



French overseas note-issuing banks: Territories, Currencies and Convergence Challenges

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Introduction

Welcome to Dialogue &co. Today, we will be talking about the French overseas territories. From the French West Indies to the Pacific, their unique history continues to influence their economic and monetary reality. To better understand this intricate landscape, Lucile Rives, head of podcasts at the Banque de France, is interviewing Ivan Odonnat, Chair of the *Institut d'émission des départements d'outremer* (IEDOM – the delegated central bank for the French overseas departments and territories) and Director General of the *Institut d'émission d'outremer* (IEOM – the French overseas note-issuing bank). History, sovereignty, the challenge of convergence: together, they analyse the role of issuing institutions in these overseas territories.



Part 1: Starting with the territories

LUCILE RIVES: Hello Ivan Odonnat. You are the Chair of the *Institut d'émission des départements d'outre-mer* (IEDOM) and the Director General of the *Institut d'émission d'outre-mer* (IEOM). When we met to prepare for this interview, you said to me: “Before we talk about institutions, we need to talk about territories.” Why is it important to start with the territories?

IVAN ODONNAT: Hello Lucile. Yes, I think it's important because, in reality, these territories are relatively little known. These territories are known as France's overseas territories, implying that they are a slightly different France. However, these are former colonies whose history is largely unknown. They were gradually established as local authorities from 1946 onwards, with specific institutional statuses which have since been amended several times. Today, this has resulted in considerable institutional complexity, which the European integration process has probably exacerbated.

To give you a bit more background and my position, I myself am originally from Martinique and, like many young people of my generation, after completing my secondary education, I left to study in Paris. I remained there and settled down, but I still have very strong ties to my homeland.

The current and former departments of the Atlantic and Indian Ocean basins

LUCILE RIVES: In order to better understand the territories covered by the two institutes you head, please could you present them for us? Let's start with the IEDOM. In the IEDOM, there is a D for department. Therefore, all territories that fall under the remit of the IEDOM are current or former French departments. Please could you elaborate a little more?

IVAN ODONNAT: So, for those interested in marine geography, I would add "in the Atlantic and Indian Ocean basins". The IEDOM primarily covers the five collectivities that fall under Article 73 of the Constitution, so we will touch on a bit of constitutional law: Guadeloupe, Martinique, French Guiana, Réunion, and Mayotte. Article 73 states that the laws and regulations applicable in these territories are the same as those of the Republic, but that they may be adapted to suit the specific characteristics of the territories. We will also look at a little European law. I think that we have to understand how these territories relate to the Treaty on the Functioning of the European Union. These territories are known as the outermost regions, or ORs for short. This means that they are subject to European law, but again with certain special provisions due to their geographical remoteness. The ORs are therefore part of the European Union. The French regions are included in the euro area, the common market and the European Union. We'll talk more about this later, but what needs to be made clear right away is that these territories are not part of the Schengen area, which means that when you travel to or from them, there are border controls.

LUCILE RIVES: So, we're talking about Guadeloupe, Martinique, French Guiana, Réunion and Mayotte. There are also three territories that are covered by the IEDOM, three other local authorities that are different in that they used to be departments.

IVAN ODONNAT: Spot on. So, in addition to the five territories I have just mentioned, there are three others that come under Article 74 of the Constitution. As you mentioned, these are territories that were formerly departments or parts of departments. Firstly, Saint Martin and Saint Barthélemy, which were municipalities in the department of Guadeloupe until 2007. And secondly, Saint Pierre and Miquelon, which was a department between 1976 and 1985.

Here too, we European law comes into play. According to the Treaty on the Functioning of the European Union, Saint Martin is an OR, as we have just discussed. By contrast, Saint Barthélemy and Saint Pierre and Miquelon have a different status, known as Overseas Countries and Territories, or OCTs, and are therefore not part of the European Union. They are not subject to EU law. Relations with the European Union are governed by an association agreement which allows nationals of these two territories, in particular, to hold an EU passport.

LUCILE RIVES: And so, to further illustrate this administrative complexity, in these three local authorities, even though they are no longer departments, the state is still represented by a prefect.

France's Pacific territories

Reading

- Where are you from?

-Nouméa.

-Isn't that Tahiti?

-No, not at all...

-So, where is it? It's... Wait, I'm looking It's definitely an island

-New Caledonia.

- Yes, of course! And it's French?

LUCILE RIVES: So you have just given us an overview of the territories that are or were departments and are covered by the IEDOM. And then there are the Pacific collectivities, which are covered by the other institute you head, the IEOM, and which also have very varied administrative statuses.

IVAN ODONNAT: Yes, the IEOM currently operates in the three Pacific collectivities: New Caledonia, French Polynesia and Wallis and Futuna, which are governed by Article 74 of the Constitution and, under the Treaty on the Functioning of the European Union, are considered OCTs. In Wallis and Futuna, the institutional organisation has several specific features. There is an executive branch headed by the senior administrator, as it is called, who represents the state. So, as such, he/she is the prefect for this territory. There is a customary authority. In fact, there are several. Wallis and Futuna is unique in that, administratively, there are no municipalities, but rather customary kingdoms. There are three kings—and in fact, I believe there are four because there seems to be a dissident king—who manage customary matters and are involved in the administration of territorial affairs. Then there is a territorial assembly, which has certain powers, but these are fairly limited, to be honest.

And then there is New Caledonia and French Polynesia. In both cases, the state is represented by a kind of prefect called a high commissioner. The High Commissioner manages the sovereign powers reserved for the state. The local authorities themselves are represented by both an executive and a deliberative assembly, both of which have fairly broad powers. These are general powers, meaning that they do everything that the state does not do, which in practice corresponds to a relatively high degree of autonomy on many issues outside the realm of sovereign powers.

Overall, to summarise this landscape, the IEDOM and the IEOM together cover 11 inhabited territories, i.e. which have a permanent population. To give a complete picture of what France's overseas territories are, we must add two other territories which are uninhabited, i.e. with no

permanent population. First, the French Southern and Antarctic Lands, the TAAF. And second, Clipperton Island. And these two territories are part of the French Republic.

Part 2: The monetary history of the overseas territories

LUCILE RIVES: So you are at the head of issuing institutions, meaning currency. I imagine that the complex administrative organisation you have just described, which reflects colonial history, can also be found in the monetary history. To give us an overview of this monetary history, I suggest once again that we separate the territories covered by the IEDOM and the IEOM, because they have very different monetary regimes.

The current and former departments of the Atlantic and Indian Ocean basins

IVAN ODONNAT: We are not going to retrace the roots of colonisation and the entire colonial period. In reality, the monetary history, the true monetary history of the collectivities we have just discussed, began during the Second World War with the formation of Free France and the monetary organisation of Free France from 1941 onwards, which was based on what was known as the *Caisse Centrale de la France Libre*, a kind of central bank of Free France, the CCFL. We like acronyms in the world of central banks. And then things started to speed up as we approached the end of the Second World War. In February 1944, this CCFL became the *Caisse Centrale de la France d'Outre-mer* (CCFOM), which enjoyed the privilege of issuing currency throughout the French territories that were still colonies, in Africa and a number of other territories, including French Equatorial Africa, Cameroon and Saint Pierre and Miquelon. This privilege of issuing currency was then extended later that same year, in June, to include Réunion, Martinique and Guadeloupe. And then it was further expanded to include French Guiana's, a little later in August 1944. So, you have this central bank for France's overseas territories, which manages the issuance of currency throughout all of its territories. It issues banknotes and puts them into circulation. These banknotes are specific to each territory. So, at that time, you had a Martinique franc, a Guadeloupe franc and a French Guiana franc, which were pegged to the so-called metropolitan franc by a fixed exchange rate.

As regards Réunion and Saint-Pierre-et-Miquelon, which have been mentioned as falling within the remit of the IEDOM, the situation was slightly different, since at that point in history, in monetary terms, the two territories were either attached or about to be attached to the French colonies in Africa, which had their own specific currency, known as the CFA franc. Therefore, the currency of Réunion and Saint Pierre and Miquelon at the end of the Second World War was the CFA franc, which was also pegged to the French franc at a fixed exchange rate. The IEDOM was the next step in the construction process. In 1959, it was established as a national public institution, and the IEDOM inherited the issuing privilege from the *Caisse Centrale de la France d'Outre-Mer*.

LUCILE RIVES: Then, things evolved in the early 1970s. To summarise what you have just said, in the early 1970s, franc banknotes specific to the departments were in circulation in the French

West Indies and French Guiana, while CFA franc banknotes were in circulation in Réunion. And in Saint Pierre and Miquelon, CFA francs are gradually being replaced by metropolitan banknotes. There was therefore considerable currency heterogeneity.

IVAN ODONNAT: Indeed, there was a great deal of heterogeneity, and the idea at that time was to harmonise things. In 1975, the currency issuance system was reformed to this end. The CFA franc of Réunion was replaced by metropolitan banknotes. At that time, the term “metropolitan” was still used. Similarly, it was Banque de France banknotes, i.e. French franc banknotes, that were introduced in Guadeloupe, French Guiana and Martinique. In Saint Pierre and Miquelon, this also happened in a slightly different order. The 1970s were a period of harmonisation and standardisation in the way banknotes were issued within the IEDOM's remit. And since that time, in all territories covered by the IEDOM, the currency in circulation has been the currency of mainland France, i.e. initially the franc, until 2002, when it was replaced by the euro.

LUCILE RIVES: At the start of the programme, you explained the distinction between the outermost regions, or ORs, which are subject to European law, and the overseas countries and territories, or OCTs, which are not. I digress slightly because when we talk about the euro, we inevitably think of EU law, and Saint Pierre and Miquelon is an OCT, yet the euro is used there, as it is in Saint Barthélemy and Saint Martin.

IVAN ODONNAT: Exactly. Remember, Saint Barthélemy became a fully-fledged collectivity as a result of a movement that separated the municipality of Saint Barthélemy from Guadeloupe and established it as a separate entity. But at that time, the currency in circulation in Saint Barthélemy was the currency of Guadeloupe, which was the French franc and then the euro. And so, Saint Barthélemy, which became an OCT under the Treaty on the Functioning of the European Union, continues to use the euro, even though European law does not apply there and it is not part of the euro area, in order to ensure monetary continuity.

As for Saint Pierre and Miquelon, the archipelago is also an OCT. To reiterate, because I feel it is important, it is not part of the European Union's territory, nor is it part of the Schengen area. But unlike Saint Barthélemy, Saint Pierre and Miquelon is part of the euro area. This is the result of an ad hoc decision by the Council of the European Union on 31 December 1998.

This decision also applied to Mayotte. We haven't talked much about Mayotte so far. The monetary regime in Mayotte is slightly different. It remained so for some time because Mayotte is one of the islands of the Comoros archipelago. For a very long time, currency issuance was managed and handled by the Central Bank of Madagascar and the Comoros, until Madagascar gained independence in 1960. After 1960, the Central Bank of the Comoros continued to issue CFA francs for the Comoros until 1976. In 1976, the Comoros gained independence, except for Mayotte, which chose at that time to remain part of the French Republic. And in terms of currency, the CFA franc, which is issued and managed by the IEOM, was exchanged for French francs, banknotes issued and managed by the Banque de France. So there was a transfer from the

IEOM to the IEDOM, which took place and became effective in 1999, just before the transition to the euro.

The monetary history of the Pacific collectivities

Reading

Naturally, during the war, there was the time of the Americans. A time of abundance, still celebrated in song here, during which it rained strips of tarmac, bridges and four-wheel drive vehicles to travel across them. Ah, the time of the Americans!

LUCILE RIVES: And so we see this colonial history reflected in administrative history, monetary history and even in the areas of responsibility of institutions, since the IEOM covered for a few years Saint-Pierre-et-Miquelon and Mayotte. But today, the IEOM focuses on the Pacific communities, where monetary history, as we discussed earlier, is very different from that of the French West Indies, French Guiana, or the Indian Ocean territories, since the euro is not in circulation in New Caledonia, Wallis and Futuna, or French Polynesia.

IVAN ODONNAT: So, it might not be in circulation, but you can still find it and use it. However, the currency that is legal tender in this area, known as the Pacific Franc Zone, is the Pacific franc, a relatively recently created currency. It was created in 1945, with a fixed parity with the French franc. And at that time, the objective was to restore monetary control over these territories, which had been almost entirely occupied by the American army during the Second World War. And in fact, the dollar was the dominant currency used in trade in these territories at that time. So, there aim was to recreate a monetary personality in the territories.

The IEOM was established a little later, in 1966. This was when the IEOM was granted the privilege of issuing currency. This naturally begs the question as to who was responsible for issuing currency prior to the IEOM. Actually, it was a private entity, the *Banque d'Indochine* (Bank of Indochina). Therefore, between 1945 and 1966, the *Banque d'Indochine* was responsible for issuing the Pacific franc, and in 1966, the IEOM was set up and inherited this privilege. When you look at the first series of banknotes, it's also quite an interesting story, similar to that of the Pacific franc banknotes. Both those printed by the *Banque d'Indochine* and, somewhat later, by the IEOM, these banknotes are subject to a strict principle of territoriality. This means that their use is strictly limited to the places or territories where the banknotes are issued. It is still the same currency, but the type of banknotes in circulation is different. Moreover, these banknotes are highly sought after by collectors because of their rich iconography.

LUCILE RIVES: And so, even though these collectivities did not adopt the euro, monetary history continues to be written, since in 2014 new banknotes were put into circulation, i.e. a new series of Pacific franc banknotes, and the principle of territoriality that you just mentioned has disappeared.

IVAN ODONNAT: It is disappearing because what we are seeing is that the banknotes, these Pacific franc banknotes, are becoming obsolete. They are expensive to produce. We have security features that are not state-of-the-art, formats that are not practical. These are really beautiful banknotes, but quite big and bulky. So, we are going to launch a new series. Political considerations are also behind this revamp. It comes at a time when major questions are being asked about institutional change in New Caledonia. These discussions centre on a demand from New Caledonian representatives to promote symbols of identity that better express Kanak identity. And so, this concern will be reflected in the new series of banknotes. Each banknote in the new series features one New Caledonian side and one Polynesian side. And what about Wallis and Futuna, you might ask? There are symbols representing Wallis and Futuna on each side. So, overall, we have a new series of banknotes with strong identity features that people can really relate to. It is a way of building trust, and the message conveyed to the public is that these banknotes "are yours".

Part 3: Monetary policy in the overseas territories

LUCILE RIVES: So, how do these monetary regimes affect monetary policy? For the IEDOM, with the euro in circulation, I imagine there is some kind of relationship with the European Central Bank?

Monetary policy in the current and former departments of the Atlantic and Indian Ocean basins

IVAN ODONNAT: Let's start with the IEDOM. For the departments and collectivities covered by the IEDOM, monetary policy is that of the European Central Bank, as we are in the euro area. The key interest rates used to set the cost of borrowing for households and businesses are the same as everywhere else in the euro area. The IEDOM therefore has no decision-making role in this matter. The IEDOM does not set its interest rates, nor does it formulate monetary policy. It does, however, play a key role in the operational phase, i.e. the implementation phase. The IEDOM now serves as an operational player. This operational player is also responsible for monitoring changes in economic conditions in the territories and for carrying out analyses. I think we can come back to this later to clarify exactly what it covers.

Monetary policy in the Pacific collectivities

LUCILE RIVES: So things are a bit different in the Pacific, I would even say very different, since there is a monetary policy specific to the Pacific franc. In terms of decision-making bodies, would it be fair to say that you are the monetary governor of the Pacific?

IVAN ODONNAT: The currency in the Pacific is not the euro, but the euro is part of the monetary organisation. Firstly, the Pacific franc is pegged to the euro at a fixed exchange rate, which is currently set at 1,000 Pacific francs to EUR 8.38. Therefore, this is the strong link with the euro. Monetary policy is decided not by the Governing Council of the ECB but by the Supervisory Board

of the IEOM, chaired by the Governor of Banque de France or his representative. And in practice, today, the Governor delegates this responsibility to Agnès Bénassy-Quéré, the second Deputy Governor of the Banque de France.

Ultimately, the question is what decision-making power does this Council have? It is a real power, but one that is embedded in a specific framework. In fact, we are faced with what is known in international monetary theory as Mundell's impossible trinity. We have a fixed exchange rate regime, we have complete freedom of capital movement, and what Mundell says is that if you have these two elements, you cannot have complete monetary autonomy. Indeed, monetary autonomy is limited, which means that the IEOM cannot set its interest rates independently of the decisions taken by the European Central Bank.

However, the IEOM can adjust its key interest rates in order to manage bank liquidity and credit. Technically, and interesting to those working in monetary policy and monetary analysis, the Pacific franc area is characterised by a fairly substantial and structural banking liquidity deficit. Which is very different from the situation we see today in the euro area. This means that when monetary policy decisions are made, interest rate decisions, this consideration must be taken into account and we must ensure that these interest rate decisions do not result in arbitrage opportunities that could encourage capital outflows from the area at a time when such capital is needed. Overall, key interest rates follow those of the ECB fairly closely, but changes occur with a slight lag in terms of their magnitude or timing. We try to take local situations into account as much as possible, bearing in mind that we actually have three territories to cover: New Caledonia, French Polynesia and Wallis and Futuna, which may find themselves, as is the case today, in quite different economic situations in terms of financing needs, changes in bank lending or local liquidity conditions.

LUCILE RIVES: It is true that in order to reflect these specific local conditions, particularly the shallower interbank market, there are key interest rates that do not exist or no longer exist within the framework of European monetary policy. In particular, I noticed that you mentioned a rediscount rate, which no longer exists in European monetary policy today.

IVAN ODONNAT: Indeed, one can question the actual relevance of these instruments and their somewhat outdated nature. They may look like instruments from a bygone era, but I don't think so. These are instruments that reflect how this entire area and its economies operate, and their needs. So, you mentioned the depth of the interbank market. In reality, there is no interbank market. When you look at how the banking system is structured in the different territories, you will find, particularly in Polynesia and New Caledonia, banking institutions that are often subsidiaries of French banking groups, belonging to the same banking groups. Therefore, when this is the case, there may be transactions and monetary flows between the two territories through the banking subsidiaries established there, which are therefore intra-group flows. So that's what constitutes our little interbank market. Beyond that, there is no financing relationship between the various institutions, and their refinancing to meet the needs of the economies is conducted via the IEOM and the IEOM. You rightly point out that these mechanisms, these

refinancing instruments, are different from those of the ECB. They are appropriate for the territory. Rediscounting is indeed a rather old practice, but it has the unique feature of allowing financing to be accurately tailored to the needs of very small businesses. It's still the characteristic of the business fabric, the overseas territories in general, and the Pacific franc area in particular. The fact that banks can mobilise loans granted to these companies through the IEOM makes it possible to inject liquidity very directly into these companies.

Part 4: Other missions of the Institutes

Reading

Language is accommodating when we show a little patience. It is willing to tell stories of mines that respect ecosystems, hotel complexes that blend perfectly into the landscape, and globalised businesses that have local interests at heart. And when these stories clash with the reality that belies them, they don't fall to pieces, they barely creak.

LUCILE RIVES: Therefore, in addition to the monetary tasks of the institutions, the IEDOM and the IEOM also play a very concrete role in local economic life. Can you tell us about the tasks carried out by the institutes you manage?

IVAN ODONNAT: Actually, we do a lot of things. First of all, our core activity is to issue currency and manage its circulation. Coins and banknotes are still really important means of payment in the overseas territories. And if you ever have the opportunity to visit a branch of the IEDOM or IEOM in a given territory, you will see that all these branches are set up in the same way. They are structured around a central hub, which is the cash area, with, as you can imagine, a whole range of security measures in place because we continue to handle large amounts of cash. So that is the first core mission.

I mentioned means of payment. Means of payment are not just banknotes and coins. In fact, we ensure the security of payment means in all areas, either directly when we are in the IEOM, or in conjunction with Banque de France and the Observatory for the Security of Payment Means, which is chaired by Banque de France.

In addition, the IEOM and IEDOM perform all of the economic services currently provided by Banque de France for the benefit of businesses, such as company ratings, i.e. assessing their credit quality and providing information to banks, which can facilitate access to credit, or supporting households. These may be fragile households, often in the framework of overindebtedness management or the right to a bank account procedure. So, there's a whole range of activities.

Furthermore, in addition to supporting agents in their financing journey, we also provide financial education. Therefore, the IEDOM and the IEOM also provide financial education in the territories, in the same way as Banque de France, for all types of players.

And lastly, our activities include extensive monitoring and analysis of economic conditions and economic analysis in general, which helps to guide the actions of decision-makers at both the local

and central levels. We share these analyses with the Banque de France's governing authorities and with the central government. So, that sums up our activities.

LUCILE RIVES: I'd like to discuss this last point with you. Once again, when we were preparing for the interview, you mentioned how difficult it can be to obtain statistical data to guide decision-making or even just to understand how local economies work. How do you currently identify, collect and construct indicators when data doesn't exist?

IVAN ODONNAT: There are data, but they are incomplete and insufficient. As a trained statistician, I can only deplore this. It is impossible to formulate appropriate economic policy without data and indicators. And when it comes to overseas territories, data are often lacking, incomplete, or not necessarily reliable. No territory is unique in this shortcoming; it is the case in all of them. So how do we go about compensating for these gaps? We produce data. In our traditional sphere of activity, which is, of course, everything related to banking and finance, but we also do so in the real world, depending on the needs of the regions. And so, for Wallis and Futuna and Saint Barthélemy, for example, we had to produce a GDP indicator for the territories. In fact, it is a job requiring a national account. Local statistical organisations are unable to do this. INSEE does not have jurisdiction here because, in both cases – and I chose these two examples deliberately – we are dealing with OCTs, which, as you will recall, have a different legal structure and different competencies. Therefore, particularly in terms of statistics, INSEE does not have a role to play. These are ad hoc legal structures in each territory, but they sometimes lack the necessary resources. And we were able to assist both territories in developing an indicator to monitor GDP. So, we contribute in this way, and I must say that we're in very high demand. My ambition is that we can perform these tasks more systematically with greater resources and state-of-the-art tools, as is the case in most other places.

Part 5: Economic convergence

LUCILE RIVES: It is true that this task, which may seem somewhat administrative, is nonetheless essential in guiding economic policy decisions, particularly because there is a very ambitious and, at the same time, very natural economic policy objective for these territories, namely economic convergence. I wanted to know what that objective was and also where we stood in terms of the economic convergence of these territories in relation to, I imagine, mainland France.

IVAN ODONNAT: So, conducting economic analysis on overseas territories is extremely interesting and even, in some respects, rewarding. There is so much to do, so much to understand. The fact remains, however, that based on the indicators available to us, if we take this idea of convergence, we see a lag, or at least a gap, in terms of living standards. Adjusted for prices between overseas territories and, for example, taking mainland France as a reference, there is a negative gap of between 30% and 70% depending on the territory. That's the snapshot. When you look at how this indicator, this gap, has changed since, say, the end of the World War II, there was a period in which living standards converged. This is what we want to achieve. In fact, all economic policy is organised with this aim in mind.

Then, this trend ceased around the end of the 2000s, in the wake of the great financial crisis. Perhaps we still need to fully understand the reasons behind this. But the trend is slowing down. In fact, rather than convergence, in some cases we should even be talking about divergence, which is rather depressing. It is therefore really important to understand why this is happening, what the drivers are and what we can do to correct it.

And that's what leads us to venture beyond, shall we say, our usual stomping ground. When you work at a central bank, you are generally not only interested in monetary policy, because monetary policy must be coordinated with all other policies, and this is even more true for the IEDOM and the IEOM. And the reality is that on the ground, in branches, across regions, you are the point of contact for a number of authorities, collectivities and state representatives. We are often seen as the experts. And so, faced with these expectations, it is important that we have something to say and that we can provide relevant analyses and support for decision-making. So that's really an important part of our work.

LUCILE RIVES: In the first part of this interview, we took great care to distinguish between the history of the former and current departments, and that of the Pacific collectivities. Now, we're talking about convergence in general terms, or the overall situation, even though there are fundamental differences between each territory, if only from a demographic perspective, with some populations ageing and others very young. Is this slowdown in convergence that we are talking about the same across the board? And are the causes the same across all the territories that you're talking about?

IVAN ODONNAT: This lack of convergence, which may even be slowing down or turning into divergence, is a general observation. Here too, no territory is unique in this respect. Obviously, living standards vary, but frankly, the situation is unsatisfactory in all regions. So, this suggests that there may be a number of factors in common between these situations. There are differences, of course. We find specific features across the different territories. If we look at recent economic history, the crises we saw last year, for example, in New Caledonia or the West Indies, had different causes. But the backdrop was fairly similar. What all these territories have in common is that they are what are known as small island economies. There are many others. I believe that the IMF even has a list of these states. If I remember correctly, this list includes around 60 countries or territories. They share a high dependence on imports for their supplies and, consequently, weak local production, high logistics costs or significant storage needs, inadequate regional integration and therefore limited interaction with their neighbours, fairly narrow markets, combined with weak competition, particularly in everyday consumer markets. So that's what they have in common.

And I even think that, as far as the French territories that fall into this category are concerned, all the characteristics I have mentioned are accentuated and exacerbated by the very close, almost exclusive relationship between the territories and mainland France. And that is the stigma associated with the legacy of colonialism, of what was known as the Colonial Pact, in which metropolitan France effectively had a monopoly on relations with the colonies. We still see

vestiges of this, and it has a huge impact on economic structures. What has the state done? What have the authorities done to address these situations? My observations are not new. The strategy has been to compensate for what has been identified as these shortcomings through income transfers, tax transfers and social transfers to households and businesses. The state practises this everywhere. In fact, all French regions receive transfers, except for Île-de-France, which is more of a provider. But the difficulty is that this has not translated into the development of adequate production capacity, appropriate investment rates, and the creation of value added that would enable endogenous growth. This growth continues to be driven by consumption, and this consumption continues to be fuelled by many of these transfers. All in all, when you look at all the measures that have been taken, their accumulation over time, it is evident that they are inappropriate, ineffective, and have not always produced the desired results. In fact, they have been or continue to be counterproductive, acting as obstacles or sources of rigidity and hindering innovation and competition. So, this is the general context. It is important to make this observation, this assessment, because you can identify the mechanisms needed to reverse this process.

LUCILE RIVES: Can you give us an example of one of these counterproductive measures? And perhaps to round off this interview, because it is clear that you have an in-depth knowledge of the overseas territories, what are the ways we can resolve this inappropriate and sometimes counterproductive state of affairs?

IVAN ODONNAT: One example of counterproductive measures is tax incentives for private investment. A policy that the state has implemented on a large scale for 40 years, in the form of a variety of laws. Today, this tax expenditure, in the form of tax reductions or tax deductions, amounts to approximately EUR 800 million per year across all territories. If you compare this with the amount of private investment in the territories, it is clearly insufficient. If we compare the amount of investment per capita in each territory with that in mainland France, the difference is quite substantial. This suggests that these subsidies have not boosted investment. In reality, here too, if you look a bit more closely at the situation of businesses, you realise that this aid acts more like operating aid. They actually help companies to cope with their operational constraints. They are not used for investment purposes. That is why I mentioned their counterproductive nature. They do not deliver on expectations and, in fact, create a situation that is very difficult to resolve. Indeed, to unwind all these measures, since this aid is ineffective, naturally, we should discontinue it. But if you discontinue it, you will create financial difficulties for many companies. Therefore, it's extremely complicated.

So, what's the solution? I believe a comprehensive approach is called for. In my opinion, there is no magic wand; there is no single measure that will suffice. What is required is a comprehensive approach, and a comprehensive framework. Based on my observations, if there is a lack of competition, we must ensure that competition is as effective as possible. We can't change the size of territories, but perhaps we can make the rules of the game more transparent when it comes to trade and how markets operate. We can work to reduce barriers to entry, for example in large-scale retailing or other sectors; these are things that are entirely achievable.

There are rigidities in the goods and labour markets. The labour market is a case in point. Unemployment rates vary between 15% and 35%, whereas the average in mainland France is just over 7%. The only exception is French Polynesia, where the unemployment rate is currently around 8%, but the situation there is completely different from that in mainland France in terms of social security and unemployment protection. So the rules of the game are very different. If you take Polynesia out of the equation, in all the other territories unemployment rates are sky-high. At the same time, many companies in different sectors struggle to recruit. We need to take action. I'm not sure how, but we need to work on this aspect and not just settle for the status quo.

I have spoken at length about supporting companies on their financing journey, and this area falls more within our remit. We have the know-how, so we are active in this area. We provide mediation services and ratings. All these services are under-used. I think there is a lack of awareness among companies about our services. We try to raise awareness about them as much as possible. This is less the case for the IEOM than for the IEDOM. So I think there is room for improvement there...

There is a real problem with payment times in the overseas territories. And here, I must say that public authorities need to put their own house in order, because it is clear that these long payment times, which are payment delays, are often caused by either public authorities or hospitals. Here too, there is room for improvement. We are working on this with the regional public finance directorates. And we have noticed that, over the years, we have managed to reduce payment times, which gives me grounds for optimism.

When I mention all these areas for improvement, it does not mean that nothing is being done. But this is just to stress that, in my opinion, this is where we need to focus our efforts. And for it to work, we have to be very persistent; it's a long-term process. Then you have a broader investment challenge. Port connectivity must be improved. We often talk about islands, but even in French Guiana, which is the only territory that is not an island, supplies are brought in by sea. Over 90% of goods supplies are transported by sea. So, if these goods are to be shipped at prices and costs that are affordable locally, maritime and port operations are a very important factor.

Then there is the energy transition. This is potentially a very important factor because it can help reduce energy costs and create jobs at the same time.

And lastly, agricultural production of goods and everyday consumer products, both animal and plant-based, are a very important consideration. It is deplorable that a number of territories, in order to meet local needs, are obliged to import large quantities of goods from outside the territory to meet local consumption needs. This raises a great many issues, of course, since, once again, it means dismantling an organisation that has its roots in a past that is little known, but nevertheless fairly distant. So, it will take time. And my main message is that we know the possible solutions. What I'm saying here, in fact, is what many people say: you just have to persevere and keep up the action over time.

LUCILE RIVES: Thank you very much, Ivan Odonnat.

IVAN ODONNAT: Thank you, Lucile.

VOICE-OVER: Thank you for listening. The literary excerpts are taken from "Frapper l'épopée", a book by Alice Zeniter. If you enjoyed this episode, don't forget to subscribe, share it with your friends and family, and leave a comments and ratings. See you soon on 'Dialogue &co'!