

G20 GERMANY 2017
BUSINESS 20 DIALOGUE

Boosting Investment in Africa **Towards Inclusive G20 Compacts with Africa**

B20 POLICY RECOMMENDATIONS 2017

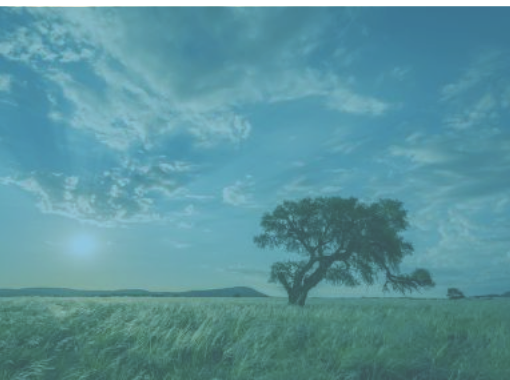


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Business 20 for an Upgraded G20-Partnership with Africa

We, the Business 20 (B20), strongly welcome the G20 Africa Partnership launched by the German G20 Presidency and the “Compact with Africa” (CWA) Initiative to promote investment in African countries. The B20 very much values its underlying objective to improve conditions for economic growth and sustainable development in African countries by enhancing public and private investment. The B20 also welcomes the actions under the three pillars of the CWA initiative – related to macroeconomic, business, and financing conditions – that are laid out in the report “The G20 Compact with Africa” jointly published by the African Development Bank, the International Monetary Fund, and the World Bank Group in March 2017.

Africa is a continent of great opportunities but also many challenges. We have to ensure that Africa’s trajectory to sustainable economic and social development is not bogged down by the economic headwinds that many African countries are facing. Neither can the considerable opportunities be realized nor the challenges be tackled without international cooperation. The G20 countries share a great responsibility in this regard. The G20 is the premier forum for international economic cooperation. It holds the necessary weight and legitimacy: its members are not only responsible for 85 percent of global gross domestic product (GDP) and three-quarters of global exports (goods and services), but also represent about two-thirds of the world’s population.

As pointed out in the Sustainable Development Goals and the Addis Ababa Action Agenda, private investment is a precondition for successful socio-economic development. It is indispensable to fostering resilient, responsible, and responsive economies, boosting productivity as well as technology and knowledge exchange. African countries face a huge investment gap in infrastructure, including transport, digital, and energy infrastructure, health, and education among others. Infrastructure is a powerful lever for economic growth, with both a positive short- and long-term impact. Energy access is paramount for achieving the aspirations of African countries. Digitalization promises significant opportunities for socio-economic development. The fast advancement of digital technologies requires, however, targeted action to prevent a digital divide, both between different groups of societies and regions. A particular focus needs to be placed on rural areas in African countries. Given their relevance for economic stability and employment, the Compact partnerships should support African SMEs and advance financial inclusion. Demographic changes, technological progress, and increased mobility are profoundly changing labor and skill demands. Hence, it is important to promote open, dynamic, and inclusive labor markets in order to foster future-oriented economies in African countries.

To boost private investment in African countries, business needs an enabling environment: fair competition, clear and transparent rules, and investor certainty. The Compacts with African countries therefore also need to address the issue of corruption, both the demand and the supply sides, and bad governance in African countries.

We, the B20, therefore call on the G20 to upgrade the partnership with Africa by strengthening the environment for foreign direct investment, boosting investment in infrastructure, enabling reliable and affordable energy, increasing digital connectivity, fostering open and inclusive trade, improving good governance and responsible supply chains, creating an enabling environment for small and medium-sized enterprises, improving financial inclusion as well as advancing health, employment and education. The G20 should build on existing initiatives such as the Agenda 2063 of the African Union. The initiative needs to be demand-driven. Compacts will need to be tailored to the needs and interests of the respective country. The B20 stands ready to assist the G20 and Compact countries in order to ensure a successful implementation of the partnerships.

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G20 Compact with Africa

10 High-Level Recommendations for an Upgraded G20-Partnership with Africa

Recommendation 1: Strengthening the Environment for Foreign Direct Investment – The G20 should, in partnership with the Compact countries, improve the environment for FDI by jointly working on investment facilitation plans and more strongly supporting public-private partnerships.

Recommendation 2: Boosting Investment in Infrastructure – The G20 should, jointly with the Compact countries, enhance investment in infrastructure by providing better information about infrastructure project pipelines, further expand risk mitigation instruments, and increase regulatory certainty.

Recommendation 3: Enabling Reliable and Affordable Energy – The G20 should, in cooperation with the Compact countries, enable reliable and affordable energy by promoting the development and further expansion of bankable and investment-ready energy investment pipelines with a larger number of high-quality energy infrastructure projects.

Recommendation 4: Increasing Digital Connectivity – The G20 should, in cooperation with the Compact countries, bridge the digital divide between and within countries by enabling investment in ICT infrastructure as well as scaling up capacity building and skills programs.

Recommendation 5: Fostering Open and Inclusive Trade – The G20 should, in cooperation with the Compact countries, foster open and inclusive trade by reducing trade barriers, implementing trade facilitation measures, and scaling up capacity building.

Recommendation 6: Improving Good Governance and Responsible Supply Chains – The G20 should, in cooperation with the Compact countries, foster responsible global and regional supply chains and anti-corruption measures by supporting the comprehensive set of existing international initiatives and by encouraging the African partners to develop strong national institutions.

Recommendation 7: Enabling Small and Medium-Sized Enterprises – The G20 should, in cooperation with the Compact countries, enable an environment that promotes SMEs as a pillar for inclusive growth and development.

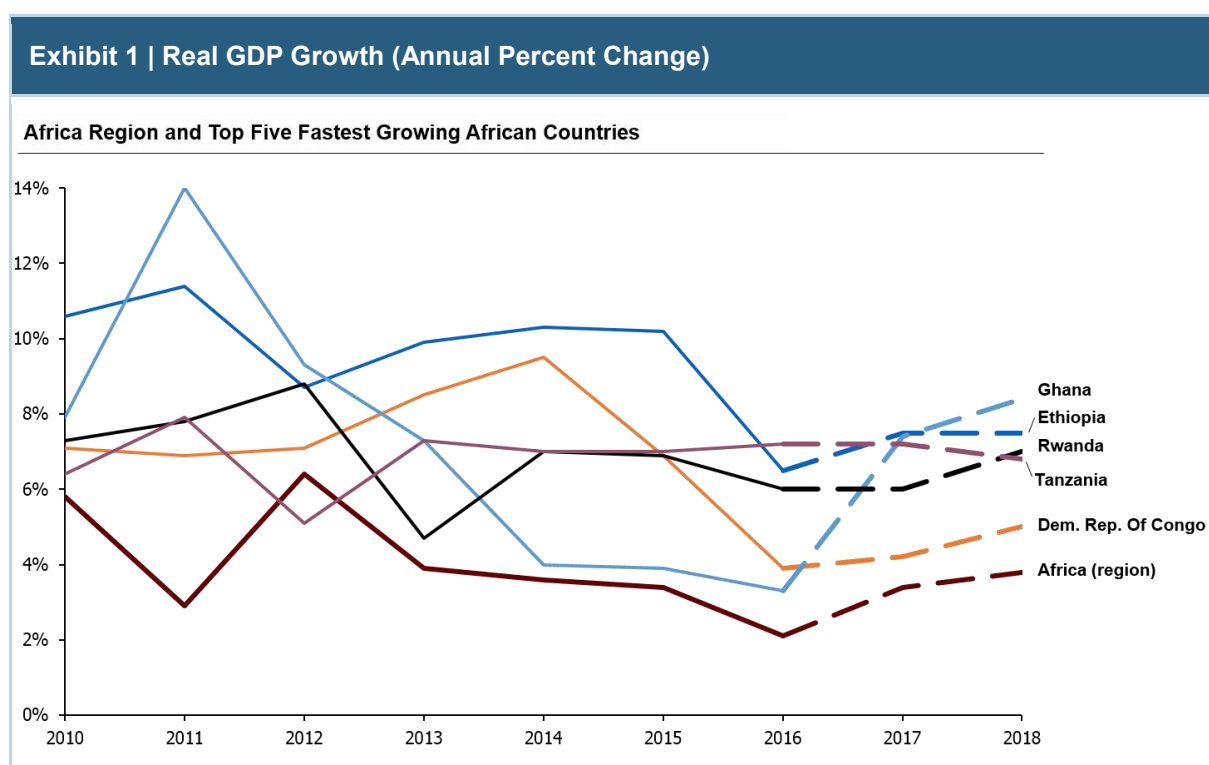
Recommendation 8: Improving Financial Inclusion – The G20 should, in cooperation with the Compact countries, advance financial inclusion to create a broader basis for sustainable economic growth and development.

Recommendation 9: Advancing Health – The G20 should, in cooperation with the Compact countries, support measures that aim to expand access to essential healthcare services to their citizenry by applying best practices, building improved and sustainable policies, as well as incentivizing private sector involvement.

Recommendation 10: Advancing Employment and Education – The G20 should, in cooperation with the Compact countries, advance employment and education, in particular by promoting open, dynamic, and inclusive labor markets, and by harnessing technological change through education.

Context

The African continent remains the second fastest-growing economic region after East Asia (2016). However, headwinds include high volatility of commodity prices as well as geo-political and geo-economic uncertainties. According to the International Monetary Fund (IMF), the continent's average real GDP growth is estimated to have been 2.1 percent in 2016 and forecasted to pick up to 3.4 percent in 2017 (see Exhibit 1).² Africa is a continent of vast opportunities, but also many challenges, including poverty, hunger, poor education, ill health, rampant unemployment and inequality, violence, bad governance and corruption, as well as climate change. Just to absorb new entrants into the labor force, around 20 million jobs need to be created every year until 2035. Sub-Saharan Africa is home to a large proportion of the poorest countries in the world.



Source: International Monetary Fund, *IMF DataMapper*, accessed April 3, 2017, <http://www.imf.org/external/datamapper/datasets>.

In order to realize the many opportunities, but also to tackle the challenges, more investment is needed – among others in health, education, climate change mitigation, and infrastructure. To close the infrastructure investment gap alone requires approximately \$100 billion a year according to the World Bank.³ In September 2015, the international community adopted the Sustainable Development Goals (SDGs).⁴ The United Nations Conference on Trade and Development (UNCTAD) estimates that the financing needed to achieve the SDGs in Africa amounts to \$614 billion to \$638 billion per year: \$269 billion to \$279 billion per year for low-income countries and \$345 billion to \$359 billion for lower middle-

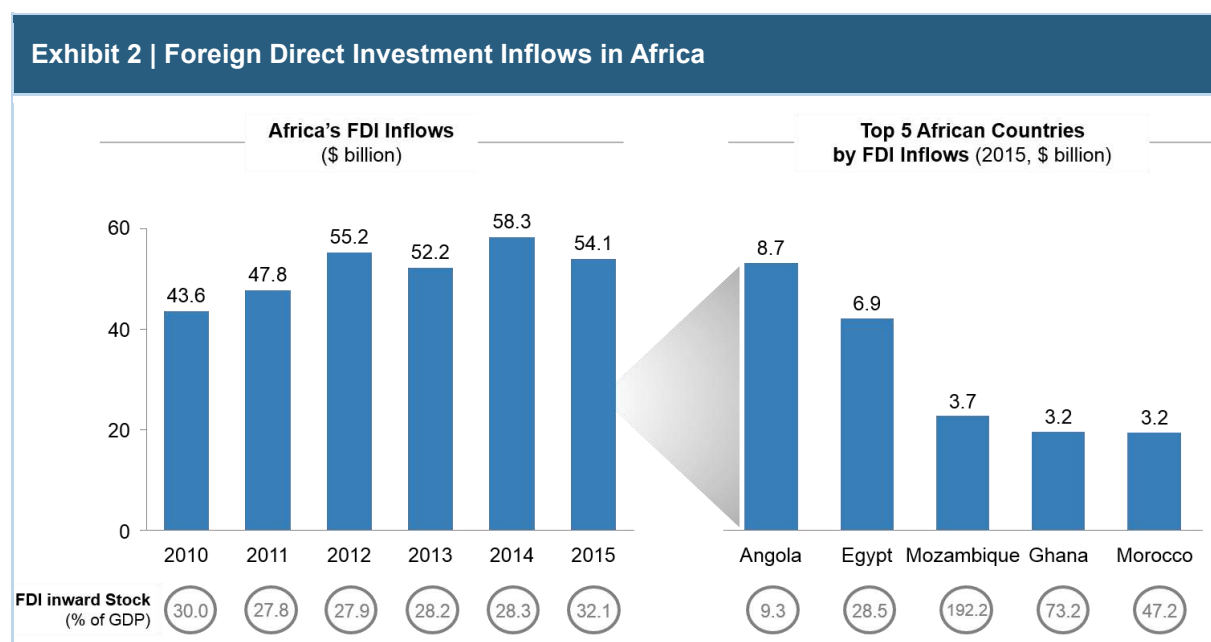
² International Monetary Fund, *IMF DataMapper*, accessed April 3, 2017, <http://www.imf.org/external/datamapper/datasets>.

³ AfDB, IMF, WBG, *The G20-Compact with Africa*. A Joint AfDB, IMF and WBG Report. G-20 Finance Ministers and Central Bank Governors Meeting, March 17-18, 2017, Baden-Baden, Germany, accessed April 5, 2017, http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/G20-2016/g20-the-g20-compact-with-africa.pdf?__blob=publicationFile&v=3, 4.

⁴ United Nations, *Sustainable Development Goals. 17 Goals to Transform our World*, accessed May 31, 2017, <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>.

income countries.⁵ The private sector is indispensable to close the investment gap. However, for investment to happen, the business climate and especially good governance must be further improved.

2017 is not the first time that Africa is a focus topic for the G20. Since 2009, the G20 repeatedly recognized its commitment to meeting the Millennium Development Goals, especially in Sub-Saharan Africa. Under the Turkish Presidency in 2015, the G20 started an initiative to improve energy access in Africa. With a particular focus on Sub-Saharan Africa, the G20 Energy Access Action Plan: Voluntary Collaboration on Energy Access⁶ focuses on the policy and regulatory environment, technology development, dissemination and deployment, investment and finance, capacity building, regional integration, and coordination and collaboration. During the Chinese Presidency in 2016, the G20 launched the G20 Initiative on Supporting Industrialization in Africa and Least Developed Countries. This initiative aims at addressing the following challenges in Africa: poor infrastructure, weak logistics and trade facilitation systems, slow regional integration, absence of accreditation frameworks, and socioeconomic costs of tardy structural transformation.⁷



Source: UNCTAD, *World Investment Report* (2016), accessed April 3, 2017, http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf.

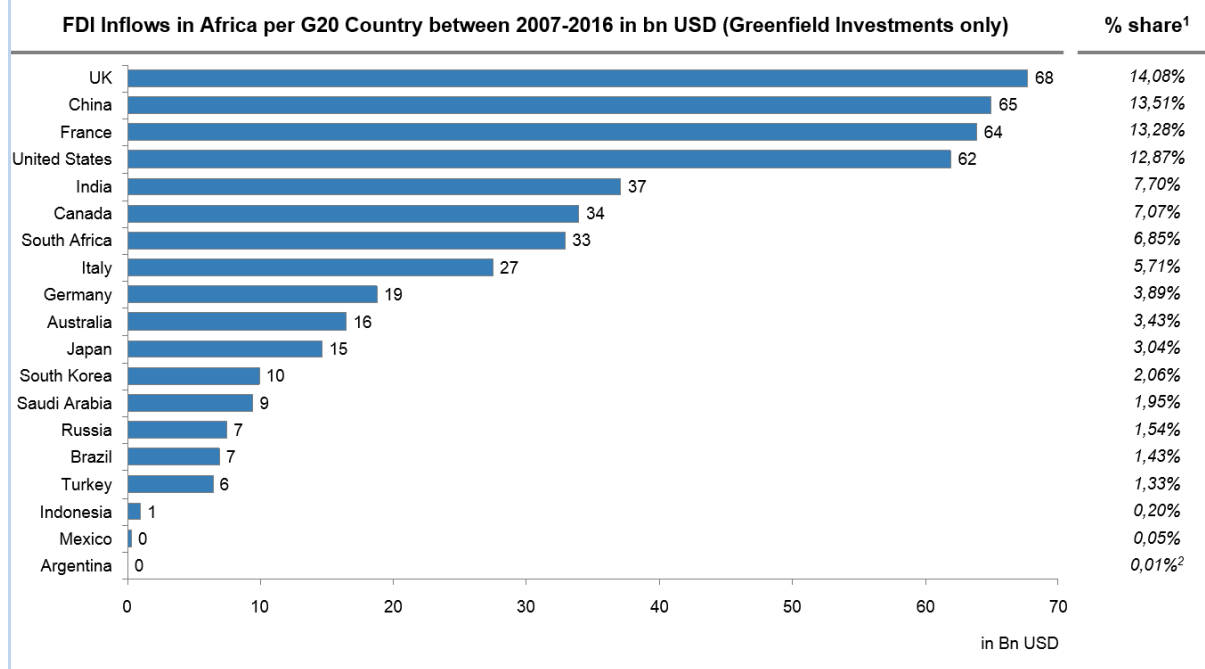
While the G20 should build on these initiatives, much remains to be done. The B20 therefore welcomes the initiative of the German G20 presidency to place sustainable economic growth and development in Africa high on the agenda with the G20 Compact with Africa (CWA) Initiative. The CWA aims to increase investment in Africa, in particular in infrastructure, by improving the macroeconomic, political, and financial framework conditions, in line with the African Union's (AU) Agenda 2063. On 12-13 June, 2017, a conference on the *G20 Partnership with Africa* will be held in Berlin.

⁵ UNCTAD, *Economic Development in Africa. Report 2016* (New York/Geneva: 2016), http://unctad.org/en/PublicationsLibrary/aldcafrica2016_en.pdf, 12.

⁶ G20, *G20 Energy Access Action Plan: Voluntary Collaboration on Energy Access* (2015), <http://www.g20.utoronto.ca/2015/G20-Energy-Access-Action-Plan.pdf>.

⁷ G20, *G20 Initiative on Supporting Industrialization in Africa and Least Developed Countries* (2016), <http://www.g20.utoronto.ca/2016/supporting-industrialization.html>.

Exhibit 3 | Greenfield Foreign Direct Investment Inflows in Africa from G20 Members



Source: FDI Markets (Financial Times database), accessed on February 17, 2017.

Note: 1) Percentage share of total FDI inflows from G20 countries for the ten years between 2007 and 2016; 2) Actual value for Argentina rounded to 0,0046%.

The B20 strongly welcomes the G20 CWA Initiative and the intention of Côte d'Ivoire, Morocco, Rwanda, Senegal, Tunisia, the African Development Bank (AfDB), the IMF, the World Bank Group (WBG), and other interested bilateral partners to work on investment compacts and develop strong investment climates.⁸ The B20 hopes that more African countries will join the initiative. The B20 therefore appreciates the interest voiced by Ghana and Ethiopia.

⁸ AfDB, IMF, WBG, *The G20-Compact with Africa*. A Joint AfDB, IMF and WBG Report. G-20 Finance Ministers and Central Bank Governors Meeting, March 17-18, 2017, Baden-Baden, Germany, accessed April 5, 2017, http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/G20-2016/g20-the-g20-compact-with-africa.pdf?__blob=publicationFile&v=3.

Exhibit 4 | Focus on Compact with Africa Countries

	1 Morocco	2 Tunisia	3 Cote d'Ivoire	4 Senegal	5 Rwanda	6 Ghana	7 Ethiopia
Nominal GDP (2016, \$ billion) ¹	103.62	41.87	35.49	14.79	8.41	43.26	72.52
Nominal GDP Per Capita (2016, dollars) ¹	3,063	3,730	1,458	959.71	729.09	1,569	795.23
Real GDP Growth (2016, yoy change) ¹	1.5%	1.0%	7.5%	6.6%	5.9%	4.0%	8.0%
Trade (2015, % of GDP) ²	76.4%	92.6%	75.7%	75.3%	45.3%	99.2%	37.2%
Trade with G20 (2015, % of total Trade) ²	57.1%	67.8%	44.4%	50.7%	38.1%	57.5%	68.8%
FDI inflows (2015, \$ million) ³	3,162	1,002	430	345	471	3,192	2,168

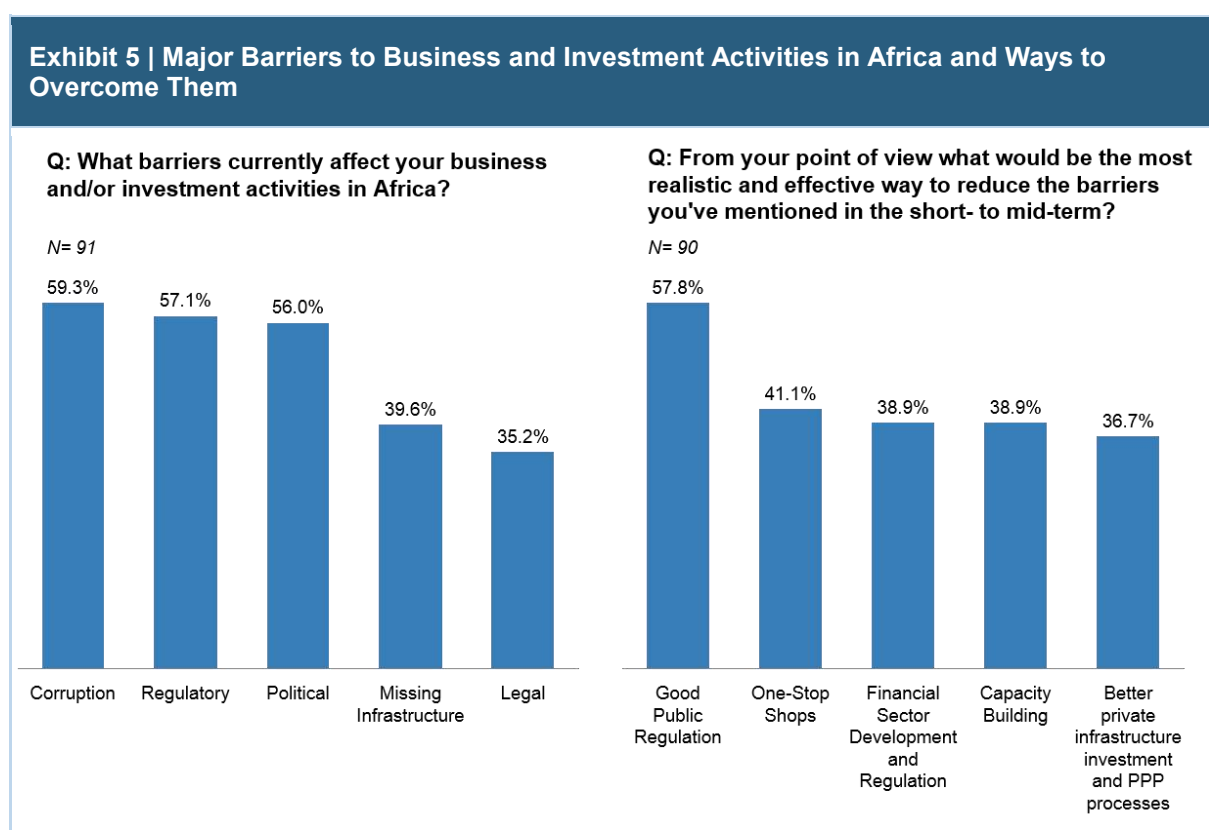
Source: 1) International Monetary Fund, IMF DataMapper, accessed April 3, 2017, [http://www.imf.org/external/datamapper/datasets](http://www.imf.org/external/datamapper/datasets;); 2) Comtrade, UN Comtrade, accessed April 3, 2017, <https://comtrade.un.org/db/ce/ceSearch.aspx?it=Type+commodity+text+here&rg=1&r=12&p=0&y=recent&px=H4> and Unctadstat, accessed May 29, 2017, <http://unctadstat.unctad.org>; 3) UNCTAD, World Investment Report (2016), accessed April 3, 2017, http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf; Accenture Analysis.

The B20 welcomes the proposal that under the Compact with Africa:

- African countries will seek to create a more enabling environment for private investment and better mobilize domestic revenue and finance,
- African countries will create space to scale up critically needed public investment in infrastructure while ensuring debt sustainability,
- G20 countries will more closely step up technical assistance and provide greater support for early stage project preparation for infrastructure,
- G20 countries will take action on a multilateral level to strengthen cooperation on anti-tax avoidance, harmonize risk-mitigation instruments, and make them more accessible and user-friendly to private investors,
- G20 countries will increase investments from the private arms of multilateral and bilateral development institutions and review regulation for institutional investors.

B20 Africa Survey

In a B20 Survey on the CWA Initiative, conducted late 2016/early 2017, a large majority of survey participants indicated they were expecting increasing and strong business activities on the African continent.⁹ At the same time, respondents pointed out the many impediments to investment, primarily corruption, followed by regulatory and political barriers, lack of infrastructure, legal uncertainties, and a lack of skilled labor. Being asked to identify the most promising measures to address these barriers, respondents pointed at good regulation, improvement of administration through one-stop shops for investors, capacity building, financial sector development and regulation as well as better PPP processes.



Source: Survey among B20 representatives (2017), see Annex.

⁹ B20 Africa Survey, see Annex.

B20 Policy Recommendations¹⁰

Recommendation 1: Strengthening the Environment for Foreign Direct Investment

The G20 should, in partnership with the Compact countries¹¹, improve the environment for FDI by jointly working on investment facilitation plans and more strongly supporting public-private partnerships.

As pointed out in the SDGs and the Addis Ababa Action Agenda, private (domestic and foreign) investment is a precondition for successful socio-economic development. The AU defined a collective roadmap in its Agenda 2063, in which investment occupies a central role to eradicate poverty, increase productivity, and improve innovation, education, and health. The Agenda 2063 aims at increasing intra-African trade and investment flows as well as strengthening Africa's place in global trade.¹²

The B20 strongly welcomes that the G20 addresses the existing investment gap in Africa. The G20 should support initiatives that help African countries to attract FDI. Many African countries would benefit from investment facilitation plans, but do not have the capacities to develop one. The G20 has already established itself as a thought leader in the area of best practices for investment facilitation with the Guiding Principles for Global Investment Policymaking in 2016. These principles, in conjunction with UNCTAD's Investment Policy Framework for Sustainable Development, as well as the OECD's Policy Framework for Investment, are a sound basis for investment promotion and facilitation. G20 members should work together with Compact countries to develop individualized investment facilitation plans. These should increase the transparency and availability of information surrounding investment policies, simplify permits and procedures, remove unintended barriers to FDI, and support links between foreign investors and domestic firms.

Investors are eager to put private capital towards projects that will provide long-term returns and also have a strong positive social impact. G20 members should thus also provide support for public-private partnerships by 1) designing best-practice frameworks to support the expansion of public-private partnerships in relevant sectors and 2) providing technical and skills-development support for governments of least-developed countries that may not have the capacity to develop their own public-private partnership capabilities. G20 countries can further boost FDI in African countries by strengthening risk mitigation instruments, for example expanding their national investment guarantee programs.

Recommendation 2: Boosting Investment in Infrastructure

The G20 should, jointly with the Compact countries, enhance investment in infrastructure by providing better information about infrastructure project pipelines, further expand risk mitigation instruments, and increase regulatory certainty.

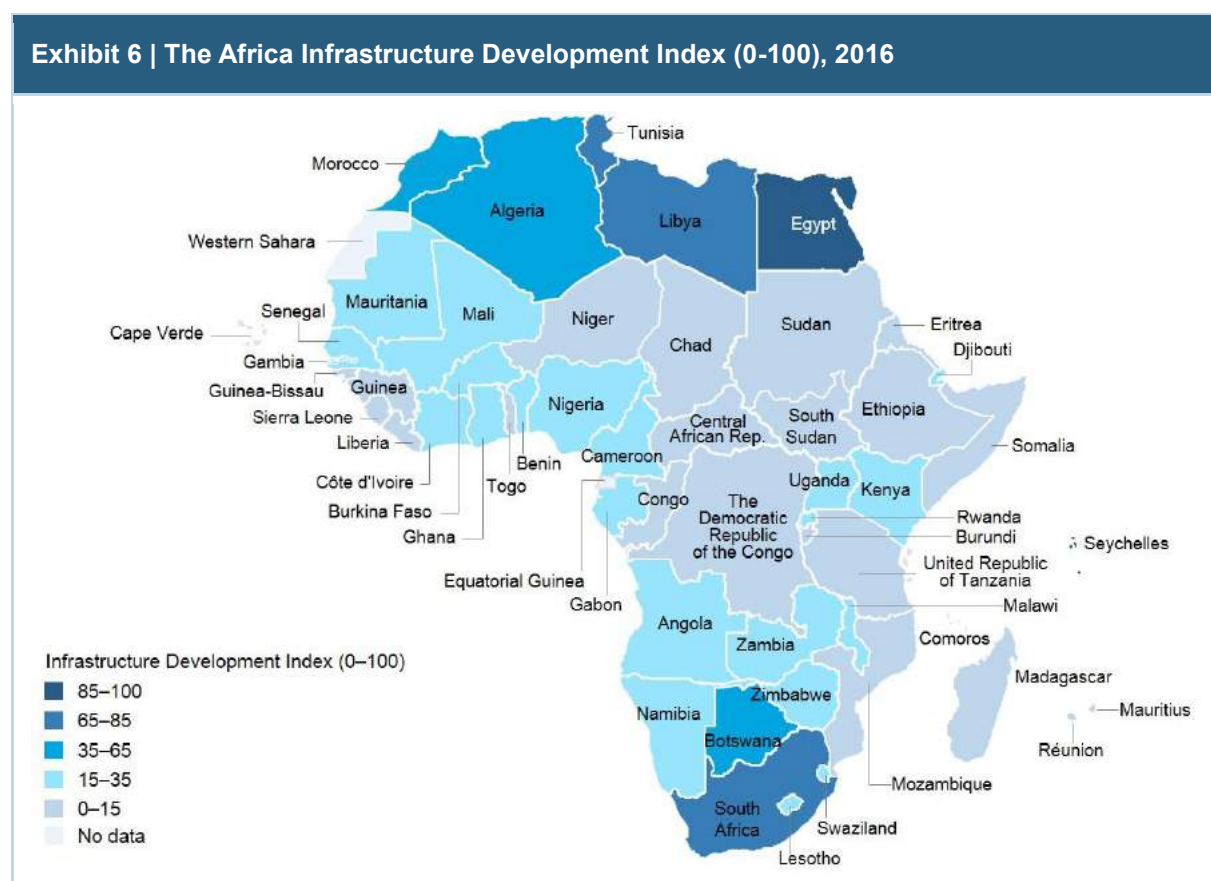
Infrastructure is a powerful lever for economic growth, with both a positive short- and long-term impact. In the short-term, investment in infrastructure stimulates economic demand and creates jobs. Over the medium- and longer-term, well-designed infrastructure projects drive productivity by, for example, deepening markets and making economies more competitive. Roads, bridges, hospitals, schools, airports, ports, water, waste, electricity, and telecommunications infrastructure are all the foundation of a modern economy and vital for socio-economic development. Productive infrastructure is also

¹⁰ The B20 Recommendations on Africa are based on recommendations developed by the B20 Germany Taskforces and Cross-thematic Groups, see <https://www.b20germany.org/documents/policy-papers/>.

¹¹ Compact countries are those countries, which sign up for a Compact with Africa.

¹² African Union Commission, *Agenda 2063 – The Africa We Want* (Addis Ababa: African Union Commission, 2015), accessed February 28, 2017, <http://www.un.org/en/africa/osaa/pdf/au/agenda2063.pdf>, 16.

fundamental to achieving the SDGs of inclusivity, sustainability, and climate action. It also plays a vital role in reaching the COP21 Paris Agreement’s goal to limit the global temperature increase to below 2°C.¹³



Source: African Development Bank, *The African Infrastructure Development Index* (2016), accessed April 24, 2017, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Africa_Infrastructure_Development_May_2016.pdf, 7.

Note: The Africa Infrastructure Development Index covers the latest data collected by the AfDB over the period 2000-2013 under the infrastructure statistics component of its Statistical Capacity Building program in African countries. The AIDI is based on four major components: (i) Transport; (ii) Electricity; (iii) ICT, and (iv) Water & Sanitation. These components are disaggregated into 9 indicators that have a direct or indirect impact on productivity and economic growth.

Many African countries are challenged with huge infrastructure gaps. According to the Programme for Infrastructure Development in Africa (PIDA), the road access rate in Africa, for example, is only 34 percent, compared with 50 percent in other parts of the developing world, while transport costs are 100 percent higher. A study by the Infrastructure Consortium of Africa (ICA) has shown that poor road, rail, and harbor infrastructure adds 30 to 40 percent to the costs of goods traded among African countries.¹⁴ The World Bank estimated that national economic growth could be 2.2 percentage points higher every year in Sub-Saharan Africa if the poor state of infrastructure (electricity, water, roads, and information and communications technology) was improved.¹⁵

¹³ UNFCCC, *Paris Agreement* (2015), accessed May 30, 2017, http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf.

¹⁴ Deloitte, *Addressing Africa’s Infrastructure Challenges*, accessed April 14, 2017, <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/dtl-er-africasinfrastructure-08082013.pdf>.

¹⁵ Vivien Foster and Cecilia Briceño-Garmendia, *Africa’s Infrastructure: A Time for Transformation* (World Bank: 2010), accessed February 4, 2017, 2, http://siteresources.worldbank.org/INTAFRICA/Resources/aicd_overview_english_no-embargo.pdf.

One impediment to investment is lack of information. Compacts with African countries should therefore encourage the better use or establishment of local, regional, and global portals that provide relevant information about infrastructure projects (in planning and construction). There should also be more information sharing on risks. A case in point is the Global Emerging Markets (GEMS) Risk Database. With such data available to private stakeholders, confidence in emerging and developing markets would increase considerably.

Another roadblock to more investment is bad governance. To foster investment, the Compacts with African countries should thus incentivize enforcement of commercial law, transparency in procurement, efficient and transparent PPP governance, as well as effective banking systems. The Compacts with African countries should also encourage stronger protection of foreign investors against political risk, fiscal dispute resolution mechanisms as well as capacity building in (tax) administrations. The B20 would very much welcome the inclusion of measures increasing regulatory certainty, such as grandfathering clauses, and clear, sound, and reliable dispute resolution mechanisms.

G20 members should also further support the expansion of existing insurance mechanisms to mitigate political and other risks, especially through an enhanced role for multilateral development banks (MDBs) and regional development banks. In addition to infrastructure investment, governments should also focus on promoting industrialization in order to ensure that large scale manufacturing happens in developing countries. Last but not least, the Compacts could identify ways to enable partner countries to better mobilize their own public and private domestic resources.

Recommendation 3: Enabling Reliable and Affordable Energy

The G20 should, in cooperation with the Compact countries, enable reliable and affordable energy by promoting the development and further expansion of bankable and investment-ready energy investment pipelines with a larger number of high-quality energy infrastructure projects.

African countries are widely diverse, ranging from energy-resource rich to some of the world’s most energy poor countries. According to the International Energy Agency (IEA), however, only 45 percent of Africa’s population had access to electricity in 2014, compared to 80 to 100 percent in other parts of the developing world (see Exhibit 7).¹⁶

Exhibit 7 Electricity Access in 2014 – Regional Aggregates				
Region	Population without Electricity millions	Electrification Rate %	Urban Electrification Rate %	Rural Electrification Rate %
Developing countries	1.185	79	92	67
Africa	634	45	71	28
<i>North Africa</i>	1	99	100	99
<i>Sub-Saharan Africa</i>	633	35	63	19
Developing Asia	512	86	96	79
<i>China</i>	0	100	100	100
<i>India</i>	244	81	96	74
Latin America	22	95	98	85
Middle East	18	92	98	78
Transition economies & OECD	1	100	100	100
WORLD	1.186	84	95	71

Source: IEA, *World Energy Outlook, Electricity Access Data Base* (IEA: 2016), accessed June 2, 2017, <http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessdatabase/>.

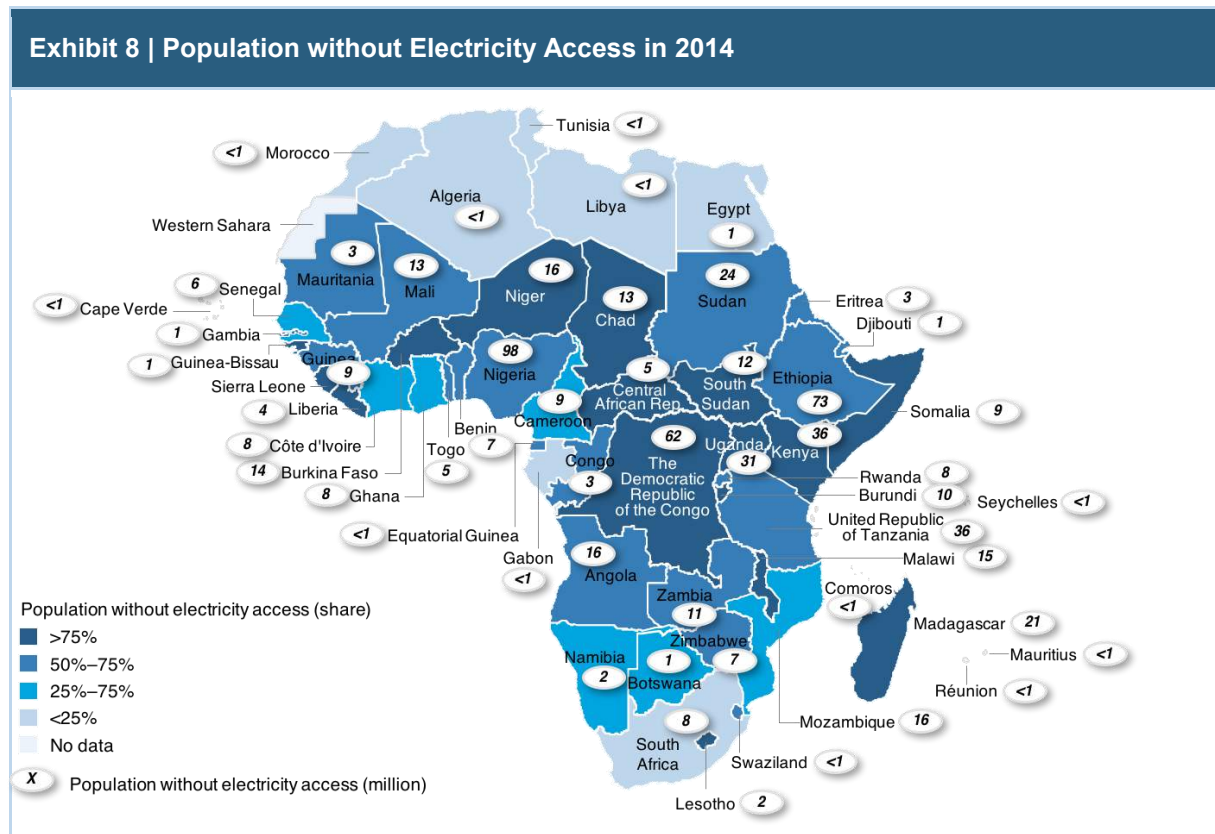
The IEA suggests that strong population growth will offset the ongoing efforts to provide energy access to the currently 633 million people without electricity in Sub-Saharan Africa (2014)¹⁷. In 2030, 619 million people are still projected to be without access to electricity, out of 784 million people worldwide¹⁸. The problem affects both cities and rural areas: 37 percent of the Sub-Saharan urban population (in comparison to 8 percent of the urban population in developing countries overall) and 81 percent of the rural population (in comparison to 33 percent of the rural population in developing countries) live without electricity (2014), and a large part of the rest experiences frequent outages and high prices. Nearly 730 million people rely on the traditional use of solid biomass as fuel for cooking, typically with inefficient

¹⁶ IEA, *World Energy Outlook, Energy Access Projections* (IEA: 2016), accessed January 3, 2017, <http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessprojections/>;

¹⁷ IEA, *World Energy Outlook, Energy Access Projections* (IEA: 2016), op. cit; IEA, *Africa Energy Outlook* (Paris: IEA, 2014), accessed January 3, 2017, http://www.iea.org/publications/freepublications/publication/WEO2014_AfricaEnergyOutlook.pdf, 30 ff.

¹⁸ IEA, *World Energy Outlook* (IEA: 2016), op. cit.

stoves.¹⁹ The consequences are deprivation, health problems, pollution, environmental damage, and foregone economic opportunity.



Source: IEA, *World Energy Outlook, Energy Access Projections* (IEA: 2016), op. cit., 31.

According to PIDA, Africa’s electricity sector faces many challenges. These include the recurrent shocks in oil and gas markets, inefficient supply and consumption practices, growing demand, unstable rainfall patterns, limited generation capacity, limited grid flexibility, lack of inter-connectivity of power grids, and high upfront costs of renewable energy technologies. Without immediate actions, such challenges are likely to multiply with the expected population increase. Currently, eight of the top ten global countries with the fastest growing populations are in Africa. The African energy demand is expected to almost double by 2030.²⁰

As pointed out in the SDG7, reliable and affordable energy services are a precondition for the functioning of modern societies.²¹ Energy access will also be paramount for attaining the aspirations of the AU 2063 Agenda. The AU 2063 Agenda recommends that African countries should focus on all options for establishing universal access to energy in order to alleviate poverty and foster economic development.²² PIDA estimates an average annual investment need of \$42 billion to meet forecasted demand in 2040, with \$33.1 billion for generation, \$5.4 billion for interconnections, and \$3.7 billion in access. PIDA’s Priority Action Plan (PAP) contains 15 energy priority projects with a total investment need of \$40.3

¹⁹ IEA, *Africa Energy Outlook* (Paris: IEA, 2014), op. cit.

²⁰ Between 2013 and 2030, IRENA, *Africa 2013, Roadmap for a Renewable Energy Future*, (IRENA 2015), accessed June 7, 2017, http://www.irena.org/DocumentDownloads/Publications/IRENA_Africa_2030_REmap_2015_low-res.pdf, 23.

²¹ United Nations, *SDG, Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all*, accessed May 31, 2017, <http://www.un.org/sustainabledevelopment/energy/>

²² African Union Commission, *Agenda 2063 – The Africa We Want* (Addis Ababa: African Union Commission, 2015), accessed February 28, 2017, <http://www.un.org/en/africa/osaa/pdf/au/agenda2063.pdf>, 16.

billion, placing a focus on hydropower and international transmission lines, for example the North-South Power Transmission Corridor and the Uganda-Kenya Petroleum Products Pipeline.²³

Initiatives such as “Power Africa” by the U.S. Government – aiming to add more than 30,000 megawatts of clean and efficient electricity generation in all of Sub-Saharan Africa and to increase electricity access by adding 60 million new home and business connections – are relevant reference projects helping to tackle some of the above mentioned challenges.²⁴ A special focus needs to be put on projects that address the drastic energy poverty in rural areas, such as the “Electrification Financing Initiative” by the European Commission, which aims to increase energy access and off-grid solutions for poor rural remote communities in Sub-Saharan Africa.²⁵

The development in the energy sector requires mobilization of funds from both the public and private sector. Overall, energy infrastructure investments in Africa are comparatively promising. The estimated internal rate of return (IRR) of independent power plant (IPP) projects in Sub-Saharan Africa and North Africa is 17 to 19 percent and 14 to 16 percent, respectively. In other words, the IRR is significantly higher than in many other regions like, for instance, Saudi Arabia (11-13 percent) or Latin America (11-15 percent).²⁶

The B20 welcomes the PIDA PAP as well as the acknowledgement of the vital role of energy access for the sustainable development of the continent. The G20 Compacts with African countries should provide an investment-friendly policy framework that facilitates or complements the expansion of the PIDA energy investment pipeline. While harnessing all available energy resources, clean city action plans should ensure that they avoid creating carbon-intensive lock-ins that will be costly to reverse later. To enable the development and further expansion of energy investment pipelines with a larger number of high-quality energy infrastructure projects, the Compacts should support the financial and capacity-related scaling up of existing project preparation facilities of multilateral and regional development banks such as the NEPAD Infrastructure Project Preparation Facility.

Recommendation 4: Increasing Digital Connectivity

The G20 should, in cooperation with the Compact countries, bridge the digital divide between and within countries by enabling investment in ICT infrastructure as well as scaling up capacity building and skills programs.

Digitalization provides significant opportunities for the socio-economic development of African countries. At the same time, the fast advancement of digital technologies requires targeted and cooperative action to prevent a digital divide – both globally and on the national level.

Digitalization drives social and economic inclusion. It gives people and organizations of any size access to a global marketplace and repository of information. To the benefit of all economic sectors and consumers, it deepens and broadens trading patterns, takes productivity to a higher level, and scales up services. It is a critical cross-sectoral and cross-cutting means for achieving the Connect 2020 Agenda, the SDGs, and the Addis Ababa Action Agenda – from growth, trade, and employment to health, education, energy access, infrastructure, agriculture, food security, and overall societal welfare: digital technologies are crucial catalysts of progress.

However, Africa has a long way to catch up. While the global internet penetration rate was estimated to

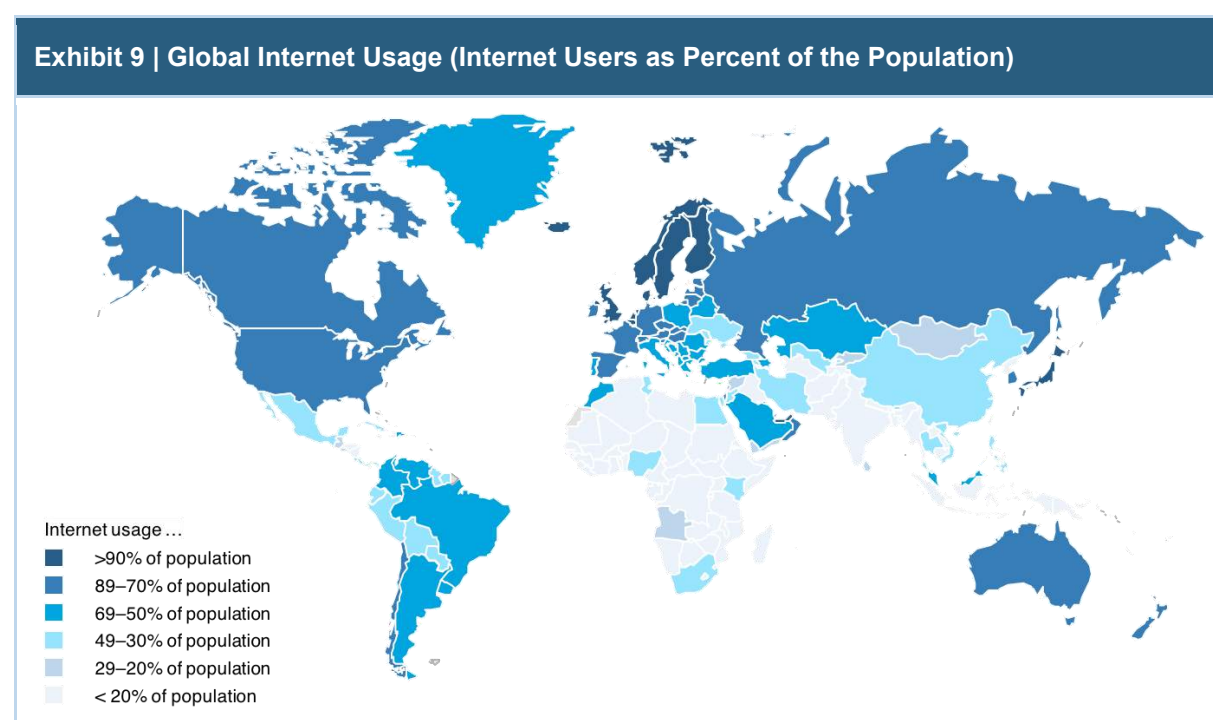
²³ PIDA, The Pida Energy Vision (Belvédère, Tunisia: African Union Commission, 2016), accessed February 28, 2017, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/PIDA%20brief%20Energy.pdf>, 5–8.

²⁴ USAID, *Power Africa*, accessed April 20, 2017, <https://www.usaid.gov/powerafrica>.

²⁵ ElectriFi. *What we do*, accessed April 20, 2017, <http://electrifi.org/what-we-do/>.

²⁶ BCG analysis.

be 46.4 percent in 2015, it reaches a mere 10.7 percent in Africa.²⁷ On average, in 2014 eight in ten individuals in the developing world owned a mobile phone.²⁸ However, Sub-Saharan Africa has the lowest mobile penetration (73 percent in 2014), against 98 percent in high-income countries.²⁹ The digital divide – between income, age, and gender groups – is particularly high in Africa. In 2014, women accounted for 53 percent of the non-internet users versus 41 percent of the online population, with the gender gap rising up to 45 percent in certain parts of Sub-Saharan Africa.³⁰ In order to increase broadband access and to effectively tackle the digital divide, governments and industry need to work together, especially when devising strategies for the roll-out of broadband.³¹



Source: ITU, World Telecommunication/ICT Development Report and Database, accessed February 6, 2017, <http://www.itu.int/en/ITU-D/Statistics/Pages/publications/wtid.aspx>; BCG analysis; B20 Policy Paper Digitalization.

Note: Internet usage refers to the percentage of individuals who have used the Internet in the last 12 months. Internet can be used via a computer, mobile phone, or personal digital assistant.

The ICT Development Index (IDI), published by the United Nations International Telecommunication Union, monitors and compares developments in information and communication technology (ICT). The 2016 report shows that, in spite of the relatively high growth rate in IDI values, Africa is not experiencing the necessary growth to reduce the digital divide vis-à-vis other regions. African countries feature heavily at the lower end of the ranking, with Mauritius faring best at rank 73 and Niger faring worst at place 175. The ten lowest ranking countries are all low-income countries in Africa.³²

²⁷ITU, *ICT Facts & Figures: The World in 2015*, accessed June 6, 2017, <https://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2015.pdf>.

²⁸The World Bank Group, *Digital Dividends*, (Washington D.C.: 2016), op. cit.

²⁹The World Bank Group, *Digital Dividends*, (Washington D.C.: 2016), accessed April 27, 2017, <http://documents.worldbank.org/curated/en/961621467994698644/pdf/102724-WDR-WDR2016Overview-ENGLISH-WebResBox-394840B-OOU-9.pdf>, 6.

³⁰GESMA, *Digital Inclusion 2014*, (London: 2014), accessed April 27, 2017, http://www.gsmamobilefordevelopment.com/wp-content/uploads/2014/11/GSMA_Digital-Inclusion-Report_Web_Singles_2.pdf

³¹Broadband Commission for Sustainable Development, accessed May 19, 2017, <http://www.broadbandcommission.org/about/Pages/default.aspx>.

³²ITU, *ICT Development Index 2016*, accessed April 14, 2017, <http://www.itu.int/net4/ITU-D/idi/2016/#idi2016byregion-tab>.

The WEF Framework “Internet for All” has identified four pillars for greater internet use: 1) infrastructure, 2) affordability, 3) skills, awareness, and cultural acceptance, and 4) local adoption and use.³³ To that aim, the G20 should build on existing strategies and programs.³⁴ For instance, the AU aims at a concerted push to finance and implement major ICT infrastructure projects. Main targets are the establishment of an integrated e-economy with universal access as well as reliable and affordable ICT services. Furthermore, the AU wants to increase broadband penetration by 10 percent until 2018 and broadband connectivity by 20 percentage points as well as provide access to ICT in schools and venture capital to ICT entrepreneurs and innovators.³⁵ Another program to build on is the West Africa Regional Communications Infrastructure Program by the World Bank Group. The program aims to increase the geographical reach of broadband networks and reduce the costs of communications services in West Africa. The program features three main components: 1) supporting connectivity, 2) creating an enabling environment, and 3) implementation.³⁶

The B20 welcomes these initiatives and recommends that the G20, together with Compact countries, builds on these to create the necessary environment and framework conditions for private investments in ICT. To that aim, G20 members and Compact countries should develop best practice regulations that increase transparency and legal security, as well as set investment incentives in less-profitable scenarios. G20 members should also support the development of self-sustainable programs for skill and capacity building in African countries, especially for SMEs. To better prepare businesses and people for the digital economy, governments have to work together with the private sector to understand current and future skill needs. A multitude of capacity building programs exists to improve digital skills and literacy in developing regions.³⁷ Governments, businesses, and international organizations should streamline their efforts to avoid overlaps. One stellar example is the *eTrade for All initiative*, which the G20 should endorse. This initiative streamlines aid targeted at different aspects of e-commerce readiness, such as legal frameworks and skills.

³³ WEF, *Internet for All: A Framework for Accelerating Internet Access and Adoption*, (Cologny: 2016), 10.

³⁴ In the context of the Internet for All framework sustainable and impactful country programs are initiated for instance in the Northern Corridor of East Africa.

³⁵ African Union, *Agenda 2063* (2014), 16.

³⁶ The World Bank Group, *West Africa Regional Communications Infrastructure Program*, (Washington D.C.: 2017), accessed April 21, 2017, <http://projects.worldbank.org/P116273/west-africa-regional-communications-infrastructure-program?lang=en&tab=overview>.

³⁷ For instance, in Kenya, Uganda and Tanzania, the Arid Lands Information Network has been establishing Maarifa Centres, often using shipping containers adapted for the purpose and providing ICT equipment in some of the world's most remote areas since 2007. The centres offer courses and training sessions on mobile phone and internet use, emphasizing their application to issues related to small-scale sustainable agriculture, climate-change adaptation and natural resources management. See: WEF, *Internet for All: A Framework for Accelerating Internet Access and Adoption*, (Cologny: 2016), 20.

Recommendation 5: Fostering Open and Inclusive Trade

The G20 should, in cooperation with the Compact countries, foster open and inclusive trade by reducing trade barriers, implementing trade facilitation measures, and scaling up capacity building.

Africa still plays a marginal role in world trade. Its share in world merchandise exports amounted to only 2.4 percent in 2015, its share in world merchandise imports to 3.4 percent.³⁸ Yet, for African countries themselves, trade plays a major role for economic growth and development. The trade to GDP ratio (exports and imports of goods and services) amounts to more than 50 percent.³⁹ There is enormous untapped potential for poverty reduction and development, not only by integrating the continent more into world trade, but also by strengthening trade on the continent. According to the World Trade Organization (WTO), intra-African trade is low in comparison to intra-regional trade in other regions. The share of merchandise exports between African countries in total merchandise exports amounted to 17.7 percent in 2014 compared to 68.5 percent for Europe and 52.3 percent for Asia.⁴⁰ Barriers to trade between African countries still limit the growth of trade throughout Africa considerably, costing African nations billions of dollars of potential earnings. These include inefficiencies in transport, lack of infrastructure, customs and logistics, information and skill deficits, complex fiscal arrangements, restrictive rules of origin, lack of effective regulations and standards, and heavy administrative procedures.⁴¹

Open and inclusive trade and investment are prerequisites for a future-oriented, sustainable global economy. They boost productivity by enhancing economies of scale and specialization, as well as by lowering input prices and by increasing competition. Furthermore, imports significantly contribute to consumer welfare and purchasing power, as trade provides access to a more diverse range of goods and services at lower prices. This is especially beneficial for lower-income households. The SDGs acknowledge the significant potential of trade and investment for inclusive economic growth and poverty reduction. The Addis Ababa Action Agenda also underlines international trade as an engine for inclusive economic growth and poverty reduction, contributing to the promotion of sustainable development.⁴²

³⁸ WTO, *World Trade Statistical Review 2016*, (Geneva 2016), accessed April 14, 2017, https://www.wto.org/english/res_e/statis_e/wts2016_e/wts16_toc_e.htm, 92-93.

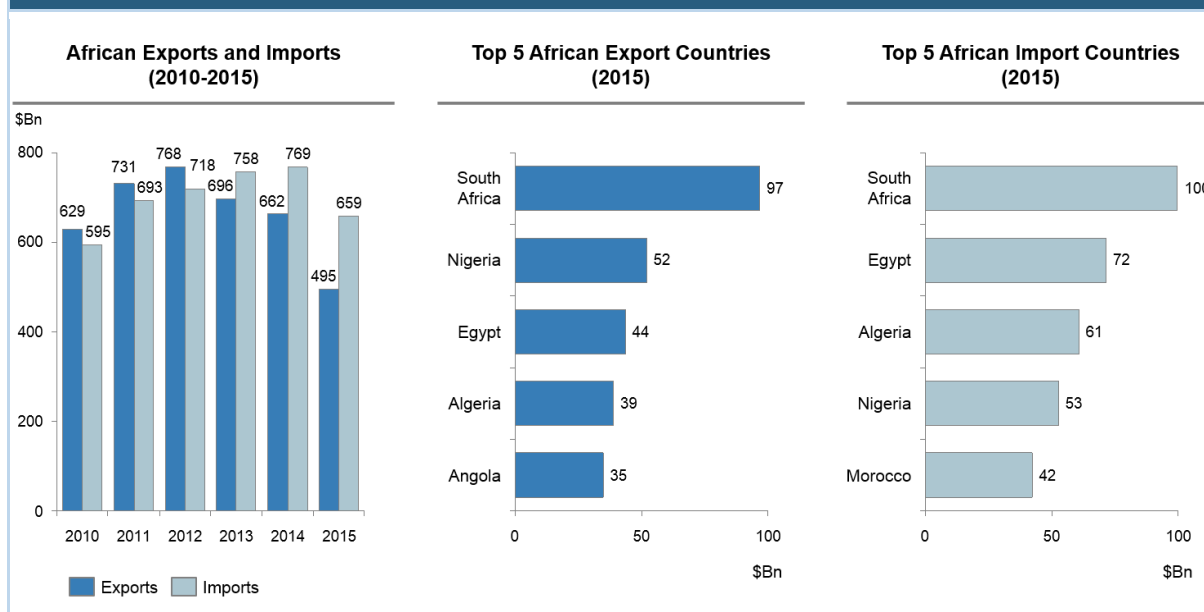
³⁹ World Bank, *Trade to GDP Data*, accessed April 14, 2017, <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>.

⁴⁰ WTO, *International Trade Statistics 2015*, (Geneva: 2016), accessed April 14, 2017, https://www.wto.org/english/res_e/statis_e/its2015_e/its15_world_trade_dev_e.htm.

⁴¹ International Centre for Trade and Development, *Red Tape and Trade Barriers Costing Africa Billions* (Bridges Africa: February 8, 2012), <http://www.ictsd.org/bridges-news/bridges-africa/news/red-tape-and-trade-barriers-costing-africa-billions>.

⁴² African Union Commission, *Agenda 2063 – The Africa We Want* (Addis Ababa: African Union Commission, 2015), op. cit., 16.

Exhibit 10 | African Exports and Imports of Goods and Services (current US\$)



Source: Export data: World Bank national accounts data, and OECD National Accounts data files; Import data: fDi Intelligence Database; BCG analysis.

The AU aims at increasing intra-African trade from less than 12 percent in 2013 to close to 50 percent by 2045. Africa’s share of global trade is to rise from 2 to 12 percent in the same period.⁴³ This is to be achieved by boosting trade facilitation, infrastructure connectivity, and regional integration initiatives. The B20 strongly welcomes the acknowledgement of investment and trade as springboards for transformation. The G20 Compacts with African countries should help to provide the missing implementation steps to advance towards these targets, building on regional initiatives. All actions should be considered in conjunction with existing Aid for Trade programs, ideally also inviting the private sector to contribute its expertise and technical assistance.

Particular attention should be given to capacity building in order to leverage the opportunities of digital trade and assistance in the implementation of the WTO’s Trade Facilitation Agreement (TFA). If fully implemented, the TFA, which went into force in February 2017, can reduce worldwide trade costs by 12.5 to 17.5 percent, especially for developing countries and SMEs.⁴⁴ It has the potential to be a major instrument for increasing trade inclusiveness. The B20 calls on the G20 to make trade facilitation a central aspect of the Compacts with African countries. In this regard, close attention should be paid to digital trade. Digital trade helps lower transaction costs and gives easy access to the global marketplace. It thus holds great potential for regional economic integration and the integration of African economies into global value chains by attenuating barriers linked to insufficient infrastructure, geography – especially for landlocked countries – and lack of scale.

Last but not least, G20 members should strengthen their trade development assistance programs with Compact countries, supporting them in integrating in global value chains, as well as – if not yet in place – evaluating possibilities of trade partnerships that allow for greater market access.

⁴³ African Union, *Agenda 2063* (2014), op. cit., 5.

⁴⁴ WTO Trade Facilitation Agreement, *WTO Members welcome entry into force of the Trade Facilitation Agreement* (February 28 2017), accessed June 1 2017, <http://www.tfafacility.org/wto-members-welcome-entry-force-trade-facilitation-agreement>.

Recommendation 6: Improving Good Governance and Responsible Supply Chains

The G20 should, in cooperation with the Compact countries, foster responsible global and regional supply chains and anti-corruption measures by supporting the comprehensive set of existing international initiatives and by encouraging the African partners to develop strong national institutions.

The preponderance of research indicates that participation in regional and global value chains not only creates more, but also better jobs.⁴⁵ It offers opportunities to upgrade through knowledge and skill transfers and product differentiation. While integration into regional and global value chains can boost economic growth and advance development, it also poses considerable challenges, however, as goods and services are sourced from complex chains of suppliers that often involve multiple countries, in which legal, regulatory, and human rights practices can differ substantially.

The B20 fundamentally rejects any violation of the 1998 Declaration on Fundamental Principles and Rights at Work. Forced and child labor, discrimination and the denial of freedom of association and collective bargaining are severe forms of human rights violation, with grave impacts for both individuals and societies. They are also a form of unfair competition.

It is the duty of governments to protect their people from human rights abuses. This duty means that governments should have effective laws and regulations in place to prevent and address business-related human rights abuses. G20 members, together with the Compact countries, should thus ensure better implementation and enforcement of legislation at the national level. The Compacts with African countries should support the comprehensive set of existing initiatives to promote sustainable and responsible global supply chains and responsible business conduct while at the same time ensuring a global level playing field. These initiatives are, in particular, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises (MNE), and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration).

The Compacts also need to address the issue of corruption. Combatting corruption is vital for sustaining economic stability and growth, maintaining the security of societies, protecting human rights, reducing poverty, protecting the environment for future generations, and addressing organized crime. Corruption is also the number one barrier to business and investment activities in Africa, according to the B20 Africa Survey.

Quantifying the size of economic, political, and social costs of corruption is extremely difficult due to the methodological challenges inherent in the measurement of such a hidden phenomenon. However, it is frequently cited that the overall cost of corruption is estimated to amount to more than five percent of global GDP (\$2.6 trillion), with over \$1 trillion paid in bribes each year.⁴⁶ For Africa, the cost of poor governance is enormous. According to the OECD, the African Union estimated in 2002 that 25 percent of the GDP of African states, amounting to \$148 billion, was lost to corruption every year.⁴⁷ Corruption increases the cost of goods by as much as 20 percent, thereby deterring investment and inhibiting development.⁴⁸

Corrupt behavior leads to suboptimal economic performance wherever it is present. It also leads to the

⁴⁵ WTO, *Supply Chain Issues*, (Geneva: 2013), accessed May 31, 2017, https://www.wto.org/english/res_e/booksp_e/aid4tradesupplychain13_e.pdf; African Development Bank, OECD, United Nations Development Programme, *Global Value Chains and Africa's Industrialisation African Economic Outlook 2014* (2014).

⁴⁶ OECD CleanGovBiz Initiative, *The Rationale for Fighting Corruption* (2014), accessed May 31, 2017, <https://www.oecd.org/cleangovbiz/49693613.pdf>.

⁴⁷ OECD CleanGovBiz Initiative, *The Rationale for Fighting Corruption* (2014), op. cit.

⁴⁸ UNDP, *Building on Evidence: Corruption a Major Bottleneck to MDG achievements*, accessed June 1 2017, <http://www.undp.org/content/dam/aplaws/publication/en/publications/democratic-governance/dg-publications-for-website/protecting-the-public-purse-anti-corruption-for-mdgs/MDGs%20and%20Anti-Corruption.pdf>

inefficient use of public resources and undermines the state's ability to deliver inclusive economic growth. Recent statistics indicate that systemic corruption and social inequality reinforce each other, leading to popular disenchantment with political establishments around the world. Moreover, when systemic corruption affects virtually all state functions, distrust of the government can become so pervasive that it can lead to violence, civil strife, and conflict, with devastating social and economic implications. At a time of rising inequality in income and wealth, citizens in many countries have taken to the streets and are sending a powerful signal to their leaders that they will no longer tolerate corruption.

The 2016 Corruption Perceptions Index of Transparency International scores and ranks 176 countries based on how corrupt a country's public sector is perceived to be. The index shows that despite some encouraging signs, corruption remains widespread in a large number of African countries.⁴⁹ A 2015 survey of over 43,000 people in 28 Sub-Saharan countries by Transparency International found that more than one in five Africans paid bribes to obtain official documents.⁵⁰ The majority of Africans (58 percent) say that corruption had increased over the past year, that the local governments are failing to meet citizens' expectations in regard to fighting corruption, and that the police and the courts have the highest rate of bribery among key public services.⁵¹

The Compacts with African countries should therefore address the issue of corruption and call for effective anti-corruption measures to tackle both the demand and the supply sides of corruption in African countries. B20 underlines the importance of effectively implementing and promoting key international instruments such as the United Nations Convention against Corruption (UNCAC), the Organisation for Economic Co-operation and Development (OECD) Anti-Bribery Convention, the OECD Guidelines for Multinational Enterprises, and the United Nations (UN) Guiding Principles on Business and Human Rights. B20 also emphasizes the importance of voluntary initiatives, such as the UN Global Compact's Ten Principles on human rights, labor, environment, and anti-corruption. Together with Compact countries, G20 members should encourage African countries to strengthen their public financial management, i.e. improve accountability, efficiency, and transparency in their public administration so that public officials have less opportunity to abuse their office for private gain. In particular, African countries need to make sure that public contracts are planned, awarded, and managed openly and accountably. Responsible businesses participating in public tenders should be recognized. G20 members should support African countries to establish an internal control and sanction structure within the public sector. African countries should join global efforts to promote beneficial ownership transparency so that the risks related to the ultimate owner(s) of a company can be identified by stakeholders. G20 members, together with Compact countries, should continue their commitment to building a global culture of intolerance towards corruption by supporting the provision of capacity building and training in African countries and by improving education on anti-corruption and integrity in schools and universities.

⁴⁹ UNDP Global Thematic Programme on Anti-Corruption for Development Effectiveness (PACDE), *Anti-Corruption for MDG Acceleration*, accessed April 24, 2017, <http://www.undp.org/content/dam/aplaws/publication/en/publications/democratic-governance/dg-publications-for-website/protecting-the-public-purse-anti-corruption-for-mdgs/MDGs%20and%20Anti-Corruption.pdf>.

⁵⁰ Transparency International, *People and Corruption: Africa Survey 2015 – Global Corruption Barometer*, (December 2016), accessed June 1 2017, http://www.transparency.org/whatwedo/publication/people_and_corruption_africa_survey_2015, 3.

⁵¹ Transparency International, *People and Corruption: Africa Survey 2015 – Global Corruption Barometer*, (December 2016), op.cit.

Recommendation 7: Enabling Small and Medium-Sized Enterprises

The G20 should, in cooperation with the Compact countries, enable an environment that promotes SMEs as a pillar for inclusive growth and development.

In most countries worldwide, micro, small and medium-sized enterprises (MSMEs) contribute over 50 percent to gross domestic product (GDP) and two thirds to formal employment. SMEs, which often form the backbone of the middle class, are important for social stability, innovation, inclusive growth, and poverty alleviation. According to the World Economic Forum (WEF), SMEs create around 80 percent of the region's employment.⁵² They establish a new middle class and fuel demand for new goods and services.⁵³ Helping African SMEs to flourish is crucial for African growth and prosperity. The Compacts with African countries should therefore put a focus on SME development. Three areas call for particular attention: integration in regional and global supply chains, integration into the digital economy, and access to finance.

An important precondition for SMEs to flourish and grow is to export – either directly through SME-to-SME trade relations and direct-customer sales or indirectly through participation in supply chains. However, complexities at the border, for instance diverging customs procedures and complex rules of origin requirements, hold back trade. Regulatory burdens negatively affect export revenues of small firms twice as much as those of large firms, since many SMEs are relatively unprepared and less well-resourced to deal with these barriers. Given the vast potential of further SME integration into regional and global trade for inclusive growth and jobs, policies under the Compact with Africa countries should therefore be guided by a holistic “think small first” principle.

Digitalization offers opportunities by creating jobs, leveraging human capital, and boosting consumer welfare. It enables citizens to access public services, strengthens government capabilities, and serves as a platform for citizens to tackle problems collectively. These benefits are neither automatic nor guaranteed, but in many instances, digital technologies can bring significant gains in growth and jobs. Digitalization is both an opportunity and a challenge for SMEs. Without state-of-the-art access to digital infrastructure and equipment, they risk falling behind. Affordable, quality internet access is the prerequisite for using new technologies, connecting with the global economy, and leveraging digitalization for new business models and productivity. The expansion of digital infrastructure outside of industrial centers is thus essential. In addition to internet access, adequate legal frameworks, and easy access to information, SMEs require basic components of e-commerce readiness.

Limited access to finance is one of the key impediments to SME growth. In 2015, the World Bank found that 50 percent of SMEs do not have access to formal credit.⁵⁴ While the gap varies considerably between countries and regions, it is particularly wide in Africa and Asia.⁵⁵ According to the International Finance Corporation (IFC) Enterprise Finance Gap Database, of 400 million MSMEs in developing countries, 15 percent have access to finance, 40 percent are unserved, 10 percent underserved, and for 25 percent access to finance is a major constraint.⁵⁶ Access to trade finance is a case in point. According to the WTO, the estimated value of unmet demand for trade finance in Africa is \$120 billion (one-third of the continent's trade finance market).⁵⁷ SME are perceived to be of higher risk than larger enterprises and therefore generally find it more difficult to access financing from credit institutions. SMEs

⁵² José Filomeno de Sousa dos Santos, *Why SMEs Are Key to Growth in Africa* (August 4, 2015), accessed June 1 2017 <https://www.weforum.org/agenda/2015/08/why-smes-are-key-to-growth-in-africa/>.

⁵³ José Filomeno de Sousa dos Santos, *Why SMEs Are Key to Growth in Africa* (August 4, 2015), op. cit.

⁵⁴ World Bank, *Small and Medium Enterprises (SMEs) Finance* (September 1, 2015), accessed June 1 2017, <http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>.

⁵⁵ World Bank, *Small and Medium Enterprises (SMEs) Finance* (September 1, 2015), op. cit.

⁵⁶ SME Finance Forum, *IFC Enterprise Finance Gap Database* (2017), accessed June 1 2017, <https://smefinanceforum.org/data-sites/ifc-enterprise-finance-gap>.

⁵⁷ WTO, *Trade Finance and SMEs* (2016), accessed June 1 2017, https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf.

tend to require more support and coaching, and are thus by definition more expensive to service, whilst generating relatively modest opportunities for profit-motivated financial institutions. There are also not enough alternative forms of financing available to SMEs. Building on regional initiatives, Compacts with African countries should therefore pay particular attention to strengthening financial market infrastructure, enhancing access to diversified financial instruments, and advancing digital financial technologies. Compacts should also aim at enhancing the information infrastructure for credit risk assessment, including by providing the right conditions for the development of credit bureaus, credit rating agencies, and data warehouses; broadening the availability of transparent, reliable, and consistent credit information; and supporting the development of SME-specific credit-risk management skills.

Recommendation 8: Improving Financial Inclusion

The G20 should, in cooperation with the Compact countries, advance financial inclusion to create a broader basis for sustainable economic growth and development.

According to the McKinsey Global Institute, two billion individuals and 200 million businesses in emerging economies lack access to savings and credit.⁵⁸ This is particularly the case in Sub-Saharan Africa, where more than 70 percent of the adult population is without access to formal financial services. African financial systems have improved in the past two decades but still lag behind other developing economies. Financial inclusion (meaning that financial products and services are readily available to consumers and meet their specific needs) is a key enabler to reducing poverty, decreasing income inequality, and boosting prosperity. The development aspect of financial inclusion has been strongly recognized by the 2030 Development Agenda. The SDGs include access to financial services within several of its targets, also underlining the importance of women's access to financial opportunities.⁵⁹

The level of a country's financial inclusion is influenced by many factors, including income per capita, good governance, the quality of institutions, availability of information, the regulatory environment, and technological developments. While a number of initiatives can improve financial inclusion, digital finance has particular potential. The 2016 Brookings Financial and Digital Inclusion Project Report shows that for Sub-Saharan African countries, the rapid spreading of digital financial platforms and services, particularly mobile money, has been a key driver of financial inclusion.⁶⁰ In Sub-Saharan Africa, 34 percent of adults had an account in 2014, up from 24 percent in 2011. This is still low in comparison to other regions.⁶¹ The region, however, leads the world in mobile money accounts: 12 percent of adults in Sub-Saharan Africa have a mobile money account while that number is just 2 percent for adults worldwide.⁶²

⁵⁸ Jacques Bughin, James Manyika, Jonathan Woetzel, *Digital Finance for All. Empowering Inclusive Growth in Emerging Economies*, McKinsey Global Institute (September 2016), <http://www.mckinsey.com/global-themes/employment-and-growth/how-digital-finance-could-boost-growth-in-emerging-economies>.

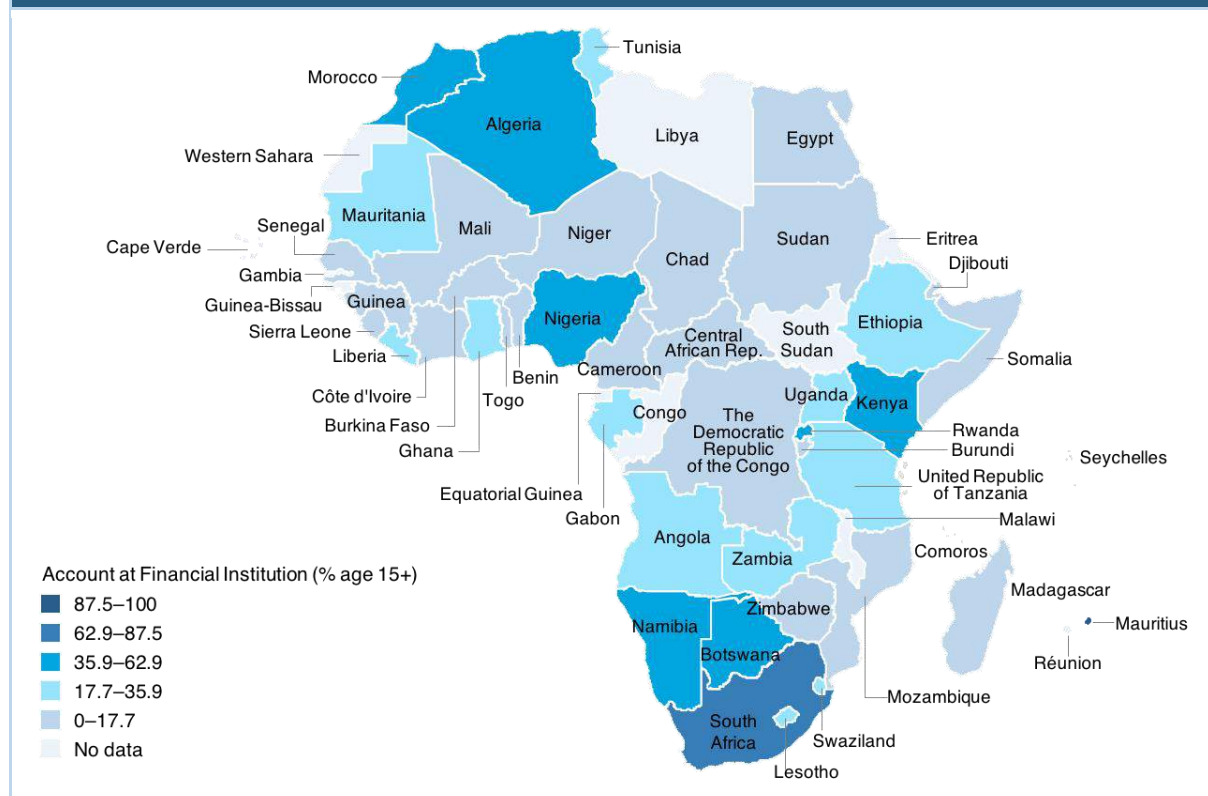
⁵⁹ Javier M. Flores Moreno, *Financial Services for Sustainable Development* (December 17, 2015), accessed April 14, 2017, <http://www.sdgfund.org/financial-services-sustainable-development>.

⁶⁰ Robin Lewis, John Villasenor, and Darrell M. West, *Financial Inclusion Opportunities in Africa* (September 9, 2016), accessed April 14, 2017, <https://www.brookings.edu/blog/techtank/2016/09/09/financial-inclusion-opportunities-in-africa/>.

⁶¹ The World Bank, Global Findex Data: Sub-Saharan Africa, accessed June 1 2017, <http://datatopics.worldbank.org/financialinclusion/region/sub-saharan-africa>.

⁶² The World Bank, *Global Findex Data: Sub-Saharan Africa*, accessed April 14, 2017, op. cit.

Exhibit 11 | Percentage of People having an Account at a Financial Institution (% age 15+), 2014



Note: Data related to percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution.

Source: The World Bank, *Global Findex Data*; accessed April 24, 2017, <http://databank.worldbank.org/data/reports.aspx?source=1228>.

The McKinsey Global Institute estimates that digital finance could provide 1.6 billion people in emerging economies with access to financial services, more than half of them women.⁶³ It has the potential to transform the economic prospects of billions of people, reduce poverty, empower women, and help to build stronger institutions. It could increase the GDP of all emerging economies by 6 percent, or a total of \$3.7 trillion, by 2025, through increased productivity, as a result of digital payments and wider investment across more people and businesses.⁶⁴

Financial inclusion has been a long-standing issue on the G20 agenda. At their Pittsburgh Summit in September 2009, the leaders of the G20 committed to improving financial services for the poor. At the 2010 Toronto Summit, the leaders endorsed nine Principles for Innovative Financial Inclusion. These lie at the heart of the multi-year Financial Inclusion Action Plan, approved by the leaders at the Seoul Summit in November 2010. In Hangzhou 2016, the G20 endorsed the G20 High-Level Principles for Digital Financial Inclusion, building on the G20 Principles for Innovative Financial Inclusion of 2010.⁶⁵

⁶³ Jacques Bughin, James Manyika, Jonathan Woetzel, *Digital Finance for All. Empowering Inclusive Growth in Emerging Economies*, McKinsey Global Institute (September 2016), op. cit.

⁶⁴ Jacques Bughin, James Manyika, Jonathan Woetzel, *Digital Finance for All. Empowering Inclusive Growth in Emerging Economies* (2016), op. cit.

⁶⁵ GPF, *G20 High-Level Principles for Digital Financial Inclusion* (2016), accessed March 19, 2017, <http://www.gpfi.org/sites/default/files/documents/G20%20High%20Level%20Principles%20for%20Digital%20Financial%20Inclusion%20-%20Full%20version-.pdf>; GPF, *G20 Principles for Innovative Financial Inclusion*, <http://www.gpfi.org/sites/default/files/documents/G20%20Principles%20for%20Innovative%20Financial%20Inclusion%20-%20A>

Together with the Compact countries, the G20 should build on these initiatives, advancing their implementation. Apart from fostering a diverse range of digital financial products and services as well as advancing micro-finance and micro-insurance, the Compacts should place a strong focus on support programs that enhance financial literacy and skills.

Recommendation 9: Advancing Health

The G20 should, in cooperation with the Compact countries, support measures that aim to expand access to essential healthcare services to their citizenry by applying best practices, building improved and sustainable policies, as well as incentivizing private sector involvement.

Health is a key aspect of human and economic development. A healthy population is essential to delivering sustainable and inclusive economic growth and security: one extra year of life expectancy has the potential to raise a country's per capita GDP by about four percent.⁶⁶ Roughly 400 million people in low- and middle-income countries currently lack access to effective and affordable healthcare.⁶⁷ The poorest nations tend to suffer most from health problems. Investment in health is thus not only desirable, but is a must for most societies. There is ample evidence of the effects of health on development: Countries with weak health and education conditions find it harder to achieve sustainable growth and development. Weak health systems create a significant financial burden in the form of healthcare expenditures and lost productivity. Governments in less and least developed countries are struggling to offer adequate access to healthcare to their populations, often due to workforce shortages, patient locations, infrastructure limitations, and budgetary constraints. The importance of health is reflected in the SDGs. Goal 3 of the SDGs stipulates that universal health coverage (UHC) and access to quality essential healthcare services as well as safe and effective vaccines and medications should be available for all by 2030.⁶⁸

Africa struggles with a long list of serious diseases. While the continent has made progress concerning some diseases, such as polio, there has been less progress with regard to others. The leading causes of death are HIV/AIDS, diarrheal diseases, malaria, ischemic heart disease, meningitis, tuberculosis, diabetes mellitus, neonatal sepsis and infections, cirrhosis of the liver, as well as epilepsy. Healthcare on the continent differs widely, depending on the country and also the region. In general, however, health outcomes are worse in Africa than anywhere else in the world. Especially Sub-Saharan Africa falls behind other regions with regard to key health indicators such as maternal mortality ratio or under-five mortality rate (see Exhibit 12). While technology is transforming how healthcare is delivered, giving more people better care, access to health remains particularly poor for those living in rural and remote areas. According to the World Bank, Sub-Saharan Africa has very low per capita health spending and slow growth in health spending compared with other regions.⁶⁹ Many countries in Africa depend on external resources for a substantial proportion of total health expenditure. Household out-of-pocket health expenditure is very high.

Africa's health challenges require concerted action from all stakeholders. The B20 lauds G20 Germany for placing health on the agenda of this year's summit. Aiming to improve health globally must be synonymous with committing to long-term engagement and investment. Medical innovation and policy

F1%20brochure.pdf.

⁶⁶ D.E. Bloom, M. Canning, J. Sevilla, *The Effect of Health on Economic Growth: A Production Function Approach*, *World Development*, 32:1, (2012), 1-13.

⁶⁷ WHO, *New Report Shows That 400 Million Do Not Have Access to Essential Health Services* (2015), accessed April 11, 2017 <http://www.who.int/mediacentre/news/releases/2015/uhc-report/en/>.

⁶⁸ United Nations, *SDG, Goal 3: Ensure Healthy Lives and Promote Well-Being for All at All Ages*, accessed February 22, 2017, <http://www.un.org/sustainabledevelopment/health/>.

⁶⁹ World Bank, *Health Financing and Fiscal Health in Africa Bridging Collaboration between Ministries of Finance and Health* (2013), <http://siteresources.worldbank.org/INTAFRICA/Resources/AHF-health-financing-and-fiscal-health-in-africa.pdf>.

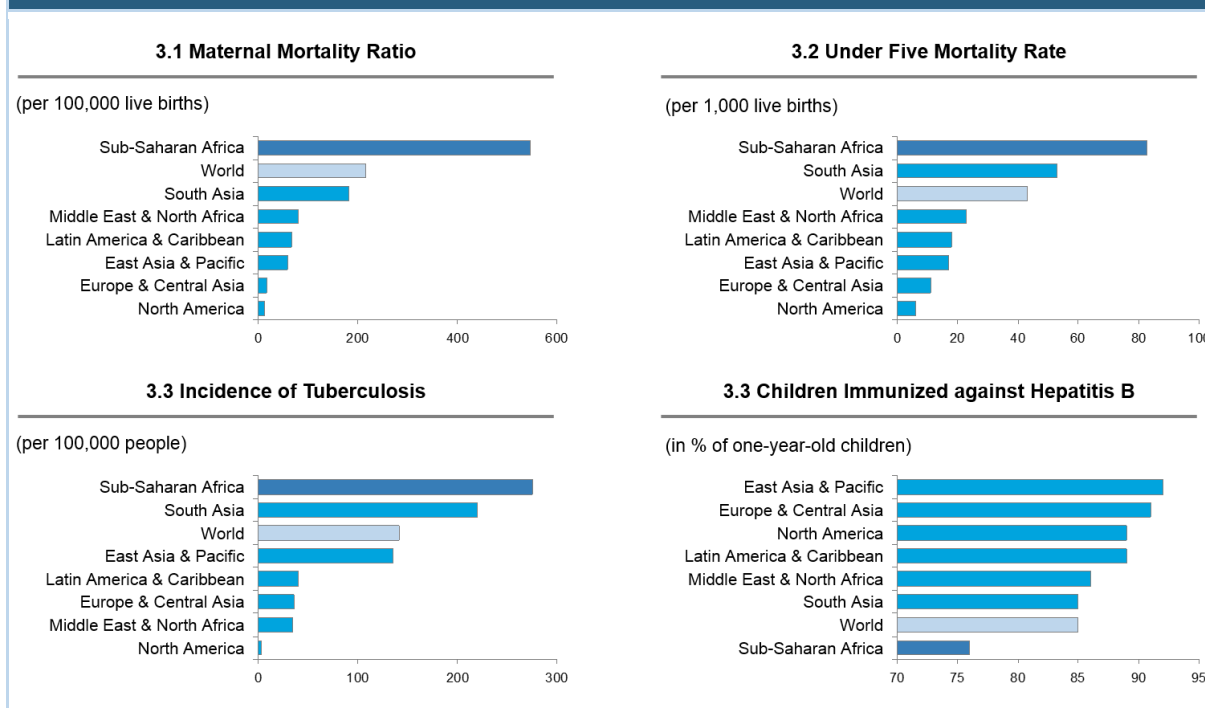
changes take years to develop and take effect. Only a sustained and long-term commitment to tackling health challenges can ensure progress. Investing in health should therefore also be considered in the Compact with Africa Initiative. Building on global and regional initiatives, the G20 should work together with Compact partners to expand access to essential healthcare services to their citizenry by sharing best practices, building improved and sustainable policies, as well as incentivizing private sector involvement.

A potential area of focus could be the close cooperation between public, private, and civil society sectors to help African countries leapfrogging health systems. Generally, leapfrogging means using a new technology, operating model, or pattern of behavior to accelerate the development of a system by helping it skip over previously unavoidable development stages.⁷⁰ In the context of health, it can help emerging countries to avoid inefficient path dependencies by implementing proven best practices and medical innovations with a significant impact according to the specific circumstances of the individual country. The World Economic Forum has started such initiatives leading to more efficient health outcomes. Examples are the use of e-learning for nurses in Kenya to overcome capacity limitations of traditional classroom-based teaching or the introduction of innovative medical instruments like the “Odon device”, a new obstetrical instrument to be applied in case of complications during the second stage of labor (obstructed labor), which helps to reduce maternal and newborn mortality.⁷¹ The targeted approach of implementing and applying best practices in healthcare allows for the accounting of specific requirements of African countries and leverages innovations in healthcare more efficiently.

⁷⁰ WEF, *Health Systems Leapfrogging in Emerging Economies Project Paper* (January, 2014), http://www3.weforum.org/docs/WEF_HealthSystem_LeapfroggingEmergingEconomies_ProjectPaper_2014.pdf, 9.

⁷¹ WEF, *Health Systems Leapfrogging in Emerging Economies Project Paper* (January, 2014), op. cit., 14-17.

Exhibit 12 | Regional comparison SDG Goals 3.1, 3.2, and 3.3 (2015)



Source: The World Bank, *HNP Sustainable Development Goals*, accessed May 9, 2017, <http://datatopics.worldbank.org/hnp/HNPSDG>.

Recommendation 10: Advancing Employment and Education

The G20 should, in cooperation with the Compact countries, advance employment and education, in particular by promoting open, dynamic, and inclusive labor markets, and by harnessing technological change through education.

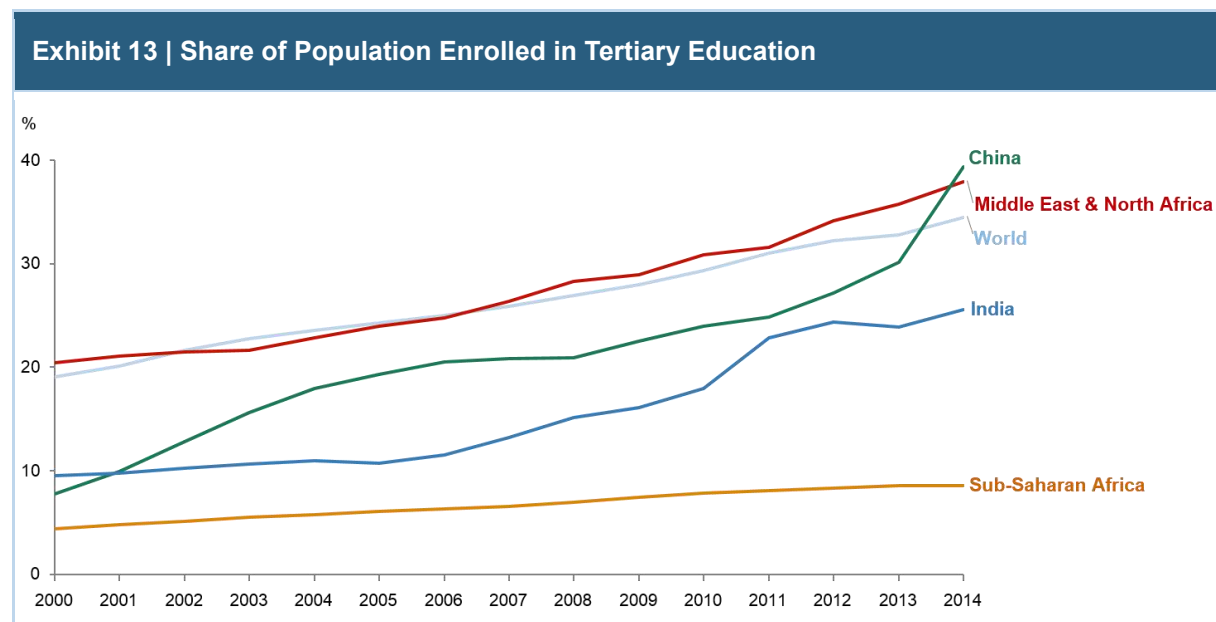
Africa’s labor force makes up over 70 percent of the population and is increasing by 18 million people every year. More than 63 percent of African citizens are under 25 years of age, and more than half are women. One million young people enter the continent’s labor market every month, and more than 30 percent of these have recognized qualifications and yet do not find employment. Between 40 percent and 80 percent of jobs in Africa are not registered and are considered to be within the informal sector.⁷² Africa could transform its population – the youngest in the world – into a competitive advantage if governments and dynamic leaderships offered by the Compact countries created new perspectives in the form of opportunities for work and wealth creation.

Demographic changes, technological advancement, and increased mobility are profoundly changing the world of work and are expected to do so even more in the future. Further new forms of work are evolving rapidly. Therefore, it is important for governments to promote open, dynamic, and inclusive labor markets. At the same time, the advent of technological change has led to diverging impacts on labor markets across countries, in particular regarding the impact on skills and therefore education and learning for life. It also allowed for the African labor force to find job opportunities in foreign labor markets. G20 governments should work with the Compacts with African countries to harness the potential of

⁷² International Organisation of Employers (IOE), *Blueprint for Jobs in Africa*, 2015, http://www.ioe-emp.org/fileadmin/ioe_documents/publications/Working%20at%20Regional%20Level/Africa/EN/_2016-04-15__C-427_Blueprint_for_Jobs_in_Africa_-_web_version.pdf.

technological change through better education and training, entrepreneurship, and innovation frameworks.

Firstly, creating open, dynamic, and inclusive labor markets means to remove legal and structural barriers on the labor market and to promote diverse forms of work in the formal sector, such as traditional full-time, temporary or part-time work, but also entrepreneurship. An enterprise or entrepreneur operating in the informal economy is vulnerable because it likely lacks clear title to its property – the key capital input into its productivity. Without security of property or the formal protection of laws and institutions, the entrepreneur or small enterprise may be unable to secure affordable financing for expansion, and thus, the ability to hire more workers and provide them with a livelihood. By not being registered, such enterprises are also not contributing to public funds that are vital to providing the enabling environment for sustainable growth of the larger economy and provision and enforcement of labor and other laws that protect workers. Therefore, entrepreneurs should be encouraged to operate in the formal sector by reducing the cost and time of business registration, spreading information about how to register, and stamping out corruption. Also, entrepreneurship education should be embedded into school, vocational education and training (VET), and university curricula.



Source: UNESCO Institute for Statistics, accessed May 15, 2017, <http://data.worldbank.org/indicator/SE.TER.ENRR>.

Note: Total enrolment in tertiary education (ISCED 5 to 8), regardless of age, expressed as a percentage of the total population of the five-year age group following on from secondary school leaving.

Many workers, especially women and youth, are attracted to the informal economy out of necessity, i.e., they have no other opportunities. As barriers to formality are removed through measures to create an open, dynamic, and inclusive labor market, the regulatory environment will be better optimized to welcome those currently in the informal economy in Africa.

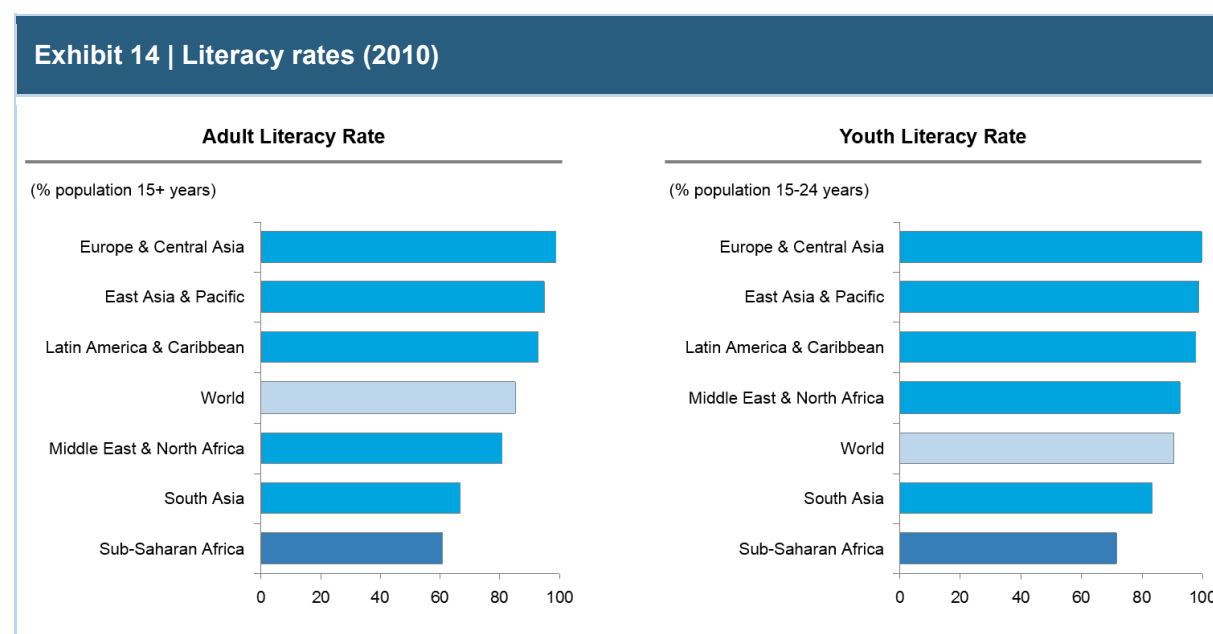
Specifically, governments should ensure policy frameworks that improve female entrepreneurship and female labor market participation. This means removing legal restrictions that hinder women's participation in the labor market. It also means finding ways to demystify the STEM subjects to girls and women and therefore improving their access to careers in this sector.

In order to create open, dynamic, and inclusive labor markets, it is equally important to design, develop, and regulate labor market intermediation systems to facilitate regional labor migration. Thus, African governments should enforce existing laws to prevent exploitative labor recruitment. In addition, they

should set up easy to understand, employment friendly immigration laws that allow easy access to the formal labor market and reduce incentives for informality. Such efforts should be supported by the Compact countries.

Secondly, globalization and technological progress are changing the world of work. The digital revolution has influenced productivity and work opportunities in Africa, which increasingly require access to mobile phones and internet services. Harnessing the potential of technological change through education will provide more equitable access to economic opportunities arising from the changing world of work and create greater opportunities for Africa’s young and growing population.

Barriers to work are compounded by low skills, particularly for youth, creating a challenge for the generation of present and future work opportunities in the region. A healthy and educated workforce is critical to productivity and economic growth. Yet, youth in Sub-Saharan Africa have the lowest literacy rates of any region: only 62.7 percent for women and 74.7 percent for men (see Exhibit 14).⁷³ As the population shifts to cities and work becomes more technical, this skills deficit is likely to impede access to emerging well-paying jobs and lock many into low-paying informal work. To lead by example, there is a need for a political leadership that itself is educated and that actively encourages young people into education. This would lead to a culture of learning and competitiveness.



Source: UNESCO Institute for Statistics, accessed Ma 15, 2017, <http://data.worldbank.org/indicator/SE.ADT.1524.LT.ZS> and <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS>

Note: No data available for North America

Governments’ priority action should focus on investing in skills development. Policies should develop and encourage job creation and vocational training, i.e. apprenticeships, with technology as a complementary tool to improve access to, and delivery of, quality skills-based education. Furthermore, especially considering the technological advancements, the choice of work-based learning for youth must be widened and not only focus on “traditional” courses. This would allow overcoming common misperceptions of apprenticeships as a lower education pathway. Business should also make apprenticeships and work-based learning more attractive and involve youth in curriculum development.

⁷³ African Development Bank, OECD and UNDP, *African Economic Outlook* (2016), Chapter 4, http://www.africaneconomicoutlook.org/sites/default/files/2016-05/eBook_AEO2016.pdf.

While it is desirable to overcome informality, the current importance of the informal sector in Africa cannot be ignored. Therefore, business should support apprenticeships in both the formal and informal sector, as quality work-based training in the informal sector will facilitate the transition of young people to formal employment. In order to offer youth the highest benefits, employers need to measure the quality and effectiveness of their workplace learning programs and tailor them accordingly, regardless of whether they are operating in the formal or the informal sector.

It is important to address the issue of university and vocational training shortages. Therefore, both governments and business should encourage world leading educational institutes and universities to establish a presence and/or collaborative programs in Africa. However, not only education is important to ensure the best use of technological change. It is just as essential to promote entrepreneurship, which is crucial for more dynamic labor markets, not the least because entrepreneurs are job creators. Therefore, governments should reduce administrative and regulatory barriers for start-ups, reduce financial barriers by refraining as much as possible from excessive taxation on new small businesses, and by enabling greater access to funding sources for SMEs. Finally, entrepreneurship education should be embedded into school, VET, and university curricula.

Annex

Acronyms

AfDB	African Development Bank
AU	African Union
CWA	Compact with Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEMS	Global Emerging Markets
ICA	Infrastructure Consortium of Africa
ICT	Information and Communication Technology
IDI	ICT Development Index
IEA	International Energy Agency
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPP	Independent Power Plant
IRR	Internal Rate of Return
MDB	Multilateral Development Bank
MNE	Multinational Enterprise
MSME	Micro, Small and Medium-Sized Enterprise
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
PAP	PIDA's Priority Action Plan
PIDA	Programme for Infrastructure Development in Africa
PPP	Public-Private Partnership
SDGs	Sustainable Development Goals
SME	Small and Medium-Sized Enterprise
TFA	Trade Facilitation Agreement
UHC	Universal Health Coverage
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNCTAD	United Nations Conference on Trade and Development
VET	Vocational Education and Training
WBG	World Bank Group
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

B20 Africa Survey

The following section on B20 members' activities in Africa and perceived barriers to trade and investment on the continent is provided by the B20 under its own responsibility. It shows that there is strong interest from the B20 in the G20 Compact with Africa. The B20 contribution provides a useful perspective for G20 members on current trade-hampering barriers in African countries as well as suggestions for realistic and effective measures to reduce those barriers.

The German G20 presidency defined sustainable economic growth and development in Africa as a priority on its G20 agenda. The Compact with Africa will help foster sustainable future-oriented economic growth on a global scale. The B20 strongly welcomes this initiative. Among the B20 members, there is a strong interest in the partnership with Africa and expertise on current obstacles and suggestions on a practical way forward.

B20 members identified corruption as the main barrier impeding business activities and investment in Africa. Another barrier is of the regulatory nature. B20 members identified examples such as lack of a sound and stable fiscal and regulatory environment, the weakness of institutions and the legal framework, as well as problems regarding reliability and transparency of regulations. Political barriers also hamper the efforts of the international community to engage in investment in African countries. B20 members have identified, among others, foreign ownership restrictions and missing export insurances as political barriers. Besides these three main barriers, there are still many other barriers to tackle. Missing infrastructure negatively affects, for example, energy provision and access to affordable broadband connectivity. B20 members also named financial barriers as impediments to trade and investment. Financial barriers explicitly mentioned by B20 members are currency/exchange controls, currency devaluation, problems in cash collection, and recognition of revenues.

Graphic 1: Current Barriers Affecting B20 Business and Investment Activities in Africa	
The "Compact with Africa" is supposed to identify elements for a more favorable environment to do business and/or invest in Africa. What barriers currently affect your business and/or investment activities in Africa?	
Answer Options	Response Percent
corruption	59.3%
regulatory	57.1%
political	56.0%
missing infrastructure	39.6%
legal	35.2%
financial	31.9%
lack of skilled workers	31.9%
trade-related	29.7%
lack of transparency in tenders	27.5%
not enough information on African markets	27.5%

small market size	23.1%
tax-related	19.8%
other	13.2%
international competition	9.9%
too long visa application procedures for company experts	8.8%
no local intermediate	6.6%

The B20 community has identified several measures to tackle the above mentioned barriers. Good public regulation is the most promising approach to strengthen business activities and investment according to survey respondents. The B20 community suggests to improve not only national regulations, but also identified the improvement of the administration through one-stop shops to facilitate international investment and capacity building. Capacity building, financial sector development and regulation, better processes for commercial investment in infrastructure and PPP projects e.g. a systemic approach for public tenders, and investment protection mechanisms are further promising opportunities to improve a countries attractiveness to FDI according to survey respondents.

Graphic 2: Realistic and Effective Ways to Remove Barriers in Short- to Mid-term

From your point of view what would be the most realistic and effective way to reduce the barriers you've mentioned in the short- to mid-term?

Answer Options	Response Percent
good public regulation	57.8%
improvement of administration through one-stop shops to facilitate international investment	41.1%
financial sector development and regulation	38.9%
capacity building	38.9%
better processes for commercial investment in infrastructure and PPP projects	36.7%
investment protection mechanisms	35.6%
support to macroeconomic stability	35.6%
risk-bearing mechanisms	33.3%
seed funding for enterprises, enhancement of the activities of export credit agencies and Development Finance Institutions	30.0%
increase market size through regional integration	30.0%
special (credit) support to SMEs	27.8%

Boosting Investment in Africa

facilitation of meetings between investors and high-level officials	27.8%
increased tax certainty	23.3%
provision of information on African markets	21.1%
enhanced market access to African markets through Economic Partnership Agreements (EPAs)	21.1%
international financing for products purchase and storage costs	21.1%
establishment of or cooperation with local intermediate	20.0%
increased access to regional markets	20.0%
provision of vocational and business training and resources for workers and products to meet other markets' standards	20.0%
enhancing the competitiveness of African products in G20 markets	18.9%
tax dispute avoidance and resolution mechanisms	16.7%
an own asset class for African (energy) infrastructure projects	16.7%
budgetary surveillance	12.2%
simplifying rules of origin in G20 markets	8.9%
knowledge exchange	8.9%
potential frameworks for enterprise parks	8.9%
less strict investment ordinance	8.9%
where relevant: payments of work-permits for foreign (refugee) workers in newly established international firms and possibly wage subsidies for firms that have a mix of foreign (refugee) workers and locals	4.4%

Methodology and Charts

The online survey was distributed to all members of B20 Taskforces and Cross-thematic Groups (not including the B20 Health Initiative which was called into life after the survey). They were asked to evaluate the main barriers to business activities and realistic and effective measure to tackle those barriers in the short- and medium-term. Furthermore, survey participants were asked to provide concrete examples of barriers and suggestions on how those barriers could be tackled.

About the B20

The Business 20 (B20) is the official G20 dialogue with the global business community. It is organized by the leading German business associations BDI, BDA, and DIHK; Chair of B20 Germany is Dr. Jürgen Herhaus. Since September 2016, more than 700 representatives from companies and business association developed recommendations for the G20 on a consensual basis. B20 Germany is organized in seven working groups: Trade and Investment, Energy, Climate & Resource Efficiency, Financing Growth & Infrastructure, Digitalization and Employment & Education, Responsible Business Conduct & Anti-Corruption and SMEs. In February, the B20 Health Initiative was launched. The approximately 100 members of each group represent all G20 countries and sectors of the economy. The B20 Policy Recommendations Boosting Investment in Africa. Towards Inclusive G20 Compacts with Africa are based on the Policy Papers of the B20 Taskforces, Cross-thematic Groups, and Initiative.

Further Reading

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An Initiative by

