# G20 Compact with Africa: Independent Review – October 2019
# Prepared by the African Center for Economic Transformation (ACET)

This note is intended to complement the assessment of progress under the Compact with Africa (CwA), particularly cross border flows, engagement of Development Finance Institutions (DFIs) and the roles and responsibilities of the International Organizations (IOs).

**The CwA Context:** Since its launch in March 2017, CwA has become a well-established G20 flagship initiative. This is reinforced by the commitment of four G20 Presidencies since 2017 to maintain its prominence. Likewise, there have been more than fifty CwA or CwA-related events in nearly twenty countries, including in nine African countries. These have included investment and trade promotion events, governance meetings, Heads of State and Ministerial summits, and peer learning events.

Finally, the CwA displays growing ownership by nearly all stakeholders. For example, the July workshop on diversification and growth included most CwA countries, as well as G20 representatives and the three IOs. The September peer learning event on blended finance included ten of twelve CwA countries, the IOs and representatives of the G20. While there are numerous challenges remaining for full implementation, on the whole it has evolved as an important initiative to support investment in Africa.

**The Role of DFIs:** The DFI survey and the DFI Action Plan developed by the AfDB are welcome support mechanisms. The recommendations strongly reinforce the July 2019 OECD report "*Blended Finance in the Least Developed Countries 2019*" emphasized that "blended finance solutions should respect national ownership, be aligned with national priorities, and applied as part of a broader national SDG financing strategy…". Likewise, the DFI Action Plan is well aligned with research recently undertaken for the September 12 CwA peer learning event in Abidjan. That research, which was coordinated by ACET, was entitled *"Strengthening the Local Dimension of Blended Finance: A review of the local approaches and instruments employed by Development Finance Organizations (DFOs)*". The report assessed how development finance organizations are adapting to local country conditions and identified numerous areas where DFOs can do more to provide financing in developing countries.

While the DFI Action plan recommendations should be endorsed by all parties, the sentiment that CwA countries should be more active and transparent about their needs can be emphasized more strongly. We also believe that additional country case studies may be useful in identifying and sharing good practices. We suggest that all CwA country teams agree to include local DFI representatives, which would be going beyond "increasing in-country coordination" in recommendation #1. Finally, for future DFI Action Plans it may be useful to explore how DFIs can increase investment by adjusting risk perceptions, hence increasing the pool of "bankable" projects.

**Cross Border Flows**: Linking CwA country programs to the Country Private Sector Diagnostics (CPSDs) is welcomed and will provide a stronger framework for policy implementation. It is also heartening to see that CPSDs have been completed or are underway in 10 out of the 12 Compact countries. It is noted that global FDI flows were down 13 percent in 2018, the third consecutive year of decline, but FDI volumes to

CwA countries have remained stable. Likewise, FDI stock to CwA countries have a higher rate of FDI accumulation than the rest of Africa. While causal linkages are difficult to determine, the strong Doing Business reform actions in CwA countries are quite encouraging.

Given the increasing role of Emerging Markets as the source of CBI announcements, it is recommended that more be done through the G20 AAG and bilaterally to encourage all G20 members to contribute more fully, especially those responsible for large CBI announcements that have not been proactive in the CwA initiative thus far. The Saudi Arabian G20 Presidency could offer a good opportunity.

For future editions of "*Trends in FDI and Cross-Border Investments in Compact with Africa Countries"* it may be helpful to provide a more detailed breakdown of the proportion of FDI inflows as a percentage of GDP for all CwA countries. Likewise, additional analysis that shows comparisons with non-CwA countries of similar size or market structure, or a matching sample, will help to address the selection bias challenge. The job creation data in the Country Dashboards is insightful, and given the critical need for job creation in most CwA countries, additional research on investment related employment may prove useful in helping CwA countries prioritize investments. This could also be linked to the Development Committee emphasis on investment and employment.

**Roles of International Organizations**: The agreement of task profiles is a further indication of the initiative's sustainability and ownership. The focus on priority sectors will help to collectively achieve quick wins and strengthen country ownership. The task profiles, and particularly the role of the World Bank Group, will assist each country in making best use of the CwA. Likewise, the note on "*Leveraging the World Bank Group's Country Private Sector Diagnostics for Compact with Africa Quick Wins*" provides a useful enhanced framework for prioritizing support. For the African Development Bank, the Africa Investment Forum (AIF) is emerging as a primary opportunity to overcome investment bottlenecks and move towards financial close on flagship investments. It will be important to keep a CwA "lens" during selection of AIF projects and invitees. The IMF should continue to advance its work in support of the macroeconomic and financial pillars across all 12 Compact countries, 10 of which currently have in place an IMF-supported program. It would be advantageous to further increase capacity development support from the IOs, including through an expanded role for IMF regional technical assistance centers.

**Continued Improvements**: In some ways the CwA is well established, while in other ways it continues to evolve. Numerous issues addressed during the April 2019 AAG remain important for the success of the CwA. These include full operationalization of the Compact Teams, greater public-private dialogue at the country level, mutual accountability – including strengthened ownership by CwA countries and more focused investment promotion by G20 countries, inclusion of regional integration and capacity building considerations, and a stronger appreciation of the unique CwA model, which differs significantly from a direct relationship between reforms and finance.

Finally, it is critical to quickly provide clarity on areas (sector/country) of focus, while also ensuring that all CwA countries benefit appropriately. The German Reform Partnership is focused on six countries, while the DFIs – as outlined in the DFI Action Plan – are focused in most cases on a subset of countries. The IO engagement varies depending on lending volumes, size of local offices, and presence of IO programs, while the new World Bank framework, as indicated above, will focus on a limited number of countries. And as outlined in the Trends in FDI report a few CwA countries benefit from the vast majority of investment, hence it is important to ensure adequate support to those CwA countries receiving less investment.