DIGITAL ECONOMY & FINANCING

African digital economy: the issues of financing and control of capital

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While the great powers compete eagerly to position themselves as major players in digital technologies through various mechanisms and programs mobilizing colossal funding, Africa seems unprepared and cruelly lacking in initiatives at the states level.

Digital technology is an instrument of transformation and development, and its financing should be at the heart of the continent's priorities. African states cannot simply leave it to the private sector by simply regulating and, when possible, taxing. They must also finance, organize, encourage, promote and protect local actors. It is essential that Africans can take a significant, or even majority, stake in the capital of the structuring companies in the sector such as telecom operators, ISPs, data centers, electronic money issuers to avoid the “branchization” of the sector by large international groups.

It is also possible through specific mechanisms, notably through sovereign funds, deposit and pension funds, national banks, regional funds and regional stock exchanges to ensure the financing of certain start-ups ecosystems to help them become strong and viable businesses.

It is of course not a question of limiting foreign investments, but rather of inviting African states to take their responsibilities and truly engage in this economy of the future and move away from their position of blissful spectator. Because like others, they have the right and above all the duty to make good investments and to be strategists.

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Foreign investments are of utmost importance on the continent as traditional banks timidly finance local economies and when they do so, it is at the cost of exorbitant rates. Central banks, particularly in French-speaking regions still using the CFA Franc, have very little room for maneuver and are bound by the monetary policy of the European Central Bank which they do not control. Furthermore, Africans on the continent and in the diaspora are subject to discrimination in access to financing. The term discrimination may seem strong to some but there is at least a preconception that is often unfavorable to them, whatever their merit, competence and experience. In this context of underfinancing of the African economy, the private equity and venture capital funds arriving on the continent are excellent news.

The recent enthusiasm of these funds for African technology companies is a real opportunity for the continent to have access not only to capital, but also to technical assistance and support which makes it possible to raise the standards of local companies and to establish best practices in the long term. According to Africa Tech Venture Capital 2023 report of Partech Africa, the investments have been multiplied by 10 in terms of number of transactions and volume between 2016 and 2023 and have reached 20 billion dollars despite a step back in 2023. The venture capital model, more aimed at SMEs, is doubly interesting because it is a participation essentially in capital, incidentally, supplemented by debt and does not aim at controlling the company with stakes rarely exceeding 20% of the capital. Venture capital companies implement an exit strategy after 4 or 5 years after multiplying the par value of their shares, which is to the benefit of all parties.

The only criticism I have of VCs is this obsessive quest for unicorns which is often not realistic and can lead to economic aberrations, and the examples are numerous. It is very legitimate to invest with high return on investment objectives, but you must be very careful not to create bubbles with fake champions. Africa needs everything but that. It needs companies that create value and employment but not “gems” valued at more than 1 billion dollars employing 3 friends and without turnover.

> *Africa needs companies that create value and employment — not “gems” valued at over a billion dollars employing three friends and without turnover.*

A country like Tunisia has well understood the problem of financing and is in the process of setting the right milestones with the establishment since March 2021 of a 100 million euros fund dedicated to start-ups. This fund is part of the start-up act adopted by the country in April 2019 and provides a response to the reluctance of the traditional banking system to finance innovation. Morocco was ahead of Tunisia in this approach with the Innov Invest Fund (FII) supported by the Central Guarantee Fund, Tamwilcom, which made it possible to mobilize more than 470 million DH and to finance 419 startups.

Other interesting examples exist and are emerging on the continent, but it should be noted that certain countries have still not grasped the strategic issue of financing the digital economy and the need for real commitment from the State. The case of Côte D'Ivoire is quite illustrative of this problem. Otherwise, how can we understand that such a dynamic country, whose start-ups have managed to raise nearly 33 million euros in private capital in 2022, that the government endows its financing initiative for local start-ups "Start-up Boost Capital" with just a fund of 1.6 million euros. This is almost 30 times less than the first phase of Morocco's Innov Invest Fund and 60 times less than that of Tunisia. We absolutely must avoid this kind of scattering which allows boxes to be ticked from an institutional point of view but which in practice does not advance the issues and does not contribute to the structuring of a strong local digital economy.
