

## **The future of German energy supply lies also in Africa**

Achieving the Paris climate targets and reducing global carbon emissions remain central concerns for German industry and the German federal government. Despite the recession brought about by the coronavirus pandemic, they continue to be high political priorities. The German federal government is intensively engaged in national climate protection measures, and has laid down its national climate protection targets in the new German Climate Protection Act (Klimaschutzgesetz). The act provides for a reduction in carbon emissions by 55 percent by 2030.

This national perspective is too narrow. Germany is responsible for 2.1 percent of global carbon emissions. If German carbon emissions were reduced by half, this would result in a reduction of just 0.9 percent from a global perspective.

At the same time, some 1,400 new coal-fired power plants are being planned or built worldwide. The International Energy Agency (IEA) predicts that global energy demand will increase by 25 percent by 2040, making it clear that global warming cannot be curbed by measures limited to Germany. Rather, it can and must be effectively addressed by climate-friendly energy and economic policies in emerging and developing countries as well. To this end, the German federal government and German industry can work together to contribute potentially more than what can be achieved in the national context.

African countries in particular have an enormous amount of catching up to do in terms of energy supply, mobility, infrastructure, and industrialisation. Fortunately, all these sectors have been developing well in many countries on the continent in recent years. German investments in Africa reached a record level in 2018, and investment opportunities for German companies in Africa and the importance of the continent as a sales market for German products are growing. This is demonstrated by increasing foreign trade with Africa, but also by the growing demand for export credit and investment guarantees for Africa. These developments should not be forgotten, especially in times of pandemic and global recession. After the coronavirus pandemic has been overcome, Africa has to return to the growth of recent years as quickly as possible. It is thus important to focus more strongly on growth, promoting private investment, and creating jobs. Projects that contribute to global climate protection could play a key role here.

However, the economic development that Africa strives for and needs also harbours the risk of significantly increasing future carbon emissions. The African contribution to global carbon emissions is still very small compared to other regions. According to the World Bank, per capita emissions in sub-Saharan Africa amount to 0.8 tonnes, compared to 8.9 tonnes in Germany and 16.5 tonnes in the United States. However, this could change in future.

At the same time, according to the UN, Africa will be the continent most affected by the consequences of climate change, and the continent needs to make enormous efforts to adapt to its impacts. This, together with the expected economic consequences of the coronavirus pandemic, presents an additional economic challenge.

Growth and industrialisation on the African continent should therefore be made as climate-friendly as possible. There is ample opportunity here, particularly for German industry, to apply modern technologies across all areas (especially in the energy-efficient production of renewable energy) to keep carbon emissions at their current low level without having to forego Africa's economic development and industrialisation.

There is strong political will for Germany to become a pioneer in climate protection. This will not be achieved primarily through technology bans, but by more efficient means, above all through a carbon price based on market mechanisms and through the application of innovative, climate-friendly technologies and an international perspective with a particular focus on Africa.

The German-African Business Association (Afrika-Verein) advocates:

### **I. Expanded financing mechanisms**

The German federal government has recently met some of the core demands of German industry with the implementation of the Development Investment Fund (in particular AfricaConnect), its supplementation with the announced AfricaGreenTec initiative to promote private investment in the field of renewable energies, and the expansion of federal guarantee instruments, such as the Hermes guarantees. Now, however, it is important to maintain this momentum and align new programs with the needs of companies. If the increased interest of German companies in the markets of the African continent is to give rise to concrete, climate-friendly projects, the German federal government should take further steps to strengthen German industry in Africa and make it more competitive with regard to its rivals who are positioning themselves there. In some cases, these competitors are highly subsidised and use older and less energy-efficient technologies.

German companies possess extensive expertise in the field of climate-friendly energy supply. With their knowledge and skills, they can help African countries to meet their energy needs through renewable and green energy projects. The expansion of renewable energy solutions (both centralised and decentralised) is urgently needed and can be achieved primarily with private capital. However, German small and medium-sized enterprises in particular still lack the appropriate financing instruments for the successful implementation of energy projects in Africa.

1. The German-African Business Association welcomes the fact that, within the framework of the recently published Special Renewable Energies Initiative (Sonderinitiative Erneuerbare Energien) of the German Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie, BMWi), exports in the field of renewable energies that include up to 70 percent foreign-sourced goods or services can now be covered by federal guarantees. This is a positive first step. However, there is still a need to **reduce the uninsured percentage** to the lowest possible level, close to the lowest uninsured percentage granted within the OECD. It is imperative that the **improved conditions are extended to other African countries**. Explicitly climate-friendly projects of German companies should also be promoted by a special **climate bonus in Hermes insurance** or investment guarantees. This could include longer terms and reduced premiums.
2. We also advocate the establishment of a special **guarantee instrument for the energy sector**: an insurance solution that facilitates the financing of renewable energy projects. There is an urgent need for guarantees that are effective for the many African states that are unable to issue guarantees for their energy suppliers due to IMF requirements on debt and where European banks are not prepared to bear the credit risk of African energy suppliers alone. Such new and innovative guarantee instruments could also be financed by the climate foundation proposed by the German Federal Minister for Economic Affairs and Energy in September 2019.

3. With its investments, German industry contributes not only to the creation of jobs and thus to development in Africa. Through the local manufacture of energy-saving and climate-neutral products for the African continent, it also makes a significant contribution to the climate-friendly industrialisation of Africa. In order to promote and strengthen such investments (especially by small and medium-sized enterprises), we call for investment guarantees from the German federal government to cover not only political risk, but also selected **commercial risks**. These include, for example, payment risks such as default or delayed payments, as well as currency risks including shortages of foreign currency and fluctuating exchange rates. These risks remain central obstacles for German enterprises in their efforts to ramp up their activities in African markets and contribute to the climate-neutral industrialisation of Africa. They are also gaining additional significance as a result of the current crisis.
4. Especially in developing countries, considerable costs and risks arise for project developers in the early phases of energy projects for which there is no available insurance coverage. A form of **project development insurance** could help here, where the project developer pays an insurance premium and, in the event of project failure, is reimbursed a portion of the project development costs. This would lower the barriers to entry for small and medium-sized enterprises, which can raise only a very limited amount of risk capital for project development.

## II. Promotion of research and technology

The climate-friendly development of the economy and infrastructure in Africa requires new and adapted technologies. We therefore call on the German federal government to provide special research and development support for companies in the field of climate-friendly technologies if these are to be geared towards application in developing countries. This includes increasing the tax deductibility of research expenditure, as well as supporting pilot programs with new technologies and closely linking promoted university research projects with German industry.

Furthermore, German and European investments in Africa could contribute to the local production of climate-neutral primary energy sources such as hydrogen. The German Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung, BMBF) recognised the importance of hydrogen at an early stage, concluding a partnership with West Africa and launching a potential atlas for sustainably produced hydrogen. The German Federal Ministry of Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ) is also funding the construction of a pilot plant in Morocco. The German National Hydrogen Strategy (Nationale Wasserstoffstrategie) also addresses the need for partnership with African countries that are well placed to produce hydrogen. Expanding these initiatives in cooperation with German industry could provide a boost to the investment activities of German companies in Africa.

Suitable production sites should therefore be selected in order to implement further pilot projects there with political support and with the participation of consortia from German industry. The German federal government can identify companies for consortia with the involvement of stakeholders such as the German-African Business Association and provide policy support for the activities.

### **III. Regional expansion of emissions trading systems to Africa**

We believe that an emissions trading system is the most efficient and appropriate way to put a price on carbon emissions and thus establish market-based incentives for the application of low-carbon technologies. The German federal government should therefore work to ensure that the regional expansion of such a system takes place as quickly as possible. Although the focus of public discourse is on a European system, we believe that it should be possible to also include the African continent in the near future. The decision to create a pan-African free trade area shows that African governments are prepared to act together. An Africa-Europe climate protection zone should be addressed jointly on this basis in a timely manner.

Until a standardised system of emissions trading has been implemented, we are in favour of using an accreditation system, according to which investors from Europe who implement climate-friendly projects in Africa and thus help reduce future emissions can receive a bonus in the form of certificates.