The G20's Compact with Africa: Some damaging initiatives for sustainable development

8 June 2017 (2nd revised version)

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, aims to **foster investments** of all kinds. Capital formation is needed for development. But the final positive or negative impact, also with regards to Africa's Agenda 2063, depends on many factors.

The Compact contains some positive points such as the strengthening of **local currency bond markets** which are more sustainable and stable than foreign currency bond markets.

The Compact rightfully points out the importance of an appropriate **public framework** to encourage investment, including the need to raise taxes and fight tax evasion and avoidance. The rejection of tax incentives for companies is positive; however, it needs to be fully implemented, also in the proposed "special economic zones". The tax system needs to be progressive, taxing the rich more heavily than the poor (while Value Added Taxes are even regressive), an important aspect of the "fairness" that the Compact advocates.

The Compact limits the envisaged scope of the public framework to "commercial" infrastructure, which mainly includes transport, energy or water sector projects that are opened for "private sector participation". It views public investment as more appropriate for "non-commercial" infrastructure such as health, sanitation, rural roads and education. The proposal to **privatize infrastructure** or manage it through public-private partnerships (PPPs) has some big problems: First, it disregards lessons of the past, including evaluations by civil society groups and research institutions such as the Municipal Services Project and even the World Bank's Independent Evaluation Group. These lessons show evidence that private investors do not usually provide "additionality" – that is, the additional financing that PPPs seek to raise. The evaluation of World Bank-supported PPPs found no evidence of additionality, but at the most investors offered about 30 % of total project financing, leaving the remainder to be raised by governments and their taxpayers and consumers. There is a high frequency with which users pay higher costs, lose access to quality services, suffer geographical discrimination and, due to the lack of transparency of the deals, lose understanding and influence over service delivery and accumulated liabilities and debt. Second, "commercial" infrastructure can be particularly damaged by contract renegotiations and insufficient investment by private investors given that the duration of the contracts (e.g., 25 years) are often far less than the life-span of such long-term infrastructure (e.g., 50 or even many more years). Third, with "commercial" infrastructure, investors "cherry pick" public services that are rather profitable compared to "non-commercial" infrastructure. This makes it impossible for the state to cross-subsidize services because the investor takes the gains rather than re-investing them in poorer communities. 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 puts a burden on the project to raise more revenue when the currency devalues. If the government bails out the project, it raises foreign debt levels in Africa, which are now at all-time highs again in many countries.

The Compact 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 2016 Edition of the draft Report on Recommended Public-Private Partnership (PPP) Contractual Provisions contains provisions ("change in law", "force majeure") that restrict the state's "right to regulate" even more than the controversial investment agreements. The Compact does not include a recommendation on this, but assumes such agreements will contain these dispute settlement systems, particularly through use of the "Contractual Provisions". Given the risk premium for African borrowing, the risks of megaprojects and PPPs as well as associated corruption, and the unjust allocation of these risks through contracts, the Compact would result in African countries assuming inordinate fiscal risk. This imposes 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 UNECA report).

The Compact disregards **safeguards** that draw upon the Universal Declaration of Human Rights and **sustainability commitments**. These include the Paris Climate Agreement, the Green Climate Fund and the SDGs. It must be acknowledged that the 2015 offers by G20 nations to cut emissions (Intended National Determined Contributions) were far below what is necessary to halt runaway climate change. Agenda 2030 is mentioned by the Compact but it is not apparent how it can ensure that SDGs are taken into account in its investment arrangements. G20 governments seem to argue that it is not right to "preach" to African countries on sustainability and that development is just a natural outcome of doing business. Yet, the economic "boom" in Africa did not improve income or wealth inequality and it ended in 2016 with the lowest growth rates in 20 years. The G20 should recall that safeguards can benefit the economy, society and environment in Africa, and that most governments are committed to these goals. The G20 should not undermine these commitments, and should bear in mind that when some African governments are engaged in fossil-fuel intensive economic activities, it is in spite of high levels of popular resistance (such as in the Niger Delta, East African oil, and Southern African coal, gas and oil refining). It was also the Least Developed Countries in 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.

There are also no plans for **debt work-out** mechanisms in the Compact despite the fact that debt situations are worsening. Debt sustainability is only being discussed in relation to a better IMF monitoring of potential debt distress; there are few discussions about how to handle a situation where debt in fact becomes unsustainable. A fair and comprehensive sovereign debt workout mechanism will be imperative so that the Compact does not exacerbate the next African Debt Crisis. The G20's "Operational Guidelines for Sustainable Financing" speak of the need to negotiate, if necessary, in good faith and considering the shared responsibility among debtors and creditors, for which there is no space in existing mechanisms, such as the Paris Club. Creditors continue to impose neoliberal, pro-cyclical austerity regimes on Africa and, should debt levels continue to rise, this will have a punitive impact on a very rapidly growing population. For example, even a G20-country like South Africa is being pressed by the IMF to reduce its budget deficit in a way that effectively reduces the (already paltry) social grants paid to poor people in what is the world's most unequal country.

Finally, there are **practical** questions around the Compact: As governments continue to express interest in joining the Compact, they are in the process of making specific commitments to various Compact initiatives now. In case the final commitments would also include private provision of services, investor protections, and assumption of financial risks, it is unclear how such commitments by governments and their rapid implementation could meet minimum standards for democratic process and stakeholder participation. For instance at 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," a Rwandan official stated that investors can start a business in 6 hours in his country. While that may be laudable for some non-controversial businesses, it is not possible to discern the extent to which many investments would 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 focused on engaging the private side, with all the implications for predatory-financing abuse that are well understood. A fair Compact would start with an assessment of the African people's needs, and foster bottom-up collaboration (based, e.g., on the [1990 African Charter for Popular Participation in Development and Transformation]). 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 external investor-to-state dispute settlement and instead call for and finance a strong domestic jurisdiction over disputes, especially those between society and nature on the one hand, and the often-irresponsible internationally active corporations and banks on the other.

Contact: Markus Henn, C20 Finance Working Group Co-Chair, markus.henn@weed-online.org, +49-30-27582249