2016 MEMORANDUM

OF

AFRICAN GOVERNORS

TO

THE HEADS OF BRETTON WOODS INSTITUTIONS

AFRICAN CAUCUS
Washington, DC, October 9th 2016

SCALING UP BRETTON WOODS INSTITUTIONS' SUPPORT TO ADDRESS SHOCKS, BOOST GROWTH, AND FOSTER TRANSFORMATION IN AFRICA

INTRODUCTION

Addressing shocks, boosting growth, and fostering transformation are key drivers of poverty reduction. The high levels of economic growth experienced by most African countries over the last decade has not been "inclusive, sustainable and job-rich", nor has it induced economic transformation. Furthermore, the economic gains achieved could be significantly reversed as a result of shocks similar to the current commodity price decline and tightening financial conditions, volatile capital flows, heightened security challenges and the related humanitarian and migratory costs. Climate-related challenges add to these risks.

Against this backdrop, and given the critical importance for our countries to achieve the post-2015 Sustainable Development Goals (SDGs), we focus our 2016 Memorandum on how the BWIs can scale up support to our efforts in: (i) addressing shocks and increasing resilience; (ii) boosting growth and fostering economic transformation; and (iii) enhancing Africa's voice and representation in the World Bank Group (WBG) and the International Monetary Fund (IMF).

1. ADDRESSING SHOCKS and ENHANCING RESILIENCE

We call on the IMF to adapt its facilities and instruments to the new environment, changing structure of the Low Income Countries (LICs) grouping, and the magnitude and diversity of challenges facing African countries. We also reiterate our call to the World Bank for the finalization and implementation of a strategy tailored to the needs of middle-income countries (MICs).

Specifically, we ask the IMF to:

- ensure that African countries have access to the General Resources Account (GRA) which provides greater access levels than the Poverty Reduction and Growth Trust (PRGT), and is less costly than current market financing tapped by a growing number of African countries;
- establish within the GRA a precautionary facility for LICs, as these countries are particularly vulnerable to volatility, often as innocent by-standers;
- pursue the proposal to establish within the GRA a facility tailored to the peculiar needs of commodity exporters, as they remain prone to commodity price shocks;
- enhance efforts to raise concessional resources for, the PRGT through new agreements with a broader set of donors, and increase access levels for LICs; and

- provide adequate scaled up and targeted technical assistance in mobilizing domestic resources, including optimizing tax revenue and tackling illicit financial flows which are depriving our countries of important resources for their development and transformation.

2. BOOSTING GROWTH and FOSTERING ECONOMIC TRANSFORMATION

We renew our call voiced since 2012 for the WBG to scale up its investments in higher-value sectors which offer viable choices for making optimal use of the continent's abundant natural resources to diversify our economies and create better-paying jobs to boost "inclusive, sustainable job-rich growth" and "drive transformation" for Africa.

In this context, we welcome the proposal under IDA18 to leverage IDA's balance sheet and to create an IDA private sector window (PSW) at IFC. We expect the WBG to scale up its support to filling Africa's infrastructure gap by allowing African countries to access IDA18's non-concessional resources in order to finance bankable infrastructure projects, particularly in the areas of energy, transport and agribusiness. We also urge IFC and MIGA to ramp up their support to job creation in manufacturing under the proposed IDA18 PSW.

Subsequent to the "Paris Climate Agreement", we urge the WBG through the "Africa Climate Business Plan" (ABCP) to facilitate our countries' readiness and accreditation processes for access to the Green Climate Fund (GCF) and to the Private Sector Facility (PSF). We encourage IFC, in particular, to proactively and systematically scale up and accelerate its operations in Africa under the Blended Climate Finance window.

Optimizing Tax Revenue

Recognizing the importance of optimizing tax revenues in meeting development financing needs, **we call on the IMF and the WBG** to: (i) scale up technical assistance on tax policies and administration, notably in streamlining tax exemptions, renegotiating contracts with extractive industries, and identifying collection potential and gaps; (ii) emphasize the progressivity and equity of taxes; and (iii) help our countries improve taxation on capital gains, financial flows, land as well as direct tax withholding. **We call on the World Bank** to advocate the elimination of tax exemptions or reductions for all investors regardless of their status, including those granted under the Third sub-criterion of the "Paying Taxes" criterion of the *Doing Business* report. **We request both institutions** to play an advocacy role in ensuring that OECD and G20 countries as well as tax heavens revise their investment treaties and tax conventions, and give up tax exemptions for ODA-related and other profitable projects.

Tackling Illicit Financial Flows

Building on the UNECA (Mbeki) Report of the Higher Level Panel, the Addis Ababa Action Agenda, our own 2015 Memorandum, as well as the work and commitment by the WBG, the IMF and other multilateral and bilateral partners on illicit financial flows (IFF)s, **we urge the BWIs to**: (i) spell out their respective action plans and specify the related deliverables and implementation timetable; (ii) assist our countries in developing needed capacities to tackle IFFs and recover stolen assets; and (iii) help keep up the political momentum on the need to act, as inactivity on this front carries significant opportunity costs for our countries. We will appreciate an update on progress achieved at the 2017 Spring Meetings.

Scaling Up Other Support from Bretton Woods Institutions

We welcome the efforts made under the IDA18 replenishment negotiations to adopt a differentiated approach to supporting fragile and conflict-affected states (FCS) by doubling WBG financing to FCS. We expect this to translate into a corresponding increase in individual FCS country allocation and request that management update us on this on a regular basis. We also commend the Fund for its greater attention to the FCS.

Despite notable achievements to advance Africa's development, there remain severe capacity deficits which limit the emergence of African economies. Therefore, identifying and addressing these gaps, especially through the implementation of a set of actions and measures in both public and non-public sectors to enhance leadership skills, strengthen human and technical capacity and improve institutions, at country, regional and continental levels.

In light of all the above, and consistent with the corresponding Sustainable Development Goals (SDGs) of the 2030 Agenda, specifically:

- **We urge the Bank** to: (i) scale up its financing of transformative projects on favorable terms; (ii) design and implement effective and targeted capacity-building programs and instruments--including through North-South, South-South and triangular cooperation--in support of national plans to achieve the SDGs; (iii) sustain its support to IDA by maintaining robust IBRD and IFC transfers to IDA18 and beyond; and ensure a robust IDA18 replenishment along the proposed IDA18 base and high financing scenarios;

- **We call on the IFC** to: (i) finance more projects with equity and debt financing from its own account, mobilize funding through its syndication programs, develop early-stage projects through its InfraVentures, and bring in its Asset Management Company to co-invest, when appropriate; (ii) strengthen, in its financings, the borrower's ability to deliver key infrastructure services and improve efficiency and accountability as service providers; (iii) assist our governments in the design and implementation of public-private partnerships (PPPs) in infrastructure and other basic public services; (iv) stretch its financing in energy and energy efficiency across the value chain from upstream renewable energy equipment manufacturers and oil & gas production companies to downstream power projects, and increase power generation and distribution capacity; (v) provide leadership, as a founding member of the Water Resources Group (WRG), in addressing the looming challenge of access to water; (vi) support Seaborn Networks' submarine fiber optic cable system to enhance broadband capacity in Africa; (vii) provide financing to support telecom, media and technology projects, port and railways rehabilitation, expansion and modernization; and improve trade infrastructure in the continent to attract foreign investment; (viii) address issues affecting critical agricultural chains by accelerating IFC's investment climate program and through integrated supply chain finance solutions, warehouse finance, structured trade finance, agro-processing, and infrastructure; (ix) extend the use of blended finance solution to incubate new agribusinesses and support projects that need concessionality before they become fully commercial; and (x) foster partnership of foreign investors with local partners under the IDA18 private sector window to help with knowledge and skills transfer, while also helping to build the capacity of the local private sector.

- **We ask MIGA** to: (i) increase its guarantees to take up risks and promote risk-taking; and (iii) build up regional staff expertise dedicated to addressing development constraints systematically.

- **We encourage the IMF** to adapt its surveillance toolkit with the view to ensure that the gains from adjustment and macroeconomic stabilization are sustained with positive impact on job creation and social equity.

- **We call on the BWIs** to address our countries' persistent capacity deficits by allocating adequate resources to reinforce key skills in our institutions, particularly in areas of interest for the African continent, including through support to African capacity building organizations.

- **We reiterate our calls for the IMF and the Bank** to urgently take necessary steps and provide leadership in assisting Eritrea, Somalia, South Sudan, Sudan and Zimbabwe to address their debt arrears and gain full access to debt relief.

- **We urge the BWIs** to scale-up financial and technical support to our FCS countries and ensure that no country is left behind; to allow continuous engagement and play instrumental role in keeping other donors and development partners engaged. Stop-and-go approaches have proven to be costly and do not yield the macroeconomic stability and development results sought.

- **We request both institutions** to scale up their assistance to our regional integration efforts notably through enhanced regional surveillance as well as policy and technical support to regional and sub-regional institutions.

3. SUPPORTING FRONTIER ECONOMIES

We stress the need to support frontier economies to maintain market access and help them graduate from PRGT in a sustainable manner. To this end:

- **We urge the Fund and the WBG** to help bolster access to capital markets by frontier countries which have strengthened their economic fundamentals and policy frameworks.

We underscore the benefits of debt-financed public investment and are mindful of the need to ensure high returns of public investments over the medium and long terms and preserve fiscal and debt sustainability.

4. REVIEW OF THE DEBT SUSTAINABILITY FRAMEWORK

We note that the current Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC DSF) unduly restricts their access to financing in the context of Fund-supported programs, and urge the BWIs to make the DSF more forward looking and more flexible while ensuring equitable treatment of all LICs.

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In particular, we call on the BWIs to make the upcoming review of the DSF, notably the debt distress rating, more attentive to investment/growth dynamics and to depart from overly conservative and subjective thresholds in order to provide our countries with a more adequate financing space to maintain highly needed public investments and growth momentum, while preserving debt sustainability.

Specifically, we ask the Fund to:

- reassess the relevance of using the CPIA in the DSF;
- review the conservative classification rules for debt rating purposes;
- review the debt thresholds which were determined more than 10 years ago after assessing their relevance given the important changes in the global economy, notably:
  - by increasing the thresholds for debt service to revenue ratios;
  - by reviewing the current export-based thresholds for countries with large remittance flows to reflect the potential higher capacity to pay; and
  - by reassessing the benchmark on total public debt-to-GDP ratio used to help determine when to conduct deeper debt analysis.

We urge the BWIs to take into account more systematically country-specific information when assessing the risk of debt distress. We expect that revisions to the LIC DSF will be thoroughly explained to country officials and communicated carefully to the public. In addition, without compromising quality, we will welcome further efforts to simplify the DSA template which would allow member countries to easily produce their own DSAs and gradually build up their capacity and enhance the policy dialogue on debt issues.

5. QUOTA, VOICE AND DIVERSITY

We continue to stress the importance, for the legitimacy and effectiveness of both institutions, of promoting more balanced quota systems, greater voice for African countries, and a fairer and more efficient representation of our countries in both institutions.

In this vein, we welcome the envisaged dynamic formula to realign the shareholding of the World Bank. On the Fund side, we reiterate our call for completion of the 15^{th} General Review of Quotas by the 2017 Annual Meetings alongside work on a new quota formula. We expect the new IMF quota formula to result in enhanced quota shares for African member countries commensurate with their economic dynamism. We also reiterate our call for a third chair for Sub-Saharan Africa at the IMF Executive Board to improve representation of these countries and alleviate the exceptionally heavy burden put on the two existing chairs.

Quota formulas should better capture the need for enhanced representation of smaller countries through the introduction of a constant factor in the formula and higher compression. In the same vein, we believe that increasing the voice of low-income countries, which should not be done at the expense of other developing countries, is critical to enhancing the legitimacy, relevance and effectiveness of the WBG and IMF as global institutions. In this regard, we reiterate our longstanding call for an increase in basic votes and other appropriate measures to enhance the voting power of the poorest countries. We continue to attach highest importance to protecting the quota shares and voting power of the poorest members.

We insist on the need to promote more diversity and inclusion in the BWIs. Recent efforts to address gaps in staff diversity have yielded less than satisfactory results, particularly at the IMF where there remains a considerable gap in enhancing the representation of African staff at managerial levels. Innovative ways should be explored to address this enduring challenge. The ongoing staff recruitment drives in the Africa region by the World Bank is commendable, and we hope that these culminate into actual hiring of African nationals. We urge the Fund to follow suit in this area.

We will appreciate an update from President Kim on his commitment to the April 2016 African Consultative Group (ACG) to reach the targets of 12.5% set for SSA/CR nationals by the 2016 WBG/IMF Annual Meetings. We will also welcome an update on the work of the Diversity Council led by the Deputy Managing Director of the IMF and the implementation of the strategy for inclusion and diversity. We encourage the Fund to carry out, as swiftly as possible, the fulfilment of benchmarks for nationals from the most underrepresented regions, that is Sub-Saharan Africa and the Middle-East and North Africa.

While progress is being registered on gender diversity, the share of African women hired by the WBG and by the IMF continues to be very low. Similarly, the share of African nationals between GG and GI at the WB and between B-1 and B-5 at the IMF needs improvement. We emphasize the need to advance diversity of educational background by including African universities as a pivotal step towards enriching and broadening the Bank's perspective on global development challenges and the IMF's perspective on macro-relevant issues. We note in particular that the IMF and IFC lag other BWIs in staff recruitment from African universities, and urge them to set more ambitious objectives in this area.

CONCLUSION

Under exceptionally adverse circumstances, the pursuit of our development policies proves to be very challenging. We undertake to continue to work on safeguarding macroeconomic stability, pursue transparency and sound governance, and preserve and strengthen the economic and social gains achieved over the past 15 years. We are committed to promoting competitiveness and economic diversification, further reducing poverty, and fostering more inclusive growth and higher employment, including through broad structural reforms. However, strengthening our growth momentum, accelerating economic transformation, and achieving the SDGs will require scaled up, customized support from the BWIs.

We commend you, Madame Managing Director and Mr. President, for your leadership, personal engagement, and the BWIs' contributions thus far to our efforts towards addressing shocks, boosting growth, and fostering transformation in Africa. More remains to be done by our countries and by the BWIs to achieve these objectives. We look forward to your respective responses to this Memorandum and to measureable progress by the 2017 Annual Meetings.