

G20 Compact with Africa: Independent Review – October 2020

Prepared by the African Center for Economic Transformation (ACET)

This note is intended to complement the “CWA Private Sector Investment Report” for the October 27, 2020 G20 Africa Advisory Group Meeting.

Introduction: The past few months have been challenging for all African countries as they manage the impact of the pandemic. One year ago the AAG was informed that FDI to CwA countries reached \$21 billion or around 46% of total FDI flows to the continent. Likewise, total FDI stock to CwA countries reached \$295 billion, a 34% increase over a five year period, compared with a 21% increase for the rest of the Africa, signaling higher rates of FDI accumulation in Compact countries.

It is extraordinary, that while global trade and investment largely came to a halt by March 2020, inbound investment in CwA countries over the last 12 months remained strong, with growth at 5% y/y, vs. a 28% drop for the rest of Africa. Of course the precipitous declines in 2020 Q1 and Q2 are not surprising. The Business Pulse Survey and the Survey of Foreign Investors/Multinational Enterprises (MNEs) were welcome additions to the Investment Report, as are the sector snapshots – providing additional perspectives during uncertain times.

It was also positive to see increased diversification in countries of origin, countries receiving CBI and sectors receiving investment. For example, more investment announcements in renewable energy, chemicals, automotive and packaging points to structural transformation of key productive sectors; while a significant increases in volume of investments to smaller economies over the past two years emphasizes the importance of CwA policy reforms across economy sizes. Finally, diversification of countries of origin is also welcomed, with countries such as Saudi Arabia, France, Sweden, Germany, Switzerland and Japan increasing investment.

Economic Rebound in CwA countries: It is heartening to see the Investment Report emphasize that “analysis shows indications that the previous efforts focused on improving the business environment have helped CWA countries better weather the storm... The economic slowdown in CWA countries is forecasted to be less severe than many other emerging markets and developing economies”. Given the impact is likely to be less severe, we support the IO position that countries should calibrate policy responses now focusing on energizing investment and creating markets. This echoes our message in the May 2020 Review Note that it is imperative for CwA countries to undertake needed reforms to ensure a strong economic rebound. The World Bank *Africa’s Pulse* (October 2020) indicates that as the continent starts its economic recovery, sub-Saharan Africa’s real GDP is projected to increase to 2.1 percent in 2021. This will be welcomed, but will still be below the 2.4 percent rate achieved in 2019 and below population growth. Given their strong growth and increasing investment prior to the pandemic, CwA countries are in a unique position to aggressively pursue additional reforms to ensure rapid economic transformation.

The initial CwA matrices identified more than 100 policy actions, many of which have been enacted, or are in process, but many others remain. Priority should be on those that will accelerate investment, jobs and economic transformation. CwA countries should also leverage the Country Private Sector Diagnostics (CPSDs) which are now complete for nearly all twelve members. The CPSD policy reform recommendations can be

particularly helpful as countries need to take a more focused approach to the reform agenda given fiscal space and debt challenges created by the pandemic.

We support recommendations in the Investment Report, particularly to unblock private investment, conserve fiscal resources by crowding in the private sector, and support opportunities from digital. On the part of the G20 countries, enhanced investment promotion is more important than ever. While many corporates from G20 countries are in dire condition, others have continued sustainable operations and those in some sectors are thriving, particularly in healthcare, information technology and consumer staples.

The CwA as a Sustainable Initiative: Over the past weeks, members of the CwA Advisory Panel undertook a limited number of interviews with senior official in select CwA countries prior to the AAG to gauge understanding and perceptions of the initiative. Generally it was found that the CwA is still not well known and its value added is not fully appreciated. In some cases, the CwA lack of profile was contrasted with the high profile efforts on individual G20 members. The interviews found that complementarity between CwA related reforms and other reform frameworks is not always clear, although earlier interviews for the October 2019 Review Note emphasized that in some CwA countries, the policy matrices serve as an organizing mechanism for donor coordination. There may be significant value in ensuring greater engagement between the Compact Teams and national COVID-19 task forces, the Africa Chief Economist of Government (CEOG) Network, and other high level stakeholders within CwA governments.

In some countries, officials indicated the perceived need for additional financing and technical assistance for particular reforms, for example for TVET, land reform, labor legislation, SME finance, and debt management. Lastly, the perception continues that there is limited engagement by government and development partners with the private sector in the context of CwA. Given COVID-19 restrictions this may be understandable, but similar feedback was provided previously as well.

One year ago, in the Review Note, we emphasized the need for enhanced collaboration at the country level and identified this as a fundamental challenge to the CwA initiative. When safe to do so, we strongly encourage a resumption of Compact Team meetings; and it would be beneficial for the AAG to receive an update on the “platforms for enhanced collaboration”, the “quicks wins action plans” and the Reform Partnership Framework. We also urge other multilaterals and additional G20 members to define additional, specific, and monitorable CwA support programs. In particular we encourage those G20 countries with the largest cross-border investments - Saudi Arabia, China, France, Germany and Japan - to increase the profile of CwA related activities and investments. As was noted in our October 2019 note, enhanced CwA communications and outreach is needed in general.

The pandemic is challenging in all ways, including for the CwA as a sustainable initiative, but it has benefitted from strong championship and support through four G20 presidencies as a “legacy initiative”. We commend Saudi Arabia for promoting the Compact with Africa, including, for example, through the Think 20 (T20) Engagement Group; and hope for a strong Africa-focused and CwA-supported Italian G20 Presidency in 2021.

Conclusion: The investment trends from the last two quarters of 2019 were highly encouraging, but rebounding from the pandemic will be a long and difficult road. Good, transformative policies will help in that journey, particularly improving the business and investment environment. Countries should return to the CwA policy matrices and prioritize outstanding reforms for implementation in the near term. The sustainability of the initiative will depend, in part, on continued strong ownership by the G20 Presidency, enhanced support from the G20 countries and IOs, and an overall heightened profile for the initiative.