Policy Note

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Leveraging the SA G20 Presidency to Scale-Up the Compact with Africa

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The South African G20 presidency is an opportunity to scale-up the Compact with Africa (CwA). This policy note sets out the Compact's significance for and impact on African countries thus far and presents four recommendations for the G20 presidency in 2025.

Background: The Compact's mandate

The G20 CwA was initiated in 2017 under the finance track of the German G20 presidency with the ultimate mandate of boosting private investment and increasing infrastructure provision on the continent.[1] The Compact brings together several stakeholders, including African countries, international organisations and bilateral partners of the G20 and beyond. Its core activities are coordinating country-specific reform agendas, supporting relevant policy measures and advertising investment opportunities to private investors. The Compact is voluntary and currently has 13 members. Benin, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo and Tunisia entered the CwA in 2017 while Burkina Faso joined in 2018. The Democratic Republic of Congo is the newest member, having joined in 2023.

The Compact's departure point is the understanding that Africa has great potential for sustained inclusive economic growth, but investment rates and efficiency need to be increased to achieve this growth. The World Bank estimates that countries need to have investment-to-GDP ratios greater than 25% to achieve a sustainable and inclusive growth path. Guided by an analytical report by the African Development Bank (AfDB), the International Monetary Fund (IMF) and World Bank, the Compact covers reforms in three broad blocks identified as crucial for improved investment and economic growth. These are: (1) the macroeconomic framework (macroeconomic stability, debt sustainability, domestic resource mobilisation, improved performance of public entities, etc.), (2) the business framework (reliable regulations and institutions, investor protection, standardising contracts, etc.), and (3) the financing framework (increased availability of financing at reduced costs and risks, risk mitigation instruments, easing of unnecessary restrictions, developing domestic debt markets, etc.).

The initiative is premised on the following commitments:

- African countries seek to create a more enabling environment;
- G20 and other partner countries and international organisations coordinate better, step up technical assistance and take action on a multilateral level; and
- G20 and other partner countries encourage their business sectors to invest in Compact countries.

By definition, and to promote country ownership, the initiative is demand-driven and has a long-term focus.

The CwA is coordinated and monitored by the African Advisory Group (AAG), which comprises South Africa and Germany as co-chairs, other G20 members and African Compact countries. Participating G20-AAG members include Canada, the EU, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, the UK and the US. Compact conferences at heads-of-state level are held annually.

[1] African Development Bank, International Monetary Fund and World Bank Group, *The G20 Compact With Africa: A Joint Report* (AfDB, IMF and World Bank, March 17, 2017).

Has the Compact been successful?

The reforms adopted by countries under the CwA targeted domestic revenue mobilisation through tax reforms, as well as public procurement and public–private partnership legislation aimed at improving the quality of public expenditure. CwA countries also pursued trade, competition and investment reforms, as well as reforms of state-owned enterprises (eg, Egypt, Ethiopia, Morocco), reforms to facilitate access to land (eg, Benin, Burkina Faso, Ghana, Senegal, Togo, Tunisia), telecommunications reforms (eg, Senegal, Togo) and reforms to promote renewable energy (eg, Burkina Faso, Egypt, Ghana, Morocco, Tunisia).

Other reforms undertaken include long-term financing, as seen in Benin's issuance of local currency-denominated Eurobonds and Morocco's legislation on secured transactions. Rwanda and Tunisia reformed financing facilities for de-risking agriculture and promoting its value chains and Senegal passed private equity laws. Reforms have also targeted the banking sector, such as reforming state-owned banks (eg, Côte d'Ivoire), improving the regulatory framework to resolve non-performing loans (eg, Tunisia) and increasing the minimum capital requirements for banks (eg, Ghana).[2]

Given that the Compact focuses on complex and long-term structural issues, results may not be immediate. Furthermore, it is difficult to attribute positive trends to the Compact alone. For example, some of the reforms are included in long-term national planning strategies that could have been developed in the absence of the Compact.

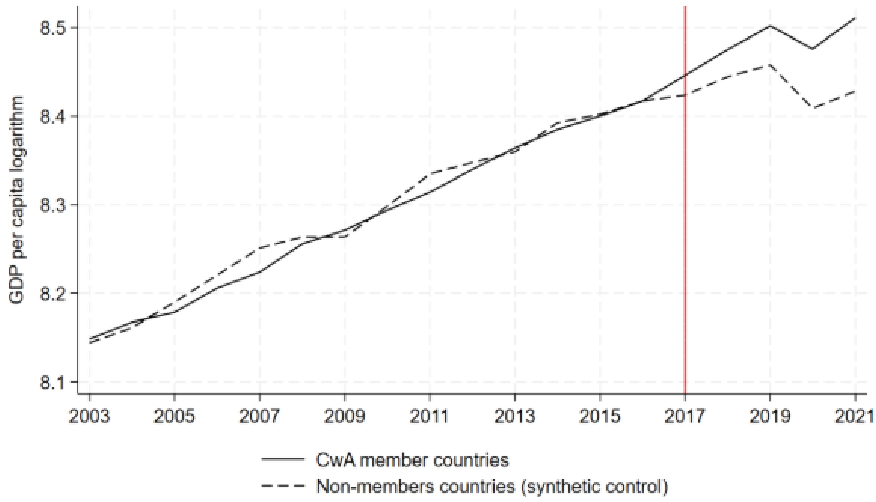
To track the impact of the CwA, annual monitoring reports are produced that inform the twice-yearly meetings of the AAG. These reports evaluate the CwA's influence on private investment, delineate best practices and contrast the economic performances of CwA and non-CwA nations. The evaluations frequently indicate that CwA countries have stronger growth, trade and investment performances.

While various studies have found a positive correlation between CwA participation and economic performance, its magnitude is reduced when accounting for potential selection bias. On average, countries that joined the CwA had a lower level of economic activity but a stronger growth rate before joining the Compact (2003–2016), whereas most African countries that did not join the Compact had stagnated over the same period.[3] Although the full impact of the CwA is likely to be gradual and therefore only measurable in the long term, there seems to be an immediate impact on the GDP per capita, as shown in Figure 1.

[2] The World Bank Group, *G20 Compact with Africa: Compact Monitoring Report: Africa Advisory Group Meeting* (World Bank, May 2024).

[3] Vincent Fleuriet and Paul Vertier, "Does the G20 Compact with Africa Foster Economic Growth: Evidence from Synthetic Differences", *Economics Letters* 236 (March 2024).

Figure 1. Estimated impact of the G20 Compact with Africa on GDP per capita



Source: Vincent Fleuriet and Paul Vertier, "Does the G20 Compact with Africa Foster Economic Growth: Evidence from Synthetic Differences", Economics Letters 236 (March 2024)

The CwA's impact on investment flows remains uncertain. While African member countries of the Compact have demonstrated comparatively positive trends, a direct causal link to the initiative has not been proven. Generally, Africa still lacks investor confidence. UNCTAD's *World Investment Report 2023* shows that, between 2017 and 2023, foreign direct investment flows to Africa only rose by $4.5 billion (from $40.4 billion in 2017 to $44.9 billion in 2023). Even Germany, a major driver of the CwA, contributes only a marginal 1% of its total investment to the continent (while this investment increased between 2018 and 2022, this increase was only $2 billion more).[4]

For CwA 2.0, three decisions were (unanimously) approved on 8 December 2022:

- to keep membership limited to reform-oriented countries;
- to strengthen Compact teams,[5] peer-to-peer learning and investment promotion in order to enhance technical assistance to Compact countries; and
- to enhance the understanding of entrepreneurial activities in Compact countries in order to identify concrete and country-specific policy recommendations.

[4] Carine Gazier, "Compact with Africa: What Has Been Achieved in Six Years?", *Concerto*, December 7, 2023.

[5] The Compact teams are composed of relevant senior government officials from the Compact countries, representatives from the three international organisations (AfDB, World Bank and IMF) and other in-country bilateral partners involved in the Compact implementation and the private sector.

Recommendations for the South African G20 presidency

More members, more engagement

As low-hanging fruit to scale-up the CwA during its G20 presidency, South Africa could expand the Compact's reach by:

- encouraging more African members to join and facilitating the admission process under its G20 presidency; and
- increasing G20 country engagement.

Several African countries have expressed interest in joining the Compact, including Angola, Comoros, Kenya, Mauritania, Mauritius, Namibia, the Republic of Congo and Zambia (see Figure 2). The South African G20 presidency could task the World Bank, which coordinates with interested countries, to facilitate the admission process during its 2025 presidency with the aim of having all interested parties present at the November AAG meeting. The process of accepting new members is fairly simple. As per reform 1 of the CwA 2.0, 'To keep membership limited to reform-oriented countries',[6] interested parties are expected to suggest reforms and explain to the AAG why they want to join the Compact. The AAG then votes on their admission.

Since the AU is now a full member of the G20, it can play a more active role in the CwA. South Africa should prioritise this as a way to connect with other African non-CwA countries, as well as to ensure alignment with the continent's long-term goals and strategies (for example, Agenda 2063 and specific reform goals of the second 10-year implementation plan, as well as the African Continental Free Trade Agreement Investment Protocol).

In addition to expanding the Compact to more African countries, South Africa's presidency could encourage other G20 countries to become more involved in the initiative. Several officials associated with the initiative have pointed out that engagement from G20 members, apart from the co-chairs, has been limited. Only a handful of other G20 countries (mainly from the G7) have actively been involved in the CwA process. One reason could be that they have their own programmes with Africa, for example TICAD[7] and FOCAC[8]. The position of the US as a member of the CwA is also in doubt, after the decision of the Trump administration to pull out of multilateral processes and international cooperation.

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[6] "Reform oriented" is assessed on "building their case, in consultation with the International Organisations countries should develop a reform matrix summarizing ongoing and planned reforms, reflecting the commitments and ambitions of the authorities" – CwA formal Accession Procedures.

[7] Tokyo International Conference on African Development.

[8] Forum on China–Africa Cooperation.

Figure 2. Map of current CwA members and countries interested in joining

Source: Compiled by authors

Elevate the work of the AAG within the G20 formal track

To elevate the CwA's impact, formalising the AAG as a G20 working group could be a strategic move.

One of the unique features of the Compact is that it brings together African countries from across the continent, setting it apart from other platforms that only connect neighbouring countries.

A potential avenue for expanding the Compact's influence and eliciting more engagement from other G20 countries would be to elevate the AAG to the status of a permanent G20 working group across formal tracks. Although this would not necessarily translate into greater engagement by G20 countries, adding an additional co-chair position for the rotating presidency could increase political buy-in by the current

G20 presidency. In cases where the G20 presidency is held by South Africa and Germany, the third co-chair position could be held by either of the member regional institutions, ie, the AU or the EU.

Under the auspices of the CwA, some AAG members have hosted investor forums to showcase investment opportunities in CwA-participating countries, such as the Germany–Ghana Investors Forum in 2018 and the G20 Compact with Africa Seminar side event in Japan in 2019 (which was the G20 president at the time). The additional chair could include an investment forum for the private sector of the presidency and other G20 countries' private sectors, in order to expose them to investment opportunities in CwA countries.

The formalisation of the AAG as a working group could also ensure that commitments made by the AAG are incorporated into Development Working Group accountability reports, subjecting them to regular evaluation and monitoring. These reviews could include more on-the-ground analysis of the impact of the Compact to provide greater clarity on its contribution to member countries' development strategies.

An alternative, and potentially more politically achievable, approach would be to convene a joint meeting of the Sherpa and Finance tracks on the CwA to facilitate an inclusive dialogue among all G20 members about this initiative. A proposal could be tabled at this meeting on formalising the AAG as a permanent working group.

Spotlight a key area of investment and cooperation

While the CwA has a broad scope, concentrating on specific investment areas can accelerate progress and deliver tangible results.

The agenda of the AAG is fairly flexible and can be agreed upon by the membership. The COVID-19 pandemic broadened the Compact's scope to healthcare and vaccine distribution. Digitalisation and green investments have also gained prominence.[9]

Through over 20 peer-to-peer learning events, the Compact has covered topics such as domestic resource mobilisation, diversification, blended financing, public–private partnerships and climate investment.

By concentrating on a strategic investment focus area, the initiative could generate more immediate results. For instance, African countries have advocated addressing energy investment, which has been tabled for further discussion.[10] Notwithstanding the continent's substantial renewable energy and green hydrogen potential, Africa has encountered difficulties in fostering investor confidence. South Africa's move to put the extractive and critical minerals sectors on the G20 agenda is an opportunity to spotlight this issue. This could include targeted peer-learning and capacity-building initiatives, as well as focused AAG meetings on various bottlenecks and the policy reforms needed to catalyse the strategic minerals value chains. This could be guided by, for example, the recommendations of the UN Secretary General's panel on Critical Energy Transitions Minerals, particularly Principle 5: 'Investments, finance and trade must be responsible and fair.'

A second focus area, of interest to the AU in particular, is improving investment grades. A 2023 UNDP report estimates that Africa's risk premium costs the continent $75 billion, with both excessive interest and

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[9] Italy, Ministry of Economy and Finance, "First G20 Africa Advisory Group Meeting under the Italian G20 Presidency", accessed March 6, 2025, https://www.dt.mef.gov.it/en/news/2021/g20_15042021.html

[10] Based on an interview conducted for this note.

foregone lending volume. Under the CwA, peer-learning and capacity-building events could be held on adequately preparing for credit-rating agency visits. The Compact, as a collection of reform-minded African countries and G20 members (including partner organisations), could also be used as a space to discuss some of the tabled proposals to deal with derisking and debt sustainability. These include the proposal of the UN Office of the Special Adviser on Africa to introduce debt service suspension linked to progress on the UN's Sustainable Development Goals or peer-to-peer learning opportunities for national preparations ahead of credit-rating visits.

Finetuning the toolbox: Country platforms

Country platforms could be a game-changer for the CwA, fostering collaboration and attracting private investment.

Within the current framework of the CwA, the AAG represents a structured dialogue platform. At a national level, Compact teams, typically led by finance or planning ministries, are established in each participating country. Sectoral coordination within these countries is still less formalised and concerns have been raised regarding the limited level of private sector engagement.

One of the main criticisms of the initiative has been the lack of engagement with the private sector from the beginning. Under the Compact, occasional investment conferences have been held with a focus on connecting the private sector with investment opportunities in CwA countries. One such conference was the G20 Investment Summit with German businesses and CwA countries in November 2023 in Berlin, which brought together 800 participants and the leaders of more than a dozen African countries. However, there is little engagement with the private sector domestically and internationally when a country is setting up its reform agenda under the Compact. This engagement is essential to decision 3 of the CwA 2.0 – to 'enhance the understanding of entrepreneurial activities in Compact countries in order to identify concrete and country-specific policy recommendations'.

Country platforms could foster more collaborative reform agendas by ensuring more frequent engagement with the private sector, from the 'definition of strategic priorities' stage up to catalysing investment.

Tunisia, Egypt and Togo have a form of country platform – or 'reform delivery units' – that could be used as case studies for developing suitable country platforms within the CwA framework. These platforms should incorporate existing CwA resources such as the CwA Toolbox, which is a complete inventory of instruments available to support private sector investment in CwA countries.

Under South Africa's G20 presidency, the AfDB, IMF and World Bank, as the main international organisations involved in the CwA, could produce a report on the feasibility and usefulness of country platforms. These have featured in discussions on a just energy transition and scaling up financing by multilateral development banks as a mechanism to strengthen the collaborative approach of the Compact and suggest a roadmap for the development of country platforms for participating countries.

Conclusion

The German sentiment is that any attempt to boost the Compact under the South African G20 presidency will be welcomed; at the same time, South Africa's G20 agenda provides for advancing CwA work. For example, South Africa's Task Force on Inclusive Economic Growth, Industrialisation, Employment and Reduced Inequality, specifically work stream 1, encourages engagement on policy approaches that look beyond narrow economic growth metrics and towards strategies that embed employment and equity metrics and strategies within economic policies. The high-level expert report and public events planned under this task force should engage the AAG and CwA member countries. This would be an opportunity to upgrade CwA objectives to better respond to the triple challenges facing many African countries – unemployment, inequality and poverty. These are not necessarily addressed under the original three pillars of the Compact, as framed in the original joint report.

Some of the structural adjustments to the Compact suggested above may be difficult to achieve under South Africa's 12-month G20 presidency; however, some of these recommendations could feature in the reflection roadmap that South Africa has committed to develop for the G20 into the next round of presidencies. This should be a specific objective of the G20 African Expert Panel appointed by the South African presidency.

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