cooperation funds for selected projects to effectively support the development-relevant components of trade measures and achieve sustainable impacts. A paradigm shift in German and European policy is needed to create an attractive, supportive credit system backed by Hermes guarantees. The goal is a trade finance product with a targeted soft loan component (reduced interest rate), specifically to facilitate projects in African countries, particularly those involving public entities. Additionally, the fixed-rate facilities under Africa CIRR should be broadly offered for German export financing, providing African borrowers and clients with more certainty in capital servicing.

Establish an African-German Procurement and Sourcing Facility

Afrika-Verein supports innovative approaches to mobilizing private capital to strengthen economic relations with African countries. In this context, Afrika-Verein proposes the creation of an African-German Procurement and Sourcing Facility. This would provide flexible financing lines from federal funds for exports, projects, and investments in African markets with German participation (exporter, investor). These loans would be granted to African banks, companies, or governments to finance goods, capital goods, and services sourced from German suppliers. Such loans could be secured over the long term through Hermes guarantees, but adapting the existing Hermes

Shopping Line product is necessary, as it is currently limited to large projects with clients in higher-rated countries.

A German Procurement and

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Sourcing Facility would offer benefits over individual loans, including better rates, greater efficiency, and improved flexibility. Establishing such an instrument would improve the operational capacity of German SMEs in African markets, as called for by the diversification strategy. Additionally, the banking sector in African countries would be strengthened if local banks acted as lenders, as funds could be channeled locally under this facility.

Expand Federal Investment Guarantees

Afrika-Verein welcomes improvements to federal investment guarantees for African countries under the diversification strategy. Afrika-Verein recommends extending these enhancements—such as the reduced premium for countries in OECD premium category five or better, elimination of the application fee, and reduction of deductibles from five to two and a half percent—to a broader number of African countries.

To promote German investments in African countries, selected economic risks in African countries should be covered by government instruments in addition to political risks covered by federal investment guarantees. This should apply particularly to investments with a significant positive impact on local development or climate protection. Afrika-Verein advocates for better coverage of payment and currency risks, as they remain central obstacles to German companies' investments in Africa despite recent improvements in payment default risk coverage. Improved coverage of payment default risk for privately financed energy and other infrastructure projects is needed, including enhanced offtake protection to cover cases where local users of infrastructure like electricity or water cannot pay.

Facilitate Financing for Energy and Hydrogen Projects

New partnerships between Europe and Africa in the critical area of renewable energy and hydrogen require an improved financing toolkit. In addition to financing instruments, renewable energy projects need offtake support to achieve bankability and offset the "first mover disadvantage." For hydrogen projects, long-term offtakers are essential, committing to this energy source. Since a fully functional hydrogen market has yet to emerge, contracts for difference (CfD), such as those under H2 Global, should be significantly expanded. This should include term extensions and long-term price guarantees of 15-20 years.

Minimize Financing Bottlenecks through an Expanded ImpactConnect-for-Africa Program

Since its launch in 2019 (originally as AfricaConnect), the program has supported numerous companies in their investments. By July 2024, 62 projects with a total volume of over €175 million had been supported in Africa, creating around 10,000 jobs by July 2023. To achieve significant additional impacts by increasing the number of companies funded and the volume of financing, further budget resources are needed for this hybrid of development cooperation and trade promotion. We also advocate for adding a risk-shar-

ImpactConnect.

Strengthen Local African Banks

Strengthening Africa's financial sector is essential for local value creation on the continent. Accordingly, Afrika-Verein advocates for increased financing of German investment projects through African commercial banks. Guarantees from German public bodies could secure loans for African banks, facilitating the financing of projects by German companies. This initiative could serve as a pilot project within the German Desks portfolio with the necessary political and financial support.

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ing mechanism to the program. Creating A/B loan structures could make the program more attractive by spreading risks more broadly, with private banks participating in the DEG's A tranche with a B tranche at half the amount. These improvements should be implemented as ImpactConnect for Africa, restoring the original focus on Africa as a key investment location. Moreover, the overall awareness of available financing programs among businesses should be improved, for example, through an AI-supported enhancement of the federal funding database. Other foreign trade stakeholders should actively inform their program clients about other programs like

Expand Double Taxation Agreements (DTAs)

According to the Federal Ministry of Finance, Germany currently has double taxation agreements with 14 African countries, only four of which are part of the Compact with Africa (CwA). Afrika-Verein advocates for the swift conclusion of additional DTAs with African countries, preferably with reform-oriented countries under the CwA initiative. Given that the last agreement with an African country was signed a decade ago, greater ambition from the federal government in this area would be desirable. Additional DTAs would not only provide tax clarity but also promote bilateral trade and investment by reducing

economic barriers and creating a stable, attractive environment for companies on both sides.

Rethink Risk Perceptions of African Markets

For some time, high-level representatives from Africa's economy, civil society, and politics have emphasized the need to reform the international financial system and rating practices (including OECD country classifications) to address structural disadvantages faced by African markets. Several heads of state reiterated this at the G20 Investment Summit in Berlin in October 2023. Afrika-Verein advocates for the federal government to respond to these calls by supporting a European initiative for re-evaluating risk assessment mechanisms for African markets.

Local expertise, such as close cooperation with African commercial banks and financial institutions like the African Development Bank (AfDB), should play a more prominent role in risk assessments.

These efforts should support the aforementioned possibility of granting local currency loans. Additionally, guarantee components for local banks (e.g., through DEG, KfW, Euler Hermes) could enhance the competitiveness of German projects in many regions.



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Afrika-Verein der deutschen Wirtschaft (AV) is the nationwide, cross-industry foreign trade association for German companies and institutions interested in economic cooperation with African countries. As a well-connected intermediary, it promotes exchange between German and African representatives from business and politics. Our mission includes advocating for a new perception of Africa in Germany: Africa as a continent of opportunity.