The G20's Compact with Africa:
Some disastrous recipes for sustainable development

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The G20's "Compact with Africa", as set out in the report by the African Development Bank, the International Monetary Fund and the World Bank in March 2017, rightfully points out the importance of a sufficient **public framework** to attract investors, including the need to raise taxes and fight tax evasion and avoidance. It also contains some other positive points such as the strengthening of **local currency bond markets** which are more sustainable and stable than foreign currency bond markets.

However, the Compact limits the public framework to "non-commercial" infrastructure such as health, urban roads and education. The "commercial" infrastructure which mainly includes transport, energy or water sector projects is open for "private sector participation". The plan to **privatize infrastructure** or manage it through public-private partnerships has some big problems: First, it disregards many negative global experiences from the past, including higher costs for the citizens, worse service, secrecy and loss of democratic influence. Second, these "commercial" infrastructures can be particularly damaged by insufficient investments by private investors given that the contracts (e.g. 25 years) are often far below the average life-time of such long-term infrastructures (e.g. 50 or even many more years). Third, with the "commercial" infrastructure, investors "cherry pick" public services that are rather profitable, but the state also needs to serve low-income populations that are not profitable and – in some cases – cross-subsidize these services. Fourth, the multinational corporations involved demand that their profits be repatriated in hard currency – even though the typical services contract entails local-currency expenditures and revenues – and that often raises African foreign debt levels, which are now at all-time highs again in many countries.

The Compact also is silent regarding problems with (and popular resistance to) **investor protection**, such as the vague "fair and equitable treatment" clause in investment agreements and investor-to-state dispute settlement. The World Bank's draft updated Report on Recommended Public-Private Partnership (PPP) Contractual Provisions has provisions ("change in law", "force majeure") that may restrict the state's "right to regulate" even more than the controversial investment agreements. While the Compact does not include a direct recommendation for such agreements and dispute settlement systems, it takes these as normal. The Compact urges African countries to pre-emptively provide an enabling environment for investors and assume inordinate fiscal risk – an unfair burden given how many multinational corporations abuse African markets, especially through the Illicit Financial Flows that reflect misinvoicing and other tax manipulation to the tune of $80 billion per annum (according to a recent UN Economic Commission on Africa report). It fails to integrate the necessity to consider structural partnerships that groom domestic private sector as a result of foreign investment.

The Compact also disregards **safeguards and sustainability commitments**, namely the Paris Climate Agreement and the Green Climate Fund financing pledges. It must be acknowledged that the G20's 2015 offers (Intended National Determined Contributions) to cut emissions were far below what is necessary to halt runaway climate change. The Agenda 2030 is mentioned but it is not visible how the Compact ensures that the SDGs are taken into account in the specific initiative, and far least so as concerns the

African Union Agenda 2063 which should be the essential for investment in Africa. G20 governments seem to argue that it is not right to "preach" to the African countries on sustainability and that development is just a side-effect of doing business. However, they forget that these safeguards and commitments are in the interest of the population in any country, are also committed to by African countries themselves, and would also be necessary to ensure that the G20's money does not finance what is against their own commitments, given that some African governments are engaged in fossil-intensive economic activities in spite of high levels of popular resistance (such as to Niger Delta and East African oil and Southern African coal and gas). It was also the Least Developed Countries or the Climate vulnerable forum (with strong African participation) that championed the 1.5 degree aim in the Paris Agreement. Even though the Paris Agreement does not recognize the "climate debt" owed by all the G20 countries to the African continent, any genuine partnership would address this exceptionally important ongoing liability, which by far outweighs the monetary debts owed the other way around.

There are also no plans for **debt work-out** mechanisms in the Compact despite the fact that already now there are worsening debt problems. Debt sustainability is only being discussed in relation to a better IMF monitoring of potential debt distress risks, however there are no discussions about how to handle a situation where debt in fact became unsustainable or obviously has such potential. A fair and comprehensive sovereign debt workout mechanism will be imperative if the Compact shall not become the starting point of the next African Debt Crisis. Moreover, in its policy prescriptions, the IMF continues to impose neoliberal, pro-cyclical austerity regimes on Africa. Even South Africa is being pressed by the IMF to reduce its budget deficit in a pre-Keynesian strategy that effectively reduces the (already paltry) social grants paid to poor people, in what is the world's most unequal country. What actually is needed is a differentiated approach that integrates the sub-regional and national differences. The one policy fits all mindset that made Structural Adjustment a disaster in Africa seem to transpire.

Finally, there are **practical** questions around the Compact: It seems that the G20 intend to already bring together the African pilot countries and private investors very soon. A meeting of the G20 Finance Track is planned for May 4 in Durban, South Africa. Even though it is not clear which initiatives of the Compact will be chosen finally by the pilot countries, governments are likely to make their specific commitments very soon. In case the final commitments would also include privatization of services, investor protections, and assumption of risks, it is unclear how such rapid commitments by governments and their implementation of these in the near term could ever meet minimum standards for democratic process, or be in alignment with African citizens' real expectations and needs. For instance it appeared from the April 22 spring meetings of the IMF and World Bank, at the program "B20 and the Compact with Africa: Boosting Private Investment in Africa," that in some African countries or at least in one, (Rwanda) investors can start a business in 6 hours. But clearly, it is not possible to discern the extent to which an investment can meet the needs of citizens in a matter of hours.

Overall, the Compact does not have the right balance between public and private financing but is heavily prone towards the private side, with all the implications for predatory-financing abuse that are well understood. Neither does it really pay value to the necessity of ownership by African themselves. A fair Compact should much more clearly point to the important roles that the state has to play in ensuring sustainable investments, human rights and environmental protection as well as attracting investors (especially domestic) through infrastructure aimed at meeting the needs of the citizenry. A fair Compact would reject investor-to-state dispute settlement and instead call for and finance a strong domestic judicial jurisdiction over disputes, especially those between society and nature on the one hand, and the G20's often-irresponsible corporations and banks on the other.

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