Afrikapost
aktuell

One Year *Compact with Africa*
Aspirations and Reality

Sabine Odhiambo and Svenja Schindelwig, German Africa Foundation

One and a half years have passed since the launch of the G20 Compact with Africa initiative. It was an integral part of the German G20 presidency and focuses on promoting private investment and infrastructure development in African partner countries. This is supposed to be achieved through measures improving the countries' macroeconomic, corporate and fiscal framework which will support the implementation of the African Unions' 2063 Agenda and the United Nations' 2030 Agenda. In order to reach this long-term goal, the Federal Government under the direction of the Ministry of Finance deemed it important to institutionalise the initiative from the beginning to guarantee a continuation after the end of the German G20 presidency in December 2017. For this purpose, the Africa Advisory Group (AAG) has been established as a regular G20 working group chaired by Germany and South Africa even after the presidency was handed over to Argentina.

In December 2016, the Ministry of Finance presented the initiative to the African Union in writing, coupled with a request to pass it on to all its member states. In principle, the Compact with Africa is open to all African countries and deliberately foregoes admission criteria. The only condition to become part of the initiative is the willingness to implement reforms and to fulfil certain obligations under investment agreements.

As a first step, five countries announced their willingness for reforms: Côte d'Ivoire, Morocco, Rwanda, Senegal and Tunisia. Shortly afterwards, Ethiopia and Ghana were added followed by the admission of Benin, Guinea, Egypt and Togo. Burkina Faso has been the last country since October 2018 that wishes to sustainably improve its framework conditions for private investors. After admission, the countries draft individual policy papers (policy matrices) in cooperation with the international financial institutions, consisting of the International Monetary Fund (IMF), the African Development Bank (AfDB) and the World Bank, which have developed a catalogue of measures with three module categories (see fig.).

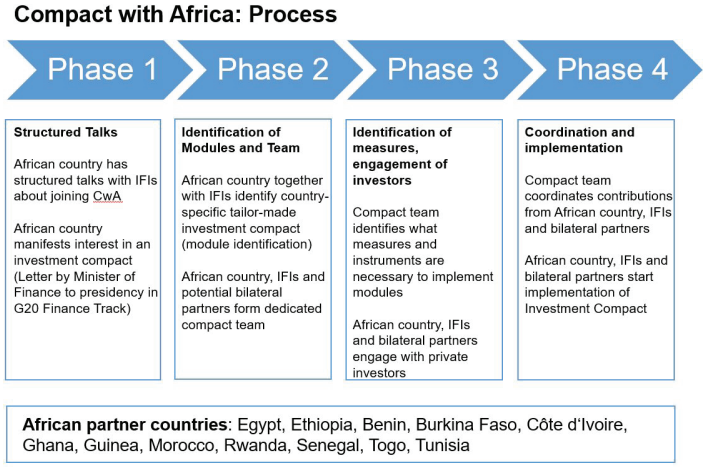
Compact with Africa: Modules

Macroeconomic Framework:	Business Framework:	Financing Framework:
Makes investment projects viable by providing stable macroeconomic conditions e.g. Ensuring macro-economic stability and debt sustainability	Makes Investment projects bankable by attracting private investors e.g. Promoting reliable regulations and institutions	Makes investment projects fundable by mobilising private finance e.g. Developing efficient risk mitigation instruments

Source: Federal Ministry of Finance

The African countries are supposed to set their own priorities in a joint dialogue whereby the focus lies in fact on the extension of energy supply, the establishment and further expansion of local financial markets, and the establishment of efficient and investment-friendly tax systems. In return, the G20 countries provide platforms for networking with potential investors for the Compact countries. Participation in the Compact shall serve as a seal of approval and create trust among international investors in the participating countries through their signalled willingness to reform. The initiative itself does

not entail or provide any funding from the G20 members for the African partner countries.



Source: Federal Ministry of Finance

Linking the Compact with Africa and the „Marshall Plan with Africa" of the BMZ

Germany is the only G20 country to make a bilateral financial contribution to selected countries under the Compact in the form of so-called reform partnerships. These are part of the implementation of the „Marshall Plan with Africa" of the Federal Ministry for Economic Cooperation and Development (BMZ) and provide financial support totalling EUR 365 million (commitments in 2017). However, the disbursement of funds is linked to the actual implementation of certain reform steps which are defined in the package of measures of the Compact agreements.

Thus, from a German point of view the „Marshall Plan" and the Compact with Africa are linked with each other: Participation in the Compact is a prerequisite for entering into a reform partnership within the „Marshall Plan" while at the same time the reform partnerships have become an integral part of the Compact. The selection of reform partner countries is the responsibility of BMZ. Additional criteria such as a proven successful record regarding democratic and rule of law-related reforms are required for launching a partnership. For compact countries such as Egypt or Togo, the establishment of a reform partnership within the framework of the "Marshall Plan" will thus be highly unlikely in the near future.1

The first reform partnerships: Côte d'Ivoire, Ghana and Tunisia

As early as the end of 2017, Côte d'Ivoire, Ghana and Tunisia signed Memorandums of Understanding on „Designing a Partnership to Promote Private Investment and Sustainable Economic Development" with Germany.2 The focus of the BMZ reform partnership with Tunisia lies on the banking and finance sector, while Côte d' Ivoire and Ghana receive support in the field of renewable energy and electrification. For this purpose, an amount of EUR 100 million each was committed for Ghana and Côte d'Ivoire in 2017, while Tunisia is to receive EUR 165 million. The total of 365 million euros for the reform partnerships are, for the most part, redistributed funds from the existing BMZ budget and not additional funds. The reform partnership includes a form of conditionality - only after the implementation of the announced reforms will the funds, which primarily consist of concessional loans, be allocated through the German development bank KfW. In view of the naturally medium- and long-term implementation of the reforms, the funds are now situated in the first phase of disbursement. Additional funding for existing partnerships is not envisaged at this time.

G-20 Investment Summit - The Africa Summit of the Federal Chancellor

In the course of the „G-20 Investment Summit - German Business and the Compact Countries" which took place in Berlin on 30 October 2018, joint Memoranda of Understanding were signed with the next reform partner countries: Ethiopia, Morocco and Senegal. Each of these countries will initially receive EUR 100 million within the reform partnership framework.

In addition, the reform partner countries benefit from another BMZ initiative: EUR 200 million is included in the special initiative "Training and Employment" (Sonderinitiative Ausbildung und Beschäftigung) which will come into force in 2019 and shall create new employment opportunities in cooperation

with private businesses. Although the special initiative is not conceptually linked to the Compact nor the "Marshall Plan", in the first phase only programs in the six reform partner countries will be supported.

Lastly, Chancellor Angela Merkel announced a „Package of Measures to Complement the Compact with Africa Initiative".3 This includes among others the creation of a EUR 1 billion „Development Investment Fund" intended to offer financing instruments for both European and African small and medium-sized enterprises investing on the continent. In addition, the risks of German exports and investments in the Compact countries are to be hedged and new double taxation agreements are to be negotiated.

First monitoring reports on the Compact with Africa

The continuation of the Compact with Africa initiative is also part of the meetings of the IMF and the World Bank Group. The first full monitoring report was published at the spring meeting in late April 2018.4

Table 1: Status of Commitments by Country

Country	Green	Yellow	Red	Total
Tunisia	2	9	0	11
Benin	3	10	0	13
Senegal	3	8	1	12
Rwanda	2	7	2	11
Morocco	0	7	0	7
Guinea	1	11	0	12
Ghana	5	7	0	12
Ethiopia	5	8	0	13
Côte d' Ivoire	2	8	0	10
Total	**23**	**75**	**3**	**101**

Source(s): Country self-assessments, WBG, April 2018

Table 2: Status of commitments by Pillar (%)

Framework	Green	Yellow	Red	Total
Macro-economic	14%	29%	0%	43%
Business	8%	28%	1%	37%
Financing	1%	18%	2%	21%
Total	**23%**	**74%**	**3%**	**100%**

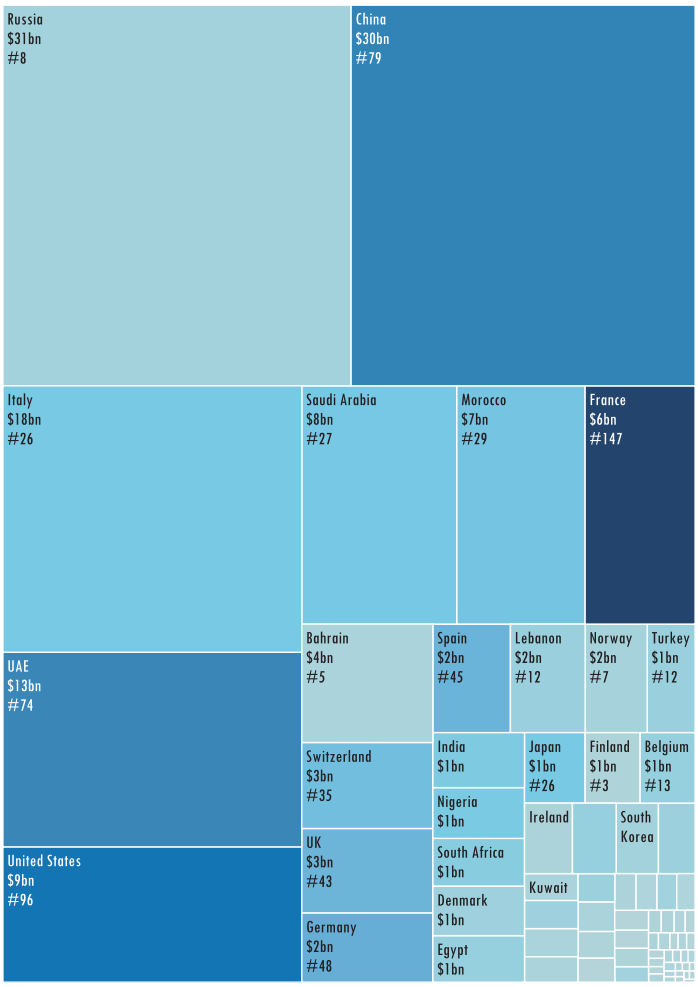
Source(s): Country self-assessments, WBG, April 2018

As the overview from the first report clearly shows, almost all of the intended reforms and programs have been addressed. Only three out of a total of 101 commitments have not yet been launched. 23% of the commitments have already been fully implemented. It is also clear that most of the commitments have been made in the relatively easy-to-reform field of macroeconomic stability. A third of those commitments are already considered fully met. Creating a framework for the financial market poses the greatest challenge of the Compact initiative while at the same time holding its greatest potential. However, after such a short time of implementation it still remains difficult to assess the effect the measures will ultimately have on the targeted investments.

An interim monitoring report on the development of foreign direct investment (FDI) and investment projects in the Compact countries followed in the course of the annual meeting of the IMF and World Bank in mid-October. It concludes that - despite an overall decline in FDI flows across the continent - the Compact countries have significantly increased their relative share of FDI in comparison to other African countries.

A closer look, though, reveals that 84% of FDI flow into only four of the twelve Compact countries: Egypt, Ethiopia, Ghana and Morocco. Projects by foreign investors are similarly concentrated - more than half (54%) of the 987 investment projects are located in Egypt and Morocco. Based on the investment volume of these projects, the two countries account for as much as 72% of the total volume. Since the period under review covers the years 2015 to 2018 and thus also refers to the time before the start of the Compact with Africa, it is questionable as to what extent the investments can be attributed to the initiative. The interim report also provides an overview of the sources of foreign investment projects in Africa. As expected, Russia and China are the countries with the highest investment volumes in the Compact countries. With a share of USD 2 billion, Germany ranks only 11th behind

countries such as Italy, Saudi Arabia or even Bahrain (see fig.).



Source: Interim Monitoring Report, IFC, October 2018

Responses of the participating African countries

The Compact initiative is currently regarded as predominantly positive by the participating countries as can be seen from various official announcements. Particularly Ghana is seeking a leadership role among the Compact countries on the African side. Not only do the state visits between Germany and Ghana speak for Ghana‘s commitment, but the country also invited to a conference on the Compact with Africa in Accra last September and in April of this year.

However, in many partner countries (and not only in these) there seems to be some confusion about the various initiatives of the Federal Government. In view of the link between the Compact and the reform partnerships of the „Marshall Plan“ which is applied in practice, without in-depth knowledge of the subject it is difficult to see which concept is currently being applied and how they relate to each other.5 Even in the declarations of intent of the reform partnerships, which are called “investment partnerships“ there, reference is only made to the Compact although the funds are provided through the „Marshall Plan“. The special initiative „Training and Employment“, with which Germany creates further monetary incentives for participation in the Compact initiative, exacerbates this confusion. Ultimately, a strict separation of the concepts may not be particularly relevant for implementation on the ground, but conceptual clarity, particularly with regard to African states that are not yet involved, can be decisive for their interest in participating in the Compact initiative.

Expectation management

The expectations of the countries participating in the Compact with regard to the hoped-for effect of the additional national and international economic investments seem to be quite high against the politically high profile background of the initiative. Thus, given the long-term perspective of the Compact, there is a risk of disappointment in the absence of additional short-term investment. Therefore, the indicators for achieving the reform goals are designed for the medium term.6 Even within the framework of the reform partnerships, disbursement of the money can only take place slowly and gradually. Meanwhile, the impact of a reform partnership within the overall concept of the Compact may be limited. For example, the energy sector reform measures agreed with Ghana relate to only two of the seven priority areas of the Ghanaian Catalogue of Compact Measures.

The Perspective of the German Economy

From the German economy´s point of view, the

sub-Saharan African countries participating in the Compact and their markets have so far been unattractive as can be seen from the current trading volume and the presence of German companies. Countries such as Benin, Guinea, Rwanda and Togo, each with a population of less than 15 million people, only offer comparatively small sales markets. In view of the importance of bilateral trade as a prerequisite for investment, only the three North African states are currently of substantial relevance for Germany‘s economy.

Seven out of nine participating countries in sub-Saharan Africa are francophone states which are traditionally less interesting for the German economy. This is due to language barriers and the economic dominance of French companies. Additionally, seven of the twelve participating countries still belong to the group of least developed countries (LDCs). These countries usually do not have sufficiently diversified economies and the necessary financial infrastructure to be a worthwhile target for foreign investors. This is confirmed by the concentration of foreign direct investment and concrete projects in a few countries which was highlighted in the interim report.

Evaluation and outlook

The Compact recognises that greater coordination and cooperation between international actors are essential to ensure the sustainable development of the African continent in partnership with African countries. Anchoring the Compact process in the G20 Finance Track also provides a new way of perceiving Africa on the global political stage that goes beyond the usual development policy dimensions.

Equally positive is the fact that, within the framework of the initiative, the G20 made an offer to African states willing to reform to develop and implement objectives jointly with the international financial institutions and thus to advance a long-term positive macroeconomic dynamic in these countries. This can serve as encouragement for other African states to participate in the Compact as well. Ultimately, the implementation of the targeted reforms should not only increase international investment but primarily improve the investment climate for local small and medium-sized enterprises in the partner countries.

However, one should be realistic about the real short-term impact of the Compact regarding the economic development of partner countries. Although macroeconomic reforms are prerequisites for national and international investment, they only have an impact on a country‘s economic development in the medium to long term. Disillusionment or even frustration among the countries involved is a realistic scenario if no additional short-term investments are made.

The reform partnerships of the Marshall Plan certainly make an important contribution to the individual reforms of the three partner countries. However, they only cover a small part of the measures under the Compact and are – for development cooperation standards - almost modest in their total size of EUR 365 million.

From the regional, European and German economies’ point of view, it would be of benefit if the actual economic driving forces of sub-Saharan Africa were an integral part of the Compact initiative. First and foremost, Nigeria and Kenya deserve a prominent position not only in their regard for the European economy, but also as the most important countries of their respective regional organizations, ECOWAS and EAC. However, these countries will not be won by just a letter from the Ministry of Finance to the AU but require separate diplomatic initiatives.

Furthermore, the Compact must be seen as what it is: a component to support the implementation of Agenda 2063 of the AU. For its part, the German government should contribute to the further development of the Compact through an even more stringent,

coordinated Africa policy involving all relevant ministries so that it can indeed meet the expectations of its partner countries.

References:

1 An earlier version stated „Ethiopia and Egypt". In the case of Ethiopia, the rapid pace of reforms that prime minister Abiy Ahmed has been implementing since April has probably convinced the BMZ that there is a proven record of success.

2 BMZ, Joint Memorandum of Understanding of the German Federal Ministry for Economic Cooperation and Development and the Ministry of Finance of the Republic of Ghana on formulating a partnership to promote private investment and sustainable economic development within the framework of the G20 Africa partnership, 12/12/2017 and BMZ, Joint Memorandum of Understanding of the Ministry of Economy and Finance of the Republic of Côte d'Ivoire and the German Federal Ministry for Economic Cooperation and Development on formulating a partnership to promote private investment and sustainable economic development in the G20 Africa partnership, 28/11/2017.

3 https://www.bundeskanzlerin.de/bkin-de/aktuelles/europa-und-afrika-gleichberechtigte-und-dauerhafte-partner-1543572

4 The report covers all efforts since the launch of the initiative until 28 February 2018 in the form of a progress report by the World Bank Group and self-assessments of all relevant G20 AAG members (Germany, EU, France, UK, Italy, Japan, Canada, Netherlands, Norway, Spain and USA) and the African Compact countries. Included as well is an independent report from the African Center for Economic Transformation (ACET), a Ghanaian think-tank founded in 2008 by the head of the United Nations Economic Commission for Africa, K. Y. Amoako.

5 Talks with various African embassies in Berlin, February - March 2018.

6 This is apparent from the various policy matrices, e.g. https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/Countries/Ghana/CwA%20Policy%20Matrix%20-Ghana-%2015.03.18-Final.pdf

Published by
Deutsche Afrika Stiftung e.V.
Ziegelstr. 30, 10117 Berlin
info@deutsche-afrika-stiftung.de
Original: 6 July 2018
Updated: 1 November 2018