Observatoire Europe-Afrique 2030

International funding, but not under any conditions!

July 2nd, 2021

(Christian Delavelle - President of the "Observatoire Europe-Afrique 2030").

Depending on their configuration, the international financing contracted by African countries for their infrastructure and their manufacturing investments have contrasting impacts on socio-economic levels, public debt, employment and the capacity to integrate into global value chains.

China's strategy for lending to African countries is based on an "opportunistic" commercial logic. In the case of transport infrastructure, the investments financed are often oversized in relation to the real needs (Mombassa/Nairobi rail link in Kenya) and their usefulness is rendered uncertain due to insufficient knowledge of the local context by the Chinese authorities (rail link Addis Ababa/Djibouti in Ethiopia)[i]. In the case of Special Economic Zones, they cause a mechanical, but small, increase in exports from the beneficiary countries concerned, but rarely translate into an upscaling of manufactured products[ii]. On the other hand, they mainly benefit China, which uses its own companies to carry out services and works and obliges borrowing countries to buy in return goods and services produced in China (cf. imports of Chinese shoes by Ethiopia). Finally, the repayment periods being shorter than the amortization periods, this leads to an increase in the public debts.

On the contrary, the international loans from the World Bank correspond to a "considered" strategy, favoring sectors such as health and education and allowing the beneficiary countries to progressively move upmarket their productions, to increase their participation to global value chains and leveraging local know-how.

The financing provided by private industrial companies, whether resident or non-resident, are strong vectors for moving upmarket products manufactured (Tanger Med in Morocco), for enhancing local natural resources through downstream integration into the sector (bauxite deposits in Guinea), for developing skilled employment pools and trade balance balancing (Ford in South Africa). The funders concerned provide industrial visions that guarantee the competitiveness of investments in the context of global competition.

In conclusion, the terms of the loans granted by China to African countries clearly have more drawbacks than advantages for borrowing countries[iii]: investments that are disproportionate or inappropriate in relation to needs[iv], absence of industrial shareholdings, obligation to import manufactured products from the lending country to the detriment of local production, low impact on jobs.

Conversely, manufacturing projects financed by private European companies (Private Equity), either directly or in the form of mergers and acquisitions, represent real growth drivers. The European public authorities have an important role to play, by helping these companies to identify viable projects and to share with them the logistic, organizational and financial risks. Three axes are priorities[v]: The financing of the Sustainable Development Goals, agile technologies (3D printing, flexible workshops….) and the downstream transformation of mining resources. This will contribute to an upscaling of manufactured products rather, as is still too often the case today, than to an increase in the volume of exports of low value-added goods.

---

[i] "China's Infrastructure-Heavy Model for African Growth Is Failing" - Thierry Pairault - "Diplomat Risk Intelligence" - July 30, 2020.

[ii] "Vito Amendolagine. May 2021. "International Development Lending and Global Value Chains in Africa". Working Paper No. 2021/48. China Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, Washington, DC.

[iii] "What Chinese contribution to the industrialization of the Mediterranean and Africa? "- Breakfast organized by IPEMED, in partnership with Bpifrance and IC Publications and with the support of the Europe-Africa 2030 Observatory and Vox Africa - June 27, 2018.

[iv] Giant dams in a context of declining water resources, oversized rail links, communications centers whose maintenance is not scheduled ....

[v] Case study n ° 16: "The manufacturing sector, a key driver of African growth" - Europe-Africa Observatory 2030 - May 10, 2021.