JEAN-MICHEL SEVERINO

President of Investisseurs & Partenaires, former Vice President of the World Bank for Asia, former CEO of France's International Development Agency (AFD)

Seán Cleary, Chairman of Strategic Concepts (Pty) Ltd, Founder and Executive Vice Chair of the FutureWorld Foundation

Jean-Michel, I'm now going to come to you. You have an extraordinary mix of experience both in respect to public sector-led development, and direct investment. I'm going to tell, if I may, a story that is often attributed to Bata, from the famous shoe company, many years ago. He sent two people to go and look at Africa to consider opportunities. Jean-Michel clearly knows the story. One came back and said, "Mr. Bata, there's absolutely no point going there. Nobody's got any shoes". The other one came back and said, "Mr. Bata, we'd better get in fast. Nobody's got any shoes". So, from that particular perspective, we'd love to have an investor's views on current opportunities in the African space.

Jean-Michel Severino

I am firmly on the side of those who believe that the barefoot are the future of the world!

Before I start, I would also like to say that I am very honored to be on a panel with three people who embody the spirit of a successful Africa: NEPAD, which has done so much to revitalize investment in Africa, along with members of the Rwandan and Ivorian governments. Rwanda and Côte d'Ivoire are among the ten countries in the world that have seen the strongest growth over the last 20 years.

As an investor, I am going to talk about figures in three distinct dimensions.

The first relates to the mystery of the continent's current growth rate.

Let us take a look back. I think we need to acknowledge the fact that over the last 20 years, Africa has grown from the level of Belgium's GDP to that of France's GDP. On average, GDP per capita grew by 35% over that period. These figures need to be put into perspective right away, because over the same period, China's GDP per capita grew by 555% and the OECD's GDP per capita by 25%. So, the African economy has really caught up with the rest of the world, and in particular with the OECD, but the catch-up remains modest. Unfortunately, this progress is not enough to absorb the extraordinary demographic shift that Africa is experiencing, because the continent's 4% annual economic growth over the last 20 years must also be compared with its 2.5% annual demographic growth. Which is why everyone before me has insisted on the subject of youth, something that they all mentioned.

This brings me to the future. This progress has undoubtedly enabled the emergence of a middle class, which we can see everywhere. Go to Abidjan’s best restaurants and see who’s dining: it is not expatriates in the best restaurants, but Ivorians. But to accelerate growth and get the whole population on board, Africa now needs to increase its level of investment in GDP. Today, Africa invests around 20% of its GDP, which is low. France invests 22–23% (although it’s true that amortization of existing infrastructure accounts for a large share of this figure). China is still at almost 40%. To reach a level of 7–8% of economic growth, which would enable us to absorb more than demographic growth and achieve significant gains in GDP per capita, we would need to align more with these Asian figures than with our “European” numbers.

Why does Africa invest only 20% of its GDP? It is not because Africans are grasshoppers who spend their time eating everything and saving nothing, as Aesop might say. Of course, there are many possible explanations, but one of the most obvious is simply that the ratio of active to inactive people is low, at around one third. This is the lowest ratio in the world. This is linked to the issue that was mentioned earlier: the very large number of children compared with the small number of people of working age. These working people have to take care of the rest of the population, which makes it difficult to save and invest.

The second dimension I want to highlight is the short- to medium-term financing challenges that the continent is currently facing, as these are likely to affect its ability to speed up growth in the immediate future.

The continent will have to overcome the likely transformation of China’s role in its external financing. If Africa has managed to invest around 20% of its GDP, it is also because, as Mrs. Bekele-Thomas pointed out, it has taken on massive debt to offset the low domestic savings rate resulting from its demographic situation. Over the last 20 years, Africa has probably borrowed around $7 trillion from the rest of the world, in hard currency; in other words, more than three times its current GDP. Three categories of investors have contributed: multilateral investors – which we won’t go into now – China, and private investors. Unfortunately, over the next five years, the private investors – mainly the banks and China – are likely to pull out. Private investors are going to do so for a very simple reason: they are faced with massive debt restructuring on a large part of the continent, which is over-indebted. They have already stopped participating in bond issues. We have even witnessed some spectacular occurrences. Senegal issued a bond that was not subscribed because of an announcement about the insincerity of its public accounts, a first in the past 20 years in the country. Last year, 2023, total bond issuance on the African continent was a mere $15 billion.

This raises the question, for all of us and for all African governments, of how to bring back private investors in a context where debt restructuring is proceeding slowly. China is a major reason for this. They are facing a tough problem. The Chinese account for an estimated 62% of Africa’s bilateral debt over the past 20 years. They hold a colossal amount of debt and, confronted with the significant solvency risk they have encountered, they have drastically scaled down their financing over the last three years. The peak of Chinese financing to Africa was reached in 2016, with around $150 billion in loans that year alone. We are now probably at around $15 billion in loans per year, i.e. a tenfold reduction.

The very specific consequence for Africa is that, for the last three years, China has had a negative net flow of funds to the African continent. Put simply, Africa is repaying China more than the Chinese are lending it. Unfortunately, this is in addition to another phenomenon, another new development over the last three years: China now has a foreign trade surplus with Africa, for the first time in the last 15 years. This surplus is not due to any punitive measure from China, but simply because China's growth is slowing while Africans are continuing to import just as much. The slowdown in China's growth is having an impact on the price of raw materials – Philippe Chalmin explained why earlier – and on volumes. So, Africans are being punished in terms of export volumes and raw material prices, but they are still importing. Unfortunately, this creates a foreign trade deficit and ultimately a balance of payments deficit.

So now, after having been a massive contributor of foreign currency to Africa, China has become a very significant extractor. We do not know exactly how much, but probably 2 to 3 GDP points per year of foreign currency are leaving Africa for China. To reverse this situation, the Chinese will need to restructure their debt on a massive scale, which is proving to be very difficult for them. Unsurprisingly, the Chinese are taking the exact same approach to debt as Europe and the rest of the world did in the 1980s and 1990s. First, there was the period of shock ("My debts are not solvent"); then, "I'm going to start rescheduling"; then, third, "It's not working, I'll have to write it off." We have come out of China's period of shock and are now into the period of restructuring. If they are as bad as we are, it will take them 15 years to realize that they have hit a dead end. If they are better than that and look at the lessons learned here, it will take five to seven years. In the meantime, we will continue to see negative net flows, which will, of course, have an immediate impact on Chinese investment volumes. Of course, we must not forget that we are talking about "all other things being equal," whereas the global situation could change and Africa's external financial situation could improve.

The third and final matter that I'd like to address, and I will try to stay brief, is the shift in the African economic model. How has the $7 trillion debt amassed over the last two decades been used? This is a key question. Well? To increase Africa's dependence on oil and raw materials.

In 2000, oil and gas accounted for 30% of Africa's total exports. Today, it has risen to 50%. Foreign direct investment in oil and gas in 2000 was 30% of total investment; today it is 40%. Put simply, the money from the debt was used to finance export corridors and the equipment and infrastructure needed to extract oil and gas from the African continent. At the risk of making enemies, this is undeniably bad business. As an investor, I do not think it is a good idea to take on debt in a business that is structurally problematic.

Why is it not good business?

There are two ways of approaching it. The first is to take Philippe Chalmin's approach and look at what future oil and gas prices will be in the next few years, when peak oil will be reached – probably fairly soon – and evaluate the long-term prospects for the huge infrastructures being built to exploit resources that are at risk of depletion. You will have all heard his pessimistic assessment. The second approach, the second reason to doubt the relevance of this kind of business, is to look at historical performance. I am going to quote two figures to bring this speech to its conclusion.

Let us consider the African countries that are exporters, according to the World Bank's categories of "resource intensive countries"; today, they account for a good half of the African economy. If we take an index of 100 in 2000, the GDP per capita of those countries in 2020, measured against this index of 100, will be 150. If you then look at the countries that are poor in raw materials, two of which are represented around this table, the same index of 100, which is 150 for the countries rich in raw materials, has risen from 100 to 230. In short, raw materials aren't profitable, and in all, they represent a less favorable opportunity for growth than… human resources! What is good for growth, as we have long known, is added value, investment in agriculture, intelligence and capacity building. Which is something that most of the countries that have borrowed heavily to finance their development have failed to do.

It is up to our African friends to choose their destiny and their economic models. But as a friend, I have one piece of advice to give, and you will have understood what. Obviously, I accept that I am biased, as all my investment activity is devoted to African start-ups and SMEs seeking to diversify the economies of these countries. I am sure you have grasped my conflict of interest, and I hope you can forgive it as long as it is out in the open!

Thank you all very much.

Séan Cleary, Chairman of Strategic Concepts (Pty) Ltd

Thank you, Jean-Michel. There you have it. You have heard the challenges, you have heard the obstacles, and you have heard the opportunities. To keep on time and on track, I am going to close with a piece of advice from the UAE. If you go down the road for an hour and a half from Abu Dhabi, you arrive in Dubai. Outside the concentration of government offices in the centre, you have a remarkable Museum of the Future, and engraved in Arabic calligraphy on that museum is an observation by the Prime Minister of the UAE, Mohammed bin Rashid Al Maktoum, which he tweeted in 2014.It says quite simply, 'The future belongs to those who can imagine it, design it and execute it. It is not something you await. It is something you create'.

The best way that I can pull together these discussions this afternoon is to say that we all need to get on with creating the future in Africa. The opportunities are extraordinary, but we cannot await success. We must engage to create it, as these actors are doing. Thank you very much for all that you are doing, and thank you, Thierry and Song-Nim, for arranging the panel.