

**WORKING
PAPER**



№ 89 / 2024

Financial and Economic Development Dynamics of North African Countries: Opportunities for Russia in the New Political Landscape



Svetlana Babenkova

RUSSIAN INTERNATIONAL AFFAIRS COUNCIL

MOSCOW 2024

Russian International Affairs Council

Author:

Svetlana Babenkova, Ph.D. in Economics

Reviewer:

Dmitry Maryasis, Ph.D. in Economics

Editors:

Svetlana Gavrilova, Ph.D. in History (Lead Editor); **Ivan Bocharov**; **Anna Korzun**; **Katerina Trotskaya**;
Daniil Rastegaev (Publishing Editor)

Financial and Economic Development Dynamics of North African Countries: Opportunities for Russia in the New Political Landscape. Working Paper No. 89 / 2024 / [S. Babenkova; edited by S. Gavrilova, I. Bocharov, A. Korzun, D. Rastegaev]; Russian International Affairs Council (RIAC). Moscow, RIAC, 2024. 24 p. Information about the authors and editors is provided on the copyright page.

ISBN 978-5-6051643-5-7

North Africa has demonstrated steady regional economic growth and certain development potential, despite the various problems and challenges facing North African states. This Working Paper analyzes the financial and economic development dynamics of North African countries and examines in detail the prospects for developing cooperation between Russia and the countries of the region.

The opinions expressed in this working paper reflect solely the personal views and analytical outlook of the authors and do not necessarily represent the views of the Russian International Affairs Council NP (Non-profit Partnership).

The full text of the working paper is available on RIAC's website. Feel free to download it and post feedback directly at russiancouncil.ru/paper89

© Бабенкова С.Ю., 2024

© Составление, оформление, дизайн обложки. НП РСМД, 2024

© English edition, translation in English, drafting, cover design. NPMP RIAC, 2024

Contents

Introduction	4
Economic Problems Facing North African States: Risks and Challenges	5
The Agricultural Sector and Food Security	8
Foreign Direct Investment and the Use of Innovative Technologies: Prospects for North Africa	10
The Impact of International Financial Institutions on North African State Economies	13
Areas of Economic Cooperation between Russia and North African Countries	16
Conclusion	20
About the Author	22

Introduction

North Africa¹ is the fastest growing region both in Africa and in the Arab world, with a combined GDP that grew 4.2% in 2023, compared to 1.6% for the Middle East and 3.2% for Africa. Experts predict that the markets of these countries will increase by approximately 4% in 2024, with Egypt and Morocco leading this growth.² However, countries in the region face numerous challenges related to climate change, a sharp reduction in grain supplies caused by the situation in Ukraine, and serious macroeconomic problems at the domestic level, including high inflation, a weakened foreign exchange base and dwindling gold and foreign exchange reserves of its central banks. Despite this, the countries of the region remain attractive for foreign direct investment (FDI) from the European Union. China is also pursuing an active economic policy in North Africa. The most promising market is the development of innovative technology, a part of which Russia, as a leader in information security and fintech solutions, may try to occupy.

¹ Unless otherwise specified, this paper analyses only the countries in the North African subregion.

² Domat, C. Can Egypt and Morocco Keep Driving the Region's Economic Growth? *Global Finance Magazine*. April 4, 2024. URL: <https://gfmag.com/economics-policy-regulation/egypt-morocco-tunisia-mena-middle-east-north-africa-economic-growth>

Economic Problems Facing North African States: Risks and Challenges

According to a report by the United Nations Economic Commission for Africa,³ North Africa faced a number of challenges in 2022, including unfavorable weather conditions that negatively impacted major crop yields and increased interest rates on external loans. In turn, this has led to a drop in exports of basic goods due to a decrease in foreign exchange earnings. In 2023, these problems were compounded by the adverse effects of the conflict in Ukraine.

Oil-producing countries in North Africa, for which oil exports are the main – if not the only – economic sector that brings money into the state treasury, have gone against the trend to make a small short-term profit from the increase in oil prices on the global market.

However, this small gain is almost completely offset by the even greater negative trends taking place in the region: the reliance on international financial institutions and limited financial assistance from the International Monetary Fund (IMF), the World Bank, and the sovereign wealth funds of the Persian Gulf countries. One such tranche was provided to help pay for imported wheat, supplies of which fell by 80%.⁴ Of course, the conflict in Ukraine has, to one degree or another, affected the economies of all the countries in the region, but it would be wrong to say that all the problems currently facing North African states started to manifest only after the events of February 24, 2022. Egyptian authorities point to the consequences of the COVID-19 pandemic and the conflict in Ukraine as the main culprits for their economic problems, although even before these developments the size of the country's foreign debt was greater than it had ever been, at \$168 billion. The situation in Egypt has yet to be changed.⁵ On top of this, the Egyptian currency is crashing, and the country is experiencing a foreign currency crisis. The current situation can be traced back to the “reformist” actions of the Egyptian government following the events of the Arab Spring.

The full-blown public crisis in Tunisia that began after the 2011 revolution,⁶ continued through the pandemic, and has worsened in recent years due to drought and falling yields of key crops. The country's economy is recovering, but very slowly. According to a World Bank report,⁷ Tunisia's GDP grew just 1.2% in the first half of 2023, and is expected to increase by a meagre 3%

³ Socioeconomic Performance of North Africa: Subregional Profile 2022–2023. *United Nations Economic Commission for Africa*. August 7, 2023. URL: https://www.uneca.org/eca-events/sites/default/files/resources/documents/sro-na/licsoe-na-wa-2023/socioeconomic-profile-2023-north_africa-english.pdf

⁴ The main suppliers of grain to Egypt were Russia and Ukraine.

⁵ Egypt's foreign debt did drop to \$160 billion in the first quarter of 2024, from \$168 billion in the final quarter of 2023. For more detail, see: *Egypt Total External Debt*. *Trading Economics*. URL: <https://tradingeconomics.com/egypt/external-debt>

⁶ One of the catalysts for this crisis was the terrorist attack on resort towns and the resulting decline in income from the tourism sector. However, Tunisia's net income from the tourism sector in 2022 amounted to 3.2% of gross value added.

⁷ Tunisia Economic Monitor. *The World Bank*. 2023. URL: <https://documents1.worldbank.org/curated/en/099838011032326761/pdf/IDU0b66401ea0d71b04eb00adb20a93d03ca730e.pdf>

in 2024.⁸ These figures were effectively reiterated by the International Monetary Fund (IMF), which has predicted a growth of 1.9% in 2024 and 2.3% in 2025.⁹ Just like with Egypt, the IMF and the European Bank strongly encouraged the Tunisian government to accept their financial assistance package of \$1 billion,¹⁰ saying nothing about the conditions for receiving this assistance and the reforms the country would need to make to justify it. But the country's leadership decided to temporarily stop accepting aid packages from international institutions, suggesting that it is pursuing an extremely cautious financial policy on this matter, despite the many socioeconomic problems that such aid could help solve.

In this context, it can be assumed that Tunisia expects financial assistance from its neighbours, such as Algeria, in the form of investments. However, Algeria is in need of economic reforms itself. The Algerian economy requires major diversification, as the country's oil and gas sector accounts for approximately 35% of its GDP, 6% of its budget revenues, and over 95% of its export earnings.¹¹ The country faces economic problems due to the volatility of hydrogen prices, the regulation of which is directly or indirectly influenced by OPEC+. However, this has been offset by increasing natural gas production by almost 6%.¹²

The socioeconomic situation in the Kingdom of Morocco is relatively stable. It too faces the same problems as the other countries in the region, but to a lesser extent, and their negative impact on the economy is less pronounced thanks to the well-thought-out policies of the the country's leadership.

Libya's economy is demonstrating resilience despite its low and uneven economic growth. According to the World Bank, the Libyan economy contracted by 1.2% in 2022, due mostly to the drop in oil production. The unemployment rate in the country continues to be high, at 19.6%, with more than 85% of the working population being employed either in the public sector, or in the grey economy. Despite the significant challenges, Libya does have a rather clear path to economic recovery and the potential to diversify it given its abundant financial resources.¹³

The Libyan economy relies heavily on oil and gas, which account for 97% of the country's exports, over 90% of government revenues, and 68% of the GDP. In 2023, as the country was recovering from the 2022 recession, GDP grew by 12.6% on the back of stable oil production made possible by the improved

⁸ Tunisia's Economic Recovery Slows Down amid the Drought. *The World Bank*. November 6, 2024. URL: <https://www.worldbank.org/en/news/press-release/2023/11/06/tunisia-s-economic-recovery-slows-down-amid-the-drought>

⁹ The Economic Context of Tunisia. *Lloyds Bank*. 2024. URL: <https://www.lloydsbanktrade.com/en/market-potential/tunisia/economical-context>

¹⁰ Ibid.

¹¹ Energy and Security Developments in the Energy Field and Questions of International Security: Algeria. *Strauss Center*. URL: <https://www.strausscenter.org/energy-and-security-project/algeria/>; Algeria. *The Observatory of Economic Complexity*. URL: <https://oec.world/en/profile/country/dza>

¹² Algeria: Positive Signs but Major Challenges. *BNP PARIBAS*. July 15, 2024. URL: <https://economic-research.bnpparibas.com/html/en-US/Algeria-positive-signs-major-challenges-7/15/2024,49785> (Data as of December 2024).

¹³ Libya's Economy Shows Resilience and Potential for Prosperity Amid Challenges. *The World Bank*. June 6, 2023. URL: <https://www.worldbank.org/en/news/press-release/2023/06/06/libya-s-economy-shows-resilience-and-potential-for-prosperity-amid-challenges>

security situation in the country. The growth in demand continued to be driven by private consumption and exports. Inflation fell to 2.4% in 2023, supported by the development of domestic supply chains. Between 2004 and 2022, the industrial sector, propped up by the oil and gas industry, accounted for approximately 61.7% of the country's GDP, by far outpacing manufacturing (4% of GDP) and agriculture (just 2.8% of GDP).¹⁴

Libya has the largest oil and gas reserves in Africa and its budget thus depends almost entirely on oil prices, which are in turn affected by the lack of political stability. In addition to this, the informal sector of the economy is expanding in the south of the country, via human trafficking, in addition to weapons, and narcotics. The road to development in the country is littered with such obstacles as both unilateral and the multilateral sanctions have been introduced in 2011.

¹⁴ Libya Economic Outlook. *African Development Bank Group*.
URL: <https://www.afdb.org/en/countries/north-africa/libya/libya-economic-outlook>

The Agricultural Sector and Food Security

Another challenge facing North African countries is food security, as they depend on grain imports.¹⁵ The frequent droughts over the past decade, as well as low rainfall, have hit agricultural production in Tunisia, Algeria, Morocco, and Egypt.¹⁶ The growth rates of North African state economies are slowing down. As a result, inflation processes are gaining momentum, the budget deficit is widening, household income is falling, and the foreign currency base for paying for imports and maintaining the exchange rate of the national currency is being decimated. Those countries that rely on oil for a part of their income may be less vulnerable. However, the critical shortage and soaring prices for basic food are causing discontent among large portions of the population, which has not forgotten the events of the Arab Spring.

Rising prices for nitrogen fertilizers, which negatively impacted the region's economy, was a direct result of the increased cost of natural gas and coal used in their production. There are only a handful of global suppliers of nitrogen fertilizers. The largest exporters in 2023 were Russia, China, Canada, the United States, Morocco, and Saudi Arabia, which together accounted for 51.6% and 53.3% of global fertilizer exports in 2022 and 2023, respectively.¹⁷ Given the current crisis in the fertilizer market, these suppliers will vie for leadership in the markets of North Africa. To further ignite this competition, Chinese companies are already pursuing a stricter pricing policy and have cut exports of urea and phosphates significantly in late 2023.¹⁸

Meanwhile, Saudi companies are promoting their products in countries by providing financial support to countries in need, which is done through large government funds. It is no coincidence that, for roughly forty years, Saudi Arabia was among the world's leading providers of government aid, far outstripping Western countries in terms of the proportion of GDP that goes into these activities.¹⁹

In the context of the uneasy geopolitical and economic situation, Western European countries, as well as the Gulf States, and China are already carrying out economic activities in North Africa, aiming to obtain short-term financial gains and expand production.

¹⁵ Grain prices increased at a rate of 27.3% in 2021. At the same time, according to the WTO, Russian wheat exports to the countries of North Africa increased by 35 million tonnes in 2021–2023, while exports from Ukraine plummeted by 70 million tonnes. For more detail, see: Update: How is the War in Ukraine Affecting Global Food Prices? *Economics Observatory*. February 23, 2024. URL: <https://www.economicsobservatory.com/update-how-is-the-war-ukraine-affecting-global-food-prices>

¹⁶ Altaeb, M. Ecological Security Threats in North Africa for 2040: Water Scarcity and Desertification. *Ecological Security Program*. July 18, 2024. URL: <https://councilonstrategicrisks.org/wp-content/uploads/2024/07/66-EcoSec-N-Africa.pdf>

¹⁷ Top Fertilizers Exports by Country. *World's Top Exporters*. June 28, 2024. URL: <https://www.worldstopexports.com/top-fertilizers-exports-by-country/>

¹⁸ China Imposes More Fertilizer Export Controls to Protect Farmers. *Bloomberg*. June 24, 2024. URL: <https://www.bloomberg.com/news/articles/2024-06-24/china-imposes-more-fertilizer-export-controls-to-protect-farmers>

¹⁹ Blin, L. Recent Trends in Saudi Arabia's Foreign Aid Policy. *European University Institute*. June 23, 2023. URL: <https://blogs.eui.eu/medirections/recent-trends-in-saudi-arabias-foreign-aid-policy>

Maintaining food security in the region is still the most important goal for North African countries. The only way to achieve it is through significant investment in the development and cultivation of improved varieties of staple crops, the stimulation of research in genetic engineering, and improved water and soil management strategies.

The region needs to aim for sustainable development in the water-energy-food nexus through the implementation of a risk-based approach in national development strategies.

Foreign Direct Investment and the Use of Innovative Technologies: Prospects for North Africa

The economies of North African countries, which have significant reserves of crude oil, can traditionally be divided into “prosperous” (Egypt, Morocco, Tunisia, and Algeria) and “backward” (for example, Libya) states. Even so, all these countries require foreign direct investment. They also face pressure to diversify their economies so that they are not as dependent on energy and agriculture, and focus on introducing innovative technologies. Moreover, the “prosperous” countries of North Africa are quickly becoming an attractive platform for the development of start-ups and financial technologies. The fact that most Arab countries have joined the Fourth Industrial Revolution is certainly a boon when it comes to introducing innovative technologies. Tunisia and Morocco scored higher than some wealthy Gulf states on the World Intellectual Property Organization’s 2022 Global Innovation Index (a metric for measuring progress in innovation).²⁰

Despite the positive indicators and the desire of the region’s countries to modernize their national economies, they are still underspending on R&D – less than 1% of GDP (for comparison, the United States spends 3.5% of its GDP on R&D, while the EU countries spend an average of 2.5%).²¹ Governments are, of course, doing what they can to support innovation and the start-up sector. The practical experience of Arab countries, Lebanon in particular,²² shows that the private sector of start-up development can be a driver of innovation, especially in financial technologies. However, this sector faces all kinds of obstacles in North Africa, including red tape, a labor shortage, the under-utilization of industrial potential in IT technologies, a thriving shadow economy, stunted modernization, and an unstable financial sector. At the state level, leaders are attempting to encourage the development of start-ups by creating a special regulatory framework, implementing projects, and establishing new government ministries and departments.

The lack of funding opportunities is also proving to be a challenge when it comes to promoting start-ups in the region. While FDI is primarily directed at large public or private projects with a significant share of state capital, start-ups – which are more flexible and resilient to economic challenges – occupy those niches and sectors that the state does not touch. Table 1 shows the volume of FDI in the countries of North Africa, as well as where investments come from.

²⁰ Global Innovation Index 2022. What is the Future of Innovation-Driven Growth? *WIPO*. URL: <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-en-main-report-global-innovation-index-2022-15th-edition.pdf>

²¹ Research and Development Expenditure as a Proportion of GDP. *UNESCO Institute for Statistics*. URL: <http://data.uis.unesco.org/index.aspx?queryid=3684>

²² Despite the fact that one country has declared a national default and the other is under the complete financial control of Israel, Lebanon’s progress in innovative technologies allows it to develop in line with modern economic realities, as well as support certain groups of the population financially. For more, see: Babenkova S.Yu., Mariasis D.A., Morozov V.M. Not a Conflict Only: Potential for Digital Interaction between Israel and Palestine. *Vestnik RUDN. International Relations*. 2022. Vol. 22. No. 2. P. 320-341. (In Russ.)

Table 1. FDI in North African Countries

Country	FDI in 2022–2023 (bln. \$)	Main Investor Countries	Main Investment Sectors
Egypt	148.8	United Kingdom – 42% Belgium – 10% United States – 15% United Arab Emirates – 8% Saudi Arabia – 3%	Oil and gas – 60% Services (finance, telecoms, technology) – 59.16% Manufacturing and processing – 10% Real estate and construction – 67.4%
Morocco	63.2	France – 30.8% United Arab Emirates – 20.3% Spain – 8% Switzerland – 5.7% United States – 5%	Industry – 25% Real estate – 20% Communications – 12.4% Tourism – 9.5% Energy and mining – 6.4% Banking – 5.7%
Tunisia	39.4	France – 32% Qatar – 20% Italy – 13% Germany – 8.6% Switzerland – 3%	Manufacturing – 58.9% Services – 20.4% Energy – 20.3% Agriculture – 0.4% Electrical engineering and electronics – 28.4% Energy – 22% Mechanical engineering – 8.7% Plastics – 6.1% Agro-food – 4.7%
Algeria	34	United States – 29% Italy – 10% France – 10% Spain – 7% United Kingdom – 6%	Industry (especially hydrocarbons), construction, transport and agriculture. Chemicals, coal, oil and gas – 17%
Libya	18.4	–	Petroleum industry

Source: Compiled by the author, based on materials from the United Nations Conference on Trade and Development (UNCTAD),²³ the International Trade Administration (ITA),²⁴ and the U.S. Department of State,²⁵ and using the author's calculations based on data from Lloyds Bank,²⁶ the Department for Business and Trade,²⁷ CEIC,²⁸ the Office of the

²³ *World Investment Report 2023*. United Nations Conference on Trade and Development. Geneva, 2023.
URL: https://unctad.org/system/files/official-document/wir2023_en.pdf

²⁴ Tunisia – Country Commercial Guide. Market Overview. *International Trade Administration. U.S. Department of Commerce*. April 15, 2024. URL: <https://www.trade.gov/country-commercial-guides/tunisia-market-overview>

²⁵ 2023 Investment Climate Statements: Tunisia. *U.S. Department of State*.
URL: <https://www.state.gov/reports/2023-investment-climate-statements/tunisia/>

²⁶ Foreign Direct Investment (FDI) in Tunisia. *Lloyds Bank*.
URL: <https://www.lloydsbanktrade.com/en/market-potential/tunisia/investment>

²⁷ Trade and Investment. Factsheets. *Department for Business and Trade*. November 22, 2024. URL: <https://assets.publishing.service.gov.uk/media/673e51b14ebce30ac7baefa4/egypt-trade-and-investment-factsheet-2024-11-22.pdf>

²⁸ Egypt Foreign Direct Investment: Net: EU: Belgium. *CEIC*. March 2024.
URL: <https://www.ceicdata.com/en/egypt/foreign-direct-investment-by-country/foreign-direct-investment-net-eu-belgium>

*U.S. Trade Representative,*²⁹ *Middle East Economy,*³⁰ *Egypt Independent,*³¹ *Arabian Gulf Business Insight,*³² *the Organisation for Economic Cooperation and Development,*³³ and *Property Finder*³⁴

Despite the problems facing the agricultural sector in North African states, FDI is either non-existent or miniscule compared to other sectors of the economy. Agriculture, as well as renewable energy sources and access to drinking water, are seen as the main areas that start-ups in the region are developing. For example, in 2022, the Moroccan government and the World Bank launched the AgriTech-4Morocco Innovation Challenge to encourage innovation in clean, renewable energy, while in Tunisia, Agricultural Development Group (GDA) Sidi Amor is promoting a model for sustainable rural development.

Where exactly investments go depends primarily on the investing country. What is clear, though, is that European companies are “transferring” industrial production to less expensive areas. Additionally, it is important to note that the numerous environmental programmes that are being actively promoted in Western European countries do not always have a positive impact on the development of individual industries.

Many European industrial companies have had to either liquidate their businesses or relocate them to the United States or China. This “industrial migration” can be put down to a number of factors, most notably the rising prices for fuel and mineral resources imported from Russia. Relocating to North Africa is an attractive proposition for Western European companies, as it would allow them to purchase energy resources from Russia at lower prices. Obstacles to this include a weak legal framework for investment, significant red tape, and safety concerns.

Also worth noting is China’s vested interest in the region: representatives of Huawei have announced that the company will be investing \$430 million in North African countries to create a cloud computing infrastructure, as well as to provide support to local software providers and training IT specialists.³⁵ In 2023, Chinese entrepreneurs opened the \$19.3-billion Zhejiang Huayou Cobalt factory in Morocco to produce battery components for electric cars. North Africa accounts for 8.7% of China’s global investments.³⁶

²⁹ Egypt Trade & Investment Summary. *Office of the U.S. Trade Representative.*

URL: <https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/egypt>

³⁰ UAE Investments in Egypt Increase by 169% in H1: Data. *Middle East Economy.* August 22, 2022.

URL: <https://economymiddleeast.com/news/uae-investments-in-egypt-increase-by-169-in-h1-data/>

³¹ UAE Tops Countries Sending Foreign Direct Investment Flows to Egypt: PM. *Egypt Independent.* October 26, 2022.

URL: <https://www.egyptindependent.com/uae-tops-countries-sending-foreign-direct-investment-flows-to-egypt-pm/>

³² Pramod Kumar. Saudi Arabia’s Investments in Egypt Hit Over \$6bn. *AGBI.* December 27, 2022.

URL: <https://www.agbi.com/banking-finance/2022/12/saudi-arabias-investments-in-egypt-hit-over-6bn/>

³³ OECD Investment Policy Reviews: Egypt 2020. *OECD.* URL: <https://www.oecd-ilibrary.org/docserver/1822d1d5-en.pdf>

³⁴ Market Watch Q2 2024: Egypt’s Real Estate Sector Insights and Trends. *Property Finder.* September 26, 2024.

URL: https://www.propertyfinder.eg/en/insightshub/market_watch/2024-quarterly-q2-211

³⁵ Huawei’s \$430m Northern Africa Push. *fDi Intelligence.* October 3, 2023.

URL: <https://www.fdiintelligence.com/content/news/huaweis-430m-northern-africa-push-83020>

³⁶ Chinese Outbound FDI Boom Signals ‘New Phase.’ *fDi Intelligence.* October 3, 2023.

URL: <https://www.fdiintelligence.com/content/data-trends/chinese-outbound-fdi-boom-signals-new-phase-83013>

The Impact of International Financial Institutions on North African State Economies

International financial institutions such as the IMF and the World Bank have either provided or expressed a willingness to provide financial support to North African countries in precarious financial situations. These organizations have a direct influence on the economic policies not only of the recipient countries, but also of the entire region. Their activities shape development trajectories and economic links in the region, focusing on macroeconomic aspects and social justice, and recommending political changes. While their policies, implemented under the guise of various development programmes, brought mixed results, they nevertheless helped create a favourable situation for themselves in the region. Guided by their own financial interests, creditor countries first want to recover the money they have handed out in the form of loans and achieve their own economic and foreign policy goals, rather than on solving the problems of the recipient country. It would not be an exaggeration to state that Western creditor countries use their political influence to regulate the activities of international financial organizations, including in the Middle East and North Africa (MENA). They collect and analyse information on the effectiveness of the programmes they implement in the countries of the region, earning exorbitant profits in the long term.

However, attitudes towards foreign financing vary significantly among MENA countries.

Egypt leads in terms of attracting international financial aid and the number of creditor countries. Since 2013, it has received \$8 billion in assistance from the IMF, \$8.1 billion from the EU,³⁷ \$23 billion from Saudi Arabia, the United Arab Emirates, and Kuwait,³⁸ and \$35 billion from the ADQ sovereign wealth fund in Abu Dhabi.³⁹

Morocco is in no hurry to borrow externally. Analysts predict that the economy will continue to grow at a rate of 3.6%⁴⁰ in the period 2024–2027 thanks to the expected increase in tourism revenues and domestic demand and lower inflation. The Tunisian economy is in a state of crisis. With a public debt of 80% of GDP, the country depends on loans from North African banks and foreign financial institutions. Even so, the authorities continue to reject loan offers from the IMF, despite the difficulties financing the economy.⁴¹ Analysts fear that Tunisia could

³⁷ EU Pledges Billions of Euros for Egypt as it Seeks to Curb Migration. *Reuters*. March 17, 2024.
URL: <https://www.reuters.com/world/eu-bolster-egypt-ties-with-billions-funding-2024-03-17/>

³⁸ Egypt Got \$23bn in Aid from Saudi, UAE And Kuwait in 18 Months. *Gulf Business*. March 2, 2015.
URL: <https://gulfbusiness.com/egypt-got-23bn-in-aid-from-saudi-uae-and-kuwait-in-18-months/>

³⁹ What Does the UAE Get for its \$35 Billion Investment in Egypt? *Bloomberg*. March 16, 2024.
URL: <https://www.bloomberg.com/news/features/2024-03-16/oil-rich-abu-dhabi-s-35-billion-gamble-on-egypt>

⁴⁰ Morocco Outlook Revised to Positive on Improving Socioeconomic and Budgetary Reform Trajectory; 'BB+/B' Ratings Affirmed. *S&P Global Ratings*. March 29, 2024.
URL: <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3146424>

⁴¹ Steering Tunisia Away from Default. *International Crisis Group*. October 4, 2023.
URL: <https://www.crisisgroup.org/middle-east-north-africa/north-africa/tunisia/steering-tunisia-away-default>

default on its foreign debt at any moment, arguing that the country could become a “North African Lebanon” without outside financial assistance.⁴²

The financial sector in many countries in the region has started to transform in response to both internal and external economic and political changes. Over the past decade, most major Western lenders, including UK and French banks (Barclays, Scotiabank, BNP Paribas and Societe Generale), have pulled out of North Africa. This has opened the door for local banks, primarily those in Morocco and Egypt, to grow in these countries and establish themselves as market leaders. The departure of Western European banks was precipitated by the need for these states to develop their own independent financial markets and form their own competitive financial environment, which would include Islamic banks. Although the National Bank of Egypt, as well as Banque Misr and Attijariwafa, are now among the 30 largest banks in the MENA region in terms of assets,⁴³ Western companies are not about to give up the resource-rich North African markets, including through international financial institutions.

Six of Africa’s top ten banks have at least one North African country as a founding member.⁴⁴ These banks have continued to operate stably, despite strong exchange rate volatility, inflation, and falling investment and export volumes in key agricultural sectors of the economy.

One area that has become attractive for investment in the countries of North Africa is climate finance. Morocco has been hit by drought and an earthquake, Libya has lost thousands of people to deadly floods and a dam failure, and Algeria has been battling wildfires. In this context, financing projects that are aimed at preventing or mitigating climate change could turn into a trend in investment programmes in North Africa. Natural disasters caused by climate change affect the economic growth of countries, directly or indirectly undermining various economic aspects such as employment, inflation, living standards, and official fiscal policies.

The challenges of climate change impact the insurance and financial capabilities of countries and the sustainability of the financial system as a whole.⁴⁵ It is estimated that \$25.7 billion is required annually to carry out the programmes envisioned by the FAO Action Plan 2022–2025 for the Implementation of the FAO Strategy on Climate Change. Meanwhile, the total amount invested in climate change in North Africa in 2023 amounted to \$5.9 billion, or just 23% of the required funds. Up to 80% of climate finance for these programmes comes from foreign investors, with the public sector in North African countries providing just 18%.⁴⁶

⁴² World Bank Most Concerned in MENA about Lebanon and Tunisia. Reuters. February 14, 2023.

URL: <https://www.reuters.com/world/middle-east/world-bank-most-concerned-mena-about-lebanon-tunisia-2023-02-14>

⁴³ Middle East and North Africa at an Economic Crossroads. *Global Finance*. April 4, 2024. URL: <https://gfmag.com/economics-policy-regulation/egypt-morocco-tunisia-mena-middle-east-north-africa-economic-growth>

⁴⁴ North Africa’s Top Banks in 2023. *African Business*. October 2, 2023.

URL: <https://african.business/2023/10/finance-services/north-africas-top-banks-in-2023>

⁴⁵ Babenkova S.Yu. Financial security of Arab countries: analysis of some aspects. *Entrepreneur’s Guide*. 2024. Vol. 17. No. 2. P. 83-101. (In Russ.)

⁴⁶ Middle East and North Africa at an Economic Crossroads. *Global Finance*. April 4, 2024. URL: <https://gfmag.com/economics-policy-regulation/egypt-morocco-tunisia-mena-middle-east-north-africa-economic-growth>

Many economic sectors in the region, such as solar and wind energy production and agriculture, offer ample opportunities for private investment. What is more, the agricultural sector is still important as an employer and has a significant share in the GDP of all North African countries.

Areas of Economic Cooperation between Russia and North African Countries

Russia's interaction with North African states can be described as "wave-like." For the most part, Moscow has maintained extremely positive relations with the region, while at the same time gradually distancing itself from the countries economically and politically. Russia is trying to build a new kind of relations in a changing geopolitical and economic space by holding various forums and summits, including the Russia–Africa Summit and the various BRICS events.

Russia's cooperation with North African countries is greatly aided by BRICS and the significant potential it has. The construction of a new architecture of financial, economic, and political corridors within BRICS will allow Russia, at a minimal financial cost, to develop its cooperation with countries in the most promising regions in the form of an equal partnership. In the context of the mounting sanctions pressure, interaction with North African countries is not just relevant, it is vital for Russia.

North African countries are also striving not only to build constructive relations with Moscow, but also to claim a place for themselves in the new world system, building equal relations with other countries without a hint of "colonialist dependence." This can be seen in the case of Egypt, a newly minted BRICS member, as well as in the case of Algeria and Morocco, candidate states for membership in the association. Developing cooperation within BRICS speaks to the interest that North African countries in deepening relations with China and Russia.⁴⁷ However, it is too soon to draw any conclusions about this cooperation from an economic standpoint.

Russian companies currently interact with the region's countries in the following sectors: agriculture, education, oil refining and production, metallurgy, the chemical and food industries, nuclear energy, and space programmes. Russian companies Alrosa, LUKOIL, Renova, Rusal, Rosatom, Rosneft, and Nordgold are currently implementing economic projects in Africa.⁴⁸ The Memorandum of Understanding between the Association of Banks of Russia and West African Bankers Association signed in 2023 provides for the implementation of several programmes to support cooperation in the financial sector between Russia and African countries,⁴⁹ but cooperation with this region has even greater potential for development.

According to the Valdai Club, trade between Russia and the countries of Africa increased by 1.5 times from 2011 to 2021, from \$12.2 billion to \$17.7 billion.⁵⁰

⁴⁷ Vinogradov, I. The Main Areas of Cooperation between China and the Countries of North Africa. *RIAC*. June 20, 2024.

URL: <https://russiancouncil.ru/analytcs-and-comments/analytcs/osnovnye-napravleniya-sotrudnichestva-krn-sostranami-severnoy-afriki/>

⁴⁸ Russia's Largest Economic Projects in Africa. *TASS*. July 27, 2023. URL: <https://tass.ru/info/18377785>

⁴⁹ Association of Banks of Russia and West African Bankers' Association Sign Memorandum of Understanding. *Association of Banks of Russia*. September 28, 2023. URL: <https://asros.ru/news/asros/assotsiatsiya-bankov-rossii-i-assotsiatsiya-bankov-zapadnoy-afriki-podpisali-memorandum-o-vzaimoponi/>

⁵⁰ Kalmychek, P. Russia and Africa: A Natural Partnership. *Valdai Club*. July 25, 2023. URL: <https://valdaiclub.com/a/highlights/russia-and-africa-a-natural-partnership/>

In 2023, trade turnover between Russia and Africa reached \$24.5 billion, up 37% from 2022. In the first eight months of 2024, trade turnover increased by 18.5% year-on-year to \$18.6 billion.⁵¹ Grain exports are particularly important, as almost 30% of grain supplies to Africa come from Russia.⁵² Russia's leading trading partners in Africa are all in the north of the continent, specifically Egypt, Algeria, and Morocco, which together account for approximately 70% of Russia's trade volume with Africa.⁵³ Almost 90% of Russia's exports to Africa in 2023 were oil, oil products, wheat, metals, and metallurgical products. Imports from Africa were mostly made up of agricultural products such as fruits, nuts, cocoa, and coffee.⁵⁴

The North African region has demonstrated great potential to drive the fintech industry across Africa. According to a report by BDO South Africa,⁵⁵ Egypt accounts for 9.6% of new fintech start-ups in all of Africa. The country is already implementing 65 projects in this field, ahead of Tunisia (six projects) and Morocco (four projects). Digital payments and mobile wallets are considered key areas of development for the region's financial industry. In Russia, the use of the Faster Payments System is actively growing, averaging seven transactions per person per month – according to 2023 data – which is four times higher than the figures for G7 countries, and twice the figure for the G20.⁵⁶ These numbers suggest that there is potential to develop competitive payment systems within the country, and that opportunities are opening up to move into international markets in North Africa, especially within the framework of BRICS.

Regarding the development of cooperation in the financial sector, the successful integration of the Russian (Mir) and Iranian (Shetab) payment systems, despite the sanctions pressure on both countries from the collective West, is worth noting. One project that could act as a driver in relations between the Russian Federation and North African countries in the financial sector is the introduction of a single settlement system. This is just one of the questions that are being discussed by Russia and Egypt within the framework of BRICS, alongside the possibility of switching to mutual settlements in national currencies.

Russian banking technologies could jolt mutually beneficially cooperation between Russia and North African countries. Cooperation with Egypt is particularly promising, since the market for innovative products in this country is sup-

⁵¹ Trade Between Russia and Africa Grows 37% in 2023. *Agence Ecofin*. November 18, 2024.

URL: <https://www.ecofinagency.com/public-management/1811-46145-trade-between-russia-and-africa-grows-37-in-2023>

⁵² Prospects for Expanding Russia's Economic Interaction with African Countries. *Modern Diplomacy*. December 20, 2022.

URL: <https://moderndiplomacy.eu/2022/12/20/prospects-for-expanding-russias-economic-interaction-with-african-countries>

⁵³ Assessing Russia's Position in Africa and the Emerging Vacuum Presented to China and the West. *Knightsbridge Strategic Group*. September 2024. URL: <https://www.knightsbridgesg.com/post/assessing-russia-s-position-in-africa-and-the-emerging-vacuum-presented-to-china-and-the-west-septe>

⁵⁴ Trade Between Russia and Africa Grows 37% in 2023. *Agence Ecofin*. November 18, 2024.

URL: <https://www.ecofinagency.com/public-management/1811-46145-trade-between-russia-and-africa-grows-37-in-2023>

⁵⁵ Unlocked Potential. Fintech in Africa. *BDO South Africa*. 2024.

URL: https://www.bdo.co.za/getmedia/0a92fd54-18e6-4a18-8f21-c22b0ae82775/Fintech-in-Africa-Report-2024_June.pdf

⁵⁶ The Digitalization of Payments and the Implementation of Innovations in the Payment Market: Analytical Report. *Bank of Russia*. 2024. URL: http://www.cbr.ru/Content/Document/File/161600/analytical_report_20240605.pdf

ported at the state level. The government is committed to the digitalization of financial innovations as a mechanism to combat the growing shadow economy⁵⁷ Also worth mentioning is the possibility of establishing contacts with the Islamic banking world. A draft law establishing an experimental legal regime for partnership (Islamic) financing activities has already been adopted.⁵⁸ While the Islamic banking market in North Africa is not as well developed as in Persian Gulf countries or Iran, there is a potential to develop this industry, including as part of the interaction between the region's countries and Russia. In 2024, the Russian agro-industrial complex expects to increase the export of halal products to North African countries to \$400 million, and negotiations on the issue have already been completed.⁵⁹ It would be a good idea to pay for these products through financial intermediaries, perhaps even in national currencies. This project will also give additional impetus to the development of partner banking in Russia.

FDI inflows to African countries in 2022 amounted to \$45 billion, which is broadly in line with the average of previous years. However, in 2021, these countries managed to attract \$80 billion in FDI, of which \$42 billion went to South Africa.⁶⁰ The main FDI flows to Africa come primarily from European countries – in 2022, investments from the United Kingdom, France, the Netherlands, Italy, and Germany totalled \$212 billion, compared to \$44 billion from China.⁶¹

The volume of inward foreign direct investment stock from Northern African countries to Russia in 2022 was relatively small. Meanwhile, Russian FDI in the countries of North Africa reached to \$63.81 million, four times the amount of FDI from European countries, which stood at \$15.84 million.⁶² Furthermore, according to an official representative of the Ministry of Economic Development of the Russian Federation, Russian businesses are interested in investing in African countries, and the ministry is working on signing agreements with several African countries on the promotion and mutual protection of investments. Six such agreements had been concluded by November 2024 – with Angola, Egypt, Zimbabwe, Libya, Equatorial Guinea, and South Africa, with another two (with Congo and Morocco) at the advanced stages of negotiations.⁶³

In addition, the member states of the Eurasian Development Bank (EDB) receive investments from several MENA countries. Moreover, mutual investments

⁵⁷ Unlocked Potential. Fintech in Africa. *BDO South Africa*. 2024.

URL: https://www.bdo.co.za/getmedia/0a92fd54-18e6-4a18-8f21-c22b0ae82775/Fintech-in-Africa-Report-2024_June.pdf

⁵⁸ Law on Islamic Banking Adopted. *State Duma*. July 19, 2023. URL: <http://duma.gov.ru/news/57560/>

⁵⁹ Russian Halal Products to Appear on Northern African Markets. *Bulletin of the Agro-Industrial Complex of Russia*. May 22, 2024. URL: <https://vestnikapkr.ru/articles/news/v-stranakh-severnoy-afriki-poyavitsya-rossiyskiy-khalyal/>

⁶⁰ Sapuntsov, A.L. Attracting foreign direct investments in sustainable energy technology in Africa. *Russian Journal of Innovation Economics*. 2023. Vol. 13. No. 4. P. 1767-1782. (In Russ.)

⁶¹ Africa Foreign Trade Digest: Industry. *Foreign Trade Center under the Ministry of Industry and Trade of the Russian Federation*. URL: https://made-in-ural.ru/UPLOAD/user/shekotova-aal_vneshtorgprom_afrika_24_07_2023.pdf

⁶² Interactive Presentation of Current Statistical Data "Accumulated Direct Investment by Geographic Region, Country, Financial Instrument, and Type of Economic Activity." *Bank of Russia*. October 4, 2024. URL: https://cbr.ru/statistics/macro_itm/svs/npil/ (Data as of September 2024).

⁶³ Trade Turnover between Russia and African Countries Reaches Record \$24.5 Billion. *SPUTNIK Africa*. November 11, 2024. URL: <https://en.sputniknews.africa/20241111/trade-turnover-between-russia-and-african-countries-has-reached-historic-high-of-245-billion-1069170051.html>

between the EDB countries and Muslim partner countries in the MENA region amounted to \$10.2 billion, while investments in the EDB countries reached \$6.8 billion. Economic cooperation between North Africa and the EDB took the form of financing infrastructure projects, mining hydrocarbon deposits and developing Islamic banking.⁶⁴

Of all the possible areas of cooperation, finance is the most promising. However, given the current conditions, Russia is finding it hard to compete with the likes of China and the countries of Southeast Asia, for example, in the fight for the North African IT market.

When implementing projects with North African countries, Russia will likely have to deal with the reluctance of many Western countries to leave profitable African markets, which could complicate the development of cooperation. For instance, the dependence of the region's countries on loans from international financial organizations such as the IMF and the World Bank may influence their political decisions.

However, the barriers to bilateral relations in the banking sector are gradually being overcome. In the middle of 2023, for example, Russia and Algeria signed the Declaration on Deepening Cooperation, which will ensure the development of direct contacts between the financial institutions of the two countries and encourage the transition to inter-state settlements in national currencies.⁶⁵

Interaction between the countries is based on cooperation in the military-technical sphere (first established in Soviet times), energy and space. However, the gradual transition to a multipolar world order and the associated processes are forcing North African states to aggressively develop their domestic markets. In this context, it would be a good idea to pay attention not only to the development of large state-owned industries, but also to the private start-up sector, which has flourished in Russia during the conflict in Ukraine and is now starting to develop in North African countries. The experience gained developing businesses under sanctions, from small firms to medium and large companies, will come in handy when it comes to developing mutually beneficial cooperation in both the public and private sectors.

Another important but, unfortunately, underdeveloped area is human capital. This includes the multi-stage training of specialists in Russian educational institutions, as well as an increase in the number of bilateral and multilateral inter-country working groups on R&D.

⁶⁴ Monitoring the EDB's Mutual Investments – 2023. *Eurasian Development Bank*.
URL: https://eabr.org/upload/iblock/82b/EDB_2023_Report-5_Monitoring-of-Mutual-Investments_rus.pdf

⁶⁵ Russia and Algeria Agree to Develop Contacts between Banks. *RIA Novosti*. June 15, 2023.
URL: <https://ria.ru/20230615/torgovlya-1878406124.html>

Conclusion

In the late 1990s, the future of MENA countries was tied to economic and political reforms, as well as to the emergence of processes aimed at strengthening their identities.⁶⁶ However, progress in North Africa stalled in the early 21st century as a result of global events such as the Arab Spring, the COVID-19 pandemic, climate change, and the Ukrainian crisis. Today, the region's countries are faced with economic, political, and financial problems due to rapidly changing geopolitical processes. Some of these countries, most notably Algeria, Tunisia, and Morocco, have made some progress in terms of using anti-crisis mechanisms to mitigate the negative consequences of most external challenges. North African countries must navigate between the economic, institutional, and political reform they need, and the strong pressure being put on them by international financial institutions. The latter exert pressure on North African states by compelling them, through the use of financial levers, to act in line with programmes that include changing the very structure of political and economic processes.

According to the African Development Bank, economic growth in the countries of North Africa is set to reach 4.4% in 2024. In a 2023 report,⁶⁷ the African Development Bank recommended that governments coordinate their fiscal policies to keep the region's economies on a relatively stable footing. At the same time, the region's countries need to combat high inflation, which stood at 14% in 2023,⁶⁸ and support SMEs and vulnerable segments of the population through targeted public financial support.

Food security continues to be one of the biggest problems in the region. Investments from the private sector, financial institutions (development banks), and governments in green sectors of the economy (namely, agriculture and clean energy) remain low. This can be put down to the high risks of not recouping the money invested in the short term, as well as to the low profitability of these sectors as a whole.

Despite the problems in the region, the countries of North Africa are very appealing for Asian companies from a financial and economic point of view. After Western investors left the markets of these countries, Asian companies started to actively invest in innovative projects, including joint projects, gradually exerting control over economic sectors with the help of financial levers.

In the new geopolitical landscape, Russia is seeking to strengthen cooperation with North African countries, including through the integration of these countries into BRICS. Economic interaction covers a broad range of industries, from agriculture and energy to the hi-tech sector and fintech.

⁶⁶ Derviş, K., Shafik, N. The Middle East and North Africa: A Tale of Two Futures. *Middle East Journal*. 1998. Vol. 52. No. 4. P. 505–516.

⁶⁷ North Africa Economic Outlook 2023. *African Development Bank*. July 26, 2023.
URL: <https://www.afdb.org/en/documents/north-africa-economic-outlook-2023>

⁶⁸ *Ibid.*

Financial cooperation with the countries of the region has much promise for the development of bilateral economic relations. Russian banking technologies can become an important driver of mutually beneficial cooperation between Russia and the countries of North Africa. The experience of integrating the payment systems of Russia and Iran can be extended to the countries of North Africa, which could contribute to the development of financial cooperation, as well as interaction in numerous other areas. It is particularly important to promote the development of a unified payment system among Russia's key partners in the region.

It is important to support the development of start-ups and medium-sized businesses that focus on digital technologies, including IT solutions, and agricultural technologies. Cooperation in the digitalization of financial innovations is also key, as it appears to be among the most promising areas of economic cooperation between Russia and North African countries.

About the Author

Svetlana Babenkova, Ph.D. in Economics, Senior Research Fellow in the Department of Economic Research at the Institute of Oriental Studies of the Russian Academy of Sciences and a Visiting Lecturer in the Department of Foreign Regional Studies of the Faculty of World Economy and International Affairs at the National Research University Higher School of Economics.

Russian International Affairs Council

The Russian International Affairs Council (RIAC) is a non-profit organization focused on conducting research on international relations and offering practical advice on foreign policy and international affairs for Russian government agencies, businesses, non-profit organizations and other institutions. The Council was established by its board of trustees, pursuant to the Order of the President of the Russian Federation No. 59-rp of February 2, 2010, “On Establishing the Russian International Affairs Council Non-profit Partnership.”

RIAC is a leading Russian think tank with research programs that cover over 20 areas. The Council’s expertise is widely used by the Russian government, academic community, and domestic and international companies involved in international activities.

Alongside its analytical projects, RIAC is also deeply involved in building a strong network of young foreign policy and diplomatic professionals. The Council actively participates in expert diplomacy through its ongoing partnerships with international research centers, universities, and business associations.

RIAC’s Board of Trustees is chaired by Sergey Lavrov, Minister of Foreign Affairs of the Russian Federation. The President of RIAC is Igor Ivanov, Corresponding Fellow of the Russian Academy of Sciences, who served as Russian Foreign Minister in 1998–2004 and Secretary of the Russian Security Council in 2004–2007. RIAC General Director is Ivan Timofeev.

Russian International Affairs Council

**FINANCIAL AND ECONOMIC DEVELOPMENT DYNAMICS OF NORTH AFRICAN COUNTRIES:
OPPORTUNITIES FOR RUSSIA IN THE NEW POLITICAL LANDSCAPE**

Working Paper No. 89 / 2024

Cover photo credit:
TASS / AP / Amr Nabil

Layout — Olga Ustinkova

Format 70×100 ¹/₁₆. Offset printing.

100 copies.



Tel.: +7 (495) 225 6283
Fax: +7 (495) 225 6284
welcome@russiancouncil.ru

119049, Moscow,
8, 4th Dobryninsky pereulok

russiancouncil.ru