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Millions for billions: Accelerating African entrepreneurial emergence for accelerated, sustainable and job-rich growth

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Abstract

The article below argues for the need to strongly accelerate public involvement in support of entrepreneurial emergence in poor and fragile countries. After mentioning the economic and employment issue, it explains how this priority has long disappeared from the international agenda as well as from domestic public policies, particularly in Africa. Efforts to promote the private sector have in practice focused on foreign direct investment and the largest companies. Middle- and emerging income countries, and a limited number of sectors and financial instruments, such as debt, have been valued. The article evokes the gradual change of perception on this subject from the beginning of the century and the emergence of new so- called impact actors focused particularly on SMEs in poor countries, accompanied by some public private sector financing institutions (DFIs), development agencies or foundations.

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These institutions and impact actors have identified the financial withdrawal, and the difficulty of access to skills that the entrepreneurial dynamics of poor and vulnerable countries suffer from as well as the major obstacles to which they can provide solutions through specific products. The article shows through a microeconomic approach that, in these countries, even financially successful companies cannot meet the return targets of international investors. In this situation, limited Public Contributions can generate very high societal and fiscal profitability. The article demonstrates the low cost of a programme to support entrepreneurship through public investment that could increase African GDP by one percentage point. It also proposes measures that international aid actors, DFIs and African governments could take to foster the emergence of entrepreneurship. Finally, it emphasizes the very strong contribution to the sustainability of African growth that such action could have. It concludes with reflections on the positioning of the DFIs in relation to this subject.

Summary of the article

Accelerating growth in the poorest and most vulnerable countries, particularly in sub-Saharan Africa, requires a renewed mobilisation by the governments concerned and the international community on promoting the productive sector. After decades of prioritizing the social sectors, governance and infrastructure, there is a need to focus on accelerating the growth of start-ups and SMEs.

They constitute the bulk of the productive fabric, determine the bulk of employment growth and are a major stake for sustainable development. However, they are making much less progress than the traditional "invisible hand of the market" theory of development aid would have predicted: Improvements in the business environment in poor countries remain too limited and benefit the smallest too little. The latter also face excessive barriers to access finance, especially equity capital and skilled human resources.

But these companies are not easy to reach, for organisational and financial reasons. They are indeed very small sizes. The capital they need is in the order of a few hundred thousand euros in the early stages of their expansion. Even well-established SMEs need "only" a few million euros to enter new phases of accelerated growth. These amounts are too small to interest domestic and international commercial investors, whether companies or funds: in Africa, their investment thresholds are rarely less than 7- 8 million euros. Below this amount, management costs, as well as macroeconomic and microeconomic claims history, make these investments insufficiently profitable in terms of expected international rates of return. Exchange rate losses also play an important role in poor economies experiencing systemic shifts in the value of their currencies. Finally, the sensitivity of the networks needed to achieve them makes the goal very difficult for large international structures.

Detailed microeconomic analysis shows that even small, high-growth, highly profitable companies cannot generate returns for investors, at both the individual investment and portfolio levels, that are close to the 11-15% net IRR expectations currently prevailing in the markets and consistent with the observed costs of capital. Results are at best half as good for this class of company, and often much lower. Public investors dedicated to the private sector, or "DFIs", also use inappropriate investment structures, based on liquidity requirements that are too fast for these small, high-growth investments in difficult countries.

Yet the article shows that these small businesses make substantial contributions to creating added-value and employment in the economy. The article below takes the fictitious case of an agri-business in the Sahel, MiamSahel, which receives an equity investment of €200,000. Despite very strong financial performance and rapid growth, this company would only return on the order of 14% IRR to its investor after 10 years. The return would be negative if the investor were to sell its stake after five years. But the added value generated would correspond to a direct social return (or actuarial rate of return in added value) of around 67%. This rate of return would be further increased by taking into account the indirect impacts on the entire value chain and the economy. The direct tax rate of return (tax revenue generated in relation to a theoretical public investment of €200,000) would be 59%. This justifies public or private "general interest investors" replacing private for-profit investors, or helping them achieve their legitimate return objectives.

If these figures are extrapolated to the level of an entire Sahelian-type African country, or to the level of the African continent, the cost/benefit ratio of such investments appears very high. For example, seven such investments per year in a Sahelian country would be enough to raise the country's GDP by one percentage point. On a continental scale, an equivalent result would be achieved with an

investment level of around €400 million per year. This represents a marginal shift in current ODA volumes.

In practical terms, such results could be achieved by scaling up actions already underway, which are proven to be feasible and supported by recognised operators.

First, widespread networks of accelerators or incubators, which are essential for generating start-ups, could be established in each country. This policy could be accompanied by the dissemination of "pre-investment" programmes, which give very small businesses access to interest-free loans or grants of a few tens of thousands of euros, enabling them to reach the stage at which they can apply for equity investments.

Second, we could also systematically establish in each country one or more funds or financial companies to provide equity financing to small local companies, with unit amounts of a few hundred thousand euros maximum. This is the size of most small poor countries. This requires external concessional capital to leverage domestic capital, which is essential to establish the technical and political credibility of these investment vehicles.

Third, there is a need to bridge the gap between the level of needs of small domestic players and the stage when commercial investment funds start to operate (i.e. around €7-8 million). This so-called "missing middle" gap requires guarantees or concessional financing to find a financial balance compatible with the considerable extra- financial impacts generated. These are generally regional or continental funds.

Major donors such as the European Union, the Mastercard Foundation and the World Bank have begun to make such funding available, enabling intermediaries, DFIs or investment funds to reach SMEs or start-ups. Some African governments also contribute to this type of policy through their sovereign wealth funds or national schemes (Caisse des Dépôts, Caisse de Sécurité Sociale… etc.). But these initiatives need to be deployed more rapidly and their volumes increased to match the scale of the needs. This is particularly relevant for the World Bank, whose IDA Private Sector Financing Window (IDA PSW) needs to be reformed to become successful and meet its target. It is also important that the financial instruments put in place by these public actors cover the full range of structural needs and help to address issues of intrinsic returns such as foreign exchange risk, but also liquidity and maturity problems that investors face in reaching start-ups and SMEs in poor and fragile countries.

Mobilising international private financing to support this policy means looking at how to attract large international savings players, such as pension funds. They could justify their participation by their commitment to society. But their size offering implies them investment opportunities of very significant amounts. They also have legitimate concerns about returns and liquidity. Therefore the article argues for an original international initiative. It would involve creating a large fund-of-funds that major international investors such as pension funds would be invited to participate in. An alliance of the major public players would provide it with concessional resources, so it could cover certain essential risks, notably foreign exchange risks, sovereign risks and the return differentials intrinsic to the aim of the investment policy. The vehicle, which would take the form of an investment company with an indefinite life, would be listed on a major international financial market, providing liquidity that would also be provided by the general interest partners.

All this funding should be accompanied by grants to strengthen the capabilities of these actors in the field and the self-financed companies.

The question of DFIs is essential to the deployment of such a policy in favour of small businesses in poor and fragile countries. As the article shows, DFIs have historically focused on supporting international companies and accelerating foreign investment. They have mainly used the financial instrument of debt, rather than equity. They have focused on a small number of sectors, such as banking and the extractive industries, and on activities that best protect them from exchange rate risks, while the priorities for building the domestic production sector concern the domestic market.

There are two possible approaches.

The first, and undoubtedly preferable, is to mobilise the DFIs in support of this new agenda for promoting small businesses in poor and fragile countries. This implies a change in (i) mission, which needs to be formalised, and these institutions need to be given precise economic model objectives (ii), because the financial returns associated with this mission being what they are, the DFIs will need access to concessional organisation resources (iii), because it is unrealistic for these institutions to be able to carry out the necessary fieldwork on their own, hence the need to work via intermediation, through effective players rooted in the local fabric. In order to enable the necessary emulation in the sector, access to resources from the European Union and the World Bank, for example, could be made possible not only for their closest DFIs but also for the operational players themselves.

The second option would be to create specialised agencies to implement this policy. This would provide greater clarity, mobilise more specialised skills and perhaps speed up implementation, in a context where many DFIs are reluctant to move forward. The article suggests creating a fourth World Bank Group institution dedicated to this cause. But this would run counter to the desire to combat the fragmentation of institutions. However, this concern should not be used as a pretext for inaction, resulting from persistent conservatism in many DFIs.

Finally, this policy is based on many players operating in a complex market and facing difficult environments. The absence of a "learning community" through exchanges on both policy and operations is a concern. The article argues for the emergence of such platforms or their extension, along the lines of the Alliance for Entrepreneurship in Africa, which should become a forum for dialogue between all. Organisations such as the Aspen Network for Development Entrepreneurs (ANDE) and the GIIN should also play a greater role in consolidating this public policy through ever more efficient players.

Millions for billions:

Accelerating African entrepreneurial emergence for accelerated, sustainable and job-rich growth

The African continent has become the frontier zone in the fight against global poverty in the 21st century.

It is also a major arena for controlling migratory flows to Europe and a crucial zone in the geopolitical competition between Europe, Russia and China. In addition it is an area that is vital to the global environmental cause because of its rich biodiversity, its potential for carbon capture and its capacity to produce massive amounts of carbon-free energy for the world. In terms of health, it is also a critical continent for the emergence and management of major pandemics.

If all this is true, it is not only because of the size of the African continent, which represents "only" around 20% of the world's land mass, or its current population, which is "only" around 1.4 billion people. This is primarily due to the simultaneous economic and demographic projection towards the end of the century.

After passing the two billion population mark in 2050, according to the United Nations, the continent will have between 3.4 and 4 billion people by the end of the century, even if there is a sustained demographic transition. Africans will then represent around 40% of the planet's population. However, their GDP will not be of the same order, but even with modest economic growth of around 4% per year over a long period, Africa will be a considerable economic power by the 2050s and even more so at the end of the century, albeit a fragmented one: its GDP could then reach more than $53 trillion compared with $44.2 for the EU, if the latter's GDP were to grow by an average of 1.5% a year over the coming years.

Despite the striking nature of these figures, which must be compared to a population growth of around 2.5%, poverty will only decline slowly: at the turn of 2050, there will probably still be as many "absolute" poor as today, even if their relative share of the population will have declined.

Accelerating sustainable economic growth on the African continent is therefore first and foremost a priority for Africans themselves. But this growth is also, especially for Europe, a top public policy priority. Other major players, such as the United States and China, may see the continent as a market and a source of supply. Russia may see it as a strategic playing field. For Europe, its continental neighbour, the continent's prosperity, stability and ecological balance are, on the contrary, crucial and the primary challenges of its relationship with it.

But how have the historical international aid (ODA) players, particularly European ones, understood how to help accelerate economic growth in Africa? While they can in no way generate it, given that it is the primary responsibility of Africans, they can perhaps support it, albeit modestly, given the scale of the challenges.

The historical framework of global thinking can easily be summed up. Accelerated growth in poor countries has long been seen as the result of a combination of appropriate macroeconomic policies, large-scale, sometimes public-private, infrastructure investment programmes, and the strengthening of health and education systems. Since the end of the 20th century, the theme of governance has been added. Subsequently, ODA has included values, gender and climate themes in its "software". Since the end of the Cold War, the public agenda has refocused on the national private productive sector's growth. But in order to build this productive sector, the dominant doctrine has consistently maintained that it is inappropriate to invest directly in the private sector. The private sector simply needs to benefit from all the improvements in competitiveness brought about by the strengthening of its institutional environment, the macroeconomic framework and the establishment of transport, energy and other infrastructures.

In what follows, we will see that this theoretical framework was first cracked to the benefit of large companies and foreign direct investment, with important geographical and sectoral consequences, as instruments, for public players.

It is only recently that the international aid community has rallied to the cause of entrepreneurial emergence. The innovative projects that have been set up since the turn of the century need to be scaled up. But to achieve this, the legitimacy of this public policy must be strengthened. To do this, we need to show why start-ups and small businesses do not develop spontaneously enough, despite their dynamism, which will lead us to discuss the dual constraint of financial and human capacity that weighs on them.

We will then seek to shed light on why these small businesses, even if they are financially very profitable, cannot generate rates of return that meet the expectations of international investors or "commercial" investment funds. These reasons are partly due to structural factors, such as the fact that the target companies are too small. They are also related to financial factors, such as standard modes of structuring investment funds: the financial packages promoted in particular by public private sector financing institutions (DFIs) tend to reproduce out of context practices from the world of private equity in industrialized countries, which are ill-suited to the constraints of small businesses in poor and fragile countries, and which, all in all, diminish the financial return of the vehicles that are theoretically dedicated to supporting them.

This will lead us to show that concessional contributions by "general interest investors" could have a very high societal and fiscal return, given the massive construction of added value and taxes by these small formal businesses. This return justifies the mobilisation of public or philanthropic funds to support emerging small businesses in poor and fragile countries.

We will also see that taking environmental and social sustainability into account further increases the importance of the public benefits of mobilising support for entrepreneurs in poor countries. It does, however, require the general social value to be properly measured, in terms of both accountability and the direction of public interest investment.

Finally, we will try to show that an objective of increasing the rate of growth of African GDP by one point would have a very modest public cost for excellent results, including financial results. However, this implies designing a comprehensive policy to promote entrepreneurship, with various institutional, organisational, budgetary and instrumental dimensions.

We will conclude with some institutional suggestions.

1. All with the multinationals

The “Washington Consensus” is a convenient and imprecise term to sum up the liberal doxa of development espoused in particular by the Bretton Woods institutions in the last decades of the twentieth century. It is characterised, among other things, by the recommendation to increase private investment, especially by improving the business environment.

The first of the exceptions to this doctrine of abstention from public intervention in the productive sector, as opposed to industrial policy, did not, however, benefit the smallest companies.

Strangely enough, at the end of the last century and at the beginning of this one, development aid was not primarily focused on the domestic private sector, which was supposed to benefit from the impact of efforts to improve the business environment, but on international investors, through what is known as foreign direct investment (FDI).

Historically, the international aid community recognised very early on the need to accelerate FDI, which would bring much-needed foreign currency to the continent. These support measures have been based on two essential pillars: *the first* is the provision of sovereign risk guarantees, for example through MIGA (the World Bank’s subsidiary international investment guarantee agency) and similar bilateral arrangements, mainly European ones.

The second is the provision of public capital through what have been called *Development Financial institutions* (DFIs); which have grown significantly, mainly in Europe, the US, Japan and multilaterally[1]. According to preliminary statistical work (Beaucoral 2023), annual investments by the main DFIs have risen from a few hundred million dollars worldwide in the 1995s to around 50 billion dollars at their peak around 2020, before falling back slightly due to COVID. They have provided loans and equity to large companies, subsidiaries or partners of major global corporations, either directly or via investment funds.

In theory, the returns targeted by these institutions are so-called "market" returns to avoid inducing market distortions. There are many underlying theories.

The first underlying theory is that public development institutions have a knowledge of the market that enables them to identify flaws and information failures. These information failures are supposed to explain that, despite market returns, international companies (financial or non-financial) do not invest, for example in Africa, let alone in the poorest countries. This justifies these public institutions investing directly in the countries and sectors concerned, either alongside international companies or ahead of them, thereby "revealing" the market and ultimately creating the conditions for their own obsolescence.

One consequence is that the DFIs in question must adopt a so-called “crowd-in” approach (i.e., attract this capital and base their investment choices on the difficult concept of "additionality") (Carter Patrick 2021).

A second underlying theory is based on the concept of undue or exaggerated risk[2]: it underpins sovereign risk guarantee approaches, attempting to focus international companies on economic risk alone. This goes beyond the doctrine of market disclosure, especially since if the guarantees in question have a cost, this cost appears to be directly or indirectly subsidised. Otherwise, the market‘s

[1] See appendix 1 "Development finance institutions, support for the private sector in Africa?”, Pierre Beaucoral, Ferdi, 2023.

[2] See in particular the concepts evoked by Le Houérou and Hans Peter Lankes in “Mustering the private sector for development and climate in the Global South”, FERDI, 2023. (Lankes Hans Peter 2023)

famous invisible hand would have led to the emergence of purely private players in sovereign risk coverage, which is in fact the case, with the latter complaining about the "crowding out" role played by public insurers.

The effectiveness of this system as a whole is unknown. As far as we know, there is no evaluation of the costs and benefits of the effort made to mobilise international savings for developing countries: unfortunately the studies available on the mobilisation of private capital by the multilateral development banks, and not the DFIs, (Broccolini Chiara 2021) do not really provide a basis for making a relevant judgement.[3]

Five facts nevertheless stand out.[4]

The first is the *geographical concentration of these official flows of support to private capital in the major emerging economies*: these flows have been concentrated primarily in Asia and Latin America. In Africa they went to the most prosperous economies (South Africa, Nigeria, Kenya, and more recently Ghana and the Ivory Coast). Poor countries have benefited little from these inflows, and LDCs' economies are virtually absent from the balance sheets of most DFIs. In practice, the DFIs have generally reproduced the inequalities in size and income levels between developing economies.

The second fact is sectoral. *DFIs have sought to support the most financially secure sectors, and those based on the most certain currency returns*: like this they mainly supported international and local banks and insurance, mining and fossil fuel industries. Their priority was focused on export activities. General manufacturing and services, as well as agriculture and agro-industries, count less in their balance sheets. The latter sector has undoubtedly been the biggest victim of this polarisation.

Third*, debt contributions comprise the bulk of their contributions*, compared to equity investments, which is consistent with their pursuit of foreign currency, liquidity and security.

Fourth, over time, while this "DFI system" has been able to move beyond international investors and has also taken a partial interest in local capital, it has done so essentially for *the benefit of the major national players, particularly in the large developing countries*, once again seeking to ensure the long-term financial viability of its intervention.

All of this is reflected in significant average amounts of funding. DFIs are very different from one another. It is pointless to compare the average €111 million per Asian Infrastructure Bank project with the €800,000 per SOFID project. But on average, the 35 largest DFIs in the world devote almost €18 million per project. This is clearly well above the needs of SMEs and start-ups. This figure reflects the system's polarization not only towards private infrastructure, but also towards large international or national companies, which have much better access to finance than the smaller ones.

To our knowledge, there is no valid research on the actual financial return of the DFI system's actions, or on the various guarantee or blending mechanisms that these FDIs or the large companies financed have benefited from. Even knowledge of the scale of the scheme is partial, which is a pity: it would reveal a hidden or overt subsidy leading to an implicit "public good" doctrine, justifying the concessionality granted

[3] A pessimistic assessment on all this can be found in "Mustering the private sector for development and climate in the Global South", cited above. Moreover, in this article the authors believe that the international aid system comprised of public aid adversely affects international private capital inflows.
[4] See the note already cited by Pierre Beaucoral in the appendix: "Development finance institutions, support of the private sector in Africa?".

These facts do not condemn the system that has been built over the decades. However, they do call for investment in both knowledge and evaluation.

Only one certainty can be drawn from these findings. The DFIs were not designed to support the emerging domestic productive sector of poor countries. Given their economic model and organisation, they are probably largely incapable of doing so autonomously.

This is no coincidence. Supporting entrepreneurial emergence in poor and fragile countries has only recently been part of the international or domestic public policy agenda.

2. The invisible hand of the market rules over the poor.

In the years following decolonisation, the legacy of private corporatist traditions maintained a certain public presence in support of the private sector in poor countries for some time: bilateral and multilateral cooperation agencies were all the more willing to support chambers of commerce and agriculture in poor countries (e.g., as they maintained relations between the national and international private sectors).

Fairly comprehensive systems have been maintained over time, for example by the European Union under the Cotonou Agreements (see the Centre for the Development of Enterprise, or CDE, for example). Public and national investment banks have also been supported over time, theoretically targeting the national productive sector. This system withered away over time, a victim of negative assessments of its impact. There was virtually nothing left of it at the beginning of the 21st century.

Four factors explain why the national productive sector, and in particular the emergence of entrepreneurship, has been left untouched since then. It is essential to examine them in order to measure the distance that needs to be covered to rebuild public policy interest in the sector.

The first is the strict application of the liberal credo of the 1990s, both in official development assistance and among the governments of poor countries, particularly in African countries, which are faced with the intense need to finance social policies and infrastructure. The credo of the invisible hand of the market stipulates that in order to avoid distorting the market and generating the undesirable effects of interventionism denounced by the so-called school of public choice, it is necessary to refrain from intervening directly in companies, and to content oneself with improving their environment.

The second is the lack of knowledge of the entrepreneurial sector by both ODA and government players. The world of SMEs and entrepreneurs, which is institutionally very weak, has no access to decision-makers and represents neither a social nor an electoral issue in most countries. Officials of international institutions and governments generally have neither personal roots in this world, nor are they exposed to it in their training or practice, even if in many poor countries some of them have a second or even third job in the informal sector. As a result, the public system has been unable to get become aware early on of the dynamics at work in the African production sector and is generally powerless to devise appropriate support instruments. In fact, the governments of developing countries often focus their attention and efforts on large companies, especially foreign ones, which are likely to generate rapid tax (and sometimes other) returns and are of a size that enables efficient political communication.

The third relates, as we have seen, to the DFIs' lack of capacity to target the dynamics of emerging companies, both very small (VSEs) as well as small and medium-sized (SMEs). The small size of the companies targeted, their very nature, their location, the nature of the risks involved, and lastly, the culture and composition of the staff of these institutions make it difficult for them to understand the issue of supporting entrepreneurial emergence. Yet the DFIs have - unwittingly - monopolised the discourse on support for the private sector since the 1990s. Their relative silence on the issue of entrepreneurial dynamics has effectively expelled this debate from public policy circles and from all those dealing with the private sector in poor countries.

Finally, the collapse of the development banks in the great cycle of structural adjustment cast a thick veil of scepticism over ODA circles and progressive and liberal African governments alike as to the capacity of national public bureaucracies to become involved in direct support for the national private sector, without generating massive corruption and, because of such corruption, skewing allocations. The collapse of managed credit in the 1980s and afterwards led those involved in the system to throw the baby out with the bathwater.

All this explains, for example, why few lessons have been learnt from Asian public policies in their relationship with their domestic sector, which have nonetheless been hugely successful. The same is true of the policies implemented by industrialised countries in their own countries, whether in the United States, Germany or France, to name but three: "Small Business Acts", KFW, Caisse de Dépôts, Banque Publique d'Investissement (BPI), etc. In a system that is mistakenly highly attracted to replicating the institutions of industrialised countries in poor countries, for once there has been no imitation.

Environmental issues, and climate change in particular, were not really taken into account in this phase either: the DFIs largely financed carbon-based energy. They have only recently withdrawn from carbon-based energy. The so-called "ESG" standards we have just mentioned have focused investors' concerns on the reputational risks incurred, rather than the societal contribution of the companies concerned. As a result, in environmental matters, the focus has been on avoiding pollution, for example, or environmental damage, but little, for example, on energy efficiency, direct reduction of carbon emissions or the resource cycle. These concerns are beginning to emerge through the consideration of impact, and the inclusion of externalities in the latter, a category historically largely absent from the discourse of DFIs focused on financial return and job generation.

3. Invisible hand, you're too invisible for entrepreneurs!

Despite this disappearance of objects from the public agenda, the entrepreneurial dynamic has accelerated sharply in most poor and fragile countries, particularly in sub-Saharan Africa. We lack the key figures to characterise this rapid emergence, but experience shows that there is a considerable appetite for business start-ups and SME takeovers in these countries.[5]

The reasons are clear: (1) urbanisation and rural densification are finally creating markets for entrepreneurs; (2) higher levels of education are giving entrepreneurs the means to master the technologies and management techniques needed to develop businesses, and they are finding more manpower than in previous decades; (3) public sectors are hiring less and there are not enough

[5] See Severino and Hajdenberg, Entreprenante Afrique, Odile Jacob (Hajdenberg Jérémy 2016).

large companies to provide work for all the qualified people; and (4) the liberalisation of the economy, the fruit of the famous Washington consensus, is giving more licence to operate.

Despite these essential transformations, this entrepreneurial dynamic is still lagging behind the continent's demographic challenges, especially in Africa. This is reflected in the continent's growth: although African growth rates have risen sharply since 2000, they do not compare with those of emerging Asia. As we have already seen, there is a considerable gap between the jobs that are likely to be created in the next 30 years and those that need to be created to meet the labour needs of future generations. It is therefore necessary to accelerate the emergence of entrepreneurship by building on what has already been created.

So what is constraining the current entrepreneurial dynamic?

The African private sector, a stable dual universe.

The entrepreneurial dynamic in poor countries appears to have two powerful limitations.

The first is the very high mortality rate of entrepreneurial projects in poor countries (McKenzie David 2019). In the famous valley of death of entrepreneurship, too many fail.

The second is the low rate of transformation of SMEs into dynamic, high-growth companies: once they have achieved sales of a few hundred thousand euros, too many entrepreneurs choose to - or have to - stabilise their growth. The main reasons given for this kind of glass ceiling are twofold. First, the desire to remain invisible and therefore out of reach of attempts at social predation, which may come from their entourage but mainly from government and political authorities; second, as we shall see, financial withdrawal.

This explains, for example, the relatively stable African business landscape: a very small number of medium-sized companies or large SMEs are experiencing moderate growth and are the targets of all international private investors and banks, which are fighting over them. They benefit from the concentration of DFI financing. In countries like Kenya and Ivory Coast, a significant proportion of them are owned by Lebanese and Indian minorities. Although these minorities are highly integrated and enjoy local nationality, they constitute a specific sociological group in their home country and a network that is difficult for newcomers to penetrate. Ultimately there are few newcomers that become real players among the large or medium-sized enterprises.

A few sectors seem to escape this situation: obviously, in the field of new technologies, the lack of an original entrepreneurial fabric allows new players to emerge. We find the same mechanics in the field of decentralised green energies. The banking sector has undergone major changes: newcomers, promoted by local entrepreneurs with national capital, have been able to carve out a place for themselves. The real estate sector has seen the emergence of mainly domestic players, although foreign investors may also be involved. Generally speaking, in the larger countries like Kenya, Nigeria and Ivory Coast, the glass ceiling has been pierced more than in the poorer countries, and across a wider range of activities (cosmetics, food, construction materials, etc.).

The African continent has certainly experienced strong growth since the turn of the century, even if this has slowed considerably recently as a result of COVID and then the Ukrainian crisis. But it has been based on a sharp rise in both domestic consumption and public investment in infrastructure. As a result, its impact on generating a local economic fabric has been insufficient: external dependence on imports of consumer goods has continued, including foodstuffs, affecting the overall performance of the economy and reducing economic resilience. Above all, perhaps, this structural limit to African growth has insufficiently prepared the continent for a historic period when manufacturing exports to industrialised countries could not be a substitute strategy for the fatal end of growth driven by raw material exports: the African domestic market, a formidable challenge made possible by demographic growth, can only be well served by national, regional and continental players with roots there.[6]

A stability whose most important foundations lie in a small number of key factors.

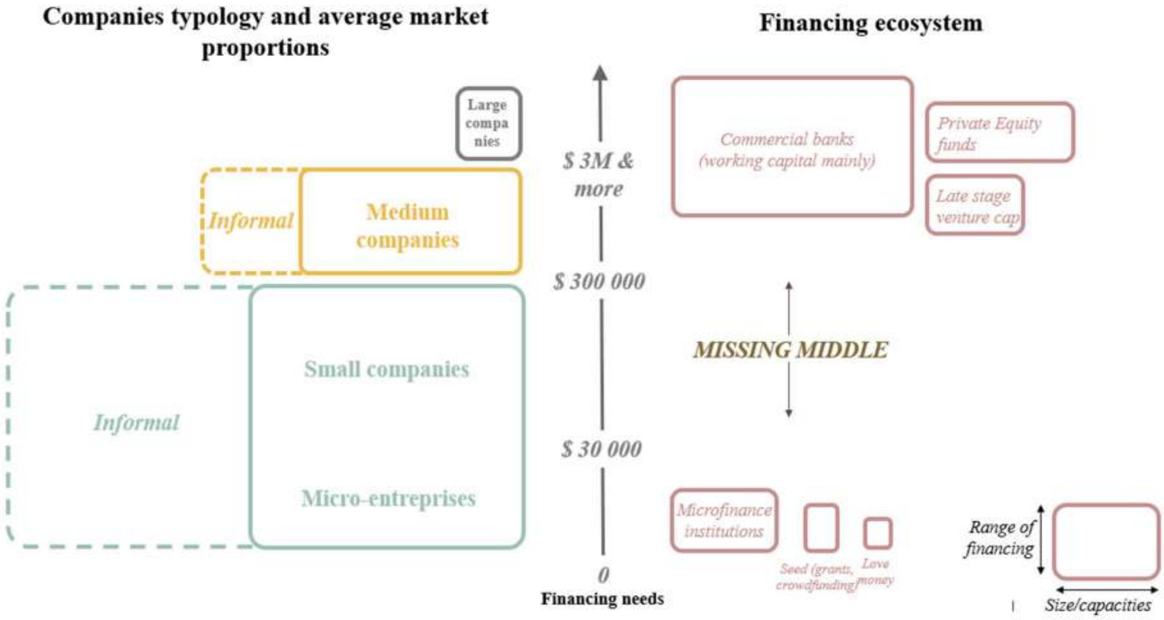
What explains the difficulty of entrepreneurial dynamics to transform into the construction of a significant sector of medium-sized and large companies, capable of driving long-term endogenous growth?[7] You simply have to look to entrepreneurs to find out[8].

For the past twenty years we have had a wide range of surveys, both national and continental, which vary in their thoroughness but allow us to reach a general sense. While entrepreneurs denounce the business environment as insufficiently positive and the corruption they are victims of, these issues are only rise to the top of the agenda for large companies, particularly international ones. Domestic companies put access to finance as their first growth problem. According to the IFC, the demand for financing from African SMEs is estimated at USD 400 billion, compared with a supply of only USD 70 billion. Again according to the IFC, Africa suffers from the highest rate of under-financed SMEs in the world, at 51%.[9] Infrastructure-related issues (energy first and foremost, transport second) and the question of human resources and capacity are also very high on the lists.

Let's focus for a moment on the financial and capacity topics, because of their importance in this list of topics.

The financial topic seems particularly focused on young and small formal companies, referred to by the impact investment community as "small growing businesses" or SGBs. It is characterised by the gap between the financing possibilities of very small entrepreneurs, for example through microfinance, and larger businesses. This phenomenon, described in numerous studies, is known as the "missing middle".

[6] See, for example, Severino, "note de cadrage sur la politique économique africaine" Ferdi, 28 June 2022, in the appendix.
[7] Florian Léon, Pierrick Baraton, Sébastien Fleury, L'Economie Africaine, 2021
June (Baraton Pierrick 2021).
[8] See, for example, World Bank Enterprise Survey, 2019 (Fišera Boris 2019).
[9] See IFC and World Bank, 2018https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=17513, and ILO, 2018.



(Graph from Report 3C, "Using catalytic capital to foster the emergence of African entrepreneurs in underserved markets", I&P, 2023

When it comes to this financial issue, considered by formal entrepreneurs to be the most important of all, the traditional response of governments and aid agencies has been primarily to strengthen the banking sector, either through their own funds or by setting up credit and guarantee lines for banks targeting SMEs. This direction is generally positive, but it is unlikely to achieve the target on its own. There are many simple reasons for this.

First, nowhere in the world is the banking sector responsible for financing of entrepreneurial growth. This is because of the scale of the capital requirements at these early stages of business development, and the scale of the associated risks and operational costs. However, unlike the situation in mature, advanced economies, the emerging entrepreneurial fabric in Africa or in poor countries is not a small fraction of the general assets of the business sector. On the contrary, at this emerging stage of the productive sector, it represents the bulk of the economic challenge. However, this entrepreneurial fabric is young, small and partly or totally informal. Companies have very little equity capital. Most of their owners and shareholders also have limited personal assets: while these assets may sometimes be significant as family assets, they are rarely equal to the capitalisation needs of productive investment projects for modern businesses.

Second, the macroeconomic policies applied in most poor countries are unfavourable for young people and small businesses alike, particularly as regards access to credit: the market interest rates generated by the massive call on national liquidity by governments lead to repressive conditions for businesses in a very large number of countries. Under these conditions, national commercial banks prefer to lend to governments or have no other choice than to do so. Finally, young and small businesses are rarely in a position to offer the personal or balance sheet guarantees that commercial banks want, especially since many of them are partially or totally informal. Furthermore, as Le Houerou and Lankes point out (article cited above), small businesses are disproportionately the victims of domestic arrears generated by national public players.

This explains why few SME credit lines or bank guarantee products reach their target: it is difficult for DFIs to check whether the impact is real, and in particular whether these products result in an increase in the share of the total bank portfolio devoted to SMEs. It is therefore likely that at least some of these products generate windfall effects for banks, which, even when heavily guaranteed, are reluctant to allocate more than a clearly identified part of their balance sheet to an asset class that generates high management costs and high loss levels.

However, in many countries, such as the WAEMU, the situation regarding bank financing of very small businesses has improved somewhat. In the most macroeconomically stable countries, the best and most mature of these companies can claim a degree of access at rates which, while high, are appropriate to their growth prospects. However, we are still a long way from broad and open access, even for good projects, and this is unlikely to change significantly due to the very nature of the economic situation we have already mentioned, which is not close to that of mature countries.

In fact, while there is no question of neglecting banking access, and while this must be an important objective of any policy to strengthen the financial position of VSEs and SMEs, the issue of equity capital needs to be addressed, as well as alternative forms of credit targeted at small businesses: leasing, dedicated debt, etc. Unfortunately, it is only very recently that these issues have begun to surface.

The issue *of human resources and capacities* is also at the heart of entrepreneurs' concerns. The challenge lies at every stage of the entrepreneurial chain. It is critical at two stages.

First of all, this question of capacity is central to crossing the valley of entrepreneurial death of young projects: It explains much of the excessive lethality. Admittedly, this lethality will never be eliminated to return to rates close to those observed in mature economies: the difficulties of the legal, institutional and physical environment wear entrepreneurs down and bring projects to an end at a level of intensity that cannot be compensated for because it is the result of the general harshness of the environment.

However, we also observe that a large proportion of entrepreneurial projects are well targeted commercially and strategically. This should come as no surprise: at the level of development of poor African countries, there is a very wide universe of entrepreneurial opportunities. In practice, most niches of productive potential are unoccupied or only marginally occupied, while the income dynamic makes it possible to adequately fund many reasonable projects.

The high mortality of projects is therefore largely due to the varying capabilities of project promoters, much more than to the nature of their commercial project. These capability limits may be technical, but many entrepreneurs have mastered their business. Unsurprisingly, the challenges in this area often lie in financial, legal and commercial capacity, and even personality. Entrepreneurs in poor countries must have exceptional resilience to succeed.

But capability issues also lie in access to human resources. They are not just at the top of the pyramid, for managers, who are desperately in short supply. They affect the entire skills chain: electricians, welders, drivers, secretaries, etc. Young companies and SMEs have an increased problem of access to the labour market, compared to large private and public companies such as government authorities. International development organisations, both bilateral and multilateral, also contribute to the difficulty of access to skilled resources for SMEs because of the remuneration levels and the relative stability of employment they provide. Finally, the challenge is multiplied in oil and mining countries: the extractive sector skews training choices and attracts the bulk of high-performance human resources[10], while the related services sector (banking, legal and logistics services, etc.) finishes drying up a tight labour market. Not only are education levels one issue, but adapting them to the business world is another, while continuing education schemes are rare. This situation also explains the phenomenon of skilled unemployed that we see growing in many countries and which has its roots in the discrepancies between the output of higher education, which is modest, and the needs of businesses.

Focusing on these subjects is an invitation to take an interest in the real life of companies, and to leave the intellectually comfortable but very slow progress of the business environment.

As negative as the latter may be, and as impactful as it may be overall, this environment is often perceived at first sight by entrepreneurs as easier than issues of access to finance and qualified human resources. Perhaps they have noticed a relative improvement in this environment, which is causing them to turn their attention to other issues? Perhaps they think that, with more funding and better resources, they could make the best of this still failing environment? Large national and international companies, with easier access to finance and human resources, as we've said, are more likely to highlight this issue as one of their main obstacles. What remains clear is that reducing the level of pressure generated by finance and skills on the entrepreneurial dynamic requires making its hand visible and extending it to businesses.

3. The economy is not finance, and vice versa!

The financial bottlenecks we have just mentioned should, logically enough, be lifted by massive flows of capital, particularly from international investors.

If national savings limits and banks' limits create a financial withdrawal, then the considerable volumes of international savings should be invested in the small, fast-growing emerging productive sector. Unfortunately, this is not what we are seeing, even though these small emerging companies are clearly very profitable, as shown by their expansion, even if constrained. Yet international investors unanimously claim that investing in these companies is not profitable.

So we need to try to unravel a mystery: why are the financial returns on investments in small businesses and entrepreneurs in Africa not living up to private investors' expectations, even though their economic performance can be remarkable? This subject interests all investors, but it also inevitably concerns the DFIs, whose structural intervention model consists, as we have said, of "revealing" a potentially profitable market that is not yet served by the market.

Let's start with a strong statement: private investors, especially international investors, banks and commercial investment funds, are not making a misanalysis based on faulty economic information by not financing African entrepreneurs and SMEs, especially in poor countries. The levels of financial return that can be generated by this asset class cannot match their expectations.

Let's add a second, equally strong statement: the importance of the socio-economic impacts generated by the emergence of new businesses in these poor countries is based on considerable societal returns that justify the intervention of general interest investors, in circumstances where the

[10] See Ebeke, Omga and Laajaj, 2015 (Ebeke Christian 2015).

lack of national private capital prevents the market from playing its full role. Let's come back to these two points.

We now need to clarify the basis for these assertions.

Expectations of return, yes, but what are they?

Let's start by recalling what these expectations of financial returns are in poor countries, particularly in sub-Saharan Africa.

There are many different and sometimes complex approaches. For the sake of simplicity, we will start here with the expected WACC (weighted average cost of capital). Knowledge of these varies, with many players not disclosing them, and they also vary for specific countries and sectors. However, it can be estimated that a large number of international players set average WACCs for sub-Saharan Africa at between 11% and 15%. These figures result from national discount rates specific to OECD countries, which are their home economies, plus the cost of political risk and the cost of economic risk, while foreign exchange rate risk colours the final rating. WACCs in France are currently around 8%, and based on this it is easy to understand why the cost of capital in Africa is more likely to be at the high end of the 11-15% range, or even higher, if we are targeting the smallest, least financeable and riskiest companies, in the poorest countries and with weak currencies.

A cost of capital in this range implies returns on invested capital (ROE) at this level, and, to put it simply, from a financial investor's point of view, IRRs of the same order. These figures are net. This means, for example, that an investor expecting 13% net IRR, taking into account exchange rate costs, its own management costs and the management costs of the investment vehicle, as well as taxes and duties, will require a gross ex ante return on the invested portfolio of close to 20%, which implies, including losses, a gross IRR of close to 25% for each investment.

Translating this type of expectation into a company's actual performance means, for an average maturity of five years, which represents a market standard widely used by DFIs, for example, a valuation multiple of 3 on the initial investment, in real value, net of inflation: in other words, you need to be able to sell a holding for around three times its acquisition price, within this timeframe, to hope to achieve the expected return targets. If EBITDA multiples do not increase during the period in which the investment is held, this means that the company's expected growth in profitability is of the same order, generally based on even higher sales growth. These invested companies are therefore expected to grow at more than five times the average growth rate of African economies and to be able to monetise their economic growth.

These expectations are very high. Only a marginal fraction of companies in any given developing country can claim to be able to do this. This explains why, in the real world, the performance of equity investment funds targeting the SME universe is much lower, all things included (exchange losses, management costs), and, as we will come back to later, increasingly lower as the companies are smaller and younger in fragile countries.

Of course, the debt market is governed by another approach. Interest rates may nevertheless be high, due to the structuring of the national banking sector, but the growth rates required of companies are lower. The high cost of debt and the lack of liquidity explain why equity investors in Africa have more difficulty than their counterparts, for example in Europe, in achieving high net IRRs for their fund providers.

Over the last two decades, the European equity investment market has been characterised by two key phenomena. The first is the leverage effect made possible by very low interest rates: for an equity investment of 100, the share of capital may be only 25, for example, with the remaining 75 being provided by bank debt at very low rates, all structured in a special purpose vehicle (SPV) designed for this particular purpose. The second is the steady growth in valuations, highlighted by EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) multiples. When making an investment, a European investor can hope not only to grow the target's EBITDA, but also to sell it at a higher multiple than at the time of entry. This doesn't happen very often in Africa. This dual mechanism explains why, in Europe, an equity investor can hope to achieve IRRs in line with WACCs, with companies growing at 5% per annum, whereas the same result in Africa requires underlying companies to grow at 25%.

Making African companies more attractive to international investors in particular could be based on transposing this dual characteristic to Africa: but neither the capacity and overall financial structure of private debt in Africa, nor the level of interest rates, are easy to change, as they are the result of structural factors that can only be modified over the long term.

Distinguishing between the financial performance of the company and the financial return of the company for the investor is a fundamental step for public policy.

At this point in our journey, it may be useful to take a close look at the microeconomic side, to make clearer the tension between economic performance and financial return for the investor, in the African context.

Imagine a young company, which in fact bears a strong resemblance to a very common case: MiamSahel transforms local cereals into semolina and other products for the domestic animal and human food markets in a poor and fragile Sahelian country.

At the start of our venture, four or five years after its creation, it generates annually €1 million of revenue, €500,000 of added value, €100,000 of EBITDA and €50,000 of net profit. It has no debt. It employs 20 people. It convinces an impact fund ("SocialFinance") to contribute to a €1 million investment project aimed at significantly increasing its production capacity, so it can tap into a very large potential market, which may include neighbouring countries.

The societal prospects are very attractive. By offering high-quality, competitive local products, MiamSahel is replacing expensive and sometimes uncertain imports, and expanding the domestic market thanks to its lower prices. It therefore has an impact on employment, poverty and nutrition by expanding access to highly competitive plant-based calories, while providing significant income to farmers who will improve their health, send their children to school and buy local consumer goods while reinvesting in their farms. By expanding cultivated areas, MiamSahel is helping to combat desertification. By growing its cereals as part of a multi-annual agronomic cycle combining other crops, it has a positive carbon and biodiversity impact.

The €1 million project is financed 50% by debt, via local banks and a debt fund, which will lend over 5 years at 12% per annum for the investment, and finance the negative cash flow (this is a very moderate cost of debt for a Sahelian country, which reflects the quality of the company in the eyes of local banks). The other half of the financing is provided in the form of equity: SocialFinance will provide €200,000, with the developer and his family providing the remaining €300,000. This means that SocialFinance will hold around a third of the capital. So it's a very small investment in absolute terms, typical of the small economies of poor, fragile countries.

After three years spent building the new production unit, carrying out tests and correcting errors, the investment will enable the company to grow, for example, at 25% per annum in subsequent years, a rate frequently seen in such transformative projects. Once the new installed capacity is saturated (in our example, we imagine that it will be a question of tripling the existing capacity), the company's growth will slow down but remain sustained: productivity gains and additional solutions will enable a certain amount of revenue growth to continue. In all, 250 new direct jobs are expected to be created in the production unit over the next ten years, not counting the indirect income created in the farming sector, which supplies the cereals, and in the livestock value chain, that some of the feed is sold to. These figures are also very common in African entrepreneurial projects. What will happen to this brilliant young company positioned in a promising market?

For the reader's convenience, the main parameters and assumptions of our model, which is admittedly theoretical and rustic but very close to the reality of a poor economy, are given in the appendix. The table below summarises the company's situation in the year of investment, five years later and ten years later.

Year	0	5	10
Revenue (annual)	1,000,000	1,950,000	4,000,000
VA (annual)	500,000	976,000	2,000,000
EBITDA (annual)	100,000	142,000	284,000
Debt (annual)	0	378,000	- 523,000
Enterprise value	600,000	440,000	2,290,000
Cumulative taxation	500,000	677,000	2,400,000
Cumulative jobs	20	150	250

All figures in current euros

MiamSahel will inevitably start to experience a deterioration in its financial parameters during the first few years of the investment: its initial growth, based on its previous capacities, will be slow (its new investment is not yet in place and it is experiencing capacity limits); it will quickly incur high financial costs; and the burden of debt repayment and new debt to finance its negative cash flow will weigh heavily on its cash flow.

It will then start growing substantially, once its new production facilities are in place. This growth will be successful, not only in terms of revenues but also in terms of profitability and cash flow, but it will inevitably be late. This explains why five years after the initial investment, MiamSahel's EBITDA is still modest. Its debt remains high, as it has had to take on new debt to finance its operating cycle and deficits from previous years.

Yet this is the time when the investment fund should sell its stake. Five years have passed: this is the norm governing all so-called closed-end investment funds, particularly those promoted by the DFIs. Unfortunately, however, the value of the company (six times its EBITDA minus net debt) is still negative at this stage: it is worth just €444,000, mainly because of the accumulated debt, whereas the starting value was €600,000: the investment looks like a disaster for SocialFinance, which owns a third of it. Yet, the investment is already an economic success: €4 million in cumulative added value has been generated, and almost €700,000 in tax has been paid to the State (mainly VAT, but also corporation tax).

Let's look at the figures again in year 10, five years later, when the company has been able to increase the value of its physical investment: MiamSahel is now worth around €2.2 million, a comfortable multiple of almost 4 on its initial value. It is now very profitable. If it were sold at this point, it would generate a positive IRR of around 14% for the impact investor, an appreciable performance, but acquired over a long holding period, which poses obvious liquidity challenges: it was only after 10 years that the modest €200,000 contributed were transformed into around €740,000 in gross value for the fund.

At the company level, the financial performance is in line with current standards of return on equity (ROE): we therefore have a financially sustainable company. However, things are more complicated for the impact investment fund! SocialFinance, for its part, will have to deduct several major expenses from the sale of its stake: its management fees, probably in the region of €100,000 over the entire holding period; tax and possibly exchange losses. On a net basis, therefore, this investment in this very successful local SME will probably yield an IRR of around 9%.

Let's assume that this reflects the average performance of the successful companies in the SocialFinance portfolio. To estimate the final net return on this impact fund, we will also need to take into account any losses. Let's assume that they represent, for example, only 20% of investments. This is a low rate in the very difficult context of fragile countries and start-ups. But even under these conditions, it is likely that the net investor return of this high-performance impact fund, focused on small, fast-growing companies at a rate of 5 times their country's average GDP growth, will be less than 7% net to its investors, a level far removed from current international financial expectations. However, this is almost a feat in itself: very few impact funds targeting SMEs achieve such results, which would undoubtedly seem like nirvanas to them.

It should be noted that, in a European context, the financial return on investment would have been much higher, without the company's performance needing to be improved in any way: as mentioned above, the creation of an SPV allowing the partial financing of the fund's equity investment by debt (for example up to €100,000) would have multiplied the IRR; the EBITDA multiple between entry and exit would have increased (e.g., from 6 to 8), due to the macroeconomic dynamics, the consolidation of the company and the existence of an investment market characterised by strategic buyers and investment funds in competition with each other. With the figures we have just mentioned, the IRR would have been 19% for the investor, with 10-year debt at 5%!

But is it "profitable" for a public-interest investor to try to reduce the gap between social benefits and financial return?

We have just illustrated a first mystery: how is it that an investment in a profitable and successful company in a poor country degenerates into a mediocre portfolio return?

But does this mean that coming to the aid of SocialFinance and its investors, in order to raise their rate of return or taking their place by providing public or philanthropic capital, is legitimate? This is only the case if the public benefits are high.

Let's call a national government, a foundation or an international development player willing to play a leading role a "public interest investor". This public-interest investor could be interested in taking action if its inaction led investors to give up, for example, supporting MiamSahel: this is what is known as the "additionality" criterion. In other words, one must verify and be convinced that, if SocialFinance had not invested, the owners of MiamSahel would not have been able to carry out their projects because they do not have the savings to do so: an equity contribution is essential for banks to get involved and they are denied access to debt.

Let's assume that the public-interest investor provides the entire €200,000 that is critical in the case of MiamSahel. Ex-post, it would see the company generate (i) €12 million in added value over ten years and (ii) €2.4 million in tax revenue, which would go to finance education, health, infrastructure, etc. In our case, the social return (i.e., the actuarial return in added value over 10 years of the €200,000 contributed) would be around 67%. The fiscal IRR (tax generated compared with the budget cost of the investment) would be around 59%.

These figures support the economic validity of a public-interest investor financing the total cost of the part of the investment provided in our example by the SocialFinance investment fund. But there are, of course, more economical ways of doing this, which would increase societal returns. For example, the public-interest investor may be content to finance the difference in return between the expected level of profitability and the reality of the financial return. It can also make a partial contribution to the investment by contributing an amount that will constitute a so-called first-loss tranche: this will reduce the commercial investor's level of risk and lower its expectations of return. Finally, another method would be to pay nothing and provide a guarantee that would be called below a certain level of profitability.

All these methods have their advantages and disadvantages. They must seek to align everyone's interests, which are to maximise both financial return and social benefits, and eliminate windfall effects, conflicts of interest and perverse incentives.

What can we learn from this microeconomic immersion?

First, it is clear that the legal and financial structures imposed by the markets and adopted by DFIs are not suited to investment in African SMEs. The excessively rapid exits imposed by the financial structures of so-called "closed" funds actually work to the detriment of profitability.

Second, it is not financially "profitable" for private international investors to invest in this type of market. To do so, they would need instruments to support their very significant returns. These instruments can seek to reduce their risks, subsidize shortfalls, extend maturities etc. On the other hand, domestic investors who do not have to incorporate foreign exchange losses or political risk into their IRR or ROE targets may find it easier to invest in these opportunities. But the amounts of capital they can contribute are limited, in a world where savings are still low, and they too are often constrained by the need to limit the maturities of their commitments.

Third, the economic returns on investment in these young companies are very high, even if they are accompanied by modest financial returns by international standards. This situation provides a clear case where a public player faced with a scarcity of private capital can join forces with them to ease the constraint, and, subject to governance precautions that allow the economic rationale to remain paramount and interests to be aligned, to generate significant additional growth.

Finally, that taking social added value into account can legitimately lead to certain sectors being favoured more than others. The greatest finesse and caution must certainly prevail in the analysis of real social benefits. The methodologies and rules of governance governing these choices must be very robust. But nonetheless, it is on this type of consideration that public-interest investors can rely, for example, to direct their contributions towards the green economy. An overweighting of concessionality can be justified by a carbon societal contribution, as the social rate of return, for a comparable activity, is higher for a carbon-lite company than for a carbon-rich one. In the same way, a company that contributes directly, through its very purpose, to the decarbonisation of the economy, generates externalities whose recognition greatly improves its societal returns.

Now let's do some simple calculations. Imagine that in the Sahelian country of around 15 million inhabitants and a GDP of around €14 billion where MiamSahel operates, five new investments of this type would be generated per year, at a very modest cost to public investors of €1.5 million per year and €15 million over 10 years (i.e., 0.01% of GDP and 0.1% of annual public expenditures). Extrapolating from MiamSahel's track record, the fifty companies financed over the period, by the end of year 10, would have generated a cumulative GDP of €370 million and increased annual GDP by €100 million, representing respectively 2.6% and 0.7% of the country's GDP. To enable this Sahelian country to gain one point of GDP, it would have been sufficient to finance just 7 companies of this type per year... An achievable objective, but absolutely beyond the reach of all the mechanisms currently in place and the traditional players in the existing business financing sector.

Finally, we should add that this effort would generate additional annual taxation (in year 10) of €176 million and cumulative taxation over the period of €380 million, representing for the first time 8% of tax resources (which would be around 15% of GDP). Admittedly, in direct terms, only around 20,000 formal jobs would potentially be created, but the indirect effects would be very significant on the value chains, upstream and downstream, and multiples of 10 are often put forward to refer to the net creation of indirect jobs: we should therefore expect more than 200,000 jobs to be created by these investments. The inclusion of these indirect effects in the added value and taxation figures should also be included in the reasoning: the figures we have just mentioned profoundly underestimate the total GDP generated by the indirect impacts on suppliers and customers of the companies financed.

4. What about sustainability?

The question of the climate sustainability of the African production sector's path has been raised increasingly in recent years. But sustainability is a much broader question. It includes as much the human and social dimensions as the environmental dimensions (and in the latter case, beyond climate, the issues of biodiversity, the resource cycle and pollution).

First of all, let's avoid a false subject. The question is sometimes asked whether an investment in small companies would be more socially beneficial, or less so, than if it were made in large companies. In practice, there is no real argument to suggest that the social benefit would be higher for small companies than for large ones. On the other hand, large companies operating elsewhere than in small poor economies are not deprived of financing: they have access to capital and bank credit under good conditions. The justification for any collective intervention and "public cost" is therefore not linked to the fact that start-ups or SMEs would have a greater impact than large companies, but that they do not have access to the capital that would enable them to deliver their own impact, which needs to be measured and assessed thoroughly.

The question of sustainability therefore leads us to consider the nature of SMEs' societal returns, which go beyond job creation and added value, and the question of maximising the sustainability of the African productive sector as a whole.

Do investments in African SMEs contribute to a significant social impact beyond job creation?

In fact, the above figures only very partially take into account the impacts of the investment project, as the schematic case of MiamSahel clearly illustrates. Unfortunately, this illustrative approach is made necessary by the fact that there does not seem to be any macro-economic research that would enable us to grasp the scale of the landscape.

"Internalities" (i.e., the impacts generated by voluntary and remunerated transactions) are fairly well reflected in value added. But this is not the case for indirect internalities: MiamSahel's suppliers have suppliers who have suppliers, and Miam's customers have customers who have customers, etc. To capture these "indirect internalities", we need to use instruments such as input-output tables, which enable us to trace all the sectoral interrelationships in the economy. "Leontieff matrices" are one such tool. These data are essential for capturing the true impact of an investment, the indirect component of which is often much greater than the direct component. Two investments with the same financial return can therefore have significantly different impacts if direct internalities are taken into account.

However, this approach does not capture the externalities, whether direct or indirect, which are the unintended and unpaid positive or negative effects of the investment. There are many varied externalities. In our case, as already mentioned, MiamSahel undoubtedly generates significant externalities, over and above jobs and added value: for example better nutrition generating gains in cognition, life expectancy and productivity; indirect benefits of formalisation such as access to bank debt for its employees; more intensive agricultural production that is also more environmentally friendly, with benefits for plant cover, biodiversity and country food. But it also has negative externalities: damage to the roads used by lorries, road accidents, not to mention the carbon emissions just mentioned.

It is expensive but methodologically possible to measure a large proportion of the company's impacts, and, at the investor level, to consolidate these results, in terms of health, sector structuring, access to essential services or health, for example. The listing of negative externalities is based on the same approach. Complexity arises as soon as we try to be exhaustive and when we try to assign financial values to these externalities, relying on complex methodologies, and to compare negative and positive externalities.

To approach this result while remaining pragmatic, some impact funds calculate social returns on investment (SROI) based on the generation of direct and indirect added value, less selected negative externalities. Contemporary priorities focus attention on climate, which leads most approaches of this type to be limited to the carbon cost. It is in fact relatively simple to deduce the financial cost of carbon emissions from the impacts of an investment project and thus obtain a calculation of the social return that partially takes into account at least one significant negative externality.

Although highly imperfect, these tools can be used to guide investment choices by making it easier to distinguish between two projects generating the same financial return which is the most profitable for the community, or by assuming a lower financial return in the name of greater societal benefit, or by rigorously justifying a concessionary contribution by a public funder or foundation.

Can the societal contribution of Africa's small-scale productive fabric be maximised?

This needs to be done for both defensive and offensive reasons.

On the offensive side, start-ups can provide solutions to all the continent's major social challenges: the continent needs new players to provide new health, education or environmental solutions, reducing the cost of access or technology through innovation that is the hallmark of start-ups.

Developing the productive fabric of start-ups and SMEs should therefore be seen not only as a narrow economic issue, but also as a means of accelerating the emergence of innovative solutions for the sustainable development of poor countries.

This is not just a theory: if the spectacular development of mobile telephony was driven by large companies, the impressive emergence of decentralised energy solutions has been and remains an entrepreneurial affair. For example, emerging SMEs that are implementing drone transport solutions[11]. Most fintech developments are the work of small African teams. Alternative private healthcare solutions are also the work of entrepreneurial practitioners who are complementing and transforming the healthcare system. In terms of professional education, the combination of

[11] Take, for example, AérialMétrics in Madagascar, which is revolutionising transport in landlocked areas.

budgetary, institutional and structural reasons is generating an innovative and prodigiously diverse private sector that will be the foundation for building professional capacity in the coming decades.

Generally speaking, basing hopes of accelerating sustainable economic and social growth in Africa on innovation means taking into account of the role of companies in this area and recognising an eternal fact in economic history: the participation of the emerging productive fabric in a process in which large companies certainly play a role, albeit a limited one, and in which the emergence of new players providing alternative solutions is essential.

Finally, the fabric of African SMEs plays a fundamental social role in the sustainability of society: in social structures largely conditioned by the triptych between the public sector, very large companies that are often subsidiaries of multinationals and the informal sector, which is predominantly rural, these young companies are a powerful lever for creating a middle class. They generate entrepreneurs, managers and employees who are independent of both the State and foreign players, bearers of modernity and societal questioning, agents of institutional construction and demands for modern governance. It is therefore also through this dimension that the contribution to the sustainability of this entrepreneurial sector should be assessed, and an essential reason why its full formalisation should be accelerated and encouraged.

On the defensive side, the rapid growth of the African economy and the creation of a significant mass of GDP, with impacts on the entire planet, means that a public policy of support for this sector must focus on three issues:

First, the social and environmental standards of the companies involved need to be raised, as there is sometimes a degree of complacency about the social behaviour of SMEs in particular. At the level of each individual company, the "social damage" is often minimal. But, obviously, the accumulation of bad practices has a massive impact on society. This is particularly true in the area of health: the large number of employees in the SME sector means that policies to provide access to healthcare for them and their dependants have a massive impact on the collective level of health; this is also obviously the case for accidents at work, with the example of the immense importance of road accidents. Taking into account the health dimension in the SME world can thus have a remarkable impact on population mortality and morbidity.

Second, emerging companies need to be armed against climate risk and, more generally, against environmental risks, both generated and incurred. The vulnerability of companies to these risks, due to the nature of their business (as in the food sector) or their location, plays a major role in their loss experience. It is both essential in financial or macroeconomic terms for each company, and a priority in political terms, to propagate high-quality investment disciplines in this area.

Third, decouple SME growth from fossil fuels. African growth will have to manage its dependence on fossil fuels, which are largely imported, expensive and unpredictable in terms of cost or have a very negative impact on the environment, and on the other hand, avoid building an economy that emits excessive amounts of carbon. This is a challenge that is both specifically African, because of the continent's sensitivity to climate change, and global, because of the consequences for the rest of the planet of the emergence of a new continent that would become a massive emitter. Maximising energy efficiency and basing the energy solutions of SMEs and start-ups as much as possible on renewable resources is therefore both essential for the African continent and for the planet as a whole.

5. Millions for billions

If we accept the value of the economic and societal contribution made by the fabric of emerging businesses in poor and fragile countries, and the legitimacy of public support, the question becomes whether significant macroeconomic objectives can be achieved through a proactive public policy, whose costs can be borne. What quantitative targets could be set, and what means could be used?

Let's begin with a programme-based exercise.

Let's assume that the objective is to add one point of growth to Africa's GDP in ten years, by accelerating the creation of businesses and the development of SMEs, thus regenerating the continent's productive fabric and bringing about the emergence of a generation of new businesses of significant size, thereby breaking the glass ceiling in the structure of the continent's private sector, providing innovative, environmentally efficient solutions to social problems and changing the structure of the continent's society by creating new middle classes that are independent of governments.

Let's go back to the figures we mentioned earlier.

Replicating them at the level of the continent's 54 countries and its GDP would mean that, in order to increase African GDP by one percentage point over ten years, or €28 billion , we would need to invest €420 million a year. Incidentally, the added value generated over these ten years would amount to €103 billion, or 3.6% of the continent's GDP.

€4 billion invested over 10 years for a leverage effect of 7, isn't that attractive? And 56 million formal jobs, isn't that also significant? And let's dream about the €50 billion in annual tax revenue generated at the end of the period: almost the same order of magnitude as the ODA currently devoted to sub-Saharan Africa. How many schools and hospitals could not be financed with this contribution, and would it not be better for them to be built using this contribution to national added value rather than ODA? Of course, we would have to add the financing of a whole series of measures to prepare for these investments, which we will mention below, which would probably put the total effort at around €500 to €600 million to be invested annually, or 0.02% of current African GDP, and around 0.8% of the official development assistance allocated to Africa. So it's clear that we're talking about a modest financial shift in relation to the impact achieved. Millions for billions, in fact.

The modesty of these figures is all the more striking when compared with the anticipated results, given that they are only very partially budgetary costs: these volumes of investment could be obtained, for example, through €200 to €300 million in subsidies targeted at building capacities and pre-investment. Moreover, if the investment effort were stimulated mainly by first-loss guarantees, even if we were to imagine a powerful support effort legitimised by a focus on the poorest countries and the most social themes, it could only represent, for example, half of the targeted volumes. It is also likely that most of these guarantees would in fact be recovered. We can therefore imagine that the total budgetary effort would probably be in the order of €300 to €400 million annually, for a GDP generation of around €28 billion.

We are all well aware of the limitations of such reasoning: for example, the immense approximation represented by any extrapolation; questions about absorption capacity; and the marginal loss of effectiveness associated with large-scale actions compared with targeted and selective efforts. But these calculations, however sketchy and cavalier they may be, and full of approximations, help raise awareness of the fact that increasing the rate of investment in the national private sector is not primarily a question of costs and financial mobilisation, but above all of political will and organising intervention mechanisms and channels, and that massive results can undoubtedly be obtained.

What resources could be used to make such an effort effective?

What do these figures and this additional investment effort imply, and under what conditions would it really be effective? In our opinion, four objectives should be pursued: *reduce the mortality rate at the birth of companies, increase the survival rate at an early age, allow healthy adolescent companies to become fully autonomous in the markets and increase their social and sustainability contribution*.

Let's look at these dimensions again, which will be very specific to entrepreneurship, without forgetting that entrepreneurship will also benefit from all the general improvements made to the business environment, the infrastructure and macroeconomic policy.

<u>Reduce the mortality rate at the early stage</u>

There is no need to stimulate Africa's creative entrepreneurial dynamism. Projects proliferate for demographic, economic, cultural and public policy reasons. But, as we have seen, the degree of preparation of these projects is highly variable, and sometimes of poor quality, despite the real potential of the entrepreneur and the market. Emerging entrepreneurs may also lack critical networks for success, and on average they are more prepared to master the technical aspects of their project than the commercial, financial and managerial aspects.

Dealing with this issue means putting the emphasis on support during the early stage, and therefore especially on increasing the density of incubator and accelerator networks. These institutions and programmes will never give entrepreneurs ideas they don't have. But they will enable them to mature their ideas and bring them up to a level of quality that will give them a better chance of surviving the valley of death of the first few years of business. The directions are simple in principle: (i) increase the number of these institutions and programmes by providing them with additional financial resources to cover the costs of entrepreneurial candidates during their incubation and acceleration process, since such funding is very rare and modest at present, and it is impossible for the majority of them to achieve financial equilibrium through market remuneration alone; (ii) improve their technical quality by providing incubators with superior skills, mainly by training the trainers; and (iii) through incubators and accelerators, give would-be entrepreneurs access to modest grant or capital funding, which will enable them to launch their very first business (in these cases, the average amount is in the tens of thousands of euros per project).

Such programmes already exist, run either by public institutions (European Union, AFD, etc.), foundations (Mastercard, etc.) or universities (Stanford, etc.). The aim is to scale up from pilot projects that have already demonstrated their effectiveness.

A second focus can be placed on management training in its broadest dimensions in African technical and vocational higher education, by creating and supporting incubators in these establishments, and by promoting effective business creation courses in universities and higher management establishments.

Such programmes do exist, albeit on a piecemeal basis. However, working with public and private higher vocational establishments in this direction means organising an initiative involving, for example, more academic partners in industrialised countries in order to scale up.

This emphasis can be extended by an in-depth effort on vocational training, where a greater number of entrepreneurs can be prepared and entrepreneurs are able to find their current and future collaborators. The budgetary limitations of the African States will make it difficult to provide massive support for this vocational training sector. We must therefore promote private lines of supply, which today are based on a very lively entrepreneurial process, but of very diverse quality. The creation of a co-investment mechanism in this area, aimed at a break-even consistent with the private nature of the projects, would make it possible to increase the speed of expansion of this sector at low budgetary cost, where only the very large, elitist private initiatives have access to capital that is, moreover, expensive. Bursary programmes and student access to debt would make it possible to widen social access to these skills training courses, where the expectation of employment is very high in the African context.

<u>Increase early survival</u>

Once they have left the incubator, or their acceleration programme, or even without having gone through the formal preparatory stages, mature entrepreneurs are faced with the challenge of the start-up years. This is a financing stage, even in sectors such as digital, consisting of financing by "family and friends": the amounts are generally modest and the failure rates high. The question of the entrepreneur's remuneration arises acutely during this phase. This is a critical stage everywhere, but it is even more so in the African context: savings from family and friends are often very limited, business angels are very rare, the legal, operational and logistical difficulties are greater in Africa than elsewhere (market access, imports, suppliers, public services, competition from the informal sector, access to skills, etc.), which makes it take longer for projects to get off the drawing board, while access to debt is virtually non-existent at this stage.

For equity investors, or debt investors for that matter, most projects can't be financed at this stage. The result is an impressive drop-off rate, which can lead to projects either coming to a complete halt or being reduced to a survival stage where they just manage to keep going. Few survive this stage in a valley of death that resembles a very deep and very long canyon.

Pre-investment programmes can reduce the mortality rate. Their purpose is to provide entrepreneurs with limited amounts of funding (up to a hundred thousand euros depending on the project). This can preferably be in the form of interest-free debt, or "free" capital that can contribute to a future formal fundraising. The maturities can and should be fairly short, in the region of three or four years, with parallel support that can take the form of coaching, skills training, technical assistance, participation in entrepreneurial networks, etc. The beneficiaries of these programmes, which are necessarily selected on the basis of a carefully considered process, show high survival rates (over 50%), and at the end of the process generate projects that are easier to invest in, while also preparing the entrepreneur for dialogue with future capital partners. The process also provides an opportunity to get to know the entrepreneur better and, when the programme is linked to an investor, enables the latter to establish a relationship that gives future investment a better chance of taking place under the right conditions.

These programmes already exist on a pilot basis, and are also promoted by public bodies such as USAID, the European Union, AFD, etc. and foundations. We are therefore also faced with the challenge of scaling up rather than inventing a model.

We then come to the level of investment in what are known in the jargon as series A or B (i.e., the first injections of capital into projects, whether in digital technology or any other field). At the end of this first stage, the entrepreneurial project, whether or not it has gone through a pre-investment programme, must have demonstrated the possibility of a viable business model: a market demonstrated by actual sales, a production process that works, professional skills and a convincing team, existing suppliers, a clear legal framework and, even if the business is not (entirely) formal, a real possibility of operating in this way in the near future. The entrepreneur must be prepared to negotiate with equity investors if the business does not generate enough margin to be fully self-financing, which is often the case. The provision of external equity is generally critical at this stage, because families rarely have the savings to support the project at a truly large-scale development stage, whereas banks require it in order to enter into a support relationship.

Given the scale of the African economy, it is at this stage of investment (a few hundred thousand euros), that projects need capital in the vast majority of cases. But, as we mentioned in the case of MiamSahel, contributing €200,000 to €500,000 to African entrepreneurial projects involves a paradox: these sums are too insignificant to interest international, continental or even sub-regional commercial investors; they could interest national investors, but they are rare and poorly organised to do so; yet on a local scale they represent sums that are already large for projects that are significant in the national context. Think of a typical Sahelian country: its GDP may represent 1/200th of France's GDP. Contributing €500,000 in equity to a national project - a derisory sum for a DFI, for example, which can in no way justify an interest in their current model - presupposes a total project, including additional equity and debt contributions, of probably around €2 million. In the French context, this would amount to an investment of €400 million: a very large project, on the scale of a regional impact or a major metropolis. This explains why, in such fragile and poor countries, the number of annual projects of this type cannot be unlimited, even if it is difficult to set a target for absorption by the national economy, with the GFCF of the entrepreneurial private sector not exceeding a few hundred million euros.

It is therefore essential, at this stage, to have national private equity investment vehicles (this term includes the mezzanine). They must have long-term horizons consistent with the economic models we discussed with MiamSahel, and acceptable returns prospects in local currency and without international political risk. In the best of cases, they can be backed up by highly concessional external resources to finance capacity building, technical assistance and coaching, as is the case for entrepreneurs at the previous stage: in this way, not only will the projects gain in quality, but the radical solitude of the entrepreneurs will be mitigated, giving the business a better chance of surviving. The right financial vehicles can obviously look at alternative financial contributions to capital, such as leasing, an essential instrument for the emergence of SMEs. However, in the case of young projects, even leasing needs to be backed up by acceptable equity: it is therefore more a question of complementarity than competition, and if the latter exists, it is more between commercial banks and leasing providers than with equity investors.

In the African institutional landscape, such vehicles already exist, mainly supported by private capital, foundations (Argidius, Small Foundation, Mastercard), governments (Monaco, etc.) and a handful of DFIs such as AFD, AfDB and BOAD. It is essential to remember that in this area, public capital must be concessional and, wherever possible, take the form of donations. These donations can be transformed via intermediaries into equity or debt, and the returns can be recycled, thus ensuring a very long life for this capital, which will turn over many times before being exhausted, due to management costs and inevitable losses.

Leading adolescents to their emancipation

For companies that have made it through the first few kilometres of our famous valley of death, and have reached Series B and C, to use the jargon of fundraising, the problems change without changing. A company that now has to find between one and five million euros to finance a project worth between two and ten million will in effect be falling into a new sidereal void. It continues to operate in what we referred to above as the "missing middle".

The levels of sophistication of the financial structures required at these stages, and the complexity of the projects, which in most cases involve companies that are already well on their way to production, with a few million in revenues, require well-structured investors. But commercial, for-profit investors rarely invest amounts of less than €6-7 million: below these figures, on the one hand, they find the companies still too small and too risky, and on the other, the amounts are still too low to cover their management costs.

However, this is the last stage before autonomy: investments of two or three million euros in a company, if they prove to be successful, will finally lead the company to reach the size that will make it attractive at least to SME commercial funds, and also, without the need for any particular crutch, solvent for commercial banks, both to finance their working capital and their investments.

But the vehicles that need to be set up to provide capital to this category of company, while they too can hope for single-digit returns, will be no more financially attractive to international private investors than those we have already mentioned. They will also have the complexity of having to be organized on a regional or continental basis. Let's go back to our previous example. Investing two million euros in an African SME means in practice taking part in a round of financing on the order of, say, eight million euros including debt. For a Sahelian country such as the one we mentioned, this would correspond to an investment in France of €1.5 billion and would represent a significant proportion of the country's annual corporate investment: as a result, such investments are infrequent, and in any case cannot be guaranteed on an annual basis. It is therefore neither possible nor profitable to raise a national fund dedicated to these sizes of investment. Only the continent's major economies can hope to deploy vehicles on a national basis aimed at companies requiring these sizes of investment.

Therefore regional or continental teams need to be set up to provide capital to these companies. At these levels, they can begin to specialise in specific sectors or themes, or focus on particular instruments, which is not possible at the previous level. But getting these teams off the ground is a difficult task, given the lack of precedents, the limited skills available and the very small proportion of African capital that can invest in private equity.

Nevertheless, initiatives have already started to take place in this space, such as that of the European Union, which is seeking to mobilise European DFIs or EDFIs in this space through the provision of first-loss capital, or the Mastercard Foundation, which has just allocated $200 million in grant funding to a fund-of-funds initiative designed to support the emergence and expansion of African investment vehicles in this space. The IFC's SME Venture programme falls into this category, and should be able to be boosted by funds mobilised by the World Bank Group through IDA's Private Sector Window[12]. All of these programmes provide technical assistance as well as patient capital at low rates of return.

The challenge is therefore to learn from this first wave of initiatives, capitalize on them and scale up. There are significant areas for improvement. For example, IDA PSW, despite its great merits in principle, has not, as a recent World Bank internal assessment[13] has shown, succeeded in breaking through the network of IFC constraints that prevent it from providing support to African start-ups and SMEs, and the IFC's SME Ventures programme remains confidential.

Attracting private investors in this space poses even greater problems than smaller national investment vehicles. The regional or continental scale makes it difficult for these national players to invest. Sovereign wealth funds, deposit funds and insurers often have regulatory constraints that

[12] See in particular the comments by Le Houérou and Hans Peter Lankes, Ferdi, 2023, cited above.
[13] World Bank, IEG, 2022 (Group 2022).

make investment outside their borders difficult or restrictive. Sometimes, nationalism or anxiety about leaving one's home country will prevent private financial or industrial companies from participating in regional or continental investment vehicles. But extra-continental international investors are not interested in these products, which are always too unprofitable and too risky for them.

In both cases (regional or national vehicles), the provision of partial guarantees or yield enhancement schemes would make it possible to improve the attractiveness and move away from the DFIs-foundations dualism, which inevitably has its limits. Institutions that allow this, such as the European Union, are few and far between. The World Bank's PSW, for example, only guarantees the risks of the IFC! The example to follow here is that of the Mastercard foundation, which provides grants transformed into equity investments, authorising high levels of risk in fragile countries and with young, novice teams, targeting small businesses, all of which corresponds to the reality of the African economic fabric.

Above all, however, it is difficult in a vehicle-by-vehicle approach to attract large international private investors who would like to contribute significant capital under conditions of an acceptable risk-return balance. These include international pension funds, particularly in North America, and European life insurers. The latter often think in terms of minimum allocations of €50 million. This is why the major development agencies could take a joint initiative to launch a major fund of funds for African start-ups and SMEs. This fund would be set up as an "evergreen" company (i.e., for an unlimited period), and would benefit from a partial guarantee provided by the World Bank and the European Union, for example, allowing a high level of risk in fragile countries. Capitalised at €500 million, this fund would be designed to receive significant contributions from very large private investment players, and to take stakes in around twenty investment funds on the African continent over a period of five to seven years, then reinvest the liquidities in return.

<u>Increase the sustainability contribution of start-ups and SMEs</u>

Most current approaches to impact investment and support for start-ups are based on the contribution to growth and employment. These objectives are obviously legitimate, especially if we are talking about net jobs created (less any jobs destroyed, which is often the case when a low-productivity informal activity is replaced by a productive formal activity). But, as we have seen, the sustainability of efforts to promote African entrepreneurship requires strong environmental, social and governance disciplines, both on the defensive and the offensive.

To achieve this, investors in this space should strengthen these disciplines: setting targets involving the production of critical externalities should become standard practice, and their achievement should be taken into account in the remuneration of investment teams. Standards to improve comparability and raise standards of practice could be introduced, for example by giving fresh impetus to the "Impact Investing Principles" initiative led by the IFC. The granting of concessionality elements could thus be reserved for investment players that respect fundamental principles in this area.

Finally, public-interest players could also increase their financing in areas that are critical to solving major social problems: health, education, the environment and, more generally, high-risk innovative initiatives. Increased concessionality elements could be provided in these areas.

What's the icing on the cake?

But African governments, as possible candidates to support the emergence of such vehicles in their own countries, can do something that is essential for the survival rate at this stage of business development and the next stage, which we will discuss: pay their debts.

Domestic public arrears, constituted by government departments, public agencies and national companies, are one of the endemic scourges of the African continent. They hit poor countries even harder, and small businesses are the particular victims (Checherita-Westphal Cristina 2016, Conti 2021). The public finance difficulties of recent years, and the rise in sovereign debt, have given new impetus to this domestic debt.

There are many perverse implications. In the best of cases, companies manage, implicitly or explicitly, to charge back to the State the financial cost of these arrears or delays. But SMEs are rarely in a strong position to do so. They are in an institutionally weak position to be included in the priorities of public plans to settle the lower-ranked debt. These plans tend to focus either on critical sectors (health, etc.) or on large companies that can exert influence. Finally, the scale of domestic arrears leads to significant problems of corruption: small businesses are sometimes reduced to paying in order to be paid. The result, for governments, is under-investment in sectors where they should be able to benefit from a competitive local offer, because a significant number of investors refuse to commit to companies with significant exposure to public entities, because of the cumulative financial and corruption risks.

Defaults or late payments to direct government suppliers naturally extend to their own suppliers and spread throughout the economic system. Bank or similar refinancing mechanisms for this domestic debt are rare, and given the financial performance of too many countries in terms of payment, it does not seem profitable to create such private refinancing mechanisms, which exist, for example, in all mature economies and consolidate the national entrepreneurial fabric.

A first way of alleviating this situation would be for the IMF, when negotiating its agreements with countries, to put the settlement of domestic arrears to national SMEs at the top of the list of payment priorities, ahead of foreign debt. The latter will have an even better chance of being repaid if the national productive fabric is healthy. A second way would be to create national or regional mechanisms for refinancing debts owed by public entities; but these mechanisms would need to be supported by donors, firstly to ensure their financial equilibrium, and secondly to give recovery a better chance.

It is appropriate to highlight this crucial issue at this stage of our journey, because, while all national companies are victims of this problem, the smaller and more fragile the companies, the greater the risk of them going under due to unpaid debts. In every country in the world, the volume and reliability of public contracts, even with certain payment deadlines, is a foundation on which many businesses can build and prosper (Ferraz 2015). The instability of this debt, in the African context, weakens the whole growth dynamic of young businesses, whether or not they are directly exposed to public entities, and increases the depth of the valley of entrepreneurial death.

Conclusion

Since the end of structural adjustment in Africa in the 1980s, the nature of the public policies to be implemented to promote the continent's sustainable development has undergone a profound transformation. The last two decades have seen a resurgence in infrastructure investment, based on models that are well mastered by development banks and governments alike, while China has turned the tables in this area. At the same time, there was a lot of trial and error about the right way to promote the national productive sector.

Building on the ruins of previous arrangements, discredited primarily because of governance issues, many entrepreneur support experiments were carried out. There have been many one-off successes, and lessons have also been learned from the failures, even if lessons are necessarily being learned constantly in this area in the face of an ever-changing reality.

So we've reached a point where, in this context of growth and job creation, the impact community and its partners are becoming ready to leave the world of pilot projects and scale up. The ecosystem of support for African entrepreneurs can grow to their benefit. Impact investing in Africa can also be mobilised in support of the great common causes of our time, such as global warming and the environment in the broadest sense, but also health, education, gender equality, etc. This can be done in two ways: by generalising investment disciplines that integrate Environmental, Social and Governance (ESG) criteria into all sectors, starting with global warming, but also by developing investment vehicles specialising in these issues with a high social return.

In this effort, the geographical priority for poor countries is the key issue: if we are talking about Africa, it is towards the Sahel, Ethiopia, Sudan or the Horn of Africa, Madagascar, the LDCs in general, all these countries forgotten by international investment, that efforts must be mobilised. The capture by middle-income countries of public players' attention in private sector financing is not illegitimate but it is excessive. It has distracted them from the priorities of public action: acting where there is no substitution and where additionality is therefore at its highest, and sacrificing relevance for volume.

The community of funders must now be called together to meet this challenge: DFIs, development agencies, foundations, in short all those investors we have described as being in the "public interest", etc. The various dimensions of the ecosystem needed to accelerate the entrepreneurial dynamic on a massive scale are now known, and their interrelationships have been identified. We can imagine, in this new area of public policy, setting results-based objectives, linking systems to them and finally calibrating the appropriate financial resources.

But there is no player for whom this subject is more important than for the DFIs.

Legitimate questions may arise about the sustainability of their historic mandate. If they hope to see it continue, they must transform it, in particular by getting involved in the agenda of our great common causes. Clearly, getting involved in supporting entrepreneurs in poor countries should be a new and motivating frontier for them, as it is an essential social cause in a world where their technical skills are needed.

However, the business model of most of these companies makes it difficult for them to make a massive commitment to this issue. They need the support of their public shareholders. On the one hand, they must provide them with a clear mandate in this area, which is often lacking, and on the other hand give them access to resources they can use to develop this mission, by working with partners on the ground who have the access and networks to do so. A growing number of development agencies are prepared to work in this direction, as the precedents of the World Bank, the European Union and AFD show.

But are DFIs prepared to do the same? Some have already embarked on this path. However, the difficulty encountered by many others in even making the case to their public shareholders or their governance, and in going beyond a minimum language on the subject, leaves room for doubt.

This is why we must also consider the possibility that, for many reasons, some of which are undoubtedly cultural, some or most of the DFIs are unable or unwilling to challenge themselves and work on changing their mission and their business model. In that case we should consider other institutional avenues.

The issue is particularly relevant for the IFC, the world's leading public investor in the private sector of developing countries. The weakness of this institution's commitments in the area of impact, entrepreneurship and small businesses, as well as IEG's disappointing assessment of the first phase of implementation of the World Bank's "PSW", raise questions.

To re-motivate the IFC, it would be a good idea for the World Bank Group to give all DFIs access to the PSW, in the same way that the European Union has given access to its support funds for entrepreneurship not only to the EIB but to all EDFIs, after an approval procedure to ensure that they have the capacity to implement its aid. This would undoubtedly create a climate of emulation.

However, if it were to turn out that the IFC, for reasons that may be perfectly understandable, could not or did not wish to take a prominent place in this critical entrepreneurial agenda, then the World Bank could consider alternative options.

One of these would be to create what would become the group's fourth institution, alongside the Bank, IFC and MIGA. The mission of this new agency would be to promote entrepreneurship in poor countries. The IFC would transfer to it the few modest activities it carries out in this area. With funding from the IDA, it would raise contributions from public and private donors. The World Bank's entrepreneurship agency would support entrepreneurial networks, provide technical assistance, take stakes in dedicated investment vehicles, provide credit and guarantees to banks for this target, and also advise governments and public agencies dedicated to these subjects, while also being able to provide them with specialised financial support.

The World Bank Group would thus make a major breakthrough on an essential front that the current structure of its resources and procedures does not allow it to serve. It is obvious that if such a system has all the obvious advantages of specialisation around a clear mission, it would contribute to the institutional fragmentation that is otherwise deplored. Therefore, it would be preferable to mobilize the IFC's considerable professional skills in private investment. However, the impossibility of provoking this mobilization will inevitably tempt circumvention.

The issue of fragmentation and circumvention also arises in relation to the cognitive and participatory process that the world of impact investment for the benefit of entrepreneurs in poor and fragile countries crucially needs. This contributes to a difficult public policy, full of risks, where collective learning is crucial. Despite the efforts of professional groups of impact investors such as GIIN and ANDE, there is no body for sharing, exchanging and steering this effort, which would be very welcome.

This is the hope that was put in the "alliance for entrepreneurship" that emerged from the summit for African economies in 2021. It does not seem to have taken off, and in any case, has not yet become the circle of exchange between and with entrepreneurs and the players in the ecosystem that is lacking. There is certainly still time for it to become the participatory and learning platform that this public policy needs, involving the entrepreneurs themselves, their partners and funders. If it does not succeed in doing so, we will have to imagine another body, perhaps supported by organisations such as ANDE, to create this community space where we can co-construct a long-term ambition to serve African development and, more broadly, all vulnerable countries.

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Appendix 1

Are development finance institutions supporting the private sector in Africa?

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16 May 2023

I. The role of the private sector in African economies

According to a report by the United Nations Commission for Africa (2020), the private sector contributes more than 80% of government revenue in low- and middle-income countries through corporate taxes, resource royalties and employee income tax. It generates more than 90% of employment in developing economies, including formal and informal jobs. The private sector is a key factor in development because it enables (i) the generation of employment, which is necessary for production, (ii) the creation of wealth, via production and (iii) the generation of revenue for governments via the taxation of this production and the productive process. Most African private companies are VSEs[14], and too few are medium-sized or even large ("the missing middle" or "the missing large""). Small and medium-sized enterprises (SMEs) in Africa struggle to survive and grow into large companies, mainly because of financial and productivity constraints due to too low capital intensity (African Development Bank 2019). However, SMEs are considered the "backbone" of African economies, accounting for about 90% of all private companies and accounting for more than 60% of employment in most African countries (Geneva ITC 2018).

The productivity gap between SMEs and large companies can be explained in particular by the fact that the former specialise in low value-added and labour-intensive sectors and make little use of modern technologies and foreign markets (Geneva ITC 2018). Large companies, on the other hand, which export or operate internationally, are more productive, thanks in particular to a capital endowment that enables them to overcome the costs associated with the logistics and standards needed to participate in international markets, and they contribute more to the generation of better-paid jobs. These differences, combined with the fact that the majority of private sector activity on the African continent takes place in the "informal sector", mean that the private sector, and entrepreneurship in particular, has a role to play in the continent's development. Moreover, an indicator that can shed light on the "health" of the formal private sector in Africa compared to the rest of the world is the comparison of business creation per capita, data available via the World Bank[15]:

[14] According to the International Finance Corporation (SFI-IFC), a small business is a company that employs no more than 50 people and whose annual pre-tax revenues do not exceed 3 million USD (Park, Jean-Luc and Shi, Anqing. (2012).
[15] Word Bank Entrepreneurship Database

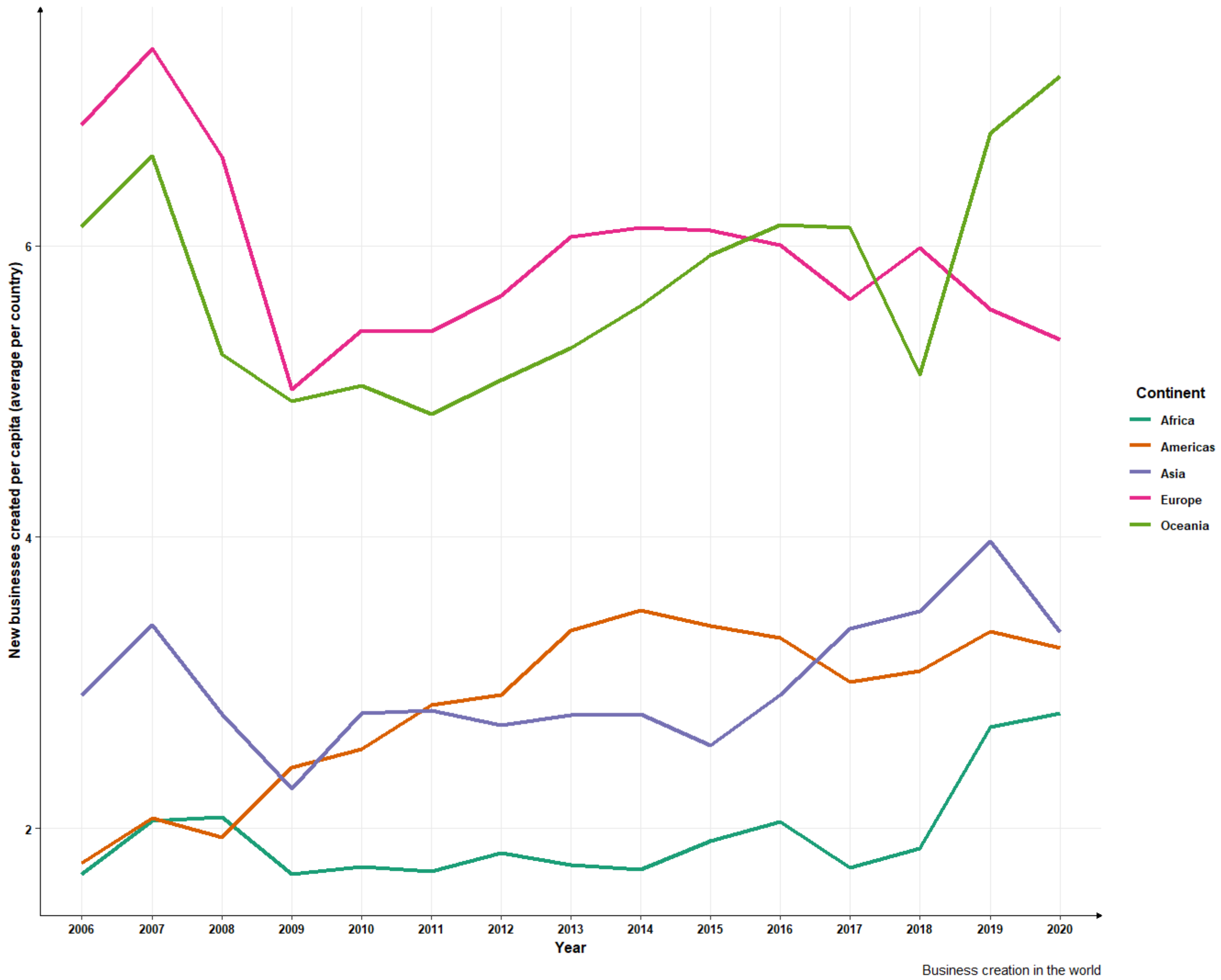

Figure 1: Business created by inhabitants (World Bank)

We note that despite catching up in recent years, the African continent remains an area where the number of businesses created in the formal sector as a proportion of the population is generally lower than on other continents.

According to the report by the United Nations Commission for Africa (2020), the development of the formal private sector in Africa depends on investments in certain key sectors: transport, energy, information and communication technologies, water and sanitation and political stability. Furthermore, according to the same report, one of the main levers for financing these sectors is alternative sources of financing to the "standard" development financing[16], which would allow the private sector to be included. National and international development finance institutions (DFIs) are banks or subsidiaries of banks or agencies that have been set up to support private sector development in developing countries. However, in order to guarantee the conditions for private sector development, do they finance the sectors mentioned above? Do they finance them in sufficient quantities and with what geographical distribution? Does this financing benefit the African private sector,

[16] By standard, we mean, for example, Official Development Assistance such as budgetary support for recipient countries.

which is made up almost exclusively of VSEs and SMEs? This is what we will try to examine briefly.

II. Development Finance institutions (DFIs)

A. Definition

Development Finance Institutions (DFIs) are specialized development organizations that are generally majority-owned by one state (bilateral) or several states (multilateral). They invest in private sector projects in low- and middle-income countries to promote job creation and sustainable economic growth. They apply strict investment criteria to ensure financial viability, transparency and environmental and social responsibility.

Bilateral DFIs implement their government's foreign development and cooperation policy. Multilateral DFIs act as private branches of international financial institutions (IFIs) established by more than one country.

DFIs draw their capital from national or international development funds or benefit from government guarantees that ensure their solvency. The financial support they provide for relatively risky projects makes it possible to mobilise private capital, calling on players as diverse as commercial banks, investment funds and private companies[17].

The OECD has also developed a Creditor Reporting System (CRS), in which DFIs participate by making an annual declaration of their activities, in order to analyse the official development assistance efforts of different countries. The aim of this taxonomy is to provide sets of data that are homogeneous between the various donors and accessible free of charge, so studies can be carried out on the distribution of aid, its objectives and the policies it aims to implement, on a comparable basis for all DAC member states and the development finance institutions that make a CRS declaration. Data are collected at a project level. The focus is on financial data, but some descriptive information is also provided. This database provides an initial analysis of DFI activities.

[17] Definition taken from the EDFI association , DFIs are largely self-financing organisations that reinvest the profits from successful investments into new high-impact investments.

B. Method of analysis

First, we selected the projects reported by bilateral DFIs, declared as agencies in the CRS database. Here is the list of DFIs in this category of the database:

Table 1: Bilateral DFIs list

Country	DFI
Austria	Austrian Development Bank (EPO)
Belgium	Belgian Investment Company for Developing Countries (BIO)
Canada	FinDev Canada
Denmark	Investment Fund for developing countries (IFU)
Finland	FINNFUND
France	Proparco
France	STOA
Germany	German Investment and Development Company (DEG)
Germany	Kreditanstalt für Wiederaufbau (KfW)
Italy	Cassa Depositi e Prestiti (CDP)
Italy	Italian Society for Enterprises Abroad (SIMEST)
Japan	Japanese International Co-operation Agency (JICA)
Norway	NORFUND
Portugal	Sociedade para o Financiamento do Desenvolvimento (SOFID)
Spain	Compañía Española de Financiación del Desarrollo (COFIDES)
Sweden	SwedFund
Switzerland	Swiss Investment Fund for Emerging Markets
United Kingdom	British International Investment (BII)
United States	U.S. International Development Finance Corporation (DFC)

In addition to bilateral DFIs, there are also multilateral DFIs. In order to maintain the same methodological approach as for bilateral DFIs, we will focus solely on DFIs reporting to the DAC with "donor" status. Since the database was initially constructed to measure the aid effort of each country, it seems appropriate to maintain a classification by "donor". This gives us the following list:

Table 2: Multilateral DFIs list

DFI
African Development Bank
Arab Bank for Economic Development in Africa
Asian Development Bank
Asian Infrastructure Investment Bank
Black Sea Trade & Development Bank
Caribbean Development Bank
Central American Bank for Economic Integration
Council of Europe Development Bank (CEB)
Development Bank of Latin America
European Bank for Reconstruction and Development
European Investment Bank
IDB invest
Inter-American Development Bank
International Finance Corporation
International Investment Bank
Islamic Development Bank
North American Development Bank

Additional work could be done to add certain regional development banks (e.g., the West African Development Bank), but these are declared as channels for transmitting or implementing projects and not as donors. This means that the projects that these banks are involved in are already taken into account in this analysis and that their inclusion in our list would generate a risk of duplication.

In order to ensure that our database effectively covers DFI interventions in the private sector, we have made a number of choices in the construction of our sample. First, in order to guarantee reliable and harmonised information in the reporting practices of the various institutions, we will only take into account projects reported from 1995 onwards. Indeed, we note that there are more questionable aggregations in earlier years, as well as many projects classified in the "unallocated" sector.[18]

Second, we eliminated official development assistance donations from our sample, as this is essentially an activity that does not seek to make a financial return. In the same spirit, we only retained certain types of aid.[19] Finally, since we wish to study the financial activity of DFIs as support for the private sector, certain sectors have also been eliminated because they have little or nothing to do with the private sector.[20]

This gives us the list shown in the table below. All amounts are in millions of constant 2020 US dollars. Columns 4, 5 and 6 show the amounts of the commitments: (i) annualised over the DFI's entire period of activity, (ii) means per declared project (average commitment per project), (iii) annualised over the last 5 years.

[18] Figure available in appendix Figure 11.
[19] List available in the appendix to table 6.
[20] List available in the appendix to table 7.

Table 3: DFIs final list

DFI	Nb. of projects	First project declared	Last project declared	yearly averaged Commitment (M USD)	Average commitment per project (M USD)
African Development Bank	826	2001	2021	627.03	12.64
Arab Bank for Economic Development in Africa	16	2011	2020	39.25	17.14
Asian Development Bank	731	2004	2021	831.21	26.60
Asian Infrastructure Investment Bank	57	2016	2021	1,002.79	111.02
Austrian Development Bank (EPO)	285	2008	2021	120.36	4.83
Belgian Investment Company for Developing Countries (BIO)	789	2013	2021	72.26	1.37
Black Sea Trade & Development Bank	39	2020	2021	84.53	4.31
British International Investment (BII)	2.211	1995	2019	461.76	9.27
Caribbean Development Bank	43	2015	2016	12.91	0.54
Cassa Depositi e Prestiti (CDP)	15	2020	2021	141.98	19.14
Central American Bank for Economic Integration	19	2020	2021	59.71	8.52
Compañía Española de Financiación del Desarrollo (COFIDES)	56	2018	2019	70.96	2.56
Council of Europe Development Bank (CEB)	112	2010	2021	91.18	8.78
Development Bank of Latin America	140	2018	2021	3,096.00	79.31
European Bank for Reconstruction and Development	4.521	2009	2021	3,414.41	9.80

DFI	Nb. of projects	First project declared	Last project declared	yearly averaged Commitment (M USD)	Average commitment per project (M USD)
European Investment Bank	2.979	2001	2021	5,596.79	54.49
FinDev Canada	38	2018	2021	47.51	5.39
FINNFUND	818	1995	2021	76.19	2.21
German Investment and Development Company (DEG)	1.554	1999	2021	897.87	18.13
IDB invest	626	2016	2021	2,494.10	26.37
Inter-American Development Bank	985	2010	2021	730.60	7.48
International Finance Corporation	1.928	2012	2021	5,107.94	27.18
International Investment Bank	18	2019	2021	64.96	11.46
Investment Fund for developing countries (IFU)	542	2008	2021	100.22	2.41
Islamic Development Bank	286	1995	2021	176.83	14.74
Italian Society for Enterprises Abroad (SIMEST)	769	2016	2021	48.31	3.67
Japanese International Co-operation Agency (JICA)	108	2008	2021	359.73	50.79
Kreditanstalt für Wiederaufbau (KfW)	5.808	1995	2021	2,182.98	11.71
NORFUND	1.565	2001	2021	357.71	4.95
North American Development Bank	4	2020	2021	3.48	1.74
Proparco	987	2006	2021	735.09	15.09

DFI	Nb. of projects	First project declared	Last project declared	yearly averaged Commitment (M USD)	Average commitment per project (M USD)
STOA	16	2020	2021	74.25	10.24
Sociedade para o Financiamento do Desenvolvimento (SOFID)	28	2010	2020	2.35	0.84
SwedFund	121	2015	2021	70.72	5.08
Swiss Investment Fund for Emerging Markets	211	2017	2021	170.04	4.40
U.S. International Development Finance Corporation (DFC)	638	2004	2021	839.38	22.37

The volume of activities and their declarations vary from one institution to another, despite common standards. Indeed, we cannot guarantee the completeness or accuracy of the declarations. Additional sources could be used to consolidate the data for a more complete analysis. However, for the sake of consistency and to avoid creating potential additional duplicates, we will focus on this data source only.

Although the average amount committed per project varies from one institution to another, it remains relatively high for direct support to the private sector, which is mainly made up of VSEs and SMEs, as is the case on the African continent. Moreover, DFI activity over the last 5 years has generally been greater than in the past.

III. Analysis of development finance institutions' declarations

Through these declarations, we can obtain various information such as the volumes committed and disbursed, the financial instruments used, and the sectoral and geographical breakdown of their activities. We can see that the activity of DFIs is increasing over time and that their financing methods are fairly stable. Nevertheless, it would seem that they are generally attracted by the most "profitable" markets or those with the most opportunities.

A. The intensity of DFI activity

Over the past twenty years, DFIs have considerably increased their business volumes, without really changing their financing methods. Indeed, according to Figure 2, they mainly make loans and take few equity investments:

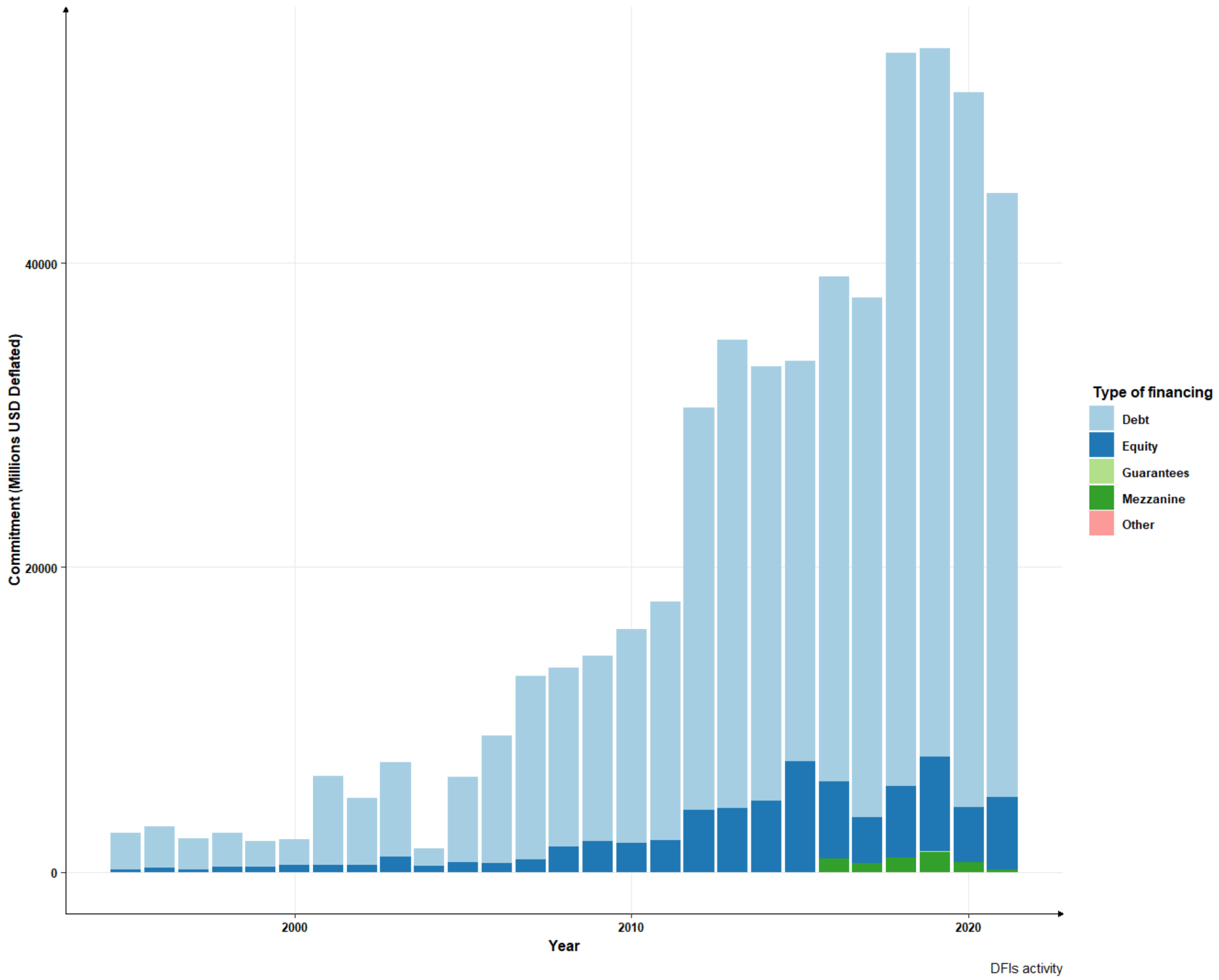

Figure 2: DFIs activities across time (OECD)

B. Sectors targeted by DFIs

Regarding targeted sectors, according to Figure 3, DFIs focus on four of them: (i) the banking and financial sector, (ii) the energy sector, (iii) industry, construction and mining and (iv) the transport sector and transport infrastructure[21]. These sectors are among the key development sectors according to the report of the United Nations Commission for Africa (2020). However, do we have the same breakdown if we focus solely on the African continent?

[21] 37.6%, 21.1%, 14% and 10.5% respectively. The list of other available sectors can be found in the appendix to table 8.

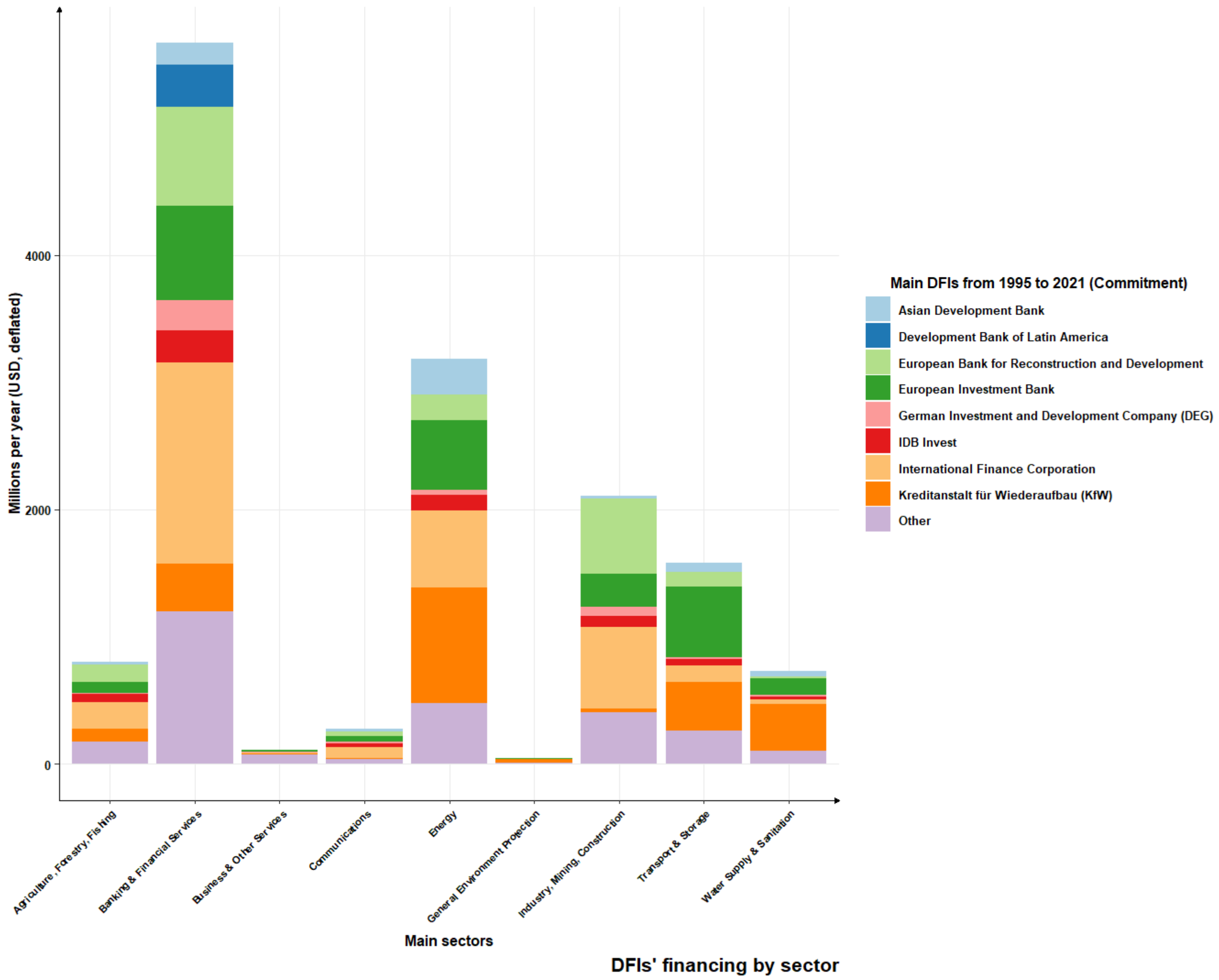

Figure 3: DFIs commitments by sector (yearly averaged)

Focus on the African continent

Figure 4 shows that some of the major players are the African Development Bank, the British Investment Bank (BII) and the Islamic Development Bank. Two sectors are receiving more funding: water and sanitation (a key sector according to the United Nations Commission for Africa 2020 report) and agriculture, which accounts for more than 52% of the continent's workforce, according to Paul Akiwumi, Director for Africa and the least developed countries at UNCTAD.[22]

[22] https://unctad.org/news/blog-revitalizing-african-agriculture-time-bold-action

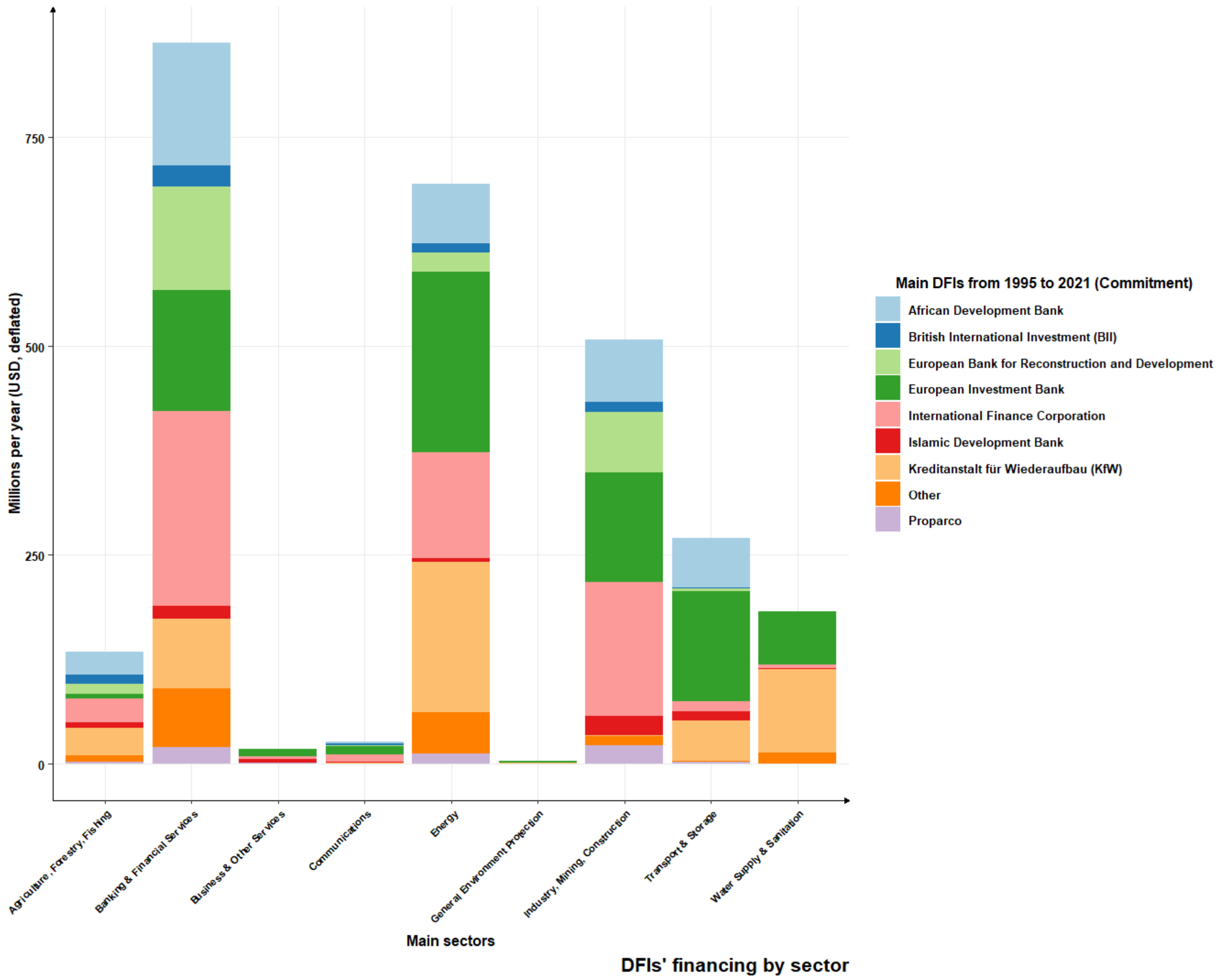

Figure 4: DFIs commitments in Africa (Yearly averaged)

C. Geographical areas targeted by DFI activity

Table 4 shows that, on average per year, some geographic areas are more served than others. Sub-Saharan Africa is the area least targeted by DFI activity. This can be explained by the distortions generated by the size of the economies. As DFIs must also ensure their profitability, they are undoubtedly encouraged to go to the markets of the most economically profitable developing countries and also those with the largest populations in order to maximize the social utility of the projects financed. This would mean that, with a dual concern for profitability and impact, DFIs would seek to maximise the impact of their interventions while minimising the associated costs. If DFIs focus their activities increasingly on the economic health of developing countries' economies, there is a risk of perpetuating the development gap between emerging and low-income countries.

Table 4: DFIs averaged commitment by regions

OECD regions	Averaged commitment (M USD, constant 2020)
East Asia & Pacific	13.1
Europe & Central Asia	11.5
Latin America & Caribbean	17.4
Middle East & North Africa	12.2
North America	
South Asia	14.5
Sub-Saharan Africa	7.4

1. More financial volume because more projects?

Our intuition is confirmed by studying the distribution of projects[23]. Indeed, we can see that the majority of declared activities are carried out in Asia and Latin America. Nevertheless, it seems that the distortion is less pronounced for the volume of DFI activity (number of projects) than the financial volume. This would mean that the effects of concentration would be more related to financial than economic factors.

[23] A project can be defined as a single declaration by a donor (in this case a DFI), so it is possible for two DFIs to declare the same project because both are involved.

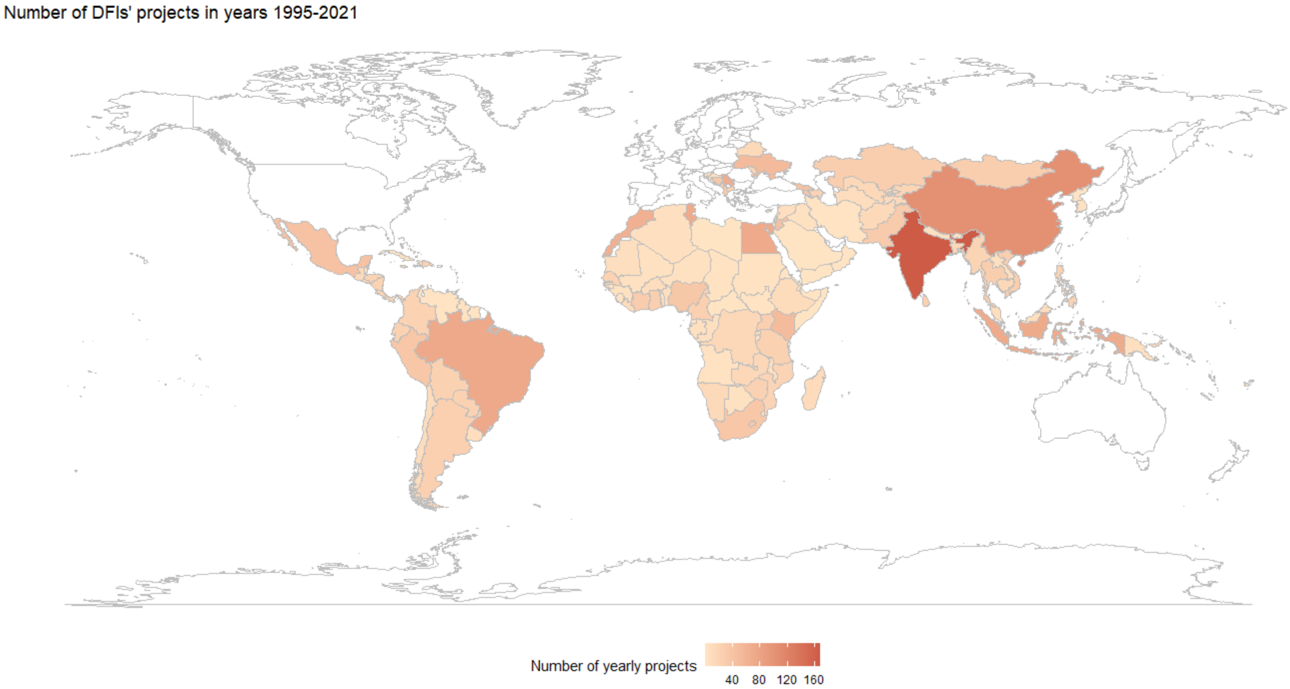

Figure 5: Number of DFIs' projects (Yearly averaged)

A similarly uneven distribution of interventions within the African continent

Figure 6 shows that within the African continent, the distribution of projects by country is also uneven. Some countries, such as Egypt, Morocco, Tunisia and South Africa, appear to receive more support from DFI projects. As stated earlier, it is normal for the DFI portfolio to be a function of the size of the economies of developing countries. In order to verify this hypothesis, we analyse the number of projects per country, since the average amount committed per project is relatively similar. We relate them to the population and the size of the economy of the recipient country, measured by its GDP.

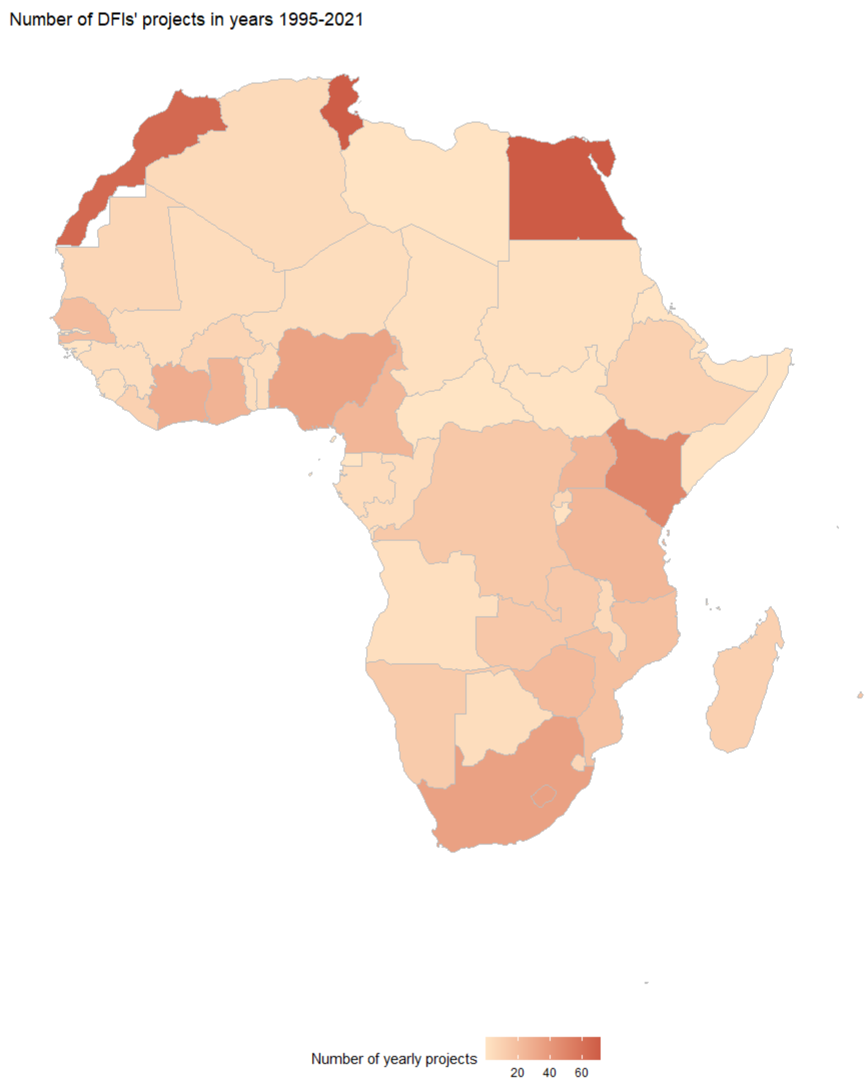

Figure 6: Number of projects declared in Africa (Yearly averaged)

2. Is the allocation adapted to the country's situation?

a) In line with the population?

We use World Bank population data, omitting missing observations. The ratio of the number of projects carried out each year to the population of the same year is fairly stable across countries, as shown in Figure 7. But what about the size of the economy?

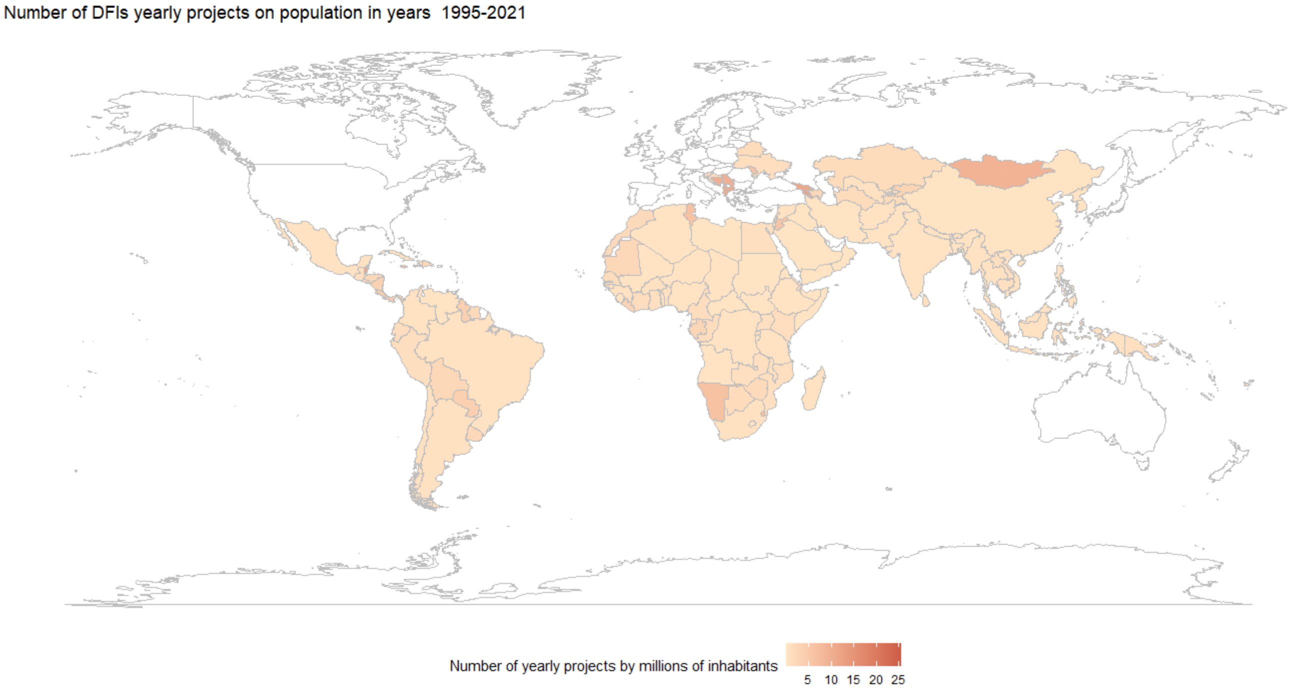

Figure 7: Number of DFIs' projects controlled by population (Yearly averaged)

b) In line with the size of the economy?

To measure the size of the economy, we use the World Bank's constant GDP (2015) as an indicator to obtain the average annual number of projects per billion dollars of GDP. Again, the number of projects remains relatively stable across countries (Figure 8). Moreover, the results of the analysis carried out with the amounts committed are equivalent.

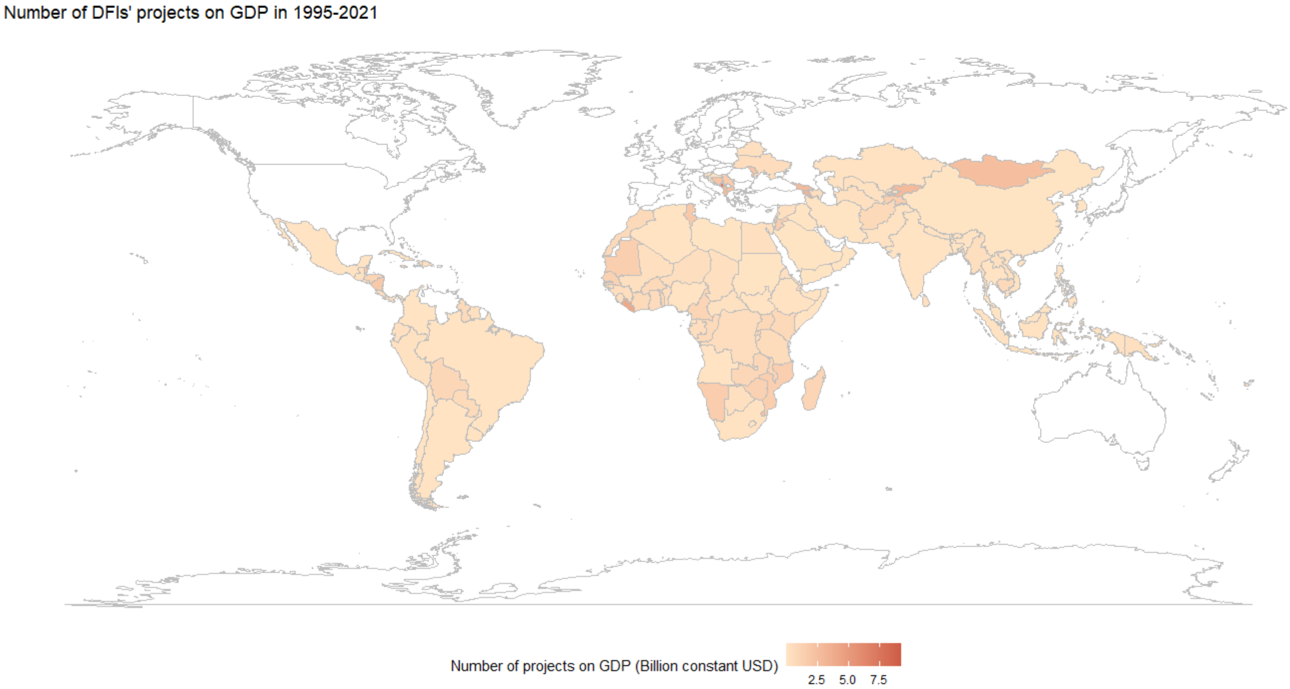

Figure 8: Number of DFIs' projects controlled by GDP (Yearly averaged)

3. Is the allocation adapted to the country's situation? An African perspective.

For the following two statistics, we again relied on World Bank data. Whereas previously we were able to observe that there was little variability between the number of declared projects corrected by population or GDP per country, this time we are going to look at the amounts committed by the DFIs, corrected by the same indicators.

a) In line with the population?

We can therefore see that here again, certain countries in North and South Africa seem to attract more commitments from the DFIs, despite a correction by the number of inhabitants. We will be able to see what happens if we adjust for GDP, which could bring greater variability.

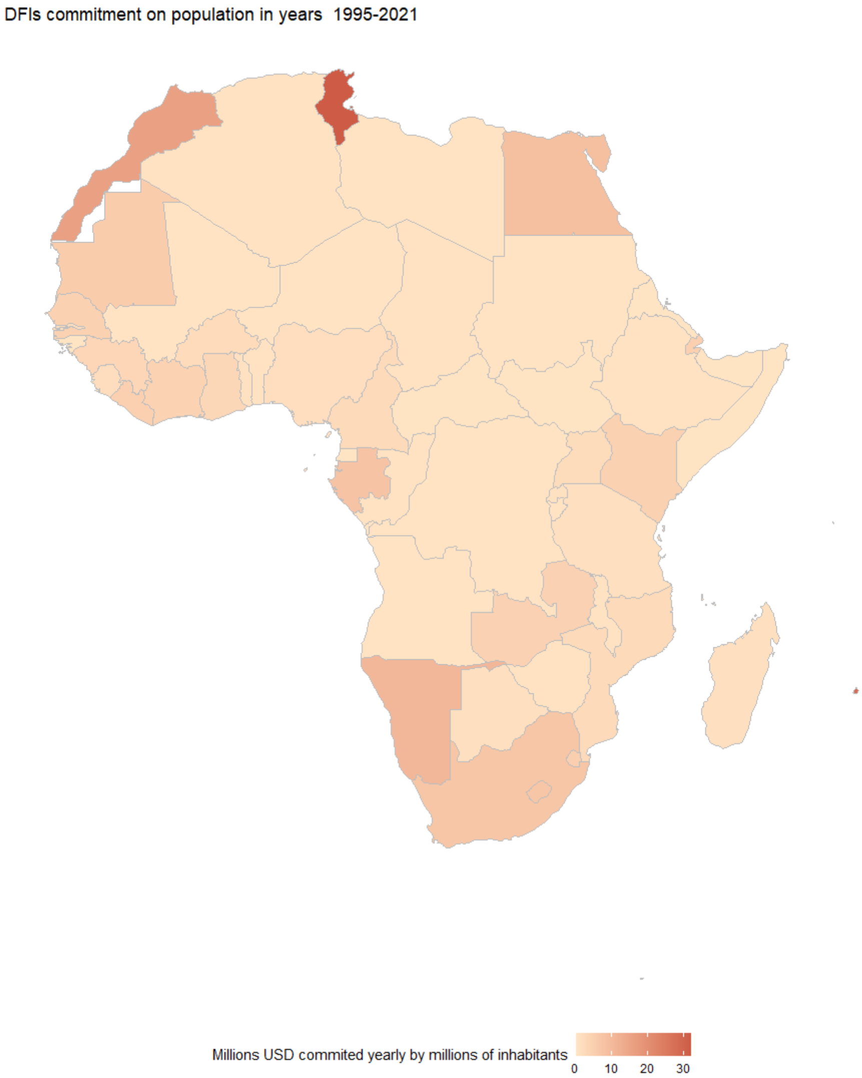

Figure 9: DFIs' commitments, controlled by population (Yearly averaged)

b) In line with the size of the economy?

We can see that some countries have been added to those mentioned above. We can therefore interpret that it appears that some countries, despite relatively low GDP in relation to their population, benefit from DFI activity thanks to a sort of "demographic rent".

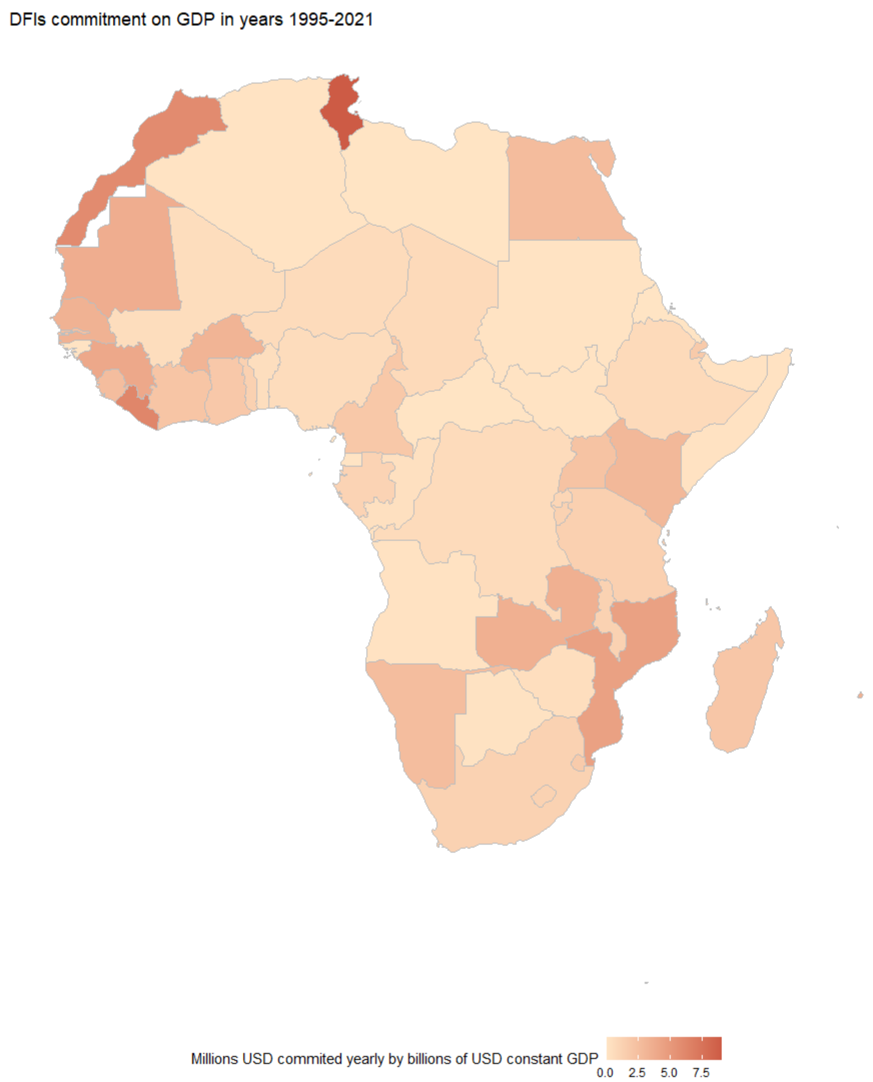

Figure 10: DFIs' commitments, controlled by GDP (Yearly averaged)

4. An inevitable trend?

Is DFI activity disconnected from that of the rest of economic activity or development? It seems that their choice of activities is actually halfway between Official Development Assistance (ODA) and Foreign Direct Investment (FDI). Indeed, as a share of total amounts received, we can see that the only exceptions are Europe and the American continent, where DFI activity seems to be "under-regulated" and "over-regulated" respectively in relation to public and private sector financing.

Table 5: DFIs activity comparing to ODA and FDI in 1995-2021

Continent	ODA received on the period (%, OECD)	FDI received on the period (%, UNCTAD)	DFIs' commitment received on the period (%)	Mean of FDI and ODA received	Difference between the DFIs' commitment and the average size of FDI and ODA
Africa	42.97	3.11	24.76	23.0	1.7
Americas	9.30	31.22	28.41	20.3	8.2
Asia	39.35	27.41	34.38	33.4	1.0
Europe	6.55	38.27	12.33	22.4	-10.1
Oceania	1.83	0.00	0.11	0.9	-0.8
Total	100.00	100.00	100.00	100.0	0.0

IV. Conclusion and comments

Following the various analyses carried out, we conclude that DFIs, governed by the concern for financial profitability and halfway between FDI and Official Development Assistance, carry out the majority of their activities in capital-intensive sectors in the most emerging economies. With regard to the economies of the African continent, this observation raises questions about the capacity of DFIs to support a private sector that is primarily comprised of VSEs and SMEs, which do not have the capacity to receive investments on the scale of those made by these institutions. This work, although preliminary, sheds light on the activity of the DFIs and in particular on their investment choices. It seems that these choices are geared more towards improving the "business climate" by lending to banking/financial institutions in the hope that they will in turn finance the private sector, or by financing infrastructure in certain key sectors such as water and energy. Moreover, the current DFI model does not really allow them to do otherwise. Indeed, given the average amounts committed per project, it seems impossible for a DFI to set up its projects directly with VSEs/SMEs, which would probably not have the structure or capacity to absorb such financing. However, DFIs seem to be attracted by the most attractive economies, as they are certainly better equipped in terms of financial engineering to receive their financing. This investment behaviour may therefore raise questions about support for the private sector in Africa. Are these institutions capable of supporting economies that are predominantly made up of VSEs/SMEs? Do they enable the most vulnerable or least developed countries to develop? This preliminary work could be completed by a more in-depth analysis of the data, including an analysis by institution, or a more precise analysis of the financial instruments or the timing of loans and investments.

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VI. Appendices

A. Type of aid selected

Table 6: Categories of aid retained

Category	Code	Name	Definition
	B00	Core contributions and pooled programmes and funds	For contributions under this category, the donor relinquishes the exclusive control of its funds by sharing the responsibility with other stakeholders (other donors, NGOs, multilateral institutions, Public Private Partnerships). The category covers both core contributions (B01 and B02), and pooled contributions with a specific earmarking (B03 and B04).
	B01	Core support to NGOs, other private bodies, PPPs and research institutes	Funds are paid over to NGOs (local, national and international) for use at the latter's discretion, and contribute to programmes and activities which NGOs have developed themselves, and which they implement on their own authority and responsibility. Core contributions to PPPs, funds paid over to foundations (e.g. philanthropic foundations), and contributions to research institutes (public and private) are also recorded here. Appendix 2 of the DAC Directives provides a list of INGOs, PPPs and networks core contributions to which may be reported under B01. This list is not exclusive.
B	B02	Core contributions to multilateral institutions and global funds	These funds are classified as multilateral (all other categories are bilateral). The recipient multilateral institution pools contributions so that they lose their identity and become an integral part of its financial assets or liabilities. Also includes Financial Intermediary Funds (GEF, CIFs) for which the World Bank is the Trustee, as well as some UN inter-agency pooled funds, such as CERF and the UN Peacebuilding Fund. See Appendix 2 of the Reporting Guidelines for a comprehensive list of agencies, core contributions to which may be reported under B02 and its subcategories. (Section I. Multilateral institutions). Nota bene: Contributions to multilateral development organizations beyond appendix 2 are not reportable in the DAC statistics. The non-ODA components of core support to multilateral organisations included in Annex 2 are not reportable either.
	B03	Contributions to specific-purpose programmes and funds managed by implementing partners	In addition to their core-funded operations, international organisations – multilateral agencies, NGOs, PPPs or networks – both in provider and in third countries, set up programmes and funds with a specific sectoral, thematic or geographical focus. Donors' bilateral contributions to such programmes and funds are recorded here. Use categories B031 and B032 for trust funds managed by the UN (all designed as multi-donor) unless contributions are earmarked for a specific geographical location or funding window.
	B04	Basket funds/pooled funding	The donor contributes funds to an autonomous account, managed jointly with other donors and/or the recipient. The account will have specific purposes, modes of disbursement and accountability mechanisms, and a limited time frame. Basket funds are characterised by common project documents, common funding contracts and common reporting/audit procedures with all donors. Donors' contributions to funds managed autonomously by international organisations are recorded under B03.
C	C00	Project-type interventions	Note: Within this category, members able to do so are requested to report the aggregate amount used for financing donor experts/consultants on

Category	Code	Name	Definition
			Table DAC11. Where the activity consists solely of experts' costs, report under category D.
	C01	Project-type interventions	A project is a set of inputs, activities and outputs, agreed with the partner country*, to reach specific objectives/outcomes within a defined time frame, with a defined budget and a defined geographical area. Projects can vary significantly in terms of objectives, complexity, amounts involved and duration. There are smaller projects that might involve modest financial resources and last only a few months, whereas large projects might involve more significant amounts, entail successive phases and last for many years. A large project with a number of different components is sometimes referred to as a programme, but should nevertheless be recorded here. Feasibility studies, appraisals and evaluations are included (whether designed as part of projects/programmes or dedicated funding arrangements). Academic studies, research and development, trainings, scholarships, and other technical assistance activities not directly linked to development projects/programmes should instead be recorded under D02. Aid channelled through NGOs or multilaterals is also recorded here. This includes payments for NGOs and multilaterals to implement donors' projects and programmes, and funding of specified NGOs projects. By contrast, core funding of NGOs and multilaterals as well as contributions to specific-purpose funds are recorded under B.* In the cases of equity investments, humanitarian aid or aid channelled through NGOs, projects are recorded here even if there was no direct agreement between the donor and the partner country. Contributions to single-donor trust funds and contributions to trust funds earmarked for a specific funding window and/or country are recorded under B033.
D	D00	Experts and other technical assistance	This category covers the provision, outside projects as described in category C, of know-how in the form of personnel, training and research.
	D01	Donor country personnel	Experts, consultants, teachers, academics, researchers, volunteers and contributions to public and private bodies for sending experts to developing countries.
	D02	Other technical assistance	Provision, outside projects as described in category C01, of technical assistance in recipient countries (excluding technical assistance performed by donor experts reported under D01, and scholarships/training in donor country reported under E01). This includes training and research; language training; south-south studies; research studies; collaborative research between donor and recipient universities and organisations); local scholarships; development-oriented social and cultural programmes. This category also covers ad hoc contributions such as conferences, seminars and workshops, exchange visits, publications, etc.

B. Sectors not retained

Table 7: Sectors not retained

Code	Description
111	Education, Level Unspecified
112	Basic Education
113	Secondary Education
114	Post-Secondary Education
121	Health, General
122	Basic Health
123	Non-communicable diseases (NCDs)
130	Population Policies: Programmes & Reproductive Health
151	Government & Civil Society-general
152	Conflict, Peace & Security
430	Other Multisector
510	General Budget Support
520	Development Food Assistance
530	Other Commodity Assistance
600	Action Relating to Debt
720	Emergency Response
730	Reconstruction Relief and Rehabilitation
910	Administrative Costs of Donors
930	Refugees in Donor Countries

C. DFIs activity by sector

Table 8: DFIs activity by sector in 1995-2021

Sectors	Commitment on the period (%)	Commitment on the period (%, Africa)
Banking & Financial Services	37,58	31,01
Energy	21.11	24.96
Industry, Mining, Construction	13.97	18.26
Transport & Storage	10.46	9.70
Agriculture, Forestry, Fishing	5.33	4.83
Water Supply & Sanitation	4.84	6.57
Commercial Policy and Regulations	3.77	2.96
Communications	1.85	0.94
Business & other Services	0.74	0.65
General Environment Protection	0.32	0.12
Disaster Prevention/Preparedness	0.03	
Total	100.00	100.00

D. Projects without allocated sectors

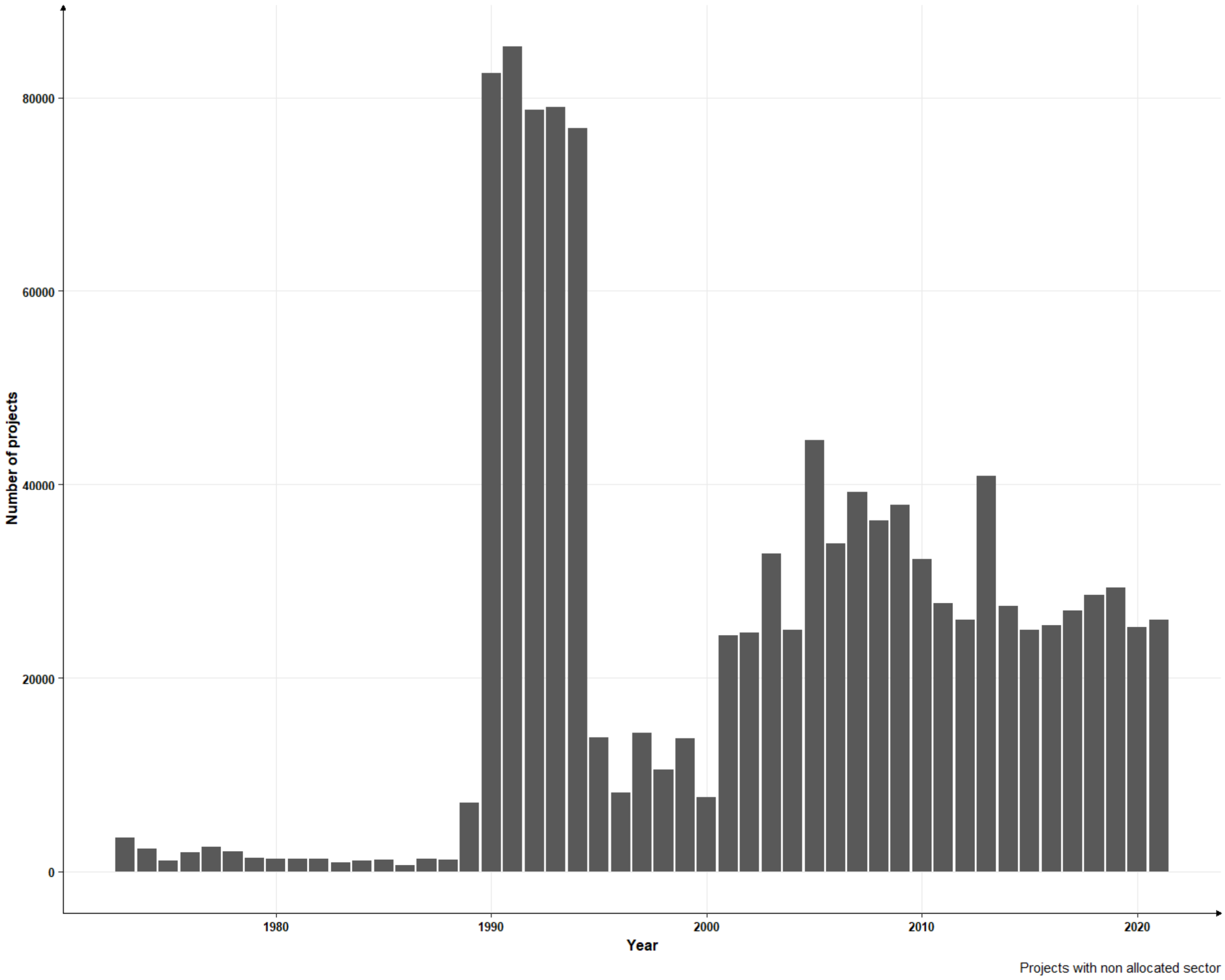

Figure 11: Non-allocated projects across time

APPENDIX 2

FELLOW PIONEERS, ONE MORE EFFORT TO BE MACROECONOMIC!

(Jean-Michel Severino, senior fellow, Ferdi)

Since the early 2000s, the entrepreneurial financing scene in Africa has slowly begun to change. Why and how?

Entrepreneurship in poor countries is a product of both the frustrations of public policy and the increasingly obvious emergence of entrepreneurs themselves.

The first factor has been the gradual emergence of an increasingly obvious entrepreneurial universe in poor countries, particularly in sub-Saharan Africa, where it was invisible in the second half of the 20th century.

Formal and informal SMEs make up the bulk of the economies of poor countries. In sub-Saharan Africa, they account for 40% of GDP and 90% of the number of companies.[24] While figures on the entrepreneurial dynamic in Africa itself are lacking, there is a convergence of empirical observation to note that, progressively and since the beginning of the century and the end of structural adjustment, entrepreneurial projects are multiplying, including in poor countries, even if the continent's major economic centres such as South Africa, Kenya, Nigeria or Ivory Coast are experiencing more specific densities of initiatives.[25]

Admittedly, on this side, the invisible hand has partly worked: the introduction of more favourable legislative frameworks, resulting from structural adjustment, has enabled entrepreneurs to get involved in an infinitely risky and imperfect world, but with a reduced fear of repression. Macroeconomic and business environment reforms have proliferated since the late 1990s. Both the Mo Ibrahim index and the Doing Business indicators, which have now sadly disappeared, bear witness to this continuous improvement, even if it is clear that this environment is still negative rather than hostile in many countries - with significant variations depending on the country. (Baraton Pierrick 2021). Poor recruitment prospects in the civil service and large formal companies are also a factor. But structural factors play a massive role: urbanisation and the densification of territories create unprecedented opportunities for entrepreneurs, who start to create the domestic market, where massive domestic demand is built up as the middle classes emerge.

As a result, the best economic prospect for graduates of higher education or technical training after a few years often seems to be the creation of their own business. Added to this is an interesting flow of so-called "returnees", who, after higher education abroad and a decade or more of successful professional experience in an industrialised economy, wish to invest in their country of origin, for both economic and psychological reasons (Dustmann Christian 2002, Batista Catia 2017).

A second factor has been the emergence of grassroots initiatives in response to this economic dynamic, with the growing visibility of what is known as "impact investment". On the African continent as well as in Latin America and South Asia for the most part, private investors, both commercial and philanthropic, have gradually emerged. They are driven by development or public

[24] See IFC, SME finance in Africa, What's new, 2019 and Proparco, Secteur Privé et Développement, 2020.
[25] See Severino and Hajdenberg, Entreprenante Afrique, Odile Jacob, 2018.

interest objectives, such as job creation in the poorest countries, access to essential services for people at the "base of the pyramid" or environmental or societal (gender) benefits.

What these players have in common is the search for economically efficient underlying assets that generate significant added value for society, even if the financial returns do not meet the expectations of investors, particularly international investors. Pilot projects have been set up, their viability tested and their resilience proven.

In the last decade, the rise of environmental concerns and the more general discourse on "global public benefits" have begun to familiarise public and private investors with the concept of externality. It has led to a deeper understanding of the impact of a company or an investment, and has included a growing number of players in the debate. These effects can be said to be internal (we will refer to them here as "internalities"), whether they are direct or indirect, resulting from voluntary and remunerated transactions, or external, unintentional consequences not resulting from remunerated transactions (Severino, Les nouveaux modèles de financements des services essentiels 2021, Severino, Lost in impact : une nouvelle cartographie pour les aventuriers du sens 2022). As a result, this impact sector has gradually developed measures of its extra-financial performance, with practices that are considerably diversified and of uneven quality, but which reflect the search for a better basis for its contribution.

A third factor has been the disappointment generated by the doctrine of the invisible hand. Indeed, the liberalisation of the business environment and a certain improvement in governance, documented for example in the Mo Ibrahim index, have produced positive effects, contributing to the emergence of an entrepreneurial universe with real dynamics. But growing doubts have emerged about the relevance or sufficiency of a strictly institutional and infrastructure agenda. Accordingly, increasing attention has been paid to: the discrepancies between apparent GDP generated and local employment and installed productive capacity; the difference between the intensity placed in the governance agenda and the reality of the effects in entrepreneurial terms; the gap between private capital flows supported or generated, via DFIs or without them, and the entrepreneurial reality.

In other words, the increasingly common question has become, to use a metaphor from the world of infrastructure: if I build the right road (the right institutions), take the right measures for road and traffic safety (good governance and good macroeconomic policy), why is it that no one is using my road, even though the area is populated and trade exists (but why don't we see the national private productive sector emerge despite household consumption)?

Investment in entrepreneurship in poor countries, the first historical topic of impact investing, and its public support

Since the beginning of the 21st century, various types of funders have begun to try to answer this question by setting up programmes designed to support the emergence of entrepreneurship, which is considered disappointing in light of the theoretical discourse on the invisible hand of the market.

It is difficult to pinpoint the precise origins of these programmes, which began to appear more or less in parallel from 2015 onwards. Initially, private philanthropic investors and large international companies active in poor countries tested concepts, some of which were taken up on a larger scale by other players.

Among the latter, we might mention a handful of bilateral DFIs, such as AFD (from the mid-2010s for AFD) or the current BII (formerly CDC): they created pockets in their balance sheets, with different business models, designed to enable them to finance impact funds or companies with solid economic prospects and generating significant developmental impacts but with limited financial profitability. Others have gone so far as to provide grant support to players working in very narrow networks and very complex countries, including post-conflict situations. The microfinance sector has benefited from early attention due to its inclusion in the anti-poverty agenda, the visibility and quality of the advocacy of some of its pioneering players such as Mohamed Yunus, and finally the early maturity of a number of institutions that have become leaders in this market, which is itself divided between a commercial sector and a solidarity sector: the target of microfinance (i.e., very small poor entrepreneurs) places this universe within that of impact investment, with which it shares all the questions about the dilemmas between financial return and social benefits, the question of measuring impact and the question of scaling up. In a very similar way, it raises the question of the nature and methods of public support to be provided.

These pioneering institutions have been joined by bilateral and multilateral public donors. For example, in the 2010s USAID supported so-called pre-investment programmes, consisting of providing loans to very small businesses in very poor countries, with very convincing results. The European Union has also embarked on such programmes, for example in Sahelian Africa, while at the same time implementing first-loss guarantee and financing windows for impact investors through the EDFIs (European DFIs), thus extending the vast guarantee programmes that had benefited the infrastructure sector in particular. While the IFC developed a window called "SME ventures" quite early on, designed to support the development of investment funds in poor countries, it was the World Bank that set up the "private sector window" (PSW) within the IDA, one of whose components targets the same objective of supporting entrepreneurs.

Some philanthropic players have also changed scale. The Mastercard Foundation, for example, has joined pioneering institutions such as the Small Foundation, and decided at the end of 2010 to devote all its resources to the cause of African youth. Among the actions it supports in this regard are a programme to “accelerate” entrepreneurs in the education sector, and a major programme called “Mastercard Africa growth Initiative”, supporting the emergence of private investment players for small businesses, with a strong gender dimension.

These same philanthropic players, alongside a handful of development agencies, have initiated a change of scale in support for incubators and accelerators, an essential link in the business generation chain. These players are very diverse in nature, including foundations supported by universities (Stanford), private foundations, entrepreneurs’ clubs, etc. Foundations such as Argidius or imaginative and flexible bilateral cooperation like the government of Monaco have entered into cross-functional programmes to support impact investment, addressing several dimensions of this field and supporting innovative initiatives as well as research and advocacy.

The common feature of all these initiatives is the concessionality of the funding provided in the name of the development "externalities" generated and assuming modest financial returns, even negative in the case of pre-investment funding. This explains why many of these initiatives are based on allocating donations, which are then converted into debt, equity or guarantees via commercial or non-profit intermediaries.

Nevertheless, however dynamic, sometimes audacious, and rich in results this ecosystem operating in Africa for the benefit of the poorest countries may be, it represents modest volumes in total, even if they are difficult to measure: probably on an annual basis a few tens of millions of dollars in actual disbursements, while the "real" impact investors operating for the benefit of entrepreneurs and small businesses in poor countries also number in a few dozens. As compelling and interesting as the results are, they are not on the curve of macroeconomic change that the continent needs.

Moreover, a large part of this impact sector has long neglected the environmental dimension. For most of the players born at the turn of the century, the dual issue of poverty and employment, through economic growth generated by entrepreneurship, forms the basis of the social mission. Even if some of the leading players are leading the way, the environmental issue is perceived as too complex to be taken into account by entrepreneurs who are too small and fragile to bear the costs, and ultimately generate minor problems. Questions relating to the consequences on living and natural environments are often seen as secondary to the imperative of employment and poverty. Sometimes the environmental issue is even seen as contradictory to the social agenda. The low volume of carbon emissions from poor economies, and their status as victims of global warming, generates in public opinion in these countries, and often among the social investors who support them, a perception of the legitimacy of a kind of "right to pollute" and "right to emit" carbon.

Recent years are beginning to change this perception. In African countries themselves, the combination of the real impacts of climate change on all aspects of society and the various forms of pollution increasingly generated by human densification and economic growth are beginning to percolate in people's opinions. Awareness of the global effects of the long-term growth of the African economy, the opportunities, including entrepreneurial opportunities, generated by the "green economy" (waste and pollution treatment, decentralised green energy, etc.) and international financial mechanisms such as carbon credits under the Kyoto Protocol are changing how impact investors perceive environmental issues. What's more, in the wake of the Paris agreements, DFIs, development agencies and philanthropic players are beginning to offer dedicated financing, which is obviously attracting the attention of players in the system. But these are clearly still recent movements, and here too we cannot speak of a structural transformation that would include environmental sustainability at every stage of investment concerns in the entrepreneurial emergence of poor countries.

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APPENDIX 3

SCOPING NOTE

THREE KEY DIRECTIONS FOR AFRICAN ECONOMIC POLICY OVER THE NEXT TWENTY YEARS

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November 2022

The first half of 2022 experienced a systemic geopolitical shock with major and undoubtedly lasting economic consequences. It is accompanied by significant macroeconomic transformations, in particular rising inflation and interest-rate tensions, which have a significant impact on emerging and developing economies.

It will be accompanied by significant macroeconomic changes, in particular rising inflation and interest rate pressures, which will have a major impact on emerging and developing economies. Finally, food and energy prices are at record levels, with all the attendant consequences for economic growth in importing countries.

In fact, for several years now, geopolitical considerations had begun to impact the profound changes in the world economy, generated by technology, market transformations or environmental changes. But the questions focused above all on the consequences of the growing confrontation between China and the US on markets and industrial or state strategies. Similarly, the rise in interest rates was feared, especially for the most heavily indebted emerging economies. Finally, high fossil fuel prices were both anticipated and considered desirable for the energy transition. At the same time, higher food prices were also anticipated, for structural reasons: remuneration of producers and the move towards a non-meat and more environmentally-friendly diet. The combination of these three trends has led to fears of a massive impact on foreign direct investment in developing countries, on their access to financial markets, particularly for governments, with the consequences for public and private investment, and finally their social equilibrium.

This situation needs to be seen in a broader context. Since the turn of the century, globalisation has been facing a crisis of confidence that is undermining its sustainability. This crisis stems from five different factors. The first is the practical impossibility of regulating world markets, linked to the failings of global governance. The second is the multiplication of macroeconomic and health crises that are generating considerable social shocks: they are irremediably linked to the international movement of capital and people. The third is the political asymmetries between democratic and illiberal regimes (Turkey, Russia, Brazil, China, Hungary, etc.): they generate confrontations that undermine trust and trade, and raise profound doubts about the priorities of states, with an increasingly confused and feared trade-off between growth, peace and the priorities of power. The fourth is the growth in inequalities between and within countries: this also undermines confidence in the ability of globalisation to generate benefits, if not for all, then at least for the greatest number, in a context where policies for distributing the benefits both globally and within countries are insufficient to compensate the losers, either economically or symbolically. The fifth is global warming and the biodiversity crisis, which are leading us to focus on carbon emissions linked to international transport and the climate cost of global value chains: the introduction of highly controversial "border carbon taxes" is the operational effect of this. In fact, it is the whole question of environmental externalities (pollution, waste, plastics, etc.) that is raised by the issue of globalisation.

Some of these phenomena are reminiscent of those that undermined the "first globalisation" at the end of the 19th century. They led to two world wars and the greatest recession in modern history. The protracted crisis at the WTO, the impossibility of negotiating new global trade agreements and a new trend towards regionalisation of both legal and commercial frameworks and value chains are signs that globalisation is running out of steam. However, globalisation does not appear to be in retreat: the benefits of organising global value chains remain high. They play a positive role in shaping purchasing power. Even if international trade is now growing at a slower rate than in the previous decade, the global economy and society are still bound together by deep-rooted exchanges of services, goods, capital and people, as well as by powerful cultural ties.

The Russian-Ukrainian crisis is accelerating some of these trends: it is revealing and amplifying the crisis of political confidence. It increases scepticism about the possibility of a global market. It makes it imperative to fall back on self-sufficiency for critical goods (energy, health, defence, food, etc.) or generates strategies for precautionary stocks; it returns us to a world of high energy and food prices and accelerates the rise in interest rates; it puts political confrontations back at the heart of concerns and inevitably forces economic policies and corporate strategies to take them into account. However, it should not obscure the major difference between security and self-sufficiency when it comes to constructing public policy, as the latter can become a kind of by-product of the former.

Africa, too, will have to incorporate these considerations into the economic strategies of its countries. This moment of reflection is all the more important given that the global economy and its markets are being reshaped by major shifts in technology, demographics and the environment. However, economic and development policy recommendations for the African continent, which are limited by a discourse centred on the "field", or stem from a summary macroeconomic vulgate, often neglect the major factors of the global environment that exert their force on the continent. Yet some of these global factors have a decisive power. Taking them into account can lead to a profound revision of the strategic recommendations relating to the economic and social policies of African countries.

The aim of this working paper is to identify these major structural trends and to initiate a reflection on their operational consequences for the economic policies of African countries.

Six major trends in the global economy that are reshaping the African economic environment

Six major trends appear to be shaping the evolution of the global economy, in no particular order of hierarchy or impact.

The first trend is the demographic restructuring of the planet. This gives the African continent a singular position of domination on a secular scale in terms of the workforce, but also in terms of building market size and the age structure: the African continent will be the most populous and the youngest, but also the least qualified, the poorest and the one with the lowest social performance. The rest of the planet, including East and South Asia, will see its population enter a phase of decline and accelerated ageing.

The second trend is decarbonisation. This implies a general review of economic strategies for all players. It requires inventing new technologies, but it also implies profound transformations in many areas: reduced physical transport; relative reduction in meat production and the food revolution; enhancing the value of soils in the face of explosive demand for carbon offsetting; searching for carbon-neutral energy solutions for the most intensive processes, etc. These trends are reshaping the global economy.

The third trend is related to the previous one, but independent: green electrification. Technological developments around the world are tending towards universal electrification. But unless innovation introduces a new breakthrough in carbon capture and storage, this electrification can only be based on renewable resources.

The fourth trend is robotisation. It is massive and characteristic of the new modern industry, but also of the world of services. As a result, the role of labour costs in production has been put into perspective. It also heralds a profound trend towards the relocation of industrial production close to consumer sites. This implies a global trend for each continent to produce for itself, in particular in order to reduce transport costs, which are becoming increasingly burdensome in the context of the fight against global warming.

The fifth trend is digitalisation. Its consequences are not only universal access to information and the potential production of information from anywhere for anyone and to anyone, but also the potential for the general relocation of work, not only to where wages and qualifications are most competitive, but also to where workers wish to reside. It implies a complete overhaul of HR and attractiveness strategies for every country on the planet. It is of course linked to the rise of artificial intelligence, itself linked to the production of mass data made possible by digitisation.

The last major trend is geopolitical and social. It has two dimensions, each of which is linked to the widespread weakening of trust.

The first is the concentration of exchange spaces. As already indicated, this intensified in 2022 in the light of the Russia-Ukraine crisis. However, it remains over-determined by China's relationship with the rest of the planet, particularly America and Europe. It implies building less interdependent economic circuits for critical goods, or at least ensuring maximum confidence in the origins of critical goods: confidence in permanent availability; confidence in critical quality (health and environmental in particular); and confidence in cost and price stability. This does not prohibit faraway supplies if these conditions are met. Nor does it preclude risk-taking, particularly for non-critical goods. Each country will have to assess the cost of its complete security, and determine the price it wants to pay for it. The nature of critical goods is obviously also a matter of judgement: Food, energy, health, but also major components of modern technological chains are among the sectors most concerned. However, within each sector, there is a vast array of goods and services, some of which are not critical, and some critical goods and services may lie outside these sectors.

The second component of this crisis of confidence is human exchanges. It is highlighted by the revolt of some of the popular electorates of industrialised countries. They blame international migration from poor countries for their relative downgrading, and for the insecurity of their jobs, regardless of the economic reality of this perception. These working classes also blame globalisation for the disappearance of their jobs, in a context where training policies have failed to increase their qualifications sufficiently. The resulting political movements in the major democracies, in America and Europe, imply a demand for a slowdown in migration, which has played a major role in shaping the contemporary world economy: think of the essential role it played in the construction of the United States, still the world's leading power, or of Australia. International migration also plays an important role today in the prosperity of the countries it originates from, including several European countries, but also and above all, as far as the subject of this paper is concerned, African countries. The macroeconomic and social stakes are therefore fundamental for a growing number of these countries.

This new geo-economy means that African countries need to consider their strategies for exporting people, goods and services, and the relative role of their own domestic markets in comparison. What are the implications for African economies?

Six lessons for Africa: one negative and five positive

Even if each of the trends taken in isolation holds direct lessons for African economies, it is their combination, taken in pairs or more, that has the strongest consequences for the construction of new economic strategies.

But perhaps the *first lesson* is what these big factors prohibit or make less attractive than in the second half of the 20th century or the first two decades of ours. The great development successes of this period were based on the export of goods and people (via migration), in order to exploit the great market potential of industrialised countries.

Until now, Africa's demographic growth has been widely viewed in a negative light. On the contrary, some have seen it as an opportunity for Africa to gradually replace East Asia as the workshop of the world, by keeping the cost of labour in labour-intensive industries very low. Ethiopia was seen as an advanced illustration of this strategy.

We might ask whether this thesis can now be applied beyond certain niche sectors. Indeed, the Chinese economy is becoming increasingly competitive. The combination of robotisation and digitalisation is enabling Africa to keep these formerly labour-intensive industries on its soil, just as it is enabling industrialised countries to consider repatriating at least some of them. Criticism of long-distance carbon-based transport is also playing a role in the revision of value chains, refocusing them as far as possible on local circles. What's more, the constraints placed on the movement of people make it questionable whether we should pursue an export strategy. Admittedly, even with reduced migration flows, the current stock will continue to generate significant repatriation of capital to Africa, the use of which will be a major economic policy issue.

Agriculture is not immune to these issues. The great food movement, which is reflected in a desire for natural, plant-based and local products, heightened by the emergence of techfood and the constraints of sustainable transport already mentioned, will make it more difficult to produce meat, dairy or plant products for long-distance export if the added value is not sufficiently significant in health or organoleptic terms.

Finally, it is worth asking whether the combination of restrictions on carbon-based transport and health constraints should not lead to a complete rethink of the tourism strategy. Tourism should focus on local and regional markets, particularly for destinations further afield in Europe, Asia or America. In other words, countries in the north of the continent, such as Senegal, may still be able to play the very upmarket, very green tourism card, but the mass tourism card could be closed, at least for a while.

However, there is a wildcard. It is linked to a possible substitution movement which is primarily geopolitical and partly competitive: can the African continent, against a backdrop of mistrust with Russia and its affiliates, strong tensions over the logistics costs of distant supply chains, and the loss of competitiveness in South-East Asia in supply chains which are difficult to digitise or automate, create a new area of co-prosperity with Western Europe, which would complement the one built up between Western Europe (and above all Germany) and Eastern Europe? The construction of a Euro-African trade area is the very inspiration behind the Cotonou agreements. However, it has never materialised to date, fundamentally because of a lack of European appetite for this alternative. Will the new geopolitical context change this vision? Will the growing capacity of companies on the

African continent, and particularly in North Africa, enable the continent to be built "in reverse" from the South, for example through capital flows to Europe, of which we are seeing the beginnings? If this phenomenon is to reach macroeconomic proportions, however, it will require political investment and the support of public policies (trade, infrastructure, legislation on the movement of people, etc.), which we are not yet seeing.

But while the large physical export must at the very least be completely re-examined as an economic strategy, five other frankly positive lessons can be drawn from the developments mentioned above.

The first positive lesson relates to the export of services, and in particular remote human services. Advances in digitalisation and the demographic imbalance between the continents of Europe, soon to be Asia, and Africa, are opening up the possibility for the latter to work remotely in a very large number of areas. These will include management, the design of all types of products and services, for remote manufacturing or provision of remote services. The rise of creative industries can be classified in this category. The French-speaking world, for example, is opening up to African creators a new space with very low barriers to entry in all audiovisual and publishing activities. Generally speaking, in the world of the immaterial, immense opportunities are opening up for original productions with modest capital costs. Senegal has seen rapid progress in this direction in recent years, with the large-scale establishment of Atos being one of the most significant examples.

The *second positive lesson* is industrial and energy. The need to decarbonise industrial processes will trigger a race to locate the most energy-intensive facilities on sites with cheap, green energy. This is the case for digital centres, servers and metal factories such as aluminium, which are especially in demand in the digital economy. African countries have vast green resources, particularly geothermal, solar and hydroelectric. Biomass is a considerable source of energy. The hydrogen economy could particularly flourish in such a context. This also opens up the possibility for the African continent to produce energy directly for the world, whether from solar power stations connected to the European grid for the north of Africa or the production of hydrogen transported by ship for the Gulf of Guinea or the eastern side of the continent. Namibia, for example, is attempting to make a large-scale start in this strategic niche, betting on its three inexhaustible resources: seawater, space and the sun.

The *third positive lesson* is green. It is impossible for the major OECD economies to achieve carbon neutrality by 2050, given the current and foreseeable state of technology, without resorting to offsetting. Some of this may involve carbon capture and storage for the most carbon-intensive residual production processes. But a significant proportion will involve storing carbon in the soil by protecting and, above all, extending green areas (forests or agricultural land). The African continent has a major strategic advantage in this niche, given its total surface area, the uninhabited and uninhabitable land it contains, and the soil restoration potential it can offer. Projects like the Great Green Wall take on a completely new meaning in this context. In short, the continent can sell considerable volumes of carbon credits through reforestation, by putting its unoccupied soils to good use, basically through appropriate agricultural strategies. The African countries themselves, in their own carbon-lite growth plans, will seek to make the most of all these nature-based solutions, opening the way to a significant increase in the value of their soils. Gabon, much to the surprise of many, has developed an advanced strategy in this area.

The fourth positive strategic lesson is related to nutrition and covers the entire value chain. Africa's population growth is a major challenge for unproductive agriculture occupying increasingly contested soils for other uses, starting with urbanization. There are many questions about the capacity of African agriculture to feed the continent (around 20% of consumption is imported, a proportion that has remained very stable throughout history). The latter must therefore produce first and foremost for its own population, which justifies building value chains in which its countryside feeds its cities, with the well-known implications for trade and subsidy policies. But the continent can also develop a massive supply of organic plant-based or alternative products (pure proteins) for export, which do not compete with European products (unlike flowers or green beans), and which are of high quality. In other words, moving up the global value chain, as is the case for chocolate, only makes sense for luxury export products. Recent developments in the export strategy of some Kenyan producers, as in the case of flowers, illustrate this new, highly profitable niche positioning.

Finally, the last of the strategic recommendations that can be imagined following the identification of the major global economic trends relates to mining. Tomorrow's green economy is based on massive exploitation of rare earths, as well as aluminium. Gold will remain in very high demand. Many of Africa's minerals will be at the forefront of global demand. But the mining strategies of African countries are still excessively based on old-world economic models and are struggling to keep pace with the prospects of the global green economy, with a rapid transformation of needs, particularly from coal to other materials. It is all the more interesting to see how newcomers to the mining sector, such as the Ivory Coast, have thought out their positioning against this backdrop.

And three major resulting changes in economic policy for Africa

What consequences in terms of economic policy can African states draw from these questions about the structural transformations of the world economy?

Some of them are clearly continuing to try to do what is already so hard to achieve. This is the case, for example, with regional integration. There is no doubt that the African continent will not be able to reap the maximum benefits from the construction of massive markets that its population growth allows without decompartmentalising the 54 narrow markets that it is currently balkanized into. This is also the case for macroeconomic policy, for example. It must be obsessively geared towards increasing investment rates, which are currently too low in view of demographic growth.

On the other hand, there are three questions that need to be asked about possible changes in the spirit of the policies implemented by governments or transmitted by the major international prescribers, such as the Bretton Woods institutions. While they do not cover the full range of consequences that can be drawn from the developments just mentioned, they do illustrate the operational consequences that can be imagined and the nature of the conceptual shifts they are based on.

First question: is climate the heavy industry of the future?

Many African countries have approached the climate issue in two ways: by trying to monetise their status as victims of climate change by obtaining transfers from OECD economies that are as massive as possible, essentially to finance the adaptation agenda under the most concessional conditions possible; and by continuing to pursue essentially carbon-based growth on the assumption that decarbonised growth would be more expensive than carbon-based growth and would be detrimental to their development. African countries should thus be able both to free themselves from the carbon neutrality objectives and to benefit from the financing by OECD countries of the additional costs associated with their decarbonisation. The first point remains valid. The second point deserves to be questioned: the additional cost of low-carbon growth is increasingly questionable. But above all, it is not in the interests of African countries to slow down their move towards a low-carbon economy in the name of concessional financing, which will continue to arrive in volumes that are insufficient to meet their needs, when building a competitive base that sets them apart is based on this decarbonisation.

If water (fresh and sea), space and the sun are critical resources in tomorrow's world, then it is in the interests of the African continent to set up economic zones that will enable global investors to establish themselves on the African continent for heavy production (energy, energy-intensive industries) and technological production (servers) powered by high-power renewable energies. In this way, they will create jobs in Africa, as well as providing traction for the production of skilled human resources and service jobs around these facilities.

What if Africa's industrial dream was green heavy industry, rather than an unattainable carbon-based export manufacturing industry? However, to make this a reality, African countries will also need to create a climate of confidence that will enable investors and beneficiary countries alike to locate these critical activities outside their country: a major challenge that can only be met by concrete evidence, linked to the political positions that African countries will take in the major geopolitical reconfiguration that we have mentioned. Achieving this will also require generating an ecosystem of local businesses offering the goods and services that these international players will need to operate, which brings us back to point three of this paper.

Admittedly, African countries will also continue to export carbon energy for some time. Senegal, for example, is presenting itself as a replacement for Russian gas to Europe. Central Africa will continue to export its oil, which will become even more precious at a time when Russia is undoubtedly losing its European customers. But can this be anything other than a transition to a world where all European economies will have to be zero-carbon by 2050?

Second question: will teleworking be tomorrow's leading export industry?

For thirty years, the Bretton-Woods institutions and the international community have unanimously recommended concentrating budgetary efforts on primary and secondary education, the famous K12. This concentration has been internalized by African countries. It has yielded definite results, although the increasing quantitative access to education suffers from significant qualitative limitations.

However, this situation has produced perverse effects that severely penalize African economies. As a result of the focus on K12, limited budgets have been allocated to higher education, particularly vocational higher education. The result has been an over-representation of humanities courses in higher education, which are inexpensive to develop but produce generations of unemployed graduates, a flight of middle and upper class children to study abroad, of which too few return, and an impressive expansion of local private higher education, which is interesting but too often of poor quality.

The result is a dramatic shortage of professional skills in the commercial sector, ranging from plumbers to IT managers, accountants, hydraulic engineers, etc. It is difficult to assess the cost to Africa in terms of growth points of this lack of higher or technical professional qualifications, but it is undoubtedly high and, above all, prevents the African continent from meeting the demand for qualifications for remote jobs on the global labour market.

It's time to reverse this situation, by deploying policies that will enable members of the diaspora and the children of African families who sent them abroad to return, and by significantly increasing quantitative and qualitative investment in higher education. If public resources are lacking, then it would be desirable for African countries to put in place, as some have begun to do, incentive frameworks for private investment in vocational higher education. Finally, it is clear that well-designed vocational training policies should enable skilled and unskilled workers already in employment to be qualified, which is currently a very low priority for far too many governments.

This strategy of investing in higher education qualifications should enable the African continent to offer, from its soil, well-trained local resources at competitive cost to the economies of industrialised countries, and to the economies of East Asia, which are hit by demographic decline and lack the capacity to fill the jobs needed to continue to increase their production levels. Obviously, this strategy covers current jobs that are often relocated (computer coding, call centres, etc.), but goes much further: it is no longer a question of replacing jobs in the OECD for reasons of cost, but of making up for the quantitative shortfall in entire professional sectors as a result of demographic change. Europe, in particular, will have to provide jobs locally, including unskilled and low-skilled jobs that cannot be relocated (think of hairdressers and barmen). The wages for these jobs will have to increase. It will be able to boost its competitiveness and standard of living by using skills that can be relocated and qualified, rather than through migration. Africa, located in the same time zone and speaking English, Spanish, Portuguese and French, in addition to its local or regional languages, can play a winning strategy in this area.

For some countries, this strategy can be complemented by the acceleration and deepening of strategies to provide qualified local services to European populations, which may require them to travel: think of the medical tourism developed by Tunisia and Morocco before the Covid crisis. There are many niches that could be developed. They tick the double box of keeping highly qualified people (doctors, dentists, etc.) in the country and providing hotel and residential services, which generate foreign currency income.

An overly grassroots approach to education and training has led African economies to a skills bottleneck, which is weighing on growth and impacting poverty reduction in its own right. It's time to correct the path.

Third question: is the African private sector the leading social investment of tomorrow?

As we have already mentioned, Africa must increase its levels of investment if it is to accelerate economic growth and, through job creation, cope with the huge demographic wave that is sweeping the continent.

In the development community and in African governments, the growth of the productive sector has, of course, never been forgotten. It has always been featured in declarations of public policy intent. However, the mental energy of public players has been primarily focused, along with funding, on the other two elements of increased investment: infrastructure and social services (essentially health and education). Although the private sector can play an important role in these two areas, the bulk of the effort is made through taxation on the one hand, and through contributions from official development assistance and government debt on the other, in order to build publicly financed public facilities and roll out public health and education networks. The limits of national taxation and external contributions are leading to an inevitable structural rise in external public debt, given the immense needs arising from demographic growth.

Moreover, the agenda to support the emergence of the private sector, the latest public policy priority, has essentially resulted in attempts to improve the business environment. While these efforts are genuine, and have been rewarded by relative improvements in the position of African countries in rankings such as the World Bank's "Doing Business", their impact has been limited. Corruption, which is one of the fundamental problems of the business environment, is in particular a scourge that is extraordinarily difficult to reduce. The consequence has been that, despite the real dynamism of African entrepreneurship, private sector growth has been effective but insufficient to generate enough jobs to keep pace with the number of people entering the African labour market. This growth has also been insufficient to produce a level of import substitution or export acceleration capable of making a significant contribution to reducing Africa's balance of trade and payments deficits, and attracting foreign direct investment capable of making up for the limits of African savings levels.

Correcting this situation is a macroeconomic and social imperative. It is also the condition for African countries to be able to seize the strategic opportunities we have just mentioned. These require public policies and appropriate budget allocations by governments. But they also require African companies to be able to invest in growth areas, and in particular the most important of these, the construction of the African domestic market.

Indeed, the paradox of the continent's situation is that it will not be possible for it to seize export opportunities without having built up a dense domestic market. This will enable a network of companies to provide each other with the products and services they need to be competitive. While it is important to be able to import in order to be able to export, producing everything that can be produced locally or continentally efficiently is both a fundamental principle in the world of security research that we have mentioned, a common sense principle in ecological terms to reduce transport distances and a fundamental element in building competitiveness. The first barrier to competitiveness for a company is the absence of other companies, whether suppliers or customers.

This agenda has often led to emphasis on the need to build integrated regional or continental markets, which is absolutely necessary. But it has often been forgotten that these markets need to be populated by businesses. The weakness of Africa's industrial, agro-industrial and service fabric means that the majority of these businesses need to be created or their emergence accelerated. Africa's main industrial policy agenda is therefore one of entrepreneurial emergence. If this agenda is not met by a policy of improving the legal and institutional environment, what main action areas are likely to make it effective?

Emerging or recent African companies essentially encounter two barriers: human capacity and access to finance. African governments and public and private donors should focus on these two issues. The first is professional training in all technical, managerial and human skills. This refers to our previous comments. It is also a question of improving the potential of entrepreneurs themselves, and therefore of establishing a favourable ecosystem, starting with training for entrepreneurs at university and in the grandes écoles, and continuing with the establishment of enough high-quality incubators and accelerators to meet the challenge. The continent is still a long way from achieving this. The second agenda, that of finance, involves the emergence, encouragement or creation of financial mechanisms to give entrepreneurs, who are often as penniless as their families, access to all the forms of financing that will enable them to develop their projects: from seed financing to access to long-term debt and equity.

It is essential to get away from the "begin neglect" and superficiality of this agenda. It is in fact the first social agenda of the African continent. The possibility of seeing decent, formal jobs being offered to the 420 million Africans who will enter the labour market between now and 2050 depends on it. But it also depends on generating the tax revenues that will enable the education and health systems to meet the demographic challenge. Finally, this agenda will determine whether the continent will be able to close the flaws in its macroeconomic structure, which is marked by deficits that could prolong a powerful and sociologically damaging external dependency well into the next century.

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The purpose of this scoping note was not to cover the entire micro and macroeconomic agenda for Africa over the next thirty years. It merely highlights a few global trends with potentially systemic consequences, and outlines a few major changes in attitude that seem to be needed.

Moreover, African countries are in very different positions with regard to these major transformations. These positions depend, for example, on their geographical location and the nature of their territory, their stock of physical and human capital, their natural resource endowments - which now include sun, wind, water and biodiversity - and, of course, their geopolitical posture. Within this disparity, the question of security and conflict is taking on a role it has not had since the end of the Cold War: the territorial extension of the Islamic-terrorist zone of tension is putting unprecedented pressure on the ability not only of the Sahelian countries themselves, but of their entire geographical environment, to seize the new opportunities of the global economy.

The continent is entering a moment in world history marked by multidimensional geopolitical competition and even confrontation. This moment makes the continent a coveted target and object of competition. It may fall victim to it, which will surely be the case for the weaker countries, but it may also take advantage of it, which will surely be the case for the stronger countries, as was the case during the Cold War. Reassessing this strategic position is an important task for every African country. Choosing between positions of alignment or non-alignment, and assessing the room for manoeuvre, also at regional level, should attract the attention of governments and societies alike.

As we can see, history is a serious game where no move is ever completed and each movement endlessly repeated, in an always different way.

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“Sur quoi la fondera-t-il l’économie du monde qu’il veut gouverner? Sera-ce sur le caprice de chaque particulier? Quelle confusion! Sera-ce sur la justice? Il l’ignore.”

Pascal

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