ECONOMY AND ECOLOGY 06.09.2021 | Martin Tsounkeu

A new Washington Consensus

Five years ago, the G20 launched the 'Compact with Africa'. It turned out to be just another iteration of neoliberal imperialism

More than sixty years after independence, the majority of African countries are still struggling to emerge from numerous problems, including the absence of development with a severe infrastructure and technology gap, extreme poverty and a high debt burden. This situation is continuously exacerbated by numerous external shocks.

The various solutions that have been proposed so far, ranging from Official Development Assistant to structural adjustment, poverty reduction, and debt alleviation programmes have got something in common: an eye bursting ineffectiveness. The 'Compact with Africa' (CwA), a G20 initiative led by Germany since 2017, with the ambition to save Africa is no exception here. A total of twelve countries have joined by now, ranging from Morocco and Senegal to Egypt and Ethiopia.

With low levels of intra-regional economic exchange and the smallest share of global trade, Africa is the least integrated continent in the world. Infrastructure thus appears as Africa's top priority. However, an annual investment of at least USD 93bn is required for Africa to meet its infrastructure needs. Resource mobilisation for infrastructure financing is a huge challenge, while it needs to be guaranteed that it really meets the people's needs.

The idea behind the Compact with Africa

These challenges have to be addressed with a new development financing vision. There are efforts to intensify cooperation with Africa linking private financing of infrastructure with regulatory reforms. The CwA lies at the core of one such effort. In the German government's vision, the CwA offers interested African countries the opportunity to improve conditions for private investment, including in infrastructure. The main aim is to lower the level of risk for private investments by strengthening institutions and improving economic and financial conditions.

The CwA is supposed to create a new mode of cooperation and coordination among bilateral and multilateral players, while strengthening the engagement of the African countries involved. It is designed as a long-term, demand-driven process, open to all African countries interested in improving their investment environment on a sustainable basis. This would boost growth and productivity, create jobs, and raise living standards, as envisioned in the African Union's Agenda 2063. African countries are supposed to be the 'decision-makers' in choosing with whom they want to cooperate, specifying their measures in dialogue with private sector investors, and setting milestones for their implementation.

The memories of privatisations imposed by the IMF and the World Bank's structural adjustment programmes, which did not alleviate poverty but seem to have nourished it, are still fresh.

A source of great concern for many African citizens is the question of what kind of private investment this entails. Some fear that it might be along the lines of economic expansionism processes seen before, such as through the US Millennium Challenge Corporation, the Japanese Tokyo International Conference on African Development (TICAD) or the Chinese Forum on China-Africa Cooperation (FOCAC). These concerns are based on the understanding that, in pursuit of their own interests, investing partners cannot have the development of Africa as their major or sole concern.

Structural adjustment fears

The memories of privatisations imposed by the IMF and the World Bank's structural adjustment programmes, which did not alleviate poverty but seem to have nourished it, are still fresh. They support the line of thought that the CwA could just be yet another factor contributing to excessive re-indebtedness and injustice as well as the consecration of a neoliberal imperialism, using instruments that will most likely only work for foreign investors, but not African citizens.

At a time when Europe is barricading itself against illegal immigration – a logical consequence of neoliberal policies and wars – it is easy to believe that the real motivation behind the CwA remains the exploitation of African natural resources, without the guarantee of getting the local populations out of poverty. It may well be a 'new consensus' – following in the footsteps of the Washington consensus – that promotes public-private partnerships (PPPs) to finance and implement cross-border mega-projects. The goal would not necessarily be to advance regional integration, but above all to create larger avenue for an easier flow of raw natural resources out of Africa.

This trend towards mega-projects and PPPs bears potential risks, which development and environmental groups need to monitor with regard to the mobilisation of infrastructure finance. But the greatest threat the CwA poses is the strong demand for reforms in a direction that may seriously hamper African countries' policy regulatory space. Yet, the latter is essential if citizens' concerns, including social protection and human rights, are to be addressed effectively. The PPP contracts proposed by the World Bank would threaten that policy space, putting 100 per cent of risk on governments, and preventing them from making any legal or regulatory changes that would affect private firms in the PPPs.

A reality check

The CwA monitoring report in 2021 indicates that 'progress along the 2018 CwA reform commitments has been strong despite a very challenging environment'. The report highlights that CwA countries continued to strengthen their macroeconomic policies – most with the support of the IMF – and to reform or privatise state owned enterprises to improve their operational performance, reduce their drain on the budget, and limit private sector crowding-out. They passed simplified laws and regulations, strengthened the institutions governing markets, and leveraged new technologies. They supported their competitiveness by investing in public goods and institutions to help address market failures in key trade sectors, facilitated access to financing for SMEs, and strengthened their capital markets.

The report may seem encouraging, but above all it simply sounds like a defence of the neoliberal market economy. A pragmatic look at what has happened since the launching of the CwA initiative in 2017 makes that assessment questionable, particularly when one uses concrete results or impact lenses. How much have the people in CwA countries gained on the positive side? Not much actually. There has been no significant poverty reduction nor economic growth. The debt mountain, on the other hand, has grown, let alone the social situation in countries like Tunisia.

Only twelve out of more than 50 African countries are part of the CwA initiative. Mindful of the laudable principle that makes adhesion to the CwA voluntary, the initiative is not attractive, nor is it inclusive enough.

Almost five years since its inception, the CwA initiative is still far from delivering impactful results for African citizens.

The lack of interest in the CwA is not coincidental. Like with the IMF and the World Bank in the past, the G20's intention to save Africa has been wrong in action, putting the cart before the horse. To really help Africa address its challenges, the G20 and other rescuers may better start by putting an end to the debt burden in a sustainable manner. Measures like the recent Debt Service Suspension Initiative (DSSI) do no more than delay the pain and keep the debt burden issue unsolved.

A better Compact for Africa

Is there anything that could be done to salvage the CwA? Civil society participation is needed for a better profiling of the CwA, but not just in terms of consultation and arbitration. The right strategy for a more powerful form for participation would be a 'Free Prior and Informed Consent' (FPIC) approach. Civil society will also need to uphold principles regarding social and environmental costs and benefits.

Almost five years since its inception, the CwA initiative is still far from delivering impactful results for African citizens. A number of key areas need to be considered to make it effective, useful, and acceptable for them. These include measures to address the debt burden sustainably through a full and total cancellation, a complete alignment of investments with national development strategies, as well as the balanced combination of private and public investment, supported by a more substantial and effective Official Development Assistance (ODA). Clear mechanisms need to be designed to groom an effective and competitive domestic private sector in Africa that operates alongside foreign investors and to add value to African natural resources before exporting them.

Moreover, the various partnership initiatives targeting Africa need to be harmonised. Transparency, accountability and social as well as environmental responsibility must be ensured to curb illicit financial flows. Through all of this, there needs to be direct dialogue with African citizens. Last but not least, African governments engaged in the CwA need to work in full and unanimous solidarity to defend their policy space.

Martin Tsounkeu
Yaoundé

Martin Tsounkeu is a development economist and heads the Africa Development Interchange Network (ADIN).

-