

G-20 CHAIR CONSULTATION OF LOW-INCOME AFRICAN COUNTRIES

Freetown, Sierra Leone, 14 August 2009

Representatives of 29 low-income African governments met in Freetown on 14 August, as part of the consultation by UK Government, on the review requested by leaders at the G-20 Summit on improving the flexibility and adaptability of the IFIs. The meeting was sponsored by the UK Department for International Development and hosted by the Government of Sierra Leone, and held under the joint chairmanship of H. E. Samura KAMARA, Minister of Finance and Economic Development of SIERRA LEONE; and H.E. Ahmed SUFIAN, Minister of Finance and Economic Development of ETHIOPIA.

Countries strongly welcomed the recent reforms in Bretton Woods Institutions (BWI) policies, instruments and behaviour, but made further important recommendations to improve the flexibility and adaptability of the IMF and World Bank to respond to low-income countries' needs, as well as in their roles in the global architecture.

1) Role of the IMF in Low-Income Countries

1.1 Conditionality and Growth-Oriented Policy

Countries welcomed the greater flexibility of fiscal policy advice provided by the Fund in many countries, providing space for fiscal stimulus or protection against the crisis. However, they stressed the need for this (and monetary easing) to be applied to all countries where possible without compromising macroeconomic stability, and for it to become a permanent change by the IMF to more growth-oriented long-term fiscal policy advice, not just a reaction to crisis. They also welcomed the relaxation and reduction of structural conditionality, but urged that this be pursued further and in all countries, and focus above all on conditions which would have a fundamental positive impact on growth and employment.

In addition, they urged that staff and missions working on all LICs, especially on post-conflict and fragile states, should be adopting the same degree of flexibility as regards fiscal space, structural conditionality and country leadership, so that Board decisions are applied equitably and transparently, and conditionalities agreed are realistic and executable, and waivers are provided flexibly and rapidly. To enhance ownership, parliaments should be more systematically involved in consultation on Fund programmes, to ensure that they take greater account of local political realities.

Within fiscal flexibility, a key aspect is greater flexibility of the Debt Sustainability Framework. This needs to be reoriented to ensure that it reflects financing needs for growth, infrastructure and poverty reduction, the positive impact of the expenditure resulting from the borrowing on growth, and the potential for financing from non-OECD lenders. G-20 is well placed to involve these lenders in the discussion of the DSF review to ensure greater flexibility.

1.2 Facilities/Instruments/Procedures

Countries welcomed the streamlining of IMF LIC facilities, and urged the Fund to apply them rapidly. They stressed that the Standby Credit Facility and Rapid Credit Facility will be needed beyond the crisis, and should focus on promoting growth and poverty reduction. Countries in the HIPC process urged faster relief delivery to combat the crisis.

Countries stressed that the fundamental MDG-related impact of crises is on their budgets, but IMF instruments are not fundamentally tailored to help meet fiscal (rather than balance of payments) needs. They urged that IMF and other resources be mobilised to meet primarily their fiscal needs and financing gaps and protect MDG-related spending.

Given greater earnings by the IMF on its lending, countries strongly urged that IMF Technical Assistance and training for LICs should be paid for out of Fund resources, and the need for LICs to pay or for donors to fund it separately should be dropped.

Countries urged that there should be greater decentralisation and reinforcement of staff power and numbers in local IMF offices, in order to maximise adaptation to country needs.

1.3 Resources/Concessionalities

While welcoming the increase in IMF resources, countries stressed that the IMF's own resources for LICs (and overall) are very insufficient. Resources available to individual countries are also excessively limited by quotas, especially for smaller countries, and much more flexibility should be introduced to make the Fund more responsive to country need.

Nevertheless, barring a further large increase in IMF resources, its key role lies in catalysing donor funds through its signalling role, especially for post-conflict/fragile countries which cannot mobilise domestic resources. Donors and the IMF need to be more consistent in ensuring that the signalling function is clearly and transparently exercised and that resources are provided with maximum stability to avoid exacerbating crisis.

Countries urged rapid implementation of the SDR allocation in order to reinforce their reserve levels. However, they were also concerned that Fund resources should to the maximum extent possible be usable for fiscal response to the crisis and not just reserve augmentation. In this context, SDRs should be more readily usable for fiscal purposes, and if LICs use SDRs, they should have either subsidised or zero interest rates.

2) Role of the World Bank in Low-Income Countries

2.1 Overall Coherence

Countries indicated that there is a need for the Bank to rationalise facilities, sectors and projects within Country Assistance Strategies, to ensure greater coherence and prioritisation, as well as higher contingencies within each CAS and overall IDA envelopes to allow reallocation to confront crises or shocks. They stressed the need for more predictability and transparency, especially in knowing the volume of resources available.

Bank partnership with other funders could also be improved, especially by reducing conditionalities on budget and sector support, avoiding cross-conditionality with the IMF, and separate disbursement and procurement procedures. It could also partner more

closely with non-OECD donors on infrastructure projects.

2.2 Frontloading, Flexibility and Leveraging

Countries suggested that the priority is for the overall fiscal financing needs of each LIC for accelerated growth to be more accurately assessed and predictably fulfilled. The Bank should be playing a key role in helping countries to assess these needs.

Some countries felt the Bank's response to the crisis had been rapid and significant. However, many did not, because of delays in procedures, excessive conditions and lack of transparency/predictability in decisions on which countries could access budget support. Countries also suggested allocating higher levels of WB funds to anti-shock budget support, making the recent increase permanent to help countries respond to all shocks, rather than just the current global crisis. Where necessary, this could be in parallel with more support to improve country budget management.

Overall, countries felt that WBG resources are inadequate. They urged an earlier and larger IDA replenishment but also agreement on a more permanent mechanism to fund fast-tracking/frontloading of resources in crises (both globally and for individual countries) without advancing replenishments, perhaps using IBRD resources. They also need to be able to access more IBRD funds, blended with IDA, for high-return public sector projects.

2.3 Country Allocation/Tailoring

Countries felt IDA allocation criteria should depend largely on needs and results, and there should be a fundamental reform of the CPIA to reduce its subjective and governance elements, and limit it to aspects more fundamental for growth such as macroeconomic and public financial management, and the quality of development programmes. There is also a need for much more consultation, transparency and partnership in assessing country performance if it is to improve sustainably.

Country envelopes for smaller and more fragile states need to rise considerably if the Bank is to invest in major infrastructure projects or make a major difference to fiscal positions.

Countries recommended even more attention to ensuring that programmes are aligned to national priorities, and conditionality is limited to ensuring transparent spending with maximum development results, and ensuring repayment prospects by accelerating growth.

Very slow approval and disbursement processes, and excessive numbers of missions, are undermining the Bank's usefulness against the crisis. In terms of transaction costs and delay, the Bank is "not very good at doing business". To accelerate these procedures and improve tailoring/adaptation to country needs and priorities, the Bank needed to decentralise much more, especially on appraisal, procurement and disbursement decisions.

Countries stressed the key role of IDA Deputies and the WBG Boards in ensuring that WBG reforms are implemented, and therefore urged more fundamental reforms to voice and voting shares. They also stressed the need for reforms to be consistently implemented across all staff in the institutions, to ensure equitable delivery.

2.4 Private Sector and Infrastructure Financing

WBG additional infrastructure funding is very welcome, but highly inadequate compared to needs for a key source of African and global growth, preventing the Bank from taking a lead on country-level infrastructure financing. It was also felt to be complex to access, and giving insufficient attention to rail, air and other key facilities for adding value to exports. Countries urged the WB to provide more support for regional integration and trade-supporting projects, and to fund this without taking it out of country allocations.

Additional private sector lending was also welcomed, as is IFC and MIGA non-financial support. However, many countries perceived this support as going mostly to a very few largest projects and transnational investors, and to the financial and natural resources sectors. They suggested sharply increasing recent efforts to reach local, smaller and employment-intensive projects across other real sectors of their economies.

3) Global Role of the IMF and World Bank

3.1 IMF Surveillance

Countries urged that IMF surveillance should apply with the same rigour to major OECD economies as it does to LICs, in order to reduce prospects of future global crises, improve its monitoring of global financial markets, and enhance coordination of economic policies among the G-20.

3.2 BWI Funding Structures

Countries expressed interest in the idea of looking at making the IMF more of a formally insurance-based institution, provided that this would mean larger amounts of resources, which would be provided more on the basis of fiscal need.

MDBs should be encouraged to help intermediate sovereign wealth fund monies and other funds from countries holding high levels of reserves, into investments in LICs by cofinancing projects with them, and mobilising their funds for onlending.

3.3 Relative Roles of BWIs

Countries urged looking beyond the BWIs to the overall architecture against shocks. There is need for a comprehensive anti-shocks facility, and for all funders to reduce conditionality and move to allocation based on needs and results. A faster global increase in concessional resources (including G8 meeting Gleneagles promises, and a tough set of targets for G8/G-20 for 2010-15) is needed, so the BWIs can increase space and money.

Countries urged an increased funding role for regional organisations, especially the AfDB, because it is closer to its member states and LICs have more guaranteed voice in the organisation. However, they stressed that in spite of recent improvements, the relative speed and flexibility of the AfDB (which in some countries was excellent in providing budget support, frontloading and rapid disbursement) also varies by country, depending in part on the degree of decentralisation achieved.

3.4 G-20 Consultation and Reform

Countries congratulated HMG for having taken this initiative to consult LICs and feed their views into a G-20 process. However, they urged that the G-20 should be reformed to ensure permanent representation and participation of LICs. They also urged more regular

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consultation of a large number of LICs, by future G-20 Chairs, on issues relevant to them, and to report back on progress and actions on issues raised in this consultation.