

G20 COMPACT WITH AFRICA

COMPACT MONITORING REPORT

Africa Advisory Group Meeting

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WHAT IS THE G20 COMPACT WITH AFRICA

The G20 Compact with Africa (CwA) was initiated under the German G20 Presidency to promote private investment in Africa, including in infrastructure. Launched in 2017, the CwA's primary objective is to increase the attractiveness of private investment through substantial improvements of the macro, business, and financing frameworks. It brings together reform-minded African countries, international organizations, and bilateral partners from G20 and beyond to coordinate country-specific reform agendas, support respective policy measures, and advertise investment opportunities to private investors. The initiative is demand-driven and open to all African countries. So far, 12 countries have joined. With the Africa Advisory Group (AAG) as a regular G20 working group, the CwA is firmly anchored in the G20 finance track. It is currently co-chaired by Germany and South Africa.

WHAT ARE THE COMPACT WITH AFRICA COUNTRIES



Benin



Egypt



Guinea



Senegal



Burkina Faso



Ethiopia



Morocco



Tunisia



Côte d'Ivoire



Ghana



Rwanda



Togo

WHAT IS THIS REPORT

The monitoring report informs the AAG meeting, which is held twice a year in May and November. The meeting comprises all the CwA countries' representatives, CwA co-chairs Germany and South Africa, CwA partners, and G20 partners. The report describes the impact of the CwA Initiative on private investment, with updates on the macroeconomic outlook, foreign direct investment, trade, reforms, and entrepreneurship. The monitoring report also shares best practices in boosting private investment with other countries and existing or potential private sector investors.

FIND OUT MORE

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ABBREVIATIONS AND ACRONYMS

AAG	Africa Advisory Group
ACET	African Center for Economic Transformation
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
CBI	cross-border investment
CCDR	Country Climate and Development Report
C-JET	Competitiveness for Jobs and Economic Transformation
CPIA	Country Policy and Institutional Assessment
CPSD	Country Private Sector Diagnostic
CSP	Country Strategy Paper
CwA	Compact with Africa Initiative
DPF	development policy financing
EU	European Union
FDI	foreign direct investment
fintech	financial technology
FY	fiscal year
GDP	gross domestic product
GIZ	German Corporation for International Cooperation
GVC	global value chain
IBS	Industrie des Boissons du Senegal S.A.
ICT	information and communication technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	investment project financing
ISCA	IFC Support for the G-20 Compact with Africa Initiative
LDC	least-developed country
LPG	liquified petroleum gas
M&A	mergers and acquisitions
MDB	multilateral development bank
MDTF	multidonor trust fund

MNE	multinational enterprise
MSME	micro, small, and medium enterprise
PPD	public-private dialogue
PPP	public-private partnership
R&D	research and development
PSDS	Private Sector Development Strategy
SME	small and medium enterprise
SOB	state-owned bank
SOE	state-owned enterprise
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

All currency is in U.S. dollars unless otherwise noted.

Fiscal year 2022 (FY22) refers to July 1, 2021–June 30, 2022.



EXECUTIVE SUMMARY

Africa's fast-growing population calls for the private sector to create more economic opportunities, particularly quality jobs. The Compact with Africa (CwA) Initiative supports CwA countries in undertaking necessary reforms to improve macro, business, and financing frameworks and attract both domestic and foreign private investments. The multiple crises caused by the COVID-19 pandemic and Russia's invasion of Ukraine have squeezed governments' fiscal space, making the need to provide the conditions that enable private investments more urgent than ever.

Macroeconomic Outlook

CwA countries experienced modest and varied growth in fiscal year (FY)22. Coordinated action is needed to sustain and increase this growth due to lingering impacts from the pandemic and the prolonged war in Ukraine.

- Growth in CwA countries has slowed down but remained positive throughout the pandemic. CwA countries are expected to grow at 5 percent in 2022, yet the speed of the recovery is diverging among individual countries.
- The resilience displayed by CwA countries throughout the pandemic is being challenged by the deteriorating global environment following Russia's war on Ukraine. The prolonged war has increased food insecurity and strained household budgets, with some CwA countries experiencing lower growth under strained external and fiscal positions (Morocco and Tunisia) while others continue to rebound (Côte d'Ivoire and Senegal) amidst support measures to protect the most vulnerable and stabilize food prices.
- The growth divergence is also driven by internal conflict and political instability, drought, and normalization of policies in the aftermath of COVID-19 support. After a sharp contraction in the volume of exports of goods and services in CwA countries in 2020, trade rebounded modestly in 2021.

- Higher food and fuel prices (notably in non-oil exporting countries) are projected to widen the current account deficits in 2022. Coordinated and sustained multilateral action is critical for continued efforts to mitigate the impacts of the pandemic and quickly restore growth in CwA countries.

Foreign Direct Investment

Foreign direct investment has a positive outlook amidst implementation of business environment reforms, but multiple global and regional crises indicate much more private investment is needed to increase resilience and sustain growth.

- The year 2022 continued to exhibit a growing trend in South-South trade and investment links. Most CwA countries are witnessing increased investment inflows as they adopt business environment reforms. CwA countries experienced high growth in cross-border investment volume in FY22 that exceeded pre-pandemic levels, exhibiting extreme resilience.
- Foreign investors' appetite continues to gradually move away from traditional sectors, such as extractive industries, toward sustainable infrastructure, such as renewable energy. The trend toward green investments represents the biggest share of investment inflows to CwA countries.
- Cross-border investment growth remains positive for CwA countries. However, with multiple headwinds caused by the pandemic and Russia's war on Ukraine squeezing governments' fiscal space and limited budgets, the need to attract foreign investments is becoming more crucial than ever to support CwA countries' private sector development.
- To support CwA countries' sustainable development, it is critical to continue increasing resilience to external shocks and attracting foreign investment in sustainable, green, export-oriented, and job-rich sectors.

International Trade

CwA countries' goods and services exports continued to grow in the first half of 2022, supported by elevated commodity prices, robust demand, and ongoing recovery in travel and tourism. However, the pickup in import bills, due to global inflationary pressures and the consequences of Russia's war on Ukraine on fuel and cereal prices, has raised concerns of food security and worsening trade balance deficits, particularly in net fuel and cereal importers.

- At the world level, goods and services trade volumes are expected to grow at a slower pace in 2022 relative to 2021, with new global export orders already on a declining path since March 2022, and global demand softened by cooling in China's imports, war-induced disruptions in the trade of fuel and agricultural products, rising inflationary pressures, monetary tightening, and general uncertainty.

- After growing by 2.5 percent in 2021, CwA countries' goods and services export volumes are projected to rebound by 13.3 percent in 2022, buoyed by strong external demand and the ongoing recovery in tourism. CwA countries' goods and services import volumes are projected to grow by about 3 percent in 2022, a similar pace as in 2021. In value terms, however, the growth in imports is expected to pick up due to higher food and fuel prices, widening the average current account deficit to 4.6 percent in 2022 (compared to 4.1 percent in 2021).
- Consistent with the annual projections, actual (albeit preliminary) data point to robust export receipts and increasing import bills in the first half of 2022. Thus, CwA countries' goods export values collectively increased by close to 30 percent in the first half of 2022 over the previous year, boosted by increased shipments and elevated prices (particularly for exported commodities). Fuels, manufacturing, metals, gold, and mineral ores were the main drivers, with significant variation by country depending on the export basket composition.
- Goods import values picked up by 20 percent in the first half of 2022 over 2021 levels amid record prices in fuels and cereal, which have increased concerns of denting purchasing power and food security, particularly in the net importers of such products. As a result, several CwA countries took measures to address food security concerns and also secured aid from international organizations.

Key Diagnostics

The World Bank Group's analytical work supports reform-minded countries by identifying reforms to support private sector-led development, attraction of FDI, and the combination of development and climate goals. The analytical work includes Country Private Sector Diagnostics (CPSDs) in all 12 CwA countries, Country Climate and Development Reports (CCDRs) in five CwA countries, and jobs diagnostics and analyses in six CwA countries.

- CPSDs aim to identify opportunities where the private sector could have a larger positive development impact and to recommend actions that will enable transformative private investment in the short to medium term. CPSDs are joint International Finance Corporation (IFC) and World Bank reports, and they have been conducted in all 12 CwA countries. The reports were financed by the IFC Support for the G-20 CwA Initiative and the World Bank Group.
- To operationalize CPSD recommendations, IFC leads the production of sector deep dives in the second phase of CSPD engagement. These tailored assessments were completed for Ethiopia in FY21 with a tourism deep dive and agribusiness deep dive. In FY22, the Egypt health deep dive and Côte d'Ivoire horticulture deep dives were completed.
- CCDRs are a new diagnostic tool that highlight the intersection between climate and development to achieve robust and long-term solutions to countries' most pressing climate challenges.
- In FY22, CCDRs were finalized and published in five CwA countries: Burkina Faso (as part of the G5 Sahel report), Egypt, Ghana, Morocco, and Rwanda. This first set of CCDRs show

the need to accentuate development as the foundational strategy for achieving adaptation to low-carbon pathways. They identify policy, investment requirements, external financing needs, and opportunities that can spur economic growth to create jobs of the future.

- To inform jobs policies, the World Bank Group undertakes jobs diagnostics and similar analyses to investigate the dynamics of jobs outcomes, their drivers, and constraints on the creation of better jobs. The World Bank Group has undertaken such analyses in six CwA countries, including a regional report in the Middle East and North Africa covering Egypt, Morocco, and Tunisia (and other Middle East countries), jobs diagnostics in Senegal and Togo, and labor market analyses in Egypt and Rwanda.

Entrepreneurship and Micro, Small, and Medium Enterprises

The development of CwA countries' entrepreneurship ecosystems is at an early stage, but there are considerable opportunities for micro, small, and medium enterprises (MSMEs) to succeed. Their success will encourage job creation and income growth, with a focus on gender equality, youth employment, and sustainable development.

- The G20 Africa Advisory Group meeting in May 2022 mandated a second generation of CwA reforms and actions to intensify support for innovative MSMEs and entrepreneurship in CwA countries.
- The aftermath of the COVID-19 pandemic has left country authorities with even harder choices to adopt effective policies that support access to finance for MSMEs. With adequate conditions to grow, MSMEs can create numerous jobs and increase total factor productivity and inclusive growth. However, they face unique challenges and market distortions to grow and be resilient amid increasing climate risks.
- Recognizing the heterogeneity of the MSME landscape and the stages of development of the entrepreneurial ecosystem, country-specific action plans should prioritize reforms and support to boost firms' resilience and growth.
- The preparation of action plans for CwA countries will leverage best practices and adapt policies to support entrepreneurship to the local context. Best practices include improving the local business environment, strengthening firm capabilities, expanding access to markets, and increasing access to finance.
- The Alliance for Entrepreneurship provides a coordination platform for stakeholders to support MSMEs throughout Africa. The World Bank Group supports entrepreneurship ecosystem policy using its full range of lending products. With adequate support, CwA countries can implement critical reforms to advance the CwA agenda, building on recent progress and adding momentum.

Scaling Up Private Investment

IFC and the AfDB have scaled up private investment in CwA countries through technical and financial assistance to both public and private actors, but more can be done to promote market opportunities.

- CwA countries represent a rapidly expanding consumer market as their urban populations and middle classes are growing fast. This demographic transition comes with a wide range of opportunities for companies and investors around the globe.
- Projections indicate that between 2014 and 2030, household spending will grow at an average rate of 6.5 percent in CwA countries, surpassing 5 percent average growth in Africa, and 3.8 percent average growth among other developing countries.
- To achieve a green, resilient, and inclusive development, IFC is scaling up its investments in CwA countries in a wide range of sectors—agribusiness, healthcare, cleaner energy and sustainable infrastructure, and entrepreneurship. The African Development Bank is also investing to support private sector development in CwA countries, including in infrastructure, agriculture and agro-industrial value chains, energy, water and sanitation, transport, and industry.
- Across CwA countries, major challenges remain to scaling up private investments: lack of economies of scale, lack of capacity and government champions in reform implementation, lack of competition and a level playing field due to the prevalence of state-owned enterprises and state-owned banks, and lack of design and implementation for public-private partnership reforms.
- Recommendations to help scale up private investments include providing capacity building and peer learning events to support the design and implementation of reforms; offering more de-risking financing instruments to CwA countries; expanding access to reliable data and information for potential investors; and attracting more private investors through fairs and investment outreach events.

Toward Compact with Africa 2.0

CwA countries are requesting technical assistance to strengthen their capacity to mobilize and coordinate the support from G20 countries and multilateral financial institutions.

- Ten of 12 CwA countries have requested technical assistance to deliver reforms, mobilize and coordinate multilateral and G20 aid, and mobilize G20 private investors.
- These requests were triggered by CwA countries being exposed, through the CwA peer learning events, to the experience of Tunisia. Tunisia leveraged a \$6 million CwA multidonor trust fund to support the consolidation of its reform matrices, coordination of aid (budget support, investment lending, and technical assistance), operationalization of its Reform Delivery Unit, development of an information technology system to monitor reform implementation, feasibility studies for public-private partnerships, and investment fora. As

a result, Tunisia implemented key reforms, such as digitalization of taxes, reduction in energy subsidies, and removal of licenses in low-risk sectors. The country also set up an investment fund for small and medium enterprises and a financing facility to help these firms adopt digital and green technologies.¹

- The World Bank Group has mobilized complementary trust funds to fulfill these requests: Competitiveness for Jobs and Economic Transformation (C-JET), Finance for Development (F4D), IFC Support for the G-20 CwA Initiative (ISCA), Think Africa Partnership (TAP), and the newly operationalized CwA–Green Business Fund (GBF). To this end, these trust funds will need additional contributions from CwA G20 partners (see chapter 7 for more information).

¹ See Tunisia's reform matrix in the May 2022 CwA Monitoring Report, pages 107–29.



EXPECTATIONS FROM THE AFRICA ADVISORY GROUP MEETING

The CwA Initiative has been playing an important role in fostering private sector development and investment in CwA countries, especially during the current multiple and emerging crises. This report highlights how the resilience displayed by CwA countries throughout the pandemic is being challenged by the current deteriorating global environment. The countries experienced modest and varied growth in fiscal year (FY)22 due to lingering impacts from the pandemic and the prolonged war in Ukraine. Previous CwA Monitoring Reports show that these reform-minded countries completed most of their initial reform commitments and are making new reform commitments in response to new challenges and opportunities of the global economy, including the COVID-19 pandemic, digital transformation, climate change adaptation and mitigation, and Russia's war on Ukraine. The report describes a wide range of market opportunities as well as critical reform challenges in CwA countries, where support can help unlock and scale up private investments.

Coordinated and sustained multilateral action is required to boost and sustain growth driven by the private sector in CwA countries. On October 12, 2022, at the meeting of the G7 with the finance ministers of the CwA countries, the World Bank Group, through its president's intervention, reiterated the request of 10 of 12 CwA countries for technical assistance. The World Bank Group has made the CwA a strategic objective of its multidonor trust funds (MDTFs), which are complementary and must be funded to meet the demand of CwA countries.

The Africa Advisory Group (AAG) meeting is expected to discuss the following issues and adopt recommendations and proposals on the way forward for CwA Initiative reforms.

1. Consideration of the European Union (EU) Commission proposal and support to join the CwA Initiative.
2. Discussion of other G20 countries' proposals.

3. Advertisement of World Bank Group Trust Funds. These trust funds support implementation of the reforms of the CwA, particularly the request from CwA countries for more technical assistance and peer learning.
4. Adoption of recommendations of the CwA reform package to strengthen the G20 CwA presented in the Issue Note.
 - Decision on the formalization and admission procedure.
 - Decision and engagement of G20 CwA partners to support existing trust funds and finance technical assistance requested by CwA countries. Four complementary World Bank Group MDTFs are lined up to support the G20 CwA—and they all need financial contributions from CwA partners:
 - Competitiveness for Jobs and Economic Transformation (C-JET) is the new umbrella World Bank MDTF supporting private sector-enabling reforms, technology adoption by firms, and the sustainable competitiveness of key value chains by leveraging World Bank lending.
 - Finance for Development (F4D) is the new umbrella World Bank MDTF supporting financial sector reforms and access to finance by firms, also by leveraging World Bank lending.
 - IFC Support for the G20 CwA Initiative (ISCA) is the International Finance Corporation (IFC) MDTF supporting diagnostics (such as World Bank Group Country Private Sector Diagnostics), reforms, engagements with the private sector, and support to firms leading to IFC private investments. ISCA needs to be extended and replenished.
 - Think Africa Partnership (TAP) is the World Bank Africa Region’s flagship trust fund translating knowledge into economic policy action.
 - Assessment of entrepreneurship activities in CwA countries: modalities, objectives, resources, timeline, and coordination with the Alliance for Entrepreneurship initiative.
 - Support for capacity building in CwA countries: the case of Tunisia is drawing interest from other CwA countries, which requires mobilizing resources from partners to adapt the experience to other CwA countries and beyond.
5. Presentation and adoption of an engagement campaign with G20 countries (going beyond Germany, France, and the European Commission) to support the CwA through existing trust funds.
6. Promoting investment to CwA countries through joint funding and engagement of G20 private investors: modalities, resources, responsibilities, and timeline.
7. CwA funding and trust funds monitoring and reporting: modalities, responsibilities, and timeline.
8. Creation of a formal CwA Secretariat hosted at the World Bank Group to support international organizations and CwA country focal points: modalities, resources, responsibilities, reporting, and timeline.



1. MACROECONOMIC OUTLOOK

1.1. Compact with Africa Countries Rebounding at Different Speeds and Levels

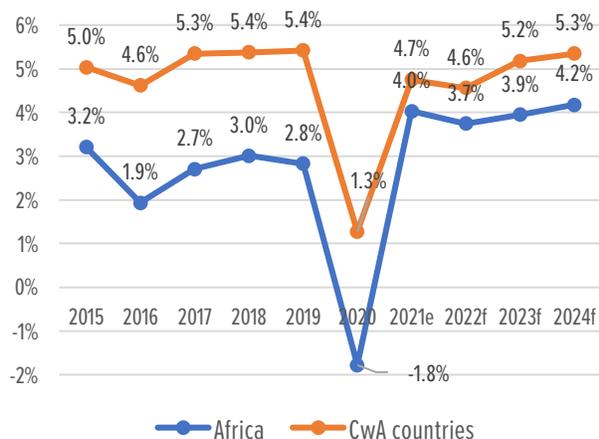
Growth in CwA countries slowed but remained positive throughout the pandemic. In 2021, the group rebounded at 5 percent real gross domestic product (GDP) growth,² but the speed of the recovery varied across and within regions. CwA-Sub-Saharan Africa countries grew at 6.3 percent, mostly driven by Ethiopia, while the other member countries experienced slower growth. Growth in CwA-North Africa countries grew at 4.1 percent, mostly driven by a sharp rebound in economic activity in Morocco and continued robust expansion in Egypt. The recovery in CwA-North Africa continued in early 2022, albeit at a slowing pace, while inflation accelerated, reflecting soaring food prices and tighter financial conditions.

The growth outlook is broadly positive for CwA countries. Output and demand are estimated to be returning to pre-pandemic levels on average, with 5.0 percent real GDP growth forecasted over 2023/24 in CwA countries, above the average for the continent (3.8 percent)³ (figures 1.1 and 1.2). However, the IMF expects the speed of the recovery to remain divergent among individual CwA countries. The prolonged war in Ukraine has increased food insecurity and strained household budgets, with some CwA countries experiencing lower growth under strained external and fiscal positions (Tunisia and Morocco) while others continue to rebound (Côte d'Ivoire and Senegal) amidst support measures to protect the most vulnerable and stabilize food prices. The growth divergence will also be driven by internal conflict and political instability, drought, and normalization of policies in the aftermath of COVID-19 support.

² CwA group averages are purchasing power parity-weighted.

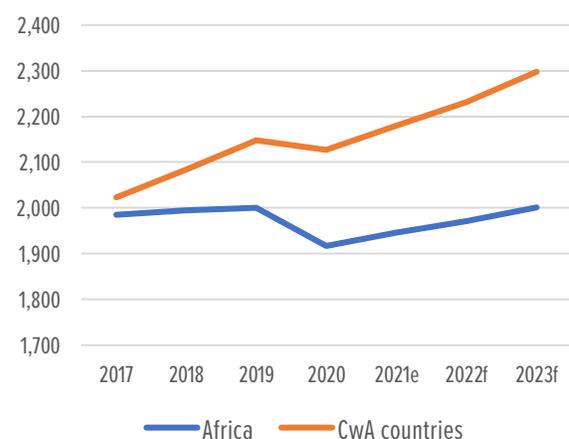
³ World Bank Global Economic Prospects, June 2022.

Figure 1.1. Real GDP Growth, 2015–24 (percent)



Source: 2022–24 forecasts are derived from the World Bank Macro Poverty Outlook, October 2022.

Figure 1.2. Real GDP Per Capita (U.S. dollars)



Source: 2022–24 forecasts are derived from the World Bank Macro Poverty Outlook, October 2022.

The tentative global recovery that started in 2021 is projected to slow in 2022, as downside risks expected earlier in the year have materialized. Russia’s war on Ukraine, lower growth in the world’s largest economies—China, European Union (EU), and United States—lingering pandemic-related supply disruptions, and normalization of fiscal and monetary policies are expected to weigh heavily on the outlook. Global growth is expected to moderate from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023, 0.4 percentage points lower than in the previous report for both years. This marks the weakest non-crisis growth profile since 2001. Global inflation is projected to increase from 4.7 percent in 2021 to 8.8 percent in 2022 but decline to 6.5 percent in 2023 and 3.6 percent by 2024. Global risks remain on the downside, with risks of monetary policy tightening dampening the recovery, additional energy and food price shocks further hurting household purchasing power, tighter global financial conditions potentially triggering emerging market debt distress, and further potential spillovers from the war in Ukraine. COVID-19 risks could further hurt global growth, while geopolitical fragmentation could impact global trade.

The deteriorating global environment is challenging the resilience of CwA countries, with Russia’s invasion of Ukraine and realized risks in 2022 posing significant headwinds on top of the pandemic’s legacies. Projections of economic growth in the medium term have been revised down but remain milder than the near-term global and regional outlook. As a group, CwA countries are expected to grow at 5 percent in 2022, and growth is projected to average 5.2 percent from 2023–27.⁴ Growth in CwA-Sub-Saharan Africa countries is expected to slow to 4.4 percent in 2022 but average 6.0 percent in the medium term. Real GDP in CwA-North Africa countries is set to accelerate to 5.3 percent in 2022 and average 4.8 percent in the medium term, reflecting a stronger performance in Egypt. Both groups are expected to outpace non-CwA African averages.

⁴ World Economic Outlook group averages are purchasing power parity-weighted. Database as of October 12, 2022.

The speed of the recovery is diverging among individual CwA countries. The prolonged war in Ukraine has increased food insecurity and strained household budgets, with some CwA countries experiencing lower growth under strained external and fiscal positions (Morocco and Tunisia) while other countries continue to rebound (Côte d'Ivoire and Senegal) amidst support measures to protect the most vulnerable and stabilize food prices. The growth divergence will also be driven by internal conflict and political instability, drought, and normalization of policies in the aftermath of COVID-19 support. Inflation in CwA-Sub-Saharan Africa countries is expected to accelerate significantly from 13 percent in 2021 to 20.6 percent in 2022, while consumer prices in CwA-North Africa countries are projected to increase by 8.1 percent in 2022 (mostly driven by Egypt), about twice the rate of 2021.

To date, famine early warning systems identify Côte d'Ivoire, Egypt, Guinea, Morocco, Rwanda, Senegal, and Tunisia as minimal risk areas, notwithstanding rapidly rising prices in foodstuffs, which raise the likelihood of food insecurity.⁵ Select regions in Burkina Faso and Ethiopia are in emergency or crisis phases due to security blockades related to conflict or drought; in Benin and Togo, select rural areas are increasingly food insecure.⁶ Flooding continues to affect Benin, Burkina Faso, Côte d'Ivoire, Guinea, and Senegal, with other repercussions.⁷

Vaccination has progressed, with an average vaccination rate of 32 percent as of September 2022 (compared to 27 percent in April 2022). Vaccination remains lower than in advanced peers, with faster progress in CwA-North Africa (50 percent average) and select CwA-Sub-Saharan Africa countries, due to rollout preparation strategies and awareness campaigns (for example, in Côte d'Ivoire and Rwanda). Morocco has been producing COVID-19 vaccines since January 2022, while Ghana, Rwanda, and Senegal are setting up COVID-19 vaccine production facilities.⁸

1.2. Mitigation Measures and International Monetary Fund Support for Growth

After a sharp contraction in the volume of exports of goods and services in CwA countries in 2020 (-9.3 percent), trade rebounded modestly in 2021 by 2.5 percent (trade-weighted). Export growth in 2022 in CwA countries is projected to rebound by 13.3 percent, buoyed by strong exports in Egypt, Morocco, and Rwanda. Higher food and fuel prices (notably in non-oil exporting countries) are projected to widen the purchasing power parity-weighted average current account deficit to 4.6 percent in 2022 (compared to 4.1 percent in 2021), though this is mildly narrower than expected at the time of the April 2022 World Economic Outlook. As the recovery continues but at a slower pace in 2023, export demand is expected to recover and CwA countries' current account deficit to narrow to 3.1 percent of GDP.

⁵ Famine Early Warning System and World Food Programme.

⁶ Famine Early Warning System and United Nations Office for Coordination of Humanitarian Affairs ReliefWeb.

⁷ United Nations Office for Coordination of Humanitarian Affairs ReliefWeb.

⁸ Egypt, Ethiopia, Senegal, and Tunisia had existing capabilities for other vaccines.

The deployment of fiscal measures in response to the pandemic and higher spending linked to food and fuel price shocks are increasing debt vulnerabilities. The reduction in debt ratios achieved between 2017 and 2019 (from 76 to 68 percent of GDP) was reversed by the recent shocks. The group’s public debt is now expected to reach 78 percent of GDP by the end of 2022 and to stay above the African average (excluding CwA) over the medium term (72 percent versus 56 percent, respectively). Fiscal adjustments are likely to be delayed as food and fuel price shocks make additional spending necessary to ward off social discontent and hardship in the pandemic’s aftermath. As a result, several CwA countries are experiencing high debt vulnerabilities, for example, Egypt, Ethiopia, Ghana, and Tunisia.

Coordinated and sustained multilateral action is critical to support the continued mitigation efforts of the pandemic crisis and quickly restore growth in CwA countries. CwA countries received significant International Monetary Fund (IMF) support during the pandemic. In 2020, 10 of 12 CwA countries benefited from an IMF-supported program. By the end of July 2022, the IMF had approved financing requests for 11 CwA countries, totaling \$12.9 billion, including a recent program request (Benin) and an augmentation to an existing program (Senegal) to support the policy response to the food and fuel crises. In addition, six of the poorest CwA countries received \$284 million in immediate debt relief under the Catastrophic Containment Relief Trust. Six countries also elected to participate in the Debt Service Suspension Initiative—Burkina Faso, Côte d’Ivoire, Ethiopia, Guinea, Senegal, and Togo. In August 2021, CwA countries received \$8.5 billion from the Special Drawing Rights allocation.

Support for CwA countries accounted for 8 percent of the IMF’s direct country spending on capacity development in FY22. The spending included 284 technical assistance missions and training that reached about 1,657 country officials. All CwA countries are assisted by the African Training Institute and are members of a regional technical assistance center in Africa or the Middle East. The CwA serves as a framework for Europe’s contribution to all Africa Regional Technical Assistance Centers and the Africa Training Institute. IMF CwA country teams engage with CwA country authorities, and 11 of 12 CwA countries have Resident Representatives. Fund staff engage in the monitoring and coordination of the CwA and maintain the CwA website, which provides information to policymakers.



2. FOREIGN DIRECT INVESTMENT OVERVIEW

TERMINOLOGY

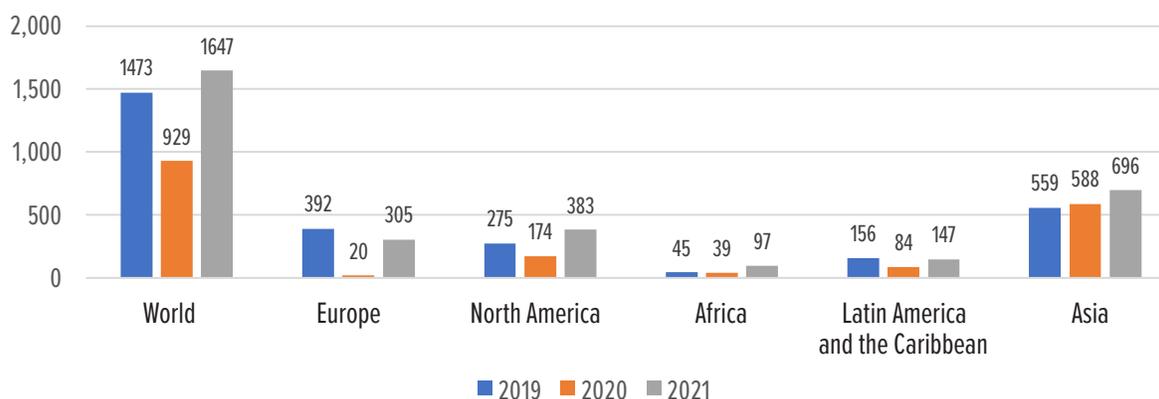
- Foreign direct investment (FDI) refers to both FDI and cross-border mergers and acquisitions (M&As), from quarterly data derived from the UNCTAD FDI/multinational enterprise (MNE) database (www.unctad.org/fdistatistics)
- Cross-border investment (CBI) refers to announced greenfield FDI projects in accordance with information from the Financial Times Ltd, fDi markets (www.fdimarkets.com).

2.1. Significant Global Foreign Direct Investment Momentum in 2021: Changing Course in 2022?

Globally, FDI witnessed significant momentum in 2021, while Africa's recovery was led by a single transaction. FDI flows exhibited a strong rebound in 2021, increasing by 64 percent to an estimated \$1.58 trillion, which surpassed pre-COVID-19 levels (figure 2.1) (UNCTAD 2022). The momentum was due to booming M&A markets and rapid growth in international project finance because of loose financing conditions and major infrastructure stimulus packages. The increase in FDI flows to developed economies (up 134 percent from exceptionally low values in 2020) accounted for most of the global growth, with FDI flows to developing regions also increasing significantly. Flows to Africa more than doubled in 2021; however, most of the increase was due to a single corporate transaction, without which they would have increased moderately.⁹ FDI flows to South Africa jumped to \$41 billion in 2021 from \$3 billion a year earlier, while most other African recipients saw only a moderate rise in FDI.

⁹ The single corporate transaction was a \$46 billion share swap between South African multinational Naspers and its Dutch-listed investment unit Prosus. Prosus is one of the world's largest technology investors. Under the deal, concluded in August 2021, Prosus bought 45 percent of Naspers shares, bringing its ownership in Naspers to 49 percent, while Naspers owns 56.92 percent of Prosus ordinary shares. The logic of the swap is moving part of the companies' assets out of South Africa might improve their valuations.

Figure 2.1. Foreign Direct Investment Inflows, 2019–21 (U.S. million)



Source: UNCTAD 2022.

In 2022, Russia’s invasion of Ukraine dramatically changed the global environment for international business and CBI while the world was still reeling from the pandemic’s impact. The war is having effects well beyond its immediate vicinity, causing triple food, fuel, and financial crises, with rising prices for energy and basic commodities driving inflation and worsening debt spirals. Investor uncertainty and risk aversity is likely to have put significant downward pressure on global FDI in 2022. The war’s implications for investment in and from the Russian Federation and Ukraine and its ripple effects through sanctions, supply shortages, and broader macroeconomic impact is impacting investment decisions. Further, interest rate increases in the United States, Europe, and other major economies that are seeing significant rises in inflation are likely to have slowed M&A markets, especially in the second half of 2022, and will dampen the growth of international project finance. Negative financial market sentiment and signs of a looming recession could accelerate an FDI downturn.

Early indicators reveal a worrisome global FDI performance for 2022 (table 2.1). FDI project activity in the first months of 2022 shows investors’ uncertainty and risk aversion. According to preliminary data, the number of greenfield project announcements in the first quarter of 2022 is 21 percent below the quarterly average in 2021. Cross-border M&A activity is 13 percent below the 2021 average and international project finance deals are down 4 percent. However, in terms of value, cross-border M&As are up 59 percent from 2021. The value of announced international project finance deals is 37 percent below the record levels of 2021 but remains at a very high level compared with the pre-pandemic period (UNCTAD 2022).

The war’s indirect effects on investment flows to developing countries will mostly depend on the extent of their exposure to the triple food, fuel, and finance crises and their consequent economic and political instability—key determinants of international private investment. Despite the negative investor sentiment caused by Russia’s war on Ukraine, Russia plays a minor role in international investment and global value chains (GVCs). Moreover, both its inward and outward investments had already declined significantly after the international sanctions imposed in 2014. It is expected that only a few economies—mainly in Eastern Europe and Central Asia—will be affected as a result of Russian links with their FDI profile. Since the war’s start, most of the top 5,000 MNEs have revised

earnings forecasts for 2022, which indicates investment prospects for individual sectors and industries. Due to high commodity prices, extractive industries (mining, oil, and gas) revised their forecasts upward. Industries that require commodities as production inputs (manufacturing and construction) or that depend on fuel (airlines) revised their earnings forecasts downwards. Geographically, companies in Eastern Europe and North Africa appear to face relatively more downward pressure on earnings.^{10,11}

Table 2.1. Foreign Direct Investment to GDP Ratio in Compact with Africa Countries versus Rest of Africa, 2021

Country	FDI (as percent of GDP, 2021)
Egypt	1.3%
Morocco	1.5%
Tunisia	1.5%
CwA-North Africa	1.4%
Benin	1.4%
Burkina Faso	0.7%
Côte d'Ivoire	2.0%
Ethiopia	3.7%
Ghana	3.4%
Guinea	1.1%
Rwanda	1.9%
Senegal	8.1%
Togo	1.5%
CwA-Sub-Saharan Africa	2.6%
ALL CwA COUNTRIES	2.3%
AFRICA	4.2%

Source: UNCTAD 2022; World Bank 2022b.

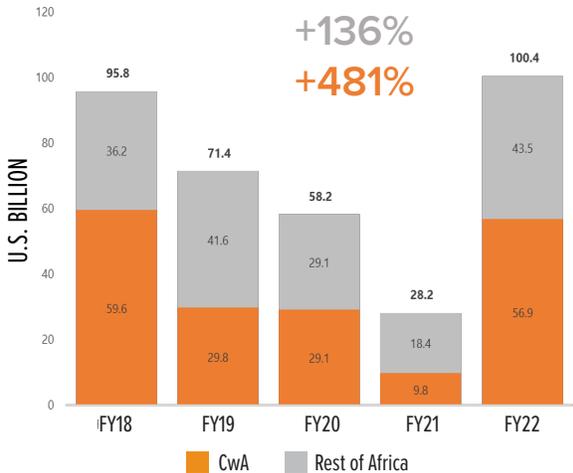
¹⁰ World Bank Group 2021 Investor Confidence Survey: Global MNE Pulse Survey.

¹¹ While these survey results may not be generalizable to all developing countries, they are directionally indicative of MNEs' experiences in developing countries.

2.2. Compact with Africa Countries’ Resilience in Attracting Greenfield Investments Even Though They Remain Small

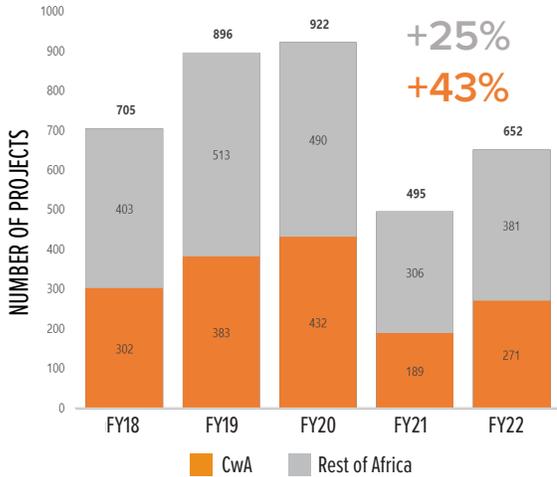
Following a tepid increase in investment inflows in 2021 in CwA countries, CBI witnessed a strong rebound in FY21/22, surpassing the trend on the African continent.¹² After witnessing sharply weaker inflows over FY19/20 and a moderate increase in FY20/21, CwA countries experienced high growth in CBI volume in FY21/22, exceeding pre-pandemic levels. CBI flows to CwA countries rose by 481 percent in FY21/22 to reach \$56.9 billion from about \$9.8 billion in FY20/21, exhibiting extreme resilience of CwA countries. While the number of projects also increased by 43 percent in FY21/22 to reach 271 projects, they remain below pre-pandemic levels, highlighting the significance of large investment deals in CwA. While CwA countries’ GDP represented 35.2 percent of Africa’s total GDP in 2021, their share of total CBI flows to Africa accounted for 56.7 of total announced greenfield investments in FY21/22, mainly due to higher CBI announcements in Egypt and Morocco. This is higher than the share of 34.7 percent in FY20/21 and 50 percent in FY19/20 but slightly lower than 62.2 percent in FY18/19 (figures 2.2, 2.3, and 2.4). Egypt and Morocco registered the highest CBI increase while variations observed in the rest of the CwA countries remain relatively the same as in non-CwA countries.

Figure 2.2. Cross Border Investments, FY18–22 (U.S. billion)



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IMF International Financial Statistics and Balance of Payments database; IFC staff calculations.

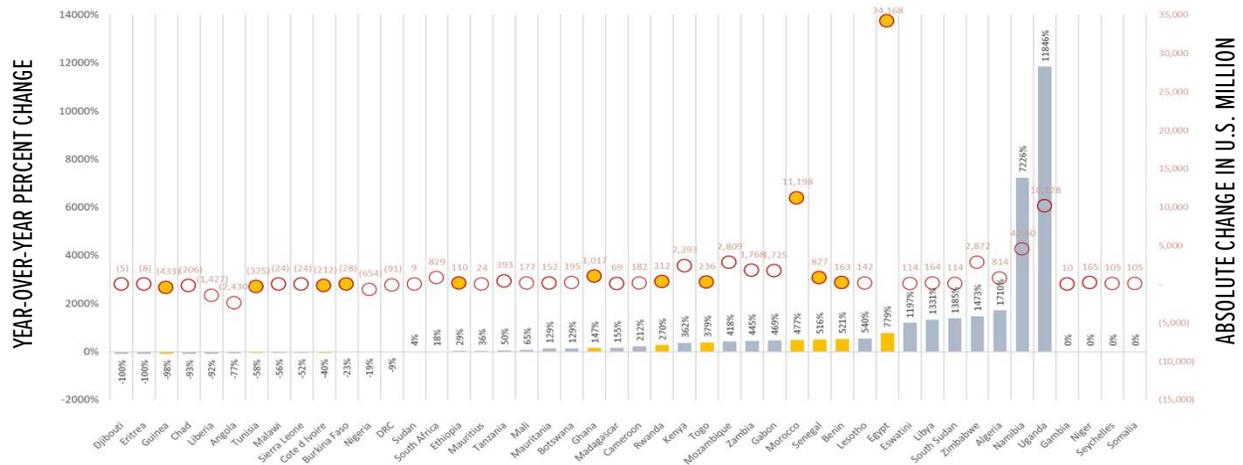
Figure 2.3. Cross-Border Investments, FY18–22 (project count)



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IMF International Financial Statistics and Balance of Payments database; IFC staff calculations.

¹² Financial Times’ fDi Markets Database (www.fdimarkets.com).

Figure 2.4. Cross-Border Investments: Compact with Africa Countries versus Rest of Africa, FY21/22

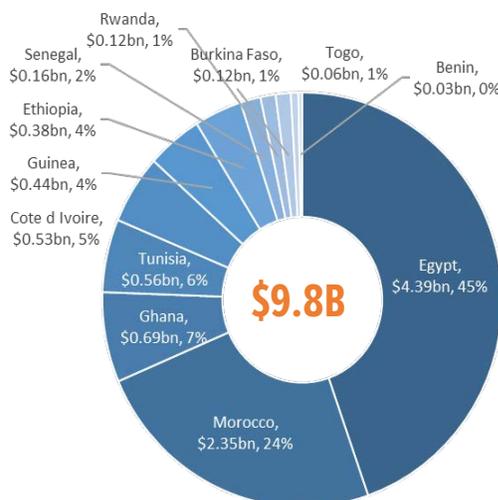


Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IMF International Financial Statistics and Balance of Payments database; IFC staff calculations.

Note: Bars show year-over-year change in percent; round markers show absolute changes in U.S. dollars. Orange are CWA countries.

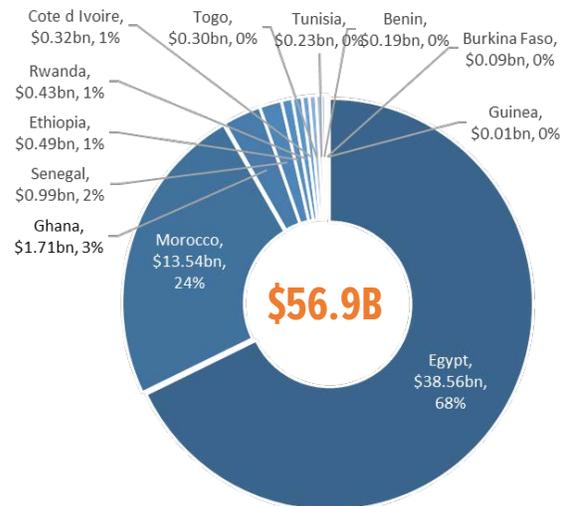
In country allocation, **Egypt maintains its position as the top investment destination among CWA countries, followed by Morocco.** Egypt was the leading FDI destination among CWA countries two years in a row, attracting a record \$38.6 billion worth of CBI in FY21/22, representing 68 percent of total CBI inflows to CWA countries. Morocco, with \$13.5 billion of CBI attracted in FY21/22 (compared with \$2.35 billion in FY20/21), maintained its share of total CBI in CWA at 24 percent. Of the 12 CWA countries, seven economies witnessed a significant increase in CBI volumes over the past fiscal year: Egypt (+777 percent), Benin (+533 percent), Senegal (+518 percent), Morocco (+474 percent), Togo (+400 percent), Rwanda (+258 percent), Ghana (+146.4 percent), and Ethiopia (+28.9 percent) (figures 2.5, 2.6, 2.7, and 2.8).

Figure 2.5. Cross-Border Investment Inflows by Country, FY20/21 (U.S. billion)



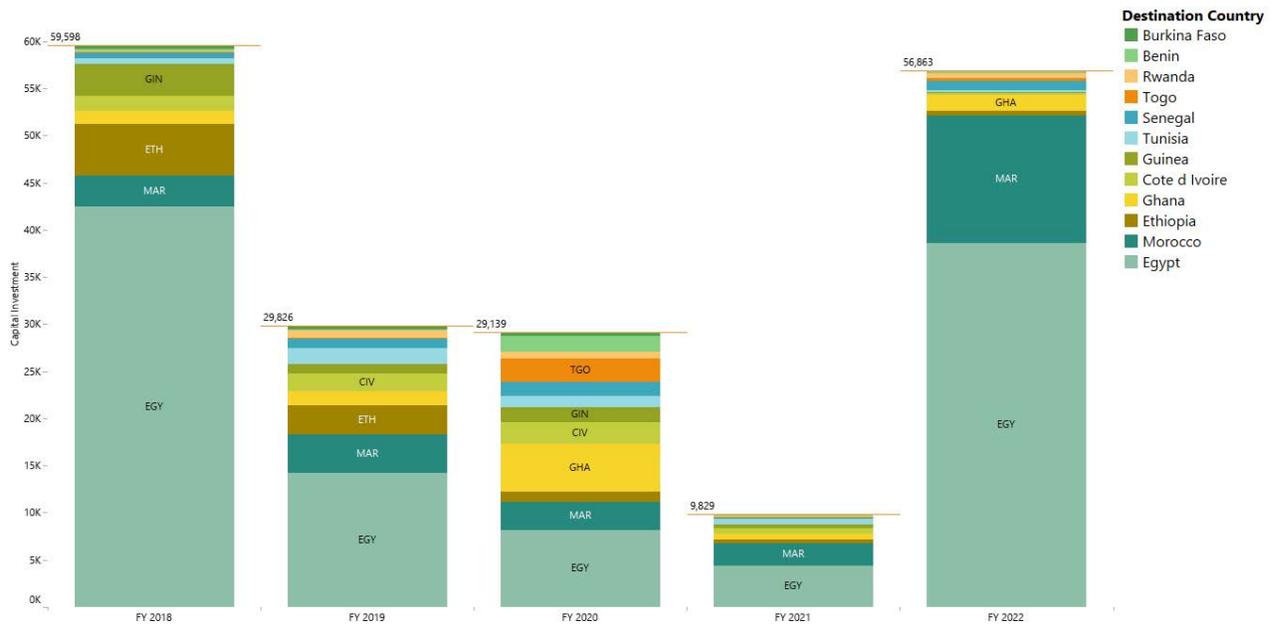
Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

Figure 2.6. Cross-Border Investment Inflows by Country, FY21/22 (U.S. billion)



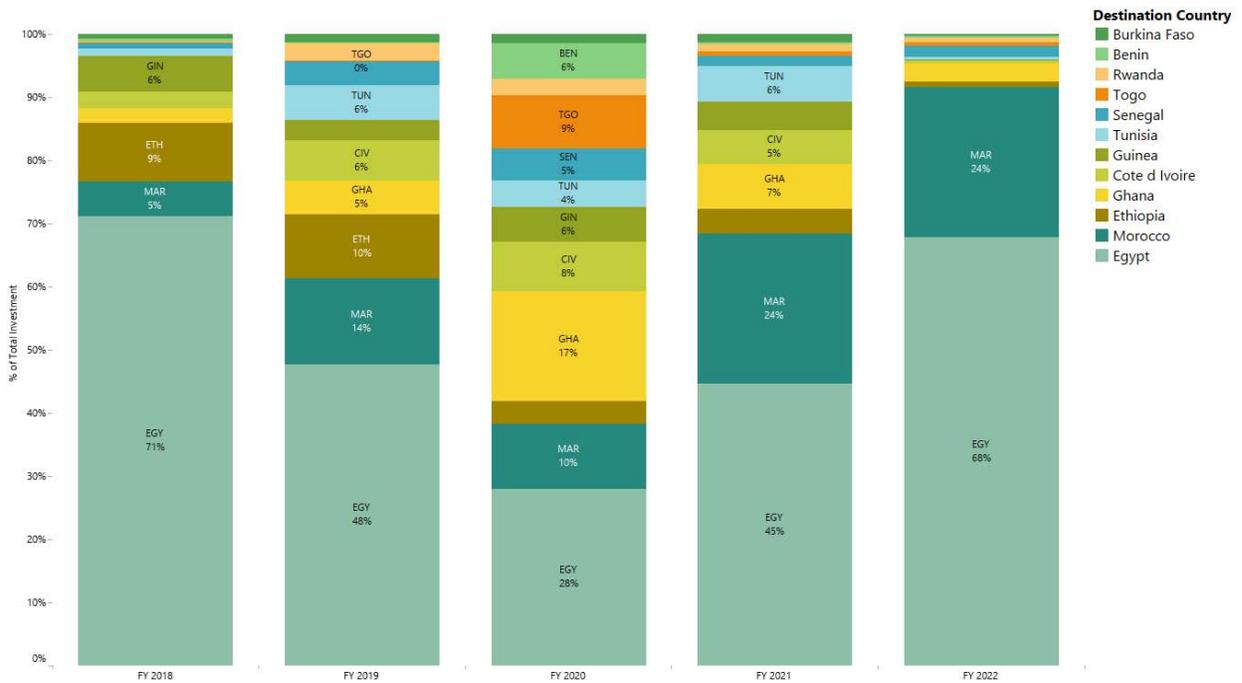
Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

Figure 2.7. Cross-Border Investment Inflows by Country, by Volume, FY18–22



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

Figure 2.8. Share of Cross-Border Investment among Compact with Africa Countries, by Volume, FY18–22



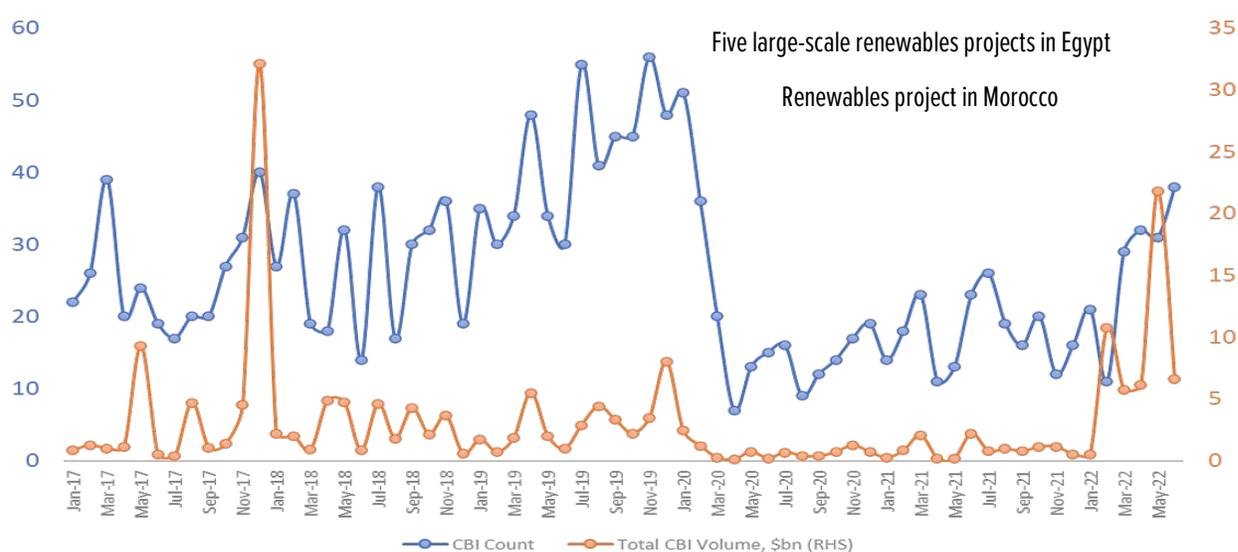
Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

The notable performance of CwA countries in FY21/22, despite the global economic setback, can be attributed to three aspects: (i) Investments were concentrated in renewables and in Egypt and Morocco. For Egypt, hosting COP27 is a major trigger for the increased investment announcements in renewables ahead of the event. For Morocco, a commitment to reforms, sustainable development, and regional integration with the rest of Africa is driving this momentum: (ii) the global move toward green investments represents the biggest share of investment inflows to CwA countries; and (iii) Gulf States have pledged to invest about \$22 billion in various sectors in Egypt.

The surge in volume and number of projects of CBI in CwA since January 2022 is mainly attributed to six large-scale renewable energy projects in Egypt and Morocco, as they mobilize climate investments ahead of COP27 (figure 2.9). The surge of CBI flows to Egypt can be attributed to high-value deals in clean energy. Three large deals were announced in FY22:

- French energy-focused group Total Eren launched a \$10.6 billion green hydrogen and ammonia production plant in Morocco’s southern region Guelmim-Oued Nour.
- Fortescue Future Industries, an affiliate of the Australian iron ore company Fortescue Metals Group, signed a memorandum of understanding with Egypt’s government to conduct studies to develop green hydrogen production in the country, including a project with 9.2 gigawatts installed capacity. The project would produce green hydrogen from solar and wind.
- French TotalEnergies is the latest firm to sign a memorandum of understanding as part of Egypt’s green hydrogen and ammonia drive ahead of COP27. Egypt’s cabinet announced it signed the memorandum with TotalEnergies and Africa-focused investor Enara Capital to build a state-of-the-art facility at the Suez Canal Economic Zone to produce 300,000 tons per year of green ammonia in its first phase, with the potential to raise capacity to 1.5 million tons per year.

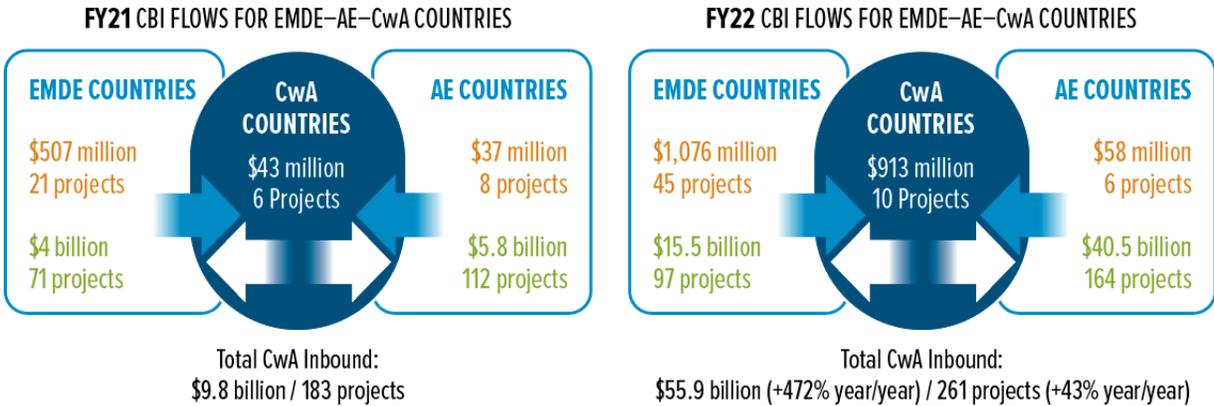
Figure 2.9. Monthly Cross-Border Investment Flows in Compact with Africa Countries (U.S. million)



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

The analysis of FDI source countries reveals a shift back in composition to foreign investors increasingly proceeding from advanced economies (figure 2.10). The share of investments coming from advanced economies to CwA countries increased from 59 percent in FY20/21 (\$5.8 billion) to 72.5 percent in FY21/22 (\$40.5 billion). In terms of source countries by size of investments, Australia and Luxembourg represent respectively the top two investor nationalities in FY21/22, followed by France, Saudi Arabia, and United Arab Emirates. In terms of source countries by number of projects, the United Arab Emirates, United States, France, and Switzerland, are the top four investors in CwA countries, with 37 projects from the United Arab Emirates worth \$6.6 billion, 34 projects from the United States worth \$1.4 billion, 28 projects from France worth \$6.2 billion, and 21 projects from Switzerland worth \$0.9 billion.

Figure 2.10. Cross-Border Investment Flows, FY21 and FY22



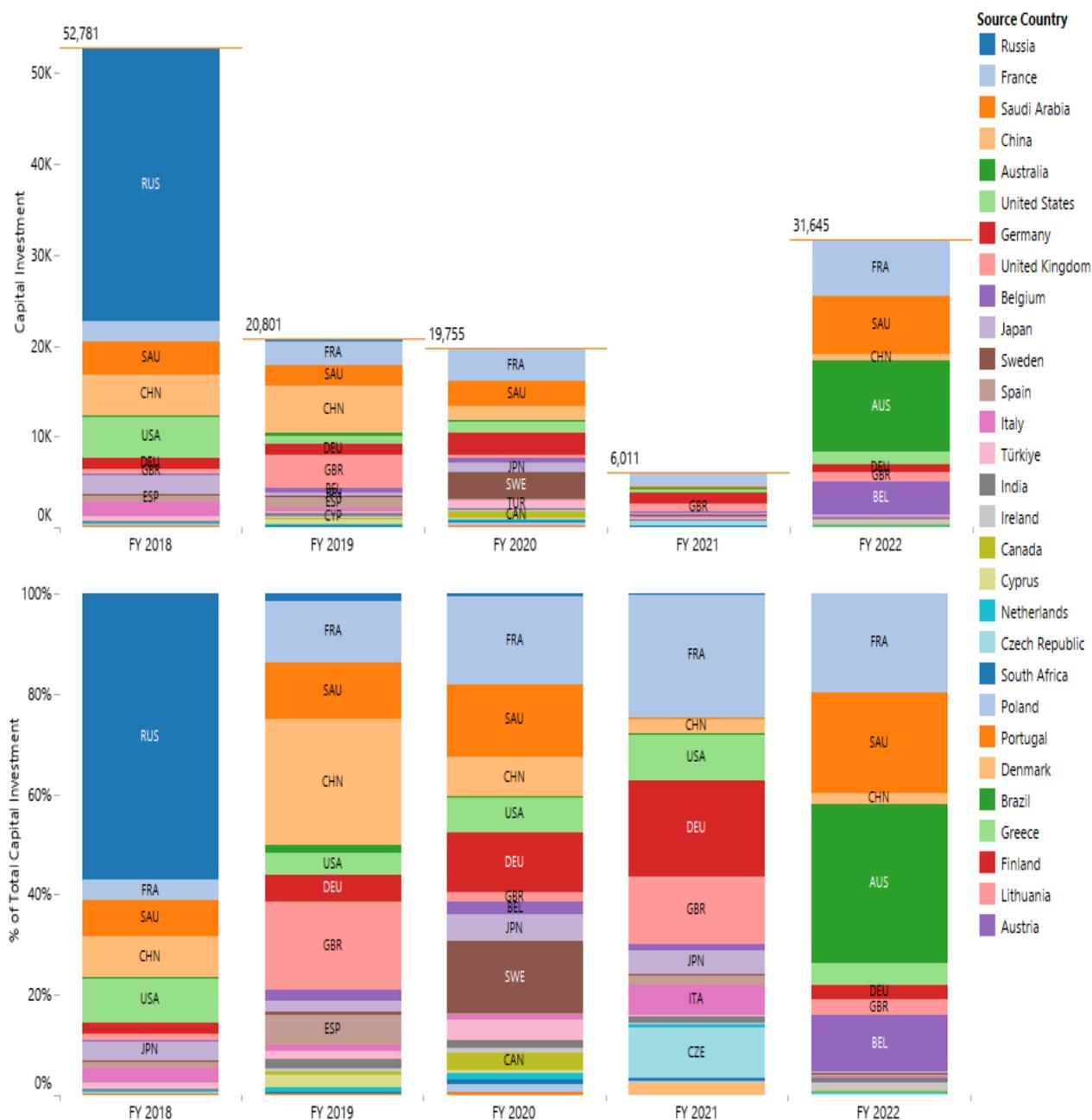
Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.
 Note: EMDE = Emerging Market and Developing Economy; AE = Advanced Economy.

FY21/22 continued to witness a sharp increase in CBI within CwA countries, pioneering a growing trend in South-South trade and investment links. Higher CBI flows in FY21/22 within the CwA is due to Morocco’s sizable investments (by Omnium des Industries et de la Promotion and Cement Manufacturing) in Ghana and Senegal.

G20 investments in CwA countries reached \$31.6 billion in FY21/22, up 426 percent from FY20/22, but below its peak in FY17/18, which had recorded \$52.8 billion and was mainly led by Russian investments. France remains a key G20 investor in CwA since FY18/19, while Australia, Austria, and Saudi Arabia emerged as key investors in CwA countries in FY21/22. Egypt’s share of G20 investments increased dramatically in FY21/22, taking over Morocco’s FY20/21 position as a key destination for G20 investments. Ghana continues to follow Egypt and Morocco as a distant third G20 investment destination (figure 2.11).

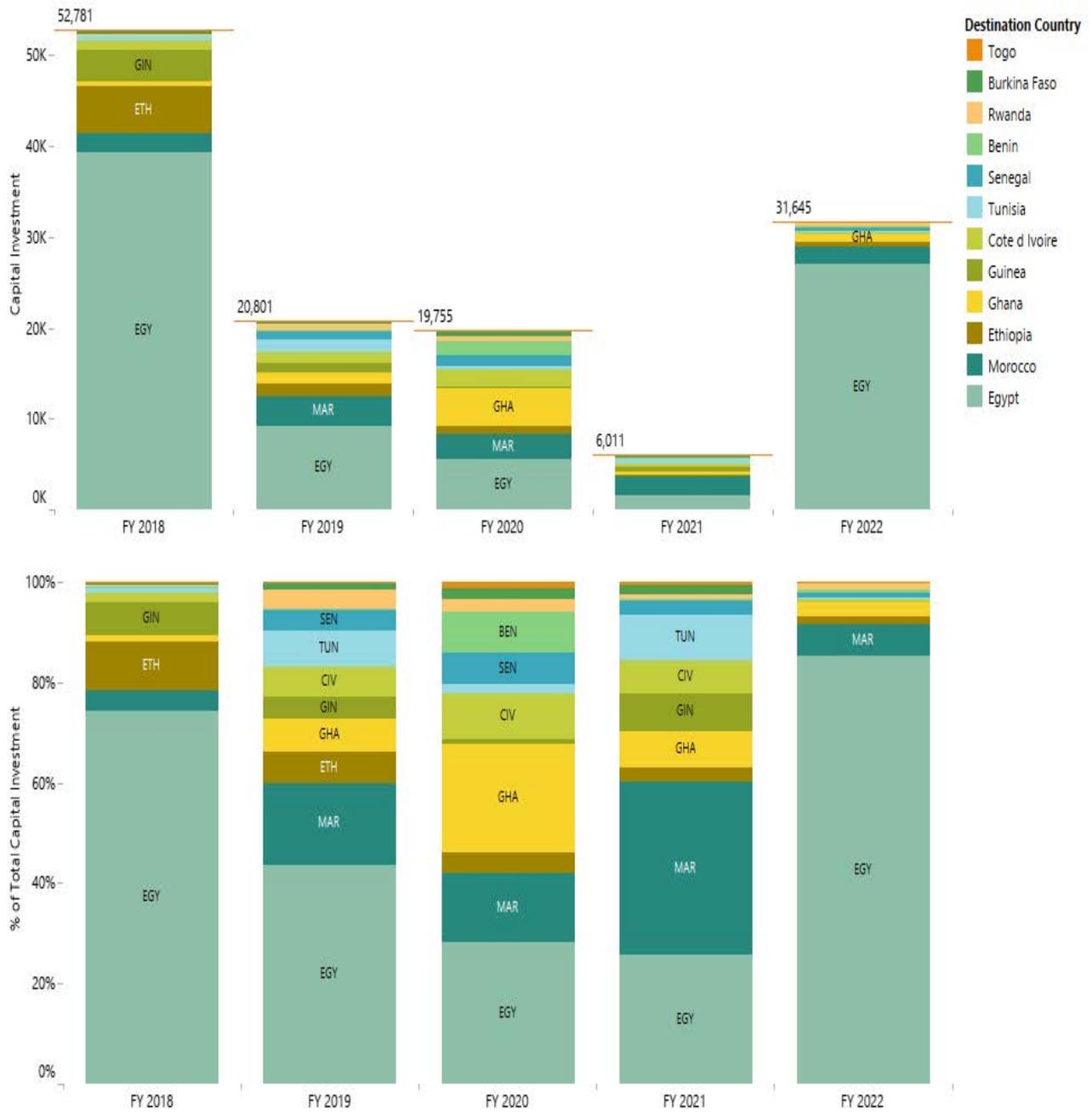
Figure 2.11. G20 Investments in Compact with Africa by Source Country and Destination Country

a. Investments by Source Country



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

b. Investments by Destination Country



Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

2.3. Sector Shifts in Foreign Direct Investment: More Renewables

Foreign investor appetite continued in FY21/22 to gradually move away from traditional sectors, such as extractive industries (coal, oil, and gas), toward sustainable infrastructure (table 2.2). New projects included, for example, the Xlinks subsea transmission cables project in Morocco, which involves the construction of a 3,800 kilometers transmission line with 3.6 gigawatts of capacity (estimated at \$20 billion) to enable solar energy from the Sahara. Renewable energy project finance and greenfield investments represented 70 percent of all international climate change investments in 2021, with projects in developed economies accounting for the most share (61 percent) (UNCTAD 2022).

Table 2.2. Top Cross-Border Investment Projects in FY21/22

No.	Parent Company	Source Country	Destination Country	Sector	Investment \$ million
1	Eren Groupe	Luxembourg	Morocco	Renewable energy	10,280
2	Fortescue Metals Group	Australia	Egypt	Renewable energy	10,000
3	TotalEnergies (Total)	France	Egypt	Renewable energy	5,000
4	Scatec AS	Norway	Egypt	Renewable energy	4,569
5	AMEA Power	United Arab Emirates	Egypt	Renewable energy	4,569
6	DEME	Belgium	Egypt	Renewable energy	3,600
7	Rawabi Holding	Saudi Arabia	Egypt	Real estate	1,510
8	Fawaz Alhokair Group	Saudi Arabia	Egypt	Real estate	1,510
9	Fawaz Alhokair Group	Saudi Arabia	Egypt	Real estate	1,510
10	ACWA Power International	Saudi Arabia	Egypt	Renewable energy	1,500
11	Al Nowais Investments	United Arab Emirates	Egypt	Renewable energy	800
12	Orange (France Telecom)	France	Morocco	Communications	574
13	Omnium des Industries et de la Promotion (OIP)	Morocco	Ghana	Building materials	436
14	Omnium des Industries et de la Promotion (OIP)	Morocco	Senegal	Building materials	436
15	Siemens Energy	Germany	Egypt	Renewable energy	338
16	Scatec AS	Norway	Egypt	Renewable energy	338
17	LafargeHolcim	Switzerland	Morocco	Building materials	330
18	H. B. Fuller	United States	Egypt	Chemicals	326
19	Hapag-Lloyd	Germany	Egypt	Transportation and warehousing	321
20	J&T Express	Indonesia	Egypt	Transportation and warehousing	321
21	Endeavour Mining	United Kingdom	Senegal	Metals	290
22	Fawaz Alhokair Group	Saudi Arabia	Egypt	Renewable energy	278
23	Amarengo	Ireland	Egypt	Renewable energy	255
24	STMicroelectronics	Switzerland	Morocco	Semiconductors	244
25	Ryanair	Ireland	Morocco	Transportation and warehousing	200
26	CITIC Group	China	Morocco	Metals	191
27	AMEA Power	United Arab Emirates	Morocco	Renewable energy	176
28	AMEA Power	United Arab Emirates	Morocco	Renewable energy	176
29	Volitalia	France	Morocco	Renewable energy	176
30	Volitalia	France	Morocco	Renewable energy	176

Source: fDi Markets (www.fdimarkets.com), a service from the Financial Times Ltd.; IFC staff calculations.

Global infrastructure finance increased in 2021 due to recovery stimulus packages and favorable long-term financing conditions. Project finance deals in infrastructure in 2021 exceeded pre-pandemic levels, with an emphasis on renewable energy and industrial real estate. In contrast, investor confidence in industry and GVCs (such as electronics) remained weak, and greenfield investment activity muted across industrial sectors. In other sectoral trends, greenfield investment activity remained 30 percent below pre-pandemic levels on average across industrial sectors. According to UNCTAD 2022, the number of Sustainable Development Goal-relevant investment projects in developing economies rose by only 11 percent, reflecting structural weaknesses and the pandemic’s impact on several sectors. Only the information and communication technology (ICT) sector has fully recovered.

2.4. Policy Reform to Facilitate Investment

Investor uncertainty and risk aversity due to Russia’s war on Ukraine is likely to have put significant downward pressure on global FDI in 2022. The outcome will be of enormous significance for development prospects. The need for investment in productive capacity, the Sustainable Development Goals, and climate change mitigation and adaptation are enormous. International investment plays a critical complementary role to domestic public investment. With higher food and energy import bills and worsening costs of borrowing due to higher interest rates, developing countries’ primary fiscal balance has shrunk by \$315 billion since the start of the war. New tax rules will affect how countries have traditionally promoted—and often competed—for international investment, through low tax rates, fiscal incentives, and special economic zones. Tax reforms are an opportunity for developing countries, not only from a revenue perspective but also from an investment attraction perspective. The need to review the investment promotion toolkit is a chance to make costly incentives more sustainable.

Investment facilitation is becoming increasingly important for countries to attract international and local financing for sustainable development, large infrastructure financing needs, and addressing climate change. Progress around the world focuses on information provision, regulatory transparency, and streamlining of administrative procedures for investors through digital information portals and single windows. These tools, which have increased in coverage and quality over the past five years, represent the most impactful elements among the gamut of investment facilitation measures. Since 2016, the number of countries with digital information portals increased from 130 to 169, and those with digital single windows from 29 to 75. Developing countries’ use of digital information portals and single windows has jumped. While on average their ratings are lower, several achieve top marks, often with technical assistance. UNCTAD’s data shows that most countries—including those outside the negotiations—recognize the importance of investment facilitation to revive stagnant CBI in industry, absorb an expected global push for investment in sustainability and infrastructure, and remain competitive as international tax reforms reduce the scope of fiscal incentives.¹³

¹³ UNCTAD Investment Policy Monitor (Investment Facilitation: Progress on the Ground), January 2022.

African emerging economies led the reform drive for the past decade, with 77 percent of the least-developed countries (LDCs) in the continent adopting reforms in investment, compared to 63 percent of LDCs in Asia and 25 percent of Island LDCs.¹⁴ Over the last decade, 10 African LDCs (half of which are CwA countries) introduced or amended investment-specific legislation (Angola, Benin, Burkina Faso, Burundi, Ethiopia, Guinea, Mauritania, Rwanda, Sudan, and Uganda). Angola was the most active country, introducing six investment-related instruments during the review period. About 85 percent of the new or revised laws dealt with investment promotion and facilitation, indicating the willingness of African LDCs to encourage private investment. More than half were adopted between 2018 and 2021, reflecting a recent momentum to enhance their investment climate. Half of the revisions to the investment legislation addressed FDI entry and establishment conditions, and typically opened new sectors or activities to FDI or streamlined the entry process. Seven dealt with treatment standards and operations of foreign investors, removing discrimination in the conduct of business operations.¹⁵

In 2020 and 2021, CwA countries continued their investment promotion and investment facilitation efforts.¹⁶ In 2021, Rwanda enacted a new Investment Code (Law no. 006/2021 of 5 February 2021), which introduced new priority sectors and activities, including mineral exploration, the construction or operations of specialized innovation or industrial parks, transport, logistics, and electric mobility, horticulture, and cultivation of other high-value plants, creative arts, and skills development. The Code also introduced new tax incentives, including several aimed at establishing Kigali as a regional financial hub and tax incentives for philanthropic investors, angel investors, or strategic investment projects, among others. In 2020, Ethiopia adopted new investment liberalization measures. The Investment Regulation No. 474/2020, adopted September 7, 2020, opened the transport services sector. Previously, the provision of transport services, including air, railway, ground, and marine transport, was closed to foreign investment. The Regulation allows foreign investment in railway transport, cable car transport, cold-chain transport, and freight transport. Also, more transport services are partially liberalized for joint investment with domestic investors. On March 20, 2020, Benin adopted a new Investment Code (Act No. 2020-02) that offers precise tax incentives and new guarantees to investors, including protection of intellectual property rights, such as patents, trademarks, and trade names. Without imposing performance requirements, the state facilitates investor access to developed industrial zones, agricultural land, industrial zones, and areas of interest. Also, it urges international investors to train local personnel through continuing education, skills development, and transfer of technology, while giving access to privileged regimes on the condition of increasing the qualification of local employees. It reinforces transparency requirements on investments. The previous code mandated the approval process mainly to the Minister for Planning and Development, but the 2020 code provides for three main state institutions for dealing with investment.¹⁷

¹⁴ UNCTAD Investment Policy Monitor, March 2022.

¹⁵ UNCTAD Investment Policy Monitor, March 2022.

¹⁶ UNCTAD Investment Policy Hub. See <https://investmentpolicy.unctad.org/investment-policy-monitor>

¹⁷ UNCTAD Country Investment Policy Monitor.

In 2022, many CwA countries introduced new policies and measures to increase and facilitate investments. On May 15, 2022, the government of Egypt announced a special license for foreign investments in three specific fields. The prime minister granted the “golden” license to several projects to attract foreign investments to certain sectors, such as green hydrogen, electric cars, infrastructure, seawater desalination, and renewable energy. The license allows investors to bypass several procedures for establishing projects. On February 12, 2022, Morocco’s Fnideq Economic Activities Zone officially welcomed its first batch of business owners, aiming to stimulate regional socioeconomic development. Côte d’Ivoire adopted a more favorable tax regime for investment in 2022. Ethiopia also adopted new investment incentives in 2022. On July 12, 2022, the Council of Ministers of Ethiopia issued Investment Incentives Regulation No. 517-2022, which offers income tax exemption for investors from the date of obtaining the business license or expansion permit, as provided in the schedule attached to the Regulation. The Regulation allows investors to import capital goods, construction materials, and motor vehicles free from custom duties. It also expands the incentives eligibility to the mining, petroleum, and geothermal sectors.

2.5. Increasing Resilience in Times of Crisis

Despite the presence of downside risks to the FDI outlook, CwA countries feature above-average growth prospects and greater resilience to shocks resulting from past fiscal consolidation efforts. Downside risks include the speed of implementation of infrastructure investment stimulus, further labor and supply chain bottlenecks, energy prices, and inflationary pressures.

It is important during economic recovery to rein in uncertainty and remain competitive in the global FDI market, so policymakers should act now. In the near term, policymakers should strengthen policies to foster investment, including improving the legal environment and making easier approvals for foreign-owned businesses. In the longer term, shifts in global production may require policymakers to boost their countries’ investment competitiveness. Therefore, governments should restore investor confidence by maintaining a stable and predictable investment policy environment and resisting protectionist policies.

It is crucial for countries to exhibit sound macroeconomic policies. Although FDI in Africa is positive for 2022, risk factors and uncertainty remain high due to the impacts of Russia’s war on Ukraine, slow vaccination rollout, and emergence of new COVID-19 strains. The current crises present a new set of macroeconomic challenges, from widening twin deficits, currency pressures, soaring inflation, and squeezed liquidity. Even before Russia’s war on Ukraine, inflation pressures were impacting MNE affiliates through rising input costs. Price pressures witnessed in the first quarter of 2021 have continued, with 56 percent of World Bank Investor Confidence Survey respondents in Sub-Saharan Africa experiencing rising input costs compared to before the pandemic. In addition, liquidity is slightly deteriorating, adversely affecting 56 percent of respondents in the second quarter in Sub-Saharan Africa.¹⁸ The war is compounding these

¹⁸ World Bank Investor Confidence Survey: Evidence from the Quarterly Global MNE Pulse Survey for the Second Quarter of 2021.

pressures. As countries compete to attract foreign investment to meet increasing financing needs amid tight fiscal space, those that exhibit sound macroeconomic policies that increase resilience will prove attractive investment destinations.

Sources of investment need to be better diversified. FDI sources to the continent include Europe, with China, India, and the United States increasing their investments in Africa in 2021. Current pressures in Europe could lead to lower investment outflows to Africa. In addition, Russian investments in Africa will come under financial stress because of the impact of sanctions on Russia—whether this comes through barriers to international payments, reduced availability of project finance, or increased risk aversion among host countries and investment partners.¹⁹ Russian projects face an uncertain future, although Russia will be loath to relinquish its access to strategic assets in Africa. The door may open for other non-Russian commercial interests to expand their foothold in Africa (Economist Intelligence Unit). The current context will lead to attracting new sources of FDI.

An increase in liberalization and facilitation policies is expected in specific sectors. New investments in 2022 remain in infrastructure due to favorable long-term financing and large stimulus packages. Opportunities could emerge from new GVC restructuring. Given the current situation, governments will likely liberalize more sectors and leverage public-private partnerships (PPPs) to support infrastructure projects.

Looking ahead, the key skills sought by MNE affiliates across sectors and regions relate to problem-solving and task management. More than two-thirds of firms expect this requirement to increase. Social skills are the second most sought after skill, cited by 45 percent of firms. This trend is observed across all business sectors, sizes, and models. It is slightly more pronounced among firms headquartered in Europe. Three-quarters of firms plan to increase the proportion of their workforce with a tertiary education over the next three years. These findings suggest that firms may be looking for more qualified workers to improve overall skill levels.

¹⁹ According to fDi Intelligence, Russia provided less than 1 percent of Africa's total stock of FDI in 2019, and most Russian investment focused on natural resource ventures, particularly hydrocarbons projects and the mining of industrial and precious metals, rare earth elements, and diamonds. African countries with Russian participation in hydrocarbons projects include Cameroon, Congo-Brazzaville, Ghana, Mozambique, and Nigeria; Russian mining interests are found in Angola (diamonds), Guinea (aluminum and bauxite), Nigeria (Rusal, an aluminum producer), Sudan (gold), and Zimbabwe (platinum).



3. INTERNATIONAL TRADE OVERVIEW

3.1. Global Trade Trends

In 2021, global trade in goods and services recovered from the drop in 2020, showing resilience not only to the COVID-19 crisis but also to the logistics constraints and value chain bottlenecks that accompanied it. After plummeting by about 8 percent in 2020, trade volumes (in constant U.S. dollars and capturing traded quantities) grew by 10 percent in 2021 and fully caught up to the pre-pandemic level in 2019. Goods trade values (in current U.S. dollars) rose significantly faster than trade volumes, due to a surge in commodity prices to levels not seen in decades. Trade in goods rebounded faster than trade in services, with the latter held back by the slow recovery in international travel.

In 2022, growth in global goods and services trade volume is forecast to slow to 4.3 percent, amid war-induced disruptions in the trade of fuel and agricultural products, cooling in China's imports, rising inflationary pressures, monetary tightening, and general uncertainty.²⁰ New export orders have been shrinking since March 2022, suggesting that the difficult context is already weighing on trade demand. Global goods trade volumes grew by 4 percent in January to August 2022 over the previous year, consistent with the annual forecast, while global trade values—which reflect the dynamic of both traded volumes and prices—grew by 15 percent. The signs of trade cooling contributed to the relaxation of logistics constraints and a drop in shipping rates by more than 50 percent since the beginning of the year. Meanwhile, global services trade grew by 14 percent in the first seven months of 2022 relative to 2021, although the recovery was incomplete and uneven in travel and tourism. Commercial flights rose substantially, while short-term accommodation rentals remained depressed in most regions.

²⁰ Trade Watch, July–September 2022 data. See <https://www.worldbank.org/en/topic/trade/brief/trade-watch>

3.2. Trade Trends in Compact with Africa Countries

The volume of exports of goods and services in CwA countries contracted sharply in 2020 (-9.3 percent) and rebounded modestly in 2021 (2.5 percent). By contrast, the volume of goods exports contracted at a mild rate in 2020 (-2.6 percent) and rebounded fast in 2021 (10.2 percent), with the differences from the goods and services trade dynamic explained by the deep and persistent COVID-19 impact on travel and tourism services. At the aggregate level, CwA countries' goods export performance was superior to that of non-CwA countries in 2020 and 2021. The goods export volumes of Africa's non-CwA countries contracted by 14.7 percent in 2020 (as opposed to 2.6 percent for CwA countries) and grew by 8.8 percent in 2021 (as opposed to 10.2 percent for CwA countries). Exports of goods and services of non-CwA countries in Africa were also less resilient (declining by 14 percent in 2020, as opposed to 9.3 percent for CwA countries), but recovered faster in 2021 (by 7.6 percent, as opposed to 2.5 percent for CwA countries).

In 2022, goods and services export growth in CwA countries is projected to rebound by 13.3 percent, buoyed by strong exports in Egypt, Morocco, and Rwanda. Higher food and fuel prices (notably in non-oil exporting countries) are projected to widen the average current account deficit (purchasing power parity-weighted) to 4.6 percent in 2022 (compared to 4.1 percent in 2021). As the recovery takes hold in 2023, export demand is expected to recover and CwA countries' current account deficit to narrow to 3.1 percent of GDP.

Trends in the Goods Trade

During the first half of 2022, export receipts (current U.S. dollars) continued to grow robustly in most CwA countries—despite signs of softening global demand—while import bills surged on the back of higher fuel and agricultural prices. In 2021, rising commodity prices and pent-up global demand amid underlying excess liquidity led to an increase in the goods export receipts of most CwA countries (current U.S. dollars). Exports grew faster than imports in almost all CwA countries, helping to reduce the trade deficit (table 3.1). In 2022, Russia's invasion of Ukraine and other factors (such as droughts, floods, and local supply gaps) accelerated the upward trend in fuel and agricultural prices started in 2021. As a result, import values picked up by 20 percent over the previous year and grew faster than exports in six of the 12 CwA countries. Meanwhile, a wave of currency depreciations related in part to monetary tightening in the United States further dented purchasing power, particularly in developing economies, making imports in local currencies more expensive.

Table 3.1. Trends in Compact with Africa Countries' Aggregate Goods Trade (current U.S. dollars)

	EXPORTS		IMPORTS	
	2021 versus 2019	2022 versus 2021*	2021 versus 2019	2022 versus 2021*
ALL CwA COUNTRIES	30%	27%	14%	20%
CwA-North Africa	32%	27%	15%	12%
Egypt	50%	30%	18%	-3%
Morocco	23%	30%	14%	32%
Tunisia	12%	14%	4%	21%
CwA-Sub-Saharan Africa	27%	28%	14%	40%
Benin	13%	21%	10%	16%
Burkina Faso	56%	-20%	8%	3%
Côte d'Ivoire	19%	37%	34%	17%
Ethiopia	44%	59%	10%	3%
Ghana	-6%	16%	2%	134%
Guinea	164%	56%	18%	24%
Rwanda	23%	50%	9%	13%
Senegal	24%	21%	19%	24%
Togo	28%	85%	26%	70%

Source: WTO international trade statistics; World Bank Global Economic Monitor and IMF Direction of Trade Statistics.

Notes: Asterisks (*) indicate preliminary estimates, subject to revision. The 2022 growth rates are based on comparisons of data from January through August for CwA-North Africa countries and from January through June for CwA-Sub-Saharan Africa countries.

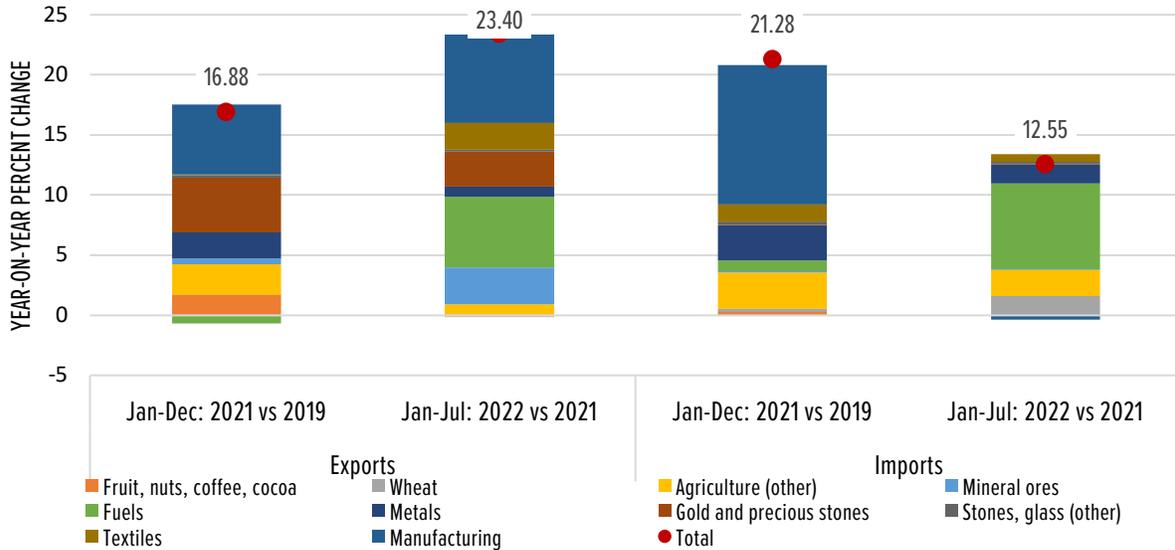
According to bilateral trade reporting by six important trade partners of CwA countries, the products that contributed the most to growth in CwA countries' trade values in the first half of 2022 were fuels, manufacturing, metals, gold, and mineral ores in the case of exports, and fuels and agricultural products (notably wheat) in the case of imports (figure 3.1).²¹

- CwA countries' exports to the six economies grew by 23 percent from January–July 2022 over the same period in 2021, and faster than in 2021, due to increased shipments of fuels (most notably by net CwA fuel exporters, such as Egypt and Ghana), gold and mineral ores (by CwA-Sub-Saharan African countries) as well as manufacturing (for example, textiles and insulated wires by CwA-North Africa countries). By contrast, the contribution of metals (exported mostly by the North Africa countries) remained positive but smaller than the contribution in 2021, consistent with signs of softening prices of such products amid slowing demand from China. The contribution of fruits, nuts, coffee, and cocoa exported by CwA-Sub-Saharan Africa countries has been shrinking as well, amid price declines.
- CwA countries' import values from the six economies grew 12 percent in the first seven months of 2022 relative to 2021, on the back of higher fuel import bills (which grew by 82 percent on average over the same period in 2021), as well as higher imports of wheat (which increased on average by over 133 percent compared to 2021). The contribution of manufacturing to year-on-year import growth became negative, reflecting a decline in the

²¹ The six economies (China, EU, India, Japan, Switzerland, and the United States) report monthly bilateral trade data. They are important trading partners of most CwA countries, accounting for at least 45 percent of the goods imports of ten CwA countries, and for at least 35 percent of the exports of nine CwA countries.

manufacturing imports of Egypt and Ghana, most likely due to dented purchasing power from inflationary pressures and currency depreciations.

Figure 3.1. Compact with Africa Countries' Goods Trade Patterns by Product Group (current U.S. dollars)



Source: Staff calculations based on official monthly trade data from China Customs, Eurostat, Japan Customs, U.S. census, and UN Comtrade.

The war-driven surge in global prices of cereals and agricultural inputs to record levels has increased concerns of food security in CwA countries, all of which are net importers of cereals.

A few CwA countries resorted to restrictive trade policies to cope with the crisis. Burkina Faso introduced an export ban on millet, maize, and sorghum flours at the end of February 2022; Ghana banned exports of maize, rice, and soybeans from April through October 2022; and Tunisia started banning exports of fruits and vegetables in April 2022. Export-limiting measures are expected to further deepen food insecurity. Such measures may undermine rather than enhance food security in the long run, because they weaken the incentive to invest in agricultural production. Instead, countries should prioritize policy responses to a short-term food price shock, such as emergency food support and building capacity for food security over the long term (for example, access to seeds and fertilizers). To achieve this goal, during summer 2022, several CwA countries received assistance from the World Bank and African Development Bank (AfDB). Lastly, ensuring better access through trade for both inputs and commodities is critical to reduce the impact of food price shocks. Weather-related shocks to food production are increasing due to climate change, emphasizing trade as a mechanism to address short-term shortages and long-term structural deficits.

Trends in the Services Trade

Overall, services trade rebounded strongly in the first half of 2022, exceeding pre-pandemic levels for most CwA countries with available data (table 3.2). All three main subsectors (transport, travel, and other services) saw marked improvement, with travel exports and imports yet to catch

up to the levels in 2019. Services exports of Egypt, which account for 8 percent of the country's GDP, grew by 19 percent in the first two quarters of 2022 relative to the same period in 2019, after having dropped by 13 percent in 2021 relative to 2019. Tunisia's services exports, which represent 10 percent of GDP, grew by 8.7 percent January–June 2022 compared to the pre-pandemic year. By contrast, Morocco's services exports almost caught up to 2019 levels but did not exceed them. In Ghana, services exports, which account for close to 20 percent of GDP, increased by 10 percent in the first quarter of 2022 relative to the first quarter of 2019.

Table 3.2. Compact with Africa Exports and Imports of Services by Country

Country	Share of overall services in GDP (percent)	Percent of overall services, 2019			Percent change: available quarters of 2021 versus 2019*				Percent change: available quarters of 2022 versus 2019*				
		Transport	Travel	Other commercial	Overall	Transport	Travel	Other commercial	Overall	Transport	Travel	Other commercial	
EXPORTS													
Egypt*	8.3	34	52	11	-12.6	0.5	-31.7	26.6	19.1	23.4	-14.8	45.6	
Morocco*	16.1	19	42	26	-20.1	-20.8	-53.5	27.4	-1.4	-5.2	-20.0	24.8	
Tunisia*	10.7	27	51	19	-34.9	-34.9	-52.6	9.3	8.7	25.7	-22.2	43.9	
Benin	3.7	32	45	18	5.0	-7.2	6.2	-45.6	n.a.	n.a.	n.a.	n.a.	
Burkina Faso	3.4	14	22	55	6.1	6.2	-4.3	5.4	n.a.	n.a.	n.a.	n.a.	
Côte d'Ivoire	2.0	34	39	20	-25.1	-12.9	-50.6	-13.6	n.a.	n.a.	n.a.	n.a.	
Ethiopia	5.2	73	16	7	15.2	13.1	24.0	24.6	48.6	56.2	50.3	15.7	
Ghana	14.5	5	14	75	-7.6	24.6	n.a.	4.8	0.1	41.3	-31.0	1.4	
Guinea*	0.7	1	10	71	-71.7	368.3	33.9	-92.1	23.5	4270.6	28.6	-42.6	
Rwanda	9.8	21	45	7	-43.0	-31.4	-67.3	-32.3	-20.1	2.4	-29.7	-34.4	
Senegal	6.0	13	37	35	-23.6	-29.5	-55.2	-7.5	n.a.	n.a.	n.a.	n.a.	
Togo	8.4	35	24	35	0.3	-8.2	-10.8	12.8	n.a.	n.a.	n.a.	n.a.	
IMPORTS													
Egypt*	7.0	40	17	39	8.3	21.7	-6.8	-12.2	40.7	45.9	71.7	6.2	
Morocco*	8.0	40	23	26	-11.5	-3.6	-45.6	1.1	9.4	38.8	-26.6	3.3	
Tunisia*	7.8	47	26	21	-15.2	-10.3	-40.5	-0.6	1.4	18.5	-26.0	-6.7	
Benin	5.6	58	12	29	22.2	7.5	n.a.	65.1	n.a.	n.a.	n.a.	n.a.	
Burkina Faso	9.1	47	8	39	3.2	-19.2	n.a.	31.6	n.a.	n.a.	n.a.	n.a.	
Côte d'Ivoire	5.8	52	12	33	7.2	29.9	n.a.	-25.6	n.a.	n.a.	n.a.	n.a.	
Ethiopia	6.7	65	11	22	7.8	17.7	2.1	-12.1	2.2	35.5	-46.8	-52.9	
Ghana	19.7	17	2	59	-8.6	-12.6	n.a.	-1.0	10.2	-18.2	-12.2	28.3	
Guinea*	6.3	49	0	46	37.1	113.5	-76.7	-31.0	10.3	42.9	-97.5	-22.8	
Rwanda	10.0	44	33	8	-35.5	-26.2	-43.7	-4.4	-20.8	2.2	-40.8	45.0	
Senegal	7.0	35	21	35	64.0	14.1	n.a.	175.9	n.a.	n.a.	n.a.	n.a.	
Togo	7.3	48	18	28	3.3	16.9	n.a.	-16.4	n.a.	n.a.	n.a.	n.a.	

Source: WTO services statistics.

Note: Percent change in 2021 versus 2010 and in 2022 (first quarter or first half, depending on data availability by country) versus 2019. Trade values in current U.S. dollars. Asterisks (*) indicate countries for which 2022 data are available for two quarters. For the other countries only the first quarter of 2022 is available, and it is compared to the first quarter in 2019. Orange cells indicate declines and blue cells indicate increases. n.a. = not available.

3.3. Food Security in Compact with Africa Countries

Compiled from information published in the “*World Bank’s Food Security Update*” (September and November 2022 issues) and the “*Global Report on Food Crises*.”

The surge in global food and agricultural input prices to historical levels following the pandemic crisis was the main source of food insecurity as of mid-2022. The rise in prices started with the pandemic and has been exacerbated by weather conditions, local supply gaps, and Russia’s war on Ukraine, which pushed up cereal prices, especially from February to July, and increased agriculture input prices, notably oil and fertilizers. The upward pressure on cereal prices has eased since the beginning of August with the partial reopening of the Ukraine grain corridor.²²

Export limiting measures have proliferated since the beginning of Russia’s war on Ukraine, which is expected to further deepen food insecurity. As of November 2022, 20 countries worldwide (including two CwA countries) had 24 food export bans in place, and 8 countries had implemented 12 export-limiting measures.²³ While such measures aim to alleviate the acute impact of supply shocks in the short run, if maintained for too long and/or in the absence of an exit strategy, they can undermine rather than enhance food security, by weakening the incentive to invest in the production of agricultural products. Instead, countries should prioritize policy responses to a short-term food price shock, such as emergency food support and building capacity for food security over the long term (for example, access to seeds and fertilizers).

As of mid-2022, the degree of food insecurity affecting CwA countries was significant, reflecting that most CwA countries feature wheat or rice in their top imported products and have large shares of food in total imports of goods, relative to other countries. The degree of food insecurity also varied in extent, outlook, and driving factors, according to country and geographic region.

- In Tunisia, food price inflation reached 11.9 percent by mid-2022, which drove overall inflation to 8.6 percent, the highest since 1991. Some imported food items that the government regulates, including rice, sugar, and vegetable oil, were unavailable in the market because of rising costs and transportation disruptions.
- Morocco’s food Consumer Price Index was 12 percent higher in July 2022 compared to a year ago. Its cereal production was exceptionally low and harvesting only 33 percent of the previous year’s yield because of drought and inadequate frequency of rainfall.
- Egypt’s food Consumer Price Index was 22.4 percent higher in July 2022 than in July 2021.
- In West Africa, countries were experiencing staple food prices well above the five-year average. In the Sahel area, high prices stemmed from the early depletion of food stocks from last season, increased replenishment needs, various national restrictions on cereal outflows, and continued civil insecurity. With 14 percent higher food inflation relative to

²² The Food and Agriculture Organization food price index is now back below the level of February (before the war started), although 8 percent higher than a year ago. Egypt has already received shipments of grain from Ukraine.

²³ World Bank Food Security Update, September 29, 2022. See <https://thedocs.worldbank.org/en/doc/40ebbf38f5a6b68bfc11e5273e1405d4-0090012022/related/Food-Security-Update-LXX-September-29-2022.pdf>

overall inflation, Burkina Faso was the country with the eighth highest real food inflation. In Gulf Coast countries, continued currency depreciation and sharply rising import costs were the main causes of high prices.

- By contrast, Ethiopia and Rwanda, together with other countries in East Africa, were experiencing acute food insecurity as of mid-2022. In Ethiopia, food inflation was at 36 percent on a year-on-year basis, and up to 15 million people faced risks of acute food insecurity. Staple prices had increased on the back of a decline in stocks, currency depreciation, reduced hard currency reserves, and other local characteristics, although the resumption of shipments of grain from Ukraine in late summer partially alleviated the situation. Rwanda faced food inflation of 34 percent in nominal terms and 14 percent in real terms, ranking in the top 10 of countries with the highest nominal and real inflation.

During summer 2022, several CwA countries received assistance from the World Bank as part of its global response to the ongoing food security crisis. The response was announced in May 2022; the World Bank is making up to \$30 billion available over 15 months in agriculture, nutrition, social protection, water, and irrigation.

- Ghana (together with non-CwA countries Sierra Leone and Chad) will access a [\\$315 million loan](#) to increase its preparedness against food insecurity and improve the resilience of its food systems.
- Egypt will benefit from a [\\$500 million Emergency Food Security and Resilience Support Project](#) to help ensure that poor and vulnerable households have uninterrupted access to bread, strengthen resilience to food crises, and support reforms to improve nutritional outcomes.
- Tunisia will access a [\\$130 million loan](#) to lessen the impact of Russia's war on Ukraine by financing vital soft wheat imports and providing emergency support to cover barley imports for dairy production and seeds for smallholder farmers for the upcoming planting season.
- Ethiopia and other countries in East and Southern Africa will benefit from a [\\$2.3 billion Food Systems Resilience Program](#) to increase the resilience of the region's food systems and ability to tackle growing food insecurity. The program will enhance inter-agency food crisis response and boost medium- and long-term efforts for resilient agricultural production, sustainable development of natural resources, expanded market access, and food systems resilience in policymaking.

In May 2022, the AfDB announced a \$1.5 billion African Emergency Food Production Facility to provide 20 million African smallholder farmers with certified seeds, increase access to agricultural fertilizers, and enable them to support production. As part of this and other programs: in September 2022, Morocco was approved a \$194 million loan to increase its cereal production and reduce imports; in July 2022, Côte d'Ivoire was approved €151 million to boost food production; in July 2022, Egypt was approved \$271 million to finance its Food Security and Economic Resilience Program; and Togo has also benefited.



4. KEY DIAGNOSTICS OF COMPACT WITH AFRICA COUNTRIES

4.1. Country Private Sector Diagnostics

The Country Private Sector Diagnostic (CPSD) aims to identify opportunities where the private sector could have a larger positive development impact and to recommend actions that will enable transformative private investment in the short to medium term. By combining economy-wide and sector-specific analysis of constraints, CPSDs help create a common analytical basis to shape policy dialogue and guide transformational private investment. Jointly delivered by IFC and the World Bank and intended to leverage expertise across the World Bank Group, the value of CPSDs stems as much from their analytics as their consultation process.

A value of the CPSD is its explicit focus on sectors. CPSDs provide sector-specific insight and analysis, in addition to a review of cross-cutting issues relevant to those sectors, building on other analytical diagnostics. The sector analysis framework looks at characteristics, performance, potential, and constraints on investment and growth, and then prioritizes recommendations. CPSDs are useful for articulating at the sectoral level the World Bank Group's Jobs & Economic Transformation agenda, established as a special theme under IDA19. Each CPSD highlights the sectors driving economic growth and job creation, as well as those providing critical services and enabling the business environment.

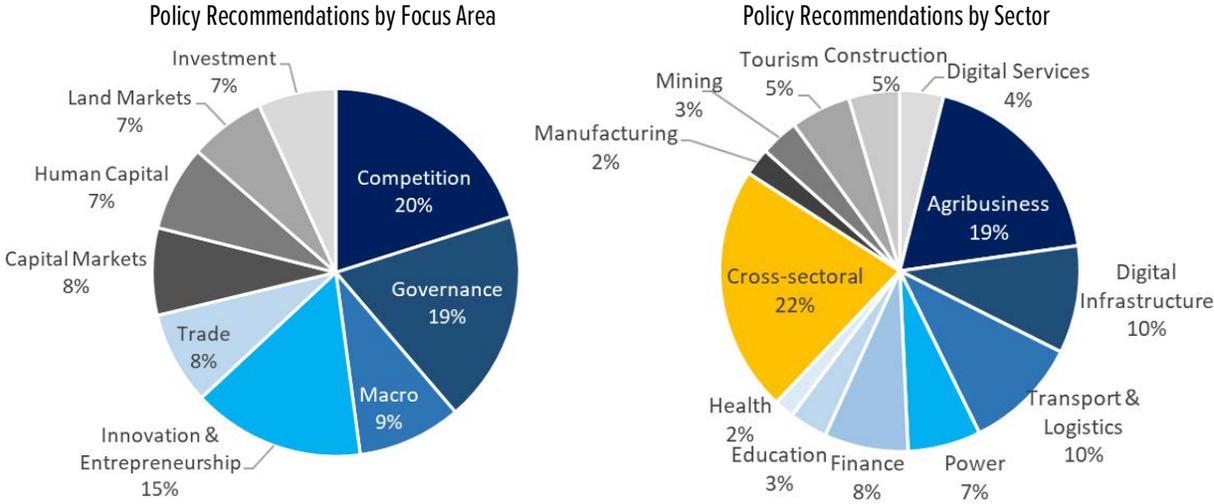
The CPSD program to date has covered 72 countries and one region, including all 12 CwA countries. CPSDs in CwA countries are being financed by ISCA and the World Bank Group. In FY22, CPSDs in CwA countries Benin, Togo, and Tunisia were completed, with key findings presented in table 4.1.

Table 4.1. Key Findings from Benin, Togo, and Tunisia Country Private Sector Diagnostics in FY22

Benin	<ul style="list-style-type: none"> • Benin’s geographic and cultural assets, as well as strong reform momentum, offer tremendous opportunities for more inclusive and sustainable growth. • Benin offers opportunities to further expand agribusiness by the private sector for export to regional and European markets. Nearly 40 percent of jobs are in this sector. • Benin’s proximity to Nigeria, a market of 206 million people, is currently only partially exploited to develop a stronger tourism sector. • Benin's location at the intersection of two important regional corridors (Abidjan-Lagos and Cotonou-Niamey) invites the private sector to take advantage of regional trade relationships. Strengthening the competitiveness of Benin’s hinterland corridors could transform transport corridors into economic ones.
Togo	<ul style="list-style-type: none"> • Togo’s agriculture, transport, and logistics sectors offer opportunities for private investment, job creation, and inclusive and resilient growth through value chain development and regional integration. Renewable energy, digitization, and sectoral-targeted financial instruments are enabling factors. • Despite phosphate being a long-standing leading export and a source of public revenue, Togo is a small player on the global scale, with depleting reserves and low competitiveness. The phosphate sector could be a potential candidate for a deep dive analysis toward producing fertilizers for the domestic and regional markets. • CPSD recommendations informed the update of the Togo Systematic Country Diagnostic and the Country Partnership Framework.
Tunisia	<ul style="list-style-type: none"> • Tunisia’s private sector needs greater flexibility and resilience to adapt to global market trends, seize opportunities, and sustain its growth. Creating a level playing field for firms to enter and grow is also essential. • Climate-smart and sustainable production models have become central to future growth and competitiveness. The opportunities for private sector growth are numerous across sectors, with untapped export potential. The potential of agriculture and its role in employment, specifically in interior regions, can be enhanced by boosting private investment rather than through costly incentives. • Tunisia can transform its tourism sector into a modern engine of growth by improving its air connectivity, tackling non-performing loans, and encouraging entry and growth of new ventures. • To support private participation in infrastructure, hybrid financing schemes and credit enhancement tools are needed. Accelerating the pace of reforms, addressing financial weaknesses, and enhancing competition will help build the digital economy.

Agribusiness has been assessed in-depth in 11 of 12 CwA countries' CPSDs, because of large untapped potential and direct positive impact on poor people in rural areas. The next most popular sector is digital infrastructure, addressed in six CwA countries, followed by travel and tourism in five countries and education in four countries. One should not infer that a non-selected sector in a country means this sector offers little opportunities for private investments. In many cases, sectors were not selected because they had been extensively studied prior to the CPSD (for example, manufacturing in Ethiopia or finance in most CwA countries). Thematic areas have also benefitted from in-depth assessment, such as opportunities for regional integration in Benin and Burkina Faso. CPSD recommendations in CwA countries focus on competition, governance, and entrepreneurial challenges (figure 4.1).

Figure 4.1. Share of Country Private Sector Diagnostic Policy Recommendations in Compact with Africa Countries



To operationalize the recommendations from CPSDs, IFC leads the production of sector deep dives in a second phase of engagement. ISCA helps fund CPSD phase two deep dives in strategic sectors, identifying opportunities to create markets and drive investment into client countries. Results can help identify investment opportunities and interventions to enable these investments. This tailored assessment was completed for Ethiopia in FY21, where (i) the tourism deep dive recommended to professionalize the MICE (meetings, incentives, conferences, and exhibitions) market segment, strengthen region diversification, improve education and training, integrate private tourism investments with wildlife conservation, and mobilize investments in infrastructure; and (ii) the agribusiness deep dive recommended to strengthen diversification of agri-food exports, increase value addition, and grow domestic food markets for which access to finance and better market integration are essential. In FY22, the Egypt health deep dive and Côte d'Ivoire horticulture deep dive were completed (boxes 4.1 and 4.2).

Box 4.1. Findings from the Egypt Health Sector Deep Dive

The first phase of the Egypt CPSD identifies the health sector as under further pressure due to COVID-19 but showing high potential for increased private sector participation. The second phase health sector deep dive describes leading business models that can help unlock private investment opportunities and necessary policy reforms to unlock this potential.

Over the last few decades, Egypt's health system has made significant strides, including reduced maternal and child mortality and a large-scale treatment program for Hepatitis C. Despite these advances, several challenges remain, among them high levels of out-of-pocket spending and the need to better align the system with the country's growing and aging population. The Universal Health Insurance System (UHIS), envisages mandatory coverage for all citizens, including vulnerable groups, subsidized by the government. Thus, UHIS will be providing coverage to a population that is expected to grow from about 100 million in 2020 to more than 130 million by 2030.

The deep dive focuses on three health sub-sectors to serve increasing demand: (i) health facilities, including hospitals, primary care, and specialty clinics, (ii) diagnostic imaging, and (iii) pharmaceuticals, including generics, biosimilars, and vaccines. Other sectors, such as laboratories, pharmacies, health technology, medical consumables, equipment, and devices, also play a critical role in supporting the health system. The deep dive highlights policy-shaping initiatives to encourage collaboration between private and public providers to unlock market opportunities; disseminate knowledge through skill building with trainings and qualifications to build local talent; and allocate funds to support health sector self-sufficiency and long-term sustainability.

Box 4.2. Findings from the Côte d'Ivoire Horticulture Sector Deep Dive

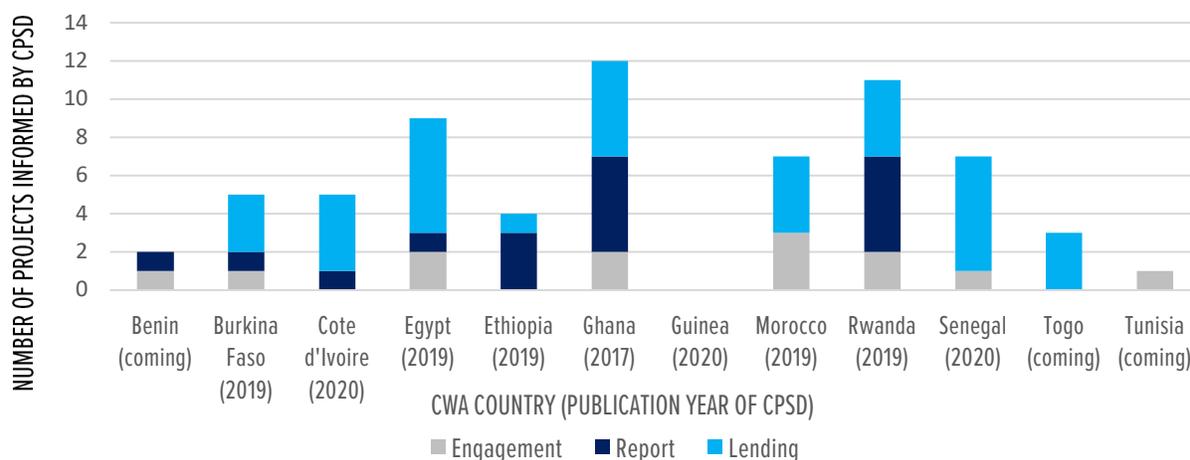
With the Côte d'Ivoire CPSD identifying cotton, cashew nut, rubber, palm oil, and horticulture as value chains that hold significant growth potential, a review of existing knowledge gaps shows that further analysis in the horticulture sector was warranted. The deep dive identifies binding constraints on greater investment by the private sector in these value chains and the growth potential of specific sub-sectors within them.

The deep dive finds the greatest potential for investment among vegetables, mangos, banana, pineapple, and dried fruits. Constraints on growth include access to finance and logistics; tax administration; lack of skills, research and development (R&D), and innovation; and digital connectivity. With a view to operationalizing the recommendations from the deep dive, the Prime Minister of Côte d'Ivoire requested an action plan that could be supported through projects by development partners. In addition, IFC Upstream and Mainstream industries used the deep dive to engage potential investors in horticulture. IFC's "Upstream" activities occur

before the traditional investment cycle and are necessary precursors to an investment. The work entails identifying public sector reforms that will unlock more private investment as well as identifying a project pipeline to offer potential investors. IFC focuses on attracting investment in the most challenging settings, that is low-income countries and fragile and conflict-affected states.²⁴ The deep dive is expected to be published shortly.

CPSD recommendations have translated into strategic engagement and support by the World Bank for CwA countries to implement reforms for mobilizing private capital and developing the private sector. Since 2017, CPSDs in CwA countries have informed over 70 World Bank projects (figure 4.2). Analysis and recommendations from CPSDs informed 36 lending operations by the World Bank to CwA countries, both development policy financing (DPF) and investment policy financing (IPF). They also informed 20 analytical reports and studies and 14 engagement products, such as Systematic Country Diagnostics and Country Partnership Frameworks. This generated significant synergies between the World Bank and IFC country teams.

Figure 4.2. World Bank Projects Informed by Country Private Sector Diagnostics in Compact with Africa Countries



- **In Rwanda**, the CPSD helped prioritize the affordable housing sector, identify reforms needed to attract investment, and assess opportunities through pipeline development. These opportunities required strong coordination among development finance institutions to structure viable financial models and address key sector issues through regulations. To materialize, they will require clarifying the condominium law, improving the policy environment for rental property, and adopting a consistent PPP framework for land, infrastructure, and housing development. The World Bank Rwanda Housing Finance Project (P165649) supported these efforts, and the Access to Finance for Recovery and Resilience Project (P173373) supported small and medium enterprise (SME) access to

²⁴ For more information about IFC Upstream work, see https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Upstream/FAQs/

finance, prioritizing the construction sector. The mobilization of stakeholders has led to the conceptualization of the Kinyinya project to address the affordable housing shortage with the development of a sustainable, urban, mixed-use community in Kigali. The project is the first phase of a 10,000-unit community development, expected to be mainly financed by the private sector.

- **In Burkina Faso**, the World Bank Third Fiscal Management, Sustainable Growth, and Service Delivery Policy Finance (P173529) supported the adoption of a new law to facilitate PPPs, as recommended by the CPSD. The law is expected to remove a major bottleneck to private investment by laying the foundation for the government to develop well-structured PPPs in infrastructure and public service delivery. In parallel, IFC supported the implementation of the new framework with technical assistance. In addition, the Burkina Faso Jobs and Economic Transformation Project (P177005) under preparation seeks to strengthen the enabling environment for micro, small, and medium enterprises (MSMEs) with support to the sustainable development of value chains with high potential identified by the CPSD.
- **In Senegal**, the CPSD influenced policy reforms supported by the World Bank Equitable and Resilient Recovery DPF (P172723). These reforms focused on: (i) increasing access to finance for startups, creating an effective framework for private participation and investment in service delivery, and increasing access to finance for MSMEs; (ii) improving the management of state-owned fiber optic and facilitating equitable access to ICT; and (iii) ensuring transparency in the energy sector to facilitate private investment. Moreover, building on the CPSD findings, a pillar of the Senegal Jobs, Economic Transformation and Recovery Program (P174757) finances firm-level interventions to address bottlenecks identified by the CPSD, such as access to technology and private financing.
- **In Egypt**, the World Bank Inclusive Growth for Sustainable Recovery DPF (P171311) supported reforms identified by the CPSD related to trade facilitation, commercial justice, and fintech (financial technology) regulation.

CPSDs also provide analytical underpinnings for IFC “country strategies” to help drive investment and create new markets. CPSDs seek to prioritize reforms that are needed to support increased private sector investment and growth, identify sectors with a potential for greater private sector activity, and create products to address financing bottlenecks. For instance, CPSDs have highlighted how the economic and institutional structure of the country and weaknesses in the entrepreneurial ecosystem limit the scalability of businesses with long-term assistance. In response, IFC advisory support is scaling up the local champion initiative that seeks to increase the number of readily bankable opportunities in these countries (box 4.3).

Box 4.3. IFC Launches Local Champion Initiative to Help Companies Ready for Investment

Investing in low-income African countries has proven to be extremely challenging, as most local sponsors are small; operate informally; do not meet environmental and social standards, compliance, or integrity; and are not ready to engage in complex negotiations with development finance institutions. The cost of doing business with these sponsors can be prohibitive.

The Local Champion Initiative seeks to create a pipeline of investable transactions by improving the investment readiness of companies operating in manufacturing, agribusiness, and services. Through technical assistance, the initiative aims to stimulate broader private sector development in the country. In 2018, IFC launched the Local Champion Initiative as a pilot to assist promising domestic sponsors in Niger and Togo to prepare for investment. Technical assistance included market assessments, feasibility studies, financial modeling, production biosecurity and food safety, and corporate governance advice and training. Following this successful pilot, IFC is scaling up the initiative in four countries, including two CWA countries, Burkina Faso and Guinea.

4.2. Country Climate and Development Reports

The new diagnostic tool, Country Climate and Development Report (CCDR), highlights the intersection between climate and development to achieve robust and long-term solutions for climate challenges. CCDRs provide an evidence-based diagnostic, combining sector-based deep dives and economy-wide macro models to identify key transitions and policy recommendations on raising climate action and ambition to deliver inclusive, low-carbon, climate-resilient pathways. CCDRs are a product of the World Bank Group, prepared by the World Bank in partnership with IFC and MIGA and coordinated with the IMF. They also benefit from engagements with government counterparts, the private sector, academia, think tanks, and civil society. CCDR recommendations help policymakers prioritize a range of options, recognizing uncertainties about future climate change impacts and the availability of technologies and financing.

By identifying urgent policy shifts linking climate and development, CCDRs provide a strong basis for accelerating countries' climate ambition and action consistent with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity. Engagements on the CCDRs offer a country climate platform for the government, citizens, private sector investors, civil society, and MDBs to coordinate on development and climate action, including implementing Nationally Determined Contributions and finding tangible solutions to increase resilience and catalyze requisite financing. Some CCDR recommendations have informed policy and institutional reforms and attracted blended and concessional financing to high-impact climate projects from development financiers, including non-traditional donors and public and private investors.

IFC provides the private sector angle in CCDRs, including sector deep dives on energy, water, agriculture, transport, resource efficiency in industries, green cities, solid waste management, and the financial sector. In addition, IFC provides technical support to greening the financial sector, depending on the level of development of country capital markets, to pave the way for design and use of innovative green financial measures. For example, venture capital and private equity funds offer key sources of early and growth-stage finance for startups to advance innovation and develop new businesses in climate adaptation and mitigation. As part of the recommendations, IFC also looks for ways to enhance trade facilitation and regional integration, because this normally provides clients with access to bigger markets.

CCDRs were finalized and published in Angola, Cameroon, Malawi, Mozambique, and South Africa, and in five CwA countries: Burkina Faso (as part of the G5 Sahel), Egypt, Ghana, Morocco, and Rwanda. New CCDRs for FY23 have commenced, including in Côte d'Ivoire and Tunisia.

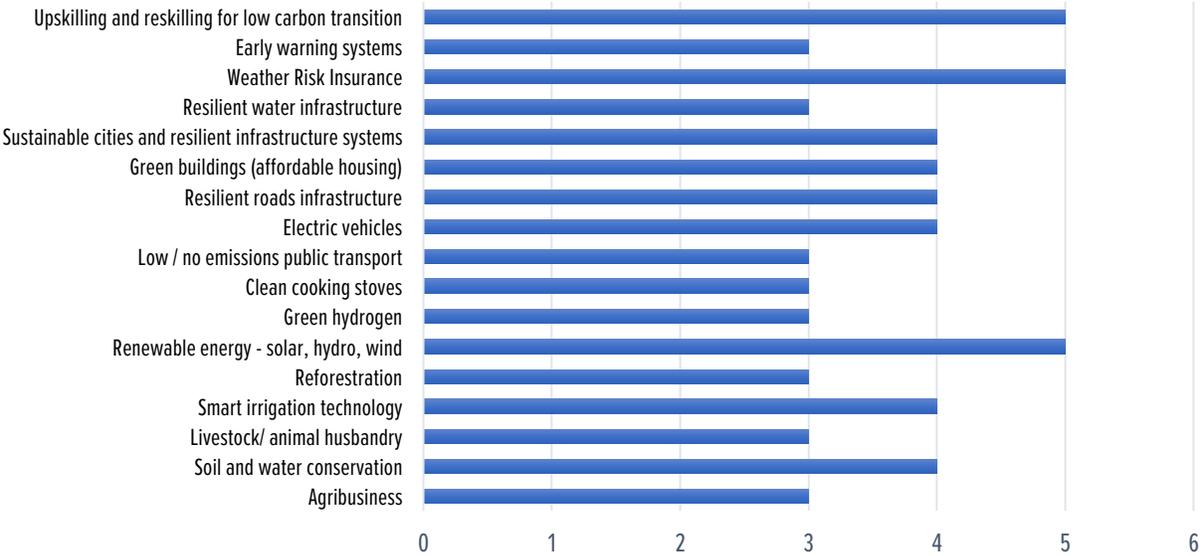
The first set of CCDRs, especially in Africa, show the need to accentuate development as the foundational strategy for achieving adaptation to low-carbon pathways. These pathways could offer pro-poor co-benefits, leapfrogging and avoiding costly lock-ins and stranded assets for a just transition. This is particularly important in the least developed and fragile economies, such as the Sahel. CCDRs also highlight how climate change and decarbonization can impact countries' development pathways while identifying mitigation, adaptation, and resilience-building actions. They also show that significant external support will be needed for just transitions under the Paris Agreement in oil and gas economies to avoid lock-ins and stranded assets. Most impacts tend to be localized, with countries and regions exposed to different threats in Africa; therefore, CCDRs must identify different climate priorities to better serve each sub-region.

CCDRs identify policy, investment requirements, external financing needs, and opportunities that can spur economic growth to create jobs of the future. CCDRs can help drive a new generation of climate-informed investments and policy transformations as they build on existing analytics. For example, CPSDs can inform potential private sector solutions or investment opportunities and recommendations to unleash private sector potential. CCDR follow-up engagements in some client countries, including Egypt, Ghana, and Morocco, have already commenced, to further consult with the private sector for deeper analysis and chart roadmaps for implementing climate change mitigation and adaptation opportunities. The aim is to unravel bottlenecks to private sector investment in climate action; highlight risks to major exporters, employers, or value-addition creators; and identify the regulatory reforms and incentives needed to facilitate and support the private sector's involvement, including for capital mobilization.

CCDRs could also be used to inform how the international community, especially high-income countries and private investors, could support the global transition toward a more resilient low-carbon development path by investing in opportunities. Of the possible climate investment

opportunities highlighted in CCDRs for CwA countries, figure 4.3 shows the most identified, with skilling for the low-carbon transition, weather risk insurance, and renewable energy at the top.

Figure 4.3. Most Identified Climate Investment Opportunities in Compact with Africa Countries’ Country Climate and Development Reports



Although CCDRs identify climate investment opportunities, it has become clear that to achieve the Paris Agreement’s global objectives, common barriers need to be overcome, including financing needs, technology, and trade issues. Because most CwA countries have limited fiscal space to overcome identified barriers, this creates funding opportunities for international investors to help CwA countries achieve their development and climate change goals.

4.3. Jobs Diagnostics

To inform jobs policies, the World Bank Group undertakes Jobs Diagnostics and similar analyses to investigate the dynamics of jobs outcomes, their drivers, and constraints to better jobs. The World Bank Group has recently undertaken such analysis in six CwA countries, including a regional report in the Middle East and North Africa region, covering Egypt, Morocco, and Tunisia (and other countries), jobs diagnostics in Côte d’Ivoire, Rwanda, Senegal, and Togo, and a labor market analysis in Egypt and Rwanda.

Jobs Diagnostics in Côte d’Ivoire, Rwanda, Senegal, and Togo

Employment, and in particular youth employment, is a top policy priority in Côte d’Ivoire. Analysis of data on the employment profile in the country shows that the biggest employment challenges relate to the quality, inclusiveness, and productivity of jobs (Christiaensen and Premand 2017). A major challenge stems from the high concentration of employment in low-productivity occupations in agricultural and non-agricultural self-employment due to the economy’s current

structure. Raising intra-sectoral labor productivity and facilitating labor transitions across sectors (structural transformation) are needed to improve earnings and job quality.

To address the employment challenge of promoting productive inclusion in Côte d'Ivoire, a three-pronged approach is needed. First, with approximately two-thirds of Côte d'Ivoire's poor living in rural areas and almost half of the poor living in households whose head is primarily engaged in agriculture, modernizing and raising labor productivity in agriculture is a key entry point for more, better, and inclusive employment generation. Second, expanding productive employment opportunities off farm will be equally important. This will require accelerating jobs creation in formal firms and putting in place policies to raise productivity in non-agricultural self-employment in the informal sector, while expansion of the formal sector continues. Third, occupational transformation typically lags economic transformation, and social protection will be needed for those unable to seize opportunities.

A 2020 poverty assessment for Rwanda found that better job creation is primarily related to private sector dynamism (Paci et al 2020). Labor markets are relatively flexible and job creation is responsive to growth. Labor market regulation is relatively unrestrictive, with few limits on dismissals, pay levels, working hours, and severance arrangements. In periods of growth in non-farm sectors, off-farm jobs have been created at an encouraging pace. Internal migration has been responsive to job opportunities, facilitating a switch to off-farm work. However, trends between 2010 and 2017 were marked by multiple signs of a slackening labor market. The number of months worked per year declined from 11.2 to 9.1 per working age individual (EICV), and time-related underemployment rates reached 23.9 percent for females and 16.6 percent for males of working age (ILO). Similarly, underemployment (that is, seeking employment but not working at all) increased over the six-year timeframe for all parts of the consumption distribution. During the recovery in 2018, unemployment was still almost 15 percent. Although on-farm nominal wages increased by over 20 percent between 2010/11 and 2016/17, they fell in real terms by over 6 percent. Off-farm wages were flat in urban areas and increased in rural zones in nominal terms but fell in real terms.

Nonetheless, a small shift in time spent in more productive work propelled increases in income and welfare in Rwanda. Although all off-farm wage work remained constant at 4.3 person-months, the time spent in waged work (rather than unpaid and self-employed) off farm rose from 1.7 to 1.9 person-months per worker. Even this slight shift was enough to increase time-weighted real wages in all compensated jobs, because in addition to the shift off farm, work shifted to urban areas, where wages were 250 percent higher. Thus, further transformation to wage work with productive firms is essential to accelerate poverty reduction. Available analyses and indicators suggest that the most severe impediments to private sector-led growth—and in this case, job creation—are high state ownership of commercial sectors that has hampered labor productivity, costly access to finance, and tax and regulatory issues. In addition, improved jobs in agriculture and rural areas will depend on efficiently integrating producers into markets and a shift in agricultural support to more market-responsive policies.

In Senegal, a World Bank (2021) analysis conducted as part of a forthcoming Country Economic Memorandum showed that, despite encouraging signs of labor movement out of agriculture and gradual improvements in human capital, average wage earnings fell between 2011 and 2018. The shift toward more productive, waged jobs in off-farm sectors (in rural and especially urban areas) has been particularly rapid between 2011 and 2018, exceeding growth in production in the receiving sectors. However, as the working age population expanded and waged work increased, labor productivity remained low. Most waged workers are in low productivity services (informal and semi-formal), and on average, wages have fallen. In addition, the relative returns to completing primary and some secondary education have fallen: as human capital has been built, wages for the top quartile of workers (by earnings) have fallen the most. These symptoms point to inadequate demand for labor.

Labor productivity in Senegal is low and falling in urban services and industry, as these sectors absorb labor leaving agriculture. Thus, while transformation out of agriculture is happening, mean wages and non-agricultural labor productivity are falling. This is in turn driven by a lack of capital deepening and slow growth in overall productivity. To address this in policies, evidence shows that the binding constraints to private investment, productivity, and better jobs are the low reliability and high cost of electricity and difficult access to land. Access to finance and a poor regulatory environment also remain issues.

In recent years, average labor earnings in Togo have fallen. Growth has been inadequate over 2011–18 at 3 percent per capita, structural transformation has been slow, and the only substantial source of labor productivity growth has been in the services sector. Overall, the rate of private investment and level of capital per worker remain low. Existing firms have invested at a modest rate, despite high gross profitability, and formal firm entry rates remain low. Moreover, firms have not hired at a rate commensurate with their sales growth. Thus, the demand for labor is insufficient to absorb a growing urban labor supply, and both wages and hours worked have fallen. Most workers are therefore employed in low productivity agriculture and tiny informal enterprises.

A recent jobs diagnostic in Togo found that a high minimum wage, compounded by regulations on hours and dismissing workers, constrains the demand for especially low skilled labor. Although the share of working age people with private sector wage employment grew substantially from 2006–11, after the minimum wage hike of 2012 it shrank. The share of workers in industry was rising prior to 2011 but then fell, and existing wage jobs in agriculture disappeared. Despite accelerating firm investment, the number of people with only part-time work doubled and firms used a high share of temporary workers relative to peer countries. Further exacerbating the low demand for labor is the low entry of appropriately scaled, productive firms. Although many impediments exist for the private sector in Togo, evidence indicates that high taxation relative to gross profits and burdensome regulation are binding on the entry and growth of formal firms, including in agriculture, and therefore on the creation of better jobs.

Jobs Diagnostics in Egypt, Morocco, and Tunisia

A decade after the first spark of the Arab Spring, the *Jobs Undone* report shows that large shares of healthy and capable working-age populations remain excluded from the labor force and employment altogether in Egypt, Morocco, and Tunisia (Islam, Moosa, and Saliola 2022). This is most evident for youth and women. The report argues that the lack of market contestability (ease of entry, growth, and exit of firms in the economy), which characterizes most of the region's economies, including Egypt, Morocco, and Tunisia, makes it hard for new firms to start up and expand. Thus, employment cannot grow fast enough to keep up with the growing working-age population.

Using two rounds of the World Bank Enterprise Surveys available for the first time, the report offers a new glimpse into the evolution of the private sector, showing that limited market dynamism and stunted job creation continue to be evident in the rigid private sectors of Egypt, Morocco, and Tunisia. The report highlights the importance of understanding the policies and regulations that can hinder market contestability. Product market regulations are particularly relevant in this context because they affect the costs that firms face when they enter the market, and the degree of competition between the firms that already exists in this market. The rigidity or flexibility of these regulations directly affects the number of firms that operate, their growth, and their ability to create jobs.

The *Jobs Undone* report presents new evidence on product market regulations in Egypt, Tunisia, and Morocco.²⁵ New product market regulations data collected for the *Jobs Undone* report in Tunisia shows several exemptions and favoritism to state-owned enterprise (SOEs)—targeted exemptions from competition regulations, state provision of financing to guarantee SOE debt and retail price controls. New data collected shows the dominant role still played by SOEs in Egypt in sectors where competition is viable and with high potential for job creation (government control through SOEs was found in all 29 sectors analyzed).

Results from the product market regulations analysis show three aspects that weaken the private sector and reduce market contestability. First, state presence through SOEs is still visible and significant. This occurs even in sectors where the economic rationale is unclear, and the sector can better benefit from private sector involvement, such as manufacturing, accommodation, trade, and construction. World Bank Enterprise Survey data shows that about 28 percent of firms in Tunisia are politically connected, compared to an average of 8 percent in the Middle East and North Africa region.²⁶

²⁵ Together with Jordan, Kuwait, Saudi Arabia, the United Arab Emirates, and West Bank and Gaza.

²⁶ A sample of about 23,000 firms across Europe, Central Asia, and the Middle East and North Africa regions were asked in the Enterprise Surveys, “Has the owner, chief executive officer, top manager, or any of the board members of this firm ever been elected or appointed to a political position in this country?” This is the first time such a measure of political connection exists for a broad range of countries, allowing for cross-country comparisons.

Second, there is little competitive neutrality that would level the playing field between these SOEs and their private sector peers, hampering the economy and its ability to create more, better, and inclusive jobs. The closeness of the SOEs to governments results in favoritism and exemptions. Egypt and Tunisia have several exemptions in their competition regulatory frameworks that make life easier for SOEs, such as targeted exemptions based on case-by-case assessments related to market effects,²⁷ or exemptions granted to certain categories of SOEs, such as those providing utilities. Many Middle East and North Africa countries have agencies that act as both regulators and operators, which weakens competitive neutrality. In some sectors, SOEs enjoy legal monopolies, for example, port operations in Kuwait and air transport in Egypt. In Morocco, SOEs play a dominant role in many sectors, including those that are typically served by the private sector in other countries around the world. SOEs in Morocco manage infrastructure in ports, road transport, and airports (World Bank 2020a). Tax exemptions favor SOEs. In Morocco, although SOEs are subject to value-added tax, some of them are not subject to corporate tax and may enjoy parafiscal tax²⁸ revenues instituted for their benefit.²⁹ Further, SOEs receive preferential access to finance and subsidies. In Morocco³⁰ and Tunisia,³¹ the state provides financing to SOEs or guarantees their debt.

Third, price controls are still prevalent, and often seen as a pillar of the welfare state. Controls reduce incentives for more productivity and efficiency, while mechanisms to assess the negative impact of regulations are limited. Egypt, Tunisia, and Morocco control the price of food staples, liquified petroleum gas (LPG), gasoline, and medicine. This differs from price controls among upper-middle-income countries and high-income countries.

The report scrutinizes the state’s regulatory role through two additional dimensions: labor regulations and taxes and “gendered” laws that differentiate between men and women. The analysis shows limiting labor regulations and a significant share of labor taxes in the obligations of firms and workers, limited use of fixed-term contracts, and limited coverage and enforcement of the minimum wage. When it comes to “gendered” laws, despite reforms over the past couple of years, unfair laws disempower women economically. Women face multiple layers of legal restrictions and inequality in entering and participating in labor markets.

Reimagining a new recovery requires politically feasible reforms. The *Jobs Undone* report argues that the road to contestability and better jobs should be implemented through a multi-pronged approach along three key reform areas: (i) leveling the playing field in the product market

²⁷ The latter is the case of Egypt relating to hardcore cartels, where an exemption can be granted provided said agreement would achieve economic efficiency that benefits the consumer and exceeds the effects of reducing competition (Article 6 of the Competition Law 3 of 2005). Or the case of Tunisia, where the relevant minister may set prices for a temporary measure not exceeding six months to face market irregularities, such as sudden excessive increase or collapse in prices (Articles 2–4 of Law 36 of 2015).

²⁸ Parafiscal taxes are the charges the state levies without providing a service. They include some non-tax fees.

²⁹ Article 6 of the General Tax Code exempts certain SOEs from income tax.

³⁰ As per the 2020 EEP report of the Ministry of Finance, the total amount of subsidies paid to EEPs amounted to MAD 30.792 million by the end of 2018, of which 44 percent was for investment (capital and equipment) and 56 percent for operating expenses. EEP of commercial nature benefited from MAD 2.988. The transport and energy sectors benefited over MAD 900 million. See <https://www.finances.gov.ma/Publication/db/2020/depp-plf2020-ar.pdf> (last accessed February 18, 2021).

³¹ Publicly controlled companies may receive financing guaranteed by the state. The amount of the state guarantee is decided each year in the finance law (Article 9 of the Finance Law of 2013).

given the high presence of the state (product market regulations); (ii) reshaping the relationship between the government and workers (labor market regulations and social protection systems); and (iii) fostering women's inclusion in all economic spheres (gendered laws). Interventions on these three fronts would be essential pillars for a new social contract.

The report argues that it is important to carefully sequence reforms to promote greater market contestability and sometimes to adopt an incremental approach. Another approach to finding a politically feasible path to reform is to focus first on emerging sectors where there are few incumbents and interest groups have less power. This can facilitate new occupations, so the disruption for existing workers is less evident—and new activities can be complementary rather than replace existing jobs. The digital economy and green economy demonstrate rapidly emerging new sectors where incremental reforms might set in motion structural transformations. Finally, according to the report, the road to contestability needs better data and transparency, which is lacking in most Middle East and North Africa countries, including Egypt, Morocco, and Tunisia, constraining both evidence-based policymaking and effective implementation.



5. BOOSTING ENTREPRENEURSHIP AND MICRO, SMALL, AND MEDIUM ENTERPRISES

5.1. The Need to Support Micro, Small, and Medium Enterprises

Africa's fast-growing population—by 2050 Africa will account for 25 percent of the global population—calls for the creation of more economic opportunities, particularly quality jobs. This is especially true for the youth population, as more youth enter the job market each year. Nearly 80 percent of Africa's population is under the age of 35, compared to less than 40 percent in Europe, 45 percent in North America, and 55 percent in Asia (World Bank Group 2022a).

By connecting workers to jobs, MSMEs³² can play a critical role in contributing to poverty alleviation and shared prosperity. Labor earnings have been a major contributor to poverty reduction and the increase in income for the bottom 40 percent³³ (World Bank 2013). The rationale for public support to MSMEs is often articulated around two ideas: (i) MSMEs account for a large share of jobs in developing countries; and (ii) MSMEs face longstanding and size-specific market failures and corresponding constraints on access to finance that call for policy action (box 5.1). MSMEs represent on average about 50 percent of employment in developing countries and 65 percent of jobs in low-income countries (Ayyagari et al. 2014). While few pan-African statistics are available, MSMEs in Africa are known to account for an even greater share of employment than in other regions, even though large-scale firms remain major players and drivers of supply chains that are also major employers in African economies. Despite the prominence of MSMEs, less than 10

³² The World Bank Enterprise Survey defines SMEs as enterprises with 5–99 employees; firms with 5–19 employees are considered small and those with 20–99 medium. IFC formally define SMEs as fulfilling two of three criteria: (i) more than 10 and fewer than 300 employees; (ii) sales between \$100,000 and \$15 million; and (iii) assets between \$100,000 and \$15 million. Loan size is also a proxy, whereby loans between \$10,000 and \$1 million to enterprises are considered to be SME financing in developing countries.

³³ In IDA countries, labor earnings account for over 95 percent of total income among poor households.

percent of them display high growth that generates most private jobs, which calls for public support to unlock latent productive opportunities and build scale (World Bank Group 2021).

Box 5.1. Market Failures for Micro, Small, and Medium Enterprises

Information failure or asymmetry. Because smaller firms have weaker accounting systems, they are less able to provide credible evidence of financial performance or generate quality loan proposals. Therefore, the information asymmetries between borrower and lender are greater for small firms. In addition, the cost of assessing the creditworthiness of smaller firms, which borrow smaller amounts, is greater than for large firms due to the fixed cost element of assessment.

Lack of assets and property rights. MSMEs often lack property rights due to weak systems governing land management issues, intellectual and copyright issues, or a lack of collateral registers, resulting in lower levels of access to land or not being able to use land—or other fixed or movable assets—as collateral. This limits the reach of finance, stifles innovation, and hinders enforcement of mortgage and foreclosure laws. Also, MSMEs may want to avoid public exposure of their assets and wealth, because of concerns about tax payments, the confiscatory practices of tax officials, and corruption.

High transaction costs and technological barriers. MSMEs can only absorb transaction costs commensurate with their revenue, which makes it difficult to absorb high registration or license fees. This also applies to hiring law firms to help navigate regulatory challenges. The same logic applies to capacity building, especially with new technologies. Off-the-job training is important for upgrading skills, but the absence of workers to do so can be disruptive. Per-worker training costs can be high as well.

Indivisibility, economies of scale, and network effects. MSMEs often face insurmountable upfront investment costs to enter markets, combined with a high risk that the venture may be unsuccessful. While larger firms can spread such risks over a larger portfolio of income streams, for MSMEs such risks can be overwhelming. Upfront costs can also limit innovation or efforts to scale up, as they have limited revenues to observe these costs. In addition, MSMEs lack the network that in some markets is crucial for economic performance, such as logistics and telecom.

Source: Cunningham 2011.

More inclusive and sustainable businesses are needed, calling for adapted support. Women entrepreneurs play a critical role in economic development by boosting growth and creating jobs, particularly for the poorest 40 percent of the population (World Bank Group 2018). Yet, women entrepreneurs face numerous challenges, including legal and policy obstacles to business ownership and development. Women-led enterprises tend to be concentrated in sectors where

profits and growth opportunities are lower and to lack networks and knowledge. In this way, women are disadvantaged from the start, having fewer professional connections, role models, and mentorship opportunities, which can adversely affect their businesses in the long run.

When addressing climate challenges, several barriers constrain attracting the volume of private finance needed to advance most developing countries' adaptation agendas (Tall et al. 2021). Barriers fall into three broad categories: (i) lack of country-level climate risk and vulnerability data and information services to guide investment decision-making; (ii) limited clarity on the government's capital investment gaps to achieve adaptation goals and/or on where private investment is needed; and (iii) low perceived or actual returns on investment.

In this spirit, the G20 AAG meeting in May 2022 mandated a second generation of CwA reforms and actions to intensify support for innovative MSMEs and entrepreneurship and foster sustainable growth and domestic private sector development in CwA countries. The aim is to enhance the links between the attraction of private investment (particularly investments linked to the growing digital economy to which job creation and future productivity is linked) and inclusive development of the local private sector, to ensure youth, women, and others can capitalize on opportunities. This will encourage job creation and income growth through firm-level competitiveness and resilience and broader innovation and ecosystem support, with a particular focus on gender equality, opportunities for youth, sustainable solutions, and resilience to climate risks.

The complementarity of the CwA approach will support an increase in total factor productivity and inclusive growth. On the one hand, the attraction of FDI will continue to promote knowledge transfer, strengthen the managerial capacity of local partners, and create market links for input and output. On the other hand, policies to solve market failures faced by domestic MSMEs will result in: (i) a more favorable and inclusive business environment for entrepreneurs and in broader human capital formation; (ii) stimulation of innovation across all sectors to encourage sustainable development; and (iii) incentives to promote resilience and underlying stability, which is needed for investor confidence.

This chapter serves as a precursor for preparing country-specific action plans, while continuing to promote G20 coordination for enhanced synergies. Action plans will inform discussions on how to take the CwA forward over the medium term. This chapter maps existing initiatives and tools developed by implementing partners to inform the development of action plans.

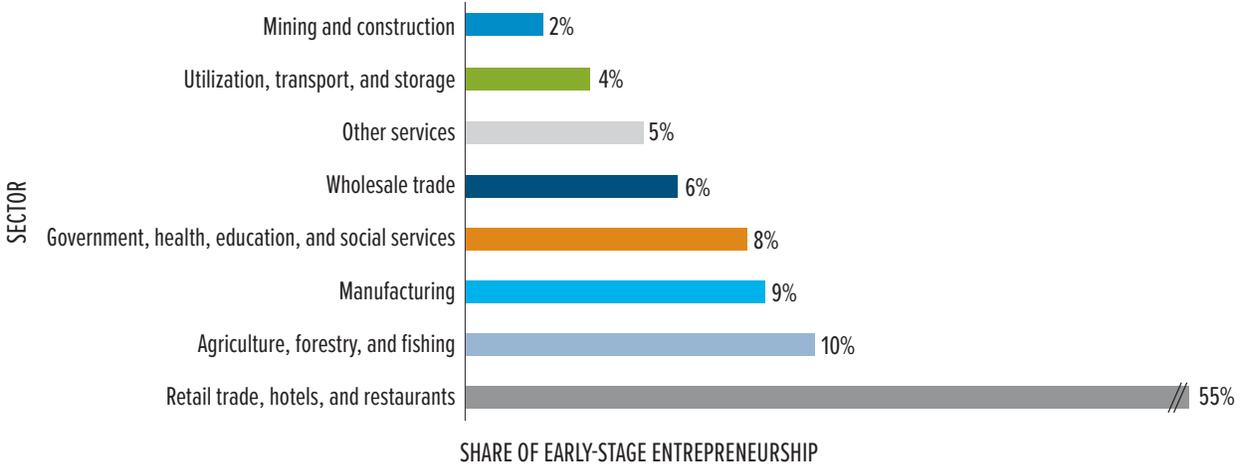
Overview of the Entrepreneurial Ecosystem

About half of young people across Africa say that if they were offered \$100, they would use it to start a business,³⁴ a sign of entrepreneurial spirit. The largest constraint stated to starting a business was limited access to finance. Most early-stage entrepreneurs in Africa operate in retail

³⁴ Ichikowitz Family Foundation charity survey 2020.

trade, hotels, and restaurants (figure 5.1). However, the sectoral composition varies widely across countries. The share of early-stage entrepreneurs in retail trade, hotels and restaurants ranges from 27 percent in Cameroon to 81 percent in Malawi. This industry requires lower skill levels and fewer barriers to entry. It also has rapid turnover and requires no long-term investment. By contrast, almost half of entrepreneurs in high-income countries are starting their businesses in the technology and service industries, such as ICT, finance, professional services, health, and education. These high-value industries would benefit from being developed in specific entrepreneurial ecosystems and hubs, particularly if integrated with eco-industrial zones for clusters to form and/or situated near trade corridors for proximity to sources of demand for logistics and related services.

Figure 5.1. Sectoral Composition of Early-Stage Entrepreneurship in Africa, 2018



Source: AfDB 2021.

The implementation and acceleration of entrepreneurial ecosystems is central to unlocking the ability of entrepreneurs. The entrepreneurship support ecosystem is a collaborative arrangement through which institutions that support entrepreneurs combine their resources, capabilities, and products to offer a coherent, entrepreneur-oriented solution.³⁵ When they function correctly, ecosystems allow institutions to create more value than any one could have created on their own. Well-managed environments enhance the control of essential interdependencies to maximize profits or lower costs. Entrepreneurship ecosystems have gained interest in recent years as governments, private companies, universities, and communities have started to understand the importance of integrated policies, structures, programs, and processes that foster entrepreneurial activity in the region and can support innovation, employment growth, and productivity.³⁶

The basic principle of an entrepreneurial ecosystem is to create a stimulating atmosphere that promotes creativity, development of productive new businesses, and formation of clusters so producers can link with other entrepreneurs and leverage product and support relationships.

³⁵ Entrepreneurship Ecosystem in The Gambia International Trade Centre.
³⁶ Global Entrepreneurship and Development Institute, Global Entrepreneurship Index 2015.

The result is sustained growth of jobs and increased product quality, variety, and value-added. The ecosystem typically includes policymakers, state agencies, universities, industry associations, startups, small and medium businesses, and existing big corporations that accelerate economic growth through innovation.³⁷ Further, entrepreneurial communities are sustained in six pillars or fields:³⁸

1. *Policies*: Assistance from the administration and public bodies at the policy level and with regulations and initiatives to promote entrepreneurial activity.
2. *Financing*: Simple and fast access to finance, banking and private.
3. *Culture*: Giving diffusion and visibility to success stories and a good reputation to entrepreneurs.
4. *Support*: Services, resources, and initiatives to support entrepreneurs.
5. *Human Capital*: Educational institutions, universities, and training for entrepreneurs.
6. *Markets*: Entrepreneur networks and customers that test beta products (early adopters).

Technology hubs are one example of a business support service or organization, offering a high-value entrepreneurial ecosystem component. In Africa, 618 technology innovation hubs were identified in 2019.³⁹ Nigeria and South Africa remain the most advanced ecosystems, boasting 85 and 80 active technology hubs respectively, with well-established collaborations and investment networks. Kenya is already the heart of East Africa’s technology ecosystem with almost 50 technology hubs, and Egypt is the North African leader with 56 active hubs. Forty percent of the technology hubs are present in 10 cities. The benefit to building these hubs in one place is external economies of scale, such as tax incentives and access to a centralized talent pool. However, this could leave entrepreneurs who do not have access to these central hubs without necessary support.

Entrepreneurship is needed to drive these hubs, as government-led hubs tend to not be motivated by profit. However, entrepreneurship needs to be developed in Africa. This can be done in five ways:⁴⁰ (i) investing in education and vocational training, paired with more flexible labor regulations that promote skills and free movement; (ii) adopting policies and initiatives to strengthen the market regulatory climate and foster competitiveness; (iii) attracting investment for African countries to advance structurally on a strong technological base and diversify sectors; (iv) making smarter use of the business incubator model to help enterprises establish and grow and for clusters to form; and (v) delivering financial channels, exchanging skills and know-how, and generating incentives for incorporation of Africa into the international economy.

³⁷ The Entrepreneurship Ecosystem Strategy as a New Paradigm for Economic Policy: Principles for Cultivating Entrepreneurship. The Babson Entrepreneurship Ecosystem Project, Babson College 2011.

³⁸ “How to Start an Entrepreneurial Revolution.” Harvard Business Review 2010.

³⁹ GSMA 2019.

⁴⁰ 5 ways to promote entrepreneurship in Africa, World Economic Forum 2013.

5.2. Status of Entrepreneurial Ecosystem in Compact with Africa Countries

MSMEs are predominant in CwA countries as they are around the world. The definition of MSME size categories varies, often relying on a combination of employees, assets, and revenues. Still, the estimated 5 million MSMEs operating in CwA countries dominate each of the 12 economies in numbers and jobs (IFC 2017a). For example, in Ghana, SMEs represent 92 percent of formally registered Ghanaian businesses (Ghana Ministry of Trade and Industry 2019). Although the continent's business culture is highly entrepreneurial, most people working as entrepreneurs are engaged in low-value activities in the informal sector. Consistent with self-employment statistics, a major share of firms is informal. In 2019, the share of self-employment in CwA countries ranged from a low of 25 percent and 30 percent in Tunisia and Egypt respectively to a high of 88 percent and 91 percent in Benin and Guinea respectively (ILOstats). These firms are predominant in employment yet limited in value-added and frequently are tied to subsistence and low incomes (World Bank Group 2022b). Their economic transformation toward higher value creation and formalization can contribute to the growth of total factor productivity in CwA countries.

The private sector in CwA economies is largely informal. The level and nature of informality varies across countries (Ohnsorge and Yu 2021). About two-thirds of workers in North Africa operate without any formal arrangement and social protection, and about 30 percent of GDP is estimated to be produced by informal workers and firms (IMF 2017). Egypt, Morocco, and Tunisia have made progress in reducing output informality over the past decade. Informal output in Sub-Saharan Africa was 36 percent of official GDP on average, while informal employment was at 62 percent and 90 percent of total employment when measured by self-employment or absence of pension coverage.

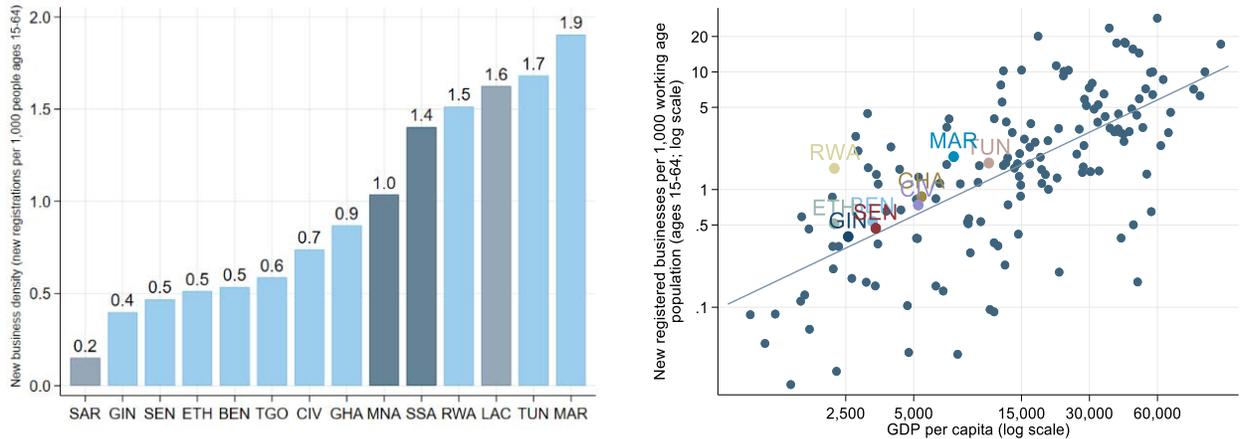
Informal firms may discourage investment in the formal sector due to the perception of adverse competition. The ability of unregistered firms or non-complying registered firms to gain a competitive advantage by selectively opting not to comply with regulations that increase production costs creates disincentives for entrepreneurship and investment. Informal firms themselves may have limited incentives to grow and accumulate assets to limit their visibility and associated risks to pay taxes and other fees. Multivariate analysis indicates that formal firms operating in regions and sectors that face informal competition are 24 percent less productive than firms operating in regions and sectors that do not face such competition (World Bank Group 2019). In addition, informality often deters foreign investors. These are likely to have less knowledge than local investors on how to engage in tax and/or regulatory noncompliance and accordingly will suffer an inherent competitive disadvantage relative to local investors engaged in such practices (World Bank Group 2022b). The adverse effect of informality on the productivity of formal firms is restricted to smaller and less productive firms and is mitigated by higher levels of GDP, better business climates, and strengthened institutions and incentive frameworks.

The rationalization of business registration and formalization processes has been among the most popular regulatory reforms over the past two decades in CwA countries, following a global

trend (Bruhn and McKenzie 2018). Of 356 reforms of business regulations implemented between 2008 and 2020 in CwA countries, 58 simplified registration procedures were recorded. A common reform is the establishment of one-stop shops that centralize processes in a single office. For instance, in February 2020, Benin introduced an electronic platform that makes online business registration possible in only three hours.

There is no silver bullet to addressing the adverse impacts of informality given its multifaceted nature. African MSME and entrepreneurship ecosystem development are in the early stage. The Startup Blink Global Startup Ecosystem Index shows the scarcity of African ecosystems in the global mix, with only 29 African cities ranked in the top 1,000 cities globally in 2022 (less than 3 percent of total). Still, CwA countries are leaders with 10 cities included, and Morocco and Senegal improving their rankings. There is a large heterogeneity in new firms entering the market across CwA countries. Morocco, Rwanda, and Tunisia are the top countries in entry even after controlling for GDP per capita (figure 5.2).

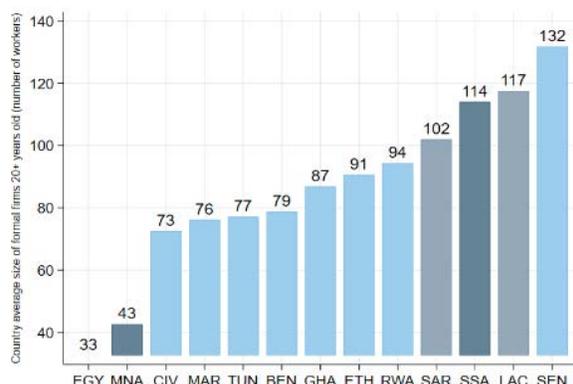
Figure 5.2. New Registered Businesses per 1,000 Working-Age Population



Source: World Bank’s Entrepreneurship Database : 2020 for Benin, Côte d’Ivoire, Egypt, Guinea, Morocco, Senegal, Rwanda, and Togo; 2019 for Tunisia; 2018 for Burkina Faso and Ethiopia; and 2012 for Ghana.

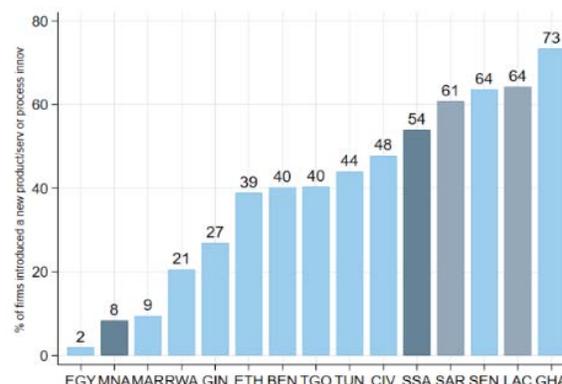
However, higher entry rates of firms do not mean better firms. Fast-growing firms provide the most jobs (Grover, Medvedev, and Olafsen 2019) and the size of established firms in CwA countries tends to be smaller than in South Asia and Latin American and the Caribbean (figure 5.3). In addition, firms need the capacity to adapt to market conditions to grow and be resilient. A minority of firms in Egypt, Morocco, and Rwanda have introduced new products, services, or processes (figure 5.4). However, firms in Senegal and Ghana are at similar levels to firms in South Asia and Latin America and the Caribbean. A similar gap in innovation is shown when comparing the share of firms that invest in R&D. This may reflect limited capacity and resources to investment in R&D or difficulties for return on investment to materialize, including due to gaps in the protection of intellectual property.

Figure 5.3. Country Average Size of Formal Firms Over 20 Years (number of workers)



Source: World Bank Enterprise Surveys.

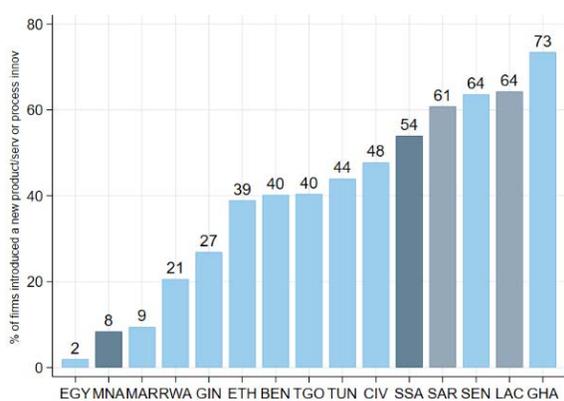
Figure 5.4. Share of Firms that Introduced New Products, Services, or Processes (percent)



Source: World Bank Enterprise Surveys.

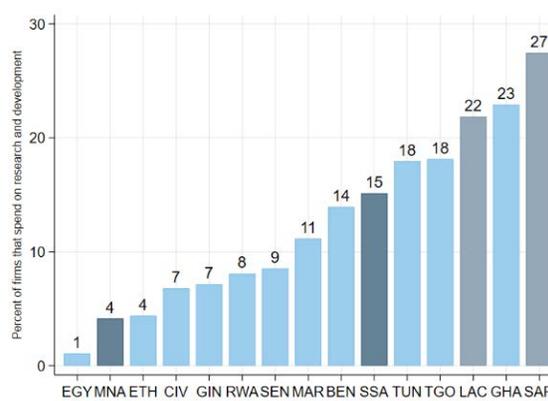
Despite these obstacles, there is considerable opportunity for MSME success in Africa. Innovative firms in Ghana, Morocco, Senegal, and Tunisia are growing faster than their regional peers (figure 5.5). Moreover, firms in multiple CwA countries have found opportunities in international markets (figure 5.6). The presence of large entrepreneurial opportunities has also been demonstrated by the growth of the seven “unicorns” (firms valued at \$1 billion or more) and “gazelles” created in Africa in the last few years, as well as several urban ecosystems that have achieved success and show prospects for increased development. Opportunities can come from leapfrogging, which has been demonstrated in Lagos, a center for foodtech, e-commerce, and fintech.

Figure 5.5. Growth of Innovative Companies (percent)



Source: World Bank’s latest Entrepreneurship Database and Enterprise Surveys.

Figure 5.6. Share of Firms that Export Directly or Indirectly (percent)



Source: World Bank’s latest Entrepreneurship Database and Enterprise Surveys.

However, the high level of risk-aversion in CwA countries signals room to improve the entrepreneurial environment and mindset. A growing entrepreneurship ecosystem signals to people that it is profitable to take risks and invest in innovative firms. In some CwA countries, entrepreneurs are still not willing to take ventures that involve higher risks (figure 5.7). Improving the entrepreneurial mindset, along with reducing risks associated with market failures, is important to accompany work on other identified barriers.

Figure 5.7. Attitude Toward Entrepreneurial Risk [1 = not at all; 7 = to a great extent]



Source: World Economic Forum Global Competitiveness Index 2019.

Applying the Reform Mindset to Relieve Constraints to MSME Growth

Over the past five years, as shown by CwA Monitoring Reports, CwA countries have completed most of their initial reform commitments and are making new reform commitments to support quality job creation and address new challenges and opportunities in the global economy.

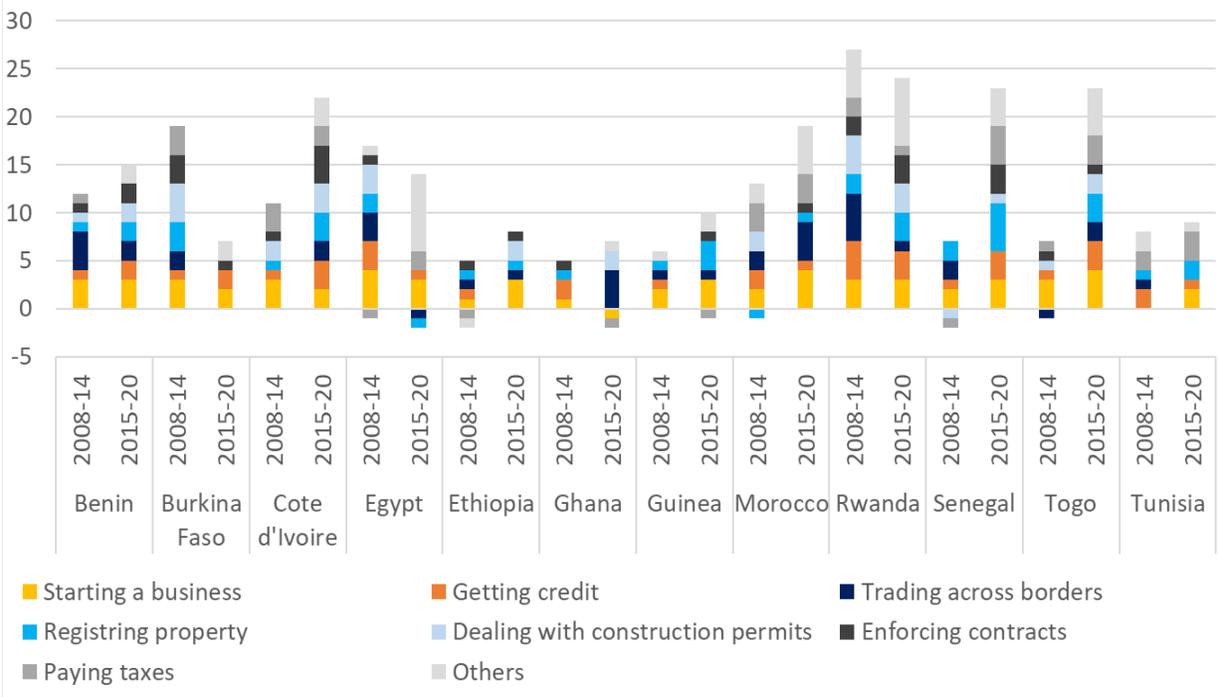
Moving forward, the CwA will support the implementation of a new set of reforms to help CwA countries unlock MSME growth. The ability of firms to grow and become more productive is the result of institutions, networks, and actors that enable entrepreneurship and innovation (World Bank forthcoming). The entrepreneurial process requires: (i) a factor market that provides access to basic production resources, human capital, and entrepreneurial and firm capabilities; (ii) equity and quasi-equity markets that are willing to finance intangible assets based on potential value generated by intellectual property, provide access to capital for the supply of machines and technologies, and offer corresponding access to finance at affordable rates and instruments; (iii) access to input and output markets; and (iv) institutions that favor this process of creation, production, and marketing and enable the flow of ideas, technology, talent, and resources (Audretsch, Cruz, and Torres 2022).

Reform-minded CwA countries have demonstrated their commitment and ability to improve the business environment for their private sector to thrive. The business and institutional environment in CwA countries tends to be better than in most Sub-Saharan Africa countries, as indicated by Country Policy and Institutional Assessment (CPIA) scores.⁴¹ On all four CPIA dimensions, CwA countries score on average 0.5 points higher than the regional average (based on a score of 1 to 6). This reflects reforms undertaken in recent years to improve the business environment compared with most non-CwA countries (figure 5.8). Nonetheless, challenges persist so more innovative firms can enter the market and competitive firms grow, as reflected in

⁴¹ The CPIA consists of 16 criteria grouped in four equally weighted clusters: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions.

(i) deficiencies in network and knowledge infrastructure; (ii) regulatory obstacles to doing business; and (iii) a large deficit in access to finance for MSMEs to be resilient.

Figure 5.8. Number of Doing Business Reforms Adopted in Compact with Africa Countries, 2008–20



Source: World Bank Doing Business reforms 2008–20.
 Note: Negative value indicates a reform that deteriorated the business environment.

Network and Knowledge Infrastructure

Network (logistics, energy, Internet) and knowledge infrastructure is the foundation of a dynamic business ecosystem. A well-functioning infrastructure ensures secure and cost-efficient access to strategic resources, including data and networks. Quality infrastructure is also critical for firms’ entry into distant markets and engagement in GVCs (World Bank Group 2021). Some CwA countries, such as Guinea, Morocco, and Senegal, still scored below the average for their regional and income groups on the World Bank 2018 Logistics Performance Index. The World Trade Organization (2016) showed that logistics and infrastructure costs remain among the major challenges SMEs face in joining GVCs. Knowledge infrastructure and cooperation mechanisms are often lacking in Africa. For instance, the weak capacity of the private sector to work together has hindered its ability to deploy joint marketing efforts and build purchasing power through pooling arrangements to source inputs.

Energy and ICT infrastructure is critical for firms’ competitiveness, to sustain digital diffusion among firms and SME participation in the next production revolution. A large percentage of the population, in countries such as Rwanda, Benin, Guinea, and Ethiopia, still do not have access to

electricity. The share of the population that uses the Internet is also low. This will limit the local scale of any new digital businesses in those countries. Such factors impact MSME development and entrepreneurship by broadly constraining growth, although they also create transactional opportunities (for example, niche products, lower per-unit costs) due to scarcity. Social infrastructure is also a key challenge given the importance of health, education, nutrition, and related influences on productivity. Consequently, firms in CwA countries also lag in digital adoption. They are constrained by limited infrastructure, such as the number of secure internet servers per 1 million users, and show relatively low levels of R&D when measuring other indicators related to intellectual property, patents, industrial design, and high-tech exports. Most firms do not even have their own website, let alone the capacity for innovative R&D.

Regulatory Infrastructure and Inclusiveness

Several CwA countries were at the bottom of the ease of Doing Business Index in 2020, which assesses the rules affecting the lifecycle of domestic SMEs. Each country has a different type of constraint, such as the cost of starting a business, dealing with permits, or dealing with several government officials to obtain services. The reform mindset of CwA countries has led to an improved legal and regulatory environment for businesses to thrive but limited institutional capacity to enforce measures or deploy instruments, which mitigates the impact of these reforms. World Bank Group Country Private Sector Diagnostics further highlight sector-specific constraints that prevent firm growth in sectors with significant potential to attract investment.

Legal and cultural barriers also affect the inclusion of women in economic activity, limiting potential value creation. The participation of women as the manager of the firm or the percentage of firms with a majority ownership by women is still low in CwA countries. This can limit competition and the start of new business opportunities and markets. In addition, in Africa, the performance of female-owned businesses consistently lags that of male-owned businesses, with fewer employees, lower sales, and less-value added (World Bank 2019) due to legal, cultural, and educational differences. The World Bank's 2022 Women Business and the Law points to legal impediments to women's participation in economic opportunities and entrepreneurship. While on average CwA countries offer a better legal framework for women participation in economic activity than their regional and income peers, legal frameworks in Egypt, Senegal, and Tunisia offer significant room for improvement.

Access to Finance for Launch, Resilience, and Growth

Access to finance is one of the biggest obstacles facing MSMEs to grow their businesses in developing countries, including CwA countries. A firm's ability to grow and strengthen its competitiveness depends on its potential to properly manage working capital, retain earnings to build up resources for investment in fixed assets, and use these proceeds to invest in new ventures, innovation, improvements, and diversification. IFC (2017a) estimates a huge market demand for financial services, with \$102.8 billion of unmet demand from MSMEs in CwA countries. Empirical evidence indicates that at the core of these constraints are inefficiencies in the financial sector,

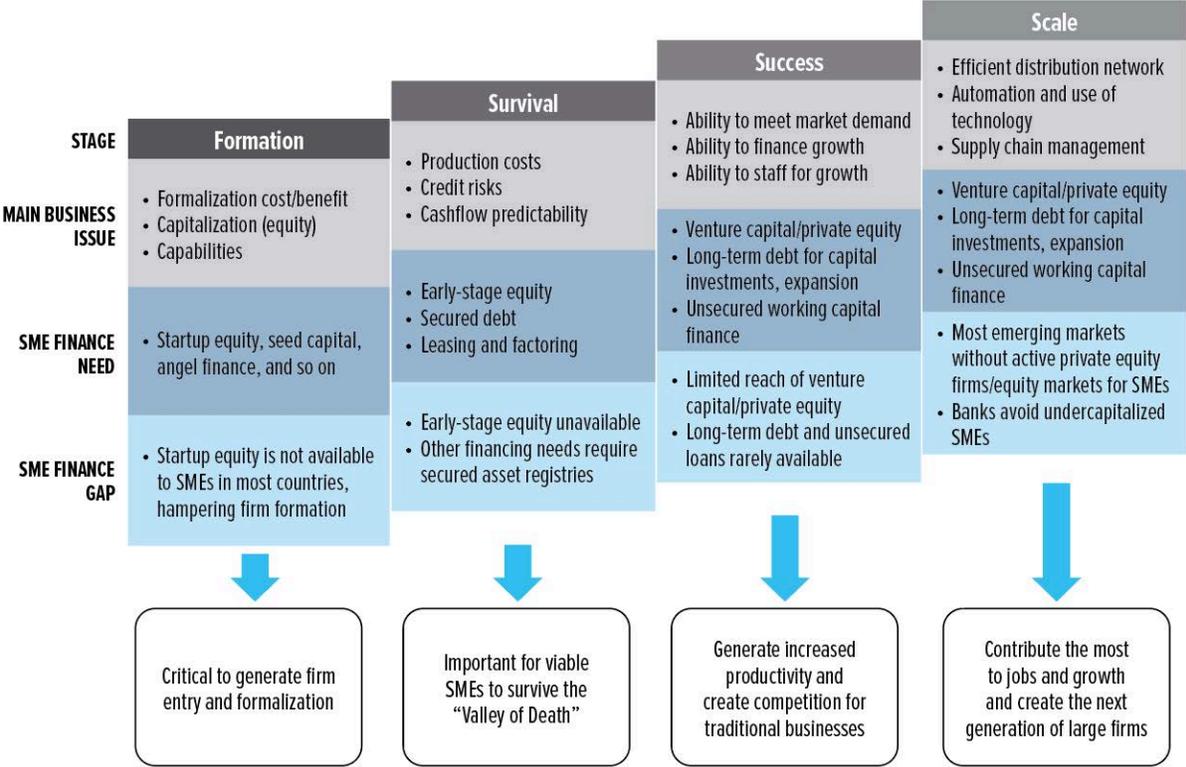
triggered by challenges associated with the size of firms (World Bank 2022a). Barriers such as information asymmetries, high transaction costs, informality, and low levels of financial acumen of business owners also explain why small businesses and entrepreneurs often face more difficulties in accessing finance than large enterprises. Apart from access to credit, SMEs require a full array of banking services, including basic operating accounts to conduct business transactions, savings accounts, payment services, and insurance.

These constraints are further exacerbated for some segments of entrepreneurs, such as women, innovative business models, climate entrepreneurs, and those operating in agriculture.

Evidence shows that women entrepreneurs are less likely to have a loan and are more likely to face higher interest rates and collateralize a higher share of the loan than men (IFC 2011). Likewise, lessons from implementing projects show that the challenges of providing financing to agricultural enterprises are wide ranging: the dispersed location of rural clients, weak input distribution systems, irrigation limitations, post-harvest loss due to a lack of adequate commercial drying and storage facilities, absence or insufficiency of crop insurance programs, difficulties and high costs in transportation and communication, heterogeneity in farming activities, seasonal and often long production cycles, and low level of management skills. For innovative MSMEs, intangible assets are their greatest balance sheet value, representing an additional challenge to access collateral-based financing offered by banks. Finally, climate finance is slowly emerging, with innovative solutions needed to increase the resilience of SMEs to climate change, help them cope with the financial impact of shocks, and support their transition by making more sustainable choices and investments. The newly established CwA–Green Business Fund is supporting activities to facilitate mitigation action and resilience and promote access to climate finance for MSMEs in CwA countries.

Constraints typically correlate with the maturity level of the financial sector, suggesting that each maturity level calls for a tailored response (figure 5.9). Countries with weaker financial sectors tend to suffer from lower regulatory capacity, poorly functioning credit information systems, or systems that only capture a fraction of the eligible population. In CwA countries, MSMEs typically need access to long-term capital and financial institutions seek to de-risk loans due to the difficult business environment. Improvements in the credit infrastructure in Egypt, Ghana, Morocco, Rwanda, and Togo have contributed to reducing perceived risks by financial institutions.

Figure 5.9. Micro, Small, and Medium Enterprise Finance Needs and Gaps at Different Stages of Development



Source: IFC 2017b.

For a subset of SMEs, equity and quasi-equity becomes more critical, but startup financing in Africa is small by global standards. Startups and innovative firms need early financing, usually in the form of seed and venture financing, while private equity can be more relevant for the growth of medium-sized firms. Startup financing in Africa accounted for about \$5.2 billion in 2021 raised by 640 startups, or less than 1 percent of the estimated global total (Partech Africa 2022). However, the availability of venture capital and private equity has increased steadily in recent years, suggesting a growing recognition of firms’ potential for growth. To date, fintech has attracted the most financing (60 percent), but some of the new investment in early-stage companies is now capitalizing on the digital transformation of informal trade and services. These developments show that, despite constraints in the economy and business environment, innovative MSMEs in Africa can succeed in attracting investment financing from domestic and foreign sources, and technological innovation in Africa is on global radar screens.

Africa’s technology venture capital ecosystem is showing increasing diversification in access to funding, with rising CwA countries. While Africa’s “Big 4”—Egypt, Kenya, Nigeria, and South Africa—continue to dominate, other country markets are attracting a growing share of venture and private equity financing (Partech Africa 2022). The four countries accounted for about 80 percent of such financing in 2021, which mirrors the development of their ecosystem and the role of incubators and accelerators. CwA countries, such as Senegal, Ghana, Morocco, and Tunisia, are

attracting greater funding and/or increasing financing rounds, with the last three showing increasingly diversified activities while a blockbuster unicorn success has largely driven Senegal's development. Egypt has been the most successful at supporting incubators and accelerators through public sector support and private sector financing (box 5.2).

Box 5.2. Egypt Ventures Supports and Invests in Startups Across Sectors

Established in 2017, Egypt Ventures is an investment firm seeded by the Ministry of Investment and International Cooperation to support and invest in startups in diverse sectors across Egypt. Egypt Ventures created a blended finance model through which investments are directed into accelerators, venture capital firms, and startups at the early and growth stages. It invests in innovation-driven enterprises led by entrepreneurs that have the potential to create high economic value and compete on an international level. Egypt Ventures aims to cultivate and foster a startup culture in the Egyptian economy, catalyze the development of the entrepreneurship ecosystem, and build economic competitiveness and GDP growth. It will do so by: (i) developing the Egyptian entrepreneurial ecosystem; (ii) increasing deal-flow from startups to scale-ups; (iii) supporting the development of new and existing accelerators and venture capital firms; (iv) acting as a market catalyst for socioeconomic development; and (v) filling the finance gap between self-financing and conventional capital market activity. Egypt Ventures has provided investments of \$16 million since its launch and is rapidly expanding. Last year, the Egyptian government set up a \$57 million fund via the Central Bank of Egypt for fintech startups. IFC has also launched a two-year program, including incubators, such as Algebra, Flat6Labs, and EFGEV, which plans to invest in more than 30 fintech-focused startups in the next five years.

Source: AfDB 2021a.

Adapting to a New Business Environment

Companies of all types and sizes were adversely impacted by the COVID-19 pandemic, however, MSMEs are inherently more fragile and less resilient than larger corporations. First, MSMEs tend to be overconcentrated in service-oriented and consumer-facing sectors that have been directly impacted by restrictive national containment measures. In Africa, two out of three businesses had been strongly affected by COVID-19, mostly involving reduced sales for 75 percent of them, and/or difficulty accessing inputs for 54 percent of them (ITC 2020). Women-owned or -led MSMEs have been hit harder than men-owned or -led ones, with 64 percent of the former claiming to be strongly affected by the crisis compared to 52 percent of the latter.

The aftermath of the COVID-19 pandemic crisis has left country authorities with even harder choices to adopt effective policies to support access to finance for MSMEs (World Bank 2022a). MSMEs came out of the pandemic in financially vulnerable situations—many have high levels of indebtedness and even greater need for financing to either recover from the disruptions to

business operations or to invest to adapt to a new business environment. Yet, the fiscal space available to governments to support MSMEs' access to finance has further reduced because of the disbursement of sizeable relief packages, as well as ongoing global deterioration of macroeconomic financial conditions. Thus, increasingly governments will need to make a more strategic and selective use of public funds.

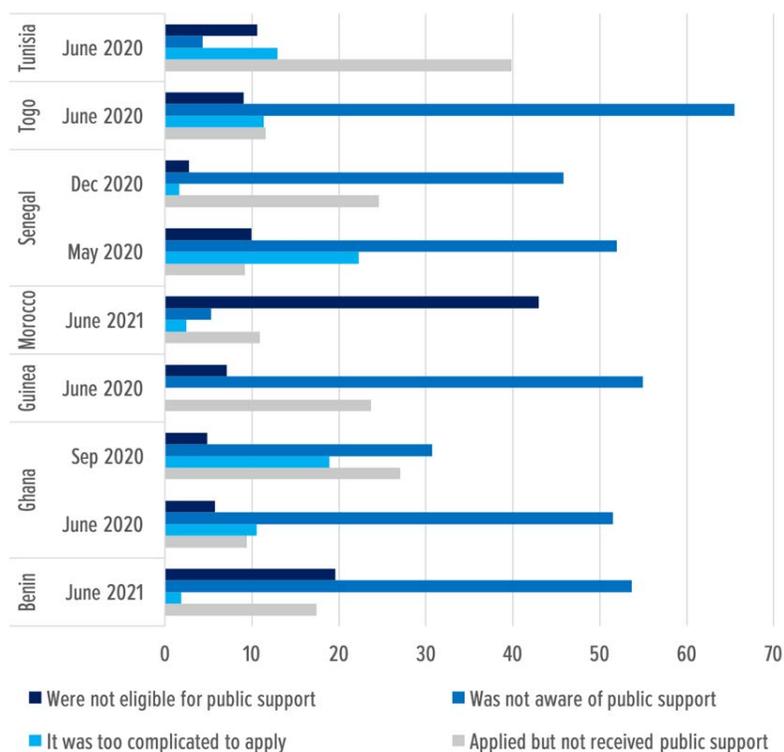
The COVID-19 pandemic triggered a shift toward the digitalization of operations, services, and channels among banks operating in Africa. A survey of 78 banks financing SMEs⁴² conducted by the European Investment Bank showed that across the continent, two-thirds of banks broadened the range of financial services available online because of the pandemic, including 60 percent in West Africa. In addition, over half of the surveyed banks now offer digital services that facilitate business activities and 89 percent claimed that the pandemic accelerated the digital transformation of their internal processes. In the same vein, 86 percent of respondents stated that the crisis led to increased investments in information technology equipment and fintech, spending approximately \$5 million on digital technologies in 2021 (that is, 1.3 percent of total assets). Data shows that firms in CwA countries also recognized the importance of using digital platforms to adapt to a new business environment.

Many African countries have been at the forefront of the regulatory response to the COVID-19 pandemic, especially when it comes to promoting digital financial services (IFC 2021). Central banks quickly reduced or waived fees on digital payments and transfers and increased limits on mobile transactions and balances. Several countries, such as Ghana, temporarily removed charges on mobile money transactions up to a certain amount and raised ceilings on mobile transactions and accounts. Rwanda and Togo also suspended fees on transfers made between bank accounts and e-mobile wallets. In addition to nimble e-payment and mobile money regulations, Côte d'Ivoire, Ghana, Guinea, Senegal, and Togo adopted a more flexible, risk-based approach to customer identification and verification requirements for the opening of digital accounts. Finally, some regulators strengthened their support to the fintech sector during the pandemic. For instance, Ghana postponed plans to tighten regulatory rules for fintech providers.

Governments in CwA countries also deployed policy instruments and unprecedented levels of financing focused on preserving jobs and enhancing business resilience, but with mixed success. Results from the Business Pulse survey across CwA countries show that policy reach has been limited. A broad range of instruments were used across CwA countries, including wage subsidies, payment deferrals, tax exemptions, and cash transfers (figure 5.10). However, in the last quarter of 2020, less than 22 percent of firms in Burkina Faso, Ghana, Guinea, Senegal, Togo, and Tunisia had received or were expected to receive public assistance. The main reason was the lack of awareness of firms of the availability of such assistance (figure 5.11). Morocco showed, however, the deployment of instruments over time could benefit a larger pool of firms, with 65 percent of firms surveyed having received assistance in June 2021 against 29 percent in August 2020.

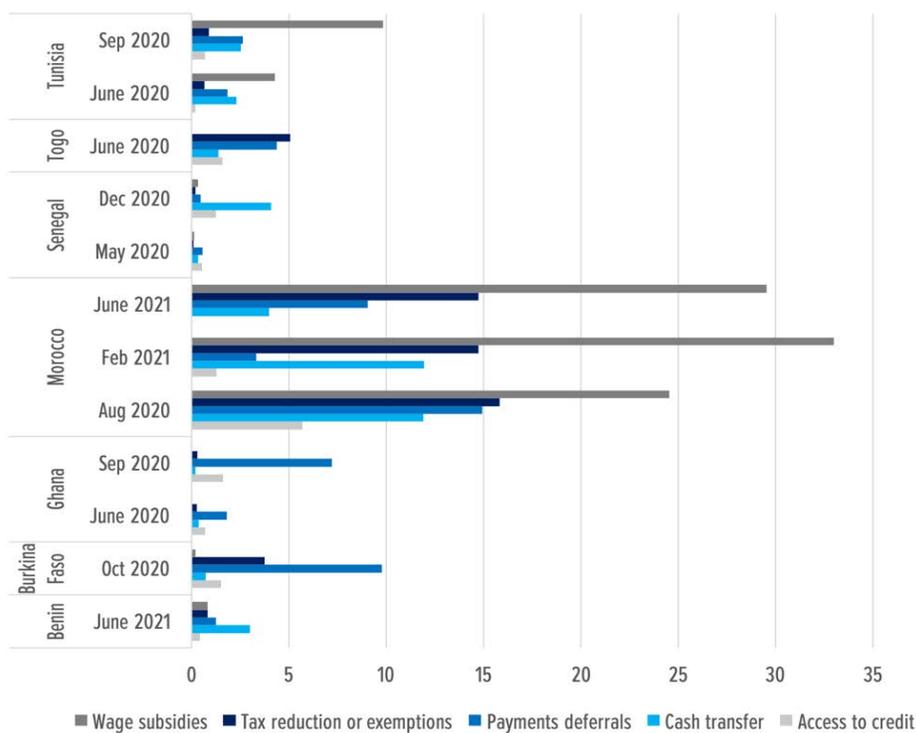
⁴² Surveyed bank accounts for approximately 30 percent of total banking assets in the region, of which 88 percent engage in lending to MSMEs.

Figure 5.10. Share of Firms that Benefited from Public Assistance by Instrument (percentage)



Source: World Bank Business Pulse Surveys

Figure 5.11. Reasons a Firm Did Not Benefit from Public Assistance (percentage)



Source: World Bank Business Pulse Surveys.

Climate change adaptation also requires businesses in CwA countries to adapt their operations.

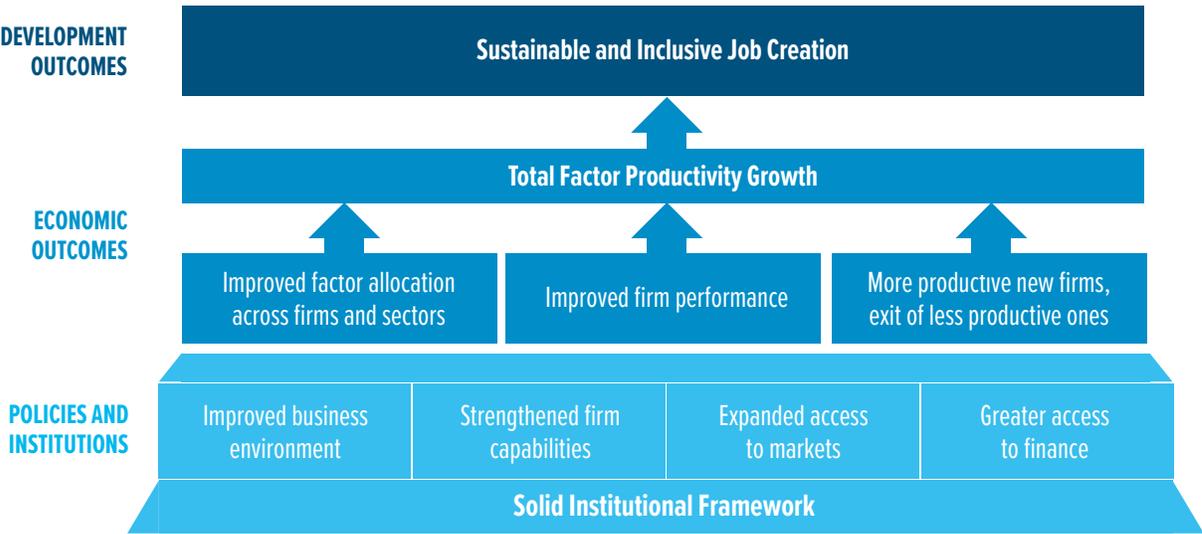
However, adaptation represents a classic case of market failure (Tall et al. 2021) that will require policy support. While some private investments in adaptation make good business sense—for instance, making a company’s supply chains more resilient, or selling products such as seed for drought-resistant crops at a profit—often adaptation involves public goods. For example, protecting coastal mangroves may be vitally important for communities exposed to frequent and severe storms and for which mangroves serve as a buffer, but such investments rarely produce revenue that can be captured by private firms, or the revenue is too low to justify the investment. Investors currently have limited analytical capacity to price climate risks and integrate the “value” of adaptation outcomes and averted climate impacts into project assessments or return calculation. Here, the CwA–Green Business Fund can be a vehicle to pilot innovative climate finance instruments that reward changes in practice, leading to greater adaptation and resilience.

5.3. Best Practices to Support Micro, Small, and Medium Enterprises

The preparation of action plans for CwA countries will leverage best practices and adapt policies to support entrepreneurship in the local context. Starting a business requires several complementary factors beyond entrepreneurial talent. To deliver more effective policies supporting new and young firms, it is key to understand factors in entrepreneurial ecosystems, including access to entrepreneurial talent, human and physical capital, knowledge, financial instruments, and infrastructure. Programs deployed over the past decades to support MSMEs provide lessons on how to shape effective policies for sustainable job creation and growth. The CwA will aim to build on these programs to help MSMEs and entrepreneurial ecosystems scale up and innovate while meeting CwA countries’ environmental and social needs.

The Jobs & Economic Transformation theory of change provides the intervention framework to create more and better jobs through enhanced firm productivity (figure 5.12). Economic transformation is achieved through deeper structural changes and market integration that catalyze business opportunities (World Bank Group 2021). By shifting to higher productivity activities, people can raise their incomes as they earn higher returns on their land, labor, capital, and other (intangible) assets. Closing the productivity gap between SMEs and larger firms would not only contribute to GDP growth, but also lead to higher wages in the low-wage segment of the economy, with positive and equitable distributional effects. In practical terms, MSME support should focus on creating better institutions and policies to: (i) improve the business environment for SMEs, to enable healthy firm entry and exit, flexible labor markets, and efficient access to land and infrastructure; (ii) strengthen firm capabilities, so firms can better manage their enterprise and reap the benefits from innovation; (iii) increase access to markets, including through better flows of knowledge across firms through tighter links to external markets, denser networks, and agglomeration; and (iv) expand access to finance by enhancing the efficiency of intermediation, building and improving financial infrastructure, and increasing the pool of resources and tailored instruments to meet MSME financing needs.

Figure 5.12. Theory of Change for the Jobs & Economic Transformation Agenda



Source: World Bank Group 2021.

To support the creation of better and more jobs, policies must target growing firms and focus on market failures that hit MSMEs disproportionately hard (World Bank Group 2020). It is important to consider the three key stages of development in an entrepreneurship ecosystem—nascent, growth, and specialization/consolidation stage—to propose policies and prioritize actions. The World Bank Entrepreneurship Toolkit (forthcoming) provides an overview of policy instruments by stage of ecosystem development. The expected impact of one intervention will depend on the quality of the intervention, a good targeting strategy, and existing positive or negative complementarities. No intervention should be seen in a vacuum, but rather as an enabler in the ecosystem.

By addressing market failures, policymakers can influence the entrepreneurial ecosystem to maximize economic growth and subsequent high-quality job creation. Governments can influence an ecosystem directly through policy instruments and regulations or indirectly through ecosystem enablers across the four pillars of policies (figure 5.12). To design effective MSME support programs, interventions must benefit MSMEs while ensuring they do not create disincentives. This is best done by identifying market failures for MSMEs. For example, reducing regulatory compliance cost or cost of firm registration benefits all firms, but for MSMEs, the reduction in associated costs is more significant than for larger firms. Appendix C summarizes policies and institutions that support firm productivity. The World Bank Entrepreneurship Toolkit will summarize policy options that support entrepreneurship ecosystems and results of impact evaluations by policy area.

Improved Business Environment

Regulatory conditions are among the most crucial factors affecting MSMEs and entrepreneurship because they can lead to inefficient resource allocation and impose costs that

are particularly difficult for MSMEs. Developing country economies are often characterized by muted firm dynamics that keep resources locked in unproductive firms that neither exit nor grow (World Bank Group 2020). Having clear and efficient rules and processes in place for firm entry and exit enhances overall resource allocation (Grover, Medvedev, and Olafsen 2019). However, MSMEs usually face bigger challenges than large firms when it comes to dedicating resources to deal with registration or licensing requirements or to screen the regulatory environment.

CPSDs provide an overview of regulatory inefficiencies, complexities, and high compliance costs that are particularly detrimental to new firms and SMEs. Reducing regulatory barriers on entrepreneurship and administrative burdens on startups and SMEs involves smart regulation, reforms in taxation, and the strengthening of e-government functions, all of which often hinge on a comprehensive infrastructure for information exchange across government bodies, individuals, and businesses. CwA action plans could highlight benefits to households and businesses from enhanced service delivery from governments.

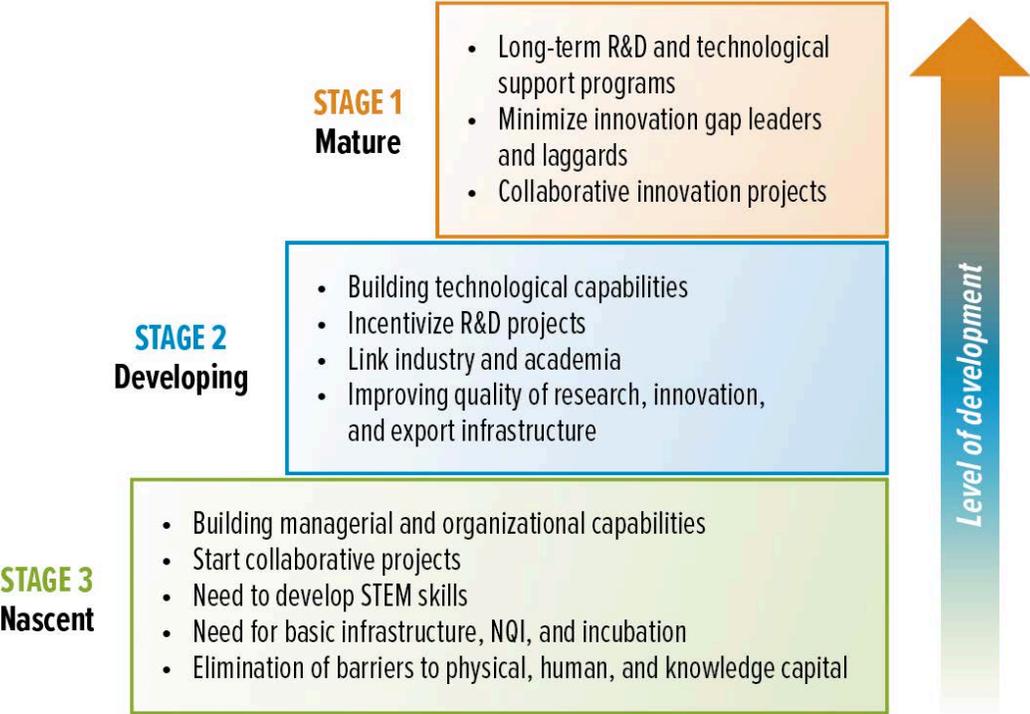
Digitalization, simplification of administrative procedures, and the cutting of red tape are at the core of pro-growth reforms in many countries. Governments have been promoting smart regulation by integrating SME-related considerations upstream in regulatory policymaking, encouraging broader stakeholder consultation, and reinforcing regulatory impact analysis. However, ex-post evaluation systems remain underdeveloped. The digitalization of public services offers new opportunities for SMEs to access higher-quality and more customized services and interact with public administration in more collaborative and efficient ways (OECD 2019). The modernization of government services, highlighted during COVID-19, will be a major catalyst to restore confidence in the government, predicated on enhanced service delivery. For instance, in Togo, the government was able to leverage the recent growth in digital access to mitigate the most severe impacts of early Covid-19 containment measures on informal workers.

Strengthened Firm Capabilities

Research points to the importance of advancing firm-level capabilities, including managerial and organizational practices, for innovation and productivity enhancement (Grover, Medvedev, and Olafsen 2019). SMEs often lack the capabilities required to respond to market opportunities and conditions, identify new technological opportunities, develop a plan to exploit them, and then attract and cultivate necessary human resources. Successful firms are directed by strong managers and management teams that are complementary in skill sets, have good chemistry, are effective in decision-making, and who base their business strategy on current market intelligence. Beyond managers, SMEs require skilled workers to compete in a knowledge-based economy. The benefits for SMEs of upskilling their workforce are extensive. For instance, digitalization and automation require an increasing level of ICT skills in the workforce. However, SMEs have greater difficulty in hiring and retaining skilled workers than larger firms because they lack the capacity and networks needed to identify talent and offer less attractive working conditions.

The “capabilities escalator” suggests that policies to support firm upgrading are prioritized with the level of capabilities of the private sector and of policymakers and institutions (figure 5.13). They ratchet up through progressively higher stages of sophistication. In addition, several types of policy initiatives can be deployed to support the development of workforce skills in SMEs, focusing on reducing training costs for firms and promoting the benefits of workplace training, including tax credits, grants, direct training subsidies schemes, or training vouchers. Employer networks and associations can also foster trust-based relationships between firms that support knowledge-sharing and pooled investments in training. Collaborations across firms can also foster innovative diffusion within regional supply chains, potentially integrating firms into GVCs, which also reduces regional vulnerability to automation.

Figure 5.13. Capabilities Escalator Model: Innovation Policy Needs



Source: Xavier and Maloney 2017.
 Note: NQI = National Quality Infrastructure; STEM = Science, Technology, Engineering, and Math.

With increasingly rapid digitalization and data intensity, CwA action plans can consider a targeted focus of future reforms and investments to train African youth for employment in frontier industries. Examples include (i) climate-smart agriculture, fish farming and forestry management; (ii) surface and underground functions in the mining sector; (iii) renewable energy facilities; (iv) infrastructure management, including pipelines and solid waste; and (v) healthcare, personal, and business services. The development of specialized applications in the circular economy will also accelerate. The data-heavy content of frontier industries will require investment in and expansion of data centers in Africa, which account for about 2 percent of the global capacity.

The development of the knowledge ecosystem can be carried out in an integrated fashion, linking education, training to incubators, accelerators, data centers, laboratories, industrial sites, and eco-industrial parks located near trade corridors. In addition, to support MSMEs and create opportunities for entrepreneurs, expansion in the number and capacity of incubators and accelerators can be supported to push Africa to a critical mass for innovation and startup support. This will require boosting firms' capacity to protect themselves against cybersecurity risks associated with digitization and data management.

Expanded Access to Markets

Access to competitive and fairly regulated input and output markets are key for SMEs to do business, innovate, compete, increase revenue and profitability, and grow. Poor market conditions are a core factor of failure for SMEs. Connectivity in terms of physical infrastructure is a prerequisite for SME growth but often impacts SMEs worse than larger firms. Access to physical infrastructure, including logistics and transport, energy, ICT, water, and waste, are regularly cited as obstacles SMEs face to grow their businesses in World Bank Enterprise Survey data. Government interventions to solve market failures in infrastructure sectors can greatly impact SME operations. In addition, lack of access to well-located and adequate land is a binding constraint for investment across many sectors, including agriculture and agri-business, housing, manufacturing, and infrastructure. Studies suggest a correlation between the security of land and property rights and the growth of investment and income.

Domestic markets and public procurement remain prime spaces for SMEs to conduct business. Domestic markets remain the primary market where SMEs do business as they are predominantly local actors embedded in nearby markets and ecosystems. Public procurement matter in domestic and local markets for SMEs, offering opportunities to innovate, boost competitiveness, and create jobs. Public procurement equates to over 50 percent of government expenditures in developing countries (World Bank 2016). To make public procurement more accessible for SMEs, policy responses include introducing digital solutions, simplifying procedures, and building SME capacity to bid.

Improved access to foreign markets is equally important for a country's growth agenda as it encourages firms to export and invest in raising productivity. Many small companies struggle to internationalize their business even with an open and fair-trade framework in place, often due to lack of knowledge about potential domestic and international markets. Special attention is warranted to exporting SMEs as export-led growth is a key ingredient in addressing poverty. Export market and GVCs create opportunities for SMEs to absorb spillovers of technology and managerial know-how, broaden and deepen skills sets, innovate, scale up, and enhance productivity. In accessing GVCs, adherence to National Quality Infrastructure standards is becoming increasingly important for SMEs to ensure their goods and services are based on internationally agreed standards (Van Rompaey 2017).

The African Continental Free Trade Area (AfCFTA) is expected to be a catalyst for such developments. Existing intra-African trade, less than 20 percent of Africa’s total, typically involves higher value-added goods in the composition of trade on the continent, whereas much of the roughly 80 percent of international trade to the rest of the world is commodity-based with limited value-added. As trade intensifies among African countries, AfCFTA should serve as a channel for the production and distribution of more and higher value-added goods and services.

Digitalization plays an increasing role in accessing global markets through e-commerce, and governments can enable greater uptake. Socioeconomic and demographic features, the digital preparedness of the population, and platform concentration levels in different sectors all matter for digital adoption. So do structural policies (such as rule of law, product market regulation, and digital service regulation) because they affect the number and average size of platforms operating in a country. In addition, the government can promote connectivity or raise the capacity and digital preparedness of SMEs. For example, SMEs’ use of online platforms can be raised through awareness campaigns, consultancy vouchers, self-assessment tools or training, promotion of greater online presence, connections to GVC, and new export markets, and communication connectivity for remote work.

Greater Access to Finance

Government interventions to mitigate constraints in access to finance vary. They range from interventions to develop the enabling environment, including financial infrastructure (credit bureaus, movable and immovable property collateral registries, and/or insolvency frameworks), to more targeted interventions, including partial credit guarantee schemes and directed credit lines. In West Africa, the CwA–Green Business Fund is working with the World Bank energy access program to de-risk investments in off-grid solar. Government interventions to support SME financing has evolved overtime—they expanded beyond their initial focus on access to bank financing to a wider range of sources of debt financing and include equity financing as well, and in particular venture capital (World Bank 2022a). For policy interventions to be more successful, financial support is increasingly complemented with non-financial support measures, such as the provision of advisory services, mentoring, tutoring, and network opportunities (Boschmans and Pissareva 2017).

Alternatives to bank debt financing include a wide range of instruments, depending on the SME’s financing needs, firm characteristics, and risk profile. Asset-based finance (including factoring, warehouse receipt, leasing) and alternative debt are more suitable for SMEs with lower risk of default but limited return on investment. They offer alternative ways to access finance when the borrowing firm cannot meet collateral requirements for standard loans. At the other end of the risk/return spectrum, equity instruments, both private and public, target innovative ventures with high-growth potential and higher return on investment, but at higher risk. Hybrid instruments share characteristics of both equity and debt schemes and are often used by more established companies in transition.

Moreover, new fintech has changed the landscape for SME financing, triggering the need to adapt policy interventions to support SMEs. For example, widespread adoption of digital financial services changes the nature of policy interventions to facilitate outreach to smaller firms in more remote areas on the condition that digital connectivity is in place. Similarly, the use of fintech solutions that increase automation can mitigate the high transaction costs of small-transaction finance and concerns about scalability in SME financing. Reforms to enhance access to finance gained prominence in light of the rise of fintech and the COVID-19 crisis, including: (i) expanded credit information system with alternative data; (ii) new insolvency and bankruptcy frameworks; (iii) digital identification documents; (iv) interventions in financial and digital literacy; and (iv) consumer protection and data privacy laws.

Fintech and alternative finance bring in new market players and require an adequate legal and regulatory framework. Financial regulatory frameworks must strike the balance between encouraging financial innovation and minimizing the risks created by digital financial products. The “regulatory sandbox” has become an increasingly popular approach toward regulating fintech solutions. These sandboxes allow innovators in the financial industry to test their products and business models in a live environment without following some or all legal requirements, subject to predefined restrictions. This approach was adopted in the United Kingdom in 2015 and later in several other jurisdictions, such as Australia, Canada, Denmark, Hong Kong, Malaysia, and Singapore.

5.4. Implementing the Compact with Africa Approach

Multilateral Development Bank Support to African Entrepreneurship Ecosystems

Multilateral development banks (MDBs) and other CwA stakeholders have a long track record of supporting MSMEs through a wide variety of programs and projects. Through diverse instruments, they support CwA countries’ macro-level requirements for MSMEs to thrive, including a stable environment, functioning institutions and business climate, strong and diversified financial markets, and an entrepreneurial culture that promotes innovation. They also support micro-level factors, such as firm capacity and financial needs, and the cross-cutting themes of gender equality, youth employment, and sustainable development.

To coordinate these efforts and expand their impact, the multilateral Alliance for Entrepreneurship was launched in May 2021 by 43 heads of state and government. It aims to mobilize all partners ready to support, through financial and technical resources, the development of the African private sector, particularly MSMEs. It also supports amplifying current entrepreneurial dynamics in Africa, with attention to women and youth entrepreneurship.

The Alliance will use financial and technical support to MSMEs throughout Africa, accelerate their growth, and support reforms aimed at strengthening a dynamic, competitive, and inclusive economy. Promoting innovation and an inclusive economy, the Alliance seeks to: (i) link existing initiatives on MSMEs, including the CwA; (ii) develop initiatives leveraging resources among

participants to substantially increase financing and non-financing options available to African MSMEs (including equity investments and guarantee mechanisms); (iii) develop, advance, and integrate the knowledge and expertise platforms of participants; and (iv) promote participants' initiatives that will contribute to the development of African MSMEs.

The Alliance will build on the existing coalition of financial institutions formed during the Finance in Common Summit in November 2020, which is committed to sharing best practices in providing solutions for MSMEs in Africa. IFC operates at the Secretariate for the Alliance, to ensure that the core objectives of the initiatives are achieved. In coordination with the AfDB, Afreximbank (for trade finance), European Bank for Reconstruction and Development, European Investment Bank, and other relevant MDBs and interested bilateral development finance institutions, IFC plays a leading role in driving the Alliance forward.

Finance and knowledge from MDB programs to support MSMEs can already be leveraged. For instance, the World Bank's operational note on strengthening SME-support interventions and AfDB volumes on entrepreneurship and free trade, provide lessons from prior support to MSMEs and entrepreneurship ecosystems. MDBs established information platforms to share data and information as a tool for innovation, research, and market development. These initiatives will be called upon as part of the larger CwA action plans to serve as an organizational tool for donor and CwA coordination.

IMF programs seek to help countries reinforce their macroeconomic framework for a conducive environment for MSME growth. The IMF's lending instruments are tailored to different types of balance of payments needs and the circumstances of its diverse membership. The choice of lending instruments available to CwA countries depends on eligibility to the Poverty Reduction and Growth Trust, nature of the balance of payment needs, and necessity and feasibility of upper-tranche credit quality programs.

The European Commission is deploying its Investing in Young Businesses in Africa (IYBA) initiative, which is expected to provide €4.6 billion in financial and technical support to early-stage businesses and young entrepreneurs in eight Africa countries, including Benin, Rwanda, Senegal, and Togo. This will include pre-seed funding of €0.2 million for very early-stage firms and €0.2-5.0 million for more established startups. IYBA support will complement additional initiatives to strengthen the business ecosystem, as well as the €100 million EU-backed NASIRA Risk-Sharing Facility; €180 million Boost Africa blended finance program together with the AfDB; €20 million Women Entrepreneurs 4 Africa; €200 million FMO Ventures program to support innovative startups; and the €221 million FISEA program that supports startups in fragile countries through venture and private equity investment.

The AfDB is implementing three initiatives to support MSMEs and entrepreneurship in Africa. Innovative MSMEs will find opportunities through the *Africa50 Initiative*, which provides funding to cover project preparation facilities linked to major capital projects and offers risk mitigation through

a \$1 billion synthetic securitization to induce private equity to invest in capital projects. The AfDB also plans to establish Youth Entrepreneurship Investment Banks (YEIB) in 11 African countries, including Ghana, Guinea, Rwanda, and Togo. The YEIB \$40 million Trust Fund currently provides business development services, research, project preparation funding, technical assistance, and capacity building for MSMEs. Boost Africa, a €200 million investment program supported by the AfDB and European Investment Bank, supports young entrepreneurs, startups, and ecosystems in Africa in ICT, agribusiness, health, education, renewable energy, and financial services. The program is seeking third-party investors to allow the partnership to leverage €1 billion in additional investment through financial intermediaries.

Further, the AfDB 2021–25 Private Sector Development Strategy (PSDS) emphasizes supporting entrepreneurship in its pillar “Promoting Enterprise Development.” Interventions revolve around two activities:

- i. **Support MSMEs’ participation in value chains in high-growth sectors.** The PSDS will identify high-growth sectors and support anchor investors to spur value chains in these sectors, and instigate supplier development programs to enable MSMEs’ participation in value chains. MSMEs’ inability to deliver quality products and services in a timely manner means that they are missing sizeable contracts procured through large companies’ supply chains. The AfDB will support the design and implementation of training, certification programs, and other quality improvement measures that build MSMEs’ capacity to meet the norms and standards required by large local companies and/or multinationals so that these MSMEs can become part of the companies’ supply chains. The AfDB’s programs will also foster strategic partnerships with buyers, MSME support organizations, and financial institutions to promote links and increase MSMEs’ access to finance. Further, the AfDB will support the participation of informal sector operators in selected value chains by organizing the operators into cooperatives and providing technical assistance to facilitate their participation in value chains where appropriate
- ii. **Support the development of entrepreneurship ecosystems.** The PSDS gives Country Strategy Papers (CSPs) a framework for strengthening the capacity of members of the entrepreneurship ecosystem. It supports high-growth, scalable entrepreneurs—often deploying tech-enabled business models—to translate ideas into fundable, marketable products and services. Ecosystem players, such as incubators and accelerators, could be leveraged to provide services while building business and digital skills. The PSDS will facilitate and catalyze global support for the development of local African ecosystems, with mentorship, coaching, knowledge- and experience-sharing, regional business partnerships and alliances, information hubs, online networking, and transacting platforms that link entrepreneurs across the continent. The PSDS will leverage multistakeholder partnerships with development finance institutions, donors, foundations, and impact investors to give youth entrepreneurs coherent and effective access to financial and technical support. The intention is to create more and better startups and innovative enterprises that have the potential to absorb early-stage and growth financing. This will drive private sector-led youth employment strategies in Africa and improve job opportunities for youth.

The World Bank Group can support entrepreneurship ecosystem policy using its full range of lending products across different global practices. Considering the total number of lending operations during the FY15 and FY21, the number of approved World Bank entrepreneurship supporting projects has also been steadily increasing, from 2 projects (or 0.6 percent of projects) in 2015 to 42 (or 11.4 percent) in 2021.⁴³ The Finance, Competitiveness, and Innovation Global Practice leads lending operations focused on entrepreneurship. The total lending projects supporting entrepreneurship activity amounted to over \$5 billion in 2021 and has been increasing over time, with many projects concentrated in Africa and the Middle East and North Africa region.

World Bank Group operations should employ a mix of policies and instruments to transform entrepreneurship ecosystems. Due to the complex and connected nature of ecosystem challenges, policy mixes that use a variety of instruments targeting different elements within a single operation can be found in many World Bank Group projects. The optimal policy mixes in practice will depend on the specific conditions of each country and beneficiary group (World Bank Group 2021). For instance:

- DPFs can support and enable the conditions for improving entrepreneurship ecosystems pillars through reforms. Common examples of DPF projects with entrepreneurship implications in CwA countries include promoting physical infrastructure (broadband connectivity) in Morocco, improving the regulatory framework for business regulation, facilitating access to finance in Morocco and Tunisia, and improving firm capabilities in Egypt. However, other types of DPF with broader goals may also indirectly support entrepreneurship ecosystems, such as telecom or energy reforms. DPF tends to focus on regulatory improvements, which most often affect the barriers to accumulation for demand and supply factors, but they can also improve other ecosystem pillars.
- IPFs can be used to support entrepreneurship ecosystems across all ecosystem pillars. Table 5.1 includes common examples of IPF entrepreneurship projects across the policy areas they support, along with their policy instruments. However, other types of projects with broader goals may also indirectly support entrepreneurship ecosystems, such as the building of roads close to trade corridors or production clusters or improving education to advance skills and human capital formation.

Since 2017, IFC has channeled over \$1.5 billion of long-term financing through financial institutions in CwA countries. Complementing the World Bank, IFC channels financing to MSMEs by: (i) investing in companies and financial institutions through loans, equity investments, debt securities, and guarantees; (ii) mobilizing capital from other lenders and investors; and (iii) advising businesses and governments to encourage private investment and improve the investment climate. In May 2022, IFC announced a pledge to invest \$1 billion in new direct financing for MSMEs, as well as an additional \$1 billion in support of international trade finance for Africa to facilitate the flow of imports and exports of essential goods. IFC is also the coordinator of the Alliance for Entrepreneurship initiative.

⁴³ Entrepreneurship projects include all projects where “entrepreneurship” is listed as a theme or appears in the project’s development objective or as a component. However, entrepreneurship ecosystem support can be even broader.

Table 5.1. Selected Examples of Common Investment Policy Financing to Support Entrepreneurship Ecosystems

Policy Area	Policy Instruments	Project Example in CwA Countries
Physical Capital and Infrastructure	Supporting incubators and accelerators and attracting global accelerators, development of business parks, special economic zone support, support for special infrastructure	Ghana
Human Capital	Tailored training and mentoring	Benin, Egypt
Access to Finance	Small grants, matching grants, early-stage risk finance, scale-up capital through co-investment funds, (targeted) debt-financing, support to non-bank finance organizations, sequential finance instruments for different stages of firm development, capacity building in financial institutions	Egypt, Ghana, Morocco, Senegal
Regulations	Business regulation reform in general and along the firm lifecycle, capacity building SME agency support, development of one-stop shops to streamline government services, rationalization of support agencies, reinforcing institutions and systems to improve the business environment, online publication of business regulations	Ghana, Senegal
Access to Markets	Build connections between entrepreneurs and markets, connect large companies and start-ups, competitions and (matching) grants to new exporters or firms with export potential, export promotion and support, National Quality Infrastructure reform, supply chain finance, supplier development, export finance	Benin, Ghana, Senegal, Tunisia
Firm Capabilities	Tailored training, mentoring, coaching, advisory support, capacity building to business development service providers and public SME agencies to improve services to entrepreneurs, National Quality Infrastructure reform, technology extension services	Ghana, Egypt
Entrepreneurial Characteristics	Business plan competitions, trainings, mentoring	Senegal, Egypt

5.5. Moving Forward: Objectives and Stakeholder Support for the Compact with Africa

With adequate support, CwA countries can implement critical reforms to advance the CwA agenda, building on recent progress and adding momentum. For this, the G20 AAG encouraged the AfDB and IFC to assess entrepreneurship activities in CwA countries as part of the 2022 reform package for strengthening the CwA. Recognizing the heterogeneity of the MSME landscape and the stages of development of the entrepreneurial ecosystem, country-specific action plans should be developed to prioritize reforms and support to boost firms' resilience and growth, and promote gender equality, youth employment, and sustainable development. Each action plan should draw on the country assessment of the entrepreneurial ecosystem to develop an integrated approach for successful outcomes, identifying the adequate mix and sequencing of policies. The assessment should identify potential areas for collaboration with the Alliance for Entrepreneurship and offer policy implications tailored to the country context for small businesses aiming to meet supply chain requirements. The action plans would articulate the reforms and actions needed to solve specific

market failures as well as the partners and instruments to implement them. For this, CwA countries can leverage the World Bank entrepreneurial ecosystem toolkit (box 5.3).

Box 5.3. Entrepreneurial Ecosystem Assessment Toolkit

This forthcoming World Bank toolkit provides guidance on how to assess entrepreneurship ecosystems to inform policy decisions. The toolkit proposes a methodology for assessing entrepreneurial ecosystems in three stages: (i) context analysis; (ii) mapping enablers; and (iii) policy recommendations. The first stage provides a snapshot of the country entrepreneurship ecosystem at national and subnational levels, based on the conceptual framework. The second stage assesses the policy mix and identifies gaps in policy instruments and institutional capabilities. The third stage refers to identifying key policy priorities validated by stakeholders and proposing policy recommendations. The ecosystem assessment should be finalized with a validation exercise and a plan for implementing policy recommendations based on the entrepreneurial ecosystem assessment.

In addition, a fourth module of the toolkit aims to address the following questions: What instruments are available to support entrepreneurial ecosystems? What is the evidence supporting these instruments? How can one validate the findings and obtain qualitative information from stakeholders to define policy priorities? How can one use the information in this toolkit for recommending and evaluating policies?

MDBs and the broader donor community will support CwA countries in a coordinated way.

Implementing action plans will require support for ecosystem expansion and links, promotion of innovative MSMEs, and integration in national and regional supply and value chains. For this, CwA stakeholders are encouraged to adopt an investor mindset that recognizes that most startups fail but provide lessons to entrepreneurs who frequently re-enter the market and build successful businesses. This will require adjustments among CwA stakeholders to better plan and coordinate their support. The Alliance for Entrepreneurship can offer a coordination platform. Once CwA countries have designed their action plans, MDBs will establish protocols for coordination and cooperation to support implementation and monitoring. CwA implementing partners will integrate the CwA focus in the biannual CwA Monitoring Report mechanism. Table 5.2 suggests performance monitoring indicators to assess the impact of CwA action plans. Improved data collection, knowledge, and the scale up of innovative instruments will be needed to support the implementation and monitoring of CwA action plans.

Table 5.2. Proposed Performance Monitoring Indicators

Commitments	
Total new financing for projects—including debt, equity, blended, risk mitigants	<ul style="list-style-type: none"> • Support for sovereigns to support MSMEs’ access to finance through partner financial institutions • Investment by international financial institutions and MDBs in private companies, and mobilization of private partners • FDI • Credit to the domestic private sector
Total new commitments to support institutional reforms and capacity building	<ul style="list-style-type: none"> • Number and nature of technical assistance initiatives (such as surveys, knowledge exchange platforms, ecosystem assessments) • Establishment of new facilities for ecosystem components • Expansion of existing clusters
Outcomes	
Total new or expanded ecosystem clusters—incubators, accelerators, and so on	<ul style="list-style-type: none"> • By number, type(s), sector(s) of activity • Amount invested • Jobs created
Total startups and other early-stage firms supported by ecosystem clusters	<ul style="list-style-type: none"> • By number, type(s), sector(s) of activity • Amount invested • Jobs created • Number of MSMEs by age and gender • Source of investment—domestic, foreign
Investment attracted in startups or early-stage MSMEs	<ul style="list-style-type: none"> • By domestic source, public or private— government, banks, venture capital, private equity • By foreign source, donor or private international financial institutions, government, venture capital, private equity



6. SCALING UP PRIVATE INVESTMENT IN PRIORITY SECTORS

6.1. Top Priorities for Private Sector Investment

The CwA mobilizes financial and technical resources from its partners to help countries implement reforms and create regulatory frameworks to attract private investments in priority sectors, which can be scaled up across CwA countries. The private sector, the main provider of jobs and livelihoods in CwA countries, has been hit hard by multiple crises, including the COVID-19 pandemic, food insecurity, climate change, and recently a high inflation and fertilizer crisis following Russia's war on Ukraine. This chapter highlights market opportunities and recent investments in CwA countries in key sectors, including agribusiness, healthcare, green energy, housing, and infrastructure, and financing MSMEs.

CwA countries are a rapidly expanding consumer market as the urban population and middle classes quickly grow. The urban population is projected to double in the next 25 years, along with rising middle classes, which brings new market opportunities, especially in consumer goods and services. Consumer spending in Africa is now the fastest-growing component of domestic demand, and this trend is projected to continue through 2030 (Signe 2018). By 2030, 100 million new people are expected to join Africa's middle- and high-income groups, increasing them to over 160 million across the region.⁴⁴ These demographic changes, combined with potential positive spillover effects from agglomeration economies from the urbanization process, raise hopes for cities to become engines of structural transformation, technology adoption, productivity growth, and quality jobs creation, which will all contribute to an improved standard of living.

This demographic transition in CwA countries comes with a wide range of opportunities for companies and investors around the globe. Projections indicate that between 2014 and 2030,

⁴⁴ IFC 2018. Shaping the Future of Africa – Markets and Opportunities for Private Investors.

household spending will grow at an average rate of 6.5 percent in CwA countries, surpassing the 5 percent average growth in Africa and the 3.8 percent average growth among other developing countries. Table 6.1 presents CwA countries' consumption growth across all sectors. At the sector level, transport, ICT, education, and housing sectors are leading household consumption. The rapidly expanding classes of consumers are expected to spend smaller portions of their income on necessities but more on transportation, ICT, housing, education, clothing and footwear, personal care, healthcare, energy, and other products and services. At the country level, Côte d'Ivoire, Ethiopia, Rwanda, and Senegal will be leading this rapid growth in consumer demand.

Table 6.1. Projected Consumption Growth in Compact with Africa Countries between 2014–30

Industry or Sector	Senegal	Ethiopia	Rwanda	Côte d'Ivoire*	Ghana*	Burkina Faso	Guinea	Egypt*	Morocco*	CwA Countries
Transport	9.88	9.74	8.98	3.3	5.9	7.06	6.31	6.4	3.7	6.8
Education	9.15	10.39	8.21	3.1	4.2	7.08	5.35	6.4	3.1	6.3
ICT	9.14	10.18	7.9	3.2	5.1	6.55	5.74	6.1	3.2	6.3
Housing	9.02	7.98	7.56	3.1	4.5	6.81	6.58	5.2	2.8	6.0
Energy	8.36	4.55	4.23	3.1	4.6	6.74	4.9	4.2	2.1	4.8
Clothing and Footwear	8.1	6.32	6.02	3.1	4.1	5.51	4.65	4.3	2.9	5.0
Personal Care	7.82	6.63	6.41	3	4.4	6.2	4.97	4.6	2.6	5.2
Water Supply	7.28	4.77		3.1	4.5	7.17	5.81	4.7	2.1	4.9
Health (ex-Pharma)	6.69	5.91	7.17	3.1	4.3	7.64	4.36	6.1	2.9	5.4
Food and Beverages	6.27	5.61	5.65	3	3.8	5.01	4.02	4.1	2.3	4.4
Pharmaceutical Products	5.14	6.25	6.66			5.52	4.52			5.6
Financial Services				3.7	4.9			4.9	3.6	3.6

Source: IFC Global Macroeconomics, Markets and Portfolio Research. Cited in IFC 2018: Shaping the Future of Africa – Markets and Opportunities for Private Investors. For countries with an asterisk, data are from a 2019 update.

Note: Asterisks (*) indicate countries' data are based on household consumption data by sector, originally from 2014, except for an update in 2019 for Côte d'Ivoire, Egypt, Ghana, and Morocco. One limitation of the data is that they depend on GDP per capita growth projections. Given that most countries were hit hard by COVID-19 and recent multiple crises, these growth projections may have been overestimated.

6.2. Limited Local Transformation and Diversification of Exports

CwA countries' economies, especially those in Sub-Saharan Africa, are highly commodity-dependent with limited structural transformation. Because of limited local transformation of products, they lag in regional integration and participation in GVCs, which limits quality job creation. For several years, most exports from CwA-Sub-Saharan Africa countries did not incorporate any technology and this trend has not changed recently. When looking at long-term averages, total exports were composed of 84 percent of raw material or natural resources, less than 5 percent contained low technology, 4 percent were medium-technology manufacturing products, and only 1 percent were high-technology manufacturing products (table 6.2). On the contrary, CwA-North Africa countries' export baskets were more diversified and technology-intensive, with 32 percent containing low technology, 14 percent medium technology, and 5 percent high technology. Private investments are critical to improve technology adoption and local transformation to add value in exports. These countries have an opportunity to trade and transfer knowledge and technology with their peers in Sub-Saharan Africa.

Table 6.2. Technology Content in Compact with Africa Countries' Exports (long-term averages, 1995–2014)

Country	Raw Material	Natural Resources	Low Technology	Medium Technology	High Technology
Egypt	53.45	12.04	19.29	8.09	1.28
Morocco	27.85	17.74	32.57	13.28	7.68
Tunisia	15.97	13.8	44.79	19.82	5.31
CwA-North Africa	32.42	14.53	32.22	13.73	4.76
Benin	77.58	11.01	5.58	2.6	0.85
Burkina Faso	74.84	5.73	5.08	3.76	1.17
Côte d'Ivoire	69.49	14.33	5.21	8.35	1.06
Ethiopia	82.32	3.28	7.55	0.7	0.43
Ghana	58.67	25.41	2.31	2.06	1.96
Guinea	80.67	12.58	0.61	1.02	0.78
Rwanda	82.02	2.63	2.87	3.07	1.2
Senegal	53.6	26.78	5.2	10.05	2.38
Togo	58.81	18.88	10.54	7.14	0.85
CwA-Sub-Saharan Africa	70.89	13.40	4.99	4.31	1.19
ALL CwA COUNTRIES	61.27	13.68	11.80	6.66	2.08
AFRICA	57.31	18.82	9.68	7.1	2.76

Source: Authors, based on data from Yameogo et al (2014).

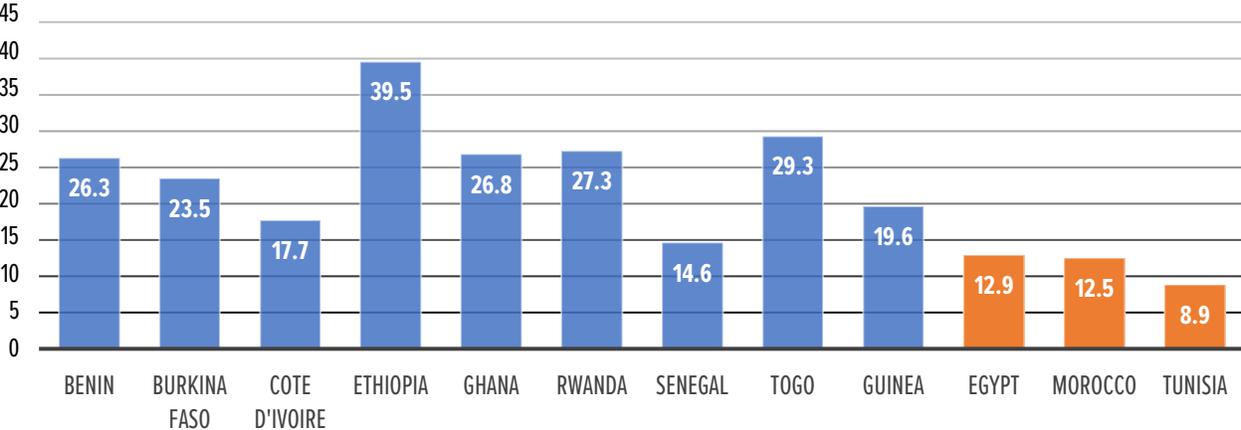
Drawing on lessons learned from COVID-19, IFC is ready to support the private sector in Africa, particularly in reform-minded CwA countries, to achieve a green, resilient, and inclusive development. The priorities are: (i) deepening and strengthening value chain development and local transformation, (ii) supporting fragile, small, and underserved markets and firms, (iii)

supporting the healthcare industry by addressing systemic challenges that COVID-19 has amplified, such as insufficient local production capacity of pharmaceuticals on the continent, (iv) supporting affordable housing to address increasing urbanization rates, (v) promoting climate change solutions, and (vi) emphasizing regional integration, where middle-income countries will serve as gateways and hubs for innovation. The AfDB is also intervening in CwA countries to support the private sector through its CSPs.

6.3. Scaling Up Agribusiness Production and Value Chains

The agribusiness sector is the primary provider of jobs and livelihoods in CwA countries, yet food imports account for a large share of imports. Agriculture remains prominent, especially in CwA-Sub-Saharan Africa countries, accounting for an average of 25 percent of GDP between 2000–20 compared to only about 11 percent in CwA-North Africa countries, and an average of 18.5 percent for Sub-Saharan Africa (figure 6.1). Despite a declining contribution since 2005, the share of agriculture in GDP remains large, with Benin, Ethiopia, Rwanda, and Togo having the highest shares.

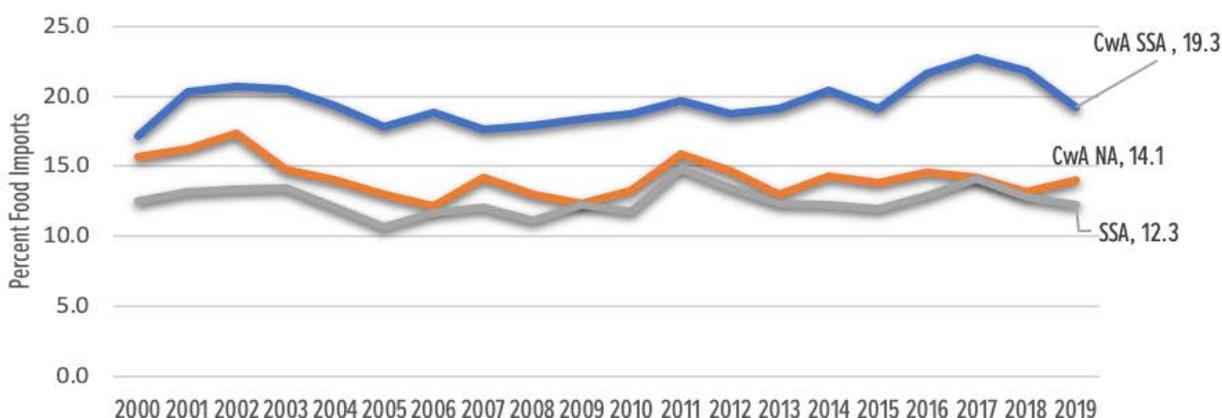
Figure 6.1. Compact with Africa Countries Average Agriculture Value Added (percent GDP) between 2000–20



Source: Authors, using data from World Development Indicators 2022.

Nevertheless, CwA countries continue to import most of their foods, making them more vulnerable to global food price shocks. Between 2000 and 2019, on average, food imports accounted for a larger share of total merchandize imports in CwA-Sub-Saharan Africa countries (19.3 percent) compared to an average of 14.1 percent in CwA-North Africa countries, and 12.3 percent for the continent (figure 6.2). Even for major agriculture commodity exporters, such as Côte d’Ivoire or Senegal, the share of imported processed food remains huge. In other words, it is critical for countries to transform and add value to their products to meet domestic demand and reduce import dependence.

Figure 6.2. Average Share of Food Imports in Compact with Africa Countries in Comparison with Sub-Saharan Africa



Source: Authors, using data from World Development Indicators 2022.

Note: NA = North Africa; SSA = Sub-Saharan Africa.

The agriculture sector faces multiple challenges that limit domestic food production and contribute to rising food insecurity. They include limited transformation and integration in GVCs, low productivity, limited technology adoption and know-how, climate-related threats, conflicts, and most recently, fertilizer shortage, high energy prices and inflation, and food crises. Russia’s war on Ukraine has heightened the uncertainty over food supply, which was already affected by COVID-19 and ongoing climate change impacts. Unlike CwA-North Africa countries, the agricultural sector in CwA-Sub-Saharan Africa countries has remained traditional, with low productivity and limited diversification. These constraints explain the Sub-Saharan Africa countries’ limited capacity to meet growing domestic demand and large dependency on food imports. In comparison, other regions, such as North Africa countries, have gone through a structural transformation, which created a modern agribusiness sector that is well connected to international markets and GVCs.

The expansion of the agribusiness sector in Africa differs from other regions. In Asia and South America, the intensification and modernization of food production processes made more efficient use of arable lands. This process was accompanied by technology adoption and productivity improvement. In contrast, in Sub-Saharan Africa countries, agricultural production relies on land expansion rather than efficiency and productivity growth even though it is extremely vulnerable to climate change. For CwA-Sub-Saharan Africa countries, the availability of arable land and potential to boost productivity and adopt sustainable practices, combined with fast-growing consumer markets and regional integration, provide tangible private sector investment opportunities. The CwA–Green Business Fund is working with World Bank teams in Côte d’Ivoire, Egypt, and Rwanda to generate opportunities for small agribusiness access to climate finance.

Despite these challenges, CwA countries have huge untapped potential in agribusiness to attain food security and generate domestic surpluses for regional and international markets. All CwA countries have identified the agriculture and agribusiness sector as a priority for private sector

interventions.⁴⁵ An environmentally sustainable transformation of the agriculture sector by adding value and raising productivity could deliver major gains in diversification, creation of quality jobs, food security, and poverty reduction. The sector holds enormous potential to drive economic transformation in countries where it has been delayed. Many untapped opportunities in agribusiness exist in CwA countries, whether in perishable non-traditional products, such as fruits, vegetables, flowers, livestock, dairy, and fishery, or in non-perishable cash crops, such as coffee, cocoa, cashew nuts, Brazil nuts, oily seeds, and cotton. In addition, climate-smart agribusiness practices have further potential to increase the value of products while helping farmer communities adapt to climate change and resulting in mitigation co-benefits. For a long time in most CwA countries, little transformation of raw products has taken place; instead, most of these products are exported without adding value (table 6.3). The message is not for CwA countries to jump immediately to high-technology production processes—simply increasing their exports of low- or medium-technology manufactured products could be a game changer. This is where critical private sector opportunities lie: to build modern agribusiness industries that meet domestic demand for processed goods and to improve CwA countries’ participation in regional and global value chains.

Table 6.3. Compact with Africa Countries’ Exports Specialization and Market Opportunities, 2020

CwA-Sub-Saharan Africa Countries	
Country	Top specializations in good exports with potential for local transformation
Benin	coconuts, Brazil nuts, and cashews, other oily seeds, other vegetable residues, other pure vegetable oils, cement , light pure woven cotton, soybeans, shaped wood, legume flours
Burkina Faso	other oily seeds, zinc ore, raw cotton, gold, coconuts, Brazil nuts, and cashews, other pure vegetable oils, cement , tropical fruits, other vegetable residues
Côte d’Ivoire	cocoa beans, cocoa paste, rubber, coconuts, Brazil nuts, and cashews, and cocoa butter, cocoa powder, manganese ore , nickel ore , bananas, raw cotton
Ethiopia	other oily seeds, cassava, tanned sheep hides, coffee, cut flowers, other vegetables, dried legumes, sheep and goat meat, sheep and goats, other animals
Ghana	cocoa beans, cocoa paste, cocoa butter, coconuts, Brazil nuts, and cashews, and cocoa powder, manganese ore , other pure vegetable oils, gold , quicklime , aluminum ore
Rwanda	niobium , tantalum , vanadium and zirconium ore , tin ores , tea, coffee, gold , legumes, legume flours, raw lead , cut flowers, vegetable saps
Senegal	phosphoric acid , niobium , tantalum , vanadium and zirconium ore , ground nuts, titanium ore , and Soups and Broths, legumes, ground nut oil, fake hair , non-fillet frozen fish, calcium phosphates
Togo	calcium phosphates , plaiting products , other oily seeds, fake hair , cement , raw cotton, coconuts, Brazil nuts, and cashews, electricity , marble , travertine and alabaster , cocoa beans

⁴⁵ See the “Invest in Africa” section of the G20 CwA web page, <https://www.compactwithafrica.org/content/compactwithafrica/home.html>

Table 6.3. Compact with Africa Countries' Exports Specialization and Market Opportunities, 2020, Continued

CwA-North Africa Countries	
Country	Top specializations in good exports with potential for local transformation
Egypt	aluminum powder, phosphatic fertilizers, calcium phosphates , preserved vegetables, handwoven rugs , potatoes, citrus, knotted carpets, nitrogenous fertilizers , molasses
Morocco	calcium phosphates, phosphoric acid, phosphatic fertilizers , legumes, mixed mineral or chemical fertilizers , tomatoes, locust beans, seaweed, sugar beet, cane, for food, barium sulphate , melons, preserved vegetables
Tunisia	pure olive oil, phosphonates and phosphonates, phosphoric acid, fluorides, utility meters, non-knit men's suits , tropical fruits, non-knit active wear, footwear parts, knit activewear

Source: Authors, using data from the Observatory of Economic Complexity, 2022.

Note: Non-agricultural products are in bold. A country specialization in a product is measured using the revealed comparative advantage of the country for that product. High-level specializations include all products with the highest RCA>1. <https://oec.world/en/profile/country>

OCP has also launched projects with IFC to enhance corporate governance and promote gender equity. In 2021, IFC started advising OCP for the company to obtain leading global business certification for gender equality, called Economic Dividends for Gender Equality (EDGE). This certification is the world's leading standard for the evaluation of corporate performance in gender equality and the creation of equal career opportunities. More broadly, this partnership aims to help strengthen the participation of women in the labor market in Morocco and Africa, which will be essential for addressing the ongoing multiple crises and for an inclusive recovery. In March 2022, OCP was awarded the first level of EDGE certification (over three levels), confirming the seriousness of the group's gender policy, and making OCP the first Moroccan company to obtain this certification.

Scaling Up Sustainable Production of Beverages in West Africa

In Senegal, IFC is supporting scaling up local transformation in the beverage industry. In December 2021, IFC committed a €9 million sustainability-linked loan to Industrie des Boissons du Senegal S.A. (IBS), a Senegal-based beverage producer, to support its expansion. In July 2021, IBS entered into a bottler agreement with The Coca-Cola Company to produce the full range of its beverages in various packaging formats to serve Senegal and 14 other countries in West and Central Africa. Job creation is estimated at 130 direct jobs and 940 indirect and induced jobs throughout the value chain, given the increased production and downstream effects on the retail value chain across West Africa. Through a series of interventions, IFC is helping IBS become a key player in the West African agri-food sector, implementing best international practices, including:

- *Standard setting:* through implementation of sustainability measures (resource efficiency, renewable energy, and water and waste reduction), including the choice of solar panels and the targeting of an EDGE Green Building certification by early 2024. Green buildings in the manufacturing sector are unknown in West Africa and Sub-Saharan Africa overall. Hence, achieving EDGE certification would be a plus for IBS.

- *Knowledge*: through provision of advisory services in health and safety practices, food traceability systems, resource use efficiency of the company's operations, and corporate governance and succession planning.

IFC carefully selects and only supports projects with net positive development impacts along the value chain. In this view, project outcomes will include:

- Through the choice of solar panels, IBS industrial facilities use at least 20 percent less energy and water consumption than other such buildings in Senegal. This is important in a water-stressed country, and one with an unfavorable energy mix that heavily relies on nonrenewable sources (40 percent from fossil fuels and 50 percent from non-renewable biomass). The solar panels that IBS anticipates installing will also increase the amount of renewable energy provided to the manufacturing process through renewable sources.
- The reduced importation of bottles, achieved by increasing the number of glass bottles that are recycled by IBS. Recycling is an essential factor in reducing the waste stream in a country with little formal refuse collection.

Scaling Up Agribusiness Competitiveness for Small Firms in West Africa

Mangos are emblematic of Senegal and contribute to 15 percent of the country's expanding horticultural exports. The mango value chain represents opportunities for work and employment, particularly for women and young people, brings additional revenue to rural communities, especially to family farms, and adds value to rural employment in skills development and certification. An estimated 20,000 people work in the sector and CFA 4 billion is generated annually. A major effort to promote mango exports, particularly exports from the greener regions of Casamance and Sine-Saloum, began in the early 2000s and had succeeded, gaining a foothold for Senegal in the European market. However, in 2016, Senegal received a warning letter from the European Commission, which stated that its mangos would no longer be allowed access into the EU market unless it took measures to reduce fruit fly contamination of its mangos. In Senegal, challenges in the agribusiness sector included sourcing products that meet quality, food safety, and quantity requirements; inadequate investment incentives when compared with perceived risks (especially for regions far from Dakar); access to credit for smallholders; and insufficient market infrastructure.

In 2017, IFC launched the Invest West Africa - Senegal Agribusiness Competitiveness Advisory Project, to help create markets for increased private investment in Senegal's agribusiness sector. USAID and ISCA funded the project to facilitate \$19 million generated in new private investment realized in the agribusiness sector by three years post-completion. In addition, the project was expected to contribute to at least nine investor leads, as well as reach 1,500 farmers by project completion. This would be done while focusing on the mango sector to reduce container rejections.

The advisory project helped Senegal secure access to the EU market. By the end of 2022, working with key stakeholders, IFC helped improve the previously threatened mango access to the \$10–\$20 million EU market, which impacted approximately 12,000 farmers, as evidenced by a 75 percent reduction in EU mango container interceptions. As a result, in 2021, Senegal emerged as the best performer among West African exporters with respect to the volume of mangos exported versus the number of containers rejected in the EU due to fruit fly contamination. IFC worked with the Directorate of Vegetative Protection to lower the number of rejected mango containers, by establishing a public-private dialogue (PPD) between the directorate and mango exporters and changing procedures to improve sanitary and phytosanitary control and export certification systems. To date, the program has recommended seven procedures, standards, or practices that helped 41 agricultural-related businesses and organizations make changes. Recommendations included setting start and end dates for mango exports based on infestation risks and enabling private sector contribution to the directorate’s operation costs by increasing the number of controllers from 10 to over 30.

The project supported links between key stakeholders in the mango sector. The program further developed a digital ecosystem (Commango), linking over 11,000 mango producers to local and regional offtakers and is piloting a financing mechanism for farmers with one agro-financier already onboard. Commango provides detailed information on mango availability and shares data on local suppliers and product quality. The importance of this connectivity to maintaining business operations was reconfirmed during COVID-19 pandemic-related travel disruptions.

The project helped improve access to investment and finance. The project developed previously nonexistent sector-specific market information (beyond mangos, that is, onions, cashew, rice, and so on) in the form of strategic briefs and business plan models. These were instrumental in providing benchmark data to reassure investors and enable financial institutions to better assess financial risk projections. These efforts led to identifying an investment lead pipeline of over \$85 million in agriculture.

To date, the project has reached about 6,265 farmers to secure and improve their revenues. It has further identified and shared 16 investor or private partnership leads with potential investors. Investments generated so far are expected to amount to at least \$12 million. The success of this innovative project in identifying and supporting investments in Senegal’s agri-sector, especially in the underdeveloped region of Casamance, and in collaborating between IFC’s Creating Market and Advisory across IFC’s industry teams (that is, manufacturing, agribusiness and services, financial institutions group, and infrastructure), and with the World Bank, has made it worth replicating and scaling up in other countries.

Scaling Up Production of Olive Oil and Dates in Tunisia

IFC supported CHO Group, one of Tunisia’s largest olive oil producers and exporters. IFC provided a financing and advisory services package to help the company expand production and

create jobs in the agriculture sector as Tunisia recovers from the economic effects of COVID-19. The financing consists of a €22 million loan, to be used as working capital and invested in new equipment. CHO Group has been an important IFC partner in Tunisia since 2015 and the renewed partnership will help strengthen links with farmers and create new jobs. Besides financing, IFC is also providing advisory services to smallholder olive farmers in CHO's supply chain to help them improve productivity. This will include training in the use of sustainable agricultural practices, including micro-irrigation techniques, which are expected to boost farmers' resilience to climate shocks and reduce the volatility of production.

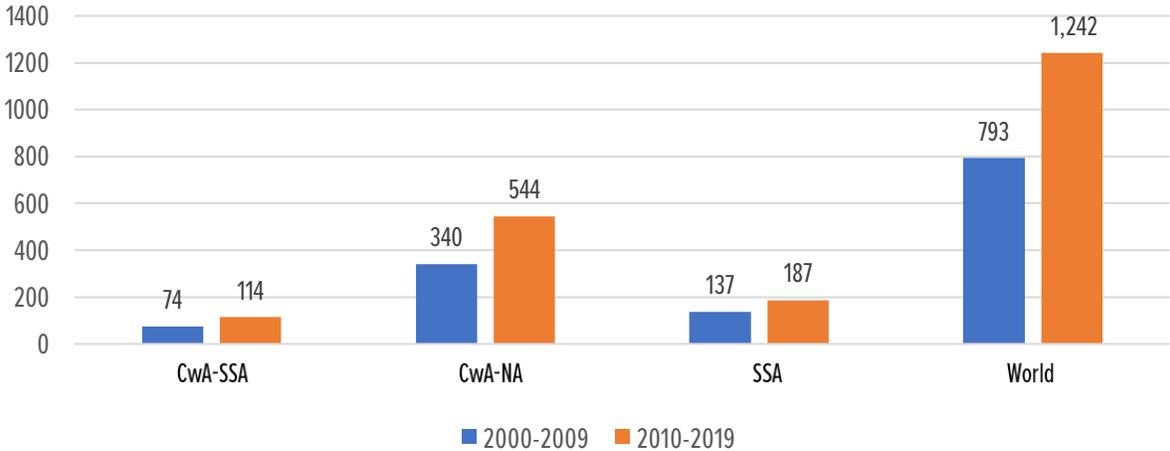
The project supports an existing IFC financing client, VACPA, in developing its smallholder farmer supply chain. The main objectives of the project are supporting the adoption of climate-smart and sustainable agronomic solutions by smallholder farmers supplying dates to VACPA; facilitating their improved access to extension services, technologies, and markets through farmers' organizations; and introducing and piloting a digital supply chain management platform, all of which are expected to lead to an increase in the volume of premium quality date supplies to VACPA. Over 2020–23, the project is expected to increase the number of farmers directly supplying VACPA and train these farmers in new agronomic best practices, such as for water usage and production efficiency.

6.4. Scaling Up Healthcare Services and Value Chains

Scaling Up Healthcare Services in Egypt and Rwanda

Across developing economies, insufficient access to quality, affordable healthcare and changing disease profiles are causing more premature deaths than in developed countries. These issues are more acute in CwA-Sub-Saharan Africa countries because governments have limited budgets to deal with other priorities. Over the past two decades, on average, healthcare expenditure accounted for only 4.4 percent of GDP annually in CwA countries compared to an annual average of 5.3 percent for North Africa and Sub-Saharan Africa, and far below the global average of 9.4 percent. Per capita healthcare spending has remained the lowest in CwA-Sub-Saharan Africa countries compared to the rest of the world (figure 6.3). The COVID-19 pandemic exposed unequal access to healthcare services and medical products, including vaccines, and the insufficient local production capacity of pharmaceuticals.

Figure 6.3. Trends in Healthcare Expenditure per Capita in Compact with Africa Countries



Note: Purchasing power parity, in current international U.S. dollars. NA = North Africa; SSA = Sub-Saharan Africa.

With limited public resources dedicated to healthcare, the private sector is needed to close the gaps in healthcare value chains. Yet, few dedicated financiers and commercially viable and scalable private healthcare providers serve the large base of the pyramid population in CwA countries. Given this context, IFC is helping countries strengthen their private sector healthcare value chains. In July 2020, IFC launched a \$4 billion Global Health Platform to help close massive supply gaps hindering the fight against the pandemic. The platform aims to: (i) meet the urgent needs of developing countries’ access to healthcare products and services; (ii) create manufacturing and deliver capacities for healthcare products under development; and (iii) strengthen regional and local manufacturing and service capacities of developing countries’ health systems.

Scaling Up Healthcare Value Chains in the Middle East and Africa

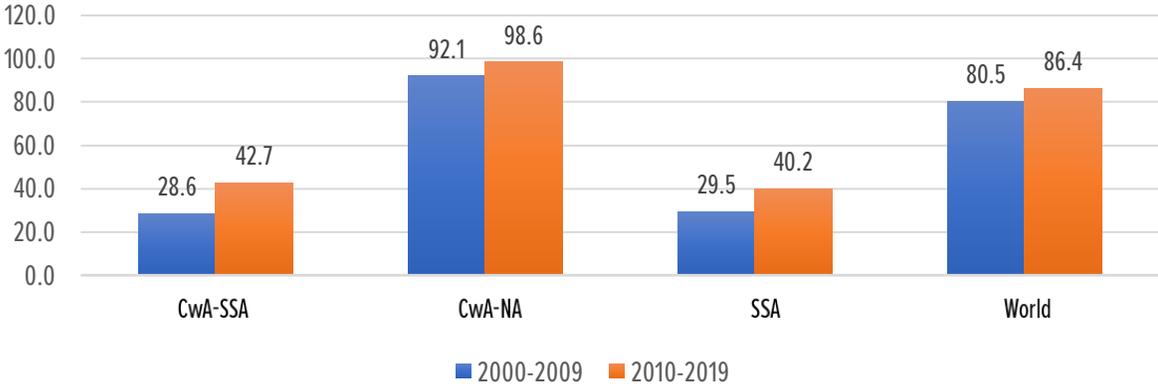
In 2021, IFC invested an \$80 million financing package in Integrated Diagnostic Holdings, a Cairo-based leading diagnostic service provider in the Middle East and Africa. The package is designed to help the provider expand its geographic footprint and service offerings and thus expand access to high-quality health diagnostic services in Egypt and support the provider’s growth into new markets.

As part of ongoing efforts to develop Rwanda’s vaccine manufacturing capacities, IFC, in partnership with the government, BioNTech, and the kENUP Foundation, is supporting the establishment of a drug substance formation plant. IFC is also helping the country identify and cultivate partnerships with strategic and technical partners to increase the project’s success. The vaccine manufacturing initiative held a formal groundbreaking during the Commonwealth Heads of Government Meeting business forum in Rwanda, held June 2022.

6.5. Scaling Up Green Energy and Sustainable Infrastructure

The Paris Agreement accelerated opportunities for private sector climate-smart solutions. As discussed in CCDRs, large economic losses due to climate change are expected for several CwA countries, and this requires substantial adaptation interventions. A fair and equitable energy transition is critical to achieve economic growth and job creation. Countries around the world are expanding energy access, improving energy efficiency, making electricity more reliable, and reducing emissions while building critical resilience for a sustainable recovery. Yet, close to 60 percent of the population in CwA-Sub-Saharan Africa countries still do not have access to electricity, while CwA-North Africa countries have achieved universal access (figure 6.4). To increase energy access in Sub-Saharan Africa countries, more efforts are required to mobilize public resources, and more importantly private resources. As highlighted in the Heads of States in IDA20 Call for Action (July 2022), more investments are needed in low-carbon energy, including renewable energies (solar, wind, biomass, hydro, and geothermal) and gas, which is a transition fuel for the continent to achieve universal access to electricity, tariff reduction, local transformation and value-added, and quality jobs creation.

Figure 6.4. Access to Electricity (percent of population, averages)



Source: Authors, using data from World Development Indicators 2022.
 Note: NA = North Africa; SSA = Sub-Saharan Africa.

Decarbonizing the energy sector, while ensuring universal access to energy, is critical in driving a post-pandemic green, resilient, and inclusive recovery. According to a recent IFC study (IFC 2021) covering 21 major emerging markets, including three CwA countries (Côte d’Ivoire, Egypt, and Morocco), recovery efforts need to prioritize expansion of renewable energy. Recent technology improvements, including energy efficiency, battery storage, and decarbonization techniques, will be important. The drastic decline in recent years in the cost of renewable energy technology provides an opportunity for strong market growth trajectory in these sectors, which in turn can create quality jobs. The World Bank Group is committed to aligning its financing flows with the objectives of the Paris Agreement, which includes providing support to clients that is consistent with pathways toward low-carbon and climate-resilient development. In this regard, IFC committed to align 85 percent of its real sector operations starting July 1, 2023, and 100 percent two years

later, starting July 1, 2025 (World Bank Group Climate Action Plan 2021–25). The CwA–Green Business Fund is supporting the efforts of the World Bank Regional Off-Grid Electricity Access Program and regional partners to stimulate the development of local solar businesses and increase renewable energy access.

Scaling Up Cleaner Energy Solutions in Burkina Faso

To boost access to cleaner and more reliable energy in Burkina Faso, including for rural households, IFC provided a local currency financing package for Sodigaz, one of Burkina Faso’s leading energy companies. The financing package, signed in June 2022, will help Sodigaz increase the distribution of LPG to underserved rural households across Burkina Faso. It will bring solar energy to a 1,000-unit affordable housing project near the capital, Ouagadougou, contributing to better health outcomes and supporting the country’s transition to cleaner energy. The €12.4 million financing package will support the expansion of Sodigaz’s LPG distribution infrastructure in rural and urban areas and the construction of a 1.54 megawatt-peak solar plant. IFC’s investment is supported by IDA’s Private Sector Window Local Currency Facility, through guarantees and cross-currency swaps. The facility helped provide long-term financing in CFA francs that would not otherwise be readily available in the local market.

Scaling Up Clean Energy and Green Infrastructure Across Africa

In June 2022, IFC invested \$150 million, alongside First Abu Dhabi Bank and Europe Arab Bank, in Elsewedy Electric, an Egyptian leader in integrated energy, infrastructure, and digital solutions that are reliable, sustainable, and green. The project aims to support the expansion, modernization, and enhancement of their sustainable manufacturing operations, and to increase access to renewable energy in several countries across Africa. The project also supports South-South investments—the facility will finance new solar energy facilities in Africa and build and acquire new plants globally, when needed, to increase Elsewedy’s competitive edge.

Scaling up Clean Energy Systems and Green Infrastructure in Egypt

IFC supports clean energy generation through investments that boost the production of clean wind-generated electricity, such as the Lekela wind farm (\$84 million in FY20 and \$22 million in FY22). The project, which supports the development of a 252-megawatt wind farm by Lekela in Egypt’s Red Sea governorate, aims to promote clean energy, lower generation costs, and diversify Egypt’s energy mix. The wind farm is expected to produce over 1,000 gigawatt hours per year, at a tariff well below the average cost of generation in Egypt, powering more than 350,000 homes and avoiding more than 550,000 tons of CO₂ emissions annually.

IFC’s pharma energy efficiency project works on firm-level and sector-level support. On the firm-level, IFC aims to provide tailored advice to private sector pharma manufacturers on the adoption of solutions to reduce material, energy, and water use leading to better efficiency. The sector-level

work is intended to support activities, which would allow for increased uptake of best practices beyond the firms supported directly. Under this project, IFC partnered with Egyptian pharmaceutical producer, Ramedia, to help the company adopt solutions that reduce its carbon and water footprints and improve efficiencies in materials and resource usage.

Replacing one million diesel-powered water pumps with solar/photovoltaic (PV)-powered pumps potentially presents a \$4 billion financing opportunity. The project is supporting solar/PV firms and financial institutions through knowledge creation, capacity building, and market links activities. So far, the project has successfully facilitated over \$6 million financing in the sector, resulting in over 300 PV pumps being offered to end-users on commercial terms. This has helped reduce about 8,000 metric tons of greenhouse gas emissions. The pure commercial nature of these transactions makes these improvements in the market system sustainable.

IFC invested \$100 million in Egypt's first private sector green bond to help unlock finance for climate-smart projects, reduce greenhouse gas emissions, and support the country's transition to a greener economy. The bond, issued by Egypt's Commercial International Bank, the country's largest private bank, will help it increase lending to businesses that want to invest in eco-friendly initiatives, including green buildings, renewable energy, and energy efficiency, markets that are still nascent in Egypt. This debut issuance is an important milestone in a multi-year effort by the government, Egypt's private sector, and IFC to grow Egypt's capital market for green finance in the country and help close infrastructure financing gaps.

Scaling Up Clean Energy and Infrastructure in Ghana

The proposed investment is a secured corporate loan of up to \$30 million to help LMI Holdings Ltd further develop its two industrial zones in Ghana. The zones are a successful 1,200-acre Tema Free Zones Enclave (Tema FZ) and the new 2,000-acre Dawa Industrial Zone (Dawa IZ), located 45 kilometers from Tema. LMI is a Ghanaian industrial and property development group owned by a Ghanaian entrepreneur. IFC will lend to Enclave Power Company, a subsidiary of LMI, which will on-lend two affiliates, to finance (i) a 16.8 megawatts peak capacity rooftop solar installation at Tema FZ, and (ii) a 4,000 cubic meters per day water treatment plant at Dawa IZ. The rooftop solar will generate clean electricity, replacing part of the power that LMI purchases in bulk to sell to tenants in the zones. The water treatment plant will address the lack of water access, thereby opening up Dawa IZ for higher occupation.

The project will improve the affordability and proportion of renewable energy supply to the Tema FZ and Dawa IZ, improve the quality of water supply to the Dawa IZ, and reduce associated CO₂ emissions. At market level, the project will demonstrate the potential of onsite solar generation as a cost-effective, reliable, and green alternative to electricity supply from the Ghanaian grid. The development of Dawa IZ will also improve access to high-quality industrial space and logistics to industrial zones in Ghana, which in turn will improve firms' productivity and competitiveness in domestic and international markets. The solar rooftop will displace 10 percent

of Enclave Power Company Ltd's electricity supply that comes from thermal power plants and will thus reduce emissions by 9,975 total CO₂. The water treatment plant will also eliminate greenhouse gas emissions from trucks supplying water to existing Dawa IZ tenants. The project will demonstrate the potential of captive solar generation as a cost-effective and green alternative to electricity supply from the Ghanaian grid. It also demonstrates a viable alternative for meeting electricity needs for high-volume customers in Ghana.

Dawa IZ is strategically positioned at the center of the main trans-West Africa highway linking Nigeria, Ghana, and Côte d'Ivoire, and is planned to be the new center for upcoming industries away from congested Tema and Accra. The new water distribution and treatment plant with an onsite water service tank and storage system will replace an unsustainable current system where tenants are supplied water daily by diesel trucks. The project will provide 4,000 cubic meters per day, and therefore supply by additional trucks will not be necessary if demand for water increases.

Scaling Up Liquefied Petroleum Gas Storage Terminals in Togo

According to the World Health Organization, in 2019, only 7 percent of the Togolese population consumed clean energies for cooking. Togo's per capita LPG consumption is very low compared to regional and global averages—3.7 kilograms compared to 40–50 kilograms for other developing economies. Firewood represents 99 percent of primary energy production; over 36 percent of the firewood is used by households for cooking. Heavy reliance on biomass fuels for household consumption contributes to the country's high levels of deforestation as well as adverse health impacts from indoor air pollution, particularly for women, young children, and the elderly. Collecting biomass is very time-intensive, a burden that disproportionately falls on women and girls. Replacing biomass with LPG represents an important step in the country's move toward cleaner energy sources.⁴⁶ Demand for LPG is expected to grow significantly, driven by population increase and rapid urbanization on the demand side, and by progressive extension of gas bottle distribution networks on the supply side.

The project comprises an IFC "A" loan of up to €7 million and mobilization of parallel loans of up to €9.2 million to Zener SA, a full-service, integrated energy provider operating in Togo. The investment will finance: (i) the expansion of the company's LPG storage terminals in Togo by an additional 3,600 tons for both propane and butane LPG, and (ii) the construction of five fuel fillings for the distribution of white products, solar kits, and LPG bottles exchange to underserved areas to reduce deforestation and promote cleaner cooking. Zener SA has the only seaborne LPG import facility for end-user distribution to industrial, commercial, and residential markets, as well as export.

The project builds Zener's success as an indigenous, integrated energy provider operating in Togo across the LPG full value chain. The success was due to a steady LPG supply through Zener,

⁴⁶ LPG is a clean burning fuel that is easier to handle and transport than natural gas and considered the most common residential cooking fuel in the world. LPG burns with the second lowest CO₂ emissions of all available hydrocarbon fuels, and emissions are cut by half when it replaces wood or coal, and about a third when it replaces fuel oil or kerosene.

which the government supported with tax incentives and subsidies. LPG consumption by households in Togo has increased more than tenfold over the last decade. Zener has ramped up its LPG distribution operations in Togo since 2018, including throughput to Burkina Faso, demonstrating growing expertise in this segment. By supporting the transit of LPG to Burkina Faso, the project aligns with the government's ambition to position Togo as a regional hub and a gate to the hinterland as well as a logistics platform for West Africa.

6.6. Scaling Up Infrastructure for Digitalization

Supporting Ethiopia's Telecom Liberalization

In 2018, the government of Ethiopia announced its decision to open the telecom sector to competition. The government wanted to attract private sector investment and operational expertise to improve the accessibility and quality of telecommunications services. Key reform measures included the passage of a new law governing the communications sector; partial privatization of Ethio Telecom; and market liberalization by allowing the entry of two new full-service telecom operators, through a competitive award process.

To help implement these reform measures, in 2020 the government retained IFC as lead transaction advisor for the market liberalization process. IFC advised the Ministry of Finance and the Ethiopian Communications Authority to design and tender new full-service telecom licenses and associated spectrum. In May 2021, the country's first competitively tendered telecommunications license was awarded to the Global Partnership for Ethiopia consortium. The new entrant, now under the name Safaricom Telecommunications Ethiopia, paid an upfront license fee of \$850 million to the government, and plans to invest at least \$8 billion in the country's telecom network, making it the largest single FDI in Ethiopia.

As a consequence of the tender, several notable results were achieved, which included: \$850 million in upfront license fees as revenue for the government of Ethiopia; \$8 billion in infrastructure investment over the first 10 years; up to 1.5 million direct and indirect jobs created through the vast investment program; high-speed mobile penetration to rise from 6 percent in 2021 to 98 percent within 3–5 years; improved access to quality telecom services for millions of Ethiopians; nationwide integrated digital identification; essential public services across the country; and critical e-government services.

Scaling Up Digitalization Across Africa

The government of Togo's digital transformation strategy recognizes the need to take advantage of digital technology to unlock the full potential for economic growth. The government has been proactive in developing a supportive environment for digitalization. Legislation and regulatory policies have focused on encouraging competition and expanding access, emphasizing public and private participation. Examples include competitive licensing of

internet service providers and the privatization of the national operator, Togocom. These structural reforms have resulted in increased competition, lower costs, and a strong increase in access to digital services. A notable achievement has been the rapid expansion of broadband penetration from 18 percent in 2016 to 36 percent in 2019, allowing the government to leverage innovative digital solutions, especially during the COVID-19 pandemic.

IFC is supporting Togo's digital transformation strategy with up to \$5 million in equity investment in CSquared, an existing IFC investee and wholesale open-access fiber operator in Ghana, Liberia, and Uganda. The company is planning to expand operations in several Sub-Saharan African countries, starting with Togo. To finance its expansion, the company is raising new equity from existing shareholders. CSquared's expansion in Togo will comprise: (i) the construction of a cable branch that will connect Togo to Google's Equiano submarine cable, with CSquared having exclusive international capacity reseller rights for Equiano into Togo; and (ii) the commercialization of the existing metro and backbone terrestrial fiber optic networks owned by the government, through a 15-year concession agreement for management rights on metro and backbone networks. The proposed IDA PSW Blended Finance Facility co-investment will be used to support the company's expansion with end-use of PSW funds only in Togo. Without this support, CSquared's shareholders would have not been able to proceed with the Togo project, due to Togo's small market size market resulting in low equity returns.

International connectivity capacity will be sold to wholesale clients on an open access and nondiscriminatory basis. By becoming the first open-access fiber network operator in Togo, the project will increase available capacity, provide affordable connectivity, and promote digital inclusion in the country. CSquared will commercialize the currently underused existing metro and backbone terrestrial networks. The project is also an opportunity to serve neighboring landlocked countries with connectivity services. The usage of the broadband network is projected to increase from 6.9 Gbps in 2021 to 52.4 Gbps in 2023 on the metro fiber network; from 0 in 2021 to 100.7 Gbps in 2023 on the national backbone; and from 0 in 2021 to 47.6 Gbps on the international connectivity. An expected increase in the usage will be supported by an increase in the number of metro sites from 91 in 2021 to 275 in 2023 and the installation of 377 national backbone sites by 2023. By changing the management of the broadband networks from government-owned to a private sector-led wholesale, this project will drop wholesale costs and increase competition among retail broadband operators. In particular, the construction of the second submarine landing cables is expected to reduce up to 25 percent the price of international connectivity, as the company will price its international capacity at 43 percent below the monopoly price.

Supporting Sustainable Infrastructure Development in Rwanda

The IFC program in Rwanda centers on creating opportunities in agribusiness, affordable housing, health, and inclusive finance. IFC stands ready to develop PPP housing bankable projects for six secondary cities. Supporting sustainable infrastructure is critical, as this is a key challenge to Rwanda's development. However, the program is also subject to important reforms.

IFC is also supporting an affordable housing scheme in partnership with Rwanda Development Bank. IFC assisted the bank to develop the Gabiro Agro Park project, aiming to create opportunities in agribusiness. Further, IFC conducted a deep-dive study on the feasibility of e-buses in Kigali and is using this as a model for larger scale deployment of e-buses in the rest of Rwanda. Finally, IFC is supporting Rwanda's digital development by revising the National Broadband Policy.

6.7. Scaling Up Entrepreneurship and Sustainable Financing

Scaling Up Sustainable Financing in West Africa

In June 2022, IFC partnered with Vista Bank to increase the availability of trade finance in Burkina Faso and Guinea and support imports of essential goods. This project is financed through IFC's Global Trade Finance Program. Vista Bank serves clients across West Africa with a wide range of financial services. IFC's trade facilities of up to \$24 million to Vista Bank's subsidiaries in Guinea and Burkina Faso (\$12 million each) will help the banks finance imports of foodstuffs, raw materials, refined oil products, equipment, consumer goods, and other important items. By joining IFC's program, Vista Bank will gain access to a network of correspondent banks, enhancing its ability to meet the financing needs of SMEs.

IFC will also provide technical support to help Vista Bank strengthen its corporate governance and risk management capacities, allowing it to better meet its clients' needs. The partnership comes at a time when global transport and logistics systems are being disrupted and will support SME growth and innovation in Burkina Faso and Guinea. While trade is a key driver for growth in Africa, the trade financing gap remains large, limiting the movement of goods on the continent. IFC's partnership with Vista Bank underscores its commitment to supporting SME financing in Africa's low-income and fragile countries.

Scaling Up Financial Inclusion for MSMEs in Morocco and the Magreb

IFC is supporting Morocco Secured Transactions and Collateral Registry to secure financial inclusion and access to finance, particularly for SMEs, micro enterprises, and women entrepreneurs. The project supported the issuance of implementing regulations and the establishment of a new movable collateral registry, which successfully launched in March 2020 before the height of COVID-19. The system remained operational during the crisis and provided a much-needed instrument to facilitate access to finance.

The registry's usage data attests to the success of the reform; as of the end of 2021, the registry logged more than 88,000 collateral entries with a total value of over \$44 billion. The registry also facilitated over 35,000 certified searches and 37,00 new transactions and loans. Further, the project has supported awareness and capacity building of different reform stakeholders, including at the regional level. Liberal professions were trained in all regions of Morocco, including lawyers,

notaries, adouls (Islamic public notary officials), accountants, representatives of financial institutions at the central and regional levels, and various SMEs and their representatives.

IFC is helping support startups in Morocco through its Start Maghreb program. This technical assistance program aims to help startups operating in Morocco access larger markets in the Maghreb region and beyond, and therefore ultimately create more jobs and opportunities for young Moroccans. To do this, IFC is committed to improving the business environment in which startups operate by promoting a series of PPDs and implementing ad hoc development programs to meet the business needs of startup entrepreneurs.

Financing Startup Accelerators in Tunisia

In FY20, IFC signed memorandums of understanding with two Tunisian startup accelerators to help unlock the potential of innovative entrepreneurship in the country, with a focus on women-led startups and creating jobs for young people. IFC signed the memorandums with Flat6Labs Tunisia, which operates an accelerator program and early-stage investment platform, and Impact Partner Tunisia, which supports young startups and SME especially those with a strong social impact, creating sustainable jobs for women and young people. Flat6Labs and Impact Partner have been able to remain agile throughout the pandemic, continuing their activities virtually and supporting Tunisian startups when they needed it most. To date, and despite the pandemic, the two structures have conducted more than seven acceleration rounds. Flat6Labs launched several rounds of its Seed program, and Impact Partner set up the Madar Innovation and Decentralize Impact programs, which focus on blockchain technology. After more than two years of work and targeted support, the first results are visible: 52 entrepreneurs have been supported through the Accelerate4Youth program and more than 450 direct and indirect jobs have been supported.

Scaling Up Support to Startups and Fintech in Egypt

IFC is working with Brimore to support the growth of local manufacturers, create job opportunities, and develop e-commerce in Egypt. IFC invested \$5 million in Brimore, a leading Egyptian social commerce startup that connects emerging brands with distributors and customers. The Cairo-based company provides small- and medium-sized manufacturers in Egypt with access to the mass market through a large network of distribution agents, most of whom are women. IFC's investment will help Brimore grow its network of agents, serve more Egyptian manufacturers, and mature the country's still fledgling e-commerce sector.

IFC, in partnership with Disruptech and Egypt's Fintech Acceleration Program, is supporting the development of Egypt's fintech sector and expanding access to financial services in the country. IFC committed \$5 million to Disruptech, a new fintech venture capital fund focusing on investing in early stage fintech and fintech-enabled startups. The facility aims to provide seed capital for up to 25 startups with a focus on fintech services, which often struggle to raise capital to bring their innovations to market. Disruptech is currently investing in firms with the potential to

modernize and digitize financial transactions, speeding the process of expanding financial services in Egypt. Through the Fintech Acceleration Program, IFC aims to strengthen the offering of fintech accelerators to support the creation of an investment-ready fintech pipeline.

Box 6.1. African Development Bank Investments in the Private Sector in Compact with Africa Countries

The AfDB's primary instrument for its interventions remains its CSPs. In Benin, AfDB implementation of its CSP 2017–21 contributed to increasing cereal crop productivity, boosting trade between Benin and neighboring countries, enhancing electrical power generation capacity, and improving the private investment environment and public investment management framework. The CSP 2022–26 seeks to support agricultural transformation and industrial development and strengthen infrastructure to enhance economic competitiveness.

In Burkina Faso, the AfDB's active portfolio comprised 22 active projects of which two were in the private sector in energy and infrastructure.

For Côte d'Ivoire, the AfDB carried out two studies that helped foster PPD, one on private sector and SME and the other one on long-term financing. The AfDB has 10 private sector operations in transport infrastructure, energy, agriculture, governance, and water and sanitation infrastructure. It continues to finance profitable private sector operations, particularly in the finance, agriculture, environment, and health sectors.

In Egypt, the AfDB prioritizes strengthening the country's competitiveness to support robust, private sector-led growth and job creation and building resilience to achieve food and water security and energy efficiency.

Ethiopia's private sector is a mix of private and pseudo-public companies. Thus, the AfDB aims to support infrastructure development, particularly in the energy sector, and promote economic governance.

The AfDB's active portfolio in Ghana comprises 16 operations (four in the private sector) across agriculture, energy, and water and sanitation. The goal is to support industrialization and private sector development activities while supporting infrastructure development that enables domestic, regional, and global trade.

In Guinea, the AfDB's portfolio consists of 11 regional public sector operations, nine national public sector operations, and two private sector projects in infrastructure.

The AfDB's portfolio in Morocco comprises 31 public sector operations, four private sector operations, and one transition fund operation.

In Rwanda, the AfDB previously focused on infrastructure, enterprise, and institutional development. The current focus is to strengthen physical infrastructure to enhance productive resources and reduce the cost of doing business while improving skills and financial capabilities to foster private sector and productivity-led growth.

In Senegal, the AfDB has about 20 planned projects in transport, energy, agriculture, water, and industry. The objective is to strengthen competitiveness and regional integration support infrastructure and build the resilience of the economy through agricultural transformation and industrial development.

The AfDB's active portfolio in Togo comprises 11 national projects, two regional projects, and one private sector project in energy.

In Tunisia, the AfDB is increasing value addition by developing, strengthening, and diversifying agro-industrial value chains based on the systemic and rational exploitation of existing potential, especially in the hinterland. Most AfDB investments hinge on infrastructure development and value addition in the agricultural sector.

6.8. Challenges and Opportunities in Scaling Up Private Investments

Across CwA countries, huge opportunities exist for private investors to scale up their interventions, especially in profitable sectors, but constraints are delaying them. Several CPSDs highlight constraints that need to be lifted to boost private sector investments. As discussed in earlier chapters, CwA countries undertook reforms that helped them cope with recent crises. Yet, for domestic and international private investors, more efforts are needed to scale up projects across the region. Appendix A presents recent reforms that countries have implemented and highlights urgent reforms yet to be designed and/or implemented that are delaying private investors' participation in CwA countries, as reported by IFC operations leads in these countries.

Egypt

Per Egypt's CPSD, a key challenge faced by the private sector is competition and the role of the state. Government involvement in projects and the prevalence of SOEs and state-owned banks (SOBs) creates an uneven playing field at times for the private sector and deters domestic and foreign private investments in certain sectors. However, the state ownership policy focuses on rationalizing the role of the state and thereby enabling and empowering private sector-led growth. A draft of the state ownership policy was issued in June 2022 for public consultation; the final policy has not been issued.

Institutional, governance, and regulatory reforms are needed to create an enabling environment for private investment and attract international investments in infrastructure. The infrastructure

sector offers considerable opportunities for the private sector, including greening the sector and reducing inefficiencies in public service delivery.

Egypt has the potential to be a regional trade and logistics hub, however, export potential at the sector level is impeded by a wide range of nontariff barriers, including from the cumbersome customs clearance process. Poor connectivity and logistics and limited domestic competition are also impeding the expansion of firms.

Tunisia

Improving the investment climate is critical to scale up foreign investments in Tunisia. This includes improving transparency and predictability; improving the government's service delivery to businesses; easing FDI restrictions and implementing the reduction of investment authorizations; modernizing foreign exchange regulation to reduce restrictions on international transactions and investments; accelerating the approval process for foreign currency loans; and easing registering and perfecting security, including movable and immovable assets, especially for international investors and lenders.

As in Egypt, in Tunisia, government involvement in projects and the prevalence of SOEs and SOBs creates an uneven playing field at times for the private sector and deters private and foreign investment in certain sectors. To increase private investment, there is a need to reform SOEs and market regulations, open commercial segments to competition, and remove market distortions.

The government can adopt effective regulations to increase financial inclusion, including a ceiling on the SME interest rate, a secured transactions law, and credit bureaus. In addition, diversifying funding sources for nonbank financial institutions (such as savings collection or access to refinancing envelopes) could enhance financial inclusion in the country.

Morocco

PPP reform is a major barrier to private investments in Morocco. PPPs remain an untapped opportunity for the country to deliver transformational infrastructure projects and mobilize greater private investment. Further, improving access to clean energy for corporates will help reduce energy costs for the private sector. Morocco could take advantage of its abundant competitive renewable energy resources while also increasing its energy independence, reducing the average cost of electricity generation, and becoming a hub for green industrial investment and exports. A reform to widen application of business-to-business and corporate performance and policy actions to industrial zones and medium-voltage clients would be crucial.

Burkina Faso and Guinea

In these countries, lack of support from a strong government champion combined with lack of government capacity to implement key reforms and a precarious security environment leads local authorities to make an arbitrage detrimental to implementing key reforms. For example, in the energy sector, delays in reform implementation prevent scaling up private investments.

Rwanda

Top priorities in Rwanda include upgrading PPP policy and capacity building in priority PPP identification, feasibility studies, and government capacity to negotiate and supervise.

Côte d'Ivoire

A major challenge for investors in the country is the lack of a strong government champion to push and lead the reform implementation agenda. This is combined with a lack of coordination between line ministries and lack of expertise and incentives to undertake reforms that will bear long-term benefits as opposed to immediate political gains.

Senegal

Government red tape in reform implementation is identified as a major constraint for Senegal.

Benin and Togo

For smaller economies such as Benin and Togo, a major investment challenge is the small size of transactions and lack of economies of scale, lack of sponsors with which IFC can work, Integrity Due Diligence/Politically Exposed Persons issues, and lack of industry footprint on the ground for increased business development. In addition, lack of clear regulations, government coordination, lack of clear sectoral policies, and need for increased transparency in governance are preventing investors from entering and expanding.

Ghana

The country is going through a major macroeconomic shock that is a challenge for investors.

In sum, for these countries, despite new regulations and reforms that have been adopted, challenges remain with their implementation.

6.9. Recommendations to Support Scaling Up Private Investments

The CwA Initiative can help CwA countries address the above-mentioned challenges through technical assistance, capacity building, financial assistance, and supporting more private investors from G20 countries to invest in CwA countries. Drawing on lessons learned from IFC operations and CPSD findings, the following recommendations can help address these challenges.

Offer more capacity building and peer learning events to support the design and implementation of reforms

Supporting reforms, and sector-specific reforms in particular, as well the proper implementation of such reforms, is critical for CwA countries going forward. There is also a dearth of local expertise in contract negotiations. The CwA Initiative could support advisory services and capacity building to governments, especially during the implementation of reforms. The CwA could organize peer learning events on specific investment promotion themes, bringing together experts from across CwA and G20 countries. Further, since some large investors are more interested in economies of

scale, having a regional approach in reform implementation could ease the scaling up of successful projects across CwA countries and the region.

Provide more de-risking financing instruments

Using and expanding de-risking instruments, such as blended finance, in CwA countries is paramount, especially in sectors with limited or non-existent market returns. This is particularly the case in infrastructure and energy projects, but also in the most fragile and conflict-affected settings. Local currency financing could be necessary through reasonably priced hedging instruments to ensure support for non-tradeable companies and infrastructure projects.

Improve access to reliable data and information

Lack of reliable data and information often deters investors. Market, environmental and sustainability, and technical studies are critical to support preparation of projects for the private sector before they engage.

Attract more private investors through fairs and investment outreach events

The CwA Initiative could mobilize more domestic and foreign investors, especially from G20 countries. This includes:

- Assisting CwA countries in organizing regular investor outreach events and fairs, including sector-specific events, multisector events, regional events, and so on.
- Supporting PPDs in CwA countries to mobilize more domestic investors. These dialogues could highlight short- to medium-term investment opportunities in each CwA country.
- Supporting bilateral and multilateral negotiation meetings between G20 investors and CwA countries.
- Supporting seed funding of scalable projects with high development impacts that can galvanize FDI from G20 in partnership with domestic investors.



7. PEER LEARNING EVENTS: PAVING THE WAY TOWARD COMPACT WITH AFRICA 2.0

Peer learning events are at the core of the CwA's value proposition. A peer learning event is defined as a session in which CwA countries, and their institutions, can share experiences and learn best practices. Since the May 2022 CwA Monitoring Report, three multilateral peer learning events were organized by the ACET, with support from the World Bank Group. The topics were selected by country demand: PPPs for investment, reform delivery, and investment promotion. In addition, six bilateral peer learning events were held on the technical assistance received by Tunisia on key topics as discussed on the next pages.

The Tunisia experience has paved the way for CwA 2.0. The country leveraged a Tunisia-specific \$6 million CwA MDTF to support the consolidation of its reform matrices, coordination of aid (budget support, investment lending, and technical assistance), operationalization of its Reform Delivery Unit, development of an information technology system to monitor reform implementation, feasibility studies for PPPs, and investment fora.

As a result of the Tunisia experience, 10 of 12 CwA countries have requested technical assistance to deliver reforms, mobilize and coordinate multilateral and G20 aid, and mobilize G20 private investors. These country requests will be addressed in the next AAG meeting on December 8, 2022 (box 7.1). The World Bank Group has mobilized five complementary umbrella MDTFs to fulfill these requests. These MDTFs need the support of CwA G20 partners.

- **Competitiveness for Jobs and Economic Transformation (C-JET)** is the new umbrella World Bank MDTF supporting private sector- enabling reforms, technology adoption by firms, and the sustainable competitiveness of key value chains by leveraging World Bank lending.
- **Finance for Development (F4D)** is the new umbrella World Bank MDTF supporting financial sector reforms and access to finance, also by leveraging World Bank lending.

- **IFC Support to the G20 Compact with Africa (ISCA)** is the IFC MDTF supporting diagnostics (such as the World Bank Group CPSDs), reforms, engagements with the private sector and support to firms leading to IFC private investments. ISCA needs to be extended and replenished.
- **Think Africa Partnership (TAP)** is the World Bank Africa Region’s flagship trust fund translating knowledge into economic policy action.
- **CwA–Green Business Fund (GBF)** enables African SMEs to attract climate finance to adopt and scale climate-smart practices and technologies across different sectors. The fund is operationalized through three pillars: (i) policy dialogue and creation of an enabling environment, (ii) capacity development and technical assistance, and (iii) access to innovative financial instruments, focusing on the design and pilot of financial instruments with a measurable climate outcome.

Box 7.1. Timeline Toward Compact with Africa 2.0

May 16, 2022—G20 AAG meeting requests suggestions from CwA countries to strengthen the Compact by August 2022.

June 29, 2022—PPP Peer Learning event.

July 19, 2022—Reform Delivery Peer Learning event.

August 2022—10 of 12 CwA countries request technical assistance to help mobilize and coordinate G20 partners.

September 29, 2022—Investment Promotion Peer Learning event.

October 12, 2022—Successful G7/Africa Finance Minister Meeting acknowledging the request from CwA countries.

November 2022—World Bank mission to Europe to gather support from key G20 CwA partners (France, Germany, and the European Commission).

December 8, 2022—G20 AAG meeting to endorse the suggestions from CwA countries and call for the support of G20 partners.

Peer learning events continue to be in demand and appreciated by the countries. The first in-person event after the COVID-19 pandemic was held in Benin in October 2022. The CwA government focal points organized this event, which engaged high participation from the Beninese private and public sectors.

Multilateral Peer Learning Event—PPPs for Infrastructure Investment

Held June 29, 2022, over 90 participants from CwA countries attended this event, as well as institutions supporting CwA (for example, ACET, IMF, AfDB, World Bank Group, France, and

European Commission). The event discussed the right conditions for catalytic PPPs in developing countries. Key messages included:

- Governments must prioritize which projects require PPPs, as some sectors are better suited than others. This requires a deliberate effort to align project selection with national priorities and an understanding of the value addition of a PPP against other alternatives.
- Countries are encouraged to take time to plan well during the early-stage design of PPPs.
- Contracts must be mutually beneficial for both the government and private sector.
- As owners of these projects, governments must ensure they emphasize the right ones—those that are sustainable, bring economic growth and job creation, and empower local communities. To do so, they must plan for maintenance so future generations can benefit.

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- Speakers**
- Mavis Owusu-Gyamfi, Executive Vice President, ACET
 - Danang Parikesit, T-20 Lead Co-Chair, Indonesia
 - Frank Schneider, Acting Head of Division, Development Finance, German Ministry of Finance
 - Sandile Dube, Director, G20, International and Regional Economic Policy Division, National Treasury, Gov. South Africa
 - Nathan Ronoh Tuimising, Senior PPP Specialist, International Practice Group PPP, World Bank Nairobi Country Office
 - Alice Usanase, Acting Head, Country Relations, Africa Finance Corporation
 - Eunice Ajambo, Economist, United Nations Namibia
 - Ibrah Wahabou, Lead, Infrastructure and Connectivity Unit, Economic Integration Division, African Union Development Agency-New Partnership for Africa's Development

Moderators

- Freda Yawson, Senior Manager, Infrastructure and Innovation, ACET
- Vincent Palmade, Lead Economist, World Bank

Recording [Link](#) to access the recording.

Multilateral Peer Learning Event—Reform Delivery: Lessons on Implementation

Over the years, countries developed reform matrices supporting the three pillars of the CwA—macroeconomic, business, and financing frameworks. The implementation of reforms is complex for all countries, requiring alignment with national priorities; coordination across multiple stakeholders in government, private sector, development partners, and civil society; and monitoring. Held July 19, 2022, 76 participants from CwA countries attended this learning event, as well as institutions supporting CwA (for example, ACET, IMF, AfDB, World Bank Group, France, and European Commission). The event facilitated discussion on existing reform delivery processes and how the CwA program can add value.

CwA countries highlighted impressive reforms over the last few years. Given this record of accomplishment, they shared key insights that aligned with success factors highlighted by the

reform delivery experts. Examples discussed included getting commitment from the top of government to reforms; prioritizing and embedding reforms in the country’s economic development plan; having high-level coordination mechanisms, such as committees, dedicated ministries and agencies, and dedicated leadership; engaging stakeholders; and monitoring and accountability. The countries discussed the value-added proposition of the CwA, which they later reflected in written feedback to the G20 CwA co-chairs.

Speakers	<ul style="list-style-type: none"> • Edward Brown, Senior Director, Research and Policy Engagements, ACET • Sandile Dube, Director, G20 International and Regional Economic Policy Division, National Treasury, government of South Africa • Sylvia Solf, Senior Private Sector Specialist, World Bank • Gennate Hassad, Associate Partner, McKinsey & Company • Stephen Poole, Government Expert, Associate Consultant (Foreign, Commonwealth and Development Office) • Frank Schneider, Acting Head of Division, Development Finance, German Ministry of Finance • Interventions from government representatives from Benin, Burkina Faso, Côte d’Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Togo, and Tunisia.
	<p><i>Moderators</i></p> <ul style="list-style-type: none"> • Freda Yawson, Senior Manager, Infrastructure and Innovation, ACET • Vincent Palmade, Lead Economist, World Bank

Evaluation	The webinar met respondents’ expectations and offered new perspectives and insights. The country roundtable and discussion were identified as the most beneficial by 75 percent of respondents.
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Recording	Link to access the recording.
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This event was inspired by bilateral exchanges between Tunisia and other CwA countries. The government of Tunisia and the Tunisian CwA MDTF Program Manager presented its “model” on a demand basis to the governments of Benin (June 28, 2022), Côte d’Ivoire (July 2022), Egypt (December 15, 2021), Rwanda (March 8, 2022), and Togo (April 19, 2022). During these exchanges, the countries wanted to better understand how they can further benefit from the CwA by comprehending the Tunisia CwA MDTF established to support the policy matrix and supported projects and reforms. Topics included supporting the setup of the Project Development Fund for PPP pipeline preparation and supporting the IT platform for monitoring policy reform matrices. Because of these meetings, countries expressed a renewed interest in benefiting from technical assistance to help them better identify and implement reform priorities and mobilize and coordinate development partners.

Multilateral Peer Learning Event—Investment Promotion: Lessons on Implementation
 Held September 29, 2022, this event facilitated discussion on country investment promotion strategies and processes and how the CwA can support individual needs. This session focused on

the agriculture, services, and tourism sectors. Over 50 participants from CwA countries attended, namely investment promotion institutions and organizations supporting the CwA (for example, ACET, IMF, AfDB, World Bank Group, and GIZ). Key messages included:

- Investment promotion operates in a multistakeholder ecosystem where agencies are one component that increases the attractiveness of an investment destination.
- Three pillars help investment promotion agencies achieve development impact anchored in a clear national development plan: strategic alignment and focus, coherent institutional framework, and strong investor service delivery, including advocacy.
- Investor advocacy requires high-level government support, private sector participation, and national and subnational collaboration.
- *What has worked well in the investment promotion process?*
 - A combination of reforms, infrastructure, and strategic sectoral studies is at the heart of a successful investment promotion strategy.
 - Most countries do not differentiate between domestic and foreign investors with their investment policies.
 - Countries use a combination of a multisectoral and targeted approach for investment promotion communication activities.
- The CwA can support the countries' investment promotion efforts through a combination of targeted technical assistance and enhanced access to G20 investors.

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- Speakers**
- Charles Odoom, Head Private Sector Development Program, ACET
 - Frank Schneider, Acting Head of Division, Development Finance, German Ministry of Finance
 - Denise Lubbe, Director G20, International Financial Architecture, National Treasury, Government of South Africa
 - Adolfo Taylhardat, Sr. Investment Promotion Expert, World Bank
 - Interventions from government representatives from: Benin, Ethiopia, Morocco, Togo, and Tunisia.

Moderators

- Freda Yawson, Senior Manager, Infrastructure and Innovation, ACET
- Vincent Palmade, Lead Economist, World Bank

Evaluation The webinar met the respondents' expectations and offered new perspectives and insights. The country roundtable and discussion were identified as the most beneficial by 87.5 percent of respondents.

CwA In-Person Workshop: Opportunités d’investir au Bénin et Outils Publics de Financement des Entreprises

Held October 18, 2022, this workshop shared with Benin’s private sector the revenues of the CwA for a dynamic and competitive business climate and presented opportunities to invest in Benin. The audience included Benin’s private sector ecosystem, including large, medium, and small companies and startups. In addition, the public sector was represented by representatives of state structures in charge of promoting the private sector. All international organizations and other technical and financial partner members of the CwA attended. Key messages included:

- The CwA aims to promote private investment and strengthen the private sector’s contribution to economic development.
- Clarification that any country maintaining economic stability can attract private investment. This implies the need to enact mechanisms for protecting investors, reducing risks, and designing the best regulations in favor of improving the business climate.
- The CwA aligns with the Benin government’s vision to promote the private sector. Efforts continue to create an environment conducive to the emergence of a strong, resilient private sector that drives economic growth.
- The World Bank’s diagnostics and programs identify and operationalize opportunities for increased private sector participation in Benin’s economy and continue to support reforms on the macroeconomic, financial, and business fronts.

The CwA team acknowledges the feedback received from Benin, that is, the request for technical assistance to operationalize reforms and engage the private sector.

Speakers	<ul style="list-style-type: none"> • Raymond Adjakpa, Secretary General of the Chamber of Commerce and Industry of Benin • Kaliza Karuretwa, Senior Private Sector Specialist, Africa Region, World Bank • Frank Schneider, Acting Head of Division, Development Finance, German Ministry of Finance • Adidjatou Hassan African Zanouvi, Deputy Chief of Staff, representing the Minister of Economy and Finance • Vincent Palmade, Lead Economist, World Bank • Alexandre Henry, Economist, Africa Region, World Bank • Ilyas Sina, Technical adviser for monitoring reforms, Ministry of Finance, Benin
Evaluation	Participants reached out to the Ministry of Finance for congratulations on the event, and most participants did not leave until it closed. An official evaluation has not yet been realized.
Read more	The event was covered by the press: Matin Libre , Le Nouveau Manager , and 24 Heures au Benin .

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APPENDIXES

Appendix A. Recent Reforms and Challenges Delaying Private Investment

Country	Recent Reforms Related to Jobs and Economic Transformation and Private Sector Development	Top Challenges Highlighted by IFC in Reform Implementation
Benin	<ul style="list-style-type: none"> • Broadening of the tax base • PPD to reinforce competitiveness and develop actions plans for four priority agriculture value chains • Creation of an SME development agency to rationalize the entrepreneurship ecosystem • Implementation of a zoning system and electronic registration of land titles 	<ul style="list-style-type: none"> • Small transactions, lack of sponsors, and issues with Integrity Due Diligence/Politically Exposed Persons • Governance issues: lack of clear regulations, coordination, sectoral policies, and transparency
Burkina Faso	<ul style="list-style-type: none"> • Revision of the legal and institutional framework for PPPs • Reduction of the time and cost for setting up a business • Creation of an agriculture bank, SME bank, and deposit and consignments fund 	<ul style="list-style-type: none"> • Lack of support from strong government champion • Lack of capacity in reform implementation • Arbitrage made by local authorities due to insecurity is detrimental to implementing key reforms
Côte d'Ivoire	<ul style="list-style-type: none"> • Finance feasibility studies of major and priority projects • Operationalization of the one-stop shop for cross-border and foreign trade • Creation of a guarantee fund for SMEs 	<ul style="list-style-type: none"> • Lack of coordination • Lack of support of government champion in reform implementation • Capacity building for reform implementation • Pressure from lobbies with vested interests
Egypt	<ul style="list-style-type: none"> • Acceleration of tendering and contracting procedures for PPPs • Diversifying the debt portfolio and improving domestic market liquidity to extend debt maturity beyond five years by 2025 • A new state ownership policy issued for consultation in June 2022 	<ul style="list-style-type: none"> • Competition and the role of the state: prevalence of SOEs and SOBs and government involvement in projects • Export competitiveness • Enabling environment for private participation in infrastructure

Country	Recent Reforms Related to Jobs and Economic Transformation and Private Sector Development	Top Challenges Highlighted by IFC in Reform Implementation
Ethiopia	<ul style="list-style-type: none"> • Introduction of a comprehensive legal regime that governs PPPs and favoring the use of standard clauses • Revision of commercial code, investment law, and business service delivery • Removal of 27 percent rule and issuance of government Treasury bills 	<ul style="list-style-type: none"> • Capacity building for reform implementation institutions (Federal and sub-national agencies) • Capacity building for SOE portfolio management to support SOE privatization commitment
Ghana	<ul style="list-style-type: none"> • Enaction and operationalization of the PPP Law • Creation of a repository of business and investment laws • Development of de-risking instrument to leverage private investment in renewable energy, energy efficiency, and agricultural lending 	<ul style="list-style-type: none"> • Impacts of macroeconomic shock on investments • Implementation challenges for reforms
Guinea	<ul style="list-style-type: none"> • Operationalization of the PPP cell • Promotion and dematerialization of business creation at the one-stop shop • Implementation of the Financial Inclusion Strategy 	<ul style="list-style-type: none"> • Lack of strong government champion • Lack of capacity in reform implementation • Arbitrage of local authorities due to insecurity, which deters implementing key reforms
Morocco	<ul style="list-style-type: none"> • PPP Framework brought in line with EU practices, and revamping of Investment Charter (for FDI) • Creation of a state holding agency to reform the SOE sector • Strengthening and diversifying financing instruments for SMEs, startups, and innovative companies • Digitalization of public procurement processes through the establishment of a central government digital platform 	<ul style="list-style-type: none"> • PPP reform • Clean energy access to corporates to reduce electricity generation costs • Reforms to widen application of business-to-business and corporate power purchase agreements to industrial zones and medium-voltage clients
Rwanda	<ul style="list-style-type: none"> • Establishment of a swap with commercial banks to ensure availability of foreign exchange when necessary • Operationalization of the affordable housing scheme • Feasibility study to inform policy on industrial parks 	<ul style="list-style-type: none"> • Upgrade of PPP policy • Capacity building for government in identification of priority PPPs, feasibility studies, and capacity to negotiate and supervise

Country	Recent Reforms Related to Jobs and Economic Transformation and Private Sector Development	Top Challenges Highlighted by IFC in Reform Implementation
Senegal	<ul style="list-style-type: none"> • Creation of a facility to finance preparatory studies for PPPs • Simplification of land registration and transfer of ownership and construction permits • Operationalization of the electronic company and Moveable Credit Registry 	<ul style="list-style-type: none"> • Reform implementation • Capacity building for government to implement reforms
Togo	<ul style="list-style-type: none"> • Improvement of public investment procedures guiding the development and implementation of PPP projects • Adoption of the new land code and its implementation • Operationalization of the Investment Promotion Agency as a one-stop shop for investment • Elaboration of a policy and national strategy for investments 	<ul style="list-style-type: none"> • Small transactions, lack of sponsors, and issues with Integrity Due Diligence/Politically Exposed Persons • Governance issues: lack of clear regulations, coordination, sectoral policies, transparency
Tunisia	<ul style="list-style-type: none"> • Digitalization of tax procedures • Establishment of a Project Preparation Facility to improve support and a mechanism to finance feasibility studies to activate the initiation of PPPs • Making available collateral-free credits to SMEs by strengthening public guarantee funds • Abolishment of certain business licenses in low-risk sectors 	<ul style="list-style-type: none"> • Improvement in investment climate • Improvement in public service delivery to businesses • Ease of FDI restrictions • Modernization of foreign exchange regulation • Ease of registering and perfecting security (movable and immovable assets for international investors and lenders)

Appendix B. World Bank Group Engagements in Compact with Africa Countries

Country	Country Private Sector Diagnostic	Country Climate Development Report	Jobs Diagnostic and Analysis	Recent Lending (Project Number)	Examples of IFC Recent Investments
Benin	Being finalized	Scheduled for FY24		P174008	Risk-sharing facility to support MSME finance through a local bank
Burkina Faso	Completed	Completed (G5 Sahel)		P177005	Cleaner Energy Solutions (with Sodigaz) Trade Finance for Businesses in West Africa (with Vista Bank)
Côte d'Ivoire	Completed	Ongoing	Jobs diagnostic completed (2017)	P172425	Textile value chain (with Compagnie Ivoirienne pour le Développement des Textile & Compagnie Ivoirienne de coton)
Egypt	Completed	Completed	Jobs Undone (regional report 2022)	P171311	Healthcare value chains (with IDH) Clean energy and green infrastructure Green financing Clean technology, resource efficiency, and green buildings MSME startups and entrepreneurship
Ethiopia	Completed	Scheduled for FY24		P171034	Digital infrastructure—Ethiopia's Telecom Liberalization
Ghana	Completed	Completed		P166539	Solar energy in Ghana with LMI Holdings Ltd
Guinea	Completed			P164184	Trade finance for businesses in West Africa (with Vista Bank)
Morocco	Completed	Completed	Jobs Undone (regional report 2022)	P167894	Sustainable food value chain system across Africa (availability of fertilizers) (with OCP Group) Gender diversity

Country	Country Private Sector Diagnostic	Country Climate Development Report	Jobs Diagnostic and Analysis	Recent Lending (Project Number)	Examples of IFC Recent Investments
Morocco, continued	Completed	Completed	Jobs Undone (regional report 2022)	P167894	Secured transactions and collateral Registry to secured financial inclusion and access to finance, particularly for SMEs, micro enterprises, and women entrepreneurs Startups and entrepreneurship
Rwanda	Completed	Completed	Jobs diagnostic analysis for poverty assessment (2020)	P173373	Trade facility for women (with Bank of Kigali) Affordable housing Refinancing of 3B Hotels
Senegal	Completed		Jobs diagnostic analysis for Country Economic Memorandum	P174757	Sustainable production of beverages for West and Central Africa (with IBS)
Togo	Being finalized	Scheduled for FY24	Jobs diagnostic completed (2021)	P177317	LPG storage terminals (with Zener) Digitalization (Csquared R13)
Tunisia	Being finalized	Ongoing	Jobs Undone (regional report 2022)	P132381	MSME financing Olive oil production and exports (with CHO Group) Date supply chain development (with VACPA)

Appendix C. Policies and Institutions to Support Firm Productivity and Growth

	Policy Levers	Policy Instruments
Business Environment	<ul style="list-style-type: none"> • Regulation along the firm’s life cycle • Sector-specific regulation, including in digital economy • Trade and competition policy • Contract enforcement • Tax policy and regulations • Enabling provision of transport, energy, digital, and business support infrastructure (direct or through PPP) 	<ul style="list-style-type: none"> • Investment climate-related regulatory development and reform • Digitally enabled government-to-business and business-to-government services • Business establishment and business closure policy settings • Business support infrastructure (business and STI parks, logistic centers, markets), environmental infrastructure (for example, effluent treatment plants) • Accessible and affordable broadband • Land title reform and management • Provision of essential infrastructure services, including power, transport, digital infrastructure, water, and waste
Firm Capabilities	<ul style="list-style-type: none"> • Building managerial and entrepreneurial capabilities • Adoption of productivity enhancing technologies • Product development, innovation • Access to soft infrastructure (labor, talent, and services) • Building entrepreneurship ecosystems 	<ul style="list-style-type: none"> • Support services and infrastructure, incubators and accelerators, technology centers, common use facilities, toolrooms, regional SME Centers, technology transfer and internet protocol (from research or university) • Innovation support (funding), R&D grants, new equipment grants, R&D tax incentives and technology incentives (for example, accelerated depreciation) • Business and managerial training; firm-level advisory; firm level training and advisory; entrepreneurship advice (for example, through accelerators and incubators); technology awareness and upgrading advice through technology, extension, management improvement (through business development services) • Links (through clusters and networks) • Firm-specific workforce skills development (short or long courses), private training development, Technical and Vocational Education and Training reform, industry placements

	Policy Levers	Policy Instruments
Market Access	<ul style="list-style-type: none"> • Supplier and exporter development • GVC participation, links to multinational corporations • Export development • National Quality Infrastructure and standard compliance • Public procurement 	<ul style="list-style-type: none"> • Supplier development, linking SMEs to larger “lead” firms, knowledge of domestic and export markets, inclusion in SME networks, clusters, cooperatives, and PPDs • GVC participation, access to domestic, regional and export markets, industrial competitiveness of high potential sub sectors • National Quality Infrastructure standards, support structures for example, technology centers • Export development programs for SMEs, access to information on regulation and quality standards in target markets, trade facilitation, trade and border procedure reform, direct and indirect costs for SMEs • Reform of government procurement processes, e-procurement, training and capacity building for SMEs and procurement officials
Access to Finance	<ul style="list-style-type: none"> • Improving credit infrastructure • Supporting digitization of payments • Financial law and regulation reform • Creating facilitative environment for financial innovation • Credit enhancement programs – partial credit guarantee funds • Facilitating access to capital markets of non-banks and SMEs • Early-stage risk financing for SMEs • Financial literacy 	<ul style="list-style-type: none"> • Reform of credit information regulatory framework • E-invoicing recognition and expansion • Payment system reforms to facilitate uptake and (SME) merchant acceptance of card payments • Introduction of modern secured transaction law and creation of online security registry • Partial credit guarantee schemes based on good practices • Regulatory support for innovative providers (fintech) • Regulation of investment-based crowdfunding platforms • Wholesale lending facilities for qualifying non-banks • Tier (risk)-based regulation of microfinance activities • Matching grants for seed or venture capital investments in startups • Review of laws and regulations to facilitate online accounts receivable finance (factoring), financial leasing, supply chain financing, pre- and post-harvest finance • Financial education programs

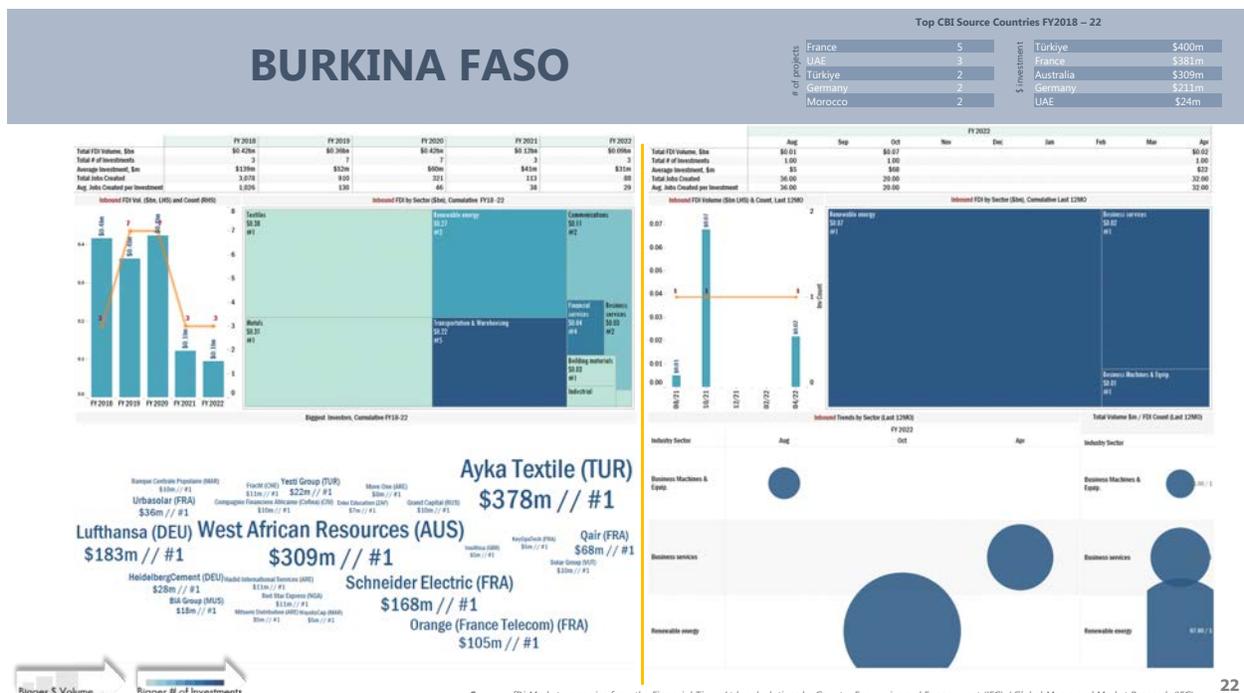
	Policy Levers	Policy Instruments
Institutional Framework	<ul style="list-style-type: none"> • Integrated SME strategies, policy mix commensurate with SME challenges • Policy design and implementation capabilities • Monitoring and evaluation, including impact assessments • Coordination mechanisms (public-public and public-private) 	<ul style="list-style-type: none"> • Development of evidence-based SME, entrepreneurship, and industry strategies • Development and reform of SME laws and startup laws • Establishment and reform of SME-related agencies (SME, innovation, regional development, entrepreneurship, and export) • Regulatory impact regimes • SME data and statistics collection and analysis capacity • Voice of SME (SME ombudsman), PPP arrangements

Source: World Bank 2021.

Appendix D. Foreign Direct Investment Snapshots for Compact with Africa Countries



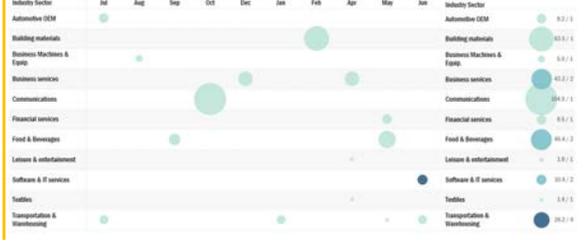
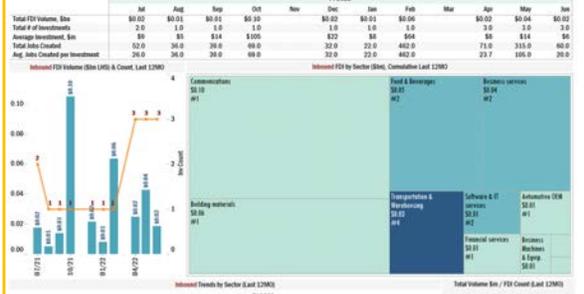
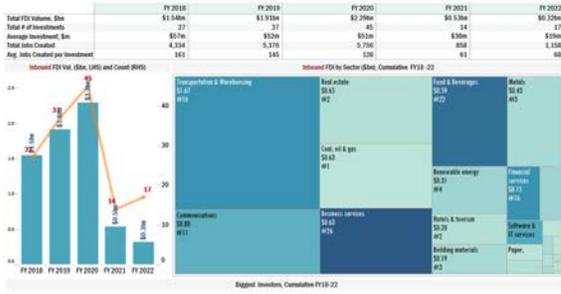
Source: [DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (IFC) / Global Macro and Market Research (IFC)



Source: [DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (IFC) / Global Macro and Market Research (IFC)

COTE D'IVOIRE

# of projects	\$ investment
France	\$1,931m
Japan	\$750m
Morocco	\$705m
Belgium	\$425m
Tunisia	\$337m
United Kingdom	\$705m
Cayman Islands	\$425m
Switzerland	\$337m

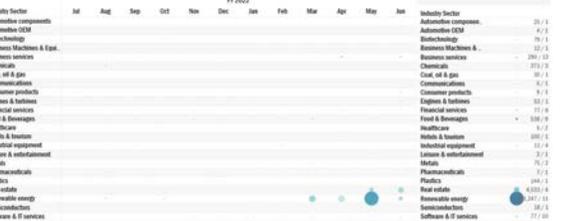
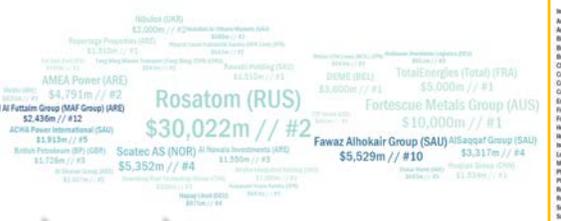


Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

EGYPT

# of projects	\$ investment
UAE	\$30,324m
Saudi Arabia	\$14,497m
United States	\$14,497m
Germany	\$10,002m
United Kingdom	\$6,246m
Russia	\$30,324m
UAE	\$14,497m
Saudi Arabia	\$14,497m
Australia	\$10,002m
France	\$6,246m



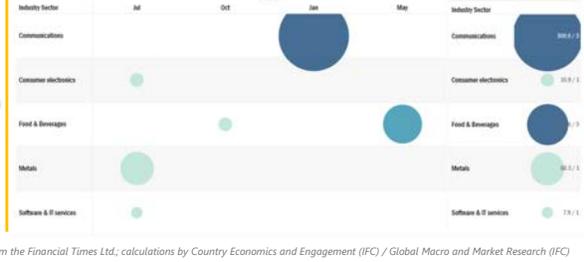
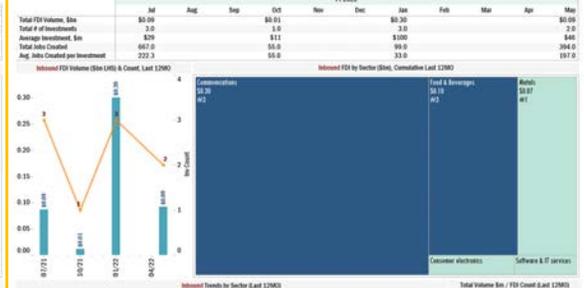
Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

ETHIOPIA

Top CBI Source Countries FY2018 – 22

# of projects	Investment
China	10
United Kingdom	10
France	9
United States	8
UAE	7
United States	\$4521m
UAE	\$1313m
China	\$625m
United Kingdom	\$546m
Saudi Arabia	\$455m

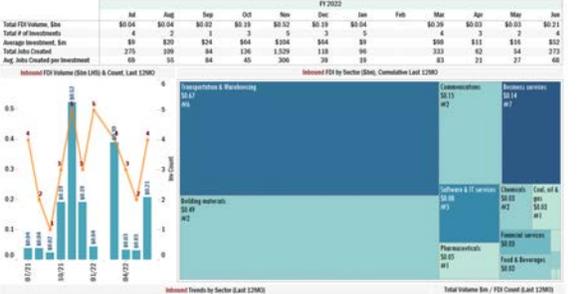


Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

GHANA

Top CBI Source Countries FY2018 – 22

# of projects	Investment
United States	26
Nigeria	22
Germany	15
United Kingdom	15
China	14
Sweden	\$2800m
United States	\$1,057m
China	\$742m
Morocco	\$727m
United Kingdom	\$709m

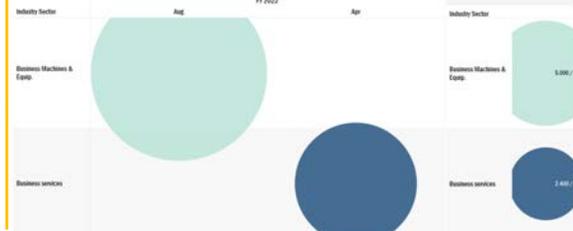
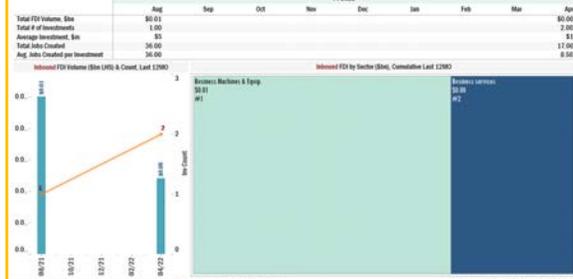


Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

GUINEA

Top CBI Source Countries FY2018 – 22

# of projects	China	7	China	\$4,226m
	Cote d'Ivoire	4	Switzerland	\$1,390m
	Germany	3	Germany	\$519m
	UAE	2	France	\$105m
	Switzerland	2	Belgium	\$100m



Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (IFC) / Global Macro and Market Research (IFC)

MOROCCO

Top CBI Source Countries FY2018 – 22

# of projects	France	80	Luxembourg	\$10,400m
	Spain <td>39 <td>France <td>\$3,754m</td> </td></td>	39 <td>France <td>\$3,754m</td> </td>	France <td>\$3,754m</td>	\$3,754m
	United States <td>37 <td>United Kingdom</td> <td>\$1,390m</td> </td>	37 <td>United Kingdom</td> <td>\$1,390m</td>	United Kingdom	\$1,390m
	Switzerland <td>28 <td>United States</td> <td>\$1,230m</td> </td>	28 <td>United States</td> <td>\$1,230m</td>	United States	\$1,230m
	Germany <td>23 <td>Spain</td> <td>\$1,177m</td> </td>	23 <td>Spain</td> <td>\$1,177m</td>	Spain	\$1,177m



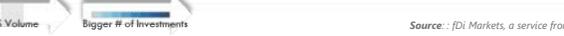
Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (IFC) / Global Macro and Market Research (IFC)

RWANDA

Top CBI Source Countries FY2018 – 22

# of projects	United States	7	United States	\$533m
	UAE	5	China	\$406m
	Switzerland	4	Germany	\$335m
	Germany	4	UAE	\$263m
	China	3	Netherlands	\$123m



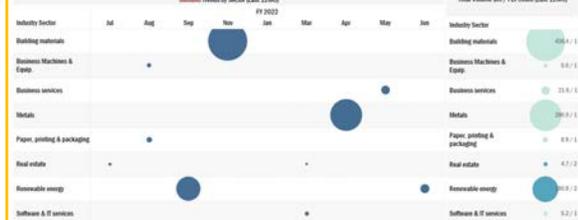
Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

SENEGAL

Top CBI Source Countries FY2018 – 22

# of projects	France	19	France	\$842m
	UAE	6	Turkiye	\$773m
	Germany	6	Morocco	\$530m
	Switzerland	4	United Kingdom	\$290m
	Morocco	4	China	\$287m



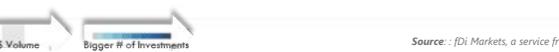
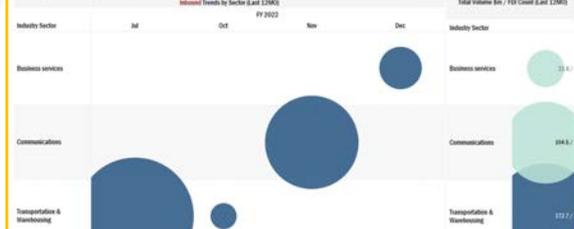
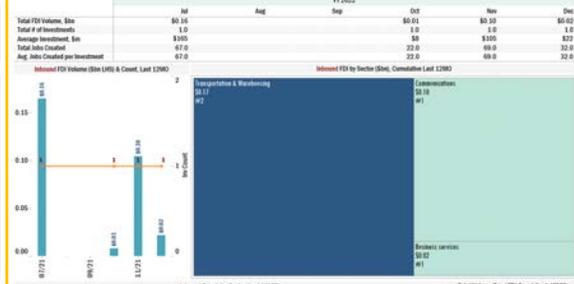
Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

TOGO

Top CBI Source Countries FY2018 – 22

# of projects	France	6	Nigeria	\$2,065m
	Germany	4	Kenya	\$165m
	Nigeria	3	UAE	\$143m
	UAE	3	Mauritius	\$105m
	Denmark	2		



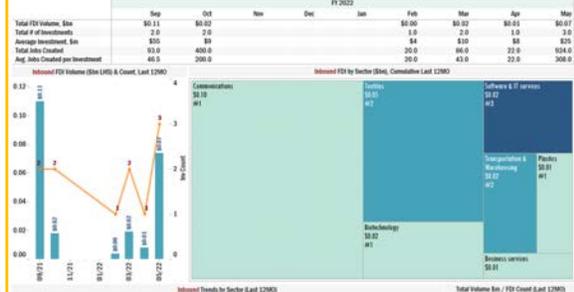
Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)

TUNISIA

Top CBI Source Countries FY2018 – 22

# of projects	France	14	Germany	\$778m
	Germany <td>11 <td>Norway <td>\$465m </td></td></td>	11 <td>Norway <td>\$465m </td></td>	Norway <td>\$465m </td>	\$465m
	Italy <td>6 <td>France <td>\$418m </td></td></td>	6 <td>France <td>\$418m </td></td>	France <td>\$418m </td>	\$418m
	United States <td>5 <td>Spain <td>\$398m </td></td></td>	5 <td>Spain <td>\$398m </td></td>	Spain <td>\$398m </td>	\$398m
	Spain <td>5 <td>United Kingdom <td>\$285m </td></td></td>	5 <td>United Kingdom <td>\$285m </td></td>	United Kingdom <td>\$285m </td>	\$285m



Bigger \$ Volume → Bigger # of Investments

Source: |DI Markets, a service from the Financial Times Ltd.; calculations by Country Economics and Engagement (ICE) / Global Macro and Market Research (IFC)



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