Africa’s growth narrative has increasingly become one of ‘multi-speed growth’. As sub-Saharan Africa’s (SSA) biggest economies – South Africa and Nigeria – struggle to find a growth gear, a number of Francophone West African countries are increasingly expected to deliver on higher than average growth rates.

The Francophone African region is beginning to present prospects worth investigating, especially for investors and businesses that traditionally have not considered these markets as viable.

The Franc Zone’s\(^1\) strong performance has been largely driven by increased investment in infrastructure, improving business environments and some progress in diversification initiatives of countries.

Several urban agglomerations in the Franc Zone are emerging as consumption hubs, with strong urbanisation and growing purchasing power in cities like Kinshasa (the DRC), Abidjan (Côte d’Ivoire), Doula (Cameroon), and Dakar (Senegal) becoming increasingly attractive for companies looking to invest in high-growth economies.

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\(^1\) The Franc Zone consists of all Francophone West African Economic and Monetary Union (WAEMU) and Central African and Monetary Community (CEMAC) countries, and the Democratic Republic of the Congo (DRC).
A strong regional growth outlook

Despite falling oil and other commodity prices, Francophone Africa has upheld its growth performance, with real GDP growth averaging 4.5% per annum over the 2015-16 period.

This robust economic performance is set to continue going forward, with real GDP growth in the Franc Zone forecast to rise to an average of 5% per annum over the 2017-18 period.

Impressively, the Franc Zone has substantially outperformed economic expansion in both Southern Africa and non-Francophone West Africa since 2014. On a regional basis only East Africa eclipsed growth in the Franc Zone.

At the forefront of this performance have been three economies – Côte d’Ivoire, Cameroon and the DRC. These three economies – also the largest in the Franc Zone – accounted for just over 40% of total GDP in 2015 of French-speaking countries in SSA. Some relatively smaller economies that are committed to implementing reforms, like Senegal, are also expected to reap the benefits of structural reforms by posting strong growth.

However, countries that were previously dependent on oil-driven booms, such as Gabon, Chad and the Republic of Congo, have been undergoing sharp economic corrections over the past year. Nevertheless, these countries are still expected to see medium-term improvements in economic activity given improving oil prices.

With a positive growth outlook, a good mix of macroeconomic and political stability, an improving business environment as portrayed by investment in infrastructure and key business reforms, and favourable medium- to long-term demographics, key markets for investors to watch include Côte d’Ivoire, Senegal, and Cameroon.

Regional Economic Growth Rate Comparison (%), 2014-18 forecast

Country vs Franc Zone GDP Growth Outlook (%), 2014-18 forecast

Source: The Economist Intelligence Unit N.A. Incorporation, IMF, 2017
Côte d’Ivoire

Growing at an average of 8% per year for the past three years, and forecast to average 7.9% per annum over 2017-18, Côte d’Ivoire is projected to be the fastest-growing economy in SSA according to International Monetary Fund (IMF) forecasts.

This has been underpinned by strong investment and export growth as a result of continued political stability, and driven by agriculture, infrastructure investment, the services sector and an improved business climate. Infrastructure projects, especially transport, energy, and commercial and industrial construction projects have been key to the growth spurt.

This includes recent ongoing projects such as the US$558m, 372MW Songon gas power plant that is being developed near Abidjan. US$1bn has been earmarked to renovate Abidjan’s city centre, which includes the construction of an urban rail line and the Henri Konan Bédié bridge, as well as a marina and an urban park.

Besides improving the country’s business hub, the port of San Pedro, the most important harbour for cocoa exports, is also being upgraded due to be completed by 2019. Government is also planning about US$1bn in investment for a fuel storage facility and the extension of an oil pipeline in the country’s northern region.

Investment, both foreign and domestic, has been on the rise, fuelled by various tax incentives, benefits and exemptions available for up to 15 years.

According to Côte d’Ivoire’s Centre of Investment Promotion, planned private sector investments under government’s tax and customs relief programme rose 25% to US$370.9m in the first half of 2016, compared to US$296m in the same period in 2015.

Adding on to an increasingly conducive environment by creating new investment opportunities for investors, authorities have also been pursuing a privatisation programme since 2013. Most recently in October 2016, Côte d’Ivoire sold a 23% stake in sugar producer Sucrivoire. The company is now listed on the Abidjan-based regional stock exchange (BRVM). The government plans to privatise eight more companies this year.

Confidence in Côte d’Ivoire’s economy by foreign investors, donors and multilateral organisations – notably by the African Development Bank (AfDB) with the reinstatement of its headquarters in the country – could see investments reach 23.4% of GDP by 2020 from 20% in 2015.

For its 2016-20 National Development Plan (NDP), Côte d’Ivoire currently has a US$60bn investment programme planned over the next five years with half of this already pledged at a donor conference in Paris last year. The 2016-20 NDP specifically aims to boost agricultural output, promote the manufacturing sector, and improve national living standards.

In addition to new yet to be exploited major hard commodity discoveries, including iron ore and gold, governments focus on diversification sets the right tone for a sustainable growth outlook. Supported by pro-business reforms, strong private investments in areas such as agriculture, agribusiness, mining, real-estate, light manufacturing, water and power supply are set to underpin continued growth.
Senegal

For the last few years, Senegal has been the darling of international donors, with the country’s economic growth driven by infrastructure spending and rising industrial and agricultural output. As a result, GDP growth is expected to average a very robust 6.9% per year over the 2017-18 period.

Senegal has been posting above 6% growth since unveiling its ten-year US$21bn plan in 2014, the “Emerging Senegal Plan,” to strengthen and diversify the economy. In 2016, the AfDB lent the country US$1.4bn for this development strategy over the 2016-20 period, while the revised 2016 budget added another US$300m to public spending, mostly to infrastructure and agriculture projects.

In 2015, Senegal secured the IMF’s backing for its reform programme under a three-year policy support instrument (PSI 2015-17). The IMF’s backing has given Senegal much-needed policy credibility, allowing it to secure infrastructure funding more easily. The development strategy provides a platform for strengthening public finances and building up key infrastructure to support private sector growth and attract foreign direct investment (FDI).

The government continues to secure investment and funding from countries, such as the US, EU, and China, for various transport infrastructure and energy projects. These projects include a US$500m highway and construction of the express railway between Dakar and the planned Diamniadio industrial hub.

The country is also making progress in curbing its power deficit. In 2014, government launched an initiative to boost Senegal’s generation capacity by over 70% within three years, from roughly 587MW in 2014 to 1 018MW by end 2017, through a mix of solar, wind, coal and gas-fired power plants. By government embracing the independent power producer (IPP) model, rapid development is now underway, with installed capacity increased to 800MW by the end of 2016.

Two landmark IPP projects include the 70MW Tobèn thermal plant at Taiba Ndiaye opened in 2016 and the 152MW wind turbine project currently being developed at Taiba Ndiaye by France’s Sarreole. As a result, authorities are making commendable progress toward the 1 018MW target.

On the back of expectations of an expanding power supply, the Senegalese government is planning to develop a state of the art Dakar Integrated Special Economic Zone (DISEZ). Development of the SEZ will be via a private-public partnership (PPP) with Dubai-based Economic Zones World. The SEZ aims to provide investors the best conditions and appropriate infrastructure and services required to set up and operate in Senegal. Businesses established in the DISEZ will benefit from an incentive-driven tax framework.

With continued efforts to improve the country’s business environment, higher public and private investment, particularly into energy, infrastructure, agriculture, fisheries, tourism, textiles, information technology, and expanded air and sea logistics capacity, are anticipated to continue supporting steady economic expansion.

Economic activity could receive a further boost to beyond annual growth rates of 7% should commercial exploitation of new oil and gas reserves commence on the back of continued economic prudence from policymakers.
Cameroon

Cameroon is often seen as a gateway to the CEMAC (Central African Monetary Union) economic area. CEMAC represents a market of over 50 million people and annual GDP of about US$100bn.

Amongst the few African oil-exporting countries that maintained a stable growth rate after the 2014 oil-price collapse, Cameroon increased its national budget in 2016 by more than 13% – at a time when oil-producing peers were cutting budget spending.

Although spending towards the Boko Haram crisis and managing the refugee influx at its border with the Central African Republic is constraining public investment, the budget increase was mostly allocated to maintaining ongoing major infrastructure projects.

This is supported by the government’s large-scale infrastructure investment drive, stressed in its ‘Vision 2035’ plan, which provides a road map to become an emerging economy by 2035.

Key infrastructure projects are in the power and transport sectors, although ongoing investments also include sport infrastructure for the 2019 African Cup of Nations (AFCON) soccer tournament, as well as projects prioritised as part of government's three-year emergency plan.

The latter is a US$1.5bn plan initiated in 2014 to revive key sectors including logistics, agriculture, water and health by 2017. Various projects are also in progress under the President’s ‘Grandes Réalisations’ plan to help propel economic activity.

The state issued its third bond on the Douala Stock Exchange in October 2016, generating US$256m to maintain investment spend.

Infrastructure projects are also being funded by multilateral loans and donors. The AfDB approved two loans amounting to about US$300m in December 2016 to fund projects in the transport sector. Cameroon’s well-developed PPP framework also continues to attract FDI from a range of international firms.

Some impediments are however deterring investment, including a challenging business environment compared to its peers. Though progress has been slow, incentives to boost the creation of economic zones and subsequently greater private investment were enacted in 2013.

The first of the SEZs under the 2013 law is currently being constructed by the China Harbour Engineering Company near the Kribi deep-water harbour and will be key to raw and transformed mineral exports. Other planned economic zones are based mainly on sectors such as tourism, agro-processing, light manufacturing and technology.

While economic growth has been stable over the past five years this is expected to moderate to an average of 4.5% in 2017-18 from 5.3% in 2015-16, given slower growth of key trade and investment partners such as China and the US.

Revenues from exports are expected to start rising in 2017, as a gradual uptick in global oil prices magnify the benefits of higher oil production from new discoveries. Oil exports account for about one third of total receipts.
Sector opportunities

While opportunities aligned to infrastructure construction have attracted investors, so too the renewed growth potential of the region, the pursuit of natural resources and untapped markets is also attractive to investors.

The main sectors attracting foreign investment include financial services, energy, manufacturing, agriculture and resources.

Of note too is the diversity of international and African companies expanding across the Franc Zone in various sectors, yet the region remains a young market, with room for enhanced competition across various industries.

Financial Sector
The financial and real estate industries have been the sub-region’s main growth drivers in the services sector. Francophone Africa’s financial sector has traditionally been dominated by French and Moroccan banks, but SSA banks such as BGFI from Gabon, Ecobank, and Orabank from Togo have more recently also made significant inroads with presence in all the Franc Zone countries as regional stability and growth improves.

Real Estate Sector
Like other African economies, Senegal, Côte d’Ivoire and Cameroon are going through a period of rapid urbanisation and growing middle-class populations in their major cities. As a result, property demand is surging. While some property development projects are underway in cities such as Abidjan and Dakar, these remain limited and the cities endure acute shortages of both commercial and residential real estate.

Formalised retail space (i.e. shopping centres) in capital or commercial cities remains limited. The most notable shopping centre development underway and potentially the largest in SSA outside South Africa is the 100 000 sqm West Africa Shopping Mall project being developed in Dakar by Hong Kong-based Hermes-Sojitz.

With high economic growth attracting many international companies, some prospecting investors are likely to face challenges in finding premium office space. However, strong demand is starting to attract considerable interest in the sector, with analysts forecasting high short- to medium-term returns from property investments.

Retail, Manufacturing and FMCG
Though the landscape is largely informal, Senegal, Côte d’Ivoire and Cameroon’s retail and fast-moving consumer goods (FMCG) industries are set to realise gains from rising income levels of their young and sizeable populations, with the highest growth ever reported compared to previous period in these sectors expected in the next five years.

French retailers like Carrefour, Auchan and Casino are...
showing heightened interest in these key markets. Carrefour recently opened its first hypermarket in West Africa at the Playce Marcory mall in Abidjan.

Rising disposable incomes are expected to increase demand for value added food products. To capitalise on this trend, Nestlé announced in 2014 a US$40.2m investment into Cameroon’s first coffee processing plant. Similarly, Tiger Brand’s Cameroon subsidiary, Chococam, a dominant confectionary manufacturer in the CEMAC region, is also expected to post strong growth. Danone’s acquisition of Fan Milk International, gave the MNC extensive presence in both Senegal and Côte d’Ivoire.

Agriculture
Induced by derived demand from strong demographics, the agricultural sector (particularly in Cameroon and Côte d’Ivoire) is poised for future growth. For Cameroon, maize is an important staple crop, and maize consumption is set to outstrip domestic supply in 2017, creating new opportunities for domestic maize producers.

Besides cocoa beans, another crop that’s attracting FDI in Côte d’Ivoire is palm oil. Growing Asian demand has seen Asian firms moving to West Africa, with companies such as Singapore-based Wilmar international and SIFCA acquiring the largest palm oil estate in the region. Palm producers in Côte d’Ivoire will also benefit from a rising regional deficit and see growth in its exports to neighbouring countries, mainly Nigeria.

Resources (Metals, Oil and Gas)
Most investments in Senegal’s mining sector are in phosphates and industrial limestone mines. Though Senegal has considerable iron, titanium and gold deposits, the mining industry has been quite dormant over the years, but with strong growth performance and economic stability, interest is rising in the country’s metal resources. Recent activity from Randgold Resources, which started a feasibility study for its Massawa gold project, reflects this interest.

Although development in 2017 is likely to be slow due to low commodity prices, new high grade reserve discoveries will position Cameroon as an important player in Africa’s iron ore landscape over the medium term. Côte d’Ivoire’s vast gold reserves will continue to attract investment, supporting the sector’s long-term growth outlook. With gradually improving commodity prices, the medium-term outlook is positive for miners in all three key markets, with opportunities for new entrants as metal reserves remain largely unexploited.

The main sector expected to see a rise in investment in the Franc Zone is oil and gas. After recent major offshore oil and gas discoveries by UK-based Cairn Energy and US-based Kosmos Energy respectively, Senegal is on the map as a potential oil and gas producer. With positive economic externalities in the coming years, the reserves are expected to yield favourable final investment decisions (FIDs), with production and exports likely to start in 2025.

Despite potential in Côte d’Ivoire’s offshore oil, more exploration and development efforts will be needed for the country to maintain its current crude oil output levels past 2017. Nonetheless, Côte d’Ivoire’s refinery is one of the best functioning in the region, producing enough products for both domestic consumption and exports to the region. Côte d’Ivoire will remain a key refined fuels net exporter to its African neighbours.

Despite Cameroon’s falling oil exports over the medium term, its gas production is set for an increase from 2017 onwards mainly due to a FID at the Golar FLNG (floating liquefied natural gas) project, which will see production rise by another 1.6bcm to feed the Golar terminal. The project will result in peak production of about 2.60bcm onwards in 2019.

As the oil price recovers, all three of these economies are likely to see considerable derived economic benefits over the medium term. Furthermore, if authorities maintain policy discipline and should political stability prevail, backed by the oil and gas sector, these markets are set to see one of the best growth cycles on the continent beyond the next five years.

Key takeaways
Three broad themes appear in all three Francophone African markets on our watch list. These include efforts to create a conducive business environment, rising infrastructure spending and deliberate progress in diversification. With a continuous focus on privatisation and various PPP projects underway, key sectors coupled with favourable demographics will sustain this growth momentum over the medium term.
## Contacts

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