

Follow-Up Paper for *The Africa Roundtable*

Roadmap to Africa: A Turning Point in Economic Relations

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Global Perspectives Initiative in cooperation
with the Mo Ibrahim Foundation, the Federal Ministry for Economic Cooperation
& Development, the Bill & Melinda Gates Foundation, McKinsey & Co., the Feder-
ation of German Industries, and the Inter Region Economic Network



Global Perspectives Initiative (GPI)

As a non-profit and independent platform, GPI works towards enhanced engagement and responsibility for sustainable development by German and European decision-makers. At the same time, the initiative aims to strengthen African perspectives in policymaking. To this end, GPI regularly brings together decision-makers from politics, business, civil society, academia, and media to discuss new approaches, provide new impulses and raise awareness on the common opportunities and challenges the two neighboring continents are facing.

The Africa Roundtable

With *The Africa Roundtable*, GPI has established a high-level program that brings together decision-makers from Africa and Europe who are active in politics, business, and civil society to develop joint, sustainable solutions. *The Africa Roundtable* consists of three pillars: encounter, communication, and research. It provides a dialogue platform for decision-makers and thought leaders and engages with current pressing issues and challenges of the neighboring continents as well as partnership-based approaches to solutions and models of future cooperation.

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Follow-Up

Publication for *The Africa Roundtable*
Follow-Up

Page 1

THE AFRICA ROUNDTABLE TAKE-AWAYS & RECOMMENDATIONS FOR ACTION

Geopolitical shift and mindset change

- Europe should acknowledge Africa's global importance and the current turning point in its economic history, act accordingly and make better offers vis-à-vis growing competition.
- The loss of trust between both continents should be alleviated through delivery of (financial) promises, review of frameworks, data sharing and acknowledgement of respective interests.
- Both sides should move beyond a transactional approach to economic cooperation. Vis-à-vis competitors, sustainability could be Europe's global USP.

Governance and institutional challenges

- African governments need to ensure, through adequate reforms, that economic growth benefits their general populations and reaches citizens beyond political and economic elites.
- Africa should speak with a unified voice in the international arena and governments should further strengthen pan-African trade and regulatory framework, hence increasing trust and planning security for external actors.
- Multilateral bodies such as the G7, G20 and financial institutions need to make space at the table for Africa as a full member or member with greater decision-making power.
- Europe needs to acknowledge the detrimental effects of regulatory frameworks on economic partnerships.

Investments and financial architectures

- Focus of partners on both sides needs to shift from resource extraction to creating sustainable value chains and local production in established as well as innovative high-tech sectors.
- Debt servicing and high-risk premiums ought to be offset through rating reforms and data sharing to allow for access to affordable financing for African sovereigns.
- Foreign direct investments should be leveraged through an increase in public guarantees provided by states and development banks.
- SME financing needs greater technical advisory and matching capability to ensure deployment on the ground.

INTRODUCTION

The fourth edition of *The Africa Roundtable* was hosted in Nairobi within the prestigious **Ibrahim Governance Weekend** (IGW) on 28th April. Under the overall theme **Global Africa**, the IGW convened decision-makers from both continents to discuss Africa's position in the world and the interests of global players on the continent.

While the last Roundtable in November 2022 in Dakar was dedicated to joint plans for a just green transition, energy and agriculture in the aftermath of COP27, this time we focused on perspectives deriving from global geopolitical shifts. The need to decouple and diversify sheds a different light on Africa and marks a turning point in Europe-Africa economic relations. Under the credo **Roadmap to Africa**, we aimed to identify sectors in which to deepen trade and investment relations, to leverage private and institutional funding and to develop new economic roadmaps for the collaboration between Europe and Africa. Honest and trusting partnerships between Africa and Europe have enormous potential for economic prosperity. However, there are various challenges that need to be addressed to ensure that these partnerships are sustainable and beneficial for both sides.

SETTING THE SCENE

In preparation for *The Africa Roundtable*, GPI partnered again with McKinsey & Co. as well as the Inter Region Economic Network (IREN), who each produced a White Paper as basis for fruitful discussions. James Shikwati, founder and CEO of IREN, gave an overview of IREN's White Paper *Opportunity to Recalibrate the Current Containment Investment Model*. The paper examines the issue of Africa's economic participation in global trade, which is currently less than 3% despite having a population of 1.4 billion people. IREN emphasizes that Europe should not "sleep" on the opportunity of Africa becoming a major global player. The paper argues that the **rise of new actors in Africa, who are investing in the continent as a whole rather than in small, fragmented markets, presents an opportunity for Europe to follow suit and recalibrate its approach**. IREN emphasizes the need for Europe to be pragmatic in its engagement with Africa and to recognize Africa as a unique continent with its own identity and potential. McKinsey & Co.'s White Paper *Roadmap to Africa* was presented by Olivia Robinson, Associate Partner in the Nairobi Office, who gave an overview on the potential **for investment in Africa, focusing on seven sectors with high potential**, including green manufacturing, clean energy, raw materials and mining, agriculture, health, and infrastructure. The paper points out that Africa has a fast-growing young population,

a faster GDP growth rate than the global average, an abundance of natural resources, and an immense capacity for renewable energy (solar, wind, thermal, hydropower and green hydrogen). Furthermore, Africa offers significant opportunities for investment in fintech and digital services, agriculture and agro-processing, and healthcare. However, the paper also mentions challenges to overcome, such as productivity and consumption growth, infrastructure investment, and import dependency for essential goods.

GEOPOLITICAL SHIFTS AND MINDSET CHANGE

The Roundtable was opened by the host of the Ibrahim Governance Weekend and founder and chair of the foundation itself, Dr Mo Ibrahim. In his opening remarks, he reiterated that **for too long, “the West took Africa for granted”** and treated its neighboring continent unfairly, leading to **loss of trust**. Africa now has choices of who to partner with and would remember whether Europe would “make the right choice as well.” He further emphasized the importance of moving up the value chain and the challenges facing young entrepreneurs in Africa, noting that most investors are looking for “big tickets”, raising the need to develop the concept of angel investors in Africa. He also discussed the legacy of “nonsensical” borders left by the colonial era, which are still hampering Africa’s infrastructure development and integration. Dr Ibrahim underscored the need for Africa to connect its countries and create a common market to enable investment, as seen in the success of the European Union’s common market.

Other panelists agreed that Africa is at a **turning point in its economic history**. The continent is home to a young and growing population, and its natural resources are vast. However, Africa also faces significant challenges, including poverty, corruption, and political instability. Jörg Kukies, State Secretary and G7/G20-Sherpa at the Federal Chancellery, emphasized the need for Europe, the G7 and G20 to take responsibility for their respective roles in Africa’s struggle, and to take its rightful place in the global order. Subsequently, they would need to make better offers to African countries which enable more equitable partnerships, **moving further away from the outdated donor-recipient relationship** and notions of “aid” or “development” and towards co-investment, as put by Koen Doens, Director-General for International Partnerships of the European Commission. Private sector representatives further added that in the past, a similar spirit had shaped Europe’s engagement with Asia-Pacific, and that decision-makers in business and politics should make use of the momentum.

Many participants acknowledged that **Europe stands in competition with other players on the African continent**, including China, Russia, Turkey and the Gulf States. This competition, however, can be used as a productive force to make better offers and bring better results. While some agreed that the Chinese model of cooperation is appealing with regards to speed and efficiency of implementation, heavy emphasis on physical infrastructure and political non-interference, others cautioned against new debt traps as well as a too transactional approach to development, and subpar quality of outcomes. Overall, participants of *The Africa Roundtable* agreed that there is no use to obscuring Europe's economic and geopolitical interest in African countries' resources, workforce, markets, and entrepreneurship. To move forward at eye-level, **Europe should be open about its interests and stop overpromising and underdelivering on promises**, hence increasing trust. Here, sustainability could be Europe's unique selling point vis-à-vis other actors, as sustainability is not only a key priority for climate-affected African countries, but also an opportunity for growth.

GOVERNANCE AND INSTITUTIONAL CHALLENGES

Representatives from African states and institutions pointed out that trust is not only an issue between continents, but also internally. The gap between what has been promised and what has been delivered affects African governments and citizens as well. Policy decisions at the "top" are not always made in the best interest of communities at the "bottom." Regarding the continents rich natural resources such as minerals, oil and gas, the establishment of **local value chains and financial gains must benefit the majority of citizens and go beyond political and economic elites on both sides**. Thereby, human as well as the natural resources included in this process must not be exploited as well as actions taken against illicit financial flows. Not only would this **increase legitimacy and the wellbeing of populations**, but also enhance the **confidence of European investors and political partners**.

Unity, agreement and integration within Africa are also affected by governance and institutional challenges, most notably the African Continental Free Trade Area, which was debated regarding its mixed success. Providing a **working (trade) infrastructure as well as regulatory frameworks** would not only strengthen inner-African producers, consumers, and markets in general, but also imply a certain **simplification and long-term (planning) security for external investors**. Participants addressed a third institutional challenge: the lack of access, visibility, and power of Africa or the

African Union in global governance bodies, architectures and fora. While Senegal and South Africa had been invited to the last G7 Summits, many political leaders are calling for permanent **full member representation of the AU within the G20** and are working with the G20 presidency India in this regard.

INVESTMENTS AND FINANCIAL ARCHITECTURES

Sharing their personal experiences doing business on the continents, many Roundtable speakers agreed that Africa was for too long seen as a mere source of natural resources. The focus of economic partnerships and investments should now **shift to creating lasting value chains and strengthening productive industries** – the so-called “extended workbench.” At the same time, given its thriving start-up and tech-scene, many African countries can also be seen as **high-tech destinations**. Digital and financial services, new space, telecommunications as well as green hydrogens are some of the industries of the future, in which African countries can collaborate with European partners in research, development, and production. Established sectors such as healthcare and agriculture can, through new technologies and increased investments in innovation, could also be transformed into industries of the future and thus become attractive again as an employment opportunity.

Many participants, among them most prominently Deputy Executive Secretary of the UN Economic Commission for Africa Dr Hanan Morsy, emphasized the **tight fiscal space and liquidity crunch experienced by African sovereigns**, making domestic and foreign direct investments (FDI) in any sector difficult. Obstacles to liquidity include **debt service at an all-African average of 27% of revenue, much too high-risk premiums and lack of guarantees**. Green finance and technology investments are particularly crucial for the transition to a sustainable economy. The funding of long-lasting, sustainable, and non-exploitative infrastructure projects as well as small and medium-sized enterprises (SMEs) must be done by providing affordable money. Since microcredits are very expensive, more FDI and early-stage capital is needed. A carbon tax was repeatedly discussed as part of climate finance which would make polluters more accountable and redistribute funds paid as compensation for heavy emitters to climate-affected countries, who in turn could further invest these funds in their green transformation. **Mutual data sharing between countries and rating agencies** could also more accurately reflect investment and ease of doing business realities on the ground and increase trust and anticipatory power.

For SME financing, participants criticized the existing **mismatch between development finance and the ability to deploy it on the ground**. Matching, advisory service and technical assistance are difficult albeit being much needed for SMEs to fulfill requirements needed to access funding and to meet new regulations. Amadou Hott, former Minister of Economy, Planning and International Cooperation of Senegal, reminded the Roundtable that the same problem exists on a much larger institutional scale, namely the **EU's Carbon Border Adjustment Mechanism (CBAM) and the ban on products made using forced labor**. While both CBAM and the ban on forced labor support environmental sustainability and enhance quality of life and fair working conditions, bureaucratic hurdles and stringent reporting requirements producers are facing in Africa can cause them to withdraw from the continent or hinder them from accessing the European market. Hence, it is important to involve African decision-makers and SMEs on the continent in the discussions to implement these kinds of regulations as well as to provide them with the right support to meet them.

YOUTH, EDUCATION AND EMPLOYMENT

Africa's young, growing, urban population, which by 2050 is estimated to have a working-age population bigger than India and China, was by many Roundtable speakers praised as the continent's biggest asset. To ensure stability and quality of life as well as keep human potential in Africa, economic growth **must keep up with the demand for jobs, and as well provide quality education** – school, university and vocational. This again raises the question of available funds and can bring Official Development Assistance and grants back into the discussion. In combination with many European countries' aging populations and lack of skilled labor, short- and medium-term labor migration could be an opportunity to close workforce gaps in Europe and close education gaps in Africa by skills transfer schemes.

SIDE PROGRAM: NETWORKING DINNER WITH START-UPS

The Africa Roundtable kicked off with an exciting **informal networking dinner that showcased the thriving African start-up sector** featuring companies across multiple sectors from fintech to healthcare, sustainable fashion, agriculture, climate and space technology: Pezecha, Melanin Kapital, Ilara Health, LilaBare, Apollo Agriculture, SunCulture and Sayari Labs, as well as sector experts Briter Bridges and Endeavor. Opened by the Federation of German Industries and the German Ambassador to Kenya, the dinner brought together established industry professional, sector

leaders and talented young entrepreneurs. As they continue to drive growth in the private sector, create jobs and tackle environmental or social challenges, the tech industry is especially promising. **Nairobi, known as the heart of the East African tech startup ecosystem "Silicon Savannah,"** provided the perfect backdrop for participants to learn more about the venture landscape and engage with inspiring founders and start-up experts.

OUTLOOK

Looking ahead, we are thrilled to announce that *The Africa Roundtable* will continue to foster closer Africa-Europe relations with our **next high-level event scheduled for 21st November 2023** in Berlin. We are proud to welcome **Federal Minister for Economic Cooperation and Development Svenja Schulze** for this edition, which promises to be an exciting and engaging event again. The discussions and ideas generated at the Roundtable will not only shape the direction of our future events but will also have a wider impact on GPI initiatives and formats. We look forward to welcoming our esteemed guests and participants for another fruitful and productive discussion at *The Africa Roundtable*.

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