# What impact does the Compact with Africa have on African economies?

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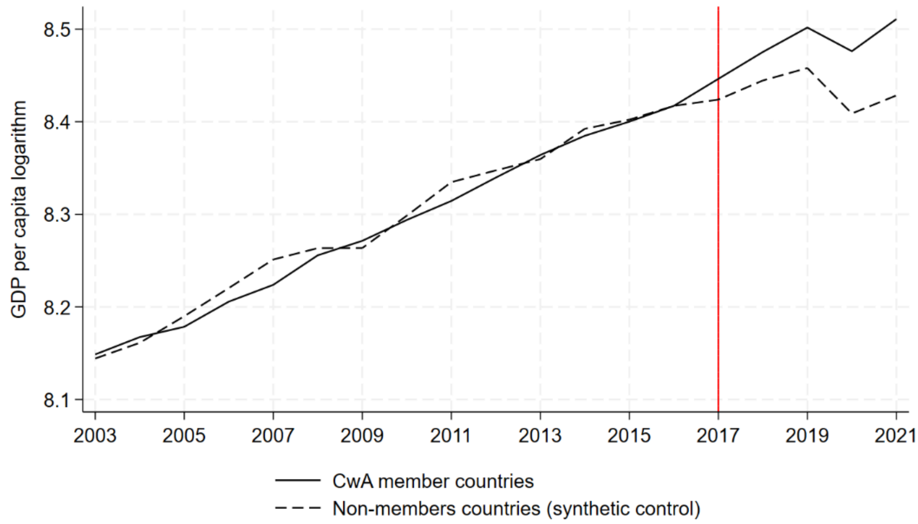
*The Compact with Africa (CwA), launched in 2017 by the G20, aims to stimulate investment in African countries committed to structural reforms. Over the 2017-21 period, the estimated gain in growth in GDP per capita for member countries was 5 percentage points (pp.). This stems from an increase in exports, government consumption and inward foreign direct investment.*

***Chart 1: Estimated impact of the G20 Compact with Africa on GDP per capita***




*Source: Fleuriet and Vertier (2024)*
*Note: The 'synthetic' control group (dotted line) is made up of African countries that are not members of the CwA. The average difference in growth rates between the two curves between 2017 and 2021 is 5 pp.*

## Promoting investment and encouraging reform: the two-fold objective of the Compact with Africa

In 2017, the German G20 Presidency initiated the Compact with Africa (CwA). The aim of this initiative is to promote investment in African economies that are committed to implementing macroeconomic, financial and business climate reforms. To this end, it brings together various international organisations (International Monetary Fund, World Bank, African Development Bank), which are responsible for providing technical assistance in implementing the reforms, as well as G20 countries such as France, which have volunteered to encourage their companies to invest in African countries that are members of the initiative. In each member country, teams made up of senior officials and members of international organisations act as contacts, and a reform monitoring matrix is produced every six months as part of a monitoring report presented to the G20's African Advisory Group.

Since the initiative's inception, 12 countries have joined the CwA. Côte d'Ivoire, Morocco, Rwanda, Senegal and Tunisia joined in March 2017, at the G20 Finance Ministers and Central Bank Governors (FMCBG) meeting in Baden-Baden. Ghana and Ethiopia joined at the initiative's launch conference in Berlin in June 2017. Benin, Egypt and Guinea joined in October 2017. Lastly, Togo and Burkina Faso joined in 2018 (in April and October respectively).

## A timely initiative, whose assessment is necessary but challenging

It is important to assess such an initiative for two reasons. On the one hand, African economies face particularly severe internal and external financing constraints. Their budget revenues represent only 15% of GDP on average, and their external financing has fallen sharply in recent years, due to a drop in development aid to Africa, tighter international financing conditions and lower investment from China (IMF, 2023). It is therefore particularly important to assess the macroeconomic impact of initiatives such as the CwA, which are designed both to boost foreign investment and to implement the reforms needed for the development of the African economy.

On the other hand, the CwA is expanding, and appears attractive for African economies. Conferences of heads of state are held annually under the German presidency, and the Democratic Republic of Congo joined the compact in October 2023. Angola, Kenya and Zambia also expressed their interest in joining the CwA at the end of 2023.

The CwA's half-yearly assessment reports show that CwA member countries are performing better than non-members, particularly in terms of growth, exports and investment. However, they do not fully take into account a significant selection bias: before joining the initiative, CwA member countries were less wealthy but more dynamic than the rest of the continent, with a GDP per capita level 12% lower than that of the other countries between 2003 and 2016, but a growth rate 14 pp higher (35% compared with 21%). This difference in growth rates was particularly marked between 2013 and 2016. During this period, the economic activity of most African countries that are not members of the CwA stagnated (average per capita GDP growth of 0.3% over the period), while the future CwA countries continued to experience strong growth (average growth of 9%).

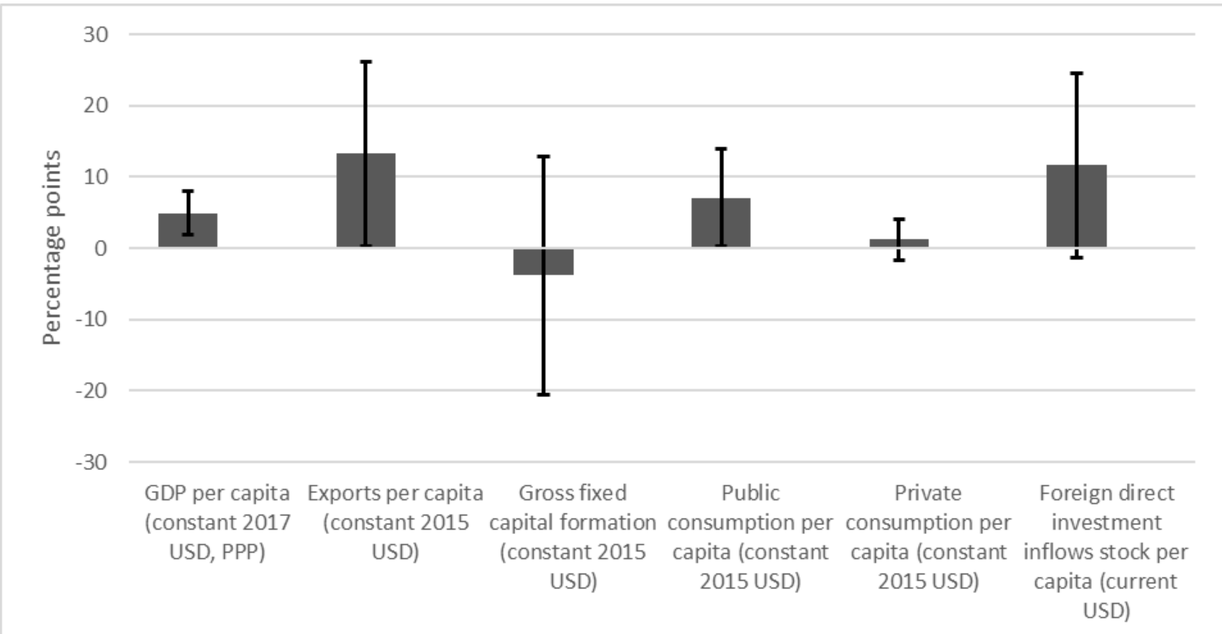
## An increase in GDP per capita, driven in particular by exports

In a recent article (Fleuriet and Vertier, 2024) we assess the impact of the CwA between 2017 and 2021, controlling for this selection bias. To do this, we use the Synthetic Difference-in-Differences estimator (Arkhangelsky et al., 2021), which allows us to construct a counterfactual control group of African countries that are not members of the CwA for which, before the reform is implemented, the variables of interest follow a trend parallel to that observed in the treatment group. This control group is called 'synthetic' because it is a combination of the countries belonging to the control group, weighted so as to respect the parallel trend constraint.

We apply a number of restrictions to the sample in order to ensure that the estimate is valid. On the one hand, we exclude from the control group all the countries that experienced a decline in their GDP per capita between 2013 and 2016 (which did not happen for any of the CwA countries): this applies to 13 countries, including six oil-producing countries (affected by the fall in oil prices in 2014-15), Liberia and Sierra Leone (affected by the Ebola epidemic in 2014), and South Africa, whose GDP per capita has been declining steadily since the mid-2010s. On the other hand, we also exclude from the treatment group (CwA) four economies that experienced the highest growth on the continent between 2013 and 2016, and for which there is no relevant counterfactual during this period, namely Côte d'Ivoire, Ethiopia, Guinea and Rwanda.

Using this method, we estimate that, over the 2017-21 period, the GDP per capita of the eight CwA member countries under review grew faster than that of the 27 economies in the non-CwA control group (Chart 1). On average over the period, the cumulative increase in growth was 5 pp (Chart 2). In terms of the different components of GDP per capita, broken down by demand (Chart 2), we find particularly pronounced, and generally statistically significant, effects for the growth rates of exports (13 pp) and government consumption (5 pp). Lastly, the growth rate of the inflows stock of foreign direct investment (FDI) is also around 13 pp higher, although its statistical significance is more fragile. The impact on gross fixed capital formation (GFCF) and private consumption is small and insignificant.

*Chart 2: Impact of the CwA on different indicators on average between 2017 and 2021*




*Source : Fleuriet and Vertier (2024)*

*Note: the grey bars show the average estimated impact over 2017 and 2021. Their confidence interval, shown in black, is 90%, estimated using a block-bootstrap method with 500 iterations.*

These results therefore show a positive and non-negligible economic impact of the CwA. In particular, the initial impact on GDP per capita is apparent from the launch of the CwA, suggesting that the initiative allowed projects to be launched that would have stalled without such support. However, the impact of the CwA is also likely to be gradual. From this point of view, our study, insofar as it covers a relatively short period following the implementation of the initiative, provides only a partial assessment of the ongoing impact. This makes the statistical significance of the estimated coefficients is somewhat fragile. Moreover, although the methodology attempts to eliminate selection bias as much as possible, it may not succeed in doing so completely, particularly as countries joined the framework concomitantly. Lastly, these results do not make it possible to accurately identify all the mechanisms at work, in particular the respective contributions of the improved business climate and of a signal effect linked to their selection within the CwA. Other assessments, examining these mechanisms in greater depth, and based on the inclusion of new countries in the initiative, would be welcome to supplement these results.