2015 MEMORANDUM OF THE AFRICAN GOVERNORS OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK GROUP

TO

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AND

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I. INTRODUCTION

1. We, African Governors, value our engagement with the Bretton Wood Institutions (BWIs) in promoting development on the African continent. We particularly welcome the efforts of the International Monetary Fund (IMF) and the World Bank Group (WBG) in supporting our efforts at strengthening institutions, addressing the huge infrastructure deficit, and fostering inclusive growth, while preserving macroeconomic stability. Africa is going through a turbulent period as the lower commodity prices, appreciation of the US dollar, and tightening of financing conditions complicate macroeconomic management. It is important that a special attention is given to the region in exploring appropriate policy mix to safeguard macroeconomic stability and sustain strong inclusive growth. To this end, we are appreciative of recent policy actions aimed at enhancing safety nets for developing countries; increasing flexibility in accessing financial resources for development, and supporting implementation of transformative regional infrastructure projects. We remain confident that due consideration will be given to those requests still outstanding in our previous memoranda.

2. Our Caucus meeting this year, in Luanda Angola, took place in the immediate aftermath of the Third International Conference on Financing for Development (FfD) in Addis Ababa, Ethiopia. We welcome the new development finance framework to fund the Sustainable Development Goals (SDGs). In this regard, we reiterate the 2014 Common African Position (CAP) on the Post-2015 Development Agenda for the need to mobilize sufficiently adequate resources from a variety of sources and ensure their effective use. To that end, we appreciate the commitment by the BWIs to support the post-2015 Sustainable Development Goals.

3. In view of the critical importance and urgency for African countries to deliver a transformative post-2015 development and ensure timely attainment of all the SDGs, we have focused our 2015 Memorandum on ways and means the BWIs can support our efforts to: (i) address the challenge of financing for sustainable development; (ii) combat tax evasion and eliminate illicit financial flows; (iii) invest in economic transformation and diversification; (iv) finance regional transformative infrastructure projects; and (v) enhance African voice and representation in the WBG and the IMF.

II. ENHANCING FINANCING FOR SUSTAINABLE DEVELOPMENT

4. We welcome the Sustainable Development Goals (SDGs). Though ambitious, we consider them attainable. Therefore, in line with the Addis Ababa Action Agenda adopted at the Third Conference on Financing for Development:

We urge the World Bank Group to adapt its strategy and instruments accordingly, in particular by:

- Reviewing its financial toolkit and operational procedures in the context of its ongoing reform;
Leveraging its balance sheet and scaling up development finance available to the International Development Agency (IDA) for the poorest, fragile and conflict-affected countries;

Enabling the International Bank for Reconstruction and Development (IBRD) facilitate access to development finance, especially to well-performing IDA countries in transition to IBRD status; and to continue leveraging its balance sheet to scale up resources to meet the demand for human capital development and infrastructure, and countercyclical funding within a comprehensive strategy for the middle-income countries;

Scaling up IFC’s investment finance and MIGA’s guarantees, increasing their technical and advisory assistance in order to support private sector development, including SMEs, and unlock our countries’ growth potential and foster job creation;

Easing the process of accessing debt settlement finance earmarked for the remaining HIPC-eligible countries under IDA 17 replenishment.

We urge the IMF to adapt its strategy and instruments, especially by:

- Initiating an integrated and comprehensive assessment of Fund’s engagement with low-income countries (LICs) through notably an earlier review of its facilities for LICs and frontier economies and an assessment of the adequacy of the Poverty Reduction and Growth Trust (PRGT)’s resources;
- Promoting, as feasible, faster graduation of LICs with a good track record of economic management and/or performance from PRGT eligibility, with the view to preserving the PRGT for the most vulnerable members;
- Supporting the transitioning middle income countries that still have characteristics of low income countries with appropriate programs;
- Providing a greater access by the poorest and vulnerable countries to PRGT resources by specifically refraining from reducing the access limits to PRGT facilities upon effectiveness of the 2010 General Quota Review and Governance Reforms, as part of its contribution to financing for development;
- Considering providing for a general allocation of special drawing rights (SDRs) and voluntary redistribution mechanism;
- Pursuing its work on sovereign debt restructuring mechanism and expanding its outreach efforts on this issue to developing countries that are increasingly tapping international capital markets to finance their development agendas;
- Mobilizing adequate resources to accommodate the remaining HIPC-eligible countries complete the debt relief process.

5. We note with interest the intended contributions of the Fund and the World Bank to supporting national efforts aimed at enhancing domestic resource mobilization. In addition, we call on the BWIs to assist member countries’ authorities in support of their efforts to combat tax evasion, profit shifting and illicit financial flows, which are depriving our countries of much needed resources for financing development; and to continue supporting countries’ actions to improve business climate, enhance project management, develop public private partnerships (PPPs), and strengthen national contracts negotiation capacity.
6. We are mindful of the need to preserve fiscal and debt sustainability in the post-2015 era. We note however the extreme conservativeness of the existing Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC DSF), which is unduly limiting access to financing in the context of Fund-supported programs. We therefore call on the two institutions to initiate work on the review of this framework, as early as possible.

III. STEMMING ILLICIT FINANCIAL FLOWS

7. We are concerned by the adverse impacts of illicit financial outflows on the economies of African countries. The issue of stemming illicit financial flows from Africa received additional impetus and visibility in recent times as a result of the seminal work of the UN ECA High level panel on Illicit Financial Flows (IFFs) from Africa led by His Excellency, Former President Thabo Mbeki of South Africa. We thus consider policies to stem IFFs crucial to raising additional tax revenues to finance the timely attainment of the SDGs, consistent with the Addis Ababa Action Agenda which calls for a substantial reduction of IFFs by 2030 with a view to eliminating them over time. Stemming IFFs is even more pertinent given the dwindling ODA flows and the scale of ambition to finance the post 2015 agenda through increased domestic resource mobilization and leveraging all resources public private sector to meet the development and poverty reduction objectives of African countries.

8. At the same time, we call on the BWIs to ensure that such flows do not find safe havens in other countries and that parties involved, including multinational corporations, are held accountable. While welcoming the proposed work on illicit flows by the WBG and the IMF as well as their commitment to assist countries build their capacities to combat IFFs and help recover stolen assets, we urge both institutions to align and coordinate their programs with those of other international financial institutions, including the Organization for Economic Co-operation and Development (OECD) and the G20. This will ensure that we work towards the creation of global standards in this area. Possible areas where BWIs assistance could be impactful include helping member countries to: (i) undertake assessments of their levels of exposure to IFFs and associated required remedial measures; (ii) build public finance management capacity by establishing robust tax system and equitable fiscal arrangement for increased domestic revenues; (iii) help enforce public declaration of beneficial ownership by multinational firms; (iv) recover assets stolen through IFFs; and (v) strengthen global collaboration, including among tax authorities, and establish a framework of international action to curb IFFs, including the development of appropriate systems to monitor capital flows. These measures will help to plug leakages and loopholes from commercial activities of multinational firms, which according to preliminary data, currently account for the bulk of the illicit financial flows.

9. In particular, we urge the IMF to step up its support on national tax administration and fiscal policy management through sustained technical assistance and policy advice. We also urge the BWIs to mainstream the IFFs agenda within their operations, especially in the area of governance, financial and private sector programs, with special attention to (i) trade misinvoicing—the primary mechanism used to move illicit funds offshore resulting in the loss of substantial amounts of domestic resources; (ii) capacity building of customs departments; (iii) tax
evasion and avoidance; (iv) corruption and money laundering; (v) procurement and tendering processes; and publishing regularly data and findings on IFFs as part of its surveillance responsibility.

10. Finally, in line with the Addis Ababa Action Agenda, and given the enormous potential contribution addressing the problem of IFFs would have on financing the SDGs, we urge the WBG and the IMF to consider and treat illicit financial flows as one of the priority emerging global development issues that need to be addressed with a sense of urgency.

IV. ECONOMIC TRANSFORMATION AND DIVERSIFICATION

11. We welcome ongoing efforts by the BWIs in support of our countries’ economic transformation agenda. However, sustaining this process has been challenged by factors such as limited availability of domestic financing, absence of a critical mass of entrepreneurs and skilled personnel, lack of infrastructure and supporting services, and difficult investment climate. Therefore, we call upon the BWIs to scale up their financial and technical assistance and sharpen their policy advice to address these shortcomings.

12. Similarly, natural resource wealth presents vast opportunities for development. However, our countries that are reliant on natural resources for generating export earnings and fiscal revenues, remain highly vulnerable to various external shocks and the impact of climate change, with limited progress towards economic and export diversification. Investment in industrialization and development of productive capacity based on local raw materials is important including the value chain in agricultural development. Therefore, we call upon the BWIs to help our countries achieve much needed economic diversification and integration, especially by:

- Scaling up financing for physical infrastructure to improve intra-Africa road and rail network and reforming institutions for effective and efficient public investments, and greater private sector involvement;
- Establishing a stabilization fund for single commodity countries to assist in their transition from dependency on natural resources to more diversified economies;
- Transforming agricultural productivity, with much stronger support to the Global Agriculture and Food Security Program (GAFSP);
- Providing adequate technical assistance and policy advice on trade and trade policy reforms, to complement benefits of other structural reforms;
- Enhancing business climate to attract foreign direct investment (FDI) flows, particularly in non-extractive sectors, and boost export potential;
- Promoting entrepreneurship development to support growth of small and medium scale enterprises;
- Assisting in upgrading the manufacturing sector to fit into the global value chain and to maintain their competitiveness;
- Building capacity in the use of the New Trade Diversification Toolkit to assess the potential for structural transformation and quality enhancement;
• Investing in human capital to increase productivity, enhance competitiveness, and encourage high-tech and export-oriented industries by increasing assistance to the health and education sectors, and promoting innovation.

V. FINANCING REGIONAL TRANSFORMATIVE INFRASTRUCTURE PROJECTS

13. Regional transformative infrastructures are of strategic importance for Africa. In this regard, we thank the WBG for progress achieved to date in the implementation of priority energy and agriculture regional transformative projects that we submitted in our 2011 and 2012 Memoranda, respectively. These projects are now at different stages of development and realization. Therefore, we urge the WBG to fast-track the implementation of projects still lagging behind schedule, outlined in the ‘WBG Energy and Agriculture Task Forces’ 2015 Progress Reports.

14. In addition, we propose for the Bank’s support six regional transformative projects in energy and agriculture, including those from the sixteen Africa’s priority infrastructure projects identified as pilots of the Programme for Infrastructure Development in Africa (PIDA). Some of these projects have already been subjected to preparatory work. All of them have high potential for interconnecting, integrating, and transforming the Continent, while creating the economic preconditions needed for longer-term growth. These are: (i) Ruzizi-3 Hydropower Project (DRC/Rwanda/Burundi); (ii) Batoka Gorge Hydropower Project (Zambia/Zimbabwe); (iii) Mozambique Mphanda Nkuwa Hydro and Regional Transmission Backbone Project; (iv) Zambia/Kenya/Tanzania interconnector Project; (v) Regional Sahel pastoralism Support Project; and (vi) Regional Great Lakes Integrated Agriculture Development Program.

15. We underscore the need for adequate project preparation, for available pipeline of bankable projects, and for proper financial structuring of projects as prerequisite for attracting private capital investments. In this regard, we expect financial resources and technical assistance from the Global Infrastructure Facility (GIF). In parallel, we encourage the WBG to partner with the African Development Bank (AfDB) in support of its Africa50 initiative as an infrastructure investment platform to significantly narrow the infrastructure finance gap. Specifically, we ask the WBG to:

(i) Contribute financial resources to both the AfDB’s initial investment of up to US$500 million in Africa50’s Project Finance Business Line; and initial investment of up to US$100 million in Africa50’s Project Development Business Line;

(ii) Boost financially the NEPAD Infrastructure Preparation Facility (IPPF) hosted at the AfDB as alternative to establishing the Single Infrastructure Projects Preparation Facility for Africa (SIPPFA) that we have been requesting in our Memoranda since 2011.

16. For regional transformative infrastructure financing in Africa to reach the desired level, we call upon the BWIs to develop analytical work on innovative sources of finance, the outcomes of which would help us: (i) Promote Africa-owned private equity funds; (ii) deepen infrastructure
bonds; (iii) develop and utilize diaspora bonds and regional stock exchanges; (iv) set up a mechanism as a financing vehicle to encourage, target, attract, and secure remittances by the African Diaspora; (v) strengthen the existing Sovereign-backed Pension Funds for projects development; (vi) catalyze greater investments through learning from successful Independent Power Producers (IPPs) in Africa; (vii) rationalize carbon pricing schemes; and (viii) re-examine the role of central banks in promoting economic development. We count on a strong support from the BWIs in our efforts to mobilize domestic resources to fund Africa’s infrastructures from African financial sources, in line with the thrust of the AU AGENDA 2063.

17. Meanwhile, we renew our call to the Bank for expedited action on the planned creditworthiness evaluations for IDA countries, and reiterate our recurrent requests that: (i) All IDA countries that are currently accessing international financial markets be given access to IBRD funds, so as to enable them finance major transformative infrastructure projects; (ii) IBRD increases its enclave lending to IDA countries for the purpose of structuring large-scale transformational projects; (iii) the conditionalities associated with this enclave financing be eased in order to make this facility more attractive and suitable to the needs of our countries; and (iv) the guarantees and leverages needed are offered to attract private sector investments and foster public-private partnerships (PPPs).

18. Mindful that the issue of regional transformative infrastructures should be approached in a holistic way, we invite the WBG to explore the de-risking mechanisms to advance: (i) Project financing for ICT innovations, as the backbone of the digital economy; and (ii) the expansion of regional ports, as means for regional trade development and competitiveness.

VI. DIVERSITY, QUOTA AND VOICE

Diversity

19. We welcome the increasing attention being given to addressing Africa’s underrepresentation within the BWIs, and support recent initiatives on diversity and inclusion (D&I). The ongoing staff recruitment drives in the region by both the World Bank and the IMF is commendable, and we hope that these translate into actual hiring of African nationals.

20. At the WBG, we welcome the recent appointment of 3 new Vice Presidents from Africa. We also note the signing of the D&I Compact by the Senior Management Team (SMT) and appreciate the efforts in building a robust and strong pipeline for sub-Saharan Africa staff. We hope that all these measures together with the new D&I governance structure and the engagement of the External Advisory Panel for D&I would give added impetus to achieving the proposed targets and transform the WBG into a more diverse and inclusive institution. We look forward to an update from the Bank on the progress in meeting the stipulated targets at the time of the 2016 Spring Meetings.

21. On the IMF side, we remain concerned at the limited progress in meeting the diversity targets, particularly those related to the recruitment and promotion of African nationals, particularly at the senior staff and managerial levels. Moreover, in spite of some positive results
on gender diversity, the share of African women hired by the institution continues to be very low. While we would have expected the new diversity benchmarks for 2020 to be more ambitious, we urge that interim indicative targets are established to ensure effective monitoring of progress and the possible early attainment of the benchmarks. We emphasize the need to advance diversity of educational background to include African universities as an important step towards enriching and broadening the Fund’s perspective on global economic policies and challenges.

**Quota and Voice**

22. We take note of the progress made by the WBG Board on the 2015 Shareholding Review. In keeping with the Istanbul principles, we reiterate our view that the current review should effectively move the Bank towards equitable voting power between developed and developing countries, while ensuring that there would be no dilution on the shares of small and low income countries.

23. We deeply regret the delay at the IMF in the effectiveness of the 14th General Review of Quotas (GRQ) and governance reforms. We welcome the initiation by the Executive Board of the work on interim steps, in line with advice from the IMFC, to achieve meaningful progress in the key areas covered by the 2010 quota and governance reforms. We, however, urge that the option adopted is consistent with the commitments to preserve the Fund’s quota-based structure and to protect the quota shares of the poorest members. That said, we underscore the fact that implementation of the 2010 quota and governance reforms should remain a priority. We are also concerned that as a consequence of the delayed effectiveness of the 14th GRQ, completion of the 15th GRQ, which includes agreement on a new quota formula, has lagged behind. Our expectation is that a new quota formula will better reflect the relative weights of IMF members in the world economy, while also taking into consideration their vulnerabilities and resource needs. We continue to support an upward revision of basic votes in order to further enhance the voting shares of African countries.

24. We reiterate our earlier position that the size of the IMF Executive Board be aligned with the institution’s growing mandate and renewed our longstanding commitment to a third chair for Sub-Saharan Africa. We consider the fact that 45 SSA countries are represented by only two Chairs on the IMF Board unacceptable as it does not allow for effective representation of these countries, and thus has the propensity to undermine the institution’s legitimacy. We urge that urgent action be initiated to redress the situation.

**VII. CONCLUSION**

25. In our 2014 Memorandum, we called on the BWIs to support the efforts in the fight against the Ebola epidemic, especially in the most-affected countries—Guinea, Liberia and Sierra Leone. While we appreciate the swift initial responses of the two institutions to the crisis, we are concerned that the additional shock from the sharp decline in global commodity prices has exacerbated the socio-economic challenges experienced by these countries, thereby sharply increasing their gross financing needs. Therefore, we urge the BWIs to scale up financial and technical support for these countries’ economic recovery and growth strategies.
26. We welcome the commitments by the BWIs to support countries in fragile situation realize their development goals. In this context, we reiterate our call for the BWIs to take necessary steps and provide leadership in assisting Somalia, Sudan and Zimbabwe address their debt arrears and gain full access to debt relief by accelerating the process for reaching the decision and completion points.

27. IDA is and should continue to be instrumental in achieving ambitious SDG targets. In this regard, we support the World Bank Group’s new financing initiatives to facilitate the transition from concessional to non-concessional funding. We welcome the ongoing discussion of options that would increase the resources available for development finance through IDA. We also call for an ambitious leveraging of IDA to maximize the development impact enabling us to meet SDGs and end extreme poverty deadlines and targets.

28. Additionally, we call on the Bank Group and indeed all stakeholders to explore all options to continue to strengthen IBRD medium term outlook and its financial sustainability through all measures including considering its capital adequacy across the Bank group to help unlock a much stronger lending program for the benefits of its growing middle income clients in Africa and the rest of the world. We stand ready to partner with the Bank Group on all possible options that would be identified.

29. Forty (40) years have passed since the IMF/WBG Annual Meetings were held in Africa in 1973. To be fair and provide equal opportunity for each continent to host this important event, we request that the current venue selection process for IMF/WBG Annual Meetings outside Washington, DC be replaced by a simple rotation of continents by alphabetical order of their names in English, starting in 2021; and that only countries of the continent considered compete for venue selection.

30. Finally, we want to reaffirm the centrality of capacity building in sustaining the gains in economic management in Africa which has led to the growth of the continent over the past 15 years. We call on the BWIs to scale up their partnership and support to the capacity building institutions in Africa to address the capacity challenges faced by African countries.