

MEMORANDUM ON AFRICAN PROBLEMS

To: Mr. Pierre-Paul SCHWEITZER, Managing Director of the International Monetary Fund

Mr. George D. WOODS, President, World Bank, IDA and IFC

From: The African Member Countries

The African member countries assembled together welcome the efforts made by the financial institutions under your dynamic leadership and congratulate you and your colleagues on your competent and energetic management. They have noted with great satisfaction the undertakings you have given particularly with respect to the prospective extension of the activities of the international financial organizations in matters of economic development and international trade.

While thanking you for the additional information and assurances that you have given us on a number of questions of a general nature, the African members have thought it useful to put forward to you recommendations on various problems with which they are particularly preoccupied:

I. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

A. The African member countries, having noted the decision to broaden the scope of the activities of the IBRD and to increase for the moment the resources of IDA, urge strongly that:

- (i) the policies favoring lending operations to the agricultural and social sectors be put into effect as of the new fiscal year 1964-1965 and that special attention, if not priority, be given to the needs and requests of the African members;
- (ii) the Bank should continue to transfer part of its net annual income to IDA and should at the same time increase its efforts to persuade the developed nations to augment IDA's resources by agreeing to increase their contributions;
- (iii) the IBRD, whose Articles of Agreement at present prohibit it from refinancing suppliers' credit, should nevertheless study the possibility of arranging refinancing credits or granting guarantees to African member countries in order to enable them either to obtain new credits of this nature or to negotiate more favorable conditions for credits already received;

- (iv) IDA should consider extending its operations to the financing of investments related to the development of communication and transportation, in particular railroads and railroad equipment.

B. The African member countries, anxious to derive the greatest possible benefits from the activities and operations of the IBRD and its affiliates, strongly favor:

- (i) The establishment of uniform rules and procedures for the submission of loan and credit applications, notably by setting down standard requirements for the preparation and presentation of dossiers and by working out procedures for the speedy consideration of projects, thereby substantially reducing the cost of preparing loan applications.
- (ii) More flexible terms for project financing, in particular:
- A change in the commitment charge: we regard the reduction of the commitment charge from 3/4% to 3/8% as a positive step.
 - A revision of interest rates: it is desirable that interest rates be determined according to the nature of the project.
 - Extended periods of grace and of repayment: for conventional loans the minimum grace period should be 10 years.
- (iii) Financing local currency costs, which may have unforeseen effects on the budgetary or monetary situation of the countries concerned, compelling them to abandon projects even though they may have been approved by the Bank or are being considered for Bank financing.

C. Finally, the African member countries request the Bank to consider with the greatest attention and all possible sympathy the following suggestions:

- (i) Possibility of joint financing by the Bank and IDA. The African member countries are unanimous in their preference for the financing of projects by IDA, whose terms are so much less onerous.

However, some of them have suggested that consideration should be given to the possibility of joint financing by Bank and IDA of projects to which they attach particular importance but which could not

otherwise be considered either because of the extreme severity of the Bank's conditions or the insufficiency of IDA funds. By combining the advantages and disadvantages of both institutions joint credits could make possible the adjustment of the financial burden to the actual capacity of the countries concerned.

- (ii) More equitable distribution of IBERD and IDA financial assistance. The African members are pleased to note that in the past years the developing countries of other continents have benefited greatly from the operations of the IBERD and its affiliates. They believe, however, that it would be desirable to take account of the lead taken by these countries as well as the lag of Africa, its urgent and growing needs, when arriving at a more balanced and equitable distribution of credits in the future.
- (iii) Financial assistance to development banks. The need to promote rapid economic development has led many African states to take steps to mobilize more efficiently domestic savings, in particular public savings, by establishing development banks. Due to their governmental or semi-governmental nature these institutions find it difficult to approach the traditional private capital markets where they are met with great reserve. These development banks may at times obtain credits from foreign public financial organizations but often in limited amounts due to the limited resources at the disposal of those organizations in terms of the needs of their own countries.

We therefore feel that it is highly desirable that the development banks be able to borrow from the IBERD on politically and financially acceptable terms and we suggest that the Bank institute a study, as soon as possible, to establish conditions for such future financial assistance.

- (iv) Establishment of an "interest reduction fund". Following the recommendation of the recent United Nations Conference on Trade and Development, it is to be hoped that the Bank will see its way to establishing as soon as possible an "interest reduction fund" fed by sums to be transferred from the Bank's annual net profits. The purpose of the fund would be to alleviate in part the interest payments due on loans made by private sources or public organizations other than the Bank and its affiliates. In so doing, the fund would constitute a financial guarantee and encouraging factor for public and private foreign capital.

- (v) Increase of IFC resources and diversification of its operations. The African member countries have welcomed, although with some reservations, the decision to expand the resources of the IFC whose basic purpose is to promote and encourage private investments. Now, it is becoming increasingly obvious that the newly independent African countries inspire less and less confidence in private capital, concerned as it is with both profitability and security. We feel that the prejudice of the African member countries against the IFC would be removed if the President were prepared to revise the policy of the IFC to enable it in particular to participate in financing industrial or other projects undertaken by governments.
- (vi) Harmonization of financial assistance by the Bank and its affiliates with development plans. Almost all African states have prepared long-term development programs, the execution of which is carried out on an annual basis. The financing of these plans come from two sources: domestic resources, which can always be estimated, and external resources, in particular financial assistance from international organizations, the amount and utilization of which is not, unfortunately, known in advance. This lack of knowledge about future external financial assistance conflicts with the whole idea of planning and thus constitutes a serious obstacle to the implementation and success of development plans. For this reason the African members request the Bank to study the possibility of placing at the disposal of their countries, upon submission and after study of their development plans, a global amount of credit, the precise utilization of which would be spelled out in terms of projects included in the plans and approved by the Bank. With such assurances for the long-term financing of projects which they deem essential African member countries would be in a position to carry through their plans without fear of serious setbacks.
- (vii) Financial assistance for regional development. The African member nations have noted with great satisfaction the expressed willingness of the Bank to give financial and technical assistance to projects of a regional character. They express the wish that this decision be rapidly implemented and urge the Bank to increase its efforts in this direction in the future.

II. INTERNATIONAL MONETARY FUND

The African member nations submit the following recommendations to the attention of the International Monetary Fund Management:

- (i) Compensatory financing of export fluctuations. The African member countries have welcomed with great interest the Fund's scheme for compensatory financing of export fluctuations with respect to primary commodities. While acknowledging the positive nature of this move, they feel, however, that this scheme does not provide a definitive solution to the crucial and basic problem of rapidly falling prices for primary commodities which constitute the bulk of Africa's exports and their main source of income.

The African member countries strongly urge that in the study now being undertaken, long-term compensatory financing be given careful and objective consideration.

- (ii) Payment of gold tranche. The African member countries urge the revision and amendment of the 25% gold payment requirement, both with respect to the projected general increases and to compensatory financing of export fluctuations, in order to take into account the difficulties with which this obligation has always faced them.
- (iii) The African member countries further recommend that the Fund, in conjunction with other international institutions, undertake studies of world trade and international liquidity with a view to recommending ways of improving the share accruing to African countries. In view of the great importance of these problems for the African member countries, they strongly urge that the committee entrusted with these studies be as broadly representative as possible.

III. THE BANK AND FUND

The African member countries strongly urge the International Monetary Fund and the World Bank to take into consideration their concern on the four points set forth below:

- (i) Strengthening of the technical assistance by the IMF, IBRD and its affiliates. The African member countries hail the Bank's initiative in setting up two technical assistance advisory offices in Africa to enable African countries to make better use of the assistance offered

by the Bank. They would nevertheless recommend that technical assistance provided by the IMF and the IBRD be strengthened by placing at their disposal, with the least possible delay, and on acceptable conditions, a large number of advisers or experts in every field: financial, monetary, banking, fiscal, economic, technical and even administrative. Moreover, it seems advisable that both institutions give special attention to the rapid training of Africans as economic and financial officials, either by increasing the number of training sessions or by granting scholarships in specialized institutions.

- (ii) Extension to African members of the privilege granted to Latin America of voting en bloc for the election of the Executive Directors of both institutions.
- (iii) Increase in the number of seats on the Boards. Under the Articles of Agreement of the Fund, the Latin American member countries are allocated three seats on the various Boards. The African member countries request that the same consideration be given to them.
- (iv) Recommendation that French, like English, be made an official language of both institutions.

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