On the occasion of the Summit, France and Germany have reaffirmed their strong commitment to the G20 Compact with Africa (CwA), which was launched under the German G20 presidency in 2017. France and Germany have agreed to present a joint proposal to further strengthen the G20 CwA.

The G20 CwA offers a partnership approach aimed at implementing reforms improving the macroeconomic, business and financing environments as well as attracting private investments in member states (*12 African countries so far: Ivory Coast, Ethiopia, Morocco, Rwanda, Ghana, Senegal, Tunisia, Benin, Egypt, Guinea, Togo, Burkina Faso*). The Franco-German proposal is aligned with existing Compact objectives. Its goal is to level up the impact of the G20 CwA in order to create favourable conditions for a strong private-sector driven economic recovery.

The proposal is based on three pillars:

- Encourage further like-minded and reform-oriented African countries to join the CwA, willing to implement private sector-oriented reforms.
- Reinforce incentives for African partner countries engaging in business environment reforms, through enhanced financial support as well as strengthened financial offers to African entrepreneurship, by generating synergies and better coordination and efficiency.
- Provide enhanced technical support for the implementation of reforms through capacity building instruments in order to help African partner countries conduct those reforms in line with the best international standards.

The Franco-German proposal (see below) will be discussed and examined further within the G20 and with all relevant stakeholders of the initiative. It has been presented in particular to South Africa, which is chairing the G20 Africa Advisory Group (the CwA's governance body), the Italian G20 Presidency, the World Bank, the African Development Bank, the European Commission, gathering first informal positive feedbacks.

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Strategic Considerations for further strengthening the G20 Compact with Africa

We believe the G20 Compact with Africa is a major initiative to foster investment and reforms in Africa. The Summit offers the opportunity to further strengthen the existing partnership, in the wake of the COVID-19 pandemic. This proposal should be seen as a strategic impulse to be considered and examined further with all relevant stakeholders of the initiative, in particular within the G20 context.

A partnership to accelerate structural reforms and foster the growth lever that constitutes the private sector:

We reaffirm the ambition of the participants to work together, on the basis of a shared diagnosis, to promote the development of the private sector in Africa and the amplification of the entrepreneurial dynamic of the continent as conditions for a robust endogenous economic growth, based on and in line with the sustainable development goals (SDG), in particular addressing climate change and environment issues, targeting education and vocational training needs, promoting affordable and efficient healthcare systems and focusing on the creation of formal jobs for African youth.

We reconfirm our support to the G20 Compact with Africa. Building on its success, we intend to further strengthen the overall ambition to promote private sector development and investment of the private sector to achieve sustainable economic growth and generate decent jobs especially for youths and women. This partnership is open to all reform-oriented African countries, including less advanced ones; it is aimed at enhancing financial and technical incentives and at mobilizing various existing instruments (TA, guarantees, subsidies and loans) by better coordination and efficiency. We encourage further reform-oriented African countries to join this strengthened G20 Compact.

Three steps to meet this ambition:

i) **Support a stable, transparent and predictable business environment by accelerating reforms** aimed at unlocking the growth potential of the private sector in Africa and removing the most structural roadblocks to its development.

ii) **Provide enhanced technical and financial support to create incentives and offer support for the implementation of these reforms** in order to enable African partners to deliver their contribution.

iii) **Strengthen the financial offer to entrepreneurship**, by supporting local financial actors and by developing instruments dedicated to start-ups and MSMEs' development, both in terms of equity and credit funding, including risk mitigation mechanisms.

These three axes could be recommended to be included in **a strengthened G20 Compact with Africa**, in coherence with previous G20 work, the « Team Europe » initiative for Africa and supported by the international community, combining a coordinated support and an action plan in terms of reforms.

This support would bring together technical assistance, financing facilities for African MSMEs, including equity, and strengthen the local financial system (banks and microfinance institutions). **We encourage specific initiatives and the allocation of a part of the existing budget supports from multilateral (World Bank, IFC, AfDB, etc.) and bilateral development institutions, as well as the European Union, to support the targeted reforms in participating countries.**

1. **On the African side**

As part of this partnership, **national authorities would define, on a voluntary basis and with the support of the international financial institutions, the reforms that they consider priorities to carry out, e.g. in the areas of:** i) the **legal framework for businesses**, ii) the **taxation framework, in particular to encourage the formalization of MSMEs**, iii) the **financial regulation**, and iv) the **mobilization of domestic resources for the benefit of the private sector**.

These priorities should be determined with regards to the fundamental challenges of the partner country with a specific view to jobs creation. The targets to be reached and the timetable for the deployment of these reforms would be defined according to a partnership approach, which would take place within the country platforms of the Compact framework.

2. **On the international community side**

International players would commit to mobilizing financing for the benefit of African companies more efficiently, to generate synergies and to better coordinate their financing and technical assistance tools. To this purpose, they could use, scale up and build upon the Compact's country platforms under the shared objective of developing the African financing ecosystem based first of all but not exclusively on African private and public investors. Teaming up with African partners, international and bilateral development institutions would target the scaling up of the main relays of African growth, e.g. very small, small and medium enterprises, the ecosystem of digital start-ups, the agricultural and the whole value chains of food processing, infrastructures.

3. A joint effort for strengthening technical capacities

The technical support jointly mobilized by the local and international financial community within the framework of this partnership would make best use of African expertise and talents and would target:

- **The implementation of reforms in the areas of the legal framework for business, taxation, financial regulation, support for central banks and regulators** in their commitment to the financial inclusion of entrepreneurs, the organization of public support and support for businesses - towards their formalization and / or for their financing - and the mobilization of domestic resources for the private sector financing;
- **The strengthening of domestic capacities in tax matters, via dedicated technical assistance programs and training actions**;
- **The support for partnerships between African and non-African private sectors**, in order to better integrate African companies into international value chains (jointventures, participation in public contracts).

A pan-African capacity development facility could promote African expertise by making it more visible, facilitating its mobilization by African states, and promoting the exchange of good practices between the countries of the continent.

Alliance for Entrepreneurship in Africa

The Summit on Financing African Economies proposes the creation of a new **Alliance for Entrepreneurship in Africa** as a way to support the private sector and to sustain the current momentum in new business creation and innovation, both of which are vital to the continent's economic recovery. The Alliance will utilize financial and technical support to **accelerate the pace of reforms** aimed at strengthening the business and investment climate. The Summit held on 18 May is unprecedented in its emphasis on African VSEs and SMEs which, while not overlooked entirely, have ranked low on the list of priorities in the global development agenda as it applies to Africa.

The Alliance will focus on supporting the development of VSEs, SMEs and start-ups as drivers of growth, job creation and innovation in Africa. It will foster stronger engagement and coordination among public- and private-sector organizations – in Africa and beyond – that have pledged to provide financing, technical support and training to this business segment. The Alliance will take practical steps to substantially increase the financing options available to African VSEs, SMEs and start-ups, including leveraging targeted funding pools, guarantee mechanisms for equity investment support vehicles, and financing from European development finance institutions, the African Development Bank Group and the World Bank Group.

The **Alliance for Entrepreneurship in Africa** will build on the existing coalition of international financial institutions formed at the Finance in Common Summit held in November 2020, on the Compact with Africa (CwA) launched under the German G20 presidency in 2017, and on the efforts made by European development players under a Team Europe approach. But it will also serve as a **standalone forum with a strong focus on providing support to businesses throughout Africa**. The initiative will bring together multilateral development banks, bilateral donors, African national development banks and financial institutions, as well as banking and non-banking financial institutions, and other public- and private-sector organizations. Business and innovation training providers may also join the Alliance to help build human capital.

The International Finance Corporation (World Bank Group), in coordination with the African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, and other relevant MDBs and interested bilateral Development Finance Institutions, will play a leading role in driving this Alliance forward. **Initially, the Alliance will support the roll-out of new initiatives, including the measures set out in the Summit's final declaration to expand the financing options available to African VSEs and SMEs**, as well as backing the AFAWA and SheInvest women's entrepreneurship programmes.

The implementation and monitoring of the Alliance will rely on a light and flexible structure that will facilitate the identification, networking and mobilization of relevant actors. To this end, the Alliance will rely on the capacities of the International Finance Corporation, a multilateral player present throughout the continent and supporting the development of the private sector, to operate its Secretariat.

Context

SME's contribution to the economic development of Sub-Saharan African countries is overwhelming through the creation of employment, income-generation, poverty reduction, and empowerment of women. Despite the significant contribution of the sector, lack of capital, skills, access to electricity prevent their full contribution to developing sub-Saharan African economies. Furthermore, recent research suggests that African SME disproportionally suffered from the Covid 19 crisis, as affected by demand and supply shocks, and the inability (in comparison with SME in more advanced countries) to benefit from public support, given their high degree of informality and the narrow fiscal space of many African governments.

Donors have made progress during the last decade in supporting SMEs' growth; however, much more is needed to unleash their potential. Key stakeholders that aim to support SMEs sustainable development can have more impact through leveraging economies of scale around a common agenda. Supporting the SME development will reinforce the vibrant African private sector as a long-term growth driver for Africa. Multilateral and bilateral development banks and other development partners, including African national and regional public development banks, hold a key role in supporting the growth and development of entrepreneurship and SMEs in Africa.

As a response to these challenges and opportunities, the Alliance for Entrepreneurship in Africa has been launched to mobilize all partners, public and private. This multilateral initiative is closely aligned with the network of African Public Development Banks (PDBs), as well as with the G20's Compact with Africa.

This Alliance specifically aims to support the development of innovative and pioneering MSMEs, primary sources of growth and job creation, and at strengthening the capacity of entrepreneurs to access financing, which is a key driver for change, innovation and inclusive economic growth in Africa.

IFC has been asked to take on the Secretariate of the Alliance which will help to convene MDBs, DFIs and Team Europe.

The emerging mandate of the Alliance complements IFC's upstream approach to create opportunities for Entrepreneurship and MSME growth by removing systemic barriers and increase regional investments to unlock the full potential of this sector. IFC's upstream activities consist of pre-investment work that lays the foundation for future transactions. Efforts include technical assistance, capacity building for institutions and private companies, and support to clients and governments, among others.

The IFC Secretariate will seek to ensure that the core objectives of this initiative, as articulated in the declaration, are achieved by playing an active advocacy, facilitation and coordination role to build a coalition among stakeholders around a common agenda for the Alliance. IFC will bring experience as an honest broker underpinning the collective ambition of members without bias. Critically, IFC's track record in supporting the ecosystem (supply, demand and regulatory) for SME development from a global and regional perspective will bring significant technical expertise through this role to support the Alliance's ambitions. IFC's investment and advisory expertise in supporting MSMEs address climate change challenges, leverage the digital economy and improve value chains efficiency, strengthen the secretariate's effectiveness in this role.

Secretariate Key Competencies

- Seeing the bigger picture: robust planning, project management, and monitoring of work programmes.
- Supporting effective advocacy and communications between members and between the group and other parties, and practical advice on stakeholder engagement to promote peer-to-peer learning, replication and leverage the core competencies of each member. Facilitate dialogue and partnerships with governments and the private sector with links to donor partners, and access to market intelligence.[1]
- An eye for detail: day-to-day administrative tasks required to support a well-functioning group including establishing processes and tools, organising meetings, travel and catering arrangements, agenda development, minutes, managing correspondence, and reporting.
- Prudent financial management including preparation of business cases, budget management, and financial reporting.
- Research and policy support including the development of agenda papers, data analysis, practical advice on government processes building on Country Private Sector Diagnostic frameworks, and the preparation of annual reports.
- Advice on governance issues including the preparation of governance manuals.

[1] Strategic Partnerships will be sought from a funding and technical perspective with a focus on attracting members that are aligned with the priorities of the Alliance.

Proposals to Support Africa's Private Sector with MSME, Trade, and Agriculture Financing

In order to support the development of the African private sector, the IFC is proposing a set of initiatives specifically targeted towards MSME, Trade, and Agriculture financing. The initiatives related to MSME and Agribusiness have been shared and discussed with the EBRD, the EIB, Proparco and the EU Commission in the perspective of the Summit.

1. MSME FINANCE INITIATIVE

In Africa, financial institutions often overlook the continent's estimated 10 million small and informal businesses, resulting in a large financing gap that hinders growth and job creation. Limited financial sector competition, a lack of MSME-specific products, high risk aversion, and strict collateral requirements have raised financing costs, hurting smaller businesses. COVID-19 has exacerbated these inequalities.

IFC, with the support of other partners, is proposing an innovative initiative which has four components:

1. Providing new sources of MSME-focused finance through debt funds.
2. Developing a market for mezzanine lending to MSMEs.
3. Offering flexible risk mitigation tools to increase MSME inclusion.
4. Accelerating the digitalization of the SME lending market in MEA.

2. AFRICA TRADE RECOVERY SUPPORT INITIATIVE

COVID-19 has disrupted the world economy, hitting Africa hard. The withdrawal of foreign banks from certain markets has increased financing challenges. In some cases, confirming banks have reduced trade finance facilities and credit limits, threatening the poorest countries' ability to import and export. Many African businesses have suffered higher transaction costs and value chain disruptions.

The Trade Finance Initiative proposed by IFC aims to support trade flows of critical goods, including for MSMEs to (and from) Africa during the COVID-19 crisis recovery phase. It consists of six components:

1. Providing trade guarantees on a transaction-by-transaction basis.
2. Supporting the US$ & Euro funding needs for trade transactions the banks.
3. Developing unfunded or funded risk sharing facilities to target sectors e.g. health.
4. Facilitating trade flows for green energy and climate smart agri.
5. Providing support to SME exporters/importers on a transaction-by-transaction basis.
6. Developing a receivables-backed facility benefiting mostly SMEs.

3. AGRIBUSINESS BLENDED FINANCE FACILITY INITIATIVE

About 70% of sub-Sharan Africa's workforce is engaged in agriculture. The region's food and beverage markets are projected to triple by 2030[2] to $1 trillion. However, losses in SSA are estimated at about $4 billion annually, due to a lack of cold chain facilities, unskilled farmers, and weak supply chain linkages. The COVID-19 crisis has underscored the importance of strong local and regional value chains.

This initiative would rely on a user-friendly, blended finance facility to support agribusiness activities, including MSMEs, in SSA with a three-year pilot. The facility will include components for investment and advisory support. The facility will support the following eligible agribusiness activities:

1. Development of medium-scale commercial farms (10-200) hectares with associated infrastructure
2. Establishment of agro-processing for value addition to primary products.
3. Agricultural equipment/machinery distribution, leasing, and servicing.
4. Warehousing logistics and transportation.

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[2] World Bank 2013 http://www.worldbank.org/en/news/feature/2013/03/04/africa-agribusiness-report

The Affirmative Finance Action for Women in Africa (AFAWA) – Bridging the gap in access to finance for women in Africa

The Affirmative Finance Action for Women in Africa (AFAWA) program is a pan-African initiative of the African Development Bank Group to bridge the $42 billion gap in access to finance for women businesses in Africa, promote gender-inclusive financing and fully unlock women's entrepreneurial potential.

The African Development Bank Group recognizes that women are the backbone of African economies. 58% of women start or manage a business[3] on the continent. 50% of Africa's working women are active in the agricultural sector and produce 80% of all food.[4] However, women entrepreneurs face multiple challenges to access finance, partly due to their inability to provide immovable collateral, and due to their limited skills and access to mentoring to successfully grow their businesses and fully participate in the economic development of the continent.

A Bank wide initiative, AFAWA aims to unlock up to USD 5 billion of financing for Women Businesses by 2026. To achieve this goal, the African Development Bank Group has developed a holistic approach based on 3 pillars: increasing access to finance through its traditional financial instruments such as lines of credit, trade finance and equity investments as well as innovative financial instruments such as the AFAWA Guarantee for Growth (G4G); technical assistance for financial institutions and women businesses; and the enabling environment through which it works with governments and other related agencies to address regulatory policies that are an obstacle to the growth of women entrepreneurs.

With support from France, Canada, Germany, the United Kingdom, Italy, the European Commission, the Netherlands and Sweden, the G4G is the first pan-African guarantee mechanism to enhance women entrepreneurs' access to finance by lowering their collateral requirements as well as increasing their business and financial management skills. Through G4G, the African Development Bank Group aims to unlock up to $3 billion in financing to an estimated 27,000 women businesses within the next 5 years. Financial institutions in 6 countries including Cameroon, the Democratic Republic of the Congo, Kenya, Rwanda, Tanzania, and Uganda have already signed up to the program, which is expected to unlock up to USD 210 million for women businesses in Africa in 2021.

[3] Africa Gender Innovation Lab (GIL) 2020 Report
[4] World Bank Gender Study 2019

The Summit on Financing African Economies promotes instruments for sustainable infrastructure project preparation, in particular the digital platform SOURCE, jointly led and funded by multilateral development banks (MDBs). SOURCE is developed and implemented by the Sustainable Infrastructure Foundation (SIF)[5], a non-profit foundation established in Switzerland, to support countries across the world for the development of well-prepared infrastructure projects.

The integration of SOURCE in African countries will contribute to the development of well-prepared projects to bridge the infrastructure gap in Africa. SOURCE encompasses the full range of sectors identified to support Africa's integration and growth such as high-speed railway networks, roads, sea and air transport, renewable energy, energy efficiency, as well as urban and social infrastructure.

At the project level, SOURCE provides a standardized framework for infrastructure data assessment. The multilateral IT platform SOURCE helps countries assess the effectiveness of their projects by enabling access to standardized data and benchmarks with respects to domestic or international standards, such as the PIDA Quality Label. SOURCE's secure IT environment supports the collaboration between all implementing agencies nationally and sub-nationally from early project definition to procurement and into the construction and operational phases of infrastructure projects.

MDBs are aiming to scale up the dissemination of SOURCE on the African continent to accelerate the delivery of national infrastructure pipelines and leveraging private financing. The MDBs are looking forward to facilitating the integration of SOURCE to the benefit of African countries in cooperation with African institutions and with the support from the international community. While SOURCE is already in integration process in several African countries, many others have expressed official interest for implementing their national infrastructure strategy.

The scaling up of the multilateral platform SOURCE is contributing to the "G20 *Roadmap to Infrastructure as an Asset Class*". On July 18, 2020, the G20 Finance Ministers and Central Bank Governors (FMCBG) underlined SOURCE's potential "*to enable a systemic transition to the digitalization of infrastructure project preparation and data collection as part of advancing the work related to the QII principles*".

[5] https://public.sif-source.org/

Concept note on cooperation between AUDA-NEPAD, IMF and WBG in promoting the G20 Quality Infrastructure Investments principles implementation in Africa

A key challenge for improving the bankability of large scale infrastructure projects in Africa lies in the quality of their preparation, often because of an insufficiently rigorous project selection, inadequate evaluation of their commercial, economic, financial viability and fiscal impact, as well as social and environmental and governance issues, and a weak technical capacity of the public contracting and implementing authorities.

To address these challenges, the ambition is to propose operational solutions to generate well-prepared and high quality infrastructure projects in Africa and ensuring a more transparent and competitive level playing field in public tenders or PPP projects, by anchoring them in the best international principles and standards on infrastructure quality, specifically the G20 QII Principles.

To achieve this goal, the Summit aims at **recognizing a solid reference base of international principles and standards**, allowing African countries to place their infrastructure strategy within an internationally recognized framework and **ensuring that these international principles and standards are effectively implemented through an assessment mechanism**.

This assessment mechanism would be overseen by the African Union Development Agency (AUDA-NEPAD), focused on the implementation of agreed international principles, including the G20 Principles for Quality Infrastructure Investment, and the IMF's Public Investment Management Assessment and the IMF/WB's PPP fiscal risk assessment model, as **guiding standards and references** for the Government's strategy in infrastructure development, resources mobilization national strategy, and for the monitoring of the whole project's selection, design, financing, budget allocating, tendering and implementing process.

This would contribute to develop synergies with the certification work (PIDA QL) initiated by the AUDA-NEPAD as part of the Program for Infrastructure Development in Africa (PIDA), and would help spur the creation of an African standards framework, while contributing to disseminating these highest international standards among African countries.

AUDA-NEPAD can play a key role in implementing the assessment mechanism, given to its mission and ambition to execute the agenda 2063 on behalf the African Union, its involvement in the Program for Infrastructure Development in Africa, and the large range of initiatives and instruments it has developed aiming at establishing an exhaustive framework for the implementation of quality infrastructure projects, in addition to technical assistance and capacity building interventions by MDBs which provide extensive support across Africa to build capacity to leverage private investment in infrastructure across PPP units, sectoral ministries and sub-national governments.

How could IMF PIMA, IMF/WB PFRAM support AUDA-NEPAD in implementing this assignment?

There is valuable potential in enhancing the synergies between AUDA-NEPAD activities and those of the IMF and WBG regarding quality infrastructure projects preparation.

Indeed, the IMF's Public Investment Management Assessment (PIMA), provided to IMF member countries at their request, is designed to assess the effectiveness of institutions and processes related to public investment management. This PIMA recognizes that quality investments in infrastructure are essential to a sustainable and balanced economic growth and that the benefits of investments depend crucially on how they are designed, planned and implemented. Since its launch in 2015, 27 PIMA evaluations have been conducted in Africa. The PIMA is addressing the general framework (planning /allocation / implementation process) of public investment management, both *de jure* and from the effectiveness perspectives, and therefore provides a useful framework to complement project-based assessment. In addition to the PIMA, the PPP Fiscal Risk Assessment Model (PFRAM), developed by the IMF and the World Bank to assess the potential fiscal costs and risks arising from PPPs, helps countries better understand the long-term fiscal implications of PPPs, the risks assumed by government, and identify potential mitigation measures.

Enhanced collaboration between AUDA-NEPAD, the IMF and WB, to the benefit of supporting quality investment in Africa, could be brought about through different means, to support the overall goal of ensuring that the G20 QII principles are well disseminated and implemented:

- Communication of the results of the PIMA evaluations to AUDA-NEPAD, subject to the agreement of the country concerned in line with IMF dissemination policy, and invitation to debriefing meetings organized by IMF missions for development partners whenever relevant;
- Highlight in AUDA-NEPAD evaluations that PIMA and PFRAM represent global standards for quality infrastructure investment, and therefore a key support to country authorities;
- IMF staff could refer in the introductory section of PIMA, to the relevance of the PIMA for key QII indicators that are macro relevant;
- In conducting its assessments, AUDA-NEPAD could systematically signal to country authorities the value added IMF's work represents to implement best practices. In particular, IMF would stand ready to provide targeted capacity development support to conduct PIMAs, support PIMA recommendations and offer updates to previous PIMA evaluation, in line with capacity development prioritization policies.