2021 AFRICAN CAUCUS

Overarching Theme

DIGITALIZATION FOR INCLUSIVE RECOVERY AND SUSTAINABLE GROWTH

Preamble

The 2021 chosen theme for the African Caucus to be hosted by Burundi, *Digitalization for Inclusive Recovery and Sustainable Growth,* acknowledges that technology is rapidly transforming economies and societies and driving economic growth in many countries. As a result, there is a realization within Sub-Saharan Africa that if the region has to grow and effectively compete with other developing economies, it has to increase its energy baseload and expand electricity access to households and businesses to harness digital technology's benefits and spur growth and social prosperity.

With this broad scope in mind, the African Governors at the Caucus will deliberate on energy as a prerequisite for digitalization and leveraging digital technology to end extreme poverty and boost shared prosperity. They will also exchange views on addressing policy gaps and energy deficits that hinder African countries from developing robust systems for the digital economy to thrive and drive growth and create jobs. In this regard, the Governors will deliberate on the following three topics:

i) Mobilizing Resources for Digital Infrastructure;

ii) Enhancing Africa's Capacity to Harness Potentials of Digitalization; and

iii) Mitigating digital and Central Bank Digital Currency (CBDC) risks to ensure safety, trust, and safeguards.

Topic 1 - Mobilizing Resources for Digital Infrastructure
Concept Note

Digitalization is no longer an option but an imperative. It lowers costs, enhances efficiency, and safeguards inclusion. Fast-tracking adjustment, transition, and adaptation to the digital economy require rapid and substantial investments in infrastructures. Yet, the pandemic has stretched budgets in most African countries, forcing importance balance and tradeoffs among pressing priorities within scarce resources while leaving no or minimal fiscal space to invest in digital infrastructure. This situation is even worst for those African governments with debt averaging more than 50 percent of GDP. Against this backdrop, Topic 1 focuses on mobilizing financial resources for digital infrastructure. It suggests a few interlinked and complementary options –- where the BWIs' support would be essential. These options include:

1. Public Financing

The focus would be on mobilizing domestic resources, including stemming illicit financial flows (IFFs). The BWIs' additional support would be requested to improve tax administration, increase savings, improve the quality of investments, and raise new investments' rate of return to manage debt and open up fiscal space for digital sector spending. They would also be encouraged to support digital technologies to strengthen automatic exchanges of tax information, boost public financial management, strengthen anti-money laundering systems, improve customs and border control, strengthen national capacity to prevent and combat tax evasion (especially relating to illegal transfer pricing), curtail illicit financial flows, and recover stolen assets. Core engagements will include support for anti-corruption efforts and improved auditing and assistance on policies relating to public finance transparency, tax evasion, public procurement, trade facilitation and cross-border payments, natural resource management (with a focus on contracting in extractive industries), and economic regulation. In addition, the BWIs would be requested to support the financial and institutional strengthening of revenue-earning public entities to access private finance when and where full PPPs are not feasible.

2. Private Investments

The WBG, especially IFC and MIGA, will be exhorted to help African governments in de-risking digital infrastructure investments using various financing instruments that are most commercially attractive to private investors, such as:

- *Blended finance*: the use of public and development finance to attract private sector participation by providing incentives, such as subsidies, revenue guarantees, and capital grants.
- *Converting infrastructure into an asset class:* a process where infrastructure becomes a new asset class through which funds invested in these projects, like loans, will be repackaged into financial instruments to be traded in the financial market.
- *Public-Private Partnerships (PPPs):* a form of infrastructure financing, which involves long-term contracts with private partners. IFC and MIGA would, in particular, be requested to help accelerate processes currently underway to deregulate the PPP framework to make it easier to set up PPPs and attract private investors.

3. Reducing Rising Debt Burdens

The IMF would be asked to ease African countries' mounting debt burden with voluntary sovereign-debt buybacks and debt service suspension (both principal and interest payments). This would free up additional resources and create much-needed fiscal space to help finance digital infrastructure. It would also be requested to establish a debt-for-digital infrastructure swap, which could be another source of funding for African countries' investments in this critical area. To this end, swapping African countries' external debt for annual payments into a *Digital Infrastructure Fund* (DIF) to be created will be proposed. It is envisaged that this Fund will finance large digital infrastructure projects that will incentivize private finance by de-risking infrastructure investments.

Topic – 2 Enhancing Africa's Capacity to Harness Potentials of Digitalization Concept Note

The COVID-19 pandemic has accelerated the use of digital technologies at a pace and scope never previously imagined, impacting nearly all facets of human living. Conversely, it has revealed the stark divide between those who have access and those who do not. Such a divide is nowhere more salient than in Africa, where three-quarters of its 1.3 billion population has no access to the internet—limiting the region's ability to provide digital solutions as the pandemic deterred traditional modes of service delivery. In this respect, the pandemic has laid bare the fact that digital transformation dividends are neither automatic nor equitably distributed. To maximize benefits and mitigate potential risks, deliberate policy actions are necessary to create an enabling environment that allows the generation and upscaling of appropriate digital solutions with the potential to address development challenges. Boosting human capital in African countries is, therefore, crucial to enable the broader participation of all segments of the population in the digital economy. Further, enhancing the capacities of key players in the digital ecosystem holds the promise of leveraging digitalization to transform African economies and improve welfare outcomes. This can be accomplished in two ways:

(a) Improving an Enabling Policy and Regulatory Environment
To spur economic recovery and long-term prosperity, African countries are increasingly carrying out policy and regulatory reforms to build social and economic systems that are resilient in the post-pandemic world. Nevertheless, the pandemic presents a silver lining for African policymakers to render an enabling environment through appropriate policy, legal and regulatory frameworks that promote the development and upscaling of digital solutions, protect intellectual property rights and personal data, address inefficiencies, and develop early warning systems capable of detecting potential cyber risks. This would provide a window of opportunity to implement appropriate reforms enabling the continent to benefit from COVID-induced digitalization. In rolling out its building back better agenda, the World Bank Group (WBG) should be encouraged to prioritize reforms that accelerate digitalization, which, if well embraced, can propel economic transformation in a post-pandemic Africa. The WBG has in its toolkit reforms-focused instruments to support African governments, consumers, and entrepreneurs to create the enabling policy, legal and regulatory environment for them to thrive in the fourth industrial revolution.

(b) Developing Digital Literacy, Skills and Entrepreneurship
Imparting digital literacy and skills, including digital financial literacy, to a large part of the African population could have ripple effects on other economic sectors. A digitally literate and skilled population enables the development, adoption, use, and scaling up of digital solutions and e-services. This, in turn, creates demand for digital services, promotes digital entrepreneurship, and prepares citizens for jobs of the future, which the pandemic has propelled faster than previously projected. However, to optimize digital skills and literacy, increased investment in complementary skills, such as those acquired from Science, Technology, Engineering, and Mathematics (STEM), is needed. As innovation is at the heart of the fourth industrial revolution, reinforcing institutional capacity and developing the appropriate skillset to drive and support innovation and create an enabling business environment are essential elements for success. African governments are

encouraged to actively engage the WBG in their efforts to integrate digital education and innovation into the curricula at all levels of education—including technical and vocational education and training (TVET). With the support of the WBG, African countries should also strive to improve regular on-the-job training and e-learning to facilitate rapid adoption and effective use of digital technologies and solutions. Importantly, they must ensure that acquired digital skills match the job market's demand and help entrepreneurs grow their businesses and the economy.

Topic 3 – Digital Financial Services and Digital Money-opportunities, risks, and safeguards to enhance adaptation

Concept Note

Digitalization has the potential to promote inclusive growth through efficiency gains and improvements in the payment systems if planned and managed effectively. Further, digitalization tools, when leveraged, can complement fiscal policy implementation through enhanced data collection, effective public service delivery, and domestic revenue mobilization. At the same time, digitalization offers an opportunity to reinforce the public financial management cycle through enhanced budget planning, execution, and monitoring. It could also improve financial inclusion, particularly in Africa, where over 1 billion people are still unbanked. However, current trends and practices indicate that digitalization processes operate at different speeds around the world and continue to pose several challenges and risks to financial stability and economies at large. Digitalization risks vary depending on the degree of digital infrastructure development, payment systems advancement, the robustness of monetary, financial, and exchange rate policies, as well as on the existence and adequate implementation of measures on Cyber Security and Personal Data Protection. In this panel, Governors will raise issues and seek support on measures related to risks they envisage or encounter with increased digitalization with an emphasis on those related to Digital Financial Services (DFS), including Central Banks Digital Currencies (CBDCs) and Global Stable Coins (GSCs).

Central banks across the globe are moving into more advanced stages of CBDC engagement, although at varying paces, progressing from conceptual research to practical deployment. As the Monetary Authorities make progress on this front, they will continue to face multiple challenges along the way. Advancement of CBDCs and GSCs depends on several national and regional factors, including whether these currencies are foreign in nature and the degree of harmonization of monetary and financial policies by regional peers. Absent appropriate financial regulatory and operational frameworks, foreign CBDCs and GSCs could impact the effectiveness of monetary and financial policies. Considering the ease of access and low transaction costs, these digital currencies could reinforce currency substitution and internationalization incentives in dollarized settings. In addition, if foreign CBDCs and GSCs are allowed to be legal tender nationally, the advantages it may confer regarding reducing pressure on correspondent bank losses and shortening the payment chains would need to be weighed against the inherent risks. Specific risks include those related to financial integrity through increased currency mismatch, rising illicit financial flows, and difficulties in funding linked to the substitution of banks' deposits with more volatile sources, as banks compensate for the loss of deposits or rise of shadow banks.

The increased use of digital money, particularly foreign CBDCs and GSCs, could undermine monetary policy effectiveness, including capital flow management measures. Mitigation measures are generally scant though they remain key to ensure that independent monetary policies and the control of financial conditions remain in the hands of national and regional authorities (in the case of monetary unions). Further, the application of digital technology in regulation and supervision ("RegTech" and "SupTech") may empower authorities in enforcing compliance but could also raise risks if signal reception and reliability remain weak. We find this situation quite frequent in low-income and developing countries, which the virtual engagements have highlighted during these turbulent times.

A key consideration for the Sub-Saharan Africa (SSA) region is interoperability of systems that will enable more robust competition between platforms and affordable pricing by limiting monopoly power; and appropriate structure and use of CBDCs alongside rules for the use of stable coins, can help significantly in this regard. It is also imperative to establish rules or regulations around stable coins and fintech services on social media and other online platforms. Another critical area is cybersecurity in the financial sector. In SSA and Latin America, cybercrime is on the rise, with cyber-criminal communities in these two regions growing faster than anywhere else.[1] The reason for this high cybersecurity vulnerability is digital financial services (DFS) transactions are often carried out using insecure devices and over transmission lines that were not designed to protect the security of financial transactions.

In line with the "The Digital Strategy for Africa, 2020-2030" articulated by the AU, we emphasize the importance of solid coordination for effective and efficient delivery of the digital agenda. This would help the continent to leverage the benefits of digitalization, including addressing inequality and the gender gap in mobile access, improving access to affordable technology, thus promoting financial inclusion, while at the same time putting in place governance structures to ameliorate attendant risks. Focus needs to be placed on beefing up the member states' technological, regulatory, and supervisory capacity to identify and mitigate risks, including from cyber-attacks and fraud. The current "wait and see" approach in some quarters is not an option as it leads to a digital divide and leaves behind some regions.

[1] https://www.findevgateway.org/sites/default/files/publications/files/cyber_security_paper_november2019.pdf