

Trends in FDI and Cross-Border Investments in Compact with Africa Countries

Interim Monitoring Report | 2018 Annual Meetings

Report prepared by:



In collaboration with:



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Sources: UNCTAD (data on FDI flows); fDi Markets, a service from the Financial Times Limited 2018 (cross-border investment data). This report was prepared by Country Economics and Engagement (IFC) in collaboration with Global Macro and Market Research (IFC) and AfDB.

Questions? Contact AVolkov@ifc.org or MVaena@ifc.org.

Foreword

The G20 Compact with Africa (CwA) was initiated under the German G20 Presidency to promote private investment in Africa, including in infrastructure. The CwA's primary objective is to increase attractiveness of private investment through substantial improvements of the macro, business and financing frameworks. It brings together reform-minded African countries, international organizations and bilateral partners from G20 and beyond to coordinate country-specific reform agendas, support respective policy measures and advertise investment opportunities to private investors. The initiative is demand-driven and open to all African countries. Since its launch in 2017, the CwA has sparked great interest. So far, eleven African countries have joined the initiative: Benin, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo and Tunisia.

The enthusiasm and engagement among African countries to join the CwA initiative has continued to grow over the past months and we would like to welcome Burkina Faso as a new member during the 2018 Annual Meetings.

Compact teams in each CwA country are at the heart of implementing the initiative. Promoting private investment and new investment opportunities in Compact countries is critical for the success of the initiative. The annual G20 investor event will be held on November 8, 2018 at the margins of the AfDB "Africa Investment Forum" in Johannesburg, South Africa. This will be an opportunity to interact with the private sector, showcase example of improved framework conditions and concrete private sector activity coming out of the Compact initiative.

The Africa Advisory Group (AAG), which coordinates and advances the CwA initiative, reports bi-annually to ministers and governors

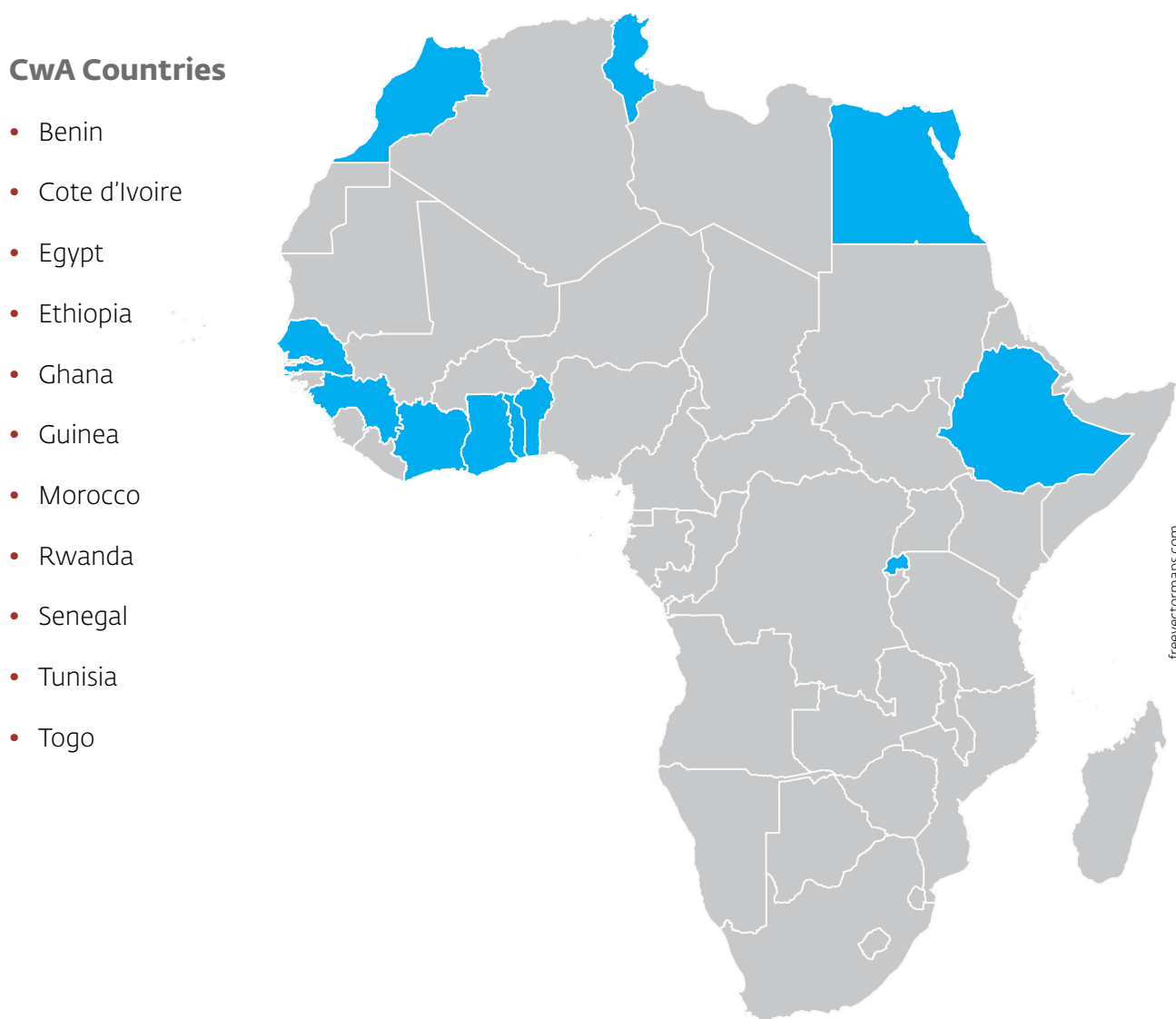
on progress, future ambitions and measurable targets in each Compact country. This interim monitoring report, prepared by the International Finance Corporation (IFC) in collaboration with the African Development Bank (AfDB) and the African Center for Economic Transformation (ACET), puts a special focus on private sector activity in Compact countries. It sends a strong signal that sound policies to improve investment conditions are paying off and market interest in Compact countries is growing. At the same time, it underscores the long-term nature of this initiative as it requires time to build up a track record that strengthens investor confidence.

We hope that the information provided in this report demonstrates the growing market interest in investing in Compact countries, thanks to improved reform momentum and adoption of sound policies. The initial findings have been encouraging and show that the reform efforts by Compact countries are being met by a positive market response. However, for this to be sustainable it requires long-term, collective effort. In this context, the CwA initiative provides a good platform for continuous exchange across its members and valuable peer-learning opportunities.

Going forward, additional semi-annual monitoring rounds will help with tracking progress of the CwA initiative and its effects on investment attraction performance by Compact countries. In addition, the identification of specific flagship investment opportunities in each Compact country will allow for more targeted investment promotion efforts.

We would also like to acknowledge the valuable contributions from AfDB on the flagship investment examples, and to ACET for the independent review annex included in this report.

The second edition of the Compact with Africa (CwA) investment monitoring report provides an update of country and sector-level trends in Foreign Direct Investments (FDI) flows and announcements in Cross-Border Investments (CBI) in CwA, covering the five-year period between 2013–2017. It follows the previous analysis released during the 2018 World Bank Group/IMF Spring Meetings and is part of a broader set of efforts by this G20 initiative to better understand the dynamics of investment flows into CwA countries. For the purposes of this report, the analysis of FDI flows is limited to general trends at the country and regional levels, and a comparison of flows to CwA countries relative to the rest of Africa. The CBI analysis, which draws from project-level data, allows for a more detailed look at recent investment trends at the sector and sub-sector levels, and by country of origin.



Key Highlights

FDI flows to CwA countries have increased by 36 percent over the past five years, despite deterioration in the external environment and an overall drop of 40 percent in FDI inflows to the rest of Africa during this period. This was largely driven by the global weakening of commodity prices in recent years and the economic slowdown in the EU and China, both important sources of FDI for the region. The positive trend for CwA countries suggests increased resilience against the backdrop of a more challenging global scenario.

FDI stock to CwA countries reached \$277 billion and grew at a faster rate (10 percent year-on-year) than the rest of Africa (6 percent year-on-year between 2016–17), signaling higher levels of FDI accumulation in compact countries.

Cross-border investment activity is accelerating in CwA countries. Between July 2017 and June 2018, a total of 274 cross-border investment projects were announced, representing an increase of 12 percent over the preceding 12-month period (July 2016–June 2017).

In 2017, Egypt continued to lead as largest recipient of FDI among CwA countries (\$7.4 billion), followed by Ethiopia (\$3.6 billion), Ghana (\$3.3 billion) and Morocco (\$2.7 billion). In Egypt, improved macroeconomic stability and a new investment law passed in 2017 helped boost investor confidence and attract private investment. Ethiopia has maintained strong momentum in recent years, following government efforts to improve the attractiveness of the country as investment destination. Ethiopia recorded a near three-fold increase in FDI inflows over the past five-year period.

Extractive industries (coal, oil and natural gas), **real estate, alternative and renewable energy** (solar/wind), **chemicals** (pesticides and fertilizer) and **metals** were the **top five sectors for CBI announcements by U.S. dollar volume** in CwA countries over the past three years, reflecting long-term investment commitments and a focus on infrastructure upgrading in the region.

Since 2015, the manufacturing sector attracted the largest number of CBI project announcements in CwA countries (285 projects; 29 percent of total), especially in the food industry, building and construction materials, textiles and automotive sub-sectors, contributing to greater economic diversification in CwA countries.

G20 and the EU accounted for the major share of CBI announcements to CwA countries in the 2015–2018 period with over \$39 billion in announced investments or around three-quarters of the total. **Russia (\$31 billion), China (\$30 billion) and Italy (\$18 billion)** were the three largest CBI source countries.

The pace of reforms in CwA countries accelerated in recent years. CwA countries outperformed the rest of Africa on improvements in *Doing Business* indicators and distance-to-frontier (DTF) scores. Since the launch of the compact in 2017, a total of 101 reform commitments have been identified during its first year, with additional reform progress expected in 2018. This indicates substantial commitment to the reform agenda and gradual improvement in the enabling environment for business in compact countries.

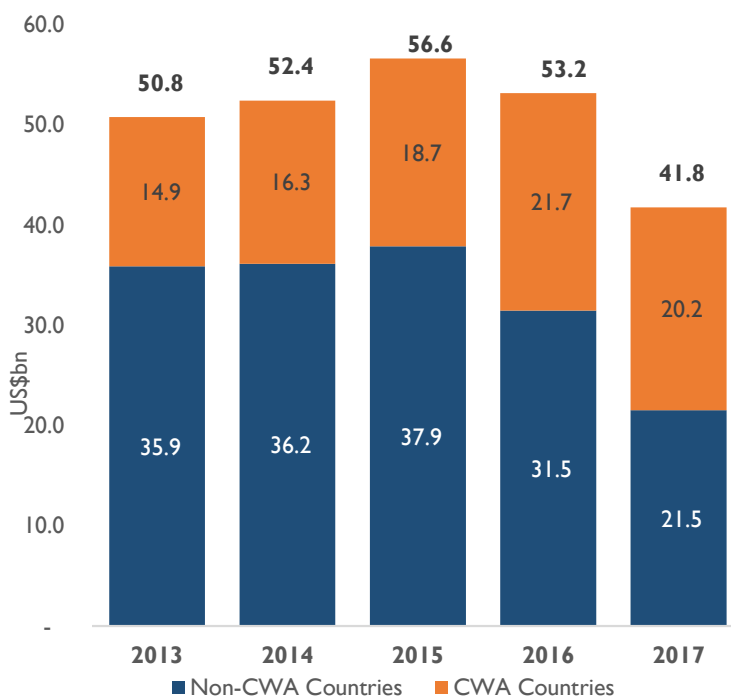
1. FDI flows to CwA countries versus the Rest of Africa

Compact with Africa countries have demonstrated resilience as a destination for FDI in the region against the backdrop of declining FDI inflows into Africa.¹ Total FDI inflows to CwA countries remained relatively stable at \$20 billion in 2017 (Figure 1). The total annual volume of inbound FDI to all CwA countries increased by 36 percent over the past five years, from \$14.9 billion in 2013 to \$20.2 billion in 2017. During the same period, investment flows to CwA countries increased as a share of total inbound FDI to Africa, rising from 29 to 48 percent of total FDI to the region (Figure 2), representing a combined \$92 billion in reported FDI for the five-year period. The capturing of a larger “market share” of inbound FDI by CwA countries may indicate stronger investor confidence in this group relative to other destinations in the region.

There are important variations at the country level. This is particularly significant in resource-rich countries where sharp fluctuations in FDI flows may occur due to the nature of large scale investments in the energy and natural resources sectors. (For more details on sector-level investment trends by destination country see section 2, “Recent Trends in Announced CBI.”)

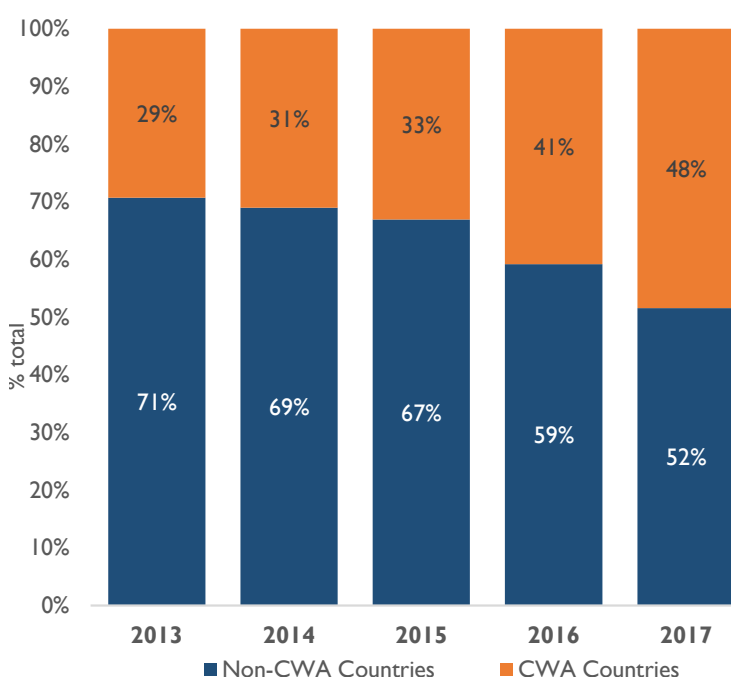
Since 2013, several CwA countries increased significantly the proportion of FDI inflows as a percentage of GDP. **Egypt** more than doubled from 1.45 percent in 2013 to 3.14 in 2017. **Ethiopia** increased from 2.82 to 4.45, **Senegal** went from 2.10 to 3.25 percent, and **Côte d’Ivoire** from 1.30 to 1.67 percent.

Figure 1: FDI inflows to CwA countries (US\$, billions)



Source: UNCTAD FDI Statistics

Figure 2: Share of total FDI (CwA vs. Rest of Africa)



Source: UNCTAD FDI Statistics

During 2017, **Egypt** (\$7.4 billion), **Ethiopia** (\$3.6 billion), **Ghana** (\$3.3 billion) and **Morocco** (\$2.7 billion) received 84 per cent of total FDI flowing to CwA (Figure 3), a reflection of both their market size and level of trade integration.

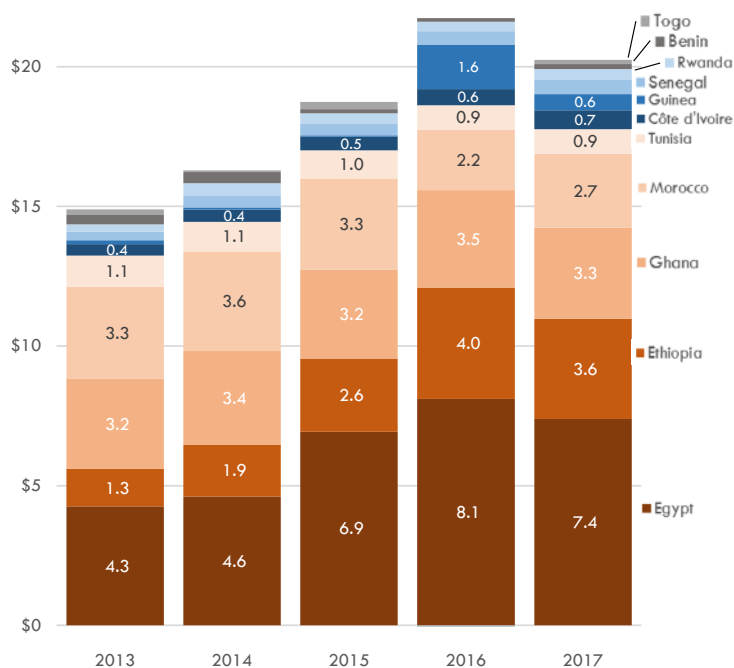
Egypt is a key investment destination and is a strategic logistics hub in the region. Improved macroeconomic stability, increased reform momentum, including recent investment reforms aimed at reducing the barriers to international companies investing and operating in the country were passed in 2017, which should help in further increasing investors' interest and confidence.

Ethiopia has maintained robust growth momentum in recent years and displayed impressive performance in inbound FDI attraction (from \$1.3 billion in 2013 to \$3.6 billion in 2017). The country has gradually implemented several initiatives to improve its attractiveness to foreign investments, including establishment of industrial zones, upgrading of its transportation and electricity infrastructure, and more openness to private sector participation in the economy.

Ghana has maintained a steady FDI performance averaging \$3.3 billion annually over the past years, reflecting a stable business and political environment. The macroeconomic environment has improved but remains fragile. The government is showing a strong commitment to reform and pursues an industrialization and diversification strategy. Recent large investments in oil production are expected to provide an additional boost to the Ghanaian economy and help off-set some of the unfavorable prospects in the cocoa sector.

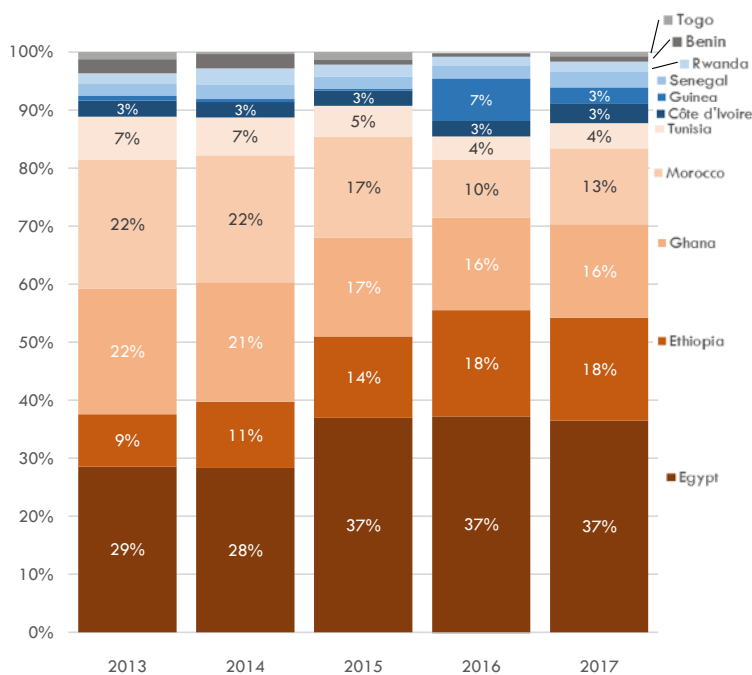
Morocco improved its FDI attraction performance in 2017 after a sharp drop in 2016. The country has a solid macroeconomic framework and has

Figure 3: FDI Inflows to CwA countries (US\$, billions)



Source: UNCTAD FDI Statistics

Figure 4: Percent share of FDI by CwA countries



Source: UNCTAD FDI Statistics

put much effort to attract investments, including through preferential partnerships with the European Union. Morocco has been attracting leading global players in key industries such as automotive and aeronautics. It is modernizing its economy through significant infrastructure investments in solar power as well as development of free-trade zones in each of the country's 12 regions.

In the case of the smaller CwA economies, **Togo achieved an impressive four-fold increase**

between 2016–17 (\$145 million) since joining CwA, after experiencing negative performance in the previous year (net FDI outflows of –\$46 million). Other CwA countries registering year-on-year growth in FDI inflows during 2017 include **Benin** (\$184 million; +40 percent), **Cote d'Ivoire** (\$675 million; +17 percent), **Senegal** (\$532 million; +13 percent) and **Rwanda** (\$366 million; +7 percent). **Guinea** suffered a drop of \$576 million (–64 percent year-on-year), largely due to the outbreak of the Ebola epidemic and disruptions in bauxite production.

FDI Stock² in African Countries

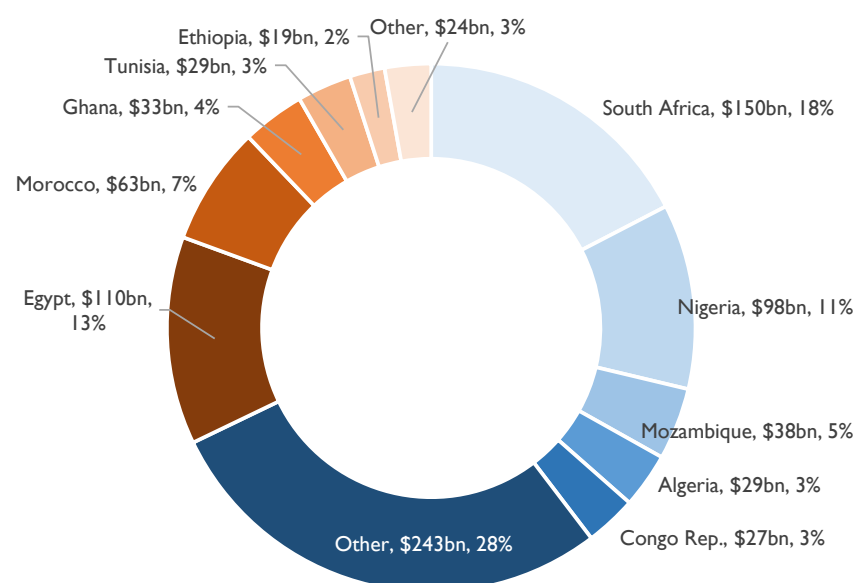
CwA countries experienced an overall higher rate of growth in FDI stock compared with non-CwA countries, with 10 percent and 6 percent respectively between 2016 and 2017.

CwA countries represent 32 percent of the total FDI stock in African countries, with Egypt, Morocco, Ghana, Tunisia and Ethiopia ranking as top five in CwA group. Among the non-CwA countries, South Africa and Nigeria

stand out as the countries accumulating the largest FDI stock in 2017 (Figure 5).

The highest relative increase in FDI stock between 2016 and 2017 occurred in **Senegal** (+29 percent), **Benin** (+25 percent) **Ethiopia** (+24 percent), **Togo** (+24 percent), and **Côte d'Ivoire** (+23 percent). **Tunisia** was the only CwA country experiencing a drop in FDI stock (–2 percent).

Figure 5: FDI Stock in African Countries (2017)



Source: UNCTAD FDI Statistics

2. Recent Trends in Announced CBI

Inbound CBI Trends

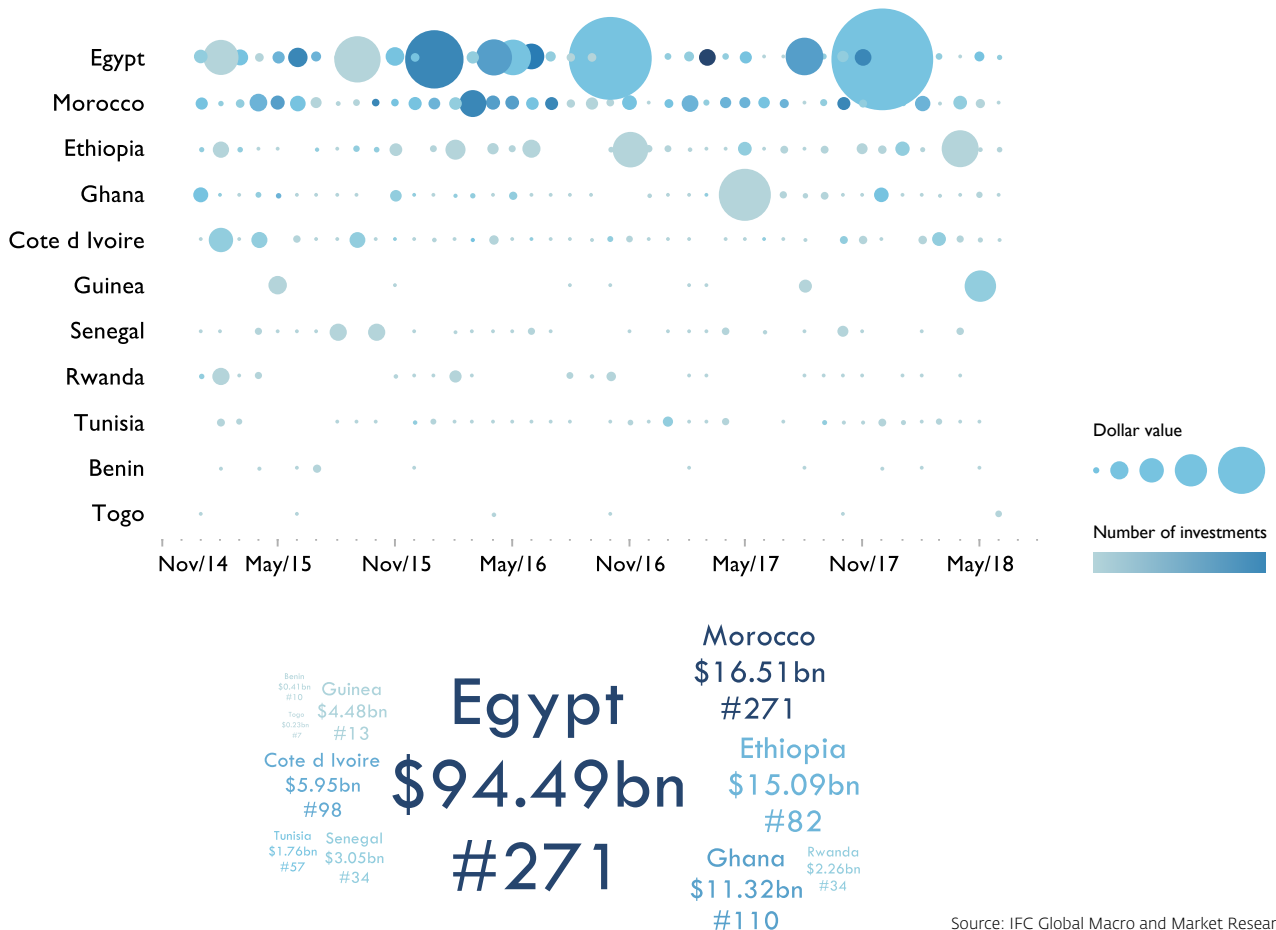
This section of the report covers announcements of CBI (greenfield and major expansions) made by investors globally for CWA countries from January 2015 through June 2018. The analysis also provides a more detailed breakdown of CBI trends in CWA countries. Given the approximate lead time it takes for an investor to move from announcement to the actual investment, the announced CBI projects during this period can be used as a proxy for what will eventually become part of the “official” FDI over the course of the next few years once projects are implemented.

Between January 2015 and June 2018, a total of 987 investment projects worth an

estimated \$155.5 billion³ were announced in CWA countries (Figure 6), of which half (by count) were in **Egypt** and **Morocco** (271 projects and 27 percent for each country), followed by **Ghana** (110 projects, 11 percent), **Côte d’Ivoire** (98 projects, 10 percent) and **Ethiopia** (82 projects, 8 percent). The remaining six CWA countries accounted for 16 percent of the total number of CBI projects.

Egypt was the country with the largest volume of investment announcements, with \$94.5 billion or 61 percent of the total for CWA countries, followed by **Morocco** (\$16.5 billion; 11 percent), **Ethiopia** (\$15.1 billion; 10 percent), **Ghana** (\$11.3 billion; 7 percent), and **Côte d’Ivoire** (\$5.9 billion; 4 percent).

Figure 6: CWA Monthly Inbound Cross-Border Investment Announcements by Country (2015–2018)



Source: IFC Global Macro and Market Research

Among the top ten investment projects in CwA countries, seven were in Egypt. This includes the \$30 billion investment by Russia's Rosatom Corp. in Egypt's nuclear power generation announced in 2017, \$20 billion by China's Fortune Land Development, \$8.5 billion by the United Arab Emirates' Al Habtoor Group investments in Egypt's real estate sector in 2016, and \$13.9 billion by Italy's Eni investments in Egypt and Ghana's energy projects in 2015 and 2017.

Sector and Activity Breakdown⁴

The **energy sector** (coal, oil, and natural gas) totaling \$54.8 billion (35 percent) dominated 2015–2018 CBI total volumes (*Figure 7*), followed by **real estate** (\$44.5 billion; 29 percent) and investments in **alternative and renewable energy** (\$13.0 billion; 8 percent—mostly **solar and wind power**).

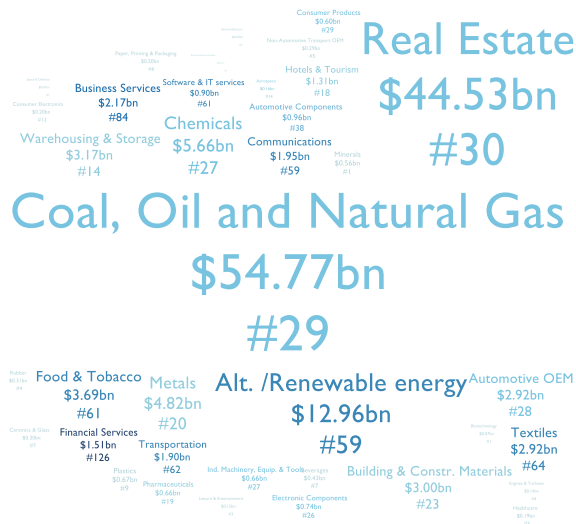
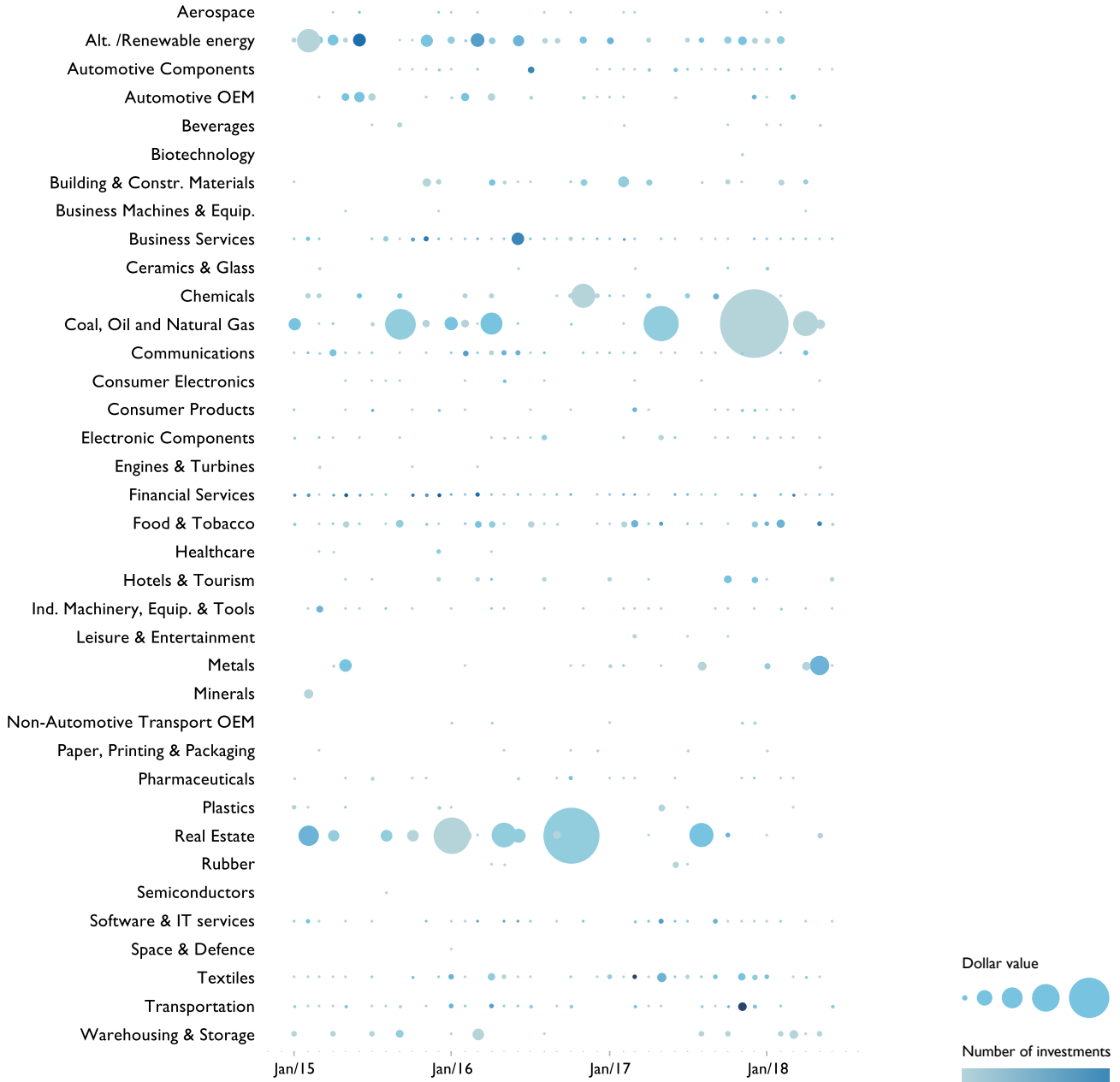
Apart from energy and real estate sectors, **CBI in the manufacturing sector was substantial, including chemicals at \$5.7 billion, metals at \$4.8 billion, food and tobacco at \$3.7 billion, building and construction materials at \$2.9 billion, textiles and automotive OEM each at \$2.9 billion.** Furthermore, services also commanded a substantial share, including **warehousing and storage** at \$3.0 billion, **business services** at \$2.2 billion, **communications and transportation** at \$1.9 billion each, **financial services** at \$1.5 billion, and **hotels and tourism** at \$1.3 billion.

Manufacturing activity attracted the largest number of cross-border investors (by project count) with 285 projects (*Table 1*), albeit with smaller value per investment/project, followed by business services with 184 projects, sales/marketing and support (165), retail (83), logistics/distribution & transportation (62), electricity (60), construction (35 projects). Over the last few months, two sectors—manufacturing and logistics/distribution & transportation—clearly stood out as the number of projects in those two areas increased, albeit the scale of investments of in this space was smaller in U.S. dollar value terms.

Table 1

| ACTIVITY | COUNT | % |
|--|-------|-----|
| Manufacturing | 285 | 29% |
| Business Services | 184 | 19% |
| Sales, Marketing & Support | 165 | 17% |
| Retail | 83 | 8% |
| Logistics, Distribution & Transportation | 62 | 6% |
| Electricity | 60 | 6% |
| Construction | 35 | 4% |
| Design, Development & Testing | 25 | 3% |
| Headquarters | 22 | 2% |
| ICT & Internet Infrastructure | 13 | 1% |
| Customer Contact Centre | 11 | 1% |
| Education & Training | 10 | 1% |
| Recycling | 9 | 1% |
| Extraction | 8 | 1% |
| Maintenance & Servicing | 7 | 1% |
| Technical Support Centre | 5 | 1% |
| Research & Development | 2 | 0% |
| Shared Services Centre | 1 | 0% |

Figure 7: CwA Monthly Inbound Cross-Border Investment by Sector (2015–2018)



Source: IFC Global Macro and Market Research

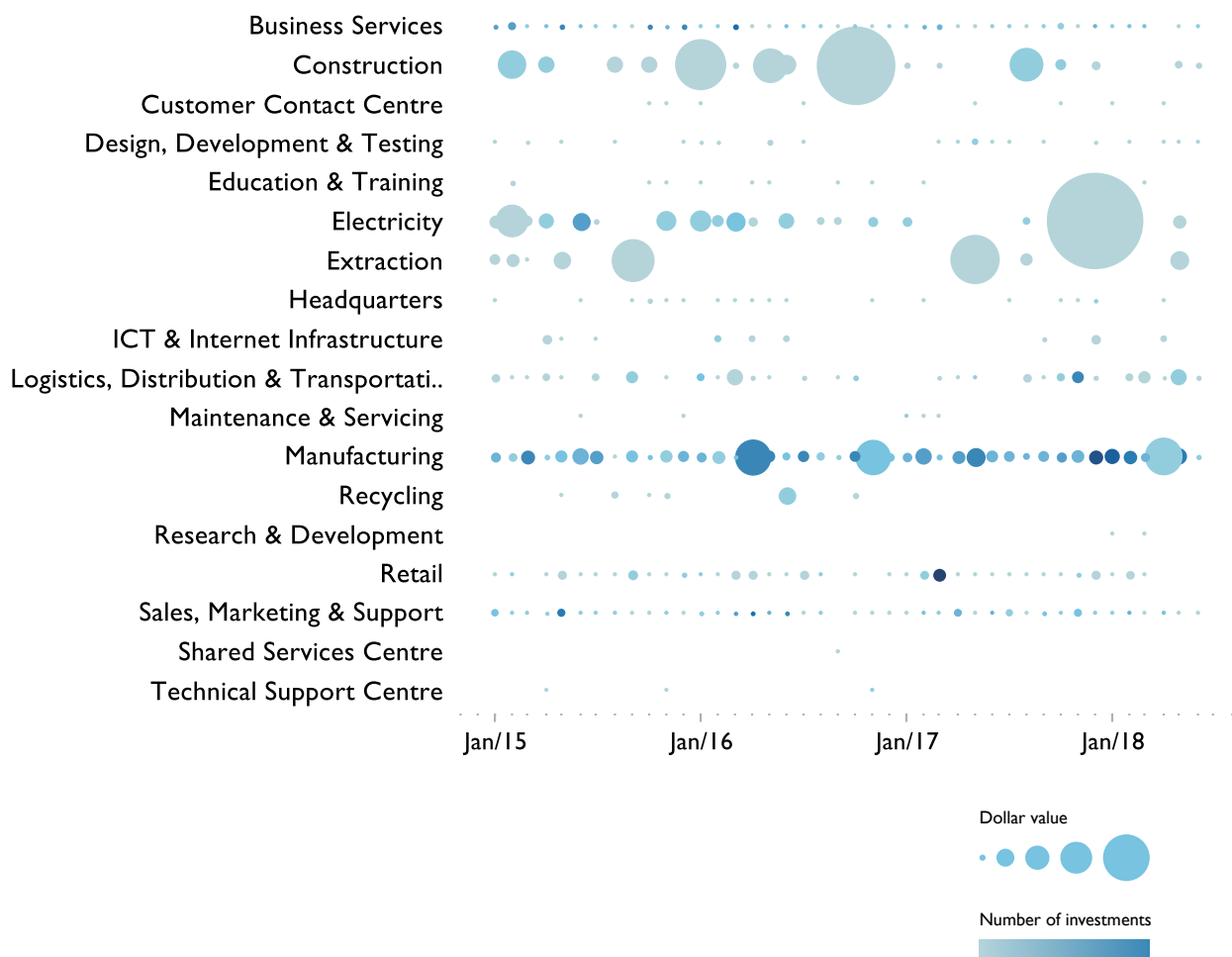
Among other services in the top ten sectors with highest number of CBI projects were software/IT services and communications, and within the manufacturing category—textile, food and automotive (OEM and components).

When looking at the sector breakdown by industry activity (Figure 8), **construction activity topped the list with \$45.9 billion (29 percent), closely followed by electricity with \$45.2 billion (29 percent).** Manufacturing activity commanded a substantial value at \$29.2 billion (19 percent), while extractive industries activity totaled \$17.5 billion (11 percent) and logistics/distribution & transportation \$5.6 billion (4 percent). Over the period, construction activity seemed to be on a decline compared to substantial investments announced over the course of 2016. The “bubble” in electricity activity at the end

of 2017 represents the announcement by Russia’s Rosatom in a nuclear power project in Egypt. Investments in business services, sales/marketing & support and retail activities remained stable over time attracting steady interest from overseas investors. Retail activity saw an unusual spike in March 2017, represented mostly by investments into Egypt.

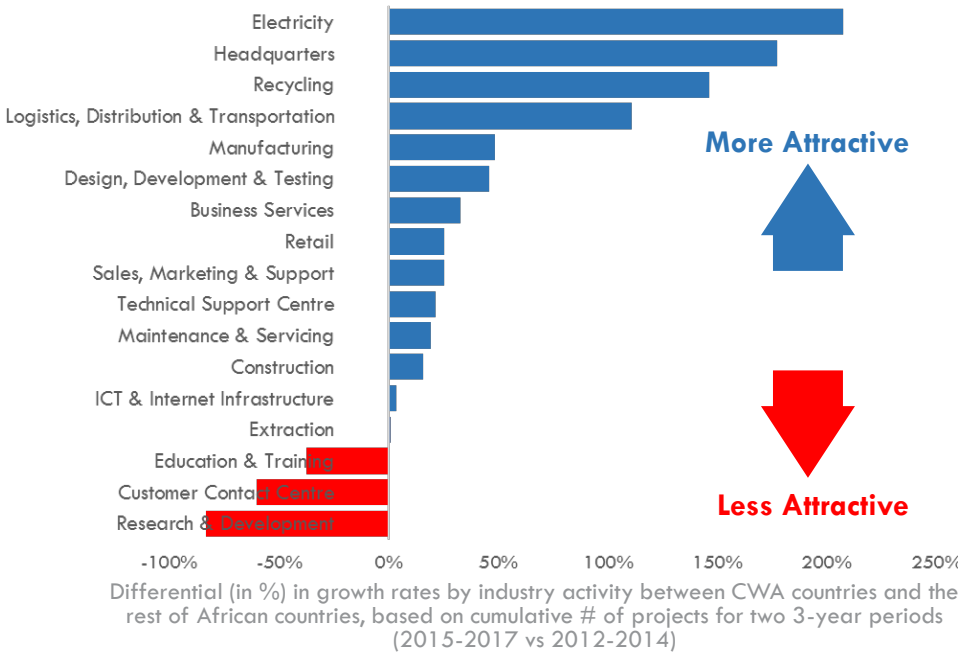
Industrial activities in CwA countries looked most attractive to investors (Figure 9). Investments in the industrial sector grew at a higher rate in CwA countries, when compared to the rest Africa. The analysis was conducted by comparing the growth rates in total number of investments covering the 2015–2017 period over the 2012–2014 period, across the two groups of countries (CwA versus non-CwA).

Figure 8: Inbound CBI by Industry Activity in CwA Countries



Source: IFC Global Macro and Market Research

Figure 9: Comparison in CBI by Industry Activity (CwA vs. Rest of Africa)



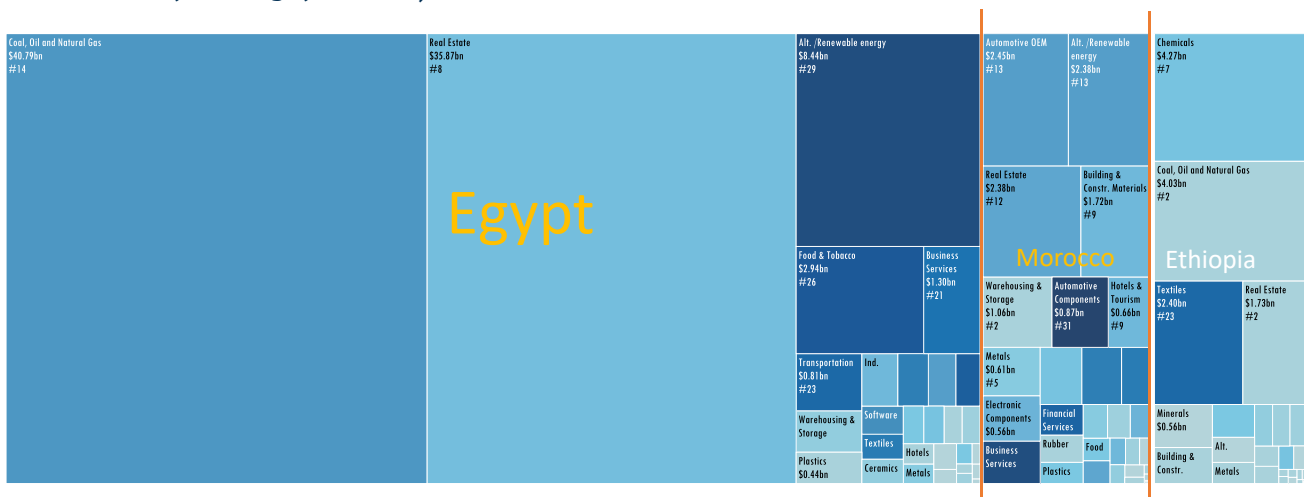
Source: IFC Global Macro and Market Research

Sectoral distribution varied significantly across all CwA countries.

Among the top three destination countries, coal, oil and natural gas, real and alternative and renewable energy dominated in Egypt. In Morocco, the three predominant sectors were automotive OEM, alternative and renewable energy and real estate. In Ethiopia, the main sectors were chemicals, coal, oil and natural gas, and textiles. The graph below illustrates the breakdown of inbound CBI for

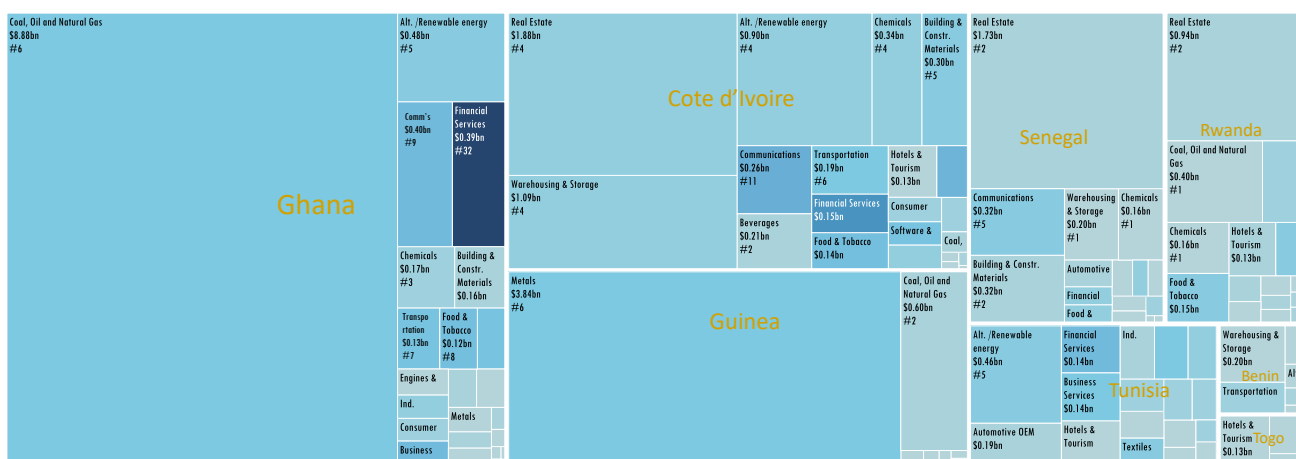
the three largest CwA destinations (Figure 10). Looking at the remaining CwA countries, we find that for **Ghana** inbound CBI was heavily dominated by the **coal, oil and natural gas** sector, with smaller investments in alternative/renewable energy and communications. In Côte d'Ivoire, CBI flows were primarily concentrated in **real estate, warehousing & storage and alternative/renewable energy**. In **Guinea**, CBI flows were dominated by investments in **metals and energy**, while in **Senegal and Rwanda**, the largest share of investments announcements were in the **real estate** sector. **Tunisia displayed a more diversified profile**, with the largest share of investments announcements in the **alternative and renewable energy sector**. Lastly, in the case of **Benin**, the largest CBI announcement was in the **warehousing & storage** sector, while in **Togo** it focused on **hotels and tourism** (Figure 11).

Figure 10: CwA Countries Inbound Cross-Border Investment (Top 3 Destination Countries; Cumulative, Jan 2015–Jun 2018)



Source: IFC Global Macro and Market Research

Figure 11: CwA Countries Inbound Cross-Border Investment (Smaller Destination Countries; Cumulative, Jan 2015–Jun 2018)



Source: IFC Global Macro and Market Research

Outbound CBI Trends from CwA Countries

Between January 2015 to June 2018, outbound CBI announcements originating from CwA countries totaled \$15.0 billion across 183 projects. Main outbound CBI source countries were **Morocco** (\$8.8 billion, 61 projects), followed by **Egypt** (\$5.0 billion; 64 projects), and **Ethiopia** (\$397 million; four projects). A substantial number of CwA outbound projects were also recorded originating from **Tunisia** (25 projects) and **Côte d'Ivoire** (17 projects). Outbound investment activity originated by CwA

countries (by U.S. dollar volume) was primarily concentrated in real estate, chemicals, and alternative and renewable energy sectors.

Increased CBI activity among CwA countries indicates progress in regional integration efforts. During the same period, 56 percent of CwA-sourced flows by value were within CwA countries (that is, CwA countries were both source and destination of CBI flows), pointing to increased levels of regional integration and cross-border economic activity among CwA countries.

N.B. The term “Cross-Border Investment (CBI)” used throughout this report should be differentiated from the “official” FDI statistics prepared by governments and reported by agencies such as IMF, UNCTAD and others. There are substantial differences between the two: (a) CBI data is project-level and contains detailed information on investment, such as parent company, sector, sub-sector, or activity; (b) CBI is based on announcements and CBI projects are captured at the time of announcement by the company and not at the time the actual investment is made; (c) CBI includes only greenfield investments and major expansions and does not include M&A or financial restructurings (which are part of “official” FDI statistics); (d) CBI data does not track the progress of investments from announcement to completion; (e) as public announcements made by companies on their prospective cross-border projects often lack any specific financial information, CBI data **often contains estimates of the U.S. dollar value of investment**—based on fDI markets’ proprietary algorithms, which take into account the country and sector/sub-sector characteristics.

3. Main Source Countries for Cross-Border Investment Announcements

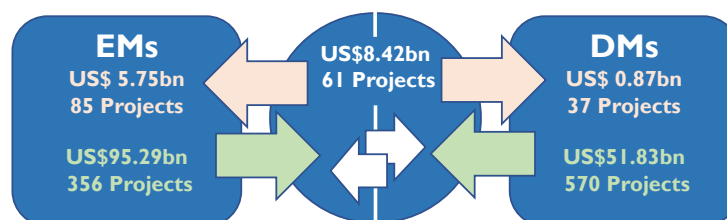
Between January 2015 and June 2018, Emerging Markets (EMs) were the largest source of CBI announcements for CwA countries in U.S. dollar value terms, at 65 percent of total CBI (excluding CwA countries as source of CBI; *Figure 12*). In terms of project count, the picture is almost an opposite one, where Developed Markets (DMs) account for 62 percent share of the total number of recorded projects.

Russia and China were the top source countries with largest investment plans in CwA countries, accounting for 21 and 20 percent, respectively, of total EM-sourced investment. Other major EMs investing in CwA countries (excluding CwA as source of CBI) include the United Arab Emirates (9 percent), and Saudi Arabia (6 percent).

In terms of project count, China is the top source country among EMs investing in CwA countries, accounting for 9 percent of total EM-originating projects, followed by United Arab Emirates (8 percent), Saudi Arabia and Nigeria (3 percent each), and India (2 percent). The CBI flows within the CwA group of countries were mostly sourced from Morocco both by value and volume (83 and 48 percent of intra-CwA inflows, respectively), followed by Egypt (12 and 21 percent, respectively).

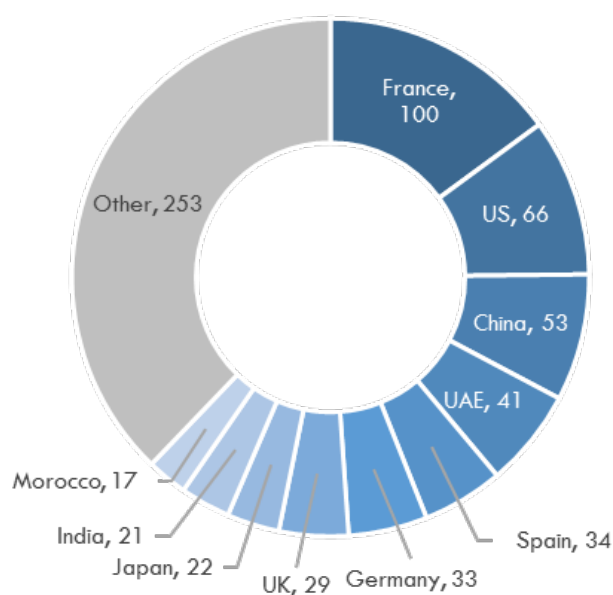
An additional metric can provide yet another interesting perspective on investment activity in CwA countries over the last three and a half years—the number of companies investing in this group of countries (*Figure 13*). **France led the ranking with 100 unique companies announcing investments in CwA countries over this timeframe, followed by United States with 66 companies, and China with 53 companies.** The list of top ten most active investing companies in CwA by value and volume is presented in Tables 2 and 3 below.

Figure 12: CBI In-/Outflows for CwA Group of Countries



Source: IFC Global Macro and Market Research

Figure 13: Number of Companies investing in CwA Countries, by Source Country (Top 10)



Source: IFC Global Macro and Market Research

Among developed markets (DMs) as CBI source, Italy was the largest source country with 35 percent share of DM-sourced investments in CwA countries in United States dollar value terms, followed by the **United States** (18 percent), **France** (12 percent), **Switzerland** and the **United Kingdom** (5 percent each). When looking at the DM country ranking based on the number of projects, France tops the

list with 26 percent, followed by the United States (17 percent), Germany, Spain and United Kingdom (8 percent each) (Figure 14).

Coal, oil and natural gas, alternative and renewable energy, and real estate dominate EM and DM-sourced CBI by U.S. dollar value.

When measured in terms of number of projects both DM-sourced and EM-sourced investments were focusing on financial services, business services, transportation, software/IT services and communications.

G20+EU accounted for the major share of CBI during 2015–18 (through June)—

over two-thirds in volume and over three-quarters in value (Figure 15). African countries (including CwA countries acting as a source of inbound CBI into other CwA countries) accounted for 12 percent in volume and 7 percent in value.

Among African countries as the source of CBI into CwA countries, Morocco was leading in both volume and value, with 3 percent and 5 percent of overall inbound CBI, respectively, followed by Nigeria (3 percent and 1 percent) and Egypt (1 percent and 1 percent).

Among the G20+EU group of countries, Russia accounted for 20 percent in value terms, followed by China (19 percent) and Italy (12 percent). By number of projects, most active investing companies were from France (15 percent), followed by the United States (10 percent) and China (8 percent). Other, non-G20+EU and non-African countries as source of inbound investments accounted for 20 percent by project count and 17 percent by value, with most active countries including the United Arab Emirates, Bahrain, Switzerland, Lebanon, Luxembourg, Korea and Norway.

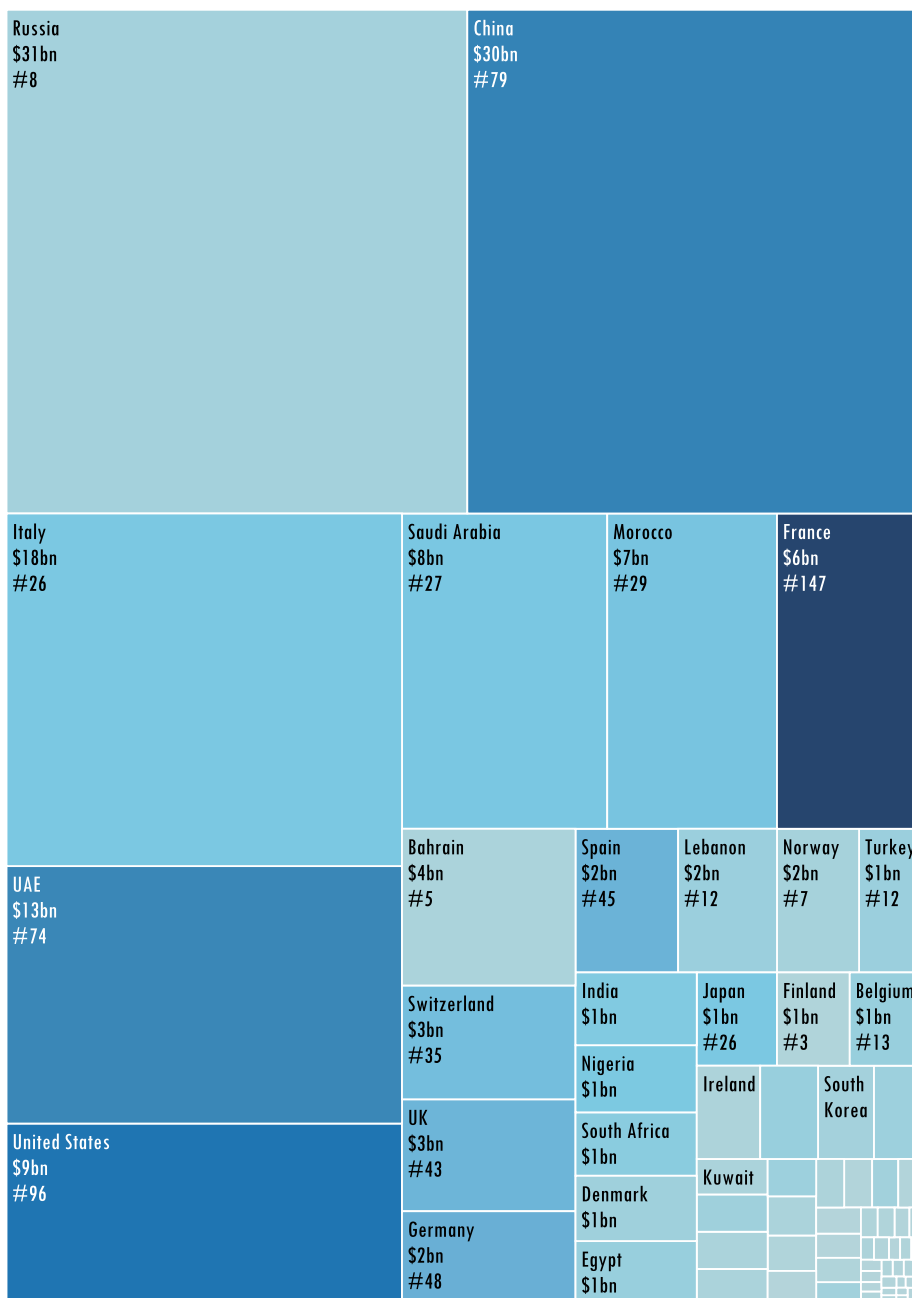
Table 2

| INVESTING COMPANY/ COUNTRY | CAP. INVEST., US\$BN |
|--|-------------------------|
| Rosatom, Russia | 30 |
| China Fortune Land Development (CFLD), China | 20 |
| Eni SpA (Eni), Italy | 16 |
| Al Habtoor Group, UAE | 9 |
| Office Cherifien des Phosphates (OCP), Morocco | 4 |
| Fairfax Africa Fund, United States | 4 |
| AlSaqaf Group, Saudi Arabia | 4 |
| Sisban Holding, Saudi Arabia | 4 |
| Terra Sola, Bahrain | 4 |
| Tebian Electric Apparatus (TBEA), China | 3 |

Table 3

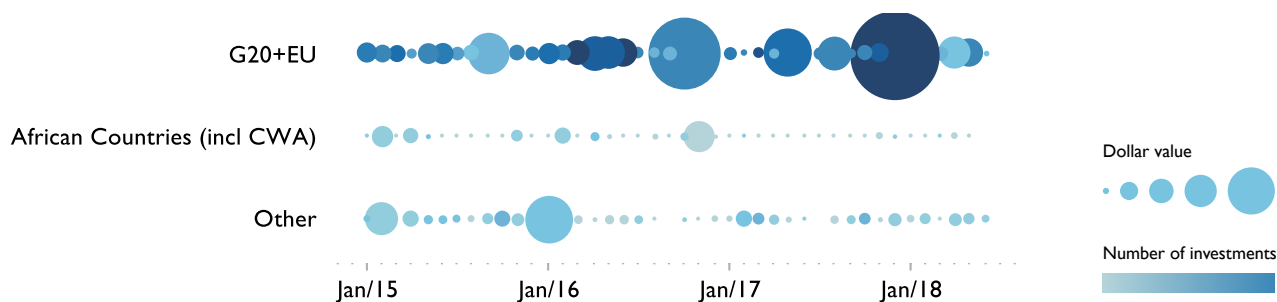
| INVESTING COMPANY/ COUNTRY | NUMBER OF PROJECTS |
|--------------------------------------|-----------------------|
| Auchan Group (Mulliez Group), France | 9 |
| LafargeHolcim, Switzerland | 9 |
| Abu Dhabi Islamic Bank, UAE | 8 |
| Huawei Technologies, China | 8 |
| Inditex, Spain | 8 |
| Orange (France Telecom), France | 8 |
| Societe Generale (SocGen), France | 8 |
| Dubai World, UAE | 7 |
| General Electric (GE), United States | 7 |
| NMC Group, UAE | 7 |

Figure 14: Total Inbound CBI in CwA, by Source Country (US\$, billions and number of projects, 2015–18 (June))



Source: IFC Global Macro and Market Research

Figure 15: Monthly CBI in CwA Countries, by Source Country Groupings



Source: IFC Global Macro and Market Research

4. Business Environment Reforms— How do CwA countries compare?

The World Bank's Doing Business (DB)⁵ data suggest that CwA countries on average had better overall distance-to-frontier (DTF) scores,⁶ while also demonstrating faster improvement over the last nine years. CwA countries' average DTF score stood at 50.3 in DB2010 and 57.3 in DB2018 (ranging from 73.4 for Rwanda to 47.8 for Ethiopia), whereas non-CwA countries' average DTF score was at 46.1 in DB2010 and moved to 49.3 in DB2018 (highest DTF for Mauritius at 77.5 and lowest at 20.0 for Somalia). The growth rate in DTF score for CwA countries stood at 14 percent, with only half of that for non-CwA countries, which suggests that CwA countries may have been implementing reforms and improving their business environment more effectively.

Under the CwA initiative, a total of 101 reform commitments were identified during the first year of the compact (as of April 2018). Among the CwA countries, the top countries moving furthest towards the frontier were **Senegal** (+3.75), followed by **Rwanda** (+3.21) and **Ethiopia** (+2.08). This reflects the substantial, comprehensive and continuous commitment to a reform agenda aimed at improving the overall enabling environment for investment.

With the CwA initiative entering its second year, reform momentum is expected to pick up across the compact countries, following preparation of reform matrices that set out commitments to maintain macroeconomic stability and undertake relevant business and financing reforms needed to enhance private investment. A semi-annual monitoring process of policy reforms has been put in place to assist CwA countries in advancing with their respective reform agendas.

Analytical support provided by partner international organizations is helping to identify key bottlenecks to private investments in priority sectors of CwA countries, which in turn help in designing more targeted reform initiatives.

Investment outreach efforts will contribute to enhancing the visibility of strategic flagship projects in CwA countries and help in establishing closer dialogue between CwA host governments and prospective investors, catalyzing opportunities for new investments to materialize.

Looking forward, an improvement in global macroeconomic conditions and gradual recovery in commodity prices should contribute to accelerated investment and growth prospects for CwA countries. Together with targeted reform efforts, CwA countries are well positioned to seize the opportunities presented by a more positive external environment.

The CwA initiative will continue to monitor progress of the reform agenda in the compact countries under the three key pillars of macroeconomic, business, and financing frameworks. A detailed monitoring report assessing the progress of policy reforms under the CwA will be issued on a regular basis,⁷ in parallel with the World Bank Group/IMF Spring and Annual Meetings and will complement the FDI analysis.

Annex I. Recent Flagship investments in CWA countries

As part of recent reporting on the Compact with Africa, a list of ongoing and other potential investment opportunities in various priority sectors for the Compact countries was compiled. The list includes submissions from both the G20 countries and the Compact countries themselves. The full list is attached as an electronic annex to this report, and is available to the CWA members.

The following case studies highlight projects from the full list that are examples of investments that emulate the spirit of the Compact. They may also provide examples for potential replication in other countries. These projects are aligned with

and respond to national development priorities identified by CWA countries. They illustrate successful investment attraction efforts, especially in designated priority sectors by CWA countries. They draw attention to the policy or regulatory changes and government support outlined in the policy matrices that encouraged the investments, showing the value of the CWA commitments. While the examples shown here are far from exhaustive, they are provided to illustrate the types of private sector investment being made in Compact countries.

Côte d'Ivoire: Azito Power Plant Expansion Project—Phase III Power Generation

For more than a decade, social and political unrest prevented Côte d'Ivoire from investing in generation and transmission networks, despite growing demand. With the end of the crisis, a recovering economy, and the government's determination to transform the country as the leader of the West African market for electrical energy, the country committed to an ambitious expansion of its production capacities, starting with the conversion of the existing Azito power plant to a combined cycle system.

Azito Energie is an Ivorian organization which owns and operates the Azito power plant. The company is owned by Globeleq Generation Holdings Ltd. (U.K.) (76.23 percent) and Industry Promotion Services (IPS) (23.77 percent). Globeleq is a leading developer, owner, and operator of independent power generation projects. Founded in 2003 by CDC, Globeleq is now 70 percent owned by CDC Group and 30 percent by Norfund. IPS is the industrial arm of the Aga Khan Fund for Economic Development established in the 1960s.

The Phase III extension of the Azito power plant consisted of converting the existing simple-cycle power plant of 2 x 144-megawatt gas-fired turbines to a combined-cycle power plant, thereby increasing its capacity to approximately 430 megawatts. The total project cost was around \$430 million. The debt was financed by IFC, BIO, Proparco, ADB, DEG, FMO, EAIF and BOAD, with equity coming from the project company. MIGA provided political risk insurance to Globeleq's equity investment in the project company. Following the success of phase III of the Project, a further phase IV expansion is currently being planned.

Côte d'Ivoire's power sector has a number of attractive features that include but are not limited to: private sector participation in all parts of the value chain since the mid-1990s; an action plan in place to achieve cost-reflective tariffs; a well-defined sector cash flow waterfall; availability of gas for power production; and donor agency collaboration on sector management.

The project has strong development outcomes, including: (a) meeting Côte d'Ivoire's growing electricity needs, (b) a boost to a struggling economy after the crisis, (c) availability of a reliable and affordable electricity supply contributing to improved delivery of social services, (d) creation of direct and indirect employment, (e) more efficient energy production in terms of CO₂ emission due to the efficient combined cycle technology, and

enhancement of the efficiency of existing assets, (f) potential for increased electricity exports in the West Africa Power Pool through interconnections, and (g) improved standards of living. With the ambition of the country to be the hub for exports of electricity in the West Africa region, and the continual growth of demand in the country, the Azito project is likely to continue to represent a major asset for the country.

Ghana: AKER Energy

Oil exploration and production

In August 2018, Aker Energy, a Norwegian oil company, completed the acquisition of Hess Ghana for \$100 million. The company has a 50 percent participating interest in the Deepwater Tano Cape Three Points block. It is a major petroleum region, with gross discovered contingent resources estimated to be 550 million barrels of oil equivalent, and a remaining prospective volume upside of around 400 million barrels.

Ghana is still in the early days of developing its oil and gas resources. Aker Energy sees considerable potential to apply the Aker Group's experience from the Norwegian Continental Shelf (NCS) to build a significant exploration and production (E&P) activity in Ghana, together with partners Ghana National Petroleum Corporation (GNPC), Lukoil and Fueltrade. The company is expected to begin oil exploration at the end of 2021.

Aker Energy intends to play a significant role in building up the Ghanaian oil and gas industry through the transfer of technology, and through skills development. Aker Energy is committed to deliver training and industrial development; providing many direct and indirect job opportunities in Ghana through its operations, as well as the know-how and experience successfully developed in the Norwegian petroleum industry over the last 30 years.

Over the next few years, Aker Energy envisages several field developments and numerous

opportunities for local staff and services on the offshore installations, as well as base operations for support of offshore operations. Aker also recognizes that it is equally important to develop local fabrication capacity, and to support a long-term ambition of cooperating with Ghanaian suppliers to grow the industry. Aker Energy is clear that it will conduct its business in a manner consistent with Ghana's stated ambition—ensuring the development of local services to its oil and gas industry.

To achieve Ghana's lofty ambitions, Ghana has committed to improving its fundamentals, particularly in macroeconomic stability and fiscal prudence. The Minister of Finance, Ken Ofori-Atta, knows that a growth forecast on the back of increased oil and gas production requires caution. "We are in a hurry to industrialize Ghana," he said. "Other countries have done this faster and better with lessons learnt on quality, return on investments with particular regard to governance, cost, community and environmental impact."

With the opportunity to learn from others, the Chief Executive Officer of the Petroleum Commission, Egbert Faibille Jr., challenged emerging companies to leverage and build synergies to attract the necessary investment into Ghana's upstream sector. "This is not a joy ride," he told them, "but an opportunity to put money into the pockets of our people."

Egypt: Egyptian Refinery Company

Petrochemicals

With the expansion and development of the Egyptian economy, the domestic demand for refined petroleum products, especially diesel, has rapidly increased. In addition, as more natural gas is utilized to meet Egypt's expanding requirements for electricity, the demand for fuel oil has been decreasing. The technology in most of Egypt's refineries produces large amounts of fuel oil, but the growing demand is for lighter fuel products, such as diesel.

To address Egypt's increasing need, the Egyptian Refining Company (ERC) was created to upgrade the existing Cairo Oil Refinery Company (CORC) refinery to provide Egypt with additional lighter petroleum products, which will be delivered to the heart of the consumption market—Cairo. Developed by Qalaa Holdings, ERC is a state-of-the-art \$4.2 billion refinery, and one of Africa's largest ever project finance deals. ERC will have the capacity to produce 4.7 million tons of refined products per year, including 2.3 million tons of Euro V diesel, representing more than 50 percent of Egypt's current imports and 600,000 tons of jet fuel.

ERC is supported by \$1.1 billion in equity, provided by a broad spectrum of investors including the Egyptian General Petroleum Corporation (EGPC), Qatar Petroleum International (QPI) and Qalaa Holdings. Other equity funding is from investors from Egypt and the Gulf Cooperation Council countries, and the InfraMed Fund as well as several DFIs, including IFC, FMO and DEG. Compelling fundamentals, unwavering support from the government, and the dedication of debt partners were key to the successful closing of the equity component of the deal. With the Bank of Tokyo-Mitsubishi serving as the global coordinator, institutions participating in the senior debt

package include the Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI), the Export-Import Bank of Korea (KEXIM), the EIB (partially guaranteed by commercial banks) and the AfDB.

The project establishes a landmark transaction worth over \$4.2 billion and sends a clear message that Egypt is open for business. In addition, as the project received strong government support it operates under the Private Free Zone law, and as such is exempt from customs, duties and sales tax. The development of this project is therefore seen as a crucial springboard for promotion of public private partnership projects, and increased private sector involvement in the country, which should help to modernize the industrial sector in Egypt.

It is estimated that the project will generate a combined financial and economic flow of about \$975.6 million, with benefits accruing to: (a) the government of Egypt (GOE), (b) EGPC, (c) local SMEs that will be supplying materials and equipment to the EPC contractors, (d) local labour engaged in the project, and (e) investors. The project will create over 700 permanent jobs, and 8,000 jobs during the three-year construction phase.

A major part of the project is the implementation of various environmental improvements to the existing CORC refinery, including preventing the release of 93,000 tons of sulphur each year, reduced air emissions from the clean fuel produced, replacement of old burners, installation of facilities to allow a leak detection and repair program, and environmental monitoring equipment. Finally, the project will provide a tertiary water treatment plant to CORC, to improve/support its existing facilities.

Rwanda: Volkswagen/Moving Rwanda Project

Automotive

When moving around in Rwanda's capital, Kigali, most people look for either a minibus taxi or a motorcycle taxi. So far, only a small minority of people living in the metropolitan area own cars. Individual mobility in Rwanda is still in its infancy. Naturally, this country of twelve million citizens doesn't yet have an established automotive industry.

At the end of February 2018, the German federal development ministry, together with Volkswagen, Siemens, SAP, GIZ and Inros Lackner, launched the mobility partnership "Moving Rwanda" for the Rwandan capital, Kigali, and the surrounding region. It is a major step towards the future for Rwanda and its people, but also an important step for Volkswagen—in testing new business models and opening up new markets in Africa.

Volkswagen has invested \$20 million in this project, with a local assembly plant producing up to 5,000 vehicles per year and creating 1,000 new skilled jobs. Volkswagen's integrated mobility concept includes the car production factory, a holistic package of local production, a distribution center, and staff training, as well as modern and flexible mobility services such as car sharing. The aim is to introduce environmentally friendly car sharing models, which, one day, will be operated with electric cars. German development cooperation is supporting this initiative and, together with

Rwandan partners, is establishing a digitization center for skilled workers and know-how transfer in Kigali.

Rwanda is one of Africa's leaders in terms of economic growth, digitalization and urban development, and ambitious plans for smart mobility are being developed. The country aims to become a leading example of environmental protection and sustainability on the continent. Electric cars fit well in this plan.

The project, Moving Rwanda, was initiated as part of the Strategic Partnership Digital Africa program of the German Federal Ministry for Economic Cooperation and Development (BMZ). The Moving Rwanda initiative is a further contribution towards implementing the Marshall Plan for Africa. Inros Lackner SE will contribute expertise in the development of infrastructure and in logistics, being well-placed to do this thanks to the company's many years of project experience in Africa. Despite low levels of car ownership in Rwanda, Volkswagen hopes to both sell vehicles and use them in an Uber-like car-sharing system that will allow people to book rides using their smartphones. Some will also be sold into neighboring nations. In the long term, they hope to take on a leading role in the emerging automotive industry in Africa.

Togo: BBOXX, DESCO Financing Programme

Electrification

Access to clean electricity is not universal in Sub-Saharan Africa (SSA). Poorer people in rural communities often use low-quality kerosene lamps which are harmful to their health. Getting clean electricity to those who lack access to the power grid would provide more reliable electricity and allow these people to run appliances ranging from TVs and refrigerators, to fans, lamps and grain mills. And of course, they could recharge their mobile phones. Having electric lighting will mean children can study for longer, and entrepreneurs could keep their small businesses and shops open for longer. More people in rural areas will have access financial services such as mobile payments.

Distributed Energy Service Companies (DESCO) financing programme aims to unlock local currency funding in the off-grid sector to scale up the deployment of pay-as-you-go (PayGo) solar home systems in SSA. The programme demonstrates the use of securitization as an innovative financing mechanism for crowding private capital into the sector. It will support SSA to address the various barriers to access to finance, including lack of familiarity with the technology, currency risk, and limited information about consumers' credit history. It will also seek to diversify investment projects across West, Central and East Africa, balancing DESCOs' growing track record in East Africa with their nascent track record in West and Central SSA. Initial countries for investments include Kenya, Togo and Cote d'Ivoire.

The European Investment Plan (EIP) Operational Board gave a positive opinion on the DESCO Financing Programme of the African Development

Bank for (a) the second loss guarantee from the European Fund for Sustainable Development (EFSD) of up to €50 million to credit enhance transactions and lower the related all in cost for DESCOs, and (b) €6 million grants for technical assistance to support African countries to create the enabling environment for the off grid sector as well as to build local banks and DESCOs' capacity to facilitate receivables backed financing structures for the off grid sector.

In the Togo BBOXX project, the proposal will mobilize the equivalent €20–25 million in FCFA for BBOXX in Togo to deploy about 100,000 solar home systems in off-grid areas (Togo has a rural electrification rate of about 5 percent). The facility is a receivables-backed financing structure collateralized with ringfenced consumers' receivables generated from solar home systems contracts. A local bank will provide FCFA funding to the facility for financing the new solar assets once sold to a consumer. The AfDB along with other co-financiers will provide partial credit guarantees for the senior tranche. Additionally, the EIP guarantee instrument, AfDB, and possibly other co-financiers, will cover the mezzanine tranche.

The debt requirements of DESCOs could reach up to \$3 billion early in the 2020s. As the sector grows, expands and thrives, the amount of debt needed to support it will grow in conjunction. Securitization possesses the potential to open up new, vital debt markets to DESCOs. The EFSD guarantee instrument explores the potential of securitization in the sector by providing attractive debt finance that mobilizes local banks investment in such structures.

Sustainable Energy for All in Africa

Insurance

Around 600 million people in Sub-Saharan Africa lack access to electricity, and most countries experience daily power shortages. It has been estimated that annual investments of around \$20 billion in energy infrastructure are needed for the next ten years. Despite poor energy infrastructure and a growing demand for energy in many countries, private investment in the African energy sector remains modest, largely because of the lack of long-term financing, political and regulatory uncertainty and weak utilities. As a consequence of these systemic weaknesses in the African energy supply market, insurers have historically been limited in their capacity to cover such risks.

To address this insurance gap, a risk-sharing platform called the African Energy Guarantee Facility (AEGF) was created. The aim was to boost investment insurance availability by providing up to \$1 billion in reinsurance capacity for African sustainable energy projects.

The African Trade Insurance Agency (ATI), in partnership with Munich Re and the European

Investment Bank (EIB), will provide significant long-term investment insurance for sustainable energy projects. As acting primary insurer for AEGF, the African Trade Insurance Agency (ATI), a multilateral of 13 Sub-Saharan Africa states, received underwriting training paid for by EIB's technical assistance funds, which has enhanced ATI's capabilities and capacities.

Products offered under AEGF will include insurance against sovereign or sub-sovereign non-payment, and traditional political risk insurance perils, such as expropriation or currency inconvertibility. The facility operates on the principle of an open architecture, and it is eligible for Sub-Saharan African Sustainable Energy for All (SE4All) projects, which focus on energy efficiency, energy access and renewables.

The facility is expected to mobilize significant private debt and equity financing from banks and developers, who currently have difficulty in participating fully in the African energy sector. It is hoped that the program will help start many new sustainable energy projects on the continent.

Annex II. Independent Review

G20 Compact with Africa: Independent Review— October 2018. Prepared by the African Center for Economic Transformation



This report is intended to analyze: (a) the *Trends in FDI and Cross-Border Investments in Compact with Africa Countries*, and (b) investment project case studies in Compact with Africa countries that were included as annexes, prepared by the AfDB and IFC. This report is intended to articulate

progress and challenges, and provide recommendations. The report represents the views of ACET and is based upon documentation prepared by the IOs. This review follows from the April 2018 Africa Center for Economic Transformation (ACET) review of the CwA policy matrices.

1. Process and Enhanced Focus on Investment

A key theme emanating from the April 2018 G20 Africa Advisory Group meeting was the need for Compact Teams to enhance the private sector dialogue in their countries and for the AAG to prepare a private-sector oriented assessment for the next meeting. The FDI/CBI trends report and investment project case studies largely responds to the concerns voiced in April, particularly from CwA countries.

While the FDI/CBI trends report can be further developed as a monitoring tool, it adequately determines key benchmarks and trends. Likewise,

the investment project case studies respond, in part, to the needs of G20 members to better understand investment opportunities, but does not represent a flagship projects report or database as originally envisaged. It is less clear how these two inputs will lead to a deeper private sector dialogue among CwA Compact Teams. There is, naturally, some selection bias in the report, as the CwA countries are self-selected reformers, and hence future country specific analysis of linkages between reforms and investment may lead to a better appreciation of policy impact.

2. Progress

The “Trends in FDI and Cross-Border Investments in Compact with Africa Countries” provides useful insights for the CwA countries, IOs and G20, and when taken with the investment project case studies highlights the strong potential for continued investment in most Compact countries. Of particular note, between 2013–2017, investment flows to CwA countries increased from 29 percent to 48 percent of total FDI to the region. Likewise, the total annual volume of inbound FDI to all CwA countries increased by 36 percent during this period. CwA countries also experienced an overall higher rate of growth in FDI stock between 2016–2017 with a 10 percent increase (compared with 8 percent in the previous year). The enabling environments are generally

improving, with CwA countries on average having better overall distance-to-frontier (DTF) Doing Business scores, while also demonstrating faster improvement over the last 9 years. Finally, overall CwA countries’ share of CBI grew from 41 percent in 2015 to 64 percent in 2017.

The investment case studies, while short, point to financially viable projects where the CwA country, international organizations and development finance institutions and companies from G20 countries are working in concert to ensure projects are financially viable and operationally successful. In the future, the cases could be strengthened with additional detail on reforms that may have led to the specific investments.

3. Thoughts on the Way Forward

- a. Additional focus on individual G20 country investments:** Given the objective of the CwA, the report can be strengthened in the future with a more deliberate focus on each of the G20 countries' FDI and CBI. Tracking investment for the G20 collectively and individually will provide greater granularity and allow for increased transparency. For example, a G20-specific variation of Figure 14 would be beneficial. This recommendation aligns with the April 2018 recommendation for G20 members to articulate specific investment objectives in the self-assessments, either for specific countries, sectors or time periods.
- b. Historical trend analysis for G20 countries:** Likewise, the report can be strengthened by providing some historical perspective on investment from G20 countries to the CwA countries by volume and sector. This will provide for a greater context of contemporary trends, particularly from traditional investors to non-traditional investors.
- c. China's investment in CwA countries:** Related to the above, given that China's CBI during the period was \$30 billion in 79 projects, it could be useful to have a deeper exploration (a text box or annex) of China's investment by sector and size of project, as well as distribution across CwA countries. Particularly in the context of the Continental Free Trade Area (CFTA), synergies between investments from all countries, with a focus on infrastructure, may be critical to success of free trade flows.
- d. Focus on infrastructure:** Given the original CwA emphasis on infrastructure, it may be useful to explore in more depth the FDI and CBI flows to infrastructure, including linkages to investments with regional integration implications; and for the AAG to—as appropriate—recalibrate the focus on infrastructure.
- e. Expanded case studies:** The case studies provide interesting insights into successful investments and hence a series of future, more in depth case studies, outlining lessons learned, obstacles and outstanding policy issues will inform the discussion.
- f. Role of IOs and policy reforms:** While the report is clear that it does not seek to address questions on the determinant factors underpinning the FDI or CBI trends in CwA countries, it would be useful to have some further factual explanation of efforts by the international organizations to help address enabling environments and directly support investments; and at the same time to expand the discussion on CwA reform commitments and FDI or CBI trends.
- g. Linkages between FDI/CBI and investment promotion strategies in CwA countries:** While possibly not feasible in the context of the *Trends in FDI and Cross-Border Investments in Compact with Africa Countries*, an exploration of linkages (or lack thereof) between investment promotion strategies by Ministries of Finance, Trade and sectoral ministries as well as investment promotion agencies and actual FDI and CBI flows could be insightful for future investment strategies and approaches.
- h. Leverage strong in-country collaboration:** Similar to recommendations in April 2018, the high level of coordination among investment officers, government and other development partners can be further leveraged for supporting the enabling environment and enhanced investment promotion. In reporting, a greater emphasis on trilateral coordination will increase understanding of joint support, particularly that leading directly to increased FDI/CBI.

Endnotes

1. In this report, the term “African countries” refers to a total of 54 countries located on the African continent, including island nations in the region.
2. FDI stock is the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises. It is approximated by the accumulated value of past FDI flows.
3. Data from fDi Markets as of August 2018.
4. For the cross-border investment analysis (CBI) this report uses data provided by fDi Markets, a service from the Financial Times Limited 2018. Each project tracked by fDi Markets is classified according to its cluster, sector, sub-sector and business activity, based on a proprietary industry classification system. This report analyzes the CBI data at both sector and business activity level, which provides a more granular level of detail on economic activity in CwA countries.
5. <http://www.doingbusiness.org/>.
6. The distance to frontier (DTF) measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The ease of doing business ranking ranges from 1 to 190.
7. See <https://www.compactwithafrica.org> for more details and available progress reports.



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International Finance Corp

2121 Pennsylvania Ave., N.W., Washington, DC 20433

+1 (202) 473-3800

www.ifc.org