



Global Perspectives
Initiative

IfD Allensbach
Institut für Demoskopie Allensbach

GPI Study 2019 – Investments by the German Economy in Africa

An executive survey of the Global Perspectives Initiative conducted by the Institut für Demoskopie Allensbach

Executive Summary

The German industry's involvement in Africa has so far been cautious. Around 800 companies with German capital are today active on the continent. An April 2019 report of the Deutsche Bundesbank on stocktaking of direct investments in Africa shows that around 9 billion euros of direct investments flow from Germany to Africa. This corresponds to around one percent of all German direct investments abroad and is a fraction of the investment volume of Chinese companies. The trade volume between China and Africa amounted to 170 billion US dollars in 2017. Two years earlier, it even reached 220 billion US dollars. China apparently perceives Africa as a promising market.

A differentiated picture of Africa is emerging

Something is changing, however, on the African continent on the one hand and in the German economy and politics on the other. African economies grew by an average of 3.5 percent in 2018. The number of economically stronger regions is increasing and is no longer exclusively limited to the economically successful South of Africa. In addition, with "Compact with Africa" and other political programs, there are a number of initiatives that benefit the German economy in its risk assessment. The willingness of companies to invest, however, depends crucially on how they assess economic opportunities. In fact, German companies no longer regard Africa as a continent with considerable investment risks, but as a potential future market that is being

examined closely. Infrastructure projects, investments in education and support for the establishment or expansion of efficient and reliable administrative structures have put some African countries on an interesting development path for investors.

Political and economic stakeholders attach great importance to Africa's development

Africa is increasingly becoming the focus of economic and political attention. There is a broad consensus in business and politics that says that the development of the African continent is of great importance for Europe. 67 percent of the top leaders consider it very important, another 29 percent consider it important that Africa develops well. The extensively interviewed representatives of companies that are active in Africa were convinced that Europe will be confronted with considerably higher immigration rates if it does not succeed in creating large, economically sustainable growth regions in Africa. It was also stressed, however, that economic growth alone is not enough, but that much also depends on the development of the political framework conditions and stability of the countries. With regard to the development of Europe's international competitiveness, companies also consider it advisable to focus more on Africa. The intensive Chinese involvement on the continent is impressive and worrying for many at the same time. The impression dominates that Europe and the USA have so far done too little to counter this commitment.

Avoiding generalization: Large regional differences

Companies active in Africa emphasize that situations, developments and opportunities in Africa cannot be assessed across the board. There are stable countries with dynamic economic development and nations that find themselves in a more difficult situation both economically and politically. 69 percent of business and political leaders are convinced that some selected regions in Africa will develop well over the next few years. The greatest potential is currently ascribed to countries that have experienced an economic upswing in recent years, such as Ghana, Ethiopia and Senegal, as well as in established economies such as South Africa and Nigeria.

Politics and economy analyze opportunities and risks differently

When assessing the opportunities and risks, the opinions of business and political leaders differ: While two thirds of the interviewed politicians are convinced that the opportunities outweigh the risks, the majority of business executives currently still predominantly see risks. At the same time, however, the majority of companies that

for the most part see risks also point put considerable economic opportunities. For their own industry, companies rate the risk-reward ratio more favorably than for the economy as a whole. For example, 53 percent of the companies engaged in Africa see opportunities for their own industry predominantly in Africa, and only one in three predominantly see risks. Great potential is seen, for example, for the construction industry, agricultural production, the energy sector and medical care. As a sales market, Africa has so far had little significance for the German economy. However, two thirds of the companies active in Africa assume that Africa's importance as a sales market will increase in the future.

Main risks for investments: Legal uncertainty, political framework conditions and corruption

From the point of view of the majority, the greatest risks and thus also obstacles to investment in Africa are political instability in part of the states, corruption and legal uncertainty. With regard to corruption, detailed discussions with companies active in Africa have differentiated between the private sector and the state sector in some cases, and the problems have been located primarily in the state sector. It was also pointed out that companies from other Asian and some European countries were less resolute in their opposition to corruption. What companies often have to deal with are bureaucratic procedures, protracted processes and legal uncertainty. Court cases, in particular, are deemed to be a risk that needs to be avoided at all costs. However, especially when assessing risks, companies active in Africa consistently underline that the situation on the continent needs to be subject to differentiated media coverage and analysis. It was criticized that the perception of Africa in Germany often does not meet this requirement and that regional problems and risks are often generalized for the entire continent.

Calls for expansion of government support

The Federal Government's efforts to support investments in Africa, including through risk insurance and an investment fund, are welcomed by the overwhelming majority of business and political leaders. The companies involved in Africa take stock of the fact that government instruments can facilitate investments on this continent. Moreover, they have the impression that German policy is increasingly turning to Africa and breaking new ground in development cooperation. At the same time, however, the government's involvement to date is often seen as inadequate, particularly because it focuses too narrowly on certain countries or sectors or is too

small overall. It was also felt that most of the measures taken so far only had a limited impact. It should be borne in mind that the main obstacles to investment are identified as political and social conditions and insufficient legal certainty - factors that can only be reduced to a limited extent, if at all, by a government in Europe. Nevertheless, it is precisely the detailed statements expressed by companies active in Africa that show that government support, and in particular the material coverage of risks, is perceived as important and helpful.

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