**China and SMEs in Sub-Saharan Africa**

*An Window of Opportunity for the United States*

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**THE ISSUE**
- Chinese investment into sub-Saharan Africa has dramatically increased this century, making the region an arena for strategic power competition with the United States.
- However, Chinese investment has increased African debt while doing little to support small and medium-sized enterprises (SMEs), the backbone of the region’s economy.
- Although the United States cannot compete on a dollar-for-dollar basis with China, it has an opportunity to use targeted blended finance and share technology, knowledge, and standards to provide an alternative to the Chinese model and support SMEs.

**WHAT IS CHINA DOING FROM AN INVESTMENT STANDPOINT IN AFRICA?**

In the twenty-first century, China has dramatically expanded its long-standing economic ties with countries in sub-Saharan Africa through infrastructure investment and increased trade. The most significant example of these efforts is the Belt and Road Initiative (BRI), with 21 percent of all money going into sub-Saharan Africa since 2013. Out of the 46 nations in the region, 40 have signed a Memorandum of Understanding with China to join the initiative. While Chinese investment in Africa increased in the last two decades, most of this funding has gone directly to governments to support infrastructure or to Chinese-owned firms in Africa. Chinese investment in African-owned small and medium-sized enterprises (SMEs), either directly or through intermediaries, is far more limited.

The lack of Chinese investment in African-owned SMEs offers the United States a clear opportunity to continue and increase its support for local businesses by providing a private sector–led alternative to the Chinese model. The United States cannot provide the same level of financial support that China offers, nor should it seek to replicate China’s approach. Rather, the United States should build upon its existing programs to increase investment and financing for African SMEs through blended finance and other catalytic financing to “crowd in” private capital.

Africa is already a region of economic competition between the United States and China. Yet U.S. firms have consistently failed to outcompete Chinese firms in terms of infrastructure projects, including in critical technology fields such as internet services, where Huawei has made significant inroads. Contrary to the strategic interests of the United States, China’s economic influence in Africa has also led to political influence. Therefore, in competition with China, it is important that the United States play to its strengths to provide reasonable alternatives.

**CHINA’S OVERALL INFLUENCE IN THE REGION**
While China is not heavily involved in the African SME space, its influence in the region still affects the overall economic health of the continent and therefore its SMEs. Although China’s increased involvement has led to growing investment and trade relationships, as well as job growth in some contexts, it has also dramatically increased the region’s debt and done little to support local businesses.

Since 2000, China’s foreign direct investment (FDI) flows to Africa have grown at an average annual rate of 40 percent, overtaking U.S. FDI in 2013. In 2019, FDI flows reached $2.7 billion, with the top destinations being the Democratic Republic of the Congo and Angola, two mineral-rich nations. Chinese investments, primarily in the light manufacturing sector, have had a net-positive economic impact on job creation, built linkages to local suppliers and buyers, and boosted local subcontracting in Africa. China is also Africa’s largest trading partner, although this relationship is not on equal footing, with African countries tending to export natural resources to China while buying manufactured goods.

In 2021, 30 percent of African debt payments went to China. The top three sources of this debt are Chinese projects in the transportation, power, and mining sectors. This growing debt burden has been cause for some concern, with 38 African countries now eligible for Group of Twenty (G20) debt relief. According to the China Africa Research Initiative’s Chinese Loans to Africa Database, Chinese financiers committed more than $153 billion in loans to African governments and state-owned enterprises between 2000 and 2019. While much of these loans indicate sovereign lending, there is data showing non-sovereign loan and investment commitments at the country level for Ethiopia, Ghana, Nigeria, and Tanzania. For example, in Ethiopia, there were only 161 FDI investments registered with the Chinese Ministry of Commerce between 2000 and 2014, but there were 969 Chinese FDI projects registered with Ethiopian local authorities during the same period, suggesting there were many smaller, non-sovereign financing projects by Chinese-owned private companies in the country.

RELATIONSHIPS BETWEEN CHINESE INVESTMENT AND AFRICAN SMES
Chinese private capital and investors have a limited relationship with SMEs in Africa. Although most of China’s financial support is directed toward providing governments with loans for infrastructure, there are a handful of Chinese programs designed to support African SMEs. In 2011, the China Development Bank (CDB) issued a $1 billion loan to African SMEs to help them “acquire more financing, enhance local businesses’ access to foreign currency exchanges, and improve Africa’s industrial infrastructure.” According to the China Africa Research Initiative, the fund quickly exceeded its $1 billion budget. By 2018, the CDB reported it had invested more than $50 billion in Africa, enabling nearly 500 projects in 43 countries. As part of these efforts, it coordinated with South Africa’s Absa Bank to provide $100 million in funds for African SMEs in 2017. Per a May 2021 report by Business Daily Africa, through this fund, the Kenyan Branch of Absa Bank has lent over 35 billion Kenyan shillings ($317 million) to more than 16,000

A Chinese assembly line supervisor helps a Ugandan worker assemble a mobile phone on December 2, 2019, in Namanve, Uganda.

Photo by: LUKE DRAY/Stringer via Getty Images
SMEs in Kenya, offering them loans of up to 10 million shillings ($91,000) and local purchase order financing of up to 12 million shillings ($109,000). According to Absa Bank, it also provides business development support to SMEs, runs incubation and mentoring programs, and helps SMEs connect to corporate and government value chains. The China Africa Research Initiative at Johns Hopkins University’s School of Advanced International Studies found that the majority of Chinese investment in Ethiopia, Nigeria, Tanzania, and Kenya was in SMEs.

**Ethiopia**

Chinese investment in Ethiopia’s SMEs largely revolves around the country’s leather-processing sector. However, many of the leather-processing firms and SMEs in Ethiopia are Chinese-owned. Chinese leather-processing firms have hired around 11,830 Ethiopians, but usually only as laborers; most of the management positions are filled by Chinese citizens. Chinese-owned leather firms also usually outperform Ethiopian-owned SMEs because of more extensive marketing and technological advantages. However, companies like Huajian—which brought more than 500 Ethiopians to China for training between 2011 and 2018—have participated in some knowledge-transfer projects with Ethiopians.

**Nigeria**

Nigeria hosts two “economic cooperation and trade zones” in partnership with Chinese consortiums, including the Lekki Free Trade Zone and the Ogun-Guandong Free Trade Zone, which contain both Nigerian and Chinese companies. Chinese investment in Nigeria is concentrated in manufacturing, including of construction materials, furniture, food and beverages, cardboard and plastic packaging, and other assembly-line goods. In many of these sectors, such as the ceramic tile sector, Chinese firms have crowded out Nigerian SMEs, and most companies are Chinese-owned. However, much of the workforce is local. For example, in the Lekki Free Trade Zone, the labor force of Chinese firms was 70 percent Nigerian. Even though Nigerians are underrepresented in managerial positions, Nigerian graduates from the Confucius Institute are highly sought after for administrative positions in Chinese firms, indicating that there has been some knowledge transfer and that these graduates have better chances of being promoted to managerial roles.

**Tanzania**

Chinese investment in Tanzania largely goes to light manufacturing sectors such as textiles and garments, followed by the plastics, construction, and agrobusiness sectors. According to the China Africa Research Initiative, nine manufacturing projects invested more than $10 million in leather, textile, and plastics production. In the agribusiness sector, Chinese firms work with local Tanzanian suppliers and SMEs to procure their supplies; additionally, most Chinese plastic producers use locally recycled plastic waste.

**Kenya**

As of 2016, there were 400 Chinese-owned firms in Kenya, most of which were involved in light manufacturing, construction, tourism, and natural resource extraction. In addition, Chinese firms invested $178.9 million in the metals industry, $150 million in the communications industry, and $68 million in the automotive manufacturing industry in Kenya between 2003 and 2015. In terms of trade, raw materials represent the majority of Kenyan exports to China, including animal hides and agricultural goods such as coffee and tea. In Kenya, 93 percent of Chinese-owned firms hire Kenyan workers, and 40 percent of Chinese-owned SMEs hire Kenyans, according to a 2016 World Bank report. Large infrastructure projects such as the construction of the Mombasa–Nairobi Standard Gauge Railway have benefited Kenyan citizens and local SMEs. However, even though many Kenyan cement producers upgraded the quality of their cement in response to Chinese competition, the railway project still sourced most other construction supplies from China.

**WHY AFRICA?**

Chinese firms benefit from moving their businesses to Africa, in large part attracted by the affordability of labor. Real wages in the Chinese manufacturing sector have increased by 10 percent between 2003 and 2016 and are much higher than those in Africa. In many African countries, there are fewer government regulations on businesses, so increasingly strict environmental regulations in China also pushed many Chinese firms, particularly in the plastics and ceramics sectors, to the continent. The promise of growing markets and middle-class populations in countries like Nigeria was another pull factor for Chinese firms. Finally, duty exemptions for trade to the United States and European Union attract export-oriented Chinese producers to Africa.

**U.S. ALTERNATIVES TO CHINESE EFFORTS**
Various U.S. agencies can continue to support investments in SMEs in sub-Saharan Africa. The U.S. International Development Finance Corporation (DFC), U.S. Agency for International Development (USAID), and the U.S. African Development Foundation (USADF) all have significant tools and instruments available to provide financial and technical assistance to African SMEs. Moreover, the DFC, USAID, and USADF all have decades-long track records in providing this support. These agencies should continue to work closely together to provide catalytic financing that will crowd in private capital to support African SMEs.

**PROSPER AFRICA**

Prosper Africa describes its mission as “bring[ing] together services and resources from across the U.S. Government to empower businesses and investors with market insights, deal support, financing opportunities, and solutions to strengthen business climates” in Africa. In addition to working with African governments to build robust and healthy business environments, Prosper Africa works with 17 U.S. government agencies to help connect African and U.S. businesses through a virtual deal room jointly operated with CrossBoundary, a U.S.-based investment advisory firm. This virtual platform drives private investment on the continent by facilitating transactions and trade opportunities, offering U.S. investors information about African SMEs so that they can make smart investments in the region. Similar platforms could prove transformative for the growth of SMEs in Sub-Saharan Africa.

To date, Prosper Africa has facilitated more than 800 deals between the United States and African nations and more than $50 billion in exports and investments on the continent. The top sectors for Prosper Africa include energy (107 deals), agribusiness (75 deals), healthcare (54 deals), information and communications technology (43 deals), aerospace and defense (36 deals), consumer goods (36 deals), environmental technology (32 deals), and distribution and logistics (30 deals). Specific deals include one between U.S.-based Red River Foods and USAID’s West Africa Trade and Investment Hub, which connected it to more than 10,950 cashew farmers, processors, and suppliers in Benin, Ghana, Nigeria, and the Ivory Coast; USAID’s $3 million co-investment aims to give these farmers and suppliers access to the U.S. market and create 482 jobs and $32 million in exports. In another successful example of bringing together resources from across the U.S. government, the Sosai Renewable Energies Company in Nigeria received a catalytic grant from USADF that prepared it to receive another grant from the U.S. Trade and Development Agency (USTDA) via Prosper Africa to conduct feasibility studies on connecting 200,000 Nigerians, including women and farmers, to solar-powered mini-grids. This shows how USADF’s critical funding can prepare African SMEs for larger and more diverse investments, including ones from USTDA. Prosper Africa also helped connect USAID’s West Africa Trade and Investment Hub to the U.S.-based Koster Keunen natural wax company, leading them to co-invest in the West African beekeeping industry. This partnership is expected to create more than 1,200 jobs in Benin, Burkina Faso, Ghana, Mali, Nigeria, Togo, and the Ivory Coast while increasing exports to the United States by over $8 million.

**DFC**

Founded in 2019, the DFC provides African SMEs with concessional financing in the form of loans, guarantees, and equity to support their growth; it can also provide grants for technical assistance in limited circumstances. In sub-Saharan Africa, the DFC partners with local financial institutions and intermediaries to increase funding for SMEs and strengthen the financial ecosystem. For instance, in 2020, the DFC provided a $20 million loan to the International Bank of Liberia Limited, enabling longer-term SME lending, and a $4 million loan to Lungo Capital to make investments in SMEs in Uganda, Kenya, and Rwanda. In partnership with Citibank, the DFC has provided a $7 million loan to One Acre Fund, which helps smallholder farms procure inputs in Kenya, and a $4.5 million guarantee to mPharma to improve supply-chain management and pharmacy operations in sub-Saharan Africa.

In addition to secondary investments, the DFC directly supports SMEs in sub-Saharan Africa. The DFC provided a $1 million equity commitment to Kasha Global, Inc., which sells personal care and health products to women in Kenya and Rwanda. In Tanzania, the Overseas Private Investment Corporation (OPIC)—the precursor to the DFC—extended a $3.5 million loan to Mtanga Farms Limited a that helped the Tanzanian business purchase virus-resistant potatoes and modernize farming operations in 2013. OPIC also extended a $5 million loan to Akola PBC, a Ugandan jewelry manufacturing company that primarily hires women, which was used to expand a factory and increase hiring.

**USAID**

USAID has run programs in Africa since the 1960s
and has long supported SMEs in the region. However, there has been a recent shift within the agency toward increased investment in the private sector, spurred by the understanding that 90 percent of financial flows into emerging markets come from private investors. In 2018, USAID Administrator Mark Green released the Private-Sector Engagement Policy, which highlighted the importance of a vibrant private sector to spur growth in SMEs. Like the DFC, USAID currently has multiple projects that provide funding or garner private investment for African SMEs. These include Partnering to Accelerate Entrepreneurship (PACE), formed with GrowthAfrica to support early investment into SMEs, as well as various trade and investment hubs.

**Trade and Investment Hubs**
USAID sponsors three regional trade and investment hubs, with one each for West Africa, East Africa, and Southern Africa. Launched in 2013 and 2014, the hubs seek to increase investment and improve “the region’s trade competitiveness, encouraging the diversification of exports beyond natural resources, and promoting broader, more inclusive economic growth.”

Between 2014 and 2019, the East Africa Trade and Investment Hub helped facilitate more than $56.2 million in private sector investment in the region and created more than 1,700 linkages between buyers and sellers. For example, it connected the Malagasy craft company Kaloes to U.S. markets and helped to facilitate two orders of raffia—totaling $48,000 and $120,000, respectively—to a Texas-based company in 2015. The West Africa Trade and Investment Hub offers $250,000–$2,000,000 co-investments for African private sector companies, universities, non-profit organizations, and research institutions. The hub’s projects include a $1.7 million co-investment in Adefunke Desh Nigeria, an agribusiness specializing in grain cultivation, allowing it to scale up its operations and support 3,000 smallholder farmers in Nigeria while increasing food security. In March 2021, the hub also announced a co-investment partnership with Ghana-based Global Mamas that will help women and women-owned SMEs across the region create and sell handcrafted goods.

Meanwhile, the Southern Africa Trade and Investment Hub has worked with the U.S. Produce Marketing Association to develop buyer networks and facilitate investment opportunities in Swaziland’s and Zambia’s agricultural sectors. The hub also helped facilitate $153.2 million in private sector investment in the region between 2016 and 2021 and linked more than 200 southern African companies to international and U.S. markets through partnerships with U.S.-based Fancy Foods, Dubai-based Gulf Foods, and various clothing and accessories retailers.

**USADF**
Another important U.S. government agency working to
increase investment in African SMEs is the U.S. African Development Foundation. Over the past five years, USADF has invested $117 million into more than 1,000 SMEs in Africa. Examples of its work in this space include a partnership with Nourishing Africa and the MasterCard Foundation to train 2,000 young Nigerian “agripreneurs” and provide small grants to more than 125 SMEs in the country. To strengthen local financial ecosystems, USADF has also worked with African financial intermediaries such as Credit Mutual of Senegal, which is providing low-interest loans and grants to women- and youth-owned SMEs as part of a five-year, $20 million agreement between USADF and Senegal’s General Delegation for Rapid Entrepreneurship of Women and Youth.

RECOMMENDATIONS

As strategic power competition becomes an increased national security priority for the United States, sub-Saharan Africa will be a vital arena for competition with China. It is widely understood that the BRI has made China a major player on the continent by providing investments for large infrastructure projects. These projects create jobs and support infrastructure development; however, they also create debt burdens, and most companies are Chinese-owned and -led. The United States may not be able to compete on a dollar-to-dollar basis with China, but it can use targeted blended finance to support African SMEs and share standards, knowledge, and technology. It should:

1. **Increase financing for SMEs through a coordinated initiative under the auspices of Prosper Africa.**

   Prosper Africa has the mission of bringing together U.S. government agencies to support the African private sector and is therefore the ideal initiative to house a whole-of-government approach to increasing financing for SMEs. Each agency has unique authorities available to provide financing and support, including the DFC’s new equity authority, USAID’s technical assistance support, and USADF’s grant allocations. In order to effectively counter China in Africa, the United States needs to utilize its entire toolkit. While the United States may not have the same scale of investment in sub-Saharan Africa as China does, it can use direct finance and other tools to benefit SMEs in the region. Unlike Chinese entities, many U.S. government agencies are already focusing on facilitating direct investments in African-owned SMEs. In addition to Prosper Africa and the DFC’s financing tools, USAID’s three African trade and investment hubs encourage the use of blended finance to help African SMEs expand their operations and gain access to new markets.

2. **Support standards development, innovation, and technology that will drive greater economic growth in Africa.** The U.S. government and private sector have an edge when it comes to standards and technology, as well as extensive knowledge in several of the sectors where African SMEs need support, especially agriculture and digitalization. By providing both knowledge and technology transfers in such sectors, the United States can offer a strong alternative to China through direct support to African SMEs.

STANDARDS

In many sub-Saharan African countries, government-enforced standards are often lax or missing. Additionally, African governments that do not require Chinese firms to provide environmental impact statements or enforce local regulation contribute to the negative environmental effects of Chinese projects.

There are two major areas where the United States can assist African governments and businesses in improving standards: the environment and digital technologies. Currently, the U.S. Environmental Protection Agency (EPA) has projects to increase air quality and reduce greenhouse gas emissions in sub-Saharan Africa. In Accra, the EPA is working with its Ghanaian counterpart to revise air-quality standards and monitor data. The EPA also plays a leadership role in the Global Methane Initiative (GMI), which assists Ethiopia, Ghana, Nigeria, and the Ivory Coast in reducing methane emissions. While these efforts are a promising start, the United States could further its efforts to improve environmental standards that would increase sustainability and health in sub-Saharan Africa.

The United States also should work with local governments to ensure that there is digital transparency and internet freedom in sub-Saharan Africa. Digitalization offers the region a great opportunity for economic growth, and the accessibility of cheap mobile phones and mobile currency through services such as M-Pesa allow African SMEs and individuals to buy and sell goods. However, the Covid-19 pandemic has contributed to a digital crackdown in many regions in the world, including sub-Saharan Africa. According to Freedom House’s 2020 Freedom on the Net Index, Nigeria experienced one of largest one-year declines
in internet freedom, and Rwanda’s score has declined steeply over the past five years. U.S. government agencies and private firms should work with African governments to encourage good digital governance and freedom of speech on the internet. Even as African countries continue to do business with Chinese technology firms such as Huawei, the United States can also increase its efforts to limit China’s Great Firewall from governing Africa.

**TECHNOLOGY TRANSFER**

While many Chinese firms have increased investment and manufacturing in Africa, few are sharing technology with African SMEs to improve the overall industry. This limited technology transfer offers U.S. firms the opportunity to engage in technology transfer that will improve the sustainability and capabilities of African SMEs.

The United States currently offers both high-level and low-level technology transfer to many African SMEs. An example of low-level technology transfer is USAID’s Feed the Future Improved Seeds for Better Agriculture (SEMEAR) program in Mozambique, which offers local farmers and agricultural SMEs access to drought-tolerant fortified seeds that will increase production and food security. U.S. private tech companies have also noticed Africa’s economic potential and invested in the region. Microsoft opened two Africa Development Centers in Kenya and Nigeria in 2019. The same year, Google launched the Artificial Intelligence Center in Ghana, and the company’s TensorFlow platform allows African farmers to diagnose diseased plants by taking photos of them. While there are existing technology transfers between U.S. agencies and African SMEs in the agricultural sector, the United States should increase technology transfers and investment in manufacturing as well.

**KNOWLEDGE TRANSFER**

There is also little knowledge transfer between Chinese firms, African SMEs, and their supply chains. In contrast, U.S. government agencies such as USAID help connect African SMEs to their suppliers. For instance, USAID supports the South African Supplier Diversity Council, which provides business opportunities and supply-chain access to Black-owned SMEs. In 2020, USAID also provided $15 million to a partnership between Arizona State University and Ghana’s Kwame Nkrumah University of Science and Technology to establish the Center for Applied Research and Innovation in Supply Chain-Africa, which will both train practitioners and improve supply chains throughout the region. When partnered with technical assistance and joint ventures with African SMEs, such U.S. government programs can provide an alternative to the Chinese model in Africa.

3. **Create a dedicated technical assistance fund to help raise standards for African SMEs, perhaps through USAID’s regional trade and investment hubs.** Existing regional hubs provide a strong avenue through which the United States can offer localized technical assistance to help increase standards in Africa. Since many of these standards need to be implemented by governments, having a more localized and therefore specific approach is important. Improving standards across the continent will not only reduce China’s ability to take advantage of loopholes and lax enforcement, but also spur African economic development, especially when it comes to digitalization and the environment. In addition, U.S. agencies should provide more front-end assistance in structuring projects, including feasibility studies and proofs of concept. USTDA does some of this, but mostly for infrastructure projects. DFC could provide such support in the SME sector, which would help make deals more attractive to private capital.

4. **Identify where stronger linkages can be built between African-based SMEs and the U.S. export market.** By supporting and strengthening SMEs in sub-Saharan Africa, the United States will also gain new trading partners. Increasing trade between the United States and Africa is not only beneficial to the economies of all countries involved, it also highlights the effectiveness of the U.S. economic system vis-à-vis China. To fully take advantage of this new relationship, data-based research should be conducted to identify areas of opportunity for African SMEs in the U.S. export market.

As DFC, USAID, USADF, and U.S. private investments show, there is an opportunity for the United States to counter Chinese investment in sub-Saharan Africa and raise overall business and environmental standards on the continent. While the United States may not be able to compete with China’s massive infrastructure investment, including through the BRI, it can compete in other spaces. Unlike China, the United States is not burdening African countries with high levels of sovereign debt. Instead, it focuses investment on the private sector SME space that will drive economic growth for a greater number of Africans. By sharing knowledge, technology, and standards,
the United States can help reshape sub-Saharan African economies while promoting inclusivity and sustainability. U.S. government agencies and private investors already offer early-stage and late-stage business activities that support African SMEs, but a continued focus and expansion are key to strengthening economies and improving lives throughout the continent.

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