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# Are We Ready for Today's Africa?

**REPORT** SEPTEMBER 2017

*There is no desire more natural*
*than the desire for knowledge*

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# PREFACE

Africa is not waiting for France. Globalization has definitively changed the terms of the discussion. The business world has wanted the African continent to experience globalization, and this has happened, bringing changes in the economic and political paradigms in its wake.

France, like other states, despite its historical connections with French-speaking Africa and its in-depth knowledge of the African environment, has not been able to propose a long-term strategy for the economic development of the continent. Facing emerging rivals, primarily China, France struggles to construct an approach to recapturing Africa. The country is mired in its past, which for a long time it refused to fully acknowledge in order to move forward.

Companies have employed strategies that are often volatile, alternating ebb and flow on the continent, and frequently abandoning areas that the Africans have hastened to fill. While some of them still believe in Africa, many have simply analyzed lost market positions.

A great deal has been written for a few years now about reestablishing a type of objectivity and proposing a resurgence in the economic strategies connecting France to the African continent. There have been numerous reports on the subject. Institut Montaigne has tackled this tricky undertaking, first in 2010[1], and then again in 2013[2]. An

[1] Institut Montaigne, *Afrique - France: Réinventer le Co-Développement,* ("Africa - France: Reinventing Co-Development"), June 2010, Lionel Zinsou, head researcher.

[2] Institut Montaigne, *Afrique-France: Mettre en Pratique le Co-Développement - Contribution au XXVI^e Sommet Afrique-France,* ("Africa-France: Putting Co-Development into Practice"), December 2013, Lionel Zinsou, Dominique Lafont, and Matthias Leridon, head researchers.

important report was also written recently by Hubert Védrine, Hakim El Karoui, Lionel Zinsou, Tidjane Thiam, and Jean-Michel Severino, "Un Partenariat pour l'Avenir"[3] ("A Partnership for the Future"), which was presented to the Minister of the Economy in 2013.

Over five years after they were put forth, many crucial proposals still struggle to find concrete application: the reduction in the risk premiums applied to Africa, the strengthening of financing capacities in the African economy, and the intensification of the economic dialogue between France and sub-Saharan Africa. While progress has been made – including establishing an annual Franco-African business forum, connecting the Deposits and Consignments Fund with the French Development Agency (AFD), expanding the ability of the European Investment Bank (EIB) to be involved in Africa, etc. – there is still much to be done.



Despite the insistent attention paid to these subjects, there has not been significant progress in recent years regarding strengthening of human capital, support for the financing of infrastructure, or regional integration.

## So why should we discuss Africa again today?

First of all, because it is possible to discuss it in a different way. Through the voices of companies, large or small, who have decided for a few years now to put the African continent at the heart of their

[3] Hubert Védrine, Hakim El Karoui, Lionel Zinsou, Tidjane Thiam, and Jean-Michel Severino, *Un Partenariat pour l'Avenir: 15 Propositions pour une Nouvelle Dynamique Economique entre l'Afrique et la France* ("A Partnership for the Future: 15 Proposals for New Economic Progress Between Africa and France"), report to the Ministry for the Economy and Finance, December 2013.

investment strategy. Through the voices of younger people, who are sometimes idealistic and often pragmatic, and who seek to create value in Africa with Africans.

Because, although 20 years ago, Africa was reduced to its political, economic, and health crises, it has just gone through a period of growth that is greater than that recorded anywhere else on the planet. Despite a slow-down in activity that has been observed since 2016 and while acknowledging the heterogeneity of national situations, the outlook remains positive overall.

Because the youth of the continent, which constitutes a major challenge for African states today and even more so tomorrow, is above all a source of energy, innovation, and opportunities.

Because, finally, the new impetus of this five-year political term should allow for linking Africa not just to France but to Europe as a whole. This is a new time of renewed Europeanism, and we must readjust our relationship with Africa. It is no longer about the relationship between a country and a continent, but about two continents meeting face to face.



This is the goal of this report, which is based on almost fifty interviews, and identifies broad strategic priorities for the continent's future. The eight proposals that we put forth will allow economic actors, both French and European, to be part of the current transformations in Africa with a vision of achieving sustainable joint development.

# I

# BETWEEN MYTH AND REALITY: ECONOMIC DEVELOPMENT IN AFRICA TODAY

## 1.1. From Excessive Afro-Pessimism to Outrageous Afro-Optimism: Where Does the Truth Lie?

The analysis of sub-Saharan Africa since decolonization reveals waves of optimism or pessimism that fluctuate according to periods of strong growth, economic crises and over-indebtedness, or the resolution or resurgence of political tensions or even armed conflicts. While a certain type of pessimism dominated for some time, especially due to agronomist René Dumont, whose declaration that "Black Africa is off to a bad start" was very influential[4], it did not prevent renewed optimism, buoyed by the economic success of certain countries or by successful democratic transitions.

French companies' appreciation for the opportunities offered by the continent and the strategies they use in Africa have evolved according to these economic and political disturbances. A limited number of companies have remained present on the continent long-term, essentially in French-speaking markets. Others have ended their activities, repatriated their personnel, and dismissed their workforce faced with security crises, until the conditions for political stabilization and doing business are met, which would allow a possible return. This ebb and flow represents a highly pragmatic approach to African

[4] René Dumont, *L'Afrique Noire est Mal Partie* ("Black Africa is Off to a Bad Start"), 1962.

markets by companies and leaves little room for the development of a sustainable strategy or thinking about the long-term economic potential of the continent.

In this volatile context, short-term trends must be analyzed cautiously. Any extrapolation from these trends has the risk of leading too quickly to Afro-optimism or Afro-pessimism, without either of these two visions of Africa having been empirically and completely confirmed or disproven. There are numerous examples of countries that experienced years of strong growth before a political crisis or an economic shock led to long-term questioning of the progress that was made in terms of development. The recent history of Ivory Coast is full of these ups and downs, from the strong growth of the 1990s to the decade of crisis in the 2000s and then back to the economic bright spell that has been observed since 2012. The economic and social demands of 2017, especially in the army, raise questions about the durability of this bright spell and forcefully remind economic and political analysts of Ivory Coast, and even beyond sub-Saharan Africa, of the volatility of growth. The case of Ghana, which was seen as a model of African democracy and economic success, is also illuminating. After several years of double-digit growth, ill-advised economic policy choices and inadequate governance led the country into the dead-end of renewed indebtedness and crisis in 2015.

In spite of everything, the current discourse on Africa remains colored by optimism for the most part, considering the remarkable economic performance observed in several African countries these past years, such as Ivory Coast, Ethiopia, Senegal, Uganda, and Rwanda, and the greater political stability, against the background of a reduction in conflicts between countries. Yet elements of vulnerability remain. On the one hand, the lack of diversification in African economies



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and their dependence on raw materials, and, on the other, social tensions, the possibility of tricky successions of aging leaders or the development of wide-ranging threats such as terrorism, carry short- and medium-term risks and encourage us not to draw too hasty conclusions regarding the direction in which the African continent is moving.

After taking these preliminary precautions, it seems necessary to present some facts that are structuring the transformations occurring in Africa and which, overall, invite some optimism.

### a. Sub-Saharan Africa is characterized by conditions that are favorable overall

Sub-Saharan Africa has experienced conditions that are favorable overall since the early 2000s.



The economic performance of sub-Saharan Africa has been superior to that of the global economy since 2000. In fact, activity in sub-Saharan Africa increased by 5.6% annually on average from 1999 to 2008, while the global economy increased by 4.2% during the same period. In 2009, at the height of the global economic crisis, the region stood out by its resilience, with growth reaching 3.9 % while the global economy was in a recession of – 0.1%. From this date until 2015, growth varied between 3.4% and 7%, while global growth remained around 3.5%.[5] In fact, for 20 years, sub-Saharan Africa has been one of the most dynamic regions in the world, surpassed only by emerging Asian economies.

[5] International Monetary Fund, *World Economic Outlook,* April 2017.

This exceptional performance ended in 2016 under the effects of a reversal in the price of many raw materials that had begun in 2014 – mainly concerning petroleum, but also iron ore, nickel, coffee, and more recently, cocoa. In 2016, for the first time in over ten years, growth in sub-Saharan Africa, which according to the IMF was at 1.4%, was below that of the global economy (3.1%). This was its worst performance in over two decades.[6] In the medium-term, it can be expected that the economy will take off again starting in 2017 and then accelerate its activity in 2018 to a level equivalent to that of global growth.

However, the nominal growth figures should not eclipse the fact that there has been clear moderate growth in per capita wealth. The rate of population growth remains the highest in the world, above 2% and even close to or above 3% in certain countries (such as Niger, Mali, Senegal, Tanzania, Zambia, and Uganda), preventing any significant growth in per capita GDP.



### b. Recent years have witnessed successful democratic transitions in several countries even if, in others, stability has come at the price of the continuation of authoritarian regimes

Recent years have been characterized by relatively successful democratic transitions in Africa, such as the transition underway in Burkina Faso since Blaise Compaoré stepped down or the continued stability in Guinea-Conakry with the reelection of Alpha Condé in elections that were declared to be free by international observers. The decision by Kenya's Supreme Court on September 1, 2017 to invalidate the election

[6] World Bank, *Africa's Pulse,* 2017.

of August 8 due to observed irregularities is evidence of higher democratic standards.

In other countries, the coming to power of opposition parties indicates the establishment of a cycle of electoral changes in power, as in Nigeria with the victory of Muhammadu Buhari in 2015 or in Ghana with that of Nana Akufo-Addo in 2016.

Of course, democracy still needs to make significant progress. The democracy index developed by The Economist Group[7] as of 2006 clearly demonstrated this: the sub-Saharan African area is in next-to-last position with a score of 4.37 out of 10, ahead of the Middle East, while the global average is 5.52. In contrast, in 2016, Mauritius (18th place globally) and Cape Verde (23rd) were situated just before France (24th), which was more or less equal with Botswana. Chad is two spots from the bottom, located in 165th place out of 167 countries.



Overall, Africa appears more stable than in the 1990s. However, we cannot ignore continuing low-intensity conflicts, persisting political tensions, and new threats such as the risk of terrorism in the Sahel or the Lake Chad region. Recent socio-economic tensions in Ivory Coast show that although economic growth can temporarily lead us to forget that social and cultural vulnerabilities have been reduced, any slowdown in activity carries the risk of making them reappear, with an intensity likely to be proportional to the impact on growth. Moreover, this greater stability on the continent is sometimes the corollary of the continued power of authoritarian regimes: Africa continues to stand out in terms of the longevity records of certain leaders who are in no hurry to put their countries on the path to a democratic transition. In any

[7] Democracy Index, Economist Intelligence Unit.

event, political stability, when accompanied by a strengthening of governance, has been a major determining factor for growth in numerous countries. While the flow of capital is very sensitive to political disturbances, and tends to dry up during periods of instability, every successful electoral transition has constituted an additional factor of resilience for foreign investments, but also for government aid to development and funders, who care about granting a "democracy bonus" when they are able to do so.

### c. The African population is young, urban, and connected

This fact is known but it should be recalled because it is one of the most significant characteristics of Africa: it is a young continent.



Profound demographic changes have swept through the continent in recent decades. The mortality rate has experienced a rapid decline, especially for children, and although the birth rate has declined in relation to the peak of the 1970s, it was still the highest in the world, around twice as high as the global average. In this context, the population of sub-Saharan Africa has more than tripled since 1950, going from 186 million that year to 670 million in 2000, according to World Bank data.[8] It has now reached almost a billion inhabitants and should climb to 2.2 billion in 2050 and 3.6 billion in 2100, when it will represent 35% of the world's population.[9]

The population of sub-Saharan Africa is characterized by its youth: in 2010, children from 0-14 years represented 44% of the population. This share is expected to decline in the medium-term while

[8] World Bank, Population division of the UN, *World Population Prospects.*

[9] World Bank and French Development Agency, Africa's *Demographic Transition: Dividend or Disaster?,* 2015.

still being maintained at high levels: in 2050, children from 0-14 years will still represent 32% of the population. Thus, the working-age population in sub-Saharan Africa will continue to be maintained at high levels. It will still take several years before the aging of the population will be seen as a public policy problem. By way of comparison, in 2010, sub-Saharan Africa had 43 million people over the age of 60, while there were 414 million in Asia and 161 million in Europe. The percentage of elderly people in the total population was then 5%, a figure that has remained surprisingly stable since 1950, when it was at 5.2%. Senior citizens will remain marginal for quite a long time. In 2050, the percentage of people over 60 in the total population is expected to reach only 8%, versus 10% in Asia and 22% in Europe.[10]

These trends all present both challenges and opportunities for African government leaders.



Indeed, in the coming years, they will have to be able to offer training, jobs, housing, and a social safety net to large numbers of young people who are increasingly urban. If not, if the educational system cannot properly absorb and train such large numbers, and if the job market, both formal and informal, is not large enough to offer jobs and salaries that correspond to their level of training, there will be great frustration. Already, some college graduates are obliged to accept jobs below their qualification level due to a formal job market that is too weak to offer them options. Salaried workers constitute a very undeveloped class in sub-Saharan Africa, with only 16% of employed people being salaried.[11] The incompatibility between the

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[10] *Ibid.*

[11] World Bank, *Youth Employment in Sub-Saharan Africa,* 2014.

supply of qualified jobs and the growing demand of young college graduates arriving on the job market is also a powerful driver of emigration.

Conversely, this young population is also the sign that demographic dividends are still to come in sub-Saharan Africa. The period when a large part of the population participates in the job market while non-workers and retirees constitute a very small portion of it, allowing for establishing the social safety net at a lower cost, is still to come for Africans. Moreover, a young population is the source of increases in productivity and innovation and supports consumption. This state of things will constitute a definite comparative advantage in the medium-term, while the advanced economies are faced with a demographic slow-down and a slowing of increases in productivity. Nevertheless, these increases will not materialize without ambitious action on the part of African government leaders, for whom it is still a challenge to make decisions for the medium to long-term as opposed to merely handling the many urgent short-term needs.



## d. Structural Weaknesses to be Considered

The context is favorable for sub-Saharan Africa. Good economic conditions, political stability maintained by the strengthening of democracy, and a young population, which is the source of productivity and growth, constitute advantages for the continent's development in coming years. Economic actors have become aware of this and are adapting their African strategies accordingly.

However, these positive developments should not eclipse the structural weaknesses of sub-Saharan Africa.

These weaknesses have to do primarily with the structure of the economy. The informal sector remains largely dominant in the economies of sub-Saharan Africa. While measuring the informal sector is a tricky undertaking, the World Bank nevertheless estimates that it is around 80% in sub-Saharan African countries. The dominance of the informal sector raises the questions of strategies to put in place to begin a large-scale shift into the formal sector, which can have a more energizing effect on the rest of the economy, through formal employment, access to financing, access to formal trade networks, and taxation. For the most part, these strategies still need to be constructed, whether it is establishing land registries to ensure property rights, fighting against bureaucracy, creating an effective system of commercial law, or constructing a system for identifying businesses and imposing taxation.

Moreover, while the share of the agricultural sector in the economy has noticeably decreased since 1990 in sub-Saharan Africa (dropping from around 40% to 32% in countries with low revenue and from 30% to 25% in countries with intermediary revenue in the lower bracket between 1990 and 2010),[12] the manufacturing sector has nevertheless not grown (it represents approximately 10% of the economy in the first group of countries and 15% in the second). It is therefore the service sector that has developed the most. This produces lesser effects on employment and productivity. Additionally, the development of the manufacturing sector contributes to strengthening the export sector, thus improving the resilience of countries that are often greatly dependent on raw materials for their exports and for their current balance of payments.



[12] World Bank, *Youth Employment in Sub-Saharan Africa,* 2014.

Secondly, financing for governments and the economy is structurally deficient in sub-Saharan Africa. Access to financing is constrained by significant asymmetries in information, in the informal sector, but also in the formal sector, where producing information on the situation of banking counterparties is very expensive. Credit is then highly concentrated on counterparties who are already known or supported by government authorities, resulting in the exclusion of the rest of the private sector and, even more so, of newly-established businesses. While it is not purely rationed, credit is then very expensive for businesses, reducing the profitability of investments and thus of the overall investment. The developing of microfinancing institutions is a primary solution for promoting access to credit for small businesses and rural areas. However, there is little oversight of microfinancing, and the weakness of certain microcredit organizations with insufficient capital stimulates banks' distrust of this sector and holds back its development.



Finally, the tax system still does not provide for adequate financing of governments. The informal sector is a de facto limitation on the expansion of the tax base and incentives to move into the formal sector are still too inadequate to be effective. Tax rates thus continue to be at weak levels, between 15% and 20% of GDP (versus levels around 35% to 40% in the European Union, and close to 45% in France), which are inadequate to fund basic public services (education, health) and infrastructure. Moreover, taxation principally affects the export sector (exports of raw materials or agricultural products) and big companies in the formal sector, creating an imbalance in the contribution of various sectors of the economy to government funding. Consequently, governments do not have adequate funds available to enact public policy and are obliged to turn toward borrowing and international funders.

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In the third place, sub-Saharan Africa is still characterized by an investment deficit, in terms of both investments in infrastructure and those in human capital. The infrastructure deficit (in terms of transportation, energy production, and, to a lesser extent, telecommunications) inhibits growth. It is necessary not only to invest more in infrastructure but also to improve the average quality, as sub-Saharan Africa is in last place among developing regions in terms of infrastructure performance.[13] The quality of infrastructure includes both issues of selectivity in the choice of investments to be made, of economic profitability (i.e., the relationship between costs and economic and social profitability, not merely financial profitability, of the infrastructure), and of effectiveness in infrastructure construction and management (especially maintenance, which requires skills that are too often lacking).



Investment in human capital is also inadequate. Access to basic education as well as to higher education is limited, due to lack of infrastructure for students and to a lack of instructors, in terms of quantity and quality. While primary school education of children has made great progress in recent years, surpassing 76% of the population in 2010 according to the French Development Agency, education rates are lower for secondary schooling (40% in 2010) and college (7% in 2010). The quality of education received is generally weak and part of the population is still excluded (particularly the poor and girls in rural environments).[14] Similarly, access to health care remains expensive, either because of inadequate coverage of the area by health care organizations, or because of significant charges to be borne by the population due to a lack of cost-sharing

[13] Africa's Pulse, World Bank, 2017.

[14] Context of involvement by sector, 2013-2015 (education, training, work), French Development Agency.

within a health care system. In both cases, inadequate investment in these sectors holds back growth in work productivity.

Finally, bad governance and corruption remain significant constraints on the development of Africa, as mentioned by the great majority of companies interviewed for this report. The perception of corruption remains very high in sub-Saharan Africa. The annual rankings by Transparency International clearly demonstrate this: sub-Saharan African countries regularly hold the last places. Corruption is often found in all components of society and at all levels of responsibility. It has consequences on economic activity and contributes to the continuation of a generally poor business climate, thus hampering the competitiveness and attractiveness of these economies. It is therefore not surprising to find the same countries at the bottom of the rankings of both Transparency International and Doing Business (a ranking produced by the World Bank that measures the quality of the business climate).



## 1.2. Globalized Africa

### a. Are emerging countries contributing to development or indebtedness?

Of all emerging countries present in Africa, China is the country that French observers are watching most closely. After a decade of investing, especially in raw materials, China is accelerating its strategy of establishing a lasting presence on the continent. According to the firm EY,[15] in 2016, China was the most significant investor by value

[15] EY, *EY's Attractiveness Program Africa, Connectivity redefined,* May 2017.

with almost 31 billion euros, greatly outpacing the United States (3 billion euros). However, with 91 projects launched in 2016, the Americans remain the leading investors on the continent in terms of number of projects. France is second with 81 projects and close to 1.8 billion euros invested. China's global strategy throughout the world, which includes Africa, is referred to as OBOR, "One Belt, One Road," which is better known as "the New Silk Road."

**The New Silk Road**

An initiative that China has described as open and flexible, the strategy of the "New Silk Road" aims to stimulate the global economy through investments in infrastructure, energy, services, and telecommunications in countries seen as strategic. Five land corridors and one sea corridor cover the entire planet and link Asia, Europe, and Africa with a single focal point: Eurasia. Currently, approximately one hundred countries and international organizations are involved in the New Silk Road (including Germany within the European Union).

It has numerous objectives : creating economic opportunities, offering prospects to Chinese businesses, promoting the Chinese as the global frontrunners, widely distributing products made in China, internationalizing the Chinese currency, and thus becoming the spearhead of the global economic recovery, in a context of American withdrawal and division within the European Union as to what strategy to adopt.

By 2049, the centennial of the establishment of the People's Republic of China, 1,000 billion dollars will be invested in the

New Silk Road, directly or jointly financed. Today, 300 billion dollars have already been put into play by China in various forms: a designated fund of 40 billion dollars, a bank devoted to infrastructure projects (the Asian Infrastructure Investment Bank or AIIB) with 100 billion dollars, Chinese government banks, etc. France, along with 57 other countries, is a founding member of AIIB. For Africa, China is planning foreign direct investments (FDIs) in the range of 60 billion dollars over the life of the project. Here, and elsewhere in the world, China is sending a clear message that it has finished its globalization training phase.



Several African countries have already expressed their desire to be part of this undertaking, such as Ivory Coast, during the May 2017 African tour of the Chinese foreign affairs minister Wang Yi. In August 2017, China opened its first chamber of commerce in Ivory Coast, an entry point for West Africa. Today, China is present there essentially through infrastructure construction agreements (the Soubré dam, a second port in Abidjan, a coal plant in San-Pédro). Agribusiness could be a new line of development through processing plants (particularly cocoa). The result: between 2014 and 2016, trade between Ivory Coast and China increased by 260%.[16] However, the importance of these figures should be put into context, as trade between China and Ivory Coast was extremely weak until the early 2010s.

[16] RFI, "Ouverture de la Première Chambre de Commerce Chinoise en Côte d'Ivoire" ("The Opening of the First Chinese Chamber of Commerce in Ivory Coast"), August 7, 2017.

However, for now, China's "New Silk Road" strategy is focused on East Africa. Three countries are outposts in this effort: Ethiopia, Kenya, and Djibouti. In Kenya, 13 billion euros will be invested in infrastructure. An initial investment of almost 4 billion euros was made to build an express train between Nairobi and Mombasa.

In Djibouti, an agreement was signed to establish the first Chinese military base outside China (except for the Spratly Islands in the South China Sea). China is installing its base not far from one of the main US bases (the only American base in Africa), but also from French and Japanese bases, on a territory measuring only 8,880 square miles, an entry point into East Africa and to the Indian Ocean. Moreover, the Chinese installation in Djibouti may pose a problem in terms of available space for the French base (1,500 men) and the American base (5,000 men).



While this is not the first time that Chinese soldiers have set foot on African soil – 2,500 of them already serve as part of UN peacekeeping forces on the continent (in South Sudan, Mali, and Liberia) – there may be 8,000 of them in a few years according to statements by Chinese president Xi Jinping[17]. This military base in Djibouti marks an additional step.

For China, this is undeniably a new acceleration of its presence in Africa. This military installation is accompanied by significant investment: over 12 billion euros to build a 465-mile railway between Djibouti and Addis Ababa (Ethiopia) over a four-year period. The railway opened in October 2016. It should be noted that the key railway employees and the train conductors are Chinese. Generally,

[17] Le Monde, "Djibouti, l'avant-poste militaire de la Chine en Afrique" ("Djibouti, China's military outpost in Africa"), August 7, 2017.

in such infrastructure projects, the true "bosses" are systematically Chinese, which is not always the case with projects directed by Europeans, especially by the French.

China has also invested in a multipurpose port that it manages as well as an adjacent international free zone allowing for direct payment in yuan and where 500 companies are already registered. Additional investments have been made in the new Bicidley airport in Dijbouti, roads, schools, and in a Confucius Institute, which is the pillar of its cultural influence.

## Just How Large is China's Portion?

According to a study by McKinsey in June 2017,[18] 10,000 Chinese companies and 1 million Chinese nationals are present in Africa. Many observers challenge this figure, stating that there are "only" 350,000 Chinese in Africa, with 2,500 companies present there. Although Africa is an important continent for China, the region's place in the Chinese economy must nevertheless be put into perspective. The African continent represents 5 to 6% of its foreign trade, which is four times less than Europe. In terms of raw materials, China has not been able to make great headway versus the Canadian, British, and American heavyweights and has failed with major projects such as iron ore in Belinga in Gabon as well as in Tonkolili in Sierra Leone.

Moreover, the quality of some Chinese infrastructure has been questioned. For instance, this is the case with the telecommunication networks developed by Huawei in the Democratic Republic of the

[18] McKinsey & Company, *Dance of the Lions and Dragons: How are Africa and China Engaging, and How Will the Partnership Evolve?,* June 2017.

Congo (DRC) and in Ivory Coast.[19] The quality of certain roads that were built by Chinese manufacturers, especially in the DRC, has also been strongly criticized. Although the quality levels are increasingly competitive, the absence of standard information in the specifications and the establishment of negotiated contracts arranged by financing from China's Exim Bank do not encourage Western companies to provide "customer service" on these projects. This is the case with the express train between Nairobi and Mombasa, where China is struggling to find European partners who are willing to provide management, maintenance, and accountability in case of accidents.

One of the unofficial goals of OBOR is to encourage Chinese companies to raise themselves to the level of international standards. In this case, shouldn't France identify its own interests and, before projects begin, verify that all social responsibility standards are met? China, which signed the Paris Agreement at COP 21, has committed to spend almost 3 billion euros to reduce pollution in developing countries. While the African continent is strategically important for China, it should be able to benefit in turn from rising Chinese standards, which are already seen in Europe and in the U.S.



There is still a dire need in Africa for infrastructure, energy, public education, and public health services. By investing in Africa on a massive scale, China has "shaken up" the traditional investors, led by the United States and Europe. It has considerably increased the attractiveness of the continent, encouraging the arrival of new players (Turkey, United Arab Emirates, India, Brazil, etc.).

[19] Jeune Afrique, "La Côte d'Ivoire met Huawei Face à ses Responsabilités" ("Ivory Coast Makes Huawei Face up to its Responsibilities"), March 2, 2016.

However, while the pace of Chinese investments has been maintained during the last ten years, it will henceforth be more selective and less extensive. Nevertheless, we should recall that in the infrastructure sector, Chinese companies have been responsible for half the construction projects completed in Africa for the last ten years or so.

## The Other Emerging Countries Are Far Behind

In order to challenge China's express route into Africa, India and Japan have established a joint initiative called the Asia-Africa Growth Corridor (AAGC), also called the "Freedom Corridor." This initiative was agreed upon in November 2016 by Japanese Prime Minister Shinzo Abe and Indian Prime Minister Narendra Modi.



The strategy was reaffirmed on May 25, 2017 in Ahmedabab, India, during the annual meeting of the African Development Bank (AfDB). The four countries identified as priorities by this program, Kenya, South Africa, Mozambique, and Djibouti, are the same ones where China is investing.

India is the fifth-ranking foreign investor in Africa, far behind China. The country can rely on some of the 1.3 million African nationals of Indian origin who live on the continent. As for Japan, it is counting on the quality of its companies and its initiative for infrastructure financing, the Tokyo International Conference on African Development (TICAD). In 2016, during the last conference in Nairobi, the Japanese government promised a budget of 27 billion euros over a three-year period that includes almost 8.5 billion euros for infrastructure.[20] Some French companies could benefit from this budget, especially

[20] Speech by prime minister Shinzo Abe at the opening session of the 6th Tokyo International Conference on African Development, August 27, 2016.

in Côte d'Ivoire, which is one of TICAD's priority countries. In fact, while Japan's aid is conditional, depending upon the involvement of Japanese companies, some of these companies will not be able to complete the work themselves and will therefore outsource a certain number of contracts, especially in construction.

This initiative is described by Western observers as "competitive", but it will not actually be so. The amounts promised by India and Japan are quite far from the billions spent by China every year in Africa. Consequently, each of these two initiatives will have its own separate way. In fact, trade between Japan and Africa is worth approximately 24 billion euros, versus 160 billion euros for China. As for India, its trade volume with Africa is approximately 50 billion euros, with trade in favor of India overall.

## Turkey, Qatar, Israel, Brazil: Thwarted Strategies



### Turkey

Since Turkey obtained observer status at the African Union in 2005, relations between Turkey and the African continent have continued to develop. Since the 2000s, trade has been multiplied tenfold, reaching around 20 billion euros. Turkish embassies have multiplied in Africa, and *vice versa*, Turkish Airlines has increased its presence on the African continent (50 destinations today versus four in 2002),[21] and the Turkish Prime Minister has made visits to Africa with a delegation of businesspeople. Turkish companies are competitive especially in the construction and service sectors.

[21] Jeune Afrique, "Transports: Malgré des Vents Contraires, Turkish Airlines Maintient le Cap sur l'Afrique" ("Transportation: Despite Headwinds, Turkish Airlines Stays on Course for Africa"), February 16, 2017.

Initially, Turkey became involved in the Horn of Africa and western Africa. Today, Turkish companies compete with European ones in French-speaking Africa. In 2015, Turkey's foreign direct investments (FDIs) in Africa reached 6 billion dollars, while they were less than 100 million in 2003.[22] In 2016, 8% of Turkish exports were headed towards Africa.[23] Ivory Coast is its primary economic partner in French-speaking Africa south of the Sahara. Turkey has invested in a cement factory there, and will soon invest in water transportation, the hotel industry, and defense.

Turkey's ambitions could, however, be held back by the extremely violent power struggle between the Turkish Prime Minister and his former ally, Fethullah Gülen, who is accused of having instigated the failed coup of July 2016 in Turkey. Turkey funds a vast network of private companies, NGOs, and private schools in around 40 countries on the continent.



## Qatar

Africa is also feeling the effects of diplomatic crises between Qatar and Saudi Arabia and its allies. Indeed, Saudi Arabia has pressured approximately 20 African states to break off diplomatic relations with Qatar. Qatar, which has not demonstrated a clear African strategy, has made some investments through investment funds and through partnerships in the energy sector, but has not made massive investments, particularly in agribusiness where it would have been expected. Political will and familiarity with the continent are lacking. Some African states also fear the Emirate's political-religious strategy.

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[22] Turkey - Africa Economic and Business Forum, 2016, www.turkeyafricaforum.org

[23] *Ibid.*

## Israel

Israel's increasing interest in Africa has caused controversy. This increased power is thought to aim primarily at opposing Iran's progress on the African continent. Officially, Israel brings its skills in the agriculture sector, even if defense is a subject that is extensively discussed during bilateral meetings. The invitation issued to the Israeli prime minister to attend the ECOWAS (Economic Community of West African States) summit last June in Monrovia, Liberia, was controversial. Morocco, which refused to participate in July 2017 due specifically to the Israeli presence, frowns upon the arrival of a new competitor in West Africa. There was to have been an African-Israeli summit in October 2017 in Lomé, the capital of Togo. But, facing objections, especially from the opposition, Togo decided to cancel it.

## Brazil



Just four years ago, Brazil was a serious competitor or partner for French companies (in Portuguese-speaking countries such as Angola and Mozambique), but its influence in Africa is now clearly shrinking. The corruption scandal involving at least two well-known Brazilian companies, the public oil company Petrobras and the private family company BTP Odebrecht, has created political upheaval that has had repercussions on the country's presence in Africa. In particular, it caused the impeachment of Brazil's president, Dilma Roussef, who was forced to resign. The scandal now affects all continents and dozens of countries (Cuba, the Dominican Republic, the U.S., Switzerland, Angola, Mozambique, etc.).

In Africa, Angola and Mozambique were mentioned in the investigation that is underway in Brazil.

## b. Morocco: an exception?

On November 27-28, 2017, Marrakesh will host the second China-Africa Investment Forum. Four hundred Chinese and African businesspeople are scheduled to participate at the invitation of the Moroccan Ministry of Industry and Commerce.

One year ago, a *HuffPost Morocco* headline read: "Morocco, China's Future African Base?"[24]. In a few months, the tallest building in Africa will go up in Salé (across from Rabat), built by the Chinese. It is clear that Morocco has its own agenda for conquering markets south of the Sahara, supported by aggressive economic diplomacy at the highest levels of the Kingdom, led by Mohamed VI, who wants to make Morocco a true hub for Africa. After the banking and airline sectors, Morocco is moving into agribusiness. In February 2016, the OCP Group opened a factory entirely devoted to exporting fertilizer to sub-Saharan Africa. Before rejoining the African Union in Addis Ababa, Morocco laid the first stone of a fertilizer plant in Ethiopia. Today, Morocco is the second-leading country in terms of FDI in Africa (after South Africa) and appears as a bridgehead for many international investments on the continent.



Morocco is clearly displaying its intentions to become a pan-African economic and political leader. The country has recently rejoined the African Union after sitting out for about thirty years due to the conflict in Western Sahara. ECOWAS (the Economic Community of West African States) has given the green light for the Kingdom of Morocco to join the organization. By joining, Morocco could benefit from advantageous customs duties for exports to the region and accelerate its increasing power on the continent.

[24] HuffPost Maroc, "Le Maroc, Future Base Africaine de la Chine?" ("Morocco, China's Future African Base?"), June 21, 2016.

Some French companies have chosen Morocco as their entrance point to sub-Saharan Africa. Others have chosen to ally themselves with Moroccan businesses to conquer markets south of the Sahara. Morocco is thus pursuing its own agenda and Moroccan companies will not systematically be the allies of French companies in sub-Saharan Africa. In some markets (construction, for example), Morocco is in clear competition with the French.

As for Algeria, it has been attempting a comeback in sub-Saharan Africa. This country which, since decolonization, has had a historic tradition with sub-Saharan Africa (supporting the ANC, the founders of the independence movements, etc.) has recently reconnected with countries south of the Sahara. A pan-African conference was held in December 2016. However, it is difficult to say today what kind of partnership strategy Algeria wants with its sub-Saharan neighbors.



### c. Worrisome indebtedness

The rapidly-renewed indebtedness of some African states, associated with changes in the landscape of official creditors and the development of mandatory financing, carries significant medium-term risks.

The significant debt forgiveness that occurred since the early 2000s as part of the Heavily Indebted Poor Countries Initiative (HIPC) allowed for massively cutting back on the debt of sub-Saharan African countries. This initiative led multi-lateral and bi-lateral creditors, both official and private, to reduce the debt of 36 countries by 76 billion dollars in nominal value, including 66 billion dollars in favor of 30 eligible African countries.[25]

[25] International Monetary Fund, *Debt Reduction as Part of the Heavily Indebted Poor Countries Initiative (HIPC),* March 2014.

At the same time, emerging creditors substantially increased the volume of financing granted to African countries. While in 2005 emerging creditors held less than a quarter of the total outstanding foreign official bilateral debt in sub-Saharan African countries, versus over three-quarters for the *Club de Paris*, these proportions were reversed in 2015. This evolution in the structure of debt results essentially from the escalation of loans from China. China has become the leading bilateral creditor in sub-Saharan Africa, with 55% of total loans, far ahead of France with 7% of total loans. In some countries such as Angola, outstanding loans from China equal almost 9% of GDP. China is very exposed in Kenya, Ethiopia, and Nigeria, but also in countries at high risk for over-indebtedness, such as Ghana and Cameroon, or even in default, such as South Sudan.



Thus, since the rise of China's financial power in Africa in the early 2000s, Chinese banks and companies have loaned almost 80 billion euros to the African continent.[26] Some of these loans are guaranteed by the delivery of raw materials. For example, in Angola, petroleum, despite low prices, is being used to pay back 20 billion dollars loaned by China. Ethiopia, Angola, Kenya, Sudan, and Cameroon are the countries that have benefited from the most significant lines of credit from China's Exim Bank since the 2000s. This list is not the same as that of the countries with the most significant Chinese investments. Until 2017, Egypt, Nigeria, Algeria, South Africa, and Mozambique were the leading beneficiaries of China's FDI.

The World Bank has already sounded the alarm, declaring in particular the cost of infrastructure financed by China in Africa to be

[26] *China Africa Research Initiative,* Johns Hopkins University.

much too high. Fifty percent of Kenya's foreign debt, for example, is held by China. The Nairobi-Mombasa railway cost 2.8 billion euros. Kenya asserts that the railway will gain an additional point in growth for the country, allowing it to pay back its debt in four years, which a certain number of observers doubt.

Over ten years, countries such as South Africa, Angola, and Zambia have become very dependent on China, which obtains most of its minerals from them.

The rapid re-indebtedness of some sub-Saharan African countries calls for a rapid reaction to prevent default situations from multiplying in the medium-term. Considering the rising budgetary restrictions among the members of the *Club de Paris,* a second debt forgiveness initiative seems highly unlikely. In this context, it seems to be necessary to focus borrowers' attention on the risks of over-indebtedness, and to inform lenders of rules contributing to sustainable financing of economies. In this regard, the official inclusion of China in the *Club de Paris* would contribute to moving the country's practices in a direction in keeping with the long-term interests of borrowing countries in Africa and to improve the response of the community of lenders in case of a borrower's default.

## Less Favorable Global Circumstances

Conditions in sub-Saharan Africa are less favorable than they were five years ago. While they are still positive on the continent as a whole, they are now much less strong. Yet the needs are as great as ever. Even at concessional rates, it will be increasingly difficult for African countries to pay back their debts. China and international lenders are in the same situation. Everyone is racing after non-sovereign loans to avoid a possible payment default as is feared, for example, in Central Africa (the IMF has just acknowledged that Congo-Brazzaville lied about the outstanding sum of its public debt, Gabon has just signed on for the first time to a loan of 573 million euros with the IMF for the period 2017-2020, Cameroon has an initial loan of 666 million euros, and the list goes on).

Facing a shrinking windfall that will become more selective even for China, it seems more prudent for African states to develop long-term strategies that will allow them to use investments from the North or the South in the best way possible, according to their own public policy plans.

Yet, according to the most recent report from the World Bank on political institutions in Africa,[27] public policy has continued to deteriorate. This is surely the main problem. During periods of strong growth, the public policy of African states has not met expectations. These states have not managed to take advantage of these windfalls to build the foundations of sustainable development that would benefit the greatest number of people. Even worse, in terms of education, health, governance, and, in plain language, corruption, things have especially deteriorated over the last decade in the 39 countries that are eligible for loans from the International Development Association (IDA), according to the World Bank.[28] This generally corresponds to the perception of economic actors, including the French, in Africa.



**Faced with this situation that is harmful in the medium- and long-term, French and African authorities must create the framework**

[27] World Bank, *Evaluation of Policies and Institutions in Africa: Results of CPIA 2016 for Africa,* July 2017.

[28] *Ibid.*

**for ongoing dialogue in order to make sure that legal, regulatory, and tax frameworks are respected. The goal: better risk management and allowing French companies to establish long-term strategies, which are essential to developing lasting projects in Africa that will create value and jobs. And, finally, countries must avoid situations of outstanding debt that cannot be paid off.**

### Proposal 1

At France's initiative, reestablish at the European level the regulatory framework around international institutions by requiring them to inspect and check the observation of the required provisions in the projects that they finance.

This is primarily an issue of strongly encouraging African states through international funders to observe the OECD (Organization for Economic Cooperation and Development) framework. A body for dialogue between the OECD and the African Peer Review Mechanism (APRM) exists but its concrete effects in the field clearly need to be strengthened. Some African countries are also part of OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. However, it has been observed that as soon as a crisis erupts, these principles dissolve almost instantaneously.



## d. The United States: a strategy that is hard to read

Since the election of Donald Trump, it is clear that Africa is not a priority for the American government. The Young African Leaders Initiative established by his predecessor Barack Obama however continues for its fourth consecutive year. 1,000 young Africans thus went to the United States in June 2017 to take an intensive one-semester curriculum. It should also be noted that in August 2017, Togo hosted the 16th African Growth Opportunity Act (AGOA) Forum, a measure established by former president Bill Clinton that exempts some products produced in Africa and exported to the U.S. from customs duties. Currently, only 38 African countries have been able to meet AGOA's conditions to export to the U.S. AGOA has been extended until 2025. But what can be expected of the new administration?

It is not known whether the Trump administration will extend the measure after this date. In any event, the U.S. seems concerned about the acceleration of Chinese projects in Africa and wishes to strengthen its cooperation with the continent. In an irony of history, China could benefit from AGOA exemption at the textile factory that it recently opened in Ethiopia, whose goal is also to export to the U.S., which is the world's leading clothing importer.



Donald Trump has drastically reduced his country's contribution to development banks. In the draft federal budget for 2017-2018, $650 million for the African Development Bank (AfDB) or the World Bank will not be renewed.[29] Another source of concern for Washington and American NGOs working in Africa is the planned merger between USAID (the American development agency) and the State Department. The Trump administration's draft budget proposes lowering the global budget by $55 billion to $31.5 billion for fiscal year 2018.

[29] Jeune Afrique, "Pourquoi la Politique Budgétaire de Donald Trump Pénalise Financièrement l'Afrique" ("Why Donald Trump's Budgetary Policy Financially Penalizes Africa"), May 16, 2017.

## 1.3. France and Africa: Their Relationship Yesterday, Today, and Tomorrow

### a. France is one of Africa's major trading partners even if increased international competition has challenged some of its historical positions

Information on French foreign trade shows that, while France is quantitatively an important partner for sub-Saharan Africa, the latter remains a minor partner for France. In fact, in 2016, sub-Saharan Africa represented only 2.5% of French exports and 1.5% of French imports,[30] with figures of, respectively, 11.2 billion euros and 7.6 billion euros. Regular trade with Africa has been eclipsed, and will remain so for a long time yet, by the importance of France's trade with its partners in the European Union and the U.S. These figures are also a reflection of the size of the African economies, which are still too small to really influence the trading structure of an economy like France's.



Nevertheless, sub-Saharan Africa is still commercially important for France. France is a primary trading partner for almost all African countries.

However, France's positions have been fiercely challenged by the growth of emerging countries, primarily China. While France's market share in sub-Saharan Africa remains substantial, at about 4% in 2016, it has nevertheless been divided by 2.5 since the early 2000s (9.7%). During this decline, China has made significant gains in market share, moving from 3.7% to 17.8% over the same period.[31]

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[30] General Office of Customs and Indirect Taxes.

[31] Data from the French Treasury Department.

France remains solidly anchored in its so-called historical markets, located mainly in French-speaking Africa. Its market share in the countries of the franc zone was still 13.7% in 2016. Yet this position is increasingly challenged and France has lost over ten percentage points of market share since the early 2000s, essentially to China's benefit.

This market share, which remains important in these historical markets, implicitly reveals trading positions that are markedly less established in East African markets – in Kenya, Sudan, and Ethiopia – and in southern Africa – in South Africa and Angola, which have nevertheless been centers of growth and are now part of the main African economies (even if they are currently going through difficult conditions).



Africa is also commercially important for France because of a structural trade balance surplus. It reached 5.5 billion euros in 2016, as a result in particular of the drop in the price of raw materials. France mostly exports industrial goods, food products, and pharmaceutical products. In return, it imports mainly hydrocarbons, ore, and agricultural products. This bilateral commercial structure has changed very little over time and illustrates the ongoing weakness of African industry and the very limited production of manufactured goods on the continent.

Moreover, France is also a major investor in Africa. French businesses have been established for several decades in some markets and this knowledge of the local environment is a powerful stimulus for investment. According to Ernst & Young,[32] in 2016 France was the second-

[32] EY, *EY's Attractiveness Program Africa, Connectivity Redefined,* May 2017.

largest investor on the continent by number of foreign direct investments (FDI), financing 81 projects, behind the U.S. (91 projects) and ahead of China and the U.K. (with 66 and 41 projects respectively). The value of French FDI is also significant, reaching $2.1 billion, allowing France to have more or less parity with the U.K. ($2.4 billion). Yet it remains far behind the U.S. ($3.6 billion) and especially China ($36.1 billion). The significant level of French investments is a result of the country's earlier arrival on the continent, but also a desire to create long-term partnerships. In fact, as we have seen, French companies have generally shown resilience throughout the crises that have affected the continent.

### b. In their trade with Africa, French companies can rely on France's position as a leading funder in Africa and on its soft power



In addition to the dense network of trading connections between France and sub-Saharan Africa, development aid is an important foundation for the relationship. Indeed, France is a leading funder on the continent. While its involvement remains significantly more modest than that of the World Bank, the volume of French development aid makes France one of the main funders of African states, along with the European Union, the African Development Bank, and the German development agency. In 2015, the French Development Agency implemented over 3 billion euros of financing in sub-Saharan Africa, representing approximately 45% of its involvement abroad and 38% of its overall commitments.[33] It is to double the volume of its involvement, which could reach 20 billion euros cumulatively between 2014 and 2018.

[33] French Development Agency, "L'AFD en Afrique Subsaharienne" ("AFD in Sub-Saharan Africa"), 2015.

French development aid is an opportunity for French economic actors in several respects. First of all, it is a central element of France's political dialogue with its African partners, and an important lever for the strategy of French influence on the continent. In this respect, it strengthens France's ability to promote its views in other sectors, particularly when it is a question of supporting its businesses. Secondly, development aid is a source of financing for French economic actors. In fact, it is rare today that large infrastructure projects in sub-Saharan Africa take place without the involvement of one or more funders.

Moreover, France can use its soft power in order to influence the business environment. In this regard, the French language is an undeniable lever. While sharing a common language cannot accomplish everything, linguistic and cultural closeness is an element that facilitates business, even if its real impact is difficult to measure. Moreover, in French-speaking countries, the legal system, the functioning of government, and the rules regulating economic relations are very much inspired by French law. This body of common rules and practices facilitates the establishment of French businesses while constituting a possible barrier to entry for foreign companies. On the other hand, the International Organization of the Francophonie (OIF) struggles to play a role in relations between France and French-speaking Africa and remains barely noticed in discussions on the various aspects of the bilateral relationship. Some people argue that the organization should be given more of an economic focus. Whatever the case may be, some evolution seems necessary, especially since the teaching of French is today declining in some French-speaking African countries, especially in the Sahel, making a more aggressive approach advisable. It should be noted, however, that there have been some initial, isolated initiatives such as the *Journées* *de la Francophonie Économique et Numérique* or Days of Economic and Digital Francophonie, whose second edition took place in September 2017.

Yet these positive effects are reversed in English-speaking markets, where the English-inspired rules require adaptation by actors who are used to the French-speaking markets of West and Central Africa. This lack of familiarity explains why almost all French companies entering the African market for the first time always plan to establish themselves first in a French-speaking market, postponing studying the English-language markets until they have accomplished part of the learning curve.

# II

# PROVIDING (BETTER) FINANCING TO INVEST (MORE)

## 2.1. Status

The available financing tools have made noticeable progress in recent years. On the one hand, methods of government financing, both multilateral and bilateral, have improved; on the other hand, methods of private financing have become more diverse and more powerful (this is especially the case with private equity).

These positive developments indicate an expansion of the tool box available to governments and businesses that want to be able to have increased financial firepower to cover their needs in Africa. Yet major weaknesses persist. Among them, we find a mismatch between the need for financing and its supply. Most often, financing benefits only a limited range of companies with experience in Africa or of a large enough size to embrace the complexity of aid measures. There is also a tendency toward sub-optimal use of existing government aid measures. Finally, the support of French companies in Africa is very often limited to financing alone, even though their needs go well beyond this.

## a. Numerous Government Financing Instruments and Increasing Financial Commitments

### The Essential Role of Funders on the Continent

Development aid plays a major role in financing on the African continent.

***This is true both for multilateral banks...***

Multilateral development banks are very present on the continent. Every year, the World Bank commits over $10 billion of financing in sub-Saharan Africa ($13.3 billion in 2016). The African Development Bank (AfDB) made $11 billion available across the continent in 2016. The activity of both these institutions should continue to increase in the coming years.



The European Union is also one of the leading funders in Africa. Financing from the European Development Fund (EDF) is essentially concentrated in Africa (90% of the funds of the 10th EDF were implemented on the African continent). For the 11th EDF for the period 2014-2020, which represents a total budget of approximately 30 billion euros, over 25 billion are expected to be used in Africa by the fund's maturity.

***... and bilateral banks***

Bilateral development banks have experienced similar growth.

The French Development Agency (AFD), Germany's KfW, and Japan's JICA are present in many African countries. While AFD is more involved in French-speaking countries, Japanese development assistance is very present in East Africa. In the U.S., the Millennium Challenge Corporation, while it is not strictly speaking a development bank, is nevertheless a significant funder in Africa. All these funders have ambitious programs to strengthen their activities in Africa.

AFD plans to devote 20 billion euros to sub-Saharan Africa over the 2014-2018 period. These ambitions have been confirmed for the future. From 2017 to 2021, almost 23 billion euros are to be put into play on the continent as a whole, representing approximately 50% of AFD's total commitments. In order to implement its financing, AFD, with Proparco, currently has a very wide set of tools available, combining sovereign loans, loans to the private sector, grants, security instruments, and capital investment (through Proparco). It will further strengthen its ability to finance using its own capital thanks to the investment fund created jointly with the *Caisse des Dépôts et Consignations* (Deposits and Consignments Fund).



**The French Development Agency (AFD): A French Institution Serving Development**

AFD, the public agency at the heart of French foreign aid measures, has taken action for 70 years to fight poverty and promote development in developing countries. It also supports the economic and social progress of overseas departments and territories. Using grants, loans, or guarantees, it funds projects, programs, and studies and supports its development partners in capacity building.

Its subsidiary Proparco supports the private sector and has acted to promote sustainable development for 40 years. Present in 80 countries in Africa, Asia, Latin America, and the Middle East, it participates in financing and supporting businesses and financial institutions. Proparco's activities are concentrated on key sectors for development: infrastructure, with a focus on renewable energy, agribusiness, financial systems, health, and education.

France's development aid may increase in the coming years. French president Emmanuel Macron has announced his desire to bring France's development aid up to 0.55% of gross national income in 2022.[34] Such an increase would constitute a reversal after a downward trend that has lasted several years: development aid reached 0.38% of GNI in 2016 (versus 0.37% in 2015),[35] more than halfway below the goal of 0.7% established by the countries of the Development Assistance Committee of the OECD[36].



This goal, if it were actually attained, would strengthen France's position among the leading funders on the African continent and would allow the country to approach its Western partners such as Germany and Great Britain, which both reached 0.69% of their GNI in 2016. The U.S. is at 0.19% but it remains the leading funder state in terms of absolute value. Nevertheless, even if the amount

[34] Statement of July 24, 2017 when the singer Bono, director of the NGO One, visited the French presidential palace.

[35] Data from OECD, www.data.oecd.org/fr/oda/apd-nette.htm

[36] The goal of 0.7% was first recorded in 1970, through the adoption of the "International development strategy for the second decade of the UN development program", (UN General Assembly, Resolution 2626 (XXV), October 24, 1970). It has since been reaffirmed on several occasions by the press releases and statements of international meetings on development funding.

of development aid were to be increased, it is still not always accessible or suited to the companies that would like to use it as a financing instrument.

### In addition to development aid, instruments supporting exports facilitate access to financing

France also has many instruments for government support of exports. Until late 2016, Bpifrance and Coface have offered a range of instruments including marketing insurance, investment insurance, foreign exchange risk insurance, and export credit insurance. These measures are provided for both large corporations and small and medium size businesses. They can be used to cover some of the principal risks connected to business and investment in Africa. Bpifrance has also developed its own credit export instruments, with the aim of positioning itself in market sizes where commercial banks are not currently present.



The Treasury department also has its own instruments. The *Fonds d'Etudes et d'Aide au Secteur Privé* ("Fund for Research and Aid to the Private Sector") (FASEP) funds feasibility studies or demonstrators of green, innovative solutions abroad for development projects. It allows French research departments to obtain references on international markets, with the medium-term goal of having these studies lead to projects that will be structured to promote the skills of French companies. Since 2000, 327 million euros of donations have supported 508 services provided by over 200 French companies in 84 countries.[37] Moreover, Treasury loans are one of the instruments for direct lending to foreign governments in order to provide goods

[37] The French Treasury Department, *Le Savoir Faire des Entreprises Françaises à l'International et l'Aide Projet* ("The Skills of French Companies Abroad and Project Aid"), https://www.tresor.economie.gouv.fr/Ressources/File/413938

or services with a significant "French share". The projects financed can range from a few million euros to several tens of millions of euros, with or without advantageous interest rates.

AFD and Proparco cannot be totally separated from the instruments for supporting companies. Indeed, without harming their mission of aiding development and the rules pertaining to this (especially regarding untied aid and requests for proposals for AFD), AFD and Proparco finance numerous projects involving French companies.

## b. The rising power of private financing

### Government aid is turning more and more to the private sector

The private sector is called upon to play a growing role in African development. After having been focused for a long time on government financing and state projects, those active in government development aid are now striving to strengthen their initiatives in favor of the private sector. While the private sector lags behind governments in access to financing, it currently has very little debt, unlike governments, and thus offers an outlet for financing which, because of the risk of over-indebtedness, may be more difficult to apply to the public sector.

The idea that development aid can benefit both the public and private sectors is not new. For a long time, funders such as the EIB, AFD, or KfW have implemented financing for the private sector. Moreover, the development of public-private partnerships has helped to highlight possible cooperation with the private sector and the benefits for development.

### Accelerated Development of Private Financing Sources

In addition to official government funders providing development aid, there are also private funds that are constantly growing. The activity of non-governmental organizations, which are very diverse in nature (political, religious, or social organizations) contributes to the increase of aid flow to African development. Private organizations have also entered the landscape of development aid, such as the Bill and Melinda Gates Foundation, which has granted $4.56 billion in direct development aid, including over $2.43 billion for health,[38] which is almost equal to what the World Fund spends every year to Fight AIDS, Tuberculosis, and Malaria. Private companies have also entered the field of development aid, either pursuing marketing and communication goals or corporate social responsibility goals. For example, pharmaceutical companies are developing programs that aim to improve access to medicine in Africa.

The private sector, whether companies or investment funds, should play a bigger role in the field of development aid. Private financers contribute to the overall increase in aid volume and allow at the same time for targeting certain sectors (such as health for the Gates Foundation), with a leverage effect and maximum impact, which government funders find difficult to do considering their intentionally wider coverage of several sectors. Nevertheless, the countries benefiting from development aid still have significant efforts to make to attract private financers, especially regarding fiduciary risk and corruption. There should be just as much attention paid to creating an environment that is favorable to private development aid as is paid to the development of the business climate.

Finally, we cannot overlook the importance of foreign remittances.



[38] 2016 annual report of the Bill & Melinda Gates Foundation - https://www.gatesfoundation.org/Who-We-Are/Resources-and-Media/Annual-Reports/Annual-Report-2016

Last year, it was estimated that foreign remittances totaling $35 billion were sent to sub-Saharan Africa.[39] Even if this aid is often for immediate use by the inhabitants (for covering food, health, and education expenses, etc.), this money can also be used to start micro businesses or small businesses.

Often called the "sixth region of Africa," the diaspora is of essential importance to the continent. Unlike other diasporas, it is influential because of the financial stream sent to the continent, not because of its effect on national political or economic channels. Since the Africa Summit held in Paris in 2013, it has been clearly emphasized that government authorities should rely more on the diaspora.



It is clear that diaspora activity has been percolating. French diaspora organizations are now more visible in official meetings, agreements have been signed to create diaspora investment funds, etc. The goal is to make this money more productive. For the second consecutive year, as observed by the World Bank, the money sent by migrants to sub-Saharan Africa has declined (this is an overall global development that does not affect only the African continent). In 2016, migrants sent $33 billion to sub-Saharan Africa, which is a decline of over 6% compared to the previous year. However, this number should climb again in 2017, once again according to World Bank forecasts, to reach around $34 billion.[40]

Almost 80% of remittances sent to Africa as a whole concern 5 countries: Nigeria (with $19 billion), Egypt ($16.6 billion), Morocco

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[39] World Bank Group, *Migration and Remittances,* April 2017.

[40] World Bank, *Les Envois de Fonds des Migrants vers les Pays en Développement Sont en Recul pour la Deuxième Année Consécutive* ("The Amount of Money Sent by Migrants to Developing Countries has Declined for the Second Consecutive Year"), April 21, 2017.

($7 billion), Algeria, and Ghana ($2 billion each). For nineteen countries, remittances are essential, representing 3% or more of their GDP. For six countries, remittances contributed over 10% of their GDP in 2016. This is the case for Liberia (31%), Gambia (22%), the Comoros (20%), Lesotho (18%), and Senegal (14%).

The Maghreb is the leading recipient region of these funds, followed by West Africa with just over $26 billion.

This money is thus essential to millions of families who without it would not be able to survive, pay for medicine, or pay for their children's schooling. Today, some of this money could also be used as productive investments, considering the rising power of the African middle class.

That is what these organizations in France are trying to do. However, to have influence in public affairs and be considered a lever of influence in African countries, it seems necessary for these organizations to be recognized not only in France but also in their corresponding African countries. To do so, they will have to rely on various government authorities but also on the private sector with which they interact. Encouraging small and medium size businesses to use their influence in public affairs is an essential way for them to be heard. With this in mind, the financial support of the diaspora should be a lever of influence.



Organizations such as the Franco-Cameroon group Elie NKamgueu, the "Efficiency Club," which has several hundred members in France and all over Europe, are starting to emerge. This club, with a laser focus on economics, wants to create connections between the African diaspora in France and the African continent through productive investments. While this organization has the advantage of already existing and proposing solutions, French government authorities should nevertheless become open to other organizations in France in order to reflect the diversity of the diaspora. To be in sync with the realities of Africa and understand the continent in its entirety, contacts should be established in particular between the French government authorities and representatives of the English-speaking diaspora in London or the Portuguese-speaking diaspora in Lisbon.

## The Development of Private Equity

Although still unknown by many project leaders, including governments, private equity is developing on the continent.

In 2016, funds invested as investment capital and risk capital on the African continent reached $12 billion in assets according to Avca.[41] Despite some errors and difficult beginnings, the experience that investment fund managers have acquired in the field seems to have given a certain impetus to the African market.



The years of strong growth and the Afro-optimism of the early 2000s subsequently attracted many investors who have sometimes overestimated assets and produced significant losses. In this regard, the continent has experienced a great increase in the price of "targets," in a way that has sometimes been disconnected from the intrinsic value and outlook for growth of the companies purchased. At the same time, financial structures have become more sophisticated and more adapted to the specific characteristics of Africa. In order to better take into account foreign exchange risk, fund managers have developed appropriate structures for their investments such as using offshore vehicles, payment in phases, or debt in local currency.

[41] http://www.avca-africa.org/media/1745/2016-q4-cambridge-associates-africa-pe-vc-benchmark-for-avca-june-2017.pdf

Additionally, the types of operations and the sectors involved have become more diverse. “Multi-country” operations, whose design makes them less exposed to the conditions of a single country, have grown and now represent 36% of total African transactions between 2011 and 2016, compared with only 9% between 2007 and 2010. Specialized funds have come about, especially in the infrastructure, agriculture, health, and energy sectors.

This tendency toward the development of private equity is not limited to European or American funds. African investors, whether private (Helios, ECP, AfricInvest, etc.) or institutional, such as sovereign funds and pension funds, are involved in the market through increasingly complex operations. For instance, the *Caisse Nationale de Prévoyance Sociale* in Côte d’Ivoire (National Social Security Fund) (CNPS) recently invested alongside French private investment funds to buy shares in structures involved in projects of national interest.



## 2.2. Facing Continuing Inadequacies, it is Necessary to Rethink the Functioning of Certain Measures

Despite the positive developments described above, major gaps persist regarding funding for public and private investments in Africa. Some of the main challenges to be met include: the mismatch between the supply of financing and the demand, which is exacerbated by an unbalanced relationship to African risk; the narrow spectrum of businesses actually benefiting from government aid; the tendency toward sub-optimal use of existing government aid measures; and, finally, the weak structuring of technical assistance, which is symptomatic of insufficient support services.

## a. An unbalanced relationship to risk

Political hazards, corruption, and legal instability are among the main risks mentioned and perceived by French companies.[42] Although these risks do in fact exist in most African countries, the risk premium that companies must pay — and that the continent must therefore pay indirectly — seems much too high. In addition to these risks, there is the macroeconomic risk, which is especially high since African economies, which are often undiversified, show limited resilience faced with the possibility of external shocks. In particular, risks connected to monetary instability — inflation, foreign exchange risk — are significant in some countries whose currency is not integrated into a wider financial system such as the CFA franc.



However, the profitability matches the risk: it's high. Most French companies, when they manage to establish themselves sustainably on the continent, are in agreement that their investments in Africa are profitable overall, confirming the idea of a high yield/risk pairing. Moreover, when risk is analyzed, Africa has often suffered from the inaccurate mirror of the media, which is more focused on conflicts and poor development than on the energy and economic success of some countries and businesses.

Nevertheless, investment in Africa remains weak. Multilateral development banks regularly emphasize the inadequacy of investment, especially in infrastructure, as well as the relatively poor quality of these investments (in terms of execution, economic impact, management, and "sustainability" over time).

[42] According to "Observatoire du Développement International - Une Afrique, Des Afriques" (International Development Observer - One Africa, Many Africas") BearingPoint, December 2015.

One important reason for this investment deficit is the "cost of money," which constitutes a significant barrier to entry. Financing is often not available in Africa, and, when it does exist, can still be quite expensive. In the CFA franc zone, businesses borrow in local currency at rates from 6% to 8%. In countries with significant macroeconomic imbalances, the interest rates on loans can temporarily rise above 20% (as in Ghana or Nigeria).

In addition, lenders can impose significant guarantee requirements. Banks are not satisfied in these cases with intangible security, as they may do for other markets, but require deposits that can sometimes represent up to 30% to 40% of revenue. The scope of these guarantees significantly holds back foreign and local businesses, especially small to medium size businesses and industries.

## b. Making the supply fit the new need for financing



### Direct financing toward new needs, those of small to medium size businesses and startups

The tools described above represent substantial sources of financing for entering African markets. They are also effective demonstrators for small to medium size French businesses who can thus provide innovative products within large-scale projects.

However, the issue of their suitability to companies' needs must be regularly examined. Although it is illusory to try to have as many instruments available as there are projects, it is still true that these instruments can evolve to consider the changes in the African market. Clearly, an effort to make them suitable is needed. These instruments currently seem essentially focused on large corporations and less so on small to medium size businesses. Similarly, they are mostly debt instruments, while the demand for equity is increasing. In this respect, the increase in Proparco's equity and the establishment of joint investment funds by AFD and the *Caisse des Dépôts et Consignations* (Deposits and Consignments Fund) is a step in the right direction.

**Financing from government development is growing and is now complemented by private financing that is also tending to increase. In some countries, the problem today is no longer the availability of financing, but the lack of projects to be financed. The issue in the years to come is less about increasing the volume of financing – even if the need will remain very significant and the development of Africa will also call for new sources of financing – than about ensuring that supply of financing is appropriate for the specifics of African projects.**



**Proposal 2:**

Direct French government development aid more toward startups, very small businesses, and small to medium size businesses and industries. Increase the amounts devoted to risk capital and startup capital through Proparco and the new fund shared by AFD and the Deposits and Consignments Fund.

## c. Making financing mechanisms more understandable and thus accessible to all French companies

The methods for access to government financing are not perceived as being clear enough by even the biggest French companies. As a result, only a tiny minority of them (often those historically present in Africa or large corporations) truly benefit. Overall, even the communication of information about the existence of this financing is deemed to be inadequate. The increased numbers of actors supporting the international development of French companies, despite an effort to streamline in recent years (particularly with the transfer of government guarantees from Coface to Bpifrance), produces an impression of confusion. This reinforces the idea that access to this kind of financing requires an investment of time and money that not all businesses have. For some instruments, this adverse selection mechanism reinforces a “handout” mentality: the businesses that are in the habit of requesting financing use it even more regularly because few competitors present themselves to share the budget.

Bpifrance has made clear efforts to communicate better, as has AFD, whose DNA kept it by its nature far from the business world in order to better consider its needs. Nevertheless, the general impression remains that of a maze where only insiders can find their way, with no overall system that could help for figuring out which institutions are responsible for dealing with which kinds of instruments.



Indeed, beyond the limited circle of businesses accustomed to dialoguing with ministries and public agencies, many companies struggle to identify the different roles played by Bpifrance, Business France, the office of the Treasury and its economic departments, AFD, or Proparco. The large majority of them regret that access to information and to tools is so divided up among all these organizations. Creating a “one-stop shop” that would centralize requests and facilitate the process, would allow businesses – especially the smallest ones – to deal with only one institution. In addition to gaining time and money for these companies, such a mechanism could encourage new players to request government financing, instead of deterring them with an opaque ecosystem.

**Businesses need consistency, visibility, and tools suited to their needs in order to get involved in Africa. France offers many instruments for supporting exports. However, the institutional architecture remains complex and would benefit from being simplified – at the very least in terms of the front office.**

The "one-stop shop" should bring together responsibilities that are currently divided among several different agencies. It would be able to shed light on country risk, the most appropriate type of financing, and the possible structuring of financing, as well as foreign financing that is available (foreign funders). It would increase synergies between the various organizations tasked with supporting exports. It should function consistently and remain a flexible structure.

**Finally, over time, and beyond the synergies developed thanks to the "one-stop shop," it is advisable to consider establishing a French export bank. Models developed abroad could provide useful inspiration regarding the approach to take.** The bank would bring together all the instruments that have a primary goal of supporting exports (AFD, which has a different objective, would remain separate). It would thus benefit from skills developed across all the existing institutions, while strongly reinforcing the banking skills of its teams. In this respect, it would also be open to candidates from the private sector. On the institutional level, the export bank could be a new entity, or could rely on Bpifrance in order to limit the costs related to establishing a new structure, to develop synergies, and to create a continuum between government support for businesses both in France and abroad.

**Proposal 3:**

Create a "one-stop shop" for French companies with access to various tools for financing, insurance, and technical aid for exports.

Consider the opportunity of further concentrating certain instruments over time within a French export bank.

## d. Allow businesses to take full advantage of the means of financing that are currently available

### Allow the private sector to take full advantage of development aid

Mixed financing or financing for the private sector remain weak and are very clearly at much lower levels than the financing granted to governments. As we have seen, this imbalance is currently being corrected. Funders have become aware of interest in supporting the private sector, whether it is a question of dealing with issues in the development of the formal economy and youth employment or the over-indebtedness of governments.

Funders need to go further in adapting their instruments and financing strategies to better take into account the needs of the private sector, as an addition to the financing already contributed by banks and investment funds. The involvement of a funder to complete the financing of a private project could be a condition of the feasibility of a project: the presence of a funder usually acts as a catalyst for private financing. The minority involvement of the International Finance Corporation (IFC, which is part of the World Bank) or Proparco brings private partners in its wake.

Of course, support for the private sector should not divert the activity of these funders. They are not investors in the classic sense. They are interested in the overall economic and social yield of their activity and not in direct financial profitability. Their involvement in the education and health sectors is rooted in public policy and can only rarely involve the private sector. Moreover, while the financing implemented in these sectors does not have an immediate impact on French companies, as is sometimes said, the indirect effects must not be overlooked. New infrastructure and the strengthening of human capital through education, training, and health are assets financed by development aid that are made available to local and foreign businesses.

## Tied or untied aid



The idea that development aid can support French companies abroad may seem to be an oxymoron. Indeed, in a world where France, considering its commitments to the Development Assistance Committee of OECD, has made the choice of untied aid, i.e., aid granted with no conditions as to the nationality of the companies selected for a project, which leads to a systematic bidding process, it seems difficult to promote development aid as being in the interests of French businesses.

Untied aid has obvious merits. It prevents aid from being diverted into a greater role as support tool for businesses abroad than a public policy of humanitarianism. By putting foreign companies in competition with each other, it ensures that the recipient countries will pay the "fair price," preventing overbilling or poor-quality services. Additionally, it guarantees transparency in granting financing — the funders play a more or less direct role in handling bids, which reduces fiduciary risk, corruption, and embezzlement.

According to OECD, tied aid can increase the costs of a project by 15% to 30%. Managing tied aid also requires more bureaucracy, both for the granting countries and the recipient countries, simply to verify the origin of the goods and services purchased by the recipients in a globalized world where this notion is increasingly complex to define. In contrast, untied aid avoids these costs by giving the recipient countries the freedom to use financing to acquire goods and services from any country, without excessive monitoring, thus making trade more fluid.

Intuitively, we might expect French economic circles to challenge untied aid. They might get upset over losing calls for proposals financed by AFD to foreign companies. Yet the majority of French companies and their institutional representatives such as MEDEF (*Mouvement des Entreprises de France* or National Confederation of French Employers) are strongly committed to untied aid, as long as a broad enough group of countries respects this principle. The volume of financing from which French companies benefit through multilateral funders such as the World Bank, EIB, EDF, and the African Development Bank as well as bilateral funders actually surpasses what they could hope to obtain from tied aid and exclusively French financing.

Despite the position of French economic circles, pressure from public opinion or political circles can be strongly in favor of requiring more "French return" from development aid. The methods of emerging countries, who are not part of the Development Assistance Committee and do not respect its rules, contribute to the false idea that France alone constrains itself to such virtuous behavior while its competitors act more pragmatically.

In this context, national agencies try to take into account the pressure of public opinion by adapting their rules of functioning so that their financing is increasingly "doubly beneficial" — both for the recipient state and for companies of French nationality. These practices can be encouraged as long as they do not create schizophrenic behavior among those working in the development field. Indeed, it is possible to provide the best service at the best price to a poor country while promoting French economic interests. In this respect, France can be proud of the infrastructure projects its businesses have built in Africa, which are generally more long-lasting than those of its emerging competitors.

However, these solutions remain short-term expedients. In the long term, there is no doubt that everyone would gain from stronger convergence toward OECD standards instead of a withdrawal toward non-cooperative behavior. In this regard, China's acceptance of OECD rules would constitute definite progress toward a world where funders compete on a true level playing field. France is set to play a role in China's New Silk Road that is passing through Europe and Africa and could lead its European allies to require that their Chinese counterparts observe OECD standards including on the African continent.



### Make better use of certain funding by relying on innovative strategies or bringing into play technical assistance packages

Strategies exist for taking full advantage of development aid without challenging its principles. However, this supposes solid knowledge of the institutional environment and aid procedures. It also supposes legal prerequisites that are valid from state to state and establish a degree of urgency for the project.

In this way, UN financing is sometimes granted without going through an international bidding process, relying on the intermediary of operators who guarantee the observation of disbursement procedures on their territory and the quality of goods and services that are provided. Using these third parties allows the UN to act with greater responsiveness and with a close presence in the field. Expertise France, the French agency for international technical development, played this role for the UN by taking over the management of financing for the construction of the humanitarian base in Gao, Mali. Expertise France was then able to contract with French companies that were known for their ability to provide the necessary goods and services, without going through international bidding procedures, which are especially long and would have put companies from around the world in competition with one another with uncertain results for Mali.

Similarly, Expertise France is involved in the "Project for EU Support to the G5 Sahel Joint Force", which is funded by the European Union (EU). This project involves implementing logistical support to the joint force by providing goods, services, and construction. The European Commission turned to Expertise France because of its experience with similar projects, its presence in Mali since 2014, and its recent contract with the EU for the PARSEC project (Program of Support for Enhanced Security in the Mopti and Gao Regions and for the Management of Border Areas), which also involves the Sahel region. The project will function as a framework agreement with purchase orders, for total expenditures of 50 million euros. It constitutes an opportunity for French businesses that are attempting to strengthen their position in the Sahel or to acquire initial experience there.

Such arrangements, which are currently established essentially in the humanitarian or security fields, could be usefully expanded to other sectors.

**Proposal 4:**

Use French institutional connections to development organizations to help French businesses seize opportunities offered when funders establish private sector financing instruments.

Use the lever of technical expertise more effectively as a source of information and influence to mobilize financing.



## e. Beyond financing, technical expertise and support of companies are important in an especially adverse business climate

It is clear that French instruments for technical expertise present inadequacies. While efforts have been made in terms of visibility and streamlining of French government expertise with the 2014 merger of six government agencies as Expertise France,[43] the French landscape remains fragmented and several important institutions such as Civipol (domestic security), Adeci (agriculture), the international development mission (taxation), and GIP JCI (Public Interest Group for International Justice Cooperation) continue to operate independently. As a result, French international technical development skills seem to be scattered, and this limits their effectiveness.

[43] Expertise France was established by merging six public agencies: the public agency *France Expertise Internationale* (formerly GIP France International Cooperation) and the economic interest groups GIP Esther, GIP Inter, GIP SPSI, ADECRI, and Adetef.

Moreover, these agencies do not fully play their role to provide public experts to developing countries, to promote this expertise abroad, and to facilitate the leverage effect that such promotion could have for the French economy. Indeed, faced with the constant reduction of their government funding, since the early 2000s these agencies have begun to compete for international contracts through calls for proposals, thus putting themselves in direct competition with private companies all over the world, which are often much more experienced in terms of lobbying abilities and selling their services. In order to hope to win these contracts, these French agencies must rely on experts from the private sector in order to make up for the reduction of available public resources for involvement in developing countries. These private sector experts are much less able to be intermediaries channeling the influence of France and its companies. More generally, the directors have no policy of promoting the knowledge acquired by these technical experts. Yet they are the source of valuable information on the local situation, and can also contribute to transmitting French positions in the agencies they work for.



International technical cooperation is not considered by the agencies as a central instrument for development assistance and support for French exports. Other countries such as the U.S., Canada, and especially Germany are much more effective in this regard, and much better armed in terms of human and financial resources.

Currently, the unstable situation of the Expertise France model requires the agency to seek resources and mandates from the European Union or other international financial institutions in order to attain its revenue objectives. However, this urgent search for financing introduces the risk of losing sight of the interest of any particular contract for France, in terms of its potential diplomatic influence, the promotion of technical standards, and the projection of soft power, or impact for French companies.

**We should look to the technical expertise policy of our European neighbors, especially Germany, in order to fully use technical expertise as an instrument of influence and promotion for French businesses.**

### Proposal 5:

Strengthen our system of technical assistance by:

- promoting international technical assistance to governments, to facilitate making these voluntary public skills available internationally, particularly in Africa;
- accelerating and finalizing the merging of government agencies in charge of international technical cooperation to improve their ability to mobilize French government expertise to serve the interests of the assisted countries and French businesses;
- recentering the priorities of Expertise France toward: (i) indirect centralized management, on behalf of large funders, of structural international financing that will allow for contracts with French private companies in the field and (ii) involving public and high level government expertise for these technical assistance activities.

## Apart from government support measures, the business climate continues to hold back Africa's competitiveness...

Improving the business climate is a major issue for Africa's competitiveness and its attractiveness to investors.

It is essential to fight corruption, strengthen commercial law, and improve business transparency in order for businesses' ambitions to take the shape of a long-term commitment. Taxation instability undermines investors' confidence; frequently repeated tax audits put great pressure on companies, especially the smallest ones. Instead of focusing taxation on international companies – which often constitute the main part of the formal private sector and the tax base – states must try to develop the tax base by expanding the formal sector. Faced with this long-term task, which everyone acknowledges is essential, the temptation to simply occasionally tax big oil or telecommunications companies is very strong. Yet it is harmful to development over the long term.



By promoting standards in bidding procedures, funders have a positive impact on the business climate and the degree of transparency. However, they also have a responsibility to see that their financing is free from sometimes excessive bureaucracy and delays that developing countries cannot accept, which sometimes leads them to turn to less scrupulous institutions or countries.

The specific characteristics and the instability of national legal systems, whether it is at the level of public contracts or, especially, of taxation, make it especially difficult to fulfill contracts, even when financed by funders. Businesses need legal and fiscal visibility, especially in an environment where currency risks, sometimes along with health and security risks, are more significant. Yet the area where governments should have the most control is that of legal risks.

### ...Hence there is increased need for support of businesses involved in Africa

In this context, France must support its companies beyond financing alone. France has a long tradition of supporting its large companies in Africa. In this regard, the economic diplomacy promoted by Laurent Fabius when he was Minister of Foreign Affairs was not at all new. This concept at least allowed for more explicitly recognizing the necessity for diplomats to get involved in economic and commercial issues. This is a welcome evolution. Indeed, the role that the state plays in economic relations between Africa and France should be fully embraced.



During his opening remarks to the annual Ambassadors Conference on 29 August 2017, French President Emmanuel Macron declared: "France must not be a postcolonial country hesitating between weakened political duties and unhealthy repentance. The countries of Africa will be our great partners. And we must continue learning from them, just as they can learn from us." Indeed, it is time to look at what Africa has become today and to consider African countries our political and economic partners. This is what Africa needs: the attitude of a partner. As a partner, France must commit to protecting its businesses and speaking up when there is a problem.

In this regard, French companies find it unfortunate that the government is more likely to communicate about big contracts than about concrete achievements that result from them and the potential difficulties that occur. In fact, fulfilling these contracts is often just as challenging as obtaining them, considering the sometimes difficult context in which companies are operating.

The government must be able to remind its African partners that business is based on rules that must be observed. Of course, there is not a single French Ambassador in Africa who has not approached authorities there to discuss a dispute. The principal disputes are also often on the agenda at bilateral meetings. Nevertheless, the political handling of these disputes is sometimes inadequate, or recedes into the background when the political context is presumed to be inappropriate for discussing them. Support for businesses in difficulty should not depend on the political or diplomatic affinities of the moment, just as the protection of French nationals is not up for debate. Without more determined support, affirmed through communication, and more systematic criticism of states that have maintained a deteriorating business climate for too long, French companies will never be able to have complete confidence. In the field, this means strengthening economic services, which in many countries, especially African ones, are often the poor relations in the embassies, compared with more favored development services or consulates. Ambassadors cannot be everywhere at once, ensuring follow-up of contracts and dialoguing with all French businesses. Without adequately staffed teams to implement it, economic diplomacy is likely to be merely wishful thinking.

## 2.3. Startups: From Fantasy to Reality

### a. African startups: a change of paradigm

African startups, which have experienced unprecedented development in recent years, respond to a pressing need to contribute solutions that are fast, simple, and understandable by the majority of people. This is one of the major evolutions observed on the continent in the last ten years: the young generations have appropriated new technologies to invent African solutions for African challenges.

The example of M-Pesa, a mobile payment system developed in Kenya, is a symbolic example of the technological leap seen on the African continent. Nicknamed "leapfrog," this leap due to the ingenious use of new technologies is no longer happening within the "classical" framework, i.e., from the North to the South, but within one of the most innovative continents that exists. The South is inventing its own models, and is addressing users whose needs differ from those of Westerners.



Today, 80% of Kenyans use their mobile phone to pay their bills. The African middle class now has secure, accessible payment methods and, according to the World Bank, 67% of financial transactions by volume in Kenya are now processed by mobile phone,[44] making it a fundamental economic instrument.

Technological innovation does not concern only the richest countries in Africa such as Kenya or South Africa. Beyond mobile payments,

[44] Brian Muthiora for the Bill & Melinda Gates Foundation, *Enabling Mobile Money Policies in Kenya: Fostering a Digital Financial Revolution,* January 2015.

a great majority of African countries, on a fairly large scale, are involved in this mini digital revolution.

## b. The risky question of scalability

It remains to be seen whether these new initiatives are capable of generating large-scale development. Behind a wave of enthusiasm that some describe as naive, how much actual benefit is there for the continent's development? There are two major questions: financing (startup capital in particular) and the connection with government authorities.

**The Development of E-Health in Africa**

For example, e-health has raised great expectations in Africa. From this point of view, only the countries who have adopted a real strategy supported by the involved ministries have succeeded. This is the case with Rwanda, which adopted a national e-health plan as early as 2008. The result: today, in regions with little infrastructure, drones distribute blood bags to twenty different health centers. A base was unveiled by the Rwandan president 30 miles from the capital, Kigali. An American company, Zipline, won the contract. A second base is planned this year in order to cover the entire country. Far from being trivial, the Rwandan example marks a profound change in terms of government priorities.

Another example: in Malawi, which is currently experiencing a serious health and social crisis, UNICEF has just launched the "first air corridor" devoted to drone flight. This real-life test includes the benefit of supplying health centers that are inaccessible by road. Over time, this air corridor could be used by private companies to deliver express mail or replacement parts.

As a final example, in Ivory Coast, an Ivoirian engineer has developed an electronic vaccination record. Thanks to an agreement with the Ministry of Health, the OPISMS app has allowed for vaccination coverage approaching 100%. Today almost 200 health centers in the country use it.



According to the investment fund Partech Ventures,[45] in 2016, 77 African startups raised $366.8 million from investors, which is up 33% compared to 2015 ($276 million). These figures take into account only fund contributions above $200,000 and below $100 million. Additionally, Partech considers any startup that creates value on African soil as African, even if its headquarters is located off the continent.

Nigeria, which is responsible for 30% of this investment, is currently the leader, followed by South Africa and Kenya. Startups in these three countries alone have gathered almost 80% of the investments. French-speaking Africa has captured only 10% of these funds.

Today, incubators are multiplying on the African continent, with varying levels of success. Abidjan has not been able to make its mark, even though many observers were betting on the capital of Ivory Coast. Some businesses in the ICT (*information and commu-*

45 https://www.linkedin.com/pulse/vc-funding-raised-african-tech-startups-totals-record-cyril-collon

*nication technologies*) sector are planning to leave the economic capital of Ivory Coast and move to Dakar, which is more experienced in new technologies. Its incubator, the CTIC (*Croissance des Technologies de l'Information et de la Communication* or Growth of Information and Communication Technologies), founded in 2011, is one of the highest-performing ones in West Africa. In Niamey, the capital of Niger, the CIPMEN incubator (*Centre Incubateur des PME au Niger* or Incubator for Small to Medium Size Businesses in Niger), despite the relative weakness of its funding, proposes major innovations in fields such as telemedicine or irrigation.

Whether in Guinea, Togo, Kenya, or South Africa, entrepreneurs everywhere are inventing innovative solutions to move their continent forward. These companies will not all become unicorns, but they will have the benefit of revealing talent.



It must surely be in order to avoid waiting for financing that is not coming that Nigerian billionaire Tony Elumelu, who is the 26th richest man in African according to Forbes, has started a scholarship to finance 10,000 African startups over a ten-year period. His foundation is spending $100 million on this project. This is yet another initiative for "South-South" funding. Success will surely come from a skillful combination of this type of South-South financing and the more classical framework of funding from the North. There will then be competition with the American tech giants, who are currently very interested in the African continent. In August 2016, Mark Zuckerberg made his first trip to Nigeria and Kenya.

Will this interest warp African creativity by making it an instrument of innovation serving these American multinational corporations? It is still too soon to say. But it is certain that Africa needs inexpensive and innovative technological solutions. And so much the better if these solutions can then be exported all over the world.

III

# HUMAN CAPITAL: A MAJOR ADVANTAGE TO CAPITALIZE ON

Among the many challenges Africa is facing, that of human capital is significant. With over 300 million young Africans on the job market by 2050, integrating and making the most of their talents are two priority issues. Issues of training, knowledge transfer, and skills are inseparable from the issue of development, and call for concrete, shared responses. The lack of training and the heterogeneity of educational institutions on the continent are some of the main factors impeding progress that are mentioned by both French and African entrepreneurs and investors, as well as funders.

There is no human capital, i.e., human ability to create value and development, without an educated population. Education is the support system for the continent's social and intellectual development. Education will allow Africa to play on a level playing field as part of a globalized economy.



## 3.1. Education and Training: A Priority Challenge

### a. Status

In Agenda 2063, which was approved at the African Union Summit in May 2013, the African continent set a very ambitious goal: a school enrollment rate of 100% in secondary education and basic education by 2023. These goals are in sync with the Sustainable Development Goals (SDGs) of the UN, or even more ambitious in terms of education.

While the objective is clear, it remains an uphill climb. According to UNICEF,[46] in 2013, 34 million children who are of primary school age but do not attend school live in sub-Saharan Africa (out of 59 million throughout the world). Of course, this figure is declining (reduced by 10 million between 2000 and 2013), but it remains disturbing considering the arrival of new generations to the African continent and projections for the coming years.

According to demographers, the African population will double by 2050. This development can be explained to a great extent by the automatic effects of growing life expectancy in a population with a birth rate which, despite a downward trend, remains high. In fact, the birth rate in sub-Saharan Africa has continually declined since the late 1970s, dropping from 6.8 children per woman in 1975 to 4.9 in 2016.[47] This reduction is also found in French-speaking Africa, except for some countries such as Niger, which still holds the world record for the highest birth rate (7.6 children per woman).[48]



Although poverty is in decline on the African continent overall, it remains an exacerbating factor: it deepens educational inequalities, including those between girls and boys. These inequalities have an impact much later when young people enter the job market. In sub-Saharan Africa, 60% of young people aged 20-24 from the poorest segments of the population have attended school for fewer than four years.

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[46] UNICEF, "La Situation des Enfants dans le Monde 2016, l'Egalité des Chances pour Chaque Enfant" ("The Situation of Children in the World in 2016: Equal Opportunity for Each Child"), June 2016.

[47] World Bank, UN Division on Population, www.donnees.banquemondiale.org

[48] *Ibid.*

Moreover, finishing school does not in and of itself guarantee success. On the African continent, many children, even those who have gone to school, have not acquired basic skills. The number of children per class (an average of 70, often with inadequate learning conditions) is one of the main reasons. For example, in Niger, a study made public in August 2017 by the Ministry of Education — and challenged by the unions — shows that 43% of teachers tested (over 18,000 people out of the 80,000 teachers in the country, including 60,000 who are contract workers) have not mastered the fundamental skills to practice their profession (they received a grade ranging from 5 to 10 out of 20). Even worse, 19% of them had a grade below 5.[49]

As we will see, these handicaps have consequences over a student's entire life. They later impact the job market, where middle managers are blatantly unqualified. All the companies interviewed in our group highlighted the difficulty in recruiting this level of personnel in Africa and the lack of applicants having completed their junior year of high school or holding a bachelor's degree.



However, significant progress has been made, especially due to the growing wealth of some Africans who now form a middle class. As quality education correlates with the wealth level of the population, the emergence of a middle class on the African continent has been accompanied by rising education levels for a small segment of the population.

Nevertheless, access to education and literacy for all, both women and men, remains one of the major challenges in Africa today. Thirty-four million children do not attend school and the education level for

[49] RFI, "Les Très Mauvais Résultats des Enseignants Contractuels au Niger" ("The Very Poor Results of Teachers Who Are Contract Workers in Niger"), August 13, 2017.

women remains especially weak: the literacy rate is 70% for men but only 50% for women. Girls leave school in greater numbers than boys.

The number of school-age children in Africa is continuously growing, but infrastructure, the number of teachers, and their training are not keeping up. Access to quality educational materials is limited, for both teachers and students.

The conditions of schooling are extremely unstable, and primary education, which is essential, is the most affected. A corollary to this is that the level of secondary education is extremely weak. In sub-Saharan Africa, fewer than 30% of students in a class complete junior high school, and fewer than 15% finish high school. Consequently, African students are under-represented at the best international universities.



While we should under no circumstances neglect the efforts of many African countries to develop their educational system and increase its funding, the race to keep up with the number of school-age children definitely slows down the establishment of a virtuous circle. The indicator of "school life expectancy"[50] of young people today has been estimated at 10.3 years on average for men and 9.2 on average for women. But, yet again, progress is estimated to be slower in countries where the pressure of the population on the school system will remain strong due to a higher initial birth rate. In emerging countries, the "school life expectancy" should continue to progress and could reach 13 years for both men and women.[51]

[50] World Economic Forum, Global Competitiveness Index (correlation between the average number of years of school expected and the average number of children born per woman).

[51] Le Monde, "Il ne Suffit pas à l'Afrique d'être Jeune, Elle Doit Investir dans l'Éducation!" ("Africa's Youth is Not Enough – It Must Invest in Education!"), June 19, 2017.

## M-Education (Mobile Education) and Information and Communication Technologies for Teaching

The conclusions of a study led by the French Development Agency,[52] the *Agence Universitaire de la Francophonie* (AUF) (Francophonie University Association), Orange, and UNESCO on m-education (access to education *via* mobile phone) indicates that cell phones are the principal tool for the growing power of ICT to make educational content available[53].

The poor quantity and quality of telephone networks in Africa led operators to massively invest in mobile networks, establishing fees that are adjusted for local use. Today, cell phones have totally replaced landlines. The penetration rate measured in SIM cards per person is 71% in sub-Saharan Africa (115% for northern Africa). In Africa, the smartphone, which combines coverage and price (compared to computers that often remain inaccessible and not connected), has become the principal way of accessing the Internet for the population of extremely tech-savy young people.

While in 2013 the computer was still ahead of the mobile phone (83% to 71%) as means for accessing e-learning, no one today doubts that mobile education is the method by which ICT will profoundly transform access to communicating content. M-education



[52] Le Monde, « Le Numérique Peut-Il Réinventer l'Education de Base en Afrique? » ("Can Digital Technology Reinvent Basic Education in Africa?"), June 1, 2017. By Rohen d'Aiglepierre (AFD), Amélie Aubert (AFD), and Pierre-Jean Loiret *(Agence Universitaire de la Francophonie)*

[53] Digiworld, "La naissance d'un écosystème numérique en Afrique et au Moyen-Orient" ("The birth of a digital ecosystem in Africa and in the Middle East"), June 2017.

can open access to low-cost pedagogical resources and offers added value compared to traditional education, as well as an additional resource for teacher training. While it cannot replace in-class learning, which remains essential, it plays a role in changing the rules of access to knowledge and skills, especially to compensate for the lack of teachers.

However, in order for these trainings to be effective, they must contain quality content and be adapted to the medium and the method of transmitting the information, beyond simply digitalizing existing content. Content must be adapted both to the target audience (teachers, trainers, etc.) and the environment. With this in mind, MEDEF (National Confederation of French Employers) has gotten to work developing MOOCs and certified "train the trainer" sessions with French-speaking countries in Africa, in collaboration with UIMM,[54] Bpifrance, the Deposits and Consignments Fund, and the insurance company AG2R.



## b. The Importance of Local Partnerships

### Maintaining connections between the educational systems on the continent and in France

There are many deep connections between France and Africa in the realm of education. Yet a recent loss of influence has been observed, particularly in favor of English-speaking countries, whose system is increasingly chosen by African students.

[54] UIMM = *Union des Industries et des Métiers de la Métallurgie* (Union of Metalworking Industries and Professions). It has an education budget of 23 million euros and is playing an important role in Africa.

The network of French schools in Africa is very developed: 163 accredited French schools are listed by the Agency for French Education Abroad. Moreover, France remains one of the leading countries worldwide hosting African students, with 126,968 African students in France in 2015.[55] Out of the ten leading countries of origin of foreign students in France in 2015, five are African countries, including three in the Maghreb (Morocco, Algeria, Tunisia, Senegal, and Cameroon) and 42.5% of foreign students in France are from the African continent. In terms of initial training and education, we must therefore capitalize on the French-speaking education network, especially in secondary school, through the network of French *lycées* (high schools).

France must continue to play a useful role in terms of developing the African educational system by taking action both on the African continent and in France. Today, increasing numbers of African students are turning towards English-language institutions. Red tape involved in obtaining student visas is a particular reason for this. It therefore seems appropriate to facilitate the visa process for African students in order to contain a high loss rate in favor of English-speaking countries.

This is a result of the reform enacted by the Jospin administration,[56] which stopped granting selective visas and chose instead to establish an overall number of visas. As a result, the "elites" left for London, the U.S., or Canada. As summarized by one of the figures we interviewed for this report, *"tomorrow there might be a branch of INSEAD (European Institute of Business Administration) in Africa, but for now the right conditions do not exist yet. In any case, we do most of our seminars outside France because of the visa situation!"*

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[55] Campus France, *Key Figures for 2015,* 2016.

[56] Law of May 11, 1998 on entrance and residence of foreigners and the right of asylum, called the RESEDA law.

## Creating links between businesses investing in Africa and the educational system

The vast majority of businesses established in Africa lament the lack of middle management. There is a lack of training between the junior year of high school and bachelor's degree levels.

It is therefore essential to promote education in Africa at these levels through partnerships, including professional training, to strengthen skills in technical courses of study. These partnerships should involve businesses, who play an essential role in the effectiveness of the programs that are established. Today, businesses see Morocco as a hub for Africa, including for education. But other countries also stand out, without there being adequate interest from France. In Africa, Senegal, for example, is an intellectual platform for West Africa. Ivory Coast is more business-oriented. Nigeria has very good schools, such as the Lagos Business School. Ghana also has three excellent schools. Kenya and South Africa are additional hubs. Central Africa has few quality schools, with the exception of Cameroon.



In more specialized areas, establishing incubators inside schools, funded by European companies investing in Africa, could also contribute to this goal of training African middle management.

## Scaling Up

Currently, there are many initiatives, but they are limited and dispersed, and struggle to reach critical mass. Often restricted to elite institutions, they involve too few students. Therefore they do not address one of the main issues in Africa: making education accessible to the masses.

### The Example of HEC in Africa

HEC business school offers two types of training for African managers: diploma tracks, with instruction on their French campus in Jouy-en-Josas, and certificate tracks, with instruction in Africa. The certificate tracks focus on two types of population: businesses and government officials.

To train business managers and directors in French-speaking areas, HEC relies on French-language chambers of commerce in Africa. The school offers manager training (leadership strategy, finance, management) and also human relations training (an area that is still new in some countries of this zone). The trainings take place at one or more than one company. Currently, the trainers are mostly sent from France to Africa, but the school intends for 15% to 20% of the trainers to be local by 2020.

For the training of government agencies, a program called AGORA (*Accompagnement Gouvernemental des Réformes en Afrique* or Government Support for Reform in Africa) has been established. It is intended to encourage the professionalization of African agencies so that they can take an active role in development. Four countries currently benefit from this program: Ivory Coast, Togo, Congo-Brazzaville, and Gabon.



Like the trainings offered by HEC, these initiatives generally concern prestigious business schools and are not part of an overall policy enacted on a national scale. While managerial trainings are being developed, other sectors have struggled to establish training programs. A case in point is scientific training: Africa has a dire lack of engineers.

The initiatives that are already established should be “industrialized” while new trainings should be launched in sectors that are currently inadequately developed even though they are essential to the continent's economy. It seems appropriate to consider establishing public-private partnerships (PPPs) in education, involving businesses investing in Africa, schools and universities (both foreign and African), and African government officials. First of all, public-private dialogue and joint development of both spheres are needed prerequisites for launching PPPs in education. The government must express a vision for education, without simply leaving the “keys” to this sector in the hands of private companies. The involvement of the private sector in education has indicated the *de facto* failure of the public education system in many African countries.



Moreover, these initiatives cannot lead to development if they are not accompanied by an increase in the skills of government and public officials. The example of HEC is a good illustration of this necessary complementarity. The private sector cannot develop properly without the simultaneous emergence of a strong public sector.

**Proposal 6:**

Encourage the establishment of public-private partnerships in education, involving businesses investing in Africa, schools and universities (both foreign and African), and African government officials.

Focus these PPPs on skills that are more technical and less developed on the continent (mathematics, engineering, etc.). Target those between the junior year of high school and B.A. levels, by developing a two-year certificate degree like the French BTS degree.

This diversification and opening up of educational offerings should be able to respond to the decisive issue of training middle management and technicians and encouraging innovation and research and development in Africa.



Establishing PPPs in education could function according to the following plan: French universities and schools would establish a presence in Africa (after studying the existing needs with governments and companies that invest locally) in exchange for payment over a long period, which would finance construction and also pay instructors. This payment in the form of a licensing fee would be funded by the African governments where the schools would be located, foreign businesses investing locally, and the schools themselves.

Additionally, we can imagine, following the civil service model, establishing a retainer that would allow for this education to be free and for students to receive priority in the hiring process of companies financing the PPP.

## 3.2. Two Billion Talents

Youth is one of the most powerful drivers on the African continent. Currently, two-thirds of the population is under 25 years old. According to UN projections,[57] one in three young people aged 15 to 29 will live in Africa in 2050, which is just around the corner. Young workers will enter the job market, both in Africa and globally, in the coming years.

In Africa, there are over 200 million young people aged 15 to 24. Twelve million enter the job market every year. In 2050, there will be 50 million. It is thus not a problem of numbers but a problem of the ability to train these millions of young people and place them in jobs. There is an undeniable deficit of professional and technical training after the baccalaureate exam at the end of high school, especially in the industrial sector (equipment maintenance, for example). Technical and scientific skills are still painfully lacking. Training or apprenticeship programs are still in their infancy.



### a. Characteristics of French HR practices in Africa

French businesses in Africa have assessed this challenge. Most large French companies recruit African managers, often high-level ones, in their organizations. On the continent, most employees working for French companies are now African. The vast majority of the 60,000 employees in French companies working on the continent are African. However, as indicated above, while the recruiting of top management is easy, the intermediary and technical levels are still too often lacking.

[57] UN Report on World Population Outlook, 2017 revision, June 2017.

Faced with the lack of employees – or, rather, the incompatibility of young graduates with the companies' requirements – businesses have established various strategies. However, these strategies cannot replace true sustainable educational programs providing qualifications. Such strategies include:

1. Recruiting African managers outside the company, including outside Africa (the famous "repats" or "returnees"). If they are young, they will have a classic career path within the company, taking training seminars and learning the company guidelines and culture. The goal is to "grow" the teams to train future directors of subsidiaries, and thus reduce the number of expats whose high cost ends up not making financial sense. Not all French companies have reached the milestone of naming an African as head of their subsidiaries, but the path seems to be established.



2. Identifying talented individuals within organizations who should be "pushed" into positions of authority. Specific seminars on this topic have been established by human resources departments.

3. Expatriation within Africa can offer career possibilities on the scale of the continent or of a region in Africa, a first step toward internationalizing careers, something which, however, remains to be made a concrete reality by French businesses. Currently there are glass ceilings between African "expatriates" and others who are immediately offered an international career (in Asia or Latin America, for example).

4. Creating training centers for technical business skills. This is the case with professions in the hotel industry, transportation or logistics, agribusiness, etc. Attempts are being made to organize these

training centers jointly according to area of specialization. At this stage, French companies have a great deal of difficulty working collectively.

**In order to give a strong signal to African employees and allow them to glimpse a true career future within the company — a guarantee of loyalty for the employee — French businesses must strive to promote African workers in Africa but also in France, whatever their level in the hierarchy. Moreover, Africans should be capable of holding positions in all the company's managing committees, including management committees, executive committees, and the board of directors at its headquarters, and this should not just be a matter of public relations or quotas.**



**Proposal 7:**

Facilitate issuing economic visas and student visas in order to multiply opportunities for Africans in France. All the administrative approaches needed for recruiting African employees should also be simplified.

Currently, residents of only two countries in Africa do not need a visa: Mauritius and the Seychelles. All the others require a Schengen visa (less than 90 days) or a long-term visa. Economic visas do not exist.

## b. Recruiting and Retaining African Talent

While French companies have difficulties recruiting middle managers, they also have all the trouble in the world retaining them. Scarcity has a price and certain sectors — such as petroleum or mining — offer very competitive salaries, which penalize other sectors.

While salary policies have been evolving in a positive direction for a few years, much more effort is needed. There are many companies offering salaries that are equivalent to European standards. In certain cases, this can create salary distortions in their home countries when employees return.

Salary policy is not the only strategy for retaining talent. A career path and upward mobility should also be emphasized. It is essential to employ these strategies with sincerity to integrate African employees fairly.

The company's reputation can either be a promise of success or it can hold recruiting back. Traditional and family networks should not be underestimated, as they very often influence young employees in their decision to work for a company. A company's image is built not on promises but on realities that everyone can verify in the field. Close engagement with African societies through sustainable development standards is essential. This definitely makes a difference with businesses from emerging countries, especially from China. It is still very rare to see an African in a leadership position with Chinese employees. Appreciation and trust are also promises of success.

Geographical mobility and also hierarchical mobility are an additional part of the arsenal for retaining African employees. There are still very few French businesses that offer a true path of upward mobility in the company's global presence. When this milestone has been reached, businesses will prove that they do not discriminate between employees of equal skill.

# WHAT FORWARD-LOOKING VISION FOR AFRICA IN TOMORROW'S WORLD?

## 4.1. The CFA and its Future

### a. The CFA and its Future

The franc zone refers to all the countries that use the CFA franc as currency. More precisely, there are three distinct monetary areas: the West African Economic and Monetary Union (UEMOA), made up of eight countries,[58] the Economic and Monetary Community of Central Africa (CEMAC), made up of six countries,[59] and the Union of the Comoros, consisting of only the Republic of the Comoros. Each of these monetary zones is connected to France by an agreement on currency cooperation. There are thus three different currencies that coexist: the CFA franc of UEMOA (XOF), the CFA franc of CEMAC (XAF), and the Comorian franc (KMF).



Although their outlines have evolved somewhat over time, particularly beyond just the French-speaking area (countries joined the franc zone, such as Guinea-Bissau in 1994, while others left it, such as Madagascar or Mali, though Mali later rejoined), these monetary unions remain nevertheless the heirs of the monetary union established during the French colonial period. The currency was then adapted when the countries became independent, and again during

[58] Of these eight countries, seven are French-speaking: Senegal, Mali, Burkina Faso, Niger, Ivory Coast, Togo, and Benin. One is Portuguese-speaking, Guinea-Bissau.

[59] Of these six countries, five are French-speaking: Gabon, Congo, Cameroon (where English is also spoken), the Central African Republic, and Chad. One is Spanish-speaking, Equatorial Guinea.

a series of reforms that were implemented in terms of governance of the franc zone.[60]

Four broad principles underlie the functioning of the franc zone:

- Free convertibility between the CFA franc and the euro (formerly the French franc): this convertibility is unlimited; thus, in case of exhaustion of the foreign exchange reserves in the franc zone, the countries have an unlimited authorized overdraft on their account with the French Treasury in euros (in other words, the French government, i.e., the taxpayer, would be obliged to loan these countries whatever amount of euros they request, with no limit);
- Free transferability of assets within the franc zone;
- Establishment of parity between the CFA franc and the euro: this parity is established by an intergovernmental agreement between the countries of each of the unions and then remains fixed in the absence of any modifications to the intergovernmental agreement (today the parity is 1 euro = 6.55957 CFA francs). It should be noted that the fact that parity between the currencies of UEMOA and CEMAC is the same is contingent - in practice, two different intergovernmental agreements (one for each zone) determine this parity. *De facto,* it is different for the Comorian franc;
- Centralization of the foreign exchange reserves: the reserves of each state are centralized in the regional central banks[61] before half of them are then centralized a second time,[62] in the French Treasury.



[60] In this regard, the agreements of 1973 (for UEMOA) and 1972 (for CEMAC) are the most important, with the establishment of economic unions, in addition to monetary unions, in the 1990s.

[61] The Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC).

[62] The quota of centralized reserves in the French treasury, which is currently 50%, has steadily declined over time (it was originally 100%).

These principles establish the equilibrium of the franc zone: France contributes to macroeconomic stability in general and to that of African currency in particular via a guarantee of unlimited convertibility and, in return, participates in the governance of the franc zone via agreements, the governance bodies of central banks (where government representatives hold minority seats), and the system of partial centralization of foreign exchange reserves.

In order to manage this cooperation area, following the model of the Commonwealth countries, meetings of the Finance Ministers of the franc zone have been held since the 1970s. Held twice a year, these meetings focus on the monetary cooperation policy and, more generally, on all subjects of common interest to France and the African countries of the franc zone. In recent years, a great deal of attention has been paid to the agenda of regional integration.



Since the independence movements, the central banks in the franc zone have acquired greater autonomy. France's place in the governing bodies (boards of directors, audit committees, monetary policy committees) has been gradually reduced and today the country occupies a minority position. Similarly, the quota of centralized foreign exchange reserves in the French treasury has been lowered several times. Parity has not been modified since the devaluation in 1994 (the CFA franc then moved from 0.02 to 0.01 franc).

## b. The CFA franc has been the subject of considerable debate, with both economic and political motivations

The CFA franc has been accused of reproducing the asymmetry of colonial relations for the principal benefit of France and to the detriment of the development of African countries. In this context, the economic debate as to the advantages and disadvantages presented by the original model of the franc zone often remains a prisoner of ideological considerations as to whether France's position is too important or not important enough in the governance of African states.

The International Monetary Fund (IMF), whose free-market orientation would seemingly hesitate to accept the rigidity of the franc zone (compared to a floating exchange rate regime, for example), has avoided concluding that one foreign exchange rate regime performs better than another or declaring the franc zone economically ineffective.



Seen as an overall advantage, the anchoring to the euro and the French guarantee are analyzed as factors of stability, in particular for containing inflation, which is said to contribute to the resilience of the economies of the franc zone in case of an exogenous shock. Conversely, as the CFA franc fluctuates with the euro, its fluctuations reflect less the evolution of the countries' competitiveness than that of the euro zone. Therefore, if the euro is too strong, this can penalize exports from African countries, which could on the contrary need a weaker currency to improve their competitiveness.[63]

[63] However, the export sector of the countries in the franc zone remains dominated by hydrocarbons, ore, and agricultural raw materials, whose prices are generally denominated in dollars. In this context, the evolution of the euro has a limited impact on the competitiveness of these sectors. On the contrary, a strong euro is likely to penalize the development of a local manufacturing sector, as a strong currency allows for importing products manufactured abroad more cheaply.

Some critics disapprove of what they see as an alignment of the policy of central banks in Africa with that of the European Central Bank (ECB) which is based on controlling inflation. This critique overlooks the fact that the key interest rates of these banks are among the weakest for comparable levels of development (between 2% and 3% compared with rates that are sometimes two to three times higher in comparable countries), characterizing a strongly expansionist policy. Thus, the inadequate development of credit in the private sector has more to do with drastic information asymmetries in the economy (since banks do not have enough information about their counterparties, they consequently ration credit to limit their risks) than with monetary policy itself.

The respective importance of advantages and disadvantages evolves over time, according to the characteristics of the various countries (how developed and diversified the export sector is, whether there is a manufacturing sector, what kinds of exogenous shocks may occur) instead of truly being intrinsically linked to the characteristics of the system.



### c. Beyond political considerations, the CFA franc appears beneficial for activities of economic operators

The existence of a common currency has been a facilitating element for trade between France and the countries of the franc zone. Fixed parity protects economic operators against foreign currency exchange risk. In theory, this risk exists, insofar as parity can be modified, as during the devaluation of 1994. However, its probability is estimated to be weak in the short and medium term by economic operators. Moreover, the risk of devaluation appears quite difficult to integrate into an investment model or the cost of a loan. In this context, such calculations operate in a space where the foreign currency exchange risk is virtually non-existent, thus increasing the security – and profitability – of investments.

Moreover, fixed parity is a reassuring factor for lenders and investors in the debt of African countries in the franc zone. Unlimited access to a strong currency, the euro, with fixed parity, brings visibility and significant predictability to paying the debt burden. In fact, since African countries' foreign debt is generally denominated in dollars or euros, depreciation of their currency in a context of degradation of the economic situation automatically makes the debt burden heavier as expressed in the national currency. Over time, the risk is that of a payment default and a crisis of mistrust of economic operators and funders toward the country in question. The franc zone practically eliminates this risk, thus facilitating the establishment of export credit instruments and loans from funders, in addition to increasing the attractiveness of African debt.



More generally, the macroeconomic stability of the franc zone is a long-term advantage both for the countries in it and for French companies. Resilience to exogenous shock offers a more favorable framework for long-term investments.

### d. However, the advantages of the CFA franc to economic operators must not be exaggerated.

Currency and economic stability – or instability – constitute the primary risk perceived by French companies present on the African continent.[64]

[64] BearingPoint, *Une Afrique, des Afrique* ("One Africa, Many Africas"), December 2015. According to the study performed by BearingPoint, monetary instability is the number one risk in Africa as perceived by the foreign businesses who are established there.

Yet they do not tell the whole story, and the business climate results from many other factors, which sometimes play a much more decisive role. In fact, the African countries in the franc zone are characterized by relatively mediocre performance in the World Bank's Doing Business ranking, which evaluates the business climate. Governance, legal security, and the deepening of financial markets are essential determining factors, and areas in which the countries of the franc zone clearly need to make progress.

The comparative advantage of French businesses during the era of the franc has been diluted with the move to the euro. Now, all countries in the euro zone benefit from the fixed parity and the reduction in foreign currency exchange risk. This occurred without any major change in the competitive landscape of the franc zone. Just as the CFA franc did not prevent the increase in China's market share in the franc zone countries, the opening of this monetary space to businesses from all of the euro zone did not result in a reshuffling of the cards, yet another sign that currency cannot be seen as a principal determining factor of business. Moreover, macroeconomic stability and exchange rate stability also benefit businesses and investors located outside the euro zone, without the countries in question having to take on the corresponding obligation (the guarantee of convertibility).



### e. Should the system be changed?

The question is raised regularly and each time it makes a lot of waves. Some critics of the franc zone demand that it simply disappear, whereas others make a case for a shift to a less rigid system that would reduce France's involvement.

Any reform of the franc zone would necessarily be complex, as the issues linked to this cooperation framework go beyond simply the monetary framework and are related to France's policy of influence and policy of development.

Such a reform does not seem to have economic imperatives as a priority cause. There is no apparent dysfunction in the monetary policy of the central banks in the franc zone that could be attributed to the structure of the zone itself. While these countries have numerous economic difficulties, they are more likely related to ineffective governance, an inadequately developed tax system, and an insufficiently diversified economy than to instruments of monetary policy. Regarding the sensitive issue of the exchange rate, the IMF has not estimated in recent years that it deviated substantially from the exchange rate reflecting the fundamentals of the monetary unions.



**In any case, and from the point of view of the economic actors, any reform should primarily strive to preserve the system's great stability.** While the franc zone has already been reformed many times over, the general principles and the institutional structure remain. This permanence, joined with the central banks' increasing independence over time, may have had disincentivizing effects on any political attempt to try to exploit monetary policy in the short term. Moreover, the rigidity and the independence of monetary policy compel the governments to achieve the budgetary and structural adjustments that are necessary for boosting their economy instead of just printing more money, which has unavoidable effects on inflation and currency depreciation. Consequently, a thorough reform of the franc zone should strive to strengthen the independence of monetary policy in relation to possible interference from the governments on the one hand, while maintaining the mechanisms that contribute to overall stability on the other. In this regard, the fixed exchange rate could be maintained, on the condition of creating tools to effectively defend this parity (the example of Nigeria shows the adverse effects of a policy of defending fixed parity no matter what, even when the means to do this have been exhausted). This would necessarily bring up the question of the evolution of France's role insofar as the credibility of fixed parity proceeds from France's guarantee of unlimited convertibility.

In the second place, a reform could avoid the effects of "jolts and bumps" such as a devaluation. Indeed, the stability of the system is also its weakness when the shocks to which it is exposed are too strong to be absorbed. In this regard, the 1994 devaluation, which appeared unavoidable to economic analysts, had major economic and psychological effects on governments, populations, and economic actors, who were not ready for it. Thus, while the adjustments to the system are rare, it seems unavoidable that they will be violent at the same time. More flexible adjustment mechanisms, especially of the exchange rate, could be envisioned. For example, there could be a periodic revision of fixed parity, with limited extent, to better match the economic cycles.



Stability is undeniably the greatest advantage of the CFA franc for economic operators. The specific advantages for French companies are now either marginal in relation to other determining business factors, or shared with companies from the euro zone or other regions of the world. Whatever critics of the CFA franc may say, France's economic interest in maintaining the system is relatively weak. Except for political considerations and issues of influence, which still exist, **the CFA franc now seems more a part of France's development aid policy, through its contribution to macroeconomic stability and to advising public policy, than a policy supporting French economic and financial interests.**

## 4.2. For a Europe Investing in Africa

### a. Refounding the relationship with the Europeans

In Baden-Baden, Germany, in March 2017, at the instigation of Germany as chair of the G20, the Finance Ministers and central bankers of the 20 richest countries on the planet approved a project intended to stimulate private investment in Africa. Called "Compact with Africa," this German project aims to coordinate private and international investments towards countries with a clear development strategy, especially in terms of infrastructure. The first five countries eligible for the program are Ivory Coast, Morocco, Rwanda, Senegal, and Tunisia, to which Ethiopia and Ghana were added after the G20 summit in Hamburg in July 2017.



The recipient states agreed to reform their public policy in order to meet the program's criteria. However, no amount of public aid was officially announced after this G20 summit. Only the private sector was encouraged to invest more in the indicated countries. According to the figures of the German Development Minister, only a thousand German businesses are active in Africa. One-third of German investments are in South Africa. Africa exports only 3% of its products to Germany.

Germany is not unaware that the European Union is engaged in new negotiations regarding its African aid. This is occurring under the joint effect of two events that are disconnected but, by a coincidence of the calendar, had effects around the same time: Brexit and the Cotonou Agreement.

## b. Consequences of Brexit in Africa

The British decision to leave the European Union will clearly have repercussions on the budget of the European Development Fund (EDF). Great Britain is the third-largest contributor to the EDF after France and Germany, with 534 million euros annually. Its departure from the EU will invalidate a hundred agreements signed between Africa and Great Britain in the context of the EU.

Great Britain could also decide to redistribute part of this budget as bilateral aid with priority to countries that are part of the Commonwealth such as Nigeria, Ghana, Kenya, and South Africa. Countries such as Ivory Coast or Senegal, which have significant trade relations with Great Britain, could also benefit from this money, which would require months of post-Brexit negotiations.



### The Post-Cotonou Agreement: Increasing Private Sector Involvement

The Cotonou Agreement was signed in the economic capital of Benin on 23 June 2000. It came into effect only three years later, in April 2003, and will expire in February 2020.

Negotiations for a new agreement between the European Union and the 100 countries in Africa, the Caribbean, and the Pacific (the African, Caribbean, and Pacific Group of States or ACP) should begin in August 2018 at the latest. In 2015, the first discussions took place (such as the Declaration of Valetta, focused mainly on migratory issues[65]). These discussions will continue during the European-Africa Summit in November 2017 in Abidjan. Issues of economic development and

[65] Valletta Summit on migration - November 11-12, 2015 - action plan and political declaration.

migration will be the focus of these discussions.

### The Cotonou Agreement

The Cotonou Agreement is a treaty signed between the European Union and the ACP countries (Africa, the Caribbean, and the Pacific). It follows various agreements signed in the 1950s between the newly-created European Union and the newly-independent French-speaking African countries.[66]

Signed in 2000 and valid for a 20-year period, it is revised every five years. It came into effect on 1 April 2003, and was ratified by the 15 member states of the European Union and the 76 ACP countries (except for Cuba, Somalia, and East Timor).



The Agreement's objective is to set up free trade zones between the European Union and the ACP countries according to World Trade Organization (WTO) rules. The Agreement thus combines political dialogue and development aid, bringing civil society and economic actors together in the development process. It also introduces a reform of the financial system.

In 2002, the ACP countries and the EU began a negotiation cycle that is still ongoing with the aim of signing Economic Partnership Agreements (EPAs). The trade agreement is one of the pillars of the Cotonou Agreement.

The first revision took place in 2005. The following were added to

[66] The Yaoundé Convention (1963-1969), the Arusha Accords (which, for the first time, included three Commonwealth countries), and the Lomé Accords (1975-2000).

the treaty: the fight against terrorism, cooperation in the fight against the proliferation of weapons of mass destruction, the fight against illegal immigration (with the introduction of a standard readmission clause), and proper management of public affairs. In cases of serious violation of human rights or democratic principles, the EU can suspend its aid. Corruption is mentioned but is not a cause for ending aid. The European Development Fund (EDF) is its main cooperation instrument.

Federica Mogherini, the High Representative of the EU for foreign affairs and security policy and Vice-President of the European Commission, affirmed the EU's desire to move from a traditional approach, focused on aid, to a true economic partnership with Africa.[67]



In this regard, European businesses – particularly French ones – should be more closely involved with the post-Cotonou negotiations. All the organizations representing French businesses investing in Africa, in close connection with African employers' organizations, should be able to have an influence on these discussions. Their participation will allow the private sector to be a stakeholder in the continent's development. The creation of the UP40 group for French startups investing in Africa (part of MEDEF, the National Confederation of French Employers) is also a positive sign for exerting influence in the

[67] External action of the European Union, *"Federica Mogherini Présente un Plan en Vue d'un Partenariat Renforcé avec l'Afrique en Matière de Paix et de Sécurité Ainsi que de Création d'Emplois pour les Jeunes,"* ("Federica Mogherini Presents a Plan for a Strengthened Partnership with Africa in Terms of Peace and Security as Well as the Creation of Jobs for Youth"), May 2017, www.eeas.europa.eu/

discussions.[68]

**Proposal 8:**

In the context of the 5th Africa-EU Summit, propose a clear, renewed, and coordinated strategy for European policies in Africa. Relying on the Franco-German relationship, redefine the objectives of post-Cotonou development, in coordination with African government authorities. Involve the European private sector as a required party in these negotiations.

France has in-depth knowledge of the African continent, especially of French-speaking Africa. Germany wants to invest more in the continent and can use its primary strength in this regard, its development bank, KfW. In 2015, according to its most recent report, the organization devoted 1.6 billion euros to sub-Saharan Africa. France and Germany currently have convergent interests in Africa, connected in particular to handling migration. The context is favorable for Paris and Berlin to bring their African policies closer together and coordinate them in order to relaunch the development of a true African policy in Europe.



68 UP40 can also promote the development of labs within corporations or startup financing for startups that are in dire need of it in Africa.

# CONCLUSION

Africa cannot be conjugated in the singular or in the past.

It is plural and must be perceived in all its diversity, beyond the convenient but ineffective split between French-speaking and English-speaking Africa. In reality, there are as many different definitions of Africa and of "France's African policies" as there are countries on the continent. Identifying the specific characteristics of Africa can help us understand the continent but we must avoid trying to construct geographical, political, economic, and social abstractions, which always simplify reality.

Today, Africa is going through a series of transitions that are propelling it firmly into the future. The transformations at work are demographic, political, security-related, economic, social, and climate-related. They create the image of an Africa in rapid transformation, which is ever more distant from the naive clichés of those who are nostalgic for the 20th century.



We must accept this reality. But are we ready for today's Africa, and the Africa of the future?

In this context, our advantages are undeniable. Our prior experience and our continued relationship with many African countries is unquestioned. The cultural, linguistic, and legal closeness to French-speaking Africa creates connections between France and the continent.

We are aware of the new African paradigm. The French government authorities and economic operators, supported by researchers and development agencies, have a keen awareness of the challenges that exist for Africa, whether it is a question of strengthening institutions and democracy, training and jobs for young people, urban planning, economic diversification, or the risk of the return of over-indebtedness.

At the same time, we are aware of the challenges that we ourselves face. The emphasis on French-speaking countries remains the "new frontier" that our diplomacy must cross, and our companies are now located beyond the French-speaking area, although this does not indicate the standardization or the trivialization of our relations with our historic partners. International competition is increasingly fierce. China, Morocco, India, and Turkey have strategies in mind for Africa and are ready to implement them. African countries are aware of this competition and know how to take advantage of it. They now deny their historical partners any exclusivity in their trade or political relationships, just as they now refuse, to a certain extent, a one-on-one relationship with China.



Nevertheless, we still have many inhibitions.

We seem to be enclosed in a circular political discourse, with every French President announcing a renewal in Franco-African relations. "From now on, things will be different," is the refrain, as if the past must necessarily be disavowed in order to continue to make progress together.

We still expect a lot from the government, as if no economic strategy in Africa could be conceived of without the parallel involvement of the state. In the future, the success of French businesses on the continent will be determined less by financing and diplomatic approaches, but by the goods and services offered, their competitiveness, their bold partnerships with future African champions, and the risks they will take.

We remain focused on risk in Africa, without seeing the opportunities and the related profitability. Boldness and risk-taking, which are currently highlighted in political discourse, must be heard beyond France.

We propose to leave these inhibitions behind us by collectively choosing a restart.

**Proposal 9:**

Promote a "restart discussion" for France in Africa, expressed by the government authorities, in order to liberate our businesses from a historical and political burden that handicaps their development on the continent. This restart discussion should release creative energies and promote French companies' access to African markets

A restart does not mean starting off with a blank slate and leaving our past behind. On the contrary, it consists in accepting our past as it is, but agreeing at the same time to liberate ourselves from the inhibitions it may have created. We should take note that current and future generations of political and economic leaders, both African and French, have not, in general, experienced colonization or the independence movements.



A restart implies accepting our ambitions in Africa, whether they are diplomatic or economic. France should bring a clear policy and strategy of economic development to Africa. In his opening speech to the Ambassadors Conference on 29 August 2017, French president Emmanuel Macron already outlined such a strategy, the policy of the 3 Ds: Defense, Development, and Diplomacy. In a first, he created a Presidential Council for Africa, including Franco-Africans and representatives of private companies, public institutions, investment funds, and startups. This Council will be tasked with making proposals to the President before each of his trips to the African continent. We will see if this is truly an instrument in the service of an uninhibited African strategy or simply an empty shell. Our partners discarded their history-related inhibitions a long time ago, and have taken advantage of our own complexes. We should do the same.

This requires removing taboos. Corruption, democratic transfers of power, the financial practices of certain emerging countries, the CFA franc – these issues have so far been addressed only in veiled terms. We should open up these subjects more broadly to democratic discussion, including in France, to air these subjects that have festered due to a lack of transparency.

This requires discussing subjects that have not been openly considered. Is there a European policy on Africa today? Should the EU member states, who are discovering their interest in cooperating on security issues in Africa, take more joint actions on the African continent? France must see to it that Europe's African policy is not dictated only by the migration challenge, which risks deterring our African partners through a guilt-inducing approach. The language of truth, which is often more complex than it seems, requires some political courage. The expiration of the Cotonou Agreement makes these issues quite urgent.



Finally, this also requires dispelling the fantasies that have been alternately encouraged by Afro-optimists and Afro-pessimists. It is clear that startups will not save Africa, even if they can – potentially – make a useful contribution to the diversification of economies and job creation. Conversely, African economies will not eternally remain investment economies, as this specific feature does not rule out industrial development.

A restart is resolutely Afro-realist and pragmatic. It ensures we will be ready for today's Africa and the Africa of the future. Ready for Africa as it is today and as it will develop tomorrow.

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THERE IS NO DESIRE MORE NATURAL THAN THE DESIRE FOR KNOWLEDGE

# Are We Ready for Today's Africa?

Sub-Saharan Africa is undergoing a series of rapid transformations. The favorable economic conditions, the strengthening of democracy and the young population, a source of growth, constitute major assets for its development. France, although a historical partner of the continent, fails to benefit from this dynamic. While it is being challenged by emerging countries, primarily China, France struggles to build a renewed discourse.

The five-year period that is opening up must be that of Afro-realism. For France, it means investing more and differently, multiplying opportunities for our businesses and strengthening our bonds with Africa in the education and human capital sectors. For Europe, it amounts to rebuilding the logic that has prevailed for a long time: from a "country to continent" relationship, it is time to move towards a "continent to continent" relationship, based on renewed agreements and shared ambitions.

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