Thomas Schmidt · Kay Pfaffenberger · Stefan Liebing *Editors*

Practical Handbook Business in Africa

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Foreword to the Expanded and Updated Second Edition

Whoever asks questions must also accept that he gets answers.
(Cameroonian wisdom)

Africa?—Africa!

Since the publication of the first edition of this book, much has happened with regard to Africa. Africa and cooperation with African partners was until recently a central theme of the last Merkel government (Federal Government, 2014, 2017, 2021a, b). Within the framework of the "Compact with Africa" group initiated by this government, which was established in 2017 under the German G20 presidency, an institutional format was created for the cornerstones of German and international Africa policy. A number of G20 member states, especially Germany, have supplemented the activities at G20 level with bilateral measures. For example, the German development investment fund was created. The sum of the measures implemented has led to the fact that the investments of German companies (Foreign Direct Investments—FDI) on the African continent reached a record level of 12.1 billion EUR in the pre-pandemic year 2019 (Monnerjahn, 2021).

Countervailing developments have been triggered by the effects of the Corona pandemic. While the continent on average came through the crisis quite well, if the infection and death rates are taken as a basis, this can only be said to a limited extent for economic development. The published values suggest rather small economic downturns in a global comparison. However, it must be noted that a large part of the effects occurred especially in the informal sector, which naturally does not enter into the statistics. In any case, it must be noted that the pandemic will cause shifts in the importance of different sectors. The increasing importance of the topic of climate protection has also left its mark in Africa. Large needs for green energy in Europe can be met if Africa makes its resources available for export in addition to its own needs, for example in the form of hydrogen and derivatives.

All these developments and tendencies require a fundamentally new look at Africa after five years. We, the editors, have taken up the many changes and therefore fundamentally expanded, redesigned and updated this book. We are of the opinion that, regardless of the Corona crisis, Germany's and Europe's focus must continue to be on Africa. Not least because we cannot afford to leave the huge opportunities unused. But also because the major global challenges of climate protection, migration, multilateralism and rule-based international politics can only be solved if we recognize Africa as an important partner in solving these challenges. This handbook is intended to serve not only students, but also practitioners as an introduction to current issues in the economy of the diverse continent.

04.12.2022
Flensburg

The editors
Stefan Liebing
Kay Pfaffenberger
Thomas Schmidt

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About the Editors

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Before his appointment to the professorship, Kay Pfaffenberger set up the Electronic Banking Services of a medium-sized cooperative bank and managed them for several years. Furthermore, he was responsible for the internal and external corporate communication of CardProcess GmbH, Frankfurt as a consultant. He received his doctorate from the Chair of Banking at the University of Leipzig.

The focus of his research is in the area of business models of renewable energies and developments in the area of transaction banking in Africa. He also looks at the start-up scene in Africa. He supervises, among other things, an EU-funded project to develop a master's degree in energy efficiency in southern Africa. He is involved in the planned foundation of an East African-German University of Applied Sciences. He also looks at the development of good governance on the African continent from an institutional economic perspective, drawing on his expertise from the German cooperative system.

Professor Dr. Thomas Schmidt is Founding Director of the Centre for Business and Technology in Africa and Professor of Business Informatics at the University of Applied Sciences Flensburg with a focus on operational application systems. He advises companies on strategy and implementation projects in information technology and logistics. Before his appointment as professor, he was first a research assistant at the Fraunhofer Institute for Production Technology and Automation and later a Senior Management Consultant at CSC Ploenzke responsible for the logistics area. During this time, he received his doctorate in business informatics from the University of Bamberg.

Thomas Schmidt has many years of experience in Africa with projects on university partnerships with technology transfer in logistics and information technology. As Founding Director of the Centre for Business and Technology in Africa, he founded the Namibian-German Centre for Logistics and operates partnerships in Cameroon, Kenya, Namibia and Ethiopia with successful cooperative bachelor and master programs. In addition to his African expertise, he taught and researched as a visiting professor in the USA, Sweden, Finland, France and China.

Economy in Africa—An Introduction

1

Stefan Liebing, Kay Pfaffenberger and Thomas Schmidt

Contents

The best time to plant a tree was twenty years ago. The next best time is now (Proverb from Uganda)

Abstract

Africa! The popular image of Africa is still dominated by hunger, poverty, and war or by folklore and romantic notions, especially in the media. New technologies, economic development, and a middle class that is quite stable despite the pandemic still play no major role in this view. Africa is seen as a dark, lost continent without hope.

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1.1 Why This Book About Economy in Africa?

Africa! The popular image of Africa, particularly in the media, is still dominated by hunger, poverty, and war, or by folklore and romantic notions. New technologies, economic development, and a middle class that remains relatively stable despite the pandemic play no significant role in this view. Africa is seen as a dark, lost continent without hope. This is a very one-sided and outdated image that largely ignores Africa's economic upswing and dynamism. For years, Africa's average economic growth has been more than 5%. While the United Nations Department of Economic and Social Affairs (UN DESA) reports a 3.4% decline in Africa's gross domestic product in 2020, growth rates for 2021 and 2022 are expected to be back at 3.7% on average across the continent (UN DESA, 2021). A significant part of the decline in 2020 is due to the crisis-related drop in demand for raw materials and their price collapse. Nevertheless, a large part of the known mineral resources are stored in Africa and will contribute positively to further economic development.

The middle class accounts for 34% of the African population. With nearly 350 million people, Africa's middle class is a significant source of growth for the private sector in Africa and for the demand for goods and services. The vast majority of the 54 African countries are moving towards more stability, greater legal certainty, and improved political leadership, even though the pandemic has exacerbated certain crises (e.g., in Mali). Largely unnoticed by us, for whom Africa is still the unknown continent, the markets of the future are emerging in Africa. Markets where leapfrogging is not a buzzword, but a reality. In emerging new industrial nations like India, Brazil, and especially China, but also in many Western countries, this new view of Africa has already taken hold, and economic actors are acting accordingly. In Germany, too, this more optimistic view of Africa is slowly developing, and there is a fundamental change in the perception of the continent. When writing about Africa today, titles such as "Africa Rising" (Mahajan, 2009) or "The Underestimated Continent" (Gaus, 2011) are used. The economic potential of this continent and its performance are reflected in designations such as "Africa—The Ultimate Frontier Market" (Mataen, 2012), "Africa is the new Asia" (von Gaertringen, 2014) or "The Bright Continent" (Olopade, 2014). Success stories (Chuhan-Pole & Angwafo, 2011) and examples of successful companies (Games, 2013) show the opportunities that lie in this continent. The underestimation of the potential of this continent is perhaps best illustrated by the books "The Black Tiger—What We Can Learn from Africa" (Stoisser, 2015) and the recently published: "Afrotopia" (Sarr, 2020) by Felwine Sarr. The author is a Senegalese social scientist who presents an African vision of progress and "Africa! Looking back at the future of a continent" (Grill, 2021), which aptly describes the future potential of the supposedly lost continent.

Africa! There is also a personal motivation for this book. We, as the editors of this work, have had contacts in Africa and experience in building relationships in business, education, and politics for almost 20 years. From the first, smaller encounters—Stefan

Liebing in Central and East Africa, Kay Pfaffenberger in West Africa, Thomas Schmidt in Southern Africa—we felt the economic potential of this continent and were fascinated by the untapped opportunities. This ultimately led us to devote an ever-increasing part of our activity to the economy in Africa. Stefan Liebing was until recently the chairman of the Africa Association of German Business and convinces companies and politics of Africa's potential. Kay Pfaffenberger and Thomas Schmidt are professors at Flensburg University of Applied Sciences and link their special fields of business informatics, logistics, energy and environmental management, and banking with practice-oriented projects and applied research in Africa. At the Centre for Business and Technology in Africa, we pool our experiences, information, know-how, and contacts related to the economy on the African continent. We support innovative concepts and high-quality education on site by bringing people together, sharing knowledge, promoting exchange, and accompanying innovative companies in their economic activities in projects with industry. The Centre has grown dynamically and (as of 2021) represents a merger of eight professors from Flensburg University of Applied Sciences and the University of Flensburg.

Africa! Again and again, in discussions and also in practical projects, we are asked how the immense potential of this continent can be tapped. How can attractive markets and sectors be identified? What methods, tools, paths, and measures lead to investments and business in Africa being successful? What are the necessary conditions, and which institutions can provide help? This book serves as a guide for practitioners who want to be successful in Africa. The present work shows the way to successful business in Africa. It is more than a collection of anecdotes about successful investments and success stories. It is not a book about "There are opportunities in Africa". It is by no means a top 10 list of the most attractive countries and industrial sectors. Such rankings are rather insignificant snapshots in a dynamic environment of the vibrant continent. Rather, it is a practice-oriented, yet scientifically based guide on how to invest and make money in Africa, written for all entrepreneurs and those interested in economics who want to be successful in Africa. The authors are both experienced managers of large and family businesses with sometimes a hundred-year history on the continent, who successfully do business in Africa, but who can also provide important advice from personal painful experience on which pitfalls to avoid. Also included are managers of companies that support African start-ups. In this book, we have relied less on African authors and more on German entrepreneurs, because this book is expressly about German entrepreneurs helping other companies with their experiences. But always with the explicit perspective that African partners are essential and always act on an equal footing. We believe in a participatory approach, because technology, knowledge, and economic transfer can only fully unfold their potential in interaction.

1.2 How Is This Book Structured?

Classic questions that every actor who wants to be economically successful in Africa must answer are WHY Africa is interesting for business, WHERE the greatest chances of success lie, HOW to proceed, and WHAT can be done additionally by politics and economy to tap this potential. In addition to this introduction and a concluding summary, answers to these questions are given in the three parts.

Part 1 of the book examines in detail why companies should engage with Africa and what potentials for economic success can be expected for the companies. This is demonstrated by the macroeconomic development of the African countries and socio-demographic indicators. It introduces the economic and political developments in Africa and thus sets a framework for the following considerations. Furthermore, it explains the role entrepreneurs play in Africa and how this influences social and economic development.

Where to invest in Africa is a difficult question. Africa is not just Africa. The continent consists of 54 countries, and the differences are much more significant than commonly assumed. Answers to questions such as regional integration, cultural imprinting, and resource/non-resource countries can tip the balance between business success and failure. Depending on the region and even the country, different industries and business models are promising. There is no simple strategy that applies to all African countries, but a very differentiated view is necessary. How such a differentiated country strategy can be determined and target countries identified without having to resort to flat top 10 lists is presented in Part 2 of the book.

The core of this book is the topic “Investing in Africa, but correctly” in Part 3 of the book with a comprehensive practical part that illuminates all aspects of the approach that are important for an investment project or the design of business relationships. How do I recognize the markets that are most promising for my business? What is important in the analysis of markets? What special considerations should be taken into account when selecting local partners and how to avoid pitfalls? How do customers behave and how do I acquire a loyal customer base? What support can be given by German politics and how to create a trusting and partnership-based cooperation with African governments? How should risks be identified and managed early on? How can loans be secured and the financing of projects or trade transactions be ensured? How can qualified personnel, which is essential for success, be trained and retained? What legal and tax conditions, which are different from those in the home markets, must be taken into account? How is the aspect of compliance in business ensured? For this, basic action alternatives are presented and case studies exemplify how successful companies have proceeded.

German companies must go to Africa. What needs to be done to gain a successful foothold in Africa is outlined in Part 4 as a conclusion by the editors in five theses. However, German companies can also learn from the experiences of others. In dealing with African partners, emerging economies like China, India, Brazil, and Turkey are often ahead of us. What do companies from these countries do differently? A very interesting question with sometimes unpleasant answers. Just as unpleasant as the question of what political support is lacking to be successful in Africa. All this is not spared in this book.

Africa! A continent in transition. A continent on the move. In the spirit of the Ugandan proverb "The best time to plant a tree was 20 years ago. The next best time is now"—it's time to build businesses in Africa. This book is intended to help understand this continent better. It should help to initiate promising businesses, make investments, and be economically successful.

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Part I
Africa Has Potential!

Abstract
In Part I, it is examined in detail why companies should engage with Africa and what potentials for economic success can be expected for the companies. Another article deals with entrepreneurship in Africa and shows how the scene of potential local partners for German investors will develop. The economic growth impulses are demonstrated by the economic development of the African countries and the question is answered whether Africa's growth is sustainable. Finally, the demographic and social developments in Africa are discussed and it is debated to what extent this can be seen as an opportunity or risk.

Africa Is Different From What You Think

2

Christian Hiller von Gaertringen

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Abstract

Images of starving children and exhausted women still shape the image of Africa in Germany. However, the continent produces a multitude of brave, inventive, and innovative entrepreneurs. The way they develop their businesses differs in many respects from founders in Europe. They learn to cope with a dilapidated infrastructure and other adversities. Entrepreneurs in the North can also learn from this.

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2.1 Continent of Emerging Entrepreneurs

Kisangani is the last place on the Congo that can still be reached by ship. Kinshasa, the capital of the DR Congo, is a good 1200 km away. In between, dense rainforest makes the water-rich land along the equator impenetrable. For those who cannot afford the plane, the only option is the ship.

The American journalist and adventurer Henry Morton Stanley founded the city in 1883. The city would keep its name, Stanleyville, even after independence until 1966. Today, around 600,000 people live in the city, about as many as in Stuttgart or Düsseldorf. Around 3 million people live in the region.

This is where Djulio Bondoko Alonda became self-employed. Initially, he studied pedagogy, but did not want to depend on the uncertain salary payments of state positions. Therefore, he completed a degree in agriculture, first general agronomy, then agricultural machinery technology. Finally, he founded his own farm. On 5 ha, he grows beans, rice, cassava, and corn. In addition, he breeds laying hens, broilers, pigs, and goats.

This could enable him to make a profitable living and provide well for his family. Because even though no one in the region around Kisangani suffers from hunger, the food situation is critical. The farmers in the region cultivate small areas, with the yield of which they sometimes better, sometimes worse, make ends meet. There are virtually no professionally run businesses in the region. A privately run foundation is still active and a company that offers fish and meat. The population depends on traders who bring food from the east of the country from Lake Kiwu. They also import food for the population around Kisangani from Uganda or Rwanda. Wherever the traders stock up, in Kisangani they sell their goods at high prices. When the unpaved roads turn to mud in the rainy season, the traders stay away completely.

"I want to build a modern business that offers good quality at acceptable prices," says Alonda. To this end, he is expanding his business from five to more than 200 ha, expanding the stables, modernizing them, and investing in the further processing of his products to make them durable.

Madey Adeboye is a Nigerian woman who is well known to many women across Africa. Because she is committed to ensuring that Africans can eat as healthily as the young urban population in trendy Notting Hill in London, in the Mission District in San Francisco, or in Prenzlauer Berg in Berlin. Green Grill House is the name of the café she opened in the Nigerian metropolis of Lagos, which is already well known to many African women far beyond the country's borders.

Madey Adeboye wanted to offer healthy dishes in her café and immediately—long before the Corona crisis—added a delivery service. This was a hit in the 23 million-strong metropolis of Lagos, where many young people with good education start their first job, have no time to cook, and yet pay attention to healthy nutrition.

In less than two years, Madey Adeboye made the leap from being a YouTube cook in her own kitchen to a media star in Nigeria, a country with an estimated 180 million inhabitants. When she became the mother of twins in November 2020, the entire media landscape of the country accompanied this joyful event.

In Germany, aid organizations present Africa as a continent of hunger. “Less is empty,” was the slogan of an advertisement by Bread for the World, showing a plate with a portion of rice grains that fits on a teaspoon. However, economic development on the continent has long since moved beyond clichés like this.

“We have the copy before you have the original,” Africans like to tease Europeans. Ashifi Gogo was increasingly annoyed that many quality products in Africa are being sold off in the form of cheap copies. The fakes increasingly look like the original, but often break down after a very short time. The penchant for copies can cost human lives. 42% of all counterfeit drugs on the globe come from parts of Africa south of the Sahara, estimates the World Health Organization WHO (Mwai, 2020). Counterfeit drugs cause direct damage of an estimated 200 billion US dollars, and this figure does not even include possible follow-up costs due to untreated diseases or diseases caused by the counterfeit drugs.

Ashifi Gogo founded the company Sproxil, which aims to catch the counterfeiters. “If I pay a premium, I want to know if it’s real,” is his motto (Mwai, 2020). Since its founding in 2009, Sproxil has examined more than 2.5 billion product units in six countries for their authenticity (Sproxil, 2020). Via mobile phone, voice offers, and the internet, traders and consumers can check the authenticity of products or protect users from counterfeits from the outset. Large international companies such as the spirits manufacturer Bacardi, the gas station operator Total, or the beverage conglomerate Diageo (Guinness, Johnny Walker, Smirnoff, Bailey’s) are customers of Sproxil, as is the German pharmaceutical company Merck from Darmstadt.

For this innovation, the Ghanaian was showered with international awards and made it onto the list of the American business magazine “Forbes” of the 40 leading entrepreneurs under 40 years of age.

Djulio Bondoko Alonda, Madey Adeboye, and Ashifi Gogo represent a trend that has nothing to do with the image of Africa that has been ingrained in the collective memory of Germans for many decades: Africa, the place of the have-nots, the continent of the hopeless, which cannot manage to free itself from misery, hunger, war, poverty, and chaos by its own efforts.

Not only white Europeans, but also many Africans perpetuate this prejudice. “Africa has the shape of a broken heart,” Africa’s silhouette on the world map resembles a broken heart, sings the famous singer Imany from the Comoros in one of her songs.

The one-sided portrayal of Africa regularly annoys the African diaspora in Germany. In local television films, Africans are often portrayed as drug dealers, smugglers, or violent criminals, women as illegal refugees, prostitutes, or house slaves. Paradoxically, not only poor Africans are attacked, who some Germans suspect live at the expense of the German state, but especially educated Africans who dress well and drive quality cars from German premium manufacturers.

However, a completely different Africa has long since emerged: the Africa of emerging entrepreneurs who are taking their fate into their own hands and building an existence. In most African countries, people have no reason to embark on an uncertain and costly journey into an uncertain future in Europe. Because even if it is difficult for the German public to accept: Never before has the number of conflicts been as low as today, never before has Africa been as peaceful as in these times. The opportunities to rise in Africa are increasing year by year. From countries like Senegal, Ivory Coast, Kenya, Tanzania, Uganda, or Egypt, no illegal refugees are streaming to Europe.

In Nairobi, Mureithi proudly tells how he earns his living by working on construction sites. A kind of modern day laborer? Far from it. In his self-conception, he is an entrepreneur. Because depending on how big the construction site is and how many other orders he has, he hires workers who do at least part of the work for him. Therefore, in his eyes, his clients are not employers. They are customers.

This is the self-understanding of the new Africa: a continent full of entrepreneurs, of millions of people who are independently seeking independence, self-employment, and economic success. There are plenty of entrepreneurs in Africa. No one knows their number. Because most of them are entrepreneurs in some form, people who take their fate into their own hands, knowing that they cannot hope for state benefits. Most entrepreneurs belong to the informal sector of the economy, their office is their smartphone, their payment is cash or increasingly mobile, electronic money that is exchanged via apps.

Entrepreneurs in Africa, that's the single mother who sews clothes for the neighbors in her modest apartment, or the construction worker who wanders from one construction site to the next. But entrepreneurs in Africa are also the millions of young university graduates who try their luck in one of the technology hubs in Accra, Lagos, Nairobi, or Johannesburg and work for months on an app that is supposed to solve one of the many everyday problems in the lives of African people.

The new entrepreneurs benefit from the fact that the level of education on the continent has risen enormously in recent years. Many people who are now self-employed have learned a profession or studied, have grown up with computers and smartphones, and are already connected to the world via the internet.

In addition, billions have been flowing into the development of a modern infrastructure in Africa for years. In addition to Chinese investors, who are building roads, railway lines, airports, and seaports, international telecommunications corporations are investing in mobile communications and have stretched the 4G network to the farthest corners of the continent in recent years. While Europe is still discussing 5G, the network in Africa is already being developed.

2.2 Fintech, Digitization, and IT

Digitization helps the young entrepreneurs. They usually invest in areas that are close to the living conditions of the 1.3 billion Africans. They launch consumer brands, build agricultural businesses, and develop apps that now make almost every area of everyday life easier.

The ICT Chamber is located at KG 7 Avenue in Kigali, the capital of the small country of Rwanda in the heart of the continent. It is one of the best neighborhoods in the city. President Paul Kagame has his seat on KG 7 Avenue, surrounded by a spacious park. The United States of America has its embassy at a roundabout in the neighborhood. The staff of the World Health Organization WHO are also neighbors of the president.

ICT is the English abbreviation for Information and Communication Technology. And that is the new raw material that will probably change Africa more than any other innovation before. The ICT Chamber is a private organization that has made it its mission to promote the development of information and communication technology in Rwanda.

For Rwanda, the focus on fintech, digitization, and IT is an important part of the strategy for economic development. Because Rwanda suffers from unfavorable conditions in the global competition for location. The country has no raw materials. Rwanda is also only suitable as an industrial location to a limited extent. The country is too far away from the coast in the heart of Africa. The nearest seaport, Mombasa on the Kenyan coast, is more than 1000 km as the crow flies from Kigali. A truck takes two to three days for this distance on the poorly developed, narrow roads. There is no railway connection. Agriculture is also hardly competitive, as Rwanda is known as the “land of a thousand hills” and is only suitable for modern, intensive agriculture in a few places. The mountainous country offers the worst possible topographical conditions for efficient agriculture. For a reasonably modern arable farming, terraces have to be created first. An important source of foreign exchange are the mountain gorillas in the rainforests. But here too, the economic potential is limited. In order not to destroy the habitat of the rare primates, access for tourists is strictly regulated.

Nevertheless, Rwanda is one of the economically most successful countries on the continent. This is due in part to the fact that Rwanda is part of the East African Community (EAC in English), which enables a customs union and economic integration around the Great Lakes in East Africa, which are exemplary for the rest of the continent. On the other hand, the government under Paul Kagame has achieved economic stability and the pacification of the country. However, the terrible genocide, in which an estimated 800,000 to 1 million people fell victim in 1994 and which still traumatizes the Rwandans to this day, is not forgotten.

ICT now accounts for 2 to 3% of the economic output of the small but prosperous country, the organization proudly announces on its website (ICT, 2020). The number of fintechs alone has tripled between 2014 and 2019, according to a study by the UN Capital Development Fund (UNDCF, 2019). By the end of 2019, there were 44 startups that simplify payment transactions, handle credit granting electronically, and replace the missing banks with the help of digitization. That's not a small number for a country with just 12 million inhabitants.

A tangible success that ICT has achieved is kLab, an open space for the young IT tinkerers in Kigali (kLab, 2020). In addition to a place to work, which the aspiring entrepreneurs can rent cheaply, kLab offers lectures, contacts, financing, exchange of experience, and study trips. The system of business angels that kLab founder Alex Ntale has built around the startup center sometimes helps with a little startup capital. Africa's startup entrepreneurs are modest. In most cases, 500 € are already helpful. An important part of the project is that successful entrepreneurs who have outgrown kLab often support the next generation of founders as mentors.

Websites no longer play a role for these founders. That is the past, the world of desktops. Africa's IT founders of today program for the mobile internet and only design apps. This is where the future lies, at least for the time being. In a few years, apps will be as superfluous as websites are today. The stationary internet has never really taken hold in Africa. In the past, users had to struggle through the web at a snail's pace in stuffy internet cafes on old mills, often still equipped with slots for floppy disks, the technology of the 1990s. The present belongs to tablets and smartphones, not necessarily the expensive Apple devices, but the cheaper versions from China. After all, almost all major cities in Africa are already equipped with fast internet based on LTE and 4G and are currently preparing for 5G.

In the global competition of the IT industry, Rwanda can play out its advantages. Due to the colonial past—the country was first a German colony, then for many years Belgian—the traditional official language is French. However, hundreds of thousands of Rwandans grew up in exile in Uganda, where English is the official language. Today, both English and French are spoken in Rwanda. This pays off in the development of apps. "This allows us to develop apps for almost the entire continent," says Alex Ntale. Although there are an estimated 1200 to 2000 African languages on the continent, almost every African also speaks the language of the former colonial masters: mainly French and English, Portuguese and Spanish in some countries. In addition, parents often send their children to private schools, where teaching is usually in English or French. African parents value their children's education. That's why they give up a lot to come up with the school fees.

A lot is wrong in Africa. Even the tourist arriving by plane is easily overwhelmed by the apparent chaos at the completely overloaded airports in the African metropolises. Traffic is on the verge of collapse in most cities on the continent. The roads are rarely in better condition than the cars that stand on them for hours in traffic jams. If Africa ever appears in the headlines of the European press, it is usually with coups, unfair elections, conflicts, hunger crises, refugee dramas, or orphaned children.

Wouldn't it be all too understandable to write off the continent in view of these tragedies? Africans perceive such an attitude as an expression of European ignorance. From the perspective of the many entrepreneurs and start-ups in the south, a completely different picture emerges: Africa is in their eyes the emerging continent with countless opportunities, a continent that is finally getting economically moving and is setting about catching up on its economic backlog. “We in Africa are in the process of designing our own economic model,” says Peter Kahihu, a Kenyan consultant who travels the continent and helps companies break down strategic goals in their growth into individual steps and formulate them in a comprehensible way.

2.3 Successful Role Models

There are few state support programs for start-ups on the African continent. However, many successful entrepreneurs support those who want to follow in their footsteps. They act as mentors, like in kLab in Kigali. Or they launch their own initiatives. One of them is Tony Elumelu, a Nigerian investment banker and entrepreneur, whose name is as familiar to young Africans as that of American Hollywood stars. Born in 1963, Elumelu studied economics in Nigeria and completed his master’s degree at the University of Lagos. He began his professional career at the Union Bank of Nigeria, one of the country’s leading commercial banks. It is a legacy of the former British colonial power, originally called Colonial Bank and was taken over by the British bank Barclays in 1925. In the early 1970s, it fell into the hands of the Nigerian federal government, until the state withdrew from the bank’s capital in 1993.

Elumelu himself became a banker, first taking over the Standard Trust Bank in 2005 and then the United Bank for Africa (UBA). He then founded Heirs Holdings, his own investment company, which invests not only in the financial sector but also in electricity, oil, gas, real estate, hospitals, and the health sector in general.

Elumelu is the inventor of *Africapitalism,* the belief that the private sector in Africa has all the opportunities to create wealth for everyone on the continent through long-term investments. He wants to promote an African form of impact investing and investments in the service of the common good. This vision costs the banker and entrepreneur a lot. He founded a think tank, the Africapitalism Institute, and the Tony Elumelu Foundation, which is supposed to provide African entrepreneurs with the support they need on their way to success. The overarching goal is to strengthen Africa’s competitiveness as a whole. Indeed, the continent lags far behind global standards in terms of productivity.

In 2019, Elumelu’s foundation and the United Nations Development Program (UNDP) launched a joint program to support a total of 100,000 entrepreneurs in Africa over the next ten years. This is expected to create millions of jobs and contribute at least $10 billion annually to African economic performance (UNDP, 2019).

English entrepreneur Richard Branson also supports Africa’s young founders. He himself built an empire around the Virgin brand, including a record label, a chain of entertainment stores, an airline, a railway company, and much more. In addition, he repeatedly made headlines as an adventurer in pursuit of new world records. He himself suffered from dyslexia and, because dyslexia was not recognized and treated in his time, performed poorly in his school achievements. Perhaps that's why Branson founded the Branson Centre of Entrepreneurship in Johannesburg, South Africa's economic metropolis, in 2006. Here, young founders are to be trained to successfully launch their entrepreneurial project while creating social benefits.

"When business for good comes to life you'll see the world like never before"—As soon as sustainable business emerges, you will see the world with different eyes, is the motto of the school. Branson Centre for Entrepreneurship (2020). For example, the center promotes projects that pave the way to a society that no longer produces waste.

Initiatives launched by Tony Elumelu or Richard Branson show: A wave of start-ups has swept the African continent. The new generation of entrepreneurs is fundamentally different from the business magnates who have shaped the continent in the past. The first entrepreneurs after the end of colonial times were often dependent on the political rulers. In many cases, entrepreneurship and state power coincided: The government awarded contracts to its favorites. Conversely, many politicians used their power to create a business base for their political power at the expense of the common good.

Today's generation of entrepreneurs often keeps their distance from the state. They are usually very well educated, bring international experience or even a degree from a foreign university. While universities in Europe and North America are still in demand, young academics are increasingly gaining their knowledge at universities in other emerging countries, in China, Malaysia, India, Morocco, or the Philippines—and increasingly in Africa itself.

2.4 Mo Ibrahim

One of their great entrepreneurial idols is an entrepreneur of the old guard: Mo Ibrahim. He is undoubtedly one of those exceptional figures whose rise is not based on corruption, the abuse of political power, or close cronyism with the political rulers, but rather on a mixture of diligence, persistence, and creativity. His name is largely unknown in Germany. In Africa, it is as familiar as the names of great entrepreneurial families like Miele, von Siemens, or Peugeot in Europe.

Mo Ibrahim played a major role in the development of mobile communications in Africa. The mobile phone has unleashed economic potential in Africa like few other innovations before. Before the mobile phone, Africans were at the mercy of the mostly state-owned telephone companies. The cables were constantly torn or stolen. Often, workers from the telephone companies cut them themselves to repair them in return for a bribe. Ibrahim freed the continent from the nightmare of telephone cables and built the first African mobile phone operator. The company was called Celtel.

Ibrahim was born in Sudan in 1946, which was then still a British colony. He first studied electrical engineering at the University of Alexandria on the Egyptian Mediterranean coast. With a bachelor's degree in his pocket, he went to northern England, completed a master's degree in electronics and electrical engineering at the University of

Bradford. Finally, in 1981, he earned his PhD in mobile communication at the University of Birmingham, the Anglo-Saxon equivalent of the German doctorate.

Ibrahim began his professional career at British Telecom, where he was involved in the development of mobile communication. He recognized the enormous possibilities that mobile telephony offered. From then on, he was inspired by the desire to bring the new technology to Africa. However, the management of British Telecom was not interested in expansion in the south. Probably Ibrahim's superiors could not imagine how the Africans, with all the poverty on the continent, could pay for mobile communications.

Ibrahim tried his luck on his own. In 1989, he left British Telecom and founded the consulting firm MSI, which advised on the construction of complex mobile networks and quickly grew to around 800 employees. With the capital he accumulated there, he built his own mobile business in Africa. A huge undertaking—apart from the connections to the satellite systems in space, Ibrahim also had to build and operate a network of transmission towers. Persistently, step by step, Ibrahim advanced his company as if following a grand master plan. Celtel quickly expanded its activities, from Nigeria to Kenya, Uganda, Tanzania, Malawi, Zambia, the DR Congo, Congo-Brazzaville, Chad, Niger, Burkina Faso, Sierra Leone, Gabon, Madagascar, Ghana, and Sudan.

In 2005, Ibrahim sold his company for $3.4 billion. At that time, Celtel had 24 million customers in 14 African countries. First, Ibrahim's founding went to the mobile phone company Zain from Kuwait, then in 2010 to the Indian mobile phone provider Bharti Airtel. Zain received $10.7 billion for its Africa business at the time—three times more than Zain had paid for Celtel five years earlier. Given this price increase, no one can claim that no values are created in Africa. Today, the company operates under the brand Airtel Africa. The story of Celtel also shows how Africa's economic relations are breaking away from the old colonial powers in Europe and new business connections are emerging between the emerging countries. Although Airtel sold its activities in Sierra Leone and Burkina Faso to the French competitor Orange in 2016. But the company still sees itself as a leading telecommunications corporation thanks to a presence in 14 African countries, in India, Bangladesh, and Sri Lanka, which also offers its customers mobile payment transactions and other financial services through the Airtel Payments Bank. Airtel Africa's stock is even listed on the London Stock Exchange, where it was valued at around $4 billion in market capitalization at the end of November 2020. After all, Airtel Africa has a good 116 million customers, who bring the company a turnover of about $3.4 billion (Africa Airtel, 2020).

Celtel is the story of an African who was born in the British colonial empire and brought a new technology to the continent, where until then the former colonial masters exported their mostly outdated surplus products to Africa.

Ibrahim's success story also shows how little the new entrepreneurs on the continent have to do with shady businessmen who want to get rich quickly and then flaunt large villas, expensive sports cars, easy girls, and cool champagne. For years, with incredible persistence, Ibrahim worked to open up the African continent with a mobile network because he was convinced that this was the right thing to do.

According to European clichés, Ibrahim would have led a life of luxury after selling his company, with yachts, decadent parties, alcohol flowing freely, and spoiled children. None of this happened. A life in bling-bling capitalism would not have suited Mo Ibrahim. Even today, he leads an inconspicuous lifestyle in the UK. And he did something that all African entrepreneurs do as soon as they come into money: He engages in charity. For African entrepreneurs, it would be a strange idea not to give back to society some of the wealth they have earned.

In this respect, too, it is clear that Ibrahim is an unusual personality. In 2007, he founded the Mo Ibrahim Foundation, which pursues a unique goal: It wants to raise the standards for good governance in Africa. The foundation publishes the widely noted Ibrahim African Governance Index, which traces the development of governance on the African continent. In addition, the foundation awards a prize to African statesmen who voluntarily resign from their post and hand over their power to a democratically elected successor. For this, the Mo Ibrahim Foundation currently awards a prize of $5 million, which is paid out over a period of ten years (Mo Ibrahim Foundation, 2020). This makes it financially worthwhile for an African statesman, even with a low remaining life expectancy, to qualify for the Mo Ibrahim Prize rather than the far more uncertain Nobel Peace Prize, which is endowed with only $1.3 million. But more than the prize money, the Mo Ibrahim Prize could be a status symbol for African politicians who want to distinguish themselves with good governance.

However, the prize has not been very successful so far. Since the first award in 2007 to the former President of Mozambique, Joaquim Chissano, it has been awarded only six times in the twelve years until the end of 2019 (Mo Ibrahim Foundation, 2020). However, the foundation announced in early 2021 that Mamadou Issoufou, the former President of Niger, will be awarded the prize. Issoufou was first elected to office in 2011 and re-elected five years later, with the opposition boycotting this election. Unlike other heads of state in Africa, Issoufou did not try to secure a third term in office against the constitution. Mohamed Bazoum was elected as his successor, also thanks to Issoufou's support.[1]

2.5 Aliko Dangote

Aliko Dangote is as little known in Europe as most African entrepreneurs. However, the businessman from Nigeria is the richest African and is one of the great role models for many other established and aspiring entrepreneurs in Africa. His name is familiar to everyone in African business circles. The American business magazine Forbes estimates his personal fortune at last count to be 8.3 billion US$ (Forbes, 2020). This puts him in

[1] https://mo.ibrahim.foundation/news/2021/president-mahamadou-issoufou-wins-2020-ibrahim-prize-achievement-african-leadership

162nd place on the Forbes list of the world's richest people. 8.3 billion is a considerable sum. However, six years ago it was three times as much, 25 billion US$. The ongoing decline in oil prices, the general economic weakness of Nigeria, and the consequences of the Corona crisis have taken their financial toll.

Dangote was born in 1957 in Kano in the north of the country into a Muslim family. At the age of 20, he founded a small trading company and soon moved to Lagos, the bustling economic metropolis and trading center for all of West Africa. Dangote quickly expanded in the food business, trading in sugar and flour. He also entered the cement business. Today his empire includes sugar, salt, tomatoes, rice, fertilizers, plastic bags, an oil refinery, and cement, to name just a few of his wide-ranging business fields. From being the head of a trading company, he transformed into an industrial captain who controls the most powerful conglomerate in Africa's largest economy.

Dangote Cement is not only the undisputed market leader in Nigeria, but also sees itself as the largest producer of cement in all of Sub-Saharan Africa. Cement is the raw material that the economic upswing in Africa needs most urgently. New buildings are concrete landmarks of the rise. In ten countries of the continent, Dangote Cement produces more than 32 million tons per year. The group is well represented in the western part of Africa, in Senegal, Sierra Leone, Ghana, Cameroon, and Congo, but also in the south, in South Africa and Zambia, as well as in the east of the continent in Ethiopia and Tanzania. This has relegated large European cement conglomerates like Holcim-Lafarge or Heidelberg Cement in Africa to the ranks. No wonder that Dangote Cement is also the largest value on the Lagos stock exchange.

The Corona crisis has also hit Africa economically, even if the recession was not as sharp as in Europe. Nevertheless, Aliko Dangote is convinced that cement will remain a key product for the continent: "Despite the recent weakening of the economy, Sub-Saharan Africa will need significant investments in infrastructure and housing as urbanization increases and economies diversify away from dependence on agriculture, commodities, and oil towards production, retail, and services," according to the Dangote Cement website (Dangote, 2020). "Increasing prosperity and the shift towards younger, wealthier, and more mobile population groups will increase the demand for real estate as the number of individuals in a household decreases."

Not only in cement, but also in sugar, the Dangote Group is the market-dominating player in Nigeria. And if you already operate your own sugar refineries, it makes sense to also produce lemonades and other soft drinks. And if Dangote is already active in the beverage business, it's an easy step to also build a brewery conglomerate. But man does not live by drinks alone. He also needs flour. And that needs to be processed. So Dangote is not only the largest flour producer in the country, but also the leading manufacturer of pasta. Why buy the necessary salt when you can refine, process, and sell it yourself? Dangote is also active in the business with rice, fish, and fertilizers. Cotton, cashew nuts, cocoa, sesame, and ginger are also on offer. Dangote also laid 14,000 km of fiber optic cable in Nigeria.

Oh yes, Dangote is also planning an oil refinery near Lagos. It always annoyed the entrepreneur that Nigeria, although the largest producer of crude oil in Africa, does not own an oil refinery and therefore has to import gasoline and diesel. The inventory in Aliko Dangote's economic empire reads like an oversized mail-order catalog.

The Dangote family was not part of the old elites in Nigeria, even though the family had already achieved modest prosperity by the time of Aliko Dangote's birth. The beginnings of his entrepreneurial career, in his perception, reach far back into his early childhood. "I remember that as a primary school student I bought some boxes of sweets and resold them to earn some money," Dangote once told in a newspaper interview (AllAfrica.com, 2014). "I was very interested in business life even then."

When Dangote became self-employed in 1977 at the age of 20, a relative lent him a small start-up capital. What makes Dangote's career remarkable is that he initially pursued his rise outside the sphere of influence of politics. He did produce cement, but never ran his own construction company that would depend on public contracts. He expanded into the consumer goods sector, selling flour, sugar, salt, lemonade, beer, all politically harmless products. Only recently, after he had already become so influential as an entrepreneur that politicians could no longer harm him without further ado, did he start investing in areas that are considered more political: in infrastructure, fiber optic cables, and the oil industry that dominates the country.

Only once did Dangote also get politically involved. That was in 2003, when the then President Olusegun Obasanjo was campaigning for re-election. Dangote supported Obasanjo's election campaign with the equivalent of 1 million US$. In addition, he contributed about 250,000 US$ to the construction of the National Mosque, which was run by the committee *Friends of Obasanjo and Atiku*. And finally, Dangote supported the President's library with another million US$. These donations were highly controversial and were heavily criticized even then. Since then, it has not become known that Dangote has interfered in any election campaigns.

2.6 Peter Munga

Far from politics, Peter Munga also pursued his rise in Kenya. He was born in 1943 in a town about 150 km north of Kenya's capital Nairobi. In his hometown of Kangema, he founded the Equity Building Society in 1984, which over the years developed into Equity Bank. Today, the Equity Group Holding, with more than 9 million customers, is the largest bank in East Africa.

With the founding of the Equity Building Society, Munga challenged the country's major banks. At that time, the old British colonial banks still controlled the banking business in Kenya, Barclays Bank and Standard Chartered. Stanbic, which emerged from the Standard Bank in South Africa, also played a strong role in East Africa. But they only granted access to the banking system to very few Kenyans. They certainly did not grant them a loan, let alone a bank account.

Munga wanted to create a kind of building society with the Equity Building Society, based on the German model: Customers should have the opportunity to save for a home on a savings account and then be allocated a bank loan. With a start-up capital of just 100 US$, the visionary banker started his company.

The beginnings in this then still closed banking system were difficult. In 1993, the Equity Building Society was on the verge of bankruptcy. It lost about 60,000 US$ every year and had accumulated a loss of about 380,000 US$ over the years. In this hopeless situation, Munga appointed the then 31-year-old James Mwangi to the top of the bank. Step by step, he managed to turn things around. In 2004, the building society transformed into Equity Bank, whose shares were introduced on the Nairobi Stock Exchange two years later.

Today, the Equity Group Holdings is not only active in Kenya, but also in Uganda, Tanzania, Rwanda, South Sudan, and the eastern part of the DR Congo. An overseas expansion is always particularly laborious and expensive for banks in Africa, as they need a banking license for each country and must hold sufficient equity capital on site for each subsidiary bank abroad. While Munga has largely withdrawn today, Mwangi continues to lead the Equity Group. With a share of 5.2% of the shares, Mwangi is anyway the largest individual shareholder of the bank. The Corona crisis has shown that it was beneficial for the bank to have expanded into other countries in the region, according to a presentation of the business results in the third quarter of 2020 (Equity, 2020). Although the business has suffered in all countries where Equity is represented, the Equity Bank managed to get through the first two waves of the Corona crisis without losses.

More than through its business success, the Equity Bank distinguishes itself by always remaining a bank of the little people, in spirit a people's bank, opening up access to bank accounts, loans, and savings products to the broad population. And as increasing prosperity in East Africa reaches more and more population groups, the Equity Bank grows with them. Today, many craftsmen, traders, farmers, and small entrepreneurs are customers of the bank, which is regularly voted the best financial institution in the region. The bank operates 335 branches, 190 of them in its home market Kenya. This creates customer proximity. But the Equity Bank also does a large part of its business via smartphone. 93% of all transactions in the loan sector are processed mobile. However, these transactions only account for 22% of the bank's loan book. Because this is also typical Africa: Most bank customers only need a small loan for a short time, for example to pay school fees, or a supplier. This business is now largely handled mobile. Larger purchases or real estate financing, on the other hand, are still discussed by customers in the branch with the advisor.

The old colonial banks have ignored the market of small bank customers for decades. This is now taking its revenge, as these customers are increasingly becoming prosperous, getting good jobs, and saving for larger purchases, vacations, or their own apartment. This arrogance of the established banks initially offered the telecommunications companies the opportunity to offer their customers cashless payment transactions. The pioneer was Safari.com with their mobile payment system M-Pesa. Safari.com transformed the phone bill into a kind of checking account: Customers could hold credit there and send money to friends or family on their mobile phone account. Initially, this was done via SMS, today via apps. This also brought business to the many small shops and kiosks. Because there, customers of Safari.com can withdraw cash from their mobile phone account. Today, all telecommunications companies offer such a service.

At the same time, the local banks had to recognize the trend of the times and develop mobile banking early, earlier than the banks in Europe. Overall, the small local banks in East Africa have become increasingly professional and competitive. A sign of the strength and diversity of African banking is that microfinance institutions have never really gained a foothold in Africa, unlike in South Asia, Southeast Europe, or Latin America. And this is the achievement of entrepreneurial personalities in banking like Peter Munga and James Mwangi.

Entrepreneurs like the two bankers or like Mo Ibrahim and Aliko Dangote not only represent role models for millions of Africans for their own career in self-employment. They are also a model for how Africa, more than 60 years after political independence, is gradually fighting for economic emancipation.

2.7 Unexpected Hurdles

The difficulties that these entrepreneurs had to overcome are often overlooked in accounts like these. The career path is reduced to a sequence of foresight and smart decisions. But that's not the case. On the one hand, it's easy to find customers in Africa as a business: there is such a lack of so many things that almost anything can find buyers, regardless of whether an entrepreneur invests in mobile telephony, cement, banking services or pasta. On the other hand, nowhere is it made as difficult for an entrepreneur as in Africa.

The laws are often outdated and not adapted to the requirements of the modern world. Ethiopian commercial law, for example, largely dates back to the imperial era and does not recognize the legal form of a holding company, a company that does nothing but hold shares in other companies. The public institutions in Africa—ministries, regulatory authorities, offices and agencies—are usually understaffed. The desks are often occupied by officials who have hardly been trained for their task. This is compounded by a culture of error that leads to lower levels in the offices deciding as little as possible, for fear of being held accountable for their decision. Therefore, they push the decision onto other instances or other offices as much as possible. Entrepreneurs willing to invest thus risk being sent on a bureaucratic merry-go-round: The official is not responsible or can only decide when the other authority has previously issued a certain paper. However, this is only available if a third office has previously agreed. This approval is only given if… The Captain of Köpenick in African style.

Even worse than the much-lamented corruption is the selfishness of politicians who are indifferent to the common good and who only pay attention to their own advantage. They often block economically sensible projects in order to defend their own privileges or to secure a contract for another company, in which the politician is also considered.

Especially the lack of capital limits the expansion drive of Africa's entrepreneurs. Even for entrepreneur-friendly banks on the continent, it has become difficult in the wake of globally tightened rules for lending to finance young entrepreneurs if they cannot provide sufficient collateral. In this respect, start-ups in Africa are no different from those in Europe: they usually have no collateral and usually almost no capital.

International capital providers hardly close this financing gap. The continent benefits from a persistently high capital flow, even if it temporarily stalled during the Corona crisis. In 2017, private equity funds in Africa were able to raise 2.4 billion US$ according to data from the industry association African Private Equity and Venture Capital Association (AVCA). In 2018, it was 2.7 billion US$—an increase of 12.5%. In 2019, the volume increased by a good 40% to 3.8 billion US$. (AVCA, 2020). In the first half of 2020, the volume fell to just 500 million US$. This represents a sharp drop compared to the first half of 2019. But at least some industry representatives have managed to mobilize fresh capital for projects in Africa despite the Corona crisis. That's the good news.

In recent years, interest in capital investments in Africa has been so great that even international private equity firms have launched private equity funds for Africa, some with volumes of several hundred million US$. For example, fund initiator Abraaj placed a fund with a volume of 990 million US$ in 2015. The investment company Helios Investment Partners was the first to break the billion mark in Africa when it also placed a fund with a volume of 1.1 billion US$ on the market in 2015. American firms such as KKR, Carlyle or TPG also attracted attention with mega funds. Most recently, Améthis, a French private equity firm, managed to close the Améthis Fund Two with a volume of 400 million US$ in the first half of 2019.

These oversized funds confirm the great interest in investments in Africa, but suffer from the dinosaur syndrome: they are too big and unwieldy. The care of a stake in an entrepreneur requires a high level of attention. Therefore, a private equity fund can only handle a very limited number of investments. The rule of thumb is that a fund rarely manages more than ten to fifteen investments. This means that the amounts with which such a mega fund must enter an African company must go up with the volume of the fund. Conversely, good investment opportunities in the range of 100, 200 or even 300 million US$ in Africa are rare.

The subscribers of such giant funds had to learn this the hard way. The American investment company KKR, one of the largest in the world, for example, had to dissolve its private equity team for Africa because it could not find takeover targets that were large enough (Clark Ballard, 2017). Even worse was the fate of the investors who had invested with Abraaj: In 2018, the company was accused of embezzling investor money. The company got into trouble, the CFO had to leave, the Dubai Financial Services Authority imposed a high fine on the company (Louch Ballard Clark, 2018). In the end, the company had to be liquidated, and the fund initiator Actis took over Abraaj's Africa funds.

Also, the investments of international private equity funds are limited to a few economic sectors: In the past, when commodity prices were high, they invested heavily in the extraction of crude oil, natural gas, gold or metals. Today, investments are focused on power generation, telecommunications and other infrastructure.

Without a doubt, the poorly developed infrastructure is one of the major obstacles that hampers Africa's economic development. Airport operators must prepare for rapidly increasing passenger numbers and increasing intra-African trade. The seaports are too small and poorly prepared for further growth. The rail network is hardly existent in many places. The roads are too narrow and usually in poor condition. Africa needs a modern supply of drinking water, and this requires efficient disposal of wastewater and treatment of drinking water. The continent also needs schools, universities, hospitals, trams, subways, fiber optic cables, mobile phone masts and much more. Here, American or European investors are no longer ahead. "The East Asia and Pacific region, led by China, dominated global infrastructure investments with a share of 39%," says a World Bank study (World Bank, 2019).

Startup entrepreneurs in particular have a hard time when they are looking for financing. They usually cannot provide collateral for a bank loan. Finding equity is hardly possible given the amounts involved initially. Even larger companies fall through the grid of international capital providers. Thus, apart from Johannesburg, Lagos, Casablanca and Nairobi, only a handful of shares are actively traded on most African stock exchanges. Interest in African stocks or even bonds is still low among European investors. The assessment of the British business magazine *The Economist* still holds true today: "Africa is hopelessly underserved with investments" (Economist, 2015).

Africa's entrepreneurs need more support: They need better access to educational opportunities and sources of financing. That's why initiatives like the one Alex Ntale founded in Kigali are so important. Everywhere between Tunis and Cape Town, young entrepreneurs are resorting to self-help. In Nairobi, several startup centers compete for young IT entrepreneurs. Silicon Savannah is the name of the broad-based IT scene in Kenya's capital, in reference to the famous IT stronghold Silicon Valley along Freeway 101 southeast of San Francisco.

88mph, 88 miles per hour, is the name of one of the first startup centers that made Nairobi one of the most vibrant places in the world of digitization. Meanwhile, 88mph is also represented in Lagos and Cape Town. In many respects, the IT industry in Nairobi is more developed than in Kigali, which compared to bustling Nairobi seems like a tranquil place in the province. For example, 88mph provides young startups with up to 100,000 US$ in startup capital.

In September 2020, exactly between the first two waves of the Corona crisis, Mdundo, a portfolio company of 88mph, went public, specifically on the Nasdaq First Growth Market Denmark (88mhp, 2020). A nice prestige success for an African startup. Mdundo enables African youth to stream and download music easily and cheaply.

An important service of startup centers like kLab or 88mph is to provide young companies with access to sources of money. In developed countries, some venture capital funds have formed that want to support startup companies with equity. But the fund managers often sit thousands of kilometers away from the companies they supervise. Startup funds from Europe are inferior to the funds that operate locally and can closely supervise and coach the founders. Therefore, local funds, which are financially supported by international donors, for example, are clearly superior. Thus, 88mph has developed into a seed fund, the financier of the first financing round of a startup company. The long experience—88mph was founded in 2011—and the proximity to the tech scene in Nairobi, Cape Town and Lagos help 88mph. This close connection between founders and financiers is also one of the advantages that made Silicon Valley big. It is therefore not surprising that Silicon Valley has long since discovered Silicon Savannah. Corporations like Microsoft, IBM, Samsung or Google have been supporting hubs like 88mph for years.

Africa's app developers often solve problems that Europeans are hardly aware of. For example, in the portfolio of 88mph is a company that has developed a solution for a problem that many cities in emerging countries face: addresses either do not exist or are so imprecise that they are hardly findable. This is a major obstacle to establishing e-commerce and home delivery of products in Africa. Another company, based at kLab in Kigali, offers an app that works like a kind of Uber for the many moped taxis that are common all over Africa.

Products for Africans, designed by Africans—that's the big market of the future. European or American brands are still in demand as status products to show off wealth. But they often do not meet local taste.

Nigerian Taofick Okoya recognized the trend towards African products early on. Many African girls know the Barbie dolls of the American corporation Mattel. However, they cannot recognize themselves in the dolls with the light skin and long blonde hair. Okoya responded to this and in 2006 launched a toy series with black child dolls. Queens of Africa is the name of the company (Queen, 2020). His Nneka dolls are available in various versions, which are now well known to many African girls. Okoya also pays attention to ethnic peculiarities. For Nigerian customers, some dolls are easily recognizable as Igbo women, others as Yoruba or the third as Hausa. Okoya also has a Muslim variant with a headscarf in his range.

Okoya has since expanded his offer to include other ethno products. For example, he now offers backpacks in colorful Afro design for the children. "I'm not just selling toys," Okoya once said. "I'm also selling cultural values" (Jeune Afrique, 2014).

Mattel tried to react to the wave of black Barbies and brought its own black doll onto the market. It was not successful. Although it had black skin, it did not look in a way that African girls could identify with. Nevertheless, Okoya has since gotten competition, and from Africa. There are now also the Naija Princesses and Mompy from South Africa (Jeune Afrique, 2015). Even in Africa, the copy sometimes only comes onto the market after the original.

One thing African entrepreneurs have certainly recognized: African products for African customers, that's the trend.

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Entrepreneurship and Start-Ups in Africa

3

The Role in African Business of German Companies

Philipp von Carlowitz

Contents

Entrepreneurship is an essential driver of societal health and wealth, and a formidable engine of economic growth.
from: Global Entrepreneurship Monitor (Bosma et al., 2020, S. 13)

Abstract

Entrepreneurship plays a role both for the development of African countries and for foreign companies with market entry plans. The infrastructural and institutional conditions for entrepreneurship are still difficult, but the advancing digitization leads to an increasingly active start-up scene in many African countries. There is still a mismatch between the areas where start-ups are created and the areas where foreign

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companies are looking for partners for market entry. Thus, despite positive developments in entrepreneurship, it remains difficult to find suitable partners in the foreseeable future.

3.1 Introduction

The African continent, particularly Sub-Saharan Africa (SSA), is rapidly developing. The sources of growth are increasingly shifting from a resource-based economy towards a service society with increasing innovation potential (Herrington & Coduras, 2019, p. 1). Entrepreneurship plays a crucial role in this process and is thus a significant driver for economic development and the overcoming of poverty. In developing countries, entrepreneurship can significantly contribute to the achievement of the Sustainability Development Goals (SDG) of the UN Agenda 2030, such as poverty reduction (SDG 1) and creating a positive economic growth effect (SDG 8).

In addition to the SDGs, entrepreneurship plays an important role in the international attractiveness of SSA countries. Almost all business models of German/European companies for SSA markets are based on cooperation with local partners. This presents the challenge of finding qualified partners for market entry into SSA (Carlowitz, 2018). Here, the dynamics of entrepreneurship can improve attractiveness from the perspective of foreign companies. In addition to partner search, the growing start-up scene in SSA opens up new opportunities for established companies to better cope with obstacles in operational business (Carlowitz, 2020). Therefore, the importance of entrepreneurship from the perspective of SSA countries and the companies that want to work the market should not be underestimated.

3.2 Entrepreneurship in Scientific Discourse

Small and medium-sized enterprises or family businesses are often equated with entrepreneurship, which can lead to confusion. Size and ownership do not play a role in entrepreneurship according to Carland et al. (1984, p. 355). Rather, the willingness to implement new ideas (innovations) and a growth orientation are defining factors. In principle, entrepreneurship does not necessarily have to result in a new foundation, but can also take place within existing companies, the so-called “Corporate Entrepreneurship” (see, for example, Mitchelmore & Rowley, 2010, p. 92). Entrepreneurship also often takes place in the form of new foundations in the informal sector, usually in the form of micro-entrepreneurs or self-employment (Williams & Nadin, 2010, p. 364). This contribution focuses on entrepreneurship in the formal sector. Entrepreneurship is defined here as the founding of a business venture (start-up) or as a company that has been registered for less than 42 months (Singer et al., 2015, p. 25).

Since the 1980s, the topic of entrepreneurship has increasingly found its way into scientific literature, after it was long treated as a variable and not as an actual subject of investigation in economic theories. Since then, there have been numerous attempts to define entrepreneurship, with the approach and focus varying. Some authors place the founding process at the center of the analysis (Shane & Venkataraman, 2000; for an overview see Ucbasaran et al., 2001, p. 63 ff.) and link the individual phases with the decisions and abilities that an entrepreneur must possess (Mitchelmore & Rowley, 2010). The Global Entrepreneurship Development Index (GEDI) (Acs et al., 2015) identifies important entrepreneurial skills, such as recognizing opportunities, entrepreneurial (business) action for founding, and the ability to expand a business (Wang & Jessup, 2014). A proxy for the existing level of such skills is both the extent of education and professional training as well as the experience with entrepreneurship in a society.

Various other authors focus directly on the person of the entrepreneur in contrast to the non-entrepreneur (see Gartner, 1985, p. 696). In this context, the cognitive abilities of the entrepreneur in dealing with information procurement and processing as well as the necessary decisions are just as much at the center of the analysis (Mitchell et al., 2002), as is a pronounced personal willingness to take risks (Preisendörfer et al., 2012). A related approach verges on the phenomenon of entrepreneurship through the motives of the foundation. Here, a distinction is primarily made between the motive of survival ("necessity driven") and growth orientation ("growth oriented"), with entrepreneurship from the second motive being attributed a higher degree of innovation capability. The motives are usually dependent on the economic conditions, such as the level of poverty (see, for example, Kudua, 2015; Carland et al., 1984, p. 355).

A fundamentally different approach than the approaches related to the founding process and the founder person is based on institutional theory (Atiase et al., 2018, p. 647 f.). Here, the focus is on the framework conditions that are considered necessary prerequisites for business start-ups. Gnyawali and Fogel (1994) identify five areas that are important for entrepreneurship activities:

1. Government policy and measures, such as economic and trade policy measures.
2. Socio-economic factors, such as the social status of entrepreneurs and entrepreneurial role models.
3. Access to financial resources, such as venture capital, a functioning and affordable banking and credit system, and the willingness to invest in start-ups.
4. Non-financial support, such as networks, subsidies, local infrastructure.
5. Entrepreneurial and business management skill level, such as general and specific (technical and business) education as well as access to information.

Beugré (2017, p. 24) adds to these five influencing factors the supportive role of international organizations in promoting entrepreneurship.

Gartner (1985) was one of the first authors to explicitly point out that there are no one-dimensional explanatory approaches for entrepreneurship, but only multidimensional ones. Thus, entrepreneurship is the result of an interplay of the person of the entrepreneur, the founding environment, the founding process, and the form of founding (new company, expansion of entrepreneurial activities). In the sense of this multidimensionality for entrepreneurship, the following will focus on the two most important analytical approaches: "[…] the core focus of research seems to reside on the entrepreneur and the environment […]" (Ferreira et al., 2015, p. 17).

3.3 Availability and Skills of Founder Personalities

The Global Entrepreneurship Monitor 2019/2020 describes business founders as people who can not only recognize opportunities but also develop a business idea from them. They are usually confident personalities. The motives for starting a business are diverse. They range from the desire to "improve" something in the world, to the motive of becoming wealthy, to continuing a family tradition (Bosma et al., 2020).

Describing and measuring the characteristic profiles of entrepreneurs across Sub-Saharan Africa to derive universally valid statements is not possible. However, one can derive some clues from the literature on cultural dimensions. Hofstede et al. (2010) and the GLOBE cultural dimensions (House et al., 2004) show for all examined African countries a lower risk aversion than Germany and thus good prerequisites for entrepreneurship in this character criterion. Furthermore, surveys on individual self-assessment and attitude towards entrepreneurship show that great opportunities are seen in Africa and the own entrepreneurial abilities are rated very high in international comparison. This is confirmed for young potential entrepreneurs and a low fear of failure is identified (Kew, 2015, p. 28 f.). It is hardly surprising that the willingness to start a business is comparatively high (Singer et al., 2015, p. 32). However, the fact that not even half of the founded companies survive in the medium term indicates a significant divergence between self-assessment of entrepreneurial skills and actual skills. The actual start-up skills in Africa are below the international average according to a study, especially in the qualification of workers and entrepreneurial founding skills the backlog is large (Acs et al., 2015). Against this background, the general level of education as well as the specialist knowledge for business start-up and management of the entrepreneurs play a key role. Kiggundu (2002, p. 244) adds the importance of relevant work experience and specific competencies in the area of the business field and market of the business start-up. An empirical study has shown that 80% of companies that survive in the long term and operate in growth segments are founded and led by entrepreneurs with a higher education (Kew, 2015). This is supported by a case study at a university in Senegal, whose results show that students can significantly increase their entrepreneurial potential by participating in a three-year program to promote entrepreneurship (Garcia-Rodriguez et al., 2017). However, the education system in most SSA countries is underdeveloped and the graduation rates with university degrees are very low. The extent and quality of education and professional training and thus the availability of qualified workers is the lowest in Sub-Saharan Africa of all regions worldwide (WEF, 2019, p. 13 f.). Of the students in continuing schools, only 1.23% (second lowest value worldwide) are in an applied education (vocational) (UNESCO, n.d.), which provides practical experience relevant for business start-ups.

This low level of education has been recognized and there are various initiatives to close this gap. In addition to state measures in the education sector, there are international initiatives, such as the "African Skill Initiative" under the umbrella of the WEF. Also, international company- and institution-specific initiatives are trying to remedy the shortage of skilled workers. Examples are the Rockefeller Foundation (Digital Jobs in Africa), Coca Cola (Empowering female entrepreneurs) or Cisco (Networking Academy, ICT) (WEF, 2015, p. 15).

An important characteristic for an entrepreneur is the ability to build and actively maintain a network:

> […] characteristics of the social network of a person, such as an extended and diverse network, a high level of individual networking activity and a high level of network support, each increase the propensity to start a business on the one hand, and to be successful with this business on the other. (Preisendörfer et al., 2012, p. 14)

Networks are particularly important in inefficient markets, as they often occur in Africa, for business start-ups. Against the background of the difficult Doing Business conditions, including inefficient bureaucracy, corruption, lengthy processes, lack of access to financial resources and an uncertain legal system (World Bank, 2020a), networking plays an efficiency-increasing role (Kristiansen, 2004, p. 1152). For example, a good network into the administration is seen as a way to deal with bureaucratic inefficiencies:

> In weak institutional environments, networks between enterprises and officials are paramount for the survival and growth of businesses. New businesses without such connections are, in most cases, destined to fail. (Acs et al., 2015, p. 34)

The larger and economically stronger the network, the easier and more resources (of any kind) an entrepreneur can muster (Preisendörfer et al., 2012, p. 15). In addition, the connections between partners should be strong and the network should cover a wide range of (business) activities in order to have the highest possible benefit for the business founder (Kristiansen, 2004, p. 1155). Some authors go so far as to see a major success factor for a business start-up in a good integration into a large network (Bosma et al., 2020). Thus, it is a major success factor for business start-ups. For this reason, the tech or start-up hubs potentially play an important role. Networks can be invaluable for the business success of a young company in sales, purchasing and obtaining reliable suppliers, but also in hiring scarce skilled workers (see, for example, Kristiansen, 2004). Biggs and Shah (2003, p. 156) find that many African entrepreneurs have only limited business networks. This often results in the founded companies remaining small and unproductive for a long time or not surviving.

3.4 Ecosystem for Entrepreneurship

The business environment plays a crucial role in entrepreneurial start-up activities. Authors refer to this as the entrepreneurial ecosystem. This encompasses the entirety of all components, individuals, organizations, and institutions that, while not directly attributable to the entrepreneur, significantly influence him and his activities (Beugré, 2017, p. 21). In Africa, there is still a need for catch-up in building an entrepreneurship-inducing ecosystem:

> In African countries, however, many of these institutions are ineffective, weak, incapable of performing their functions or else completely non-existent. (Atiase et al., 2018, p. 648).

3.4.1 Politics and Institutional Framework Conditions

Political and economic stability are considered a fundamental basis for a dynamic entrepreneurship environment, as uncertainty is one of the biggest obstacles to business start-ups (Lerner & Sahlmann, 2012, p. 119). This stability is not given in many countries and where it is given, clusters of start-ups emerge, such as in Kenya and Ghana. In addition, regular emphasis is placed on a specific promotion policy with the focus on entrepreneurship in Africa: “Entrepreneurship policy is important in shaping the entrepreneurial landscape of nations.” (Sheriff & Muffatto, 2014, p. 7). However, most existing policy approaches to strengthen entrepreneurship are developed for industrialized countries, so without Africa-specific adaptation, they are unlikely to lead to efficient Africa-specific promotion policy (Lerner & Sahlmann, 2012).

In addition to the general political prerequisites, the specific founding conditions in SSA, as represented, for example, in the “Starting a Business” ranking of the World Bank, play an important role. The ranking shows that SSA ranks last among all regions worldwide, just behind Latin America and the Caribbean. Particularly striking is that with 9.3% of per capita income, high minimum capital requirements are incurred at the time of founding, which are significantly lower in other world regions (East Asia and Pacific: 3.5%; Europe and Central Asia: 0.7%; Latin America & Caribbean: 0.4%) (World Bank, 2019). However, the minimum capital requirements for company formation in SSA have significantly decreased over the last 14 years, with some extreme examples, such as the Central African Republic, where the deposit has fallen from 527% to 35% of per capita annual income in 2019 or was even abolished, as in Angola in 2016 (World Bank, 2020a, p. 43 f.). Nevertheless, the minimum capital still represents a significant hurdle for business formation, especially in low-income countries. The founding process is made more difficult by inefficient bureaucracy in many SSA countries. According to the Ibrahim Index of African Governance (IIAG) of 2019, the average index value of the professionalism of the bureaucracy is 40 (out of 100), with the values ranging from 11.8 (Somalia) to 87.5 (Rwanda) (Mo Ibrahim Foundation, 2020).

Structural challenges have been identified as a central obstacle for the start-up sector in SSA (Ball et al., 2019; Gomes et al., 2018). While significant investments or funding programs do exist, the majority of financial resources are invested in individual start-ups, while investments in the entrepreneurial ecosystem in SSA as a whole are neglected. Funding for universities, technology centers, or research and development institutions is lacking, resulting in significant gaps in the structures for innovative entrepreneurship. However, since a functioning ecosystem is the basis for sustainable entrepreneurship, some authors recommend investing funds in the entrepreneurship ecosystem rather than financially supporting individual start-ups (Herrington & Coduras, 2019, p. 3).

3.4.2 Financing

According to the World Bank's Enterprise Surveys (n.d.b), the biggest challenge for companies and founders is financing. Institutionalized access to (financial) resources is not well developed in Africa. In SSA, on average, only 30.1% of the population aged 15 and over have access to financial institutions (World Bank, 2020b, p. 112). At the same time, Africa occupies a rather unattractive position for investors in the world market. Thus, in the "Venture Capital and Private Equity Country Attractiveness Index" (VC/PE Index) 2018, most SSA countries are at the end of the ranking (exceptions are South Africa with rank 36, Mauritius 51, Kenya 53, Nigeria 72). Africa as a region is in last place. The low attractiveness of SSA from a venture capital perspective lies in the shallow depth of the capital market and often poorly functioning institutional framework conditions (e.g., in education, corruption in innovations, difficult business transactions, and low investor protection) (Groh et al., 2018, p. 18).

Therefore, it is essential for founders to find alternative sources of financing: "[…] and few examine other types of investors, such as 'friends and relatives', angel investors or bankers." (Wang & Jessup, 2014, p. 192). Currently, most business start-ups are financed with their own funds or by family and friends, i.e., from the social, familial network (Kew, 2015). Despite the bottlenecks in raising financial resources, it is possible to successfully start a business with the right attitude:

> Don't scratch your head saying there is no financing. With what you have, what can you do to achieve your goal? Investors like people who have taken that initiative.—Heshan de Silva, founder and CEO of the De Silva Group in Kenya (Douglas, 2014)

There are some successful examples of business start-ups based on alternative sources of financing: Patrick Ngowi, an entrepreneur from Tanzania, who now makes a turnover of 5 million US$ with his company Helvetic Solar Contractors, started with a start-up capital of 1800 US$, which he received from his mother and a close friend. For Fomba Trawally from Liberia, it was his life savings of 200 US$ that made him a successful flip-flop importer and local manufacturer (n.a., n.d.). Cephas Nshimyumuremyi from Rwanda started with 10 US$, his savings as a chemistry teacher. With his scientific background and his knowledge of Rwanda's local plants, he founded his company for local care products. In 2020, the company already generates over 30,000 US$ in value and employs 12 workers (Founders Africa, 2020). Another alternative financing option is financial support programs from international aid organizations, as in the case of Lorna Rutto, who received 6000 US$ "Seed Funding" and founded her successful plastic recycling company "EcoPost" (n.a., n.d.). Abasiama Idaresit, started his company in Nigeria named Wild Fusion, in the field of digital marketing in 2010 with 250 US$. He received the money from his first customer as an advance payment under the condition of a money-back guarantee if he failed to achieve a return on investment for his customer. Within three months, he doubled his customer's earnings and revenues rose from 1000 US$ to 100,000 US$ per month. Today, Wild Fusion is a certified Google Adwords partner and had a turnover of 6 million US$ in 2011 (Legit, 2018).

New financing opportunities arise from the rapidly growing FinTechs in many SSA countries (IMF, 2020, p. 5). The rapidly growing FinTech industry in SSA is an increasingly important source of financing (also) for founders. It has grown on average by 24% annually over the last 10 years and comprised 262 local and international companies in 2018. The largest clusters are Nigeria, Kenya, and South Africa, although the FinTech scene has developed positively in Rwanda, Ghana, and Uganda in recent years. Currently, the focus of most FinTechs is on payment systems, but there are also increasing opportunities for borrowing, in Nigeria this was 18% of the financial volume, in Kenya 20% (EY, 2019, p. 3 ff.). The particular advantage of FinTechs in the SSA context is that they consider a broader spectrum of data sources for the decision of a loan grant, so that also not "bankable" (small) projects, such as founding projects, have a chance of financing (Claesens et al., 2018, p. 4 f.). Examples of such FinTechs are *OneFi* and *Carbon,* which received a BB rating from the Global Credit Rating Company at the end of 2018. They are active in Nigeria and companies can receive loans of up to 20 million Naira (approx. 50,000 US$) within 48 h. Other examples of digital savings and credit opportunities are M-Shwari in Kenya, M-Pawa in Tanzania, and Mokash in Uganda and Rwanda (Ndung'u, 2018).

3.4.3 Digitalization as a Basis for Founding

The progress of digitalization plays a decisive role in the success of the start-up scene in two respects: On the one hand, many business start-ups in the field of digital technologies can be observed; on the other hand, digital technologies simplify the business start-up and the subsequent growth phase (entrepreneurial ecosystem). For this potential for entrepreneurship to unfold, the ICT infrastructure and digital progress in SSA play an important role. The "Enhanced Digital Access Index" (EDAI)[1] developed by the International Monetary Fund records the world's largest improvements in the areas of IT infrastructure, internet usage, and education in SSA. However, affordability and the slow mobile download rate in SSA (three times slower than the global average) continue to pose an obstacle despite continuous improvements (IMF, 2020, p. 3). In Africa, the spread of special internet bundles, which only allow access to certain social media tools and block the rest of the internet's functions, is high (Rodrigues et al., 2018, p. 9). However, the fact is that countries like Rwanda, Kenya, Ghana, and Nigeria now have sufficient ICT infrastructure so that more and more digital platform solutions in the areas of financing, logistics, and marketing are being used on these markets.

3.4.4 International Partners

Without the support of global actors, the discussed barriers in relation to entrepreneurship in SSA are difficult to overcome. Juma et al. (2017, p. 211) sees great potential in cooperation with international organizations from the start-up scene environment to guarantee sustainable entrepreneurship in SSA. Case studies show the integrative relationship between entrepreneur and partner in generating innovations. Thus, successful innovative approaches require specific expertise that often goes beyond the current capacity of SSA entrepreneurs. This know-how can be provided by international partners or entrepreneur groups with common goals (Juma et al., 2017, p. 230 f.). Many partnerships arise through the promotion of start-up hubs or houses by international organizations (often NGOs) or through business partnerships with companies from the USA or Europe, which provide financing and knowledge. For example, a large part of the FinTech and mobile companies in SSA are financed or owned by Western companies (e.g., M-Pesa belongs to Vodafone, MyBucks is a Luxembourg company that is primarily active in SSA). In addition to the FinTechs, there are other areas for corporate cooperation. For example, Google opened its first AI Lab (Artificial Intelligence), next to the Machine Intelligence Programme in Rwanda, in Accra, Ghana in April 2019. Microsoft founded the Advance Development Center in May 2019 with the first two locations in Nairobi (Kenya) and Lagos (Nigeria) with the focus on developing the latest technologies, such as artificial intelligence and machine learning, and making them usable on the continent (GSMA, 2019, p. 29). This leads to a high degree of spillover effects for the start-up/entrepreneurship scene and forms types of entrepreneurs who gather relevant experiences for a successful foundation.

[1] The EDAI identifies five key indicators, namely IT, affordability, education, quality, and internet usage (IMF 2020, p. 2).

3.5 Entrepreneurship and Start-Ups: Situation in Sub-Saharan Africa

Studies have shown that entrepreneurial activities positively correlate with per capita income. The reasons lie in the better conditions for starting a business and the higher qualifications of entrepreneurs as a result of better education (Acs et al., 2015, p. 50 f.). Also, the number of businesses started by employees (Corporate Entrepreneurship) increases with rising per capita income in countries (Singer et al., 2015, p. 52 f.). Thus, the following applies:

> […] economic conditions determine whether necessity or opportunity entrepreneurs are most prevalent in any given country. […] necessity entrepreneurs are more common in the low-income countries. (Kuada, 2015, p. 152)

Since per capita income is low in Sub-Saharan Africa and the political, economic, and institutional conditions in almost all of these countries are difficult, as repeatedly shown by the World Bank in its Doing Business Reports and the World Economic Forum in the Global Competitiveness Reports, necessity-based start-ups, which are primarily located in the informal sector, dominate in African countries (Adom & Williams, 2012; Kuada, 2015):

> An uncomfortable reality is that the development of productive entrepreneurship has been slow in most African economies. (Kshetri, 2011, p. 12)

Nonetheless, there are also "growth-oriented" start-ups in Africa that try to identify promising opportunities in the market environment and build a profitable, sustainable business (Kuada, 2015, p. 150). Contributing positively to entrepreneurial dynamics is the rapidly growing middle class and thus the rise in per capita income in most SSA countries (Carlowitz, 2019b). The following provides an overview of the status of entrepreneurship and the dynamics in the start-up scene.

Since currently an estimated nine out of ten employees in SSA are working in the informal sector (World Bank, 2020a, p. 61), a detailed measurement of formal entrepreneurial activity is almost impossible. With regard to the formal sector, the World Bank counted a total of 655,300 formally registered business start-ups in 25 SSA countries in 2018. The largest number of newly founded companies can be found in South Africa (2016: 376,727), Nigeria (2018: 86,309), Kenya (2018: 44,259), Ethiopia (2018: 31,198), Botswana (2016: 26,613), Uganda (2018: 18,862) and Ghana (2012: 13,154). Entrepreneurial activity in Botswana is by far the highest: Over 20 business start-ups per 1000 employed persons (New Business Density), followed by South Africa with 10.21, whereas the value in Nigeria is only 0.83 (World Bank, n.d.a).

According to the Global Entrepreneurship Index (GEI), the SSA countries occupy the lower ranks of the ranking worldwide. The most active country in terms of entrepreneurship is Botswana, ranked 52 out of a total of 137 countries (Acs et al., 2017, p. 57). Of the 30 countries in the SSA region included in the index, 27 fall into the bottom quarter of the global ranking. According to the study, the main reasons are low start-up skills of entrepreneurs and an acute lack of venture capital, which coincides with the aspects discussed above. These reasons, combined with a lack of higher education opportunities and high unemployment or underemployment, lead to a necessity-based self-employment activity being frequently taken up (usually in the informal sector). On the other hand, more demanding, complex start-ups are rarer. As a result, there is often the appearance of a high density of entrepreneurial activities, which, however, is rather below average when viewed qualitatively.

Another often-cited study, the Global Entrepreneurship Monitor (GEM), confirms the results of the GEI. A central measure of the GEM for start-up activities is the "total early-stage entrepreneurship activity" (TEA)[2], i.e., the percentage of newly founded companies of all companies (Kew, 2015, p. 33). SSA does show high dynamics in entrepreneurial activities in the start-up phase, where the average TEA value for the SSA countries is 26.6%. Nigeria and Zambia have rates of up to 40%. This is the highest percentage of all regions examined by the GEM. However, barely half of the founded companies survive the first 48 months (Kew, 2015, p. 33; 44).

In recent years, the dynamics of business start-ups, among other things due to the possibilities of digitization, have increased and in some countries a lively start-up scene has developed, reflecting the current dynamics of entrepreneurship.

3.5.1 Start-Up Scene in Sub-Saharan Africa

The fact that the start-up scene in Africa is gaining momentum can be seen in the exponential growth rates in venture capital inflow. According to a study, a total of $1.27 billion was invested in Africa's start-ups in 2019 (Briter Bridges, 2019, p. 1), which was more than a doubling compared to 2017 and a quadrupling compared to 2015. In 2018, Kenya received the largest share of the total volume with $348 million, ahead of Nigeria with $308 million. Almost all investments were made in four sectors: 1) FinTechs ($379 million), 2) enterprise software including app development ($333 million), 3) off-grid energy technologies ($194 million), and 4) e-commerce ($132 million) (Partech, 2019). Here, a strong trend towards digital topics can be seen. An estimated 90% of venture capital in SSA flows, according to a study by Village Capital (2017, p. 48), into start-ups with at least one North American or European founder, because investors primarily invest within their own network. An example of foreign investments in local start-ups is the e-commerce company Jumia, in which Goldman Sachs, Rocket Internet, and the

[2] The TEA measures the number of entrepreneurs who are actively involved in starting a business or already own a new business that has been in existence for less than 42 months. TEA is expressed as a percentage of established companies (more than 42 months old).

insurer Axa have invested. For African founders, this means an additional challenge, as they are not part of the corresponding networks. As a result, access to venture capital is very limited and the chances of success of local start-ups are reduced (Rodrigues et al., 2018, p. 8).

In addition to direct investment in individual start-ups, more and more hubs are developing in SSA, which corresponds to the demand for more investment in the start-up ecosystem (see above). In general, hubs are defined as organizations that offer a communal workspace where innovative ideas and start-ups are created and supported (Rodrigues et al., 2018, p. 46). In 2019, there were 643 active tech hubs in Africa (AfriLabs & Briter Bridges, 2019, p. 5). Compared to the previous year, this was an increase of 40% and a doubling compared to 2016. In addition, the study identified over 110 hubs in recent years that had to cease operations due to bankruptcy or significant strategic changes. Of the currently active hubs, 90 are in Nigeria, 50 in Kenya, 27 in Ghana, 23 in Tanzania, 22 in Côte d'Ivoire; Uganda and Rwanda each have 10 and in Ethiopia there are 8 hubs. More than 50% of the hubs are run by private institutions and over 40% are run by non-governmental organizations.

The local conditions of the hubs in SSA range from internet access and a desk in the open air to specific training and lectures or active advice from investors. Just under a quarter of the tech hubs, i.e., 155 hubs, are focused on innovation. The majority are co-working (39%) and accelerators (41%); a smaller part are incubators (14%) (AfriLabs & Briter Bridges, 2019). These significant differences in the orientation and quality of the hubs are due in part to the fact that the operators only respond to local demand or financing by donors, but themselves lack adequate education, which ultimately leads to poor implementation (Rodrigues et al., 2018, p. 46). A hub operator describes the situation as follows: "It's like we're the bank, school, parent, brother and psychologist." (Rodrigues et al., 2018, p. 47). This is likely due primarily to the limited resources of most hubs. The majority of hubs report that they have received less than $100,000 in funding from many different sources. 60% of the hubs each report that they receive external donations and that funds are raised for specific programs. Just over half of the hubs charge a membership fee from the start-ups. To reduce costs, many of the hubs enter into strategic partnerships with companies (e.g., Microsoft, Amazon, Deloitte, Standard Bank, VodaCom) or non-governmental organizations (e.g., USAID, giz, World Bank, Bill & Melinda Gates Foundation). They also cooperate with each other and share infrastructure such as cloud and server. Only because of the cooperation is it possible for at least 40% of the hubs to provide financing for start-ups (Group Speciale Mobile Association, 2019). Thus, in 2018 a total of 191 start-ups were financed by the surveyed tech hubs, with the support per start-up being less than $20,000 (AfriLabs & Briter Bridges, 2019, p. 11).

So the conclusion of Friederici (2019, p. 19 f.) in his qualitative study that hubs only make a minor direct contribution to the founding and success of start-ups in SSA is not surprising (this does not question the potential of hubs). In addition, most of the entrepreneurs surveyed report that they would have continued the founding of their company even without the support of the respective hub. While tech hubs can contribute to promoting an innovation climate in Africa and significantly advancing idea generation, their effectiveness is limited due to scarce resources and capabilities. The expectation that hubs will compensate for the shortcomings of the existing ecosystem overburdens the operators.

3.6 Importance of Entrepreneurship for Market Entry into Sub-Saharan Africa

Currently, entering the market in Africa without a local partner is almost impossible due to the completely different and difficult conditions:

> Unless you understand how these [local] communities work and select the right partners, it will be practically impossible to start a business or get anything done. (Mudida & Lago, 2015, p. 21)

A local partner usually facilitates market entry and the establishment of a successful business. The stronger the formal entrepreneurship activities in a country, the more likely it is to find an adequate partner. Although a large part of entrepreneurship in Sub-Saharan Africa is driven by "necessity-based", there exists and is emerging in many countries an active start-up scene, many of which are active in the field of digital business models. This opens up new options for German companies on how to deal with operational challenges. For example, in the area of financing, FinTechs can increasingly be used; for platform solutions, local app programmers can be found as in the case of VW in Rwanda; for the distribution problem, there are local start-ups like Sendy in Kenya, which provide a platform for booking transport capacity. Further examples of digital business models and start-ups that can support international companies in their business operations in Africa are provided by the study by Carlowitz (2020).

However, studies show that it is currently and in the foreseeable future not easy to find reliable and qualified local partners, usually in distribution and logistics (see, for example, Carlowitz, 2019a). Thus, there is a dilemma for market entry: A key success factor is a good local partner, but these are precisely rare. As a consequence, sufficient time and resources should be invested in the search and acquisition of local partners when planning a market entry in order to find a suitable partner, among others in the start-up sector. Since African entrepreneurship is currently only partially able to defuse the situation, international companies should be prepared to look for out-of-the-box solutions for their operational challenges together with start-ups. Despite all the difficulties for entrepreneurship in SSA, the development in the start-up scene is positive to evaluate, especially since more and more venture capital is now flowing into Sub-Saharan Africa, the conditions are slowly improving, so that an acceptable ecosystem is developing, and that there are increasingly start-up and tech hubs, which admittedly still need to become more professional. Overall, entrepreneurship plays an important direct and indirect role not only for the development of the SSA countries but also for companies entering the market.

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Is Africa's Economic Development Sustainable?

4

Andreas Freytag

Contents

Abstract

Although Africa is heavily affected by the Covid 19 crisis, the recent positive development seems to be sustainable. The governance structure continues to improve, and economic recovery and a continuation of the growth path are expected in 2021 and beyond. The federal government can support this process with a stronger focus on economic development, for example through more comprehensive investment promotion.

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4.1 Africa in the Shadow of the Covid-19 Crisis

For several years, Africa has undergone a remarkable transformation that is still inadequately recognized in Germany. Since the beginning of the twenty-first century, the growth rates of the Gross Domestic Product (GDP) in Africa have consistently been higher than in other continents. There have been far-reaching reforms, and a middle class has emerged. Added to this were innovations in the field of mobile telephony, which led to numerous business ideas in health policy, financial markets, and market development for other sectors. Africa is likely to become the continent where decentralized energy supply will experience a significant boost (Müller, 2020, p. 71 ff.). In March 2018, all African countries (except Eritrea) founded the largest free trade zone in the world in Africa with the African Continental Free Trade Area (AfCFTA). In August 2020, the Secretariat in Accra, Ghana, moved into its new building, and from January 2021, the rules agreed so far have been applied (Draper et al., 2018).

This positive development has been abruptly halted. With the outbreak of the Covid-19 crisis, Africa has come back into focus, and again, most observers primarily see the dark sides. Indeed, the economic consequences of the Covid-19 crisis in Africa are strongly felt (IMF, 2020). Table 4.1 shows the enormous slump in growth in Africa, which will be highest in Mauritius with an estimated 14.2% for 2020. For the first time

Table 4.1 Annual GDP growth in sub-Saharan Africa: selected countries (in %, 2010–2021). (Source: IMF, 2020, World Bank (b))

Country	2010–2016	2017	2018	2019	2020*	2021*
Angola	3.6	−0.2	−1.2	−0.9	−4.0	3.2
Ethiopia	9.9	10.2	7.7	9.0	1.9	0.0
Botswana	5.3	2.9	4.5	3.0	−9.6	8.7
Ivory Coast	6.0	7.4	6.8	6.5	1.8	6.2
Ghana	6.6	8.1	6.3	6.5	0.9	4.2
Kenya	6.0	4.8	6.3	5.4	1.0	4.7
Malawi	4.2	4.0	3.2	4.5	0.6	2.5
Mali	4.1	5.0	5.2	5.1	−2.0	4.0
Mozambique	6.6	3.7	3.4	2.3	−0.5	2.1
Nigeria	4.7	0.8	1.9	2.2	−4.3	1.7
Rwanda	7.4	4.0	8.6	9.4	2.0	6.3
South Africa	2.1	1.4	0.8	0.2	−8.0	3.0
Tanzania	6.6	6.8	7.0	7.0	1.9	3.6
Uganda	4.9	7.3	6.1	6.7	−0.3	4.9
Zimbabwe	8.2	4.7	3.5	−6.5	−10.4	4.2

* estimated

in almost two decades, the continent is facing the danger that past successes could be reversed.

The International Monetary Fund sees problems in the near future primarily in external financing and in the willingness to reform, which will be necessary to strengthen the economy after the end of the Covid-19 crisis. It should be noted, however, that the infection process in Africa has been relatively well controlled.

But even against the backdrop of this crisis, it is worth looking at the continent from the perspective of the German economy. This is true both because of Africa's potential and because other traditional markets in Europe and some emerging countries do not seem to be as fruitful. Looking at China, it is already foreseeable that the political conflicts provoked by the increasingly authoritarian government in Beijing will make business in China more difficult for German companies (whether as an investor or exporter).

This contribution serves to draw a concise picture of Africa, its strengths and weaknesses, and its future potential from the perspective of globally operating companies. Of course, it must be taken into account that statements on a few pages are not detailed enough to serve as a guide. Rather, the appetite should be whetted to become better informed. So far, the German economy has imposed a hardly understandable restraint on the African continent. It will be shown that this restraint is at least partly unjustified.

It is true that the individual countries and regions of Africa are very different. The International Monetary Fund (IMF, 2020) distinguishes, regardless of income, oil countries, middle-income countries, where the GDP per capita exceeded the sum of 1035 US$ between 2012 and 2014, poor countries with lower per capita income, and fragile states, whose income is usually also below this.

There are also large differences with regard to governance structures or institutions, i.e., the rules, norms, and values within an economy. Examples of these institutions are the extent of corruption, economic freedom, political rights, or the enforceability of law. These institutions are important not only to attract foreign exporters but also to be attractive for investments. This allows African companies and workers to integrate into transnational value chains.

From this perspective, various questions arise that are of particular importance for the future economic development in Africa. First, the macroeconomic fundamental data must be taken into account, i.e., the status and development of per capita income, but also its distribution and the question of whether a middle class is emerging that can contribute to developing a corresponding demand for German products directly or indirectly.

This development depends on where African or Africa-based companies and their employees can integrate into the transnational value chains. So far, African companies are too rarely active at the upper end of value creation. Their focus is on the sale of raw materials and the production of intermediate products. Only within Africa is there an intensive exchange of industrial goods (Draper et al., 2018).

The reasons for German restraint lie, on the one hand, in the high costs and risks associated with foreign trade or investment activity in Africa (Felbermayr et al., 2019).[1] These are caused by weaknesses in infrastructure, relatively high communication costs, and numerous export barriers. Secondly, a look at institutional indicators shows that there is often a lack of governance quality, which is why global companies tend to hold back and invest elsewhere. Finally, deficits in education, especially in cross-sectional knowledge such as language or management skills, are cited as the reason why integration into value chains is so difficult (Draper et al., 2015). There is hope that the establishment of the AfCFTA can remedy this situation.

4.2 Economic Development Since the Global Economic and Financial Crisis

Africa has come through the global economic and financial crisis relatively well. During the crisis, the continent was hit late (Freytag, 2010); the subsequent upswing was stronger than average on all other continents. For Sub-Saharan Africa, the average growth rate of real gross domestic product (GDP) was 4.6% from 2010 to 2016; it then decreased slightly. The forecasts for 2020 and 2021 are −3.0% and 3.1% respectively (IMF, 2015, p. 81).

However, these figures disguise the fact that the countries have developed very differently. For example, the oil countries recorded significantly higher growth rates during the first decade of the twenty-first century, led by Equatorial Guinea. Since 2010, the oil countries have been slightly worse off than the average, especially when South Africa is excluded from the average. The poorer countries and fragile states are expected to grow faster than the middle-income countries; South Africa, as mentioned, has been an outlier downwards for some time.[2]

The relatively high growth rates are relativized by the fact that the population in most countries is growing very quickly (The Economist, 2015b). As a result, real per capita incomes are growing much more slowly. This slower growth of per capita incomes must be viewed critically because it slows down the emergence and spread of a middle class[3]. Nevertheless, the middle class in Africa has grown; in South Africa, for example, it accounted for 36% of the population in 2014; in Ethiopia, however, only about 3%.

[1] This study primarily addresses the question of how German politics can promote investments in Africa more intensively and precisely. See also Chap. 5 in this volume.

[2] However, South Africa is of less relevance for this essay, as the German economy is very well informed and positioned there.

[3] Here, the middle class is defined as the population group with a disposable income of 10 to 20 US$ in purchasing power parity (PPP dollars), people with 20 to 50 US-PPP dollars of disposable income are considered to belong to the upper middle class (The Economist, 2015a).

Before 2004, there was no middle class in Ethiopia at all; the GDP growth rate there since 2010 has averaged just under 10% until 2019. The average per capita income on the African continent for 2019 was just under 4000 US$ (in purchasing power parity; PPP) Table 4.2 shows the data for the most important countries of the continent.

It shows that one of the poorest countries at the beginning of independence, namely Botswana, has caught up significantly and is ahead of South Africa in US dollars at purchasing power parity. However, this is relativized because the South African rand has lost considerable value against the US dollar (as well as against the euro) since 2008, which reduces incomes there in dollars.

Inflation traditionally poses a secondary problem on the African continent. For 2020, the average inflation rate in Sub-Saharan Africa is estimated at around 10.6%, with a range again: The result is also driven by the very high inflation in Zimbabwe estimated at over 660% in 2020; the West African CFA franc zone continues to show a high degree of price level stability with an estimated 2.1% inflation in 2020. Compared to Latin America, Africa traditionally has fewer monetary problems.

Finally, saving and investment activity is of interest, also against the background of the increased and much-discussed Chinese commitment in Africa (Draper & Freytag, 2013). The gross saving rate in the African average of the 2010s is about 16% of GDP,

Table 4.2 GDP per capita (PPP) in sub-Saharan Africa: selected countries (2011–2019). (Source: World Bank (a))

Country	2011	2019
Angola	6710.75	6929.68
Ethiopia	1134.78	2311.70
Botswana	14,252.71	18,502.82
Ivory Coast	2404.04	5455.36
Ghana	3379.48	5636.95
Kenya	2437.88	4509.32
Malawi	1062.95	1103.64
Mali	1826.65	2423.83
Mozambique	1023.07	1333.512
Nigeria	4922.70	5348.34
Rwanda	1457.12	2318.49
South Africa	12,172.31	12,999.12
Tanzania	2228.71	2770.68
Uganda	2241.12	2271.65
Zimbabwe	2101.83	2953.48

but the differences and fluctuations over time are large.[4] It is noteworthy that the saving rate has fallen, while the investment rate has remained almost constant since 2004, leading to a so-called "current account reversal", i.e. a passivation of the current account.[5] In a study on such "current account reversals", du Plessis and Freytag (2014) were able to show that their effects on employment, investment and growth in Africa are small.

It makes sense in principle that capital-poor countries import net capital (and then show current account deficits). Nevertheless, their own savings are important for the countries in order to be independent of foreign capital and to be able to repay the debts. Savings in developing and emerging countries are positively dependent on economic institutions—the higher the economic freedom and the lower the bureaucratic hurdles, the higher the savings (Freytag & Voll, 2013). For about 12 years, Africa as a whole has been a net capital importer. A significant contribution to foreign direct investment in Africa is made by Chinese companies, which, however, regularly invested absolutely less in Africa than their American competitors (Felbermayr et al., 2019).

In this respect, the fear of the "Chinese dragon" (Draper & le Pere, 2005) seemed somewhat exaggerated for a long time. After all, investments are being made and infrastructure is being created that would not exist without Chinese commitment. However, it is also true that Chinese companies apparently have fewer scruples about disregarding moral standards or have fewer requirements in this regard than their European competitors. Foreign economic relations are clearly a strategic instrument of China's diplomacy. This aspect is becoming increasingly apparent in the so-called "Belt and Road initiative".

It is therefore only consistent that many African decision-makers wish for more European, specifically German, commitment in Africa, because investors who take into account workers' rights and environmental quality can contribute to an improvement of the institutions.[6] The conditions on site play a decisive role for such a commitment.

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[4] However, (as with investments) the data are generally not very trustworthy. The values fluctuate strongly over time and across countries; in some cases between −20% of GDP to over +20 just a few years later.

[5] If the statistics are correct, the identity: "savings minus investment equals the export surplus" must always apply. The decline in saving rates in Africa since 2004 was compensated by net capital imports, which in turn led to trade or current account deficits.

[6] Against this background, the debate on the so-called supply chain law in Germany, which was intensively conducted in 2019 and 2020, is to be interpreted. Ultimately, it is about the question of whether German investors and exporters are deterred from investing in developing countries by new legal regulations, so that the actual goal, namely the promotion of human and civil rights as well as equality and sustainability, is not achieved (Freytag, 2020).

4.3 "Institutions Matter!"—On Africa's Institutional Catch-up Process

The aforementioned importance of the middle class for the development of a country is essentially based on two pillars. On the one hand, the middle class forms the backbone of civil society. Its members recognize the value of, for example, governance structures, education, health, or environmental protection. After fulfilling the most important material desires, they will also be the ones to demand democratic rights and political freedoms. Secondly, they form a potent buyer group for exports from other countries. The African middle class, as already mentioned, has grown since 2004.

Regarding the institutions, it should be noted that Africa has also caught up here. Let's start with corruption, which is regularly calculated by Transparency International (a). Corruption is harmful to economic development in the vast majority of cases, as it distorts decisions to the disadvantage of efficient companies and increases the transaction costs of economic activity, e.g. when goods cross borders. Only when the administration does not function at all and other governance structures are weak can corruption act like a lubricant.

Africa is the continent with the largest corruption problem worldwide, although it is overall slightly decreasing. The average value of the Corruption Perception Index (CPI) of the country sample has significantly increased, as documented in Table 4.3.

Table 4.3 Corruption in sub-Saharan Africa: selected countries (2004–2019). (Source: Transparency International (a))

Country	CPI2004	CPI2007	CPI2011	CPI2014	CPI2015	CPI2019	CPI 2020
Angola	2.00	2.20	2.00	1.90	1.50	2.60	2.70
Ethiopia	2.30	2.40	2.70	3.30	3.30	3.70	3.80
Botswana	6.00	5.40	6.10	6.30	6.30	6.10	6.00
Ivory Coast	2.00	2.10	N/A	3.20	3.20	3.50	3.60
Ghana	3.60	3.70	3.90	4.80	4.70	4.10	4.30
Kenya	2.10	2.10	2.20	2.50	2.50	2.80	3.10
Malawi	2.80	2.70	3.00	3.30	3.10	3.10	3.00
Mali	2.30	2.70	2.80	3.20	3.50	2.90	3.00
Mozambique	2.80	2.80	2.70	3.10	3.10	2.60	2.50
Nigeria	1.60	2.20	2.40	2.70	2.60	2.60	2.50
Rwanda	n.a	2.80	5.00	4.90	5.40	5.30	5.40
South Africa	4.60	5.10	4.10	4.40	4.40	4.40	4.40
Tanzania	2.80	3.20	3.00	3.10	3.00	3.70	3.80
Uganda	2.60	2.80	2.40	2.60	2.50	2.80	2.70
Zimbabwe	2.30	2.10	2.20	2.10	2.10	2.40	2.40

Table 4.4 Economic freedom in sub-Saharan Africa: selected countries (2004–2018). (Source: Fraser Institute (a))

Country	EF 2004	EF 2007	EF 2010	EF 2012	EF 2014	EF 2016	EF 2018
Angola	4.25*	4.67	5.39	5.45	5.02	5.39	4.75
Ethiopia	5.30*	5.47	5.33	5.25	5.29	5.49	5.61
Botswana	7.27	7.20	7.03	7.33	7.43	7.50	7.60
Ivory Coast	5.81	5.71	5.67	5.61	5.88	5.95	6.09
Ghana	6.29	7.07	6.91	6.69	6.31	6.60	6.65
Kenya	6.80	7.28	7.02	7.18	7.20	6.96	6.84
Malawi	5.13	5.78	6.17	6.09	5.95	5.98	5.79
Mali	5.53	6.14	6.04	6.06	5.77	5.85	5.93
Mozambique	5.74	5.73	5.44	5.75	5.60	5.55	5.94
Nigeria	5.65	6.38	6.17	6.42	6.65	6.87	6.93
Rwanda	6.05	6.46	7.10	7.26	7.25	7.23	7.39
South Africa	6.81	6.88	6.86	6.87	6.81	6.67	6.73
Tanzania	6.21	6.23	6.67	6.60	6.75	6.74	6.73
Uganda	6.92	7.28	7.43	7.31	7.41	7.40	7.55
Zimbabwe	2.80	3.18	4.34	5.08	5.80	5.72	5.12

* Values for 2005

While the CPI was on average 2.91 in 2004, it had reached an average value of 3.51 in 2019.[7]

The same applies to economic freedom. Overall, the continent has gained in economic freedom. In our country sample, economic freedom, as measured by the Fraser Institute (a), increased on average by 0.6 points between 2004 and 2019.[8] Only Botswana and Uganda can be considered as nearly free; South Africa has rather slightly lost freedom over time (Table 4.4).

Despite the positive trend of two important governance indicators shown here, the conclusion remains that Africa still suffers from institutional weaknesses that overall form a growth brake. An example that is not so easy to quantify is the absence of a cadastre. This makes it difficult for African entrepreneurs to prove their land ownership and subsequently to be able to mortgage it (de Soto, 2002). In this way, the resources of the continent are not used appropriately. Directly related to this are administrative

[7] The value ranges from 0 (maximum degree of corruption) to 10 (minimum). The leading Scandinavian countries are at a value of around 9.

[8] The index measures economic freedom as an average of 23 indicators in five groups (size of government, security of property rights, access to stable money, regulation, and freedom of foreign trade) between 0 (low freedom) and 10 (high freedom).

weaknesses, e.g. in tax administration. This also results in a gap in tax revenues, which ultimately leads to an inefficient generation of public revenues, namely through tariffs. In this way, efficient resource allocation is prevented and the potential productivity gains from foreign trade are not exploited.

4.4 Infrastructure as a Bottleneck in Africa

This—trade policy—problem directly ties into another weakness of the continent, namely a gap in infrastructure. Firstly, there is a lack of transport infrastructure, i.e., there are insufficient navigable waterways, roads, and railway lines that could overcome the large, in some cases sparsely populated, areas in Africa. Air traffic also continues to underutilize its potential, partly hindered by governments (The Economist, 2016). The airlines are in poor condition, and there are hardly any direct connections within Africa. This requires considerable intra-African detours, and some African destinations can only be reached via Europe or the Arab "hubs".

Not much better, but at least with a rising trend, is the situation with regard to the entire road network. On average, in our country sample, the countries had a road network of an average length of 110,000 km in 2013, although with the outlier South Africa (almost 750,000 km).[9] The growth rate is interesting; the network outside South Africa grew by about a fifth between 2004 and 2013.

The supply of electricity and water is the biggest bottleneck, which not only has negative effects on economic development but also causes social problems. Particularly, constant power outages prevent foreign direct investments.

The development of mobile telephony is positive. From 2000 to 2015, the number of mobile phones in Africa grew from 16.5 million to 650 million, in 2015 there were 350 million internet-capable phones in circulation, and the growth in demand for smartphones was estimated at around 40% at the beginning of 2015 (Handelsblatt, 2015). This growth has continued since then. The really interesting thing about this development are the applications of mobile telephony in healthcare, education, market creation and observation, and in finance. Many innovations in this field come directly from Africa.

The number of internet connections has grown even more rapidly, namely by almost 2600% in the 10 years between 2004 and 2013 in the country sample; there were further increases after that.[10] This rapidly increases people's connection to the global markets, and e-commerce solutions are now possible that were previously unthinkable, although the importance of electronic commerce should not be overestimated. The growing internet access also potentially affects governance structures, as people can learn and put pressure on their governments. Overall, this is a positive development (Table 4.5).

[9] For comparison: Germany has a road network of 645,000 km in length.

[10] The data are not very accurate and fluctuate greatly. However, the trend is sustainable and impressive.

Table 4.5 Internet connections in sub-Saharan Africa: selected countries (2004–2018). (Source: CIA (a))

Country	Internet_2004	Internet_2007	Internet_2010	Internet_2013	Internet_2018
Angola	41,000	100,000	606,700	3,700,000	4,350,000
Ethiopia	75,000	291,000	447,300	1,600,000	19,118,470
Botswana	60,000	80,000	120,000	283,500	1,057,100
Ivory Coast	n/a	n/a	550,000	6,300,000*	12,295,200
Ghana	170,000	650,000	1,297,000	5,000,000	10,960,000
Kenya	400,000	3,000,000	3,996,000	16,500,000	9,129,200
Malawi	36,000	139,500	716,400	387,500	2,734,300
Mali	25,000	100,000	249,800	12,400,000	2,395,900
Mozambique	50,000	200,000	613,600	1,400,000	2,855,700
Nigeria	750,000	10,000,000	43,989,000	66,600,000	85,450,100
Rwanda	25,000	100,000	450,000	1,100,000	2,653,200
South Africa	3,100,000	5,100,000	4,420,000	24,800,000	31,107,100
Tanzania	250,000	400,000	678,000	7,400,000	13,862,800
Uganda	125,000	2,000,000	3,200,000	6,000,000	9,620,700
Zimbabwe	500,000	1,351,000	1,423,000	2,700,000	3,796,600

* 2016

There is no question that the deficiencies in infrastructure are serious and must be eliminated. Against this background, they are both an obstacle and an opportunity for the German economy, which can offer numerous solutions for infrastructure projects. This also offers an opportunity for cooperation between the economy and the actors of development cooperation (DC), as DC funds are probably best invested in infrastructure.

4.5 Conclusion: African Companies Underrepresented in Global Value Chains, but Not Without Opportunities

As a consequence of what has been said so far, it must be noted that African countries are not sufficiently utilizing their potential for integration into transnational value chains. They are not often enough found at higher levels of the value chains, globally active companies (so-called *first tier firms*) are too rarely active in Africa. Reasons lie in the mentioned deficits in infrastructure, governance, and education (Draper et al., 2015). The Covid 19 crisis is likely to have worsened the situation for African companies. This also presents an opportunity for the German economy in cooperation with development cooperation (EZ).

South Africa, occasionally referred to as the gateway to Africa, deserves special attention in this context. This function could mean that companies wanting to invest in Africa do so by settling in South Africa and from there moving to other countries, partly with the support of local companies. South African companies, in turn, could cause spillovers through direct investments in other African countries; positive experiences from Asia in the 1960s and 1970s are available for this (Draper et al., 2016). For this, the country would need to make itself even more attractive to investors from third countries.

When the end of apartheid was realized in 1994, the country experienced a major boost in all important governance indicators; political and economic freedom increased. After this one-time boost, not much has been moved for the better—on the contrary: The country became less free, corruption increased (and began in the presidential office). Education and health are still inadequate for large parts of the population, the electricity supply is very unreliable due to corruption. President Cyril Ramaphosa, who has been in office since early 2019, has since made considerable efforts to curb corruption and make the public sector more efficient. These efforts are yet to be rewarded.

In addition, the country still has an excellently developed (and slightly growing) middle class, motivated workers, good transport infrastructure, and a world-leading financial system. Added to this is the fact that opposition to the African National Congress (ANC), which has been in power since 1994, is expanding. There is still hope that South Africa can once again become the engine of development for sub-Saharan Africa.

In this context, there is an opportunity for the German industry to invest both via South Africa, where the German industry is strongly represented, and directly in target countries. This opportunity is being used sporadically, but by no means sufficiently (Felbermayr et al., 2019). There are some examples of German engagement in innovative areas of water supply (see the issue of aw—afrika wirtschaft from January 2016). German companies are also well positioned in the—conventional and renewable—energy supply. The federal government indirectly supports these efforts with its National Hydrogen Strategy. In addition, there is a growing demand from Africa for German quality—not least thanks to the obvious quality deficiencies of many Chinese investments and products.

The German economy should not miss the opportunities arising from the steady improvement of Africa's institutional and economic situation. However, for this to work, the help of the government is needed. Instead of further increasing the bureaucratic hurdles of engagement in Africa for the German economy, the EZ should rather help to mitigate the risks in Africa in an unbureaucratic way (Freytag & Liebing, 2020). The ruthlessness of other governments in gaining advantages for their economy in Africa should also be taken into account.

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The Demographic and Social Development in Africa

5

Helmut Asche

Contents

Abstract

The analysis of Africa's recent economic development follows a wave motion, from the supposedly hopeless continent to the African economic miracle and, after the temporary end of the commodity boom, back to the ground of hard facts. The same phase sequence can be observed for the social trends in Africa.

The analysis of Africa's recent economic development follows a wave motion, from the supposedly hopeless continent to the African economic miracle and, after the temporary end of the commodity boom, back to the ground of hard facts. The same phase sequence can be observed for the social trends in Africa. The 1980s and 1990s were determined by the necessity to reduce mass poverty in Africa and to establish basic food security. At the beginning of the new millennium, the perception completely turned around, and the

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tenor of the analyses was set by the spectacular rise of new African middle classes. Since the middle of the last decade, the third phase of recent socio-economic development has been initiated by a series of critical analyses of structural change and job development. (Asche, 2015)

In this third phase, few see Africa on the way back to the 1980s or 1990s, on the contrary: a continuation of a GDP growth of 4-5% is usually assumed; but a differentiated view also applies to the social trends, and in 2020, Covid-19 further complicated the forecasts (see below). The everyday perception of Africa's new social reality is—hardly different from the scientific perception—determined by the dichotomy between the emerging middle class and still widespread poverty.

5.1 The New Middle Class

The dynamics of a *"New African middle class"* embodies all the positive expectations associated with the growth period of the last twenty years: the development of mass purchasing power beyond mere basic supply, progressive urbanization, the adoption of Western lifestyles and modern consumption patterns, which makes the African market even more interesting for Western companies. This middle class is also associated with the strengthening of modern societal elites and specifically entrepreneurship in Africa, although the empirical basis of knowledge about this is still thin. The new middle class finally stands for a series of social and political expectations—not least the consolidation of African democracies through the broadening of tax-paying and therefore political accountability *(accountability)* demanding layers, which can also support an active civil society. The phenomenon is thus complex (Kroeker et al., 2018; Lentz, 2015; Melber, 2015).

The definition of the new African middle class in the often-cited statistical analyses is not primarily made according to professional groups or property relations, but according to available income or consumption expenditures. The range of definitions varies greatly. The calculation of the African Development Bank, considered a milestone, is based on premises that Ravallion made clear following Banerjee/Duflo: *Middle class* is not defined according to the standards of industrialized countries, but according to those of developing countries; and it begins exactly where poverty ends (Ravallion, 2010). This location does not necessarily have to be the right one. In any case, it is important to know it, especially if it is assumed that the mentioned expectations of lifestyles, consumption patterns and political attitudes are indeed inspired by the parallel to industrialized countries. The corresponding classifications for Africa count everyone (adult) with an income of more than 2 US dollars per day as middle class, and thus arrive at estimates of 300 million Africans who belong to it[1] (AfDB, 2011). The fact that this cut-off limit

[1] The AfDB uses either consumption or income data depending on country availability—in the hope that the resulting measurement error (due to saving/debt) will only affect higher income groups.

is only slightly above the then international poverty line of 1.25 US dollars or exactly borders the slightly higher 2 dollar poverty line is clear to the statisticians of the African Development Bank. The statisticians include the *"floating middle class"* of 2–4 dollars consumption per person and day in their (further) middle class definition. At the top of the pyramid, people with > 20 dollars per day are considered rich. According to this reading, African societies in the base year 2010 were divided into 61% poor, 34% middle class and 5% "rich". Deloitte sees the African middle class growing to 1.1 billion people by 2060 on the same basis—a huge consumption potential. All this shows how relative a formally absolute definition of middle class can be, or in other words: how much the desire for market development determines the calculations.

More realistic estimates, such as a (not freely accessible) study by the Standard Bank South Africa, calculate with a minimum of 15 US dollars per person and day, above which degrees of freedom in consumption become possible—and consequently a rising demand for higher-value and durable consumer goods. According to this, the middle class amounts to about 5500 dollars annual income in the eleven examined sub-Saharan countries still to 15 million households (Freemantle, 2014). Since the eleven countries account for about half of the African social product, the number can be roughly estimated to be 30 million households, compared to the 85 million (2008) to 128 million (2020) middle class households with discretionary consumption at McKinsey (Roxburgh et al., 2010), which are closer to the AfDB estimate. Depending on how this is extrapolated to population numbers, realistically a limited, albeit rapidly growing midfield of—by local standards—wealthy African consumers emerges.

5.2 Poverty in Africa

At the other social extreme, we still register widespread poverty and malnutrition. Although Africa had also politically set itself the goal of halving absolute poverty on the continent compared to the base year 1990 within twenty-five years (Millennium Goal No.1), and the global sustainability goals also envisage the eradication of poverty in Africa by 2030. The global pattern is well known: that a halving of poverty in developing countries by 2015 has actually been achieved is mainly due to China's success. Africa has also made some progress. In the definition of the income limit by the World Bank at 1.90 US dollars per person and day, the poverty rate in 1990 was 56.8% and has fallen to 40.2% of the population by 2018.[2] Despite this percentage decrease, however, poverty in sub-Saharan Africa has increased by about 40% to approximately 440 million people

[2] For the year 2018, the last available value is shown in the World Bank's recalculation. All data according to *World Development Indicator Database,* here for sub-Saharan Africa in 2011 dollar purchasing power parities.

since 1990. The largest number of poor people today is no longer in South Asia, but in Africa—about half of the poor in the world.

Obviously, the impressive growth since the end of the 1990s has opened up a new life perspective for many millions, but left others behind. Clues to the causes can be gained in part already from the poverty reporting itself: (1) Africa's needy often live so deep below the poverty line that moderate growth does not help them permanently over the threshold (so-called *poverty depth*); (2) they often concentrate geographically where the growth is not—unlike the new middle class; (3) the particularly unequal income distribution in Southern Africa, for example, leaves them a relatively small share of economic growth (Chandy, 2015). As a result, the poverty elasticity of growth was only—0.69%, while it was—2.0% in other world regions (Filmer & Fox, 2014). The economic development is therefore, with the term introduced in the 2000s, not sufficiently 'poverty-oriented growth' *(pro-poor growth)*, or with today's broader social focus: there has not yet been enough 'inclusive growth'. The promotion of *inclusive growth* has consequently become a core economic policy demand, especially for Africa.

In addition to the briefly mentioned distribution issues, this composite result contains two components—population development and job development.

5.3 Population Development

The population of Africa currently stands at around 1.3 billion people, of which around 1.1 billion are south of the Sahara. Sixty percent of Africa's inhabitants are under 25 years old. What does their future life perspective look like? Disillusionment has recently set in on this question as well. According to the latest UN forecast, the African population is growing much faster than expected in the last estimate. Sub-Saharan Africa is the only world region that will still show rapid population growth by the end of this century (United Nations, 2019). The reason lies in the specific course of the so-called demographic transition in Sub-Saharan Africa, that is, the path from a starting stage with high death and birth rates and low population growth to a phase of rapidly falling death rates and, with a delay, slowly declining birth rates. In this phase, the population grows rapidly until both rates approach each other again at a low level in the final phase.

North Africa has essentially gone through the stages of the demographic transition. The first part of the transition has also been reasonably managed in Sub-Saharan Africa recently. Major successes in disease and pest control, to which state aid organizations, NGOs, private companies, and foundations all contribute, have recently reduced infant and child mortality so much that significant progress was made by the end of the decade (Table 5.1).

However, the subsequent reduction in birth rates has not occurred to the expected extent. According to the UN calculation, an African woman still has an average of 4.5

Table 5.1 Child mortality in sub-Saharan Africa (per 1000 live births)

	1990	2019
Infant mortality	106.6	51.7
Child mortality, under 5 years (per 1,000)	178.5	75.8

(Source: World Development Indicators Database)

children (*Total Fertility Rate*[3] 2019). South of the Sahara, it's almost five children. Accordingly, the decline in fertility is not accelerating as assumed in the models. A large group of countries has a fertility rate of about six children per woman: Angola, DR Congo, Niger, Chad, Mali, and others. The decline in birth rates has slowed or almost come to a standstill in some other countries after initial successes, surprisingly also in relatively advanced countries like Kenya or Senegal.

Fifteen years of high economic growth have refuted the critically connoted 'African Exceptionalism' for the better in many respects. However, in the central question of demographic transition and especially the total fertility rate, the *divergence* of Africa south of the Sahara from the rest of the world essentially remains at the point where it was already identified at the end of the 1990s.[4]

Therefore, according to the UN calculation, the population growth south of the Sahara remains at a high level of 2.65% in 2015–2020. This in turn is reflected in the low increase in per capita growth, which, unlike in East Asia, does not yet show any *convergence* with high-income countries (see Freytag in this volume).

In view of such a critical overall perspective, it is particularly important to continue to look at the 49 countries in Africa south of the Sahara in a differentiated manner. In the Republic of South Africa, the demographic transition is done; the problems start afterwards—with an unemployment rate that is 25% or 40% depending on the definition. A whole series of countries south of the Sahara and north of the Limpopo still have the chance to manage the demographic transition. Forecasts of this transition are notoriously particularly uncertain because they depend heavily on politically influenced factors in addition to fixed social norms: secondary education for girls; reproductive health, especially effective programs for access to contraceptives, attitude of the state leadership[5], etc. Accordingly, demographers are constantly trying to divide Africa into groups of

[3] The *Total Fertility Rate* (TFR) is a synthetic measure of the number of children a woman gives birth to during her entire reproductive age, taking into account the cohort-specific fertility rates. The so-called reproduction rate, at which the population remains constant ceteris paribus, is about 2.1 children.

[4] Classic: Bloom and Sachs (1998). Even then, a more optimistic variant was already being traded as a counter-thesis, see simultaneously Cohen/US National Research Council (1998).

[5] See, for example, two countries whose presidents, re-elected in 2020, found the prospect of 100 million compatriots magnificent just a few years ago (Uganda) or consider the use of contraceptives to be an expression of laziness in the family (Tanzania).

countries that have more or less managed the transition according to the respective stage of population development (Canning et al., 2015; Vimard and Fassassi, 2012).

A large country like Ethiopia presents almost the entire range of demographic development stages of Africa within its own borders—not least because the government is implementing a determined family planning policy in the densely populated and easily accessible regions of the country. Women with completed secondary education (= 12 school years) in Ethiopia have a TFR of <2, i.e. below the reproduction rate. In general, with the growth of modern middle classes in Africa, the advance of Western reproduction patterns is also associated—later marriages and smaller families. All analyses by the UN, World Bank and others converge in the recommendation to consistently implement the corresponding policies. However, a short-term change in the demographic pattern is not to be expected due to the characteristic base effect. This topic has not played the objectively required role in the development policy dialogue with Africa for many years.

In any case, that is, with or without effective reproductive health programs, according to the current UN forecast, by 2050 three African countries will be among the ten most populous in the world: Nigeria, DR Congo and Ethiopia. By 2100, there will be five; Tanzania and Egypt will then also be included. To make the dynamics very clear using one example: the three neighboring countries Nigeria, Niger and Chad alone will have half a billion inhabitants (more than the EU today) in 2050 and almost a billion in 2100. This is the medium variant in the UN calculations. It certainly implies a substantial decline in fertility rates, but in Africa, it will only reach the reproduction level (2.2) towards the end of the century. At the time of colonial rule, Niger and Chad each had only about 2.5 million inhabitants (1950) and today have 24 and 16 million respectively. Only with a very drastic, politically guided change in reproductive behavior could the result be mitigated by about 40% by 2100. The medium variant is realistic as a mathematical calculation, but the estimate of soon a billion people alone in the economic ecosystem Niger-Nigeria-Chad obviously exceeds any idea of what can actually happen. The regional sciences dealing with Africa are not yet good at developing complete scenarios. Such a scenario would have to calculate the following positions on the credit side:

1. Agro-ecological potentials of the subregions (taking into account the divergent effects of climate change)
2. A reasonably regulated intra- and trans-African migration (concentration movements to the *growth poles* in Africa; 'demographic arbitrage' between young and aging societies in Africa and Europe)
3. Forced population control programs.

On the debit side, irregular and conflict-ridden mass movements and absorption into war economies would have to be estimated in order to make such processes literally conceivable.

5.4 Youth Surplus or Demographic Dividend?

A growing—young—population in Africa offers a large potential of labor force and an interesting market. It is not per se and everywhere a problem. This should be considered in view of the fact that the projected population figures for 2050 or 2100 intuitively suggest a fundamental imbalance. This contrast has been discussed in the literature for many years in the conceptual extremes of the *‚Youth Bulge‘* on the one hand, the ‘Demographic Dividend’ (synonym: ‘Demographic Bonus’ or ‘Demographic Window’) on the other hand.

The thesis of the *Youth Bulge,* which describes a high proportion of youthful age cohorts of 15–24 years in relation to the total population, has been debated on a global scale since the 1960s. With reference to oversized cohorts of male youth, it is generally negatively connoted with the frequency of conflicts and wars. Thus, it became part of apocalyptic scenarios in Robert Kaplan *(The Coming Anarchy)* or Samuel Huntington *(Clash of Civilizations),* but also in the well-known *Greed or Grievance*-theorem for explaining civil wars over mineral resources (Collier & Hoeffler, 2000). However, the attempt to derive impending conflicts purely from the population composition or the proportion of male youth beyond a certain threshold value, i.e. without further control variables, was not empirically successful (Urdal, 2004). More differentiated variants therefore add a precarious economic situation and various types of political regimes as determining factors that block social perspectives for young adults. How explosive a large surplus of young male population can become has become a key question again with the Arab Spring.

However, such a situation does not characterize all development regions, and a priori not all of Africa. In fact, the opposing thesis has long been based on the fact that with a corresponding job offer, large cohorts of young workers rather open a demographic window for society. This is especially true when the decline in birth rates reduces the number of children to be fed *(young dependent population)* so much that the population structure stops looking like a pyramid, but gets the typical bulge in the cohorts of 15–24 years. In this constellation, young workers are available without limit, while young or old dependent, because non-working cohorts remain limited for a certain transition phase—the demographic dividend. Such a population dividend is computationally seen as the cause for more than a third of the East Asian successes in per capita growth (Bloom & Williamson, 1998; Bloom et al., 2002).

What is the likely scenario for Africa? African Union and OECD define Demographic Dividend(s) as one of five megatrends for Africa. They add a second dividend to the described dividend, as the described high phase of a relatively large working population, which has few young and old to feed, would also enable high savings and investment rates in Africa. However, in line with all other analyses, they make this double dividend dependent on actual job growth—obviously the critical factor (African Union Commission & OECD Development Centre, 2018). This forms the conceptual transition to a series of analyses on labor market development in Africa.

5.5 Structural Change and Employment

The more realistic assessment of prospects for Africa's youth is not only based on the updated population forecast, but also on a series of research findings on structural change and employment in Africa. They mainly come from the first half of the last decade, but are still valid. The short version is: Since growth in the dominant group of African countries has not been driven by labor-intensive sectors like in Asia, but by oil, gas, and mining, the job and thus the poverty effect has been comparatively small. But what happened in resource-poor countries and thus in Africa's economy as a whole? The research neither negates the growth successes that have occurred in resource-rich and -poor countries alike, nor the sector-specific boom in telecommunications, construction and banking, in modern retail (the so-called supermarket revolution) and in some export-oriented value chains. It only examines what structural change has occurred as a result of all this and how labor productivity and employment have developed. The analyses tie in with the basic fact that gains in labor productivity arise both *within* individual sectors, e.g. through new technologies, and through the shifting of labor *between* less productive (e.g. agricultural) and more productive occupations (in industry and services). In addition, the net employment effect depends on whether more productive sectors also employ more people, even though they require less labor input per unit.

In summary, the finding is that while overall labor productivity (also) in Africa has been growing, job development has partly gone in the 'right' direction—towards modern jobs—and partly in the 'wrong' direction—back to traditional employment relationships and to the state. The resultant of the various trends shows a considerable growth in jobs, but this has little to do with the notoriously optimistic McKinsey forecasts and above all shows far too little job growth in the manufacturing industry. This is especially true compared to other development regions at the same level of per capita income (Dabla-Norris et al., 2013; Fox et al., 2013; McMillan & Harttgen, 2014; McMillan & Rodrik, 2014; Mensah et al., 2018; Rodrik, 2015).[6]

Only 3% of employees have found wage work in modern industrial sector companies and another 13% in the 'formal' service sector. The World Bank authors predict that this share will rise rapidly in the ten years after their study, to about 26.5% in total. However, only 4.5% will find work in the broader sense in the industry. Three quarters of employees will continue to work on family farms and in other *household enterprises* (Fox et al., 2013).

Common to the analyses presented is the emphasis on a related imbalance. On the one hand, the expansion of general primary education is one of Africa's great successes in the last 25–30 years. Many African states have formally achieved the relevant Millennium goal of full enrollment of age cohorts in primary schools. On the other hand, the quality of basic education in Africa (including South Africa) significantly lags behind the

[6] The cited studies do not yet incorporate the latest UN population forecasts.

results in other development regions. To the objective imbalance, which can be extended into vocational education, is added a subjective one: newcomers to the labor market tend to look for their places where employment growth has occurred in the past—in the state and in the service sector (so-called *aspirational mismatch*).

The existing analyses consider it unlikely that anything fundamental will change in this perspective in the foreseeable future, *ceteris paribus*. The ceteris paribus clause can be positively turned and then reads:

> To realize the dividend, countries in Africa must make **strategic investments in policies** that support demographic change, access to good quality health and education, more jobs, especially in labor-intensive formal sectors, and institutionalized programs and incentives for savings. (Canning et al., Knowledge Brief, 2015; my emphasis.)

Accordingly, jobs and especially youth employment have become a central issue for the social and economic future in development regions. Especially for Africa, this means, as the World Bank puts it: *Moving jobs center stage* (Filmer & Fox, 2014; S4YE (Goldin and Puerto), 2015; World Bank, 2013). A first set of proposals on this is known and nothing new in these analyses; it targets all measures to improve the general investment climate in Africa. However, repeating such proposals in this context is not trivial, as the corresponding potential in Africa is far from being fully exploited to this day, not even in countries like Rwanda or Ethiopia, which have made the biggest leaps in the *Doing Business* ranking. Apart from that, the specific recommendations mainly go in two directions, which result from the above. First: the overwhelming majority of the current generation of young workers will remain in the field of agriculture and non-agricultural small businesses *(household enterprises)*:

> Most young people will end up working where their parents do. (Filmer/Fox, op.cit.)

Therefore, it is necessary—finally—to achieve a breakthrough in productivity development in agriculture, which still averages hectare yields of 1-2 t/ha for *main staples*, and similarly in informal small businesses. Second: Labor-intensive light industry, which has a chance in Africa again with the beginning of the westward migration of jobs from China and other East Asian countries (Dinh et al., 2012), must be massively expanded. This also includes proposals for better integration of Africa into global value chains and logistics (Freytag and Schmidt in this volume). After Mauritius and the textile industry in some South African countries, which benefit from the US preference system AGOA, Ethiopia in particular has made exemplary progress in recent years (Oqubay, 2015). A truly challenging task begins after that. Except for South Africa, no country in sub-Saharan Africa has a nucleus of more complex industries, especially in mechanical engineering and ICT, which will not solve the job problem, but will develop technological core competence, which will be needed in the long term for a broader and deeper mix of sectors. Modern industrial policy, which is also demanded in Africa to support these trends, therefore needs a double core of promotional measures to be both job- and technology-relevant (Asche & Grimm, 2017).

In overcoming this double requirement, the German economy can also make a valuable contribution through investments in Africa.

In summarizing the trends presented, the overarching question arises for the observer as to what form of society will typically exist in Africa at the end of the long growth phase. With the exception of a single state economic regime (Eritrea), the market economy dominates throughout Africa. For 20 years, new series of censuses, household and company surveys, and employment statistics have provided much more information about the overall social reality of African countries than was previously known.[7] Whole series of indices and rankings sort Africa by regime types and quality of governance. But to the crucial question of which African countries today have essentially established a modern capitalist market economy and are significantly supported by confident entrepreneurs, managers, *professionals* and freelancers, there are only elements of an answer. The question was last systematically asked at the end of the 1970s/beginning of the 1980s in the famous *Kenya Debate*. This was obvious, as almost all of East Africa's industry and modern agriculture was concentrated in Kenya, but it was too early to really answer the question. Currently, analyses that diagnose an unpleasant 'neopatrimonial' entanglement of state and economy, or the neo-institutionalist assertion of the lack of modern state institutions as Africa's fundamental evil (Acemoglu & Robinson, 2012), dominate—rightly or wrongly. This is a large, yet little explored field of research for economists and social scientists as well as contemporary historians (Hopkins, 2009), from which more comprehensive answers to the question of how the panorama of contacts for German companies in Africa has developed can also be expected.

As in other world regions, the Corona pandemic was the dominant social development in Africa in 2020. A final assessment of its consequences on the continent is not yet possible. Contrary to initial fears, Sub-Saharan Africa has coped well with the immediate medical threat of the pandemic compared to other world regions. In addition to structural factors (climate; age structure of the population; relatively low mobility), the energetic action of numerous African governments is also held responsible for this in the literature. Much more critical are (a) the economic consequences, starting with the collapse of tourism, and (b) the impact on the fight against other diseases in Africa. These consequences burden all statements made about the further development of Africa in this chapter.

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[7] Although, starting with the national accounts, significant areas of socio-economic reality are still very poorly captured statistically, see (Jerven, 2013), and even poverty statistics have large gaps, see (Serajuddin et al., 2015).

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6 How the Federal Government Supports Private Economic Engagement in Africa

Modern Development Policy Requires Cooperation with the Economy

Martin Jäger and Lucia De Carlo

Contents

Abstract

Africa is a growing future market that offers many opportunities for German companies. In this chapter, the former State Secretary of the Federal Ministry for Economic Cooperation and Development (BMZ), Martin Jäger, presents the extensive development policy commitment of the federal government and specifically the BMZ for growth and employment in Africa to the German and European economy. The development policy-motivated cooperation of the BMZ with the economy is complementary to the foreign trade promotion of the Federal Ministry for Economic Affairs and Climate Action (BMWK). In addition to cooperation projects with companies, the BMZ also promotes the improvement of the framework conditions for investments on site. The various approaches open up opportunities for companies and contain concrete cooperation offers for public-private partnerships. Investments by

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German and European companies in Africa can also provide a significant impetus for a sustainable recovery ("Better and Green Recovery") of African economies from the Corona crisis.

6.1 Development Policy Background

Africa's population is expected to double by 2050 (Berlin Institute, 2021). An estimated 20 million jobs are needed each year to create employment prospects locally. With the *Marshall Plan with Africa* and the *Compact with Africa Initiative*, the Federal Ministry for Economic Cooperation and Development (BMZ) is heavily relying on private sector investments to create sustainable jobs. Because state development cooperation alone is not sufficient as an employment engine.

Private investments in developing and emerging countries far exceed the funds of public development cooperation. Private companies not only create jobs and income through investments, but also generate the basis for a capable state with their tax payments. The BMZ and the German economy are introducing sustainability standards, promoting vocational training on site, advocating for fair working conditions, and promoting local structures, e.g., by co-developing sustainable industrial policy and strengthening industrial parks. Through these joint activities, companies also gain access to rapidly growing markets. African states are increasingly offering attractive prospects for companies and investors: a young population, growing availability of labor and skilled workers, rising purchasing power, new sales markets, and integration into global value chains. Due to their significant influence on societal development, they also bear a great responsibility. Through its programs for cooperation with the economy, the BMZ wants to sensitize companies to this responsibility.

So far, the activities of German companies on the African continent have been cautious. This is especially true compared to other countries, such as China. According to the German (Bundesbank, 2019), only 1000 German companies are active in Africa compared to 10,000 Chinese ones. Less than one percent of German foreign direct investments (FDI) are located in Africa. The investment stocks of other major industrial nations, such as France, Great Britain, or the USA, are four to seven times higher in Africa. At the same time, German investments are heavily concentrated on individual states. Around 60% of German investment stock in Africa is located in South Africa and about four percent in Egypt (KfW Research, 2020).

The African Union is working on an African free trade zone modeled after the European example. Potentially, with 55 states and nearly 1.3 billion inhabitants, this would be the largest of its kind worldwide. The African Union is implementing an African free trade zone modeled after the European example. The African Continental Free Trade Area (AfCFTA) started on January 1, 2021. (UN, 2021). For export countries like Germany, these are promising sales markets, especially countries with a large consumer goods sector and high purchasing power like Ethiopia, Nigeria, South Africa, Kenya, Côte d'Ivoire, or Egypt (Handelsblatt Research Institute, 2019). 89% of the world's deposits of copper and cobalt, among other things, are located in Africa. There is also a huge potential for renewable energies, such as solar energy and a green hydrogen economy based on it. Especially in Africa, the young population is growing rapidly. The average age of the continent is just under 20 years; 40% are younger than 15 years (World Population Prospects, 2019). The chances of bringing innovations to the market in Africa through development leaps *("Leapfrogging")* are great. For example, the first purely African smartphone is being sold in Rwanda. Even before the Corona pandemic, online payment systems via mobile phones were widespread in countries like Kenya. There, the cooperation between the Kenyan mobile phone company *Safaricom* and *Vodafone* led to the introduction of *M-Pesa,* the cashless money transfer system via mobile phones.

Governments, civil society, and the economy must jointly take responsibility and act. Sustainable development cannot be achieved without a dynamic private sector. Therefore, the BMZ has developed a range of cooperation offers for the German and European, but also local economy in the partner countries. The **development policy-motivated cooperation with the economy** is complementary to the **foreign trade promotion** managed by the Federal Ministry for Economic Affairs and Climate Action (BMWK). This supports German companies in opening up foreign markets, among other things through various export initiatives. Important instruments are also the German Chambers of Commerce Abroad (AHK), the Germany Trade and Invest (GTAI), and the granting of export credit guarantees.

In contrast, the activities of the BMZ focus on the development policy impact on site. In addition, the BMZ wants to close specific gaps that stand in the way of private sector engagement in developing and emerging countries, e.g., through development-oriented financing offers.

In particular, within the framework of the **Economic Network Africa**, the Federal Ministry for Economic Affairs and Climate Action (BMWK) and BMZ cooperate to provide their advisory and support services to small and medium-sized enterprises for business in Africa in a coordinated manner. The economic network consists of established actors in German foreign trade promotion and development cooperation.

6.2 Improving Framework Conditions, Strengthening Economies

Good political and legal framework conditions are crucial for companies to invest in African states. This applies not only to companies from Germany and Europe who want to open up new markets, but also to local companies. Therefore, the promotion of democracy and the rule of law is one of the pillars of the concept *Marshall Plan with Africa.* (BMZ, 2021a) At the same time, German development policy relies on targeted impulses for private sector promotion. If larger parts of the local population are employed and earning a living, their purchasing power also increases. The markets for companies grow. A growing and digitized network of local companies offers German and European companies more and better opportunities for cooperation along the supply and value chains. In this context, the BMZ overall promotes the development of a resilient and green economy. The economic consequences of the Corona crisis show how vulnerable the global and also local economy is to sudden shocks. The crisis in European and global markets affects Africa with a time delay and through socio-economic knock-on effects. Economic downturns in industrialized countries are indirectly noticeable there, for example through capital outflows, the collapse of supply chains, and missing remittances. Unchecked interdependence becomes a difficult-to-calculate risk factor. The federal government therefore pursues the goal of a "Better and Green Recovery", as is increasingly being demanded internationally. The "Better Recovery" follows the vision that the reconstruction of economic and social life should at the same time set the course for structural reforms towards ecological and social resilience and climate neutrality. The Agenda 2030 (BMZ, 2021b) with its 17 goals for sustainable development and the Paris Climate Agreement provide the direction.

To promote sustainable investments and achieve a contribution to the structural transformation of economies in the aforementioned sense, the BMZ pursues several mutually complementary approaches:

- **Business and investment climate:** Through transparency, rule of law, and accountability, non-commercial risks of investments are minimized and development-relevant investments by the state itself are promoted.
- **Private sector development:** Through active and intelligent economic policy as well as the strengthening of business networks and business-related services, companies have a framework and offers that are crucial for sustainable growth and innovative strength.
- **Financial system development:** Through the establishment and strengthening of the financial sector, companies gain access to capital. Consumers have the opportunity to use secure payment methods.
- **Vocational training:** Through targeted and needs-specific vocational training, companies have access to qualified and motivated personnel.
- **Removal of trade barriers:** Through free trade agreements and investments in infrastructure, trade is simplified. Supply chains can be designed across borders.
- **Cooperations with companies:** By accompanying German and international companies, sustainable investment projects are created.
- **Environmental and social standards:** Through standards and certifications, the social and ecological sustainability of investments is enhanced and made recognizable for consumers.
- **Financial cooperation:** In particular, through the development bank KfW and its subsidiary, the Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), development policy investment projects are financed.

In all these approaches, micro, small and medium-sized enterprises (MSMEs) of the formal and informal sectors in Africa are particularly in focus. MSMEs form the backbone of the economy in most countries. They provide employment opportunities and reduce poverty and poverty risks. In 2019, the BMZ provided almost one billion euros for the areas of economic policy, private sector promotion, financial system development, and vocational training in Africa.

6.3 Advisory, Funding, and Financing Offers for Companies

To pave the way to Africa for German companies in particular with developmentally sensible investments, German development cooperation combines an offer from consulting (Sect. 6.3.1), thematic networks and project development (Sect. 6.3.2), development partnerships and project funding (Sect. 6.3.3), as well as financing and risk reduction (Sect. 6.3.4).

6.3.1 Advisory Services for Companies at Home and Abroad

For companies that have questions about investments and sustainable projects in developing and emerging countries, the **Agency for Business and Economic Development** (AWE) is the central contact point. The AWE was established by the BMZ in 2016 and is based in Berlin. The consultants have many years of experience and expertise in various sectors. They advise entrepreneurs from Germany and the EU individually and confidentially on the available financing and funding instruments of development cooperation. At the same time, the agency is an important interface of the BMZ to companies and associations. It maintains an extensive network to economic representatives and places development cooperation (EZ) topics through dialogues and concept development. The focus of the consultation is on small and medium-sized enterprises as well as on institutions, associations, and chambers. In addition, the AWE operates the **Development Countries Funding Database** (https://foerderdatenbank.wirtschaft-entwicklung.de/), which provides a first overview of the cooperation possibilities with development cooperation.

In addition to the AWE, the BMZ provides contact persons in partner institutions of the economy and structures of the EZ with the **Cooperation Network "Business Scouts for Development"**. The global network operates in around 40 countries from January 2021 and merges the previous development policy contact points at AHKs and Delegations of German Business ("ExperTS"), in economic associations, country associations, chambers of industry and commerce, chambers of crafts and foundation organizations ("EZ-Scouts"), in EZ offices for the economy ("Business & Cooperation Desks") as well as projects with the Central Association of German Crafts ("Skilled Crafts and Trade Network 4 Africa") and the Federation of German Industries ("Creating Perspectives"). By networking local and German/European companies and setting up and accompanying specific cooperation projects, the access to new markets for companies can be improved and sustainable development in partner countries can be advanced. In perspective, the connection to European economic actors and EU institutions will be further expanded in order to integrate experiences and instruments at EU level into the consulting services of the project.

Furthermore, a personal contact point is provided for the German Mittelstand in some selected banks in developing and emerging countries (so-called **"German Desks"**). The banks are without exception established partner banks of the DEG. Contact persons are trained bank employees who are familiar with both the needs of German companies and the local conditions. German Desks exist so far in the target markets Bangladesh, Ghana, Indonesia, Kenya, Nigeria, and Peru. Companies are advised from opening an account to complex investment financing.

With the **Import Promotion Desk (IPD)**, the import from selected developing and emerging countries to Germany and Europe is facilitated. The IPD supports German or European importers in the entire procurement process—neutral and comprehensive—and opens up alternative procurement sources for them. This way, they can optimize their purchasing and increase their product variety. At the same time, the IPD facilitates exporters from the partner countries' access to the European market, mediates business contacts to suitable importers, and strengthens their export potential. The aim is sustainable and structured import promotion—while adhering to high quality, social, and environmental standards. Currently, the IPD is active in the partner countries Egypt, Ethiopia, Ghana, Côte D'Ivoire, Tunisia as well as Indonesia, Kyrgyzstan, Colombia, Nepal, Peru, Sri Lanka, Ukraine, and Ecuador.

A special innovation is the digital match-making platform www.leverist.de. This shows companies where development policy is specifically looking for entrepreneurial solutions. If interested, companies can directly contact the responsible development experts on site. The platform, which was launched in 2019, has set itself the goal of providing companies with a transparent overview and direct access to development-relevant market opportunities of any kind.

Examples:
Through *leverist.de*, EZ in Egypt is looking for start-ups for an innovation competition in the industrial sector. In the water sector in Pakistan, companies are being sought that can implement improvements in wastewater management. In Namibia, young artists find buyers for their sustainably produced jewelry pieces through leverist.de.

6.3.2 Corporate Networks and Project Development

The BMZ has had good experiences with corporate networks, especially for project development and targeted knowledge exchange *(Peer-Learning)*.

For example, the **Corporate Network Strategic Partnership Technology in Africa (SPTA)** now includes over 220 European companies. The network, initiated by the BMZ in 2017, primarily serves the development of public-private cooperation projects in Africa.

Example
"Moving Rwanda" is a cooperation between Volkswagen (VW), Siemens, SAP, Inros Lackner and the German Society for International Cooperation (GIZ) GmbH. Together, within the framework of the SPTA, the companies are developing a mobility and training concept that combines mobility solutions and sustainability. The new VW production facility in Kigali is thus becoming a hub for environmentally friendly car-sharing models, qualified specialists, and e-mobility. The first e-cars and charging stations have already been introduced in Kigali, and 150 drivers have been further trained.

To involve the private sector in the hydrogen and *Power-to-X* activities (PtX) of the ministry, the BMZ also launched the **Corporate Alliance Energy** at the end of 2019. Represented there are German and European companies that cover the entire PtX value chain. They regularly exchange information on the most important issues related to green hydrogen and PtX.

Other networks such as the **Alliance for Development and Climate** or the **Textile Alliance** aim to encourage companies to act more sustainably or to establish sustainability standards together with companies. The **Green Button** seal of approval for sustainability in the textile sector stands out as an outstanding success story.

6.3.3 Development Partnerships and Project Funding

The BMZ's best-known funding instrument for the economy is the **develoPPP.de program.** Since 1999, companies with project ideas have been able to apply in the regularly held idea competitions. The program is implemented by GIZ and DEG. The develoPPP.de program promotes the commitment of the private sector in developing and emerging countries by providing technical and financial support for projects initiated by companies. The companies bear at least 50% of the costs themselves. The BMZ funds the projects and checks whether they have a development policy benefit and are economical. Since 1999, more than 2000 projects have been carried out under the develoPPP.de program, almost 700 of them in Africa. With a realignment, the BMZ has lowered the requirements for small companies. Since the beginning of 2019, the program has also been open to local companies in the partner countries.

Examples:
In Madagascar, the German company Symrise AG and the Dutch/British company Unilever N.V./plc are creating a better livelihood for vanilla producers through the develoPPP.de program by increasing productivity in vanilla cultivation. Through training courses at over 145 model farms, more than 5000 farmers in 70 villages have already been trained in sustainable cultivation of vanilla, cocoa, and cloves. Over 60 percent of the participating Malagasy households have increased their income and thus improved their living conditions. They benefit from qualified agricultural training and long-term health care. In 2016,

the organization Save the Children joined the alliance. Together they continue to expand the holistic approach, involve 30 communities in new regions, and anchor the program in the long term with a partner network consisting of non-governmental organizations and government agencies.

For the establishment and expansion of the national and international value chains of ecologically certified wild coffee in a fragile ecosystem in Ethiopia, the Original Food GmbH and the GIZ worked together in a develoPPP.de project. Various development partnerships between 2003 and 2018 still enable around 130,000 people in the Kaffa and Sheka regions to finance their livelihoods. The cooperation not only strengthened the economy, but also preserved the biological diversity of the Ethiopian mountain rainforests and at the same time protected the stock of wild coffee plants. The small farmers on site were actively involved in this development process from the beginning. The local population was thus able to increase their income through their own efforts and responsibility. It is particularly noteworthy that within the framework of the project, the Kaffa region has been a UNESCO biosphere reserve since 2010.

Since 2019, the BMZ has been working with the **Special Initiative Training and Employment,** which operates under the brand *Invest for Jobs*, to create up to 100,000 jobs and 30,000 training places in Africa and improve working conditions. This makes a significant contribution to the implementation of the Marshall Plan with Africa and the G20 Compact with Africa. Despite improved conditions on our neighboring continent and attractive prospects for companies and investors, often insufficiently qualified specialists, inadequate infrastructure, and underdeveloped markets still pose challenges to the private sector. Under the brand *Invest for Jobs*, the BMZ has therefore bundled a range of offers to support German, European, and African companies in their employment-effective commitment in the current partner countries Ethiopia, Côte d'Ivoire, Ghana, Morocco, Rwanda, Senegal, and Tunisia (Egypt in preparation). For this purpose, the Special Initiative Training and Employment offers companies advice, contacts, and financial support through its implementing organizations.

Example:
An example of this is the establishment of the Tunisian Automotive Management Academy (TAMA). As part of a project development workshop, the automotive suppliers DRÄXLMAIER Group, LEONI AG, Kromberg & Schubert GmbH, and Marquardt GmbH, together with the Special Initiative Training and Employment, identified that the lack of qualified specialists for middle management in Tunisia makes further investments difficult. The joint solution: At the specially created TAMA, which is implemented in cooperation with the Education Association of the Bavarian Economy, specialists are to receive appropriate qualification measures. Through the innovative training partnership, which is based on the German dual system, suitable candidates are specifically qualified for tasks in middle management of the mentioned and other companies. The participating companies are thus expected to create additional jobs in the Tunisian automotive supplier sector, which contributes to the goals of the special initiative. In 2020, the project grew significantly through the formalized cooperation with four other companies—SE Bordnetze El Fejja, Faurecia, Plastic Electromechanic Company, and Gruner.

As part of an investment in a developing country, accompanying measures can also be funded, such as **feasibility or environmental studies, a legal opinion or a market analysis.** For this purpose, companies can turn to the DEG, which covers part of the costs, up to €200,000. This instrument is financed with funds from the BMZ.

6.3.4 Financing and Risk Reduction

German and European companies wishing to invest in the future continent of Africa have been able to apply for funding under the **Development Investment Fund** since June 2019. With this, German and European companies receive loans for their projects in Africa at attractive conditions **(AfricaConnect).** In addition, a new umbrella fund will make it easier for small and medium-sized African companies (SMEs) to access capital **(AfricaGrow).** The focus is on the "Compact-with-Africa" countries, i.e., twelve reform-oriented countries that have joined the Compact with Africa initiative. Since banks often shy away from the risk of providing financing to medium-sized companies for investments in Africa, the fund is intended to close this gap and help exploit new investment potentials. The federal government plans to provide one billion euros for the fund over several years. It consists of three programs AfricaConnect, AfricaGrow, and the Economic Network Africa (for the latter, see above Sect. 6.1).

The **AfricaConnect Fund** provides €400 million for investments by German and European medium-sized companies. The program offers loans from 750,000 to four million euros with terms of three to seven years. A condition is a viable business plan, which includes development policy, ecological, and social sustainability criteria. Funding requires that the companies create added value locally in terms of training, qualified jobs, new technologies, or innovative services. A 50% own contribution to the investment sum is required. In addition, participating companies receive support in implementing international environmental, social, and corporate governance standards. The majority of the costs are covered by AfricaConnect.

> Example:
> Founded in 2013, DTRT Apparel is the largest clothing manufacturer in West Africa and sets high environmental and social standards for its employees under the slogan "Do The Right Thing". The company is pursuing a growth strategy and entered into a strategic partnership with the beverage manufacturer RedBull in the spring of 2019. In production, DTRT relies on close local cooperation: The central production facility in Accra was founded as a joint venture with the local clothing company Dignity Industries. As part of a COVID-19 response financing, the DEG was able to close a financing and liquidity gap that had arisen as a result of the Corona pandemic. The funds are used for salaries, rents, and maintenance costs. This secured 2,500 high-quality jobs under good working conditions. In addition, training measures and additional health services are offered. In the course of the COVID-19 pandemic, production was partially converted to the production of simple face masks for the local and international market. DTRT thus supports measures to combat the pandemic in Africa.

With the help of the **AfricaGrow Fund** with a volume of €400 million, African small and medium-sized enterprises (SMEs) and start-ups are to be provided with venture capital. It is designed as an umbrella fund for African equity and venture capital funds. Since access to equity capital for African SMEs is very limited, the AfricaGrow Fund is intended to help close the financing gap. As an anchor investor, it helps to facilitate fundraising for African venture and equity capital funds. It is launched as a structured fund with a "first-loss tranche", provided by KfW with participation of DEG.

With the DEG-funded program **Up-Scaling**, innovative pioneer investments by German and local SMEs in developing countries can be promoted, which are in the start-up phase. For this purpose, the DEG provides funds of up to €500,000, which make up a maximum of 50% of the total investment volume and are to be repaid in the event of success.

Example:
The company Twiga Foods Ltd. is a Kenyan company and was founded in 2013 by Kenyans and Americans. Twiga has developed a scalable ordering and transport system for fresh fruit and vegetables (F&V) that digitally connects small farmers with street vendors in Nairobi. Street vendors are responsible for 96 percent of the F&V trade in Nairobi and can order their products via the online trading platform provided by Twiga. Twiga then delivers the pre-ordered goods directly to the street vendors. The DEG funds are mainly used for expanding the vehicle fleet. This allows more street vendors to be reached and the business area within Nairobi to be expanded. The DEG participates with a repayable grant of €500,000 in the project costs. Small farmers and street vendors benefit from better prices and market access. Twiga's efficient value chain guarantees better quality and improves food security. In addition, Twiga's business model now serves both ends of the Bottom of the Pyramid (BoP) market, producers and buyers.

6.4 COVID-19: Businesses as Partners in Crisis

The COVID-19 pandemic has not only strained the health systems of our partner countries. The economic consequences and the long-term effects on people's poverty are devastating. Many successes of recent years in poverty reduction and other goals of the 2030 Agenda for Sustainable Development have been reversed by the pandemic (Sumner et al. 2020). The economic standstill of the first months and the downward spiral put enormous pressure on companies globally, resulting in massive job losses. Consequently, global economic growth has collapsed, the world is experiencing the biggest downturn since the Great Depression[1]. At the same time, the collective crisis experience brings with it the necessity and opportunity to develop and implement common future designs, in which the 2030 Agenda and the Paris climate goals point the way towards resilient

[1] IMF, 2020 https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/.

economic systems that place social and ecological sustainability at the center. This intention is currently being discussed internationally with great commitment under the guiding principle of a “Better and Green Recovery”.

The BMZ also pursues the goal in its response to the COVID-19 crisis of supporting partner countries in the sustainable economic stabilization of their economies and enabling an ecologically sustainable and socially inclusive development path. Approaches include strengthening local companies to secure jobs and incomes and building and stabilizing a resilient and sustainable economy through targeted economic policy in the short and long term. For example, the BMZ supported two million textile workers in Asia and Africa during the first COVID-19 wave in spring 2020. Companies in partner countries as well as German and European companies play a central role in this. In the future, the BMZ intends to provide more security for key sectors such as textiles and tourism, but to specifically link this security with the promotion of innovation and thus create more employment and value added with reduced resource consumption and climate neutrality. This includes approaches such as green start-up promotion, promotion of incubators and the establishment of corresponding framework conditions, investment promotion and financing. In addition, the BMZ provides needs-based financing for local companies by strengthening the local financial sector through selected, local development banks. This action is guided by the conviction that economic progress and the socio-ecological transformation do not form a pair of opposites, but can rather reinforce each other. Sustainability and economic development together have great potential for proactive crisis management.

The BMZ has adapted its programs in the area of cooperation with the economy to the new needs in the COVID-19 crisis. It is no longer just about creating new jobs, but also about ensuring the business capability of local and German companies on site in order to maintain jobs and income and to advance green and social innovations.

For this purpose, the BMZ has, for example, adapted programs like AfricaConnect of the DEG to help companies with liquidity shortages to continue their business in Africa even during the crisis.

The special initiative Training and Employment supports companies, in addition to creating new jobs, also in maintaining existing jobs and strengthening their crisis resilience, thus contributing to the implementation of the BMZ Corona Immediate Program.

In the develoPPP.de program, a COVID-19 Response Track was set up to enable a quick implementation of measures for health protection and coping with the economic crises in the partner countries. In this way, the BMZ was able to strengthen the capacities of local hospitals in South Africa together with several German companies. In total, half a year after the start of the COVID-19 Response of the develoPPP.de program, over 100 project ideas are already being implemented.

It has been shown: Partnerships with the economy also have special potential in crisis situations. Companies, with their structures and networks on site and due to their innovative power, have special opportunities to make an effective contribution to the response to the Corona crisis and at the same time to enable the leap of transformation towards more sustainable economic and consumption practices.

6.5 Outlook

The importance of the economy in German development cooperation will continue to grow in the future. Therefore, the BMZ continues to rely on the expansion and improvement of the consulting, funding and financing offer for companies. In addition to cooperation projects with companies, the BMZ also promotes the improvement of the framework conditions for investments on site. This is intended to increase the presence of the German economy in Africa.

Sustainability and climate protection have been playing an important role in German development cooperation for years. The COVID-19 pandemic underscores the systemic interconnections between human development and the protection of climate and natural resources. The resurgence of poverty observed due to the pandemic, coupled with crop failures due to climate change, high population pressure and weak health and education systems, increases the risk of violent conflicts. In countries already suffering from protracted conflicts or instability, the failure of state institutions under the pressure of the pandemic could lead to further state collapse. Overall, in many low- and middle-income countries, risk cascades are expected to intensify in the coming years.

For the future viability and stability of these countries, it is therefore fundamental to think together the necessary investments in resilient and digital economic and infrastructure with climate and environmental protection. The COVID-19 pandemic offers the chance that the world economy will reorient itself in this sense and replace one-dimensional profile maximization and exploitation of natural foundations and social cohesion with the goal of economic, social and ecological sustainability. The BMZ wants to co-shape the global reconstruction process after the COVID-19 pandemic in the sense of the *Better and Green Recovery* and take a pioneering role in this process.

The BMZ's commitment to a *Better and Green Recovery* is also compatible with an economic logic: Climate risks are already putting pressure on companies and their business models. At the same time, the costs for green products and production processes have decreased enormously. Important fields of action are the promotion of green start-ups, the international spread of a circular economy and an increased commitment to ecologically and socially sustainable supply chains.

Especially in Africa, investments by German companies can contribute to achieving the SDGs and shaping the *Better Recovery-* process. The potential is far from exhausted. German development policy will continue to seek close cooperation with foreign trade promotion using its consulting, funding and financing instruments, in order to support the economy in a coordinated approach.

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Martin Jäger has been the German ambassador to Iraq since September 2021. Prior to this, he was the permanent state secretary of the Federal Ministry for Economic Cooperation and Development (BMZ) from March 2018, and from October 2016 to March 2018, he was the state secretary in the Ministry for the Interior, Digitalization, and Migration in Baden-Württemberg. Before that, he was the head of the executive staff and spokesperson for the Minister of the Federal Ministry of Finance for several years. From 2013 to 2014, he was the ambassador of the Federal Republic of Germany in Afghanistan.

After studying ethnology, political science, and philosophy, Martin Jäger completed the preparatory service for the higher foreign service. For many years, Martin Jäger worked in the Foreign Office and the Federal Chancellery. From 2008 to 2013, he was the head of the "Global External Affairs" department at Daimler AG.

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Part II

Africa Is Not Just Africa!

Abstract

Where to invest in Africa is a challenging question. Africa is not just Africa. The continent consists of 54 independent countries and the differences are much more significant than commonly assumed. Answers to questions such as regional integration, cultural imprinting, and resource/non-resource countries can tip the balance between business success and failure. Depending on the region and even the country, different industries and business models are promising. There is no simple strategy that applies to all African countries, but a very differentiated view is necessary. How to establish such a differentiated country strategy is presented in Part II.

The Importance of Regional Peculiarities for Business Life

7

Kay Pfaffenberger

Contents

Abstract

What shapes the image of Africa in the eyes of a European and what is it due to? What factors are important for investment or location decisions? The following will illustrate which conditions must be observed and which organizations and initiatives shape the economic events in Africa.

7.1 A First Glance at Africa

Africa is not a country, Africa is a continent. Unfortunately, this statement still needs to be made, as many people cannot make this distinction when looking at the black continent (cf. News.at, 2008. A faux pas by politician Sarah Palin is pointed out). The images of Africa in Germany are still often shaped by the school books of the generation born

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before 1970, for example in geography, which stated among other things: “The drive to work, as we know it, is not originally strong in the African.” or “Morocco is as big as the German Reich within the borders of 1937.” (Spiegel, 1971). A revision of this image and thus the perception of diversity and opportunities on the continent requires the willingness to actively engage with reality.

The dimensions of the African continent are also often underestimated. Our world maps, which distort the land masses, contribute significantly to this (cf. Weninger, 2015). This perception not only leads to a misjudgment of the dimensions of the continent, but also of the distances. For example, an airplane passenger flying from Casablanca to Reykjavik covers a good 3500 km. By plane, he would be on the way for just under five hours. If this passenger, on the other hand, flies from Casablanca to Cape Town, the destination is about 7900 km away as the crow flies. The flight time from the north to the south of the continent is therefore at least ten hours (cf. Schorsch, 2014).

Another perspective to approach the actual dimensions of the continent is provided by the map “True size of Africa” by Kai Krause (n.d.; Fig. 7.1).

The true dimensions of Africa become very memorable, not least because the United States, China and India and other countries can easily fit within the African continent. Figure 7.1 illustrates, among other things, the logistical requirements that this continent places on all companies, based solely on the distances to be covered on the continent.

These misjudgments and the complexity of the continent associated with its size therefore require a differentiated view.

7.2 The Unknown Continent—Some Facts

Geographically, Africa can be clearly delimited as opposed to Europe or Asia. The continent is surrounded by four seas, the Atlantic Ocean, the Indian Ocean, the Mediterranean Sea and the Red Sea. Furthermore, there are three connections between these seas. The Strait of Gibraltar is to be mentioned as a transition between the Atlantic Ocean and the Mediterranean Sea, the Suez Canal as an important shipping route between the Mediterranean Sea and the Red Sea and the Bab el Mandeb as a transition from the Red Sea to the Indian Ocean. At the southern tip of the continent, the Cape Agulhas forms the transition between the Indian and Atlantic Oceans (IHO, 1953).

7.2.1 Climate

Various climate zones extend across the African landmass. Such as the Mediterranean climate, which includes the North African coast and the Cape region in South Africa. Furthermore, the Sahara (Arabic: deserts), another desert zone forms the Namib in the southwest of Africa. Approximately 30% of the continent is covered by deserts. Tropical dry climate on the edge of the humid tropical climate, especially around the equator,

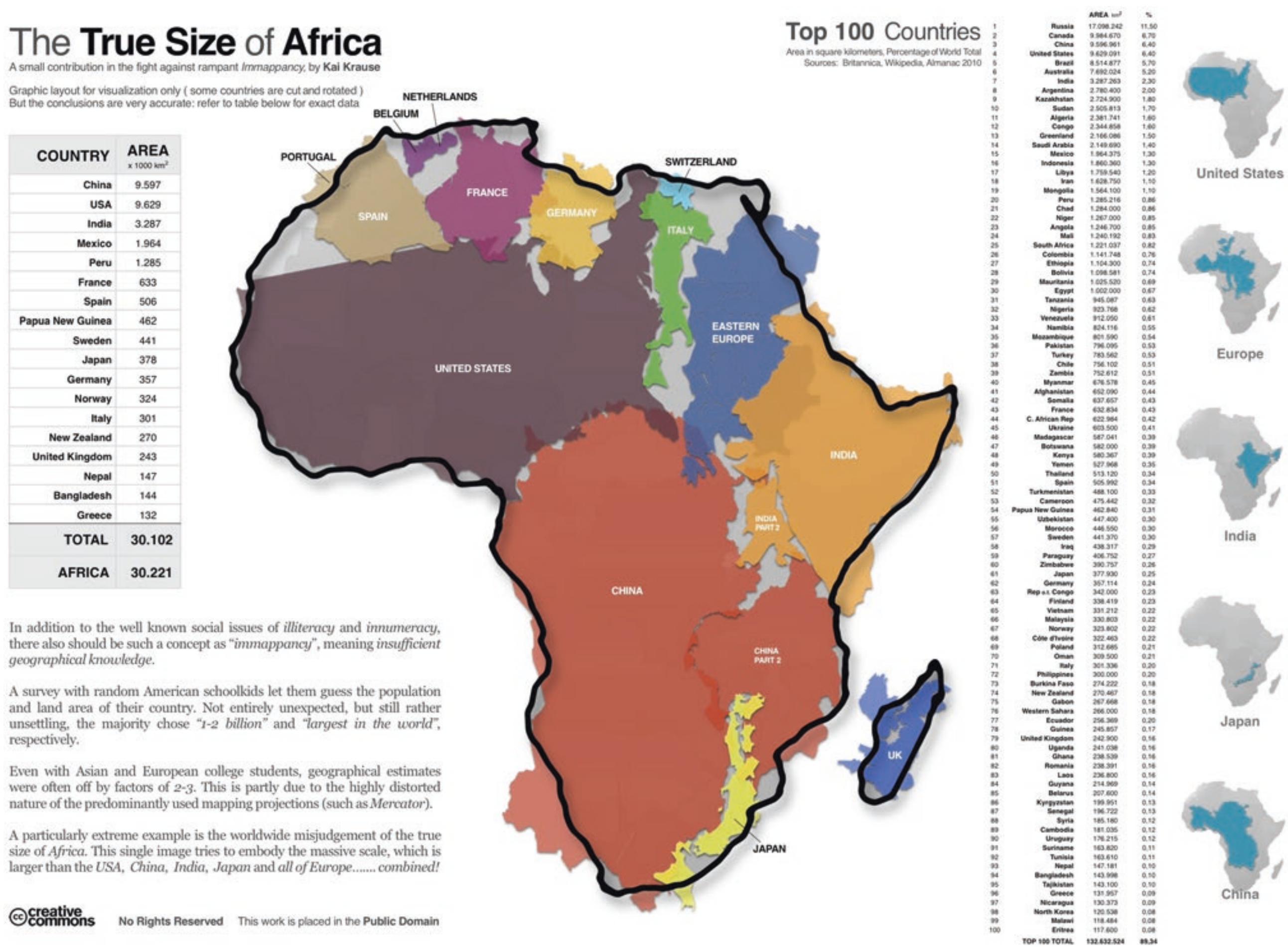

Fig. 7.1 The true size of Africa (Krause, n.d.)

form the other two climate zones. In total, 43% of the continental areas comprise dry zones (Statista, 2008) Some countries, such as Sudan or Nigeria, extend over several climate zones.

7.2.2 Languages

Similarly, the black continent can be divided into several large language groups. Worth mentioning here are the Niger-Congolese language group, which primarily encompasses West Africa. In addition, there is the Bantu language family in the south and center of the continent, excluding the Khoisan language in the southwest (especially Namibia) of the continent and the Malayo-Polynesian languages (Madagascar). In the east and northeast, the Nil-Saharan languages can be found. Afro-Asiatic languages (including Arabic) complete the list. There are about 1500 different languages in Africa on the mainland and offshore islands, some publications assume over 2000 languages (cf. Brenzinger, 2005). English and French have established themselves as dominant trade languages due to colonial times (Fig. 7.2 and 7.3). It is worth mentioning that Africans with an educational

Fig. 7.2 Official languages of Africa. (Source: Wikimedia Commons)

Fig. 7.3 Legend of official languages of Africa

biography usually master a regional language (here: Hausa) and the respective official language (in the example: French) in addition to their mother tongue (e.g. Zarma, in German: Djerma).

7.2.3 Religions

In terms of religions, nature religions are practiced in Africa from pre-colonial times, for example Voodoo with its origin in Benin (West Africa). Furthermore, two of the three Abrahamic religions are strongly represented on the continent: Islam and Christianity. The northern border between the predominantly Islamic north of the continent and the Christian south roughly forms the transition to the tropical rainforest. In many places, a side by side and coexistence of religions has also developed, in which various rites from different religious approaches come into play.

7.2.4 States

As of October 2021, the continent has 54 independent nation-states (country list Federal Statistical Office, 2021). Western Sahara is a disputed territory and has been de facto annexed by Morocco since Spain's withdrawal in 1975, the Federal Statistical Office refers to it as a non-self-governing territory. The United Nations has not accepted the annexation. The African Union comprises 55 members and thus the entire continent (cf. Federal Foreign Office, 2020). The European Union also names 55 countries in an implementing regulation (European Union, 2020).

The national borders have remained largely unchanged since the end of colonial times. These were drawn at the Berlin Conference of 1884–1885 (German Reich Law Gazette, 1885), also known as the "Congo Conference" (cf. in detail GIGA Focus Africa, 2009, especially Gatter, 1984).

They were drawn on the basis of the international law "uti possidetis—ita possideatis". (The translation is: "As you possess, so shall you possess", the author.) This is about maintaining possession and the principle of inviolability of borders as a basis of international law.

Since the end of colonial times, there have been only a few significant changes to the borders: in 1975 the disputed annexation of Western Sahara by Morocco, in 1993 the secession of Eritrea from Ethiopia and in 2011 the separation of South Sudan from Sudan. Figure 7.4 provides an overview of the date of independence and thus also an understanding of the respective nation state.

Fundamental to statehood is therefore also that the drawing of borders took no account of religious, ethnic or linguistic affiliations. Therefore, the borders in Africa are referred to as a "burden and challenge" (Heinrich Böll Foundation, n.d.). This is evident, for example, in the conflict in Mali, through which a cultural border runs (Schreiber, 2013). Along this border, there is a war, because in the north live Tuareg and other desert peoples, in the south black Africans (Schoepp, 2013). It is also noteworthy the high number of states (a total of 15) without access to the sea. These include Mali, Burkina Faso, Niger, Chad, Central Africa, Ethiopia, South Sudan, Uganda, Rwanda, Burundi, Zambia, Zimbabwe, Botswana as well as Eswatini (officially Swaziland until 2018) and Lesotho. This results in the need for considerable logistics services to integrate goods into and out of these states into world trade. For example, Namibia, with the ports of Swakopmund and Walvis Bay, plays an important role for the landlocked countries (cf. Schmidt et al., 2011).

The challenges stemming from the time of colonization are a current issue and pose a special challenge. The former Chancellor Merkel said about this: "We have contributed a lot through colonialism to the fact that some things in Africa are difficult today. … They

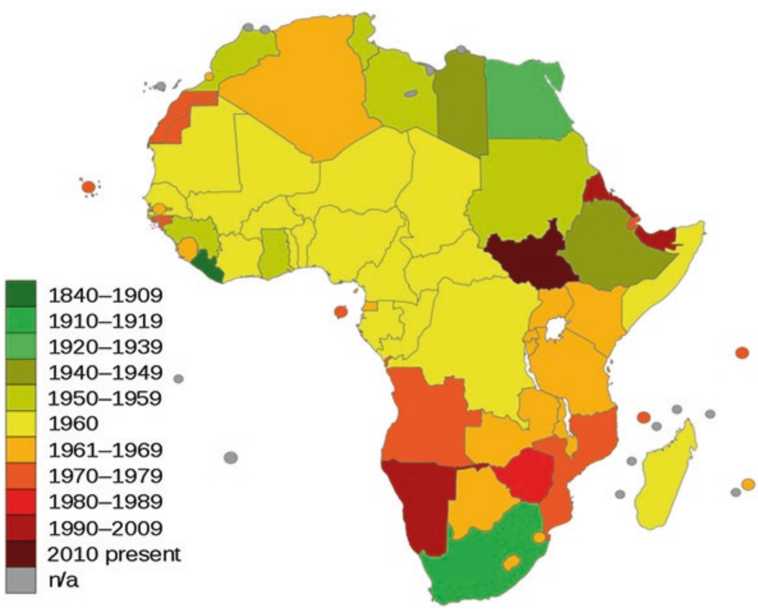

Fig. 7.4 States of Africa with date of independence (Wikimedia Commons)

were made according to mineral resources and not according to the coexistence of tribes and peoples." (quoted after Ulrich, 2016). She is referring in particular to the drawing of borders. The resources specifically illustrate the special bond of the African countries to their former colonial masters. For example, Niger is one of the world's largest uranium producers. The uranium is mainly mined by the French company Areva or its successor, the Orano Group. Neighboring Niger is Nigeria, a former British colony. The largest oil producer there is Royal Dutch Shell, based in London and The Hague. Another spotlight on the explanation of the ongoing dependence of African countries on their former colonial powers is provided by the article by Fröhlich on the subject of Françafrique (Borell et al., 2021[1]), as the French influence in the former colonies is called (Fröhlich, 2020).

Politically, the countries of Africa organized themselves after their independence in the Organization for African Unity (OAU), founded in 1963, which dissolved in 2002 and was replaced by the newly founded African Union. The African Union was launched on July 9, 2002 in Durban, South Africa and is based in Addis Ababa, Ethiopia.

7.3 Economic Policy Aspects as a Basis for Trade—How is Africa Positioning Itself?

For the consideration of attractiveness with regard to economic activity, be it pure export to the establishment of production facilities in target countries, a deeper analysis is required.

7.3.1 Overview

The economic policy face of Africa deviates from the view of the regions according to the definition of the United Nations. For statistical purposes, the United Nations divides Africa into the five subregions Eastern Africa, Middle Africa, Northern and Southern Africa, and Western Africa (United Nations Statistics Division, 2021). Here, a structure is offered that follows the view of the so-called Regional Economic Communities (RECs) division of Africa. Currently, there are 16 different regional organizations in Africa. However, only eight are recognized. These are as of 2021: Arab Maghreb Union (AMU), The Community of Sahel-Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD) and the

[1] Borell et al. provide a complete, readable current overview of the history of French Africa under the telling title: "L'Empire qui ne veut pas mourir—une historie de la Francafrique", in English: "The Empire that won't die—a history of Francafrique" (translation by the author).

Fig. 7.5 African Economic Communities. (Own representation, status 2021)

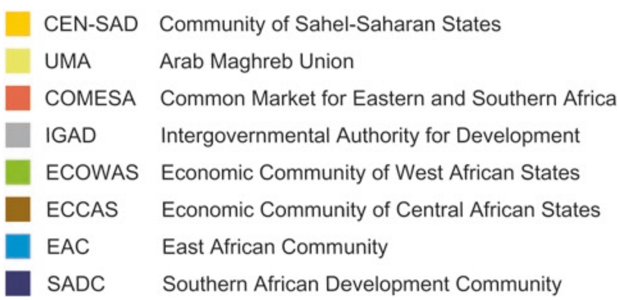

Fig. 7.6 Legend of the African Economic Communities

Southern African Development Community (SADC). Overall, the growth rates of the gross domestic product (GDP) forecast for 2022 for the African continent range between 12.8% in Niger and -5.9% in Equatorial Guinea, the only country for which a negative

GDP growth is assumed. Generally, the estimated growth rates are significantly above those of industrialized nations in Europe (International Monetary Fund, 2021).

Figure 7.5 and 7.6 shows an overview of the five active regional organizations. These are SADC as the Southern African Development Community (for more details see Plenk, 2015), COMESA the Common Market for Eastern and Southern Africa and the EAC, which is referred to as the East African Community (for more details see: Hofmeier, 2015). Furthermore, the ECOWAS as the West African Economic Community and finally the ECCAS as the Economic Community of Central African States are to be named.

For the individual active trading zones, an overview of the member states and some economically significant key figures as well as integration fields follow in Table 7.1 (Table 7.2).

The activities and objectives of the individual economic blocs are very different and subject to dynamic changes. Not least, the political orientation and stability of the member states is crucial for the further development of the respective communities. Again and again, individual states, for example in times of crisis, are temporarily suspended from the communities. Most recently, Guinea was suspended from ECOWAS after the coup d'état.

The respective region requires a closer look at the peculiarities it presents. This is exemplified here using the West African Economic Community (in depth on the example of distribution logistics: von Carlowitz & Röndigs, 2016; generally: Gans, 2006; specifically from the founding in 1975: Tetzlaff, 2015).

7.3.2 The West African Economic Community ECOWAS as an Example

The ECOWAS includes the states of Benin, Burkina Faso, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Cape Verde, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. This results in a regional mix of both Francophone and Anglophone countries. At the same time, the participating countries are predominantly Christian and Muslim.

A special feature is that within the ECOWAS, Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal, and Togo belong to the West African Economic and Monetary Union (UEMOA). They use the CFA Franc BCEAO (Franc de la Communauté Financière d'Afrique) as their currency. This is a semi-convertible currency, which is fixed to the Euro at a rate of 1 EUR to 665.957 CFA Franc. However, the participating countries are severely restricted in their monetary policy options. Initially, at least 65% of their currency reserves had to be deposited with the Banque de France (Mange, 1999), currently it is at least 50% (Koch, 2018). Koch describes the functions of the CFA Franc, in addition to its fixed ratio to the Euro, as follows:

Table 7.1 Regional organizations. (Based on: Own research and calculations based on the presentation in GIGA-Focus No. 3/2012 p. 3, updated 2021 based on the latest available data from 2020)

Regional Organization	Number of Member Countries	Total GDP in billion USD	GDP per capita in USD	Total population in millions[6]	Youth Population[5] in millions	Urban Population[4] in %	Resource-rich Countries[2]	Total Area in million km2
COMESA	21	851.0	1424.6	597.3	239.7	34.6	3[3]	11.8
EAC[7]	6	215.3	1102.5	195.3	83.0	27.5	2	2.5
ECCAS	11	214.9	1051.3	204.4	91.4	46.4	7	6.6
ECOWAS	15	682.8	1719.0	397.2	171.5	47.6	8	5.1
SADC	16	597.8	1645.7	363.2	150.2	46.0	8	9.9

[2] Table 7.1 Resource-rich countries according to the definition of the IMF.

[3] Table 7.1 Egypt is listed as resource-rich by the Federal Institute for Geosciences and Natural Resources (2010), but not by the IMF and is therefore not listed.

[4] Table 7.1 see footnote 3.1 for the basis of the calculations.

[5] Table 7.1 The youth population is defined as under 15 years according to OECD (Organisation for Economic Co-operation and Development), otherwise see footnote 1 for the calculations.

[6] Table 7.1 The population figures included are estimates that were determined in the middle of 2020. The total population is calculated based on the de facto definition, which takes into account all residents regardless of their legal status or citizenship. Refugees who have not permanently settled in the asylum country and are usually counted as part of the population of their country of origin are excluded. See, for example, https://knoema.de/atlas/Swasiland.

[7] Table 7.1 The Democratic Republic of Congo has been a member of the EAC since 7/2022, this is not yet taken into account in the table.

Table 7.2 Integration fields of the regional organizations. (Updated 2021 based on the presentation by Elischer & Erdmann, 2012, p. 3)

Integration Fields	Indicators	COMESA	EAC	ECCAS	ECOWAS	SADC
Economic	Type of Economic Community	Free Trade Zone, Customs Union, Preferred Intra-regional Trade	Customs Union Common Market and Common Currency in Preparation	Free Trade Zone Security Policy	Free Trade Zone Common Currency in Discussion (ECO) ECOTIS (Central Trade Information System	Free Trade Zone Customs Union and Common Currency in Preparation Common Market and Currency not yet implemented
	Freedom of Movement for People	Common Market with Free Exchange of Capital and Labor	Common Passport		Partially No Visa Requirement)	Visa Requirement for Stays Under 90 Days is Waived
Security Policy	Security Architecture	Crisis Prevention System	Crisis Prevention System	Crisis Prevention System	Crisis Prevention System	Joint Organ for Security Policy
	Regional Deployment Forces		Joint Military Maneuvers	Present	Present	Present
Political-Institutional	Regional Parliament		Present		Present	Present
	Regional Courts	Present	Present		Present	Present

- Guarantee of unrestricted convertibility into Euro (this is granted by France in exchange for at least 50% of the foreign exchange reserves in the Franc-CFA zone, which are not directly available to the African states),
- full transaction freedom within the Franc-CFA zone,
- French veto right in the administrative boards of the two central banks, like the countries of the Franc-CFA zone,
- inflation target of around 2%,
- production of the Franc-CFA banknotes in the French Chamalières

In addition, Koch provides an overview that succinctly summarizes the history and criticism of the CFA Franc. In terms of monetary policy, this means that the member states fully follow the monetary policy of the European Central Bank. The binding (as of 2021) means that inflation follows that in the Euro area, for example in Niger (Tradingeconomics, 2021/Institute de la Statistique du Niger). The downside, however, is that export prices for the respective economies of the countries are relatively high compared to countries with their own currency. This is also where the current discussion about the future of the CFA Franc begins (Dörries, 2019; Moscovici, 2018). The arguments also apply analogously to the Central African Franc de la Coopération Financière Africaine, managed by the Bank of Central African States (BEAC). Regarding the economic development of the CFA Franc zone compared to other developing countries, König, for example, points out in relation to inflation that "… comparatively high budget deficits are compatible with low inflation rates" (König, 2001). Cernicky takes a special look at the functioning of ECOWAS and UEMOA, pointing out in an overview the very different interests in terms of integration in individual policy areas (Cernicky, 2008, p. 115, Table III.3). The revival of the idea of introducing an Eco instead of the Franc-CFA in West Africa is interesting (Okanla, 2021; Schmieg, 2020). However, implementation is not expected before 2027 (France24, 2021 and Deutsche Welle, 2021).

The countries of Ghana, Gambia, Guinea, Sierra Leone, Cape Verde, Liberia, and Nigeria, which also belong to the West African Economic Community, have their own currency, which is fully convertible. A currency union of all ECOWAS countries is currently unthinkable.

A core element of ECOWAS is visa-free travel for people living in the ECOWAS area (German Institute for Development Policy, 2018). In addition, numerous political, cultural, and social elements are included. These include, among other things, civil-military peace missions and crisis prevention measures, the modernization of regional infrastructure, the promotion of free trade in goods, and cooperation in the health sector.

This economic community alone demonstrates the need for a differentiated view of each individual country and its individual orientation in terms of economic policy. "A study in frustration?" (Porst, 2014), so the subtitle of a current study on regional cooperation in West Africa, points to the seemingly insurmountable amount and challenges. On the other hand, ECOWAS is the most active of all regional organizations.

7.3.3 The African Continental Free Trade Zone

Since 01.01.2021, the African Continental Free Trade Area (AfCFTA) is active. As of July 2021, the agreement has been signed by all member states of the AU except Eritrea. The World Bank expects this to increase income on the continent by 450 billion US dollars. This is just as significant for products for a growing middle class as it is for basic supplies. The World Bank itself mentions the following key points:

1. The African Continental Free Trade Area (AfCFTA) offers African countries the great opportunity to lift 30 million people out of extreme poverty and increase the income of 68 million people who live on less than 5.50 US dollars per day,
2. Implementation of the AfCFTA would involve measures to facilitate trade, reduce (excessive, note of the author) bureaucracy, and simplify customs procedures. This corresponds to an estimated 292 billion US dollars of the potential income gains of 450 billion US dollars (Zeit, Die 2020).
3. The implementation of the AfCFTA would contribute to initiating profound reforms in such a way that long-term, steady growth can be achieved in African countries (World Bank, 2020).

The following figure shows an overview of the economic communities and those related to the AfCFTA (Schmieg, 2021) (Fig. 7.7).

Even before the AfCFTA came into force, the following development-oriented free trade agreements (EPA's, development-oriented free-trade arrangements) existed between the EU and Africa (Spak et al., 2021):

- Cameroon—The EPA was signed in 2007 and came into force in 2014.
- ECOWAS and West African Economic and Monetary Union (WAEMU)—EPA with Côte d'Ivoire and Ghana came into force in 2016, and a 2014 initialed EPA with the 16 West African states of the WAEMU has yet to be ratified
- Eastern and Southern Africa—EPA with Madagascar, Mauritius, Seychelles, and Zimbabwe came into force in 2012; Comoros signed the agreement in 2017 and has been applying it since 2019
- EAC—The EPA with Kenya and Rwanda was signed in 2016 and Kenya has ratified it. For the EPA to come into force, the remaining EAC members must sign and ratify the agreement.
- SADC—Botswana, Eswatini, Lesotho, Mozambique, Namibia, and South Africa signed the EPA in 2016, and Angola has the option to join the agreement in the future. In 2018, this became the EU's first regional EPA with Africa. Six other SADC members (the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, Zambia, and Zimbabwe) are currently negotiating EPA under the Central African or Eastern and Southern Africa.

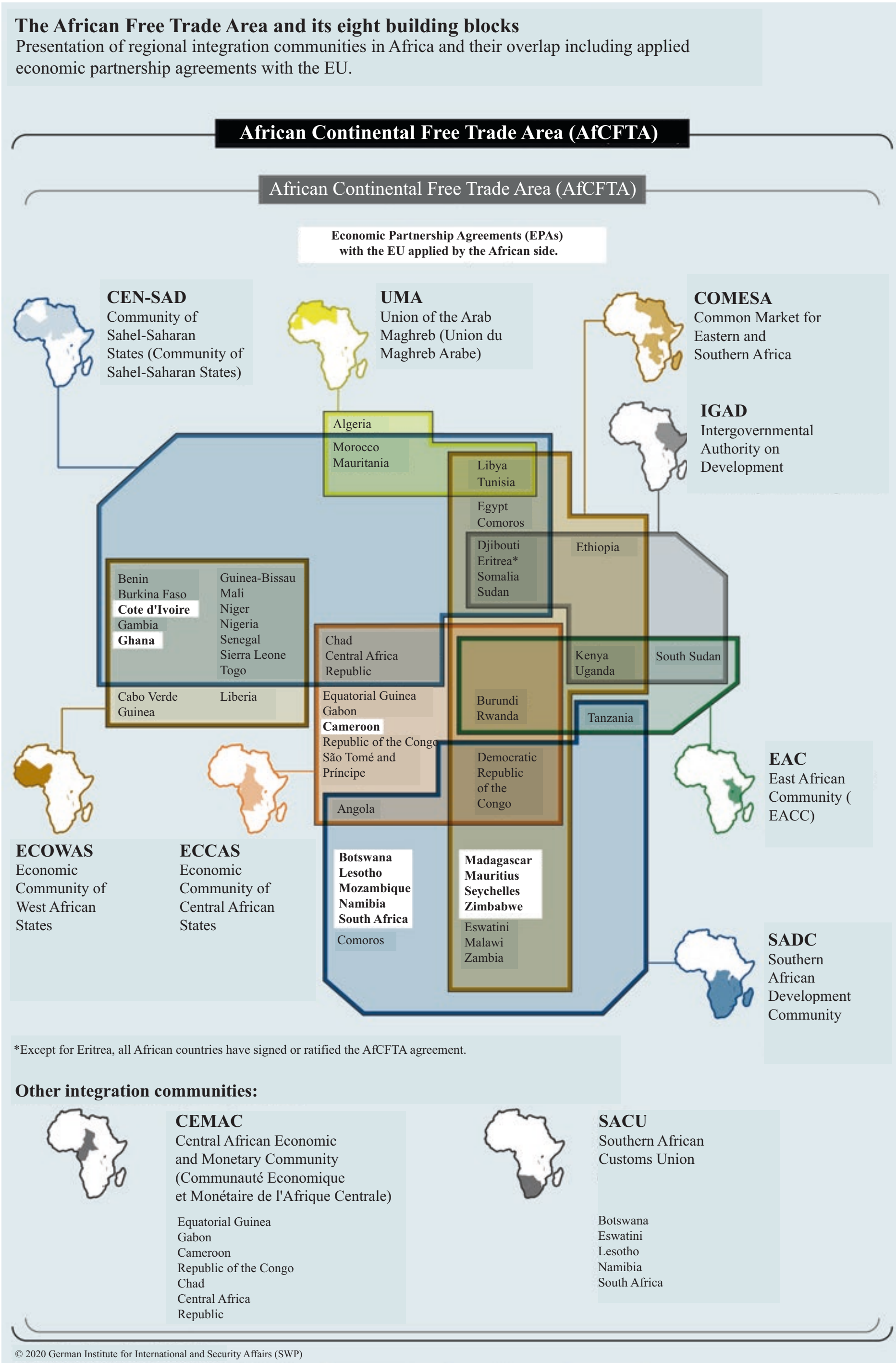
The African Free Trade Area and its eight building blocks
Presentation of regional integration communities in Africa and their overlap including applied economic partnership agreements with the EU.
African Continental Free Trade Area (AfCFTA)
African Continental Free Trade Area (AfCFTA)
Economic Partnership Agreements (EPAs) with the EU applied by the African side.
CEN-SAD
Community of Sahel-Saharan States (Community of Sahel-Saharan States)
UMA
Union of the Arab Maghreb (Union du Maghreb Arabe)
COMESA
Common Market for Eastern and Southern Africa
IGAD
Intergovernmental Authority on Development
Algeria
Morocco
Mauritania
Libya
Tunisia
Egypt
Comoros
Djibouti
Eritrea*
Somalia
Sudan
Ethiopia
Benin
Burkina Faso
Cote d'Ivoire
Gambia
Ghana
Guinea-Bissau
Mali
Niger
Nigeria
Senegal
Sierra Leone
Togo
Cabo Verde
Guinea
Liberia
Chad
Central Africa Republic
Equatorial Guinea
Gabon
Cameroon
Republic of the Congo
São Tomé and Príncipe
Angola
Kenya
Uganda
South Sudan
Burundi
Rwanda
Tanzania
Democratic Republic of the Congo
Botswana
Lesotho
Mozambique
Namibia
South Africa
Comoros
Madagascar
Mauritius
Seychelles
Zimbabwe
Eswatini
Malawi
Zambia
ECOWAS
Economic Community of West African States
ECCAS
Economic Community of Central African States
EAC
East African Community (EACC)
SADC
Southern African Development Community
*Except for Eritrea, all African countries have signed or ratified the AfCFTA agreement.
Other integration communities:
CEMAC
Central African Economic and Monetary Community (Communauté Economique et Monétaire de l'Afrique Centrale)
Equatorial Guinea
Gabon
Cameroon
Republic of the Congo
Chad
Central Africa Republic
SACU
Southern African Customs Union
Botswana
Eswatini
Lesotho
Namibia
South Africa
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Fig. 7.7 The African Free Trade Zone and Its Eight Building Blocks—Representation of Regional Integration Communities in Africa and Their Overlap Including Applied Economic Partnership Agreements with the EU. (Source: The African Free Trade Zone: Perspectives for Africa and European Policy, Berlin: Stiftung Wissenschaft und Politik (SWP), February 2020 (SWP-Aktuell 12/2020), Evita Schmieg, doi: 10.18449/2020A12.)

The authors of this study mention a potential growth of 52.3% in intra-African trade. They refer to data from the UN Economic Commission for Africa. This shows that integration efforts create significant opportunities for entrepreneurs, but they need to inform themselves about the ongoing changes and the business opportunities that arise from them.

7.4 Some Basic Conclusions for Investors and Trade from the Diversity of Africa

The brief example of ECOWAS illustrates the challenge for entrepreneurs and investors to engage more closely with the diversity of Africa. The states and organizations are still in a phase of defining and agreeing on their goals. Almost 75 years have passed since Ghana's independence in March 1957. Many norms and rules are very different, as are the development speeds of the individual regions. (in depth: Asche, 2021). So in ECOWAS, not only are Anglophone, Francophone, and Lusophone states connected, but there is also a currency union that only includes parts of the community. (Bischoff, 2012) demands that integration policy lead to the consolidation of the patchwork of regional organizations. Furthermore, states should give up their multiple memberships. In addition, Bischoff calls on regional economic communities (RECs) to take the lead in integration- At the very least, they should subordinate themselves to a unified strategy and complement the institutions of the African Union (AU).

This has the consequence, among other things, that not only linguistic challenges exist, but also important currency-related considerations must be made. A devaluation of the CFA Franc is unlikely, so the risk of exchange rate fluctuations is manageable. Costs do not arise for currency hedging transactions. With Ghana, for example, it is different, here inflation and all indicators decisive for a currency must be observed. Transactions in the Ghanaian New Cedi thus cause additional costs. Contracts in, for example, Euro can overwhelm partners and limit the selection of potential partners. On the other hand, African governments are increasingly pushing companies to contract business in the national currency.

Regionally significant religious and cultural values and norms must also be taken into account and included in the evaluation of target markets. In addition, the special relationships of the countries with the former colonial powers, as mentioned at the beginning, are certainly a special challenge for companies that do not have their headquarters in these countries.

Often, risks are overestimated in the African context. Political risks are cited as evidence. This was shown, for example, in the penultimate presidential elections in Senegal in 2012. Here, a civil war-like confrontation was warned (Johnson, 2012). The patterns (candidacy for an additional term of office not actually permitted by the constitution) seemed the same, and experiences from the past are extrapolated in the form of a trend (in depth: Müller, 2014). Trend breaks and socio-political changes are neglected, especially with increasing distance to the object under consideration. A worthwhile analysis in relation to Sub-Saharan Africa is provided by Vorrath in her contribution on elections in the years 2010–2012 (Vorrath, 2012).

On the other hand, political intentions often paint an optimistic picture. In a hearing of the Subcommittee on Africa, Global Health, Human Rights, and International Organizations (as part of the U.S. Committee on Foreign Affairs), Sy outlined the following development from existing resolutions on an African Economic Community with free trade zones and customs unions by 2017

1. African Customs Union by 2019
2. Common Market (comparable to the European internal market) by 2013
3. African Monetary Union by 2028 (Sy, 2014)

This seems only limitedly possible in the light of past and current development. A common external tariff (ECOWAS Regional Common External Tariff) as a building block of a customs union has been valid since 01.02.2016 (Kroll, 2016). However, this is not a complete customs union or free trade zone. Border closures occurred during the pandemic, just like in Europe. 43 of the 54 countries in Africa closed their borders due to the COVID pandemic (Steinwehr, 2020). This had a very negative impact on the economy, especially in Benin. On the other hand, these mentioned goals are still in focus, also in the Agenda 2063 of the African Union. This is aptly called: “The Africa we want”.

In the same hearing, (Scheidmann, 2014) concludes that the effects of regional integration (of the REC’s) are different, but progress in integration should be promoted. The support for the introduction and implementation of this tariff by the (GIZ, 2016) illustrates this. The customs union has been in force since 01. January 2021, but full implementation will take years.

In summary, it is necessary to maintain a differentiated and prejudice-free examination of all possible target countries. The dynamic development of the continent also requires constant monitoring of progress. Therefore, a continued and ongoing monitoring of developments and progress is advisable for projects. The REC’s continue to move towards the mentioned goals with differentiated speed, but steadily. A Pan-African currency union remains unlikely in the near and medium term, i.e. up to 10 years.

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Cultural Imprints in Africa and their Impact on Business Life

8

Janntje Böhlke-Itzen

Contents

> *"Africa provides a comprehensive and contiguous time line of human development going back at least 7 million years. Africa, which developed the world's oldest human civilization, […] is the home of the first tools, astronomy, jewellery, fishing, mathematics, crops, art, use of pigments, cutting and other pointed instruments and animal domestication. In short, Africa gave the world human civilization."* (Pan-African Perspective, n.d.).

Abstract

Successful investing and trade require knowledge primarily about the culture in the "target country" or the "target culture". From the past, managers and investors have learned that knowledge about culture and manners, the so-called *business etiquette*, can be converted into hard cash. However, intercultural trainings, which are supposed

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to prepare business people for the African market and the culture of potential counterparts, are a questionable undertaking. This chapter presents alternative perspectives that are considered central to the success of a business or project on this continent.

8.1 Africa for Managers—Questionable "How to" Approaches for Intercultural Communication

Successful investing and trade require knowledge primarily about the culture in the "target country" or the "target culture". From the past, managers and investors have learned that knowledge about culture and manners, the so-called *Business Etiquette*, can be converted into hard cash. Particularly the experiences in the Asian markets with customs and ways of life perceived as very foreign have sensitized managers to this. From the booming field of intercultural training, there are now also those who are expected to prepare business people for the African market and the culture of potential counterparts. This is a questionable undertaking, as will be shown in the following. Based on this, alternative perspectives will be presented, which are considered central to the success of a business or project on this continent.

Hardly any company or so-called sending organizations (such as GIZ, BMZ or diplomatic service etc.) send specialists and executives abroad unprepared today. To avoid a possibly costly "Clash of Civilisations" or a "Culture Shock", great effort is made from role-playing to case studies and multi-day training courses. The concern: Own employees could step into cultural faux pas in the target country and thus possibly complicate business or endanger cooperation. Culture is understood here synonymously with "manners", as a kind of foreign language that the learner can acquire and then apply successfully.

The most popular approach on the European market is that of the Dutch authors Fons Trompenaars and Jan Geert Hofstede. Both understand culture as a measurable and comparable, almost completed national unit, from which members of a nation cannot escape. Culture is understood as "the collective programming of the mind that distinguishes members of one group or category of people from another" (Hofstede, 2001 p. 4), or more directly: "Culture is to society what personality is to an individual" (Hofstede, 1980, p. 10). According to Hofstede's main work *"Culture's Consequences—International Differences in Work Related Values"* from 1980, culture can be represented and compared using six pairs of opposites. These are:

1. Power Distance: This measures how strongly individuals accept and expect the unequal distribution of power. In nations where power distance is low, flat hierarchies prevail, superiors are accessible, their decisions can be criticized.
2. Individualism/Collectivism: This measures how much individual rights and interests are protected and how the individual is valued in relation to society/community. Is the group or the individual more important? Is there a strong sense of community or is it more a nation of individualists?

3. Masculinity/Femininity: According to Hofstede, national cultures can also be more feminine (caring, cooperative and modest) or more masculine (confident and competitive).
4. Uncertainty Avoidance: According to Hofstede, national cultures also differ in their handling of uncertainty, or the avoidance of the same. Uncertainty avoidance, according to Hofstede, is expressed through increased written laws, guidelines, safety measures. The members are more emotional and nervous.
5. Long-term versus short-term orientation: Only later included in the Hofstede canon, this indicator measures whether and to what extent a society/nation plans ahead in time.
6. Indulgence and Restraint: This is intended to measure the role of leisure and idleness versus self-control.

Hofstede's understanding of culture and the methodology with which he subsequently measured cultures using these pairs have received massive criticism (for example McSweeney, 2002, pp. 89–119).

The topics of time and family are good examples to illustrate the inadequacies of this approach. Hofstede's ideas and especially the clear division into different pairs of opposites, along which he measures and compares cultures, are unsurpassed in their reach and popularity. The Hofstede Centre he founded has made part of the dataset available online, so that cultures can be compared in the browser or via an app. A random sample from this online available Hofstede dataset about some African countries of different regions and types shows that the biggest differences to German culture lie in long-term orientation and individualism. The IHK Mittlerer Niederrhein, based on this, elaborates in long, so-called cultural profiles about the uncertainties and problems Germans would have to expect in African business cultures. In statements like "Tanzanians, if at all, only have a vague concept of time" or "As everywhere in Africa, only an indirect, rather vague communication style is considered polite" (IHK Niederrhein, n.d.), the IHK members are supposed to prepare for their stay abroad. Various publications, also originating from the field of management consulting, adopt Hofstede's terminology. According to them, the biggest problem between Germans and Africans is the different handling of time and appointments. In addition, there would be a different prioritization between private and professional. Africans, therefore, saw appointments more as a guideline that did not necessarily have to be adhered to, but only gave a rough temporal orientation. This would meet with great incomprehension among the Germans, who insist on punctuality and reliability. The same applies to the different communication style. While the Germans wanted to get to the point to be discussed immediately at a business meeting, Africans preferred to talk about their families and the weather first. Only when a certain basis of trust had been established would the topics considered essential from a German perspective be addressed. Family plays a much larger role in general, which means that part of private life is shifted into the profession and vice versa. African indulgence would meet German restraint, which would be reflected in the prioritization, especially in family matters. It is already clearly recognizable here how superficial and ultimately little purposeful such a deterministic and latently racist fixation of cultural standards in a country can be.

While these supposedly very practical analyses seem to be well suited for the already tight time budget for preparing business contacts and meetings, they are full of pitfalls. They may be useful as aids to thought, to become aware at all of dimensions that exist in interpersonal communication. However, there are much more helpful approaches from communication science for this.

Ethnologists and social scientists hardly know Hofstede at all. The basic assumption of culture-comparative management research that "culture is measurable, can be represented in certain categories and can be operationalized for concrete instructions for action" (Hüsken, 2006, p. 65), is fundamentally rejected. It has been considered refuted in cultural studies since the early 1960s. Culture is therefore by no means a kind of national programming (as Hofstede puts it) that one can prepare for. Nor is the assumption of a static, homogeneous national character either accurate or helpful. In fact, people in Africa, like everywhere in the world, differ less along national borders than along their level of education; their age; whether they live in the country or in the city; whether they can actively participate in social and political life and individually feel that they have an influence on social developments, etc. Ethnology today rather assumes a coexistence of cultures in an individual, which can thus draw from a continuum of reactions and attitudes as well as speech acts. An East German chairman of a traditional costume association, for example, may have more in common in terms of his value orientation with a randomly chosen African than with a 35-year-old North German event manager. In addition, the national cultures depicted by Hofstede as static do indeed change. Migration, technology, trips abroad and also exchange semesters increase awareness of a kind of global standard everywhere in the world and create a global popular culture. Against this background, it can be extremely counterproductive to assume that the business contact sitting in front of you only responds to a certain approach or form of communication. In conclusion, it can be summarized that the idea of national cultures persists stubbornly because of its marketability, but is scientifically without any foundation. Hansen writes about this: "He [Hofstede's approach] sins against all the progress that has been made since the sixties, and this piece of work has taught the incorrigible, who thought the concept of culture was nonsense. Those psychologists, sociologists and economists who only trust empirical analyses were convinced by Hofstede's statistics that culture consists of hard facts that can be measured and weighed" (Hansen, 2000, p. 285).

8.2 Demographic Influences on Culture in Business

The Western perception of culture in Africa is, to put it mildly, relatively limited. The continent, which comprises 54 countries, is often understood as a kind of monolithic cultural unit. Even more common and equally incorrect, however, is the cultural division of the continent into North and Sub-Saharan Africa. The characterization of the popular uprisings in Tunisia, Egypt, and Libya against violent rulers in 2011 as the "Arab Spring" speaks volumes. Why was this not understood as an "African Spring", even though it was clearly also uprisings against post-colonial authoritarianism, against the concentration of power and wealth, and against corruption (Johnson, 2015)? Viewing Africa from the perspective of cultural influences and accurately representing it also requires taking off the European glasses.

Outside of academic discourses, culture is mostly defined extensionally, that is, by listing what culture encompasses. These are usually ethnicities, religion, languages, art, etc. From these relatively easy to obtain "culture data", quite reliable conclusions can be drawn about cultural influences and differences to business life in Europe.

In Africa, about 2138 different, distinct languages and idioms are spoken (the difficult distinction between language and dialects often makes a reliable count difficult). The continent is thus by far the most linguistically diversified on earth. They can be divided into four groups, albeit methodically inadequate, but for lack of a better alternative, according to Joseph Greenberg (1963): Afro-Asiatic with about 350 languages and 350 million speakers in North Africa and Western Asia. Niger-Congo with about 1400 languages and 370 million speakers in West, Central, and South Africa, Nilo-Saharan with about 200 languages and 35 million speakers from Sudan to Mali. Finally, Khoisan, the smallest group, with 28 languages and 355 thousand speakers mainly in western South Africa. Consequently, with a few exceptions, there is no country on the continent where the average inhabitant does not speak at least two to three different languages. This has a not to be neglected relevance in everyday work. Offices and companies where people work together who do not communicate in their mother tongue are more the norm than the exotic exception. Often English, French, Arabic, Portuguese, or Afrikaans are used as a lingua franca. At the same time, it also means that expression and forms of expression in professional life are often experienced as inadequate. This also affects the spelling in the auxiliary language/lingua franca. This situation also contains certain other dynamics. Understandably, employees of the same mother tongue find it enjoyable to converse with other colleagues with the same mother tongue. This can be bonding, but also reinforcing for bullying, mutinies, and other unpleasant developments. Ethnic conflicts often run along language borders, which can flare up in working life.

While the classification to certain mother tongues seems simple, the ethnic affiliation just mentioned is much more difficult and also delicate in comparison. Ethnicities are not present in nature, just like human races they are socially constructed, i.e. determined by humans. They overlap and overlay each other, they are difficult to distinguish at the edges and moreover easy to instrumentalize. In social research, this is referred to as the construction of in-groups and out-groups. Who belongs to a group or ethnicity cannot be decided by the individual concerned, but by those who have power in this group. Ethnic affiliation can also be constructed by powerful people outside the group. The most famous and tragic example of this are the Hutu and Tutsi in Rwanda. The colonial power pushed the *Divide and Rule* principle so far here that they made two out of the relatively homogeneous population of the colony that did not exist before. The deadly conflict that arose from this shows how stable such constructed identities still are almost a century after their "creation".

Nevertheless, the perceived affiliation to an ethnic group represents an important part of a person's personality. The traditions associated with it differ considerably within the continent and then again with possible business or cooperation partners from Europe. The latter refers in particular to the integration of traditions into today's life. In the majority of African countries, great importance is attached to cultivating and emphasizing the traditions that are tied to ethnic affiliation. This does not stop at business life—and here is certainly one of the biggest differences in dealing with ethnicity and ethnic affiliation to most Europeans. A prime example from Namibia illustrates this: For the Herero, one of at least twelve ethnic groups in the country, livestock farming traditionally plays a major role. The size of the livestock is still used today to measure wealth. Herero who live in the cities and go to the office in suits and with iPads on weekdays, naturally say goodbye to the farm on weekends, where they follow the traditional lifestyle in their traditional clothing and in their villages. The perfection with which many Africans manage to live tradition and modernity at the same time is usually as surprising as it is impressive for European business people. Nevertheless, the thematization of this area can lead to considerable problems, precisely because Europeans have made attributions to ethnic affiliations that can be perceived by those affected as neither accurate nor flattering.

Without a doubt, religion plays a much larger role in everyday life in Africa than in Central Europe. Religion is omnipresent and by no means a private matter, but the subject of constant confessions and a constant point of reference in everyday life. With the colonization and Christianization by European powers as well as through missionary work and conquests by Arab powers, the formerly strong religions on the continent were pushed into the background. Many maps therefore basically depict the distribution of different religions on the continent in two colors, the north is depicted as Islamic and the area south of the Sahara as Christian dominated. Typically, such maps make it clear through hatching that there are influences from other religions. However, this representation is problematic. The currents of Christianity and Islam represented in Africa are so diverse that they sometimes hardly remind of their "main current". There are very liberal and freedom-oriented variants of Christianity, especially in southern Africa (for example, the South African Catholic clergyman Desmond Tutu advocates marriage between same-sex couples). At the same time, there is also a rapidly growing number of followers of the so-called *Pentecostal* or *Born Again* churches, which also refer to Christianity and the Bible, but are strictly conservative in their views and have values and norms that ultimately strongly resemble those of very conservative Muslims. This concerns the role of women, dealing with homosexuality, educational issues and the role of physical punishment in this and in general up to very conservative modest clothing. At the same time as Christianity and Islam, many Africans also adhere to other religions in a context-sensitive manner. Ancestor and voodoo beliefs play a significant role in large parts of Africa, and are part of the completely self-evident coexistence of attitudes and ideas that are difficult to reconcile with each other for people shaped by Europe.

The secularization of everyday and business life, as is familiar from Europe, is rather rare in Africa. Faith is omnipresent, emphasized, turned outward, and lived. Services of any kind last much longer than in Europe, some believers spend the entire Sunday or its equivalent in the houses of God. Partly considerable parts of the income go as donations into the churches, also and especially when the families own less.

Apart from some exceptions like parts of the Sahel zone, there are hardly any violent religious conflicts in the 55 countries of Africa. Often one can experience a completely unproblematic and conflict-free living and working together, in a team of Muslims, Lutheran and Catholic Christians, Pentecostals and religions based on ancestor worship. Employers or department heads who send Christmas greetings with explicit, long and meaningful Bible quotes, equally wish their Muslim employees a happy Sugar Festival and Allah's blessing. This lived tolerance is increasingly covered in the media by focusing on so-called Islamic terrorism and the supposed separation between Muslim north and Christian south, not only covered but also endangered.

8.3 Cultural Imprint as Zeitgeist: Helpful for Cross-Cultural Contacts

As previously outlined, the understanding of culture as a kind of hard-coded programming of the mind is problematic. In the present context, culture should rather be understood as a specific view of the world, contexts, and one's own personal location in it. Thus defined, the cultural imprint of Africa can finally be grasped further than the conclusion previously touched upon and thus say something beyond empirical data.

With the economic upswing presented in this publication, there was a change in the way African publicists wrote about their countries and situations. Much discussed was the polemic of the Cameroonian publicist Axelle Kabou *Neither Poor nor Powerless* (in the original *Et si l'Afrique refusait le développement,* Kabou, 1991), in which she puts the responsibility for the desolate conditions in many countries of the continent into the hands of the Africans themselves. Unwilling, corrupt, and ignorant heads of state who rule over phlegmatic citizens are more the cause of grievances than the supposed exploitation of the continent by the West. Thabo Mbeki picked up this analysis in the late 90s and justified the need for an "African Renaissance":

> "The thieves and their accomplices, the givers of the bribes and the recipients are as African as you and I. We are the corrupter and the harlot who act together to demean our Continent and ourselves.
>
> The time has come that we say enough and no more, and by acting to banish the shame, remake ourselves as the midwives of the African Renaissance." (Mbeki, 1998).

In the aftermath and the extremely controversial intra-African discussion about the appropriateness of the analysis, a number of initiatives and plans were created, the most prominent of which was certainly the so-called NEPAD plan (New Partnership for Africa's Development). In it, the signing governments committed themselves to good governance, democracy, the protection of human rights, transparency, and reliability. Regardless of this, what remained as an echo on the continent was an increased self-confidence in the sense of perception of unused scope for design. This was the time when Chinese companies began to invest unconditionally on the continent compared to traditional development cooperation and funds, and a growing return to already existing "African Pride" movements.

This also explains why Muamar Gaddafi and Robert Mugabe are more idols than dictators or criminals for a not insignificant number of Africans. A new generation of political leaders, who often came from the Youth Leagues of the ruling party (like Julius Malema in South Africa or Job Amupenda in Namibia), are clearly anti-Western, partly racist in their statements, anti-capitalist, and value-conservative. They demand the expropriation of white farmers, reject liberal lifestyles as Western, and strive to construct a modern pan-African identity.

The examples mentioned show that, if there is not the one African culture, there is however a growing and important socio-political issue on the continent, namely what was or should be "African". A rapidly growing number of online magazines, blogs, and pages now write from an African perspective for African readers. The pages are typically called, for example, *The Africa they dont show you on TV* (a photo blog about African prosperity, about urban living spaces and tech-savvy people), *African Voices* (alternative news platform) or, very popular, *This is Africa.* Their *mission statement* reads as determined as searching:

> "To refresh the world's view of Africa, correct misperceptions and shatter old stereotypes, by showing that what gives urban Africa its funk and vibe today is far removed from the tired and narrow clichés of safaris, traditional drums, corruption, poverty, war and disease. We do this through online and offline projects." (This is Africa: o. J.)

It remains unclear what exactly the new African identity should be and for what purpose it is needed. However, the young African managers, creatives, and business people make one thing very clear, namely how they no longer want to be seen. This cultural imprint and the *mind set* is ultimately what European investors need to pay much more attention to than the right handshake or (memorized) learned from an intercultural seminar.

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The First Step: Defining a Country Strategy

9

Luise Rosemeier

Contents

Abstract

The first step to tapping into African markets is selecting the most attractive countries. Choosing the relevant markets from the 54 states is not a trivial task. This chapter shows which methods and criteria can be applied and how the necessary information can be obtained.

9.1 Defining Target Countries

Africa comprises 54 countries—more than any other continent. Companies that want to do business in the African market for the first time usually adhere to the guideline of initially focusing on a specified number of countries. Therefore, defining target countries is an important strategic decision for a company. A selection of target countries must be made based on suitable criteria. The importance and complexity of this selection make a systematic approach indispensable.

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This approach is usually divided into a rough and a detailed selection (cf. Berekoven, 1985, p. 119, 124).

9.1.1 Rough Selection

In the context of the rough selection, countries can be relatively quickly and easily excluded that are considered unsuitable for market entry from the outset based on easily analyzable criteria (Berekoven, 1985, p. 119). The following aspects can be examined:

9.1.2 Political Stability

Political stability plays a special role in the selection of suitable target countries. Both internal unrest and foreign political conflicts can pose a significant risk to a company's economic activities. These risks can manifest in various ways, whether as a security risk or as a risk of expropriation or destruction of a company's investments or property. In addition, there is also the risk of high exchange rate fluctuations (Kantsperger et al., 2004, p. 116). Therefore, countries threatened by revolution, risk of coup, or war should be excluded from market entry from the outset.

However, it should be added that in practice the specific consequences of political stability are difficult to estimate, as a specific event can usually have various political consequences. It should also be noted here that political instability is not necessarily tied to the prevailing system of government. On the contrary, it can be observed that authoritarian regimes can be very stable under certain conditions such as economic growth and resource wealth (cf. Köllner, 2008, p. 4). This leaves open the question of whether a company wants to establish business relationships with such governments.

9.1.3 Safety

Companies that want to do business in Africa often send employees to the relevant countries. Their safety plays a significant role in the selection of suitable target countries. Currently (as of 2020), there is war in 11 out of 54 African countries, and violent conflicts exist in another 22 (Heidelberg Institute for International Conflict Research, 2020, p. 14). This may seem like a lot at first glance, but it also means that there are no violent conflicts in over 20 African countries. Furthermore, it should be noted that the conflicts often take place in the periphery and the political and economic centers can still often be considered safe.

A good starting point for initial information on the security situation in target countries are the travel and safety advisories of the Foreign Office. Here, it can also be found out whether travel to certain countries is completely discouraged or only partial travel warnings exist. A partial travel warning does not necessarily have to stand in the way of business activities in the respective countries.

The Ebola epidemic in 2014 clearly showed that health aspects also play a role in the decision to do business in African countries. Not only were business activities in the three main affected countries put on hold, but other countries—sometimes thousands of kilometers away—also had to struggle economically with the effects of the epidemic (cf. Gehry, 2014, p. 9 ff.). For example, Madrid is geographically closer to Conakry than Windhoek, a fact that did not prevent companies from doing business in the Spanish capital, but slowed down their activities in Namibia.

This example is intended to illustrate that Africa as a continent should not be viewed in a generalized manner. Of course, there are wars, conflicts, and health risks in African countries. However, there are also a whole range of countries on the continent where business can be conducted safely.

9.1.4 Resources

Depending on a company's business model, the presence of relevant resources on site is indispensable. For the production of certain goods, suitable raw materials must be available in sufficient quantities to be able to produce efficiently and profitably.

For example, manufacturers of wind turbines must ensure that the wind conditions in the selected target countries are sufficient to operate the turbines, or a company that wants to produce nitrogen fertilizers from natural gas depends on the sufficient presence of the raw material on site.

Even if the presence of raw materials can often be quickly determined as a basic prerequisite for market entry, the political will to provide the required resources at an economically acceptable price usually needs to be clarified in a further step (cf. Sect. 7.2).

9.1.5 Detailed Selection

In a further step, the countries remaining after the rough selection, which meet the requirements for safety, political stability, and the presence of the required resources, are to be subjected to a further evaluation according to economic, legal, and sociocultural factors. This analysis usually results in a prioritization of one or more target countries for market entry.

9.1.6 Economic Preconditions

Above all, the size and structure of the population and their income development should be particularly considered in the analysis of a target country, as these factors are of great importance in relation to market potentials and market volume. A potential target country will show a sufficiently large demand potential as a decisive criterion so that market entry can be profitable at all (Lemke & Sander, 2007, p. 376). However, this essentially only applies to business models that require a larger number of sufficiently solvent end customers. For infrastructure investments or for the construction of production plants for export products, this aspect naturally has only a subordinate importance.

Referring to the African continent, it should be noted that economic growth, after a significant increase in recent years, shows a stable expected value of 3.9% for 2020 and 4.1% for 2021 (African Development Group et al., 2020, p. 1). Other factors such as population size or life expectancy are also growing steadily. By 2100, Africa's population will almost quadruple (Ehrenstein, 2015) and the average life expectancy has increased by more than five years since 2006 (World Bank, 2016).

This trend also influences the development of an African middle class, which is one of the most important sources for the growth of the private sector on the continent and thus for the demand for goods and services. The African middle class is one of the fastest growing in the world, consisting of over 375 million people (34% of the population) and private consumption expenditures of almost 1.3 trillion US$ per year (Deloitte, 2014, p. 2). (For a critical classification of such forecasts cf. Chap. 4).

9.1.7 Country Ratings

Country ratings generally provide a subjective assessment of a state's creditworthiness. The best-known rating agencies include Standard & Poor's (S&P), Fitch, and Moody's. For the rating, a twenty-one-step scale is usually used, which starts with the highest credit rating class "AAA" and ends with the lowest classes "C" or "D". Investments in countries with a low rating on the scale are considered risky and thus speculative.

The country ratings are usually based on the evaluation by rating agencies of various quantitative factors such as economic factors, budget development and financial performance, as well as an assessment of institutional efficiency and political risks (Standard & Poor's, 2011, p. 5 ff.).

It should be noted that the ratings represent a subjective expression of opinion. Due to the high reputation of the rating agencies, the ratings nevertheless have a high market relevance (Partnoy, 1999, p. 627 ff.). Especially for companies that can only obtain relevant information and assessments of potential target countries with great effort, country ratings represent an important source of information.

9.1.8 Double Taxation Agreements

The law of double taxation agreements (DTA) is an area of international tax law that is regulated by international treaties. According to § 2 of the Tax Code, DTAs take precedence over national law and aim to avoid double taxation. Double taxation is spoken of when a taxpayer has to pay a similar tax to different states for the same tax fact for the same period (Federal Ministry of Finance, 2004, p. 65).

If no DTA is available, an accumulation of tax burdens can occur in international business transactions. This can impair both the freedom of movement of goods and services and the use of capital and labor. In addition, the increased tax burden will lead to distortions of competition and a misallocation of capital (Federal Ministry of Finance, 2004, p. 65).

Double taxation is avoided by either the source state (state from which income originates) or the residence state (residence state of the recipient of the income) waiving taxation or crediting the foreign tax to its tax (Federal Ministry of Finance, 2004, p. 67).

Currently (as of 2020), the Federal Republic of Germany maintains double taxation agreements with the following African countries (Federal Ministry of Finance, 2016):

• Egypt	• Kenya	• Zambia
• Algeria	• Liberia	• Zimbabwe
• Ivory Coast	• Morocco	• South Africa
• Ghana	• Mauritius	• Tunisia
• Cameroon	• Namibia	

9.1.9 Export Credit Guarantees

The state export credit guarantees (colloquially "Hermes cover") are a significant part of German foreign trade promotion. With them, German companies can secure their risks from export transactions. They protect against losses due to non-payment by foreign business partners: if the foreign buyer does not pay, the insurance kicks in. The protection against politically and economically caused payment defaults gives German companies equal opportunities in international competition in opening up difficult markets and maintaining economic relations even in turbulent times (PricewaterhouseCoopers, 2016).

For the insurance of his export business, the policyholder pays processing fees and a premium. Processing fees are charged as application fee, extension fee, and issuance fee, credit check fees are not charged. The amount of the premium is mainly based on the country category into which the recipient country is uniformly classified by the Organization for Economic Co-operation and Development (OECD). "Category 0" means the lowest risk and thus the lowest fee, "Category 7" the highest risk with the highest fee (Federal Ministry for Economic Affairs and Energy, 2015).

The Federal Government now grants export credit guarantees for all African countries. A large part of the countries are classified into categories 6 and 7, but there are also exceptions, for example Botswana, Morocco, and Mauritius are grouped into category 3 (Federal Ministry for Economic Affairs and Energy, 2016).

9.1.10 Infrastructure

A developed infrastructure is essential for the handling of international business. If the existing infrastructure is poor, this often leads to higher transport costs and prevents stronger economic growth. This can be a bigger problem especially in countries without access to the sea (cf. Africa Association of German Business, 2013, p. 2). Infrastructure in this context also includes the availability of ICT (Information and Communication Technology), as it is indispensable for the internal and external transmission of information.

How decisive the factor of infrastructure is for a company in considerations of market entry depends crucially on the service offered. For companies that, for example, depend on timely transport of goods (be it the transport of the sales product or the delivery of components) of great importance, the state of infrastructure for others is again a chance to generate new business. The African infrastructure has been one of the most important investment fields for international companies for several years. Construction companies, engineering offices, architects, and machine manufacturers, for all of them the continent offers a multitude of business opportunities in this area (cf. Africa Association of German Business, 2013, p. 2 f.).

9.1.11 Regulatory Framework

The regulatory framework includes all requirements from governmental or institutional bodies that are valid for domestic and foreign companies. For a company planning business activities on the African continent, it is essential to inform itself about the various existing legal regulations in the respective countries. In addition to supranational and international law, national law, especially corporate, contract, and competition law, is of great importance.

The prevailing economic order should also be examined more closely. While in market-oriented systems, state access to economic processes is very limited, centrally planned economies are almost entirely directed by the state, which can pose significant hurdles for international companies, for example through restricted capital mobility or the use of tariffs and fees (Kantsperger et al., 2004, p. 116; Stahr, 1979, p. 42 f.).

9.1.12 Corruption

Corruption risks in potential target countries in Africa can pose a deterrent for German companies considering market entry. Many financing institutions use corruption rankings as a determining factor in deciding on local activities. For example, the Kreditanstalt für Wiederaufbau (KfW) annually conducts risk analyses, also taking into account the Corruption Perception Index (CPI), which is published by the non-governmental organization Transparency International, where both KfW and Deutsche Investitions- und

Entwicklungsgesellschaft (DEG) are corporate members. Furthermore, both KfW and DEG are supporting members of the Extractive Industries Transparency Initiative (EITI), a coalition of governments, private sector, and civil society organizations (KfW Bankengruppe, 2014, p. 9).

In recent years, the CPI has become the most important tool for banks, companies, and other institutions to assess corruption risks. This approach can be critically questioned due to the methodology of the CPI. The index is based on surveys within the population about the general perception of corruption (Transparency International, 2014). Whether the results of these surveys can be directly transferred to the corruption risk in the international awarding of large infrastructure projects is questionable. Therefore, in addition to the CPI, other sources of information should be consulted to arrive at a clear assessment of the corruption risk.

9.1.13 Sociocultural Factors

Finally, a consideration of sociocultural factors, which can vary greatly not only from local conditions but also within Africa, is urgently required. Sociocultural factors include cultural aspects such as language and religion as well as societal values and norms. The consideration of these local conditions is of particular importance for companies planning market entry for various reasons. On the one hand, societal values and mentalities influence purchasing and consumption behavior and must therefore be taken into account, on the other hand, aspects such as language and religion must be considered, for example, in the training of local employees or in the definition of marketing strategies.

Sociodemographic factors should not be neglected in this context. The sociodemographic structure of a country, such as the income, age, or educational structure as well as the degree of urbanization, has a significant influence on the attitudes and lifestyles of the population and can thus significantly influence a company's market opportunities (Kantsperger et al., 2004, p. 116 f.).

9.1.14 Information Gathering

To determine target countries, companies need a range of information that is not always easy to ascertain or publicly accessible.

The necessary information for the rough selection of target countries can be obtained relatively easily. For the factors of security and political stability, it is usually sufficient to consult the relevant information sources, for example, from the Foreign Office. Also, an initial assessment of the sufficient presence of the required resources on site can often be provided by the company's internal business development or sales department.

In the phase of fine selection, the decisive information is often not or only limited publicly available. In this case, there is the possibility that companies can receive support from a whole range of public or private institutions. On the public side, these are mainly ministries of the federal government such as the Ministry of Economics or the Ministry for Economic Development and Cooperation, the Foreign Office, German embassies and foreign trade chambers in African countries, the KfW and its subsidiaries, and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). On the private side, there is the possibility of obtaining information, for example, through relevant regional associations such as the Africa Association of German Business e. V., political foundations, or Africa-specialized consulting firms (see Chap. 14).

9.1.15 Evaluation

After a detailed analysis of potential target countries, taking into account the criteria explained under rough selection and fine selection, a schematic evaluation of the individual factors for each possible target country should be carried out at this point. An exemplary evaluation system is shown in Fig. 9.1. Here, starting from three possible target countries, each factor for each target country is rated with a value between 1 and 5, where 1 represents the best and 5 the worst value. If we look at the factor resources, for example, the rating 1 means that the required resources are available in extensive

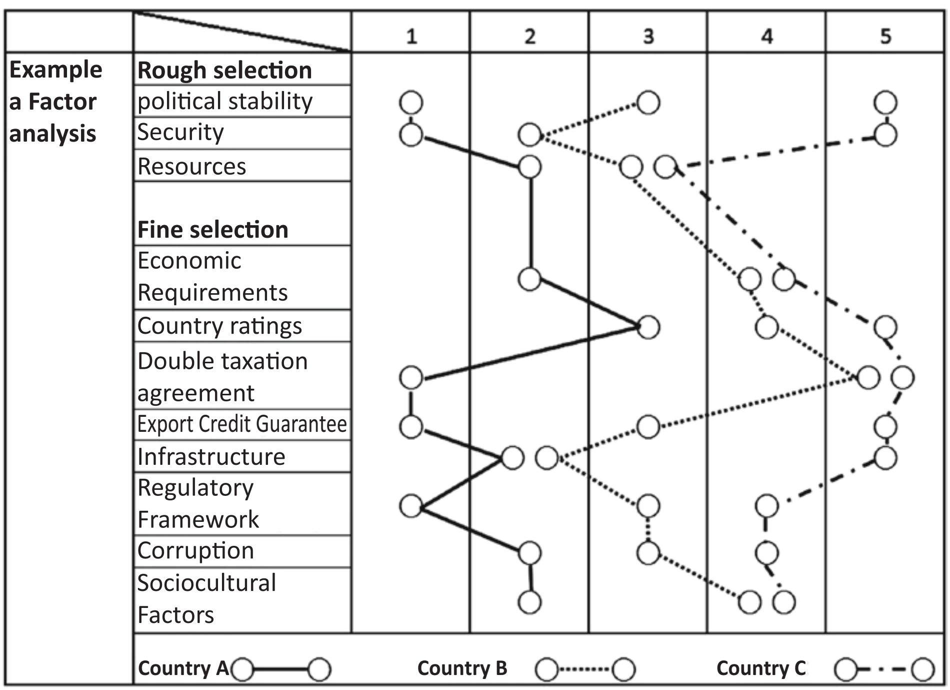

Fig. 9.1 Factor Analysis

quantities, the rating 5 means that the required resources are not available at all. In the case of the corruption factor, the rating 1 indicates that the extent of corruption does not lead to any restrictions for business activities, the rating 5 that corruption is so extensive that international business processes are severely hindered.

As previously explained, target countries that are negatively rated for factors of rough selection are usually fundamentally excluded for market entry. In Fig. 7.1, this would affect Country C, which stands far right on the scale for the factors of security and political stability, and thus can no longer guarantee the safety of employees and investments. Example countries A and B, on the other hand, do not show such negative deviations in the factors of rough selection that they would no longer be considered for further consideration under fine selection. Since Country A in this example is further left on the scale for all factors than Country B and is therefore better rated, it makes sense to give priority to this country when prioritizing target countries.

Usually, at the end of the evaluation process, there are a number of countries that are suitable for market entry and should therefore be subjected to a more detailed examination—also on site.

9.2 Establishing a Country Strategy

Once a company has selected a number of countries in the course of rough and fine selection for which it plans and wants to realize market entry, the first question arises about the timing in which the markets should be developed.

There are basically two approaches to this. The target countries can either be processed sequentially or in parallel. These principles are often referred to in the literature as waterfall and sprinkler strategies (see Kreutzer, 1989, p. 238 f.). The waterfall strategy is characterized by the fact that a company processes the target countries one after the other according to a fixed priority. The main advantage of this strategy is the reduction of company risk, as personnel and financial resources are conserved and the company can relatively easily withdraw from the market in the event of sudden problems. The high time expenditure and the risk of a premature termination decision are seen as disadvantages in this case. The sprinkler strategy, on the other hand, envisages parallel entry into several target countries. This has the advantage that companies can thus achieve rapid entry into various markets and at the same time erect market entry barriers for subsequent competitors. In contrast to the waterfall strategy, the sprinkler strategy binds personnel and financial resources to a greater extent and requires a high level of internal company coordination (Kreutzer, 1989, p. 238 f.; Backhaus et al., 2003, p. 164 ff.).

Regardless of the chosen temporal processing, a kick-off trip to the selected target countries is recommended. The goal of these trips should—depending on the business model of the respective company—be to form networks with relevant government agencies, state and private institutions, local companies, and financing institutions, and to create a list of suitable projects that the company wants to pursue on site.

Networking is of particular importance in African countries. In many African countries, the economy and politics are much more closely linked than companies are used to from Europe. Therefore, it is essential to get a feel for the underlying drivers and motivations of the political leadership. For example, energy and infrastructure projects may be the most important point on the agenda of a newly elected African president, as they quickly show visible changes to the population. If the company is aware of this background, it can try to place its own products and services as part of an existing agenda.

Planning trips to the selected African target countries often poses great challenges for companies that have so far hardly or not at all dealt with the continent. This starts with logistical questions such as visa procurement and extends to gaining access to relevant conversation partners.

In this case, companies have the opportunity to get support through various channels, starting with participation in trips by the federal government to the respective countries, which can often be accompanied by business delegations. This continues with participation in delegation trips by regional associations and support from Africa-specialized consulting firms that can organize trips specifically tailored to the respective company.

Ideally, a company can get an overview of relevant projects planned in the respective country in the foreseeable future during a first trip to a new target country.

Thus, the probability of realization can be estimated with the help of local conversation partners and an internal prioritization of further pursuit can be developed.

In this context, parallel conversations with relevant institutions in Germany can also be helpful, these can be financing institutions such as the KfW or DEG, organizations of development cooperation such as the GIZ, government agencies or other German companies that can meaningfully complement the company's own product or service offering in the target country.

Once a list of priority projects has been established, companies should develop a strategy to intensively pursue these projects. This can be realized through an in-house business development or sales department or through a local sales partner in the target country. This can be done, for example, through the support of state or quasi-state institutions such as the German foreign trade and chambers of commerce and industry associations in the target market, advertising in local industry directories, visiting industry-specific trade fairs, or hiring a personnel consultant (see Schwarz-Musch et al., 2013, p. 161).

In summary, it should be noted that resources should not be set too sparingly when pursuing a country strategy. A good analysis at the beginning can prevent costly mistakes during the course of the project.

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Part III
Investing in Africa, but Correctly!

Abstract
Part III forms the core of the book. The authors reflect on extensive articles experiences from the practice of investing in Africa. They provide hints to all areas that are important for entrepreneurs who want to get involved on the continent. Experts describe the approach to in-depth analysis of the market, peculiarities in defining a sales strategy, they explain how entrepreneurs in Africa can find and retain qualified employees, how to deal with public and private customers, and much more. In addition, the authors point out specifics of the legal and tax systems. The articles are practice-oriented, companies have described their success stories on the continent and provide hints for potential imitators.

10 The Market Analysis as the Basis for Successful Business Activity in Africa

Michael Monnerjahn and Jürgen Friedrich

Contents

Abstract

The analysis of the African market is carried out using the same methods and according to the same criteria as in other world regions. However, there is usually less information than in other markets. In general, it can be said that both the risks and opportunities in Africa are greater. The right partners are crucial for business success in Africa. Numerous governmental, public, and also private institutions offer their help when it comes to finding the most successful path to Africa.

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10.1 Introduction

A Ghanaian entrepreneur visits the showroom of an office furniture manufacturer in Hamburg during a family visit. He cannot find a comparable offer in his hometown of Accra, which is why he spontaneously decides to place a large order. He pays in cash and a few weeks later the goods are packed in various containers and sent to Ghana. The office furniture is not only well received by him, but also by visitors to his company. This leads to follow-up orders, prompting the medium-sized furniture company to ask: what potential does the market in Ghana actually offer?

The African markets—especially beyond the Republic of South Africa and below the Sahara—are still unknown territory for many German companies. According to the Federal Statistical Office of Germany, only about 34,000 companies—of the over 800,000 German companies active in foreign trade—are active in Africa. A number of them have a long tradition in Africa. Individual DAX companies and trading houses have been active there for over 100 years. At the same time, there are a large number of medium-sized companies that have not yet been active in Africa or have only recently become active.

The path to doing business in Africa varies greatly. Often the first impulse comes as unexpectedly as with the office furniture manufacturer. At the beginning, there is one or more inquiries that show interest in a new market. The African continent consists of 54 countries—which differ significantly and are often very heterogeneous themselves.

Some major cities are modern and well connected internationally, while rural areas are often still underdeveloped. The business culture of companies is also very different. In Europe, a company usually has its own website. In Africa, sending an email from a Yahoo email address is not uncommon.

But regardless of what the email address is or from which country the inquiry comes—at some point the time comes to take a look at one or more markets on our southern neighboring continent. No one should think too long, because today every sixth person and probably every fifth person in the world's population lives in Africa in ten years' time.

10.2 Dimensions of Market Analysis

Before entering a market in an African country, the same questions arise as in other markets:

- Does anyone want to buy my product?
- How big is the demand? Who exactly is the target group?
- What is the competition like? How can the market be developed?

Before a company addresses these questions, it usually first considers and investigates more general aspects.

10.2.1 The SWOT Analysis of a Country—Looking at Opportunities and Risks

Methods such as the SWOT analysis, which asks about strengths (Strengths), weaknesses (Weaknesses), opportunities (Opportunities) and risks (Threats), are a good basis for a market analysis. This method is also part of the services offered by Germany Trade and Invest (GTAI), the economic development agency of the Federal Republic of Germany. Despite all efforts to be objective, it always has a subjective component. One observer may see strong population growth as a risk and another as an opportunity. Perhaps this point even appears in both categories—but with different meanings. Some see the growth of the African population as the cause of hunger, wars, migration, poverty and underdevelopment. Others see it as the basis for future growth and additional labor.

10.2.2 The PESTEL Analysis—From Economy to Ecology

Another method is the PESTEL analysis. It represents political (Political), economic (Economic), social (Social), technological (Technological), ecological (Ecological) and legal (Legal) aspects. At first glance, this approach is less subjective, as it does not include evaluative categories. However, the mentioning or non-mentioning of individual points certainly offers an ordering and evaluative component. In addition, terms are important—it makes a difference whether one writes only of “population growth” or of a “population explosion”. When dealing with Africa, political factors such as the stability of the country are often examined more closely than in other world regions. At the same time, technological developments such as digitization have recently provided a positive view of Africa.

With the analysis tools SWOT and PESTEL, important topics from society, politics and business can be named and structured. Companies can use them to make an initial classification of markets. However, what these two methods do not provide, but which many companies active in Africa describe as the decisive factor, is personal contact. Personal contact is often mentioned by companies that have been active in Africa for many years as a decisive component for business success. The maintenance of personal relationships is possibly even more important than in other foreign markets.

But before a personal contact is established or checked, the people responsible for business development usually first attempt to take a closer look at the business opportunities, especially the economic aspects. Where in Africa is the right market?

10.2.3 Looking at the Market

An inquiry from a certain country directs attention to a market. This market may indeed be suitable for market entry, but perhaps other countries are even more suitable. At the beginning of a market analysis, macroeconomic indicators are often used, which should facilitate the selection of the right market.

Gross Domestic Product as an Indicator of Market Size

The three largest economies in Africa—in alphabetical order: Egypt, Nigeria and South Africa—are also among Germany's most important trading partners in Africa. GDP per capita is also an important indicator. The North African countries, which have above-average economic power per capita, are among the largest sales markets for companies. GDP growth also plays a role, as it indicates the dynamics of the economy. Countries like Ethiopia, which were able to achieve growth of more than seven percent over a decade, were particularly in the focus of companies recently.

Evaluation of Statistics and Media

Often in African countries, it is not known how much of a product is bought or how often a service is used. Public statistics are rarely available or are outdated. Since many products are imported, a look at the United Nations' international trade statistics helps with imported goods. The Comtrade database provides relatively reliable figures, as it is based on both the export figures of the supplying countries and the import data of the target countries. Certain product groups allow the sales of individual goods to be determined relatively accurately. Some countries also provide very detailed information that goes beyond the information in the Comtrade database. In addition to these publicly available figures, there are also statistics maintained by associations or service providers. For example, a European association in the construction sector maintains its own statistics on the worldwide sales of construction machinery. Finally, there are companies specialized in data analysis, which either evaluate publicly available sources or conduct their own statistics.

Many newspapers as well as newsletters or videos can now be conveniently evaluated online at the desk. Social media like Facebook and LinkedIn enable networking and Twitter provides insight into current topics on site. With the help of contact networks, initial contacts can be established without having to board a plane. Local online platforms also show what is currently in demand.

Potential Customers

A look at the media or statistics can—regardless of inquiries—already provide a first indication of whether a market for a product exists in a country. An exciting question is what the target group, the potential buyers, look like. Is the buyer a private company or a government institution? Is financing a hurdle or can the customer possibly even pay in advance? Even if no general statement can be made about buyers in Africa, some companies are particularly surprised by the financial strength of private customers. These companies know very well what they want and are also willing to pay a fair price for high quality. Quality does not play a role in every company, but there are companies that, due to experience with poor quality, consciously search for the best machine or system. Personal contact with the owners of these companies is essential for a successful business deal. A visit to the potential customer on site should therefore definitely be planned. For the German company, this also offers the opportunity to get a feel for the target market at all.

Competition

A look at trade figures and statistics provides initial indications for the sales opportunities of one's own product, but who is actually committed on site is often not seriously ascertainable without a visit to the target country. Competition has generally increased in recent decades. The share of European and US companies was 80 to 90% in many areas until the turn of the millennium. If a French company was extracting raw materials in West Africa, French suppliers usually benefited. A German car manufacturer in South Africa relied on German machines and a US oil company also bought from domestic suppliers. Now, Chinese or Indian companies are also involved in the raw materials sector, which in turn benefits suppliers in their home country. At the same time, the offer has further diversified beyond such traditional ties in this and other areas.

The not so new competitors from China and India sometimes have products on offer that are interesting for companies that have so far only bought used goods. This has created additional competition, but often also a market for new goods in the first place. In the long term, manufacturers from Germany who specialize in top quality can benefit from this. Someone who bought a machine a few years ago that breaks down after a few years due to poor quality or lack of maintenance may now be willing to spend more on the purchase of a more durable machine and its maintenance.

In addition, the categories "German" or "Chinese" products are not really always appropriate in today's world. German companies have been producing in China for decades and their products naturally also reach Africa. In addition, there are German trading houses in Africa, whose branches now have a wide range that also includes products from Asia, South Africa or South America. Today's globalized world creates new competition, but also new opportunities for cooperation.

10.2.4 Politics and Society

The politics and society of a country are often even more difficult to assess than the economy. However, political stability is a basic prerequisite for any form of economic activity for most companies. A number of institutions offer insight into the political situation of a country. The Foreign Office, for example, provides a report on the political situation of practically every country in the world. The ministry also informs about the security of the country. In addition, there are think tanks or political foundations that analyze the political situation of many countries. In Germany, this includes the Bertelsmann Foundation, which produces the Bertelsmann Transformation Index. The index sorts countries worldwide according to various criteria such as the state of political transformation and governance. The foundation also provides comprehensive reports on the countries. Social aspects such as population growth, life expectancy or poverty are also represented by indicators. The International Crisis Group also provides current and comprehensive information on the politics of numerous countries in English. The CIA reports also provide a good insight into the political conditions of a country and also provide a variety of indicators.

10.2.5 How can the market be developed?

A single business can perhaps still be implemented without significant infrastructure and connections on site. However, a company quickly reaches the point where it needs a representative, a lawyer or a tax expert in the new market. These contacts can rarely be established from a distance and usually not even through a stay on site. There usually comes a point when a company depends on the knowledge and contacts of actors who have the necessary know-how and network.

10.3 The Brokers of Knowledge and Contacts

Even during market analysis, a company may rely on external personnel and their knowledge and connections due to a lack of its own human resources. Not every company can or wants to sift through freely accessible sources, statistics, and reports to identify suitable new markets. However, a certain level of expertise, whether in a business development department or in the management itself, must ultimately be present in every company in order to make the decision whether it is worth getting involved in a new market.

However, "brokers of knowledge and contacts" can help in the discovery process. These include ministries, embassies, government institutions such as the GTAI, chambers of commerce and industry, German foreign chambers of commerce abroad (AHKs), associations, and consultants. The first recommendation is that it is always worth involving several of these actors. It is rare for a company to involve only one of the mentioned actors and thus already be able to successfully enter the market.

10.3.1 Government and Public Institutions

The Federal Republic of Germany offers a comprehensive range of services for companies looking for information and contacts with its ministries, embassies, authorities, agencies, the AHKs, and other organizations. The mentioned institutions provide information, local and German contact persons, and support companies through instruments of foreign trade promotion. This also includes events in Germany, the foreign trade fair program, and delegation trips to almost all countries in the world. A number of institutions, such as representatives of national or international financial institutions, do not officially have the task of providing information or contacts, but are often open and ready for an exchange.

The GTAI alone supports the work of German companies with over 400 employees as part of the foreign trade promotion of the Federal Ministry for Economic Affairs and Climate Action (BMWK). It is the first point of contact for export-oriented German SMEs. From 50 locations, correspondents report on the latest developments in the markets. Companies can practically inform themselves about all countries in the world and find a comprehensive range of information on economic development, individual sectors, projects and tenders, as well as law and customs. For many countries, a SWOT analysis is also available, which already covers an important part of the market analysis. Companies can also directly benefit from the expertise of experts in countries, sectors, customs, and law and can directly address them. In dialogue with the companies, the GTAI can point out risks and opportunities as well as other important actors.

A specially tailored online service for Africa is the "Africa Business Guide", which presents and integrates information, references to events, and important institutions of foreign trade with a view to Africa. The "Africa Business Guide" is ideal as a starting point for an intensive engagement with Africa, as it integrates the central actors of German-African economic relations and provides comprehensive information about the business opportunities of the continent. Finally, the BMWK has created a contact point with the Africa Business Network, which advises and supports companies. With IXPOS, the Federal Ministry for Economic Affairs and Climate Action also provides a supra-regional foreign trade portal that provides information from numerous institutions. This includes references to events and actors in foreign trade.

The German embassies are in some countries the only German representations on site that can be consulted by German companies without major barriers. Their ambassadors and economic departments also represent the interests of the German economy and advocate for the concerns of German companies. The support provided by the embassies, according to the judgment of companies that have been active in Africa for many years, has continuously improved over the past years and decades. So it is definitely recommended to make contact.

In many African countries, there are also offices or employees of institutions of German development cooperation. The Federal Ministry for Economic Cooperation and Development (BMZ) is primarily engaged in Africa. The BMZ implements projects in Africa through the German Society for International Cooperation, the KfW Development Bank, and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), among others. The work of these institutions primarily supports foreign governments, but there is generally the possibility of contacting their employees to benefit from their knowledge. They often have many years of experience on site and a good network in politics and business. The Agency for Business & Economic Development is also a direct contact for companies.

Contact with political foundations, such as the Friedrich-Ebert Foundation, the Friedrich-Naumann Foundation, the Hans-Seidel Foundation, Heinrich-Böll Foundation, and Konrad Adenauer Foundation, is also worthwhile. The foundations have their own offices in many African countries and also work with business associations. Topics of their political work, such as the rule of law or market economy, offer good starting points for an exchange.

10.3.2 Associations

The German associations deal with Africa, but they usually also have world regions and countries in mind that play a larger role. Very large industry associations, such as the Association of German Machinery and Plant Engineering (VDMA), have individual employees who deal with Africa.

SAFRI and NMI

The Sub-Saharan Africa Initiative of German Business (SAFRI) brings together the most important associations of German business that deal intensively with Africa. The initiative includes the sponsoring organizations German-African Business Association, the Federation of German Industries (BDI), the Federation of German Wholesale, Foreign Trade and Services (BGA), and the German Chamber of Commerce and Industry (DIHK). Within the framework of SAFRI, the sponsors jointly advocate for more intensive economic relations between Germany and the countries of Sub-Saharan Africa. The same sponsors, plus the Banking Association, are found in the North Africa Middle East Initiative of German Business. However, both initiatives do not have their own institutional structures and mainly appear through a few event formats or position papers. The sponsors of the initiatives are more important.

German-African Business Associations

The German-African Business Association, as a country association, on the other hand—as the name already suggests—deals solely with the African continent. The originally Hamburg-based country associations exist for several world regions. They were founded by trading houses and shipping companies. Now they reflect the entire German economy in their membership. The association, financed by membership fees, supports its members through information, the organization of events, and the offer of exchange with the employees and the approximately 500 other members. New members benefit from the experience of long-standing members and become part of a network.

DIHK and BDI

The German Chamber of Commerce and Industry (DIHK) and the Federation of German Industries (BDI) also have Africa in view as peak associations of German business. The DIHK, with its network of AHKs, delegations of German business, and representations, has a network of 140 locations in 92 countries, including twelve African countries alone, according to its own statements. For their task in the context of foreign trade promotion, the AHKs are also financed by the BMWK. Thus, they are available as contact persons for all German companies. Some of the services, especially more extensive information, are chargeable. With their presence on site, the AHKs have very good market knowledge and a network of local contacts from business, politics, and society. The DIHK also has an Africa department in its headquarters in Berlin. A new facility is also the IHK Network Office Africa, which is also funded by the BMWK. The BDI also has an Africa department and also coordinates the work of the NMI.

Industry Associations and Initiatives

The industry associations have very different activities and interests in Africa. The VDMA, according to its own statements, is the largest network organization of mechanical engineering in Europe with around 3300 members. In addition to specialist associations and working groups, the association also has a larger department for foreign trade, in which there is one employee each for the region North Africa/Near and Middle East and for Sub-Saharan Africa.

Other industry associations or initiatives that have Africa in view exist in the water sector with the German Water Partnership, in the health sector with the German Health Alliance, and in agriculture with the German Agribusiness Alliance. These industry initiatives each have working groups or individual projects that focus on Africa. The German Water Partnership has a regional forum for North Africa and also a partnership with the Africa Water Association (AfWA) in Cote d'Ivoire. At the AfWA, a long-term expert is on site, maintaining contact with the African network in the water sector. The German Agribusiness Alliance, in cooperation with the German-African Business Association, has an expert in Germany who organizes activities in the agricultural sector, including an annual industry meeting as part of the Green Week. The German Health Alliance has an Africa working group, which also cooperates with the German-African Business Association and together also organizes the annual industry meeting “German-African Healthcare Forum” as part of the World Health Summit.

This look at individual industries, which cannot claim to represent the whole variety in all industries, shows that there is a growing interest and also offer regarding the African continent in many industries.

Chambers of Commerce and Associations in Africa

In many African countries, local companies are also increasingly organizing themselves in chambers of commerce or associations. In the Republic of South Africa, there is the greatest variety of institutions. In addition to national and local chambers, there are also a large number of industry associations, for example for mining, agriculture, but also renewable energies and the digital economy. In addition, the individual provinces have their own investment promotion companies. In less larger markets, there are sometimes only a national chamber of commerce and institutions that act as contact points for investors are not yet established in all countries. The chambers of commerce, associations, and government institutions are also suitable for German companies to make contact.

Consulting Companies—From One-Woman Companies to Globally Represented Corporations

With the help of government institutions and associations, important information can be gathered and relevant markets identified. However, when it comes to specific questions about customs or legal aspects of contracts and the establishment of branches, many companies reach their limits. At such a point, consultants can play an important role.

The mentioned institutions can help in the selection or identification and also the contact with German companies, which have been on site for a longer time, can be very helpful. Sometimes the advice of a trading house that has been on site for decades or the knowledge of an AHK helps. However, the trading houses not only offer themselves as advisors, but of course and above all also as the first sales opportunity for a product "Made in Germany". They have the know-how in sales, have trained personnel, offer services and repair options, and are suitable for product presentations on site.

Some consultants have already helped other companies with their expansion. These are the well-known international and national consulting companies, but also very small and specialized consultants. Their background is very different. They have previously worked for international consulting companies and now want to work on a niche, have experience in trading companies, have special know-how about financing issues from working at a bank, or were previously active in an association. These consultants have valuable specialist knowledge. Unlike international consulting companies, they can rarely boast references from well-known international corporations. Nevertheless, cooperation with them can be helpful. The advantage of international consulting companies, on the other hand, is their reputation and the network of branches they have worldwide and also in Africa. With the 2010 World Cup at the latest, Africa also came into the focus of international consulting companies, who no longer only had Asian tigers in mind, but also African lions.

10.4 Dare More Africa

The images of past decades and centuries have an impact. It is time to take a look at the individual countries without filters. The African continent is linguistically and culturally closer to us in many parts than many other world regions. At the same time, however, many parts of Africa—especially beyond the metropolises—seem far away in every respect. The continent reveals contradictions, seems difficult to grasp.

However, a more intensive engagement with Africa is worthwhile and is easier in many areas than some companies think at the beginning of their business relations with Africa. There are a multitude of institutions and people who have knowledge and contacts regarding the African continent. Therefore, there is not the one way to the African continent. However, it is now time to determine and go your way to Africa.

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Before that, he had been working for the German-African Business Association as a public relations officer since 2005.

He studied Political Science at universities in Bremen, Hamburg, and Durham/England.

Dr. Jürgen Friedrich has been the Managing Director of Germany Trade & Invest (GTAI) since May 2009.

From August 2007 to 2009, he headed the "North Africa, Near and Middle East" department at the Federal Ministry for Economic Affairs and Technology (BMWi) in Berlin.

From 2000 to 2007, Jürgen Friedrich was the Delegate of German Business in the United Arab Emirates, Oman, and Qatar, based in Dubai.

In 1998, the BMWi sent him as an economic policy officer to the office of the Delegate of German Business in Washington, D.C.; from November 1999, he was the acting head of this representation of BDI and DIHK in the USA.

Jürgen Friedrich was an energy policy officer at the Federal Ministry for Economic Affairs and Technology in Bonn from 1988 to 1997.

Dr. Friedrich holds a Dr.-Ing. degree from TU Clausthal.

11 Characteristics of B2B Sales in Africa

A Practical Report from an Agricultural Technology Company

Frank Nordmann

Contents

Abstract

Winning local entrepreneurs as customers poses particular challenges in Africa. The company Grimme Landmaschinenfabrik has been successful for many years in marketing their products locally. Because they have chosen an adapted approach. A practical report on the peculiarities of B2B sales.

11.1 The Development up to the Selection of Target Market Segments

The beginnings of the first machine sales of the GRIMME agricultural machinery factory in Africa took place at the end of the 90s. These were special customer inquiries from South Africa and Egypt. The customers wanted to mechanize the planting of seed potatoes and the harvesting process to increase the efficiency of their operations. Previ-

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ously, potato cultivation in these (for African conditions) large operations was carried out without mechanical aids. With shovels, the potatoes were laid in ridges, harvested with hoes from the ridge, and then picked up by hand and filled into 25 kg bags. This way, the potatoes could be sold directly. By at least partially mechanizing the cultivation and harvesting process, the operations were able to reduce their self-costs despite low labor costs in the country. This shows how high the efficiency gains were. GRIMME processed the orders in cooperation with an importer directly with the end customer.

Despite the early and since then also continuous sales of individual machines to South Africa and Egypt, the GRIMME agricultural machinery factory did not actively enter the African market for a long time. It was not until 2011 that the decision was made to actively enter the market due to the existing market potential. The potential was determined based on the high projected population growth, the degree of mechanization, or the high number of employees in agriculture per hectare and the total potato and agricultural cultivation area. At the mentioned time, different levels of mechanization in potato technology were already present in South Africa and Egypt. The following illustration visualizes these from a purely manual to a completely mechanized process (Fig. 11.1).

With the exception of a few operations, potato cultivation in Africa was characterized by high manual components (Stage 1). Many harvest helpers were used for this, with whom it was, or is, easily possible to operate potato cultivation economically due to the low wage costs. In order to realize the highest possible cost reduction potentials through mechanization, GRIMME focused on the countries with the highest wage costs in agriculture. In general, it was assumed from experience that mechanization is only profitable from a daily wage of 10 US$ per worker. Based on this factor, a preselection of the 54 countries was made, which were then evaluated by further decision-relevant factors. In order for a potential willingness to invest to be given, economic factors, such as gross national income and gross domestic product, were particularly considered.

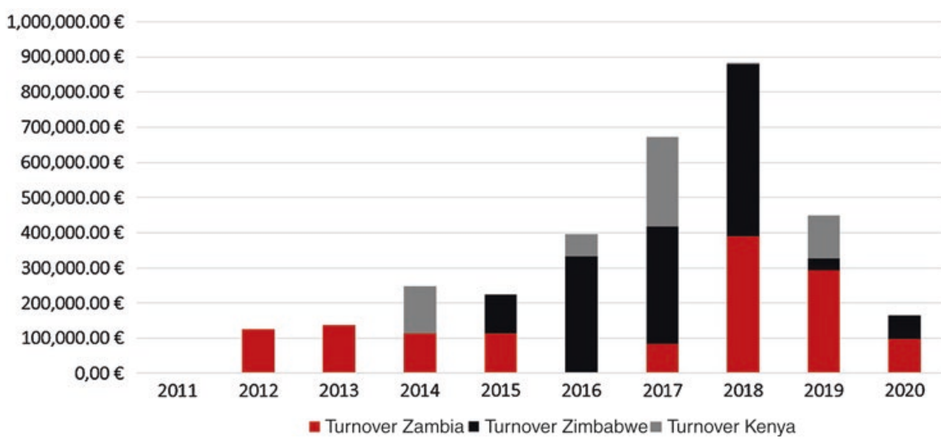

Fig. 11.1 Stages of Mechanization

Fig. 11.2 Exemplary Customer Portfolio

Finally, it was decided to focus on the four countries Zambia, South Africa, Zimbabwe, and Kenya. Here, the best prerequisites for mechanization and thus for the successful sale of GRIMME products were seen. With regard to the product portfolio, GRIMME set itself the goal of implementing solutions along the entire value chain in the operations. An exemplary customer portfolio is visualized in the following illustration (Fig. 11.2).

11.2 The Market Entry in Africa

There are different possibilities for market entry in the agricultural machinery industry. A practical variant is the direct route via a first customer. Through research work, a suitable operation is selected, which is characterized by a certain size and which is also considered suitable to transport a certain image as a pioneer. If there is interest, the planned procedure is transparently presented to the customer and an exclusive offer for market entry is negotiated with him. From the beginning, it is important to support the customer in the possibly new matter with the necessary resources. This includes intensive sales advice, support in financing, and the implementation of training and the initial use of the machines with service personnel on site. As soon as the first machines are in use, it is important to win local partners on site in order to attract further customers through them and to further expand sales.

The second possibility is mechanization projects within the framework of a Public Private Partnership (PPP), i.e., a public-private cooperation. Here, the Ministry of Agriculture of the respective country works together with non-governmental organizations (NGOs) and private companies to promote the mechanization of agriculture. The local Ministry of Agriculture represents the link between mechanization and financing. State subsidies or grants are needed to facilitate the investment in agricultural machinery, increase demand, and thus increase the degree of mechanization. Without the promotion, the entry barriers to mechanization would be too high due to the high purchase prices. Such projects are also supported by the Federal Ministry of Food and Agriculture (BMEL) and the Federal Ministry for Economic Cooperation and Development (BMZ).

Market exploration trips, conducted by the federal government or business associations, represent another possibility for market entry. They enable quick contact with institutions around the agricultural and construction machinery industry on site and to get to know the market conditions. Both factors are crucial for a successful market entry. On the one hand, to understand what really matters in order to successfully do business in Africa and on the other hand, to establish contact with state institutions, NGOs, and potential sales intermediaries. Once the "first foot is in the door", the further strategic approach for market entry can be planned much more reliably.

11.3 What German Companies Need to Consider

At GRIMME, the start of market entry in 2011 was carried out with a market exploration trip by the BMEL. During the two-week trip, various stakeholders, associations, and agricultural operations in Angola and Zambia were visited. Following the first contact, the connection to people and institutions was further developed through additional trips. The intensive personal engagement with the locals was the foundation for building a feel for the market and winning a local dealer through the relationships. Direct marketing, i.e., personal exchange with potential customers on site, can be realized most effectively in the long term by building up reference customers. Each country also differs in the mentality of the people and local conditions. Cultural influences—also due to the colonial past—play a role not to be underestimated. Reference customers equip themselves with a machine park that is exemplary for the market segment and are available for potential customers who want to convince themselves of products for mechanization. For the demonstration services, the customers receive an extra discount on the new machine business. With regard to sales intermediaries, it is the easiest way for the agricultural machinery industry to win dealers of industrial and construction machinery or other agricultural machinery manufacturers for a partnership.

A lot of initiative and perseverance is necessary to establish local contacts and successfully gain a foothold in Africa. After the first market exploration trip in 2011, it took several years at GRIMME until the first results followed from the intensive market processing. From 2016, the agricultural sector had to struggle with severe drought on site. As a result, the willingness to invest has declined again. The effects on the sales volume can be seen in the following illustration. The sales development in the new machine business is shown using the example of three of the four target markets. Due to an extremely positive sales development, especially four years after market entry, sales were almost quadrupled from 2015 to 2018. Subsequently, sales declined by more than 50% annually due to the lack of willingness to invest. Due to the drought in 2016–2017 and also currently due to the pandemic, there are always setbacks in the continuous market and sales

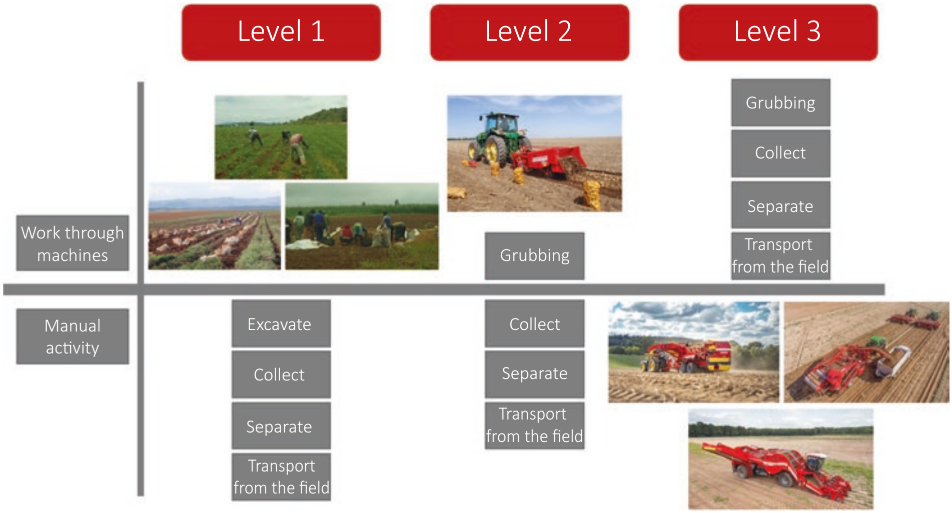

Fig. 11.3 Sales Development in the New Machine Business

development. Nevertheless, due to the constant further development of many countries in the field of agriculture, a positive sales development with and through mechanization is to be expected (Fig. 11.3).

Analogous to the described procedure, GRIMME's market activities were expanded to four more countries: Ethiopia, Tanzania, Nigeria, and Angola. Here, the first contact was made in part through market exploration trips, but also through local trade fairs. At trade fairs, it is possible to make direct contact with interested farmers and convince them of mechanization through the experiences already gathered. The increasing number of reference customers makes it possible, bit by bit, to get closer to other operations and to advance mechanization. The sensitization for mechanized agricultural technology in Africa is also promoted by training centers. In Ethiopia, a training center was set up together with the BMEL. There, farmers are introduced to the use of mechanized agricultural technology. For the implementation, various agricultural machinery manufacturers, such as Lemken, Pöttinger, Rauch, and Claas, have provided machines there. There are other training centers in Morocco and Zambia.

11.4 How B2B Sales Work in Africa

In Africa, there are three different categories of potential customers. On the one hand, the classic commercial farmer, who is integrated into the African agricultural structure and still has a low degree of mechanization. On the other hand, agricultural operations that are set up by investors from abroad. They buy cultivation areas, finance the necessary resources, and implement a local farm management. This operates the farm, thus hires workers, and also selects the machines needed for the most efficient workflow. The investor's goal is to generate the highest possible return through the low costs for the cultivation area and the employees. The third segment is increasing in importance in Africa: contractors. They equip themselves with a wide range of machines to offer mechanization as a service to small farmers at an affordable price.

As long as GRIMME is already working with a local partner, sales for all three market segments are handled on the same distribution channel. The GRIMME agricultural machinery factory sells the machines to the dealer and handles the shipping, import, and invoicing with him. He then sells the machine independently to the end customer. For such a business to come about, intensive sales support in the market on site is necessary for GRIMME. The dealers often lack the resources and know-how to actively drive sales for all brands intensively on their own due to the partnership with other companies. The focus of cooperation with local partners is more on the implementation of service work and the handling of new machine and spare parts business. Therefore, it is important for GRIMME to promote active sales itself. For this, as elsewhere in sales, relationships with customers and their trust are important. To build this, personal contact and adaptation to the mentality and local conditions are in the foreground. If the personal contact is purely focused on economic interests, it will be difficult to be successful in Africa. GRIMME tries to build the business in Africa in the long term and sustainably according to the motto "Bonding is greater than branding".

Frank Nordmann is a trained master mechanic for agricultural machinery. He completed his master's title after previously completing an apprenticeship and then working for a few years on his parents' farm. In 1992, he began his work in the international customer service of GRIMME Landmaschinenfabrik GmbH & Co. KG. In addition to worldwide assignments, he also took over the implementation of various training sessions and became team leader for the development and initial deployment of GRIMME self-propelled technology. After ten years at GRIMME, Frank Nordmann took over the management of the branch in Canada and thus moved closer to sales. In 2008, he returned to GRIMME Landmaschinenfabrik and became area sales manager with responsibility for sales, customer service, and marketing of the Grimme product range in the USA, Canada, UK, Ireland, the Netherlands, and South Africa. Today, Frank Nordmann is a regional sales director with overall responsibility for the product range of the GRIMME Group in Africa, Southeast Asia, and Oceania. In addition, through his experience in over 70 countries, he carries worldwide responsibility for key accounts and stakeholders in the value chain for potatoes and vegetables. Apart from his professional experience, Frank Nordmann is also involved as a regional chairman at VDMA (for Africa and the Middle East), co-chairman Africa in the German Agribusiness Alliance (GAA), and as a member of the board of the Africa Association with a focus on agriculture.

12 Sales in Africa: Dos & Don'ts from Practice

Ulrike Brückner

Contents

Abstract

According to the German Chambers of Foreign Trade, officially about 800 German companies are present in Africa. Of these, about 600 companies are active in South Africa alone. However, the number of companies distributing German products or services on the continent is likely to be significantly higher. Each of the 54 African countries deserves separate consideration, as the conditions and market opportunities are as diverse as the countries themselves. However, there are some essential aspects, some "dos & don'ts", that German medium-sized companies in Africa should consider. These are outlined in the following guide.

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12.1 Selecting Target Markets

The often generalized view of Africa and the opportunities on the continent in public discussion is not productive. Africa is not a country, but a continent.

This does not mean that decision-makers in the company have to commit to a specific growth market from the outset. Rather, attention should be paid early in the planning process to the respective region for whose markets there is interest. A regional view of Africa makes sense for several aspects:

Logistics: Logistics is a crucial factor in planning market entry in the generally infrastructure-weak African growth markets. Smooth transport of goods over land and especially across national borders is not a given.

- For example, there is no road connection from the resource-rich Katanga region in the south of Congo to the capital Kinshasa. Border areas are often considered crisis areas, such as the border from Kenya to Sudan, which means increased risks for the transport of goods.
- Access to a high-performance seaport like the container port of Djibouti, inaugurated in 2009, can be important for market entry in the much larger market of Ethiopia. Ethiopia—as one of the largest and fastest-growing markets in East Africa, handles 85% of its foreign trade via Djibouti.[1]
- Morocco, on the other hand, offers free market access to the European member states through an agreement with the EU[2]. However, expanding activities in other countries in North and West Africa from there is only possible to a limited extent, as regional integration and in particular trade law convergence with the North and West African neighboring countries has not yet been completed.

Regional organizations: There are a number of regional organizations on the continent that offer different degrees of consolidation and standardization. The oldest (since 1910) and so far the only customs union on the continent is the so-called SACU (for: Southern African Customs Union) in Southern Africa. This connects the relatively small markets of Botswana, Eswatini, Lesotho, Namibia, and the most important market for German companies so far, South Africa. The much larger SADC (Southern African Development Community since 1992) also has a long tradition. Also successful in the gradual political and economic integration of intra-African markets are the ECOWAS (Economic Community of West African States) in the west, which already offers its own passport and

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[1] https://www.dschibuti-botschaft.de/index.php/neuigkeiten/38-dschibuti-das-tor-zu-ostafrika as of 07.08.2021.

[2] Euro-Mediterranean Association Agreement (in force since 24.01.2000) EUR-Lex – 32000D0204 – EN – EUR-Lex (europa.eu).

travel facilitation within the community, and the EAC (East African Community), which offers good market access from Kenya to neighboring countries. However, the regional associations are not primarily aimed at facilitating market access for foreign investors. Rather, they aim primarily to promote Intra-African trade and thus exploit the still largely untapped intrinsic growth potential. This is also one of the main goals of the African Continental Free Trade Area, which came into force on 01.01.2021 and ultimately aims to create a common internal market for the 1.2 billion inhabitants of Africa.[3]

Other important criteria that should be considered when entering the market in the north, west, east, or south of the African continent are: Country risks • Political risks • Ease of Doing Business (World Bank Index) • Local partners • Market readiness of the product • Sales markets • Competition • Financing • Currency risks • Infrastructure and transport routes • (informal) distribution channels • Legal framework • Religion and culture.

The following discussion of market entry strategy will focus in particular on the most relevant points of "local partner" and "financing".

A crucial criterion for the approach and strategy of market entry is the target group, because in most African growth markets—with the exception of South Africa, Nigeria or Kenya—there is no established private sector. Therefore, the greatest investment opportunities lie in the public sector: especially for the energy, construction and engineering, or transport sectors. Accordingly, "PPPs" *(Public Private Partnerships)* are at the center of almost all government programs in Africa. This guide will therefore also discuss the approach that is recommended when focusing on public contracts.

12.2 Own Branch or Local Partner?

As a rule, German companies tend to be cautious when establishing themselves in an African market. The decision to start with sales activities in the target market as a first step is easier for many companies than immediately investing time and money in their own representation on site.

The respective market entry must fit the business plan and especially the specific offer of the company. Therefore, there are some concepts where a presence in the market can make sense from the outset. This applies, for example, to local production due to the raw materials available there (cocoa, bamboo, rare earths, etc.). It is also worth considering that a local presence is rewarded even in African growth markets. There are so-called *"tax free zones",* i.e., free trade zones, usually near ports or airports, where the settlement of companies is rewarded with tax incentives, among other things. It can therefore be worthwhile to find out which sectors are preferred in the respective government's

[3] https://www.hannover.ihk.de/internationalzoll/laender-und-maerkte/subsahara-afrika/aktuell/freihandelszoneafrika.html as of 07.08.2021.

infrastructure program. These are usually those sectors that address the greatest necessities, such as energy, construction and infrastructure, or agriculture.

In the context of public tenders, a local presence and a certain *local content* are almost always required. For example, the obligation to procure locally and to employ local workers will already have to be demonstrated in the offer. For large government contracts, this is a must in order to win the bid.

Of course, it also applies in the private sector that having your own representation creates customer trust in the market. The presence on site improves the understanding of the market and a local bank account also has advantages. It is not necessary to be on site in each of the 54 African countries. As described at the beginning, it is worthwhile to identify a target market from which neighboring countries can also be well served.

Interesting market entry markets and trade hubs for German companies are, for example: Morocco and Tunisia in the north; Ghana, Nigeria and Ivory Coast in the west; Kenya, Tanzania and Rwanda in the east and of course South Africa in the south, which despite major political challenges and a consistently difficult image still offers a significantly higher level of development than the other countries of the continent. Zambia in southern Africa is also interesting. Resource-rich Zambia does not have access to a coast, but maintains peaceful and stable relations with its eight neighboring countries, including the resource giant DR Congo. This is a unique selling point on the African continent and makes Zambia an interesting logistics location. For companies from the financial and service sector who want to become active in several African markets at the same time, it is worth taking a look at Mauritius. The island in the southeast of the continent is developing into a center for this sector and has become very attractive for the settlement of foreign investors, among other things with its offer of multilingual workers.

12.2.1 Local Partner

Of course, having your own representation on site means a very high effort and a high risk at the start. The most important point on the agenda is the identification of suitable management personnel, which maintains a good and trustworthy connection to Germany, brings a good understanding of the German parent company and at the same time has a very good market knowledge on site. The right approach to finding a local partner is to involve German institutions, such as the foreign trade chambers. The chambers have experience and above all a good reputation in terms of *matchmaking,* which ideally can be combined with a visit to relevant trade fair events on site.

Sufficient time and money should then be invested in the examination of the identified person/potential partner company. On the one hand, trust must be built up. On the other hand, a careful external review of the person or company *(Due Diligence)* should be carried out by a suitable consultant to avoid bankruptcy. When selecting the local partner, it is particularly important to check the touted network and the promised contacts, and also to exclude any political bias of the responsible parties.

12.2.2 Entry on Own Initiative

Another variant for market entry is the creation of new structures on one's own initiative without involving a local partner. Such a *Greenfield* entry has the advantage that one enters the market without any legacy issues. This may be interesting for companies and organizations that need to be very careful to maintain their integrity and independence in view of their field of activity. The *Greenfield* variant is also suitable when the initial costs—as with consultants and some service providers—are not too high. A not to be underestimated advantage is also that the own corporate culture is lived from the beginning also on site. The company management in Germany can establish and develop the company "tailor-made" according to their own ideas. This usually also ensures better control of product and service quality.

Major challenges with this variant, however, are above all the lack of market experience, the lack of knowledge of the competition and the non-existent network. Customer base and brand must first be built up on site. Accordingly, the selection of the right team on site is the decisive success factor. Start-up costs and time until the company is operational should not be underestimated. And the *local content* necessary for public tenders is not so easily demonstrable for a *Greenfield* operation.

12.3 Legal and Tax Framework for Various Distribution Forms

12.3.1 Framework Conditions with a Local Partner

The advantages of entering the market with a local partner are obviously the quick entry via the existing customer base, the brand that is usually already known in the market, the initially limited investment costs, and the market experience that the partner usually brings. It may also be appealing to eliminate a competitor right from the start by partnering with a local company.

Identifying a suitable local partner is therefore generally considered the best way and means to successfully enter the target market. Ideally, a German company would already have many years of experience with a distribution partner in Africa. The demand, competition, and product requirements are known. As a rule, the distribution partner is then gradually integrated. Exclusivity should only be agreed upon if a firm commitment of the partner also makes sense from the perspective of the German company. The next step is to negotiate how the joint management, financing, and development of the venture can be structured.

In the English-speaking markets of Africa, company law is strongly influenced by the English model. The partnership with the partner company can thus be regulated in most Anglophone markets in Africa in contract form or as a so-called *incorporated Joint Venture*. As a rule, it is advisable to establish a new company *(NewCo),* to enter the new market without any legacy issues. With regard to corporate governance, a "dual leadership" is recommended, in which another managing director from the German parent company is appointed alongside the local managing director. In this context, it should be regulated which decisions can only be made jointly by both managing directors.

The participation of foreign entrepreneurs in local companies is regulated differently in the African growth markets. Some countries require mandatory local participation. In other markets—such as Kenya[4]—you generally do not need a local shareholder.

The corporate structure into which the new African company is to be integrated must also be adapted to the new requirements. It must be checked whether the risky foreign business is sufficiently shielded from the core business of the parent company. The question of the legal form of market entry is not only relevant for the liability of the German parent company, but also for local taxation. For example, an independent, limited liability subsidiary in South Africa is taxed lower than a dependent branch. Transfer pricing issues are also becoming increasingly relevant in the African context.

12.3.2 Framework Conditions for Pure Sales or Project Activity

Even in the case of pure sales activity, a continuous review of the tax classification of the activities on site should be carried out to avoid inadvertently provoking a permanent establishment issue. That is, it must be clarified from what point the venture on site is considered a taxable branch. Special care should be taken when employing local staff. It is important to pay attention to the responsibilities with which this personnel is equipped. In some North African markets, such as Morocco, there is the possibility of establishing a so-called Representative Office (Rep Office)[5], which, however, may only be used for sales activities. Therefore, care must be taken to ensure that there is not a gradual transition from pure sales to actual, taxable business activities on site.

Some other important questions regarding the tax framework conditions for companies that are purely involved in sales in Africa are also: Can a warehouse be operated on site and to what extent is this possible? What obstacles are there to importing goods in terms of customs regulations, waiting times, import licenses? These issues should be clarified as far as possible before a contract is concluded or during contract negotiations. Overloaded ports lead to long waiting times for transport and possibly to penalties for delayed delivery. In many African countries, customs regulations are still not very transparent or it remains unclear why a container is being held in the port for a long time. Contact with an experienced clearing agent with a good reputation and local knowledge is therefore important.

[4] https://www.bizbrokerskenya.com/foreign-owned-business-in-kenya.html as of 05.08.2021.

[5] Chambre Allemande de Commerce et d' 'ndustrie au Maroc (https://marokko.ahk.de/dienstleistungen) as of 05.08.2021.

The time factor always plays a very important role in planning a project in Africa. For each project, it should be clarified in advance who supports which processes and how long the individual steps can take in the worst case scenario. If, for example, the deployment of personnel for a project is a decisive factor, the waiting periods for residence and work permits must be taken into account. Immigration and visa regulations in many African countries, such as Kenya, Nigeria or South Africa, have become more restrictive in recent years and worsen the predictability of a project. However, it may also be worthwhile to check the local investment programs for the specific project. In some markets, the planned employment of local personnel is rewarded by providing a certain contingent of residence permits with work permits for foreign workers.

12.4 The Product Determines the Form of Distribution

A central question is also what product is planned for entry into the respective market. A product that is successful in the German market does not necessarily have to be equally successful in Africa. Quality, price, and values such as sustainability are generally harder to convey.

It is particularly important to clarify whether local or international customers are the target group. Although there is a steadily and strongly growing middle class in most African growth markets, the social differences, especially between local and foreign consumers, are enormous. The distribution channels must also be aligned with the respective target group. For example, pharmaceutical companies cannot simply rely on a pharmacy network. Companies that manufacture medical devices must be prepared for the fact that there are large differences between public and private healthcare in many African countries. Manufacturers of consumer goods must also explore the informal distribution channels common on site to understand how the product reaches the consumer. The need for product registration and/or other market approval must be clarified and the respective process must be taken into account in the feasibility considerations and time planning.

12.5 The Conclusion: Analyze Carefully, Plan Long-Term

A German entrepreneur with ambitions in Africa should heed the following:

1. The product and business plan must be tailored to the respective market. Specialization in the target market is very important, as is price sensitivity for the respective target group and whether the market maturity matches the product. Thus, highly developed products, such as medical devices or products from the automotive sector, are more likely to be successful in a market like South Africa. This is still the country with the highest level of development on the continent and the only market in Africa (except Egypt) where vehicles are produced. Other products such as construction

machinery, energy production plants or engineering services can also be successful in slightly less developed markets.

2. The entrepreneur should be ready for a long-term commitment, not just to export, but also to invest. This offers a clear advantage in most African markets, especially if it is an industry that is specifically promoted by the government.
3. Emphasis should be placed on *Knowledge-Transfer* and training. This is where many funding programs come in and the training of local skilled personnel is accordingly rewarded. Entrepreneurs from the German Mittelstand often implement this much better than competitors from other countries.
   It is important to be on site. The leading management should be involved in business initiation in the target market. A local presence is recommended in the long term and the selection of local employees is a crucial success factor. The training of skilled workers is also very important, as a lack of well-trained skilled personnel on site can be assumed.
4. Good and long-term relationships with the local partner should be established. Respectful interaction with the African business partner on an equal footing is the key to good cooperation and the success of the venture. Lectures should be avoided and personal contact should be maintained.
5. The business model for Africa should be designed for the medium to long term. Patience and the courage to take risks are usually rewarded with a very good *Return of Invest*.
6. Finally, perhaps the most important advice to German companies that do not yet consider Africa as the continent of the future:

Don't ask about the risks, ask about the opportunities!

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Impact of Covid-19 on Logistics

13

Case Study Namibia

Nelly Oelze

Contents

Abstract

Lack of logistics infrastructure is a crucial factor that hampers economic development. Logistic limitations are thus a significant obstacle to the economic progress of African countries. The following explains the status quo of the Namibian logistics industry, how it affects the development of the country, and what impact the current pandemic has on these conditions.

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13.1 Overview

The Covid-19 pandemic inevitably led to major disruptions in global supply chains, which had a massive impact on the associated logistics. The Namibian logistics industry is also affected by this. This chapter serves to assess the impact of Covid-19 on Namibia's logistics industry. Since the pandemic is not yet over, a final assessment of the effects of Covid-19 on the logistics industry cannot be given here. However, this chapter is intended to provide insights into the status quo of Namibian logistics during this challenging time and to provide an outlook on potential consequences of the pandemic. The execution thus serves as a guide or milestone for future developments in the industry in Namibia.

The disruption of global supply chains and the logistics industries of countries in 2020 was dramatic, necessitating a restructuring of supply chains to maintain the delivery of goods where possible and thus ensure a partial flow of goods.

The following will identify and examine the effects of Covid-19 on current issues and trends in the Namibian logistics industry. Without a doubt, logistics is of paramount importance for Namibia, as for almost all emerging nations. Implementing adequate logistics structures is crucial to enable trade and goods traffic, which is essential for the economic development of the nation. Any disruptions in the implementation of these logistics networks potentially have serious effects on the economy in Namibia. Thus, logistics and trade are inseparably linked, as they mutually condition each other. This is a challenge for many developing countries.

The significant decline in trade in Namibia was 20% between November and December 2020 and 5% year-on-year between December 2019 and 2020 (Namibia Statistics Agency, 2021). The latter shows that there is only a low regression to report on a year-on-year basis and that the state of trade is quite stable despite the pandemic. The effects on trade are reflected in the Namibian logistics industry, even if the negative effect has manifested less in the year-on-year comparison than previously predicted. Unfortunately, it is to be feared that the holistic effects of Covid-19 will also be clearly noticeable in Namibia in 2021 and beyond.

The share of logistical value creation in GDP shows that the sector grew by an average of 3% in the years from 2013–2019. The contribution reached a peak of 3.3% in 2016 and then steadily declined to 3.0% in 2019. According to the national accounts, the transport and storage sector made a relatively higher contribution to logistical value creation in relation to GDP compared to other logistics sectors.

According to the World Bank's assessment, Namibia's Logistics Performance Index (LPI) was overall at 2.73. This placed the country 80th in the world (World Bank, 2018). It should be noted that this value has not been updated since then. The six dimensions of trade logistics analyzed in the LPI score include: the efficiency of customs and border clearance, the quality of trade and transport infrastructure, easy organization of shipments at competitive prices, competence and quality of logistics services, ability to track shipments, and the frequency with which shipments reach the recipient within the planned or expected delivery times. Trade Facilitation Performance (TFI) is a factor considered in the LPI. Namibia's TFI improved between 2015 and 2017 in the areas of information availability, documents, and automation.

The main task of logistics is to enable globalized trade. For this, a fully functional infrastructure network of interconnected ports, roads, railways, and airports is essential. Together, these form the transport routes and corridors that need to be developed into trade corridors to support Namibia's proposed logistics hub for SADC/SACU. For Namibia to trade with the rest of the world without having to import and export via its neighboring countries like South Africa, it is important that its ports and corridors function efficiently and effectively.

Between 2016 and 2019, Namibia recorded an increase in landed and shipped volumes and also recorded increased numbers in terms of imports and exports during this period. This naturally has positive effects on both trade and the economy in Namibia. The fact that both imports and exports increased during the period has positive effects on the development of the country. In addition to the potential to stimulate the economy, jobs are also being created.

13.2 Maritime Traffic

There was also a decline in container handling, but this should not have a direct impact on the overall economic performance of the country Namibia, as these containers never leave the port. Accordingly, an increase in the number does not automatically lead to larger quantities of goods flowing into, through, or out of the country. However, it does represent a loss of revenue for the ports, as they charge a fee for each container handled, regardless of whether it is loaded onto or off a ship.

The developments mentioned above are taken from the 2019 annual report of the Namibian Port Authority and therefore refer to the period before Covid-19, which affects both local and global trade. It is to be expected that the figures for 2020 and beyond will be significantly reduced due to the decline in world trade and specific regulations and restrictions in the two ports. Namibia is an important part of the global supply chain for copper, wood products, and tobacco, as key exports from neighboring SADC countries transit through Namibia's seaports.

In addition to facilitating exports, this connectivity connects Namibia with global supply chains and enables the import of raw materials, materials, and goods such as frozen products (mainly fish, beef, and poultry), wheeled vehicles, machinery, mining chemicals (sulfur and sulfuric acid), steel, and ceramic tiles. This trade is supported by the corridors that connect Namibia's ports with neighboring countries. Transit freight is thus important as it creates jobs and revenues that support the corridors and can help with all spatial development initiatives.

13.3 Road Freight

Despite the great distances, the majority of inland transport in Namibia is handled by road. Namibia's road infrastructure is well developed and connects the ports with Namibia's cities and the hinterland as well as with neighboring countries.

Namibia is a signatory to the Convention on International Goods Transport and the Kyoto Convention on Harmonization. Accordingly, goods transit is facilitated, among other things, by a regional vehicle insurance that provides coverage in more than one country.

The prevailing pandemic inevitably leads to delays and transit times at and between borders. These have intensified in 2020 due to the need for tests, quarantine, administration, and other Covid-19 related issues.

13.4 Rail Infrastructure

The Namibian rail infrastructure, which is owned by the government, has a total length of 2687 km throughout the country. About half of this meets the minimum standard prescribed by the SADC. Namibia's rail network plays an important role in SADC supply chains, but is somewhat limited as its infrastructure is only connected to the South African network.

13.5 Air Traffic

Of course, air traffic also has a significant influence on the country's logistics, as it serves both goods and passenger traffic. Unfortunately, no updated data is available on the effects of the pandemic on this sector. Worldwide, the air traffic industry is the sector most affected by the Covid pandemic in 2020, and it is therefore to be assumed that this sector is also significantly affected by the effects of the pandemic in Namibia.

13.6 Influence of Information Technology on Logistics Structures in Namibia

Modern logistics has become highly dependent on information technology (IT) for its operation. As part of this, it is necessary to use the internet for communication, location, and security. The effects of Covid-19 around the world have made this even clearer, as, for example, many more people and companies order goods and services online, expecting them to be delivered. This means that IT availability (internet and mobile coverage) is an important factor for logistics performance.

Two of Namibia's leading information technology (IT) service providers, Telecom Namibia and Mobile Telecommunications (MTC), provide 95% coverage of the population with mobile phones. In addition, Namibia has been connected to the West Africa Cable System (WACS) since May 2012. This connection is expected to lead to increased broadband capacity and accelerate the acceptance of internet-based services and internet access in the country (Telecom Namibia Holdings, 2018).

Local publications before Covid-19 imply a sense of optimism about Namibian logistics. The effects of this global pandemic on trade and logistics are hard to predict. It is therefore a challenge to evaluate the developments to determine whether the additional potentials through the implementation of improved logistics structures were realized and this optimism was thus justified. With improved port infrastructure, for example through a new container terminal, and in rail freight, volumes have increased. However, these volumes are still low compared to road freight, where the majority of freight traffic is handled. As far as information technology is concerned, Namibia has invested in IT and mobile infrastructure to meet the new requirements of the logistics industry. The effects of these investments on the acceptance of logistics systems are not recorded, so the overall effects on logistics are not yet known here either. Air traffic was static due to Covid-19 regulations.

As mentioned at the beginning of the article, logistics activity in Namibia is inextricably linked with trade and thus with GDP, so the behavior of logistics will have followed the development of GDP. However, since the Logistics Performance Index (LPI) has not been evaluated since 2018, no clues can be provided here. The contribution of logistics (to GDP) reached a peak of 3.3% in 2016 and then continuously fell to 3.0% in 2019, suggesting that the optimism could only be partially implemented in 2018/19.

The arrival of Covid-19 on the global stage in 2020 partially reduced demand overnight, reducing trade and thus the need for logistics. It also deepened and intensified the usual everyday problems of transport and logistics. The need for additional checks to protect the public from the pandemic, especially with regard to international borders and transport, exacerbated the necessary regulation and led to problems through additional delays, inventory write-offs, etc. As soon as there were few or no passenger flights left and the planes remained on the ground, the available air freight volume shrank drastically, thus increasing prices.

All of this made logistics more difficult and increased costs as efforts were made to keep vital supply chains running and save businesses and jobs.

Due to the global pandemic, the Namibian industry is all the more challenged to build on its strengths and minimize prevailing weaknesses in order to strengthen local trade, attract incoming investments, and realize the goal of becoming the ‘gateway to southern Africa’.

Covid-19 has thus exposed additional economic risks for Namibia, as the country had to record sales losses due to the interruption of global goods flows. To minimize these risks, there could be a “reverse globalization”, which would then lead to a reduction in procurement over long distances and transport, and reduce environmental impacts. This could benefit Eastern Europe and Africa (EUKS), which can be seen as an encouragement for Namibia, as the aforementioned development of port infrastructure would positively influence shipping connectivity.

Instead of despairing, the Namibian logistics industry not only has to recover from Covid-19, but also to grow and develop from it. The goal should not only be to repair the old industry, but to adapt the existing structures in this time of upheaval. The focus must be on real medium and long-term restructuring and not just on making a plan for the immediate future. This competence must be underpinned by education and training. Successful adjustments could lead to a positive development of the Namibian logistics industry. Thus, the goals of becoming the logistics center of the SADC and improving its trade could be achieved in perspective. This is necessary because logistical limitations are a hindrance to economic development in Namibia. This is also reflected in many other African countries. Low investments in logistical infrastructures are a main cause for this, both in Namibia and in other wide parts.

As long as not much more is known about the duration and aftermath of Covid-19, it is almost impossible to predict what will happen to logistics either globally or locally in Namibia. If a positive turnaround is to succeed, it is essential for Namibia to learn from the experiences of other countries and to take advantage of international aid.

Through evaluation of the status quo, targeted training, adjustments in the operational implementation of structures, and innovations, Namibia's logistics sector has the potential to bring great benefit to the country's development and economic progress.

13.7 Summary of Impacts and Developments

In summary, it can be stated that the state of trade in Namibia is quite stable despite the pandemic, but the effects on trade are reflected in the Namibian logistics industry. Implementing adequate logistics structures is crucial for Namibia to enable trade and goods traffic, which is essential for the economic development of this and many other African nations. In general, logistical limitations are a hindrance to economic development in many African countries, including Namibia. The manifestations are manifold. However, it can be generalized to say that the causes are low investments in infrastructure.

As for Africa in general, it is to be feared that the holistic effects of Covid-19 are not yet finally assessable in perspective.

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African Governments as Customers and Contractors

14

How German Small and Medium-Sized Enterprises can Manage to do Business in Africa Successfully for Decades

Stefan Tavares Bollow

Contents

Abstract

GAUFF Engineering, a medium-sized engineering firm from Nuremberg, has been successfully operating in Africa for decades. To date, a large number of major infrastructure projects in the fields of transport, water, wastewater, and energy have been implemented on behalf of the governments of various countries. Stefan Tavares Bollow, the Managing Director responsible for Africa, reports on his experiences, the peculiarities, and the specific challenges that project business in Africa entails. He presents various business models and the key success factors, and provides an overview of the most important conditions to succeed in the African market. Because successful business in Africa requires more than just a good concept and good products.

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14.1 Introduction

African governments can act as customers and clients in a wide variety of different types of business. The range is very broad. It extends from pure supply transactions (for example, of buses for local transport) and supply transactions with sometimes extensive maintenance or operator tasks (including maintenance and update tasks for delivered IT equipment; delivery, maintenance and operation of technically complex systems for the production of counterfeit-proof documents) to consulting and consulting contracts and direct investments on behalf of governments. For these direct investments, the Build-Operate-Own operator model (BOO) is usually sought, in which a company or a consortium of companies makes an investment (such as the construction of a port; development of a mine), takes over the operation and becomes the owner of the facility for a time or permanently. In addition, there are Build-Operate-Transfer (BOT) transactions, in which the facility is operated for a while after construction until it is taken over by the partner government, or Public-Private-Partnership (PPP) projects, in which a private company invests in a project together with a government or a government agency and operates it jointly.

The list is not complete and mixed forms between the models presented are possible. However, it is unmistakable that the different types of business and projects place different demands on the presence of the implementing company on site. In addition to close contact and close coordination with the respective contracting government or its subordinate authorities, the projects often also require cooperation with local and international partners. With the exception of pure supply transactions, almost all types of projects present companies with the central challenge of every commitment in Africa: to deal intensively with the conditions and peculiarities of the country in which one wants to become active, and to respond to these with empathy and cultural understanding. This is the key to the success or failure of a project.

14.2 Business Models for Infrastructure Projects in Africa

For the Nuremberg company GAUFF Engineering, Africa has been at the center of business activities for decades. As a medium-sized, independently consulting engineering firm, GAUFF Engineering implements infrastructure projects in the areas of transport, water, wastewater and energy and is represented worldwide on four continents (as of December 2020). The focus of business activities is in Africa, especially on projects in Angola, Ivory Coast, Gabon, Guinea, Mozambique, Senegal and Uganda, where the company has its own offices. The language areas of these countries—francophone, lusophone and anglophone—also reflect the enormous cultural diversity of Africa. The projects are usually developed and implemented with the help of loans covered by state Export Credit Agencies (ECAs) (Euler Hermes and its equivalents in other countries).

There are various models for the implementation of infrastructure projects for African governments. They range from turn-key projects, which private companies create for governments or government agencies from planning through construction to acceptance and handover, to projects that are planned, financed and implemented by institutions of official bilateral or international development cooperation for African governments.

GAUFF Engineering has specialized in contracts according to the business model Engineering-Procurement-Project Management including Commercial Financing Solutions—in short EPPM&F. In this business model, GAUFF Engineering creates the technical design in close coordination with the client, prepares the tenders for the procurement of devices, building materials etc., selects the local and international implementing companies and takes over the project management including quality control. In addition, GAUFF Engineering can arrange commercial financing including coverage by state ECAs. Euler Hermes usually provides the coverage, possibly supplemented by other export insurances, if foreign companies are involved in the implementation or if the value creation partly takes place abroad.

For African governments, this EPPM&F model is interesting because it can be implemented quickly compared to other project models and brings cost savings through a rapid start of the project. In addition, it guarantees the client a high contract reliability, a secured financing and allows him—in contrast to the often rigid turn-key projects—to bring in his wishes at any stage of the project.

GAUFF Engineering thus has a model that deviates from that of many other companies that implement infrastructure projects in Africa. Particularly important here—as for other companies—is insurance through Euler Hermes. This requires that a large part of the value creation takes place in Germany. Since GAUFF Engineering, as a consulting engineering firm, acquires, develops and supervises the projects but does not carry them out itself, other German companies must almost always be brought on board as suppliers, service providers and implementers. Through this business model, GAUFF Engineering has become a multiplier of the commitment of German companies in Africa over the past decades and has enabled and mediated many, especially medium-sized companies, to enter the Africa business.

14.3 Financing of Projects

An important aspect in the implementation of projects for African governments is financing. Many African clients expect private companies that want to carry out projects to also offer financing with the project offer. The advantage for the governments is that commercial loans with a guarantee by state export insurances often have better conditions than loans that the governments would have to take out themselves.

The guarantees by the state credit insurance institution Euler Hermes thus play a central role for the competitiveness of German companies in Africa. The German Hermes guarantees are bound by basic rules set by the OECD, just as is the case for the export credit insurers of other Western countries. Only here are the rules roughly comparable; a level playing field. Loans and credit insurances from other countries that are not bound by these OECD rules often put companies from Western countries in difficult competitive situations.

The conditions for risk coverage of exports and investments by German companies in Africa have been improved recently. This helps the companies in the Africa business. However, it would be desirable to extend the improved conditions. For example, the deductible for Hermes guarantees, which has already been reduced from ten to five percent for some selected countries, could be reduced for even more countries. This would be possible without much additional risk for the insurance carriers—at least for particularly worthy projects and investments—after a risk-based individual examination.

German companies have to compete with international competitors in projects in Africa, who—like Chinese companies—enjoy strong state support, or—like companies from the former major colonial powers—have advantages due to historical, linguistic and cultural affinities. Improved risk coverage would strengthen the competitive situation of German companies.

Many projects in Africa are financed from funds of bilateral or international development policy cooperation. Here the conditions are better than for commercial loans that private companies can offer. But they also have disadvantages. As a rule, commercial loans can be realized faster and the projects financed from them can be started more quickly. For projects financed from funds of development policy cooperation (EZ funds), however, complex bilateral negotiations at government level between donor and recipient country or between the government of the recipient country and the financing international organizations such as the World Bank, African Development Bank or other multilateral development banks must be conducted. The financing of a project from EZ funds is also tied to international tendering procedures for procurements, project implementation etc., which often do not allow rapid realization.

As a rule, both the bilateral and the international partners of development policy cooperation with the African governments determine in multi-year programs which projects are to be carried out or in which sector projects are to be financed. For interested companies, it can therefore be useful to inform themselves about these funding programs.

14.4 Success Factors

Even if a company has received the commitment for a project, this is usually only the starting point for negotiations on the design of the actual project. Until the contract is signed and the funds are released, it is usually still a long way. Here it is first of all important to know the administrative structures and decision-making mechanisms of the partner country. Which authorities, offices or departments are responsible or need to be involved? Who has to grant which approvals? Who has to document his consent? What approvals, co-signatures, declarations of consent etc. are necessary at all before a project decision can be made? Who ultimately decides? Who is the contract partner?

Most African states have adopted the administrative structures of their respective former colonial masters and these are often complex. Contract negotiations for infrastructure projects are often a juggling act with many balls. Usually involved are the relevant specialist ministries and their subordinate authorities, for example for road construction or water supply. In addition, the Ministry of Finance and the bodies responsible for budget management. Many projects involve provincial governments and local authorities. Since for almost all larger projects, especially those guaranteed by state credit insurances, an examination of environmental compatibility and the social and economic impacts is required, the Ministry of Environment and the ministries and authorities responsible for the social and economic impacts must also be involved. In almost all African states, the presidential administration forms a kind of super government. The green light for a project and the release of funds often take place by presidential decree or decision of the Council of Ministers. Close exchange with the presidential administration or the Council of Ministers is therefore usually a must.

Based on our experience with infrastructure projects, it is the responsibility of the company carrying out the project to coordinate and obtain the various participations, approvals, co-signatures and participations of the government partners; a multi-layered, laborious and sometimes exhausting task that requires good personal contacts and often a lot of patience and perseverance. If a single approval, participation, cooperation or similar is not available, the entire project may stall. And if things don't move forward, the implementing company usually has to find out for itself where things are currently stuck and look for solutions. A good network of personal contacts on site is a prerequisite for this.

But this is not only the case with infrastructure projects. Similar experiences are likely to be made by companies that carry out complex Build-Operate-Transfer, Build-Operate-Own or Private-Public-Partnership projects.

Decisions are made top-down in most African countries. For large projects, the final word often lies with the president himself. He makes the final decision when the green light has been given at the ministerial level—involved specialist ministers, finance minister, prime minister, council of ministers. In addition to good contacts at the working level of the ministries and authorities, it is therefore important to know the ministers personally in order to coordinate project developments directly with them.

In addition to presence on site, personal contacts and knowledge of administrative structures and decision-making processes, good communication and good interpersonal dealings are other important success factors. Based on my personal experience in many years of professional activity in Africa, tact, respect and tolerance are more important here than crash courses in intercultural competence, as they are often offered. Such courses can be helpful to become aware of the dimension of the difference of our neighboring continent. They may also help to avoid the worst faux pas. But they can never even come close to doing justice to the tremendous diversity of Africa—a continent with 54 countries and more than 2000 languages and idioms.

14.5 Practical Experience Tips

From everyday practice, some things can be noted that are important for business engagement. Personal contacts are—stronger than in Europe or elsewhere—a prerequisite for successful business. They only work in the long run if the partners feel sincere respect and appreciation. Pure verbal assurances are quickly seen through.

Plans in Africa are less rigid and are often adapted. Things usually develop more slowly or differently than agreed. This can have many causes, from lack of budget funds for a project to the revision of decisions by higher authorities. Here patience, flexibility and possibly improvisation are required ("Can I adapt the project? Can I shift costs and resources? Can I agree to payment extensions?"). Blaming partners who are not responsible for the changes is forbidden. Loud reproaches or even outbursts of anger contradict all African rules of civilized communication and are taboo.

There are also some things to consider in communication. The well-known cliché that Europeans and especially Germans like to get straight to the point at business meetings, while Africans first exchange extensive courtesies, often applies. But there is nothing wrong with exchanging courtesies. It improves the conversation atmosphere!

Negotiations with African government or authority representatives are usually no more difficult or complicated than with European government and authority representatives and follow similar rules. However, there are differences that need to be considered. For example, Europeans often have the impression after talks and negotiations with Africans that they were in agreement or largely in agreement. They are then sometimes surprised when they later find out that the agreement was not that great. The reason can lie in a different communication style. Europeans prefer direct communication and address critical points clearly. Africans are often less confrontational in personal conversation and negotiations, avoid a "no" or harsh arguments and express non-agreement rather indirectly through questions, polite objections or body language. For Europeans, it is then often wrong to believe that they have "dispelled" doubts if counter-arguments and arguments put forward remain unchallenged.

In addition, what is not said can be more important than what is said. One should not assume that a negative aspect for the African side, which this suddenly no longer addresses in negotiations, no longer plays a role.

Further small tips from practice that have proven useful: After talks or negotiations, one should send a written summary to the partners to document the state of the talks. This can bring an additional benefit for the partners, as they usually also have to document the state of the talks for their own institution. When submitting new documents, documents or written statements, one should include a copy of the previous correspondence, so that the addressee is not dependent on obtaining the things from the usually poorly kept registries and file administrations himself.

Successful business in Africa requires more than just a good concept, good products and technicians and attractive financing. What is needed above all are risk-taking, flexibility, curiosity, frustration tolerance and the willingness to engage with this fascinating continent and its people.

14.6 Excursion: China as a New Player: Competitor or Potential Partner?

Within a decade, China has become Africa's largest economic partner, surpassing Europeans and Americans in all areas, whether it be trade, investment, infrastructure, or services. While Europeans in the past tended to perceive African countries more as recipients of development aid, China recognized the potential for business on an equal footing and was extremely successful with this approach. For German and other Western companies, the question arises: "How do we deal with this new super player? How do we handle it?"

GAUFF Engineering asked this question very early on, because the core business, the construction of infrastructure facilities, was the first area in which Chinese companies pushed onto the African markets with all their might. Here, Chinese companies were competitive from the start and have even expanded this competitiveness. Today, for example, Chinese companies are the biggest winners in international tenders for projects of the World Bank and the African Development Bank. In addition, the Chinese willingness to invest seems unbroken. At the seventh "Forum on China-Africa Cooperation" in Beijing in September 2018, China's President Xi Jinping announced further funds for Africa amounting to 60 billion US dollars for investments, aid and loans for the next three years; an amount that, if realized, will dwarf German and European development efforts and investments in Africa.

China's enormous commitment to construction and infrastructure in Africa, which is often competitively priced and driven by state-owned companies and financed by loans from Chinese state banks, was not a reason for GAUFF Engineering to resign, but an opportunity to bring in its own strengths to participate in the demanding part of the value chain.

For 30 years now, GAUFF Engineering has been monitoring the quality of Chinese major projects on the African continent. Initially, construction supervision as a representative of African governments was in the foreground. For example, GAUFF Engineering has supervised road construction projects of Chinese companies of well over 1000 km length on behalf of the Angolan government. However, Chinese companies have now recognized the added value of cooperation with a company that is experienced, respected and well-reputed in Africa. Today, GAUFF Engineering is responsible for quality and environmental management as well as special engineering services for complex infrastructure projects in Africa on behalf of Chinese companies.

The most recent project was the construction of the Maputo-Katembe Bridge in Mozambique, which was completed in 2018. It is the longest suspension bridge in Africa and represents an important link between Mozambique and South Africa. In this project, GAUFF Engineering revised the technical design of the bridge, ensured construction supervision and quality control, and created the Project Quality Management Plan. The bridge was twice awarded the international "Fulton Award" for engineering achievements and by the Engineering News Record in New York with the "Global Best Projects Award" and was the subject of numerous publications in daily newspapers and trade journals. It was visited by high-ranking delegations, including Chinese President Xi Jinping and numerous heads of state and government and ministers from around the world. From the German side, the Federal Minister for Economic Cooperation, Dr. Gerd Müller and the Hessian Prime Minister Volker Bouffier visited the GAUFF Engineering team on site. The international attention for this example of a successful German-Chinese-African cooperation is also highly appreciated by the Chinese partner, the China Road and Bridge Corporation (CRBC).

Certainly, Chinese companies in Africa are primarily competitors for many German and Western companies. But German companies have their own special strengths, abilities and experiences, which are often complementary to the strengths of Chinese companies. If they are brought in, business scenarios can be identified in which the added value of German products and services can lead to effective trilateral cooperation of German, Chinese and African partners. Several German companies have already successfully taken this path.

14.7 Support and Backing From Official Side

Recently, there have been developments in German Africa policy that are very positive from a company's perspective. Particularly worth mentioning are the "G20 Compact with Africa" initiative launched by the Chancellor in 2017 and the new approaches of the individual federal ministries. Based on the realization that only the private sector is capable of creating a sufficient number of jobs in Africa, these initiatives aim to facilitate and encourage private investment in Africa. This new approach is to be welcomed and can be a valuable help for companies that want to get involved in Africa.

Support and backing from the official side is also an important factor in the day-to-day business of German companies in Africa. From GAUFF Engineering's experience, close contacts with the embassy and—if available—the local chamber of commerce or the delegate of the German economy are useful. This applies to general information exchange, but also to bring concerns to the government. Often the embassy can act as a door opener and arrange an appointment with a minister more easily than a private company.

Special bilateral consultation formats have also proven their worth. For example, there is a partnership agreement between Angola and Germany that provides for biennial bilateral commission meetings at the level of state secretaries. In addition to politics, economic issues are at the center. This provides German companies with a good forum to bring their concerns to the government level, which at the same time creates a certain pressure to find solutions. As part of the new Africa initiatives of the federal ministries, the creation of additional consultation formats with African countries is planned. German companies should take them at their word here.

A special opportunity to advance business concerns and projects are high-level visits by African politicians to Germany and German politicians to Africa. They stimulate the will to agree on or sign concrete projects and can break blockades that previously seemed insurmountable. It is therefore a special privilege to accompany the Federal President, the Chancellor, the Foreign Minister or a specialist minister on a trip as a business representative.

Visits by high-ranking representatives of African states to Germany are equally important. This is especially true for visits by African presidents, who are usually accompanied by a whole host of ministers. The conferences and specialist forums that the Africa Association of German Business e.V. regularly organizes on such visits are an important contact exchange and offer the opportunity to speak with the ministers and bring up concerns.

A difficulty with high visits from Africa is often the appropriate perception at the political level. For example, during the visit of an African head of state, in whose country German companies were able to acquire billion-dollar public contracts, no minister was willing to open an economic forum organized by the Africa Association together with him—an affront not only from an African perspective.

Another example: A minister of an economically and politically significant African country, who is one of the most important ministers in the cabinet, speaks fluent German as an alumnus and was personally entrusted by the president with the development of economic relations with Germany, was not received by a single minister or state secretary of the federal government during his visit to Berlin.

Both examples show that the importance of Africa, which we often invoke, and the "relationship on an equal footing" are often contradicted by political reality. This is very accurately perceived by the protocol-conscious African partners. Some of our European neighbors assign much higher priority to African visitors. Here, German politics still has some catching up to do.

Undeniably, however, the promotion of private sector engagement and private investment in Africa has been improved recently. But—as so often in life and politics—more could be done.

With the new Africa initiatives of the federal government, for example, the possibility was created to promote particularly development-relevant private investments. This should also be possible for investments that African governments themselves make to eliminate development deficits (for example in the infrastructure sector), and in which German companies are entrusted with the implementation.

In such projects, for example in road construction or to improve energy supply, companies usually have to train and educate local skilled personnel and professionals anyway. They spend considerable own resources on this. It would make sense to supplement such measures with state funding for the training of personnel for later operation, maintenance and upkeep. An expansion of the "Training and Employment" initiative launched by the Federal Ministry for Economic Cooperation and Development (BMZ) would offer a good opportunity here with its commendable practice-oriented approach. This would bundle the development efforts of African governments with the commitment of German companies and official development cooperation—a double lever for the funds from the BMZ budget.

14.8 Concluding Remarks

“Doing Business in Africa” is not easy, but it is worth it if you approach it correctly. With this credo, GAUFF Engineering has been active in Africa for decades and remains optimistic. The Federal Minister for Economic Cooperation and Development, Dr. Gerd Müller, said in an interview in 2018: “More will be built in Africa in the next ten years than in Europe in the last 100 years”. He could be right. The population of Africa will double to about 2.5 billion people by 2050. Of the 80 million people by which the world’s population grows each year, two thirds are born in Africa.

In terms of area, Africa is also much larger than it appears on most maps, because the Mercator projection used in cartography makes areas near the poles appear larger and those near the equator smaller. In fact, Africa covers an area as large as the USA, China, India, Japan and all of Europe combined.

The population growth and the huge area of Africa require great efforts to develop the continent. Certainly, positive development will not occur equally quickly and well in all countries in Africa and some are still far from it. Nevertheless: Many observers expect considerable leaps in development, for example in the areas of energy and infrastructure. Some African states have already shown Europeans a thing or two in the expansion of fast mobile networks, simply skipping the expansion of line-bound networks. But also the consumption and the demand for investment goods and services will increase dramatically.

In the perception of the general public, Africa is unfortunately too often associated with negative topics. However, the continent—often less noticed—has respectable success stories to tell. The best example is the handling of the Corona pandemic. As late as April 2020, the World Health Organization WHO predicted that Africa would be particularly badly affected. In fact, most African governments acted very decisively and accepted major restrictions on the economy and public life. The pandemic remained largely under control in Africa, while the number of victims continued to rise in Europe, the USA and South America until the end of 2020.

14.9 Personal Conclusion

Africa offers enormous opportunities, we should seize them. Many companies hesitate to get involved in Africa because they uncritically adopt the widespread clichés and reservations against African governments. Much of this may be justified. But my personal experience and the experiences of our company have taught one thing: African governments, African ministers and also employees in ministries, authorities and offices are primarily interested in the success of the projects they have to carry out and are responsible for. In this, they do not differ from Europeans and others. Meeting them on an equal footing and offering good solutions and projects is the best way to success.

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Success Factors for Startups in Africa

15

Erick Yong and Thomas Festerling

Contents

Abstract

The prospects for long-term growth in Africa are good. Increasingly more countries on the continent are developing into rapidly growing economies with innovative solutions for local needs. Technology-based start-ups and companies in general play an important role in this.

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15.1 Record Growth with Immense Potential for Increase

Africa, with its 54 countries and around 1.3 billion inhabitants, has immense economic potential: According to the World Bank's forecast (2020), consumer and investment spending is expected to reach $6.7 trillion annually by 2030, and the number of million-plus cities is expected to rise to almost 90. By 2060, about 1.1 billion Africans from the rapidly growing population are expected to belong to the middle class.

New technologies have driven the development of a dynamic startup and IT ecosystem across the continent in recent years. Although about two-thirds of adults do not have a bank account (QZ Africa, 2020), the citizens of the rising middle class use their mobile phones not only for communication but also for shopping and payment, as well as for educational and health services, business matters or official procedures. By 2025, the number of mobile phone customers is expected to rise from just under 500 million to around 630 million. This is just one example of the above-average growth potential of technology-based startup business on the African continent.

15.1.1 African Technology Centers Develop African Solutions

According to a study published by Briter Bridges and AfriLabs at the end of 2019, there were 643 hubs in Africa, divided into incubators (41%), coworking spaces (39%), innovation hubs (24%) and accelerators (14%). Four countries are taking a leading role: 90 hubs were counted in Nigeria, 78 in South Africa, 56 in Egypt and 50 in Kenya. The middle field includes Tunisia with 36 hubs, Morocco with 34, Ghana with 27, Tanzania with 23 and Ivory Coast with 22 hubs. They bear names like iHub or Silicon Savannah in Kenya, Knowledge Lab in Rwanda, Yabacon Valley in Nigeria, Kumasi Hive in Ghana or Silicon River and Silicon Mountain in Cameroon.

The innovations that emerge in African technology centers all have one thing in common: they are adapted to the living conditions in Africa and tailored to the local needs of Africans. New ideas for better food and infrastructure supply as well as topics such as mobility or clean technologies (Cleantech) are in demand, but also for alternative approaches to self-sufficient energy supply, health and education, domestic and foreign venture capital is flowing. The startup analysis portal Disrupt Africa sees particularly large increases and further potential for financial technology and digital commerce.

15.1.2 Returnees and International Sponsors as Catalysts for Entrepreneurship

Many Africans educated and living abroad are now attracted by this potential and the comparatively promising economic conditions in their home countries and return to become entrepreneurs or establish companies abroad with a focus on Africa. Some governments, like the one in Rwanda, particularly promote this. Rwanda has articulated the vision of taking the lead in information and communication technologies in the region. The so-called returnees understand Western business and corporate cultures and have useful networks for international investors and companies that are active in Africa or want to become active.

Large European companies also contribute to the growth and success of technology-based startups in Africa, as they need local partners, for example for logistics and other services. For instance, Volkswagen and Siemens have launched a pilot project in Rwanda to promote e-mobility as part of the "Moving Rwanda Initiative". In the first step, 15 charging stations were available in the capital Kigali for new e-Golfs. The innovative app for car sharing was developed by the local startup Awesomity Lab.

According to the Partech "2019 Africa Tech Venture Capital Report", 234 African startups raised a total of $2.02 billion in equity in 250 rounds, compared to just $277 million in 2015. From 2015 to 2019, the volume of growth financing increased 24-fold from $38 million to $912 million. However, the funds for seed funding only increased eightfold over the same period from $18 million to $151 million. The volume of financing rounds A and thus predominantly human capital and B for scaling effects (Series A and B Funding) was somewhere in between. Compared to the markets in Asia, the USA and Europe, the growth of venture capital in Africa was more than seven times higher between 2015 and 2019—although the absolute value is low in international comparison and holds immense potential for further growth.

15.1.3 Some African Countries Take a Leading Role

In principle, all African states have attractive startups, especially if they have the potential for pan-African expansion. However, there are some countries that have taken the lead in different aspects such as technology, number of tech hubs and transactions, investment volume, economic stability and access to talent. This includes Nigeria, which according to the Partech "2019 Africa Tech Venture Capital Report" again achieved a record high of $747 million in venture capital investments, accounting for 37% of the total volume in Africa, even though the country only reached 4th place in terms of the number of transactions. Egypt itself made it into the top 3 and overtook South Africa for the first time with a total investment sum of $211 million compared to South Africa's $205 million. Kenya took second place again with 52 transactions and $564 million in investment volume. Thus, according to the Partech Report, the four countries Nigeria, Kenya, South Africa and Egypt received a total of 85% of the total investment volume in Africa in 2019. Ghana follows the top 4 and Senegal leads the francophone countries of Africa.

A look at technology-based start-ups shows: According to the "African Tech Startups Funding Report", 2019 was the best year so far for tech investments. After that, 311 companies received $491.6 million. This represented an increase of 47% compared to 2018.

Over the same period, the number of tech startups grew by more than 50% according to the annual report of the research portal Disrupt Africa. And for 2020, despite the Covid-19 pandemic, a decline in the single-digit percentage range is expected at most—as many small companies have quickly adapted their business model to the needs during the crisis.

In summary, all recent surveys on Africa's startup and IT ecosystem show high growth over the past years with further very high growth potential. But what about the success rate of young companies?

15.1.4 Operational Support Increases Success Rate

To this end, the GreenTec Capital Africa Foundation, together with Weetracker, examined the data of 500 randomly selected startups based or active in Africa in 2020 and summarized the results in the report "On the path to become the better Africa". 69% of the funded startups failed after the seed phase. While the overall risk of failure was 54%, those startups that had received operational help and support beyond financial funding achieved better results: the failure rate in these companies was only 33%.

Startups in Africa not only meet consumer needs, they also play a key role in job growth. And this despite a high failure rate due to lack of capital, know-how and network. Currently, the African continent lacks huge sums of private capital, especially in the early phase of business development. To tap the immense potential of companies operating in Africa, a combination of capital and operational know-how as well as a resilient network is essential.

Particularly challenging is the capital procurement in the so-called "Valley of Death". This is the phase that begins after a company has developed its first product or service—often as part of an incubator or accelerator program—and is now entering the market. In this phase, there are often no more grants and entrepreneurs are on their own. This means that the costs for (new) personnel, product adaptation, rent and the like have to be earned first. But since the product is often not yet able to generate revenues in sufficient amounts, this phase represents a difficult hurdle. Many investors shy away from investing in this phase as they classify it as a high-risk phase. On the other hand, some are looking for acquisitions that are exactly in this phase.

The currently active seed funds include ACCION, CRE, echoVC, Goodwell Investment Nailab, Savannah Fund and Sawari. GreenTec Capital invests in this phase through the Results4Equity Investment Model.

In general, many international investors are looking for so-called unicorns, i.e. companies that can reach a value of over $1 billion. In Africa, it is worth looking for camels or antelopes. On the one hand, and this has also been particularly shown by the Covid-19 pandemic, it is important to have reserves to survive a crisis, even when money on the market becomes scarce. And on the other hand, it is very important to be able to change and thus adapt direction quickly. This so-called "pivoting" is of course also important for start-ups that do not come from Africa—but in many African countries there are often circumstances that require quick reactions. These can be political issues or environmental influences. Many African entrepreneurs already have a lot of experience with this and so many were able to show that they could meet the challenges of Covid-19 with an agile adaptation of the business model.

15.2 Leveraging Partners to Seize Opportunities and Manage Risks

The global development and use of new technologies over the past two decades have opened up unprecedented opportunities for the entire African continent in addressing typical African challenges. With the so-called "leap-frogging", i.e., skipping stages of development of established economies, the historical lack of infrastructure in Africa can be quickly overcome. Examples of this are paying for customers without a bank account using mobile phones or better access to previously unreachable consumers. While there is often no landline for phones in Africa, it is often no longer necessary: mobile telephony has spread extremely quickly. Now the task is to provide comprehensive internet access and make data volumes affordable. The power grid is also not worth mentioning in many countries. But more and more decentralized, regional power grids are emerging, which are powered by solar energy.

15.2.1 Current Developments Drive the Economy

It is the perfect time to invest in technology-based startups and other young companies in Africa. There are several reasons for this, and we will look at three of them

- Expansion of local value creation
- Participation in the demographic upswing
- Integration of the pan-African economy.

Firstly, regarding value creation: Africa is rich in raw materials and resources. However, so far, the largest share of value creation is generated outside Africa. An example is cocoa production. African farmers grow the cocoa and harvest the beans, but the processing process takes place outside of Africa—the African value chain is short. Access to technologies enables African countries to increase local added value. This leads to a drastic change in the entire ecosystem on the continent.

Secondly, regarding the demographic upswing: The continent is experiencing unprecedented population growth. This leads to a growing demand for products and services. Since the population is very young—more than half of all Africans are not older than 25 years—they can develop into relevant consumers through education. The increase in population and rising incomes are the key growth drivers.

Thirdly, regarding the pan-African economy: Technology-based startups with an innovative business model initially build their company successfully in their own country. Often, the subsequent expansion into neighboring countries is already part of the strategy at the time of founding. This allows scaling effects to be realized and African national borders to be overcome with the help of digitization. Another major step for the integration of the African economy across national borders is the “African Continental Free Trade Agreement” (AfCFTA), an African free trade agreement between 54 member states of the African Union (AU). The agreement came into force in May 2019 after ratification by 22 African states and was extended to 54 states in January 2021. This makes it the world’s largest free trade zone in terms of the number of member states, with a gross social product of 3.4 trillion US dollars (World Bank).

15.2.2 New Technologies Enable Efficient Solutions for Daily Needs

The increasing level of education and growing entrepreneurship are leading to an increasing number of international investors and business partners becoming interested in the developing countries in Africa and their economy. With regard to the various sectors, those that meet the daily needs of the African population and can work more successfully with new technologies offer particularly good opportunities.

According to the World Bank, agriculture contributes about 15% to Africa’s gross social product. Experts predict a trillion-dollar market by 2030 and point out the need for environmentally friendly and sustainable production increases. New technologies such as platforms for purchasing, distribution, and logistics are in demand, also to allow small farmers to participate in economic development.

In 2020, the World Bank estimated the number of Africans without access to electricity at 600 million. This opens up billions in sales for the so-called “off-grid” solutions, i.e., the independent solar power supply—and enables comprehensive internet access with sufficient data volume even in regions where this has not been possible so far.

The rapidly growing African population and the associated economic upswing ensure that, according to calculations by “Environmental Science Europe” (2019), around 513 million tons of plastic end up in the world’s oceans every year and only 3% of waste is recycled. Some companies have developed suitable business ideas and successfully implemented them.

15.2.3 Know and Control Risks

But what risks should potential investors and business partners know in order to manage them successfully? Here, the topics of complexity, transparency, legal certainty, and access are at the top of the list. High-quality information from various sources and locally experienced partners as well as established networks are a must. Below are some examples of typical risks.

Firstly, the African market, compared to China or India, for example, is less homogeneous. The history, politics, administration, economy, and culture of the 54 countries differ significantly in some cases. This can have historical reasons: Anglophone and Francophone countries, for example, have different economic, administrative, and legal systems, but also a different culture. Geographical differences between north and south play a role. Or the political and regulatory measures of governments that enable and also accelerate successful economic development. This means: there is not one solution.

If, for example, regulation in a country is still in the development phase, a newly founded company initially has various options. But when the government regulates the FinTec sector more strictly, as in Nigeria, for example, the business model of the young company can become obsolete or at least face unexpected major challenges. Some investors now mitigate at least the risk that investment sums can no longer flow out of a country due to regulation by resorting to a holding structure at the African financial location Mauritius or even in Delaware in the USA.

On the subject of corruption: International investors and business partners now increasingly have the opportunity for direct participation and cooperation at the company level—instead of higher-level organizations. The shift from public to private partners helps to limit the risk of corruption. The young generation is driving the transformation, they want to take their lives into their own hands, independent of government and large organizations.

The choice of business model also plays a role. How easy or complex is it to estimate demand, how realistic is the business plan, how successful were others in this segment, what were the hurdles, how could they be overcome? Industries such as agriculture and logistics, but also financial services, health, e-commerce, and education, each in connection with new technologies, offer good opportunities.

The reliability of framework conditions (governance) and the legal system perceived in Europe is lacking in Africa. Here, the law is strongly tied to the government and there is less transparency. A possible solution to this is to focus on those countries and actors that successfully take on a pioneering role in expanding the economy.

For international investors and business partners who want to participate in the success of technology-based startups or established companies and minimize risks, professional platforms offer an ideal entry point. There, the now experienced and proven actors and organizations meet, exchange ideas, check their information, and leverage their know-how and network.

15.3 Diversity Characterizes Africa

What characterizes the technology-based startup market in Africa? Why is it not comparable to the markets of other developing countries? What are the differences and what should potential investors and business partners pay attention to?

The market for technology-based companies in Africa is characterized by the typically African characteristic of diversity. Various aspects such as history, location, resources, politics, economy, and culture, for example, shape the level of education. And the higher the level of education, the faster the technological progress.

But that is only one aspect. There are some countries that take on a pioneering role for very different reasons. These include Nigeria, with its large population and the resulting market; Ghana, due to its dynamism; Rwanda, with its ability to innovate and regulate; South Africa, as the long-established financial center of the continent, or Kenya, as the preferred location for technology and development. All the pioneers mentioned have a local investment network.

However, the presence of raw materials, and thus, one would think, the sufficient supply of domestic capital, shows no direct influence on the technological progress of a country. On the contrary: the presence of raw materials sometimes leads to conflicts that paralyze the economy, and resource-poor smaller countries like Rwanda seem to be spurred on to develop ambitious strategies to boost their own economy using new technologies—possibly just to compensate for the lack of raw materials.

In addition to macroeconomic influences, cultural differences play a role. While freer markets with equity investments in startups are common in English-speaking countries, French-speaking countries tend to rely on government activities as well as debt and very long-term investments. This leads to different growth rates. The coexistence of different ethnic groups can also significantly influence the economic development of a country. On the one hand, different ethnic groups can lead to a wealth of ideas and innovation, as different cultures develop different solutions to challenges. On the other hand, conflicts are often observed, which are about power and distributions, often based on centuries and even millennia-old conflicts between ethnic groups or (ruling) families.

While women played a role only in one-person companies for a long time, increasing education is currently leading to a rising number of successful female founders and women in top management of technology-based companies.

In summary, the diversity of the individual African countries and their technological development account for the major challenge of sufficient financing and thus the rapid further development of the continent. A glimmer of hope on the horizon for the African economy is the aforementioned "African Continental Free Trade Agreement".

There are also differences with regard to the role of international business partners and investors. China discovered Africa early on as a sales market and as a target for large infrastructure investments in exchange for raw materials. Many European companies now see themselves in competition with the Chinese, but these produce at far lower cost, are less complex in cooperation, and are ready to finance projects. While China focuses on business, topics such as impact investing or sustainability and other values often play a major role for public and private European business partners.

With its diversity, Africa differs from other growth markets: When Europe discovered emerging countries in Asia, such as India, their markets were already much more uniform and better structured. The challenge was simply to develop alternative products and services that suited the needs of these markets. Many European countries now have extensive experience in this area. However, a challenge in Africa is also the different standard of technology. While some African countries, for example, already use more modern applications for using mobile phones than many Europeans, they are less advanced in the development of other technologies.

However, Europeans want efficient industrial and economic ecosystems to which they can sell their products and services. Africa is still a long way from this. The task is to develop solutions together. Germany has an advantage here, as it has one of the most dynamic markets for technology-based companies worldwide and thus the chance to help build up the African middle class.

15.4 Case Studies: Successful Business Models and Cooperations are Crisis-Proof

An exciting example of a German company active in Africa is Boreal Light GmbH. Boreal develops solar-powered water purification systems, so-called “Water kiosks”. The business model was able to develop well because Boreal involves the local communities and builds an independent ecosystem around the water kiosks. These are usually operated locally by partners and the water is sold. The technical monitoring and sometimes also maintenance take place from Germany. Covid-19 could not stop the development. Even if there were some delays due to transport challenges, the company was able to record a steady increase in orders and partners and secure investments of several million euros in the company for further scaling at the beginning of 2021. Water kiosks are now not only in Kenya, where the first ones were installed, but also in Yemen, Somaliland, and Uganda.

Another good example of a company that was founded by an African in Africa is Amitruck. Comparable to the taxi platform UBER, Amitruck mediates between customers who need logistics services and truck drivers. The business concept addresses a rapidly growing market, which is estimated at a volume of 23 billion US dollars in Kenya alone. Amitruck plans to achieve a share of up to 500 million US dollars. It’s still a long way to go. But the tech startup, which was only founded at the end of 2018, has already achieved considerable growth. Amitruck recorded just over 500 deliveries per quarter in the third quarter of 2019. This number has more than quadrupled by the same period in 2020 and companies like DHL, Jumia, or Twiga Foods are now among Amitruck’s customers. In 2020, a venture capital investor also invested a significant amount in the company to enable further growth. Despite a small growth dent during the Covid-19 pandemic, the company was overall able to emerge stronger from 2020. Transportation, especially of food and other goods to meet basic needs, is always needed and, during a crisis, reliable and safe service becomes even more important than before.

15.5 An Ideal Time for Investors and Business Partners

The African continent with its immense growth potential offers countless opportunities for international business partners and investors to participate in the course of investments and cooperation. If Germany does not seize the opportunity to build partnerships with mutual benefits, other countries will. Especially in the post-Covid-19 era, an ideal time window for entry is offered, because for good business models of technology-based companies in Africa there is already increasing competition and sometimes also high company valuations.

African startups should, like German ones, be closely connected with the middle class and thus with the local sociocultural environment. This boosts value creation and integration.

For successful market entry in Africa, one must understand the business model of one's investment and partner. Typical questions are: What level of technology exists? Who are the innovation leaders and where are they? Who else is in the network? What is the trend? What already exists? What is needed? How do we jointly develop a product or service to meet local needs?

To leverage the immense potential of companies operating in Africa, a combination of capital and operational know-how as well as a robust network is essential. Cooperation with locally experienced partners not only minimizes risk but also increases the chances of success.

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Erick Yong is particularly concerned with the ecological and economic impacts of his projects on the African continent. In 2017, GreenTec Capital was awarded the German Entrepreneur Prize for Development in the Innovation category. Erick speaks fluent English, French, and German and is skilled in intercultural cooperation. He has a passion for basketball and was a professional player in his youth.

Thomas Festerling is CFO and co-founder of GreenTec Capital. His extensive financial and investment knowledge is essential for the development of the GreenTec investment approach. Thomas Festerling was Head of Product Management (International & Customized Funds) at Deutsche Bank Asset Management subsidiary and was promoted to Director within five years. Thus, he has more than ten years of financial experience and an extensive network in the finance industry. After a successful career at Deutsche Bank, he decided to use his financial expertise for work with a direct impact. Through his family ties to Peru, he was familiar with the challenges in emerging countries and began to volunteer in various projects in Africa and Latin America. He decided to make this his full-time job, as his skills and knowledge can make a significant difference for companies and projects that want to grow in emerging and developing countries.

16 Service and Maintenance in Africa

Christian Ancker

Contents

Abstract

In addition to the traditional product sale, the service and maintenance business is becoming increasingly important in Africa. It is becoming increasingly important for African customers that suppliers demonstrate the long-term performance of their solution even before the first business deal. Accordingly, after-sales service requires an organization and corresponding processes oriented towards customer needs. At the same time, this opens up new business areas for companies operating in Africa. If set up correctly, there are long-term differentiation opportunities in the market and extended long-term chances of success.

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16.1 Introductory Consideration

In recent years, business models in Africa have changed significantly. Where as it was previously exclusively goods deliveries within the framework of national and international tenders, customer requirements are increasingly shifting towards integrated complete solutions. In this context, it is no longer just about the - supposedly cheap - purchase price of the goods, but more and more additional aspects such as the offer of training, service and maintenance as well as supply of spare parts play an increasingly important role.

Successful business can often only be concluded if, in addition to the obvious basic requirements of high-quality products, with a good price / performance ratio, permanent service is also offered.

This requires that the foreign manufacturer is present on site or has a stable network of regional partners who are continuously able to fulfill the corresponding customer wishes. To develop such a service organization on site successfully and adapt it to the peculiarities in Africa, a multitude of factors must be taken into account. This is not only about the actual business, but also about personal contact at management and shareholder level with the decision-makers at the customers.

16.2 After Sales Service

German and European manufacturers with high-priced (premium) products are finding it increasingly difficult to work in the African market. Traditional business models, which relied exclusively on national and international tenders, are steadily losing importance. In addition, globalization is leading to increased competitive pressure from an ever-increasing number of competitors, especially from Asia. Accordingly, margins are being reduced or sales markets are becoming completely unattractive.

It is therefore only logical that manufacturers are looking for new market potentials where they can generate added value for customers on the African continent. In addition to the pure product sale, additional solutions are offered with the effect of greater differentiation in competition. This mainly includes product-related services such as training, technical support, service and maintenance, and spare parts logistics.

16.2.1 Strategic Positioning of After Sales Services

For a long-term successful After Sales business in Africa, it is necessary to implement a sustainable overall internal strategy, to acquire intensive market knowledge, taking into account regional differences, and to select a defined customer structure to which the After Sales Service is to be market as a value proposition.

The associated increased complexity of the organization naturally requires additional management and specialist capacities. In addition to product development and production, the systematic development of the After Sales business (Service Engineering) is necessary.

The place of performance is crucial for the execution of After Sales. It must be defined whether the service is performed at the location of the sold product or whether the product is brought to a company location for the service. Questions such as costs for transport, travel of service employees or initially costly training play an important role in this context.

Operationally, an offer of After Sales Service means a decision on the value proposition to the customer, the commitment of readiness to perform and a comprehensive resource concept.

Thus, the offer of an After Sales Service within a company, in addition to the pure product and parts manufacturing, means maintaining a comprehensive service management including the associated logistics structure.

16.2.2 Market Knowledge and Regional Differences

In After Sales Service, just like in product sales, knowledge of regional market conditions and cultural peculiarities plays an important role. Experience has shown that export and market efforts mainly fail due to intercultural and language barriers.

Here, particular attention must be paid to cultural differences and regional peculiarities within individual countries, such as in the multi-ethnic state of Ethiopia or in a populous state like Nigeria with different languages and religions.

Given that the distance from the origin of the products to Africa is very large, it is also important to note that distances between and within countries are often underestimated and infrastructure such as roads and rail connections are very differently developed.

It is necessary to adapt the business model to the local legal conditions, e.g. with regard to import and export regulations and product-specific operating approvals. Also to be considered are regulations and permits that are necessary to operate Service Centers or to establish branches or legally independent subsidiaries.

The very diverse and complex custom unions in Africa make it necessary to define precise delivery and logistics chains. In some cases, regionally and economically related countries are not in the same custom union, which can lead to surprising, costly results. Here, only the countries Kenya and Tanzania are mentioned, which are culturally and economically connected in East Africa, but belong to different custom units. An overarching custom union is in the making, but not yet fully installed.

Also to be considered are the different economic developments, political stability and future prospects of individual countries. For a large number of countries, the political and economic country risks must be checked and hedging agreements must be made.

Ultimately, personal relationships, knowledge of a regional language and integration into local networks are also decisive in Africa. Without these, long-term business success cannot be achieved either in new business or in After Sales Service.

16.2.3 Customer Structure

There are big differences in the customer groups in After Sales Service. State customers with very pronounced bureaucratic structures are to be viewed completely differently than private customers.

State Customers

With state customers, it should first be noted that in the tender business or when buying the product in Africa, the focus is still largely on the price and less on life cycle costs. With state clients, tenders have usually focused only on the product, not on its operation, the training of operating personnel or necessary service and maintenance, let alone required spare parts procurement.

It should be noted that state customers, who have purchased the primary product through a national or international tender, have so far rarely or never integrated the topic of service and maintenance into the respective projects. Costs are calculated only up to and including installation, acceptance and training, and no money is usually planned for subsequent maintenance.

Bureaucratic rules in almost all African countries also prevent regional units such as universities from independently procuring service and maintenance as well as spare parts. If the corresponding budgets or willingness to pay are lacking, this makes future After Sales Service either impossible or a subsidy business in the long run.

However, this could be worthwhile from a marketing point of view if it seems sensible for future successful participation in tender processes.

Private Customers

With private customers, the understanding for the After Sales Service is already decided at the purchase of the actual product or the acquired solution.

If the initial decision was for a cheap product, the chance of a profitable After Sales business is usually reduced. In this case, a further cheap new product is likely to be bought rather than making expenditures for service and maintenance.

The situation is completely different if the decision in favor of a more expensive product was made from the beginning. These customers only buy the product if it is ensured for them that they will receive reliable and quick support in case of problems. Because of the importance of the purchased product in the production process, the customer expects long-term product quality, intensiv service and continuous performance of the purchased solution through service and maintenance. There is usually also the necessary willingness to pay for this.

This is particularly the case in those countries where increased private sector activities and the development of a quality-oriented mentality play a role, such as Kenya or Ghana. For customers in these countries, the primary concern is to ensure the functionality of the product.

16.2.4 Competitiveness and Pricing

One of the most difficult topics in After Sales Service is local competitiveness and the associated cost-efficient pricing.

While in the sales process of the original service, the components for the After Sales Service, for example installation and training, can usually be included in the price, it is very difficult in the subsequent local support to offer and agree on the "right" price for the offered services in competition.

Often, customers are not willing to pay separately for service and maintenance services, and may even assume that these are delivered free of charge over the product life cycle. They will often also try to carry out repairs on their own.

The situation is different for product-specific replacement, wear and consumable parts. Here, there is potential for earnings, especially from the fact that full functionality is only guaranteed with original parts. The acceptance to spend money for higher quality is steadily increasing.

The same certainly applies to maintenance. The decisive factor will be how important and time-critical the functionality is for the customer. The greater the dependence on it for his successful business model, the greater the willingness to invest quickly and comprehensively for it.

16.3 Business Concepts in After Sales Service

The business models for conducting After Sales Service are extremely diverse. Depending on the product and the offered solutions, the very different market conditions in Africa and the requested customer demand, it must be determined very differently how this can be offered successfully.

As a business model in After Sales Service, it is necessary to decide whether sales and profits are to be generated through product/spare parts sales and services ("Service as a Business") or independent marketing (only) within the framework of Customer-Relation-Management ("Service as a Support").

The After Sales Service also includes the product-related services such as the assembly of machines, the acceptance, the training of the customer for the original operation ("ICT" Installation, Commissioning, Training), activities in service, maintenance and spare parts procurement management. All corresponding services are agreed separately.

A manufacturer ultimately becomes a comprehensive solution provider through product sales as well as material and immaterial After Sales Service.

In addition to the actual readiness to deliver and execution, order comfort, delivery time, adherence to deadlines, delivery flexibility and damage-free delivery also play a role. And last but not least, a customer will pay attention to comprehensive cost transparency.

16.3.1 General Approaches for Business Processes

In order to be able to offer an optimal After Sales Service, from the provider's point of view, the securing of standards has top priority in the overall process. Therefore, all business processes must be developed so systematically that the product and service quality can be kept permanently stable. It should be noted that the more complex the processes are, possibly structured via internal and external processing units, the more cost-intensive this is.

Installed Product Base and After Sales Competencies

In order to be able to design the business process in a scalable way, the installed product base must be considered. Only then a stable demand in After Sales Service can be generated. The decisive factor is whether each process is an individual case, or whether continuous cash flows can be generated via service and maintenance contracts.

For the After Sales Service in the area of service and maintenance execution, the availability of technical expertise is essential. It should be noted that well-trained local service technicians are hard to find. Therefore, comprehensive training opportunities, training, and workshops must be provided and conducted.

For a successful profitable After Sales Service the competence of the service technicians in the area of negotiations and sales must also be planned.

Employee Retention and Motivation

Due to the fact that service technicians are hard to find and therefore usually have to be trained at great expense, the topic of employee retention and motivation plays a major role. Competitors will constantly try to poach qualified personnel after training. Therefore, special attention should be paid to adequate remuneration over basic salary plus bonuses.

It also shows that in larger African metropolises such as Johannesburg (South Africa), Nairobi (Kenya) or Lagos (Nigeria) the cost of living has risen sharply. This reflects in the salaries and wages to be paid.

Securing Property Rights

One of the critical points in After Sales Service is to secure property rights. Care must always be taken to ensure that third parties have no opportunity to make unauthorized use of the company's core competencies. Here, copy/imitation protection plays a very important role. Accordingly, contractual agreements must be made and electronic connections secured.

Financial Resources/Revenue and Result Allocation

Two components are relevant for the definition of the business processes. On the one hand, of course, sufficient financial resources must be made available to be able to carry out the After Sales Service, for example pre-financing of projects, warehouse and possible further costs. On the other hand, with the complexity, it must always be taken into account that in the revenue and result allocation, the "right" participants receive the corresponding incentive. Experience has shown that an "unfair" or perceived as unfair distribution can very strongly affect the overall result.

16.3.2 Performance in Service and Maintenance

The key to successful after-sales service is its availability, meaning the providers adherence to the support level within the promised and agreed response times with delivery of parts and support services. The necessary willingness and ability to perform must be fully provided.

It needs to be defined which services should and can actually be offered to the customer. From the suppliers perspective, it is about ensuring both delivery and performance capabilities for the local customer with the offered solutions. For the customer, it is about achieving the best possible productivity of his product.

Installation, Commissioning and Training ("ICT")

The delivery of the product to the contractually defined installation site, local assembly including commissioning and acceptance, as well as training of the customer's own personnel for the operation of the systems are part of the primary order ("ICT" Installation, Commissioning, Training).

Standard practice includes instructing the customer in all functionalities of the product for operational use and utilization of a system. An operator is instructed in the operation of the system to the extent that they can use or replace tools, consumables, and wear parts flawlessly and independently. The entire introduction is compensated with the purchase price. Subsequent continuous process consulting is usually provided as part of customer retention.

Customer Qualification

Customer qualification towards independent service and maintenance and troubleshooting, for example, replacement of faulty parts, has been increasingly expected as an offer by potential purchasers during the purchasing process in recent years. Especially when the manufacturing and operating locations are far apart, customers want to gain extensive autonomy in being able to maintain the systems independently.

Inspection, Service and Maintenance

In ongoing operation, many products require continuous diagnoses, regular inspections, and periodic service and maintenance work. Depending on the complexity and load of the systems, this is necessary at different time intervals and intensities. The primary concern is product-typical wear or wear and tear of moving parts.

Starting from the fact that a customer, when purchasing complex and technically demanding goods with high acquisition costs, also expects the seller to be available in the long term after installation, commissioning, training, and warranty to secure his investment, regular sales can be achieved here. This is especially important when the customer has included future support in his life cycle cost calculation at the time of his purchase decision.

Maintenance/Repair

The replacement of faulty parts or repair in the event of spontaneous malfunctions beyond normal use is the most complex issue in after-sales service for customer productivity.

Here, the performance offer of the manufacturer or the contract partner is crucial. This can range from maintenance on demand to regular replacement of core components to operation management with agreed availabilities.

Finally, based on a performed monitoring or as precise as possible error diagnosis, the performance of the product must be restored within a contractually agreed time.

Forecasting/Predictive Maintenance

In modern after-sales service, there is an increasing shift from "reaction", i.e., event-driven, to "foresight" with a preventive maintenance strategy. Instead of waiting for a machine to lose its optional functionality due to wear and tear over its service life, more and more systems for foresight ("Forecasting") are being used. In addition to the classic maintenance and replacement plans, digital tools are also used as part of predictive maintenance.

16.3.3 Support Level and Execution Location for After Sales Service

It needs to be determined to what depth and at which location the after-sales service should actually be performed. Is it sufficient to support the customer via online monitoring, or is the presence of a service technician on site necessary? The crucial factor is that the offered and agreed service level is maintained within the promised response times.

Online Monitoring

The connection of an installed machine or solution to online monitoring is now standard. In this respect, most companies are technically capable of accompanying or monitoring the operation of a system from a distance via computer as part of after-sales service.

Depending on the agreement, in addition to pure remote monitoring, error diagnosis and analysis can also be carried out remotely. Participation in troubleshooting is also possible.

To convey current information about products, solutions, and market developments, partners, service technicians and customers should be given coordinated access to central information systems. This is even more important in operational after-sales to inform customers, for example, about a processing status. Only with a functioning IT system and the corresponding connections are activities such as error diagnosis up to spare parts procurement possible. As part of customer retention, a download area for innovations and possibly software updates is essential.

Restrictions on the customer's data protection must be observed, as this involves integration into the local, customer-owned software. This is particularly often regulatory prohibited with state customers.

Service Center for Customer Management and Product Management

In a Service Center for customer management, all customer requests are initially recorded and processed centrally in the sense of integrated customer care. This usually includes fault or needs acceptance, error diagnosis, and creation and issuance of a service order, possibly also the corresponding parts order.

The establishment of such a Service Center can be particularly linked to whether special know-how or certain (expensive) devices must be required. Experience shows that if certain certifications are required, customers are quite willing to send their devices to African centers with well-trained technicians such as in Addis Ababa, (Ethiopia) Nairobi (Kenya) or Accra (Ghana). It should also be noted here that custom regulations for such service orders must not become cost factors.

In addition to general inquiries and customer service processing, complaint management can also be connected here.

A Service Center for product management offers the advantage that after-sales service activities can be carried out centrally by qualified service technicians without having to travel directly to the customer at high cost. This offers particular advantages when special activities, for example calibrations, are to be carried out that require special know-how.

Comprehensive product and operational know-how is necessary for all functionalities in after-sales service. Without maintaining this at all levels of customer care, only suboptimal results can be achieved in after-sales service.

Troubleshooting on Site/Field Service

"Troubleshooting on site" describes the classic activity of a service, maintenance, or problem solving/repair locally on site ("Field Service") with all associated ancillary services.

It begins with the acceptance of the order either directly from the customer or triggered by the Service Center, which has accepted the order. If parts must be available as part of the processing, the logistical chain from the manufacturer to the execution site must be planned and carried out on schedule. The commissioned service and possibly further required problem solving is carried out on site by the mobile service technician. Unused parts or replaced parts are returned. The conclusion is a service protocol and invoicing.

In terms of availability, the biggest challenge is to have suitable personnel in sufficient quantity and quality. The issue of shortage of skilled workers and training of qualified service technicians plays a decisive role in after-sales service. This applies not only to the product manufacturer but especially in the local context.

A particular challenge arises when the infrastructure in the country, for example roads, each makes a journey to and from an adventure and forces adjustments of operations.

16.3.4 Spare Parts Procurement/Inventory Management

The sale of spare, wear, and consumable parts is part of after-sales service over the product life cycle.

The availability of tools, consumables, wear and spare parts decides for the buyer of the primary product about the success of his business model.

Accordingly, a customer will pay very close attention to receiving these in the time relevant to him. Depending on the complexity of the solution sold, the manufacturer or provider must determine which parts he must store centrally or decentrally. It should also be noted whether the mentioned parts are self-manufactured or externally manufactured. Here, the corresponding replenishment times and possibly transport routes and costs to the place of use are relevant.

As part of after-sales service, the availabilities and response times for the delivery of parts are critical factors. Depending on customer needs, tools, consumables, wear and spare parts, and repair parts must be kept in stock. In particular, the customer will insist at the time of his purchase decision that critical parts and so-called long runners, i.e., parts with longer production or replenishment times, are appropriately stocked.

A value proposition to the customer therefore not only includes the offer for delivery, but must also take into account the corresponding inventory management or procurement processes.

If requested by the customer, replacement devices can also be provided to minimize production interruptions.

Also part of after-sales service can be a return management for used and defective parts regarding further utilization (recycling) or reprocessing.

16.3.5 After Sales Service as a Customer Retention Tool

After-sales service is first and foremost a sales argument or a decision criterion for the primary purchase. In addition, after-sales service also ensures long-term customer loyalty and offers above all opportunities for a sustainable improvement in earnings. Instead of constantly acquiring new customers, stable relationships and a strong brand can be built with existing customers.

Already in the phase of the investment decision, the customer can be shown which support options the company provides as part of Customer Relationship Management. Starting from documented customer requirements via defined and agreed support levels up to user feedback and a customer satisfaction analysis, a buyer is comprehensively supported throughout the entire life cycle of a project.

Contact with the customer to check satisfaction with the offered and performed service is also part of a defined business model.

Based on the agreed services, it must be kept track of whether the relevant response times and the products met all performance and quality claims. It is also relevant for providers and users whether the corresponding supply chain management regarding the processing complied with the contractual regulations.

Conversations with customers to improve understanding of the customer's processes serve to round off the company's own business process in after-sales service. It is particularly important to anticipate a possibly changed need.

In a more intense phase, customer integration could also be used to gain customers as a source of information and to involve them as reliable partners based on application competencies in product improvement processes. In addition, joint solutions can also be developed as part of open innovation cooperations.

Furthermore, experience shows that offering after-sales service can not only drive your own business. Increasingly, competence is also required to support competitor products with similar or equal complexity. Local providers in particular take advantage of this. Here, opportunities arise not only for the sale of first and follow-up business, but also for the utilization of regional structures with after-sales service offers.

16.4 Resource Concepts in After Sales Service

For the establishment of a successful and profitable After Sales Service business, the determination of the service location is important. The requirements of the customer and economic considerations are decisive in this regard.

16.4.1 After Sales Service from Germany or from the Country of Origin

The advantage of an After Sales Service from the country of origin of the product is that trained technicians and engineers can be relied upon to provide technical services. Disadvantages arise particularly from the distance from the company's headquarters to the location of the machines and the associated costs. Sending a separate service technician to Africa for each individual case is often not economically feasible for both the manufacturer and the customer. However, if the complexity still requires it, it is certainly necessary to maintain the performance of the installed product.

16.4.2 After Sales Service via Local Sales/Contract Partners

Offers, service and maintenance carried out from the respective countries of origin are often too expensive due to distance and payable travel times, etc., and are therefore unacceptable for the operator.

Accordingly, After Sales Service via local partners is gaining increasing importance in Africa. This outsourcing initially requires investments, among other things, in selection and qualification, but offers far-reaching opportunities in the long term in terms of customer loyalty and new customer acquisition.

Partner Selection
Here, as with any partnership, it is first necessary to check whether and how well you fit together. Ideally, there is agreement on the following points:

- Strategic orientation regarding market presence and customer added value,
- Technical expertise and knowledge,
- Training and development opportunities,
- Cultural compatibility of structures,
- Common understanding of the collaboration,
- Long-term nature of the partnership and contractual agreements,
- Financial stability of the cooperation.

Only if there is largely agreement and a high level of trust among the partners can a successful After Sales Service be provided that is aligned with customer needs.

16.4.3 After Sales Service through Own Branches

The establishment of an After Sales Service within the framework of own ServiceCenters, own branches or independent subsidiaries offers manufacturers greater proximity to customers. With the offer of product-accompanying services in After Sales Service, product installations, customer training, technical support such as service and maintenance, and spare parts logistics can be structured as a complete solution directly at the customer.

The advantage over After Sales Service via contract partners is that control is carried out directly by the parent company. Also, the margins achieved can be increased through direct customer care. Disadvantages arise from the introduction costs and the ongoing fixed costs to be borne. Also to be considered is an increased complexity including additional management capacities required in the own organization. In this respect, a sustainably profitable local business model in After Sales Service can only be represented with a larger sales volume.

16.4.4 Resource Deployment According to Complexity as an Option for Action

In the case of resource deployment depending on complexity, a combination of central and decentralized After Sales Service is used.

Simple checking activities will primarily be taken over by the customers themselves or the local partners. Depending on the level of training, regular service and maintenance activities will also be carried out by regional capacities. In the case of a higher degree of complexity or more serious problems, a service technician from central units will be added.

The same applies to the spare parts equipment. Regularly replaceable tools, wear and consumable parts will also be kept on site at the customer's premises. Rarely used parts, which may only be needed for repairs, are stored centrally.

With this strategy of building a service and maintenance structure, flexible customer care can be provided, starting from a service from the country of origin, through the establishment of central stations in selected countries, to regional structures.

16.5 Final Considerations

The After Sales Service has, in recent years—even before the Corona pandemic—increasingly developed into a regional business in Africa.

Starting from a great distance and the associated costs, the specific business model has been increasingly localized. A significantly improved training of service technicians now increasingly allows service and maintenance to be offered and provided directly in African countries. An After Sales Service from the countries of origin is therefore only necessary in the case of serious problems or in the context of product improvement.

Manufacturers and solution providers have the opportunity to bind customers in the long term through their own Service Centers and branches or through a stable partner network. The associated strengthening of their own market position enables them to exploit additional profit potentials.

Customer contact from the country of manufacture has by no means become obsolete, but is only additionally strengthened in the region. Local networks and discussions with customers and sales and service partners about current and future market developments are certainly still decisive in order to be able to present an optimal offer in the long term.

As always - and especially in Africa - regular personal contact with customers and partners and the maintenance of a network on site are crucial.

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17 Characteristics of Procurement in Africa

Emmanuel Chimi

Contents

Abstract

Compared to Western countries and economies in some emerging countries, the general business environment in Africa shows many peculiarities that need to be taken into account when selecting suppliers (or building them) and managing relationships with partners. In general, more flexibility and cultural tolerance should be observed in cooperation along the value chain. Emergency scenarios should also be built into the planning and design of supply chains. This chapter discusses the peculiarities of procurement in the African context. The focus is on the following questions: How do you find suitable suppliers or how can you build them? How can local conditions be best taken into account in decisions and daily activities? The usual SCM performance criteria will also be included in the explanations.

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17.1 Introduction

Supply Chain Management (SCM), the management of the supply chain, has established itself as a current paradigm in business management and the management of business processes in recent years. The reference company, i.e., the manufacturer offering the final product on the market, is at the center of a value chain consisting of a series of suppliers upstream and several customers downstream. According to the principles of SCM, all business processes (procurement, logistics, purchasing, delivery, disposal, etc.) within the supply chain should be integrated and handled.

Procurement and the associated logistics are among the business processes crucial for the success and competitiveness of any company. In the decision-making process regarding procurement, the selection of suppliers (also known as sourcing) is particularly important. This chapter will focus on the peculiarities of procurement in the African context. The focus will be on questions such as: How do you find suitable suppliers or how can you build them up? How can local conditions be best taken into account in decisions and daily activities? The explanations will also include common SCM performance criteria for orientation.

17.2 Context for Procurement

The starting situation varies from one industry to another. The automotive industry, for example, has been developing in Nigeria and South Africa for several decades. In recent years, other countries such as Kenya, Ghana, and Rwanda have followed. The agro-industry is the second sector that can be mentioned as very visible. Unfortunately, the value chain in this area is much less clear than in the automotive industry. As surprising as it may be, milk powder and other raw materials are still imported for the production of yogurt or juice drinks, to the detriment of local production possibilities. The brewing industry is also described as successful in many countries. However, it remains too dependent on the import of the raw materials used, although the situation has been criticized repeatedly for years.

In some countries, the production and marketing of so-called cash crops such as coffee and cocoa were organized with known actors, especially at the level of the marketing chain. However, these networks were disorganized or simply disappeared after liberalization took place in many countries. In many cases, these were structures that were solely oriented towards the export of these products in their raw state. Now we are witnessing the creation of local processing units in some places, which have to start from scratch to set up their supply and marketing chains. The situation is even more opaque for other agricultural products. Producers in the countryside use informal channels to sell their products on the local market—generally at the nearest market. Part of the agricultural production is also exported to neighboring countries, often via unstructured channels. The execution could be extended to other economic sectors such as the clothing industry, telecommunications, or the service sector. The conclusion is: Africa offers opportunities in almost all sectors; however, flexibility and construction work are necessary in procurement to have local suppliers. However, additional efforts in building the supply chain can prove to be very profitable in the long run.

The macroeconomic conditions for procurement vary from one country to another. Essentially, those countries in West and Central Africa that still use a currency controlled by France (called Franc CFA) can be distinguished from the rest of the countries in Sub-Saharan Africa. This currency, which is not adapted to the economic conditions of the respective countries, and its semi-convertibility, represents a major obstacle to the competitiveness of local suppliers.

For all countries, the inefficiency of public administration is another problem that must be mentioned. This inefficiency can have several reasons: Structural reasons with administrations whose responsibilities are not always clear; administrations represented by people who do not have the necessary competencies; or administrations that have a technological deficit in the working tools. Another reason is certainly corruption: Sometimes we face situations where the administration itself causes a blockage to induce economic actors to "negotiate".

Another important element of procurement in Africa is achieving an appropriate level of local content; that is, the integration of a high percentage of local components and accessories into the products manufactured and sold on the market. This may be prescribed by the government in some places. But the entrepreneur's commitment in this direction should also take place without state constraints. A study ten years ago found that the lack of competitiveness of the South African automotive industry was due to the low percentage (average 35%) of local content in the final product (Naude & Badenhorst-Weiss, 2011). On average, South Africa as a vehicle manufacturer was 20% more expensive than Western Europe, and China was 32% cheaper. In other African countries and in other economic sectors, the positive effects of local content are expected to be even higher.

17.3 Criteria for Selecting Suppliers

In a recent study on how leading supply chain management companies minimize risks and maximize opportunities, the authors conclude (Oxford Economics/SAP): "Companies must be able to deliver high-quality products at the required speed while achieving sustainability goals, building relationships with suppliers and sub-suppliers, predicting demand for products and resources, minimizing risks, and quickly introducing new technologies without disrupting normal business.". From this, a number of criteria can be derived that should generally be pursued in the selection and development of suppliers:

- Quality of products
- Responsiveness
- Sustainability
- Management of relationships
- Minimizing risks
- New technologies

The ability to innovate, product design, reliability (and especially adherence to delivery dates), and costs are further performance criteria that are usually considered in industrialized countries and to some extent in emerging countries. Product design can be understood as quality. Reliability and responsiveness can be understood as synonymous. The following will interpret the various criteria for the African continent and highlight the peculiarities.

17.3.1 Quality of Products and Ability to Innovate

Product quality and a supplier's ability to innovate are closely linked. When we talk about product quality, we are talking about the quality of the final product and the quality of the inputs at all levels along the supply chain. It is obvious that the resulting quality of the final product depends on the quality of the various components it contains. For the African continent, it will be difficult to make the ability to innovate visible in the first evaluation of potential suppliers: Quality and ability to innovate are target criteria that must first be developed within the supply chain. The company leading the supply chain should position itself as responsible and carrier of the supply chain and support its supplier partners in building their capacities with regard to these criteria. This role should not only be seen as a burden. It also offers a means to commit suppliers in the sense of a lasting business relationship.

In some areas such as the food industry, quality standards are usually prescribed by the applicable norms. However, the weakness of local administrations, which cannot always enforce compliance with these standards, allows products of poor quality (i.e., quality below the standard) to circulate in various countries again and again. For example, we see many food products (butter, margarine, juice, etc.) from North African countries like Tunisia, Egypt, or Morocco being delivered to the markets of the countries of Africa south of the Sahara. Some sources indicate that these products do not meet the quality level required for European markets, which is why these manufacturers turn to the less monitored market south of the Sahara. We know that Asian producers do the same. However, an investor is not advised to rely on such weaknesses. One must commit to quality in business conduct to maintain one's competitiveness and invest sustainably.

17.3.2 Costs and Reliability

In Africa, production costs seem to be the essential criterion for selecting the supplier. The latter includes labor costs, logistics costs, and transaction costs. The main goal is to reduce costs. Logistics and transaction costs are determined more by the environment of the country in which we are located. The infrastructure deficit, especially in the road network and energy supply, tends to lead to an increase in these costs. The scope of action available in procurement lies in the choice of supplier locations. The aim should be to minimize the distance between the production sites of different companies in the supply chain.

Labor costs are a very sensitive aspect in terms of total costs. African countries already have a very low wage level. However, local entrepreneurs and many locally operating branches of multinational corporations have so far not given human resources the place they deserve and that they receive elsewhere. If someone wants to build a supply chain that is supposed to be economically successful, the necessary importance must be given to human resources.

Through procurement, a manufacturer has an important lever in hand with which the reward of work at suppliers can be positively influenced. The purchasing power of a company can become a unique driver for positive changes in society (Global, 2010). Companies must use this power to make their supply chain a means for inclusive growth. In a developing economy like Africa, the majority of the workforce is employed in the unorganized sector, which often represents the last stage of the supply chain. If this workforce enjoys the benefits of good and clean business practices, this has a great impact on their lives, but also on the economic and social development in the country.

Adherence to delivery dates, which characterizes the reliability of a supplier, depends heavily on environmental conditions. Here, the infrastructural possibilities of the country are particularly worth mentioning (roads, telecommunications networks, administration, means of payment, etc.). These conditions can be worsened seasonally by weather conditions. Reliability also requires good management of the supplier company. As explained below for sustainability, the manufacturer should influence the cooperation to ensure that the partner companies respect a certain minimum of management rules.

17.3.3 Sustainability

Sustainable economic action is now considered indispensable and a key criterion in assessing corporate responsibility. This sustainability affects the environment, society, and the company itself. In the following formulation, these three dimensions are linked in this way (UN Global, 2015): “Managing the social, environmental, and economic impacts of supply chains and combating corruption is the economically sensible and the right thing to do." Especially in procurement, a positive impact on sustainability can be made.

The social dimension of sustainability is largely manifested in the relationships between partner companies in a supply or value chain. While the focus is usually on one's own operational benefit, space must also be given to the interests of suppliers in the design of partnerships. This is all the more important as here, with many suppliers, a business relationship is entered into with personal companies: If a single physical person (or a few) bears all risks through self-financing, she can inevitably get into difficulties at the first difficult situation. In Africa, there can also be problems with continuing a company in case of illness or even after the departure of the founder. Therefore, after integration into a (successful) value chain, care must be taken to ensure that a formal structured management is gradually achieved at the suppliers. This can be influenced indirectly through appropriate formal procedures and processes. In addition to sustainability, transparent management of partner companies also has the potential to improve quality along the supply chain and in the final product. As markets and relationships within the supply chains are constantly evolving, good management of partner companies is also a prerequisite for successful adaptation to changed conditions. In the execution about costs, it was noted that the payment of consistent wages to employees in the sense of inclusive growth also contributes to the sustainability of the business.

Combating corruption is another important aspect of the social dimension of sustainability. Corruption is diametrically opposed to sustainability. In fact, the assertion can be made that everything based on corruption is not sustainable. If an investor accepts to pave the way for his project through corruption or to obtain other favors, he makes himself blackmailable at the same time on this occasion. Thus, he puts himself as a "prisoner" in dependencies. Among the risks is, for example, that we are dealing with public administrative structures that are occupied by people (by appointment), which can be replaced from one moment to the next. And from the moment a representative of the administration is replaced, the entrepreneur is back at the beginning and sometimes he runs the risk of being exposed to a scandal in public.

17.3.4 Management of Relationships and Minimizing Risks

Nowadays, the management of relationships with partner companies is an important factor for success in business. In procurement, it is about the management of relationships with supplier companies, for which the term Supplier Relationship Management (SRM) is known. To be able to effectively control and manage the entire supply chain, there must be a strategy for Supplier Relationship Management. For Africa, cultural aspects must also be taken into account in this strategy. It can be stated in advance that relationships with partners in the African environment should be based on cooperation as much as possible. Conflicts that are fought out in court must be avoided as far as possible. For this, the legal uncertainty is still too often present: The laws are not always clear and suitable, the duration of the procedures can be unpredictable and the jurisprudence is not always objective. The legal risks can be prevented in advance when designing the relationships: Interfaces must be clearly described. Here, it is mainly about a description of the activities/services and procedures in a way that is understandable for the supplier.

Actually, cooperation is a common word, but it may not always be easy to clearly interpret or even correctly recognize it in the context of daily business activities. In the context of Supplier Relationship Management, cooperation means intensive work for a manufacturer: A systematic, company-wide evaluation of the (production) capacity and capabilities of suppliers with regard to the entire business strategy of the company, a determination of the activities to be carried out with different suppliers, as well as the planning and execution of all interactions with suppliers in a coordinated way over the entire relationship lifecycle, in order to maximize the value achieved through these interactions. A prerequisite for maximizing value is the development of mutual, respectful, and mutually beneficial relationships with supplier partners. Such relationships will contribute to achieving a higher level of innovation (or at least improvement of the status quo) and competitive advantages than would be possible through traditional purchasing agreements. Cooperation in this sense is more than the overlap of common defined cooperation goals. It must be a deep, collective determination to achieve a common goal. It is precisely at this determination that there can sometimes be hurdles in Africa. For example, it can happen that a supplier does not meet his obligations because the resources required for this have been used up for other activities in the company. An opaque management and lack of priorities can always lead to such situations, even if the partner commits to the contracts.

17.3.5 Application of New Technologies

The management of economic activities within the framework of supply chain management is based on intensive use of information and communication technologies. Indeed, mastering the complexity of modern supply chains requires strategic thinking, flexibility, and involved employees. Many companies leading in the SCM field focus on the application of intelligent technologies such as automation, machine learning, and artificial intelligence (AI) to streamline processes, automate routine tasks, and support the effectiveness of the Internet of Things (IoT), blockchain, augmented and virtual reality, as well as drones (Oxford Economics & SAP).

At this point, it is noticeable that the African continent lags behind in terms of the general technological environment. And this will not change quickly in many countries. Regardless of whether it is about predicting demand or needs, one cannot rely on known technological means such as modern customer relationship management software. The same applies to communication with suppliers and customers, even though we know that the flow of information between partners within the supply chain is a crucial pillar for the performance and success of the chain. In Africa, this deficiency can be taken into account or even overcome when designing the chain structure: one should have shorter or even more circular chains. In the medium and long term, the solution may lie in the design of central information systems at the manufacturer. This integrated software should concentrate all technological intelligence at the reference company and, the only remaining challenge would be to enable all partners to use it effectively. Under the current and foreseeable conditions for the next few years, it would not be advisable to consider consistent computerization among partners in view of the state of technology as a goal.

17.3.6 Political and Ethical Aspects

In procurement, too, one must deal with human rights and the delicate issue of corruption in Africa. In terms of human rights, two principles have been formulated for investors (UN Global, 2015): First, companies should respect internationally recognized human rights and support their protection. Second, they must ensure that they have not been involved in the abuse of these rights.

Supporting the protection of human rights means that manufacturing companies must demand respect for these rights from their partners. In Africa, one should avoid making this demand a burden on relationships with supplier partners. Addressing uncomfortable and sometimes non-priority issues as seen by the partner can cause agitation. The low general awareness of basic rights increases the risk of conflicts. Human rights can be violated at various levels of economic activity: in production units with particularly unacceptable working conditions, child labor, inconsistent or unpaid work rewards, disregard for self-determination rights for employees. When selecting suppliers, information about the candidates in terms of human rights may be available in rare cases. In general, however, it is conceivable that respect for basic rights can only be achieved after the effective start of cooperation. It is also to be expected that this will be a gradual process, but it should not be too long: the image of the entrepreneur and his product on the market can be damaged at any time if there are violations of human rights somewhere along the value chain.

Beyond political instability and human rights violations, there is also a governance that can sometimes cause concern for the economy in Africa. We have the recent case with the Nigerian government, which unilaterally decided to close borders for trade with some neighboring countries like Benin. The measure was lifted a few months later without a precise explanation. In any case, this decision caused significant damage to the economy in the affected countries, but also in Nigeria itself. This example also shows the weakness of regional integration in all parts of Africa. At the current state, sourcing cannot rely too much on the regulations of regional entities like ECOWAS in West Africa or CEMAC in Central Africa.

In some countries, there are indeed promotional measures for investments that the entrepreneur can take advantage of directly or when setting up suppliers. These are mostly tax advantages but also state subsidies. Unfortunately, the regulations are sometimes imprecise and the affected administrations do not always provide information about the existence and details of such measures.

When selecting and developing suppliers in the African market, a number of factors must be taken into account, some of which are contradictory. Costs are the decisive criterion in the selection and determination of supplier locations and must be minimized. In this context, increasing distance of the supplier's production facilities from the assembly location of the final product leads to problems with logistics and an increase in associated costs: Since the road infrastructure in many places is not capable of economically and punctually transporting components and other accessories, such a distance increases costs and primarily affects reliability. On the other hand, a political, ethically motivated requirement could be that industrial production should not be further installed in urban centers.

The general level of development of information and communication technologies is a handicap for Africa. This means that these technologies cannot be used intensively for the management of business processes as is the case with the latest state of technology. In the context of procurement, however, this situation can be effectively countered, particularly through a consistent structuring of the supply chain.

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How German Politics can Support Investors

18

Julian David Reichert

Contents

Abstract

At the international level, the uneven competition of the OECD countries with the BRICS countries (Brazil, Russia, India, China, and since 2011 also South Africa) for the markets of Africa, illustrates how important it is to also keep an eye on the political sphere if one wants to be successful in Africa. German politics offers various institutions that can help German companies better understand and serve the political agenda of the target country, and thus be economically successful in this country. This chapter aims to assist in this regard by providing an overview of the most important institutions of German politics. The term politics here includes, in a broader understanding, both the public and private institutions of the political space.

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18.1 Public Institutions

18.1.1 Federal Government and Bundestag

The principles and priorities of German Africa policy and state cooperation with Africa are shaped and determined by the Federal Government. In March 2019, the Federal Cabinet adopted the updated and further developed Africa policy guidelines of the Federal Government, which build on the Africa policy guidelines of 2014 and previous policy decisions and initiatives, in particular the Marshall Plan with Africa, which formed the basis for the G20 Compact With Africa (CwA). With the revision and further development of its Africa policy guidelines, the Federal Government is pursuing a coordinated holistic Africa approach, which is intended to do justice to Africa's political and economic importance for Germany and Europe and to further intensify the partnership with the neighbouring continent (BReg, 2019). One of the central objectives of the guidelines is the promotion and safeguarding of economic growth and sustainable employment. To support investments specifically, the Federal Government has launched the Development Investment Fund and announced that it will provide more than 1 billion EUR for this over several years. The fund, which is primarily intended to promote business in the 12 CwA partner countries, consists of three components: AfricaConnect, which provides 400 million EUR for investments by German and European SMEs, AfricaGrow, which aims to strengthen African start-ups with another 400 million EUR, and the Africa Business Network, which is equipped with 200 million EUR to improve the contact structure for German investors.

There is also cooperation with almost all African countries at the parliamentary level. This takes place in the form of inter-factional groups of Bundestag members, so-called parliamentary groups, which maintain regular exchange and dialogue with parliamentarians from partner countries. The aim is not only to exchange information and strengthen bilateral cooperation, but also to flank German foreign policy. There are parliamentary groups for Africa for

- Egypt,
- the Maghreb states (Algeria, Libya, Morocco, Mauritania, Tunisia),
- Eastern Africa (Ethiopia, Burundi, Djibouti, Eritrea, Kenya, Rwanda, Somalia, Seychelles, Sudan, South Sudan, Tanzania, Uganda),
- Southern Africa (Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Zambia, Zimbabwe, South Africa, Kingdom of Eswatini),
- Central Africa (Equatorial Guinea, Democratic Republic of Congo, Gabon, Cameroon, Republic of Congo, São Tomé and Príncipe, Central African Republic) and
- West Africa (Benin, Burkina Faso, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Cape Verde, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo, Chad) (BT, n.d.a).

Each parliamentary group is given the opportunity once per legislative period to undertake a delegation trip to the partner countries and to invite members of the partner parliament to Germany (BT, n.d.b). In addition, the parliamentary groups work closely with the African embassies in Germany. For German companies, it can be useful to place their business interests in an appropriate manner with the members of parliament responsible for the respective target country and thus secure political support.

18.1.2 Foreign Office and German Foreign Representations

One of the most important and central points of contact for German companies when it comes to obtaining political support on site is the Foreign Office (AA) with its headquarters in Berlin and its foreign representations, especially the German embassies, in currently 43 African countries (AA, 2020).

The AA represents the foreign affairs of Germany for the federal government, which, in addition to maintaining relations with foreign states and intergovernmental and supranational organisations, also includes foreign trade promotion. The vast majority of German foreign representations are embassies. These have at least one contact person for economic issues at each location, and often even their own economic departments at larger locations, which perform these tasks. They are often also supported by seconded staff from other federal ministries who contribute their expertise. The tasks of the economic representatives include, among others, the

- Advice to German companies on economic policy issues in the host country,
- Improvement of market access conditions for the German economy in the respective country,
- Support of specific business interests vis-à-vis government agencies of the host country,
- Establishing contact with decision-makers from the politics and economy of the country,
- Initiation and mediation of economically relevant discussions with official bodies,
- Representation of German economic interests in the host country,
- Organisation of economic discussions with the local economy in the host country for German companies,
- Organisation of events for German trade fair exhibitors abroad and their business partners, and
- Preparation of regular reports on the economic and political framework conditions in the respective country (AA, 2017).

The foreign representations of the federal government work closely on site with the German Chambers of Commerce Abroad (AHK), the Germany Trade and Invest—Society for Foreign Trade and Location Marketing mbH (GTAI) and the implementing organisations of German development policy, KfW Development Bank and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), which are also presented in this chapter.

Organisationally, Department 3 of the AA with its four divisions 320 (Southern Africa, Great Lakes, Congo, Basic Issues Sub-Saharan Africa), 321 (West Africa, Central Africa), 322 (East Africa, Horn of Africa, Madagascar) and AS-Sahel (Sahel-G5: Mauritania, Mali, Niger, Burkina Faso and Chad) is responsible for the individual regions of Africa.

In addition, the AA has its own economic department, which also includes Division 403 (Foreign Trade Promotion in Countries and Regions) with its Foreign Trade Advisory Working Group. This working group offers workshops, but also individual advice on topics such as political flanking, best practice, key actors and common mistakes. It is recommended for German companies to maintain regular exchange with the responsible divisions and departments in order to receive up-to-date information on the country of interest and on bilateral activities such as official visits or delegation trips with economic representatives at an early stage and to be able to feed in their own concerns.

A traditionally good opportunity to talk to representatives of the AA and especially the heads of the German foreign representations, but also numerous foreign embassy representatives, is offered by the annual Economic Day of the Ambassadors' Conference. On this day, the AA opens its doors at its headquarters in Berlin to high-ranking representatives from business, politics and culture by invitation. In recent years, more than 1,000 guests have regularly participated. The contact person of the AA for persons interested in participating is Division 403.

18.1.3 Federal Ministry for Economic Affairs and Climate Action Energy

The Federal Ministry for Economic Affairs and Climate Action (BMWK) is primarily responsible for the federal government's foreign trade promotion.

The Africa Business Network of the BMWi, established by the BMWi at the beginning of 2019 with its office in Berlin, aims to more closely link the efforts of the various public and private actors in foreign trade promotion, including the institutions described below, and to provide companies with bundled support for market entry and investments on site.

In addition, the BMWi offers German companies the Market Development Programme "Measures for the Development of Foreign Markets for Small and Medium-Sized Enterprises in the Manufacturing Industry and for Service Providers", with which it promotes project-related measures for the exploration and development of new sales markets. The programme is aimed at small and medium-sized enterprises from various sectors, including mechanical and plant engineering, vehicle and supplier industry, chemical and electrical industry as well as services and crafts (BMWi, 2020). Excluded are those areas for which the BMWi has its own funding offers. This also includes the area of renewable energies and energy efficiency technologies. The programme content can include a market exploration trip, which the BMWi offers together with project partners, such as the AHKs, the German-African Business Association (AV) or the Mechanical Engineering Industry Association (VDMA), and which aims to discuss company-specific concrete market opportunities on site, understand political and legal framework conditions and establish first networks to potential business partners, multipliers and responsible persons.

Finally, the BMWi plays an important role in the approval of state export credit guarantees for goods and service exports from Germany to secure against political and economic risks of payment default (Hermes cover). The decision on the assumption of Hermes cover is made by an Interministerial Committee (IMA), which is staffed with representatives of the BMWi, which has the IMA lead, the Federal Ministry of Finance, the AA, the BMZ, the mandataries Euler Hermes AG and PricewaterhouseCoopers AG as well as experts from banks, industry and associations.

18.1.4 Federal Ministry for Economic Cooperation and Development

The Federal Ministry for Economic Cooperation and Development (BMZ) with its headquarters in Bonn and its second office in Berlin designs and steers the development policy of the federal government, which includes not only actual development cooperation (EZ) with partner countries but also cooperation with civil societies, with the economy and with multilateral organisations. The basis for the partnership-based EZ are bilateral government consultations and international treaties, in which objectives, measures and the scope of Financial Cooperation (FZ) and Technical Cooperation (TZ) are regulated. The BMZ commissions implementing organisations with the practical implementation of the measures, which cooperate with project sponsors nominated by the partner government. The most important implementing organisations of development cooperation are the KfW and the German Investment and Development Company (DEG), both responsible for Financial Cooperation, and the GIZ for Technical Cooperation.

In 2017, the Federal Government initiated a paradigm shift in development cooperation with Africa with the Marshall Plan with Africa: away from donor and recipient countries towards incentive-based reform partnerships with those countries that are particularly committed to reforms to strengthen democracy, the rule of law and the economy (BMZ, 2017). In 2017 and 2018, the BMZ pledged financial support of up to 800 million EUR to the reform partner countries Ivory Coast and Ghana (both in the field of renewable energies and energy efficiency) and Tunisia (in the banking and financial sector), together with the other partner countries, more than 1.4 billion EUR were provided during this period. Further reform partnerships were agreed at the end of 2019 with Ethiopia, Morocco and Senegal (BMZ, 2020).

An important point of contact in the BMZ is Department 2 (Marshall Plan with Africa; Flight and Migration) with its Sub-Department 20 (Africa) and the Divisions 201 (North Africa, Mediterranean Policy), 202 (Sahel; West Africa I), 203 (West Africa II) as well as Sub-Department 21 (Personal Africa Representative of the Federal Chancellor; Africa Representative of the BMZ) and the Divisions 211 (Central Africa), 212 (East Africa) and 213 (Southern Africa; South Africa). In addition, the BMZ offers so-called EZ Scouts, who work as experts in business associations, in the regional association, in chambers of industry and commerce and chambers of crafts and provide free advice to German companies on topics at the interface of foreign trade promotion and EZ, on cooperation opportunities and on individual EZ funding instruments. In Africa, the BMZ is represented abroad by staff who it sends for a certain period of time to partner countries, to international organisations or to German embassies. In addition, the BMZ provides a representative on the Board of Directors of the African Development Bank (African Development Bank, AfDB).

18.1.5 German Chambers of Commerce Abroad

After the German foreign representations, the German Chambers of Commerce Abroad (AHK) form another point of contact for German companies on site. There are AHKs in various forms and degrees of organisation as bilateral AHKs, as delegations of the German economy or as representations of the German economy.

On the African continent, there are currently AHKs as bilateral AHKs in Egypt, Algeria, Morocco, Tunisia and in Southern Africa as well as delegations of the German economy in Angola, Ghana, Kenya and Nigeria. In addition, the AHK Southern Africa (based in South Africa) is represented through regional offices in Mozambique, Zimbabwe and Zambia (AHK, 2020).

The bilateral AHKs are representations of the German economy on site, which are supported by a voluntary association of German member companies based in the partner country. The delegations and representations of the German economy usually form the preliminary stage to this and are found in countries where the establishment of a bilateral AHK is being prepared, but where the market economy and autonomy may not yet have progressed accordingly or where legal framework conditions are opposed.

The AHKs are supervised by the Association of German Chambers of Industry and Commerce (DIHK) and are financed by membership fees, income from their partly chargeable DEinternational service offer and grants from the BMWi for their public task of foreign trade promotion for members and non-members. They cooperate with the other German institutions that are committed to the German economy on site, as well as local institutions, actors and companies.

The partly chargeable service offer of the AHKs includes market and industry information, experience exchanges, the mediation of business contacts, help with legal and tax issues, trade fair activities and project support. While the AHKs usually have good and broad contacts especially with the economy of the respective partner country, the way to official bodies, for example ministries, is recommended via the German foreign representation (embassy) on site.

18.1.6 Germany Trade and Invest

The Germany Trade and Invest—Gesellschaft für Außenwirtschaft und Standortmarketing mbH (GTAI) was created in 2009 by merging the Federal Agency for Foreign Trade (BfAI), the Invest in Germany GmbH and the Society for Foreign Trade Information (GfAI). Its corporate purpose is the marketing of the economic, investment and technology location Germany. As a state institution, the GTAI is financed by the BMWi, which also provides the chairman of the GTAI supervisory board with a state secretary.

The GTAI's service offer for German companies includes, among other things, market analyses, country reports, project information, contact addresses and international tenders. For the latter, the GTAI offers its own online portal, in which the tenders of the KfW Development Bank and tenders within the framework of development projects of international donors such as the EU Commission, the World Bank or regional development banks are published. As one pillar of the federal government's foreign trade promotion, the GTAI works closely with the other public and private institutions presented here. In Africa, it currently has locations in Egypt, Ghana, Kenya, South Africa, and Tunisia (GTAI, n.d.a).

18.1.7 KfW Development Bank and Deutsche Investitions und Entwicklungsgesellschaft (DEG)

The KfW Development Bank, which belongs to the KfW banking group, plays an important role in the development policy and cooperation of the German federal government with partner governments. It acts as the federal development bank and implements its Financial Cooperation by financing and accompanying reform processes, investments, projects and programs in partner countries with their state institutions on behalf of the BMZ. This is also the main difference to DEG, which, as a 100% subsidiary of KfW, is also responsible for the Federal Financial Cooperation, but focuses on building private sector structures.

The overarching goal of the KfW Development Bank is to "support partner countries in combating poverty, securing peace, protecting the environment and climate, and shaping globalization fairly" (KfW, n.d.a). In addition to these classic development policy issues, KfW also promotes more economically related topics such as energy, water, health and urban development. Tenders for projects involving the KfW Development Bank follow fixed procedural rules and are monitored throughout their progress. Depending on the economic performance of the partner country, the KfW Development Bank uses either exclusively BMZ budget funds (grants or loans at very favorable conditions), a mix of federal funds and market funds (development loans), or loans at market-related conditions (promotional loans) (GTAI, n.d.b).

The KfW Development Bank currently has offices in 23 African countries, 20 of which are in Sub-Saharan Africa, including Ethiopia, DR Congo, Cameroon, Kenya, Nigeria, Mozambique, Rwanda, Zambia, South Africa, Tanzania and Uganda, and 3 in North Africa with Egypt, Morocco, Tunisia (KfW, n.d.b). The country directors are usually well connected with the state institutions of the country as well as the heads of the German foreign representations and can support with further contacts.

Contacting and exchanging with the KfW Development Bank is particularly recommended for German companies when the KfW Development Bank is involved in the project of interest. The central contact point of the KfW Development Bank at its headquarters in Frankfurt am Main is the Africa/Middle East country area, whose head is responsible for the West Africa (LAa), East Africa and African Union (LAb), Central Africa (LAc), Southern Africa (LAd) and North Africa (LNb) departments. In addition to the specific project and local partners, they usually also know the general political and economic framework conditions in the country very well and can provide helpful hints.

Just like the KfW Development Bank, the DEG's Africa focus is on Sub-Saharan Africa with representations in Kenya for East Africa, in South Africa for Southern Africa, in Nigeria for West Africa, in Ghana and a representative in Ivory Coast. The DEG offers German companies tailor-made financing options for their foreign investments, whether they are guarantees, loans, mixed financing, participations or even venture capital. It also finances feasibility studies. In terms of content, the DEG's offer basically includes all areas of the private sector, as long as the projects are profitable, sustainable and developmentally relevant.

In addition, the DEG is the contact point for the aforementioned AfricaConnect funding program, which supports small and medium-sized enterprises in financing investments with up to 4 million EUR loans under special conditions.

For companies planning to make their Africa investment more sustainable, for example by creating training places or using renewable energies, the DEG's develoPPP.de program is interesting. The DEG promotes corresponding sustainability measures with up to 2 million EUR per company.

18.1.8 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) with its headquarters in Bonn and Eschborn was created in 2011 by merging the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), InWent (Internationale Weiterbildung und Entwicklung) and Deutscher Entwicklungsdienst (DED). As a privately organized federal and non-profit company, it supports the federal government in promoting international cooperation for sustainable development and international educational work. In contrast to the KfW Development Bank, which handles the Financial Cooperation of the federal development policy, the GIZ is responsible for its Technical Cooperation.

The main client of the GIZ is the BMZ. In addition, the GIZ also works for other federal ministries, including the AA, as well as international institutions such as the World

Bank or the United Nations, but also private clients. On their behalf and in coordination with the state authorities of the partner country, the GIZ implements development projects on site with various thematic focuses itself or, as a public client, assigns individual tasks to suitable private sector companies. This includes in particular the preparation of expert opinions, the procurement of technical equipment and goods, and the actual project implementation.

The respective procurement law regulations apply to the award of contracts, which define certain threshold values below which the GIZ, for example, only has to issue restricted tenders or may negotiate directly with several companies (GIZ, 2020).

For companies that are active in the area of GIZ's work priorities and interested in corresponding contracts, it is therefore advisable to establish contact with the GIZ at an early stage and to accept suitable event formats and presentation offers for their own company. The same applies to maintaining contact with the currently almost 40 GIZ country offices in Africa, which also offer good networking with local institutions, especially at the working level. The GIZ's main areas of focus are Good Governance, Rural Development, Sustainable Infrastructure (Water, Energy, Transport), Security and Reconstruction, Social Development, Environment and Climate, and Economy and Employment (GIZ, n.d.).

18.1.9 Limits of Support by Public Institutions

Just as important as knowing where and how public institutions can support is knowing in which cases they will not be active from the outset. The support always finds its limit where the political flanking of the interests of a German company would negatively affect the interests of another German company. For example, if two German companies apply as competitors for the same tender, the principle of state neutrality prohibits public institutions from supporting the interests of one company. The general effort to ensure that a German company is generally successful in the tender remains unaffected. Furthermore, public institutions will not interfere if the company has a sufficient legal recourse to solve the matter or if the business partner is part of the private sector.

18.2 Private Institutions

18.2.1 Regional Associations

To support German economic interests, privately organized foreign trade associations have been founded, which offer their members a sometimes extensive range of services. The following regional associations exist: Business Association for Latin America (LAV), German Eastern Business Association (OMV), German Near and Middle East Association (NuMOV), German Asia-Pacific Business Association (OAV) and German-African Business Association (AV).

The AV has been serving the promotion of German-African economic relations since 1934. Its members are predominantly German, but also some African companies, institutions and private individuals. It is active across all sectors and regions and has offices in Berlin and Hamburg. The AV offers its members a comprehensive range of services, including:

- Delegation trips to African countries with official and economic program,
- large trade fair events with different industry focuses,
- economic forums with African state guests such as presidents, ministers, ambassadors,
- bilateral economic days,
- information about specific markets, opportunities, laws, possible business partners, etc. and
- information about economic and political events in Africa, new business opportunities, newsletters and publications.

The AV has the four country departments North Africa and Sahel, East Africa, Francophone West and Central Africa, Anglophone West Africa and Lusophone Africa and industry experts with many years of experience and contacts in the individual countries. In terms of content, the association works closely with the individual federal ministries, especially the AA, the African embassies in Berlin, African governments, associations and NGOs. In addition, the AV maintains helpful cooperations with organizations in numerous African countries, including national chambers of commerce and partner associations.

Due to its close cooperation with the African embassies in Berlin and its prominent position as the German association that bundles the companies with economic interests in Africa, the embassies of the African countries usually approach the AV when it comes to organizing the—in addition to the obligatory political part—economic part of the visit of representatives of their country to Germany. Corresponding formats in turn offer the AV member companies the opportunity to get into conversation with high-ranking representatives of the target country such as government members, to place company interests and any difficulties in the project process and to advertise for support. Prior to delegation trips, which are oriented towards the interests of the member companies, there is the opportunity to incorporate concerns and goals of the company in the respective country into the program planning and to receive information from decision-makers. Overall, the diverse offer of the AV can contribute an important part to being successful in Africa when used intensively and strategically.

18.2.2 Political Foundations

Finally, as part of their information strategy, German companies should also consider German political foundations such as the Konrad Adenauer Foundation (KAS), which is close to the Christian Democratic Union of Germany (CDU), or the Friedrich Ebert Foundation (FES), which is affiliated with the Social Democratic Party of Germany (SPD).

The political foundations, which are mainly financed from federal budget funds but are independent in terms of content, have maintained foreign offices in numerous African countries for many decades and have thus gained a certain foreign policy importance over time. General focuses of their work are the promotion of democratic processes and reform initiatives, the support of civil societies and the promotion of political exchange between the host country and Germany and Europe. In addition, depending on the country/region, the foundations pursue special thematic focuses. Through their work on site, the foundations have individual networks in politics, economy and society, to institutions, parties, civil society organizations, media and selected elites of the country. Especially because of these networks, it is worthwhile for companies to make contact with the foreign offices of political foundations, to plan a visit station there if necessary and to ask for support, for example by establishing further contacts. In addition, the foundations offer events around their thematic focuses as well as extensive country reports, which can also help as background knowledge to better understand the political and economic agenda of the country and to learn about changes in the political and party power structure or changing responsibilities of decision-makers at an early stage.

18.3 Importance and Value

German companies are not alone in their endeavor to be successful in Africa. German politics offers numerous institutions that can help. Because of the political component mentioned at the beginning in economic decisions, the political sphere should also be taken into account. The higher the state (also indirect) influence on a project, the more important this is. The political sphere varies from country to country, depends on the respective project participants and changes over time due to changes in the system.

It is advisable to maintain a close and regular dialogue with the institutions of German politics described above, to gather different perspectives and to feed the entrepreneurial project into them in a suitable way. From the diverse individual information, a large picture (understanding) of the political sphere of the respective state is formed, comparable to a mosaic, which should be continuously fine-tuned in an iterative process. Based on this, a strategy can be developed on how to best serve the political sphere with regard to project success.

Companies that do not want to do this resource-intensive and time-consuming work themselves can also turn to experienced consulting companies specialized in Africa for support, which already have the necessary networks and many years of experience in successful political and strategic project flanking.

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Financing of Investments

19

Accepting Challenges, Recognising Opportunities Opportunities, Use Financing Offers

Klaus Helsper and Jan Müller

Contents

Abstract

The German Mittelstand stands for innovation and internationality. Nevertheless, German companies are rather cautious in their investments in African markets compared to international standards. This caution also results from the fact that many cannot accurately assess and evaluate the risks associated with such an investment. An experienced financing partner can help here. From the investment decision to the structuring of the tailor-made financing solution to the improvement of the sustainability strategy, institutions like DEG have been reliable partners in Africa for the German

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Mittelstand for years. Appropriate financing under sustainable conditions promotes investments and contributes to improving living conditions locally.

19.1 Missed Opportunities

The German Mittelstand stands for innovation and internationality. The latter is not only limited to the high export quota: countless German pioneer companies have invested in emerging—and challenging—international markets over the past decades. Often it is family-run companies from the Mittelstand, so-called "Hidden Champions", who open up the global markets from the German provinces and compete with innovative, high-quality goods in the worldwide, international competition.

The investment activity of German companies is particularly focused on Asia, in addition to industrialized countries. Recently, less than 1% of German direct investments were made in Africa. This quota is not only low—it has also remained almost stable over the last 20 years. In comparison, not only companies from the United States, France, Great Britain and China, but also those from the Netherlands, Italy and Singapore, for example, are more heavily invested in Africa *(UNCTAD—United Nations Conference on Trade and Development, 2019. World Investment Report 2019. Geneva)*. This is compounded by the strong regional focus of German investments, for example on South Africa and Egypt.

Many countries and regions of Africa are still not sufficiently considered in the location decision of German companies. For example, many North African countries offer ideal conditions for a production location to supply the European market. For example Tunisia: the country has proven to be relatively politically stable since the Arab Spring and has continuously improved investment conditions. Well-trained workers and geographical proximity to Europe make Tunisia an ideal alternative—or at least a supplement—to the "classic" production locations in Asia and Eastern Europe. The regional dependence for companies has shown to pose significant risks, especially during the Corona pandemic. Africa is ideally suited for diversification in this regard.

In addition to the comparatively well-developed countries in North Africa, there are many dynamic economies in Sub-Saharan Africa with increasingly attractive investment conditions and considerable sales markets. These include, for example, the economic heavyweight Nigeria with a very young population (the median is 18 years), which already generates a gross domestic product of more than USD 400 billion today and is likely to double this value by 2025. Already today, about 200 million people live in Africa's most populous country—this number is expected to double by 2050. Nigeria will then have the third largest population in the world after China and India. *(Data and forecasts: IMF)*.

The growth dynamics of African economies are impressive, despite all problems and challenges. Today, most of the world's fastest growing economies are located on the African continent. The markets of Asia and Latin America, which are well-known territory for many German companies, viewed as more safely due to long-term presence and experience, may appear more attractive than the unknown regions of Africa. However, it is wise to recognize and take advantage of the opportunities offered by many economies of this impressive continent.

19.2 Special Challenges

Investing in an unknown market is a special challenge for any company—this applies regardless of the size and strength of the individual company. Foreign cultures, unknown customs, a different language, unknown laws, often associated with the unpredictability of their application, slow grinding bureaucratic mills, corruption, state arbitrariness but also lack of security, exchange rate volatility, conversion restrictions and patchy infrastructure can make an engagement in a new country a special challenge. Large, globally active companies usually have both the necessary financial resources and the personnel capacities to successfully meet these challenges. And yet, even the global players repeatedly fail in their attempt to open up new markets. It is even more difficult for medium-sized companies, whose resources and capacities are naturally more limited, to manage the challenges and risks of foreign engagement in such a way that opportunities are successfully exploited.

For many German companies, most of the 54 African states are still unknown territory. The risks and challenges for investments are real. Nevertheless, more companies should start dealing with the opportunities and soberly analyzing the risks. This assessment often falls too often to the disadvantage of an investment in Africa—often because reliable information is difficult to access and the perceived risks are greater than the real ones. This first step—dealing with opportunities and risks—requires careful preparation, an experienced partner and a sustainable financing concept.

19.3 Success Factor Financing

The three most important factors for a successful investment are the same in every new market: careful preparation, careful preparation and careful preparation! The greater the degree of challenge, the more this maxim applies. Each of the 54 African states presents foreign investors with significant challenges and an investment decision requires the best possible preparation.

But not only the basic decision to invest in an African country must be well prepared, the financing of such an investment must also be very carefully and tailor-made selected. Sustainable financing concepts, which focus on long-term, joint success, plan for contingencies and adequately consider risks, form the necessary, strong and reliable basis for successful new investments.

Family businesses in particular tend to finance investments that appear to be high-risk from the equity capital of the German parent company. Often the long-standing house bank comes on board, providing liquidity, usually in euros or US dollars. Since the house bank relies on the creditworthiness of the well-known, long-standing customer in Germany, it usually offers him financing at very attractive conditions.

But especially in companies that are not in the saturation phase, but in an investment and growth phase, one must ask whether it is really sensible to finance investments in challenging new markets, such as the emerging countries of Africa, exclusively or at least predominantly on the creditworthiness of the German parent company? Isn't it more far-sighted, in terms of profitability and risk aspects, not to finance the new investment in Tunisia, Nigeria or Kenya predominantly from own resources?

A strong equity base is a must for many German family businesses and indeed it can cushion market uncertainties and crises as a comfortable buffer. However, it is important to distinguish: What works well in Germany, in the Eurozone and in other industrialized countries can easily become an expensive (wrong) decision when engaging in an emerging or developing country. An example: If the Nigerian Neira devalues by 20%, the value of the Nigerian subsidiary in the balance sheet of the German parent company also melts by 20%. If, due to the fall in oil prices, US dollars and euros become scarce in the Nigerian state treasury, dividend-eligible profits of the local subsidiary cannot be converted. The cash reserves grow—but unfortunately only in local currency and it continues to devalue year after year. A good investment decision can become a wrong decision in such a case, which is quite relevant in practice, due to a suboptimal financing solution.

Financing concepts that are specifically tailored to the special challenges of direct investments in Africa and that flexibly respond to the changing needs and conditions in the life cycle of the investment have significantly better chances of success. With such a financing solution in the background, difficult situations as well as unpleasant surprises can be mastered and, by the way, foundations for sustainable returns and further investments can be laid.

19.4 Financing Partners

The classic way to finance usually leads the CFO of a company to his house bank—and that's a good thing, because with a high probability he will be offered the fastest and cheapest financing option here. However, as described above, this solution is not necessarily the best.

An alternative to the classic house bank are local banks. Especially when the planned investment not only serves the purpose of producing at low cost for the international market, but also serves to open up the local market. Financial institutions in the investment country usually have an extensive network, great know-how and can in principle provide loans in domestic currency. Financing in local currency leads to a "natural hedge": if income in local currency is generated as a result of the investment and these income are offset by bank liabilities in the same currency, foreign currency risks can be eliminated.

However, the path to a local bank is often rocky for foreign investors, as they are not familiar with local customs, while local credit institutions find it difficult to assess the creditworthiness of a customer from abroad. Even with a guarantee from the parent company, it is often not possible for medium-sized companies to access local financing resources at attractive conditions. The aspect of term is also often a stumbling block for local financing—terms beyond two to three years are simply not common in many African markets.

A good alternative—or supplement—to the house bank and a local bank are so-called development banks (or "Development Finance Institutions", short DFIs), which are often state-owned. DFIs specialize in the long-term financing of sustainable investments in developing and emerging countries. As specialist institutes that have focused exclusively on this segment for decades, they provide companies with individually tailored financing—from long-term loans to equity—at market conditions. In addition, they support their customers with special funding and can be a valuable sparring partner for the entrepreneur who is considering an investment in Africa due to their many years of work in challenging markets.

DFIs often secure their financing in the fixed assets of the investment company, thus preserving the liquidity and creditworthiness of the company. In addition, they offer long-term financing that allows terms of over 15 years depending on the investment project, which also enables project financing.

The circle of development banks includes, among others, the DEG—Deutsche Investitions- und Entwicklungsgesellschaft based in Cologne, the other European Development Finance Institutions (EDFI) (EDFI, 2021), regional development financiers, such as the African Finance Corporation based in Nigeria or the Development Bank of Southern Africa from South Africa, and multilateral development banks, such as the International Finance Corporation (IFC), which, as a subsidiary of the World Bank, is committed to promoting the private sector in developing and emerging countries. In complex financing projects, several development banks often engage together in structuring and providing larger financing volumes.

When it comes to accompanying investments by German companies in the challenging markets of Africa, the DEG is a good first point of contact. As a subsidiary of KfW, it has felt particularly committed to supporting German companies for more than 60 years. With local branches in Johannesburg (South Africa), Lagos (Nigeria) and Nairobi (Kenya) and an employee in Abidjan (Cote d'Ivoire), the DEG accompanies companies from preparation to long-term investment in Africa. The focus is on the German customer as well as the permanent improvement of living conditions in the investment country.

19.5 From Idea to Optimal Financing

Development banks support and accompany companies that want to engage in Africa with a comprehensive range of services that follow the life cycle of an investment. At the beginning of every investment is an idea—the idea of exploring a new market and then successfully opening it up. In this early stage, as already mentioned, the necessary information is often lacking to make a sustainably successful investment decision. Foreign languages, unknown regulations, laws and customs, lack of knowledge about market opportunities and conditions, insufficient information about the availability of raw materials, water, energy and last but not least, labor and their level of education make a well-founded investment decision initially seem almost impossible.

19.5.1 First Steps

In Germany, DEG offers the private sector financial support for feasibility studies (DEG, 2021) in the form of a non-repayable grant to assist on the path to a sustainably successful investment decision. From market and location analysis to the technical assessment of legal conditions to questions around the topic of "Human Resources", many aspects can be illuminated that may later prove to be decisive for the success or failure of the investment. The costs of such a feasibility study can be funded up to 50% and a maximum of EUR 200,000 under certain conditions. A well-founded feasibility study not only makes the investment decision plausible, but often also forms the basis for the design of the later financing.

19.5.2 Exports as a Door Opener to New Markets

Medium-sized companies often do not start market entry with a comprehensive investment in production in the target country. Before this step, which would tie up financial and human resources on a large scale, market preparation through exports of the produced goods to the corresponding markets is usually the first step. Tailored and innovative export financing solutions are in demand here. If the export goods are plants or machines worth several million euros, the buyer's required buyer financing can usually be covered by a state export credit insurer. German exports are supported by the federal government, for example, through guarantees from the mandated Euler Hermes. These state guarantees are an important part of export financing, especially for deliveries to challenging markets. However, due to their complexity, they are only used for large-volume exports. Financing exports with values below a threshold of approximately EUR 5 million is much more difficult and repeatedly poses challenges for companies. The German Desks—Financial Support and Solutions (DEG, 2021a) can help in these cases. German Desks are a cooperation between DEG and the DIHK—German Chamber of Commerce and Industry, the local German Chamber of Commerce Abroad (AHK) and a local bank in the respective target country. The German exporter, whose local buyer wants a tailored financing solution, finds the previously missing offer to close cultural, linguistic and financial gaps with the German Desks. The German-speaking German Desk managers have excellent networks in their respective banks as well as contacts with local authorities and institutions. They are customer-oriented enablers for the export activities of German companies. German Desks—Financial Support and Solutions are available in Africa—as of December 2020—in Accra (Ghana), Lagos (Nigeria) and Nairobi (Kenya). Another German Desk is expected to open in Abidjan (Ivory Coast) in 2021.

19.5.3 AfricaConnect: Lean Financing in Challenging Markets

If an export market develops to the satisfaction of the company, the question of local production to optimally serve demand arises at some point. Often the next step towards further market penetration is a smaller investment, especially to limit the risks associated with engagement in a challenging market. If the step of a local production facility fails despite the best preparation due to unforeseeable events, this failure must not endanger the existence of the parent company. For this reason, a financing structure that does not rely on the balance sheet of the core company is recommended. Such investments require a lean financing instrument that supports companies uncomplicatedly and expertly.

In 2019, the Federal Ministry for Economic Cooperation and Development (BMZ) initiated AfricaConnect (Africa Connect, 2021). The program is operationally implemented by DEG and aims to support German and other European companies entering African markets with attractive loans tailored to their needs. In addition, subsidiaries of European companies already operating in Africa can finance their expansion investments with AfricaConnect funds.

AfricaConnect offers long-term loans from EUR 0.75 to 5 million at particularly attractive conditions and flexible use of funds: from greenfield investments to site expansions and operating financing to COVID-19 response loans for companies that have run into liquidity problems as a result of the pandemic. The financings are implemented as leanly and quickly as possible. However, this does not come at the expense of expert support: the program draws on the networks and decades of experience of DEG with investments in Africa. Investments are not only financed, but the companies are accompanied in a partnership over the entire investment period. A special feature is that investments are usually financed without collateral. Neither local assets such as buildings or machines are ordered as collateral—which in turn gives local banks the opportunity to secure themselves accordingly and act as complementary financing partners. Nor are guarantees from the European parent company required.

Since the start of the program in autumn 2019, 19 financings have already been successfully implemented with AfricaConnect (DEG, 2021b). In total, the funds have helped the financed companies to create about 2500 new jobs and secure over 5,000. Companies in Burkina Faso, Ivory Coast, Ghana, Kenya, Morocco, South Africa, Senegal, Tunisia and Uganda have been financed. The industries range from chocolate production to solar power leasing and sustainable agriculture to logistics. The seemingly high-risk financings are only possible because the companies are intensively advised by the responsible experts at an early stage and the investment projects are thoroughly examined. In order to be sustainably successful with the first investment in an African market, in our experience, the fulfillment of the following three criteria is the basic prerequisite:

- Management and Partners: A new operation in an African market cannot be managed from Germany. Local management presence often proves to be the key to sustainable success. Whether this is ensured through a joint venture partner or excellent employed managers, each company must answer for itself. Presence, network and local knowledge are essential in any case.

- Tested Business Model: Even if it is the first investment on the African continent—the business model must be tested and successful. Ideally, investments have already been made successfully at other locations, for example, production facilities opened and market entry successfully carried out. The challenges are individually different. However, experience with the operational setup of a facility—ideally in a developing or emerging country—is enormously helpful in mastering these.
- Long-term Horizon: To be successful in African countries, a long-term perspective is helpful. This requires both a comfortable financial cushion that allows delays and setbacks to be overcome, and a long-term corporate philosophy. Family-run medium-sized companies often combine both qualities.

The advice to AfricaConnect customers is not limited to credit technical analysis and market and country expertise. As with all DEG financings, a comprehensive environmental and social audit is also carried out within the framework of AfricaConnect. Potential risks and need for improvement in the investment are identified and an Environmental and Social Action Plan is agreed upon. During the later implementation of the Action Plan, the companies receive technical advice and additional financial support.

If the cooperation between the company and AfricaConnect is sustainably successful, the investment will usually experience further expansion stages due to growth at a later date. This usually also involves a larger financing requirement.

19.5.4 Sustainable Investments—Long-term Financing

Tailored long-term financing solutions are often offered by the aforementioned DFIs. Whether the right financing is a long-term loan, a mezzanine structure or an equity participation is determined by the company and the responsible financing expert together. Mezzanine financings are special forms of financing that are located on the continuum between debt and equity depending on the individual design. These are, for example, loans that are subordinate to service. The associated higher risk is reflected in the costs, which usually consist of a fixed interest rate plus a profit-dependent component. This disadvantage of such a financing form is offset by the advantage of stabilizing the equity structure. The financing goes—analogous to the AfricaConnect financing—directly to the African subsidiary and does not have to be passed on via the European parent company. This direct financing has a decisive advantage over the internal transfer: the often complex processes of registration, conversion and transfer of foreign exchange are accompanied by the experts of DEG.

Companies that want to spread their risks across multiple shoulders and in particular want to use the “political escort function” of a state development bank invite them to a classic equity participation in their foreign subsidiary. This most expensive form of financing has a high signaling effect and often enables the mobilization of external funds from commercial banks. It is often used to create a balanced shareholder structure, for example in joint ventures with local partners.

In addition to these different financing structures that arise in the life cycle of a foreign investment, DFIs offer additional funding (DEG, 2021c) in addition to the above-mentioned funds for feasibility studies. Due to the often low local level of education, almost every company investing in an African country is faced with the challenge of designing training programs that convey the necessary technical knowledge. Such measures, which improve the chances of finding long-term employment in the local labor market, can also be promoted by non-repayable grants.

19.6 Sustainability and Development Policy Impact

Sustainability is no longer a niche topic. If German companies apply their high environmental and social standards to their investments and productions in Africa, all parties involved can benefit. DFIs support their customers in this and actively demand compliance with international standards (DEG, 2021d; IFC, 2021). It is not just about reducing reputational risks. Due to their presence and relevance for customers, buyers, suppliers and the public, sustainable investments and resource-saving production are essential for long-term business success.

Successful investments in Africa not only benefit the companies themselves, but also contribute to long-term value creation on site. Successful companies create qualified jobs and income and thus help people in developing countries to develop perspectives. Many German medium-sized companies actively promote the training and further education of their employees and promote the transfer of technology and know-how to the target countries. With their investments, they expand local value chains and improve the supply of goods and services in the country. Their tax payments and export revenues contribute to improving state and foreign exchange revenues—funds that are needed for investments in infrastructure, education and health.

19.7 Outlook

Despite all the challenges, many markets in Africa will continue to grow dynamically. Demographics, innovative power and political will, as recently demonstrated in the creation of the African Free Trade Agreement AfCFTA, clearly speak for such a development. The question is whether the German Mittelstand will benefit from this dynamism. Although many companies have fundamentally recognized the opportunities in Africa and the opportunities have been highlighted in public discourse for several years, investments from Germany have so far hardly increased. The Corona pandemic offers many companies the opportunity to rethink their international structure. Perhaps a good opportunity to invest in Africa.

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Properly Insured: The Federal Export Credit Guarantees

20

Felix Brücher and Philipp Laass

Contents

Abstract

The German government has been providing a reliable risk transfer instrument for German exporters for more than 70 years through the promotional instrument of state export credit guarantees. The Hermes cover offers exporters and export-financing banks the opportunity to hedge economic and political risks. These export covers, which are often the basis for financing in emerging and developing countries, have proven to be an important foundation for transactions worldwide. This has been particularly true in recent years for business in Africa. Even though entering the African continent brings many challenges, a variety of initiatives, such as the Compact with Africa (CwA), have created facilitations for the German export industry.

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The traditional national and intra-European sales markets of German exporters have long been characterized by stagnation. Securing the sale of goods and services as well as growth can often only be achieved by stepping into new and often challenging country areas, such as the countries of Africa. Internationalization, which many companies see as inevitable, leads to a confrontation with the risks that arise from both political and economic uncertainties. For exporting companies, these are difficult to assess. This applies to varying degrees for small and medium-sized enterprises (SMEs) as well as for large ones. Private credit insurers are only very limited in their ability to take on risk with their risk transfer offer in these country areas, especially for longer credit terms and large-volume transactions. In infrastructure or infrastructure-related areas, which have a high proportion of larger transactions, state or semi-state buyers also come into play as a challenge for the credit insurer. In particular, the combination of long credit terms, public owned buyers, large transaction volumes and high country risk prevents risk assumption by the private credit insurance industry. Against the backdrop of these limited insurance options, the export credit guarantees of the Federal Republic of Germany can help. These guarantees are one of several instruments of foreign trade promotion provided by the federal government to hedge foreign-related risks. These are instruments of export promotion. In addition to export credit guarantees, the federal government provides uncommitted financial loans, so-called UFK guarantees for hedging raw material projects, and the insurance of direct investments.

In addition to this so-called three-pillar concept, the activities of the Germany Trade & Invest Society for Foreign Trade and Location Marketing mbH (GTAI) in Bonn should be mentioned, which is available to interested exporters (and not only these) with country and industry information. Another way to use the federal government's offer is the foreign trade portal iXPOS, a portal created in 2001 by the Federal Ministry for Economic Affairs and Climate Action (BMWK), which gives visitors access to a funding offer from more than 70 organizations and reaches down to the municipal level. Further support at home and abroad is provided by the German Chambers of Commerce Abroad (AHKs) and the foreign representations of the Federal Republic of Germany. Currently, the foreign trade chambers in Africa have 18 locations in 12 countries. The first were founded in Egypt and South Africa in the early 1950s. Most recently, locations were added in Zambia (2016) and Tanzania (2017). Further locations in Ethiopia and Cote D'Ivoire are currently being planned. In addition, since 2019 there has been a liaison office for Sub-Saharan Africa at the German Chamber of Commerce and Industry in Berlin (German Chamber of Commerce Industry e. V.). In addition, the AHK Kenya offers the opportunity to inform yourself at the Competence Center for Export Financing on all relevant questions.

Furthermore, there is a dense network of industry representations and country associations that have set themselves the goal of supporting companies in their activities abroad. The country associations in particular play an important "hinge function" between political decision-makers and companies at home and abroad. In the case of

Africa business, the German-African Business Association has developed into an important platform. The Africa Association has now existed for over 85 years and has more than 500 members. These mostly come from Germany, but also from Europe and Africa.

20.1 Why Export Credit Guarantees?

The federal export credit guarantees are available to (German) exporters and (European) export-financing banks and protect them against the risks of default on receivables located abroad.

The export credit guarantee protects the exporter and/or bank against politically and economically related risks (see Busch, 2008, p. 6 f.).

Political risks that can trigger a loss of receivables include, for example, war or warlike events as well as regulatory or legislative measures. The economic risks of default on receivables primarily relate to the importer and the inherent risk of insolvency or nonpayment for a variety of reasons. The assumption of these two risk areas constitutes the core of export credit guarantees. Potential risks of payment default are thus largely transferred from the exporter or a bank financing the export business to the Federal Republic of Germany. The policyholder (bank or exporter) only retains a deductible, which is between 5% and 15%.

The exporter or the bank have to pay a corresponding fee to the federal government for the risk assumption. This premium payment by the exporter or bank distinguishes the promotional instrument from the subsidy. Only the payment of a premium allows the risk to be transferred to the state (see Schwab, 1989, p. 124). The export credit guarantees thus represent a direct, material instrument of export promotion within the framework of export promotion (see Müller, 1961, p. 13).

Export credit guarantees are pure insurance products, in the international context and comparison they are therefore referred to as a "pure cover" solution. Many other state export credit insurers offer financing solutions for the (pre-)financing of an export business in addition to the original hedging products. In Germany, the extent of the coverage depends on the basic business and can extend over the entire value chain from production to the last installment of a financed business (Klasen & Schöne, 2016, p. 38).

State coverage is often a prerequisite for the financing of imports in emerging and developing countries. The export credit guarantee, also known as "Hermes cover", thus serves as a vehicle and prerequisite for financing by a bank. Primarily, the financing aspect in the investment goods business and in infrastructure is of high importance and often the central criterion for a contract conclusion. Mechanical and plant engineering, due to long amortization periods, are most confronted with financing requests by their foreign customers in Germany. Schwab points out that Hermes covers have an "outstanding importance in plant export business" (see Schwab, 1989, p. 8). For importers from emerging and developing countries, in our case African companies, financing provided or at least initiated by the German supplier has two decisive advantages: On the one hand, the current European interest rate level is significantly below that of most emerging countries. In addition, many local African banks do not offer long-term loans for corporate customers. However, these are necessary to finance investments and the associated goods analogously to their useful life with no or only minor interest rate change risks. Even if the term and interest rate are attractive for creditworthy companies from Africa, they usually bear the currency change risk in export financing. This can lead to significant distortions if the African companies primarily generate their revenues in local currency and do not have euro or US dollar revenues (natural hedge).

Not only in times of political upheavals, trade wars and the threat of embargoes and sanctions, Hermes covers represent a reliable instrument of risk mitigation for exporters and banks of all sizes.

From the federal government's point of view, the aim of the export credit guarantees is to lower market entry barriers for the exporter, promote export growth, ensure equal competitive conditions in the sense of a level playing field and ultimately secure and expand jobs in the export industry. Especially the last point represents the central argument for the motivation of the export credit guarantees. However, state intervention in the market is only justified where there is market failure. This means that private credit insurers are not seen as competition, but should primarily serve the market wherever possible. The federal government follows the principle of subsidiarity, which in principle does not allow export credit guarantees for risk terms up to two years. This is manifested in a communication from the EU Commission on the application of Articles 107 and 108 of the Treaty on the Functioning of the EU to short-term export credit insurance and refers to export transactions within the OECD core countries and EU member states. Deviations are only possible on the basis and in accordance with a decision by the EU Commission in special situations such as most recently in the financial crisis 2009–2010 and the Covid-19 crisis. These are named separately and are time-limited (see European Commission, 2020). However, African markets are not affected by this, as none of the markets can be attributed to a classic high income country. In connection with market failure and subsidiarity, the question of subsidy or self-sustainability of the instrument is repeatedly raised. Due to the surpluses resulting from premium and fee income, the basic discussion on the subsidy issue has lost its sharpness in recent years. Even if the compensation paid occasionally exceeded the premium income in the past, a balanced result was already achieved in the recent past. The cumulative damages were fully offset by premium income and inflows (see Janus, 2010, p. 339).

Thus, the financial self-sustainability, which is also demanded by the WTO in the Agreement on Subsidies and Countervailing Measures (SCM Agreement), has been demonstrably achieved for years (see Fröling, 2014, p. 38 f.).

The federal budget was also increased in 2019, then for the 21st time in a row, by a positive result of the export credit guarantees (Euler Hermes AG, 2020b). In total, the cumulative balance grew to approximately 6.4 billion EUR. This balance only refers to the original result of the export credit guarantees for the federal budget, additional tax revenues or the positive employment effects in Germany are not included.

20.1.1 Regulatory Environment

State export credit guarantees are embedded in a variety of different national and international regulations. The national framework regulates the relationship between the Export Credit Agency (ECA) or its mandataries and the political institutions as well as the market. The international context shows the extensive international integration and regulation.

20.1.2 International Framework

In addition to the EU regulation and the WTO SCM Arrangement already mentioned, which both have an impact on Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs), the OECD and in particular the OECD Consensus are of central importance. The OECD Consensus (the Arrangement) provides the framework for an OECD-compliant application of export credit guarantees. It is also referred to as the "Agreement on Guidelines for Officially Supported Export Credits" (see Henke, 1990, p. 17). Within the EU, it has been implemented into EU law, outside of EU law it is considered an agreement made in the form of a "Gentlemen's Agreement" and thus as "soft law".

The aim of the OECD Consensus is to allow competition at the level of exporters and financiers, but not at the level of ECAs. A race to the bottom in terms of conditions is to be prevented by creating a "level playing field". The validity of the Consensus applies to export credits with a risk term of 24 months or more.

The Agreement sets minimum standards for the following areas:

- Credit term: The OECD Consensus allows a maximum credit term of 15 years for classic investment goods for target markets in emerging and developing countries. For high-income countries, the OECD Consensus stipulates a shorter maximum credit term of 8.5 years. In addition, the OECD members have agreed on various sector agreements that allow significantly longer credit terms. For example, for renewable energies, credit terms of up to 22 years can be agreed.
- Repayment profile: Repayments must be made in equal and regular instalments. In addition, the first repayment instalment must be made no later than 6 months after the start of the credit term (Starting Point). Therefore, it is not possible to agree on longer repayment-free periods. These repayment-free periods or "grace periods" are often offered by ECAs that are not bound by the OECD Consensus.
- Down payment: The OECD Consensus stipulates a minimum down payment of 15% of the contract value. This must have been received by the seller before the risk begins. However, suppliers can also demand higher down payments. Regularly, a (higher) down payment is a risk-mitigating measure that the export credit insurer can demand in case of weak credit ratings or otherwise high risks. The German ECA also usually requires down payments before the risk begins for fabrication risk coverage, which usually amounts to 5%.

- Local costs: Local costs refer to deliveries and services that are sourced from the buyer's own country. Here, the OECD Consensus stipulates a maximum value of 30% of the export contract value. Only the sector agreement on renewable energies allows a higher proportion of local costs of up to 45% of the export contract value.

The Consensus also anchored the harmonization of insurance premiums. Instead of the previously heterogeneous national premium systems, a uniform risk-based premium system for risk terms of over 24 months was established. For such long-term financing, three core factors are used to calculate premiums: the OECD country category, the risk term, and the creditworthiness of the buyer or guarantor.

Agricultural raw materials and military equipment are excluded from the Consensus. Within the Consensus, there are areas defined by sector agreements that allow deviations from the previously mentioned criteria.

The efforts to reform the OECD Consensus, which have been ongoing for many years, have proved to be quite difficult. The focus here is on integrating Export Credit Agencies from emerging and developing countries into the regulatory framework (Outreach) and adapting the regulatory framework to current requirements and significantly changed conditions. No agreement has been reached on this at the current time.

The "Common Approaches" also have a high significance. This "Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence" lays down the principles of environmental and social examination for the underlying export transaction of the coverage. The "OECD Council Recommendation on Bribery and Officially Supported Export Credits", which must be submitted by the exporter and bank with each application, is of practical relevance for banks and exporters (see Euler Hermes AG, 2020a). Irregularities lead to a detailed examination of the exporter by the federal government and mandataries.

The "Principles and Guidelines to promote Sustainable Lending Practices in the provision of Official Export Credits to low income countries", the so-called "Sustainable Lending", also have a high practical relevance, especially for the state buyers typical for Africa. It refers to the promotion of sustainable lending to low-income countries for credit terms from one year. The requirements of the World Bank and the International Monetary Fund must be observed in this case. The aim is to prevent insolvency due to excessive borrowing by debtor countries. The Debt Sustainability Framework of the International Monetary Fund (IMF) aims to align the financing needs of Low Income Countries (LCI) with their (financing) needs and their debt sustainability. A Debt Sustainability Analysis (DAS) is carried out in this context. This regular analysis includes a stress test with a debt sustainability scenario for the next 10 years, which includes an evaluation under macroeconomic and other country-specific factors. The aim of the OECD is to achieve medium to long-term debt sustainability.

The Berne Union also plays a central role in international cooperation. It is an association of private and state export credit and investment insurers. Although it enjoys high international esteem, it does not have power comparable to that of the OECD or WTO.

The Berne Union (BU) unites the individual companies of various countries, but not their governments.

Decisions can be made in the BU that are binding for an ECA, but do not interfere with the respective government affairs (see Gianturco, 2001, p. 51).

20.1.3 National Framework

Export credit guarantees are processed on the basis of a business management contract by Euler Hermes AG, based in Hamburg, on behalf of and for the account of the Federal Government. Government tasks are transferred to a private sector company within the framework of the mandate. The core tasks of this work as a mandatary include advising interested exporters, accepting coverage applications and preparing them for decision-making. However, the risk carrier is always the federal budget within the framework of budgetary regulations. This represents a high value for the secured claims, especially from a banking perspective. This leads to banks usually having to back federally covered export financings with less equity than uncovered business.

Decisions on export credit guarantees are made in a committee, the Interministerial Committee (IMA). The Federal Ministry for Economic Affairs and Climate Action (BMWK) is in charge. Representatives of the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry for Economic Cooperation and Development also belong to the IMA. Decisions are to be made by consensus; the aim is to achieve agreement in financial, foreign and economic policy. In addition to the ministries, the meetings are technically accompanied by experts from banking and foreign trade. Decisions on coverage applications with coverage volumes > 10 million EUR are usually made in the monthly meetings.

But also innovations to the instrument of export credit guarantees, consultations on basic questions and questions of coverage policy are discussed in the IMA. Applications with order values of 5–10 million EUR are discussed in the small Interministerial Committee, which meets weekly. Smaller amounts can usually be decided in-house at Euler Hermes AG within the scope of the mandate competence.

20.1.4 Granting of Export Credit Guarantees

The granting of an export credit guarantee is subject to certain conditions, which are specified by the guidelines for the assumption of export credit guarantees according to item 2 (see Euler Hermes, 2008). These conditions include eligibility for promotion, risk-related justifiability, conformity of the contract conditions of the export business and budgetary restrictions. The umbrella term eligibility for promotion (item 2.1 of the guidelines for the assumption of export credit guarantees) includes in particular export transactions of small and medium-sized enterprises as well as transactions that contribute to the securing and expansion of jobs in the Federal Republic of Germany. But also structural policy criteria as well as development and foreign policy aspects can be included in the consideration.

From the point of view of risk-related justifiability, there must be a positive prospect of the export transaction proceeding without damage, as stated in item 2.2 of the guidelines for the assumption of export credit guarantees. This consideration includes both the political risk in the buyer's country and the individual credit risk of the foreign buyer or guarantor. Insufficient creditworthiness of the buyer or of state actors can be remedied under certain circumstances if additional securities from the group of companies or in the form of bank or state guarantees are added. Especially in the area of public buyers in Africa, the involvement of guarantees from the Ministry of Finance (MOF) is a common procedure to make export transactions feasible. The reason for this is that finance ministries or the central bank usually have direct access to the available budget funds and thus have the best creditworthiness within the state organization. This "sovereign ceiling" regularly applies to all buyers based in the country. Deviating from this, private buyers and especially banks can have a better (external) rating in certain cases than the corresponding country in which they are based. This is appropriately rewarded in the OECD fee system with a premium-reducing SOV + buyer category.

Another criteria for the assumption of export credit guarantees (item 2.3) refers to the usualness of the contract conditions. These must correspond to the contract terms usual in foreign trade. In particular, the contract conditions must comply with the payment and repayment conditions of international and intergovernmental agreements. This primarily refers to the agreements of the OECD Consensus explained above. In addition to the four points already mentioned, the business must be justifiable from a budgetary point of view. This initially means compliance with the authorization framework for export credit guarantees, which is newly determined each year. This framework amounted to 160 billion EUR in 2019 (Euler Hermes AG, 2020b). In addition, export credit guarantees may not be assumed if a high probability of default is to be expected (item 2.4.2).

20.1.5 Forms of Coverage of the Export Credit Guarantees Instrument

In the context of securing export transactions, the federal government provides a comprehensive set of instruments. As mentioned at the beginning of the article, these are exclusively hedges. Financing is not provided for exporters, importers, or banks. From a practitioner's perspective, a distinction can be made between the cover of individual transactions (project business) and the coverof revolving, i.e., repeated transactions. Another distinction at the transaction level can be made in the hedging of risks before and after shipment of the goods. Risks that occur during the production phase, especially in special machinery and plant construction, can be covered by a so-called production risk coverage. The risk range primarily refers to the time before delivery of the goods and secures the production costs of the exporter should the importer withdraw from the contract.

Especially in the area of trade transactions and with payment terms of a maximum of twelve months, the Whole Turnover Policy (APG) is used for the hedging of recurring transactions. With the APG, the federal government provides German traders and producers with an easy-to-manage hedging product that is comparable to a credit insurance contract in terms of its contractual framework conditions. The aim is to secure various buyers in different countries. Under the APG, receivables are secured from the time of invoicing until their due date. With a focus on Africa, it should be noted that the APG plays a central role in short-term transactions with private customers. In countries like Nigeria, Ghana, South Africa, but also the Maghreb states, the APG has become a central hedging instrument for exporters based in Germany, alongside advance payment and letters of credit. Especially in these countries, there are few coverage options available from private insurers. The processing of the APG is done via an online application, which gives the exporter the opportunity to request individual maximum amounts (limits) on the respective buyer. Within the granted limits, there is corresponding coverage protection, under which the buyer can be supplied on a revolving basis. The fee determination depends on the risk content of the transactions to be hedged. This risk content is measured, among other things, by the target countries contained in the contract and the payment terms to be hedged. In this context, the individual claims development will also play a role from the third contract year onwards. Here, attention is paid to a sufficient risk mix, which is usually achieved by at least three target countries and an annual turnover in these countries of over 500,000 EUR. The risk mix allows the federal government to offer German exporters a cost-effective hedge for their short-term payment targets, even in economically and politically unstable export markets. In addition to the APG, the federal government offers the APG light, a smaller "sister product" that offers fewer options.

If the exporter only wants to supply one foreign customer, the revolving individual cover is available. Here too, the requested buyer can be supplied on a revolving basis within his limit. Both types of contracts have a term of twelve months. The receivables arising under these covers can be assigned to banks or specialized credit institutions for financing purposes. The lack of risk diversification compared to the APG is compensated by a higher pricing appropriate to the risk. This is significantly above the APG fee rate.

In addition to the coverage forms described, supplier credit coverage and Buyer Credit Cover (FKG) are of central importance in project business. Both can secure receivables of both short, medium and long-term nature. In the case of buyer's credit, the export transaction is directly financed by a "tied" financial credit from a bank. This can either be a direct credit to the buyer or a "bank-to-bank" credit. The exporter is paid directly upon presentation of export documents, resulting in a corresponding relief of the balance sheet. The importer or his bank repay the loan to the financing bank over the agreed term based on the joint loan agreement. To hedge the default risk, the lending bank has the security from the export credit guarantee in the form of financial credit coverage. This can either be concluded in isolation by the bank or jointly with the exporter as combined coverage. In the second case, the exporter secures the risk of non-payment of the loan amount by the financing bank without further costs.

Especially in the better developed states in North Africa and in South Africa, buyer's credits, i.e., financing offered by banks, are suitable for larger transactions. Egypt in particular has developed into a large recipient market for export financing in recent years. With the help of a German supplier, a sensational project (Beni Suef) was able to increase the country's energy generation capacity by 50% in 2015. The project was accompanied and financed by an international consortium of banks. The international financing share of 3.5 billion euros was guaranteed by the Egyptian Ministry of Finance and secured with a Hermes cover by the federal government. In total, the project from three gas power plants has a volume of around 6 billion EUR.

In Sub-Saharan Africa, small-volume supplier credits are often used. Within the framework of supplier credit coverage, the exporter secures his claim against economic and political risks. He is the beneficiary of the claims arising from the Hermes cover, but finances the payment term for his buyer himself. If he does not want to finance the often multi-year transaction exclusively from his own funds, he can assign the claim to his bank and have it financed within the framework of a forfaiting. This option is a common instrument in the context of export financing. Especially in mechanical engineering, the supplier credit with corresponding forfaiting has established itself as an indispensable means of sales promotion. With the offer of financing, export transactions can be realized in developing countries that would not have been possible without appropriate financing.

In addition to the coverage forms described, the federal government offers a comprehensive portfolio of different coverage instruments both in favor of exporters and banks. A comprehensive presentation of all instruments can be found on the website of the Export Credit Guarantees (www.agaportal.de). With these hedges, a certain percentage of self-participation remains with the policyholder. This usually ranges between 5 and 10%. This self-participation may not be secured elsewhere. The costs for the assumption of the export credit guarantees follow, depending on the type of coverage, different patterns. All have in common that they are not negotiable. In addition to accompanying exports through hedging, export credits are also available for hedging project financing. Unlike export transactions, the examination of predominantly large-volume investment projects is based on a financial model in which a viability calculation of the project is carried out. A combination of project financing and export credit guarantee is also conceivable and not uncommon in practice.

20.2 Application Process

The assumption of an export credit guarantee involves a formal application process at Euler Hermes AG. An application can only be made in written form, oral side agreements are excluded. The commitment to assume liability constitutes an administrative act and thus acquires public law character. The private law execution of the liability contract between the bank or exporter and the Federal Republic of Germany, on the other hand, has a private economic character (cf. Henke, 1990, p. 25). In this respect, a two-stage theory is spoken of.

Of central importance is the timely application for coverage. The application should be made at the latest before the start of production or conclusion of the contract for production risk coverage or before shipment of the goods when applying for a supplier credit or a financial credit coverage. Company consultants from Euler Hermes AG in Stuttgart, Frankfurt, Berlin, Hamburg, Cologne, Dortmund, Nuremberg, Freiburg or Munich accompany the application process and are available to answer questions from interested exporters, banks and associations. In addition, the consultants are involved in the foreign trade committees of the IHK and in the work of the country clubs. It is also part of their tasks to participate in relevant events. In addition, Euler Hermes AG itself organizes webinars and face-to-face events on current topics related to Hermes coverage and export financing. In recent years, it has been able to successfully digitize the application process for export credit guarantees for the main products. This was accompanied by various product innovations, which will not be presented in detail here. A simplified form of supplier credit coverage ("Click and Cover Export") makes it possible for exporters to provide uncomplicated and fast coverage for standard transactions. Essentially, three criteria are required: The credit term may not exceed five years, the order value may not exceed 5 million EUR, and the country applying may not belong to country category 5 at most. Therefore, only a few African countries that belong to country category 5 or better are eligible.

False or incomplete information in the application can lead to a rejection of the compensation payment by the federal government in the event of a claim. Essential criteria for the assumption of an export credit guarantee were already mentioned in Sect. 1.5. In addition to those mentioned, the origin of the goods should be predominantly in Germany. The export credit guarantees are intended to be made available for goods or services predominantly manufactured in Germany. German goods are products with a German certificate of origin. These certificates of origin are issued by the IHK responsible for the exporter. If it is not possible to obtain this certificate, the proportion of foreign content must be indicated in the application form. In principle, foreign deliveries can be included in the coverage up to a level of 49% of the contract value without further justification. For higher foreign deliveries, these can be approved in the context of an individual examination by the interministerial committee. Internationally, Export Credit Agencies position themselves differently with regard to the possible inclusion of foreign deliveries in coverage. In general, two approaches can be distinguished. On the one hand, the focus is on national value creation (national content) and on the other hand, on national interests (national interest).

For high foreign deliveries, an online preliminary inquiry via the website of Euler Hermes AG is recommended to get a free assessment of the transaction.

The final presentation of the export transaction to the Interministerial Committee (IMA) or the Small Interministerial Committee (KLIMA) is preceded by the processing of all relevant information in the form of an audit report by the mandataries of Euler Hermes AG. The decision-making process ends after a basic commitment or a final commitment with the sending of the final acceptance letter by Euler Hermes AG.

20.3 Coverage Policy of Export Credit Guarantees on the African Continent

In terms of the coverage policy of export credit guarantees, it can be noted in retrospect that there have been a number of facilitations for the cover of exports, especially to the Sub-Saharan region, in the years after 2014. The triggers were the Africa policy guidelines adopted by the Federal Cabinet in May 2014. Both the expanded coverage options for the public sector and the reduction of previously increased deductibles were the first improvements that came into effect through the new orientation of the federal government's Africa policy. Due to the relatively strongly pronounced infrastructure investments, the insurability of the public sector is of high importance in practice.

Under the German G20 presidency in 2017, the so-called Compact with Africa (CwA) was adopted. This has set itself the goal of promoting private investments, sustainable infrastructure, and the creation of jobs in the African partner countries. The Compact currently has 12 members: Benin, Burkina Faso, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Tunisia, and Togo. This means that the circle of African partner countries has different characteristics. Before the COVID-19 pandemic plunged all countries into a deep economic crisis, there was some progress in different fields. The goal is to resume this growth path after the pandemic. Even though the following figures are from the time before the worldwide Corona crisis, they still show a positive trend that the reforms of the institutions and the intensified cooperation have initiated. The growth in the CwA countries (5.4% in 2019 and 4.8% on average between 2015–2017) was somewhat higher in 2019 than in other emerging and developing countries (4.6%) (Compact Monitoring Report, 2020). However, the economy in the North African CwA countries grew somewhat weaker, which is due to falling oil prices and a decline in foreign direct investment.

Trade has proven to be a growth driver in the CwA countries, as evidenced by the 5.1% increase in exports (Compact Monitoring Report, 2020). With the aim of sustaining and increasing this growth, various reforms have been implemented to improve the business climate. For example, sustainability standards for cocoa production and the energy sector were introduced in Côte d'Ivoire. Ghana has taken steps to improve company registration.

Based on these reforms, the federal government has also adapted its coverage policy within the framework of the Hermes cover. Thus, the conditions and framework conditions of the export credit guarantees for Africa have been improved since 2014. In 2018, the deductibles for deliveries and services to Côte d'Ivoire and Senegal, as well as—under certain conditions—to Ethiopia, Ghana, and Rwanda were reduced to 5%. In addition to the lower risks that the exporter and/or the export-financing bank bear in the event of a claim, the reduction generally facilitates (re)financing considerably. At the end of

2019, further facilitations came into effect; thus, the deductibles were also reduced to 5% for public buyers in all CwA countries.

As a further support, the application fee for the first three applications in CwA countries was waived. This gives exporters the opportunity to have the coverability of their transactions checked without major costs.

In addition, the federal government is willing to gradually expand the coverage options for German exporters, with the two core criteria of eligibility for promotion and risk-related justifiability continuing to be at the center of the examination and the corresponding decisions. However, the majority of the countries are still in country categories 6 and 7, indicating a significantly increased country risk. The federal government's coverage volume for Africa is low compared to other regions, and particularly large-volume transactions are mostly found in Egypt and South Africa. Nevertheless, recent years have shown that interest in coverage and the federal government's willingness to provide it has been steadily growing. The coverage volume for the African states was 2.9 billion EUR in 2019, after 1.8 billion EUR in 2018 and 1.1 billion EUR in 2017 (Euler Hermes, 2018, p. 51). The share of the total coverage volume of the federal government increased from 9.0% in 2018 to 14.0% in 2019 (Euler Hermes, 2020, p. 49). In addition to these international comparisons, the coverage rate, i.e., the proportion of coverage to total exports, also shows an increasing trend. Thus, this has increased from 4.2% in 2017 to 7.9% in 2018 and 12.4% in 2019 (Euler Hermes, 2020, p. 49). Even though the share of individual coverage is increasing, the short-term revolving coverage of the export blanket guarantees, in particular, dominates in Sub-Saharan Africa. State-backed export financing will offer important support in an economic recovery phase after Covid-19, allowing German exporters and their African customers to finance investments.

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Finding the Right Employees

21

Comparability of Qualifications and in Germany and South Africa

Axel Grimm

Contents

Abstract

Qualification frameworks enable the comparability of qualifications and competencies across continents. This article illustrates this using the example of the Federal Republic of Germany and South Africa. To this end, the national frameworks and meta-frameworks are related to each other to demonstrate that this enables mutual recognition and transparency.

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21.1 Profession in Germany = Profession in Africa?

A significant challenge in implementing a business idea in Africa is personnel recruitment. Recruiting the right qualified and comprehensively competent employees for one's own company in terms of quality, quantity, time, and location can be seen as a prerequisite for long-term market survival. A holistic personnel recruitment process begins with personnel planning, moves on to personnel procurement, to personnel selection, and ends with the successful integration of the hired employees.

Thus, based on an analysis of the required knowledge, skills, and abilities, as well as the level of requirements—this can be done, for example, through a job description—a job advertisement can be made. Suitable applicants are invited for an interview. The person who appears to be the best fit is hired and trained using internal methods.

Although such a process may seem quite trivial at first glance—simply described—it requires a basic knowledge of the respective (vocational) education system. This may still be relatively easy to achieve in one's own country, but it becomes significantly more difficult across borders. A comparison of education systems and degrees across regional and national borders is needed to enable sustainable personnel recruitment for one's own company.

Furthermore, the complex construct of "profession", as it exists in Germany and is underpinned, among other things, by the dual vocational training system with its approximately 325 training professions, has no equivalent counterpart on the African continent. In Germany, there are jobs (in the sense of unskilled professions), full-time and dual vocational training professions, advanced and further training professions, as well as academic professions. The vocational training structures shape the individual vocational biographical opportunities for people to participate in working life. The permeability of vocational education in Germany, for example, makes it possible to get to a vocational school without a general school leaving certificate and to leave it with a university entrance qualification. This is made possible by the different educational paths and types of schools in the vocational education system. Only through the desire for comparability, e.g. through the large country comparison studies (like PISA), was Germany attested a deficit in terms of the academic quota—but this was without taking into account the established system of dual vocational training. Thus, the importance of non-academic vocational education was questioned and a development towards academization was initiated.

This is related to the fact that different value systems can exist in national vocational education systems for educational offers, which can receive very different evaluations in a transnational comparison. Value systems of and about education, qualifications, professions, and professional activities are highly complex constructs that can be influenced by numerous factors:

- Degree of abstraction or complexity of learning processes and contents,
- Duration of institutionalized education courses,

- Monetary/non-monetary benefits (especially employment, income level, securing skilled workers),
- Prestige and image of qualifications, professions, providers, etc.,
- Usability for professional activities and for further education courses (authorization system),
- Importance of qualifications in relation
  - to other qualifications in the same or other systems as well as other education systems,
  - between general education versus vocational education and non-tertiary and tertiary education,
- Importance of a qualification in a classification scheme,
- Subjective importance and appreciation (cf. Bohlinger, 2013).

This is important for personnel recruitment, as value systems from the national context cannot be transferred to other nations.

21.2 Different Meaning of Profession and Professionalism

The concept of profession is very complex and is associated with different meanings, ideas, and uses. These include, for example, vocational training, the social functions of status assignment, integration and social prestige, the economic significance, and the role of the state as a regulator. If one moves away from the traditional generic ideas about the concept of profession, professionalism can be described as the professional handling of professional work tasks. Professional work tasks can be located within a professional domain (e.g., performing electrical installations) or have cross-domain requirements. According to a professional understanding, a profession is characterized by a bundle of activities that are not person-related and are constituted by the central dimensions of professional expertise and the level of requirements. This professional perspective is common in an international context. “Occupations” are then understood as professions when they show a high similarity of professional work tasks in different jobs. It is therefore not surprising that job titles have long traditions and are not easily displaced from normal language use by new designations, for example, from the designations of associated training professions. As a national example, the “electrician” is mentioned here, who is often referred to as “electrician”, but whose training profession has been “electronics technician” for many years.

In order to enable young people to cope with professional work tasks, there are vocational training systems. These have evolved historically and serve national interests. In Germany, with the establishment of the guild system in the Middle Ages, a vocational training system began to develop. Guild regulations regulated the learning of the profession and thus the way into the guild community. This path was characterized on the one hand by learning to cope with professional work tasks and on the other hand by the strict regulations it led to a professional education that was supposed to ensure that the learners internalize a guild-appropriate behavior. Apprentices were taken into the master's family for the duration of their apprenticeship to carry out this professional education comprehensively. Mobility between professions and professional fields was almost impossible.

The path from professional qualification and professional education to vocational training seems not yet to be fully completed, depending on the interpretation of the term education. Vocational training in Germany aims to develop in learners "the willingness and ability of the individual to behave appropriately, thoughtfully, individually, and socially responsible in professional, social, and private situations" (KMK). This is associated with enabling each individual to (co-)shape work and technology. This guiding idea for vocational education has found broad approval since its foundation in the mid-1980s.

Vocational education policy has paved the way over the past decades through the vehicles of key qualifications, action orientation, and competence orientation to counteract a narrow adaptation orientation and to enable active participation in shaping future society and the world of work. The dual vocational training system thus ensures that not only is qualification for the professional tasks in a training company provided, but the vocational training develops the competencies needed for the breadth of a professional field. As a result, the German labor market has non-academic professionals available through dual vocational training who have competencies that are needed for the independent planning and processing of professional tasks in a comprehensive, changing learning area or professional field of activity.

Since the construct of profession is nationally shaped, it cannot be assumed for a company settlement abroad that comparably qualified and trained specialists with similar job titles as well as similar educational degrees and resulting responsibilities can be recruited on the respective labor markets.

21.3 Comparability through Qualification Frameworks

Qualification frameworks systematize qualifications within an education system and assign them to different levels. The individual levels allow a statement to be made about the individual ability of a person classified there in terms of their personal dispositions. This should not only be about formally acquired educational degrees, but also about recognizing non-formal and informal learning in order to be able to illustrate results from the process of lifelong learning.

The European Union (EU) has, since the turn of the millennium and the so-called Lisbon Strategy, advanced instruments that support the Europeanization of vocational education. All member states were to develop national qualifications frameworks and link them to the European Qualifications Framework (EQF). The aim was for all individual qualification certificates to then be able to refer to the relevant EQF level. This increases permeability in the education system and establishes comparability between general and vocational education.

The EQF, also known as the “European Qualifications Framework”, is a common European reference framework that has been relating the qualification systems of EU countries to each other since 2008. It is intended to be a translation tool that makes understandable the value and significance of qualifications acquired in different education systems and education sectors.

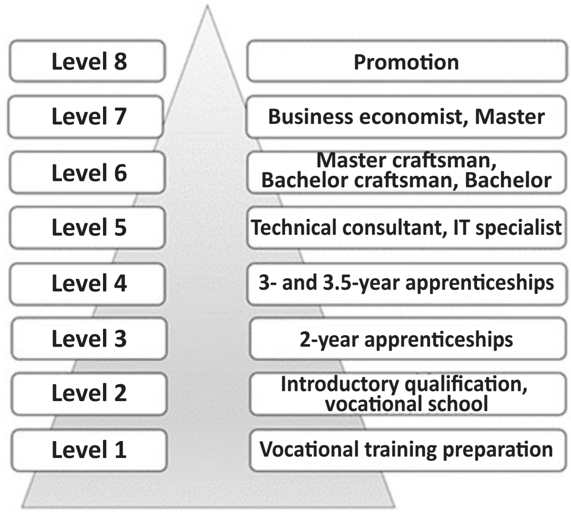
The German Qualifications Framework (DQR) for Lifelong Learning came into force in 2013 as a national implementation of the EQF. With it, all existing qualifications in Germany should be able to be assigned to the eight levels of the European Qualifications Framework. The DQR maps all school, academic, and vocational qualifications, as well as those acquired in other ways (see Fig. 21.1).

Through the German Qualifications Framework, the conditions for professionally qualified people such as masters and technicians (technical school graduation) have improved, as they are assigned to level 6 (see Fig. 21.2). This corresponds to a level that is usually reserved for academically qualified people in other member states. In terms of social and educational policy, this increases the reputation and attractiveness of

Level 1	describes competencies for fulfilling simple requirements in a clearly and stably structured learning or working area. The tasks are performed under guidance.
Level 2	describes competencies for the professional fulfillment of basic requirements in a clearly and stably structured learning or working area. The tasks are largely performed under supervision.
Level 3	describes competencies for the independent fulfillment of technical requirements in a still manageable and partly openly structured field of learning or professional activity.
Level 4	describes competencies for independent planning and processing of technical tasks in a comprehensive, changing learning area or professional field of activity.
Level 5	describes competencies for the independent planning and processing of comprehensive technical tasks in a complex, specialized, changing area of learning or professional field of activity.
Level 6	describes competencies for planning, processing and evaluating comprehensive technical tasks and problems as well as for the independent control of processes in subareas of a scientific subject or in a professional field of activity. The requirement structure is characterized by complexity and frequent changes.
Level 7	describes competencies for the processing of new complex tasks and problems as well as for the independent control of processes in a scientific subject or in a strategy-oriented professional field of activity. The requirement structure is characterized by frequent and unpredictable changes.
Level 8	describes competencies for gaining research knowledge in a scientific subject or for developing innovative solutions and procedures in a professional field of activity. The requirement structure is characterized by novel and unclear problem situations.

Fig. 21.1 Description of competencies in the German Qualifications Framework. (cf. DQR, 2020)

Fig. 21.2 Assignments to the German Qualifications Framework



vocational education. In this context, we speak of an equivalence of qualifications; this does not mean that they are identical.

In the South African region, the meta-framework "South African Development Community Qualifications Framework" (SADCQF) exists. This currently represents fifteen countries. The SADCQF was founded in 2011 by the education ministers of the Southern African Development Community (SADC) region. The purpose of the SADCQF is to facilitate the mobility of learners and workers within the SADC region and internationally. The SADCQF is a reference framework consisting of 10 regional qualifications frameworks (RQF). The "Learning-Outcome"-based levels represent a regional standard for qualifications and quality assurance mechanisms (QS mechanisms) in the SADC (see Fig. 21.3). The member states agree to align their qualifications and QS mechanisms with the SADCQF. For individuals, it is thus possible to compare their learning and competence levels and to have them recognized in the SADC. This reduces national recognitions. The main purpose of the SADCQF is to promote mobility. As such, the SADCQF plays a key role in setting the regional standard for comparing qualifications acquired in the SADC. Initially, the SADCQF is only a reference framework; however, it has been decided that the SADCQF should later evolve into a framework in which qualifications are to be registered and accredited.

Using South Africa as an example, the national qualifications framework (NQF-National Qualifications Framework) will now be presented. As early as October 1995, the South African Qualifications Authority (SAQA) Act was proclaimed. This allowed the authority to be set up and to carry out its main task, which was to create the National Qualifications Framework (NQF). The authority began its work in May 1996. In the following years, the SAQA was able to create a system for establishing nationally recognized

Level	Knowledge	Skills	Autonomy and responsibility
10	Makes a substantial and original contribution to knowledge in the field of study through research and scholarship.	Conducts original research which is evaluated by independent experts against international standards. Demonstrates problem solving ability and critical evaluation of research findings for academic discussion.	Demonstrates full responsibility and accountability for all aspects of advanced research work.
9	Demonstrates mastery of theoretically sophisticated subject matter, showing critical awareness of current problems and new insights at the forefront of the discipline area.	Conducts original research deploying appropriate research methods and processes primary and secondary source information using rigorous intellectual analysis and independent thinking and applies knowledge in new situations; and demonstrates independent thinking, problem solving, critical evaluation of research findings and ability to make judgements based on knowledge and evidence.	Shows independence, initiative and originality and the ability to manage own and group outcomes in complex and unpredictable situations.
8	Demonstrates critical understanding of the principles, theories, methodologies, current research and literature of the discipline.	Demonstrates capacity to use a coherent and critical understanding of the principles, theories and methodologies of a particular discipline. Selects and applies appropriate research methods and techniques, and critical analysis and independent evaluation of information.	Operates within the context of a strategic plan with complete accountability for management of resources and supervision of others.
7	Demonstrates knowledge of a major discipline with possible areas of specialisation, including command of the ideas, principles, concepts, chief research methods and problem-solving techniques of the recognised discipline.	Demonstrates intellectual independence, critical thinking and analytical rigor, and advanced communication and collaborative skills in complex and variable contexts.	Designs and manages processes and works with broad accountability for determining, achieving and evaluating personal and group outcomes

Fig. 21.3 SADC level descriptors. SADCQF

and internationally comparable education and training standards and qualifications, and a national quality assurance system to ensure that education and training meet the established standards. Furthermore, the SAQA also has the task of analyzing and determining the South African equivalence of foreign educational degrees. Persons with foreign

6	Demonstrate specialist knowledge in more than one area and ability to collate, analyse and synthesise a wide range of technical information.	Demonstrate ability to apply specialist knowledge and skills in highly variable contexts and formulate responses to concrete and abstract problems.	Manages processes and works with complete accountability for personal and group outcomes.
5	Demonstrate a broad knowledge base with substantial depth in some areas, ability to analyse information and construct a coherent argument.	Applies a wide range of technical and/or scholastic skills in variable contexts using standard and non-standard procedures, often in combination.	Works independently under broad guidance and can take some responsibility for supervising the work of others and group outcomes.
4	Demonstrates a broad knowledge base, incorporating some abstract and technical concepts, and ability to analyse information and make informed judgements.	Applies a moderate range of technical and/or scholastic skills which are transferable in familiar and unfamiliar contexts, using routine and non- routine procedures.	Shows ability for self-direction, requiring little supervision, and complete responsibility for own outcomes and some responsibility for group outcomes.
3	Demonstrates basic operational and theoretical knowledge and ability to interpret information	Demonstrates a range of well-developed skills and ability to apply known solutions to familiar problems	Works under general supervision with some responsibility for quality and quantity of output
2	Demonstrates recall and a narrow range of knowledge and cognitive skills	Can carry out processes that are limited in range, repetitive and familiar	Applied in directed activity under close supervision
1	Demonstrates basic general knowledge and numeracy and literacy for everyday purposes	Can follow simple instructions and perform actions required to carry out simple concrete tasks requiring no special skills	Works under close supervision in familiar situations and structured contexts

Fig. 21.3 (continued)

educational degrees who wish to attend South African educational institutions or enter the South African labor market apply to the SAQA for the evaluation of their qualifications.

In South Africa too, the NQF thus forms a framework that can be seen as an organizational structure for the construction of the national qualification and education system. Fig. 21.4 illustrates how the types and degrees of education and vocational training fit into this framework. The NQF consists of 10 levels, which are divided into three areas; levels 1 to 4 correspond to high school grades 9 to 12 or vocational training, 5 to 7 are college diplomas and professional recognitions, 7 to 10 are university degrees.

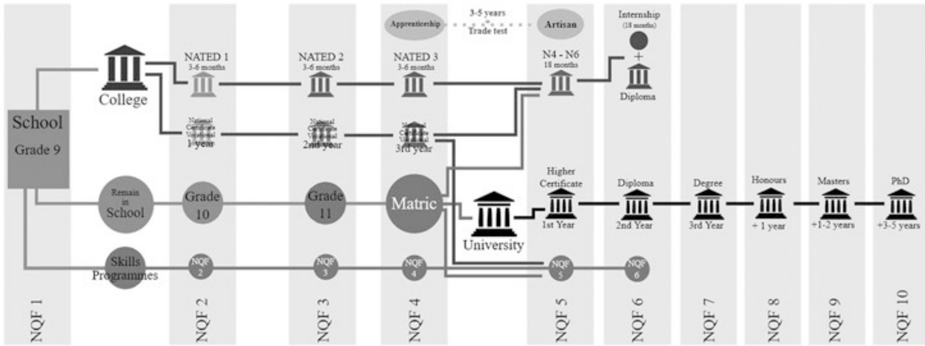


Fig. 21.4 "NQF-South Africa" with educational equivalents. *Source*: https://www.wikiwand.com/en/South_African_Qualifications_Authority

21.4 Comparability of Competencies and Qualifications

In Germany, one of the first distinctions made in terms of the level of requirements for a job in the recruitment process is the assignment to non-academic vocational education or academic (professional) education. While an electrical engineering engineer plans and develops, an electrician will execute these plans and put them into operation. In the DQR, skilled workers are classified at level 4 after dual vocational training. They therefore have competencies that are needed for independent planning and processing of professional tasks in a comprehensive, changing learning area or professional field. They have in-depth general knowledge or theoretical knowledge in a learning area or professional field. In order to cope with work tasks, they have a wide range of cognitive and practical skills that enable independent task processing and problem solving as well as the evaluation of work results and processes, including the consideration of alternative actions and interactions with adjacent areas. In addition, they are cognitively capable of providing transfer services. However, they can not only provide this as an individual, but they are able to shape the work in a group and its learning or working environment and continuously offer support. Their individual approach is not characterized by intuition, but the processes and results can be justified professionally and this can also be communicated comprehensively in technical language. At this level of requirement, skilled workers can set, reflect, realize and take responsibility for their own learning and work goals (cf. DQR). The competencies described in this way are what skilled workers or journeymen/women should have after their vocational training.

In contrast, university graduates have a competence profile after their bachelor's degree that is needed for the planning, processing and evaluation of comprehensive professional tasks and problems as well as for the independent control of processes in subareas of a scientific subject or in a professional field. Academically trained individuals should have a broad and integrated knowledge that relates to the scientific foundations and can be used both for the practical application of a scientific subject and for a critical understanding of the most important theories and methods. The very wide range of methods for dealing with complex problems in a scientific subject enables them to develop new solutions and to evaluate them taking into account different standards, even with frequently changing requirements. They can work responsibly in expert teams and guide the professional development of others as well as deal with problems in the team in a forward-looking manner. In addition, they must be able to argue complex subject-related problems and solutions with professionals and to be able to further develop them. They can define, reflect and evaluate their goals for learning and work processes and design learning and work processes independently and sustainably (cf. DQR).

After it has been determined which level of requirement—here exemplified by the two levels 4 and 6—the person to be hired should have for the job to be filled, a transformation can take place via the qualification frameworks. The levels of the DQR were assigned to the levels of the EQF in a "1:1" referencing. German qualifications that have been assigned to the DQR are therefore also assigned to the corresponding EQF level. In a European comparison, 38 European countries have now decided to develop national qualification frameworks (NQF). However, these NQFs can have a different number of levels and pursue different goals. In addition to Germany, 26 other countries have already assigned their NQFs to the EQF in the context of referencing (cf. DQR). This already allows for a good analysis of comparability in Europe. For a company foundation on the African continent, this will be done for South Africa as an example.

Firstly, for a skilled worker at DQR level 4, it could be assumed that this corresponds to the South African NQF level 4 "Apprenticeship" or 5 "Artisan" according to Fig. 21.4. An analysis of the competence descriptions from the DQR and the South African National Qualifications Framework will be carried out using a few selected examples. If, for example, it is important for employee recruitment that competencies in the area of "independent task processing and problem solving" and for the "evaluation of work results and processes, including the consideration of alternative actions and interactions with adjacent areas" are needed, this is fulfilled by skilled workers after a 3.5-year training according to DQR. At the South African NQF level 4, people are able to use their own knowledge to solve general problems in a familiar context and they have the ability to adapt a solution within relevant parameters to meet the requirements of small changes. The evaluation as a reflective element is not yet addressed here. On level 5 "Artisan", on the other hand, there is the ability to evaluate and solve defined, routine and new problems in a familiar context. The solutions are developed on the basis of relevant evidence and procedures or other suitable forms of explanation that represent the subject area, discipline or practice. If the reflection of one's own actions, as can be expected from dual-trained skilled workers in the Federal Republic, becomes the standard for employee recruitment, a skilled worker at level 5 of the South African NQF should rather be recruited.

Another example could be the competencies in the area of employee leadership. In the Federal Republic, this is attributed to employees from DQR level 6 onwards. Masters, technical school graduates (technicians) and bachelor's graduates are therefore able to work responsibly in expert teams or to lead groups or organizations responsibly, as well as to guide the professional development of others and to deal with problems in the team in a forward-looking manner. An initial comparison reveals that for the SADC framework this is attributed to people from level 8 onwards—"Administration of resources and monitoring of others" (cf. Fig. 21.4). This applies in a similar form to the NQF of South Africa. There it says at level 8 that people are able to take responsibility for their own work, decision-making and the use of resources as well as full accountability for the decisions and actions of others.

In the case of personnel responsibility, a decisive difference is thus shown with regard to the German Qualifications Framework and the frameworks in southern Africa. In Germany, this competence is attributed to both non-academically and academically trained individuals; in the case of a bachelor's degree in Germany, this would even be the case after a six-semester course of study. In southern Africa, level 8 is only reached with the "Honours" degree. Such an Honours degree is normally a prerequisite for admission to a South African master's degree program. Thus, a basic bachelor's degree must first be achieved in order to then add a one-year advanced study program to the Bachelor of Honours.

21.5 Lessons Learned

This article discussed the potential of qualification frameworks in national and international contexts in relation to employee recruitment. Qualification frameworks allow for an initial comparability of competencies and qualifications in order to be able to address and recruit the right and suitable target groups. In international contexts, there is usually no equivalent to dual vocational training in Germany. The high quality of vocational training, which is guaranteed by the two learning locations of vocational school and company and in some training occupations by the inter-company training centers and is co-responsible by the social partners and the chambers, is often desired by those companies that want to invest in Africa.

The graduates of TVET colleges are not yet recognized for this professional ability. The knowledge, skills and abilities acquired in the school context do not yet fully enable the independent handling of professional work tasks. German companies in South Africa therefore invest in training and further education. Large companies sometimes set up and operate their own training centers; smaller companies can sometimes participate in this or invest in other ways in the training and further education of their skilled workers.

The TVET colleges are in a similar dilemma as the vocational schools in the Federal Republic in the 1990s. The German curriculum development reacted relatively radically in

1996 with the so-called work-oriented turn to the low acceptance of vocational school education by the economy. Since 1996, the learning field concept has been prescribed for all newly ordered training occupations. This changed the systematics of the knowledge areas from a subject systematics oriented towards the respective reference science to a action systematics oriented towards work and business processes. By reversing the systematics of knowledge presentation, vocational school learning is supposed to be placed in the respective professional application context and to counteract so-called inert knowledge, which cannot be cognitively made available for coping with professional work tasks.

These curricular transformation processes are currently being discussed and initiated on the African continent, for example in South Africa, in order to increase the quality and acceptance of vocational school education programs. In its quarterly labor force survey, Statistics SA found that about 40.1% of young people in South Africa between the ages of 15 and 34 were unemployed and not enrolled in education and training institutions. Further statistics on labor market trends suggest that poor labor market performance is in many ways a result of a rapidly growing working population with low qualifications. The establishment and strengthening of a system responsive to youth after attending general education schools is seen as a way to reduce youth unemployment in South Africa. In this regard, the White Paper on Post-School Education and Training envisages an increased enrollment rate in all sectors of post-school education and training, with a particular focus on the TVET sector. In their report to the Portfolio Committee, the South African Department of Higher and Vocational Education plans to increase from 688,028 students in 2017 to 2,500,000 students in 2030 who are to be enrolled in the TVET sector. The TVET colleges are therefore attributed a great future responsibility to cope with urgent social and economic challenges.

The topic of vocational education has currently gained importance in Africa. In order to strengthen vocational education and thus ensure a demand-oriented development of skilled workers, the national education systems should further develop towards a stronger work orientation in the coming years. Furthermore, vocational education is seen as not connectable or as a vocational biographical dead end. The permeability of vocational education towards an academic education reduces these thresholds and creates acceptance for different career paths. Ultimately, an attractive vocational education system with individual biographical connections ensures qualified employees at various levels of human resources.

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Legal Framework Conditions for Investments in Africa

22

Boris Schilmar

Contents

Abstract

The legal landscape of Africa does not have a uniform legal system, as it has developed from tribal traditional legal orders influenced by Islamic law, which is still applicable in family and inheritance law, to different manifestations of legal understanding under French or British colonial rule. In recent decades, efforts have been intensified to unify the law on the African continent. In particular, commercial law, corporate law, and insolvency law have been harmonized. These harmonization efforts have also led to increased legal certainty and transparency for investors.

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22.1 Legal Systems in Africa

It will surprise no one that the legal landscape of the African continent is heterogeneous and does not have a uniform legal system. Rather, each African country is characterized by its own legal system, which is based on the respective history of the country. Foreign investors must therefore adapt to different local legal systems in the respective African countries.

22.2 Legal Pluralism

Before colonial times, the so-called tribalistic traditional law of the individual tribes and Islamic law prevailed in Africa. Traditional African law is unwritten customary law, with the overarching goal of settling disputes to protect tribal cohesion. This customary law is still applied today, particularly in family and inheritance law.

The strong position of Great Britain and France as colonial powers led to the spread of British "Common Law" and French law, which is based on the Roman legal circle. Since the West African states were predominantly French colonies, modern law there is based on French law. Important exceptions are the former British colonies that have adopted English Common Law. These include Gambia, Ghana, Kenya, Liberia, Malawi, Nigeria, Zambia, Sierra Leone, Tanzania, and Uganda. Among the 32 Civil Law countries are, for example, Egypt, Democratic Republic of Congo, Gabon, Libya, Mozambique, and Morocco.

22.3 Harmonization Efforts

In recent decades, efforts to standardize law have been intensified through political unions, customs unions, and associations for common economic areas. In 1993, a state treaty was signed by 15 countries from West and Central Africa to establish an international organization. The founding members of the "Organisation pour l´Harmonisation en Afrique du Droit des Affaires" (OHADA) include Benin, Burkina Faso, Côte d´Ivoire, Democratic Republic of Congo, Gabon, Guinea, Guinea-Bissau, Cameroon, Comoros, Mali, Niger, Republic of Congo, Senegal, Chad, Togo, and the Central African Republic.

In addition to the harmonization of commercial law, this also means increased legal certainty and transparency for companies. In the recent past, uniform laws have been created for all member states, particularly affecting commercial law, corporate law, cooperative law, and insolvency proceedings. These uniform laws are binding and are directly applicable in the countries. Compliance with these laws is ensured by the creation of the common Court and Arbitration Court "Cour Commune de Justice et d'Arbitrage" (CCJA), whose judgments are immediately enforceable and cannot be contested.

The most recent example of the progressive standardization of law is the agreement on the African Continental Free Trade Area (AfCFTA). Based on this, a reduction in customs duties is to take place, stimulating trade and production and strengthening regional value chains. With the signing of 54 African states (as of December 2020), this treaty carries high economic potential for the continent. However, various customs regulations between the EU and the individual African states will initially remain in place despite the agreement.

The member states must nevertheless negotiate over tariffs, uniform border controls, and standards. The agreement was originally scheduled to come into force on July 1, 2020, but was postponed to January 1, 2021 due to the Corona pandemic.

It is particularly important for foreign investors to deal early with the national legal and tax system and to involve local legal experts. The following outlines some basic aspects for foreign investments in Africa.

22.4 Legal Forms

In the first step, an investor must choose a legal form suitable for his business activities. A detailed examination of the various options and liability regimes is essential for the long-term success of the venture.

22.4.1 Private Company

On the African continent (as everywhere in the world), the private limited liability company is one of the most popular legal forms. This is comparable to the form of the German GmbH, so that the liability of the shareholders is limited to the company's assets. In South Africa, this corresponds to the "Private Company (Pty) Ltd", in Kenya and Nigeria the "Private Company Limited by Shares (Ltd.)", in Morocco the "Société á Responsabilité Limitée (SARL)" and in Mozambique the "Sociedades por Quotas de Responsabilidade Limitada (LDA)". In the majority of African legal systems, it is permissible for a company to be wholly foreign-owned.

In many African countries, including Kenya, Morocco, Mozambique, and South Africa, no minimum share capital is required for the formation of the company. Other countries require a minimum share capital, which, however, as in the case of Nigeria and Ethiopia, is often low. In some African countries, a certain minimum investment volume is required for foreign investors.

In countries where Civil Law applies, corporate law regularly sets higher hurdles for the formation of a company in order to protect consumers. A minimum capital is often required for formation to ensure liquidity when the company concludes business deals.

In countries based on the Anglo-Saxon legal tradition, there are less strict requirements for the formation of a company. For example, no minimum share capital is required here, but at the same time, increased transparency obligations must be met to ensure consumer protection.

The Private Company must consist of at least one shareholder and one company director. By law, a total of 50 shareholders may be present. Often the position of the company director is also held by the shareholder.

For the formation of the company, a company contract (Memorandum of Incorporation) is required. By law, an annual balance sheet is required at the end of each financial year by an auditor. Compliance with an Annual Return, which requires an annual report to the commercial register, must also be observed.

22.4.2 Public Company

In addition to the Private Company, there is also the Public Company. This form of company is comparable to the German stock corporation. Both forms of company are legal entities with their own legal personality. Also with the Public Company, the liability is limited to the shareholder's capital contribution. For the formation, in addition to seven founding members, a statute is required, which includes the company name, the company purpose, and the amount of the company capital.

Furthermore, attention must also be paid to differences in representation law, the ability to pass resolutions, and voting rights.

22.4.3 Dependent Branch

The majority of African legal systems provide for the possibility of establishing a dependent branch. As a rule, there is an obligation to register a "branch" if economic activities are carried out in the respective African country. Since a dependent branch does not have its own legal personality, the foreign company is fully liable for all liabilities of the branch. In South Africa, for example, an "external company" must be registered with the "Companies and Intellectual Property Commission" 20 days after the start of business (Companies Act 71 of 2008, section 23). One requirement is, among other things, the appointment of a representative of the "external company" based in South Africa. Exceptions regarding the possibility of registering a dependent branch apply, for example, in Nigeria. There, foreign companies wishing to become economically active in Nigeria are obliged to establish a Nigerian company. The alternative of establishing a dependent branch does not exist.

22.5 Labor Law

When establishing a company, foreign investors must also observe local labor law, particularly with regard to employer obligations and statutory minimum requirements for employment contracts. This is all the more true as labor law in many African countries is quite employee-friendly. The background is usually an increased need for protection of employees due to high unemployment and poverty rates. For example, in South Africa, the BCEA (The Basic Conditions of Employment Act) sets statutory minimum requirements that must be strictly adhered to. The maximum weekly work is 45 hours and an employee must take at least 15 days of vacation per year. For a five-day work week, the employee is entitled to a total of 30 days of continued pay in case of illness over 36 months.

Furthermore, under certain conditions, female employees are entitled to unpaid maternity leave for a period of four months.

In principle, there is no requirement for written form for employment contracts. However, basic information must be disclosed in written form before the start of the employment relationship.

In addition, under certain conditions, employees have an annual entitlement to three days of paid leave for a defined list of family obligations.

22.6 Restrictions for Foreign Investors

Foreign investors are subject to special registration obligations. For example, Ghana requires registration with the "Ghana Investment Promotion Centre". The amount of the minimum share capital to be invested by the investor depends on whether it is a joint venture with a Ghanaian person or a purely foreign-run company. In Ethiopia, foreign investors need an "Investment Permit" from the "Ethiopian Investment Agency". The minimum amount for such inventions also depends here on whether it is a joint venture with an Ethiopian investor. In other countries, including Kenya, registration of the foreign investor with the respective authority offers certain economic incentives. In the case of Kenya, this is the "Kenya Investment Authority" and through registration, among other things, work permits for foreign employees can be acquired. Some African countries require at least two shareholders for the formation of a company. These countries include, among others, Egypt and Nigeria. On the other hand, certain countries like Angola, Ivory Coast, Morocco, Kenya, Namibia, and South Africa allow the formation of a one-man company.

In addition, in individual African countries, there may be further restrictions and requirements for foreign direct investments (Foreign Direct Investments).

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Tax Aspects of an Investment in Africa

23

Claus Jochimsen

Contents

Abstract

With the exception of South Africa, where there has been an established tax law for two decades, the individual countries of Africa do not have a consistent tax law. Despite the establishment of the African Tax Administration Forums, which currently has 38 member states, an investor will thus encounter many practical difficulties in applying tax law. The differences in income taxation not only depend on the type of investment chosen (direct investment or use of a local company), but also on the country in which the investment is to be made. A precise calculation of the burden and consideration of the adversities is therefore strongly recommended before entering into an investment.

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23.1 Tax Systems and Financial Authorities

Most individual African countries (with the exception of South Africa—see below) do not have a consistent and coherent tax system, as is known from industrialized countries. Although the tax systems have basic features comparable to those of industrialized countries. There is generally both a direct taxation of individuals (income tax) and an indirect taxation (transaction-related, i.e., a sales tax or similar). However, only a small amount of interpretive aids are available. There is no statutory law. The financial authorities are also often underdeveloped. Understanding of international tax aspects is consistently low, and dealing with transfer pricing, which is increasingly relevant in an international context, is significantly behind that of developed countries. Finally, an international investor will quickly reach limits in the practical handling of tax matters. The increasing digitization or possibilities of handling tax matters electronically, which is increasing in other countries, is underdeveloped in most African countries. To ensure the necessary correspondence, it is therefore advisable to visit the respective tax authority directly.

In addition to the structural weaknesses in the authorities of many African countries, corruption is not unknown, which means that tax revenue falls significantly behind the possible level. Especially in the aftermath of the 2008 financial crisis, investments in Africa have declined sharply. As a result, 25 African countries founded the African Tax Administration Forum (ATAF) in 2009. The ATAF now comprises 38 members. The aim is to improve the functioning of the financial authorities and to provide suggestions for the design of the tax systems in order to improve the overall economic development and standard of living in Africa. The ATAF is supported by the OECD, the EU and directly by individual countries (including Germany). The program points currently range from an exchange of information on the implementation of the OECD's BEPS action plan, transfer pricing to technical support. The successes are still manageable, but a short-term impact was not to be expected.

As already mentioned, the above statements on the status of the tax system and the financial authorities do not apply to South Africa. Here, a well-organized financial authority—the South African Revenue Service (SARS)—has been established for two decades. Digitization is also well advanced, in some cases more so than in Germany, for example. Many parts of the tax returns can be made online, and objections can also be made electronically. As a member of the ATAF, South Africa supports other countries in their efforts to build an efficient tax administration.

23.2 Income Tax Liability of Resident Companies

The path of an investor can lead, on the one hand, to the establishment of a subsidiary in an African country. As a rule, a private limited liability company (comparable to a GmbH or AG) is then used. As is usual in developed countries, such subsidiaries have their own tax personality and are themselves subject to tax. The income taxation according to the worldwide income principle (so-called unlimited tax liability) in the respective country then consistently follows points of connection, as are also common in developed countries. A major point of connection is the place of management. Often, the establishment or registration of a company common in Common Law countries (especially USA) is also used as a connection for income tax (e.g., Chad, Republic of Congo, Zambia). In some cases, only income derived from domestic sources is taxed (e.g., Republic of Namibia). A further point of connection is not relevant there.

The amount of income tax depends on the respective country. It ranges—simplified—from about 20% to 35%, with different tax rates being applied locally depending on the type of income/activity. In some cases, there is also a special tax rate for small businesses (e.g., Nigeria: about 10% reduced tax for small businesses in the manufacturing and exporting industry).

23.3 Income Tax Liability of Non-Resident Companies

23.3.1 Profits of Taxable Permanent Establishments

Alternatively to the establishment of a local subsidiary, it is likely to be at least equally relevant to establish branch offices or to operate via commercial agents. This often establishes a taxable permanent establishment in the respective country. This usually means that this country wants to tax the profits attributable to the permanent establishment (so-called limited tax liability). The tax rate generally corresponds to that of a subsidiary resident in the country, although some countries also levy a higher tax on permanent establishments (e.g., Kenya or Malawi). However, the concept of a "taxable permanent establishment" is only legally anchored in a few local tax regulations of African countries (e.g., in Ghana). As a rule, reference is made to the concept of a permanent establishment in double taxation agreements (DTAs) concluded by the countries.

These DTAs are concluded bilaterally between individual countries. Germany currently maintains such DTAs with 13 African countries: Egypt, Algeria, Ivory Coast, Ghana, Kenya, Liberia, Morocco, Mauritius, Namibia, Zambia, Zimbabwe, South Africa, and Tunisia. The DTAs aim to avoid double taxation of profits by assigning taxation rights to only one country. From the perspective of a foreign investor, this is particularly relevant in the case of taxable permanent establishments, because the country in which the tax connection point for the main branch of a company used for the investment is located will often apply the worldwide income principle and thus also tax profits of a permanent establishment located in another state (so-called source state). The majority of the DTAs are based on a model agreement of the OECD or the UN; with African countries, the UN model is used more strongly, as it takes greater account of the claims of the source state. Both the OECD and the UN provide a model commentary on the respective model agreement, which offers interpretive aids. However, it should be noted that these are only "models"; the decisive factors for the allocation of taxation rights and the interpretation of law are rather the specifically concluded DTAs and other national interpretations.

A permanent establishment in the sense of the UN Model Convention (Art. 5 para. 1) is generally any "fixed place of business through which the activity of a company is wholly or partly carried out". Examples are provided in para. 2. In particular, para. 3 and para. 5 extend the concept of a permanent establishment to certain construction and service activities as well as representative activities. Para. 4, on the other hand, limits the permanent establishments insofar as auxiliary activities are not included. Thus, the concept of a taxable permanent establishment also clearly separates from civil or commercial law: a taxable permanent establishment can already exist if a branch has not yet been registered. In particular, the mere availability of office space on site can already be considered a "fixed place of business" and cause a permanent establishment. Service activities can also quickly lead to a permanent establishment. An analysis of the tax consequences of a planned activity is therefore advisable at an early stage.

Because the tax liability resulting from the establishment of a taxable permanent establishment usually leads to immediate registration and tax payment obligations in the respective country. Although a looming double taxation should be largely defused if a DTA exists (or, if such is not given, national regulations such as e.g., in Germany § 26 KStG). However, boundary issues may arise in detail. Also, the determination of possible permanent establishment profits is often not trivial. Consequently, despite opposing laws, double taxation of profits threatens—and the use of a local subsidiary can therefore be advantageous.

23.3.2 Incomes Outside of Permanent Establishments

Insofar as local incomes are not already taxed as part of any permanent establishment profits, they can be subject to taxation directly at the source; such a withholding tax is then usually to be withheld and paid by the person obliged to make a payment for the recipient. The withholding tax is generally final, a tax assessment is therefore not provided. Expenses reducing income are therefore generally not deductible. This form of taxation is often applied to interest or licenses. However, many African states also use it, for example, for the taxation of technical or advisory services.

Both the OECD and UN Model Conventions also provide for withholding taxes for certain incomes. The DTAs specifically concluded by Germany with the aforementioned African countries also assign taxation rights in the form of such withholding taxes, but limit these to the usual incomes interest, licenses, and dividends. However, it should be noted that the concept of a license in the DTAs can be broad. For example, compensation for the provision of industrial, commercial or technical equipment is generally included in the DTAs concluded by Germany with the African countries. In individual cases, it can go even further (e.g., in the case of Ghana also the service fee).

In all DTA cases, however, the withholding tax is limited to a certain amount, which is often below the usual local rate. To claim this reduction of the withholding tax or the omission, an application must usually be made to the tax authority in advance. This can lead to difficulties if the local tax authorities interpret the DTA terms differently than suggested by the DTA. Therefore, it is advisable to seek agreement with the tax authorities at an early stage to avoid double taxation.

23.4 Transaction-Related (Indirect) Tax and Duties

In addition to the direct taxation of individuals, African states have consistently established transaction-related taxation. This ranges from a value added tax or comparable tax (Sales Tax) with partly performance-dependent different tax rates over consumption taxes on certain products to special forms of taxation (e.g., Carbon Tax in Zimbabwe as a kind of vehicle tax). Duties are also usually levied on imported goods and commodities. Therefore, the total cost calculation of an investment should include a detailed analysis of these taxes, as they can significantly influence the cash flow and thus the profitability of an investment.

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China's Role in Africa

24

Andreas Sieren

Contents

Abstract

Over the years, China has significantly contributed to making an economic upswing possible in Africa. By now, China is not only interested in gaining access to raw materials in Africa, building infrastructure, and opening up new markets for its own goods. China shows ambitions to not only drive Africa's industrialization but also to increase local value creation.

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24.1 Defying the Crisis

In the past ten years, the continent has grown at an average of 3.48%. As constant as never before in its history, but still with changing countries in the top groups. For a long time, it was South Africa and Nigeria that led the top group, but now it is South Sudan, Rwanda, Ivory Coast, Ethiopia, and Senegal. The fact that Africa's growth is now distributed across more national shoulders than a decade ago, now helps to withstand the setbacks caused by the Covid-19 crisis. And indeed: the great catastrophe has so far been averted.

The Covid infection and victim numbers remained far behind the projections. However, this does not mean that the burdens are not enormous: The weak health systems are under enormous strain and money is scarce. The International Monetary Fund (IMF) estimates that the economy in Africa will shrink by around three percent in 2020, significantly less than Europe (−7.3%) and the USA (−4.3%), but still for the first time in more than 27 years. For 2021, the IMF expects a recovery and predicts growth of more than three percent. But until then, Africa too is grappling with the consequences of the virus: Countries that depend on tourism and the sale of raw materials were hit hard in 2020. Exports and trade collapsed, foreign investments fell, unemployment rose, and millions of people are slipping back into poverty. The debt burden on foreign creditors is putting more strain on individual nations. This, in turn, affects the quality of governance.

The latest Ibrahim Index of African Governance (IIAG), an annual country ranking of governance in the 54 African countries, which was published in November 2020, already notes a slight decline in successes this year. The IIAG evaluates progress in areas such as legal certainty, human rights, public safety, or sustainable economic growth based on around 100 indicators. The British-Sudanese mobile phone entrepreneur Mo Ibrahim, who advocates good governance in Africa, developed the IIAG in 2007. The current Ibrahim Index concludes that 60% of all Africans live in countries where governance is rated worse this year compared to the previous year 2019. Although the decline is minimal at 0.2%, for the first time since 2010, the overall situation has deteriorated. The general tenor: Governments are no longer meeting their obligations to their citizens as they did in previous years. At the same time, the security situation is deteriorating in some countries. Democratic processes are also being undermined. All of this is not surprising in view of the virus crisis.

24.2 The Chinese Money Lenders

However, the heaviest burden is that the African nations collect less taxes and thus have greater difficulties in servicing their international loans. This increases the dependence on foreign creditors.

The only consolation in this difficult situation. Although dependence on China is increasing, China, one of Africa's most important financiers, has long since overcome the crisis and, according to IMF estimates, will grow by around two percent this year—the only one of the major economic powers. This means that if there is a country that can be generous in this situation, it is China. However, the Beijing government must also keep an eye on the mood in the country. Helping African nations while state-owned companies at home are up against the wall is not particularly popular in China. Even a government that is not elected in the Western sense cannot ignore this.

Now it must be shown how crisis-proof the relationship between China and Africa is. However, it is not the first crisis that has been mastered together. The first Forum on China-Africa Cooperation (FOCAC) took place more than twenty years ago. At that time, Beijing had invited to the first ministerial conference in the Chinese capital and the interest was great: More than 80 ministers from China and 44 African countries as well as representatives of 17 international and regional organizations attended this first meeting. The next and eighth summit is expected to be held in Dakar, Senegal at the end of 2021. The partners, despite all differences of opinion, seem to be satisfied with the cooperation format.

For the 20th anniversary, the two FOCAC chairmen, China's President Xi Jinping and his Senegalese counterpart President Macky Sall, highlighted the effective cooperation between China and Africa: a good example of South-South cooperation, according to the two heads of state. And indeed, the numbers speak for themselves. About a hundred times more Chinese investments than 20 years ago. A large part of this was invested in Africa's infrastructure. In 2019 alone, Chinese investments in Africa amounted to 49.1 billion US dollars. For comparison: The investments from Europe amounted to 90% of this. And from the USA, they were even only 70%. Trade between China and Africa has also increased twentyfold to 208.7 billion US dollars. For more than ten years, China has been Africa's largest trading partner, and according to China's Foreign Minister Wang Yi, it has contributed about twenty percent to the continent's growth in recent years.

But how does the African population perceive the Chinese partners? Sometimes the numbers and perception of successes diverge.

As early as 2016, Afrobarometer, a pan-African opinion research institute, conducted a corresponding survey. According to this, around two-thirds had a positive attitude towards China. In addition to the infrastructure projects, investments and development aid were particularly popular. The generally inferior quality of Chinese products was negative, which is not because the Chinese cannot produce good products, but mainly because the Chinese traders, due to the still low average purchasing power of the Africans, predominantly offer inexpensive but inferior quality products.

This study was repeated in 2019/2020, this time the researchers also wanted to know what Africans think about Chinese loans and debt repayments. The positive attitude towards China still predominates. However, concerns were shown on the subject of debt. As in the first study, the surveyed Africans prefer the USA as a development aid provider. But the Americans are rather withdrawing. Since 2014, investments in Africa have been declining. In 2019, they were around 70% of Chinese investments.

This has not only to do with Washington's dwindling political interest in Africa, but also with the fact that since the Chinese have been involved, it has become increasingly difficult to determine the conditions of the investments. The African governments have learned very quickly what opportunities the new competition offers. They no longer have to take what they get, but can choose which country they want to cooperate with. The negotiations have become tougher from the African side. The fact that they are increasingly coordinating within the African Union strengthens their negotiating position. At the same time, a competition within Africa for better infrastructure and living conditions for the respective population has broken out. This makes corruption more difficult because completely nonsensical projects are politically more difficult to enforce. The heads of government and presidents are now measured by the media and civil society against the best practice of the neighboring country.

But it is by no means only China that is fueling the competition. The BRICS nations India and Russia are also playing an increasingly important role. Japan and South Korea have been involved for a long time and are increasing their commitment. Globally, there is a clear trend. Asian countries and Russia are gaining contracts, Western nations overall, not just the USA, but also in Europe, are losing influence. Europe seems to still have more important things to do than to help their former colonial powers. Surprisingly: the less their own commitment was, the greater the criticism of the commitment of the competitors, especially China: The term "debt trap diplomacy" made the rounds and is now considered an established, albeit not particularly impressive in Africa, diplomatic pressure tool among China-critical heads of government. The Indian geostrategist Brahma Chellaney, one of the most important Indian strategists, coined this idea in early 2017 in connection with China's Belt and Road Initiative (BRI), colloquially known as the New Silk Road. According to this, China should use its financial strength to lure smaller and weaker countries into a debt trap.

24.3 Crushing Debts

Two examples outside Africa, which are often mentioned in this context by India but also in the West, are the Hambantota port in Sri Lanka, largely financed by China, and a new ice rink line across Malaysia, with China also as the most important financier. In both cases, the credit rates could no longer be paid. Sri Lanka leases the port to China for 99 years, in return China waives a large part of the debt. In Malaysia, the loan had to be renegotiated. However, these are rather exceptions. The rule is: Since China has been involved, foreign investments in Africa have increased dramatically, usually to the benefit of both partners. Nobody foresaw this to the extent when the FOCAC was founded 20 years ago. Above all, it seemed unimaginable that China would overtake the West so quickly in terms of investments. Thus, Chinese investments in Africa per year rose from 75 million US dollars in 2003 to 5.4 billion US dollars in 2018. As early as 2014, China invested more in Africa than the USA, the largest financier until then. The majority of the investments went into infrastructure projects. South Africa, the Democratic Republic of Congo, Mozambique, Zambia, and Ethiopia received the most money. The Chinese delivered more and faster than the West. Western nations now have a reputation in Africa for promising a lot but delivering little: for example, many of the projects promised at the G8 summit in 2005 in Gleneagles, Scotland, have never been implemented.

In fact, from a Western perspective, Chinese investments have a major disadvantage: if they do not run through the World Bank, they are bilateral and thus evade multilateral mechanisms that are supposed to ensure more transparency. When it comes to transparency, the West certainly has higher standards than China.

It is likely that China's engagement in Africa will continue to grow in the coming years, but not at the same pace as before. The priorities will shift. Africa will become more of a sales market for the affluent new middle class for China and a production location for simple products, for which it is no longer worth setting up production capacities in their own country because wages are already too high. However, the new Chinese production facilities are not always set up voluntarily. The African countries are now powerful enough to force the Chinese to do what the Chinese were able to force Western companies to do 20 years ago. At that time it was said: Whoever wants to sell products in China must also produce them in China. The fact that African governments can enforce this form of localization is probably the most convincing evidence of Africa's economic success and the emergence of an affluent middle class. The Chinese investors would not agree to these rules of the game if it were not worth it for them. Especially since the Chinese investors have also learned from their mistakes. More loans than planned, which China has granted to African countries, have developed into a problem, as governments can no longer meet their payment obligations. In the future, China must more accurately assess the possible risks in lending and monitor to what extent investments by private companies remain profitable. A study by the Allianz insurance company estimates that this development could cost Africa up to 30.5 billion US dollars between 2021 and 2025. This is the sum that China may invest less in Africa during this period. South Africa, Angola, Kenya, and Ethiopia would be most affected.

24.4 The Port Remains in Kenya

Closely related to this topic is the great dependence on Chinese debt, for example in Kenya. More than ten percent of the foreign debt of the East African country is covered by China. China financed and built and opened the much-noticed railway line from Mombasa to Nairobi in 2017. The prestige object is a great infrastructure success, but still runs at a loss, which is also the case with the German railway. Every three months, Kenya has to pay 30 million US dollars to Afristar, a Chinese company that operates the railway line. The situation has been exacerbated by the Covid-19 pandemic. As early as 2018, a rumor circulated that China would take over the port of Mombasa in the event of Kenya's insolvency. Some observers fear that this was Beijing's strategy from the start to drive Nairobi into political dependence. In fact, the following was agreed contractually: The operator of the port of Mombasa, the Kenya Port Authority (KPA), had to ensure that a certain proportion of the goods handled there are transported by rail to Nairobi, and not by truck over long-distance roads. Furthermore, all imported goods are levied with a charge of 1.5%, which contributes to the financing of the railway line. In addition, Kenya had to commit to insuring the loan with Sinosure, a state-owned Chinese insurance company, at a cost of almost seven percent of the loan amount.

These contract details show that China tried to reduce the credit risk in the negotiations, but did not aim to bring Kenya into dependence. The case of the railway line in Kenya is not an exception, but the rule. The China Africa Research Initiative of the John Hopkins School of Advanced International Studies in Baltimore, USA, has examined hundreds of Chinese loans in Africa and found that China has not appropriated infrastructure in any single case because the borrowers could not pay. Even the much-cited example of the Hambantota port in Sri Lanka is in reality the privatization of a seaport to a foreign operator. Here, the government had financially overcommitted and found an economically feasible solution. At this point, Sri Lanka urgently needed foreign exchange income to pay its debts on foreign capital markets. China did not play a central role in this. Similar to Kenya, only ten percent of Sri Lanka's foreign debt can be attributed to China. And even with this comparatively small debt share, China strives to structure the loans in such a way that they can also be repaid. Other solutions, as the government in Beijing has now learned, harm China's international reputation in the world. And that is important. Beijing calculates not only economically but also politically. Forcing states to their knees through a credit stranglehold is not considered politically sensible in the long term. Rather, Beijing wants, to speak with an image from the economy, states as customers who are so satisfied that they do not notice their dependence on Beijing or at least gladly accept it.

24.5 Debt in the Copperbelt

Even in Zambia, the first nation to become a debt victim of the Corona crisis, China did not play a central role. On a Friday, the 13th of November 2020, the country in southern Africa could no longer meet its installment payments of 225 million US dollars to various creditors. The precarious financial situation in Zambia existed long before the outbreak of the Covid-19 pandemic. The IMF had already warned of the precarious situation before the crisis. And not only about the situation in Zambia. In general, since the global financial crisis of 2008, debt in Africa has been steadily increasing. Most countries in Africa collect too few taxes and save little. This is also due to the fact that multinational corporations shift their profits to where they have to pay the least taxes through internal accounting. In addition, there are volatile exchange rates that can burden commodity transactions.

These problems can be well illustrated using the example of Zambia. After the country's independence from Great Britain in 1964, state founder Kenneth Kaunda steered the one-party state into economic abyss with socialist experiments for 30 years. Zambia recovered after democracy was gradually introduced in the 1990s. As Africa's second most important copper producer, the country was doing well by African standards. With the change of government in 2011, the country became more authoritarian, especially since President Edgar Lunga came to power in 2015. By this time, Zambia had already invested a lot of money in infrastructure, even though the economy was faltering and the currency was losing value. The debt crisis took its course.

It is not clear exactly how much Zambia owes to whom and under what conditions. There is a lack of transparency and China is just one of many lenders, albeit not an unimportant one. But in the crisis, Beijing's behavior is gaining disproportionate importance. According to international estimates, Zambia owes China around three billion US dollars. As recently as October 2020, the China Development Bank (CDB) granted a payment deferral without disclosing details. This has significantly reduced Zambia's suffering and the local government will certainly not forget Beijing. Especially since no such relief came from the West. Eight billion US dollars in debt can be attributed to the West, three billion of which are in Eurobonds alone. Above all, these, acquired between 2012 and 2015, have financially brought the country to its knees, and less so the debts to China. China was also accused at times of wanting to take over the country's main airport and the most important broadcasting station. Both turned out to be false reports. In desperation, Zambia turned to the IMF in December and asked for financial aid and advice on how to make the economy more efficient again. Negotiations on this will continue in 2021. The IMF speaks of "significant progress".

Another debt candidate who will get into trouble is Angola. For almost 20 years, the southwestern African country has been exporting oil to China. As a result, Angola has neglected its coffee export business, which has almost come to a standstill. This is now taking its toll, as the economy is one-sidedly dependent on oil. Global oil surplus, lower demand, and a one-sided economy are putting pressure on Angola. African governments spend an average of ten percent of their income to pay the monthly interest on their foreign debt. Ten years ago it was only five percent. In Angola, it is currently more than 30%.

24.6 Free Trade

The more economically successful the African nations are, the more important intra-African trade becomes. On January 1 of this year, the pan-African free trade agreement (AfCFTA) came into force with a six-month delay, which was already contractually sealed in 2019. AfCFTA aims to enable the free movement of people, goods, and services between the states of the African Union. A continental currency union is to be added. AfCFTA is the centerpiece of the African Union's "Agenda 2063", which is intended to boost Africa's economy. Traditionally, trade between African countries and those outside the continent, such as China, has always been stronger than intra-African exchange, sometimes by up to a third more. According to estimates by the Economic

Commission for Africa (UNECA), intra-African trade will increase by more than 50% when tariffs are abolished under AfCFTA. The newly created internal market comprises 1.2 billion people with a combined GDP of 3.4 trillion US dollars. For comparison, China's GDP is around 14.9 trillion US dollars.

The free trade agreement makes it even more attractive for Chinese companies to set up production facilities in Africa, because it is now easier to develop all of Africa from one production location. In addition, AfCFTA can be a good partner for China's BRI. This was a topic of discussion among think tank analysts for months. But it was not until a year late in December 2020 that a high-ranking representative of the State Commission for Development and Reform (SCDR), the most important supervisory authority for the economic development of the People's Republic of China, expressed openness to this idea in Beijing. One reason is certainly the Corona crisis. In 2020, trade between China and Africa fell by 10.6%. While China's exports to Africa remained stable, China's imports from Africa fell by 23%. After the outbreak of the Covid-19 pandemic, China's demand for raw materials from Africa fell sharply. In addition, the prices of important raw materials such as oil and copper fell. Oil-exporting countries like Angola, Nigeria, and the Republic of Congo were particularly affected by the falling oil price, which fell to its lowest level since the Gulf War in 1991 in April 2020. The oil price is now slightly on the rise again and should continue to recover during 2021. The same applies to commodity prices. In addition, the pandemic had a negative impact on the exchange of goods, as factories had to cut back their production and railway lines and seaports could only transport and handle goods to a limited extent due to the Covid-19 restrictions. Trade and African exports should recover in 2021. The cooperation between AfCFTA and BRI is intended to accelerate the recovery. The aim is for African governments to identify strategically important AfCFTA projects and further expand them with their Chinese partners via the BRI.

Critics see the danger that weak countries in Africa will continue to go into debt with China and expose themselves to greater financial pressure. Supporters point out that projects in Africa are being promoted that connect African economic centers through infrastructure corridors. Many border crossings and seaports in Africa are still considered bottlenecks that slow down the flow of goods.

24.7 The Future Belongs to Public Private Partnerships

Public Private Partnerships (PPP) are the new model with which African states are trying to find an alternative to direct indebtedness to the Chinese state. The Chinese government welcomes this, as it reduces its state risk in Africa, or more precisely, the state diversifies the state risk into state-owned enterprises. This has the advantage that these companies are responsible for the debts. Projects are not only cushioned by several partners, but financing is also secured by users of the infrastructure having to pay fees for years. This is the case with a new construction project in Kenya's capital Nairobi. There, China is building a 27 km long four-lane highway, called the “Nairobi Expressway”. The 600 million US dollar project is financed by the China Road and Bridge Cooperation (CRBC), one of the four major state-owned companies in China, which has made a name for itself abroad in particular with the implementation of complex infrastructure projects. CRBC advances the money for the construction of the highway, but according to the contract, it can demand highway fees from motorists for 27 years. With “Private” in this model, private companies are not necessarily meant, but also state-owned companies. However, more and more private companies are to be involved. Already at the last FOCAC summit in 2018 in China, President Xi Jinping had called on the Chinese private sector to become more involved in Africa. He spoke of “investing at least 10 billion US dollars within three years.” In the background, the Chinese government guarantees the projects and continues to take overall responsibility, mostly through the state insurance company Sinosure, which insures loans and exports. Otherwise, many private companies would not shoulder the Africa risk.

Thanks to the new PPP constructions, the construction of toll roads is progressing rapidly not only in Kenya, but also in countries like Mozambique and Uganda. The model is also used in other major projects, such as the construction of a gas pipeline in Nigeria. A newer variant is the capital participation of Chinese state-owned companies, such as in the construction of a coal-fired power plant in Zimbabwe, where the Chinese state-owned company Sinohydro Corporation is investing 1.5 billion US dollars.

24.8 Covid-19 Diplomacy

Even in China's new “Covid-19 diplomacy”, the PPP model is being considered. While at the beginning of the pandemic, flight connections between African countries and China were hastily suspended, as the direct spread of the virus was feared, China was already sending aid to Africa again at the end of *March*. The WHO predicted a Covid-19 disaster for Africa, which was already plagued by weak and overloaded health systems. However, the disaster in Africa did not materialize. Europe and North America were busy with the challenges of the first Corona wave, China seized the opportunity. The Chinese support came from both the government and Chinese private companies. China wanted to show itself as a reliable partner in the crisis. First, medical teams were sent who had gained experience in combating the virus in China, among other places to Nigeria, Algeria, and South Africa. Private companies, on the other hand, delivered masks, protective suits, and medical devices—with political support from the respective Chinese embassies and national health ministries on site, such as in South Africa. At times, entire hospitals were expanded and prepared for the challenge of the pandemic, such as in Zimbabwe. In the Ethiopian capital Addis Ababa, China contributed financially to the establishment of the Africa Centre for Disease Control and Prevention (Africa CDC). As a statutory institution of the African Union, the Africa CDC coordinates various areas of public health care in Africa. The goal: to improve medical practice and prevention and the necessary infrastructure. Many of the donations from China were comparatively modest, but were strategically targeted. The doctors sent from the Far East did not always harmonize with the local doctors. And it was also not always obvious exactly how much aid money flowed. Nevertheless, China managed to set a political sign of solidarity.

Much more important, however, is another project of Beijing: making Covid-19 vaccines accessible to African countries. China is currently developing four different vaccines, including the state-owned company Sinopharm. As soon as the first vaccine was approved by the authorities, it was produced in large quantities and also exported to Africa, including Egypt, Senegal, and Zimbabwe. The governments of many Western countries have already ordered more doses of vaccine from various manufacturers than they may need. In Africa, there are legitimate concerns about the "vaccine nationalism" that the WHO regularly warns about. It is feared that the continent will again be left behind and will receive too late and not sufficient quantities of vaccine doses.

In October 2020, China joined the COVAX initiative, the international initiative for the procurement of a future Corona vaccine for poorer countries. According to the Ministry of Foreign Affairs, the Chinese are concerned with the promise to "make Covid-19 vaccines a global public good". The Chinese support the WHO here, which in turn leads the COVAX initiative together with the vaccination alliances Gavi and Cepi. The initiative aims to acquire around two billion vaccine doses for low and middle-income countries by the end of 2021.

The Covid-19 pandemic was the most important point on the agenda at the 12th BRICS summit in November 2020. President Xi Jinping assured to supply the BRICS states with the vaccine. This also corresponds to the line of China's new five-year plan, which was adopted in March. One tenor of the plan is that China wants to argue less with the West and instead wants to work more with the emerging markets. South African President Cyril Ramaphosa, who held the chairmanship of the African Union in 2020, praised the African governments to the BRICS colleagues, who had quickly responded to the virus challenge. However, he also warned that the continent will still need a long time to recover economically. The new BRICS Development Bank provided four billion US dollars in Covid-19 emergency aid, with another 10 billion to be added.

24.9 Debt Moratorium

Even the leading Western nations showed concern at the beginning of the pandemic in view of the rising debt burden of the underdeveloped countries. Together with the World Bank, the G20 finance ministers agreed in April 2020 on the Debt Service Suspension Initiative (DSSI), which includes 40 African countries among others. The aim of the DSSI is not to write off debts, but to temporarily suspend payments for about one to two years. In Africa, debts amounting to 5.4 billion US dollars are eligible for this. Through DSSI, African countries are able to bridge short-term financial bottlenecks and focus on economic crisis management. Whether the affected countries will then remain solvent in the long term is another question. It is likely that possible insolvency will force governments to ask the IMF for help. China has pledged cooperation with the DSSI.

According to its own information, China has temporarily suspended debt repayments in Africa worth 1.25 billion US dollars in a total of 23 countries. This is particularly important for Angola, which has almost half of all foreign debts with China, and is China's fourth largest oil supplier. China has advocated for Angola to participate in the DSSI. According to the World Bank and IMF, Angola could thus temporarily save interest and repayment payments amounting to 3.4 billion US dollars. The advantage for China: Angola promised China long-term access to more oil in return, part of it to settle debts. Liabilities that are secured with oil usually create a greater dependency between borrower and lender. But for China, such debt negotiations are still new territory. The Middle Kingdom has so far struggled with debt relief, but is open to negotiating with African countries about it within the framework of FOCAC, i.e. outside and without the direct influence of multilateral institutions. By the way, Zambia is the country in Africa to which China has forgiven the most debt. In total, it was 400 million US dollars by 2019.

Without greater transparency, as the case of Zambia shows, debt crises will repeat. Chinese lenders are not exactly known for openness and the government in Zambia is no better. Since Beijing does not insist on keeping the numbers secret, it is more up to the African Union to put pressure on such countries and thus ensure that the nations of the continent become more transparent. World Bank President David Malpass has also recognized that the effectiveness of the DSSI depends on whether information about the structure of the debt must be disclosed. If this is successful, DSSI can have a positive impact on Africa and involve China more in international debt negotiations. With new lenders in Africa, like China or various private providers, it is time to think about improved rules and openness in lending.

24.10 The Chinese Model

China has significantly contributed to the economic upswing in Africa over the years. By now, China's interests in Africa extend far beyond just gaining access to raw materials, building infrastructure, and opening up new markets for their own goods. China shows ambitions not only to drive Africa's industrialization but also to increase local value creation. During the last FOCAC summit, President Xi therefore spoke about linking research institutes and exchanging specialists. China's trade and investment policy is the extended arm of a geopolitics aimed at taking a central place in the global community. The BRI plays a central role in connecting the world more with China. The volume of the projects, their magnitude, and the rapid implementation currently speak for China. A constant advantage was the unrestricted support of the government, which also gave Africa the feeling of cooperating on an equal footing. Africa has always been a top priority in China. Interference in the internal affairs of countries should be avoided. In the debt debate in Africa, China quickly gained experience on how to deal with borrowers who can no longer service their rates. More transparency, and this applies to all actors, would not only help the borrowers but also the lenders. The accusation against China of deliberately making individual states dependent is not sustainable, even if as a lender you always have the upper hand. But China also wants to keep its investment risk under control. China's model in Africa has also worked because the Middle Kingdom has focused on strategically important infrastructure projects for years. With the new free trade zone in Africa, opportunities for new innovative projects arise. To remain competitive, Western investors and trading partners, including Germany, should actively participate in such projects. Germany's technological lead is in demand in Africa. We will see more public-private partnerships in the future.

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In the 1990s, Sieren experienced the Asian rise in Singapore, where he worked on the Asia-Europe Meeting process for many years. The United Nations brought Sieren to Africa. For UNDP, Sieren worked on governance issues in southern and eastern Africa, later as an expert for KPMG and the Oxford Business Group. Most recently, Sieren coordinated city partnerships between Africa, China, and the EU for the European Union—with projects on sustainable urban development and climate change.

Sieren's journalistic work has appeared in Al Jazeera, WirtschaftsWoche, Straits Times, and Business Day. He managed the production of "24 h South Africa" for ZDF, the longest documentary ever filmed about Africa. For Deutsche Welle TV, he reported live from the memorial service for Nelson Mandela. "The Africa Boom—The great surprise of the twenty-first century" (2015), which he wrote together with his brother Frank, is his first book. ("The book hits the nerve of the time." NZZ, "A wake-up call for German entrepreneurs and politicians" FAZ, "Must read." Handelsblatt).

Part IV

Five Theses and an Outlook

Approaches to the Future Design of Economic Relations Between Germany and Africa

Abstract

This chapter summarizes the most important findings from the book. It condenses the core statements into five theses. In addition, the editors venture a look at the future of economic relations between Germany and Africa, also in view of the disruptions on both sides caused by the Corona virus.

Insights and a Look into the Future

25

Thomas Schmidt, Kay Pfaffenberger and Stefan Liebing

Contents

Abstract

From the editors' perspective, the main findings can be summarized in five theses: Thesis 1: German companies cannot afford not to be present in Africa! Thesis 2: The greatest risk lies in missed growth opportunities! Thesis 3: Market development in Africa works differently than in the rest of the world! Thesis 4: We can learn from other investors! Thesis 5: Recipe for success: Make it a top priority!.

The first edition of our book was an experiment. At the beginning of such a project, it is rarely clear what the result will look like. Too much depends on the contributions the authors provide, the focus they set, and how intensive their personal experience with and in Africa is.

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In retrospect, we editors could rightly be proud of the diversity and quality of the contributions and we have enjoyed extensive feedback since the first edition was published. It is obvious that the practical guide “Economy in Africa” has been able to provide countless students, entrepreneurs, and political decision-makers with suggestions for their work and that the first edition has thus fulfilled its purpose.

A second edition is a significantly simpler project. Proven authors have adapted and further sharpened their contributions to current developments. New chapters have been added to reflect current developments.

Thus, in addition to a profound overall view of current developments on the continent and cultural peculiarities of business life in Africa, a book has been created, primarily through the practical contributions of entrepreneurs on various topics, that aims to help successfully realize new business activities on the African continent. The fact that thematic overlaps occur from time to time is due to the fact that we as editors wanted to give the authors as few specifications as possible, so that an unadulterated view of their respective field of expertise emerges. It seems to us that this was the right approach and has led to a result that can be seen.

Nevertheless, the question remains as to the quintessence, the core messages of this volume. What can the entrepreneur take away as essential conclusions, what is also undisputed among the authors with all their different backgrounds of experience? And while many observations, statements, and recommendations are timeless, the Corona crisis has created peculiarities that must be incorporated into a perspective for shaping future economic relations.

25.1 Five Theses…

From the editors’ point of view, the essential findings can be summarized in five theses.

25.1.1 Thesis 1: German Companies cannot Afford not to be Present in Africa!

Numerous contributions have pointed this out: The last economically unexplored continent on earth is Africa. Despite all the differences between the 54 nations, there is agreement that economic growth in the coming years will be the main driver for the development of the continent. Billions of new (and young) customers, workers, innovators, and entrepreneurs: The German economy cannot afford not to participate in this development. Exactly how fast the economic development will go is still open. The Corona crisis has set most regions back by years. Therefore, there are so far only initial indicators of which countries will have the highest chances in the coming years to belong to the next round of emerging countries and which will continue to remain at their current level of development. However, it is certain: Africa will experience a tremendous development boost, also through new technologies.

25.1.2 Thesis 2: The Greatest Risk Lies in Missed Growth Opportunities!

Business ventures in Africa are associated with risks, there is no question about that. Many of the risks can be minimized through smart planning, suitable partners, or insurance. Nevertheless, risks remain—as is the case with all types of entrepreneurial activity. However, the risks should not be overestimated—also in public perception. It is important to consider and evaluate the balance between opportunities and risks. Investments on the African continent often also come with exceptionally good returns, which price in the risks and can thus still represent an interesting business opportunity. The fact that entrepreneurs from our neighboring countries often invest more strongly and earlier may also have to do with the fact that in these countries there is often a better understanding of the actual conditions on the ground, while in Germany many still fall for the clichés about African societies, which may have been justified ten, twenty, or thirty years ago, but from which many African metropolises are far removed today. So: Projects in Africa that are not tackled out of fear of the risks also represent a great risk: namely missing new markets, great opportunities, regions of future rapid development. And that is something that only very few entrepreneurs can afford in the long run.

25.1.3 Thesis 3: Market Development in Africa Works Differently than in the Rest of the World!

That Africa works differently than Europe is a truism. And yet there still seem to be enough entrepreneurs who try to open up new markets on the southern continent in the same way they would if they were building a sales organization for another German federal state. Not only when deciding between a local partner and own sales, special features must be taken into account, but also when deciding which “selling proposition” to offer the African customer. The close connection of political and economic systems, the relationship-based economy, the demand for solutions rather than components and products, all these are topics that German investors often experience for the first time when they go to Africa. Successful business initiation therefore requires extensive experience. This experience can be brought into the company by hiring an Africa expert or by hiring consultants who have proven to be successful on the continent. And it requires creative thinking regarding new sales approaches: Bringing along part of the financing for new projects, possibly also investing oneself, offering solutions and understanding them as part of a larger whole, all this requires a deep knowledge of the needs on the ground, the political agenda, and the decision-making structures. It may be necessary to develop package offers that require cross-sectoral, possibly also international, cooperation in order to keep up with the competition.

25.1.4 Thesis 4: We can Learn from Other Investors!

The commitment of German entrepreneurs on the African continent has so far remained below its potential in international comparison, even though Germany has caught up in recent years. There are a number of reasons for this. First of all, the available information and personal impressions at German medium-sized companies are often less pronounced than at the large state-owned companies of our neighboring countries, which often also have a stronger colonial past and in many cases have never let their close connections break off. It is therefore of central importance that we do not adopt a risk-averse positioning and rather orient ourselves towards the risk assessment of countries that are often better acquainted on the ground. The economic structure in Germany rather puts us at a disadvantage, which needs to be compensated by a stronger proactive positioning. And finally, we need a toolbox of stronger instruments for foreign trade promotion: If the German industry is rather fragmented and small-scale, therefore less able to open up new markets and bear corresponding risks, then it is the task of the public sector to compensate for these disadvantages. New mechanisms for risk hedging are part of this, for example more extensive guarantee instruments. The federal government has taken initial steps in this direction, further steps must follow. More offensive financing packages for infrastructure projects, but also the support of the German Mittelstand in the pre-development of projects and in the creation of consortia and “package offers” across industry boundaries must come into focus. At least in these areas we can—not least from Chinese providers—still learn a lot.

25.1.5 Thesis 5: Recipe for Success: Make it a Top Priority!

Finally, perhaps the most important insight from this book: Africa must be made a top priority by a company. Entering new markets on the continent requires creative thinking and new approaches. It will initially require questioning proven processes, structures, and procedures and adapting them to local conditions. And possibly one will also have to listen to external consultants and conversation partners and incorporate their experience. All this works best in companies when the topic becomes a top priority and thus decisions can be made quickly and existing rules can also be adapted. Only with appropriate support and personal involvement of the decision-makers of a company from the top management can a market entry in Africa become a serious success!

25.2 … And a Perspective: Africa After the Corona Crisis

Ten years of uninterrupted growth in Africa have also shown the German economy that it is worth taking a closer look at the continent. The federal government has taken initiatives with the aim of facilitating investments there. Driven not least by the refugee crisis in 2015, the Chancellor, the Ministers of Economy, Finance, and Development have started programs to pave the way for German companies to Africa. Coupled with increased public attention to success stories and not just problems, a good basis has been created for growth. In 2018 and 2019, there were significant increases in the investment volume of German companies. Over 10% of the total investment stock was added in just one year. As part of the "G20 Compact with Africa" investor summits, dozens of success stories of German companies could be presented. Trade volumes have also been steadily increasing over a longer period. For a short time, German foreign trade with Africa even exceeded the values of French companies. Further growth seemed likely. At least on the condition that the federal government would have enabled companies through various measures to remain competitive against Asian competitors. An expansion of promotion, financing, and insurance possibilities seems to be a suitable instrument for this.

The Corona pandemic has now put all these developments into question. In 2020, German export figures with Africa fell by over 25%. Even though Africa seems to have come off better in terms of infection numbers than other regions of the world, there can be no doubt that the economic consequences in many countries are worse than thought. Not all of this appears in macroeconomic statistics. After all, those people who were already working in the "informal sector" before the crisis were the first to lose their jobs, so their position did not appear in any statistics even before the crisis. These massive economic crises will certainly lead to instability in some countries in the first place and may also favor political changes. High (youth) unemployment can unleash dynamics that may initially appear negative and risky to foreign investors.

Three developments could nevertheless ensure that Africa recovers quickly and the continent continues to be an important target for the German economy. Firstly, it is certain that internationally distributed value chains will reorganize after the crisis. Companies that have so far relied exclusively on sources of supply from Asia may look for alternatives for procurement or even for critical production steps and may find them particularly in North Africa. Secondly, there is the possibility that after a strong slump, strong growth after the end of the crisis will provide for rapid compensation. It is certainly sensible and necessary to be on site at this time and to participate in this development. Especially if growth in other parts of the world, with our traditionally most important trading partners, may still be slower for some years. And thirdly, numerous African companies have proven to be resilient during the crisis. It may be a promising strategy to participate in such companies that have come through the crisis well and now represent good investment opportunities that have high capital needs for their next growth phase.

So: The basic findings of our practical guide "Economy in Africa" also apply in a new "post-Corona world". What adjustments the crisis requires in market development on our neighboring continent, our authors have written about in this second revised and updated edition.

It seems clear to us: If entrepreneurs tackle the matter correctly, Africa beckons with great opportunities and appropriate returns. And investors who create jobs on site contribute significantly to the development of a continent whose motivated young people deserve nothing more than political, economic, and social development. Let's get to it!

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