



MAKING THE G20 COMMITMENTS WORK FOR AFRICA

Policy Recommendations for the 2009 IMF and World Bank Spring Meetings

The G20 Communiqué reported commitments on resources for low-income countries with a significant portion going through the IMF and the World Bank. Though the commitments could provide critical resources for sub-Saharan Africa (SSA), the details of how these funds will be provided without putting African countries at risk of a future debt crisis remain unclear. The 2009 IMF and World Bank Spring Meetings must ensure that detailed plans to deliver on the G20 resource commitments are agreed to. These details are critically important. They will decide whether poor countries have the resources to continue development progress during this financial crisis and whether they will have to risk a future debt crisis in order to get access to these funds to protect their populations.

The outcome of these meetings should provide low income countries – particularly African countries – with the resources they need to get through this financial crisis and build on recent development successes without creating a future debt crisis. ONE proposes:

- **The G7 Finance ministers reaffirm their development commitments and offer clear timetables for delivery;**
- **The shareholders of the IMF agree to sell gold acquired since the Second Amendment and use the surplus profits from the sale to support additional resources for the poorest on a basis that is as concessional as possible;**
- **Shareholders of the World Bank agree to frontload IDA resources and look for an early replenishment to ensure continued adequate resourcing of this crucial instrument.**

Why supporting Africa is important in the current crisis

Africa is already and will continue to be hit hard by the economic crisis. The impact of the crisis will result from falling remittances, postponed or cancelled investment, lack of access to credit, and declining exports. This economic hardship threatens to unravel major progress made on development in just the past few years. In economic terms, the output loss for sub-Saharan Africa (SSA) alone is predicted at around \$40-50 billion in 2008-2009.¹ In human terms, the World Bank estimates that 53 million more people worldwide are expected to be pushed into poverty this year as a result of the crisis. The World Bank also estimates that between 200,000 and 400,000 more children will die every year between now and 2015 as a result of the crisis.

Supporting Africa is in everyone's interest. Research commissioned by ONE shows that an investment of \$50 billion now to SSA in areas such as infrastructure, in addition to social safety nets, would deliver real benefits both for Africa, and for the rest of the world. This type of investment would increase global GDP by \$250 billion over the next ten years. Such investment would pay for itself by 2016 in returns to the global economy. In 2009 alone, US and Chinese exports would increase by about \$1.4 billion; German

¹ Findings based on research commissioned by ONE. (ONE, ODI and NIESR, 2009) "A fiscal stimulus to address the effects of the global financial crisis on sub-Saharan Africa" Authors: R. Barrell, D. Holland and D.W. teVelde")

exports would increase by about \$1.9 billion; and UK exports by about \$0.7 billion. In addition to this economic impact, countries around the world would benefit from greater stability in Africa.

What needs to be done?

ONE urges that the following recommendations be considered and agreed at the 2009 Spring Meetings:

RESOURCES

- **The IMF should use the profits yielded by the sale of IMF gold acquired since the Second Amendment (12.97 million ounces, or the amount proposed by Crockett Committee) to increase support for the world's poor, especially in Africa.** In particular, the G20's pledge of \$6 billion additional financing for the poorest countries should be provided in grants rather than in loans, using the resources created from the additional profits. The G20 Communiqué assumed the use of around \$1.3 billion of the IMF gold sales profits. With the current concessional interest rate, this will create a lending capacity of \$6 billion over two to three years. ONE proposes that the IMF increase the share of gold sales profits dedicated to the poorest countries to \$5 billion, which would allow new resources to be released on terms far more concessional than the currently proposed \$6 billion.²
- **The World Bank and the IMF, together with multilateral development banks (MDBs), must increase the concessionality of their lending programs to low income countries so as to avoid a future debt crisis.** A G20 agreement of an increase in MDB's lending of \$100 billion, as well as a doubling of the IMF's concessional lending capacity for low income countries are welcome. However, if this means a pure increase in the quantity of lending, this could be costly for low-income countries and put them at longer-term risk of debt unsustainability. The World Bank and IMF should increase the concessionality of lending to prevent these countries from another devastating debt crisis. Similarly, the G20-agreed to earmark \$50 billion to support low-income countries. This should be directed to low-income countries as grants through the International Development Association (IDA) of the World Bank rather than as costly loans and a significant portion should be directed to African countries.
- **The World Bank and other multilateral development banks must frontload their financial assistance committed to the poorest countries.** To help countries better weather the negative impacts of the crisis, it is essential that they have enough resources now to act swiftly. ONE urges the World Bank to frontload most of their foreseen IDA credits. If the World Bank and the African Development Bank's African Development Fund (AfDF) frontload their financial assistance, donors should commit to early IDA and AfDF replenishments before the currently scheduled replenishments at the end of 2010. This will ensure that the frontloading of funds does not leave IDA and AfDF accounts empty.
- **The G20 should ensure the MDBs have sufficient funds to support countercyclical investments in developing countries and increase the capital base at Regional Development Banks (RDBs) especially the African Development Bank (AfDB).** The African Development Bank, for example, has recently projected that an increase in its capital base could leverage an

² With the current market price of gold (approximately \$900 per ounce) significantly higher than when the Committee originally proposed the gold sales (\$500 per ounce), a simple calculation suggests that this sale would yield approximately \$5 billion (\$400 per ounce multiplied by 12.9 million ounces) for the world's poor. This is calculated by subtracting the historical book value of the gold SDR 2.7 billion (which will be put back to IMF holdings) and SDR 1.7 billion to cover the administrative costs of the IMF (the original profit that would have been yielded at the time of the Committee's proposal in 2007), from the sales price.

additional \$5.5 billion in new programs that could be implemented in 2009. These projects are largely “shovel-ready” infrastructure projects that will offset shortfalls stemming from the global financial crisis.

- **The World Bank must make funding available for social protection for the poor in Africa, through an effective Vulnerability Framework.** Although the G20 committed to making resources available through this World Bank framework, they have not committed to a dollar-figure. ONE supports an effective World Bank framework, including the IFC’s Infrastructure Crisis Facility and the Rapid Social Response Fund that support the needs of the poorest in Africa. In this regard, ONE urges the World Bank to clarify the composition of their proposed Vulnerability Framework and to set a clear timeline for the disbursements.
- **The G20 member countries must provide concrete pledges to the new IFC Global Liquidity Fund, which forms an important part of their \$250 billion trade finance support package.** To implement the G20’s commitment to provide \$3-\$4 billion in bilateral contributions towards \$50 billion of trade liquidity support, a clear breakdown of contributions by each of the G20 countries must be formulated and pledged by the respective governments. The IFC must also specify how much of this fund will be directed to low income countries, specifically to African countries.

REFORM

- **The IMF and the World Bank must clarify that the G20 agreement to select the heads and senior leadership of the international financial institutions through an open, transparent and merit-based selection means that citizens of any member country can apply and be selected based on merit.**
- **The IMF and the World Bank should accelerate the reforms in the policy conditions imposed on their lending practices.** In particular, conditionalities on macroeconomic policies, such as cutting public sector expenditures, reducing fiscal deficits and increasing interest rates must be loosened immediately for the additional resources promised at the G20 Summit to be made available for low-income countries through the IMF and the World Bank.

REGULATION

- **The Spring Meeting must provide more details on how the G20 will enact their commitment to take *actions against non-cooperative jurisdictions including tax havens* and how that would work in developing countries.**

Annex – What did the G20 promise for the poor at the London Summit?

Resources	<ol style="list-style-type: none"> 1. Reaffirmed the commitment to meeting the Millennium Development Goals and to achieving respective ODA pledges, including the commitments on Aid for Trade, debt relief, and the Gleneagles commitments, especially to sub-Saharan Africa (Communiqué, 25) 2. Committed to providing \$50 billion to support social protection, boost trade and safeguard development in low income countries (Communiqué, 25) 3. Committed to supporting a substantial increase in lending of at least \$100 billion by Multilateral Development Banks (MDBs) (Communiqué, 17) 4. Agreed to support a doubling of the IMF's concessional lending capacity for low income countries (Annex 1) 5. Committed that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years (Communiqué, 25) 6. Agreed to support a general SDR allocation which will inject \$250 billion into the world economy and increase global liquidity, \$100 billion of which will go directly to emerging market and developing countries (Communiqué, 19 and Annex 1) 7. Ensure availability of at least \$250 billion over the next two years and support trade finance, including a \$50 billion support through new IFC Global Liquidity Pool (Communiqué, 22 and Annex 1)
Reform	<ol style="list-style-type: none"> 8. Recognised that emerging and developing economies, including the poorest, must have greater voice and representation at international financial institutions. In this regard, the G20 committed to implementing the package of IMF quota and voice reforms, and the World Bank reforms. In addition, the G20 agreed that the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process (Communiqué, 20) 9. Affirmed the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services (Communiqué, 22)
Regulate	<ol style="list-style-type: none"> 10. Agree to take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector. (Communiqué, 13) To this end, the G20 agreed to take action against non-cooperative jurisdictions, including tax havens (Communiqué, 15)