

COOPERATION WITH AFRICA

Mobilizing Private Investment and the Compact with Africa: A Preliminary Assessment and Steps Ahead

Rob Floyd, African Center for Economic Transformation

Brahima Coulibaly, Brookings Institution Africa Growth Initiative

Jann Lay, Institute of African Affairs, GIGA German Institute of
Global and Area Studies

Rainer Thiele, Kiel Institute for the World Economy

Jing Gu, Centre for Rising Powers and Global Development,
CRPD, at the Institute of Development Studies

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Abstract

The Compact with Africa (CwA) is a structured partnership between volunteering African countries and the G20 with the inclusion of key multilateral and bilateral partners and, very importantly, the private sector. It was launched by the German G20 Presidency in March 2017. As of May 2018, 11 African countries are participating in the CwA: Benin, Guinea, Côte d'Ivoire, Ghana, Egypt, Ethiopia, Morocco, Rwanda, Senegal, Togo, and Tunisia.

The CwA is an opportunity for increasing private investment (particularly in infrastructure) in Africa through improved coordination and deeper stakeholder engagement. The process can increase transparency and provide better access to information on investment support mechanisms. It will, therefore, help to continue to redefine roles of development actors, including governments, international organizations, and the private sector. An initial assessment of the CwA, one year after its inception, has indicated the need to enhance monitoring and accelerate the implementation of the initiative (Compact Monitoring Report, 2018). Based on this initial assessment and an unattributed pilot survey among private sector actors (undertaken by the authors), the T20 Africa Standing Group proposes the G20 undertake a regular private sector survey, which shall contribute to a systematic integration of the private sector in the monitoring of the CwA, and improve investment tracking.

Challenge

The challenge is to ensure successful implementation of the CwA, which requires robust monitoring and appropriate remediation – as well as stronger participation of the private sector in Africa more broadly. The Africa Advisory Group (AAG), an informal body comprising a sub-set of G20 members, the African Compact countries, the World Bank (WB), African Development Bank (AfDB), International Monetary Fund (IMF), and other stakeholders such as the OECD, governs the CwA. The AAG has adopted a monitoring framework and a light-touch independent review mechanism. Monitoring takes place biannually at the time of the WB/IMF Annual and Spring Meetings and is coordinated by the World Bank.

The initial assessment of the CwA presented in Washington in April 2018 included self-assessments from eight CwA countries, eight AAG members, and a joint report from the IMF, WB, and AfDB (Compact Monitoring Report, 2018). The Compact countries indicated that most policy actions are partially achieved (Compact Country Self Assessments, April 2018). The non-African AAG members largely reported on the actions of their (bilateral) development agencies, although some provided significant

detail on private sector activities (AAG (G20) Self Assessments, April 2018). The joint report from the WB, IMF, and AfDB assessed large technical assistance programs in all CwA countries (Joint Report of International Organizations, April 2018). The peer reviewer highlighted generally that there is a rationale for enhanced policy coordination and cooperation through the CwA to foster investment and trade. Likewise, there is space for international organizations to provide greater clarity on the additionality of technical assistance to Compact countries. For the CwA countries, the peer reviewer indicated that greater collaboration and knowledge sharing would be beneficial, and that the self-assessments would be strengthened by identifying key challenges to policy implementation. Finally, the peer reviewer suggested strengthening the monitoring framework by conducting a private sector perception survey that is specific to the CwA.

The AAG endorsed this first CwA Monitoring Report; encouraged Compact Teams to enhance the private sector dialogue in their countries; and agreed to take further action to advertise the Compact initiative to the private sector. Enhanced private sector activity is crucial for Africa, but the trends are troubling. According to the World Bank “2017 Private Participation in Infrastructure” investment commitments in absolute terms increased for most of the world, but in Africa declined by 44 percent from 2016. Similarly, the commitments to infrastructure financing in Africa from the private sector was only 4.1 percent in 2016.¹ The AAG agreed to have an interim monitoring system with a private-sector oriented impact assessment at the next AAG meeting in Indonesia in October with the IFC and the AfDB in the lead in compiling this assessment.

Our own analyses of the CwA suggest that the success of the initiative will hinge on whether it manages to provide practical instruments for (potential) investors. These instruments will have to be known and accessible to the potential investors, and they should be adapted to the particular challenges of the various African investment environments in a context of technological transformation. Therefore, we agree with the conclusion of the Monitoring Report that the views of the private sector need to be better represented, ideally through a regularly conducted survey.

To underscore the importance of such a private sector survey, we have undertaken a pilot survey among selected private firms.² We stress that the findings of this pilot are only perceptions of the CwA and the challenges investors face in Africa. Yet, the below results highlight the potential benefits of a regular survey for enhancing and accelerating the implementation of the CwA.

1 [African Economic Outlook 2018](#)

2 The unattributed pilot survey included firms from the United States, Europe and Africa, representing numerous sectors. It was an informal survey with selected firms; therefore, the results are only indications of perceptions.



In the survey, some German companies emphasized the importance of support mechanisms to target not only investment, but also trade; thus stressing the strong interdependence of trade and investment. They indicated that their investments in Africa are typically preceded by entering a market through exports. Only in a second stage were trading entities set-up; and in some cases then followed by a wider range of activities including service provision (for machines or equipment) and, albeit not too often, production. Our interpretation of this trend is that smaller firms, including many firms of the German “Mittelstand,” find it too risky to invest in unfamiliar markets. From the German interviews, it was also noteworthy that reference was mainly made to bilateral instruments, in particular export credit guarantees. Expectations from the CwA focused on potential bilateral instruments to support investment, possibly indicating the need to increase awareness of multilateral support among firms that have not yet been exposed to these mechanisms. These views are not dissimilar to the most recent IMF Sub-Saharan Africa: Regional Economic Outlook (May 2018), which emphasizes that sub-Saharan African countries that have experienced sustained investment benefitted from macroeconomic stability, stronger institutions and natural resources, i.e. countries with perceived lower risks. However, the same report noted that sub-Saharan Africa remains the region with the lowest private investment to GDP ratio among developing regions.

The pilot survey largely indicated there is a lack of knowledge and understanding of the CwA among the private sector, including global firms, banks, and industry groups. Those with some exposure to the CwA indicated there has been limited and uneven promotion of the Compact and the benefits to the private sector are not clear. That said, there was overwhelming support, in principle, for the Compact with many respondents noting the entrenched challenges, including risk mitigation and access to local finance that can only be overcome with a collaborative approach among Compact parties, the private sector, and other stakeholders.

Some of the companies surveyed indicated concern with overlaps between the CwA and other initiatives, including past G7 or G20 initiatives and programs of bilaterals. However, they also felt those initiatives have not necessarily been successful, therefore are supportive of the CwA if it can succeed where others have not. Firm representatives that are also closely engaged in bilateral and global policy forums on investment and/or Africa indicated they do not see the CwA integrated across G20 government agencies, where there could be greater synergies with trade and investment promotion.

Nearly all respondents indicated they would welcome greater engagement in the CwA process, including participation in a regular private sector survey. There was a general sense the private sector supports greater efforts by all G20 members (some respondents note the increased investment from China and other G20 members) and international organizations to promote the CwA.

Proposal

Integrating the private sector in CwA monitoring and improving investment tracking

We propose that the G20 integrate the private sector into the monitoring framework of the CwA. Specifically, we propose as a first step to regularly survey private sector actors that have engaged in—or are aware of—the CwA to better understand their perception of progress, improvements in policy reforms, and support provided by International Organization or G20 members.

The success of the CwA will hinge on strong private sector participation. Private investment is at the core of the CwA and crucial for its success. It plays a key role in an African Infrastructure Connectivity Alliance. Expanded monitoring can capture “the whole picture of the CwA,” therefore, it is important to include the views on successful practices and challenges for implementation of the private sector. It is furthermore important that views and perceptions of the private investors are taken into account with regard to the actions of all other G20 parties, including the CwA governments, the G20 members, and the IFIs.

A full integration of private firms into the CwA monitoring framework cannot stop at surveying perceptions, but eventually should track their actual investment behavior. We therefore suggest that in a second stage each participating firm reports on its activities, e.g. by stating its planned and realized financial engagement. Such a monitoring has two major justifications: first, as soon as participating firms receive any kind of public support (bilateral or multilateral) they should be obliged to document its use in a transparent manner; and second, given that the CwA’s ultimate aim is to enhance private investment, a regular stocktaking would help assess progress based on up-to-data information. This stocktaking-exercise should go well beyond showcasing successes. It should also systematically track intentions of investment that eventually did not materialize or that experienced delays. The lessons to be learnt from such failures and delays may be as important as the lessons to be learnt from success cases.

References

All Compact with Africa documents are available on www.compactwithafrica.org
The policy brief references the following:

1. The G-20 Compact with Africa, A Joint AfDB, IMF and WBG Report, March 17-18, 2017
2. TOOLBOX: Instruments Available to Support Private Investment in Compact with Africa Countries, IFC. 2017
3. Compact Monitoring Report, April 2018
4. Independent Review of the CWA by the African Center for Economic Transformation, April 2018
5. Compact Country Self Assessments, April 2018
6. AAG (G20) Self Assessments, April 2018
7. Joint Report of International Organizations, April 2018
8. African Economic Outlook 2018, African Development Bank
9. Regional Economic Outlook: Sub-Saharan Africa, April 2018

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