Summary Report on the LTS East Africa Consultation Meeting

Addis Ababa, March 14, 2012

The summary below captures the main points discussed during the East Africa consultation meeting and is not a detailed set of minutes. The comments have been summarized and organized into five thematic areas. In his opening remark, Minister Abraham lauded the Bank for the timeliness of the initiative and the participatory approach adopted to ensure wider ownership of the Long Term Strategy.

1. **CONTEXT AND DRIVERS OF CHANGE**

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   - The LTS highlights the positive achievements of the continent, which is emerging as a new growth frontier. However, poverty remains rampant and employment opportunities are limited. Demographic changes that are creating a growing, young, urbanized population, have the potential to drive higher growth but can also produce instability, especially if the aspirations of this demographic group for employment are not met.

   - Africa has many challenges and well-known solutions, and many regional economic plans and blueprints but they have not been implemented effectively.

   - RMCs face diverse needs and challenges and no one size fits all approach will be feasible. To remain relevant to all countries, the Bank must tailor its interventions to countries, including fragile states and small island countries.

   - The Bank cannot assume that it is a trusted development partner, but must demonstrate its trustworthiness and earn the trust of its RMCs. The Bank needs to **nurture its relations** with RMCs and stand by countries even in times of turmoil (e.g., Kenya two years back). It should not be driven by the political agenda of developed countries.

2. **VISION FOR AFRICA FOR THE NEXT DECADE**

   - Infrastructure remains essential because of its transformative nature as a key enabler of agricultural development, industrialization, private sector development and access to social services. Infrastructure should also address the growing population pressure in Africa’s urban centers and related challenges of unemployment and congestion. The Bank has a role to play in developing urban infrastructure, and urban mass transit systems in particular.

   - Technology and especially the ICT sector can transform Africa. ICT can be a driver of innovation and growth for private sector development, such as mobile banking system (e.g. M-pesa) in Kenya.
The persistent strong global demand for energy, mineral and agricultural commodities offer opportunities for growth in Africa. However, past strategies have overlooked industrialization, which could put these natural resources to better use, despite their importance for Africa’s long-term development and structural transformation. Governments should therefore define a clear vision and viable strategies to make industrialization possible.

The private sector is fundamental for rapid, inclusive economic growth and employment generation. Yet with the exception of resource rich African countries (e.g. oil exporters), Africa has failed to attract sufficient volumes of FDI despite reforms. The high cost of doing business impedes FDI (for example in Rwanda, energy constraints have contributed to high cost of doing business). Lowering the cost of doing business must be a key component of any effort to increase private sector investment in Africa, which is also impeded by the lack of access to credit. Although the Bank has expanded its private sector lending, its activities are not visible on the ground because it does not lend directly to SMEs due to the high transaction costs. Rather, the Bank provides lines of credit to financial institutions that finance SMEs. This is good but the Bank should explore more ways to expand and facilitate credit access to SMEs.

Regional integration is an important driver of growth and the Bank is well placed to support it. It should focus on connecting countries and boosting regional trade as a priority. At the same time, RMCs that demonstrate greater willingness to contribute to the financing of regional operations from budgetary resources will enhance ownership.

3. OPERATIONAL FOCUS OF THE BANK

Clients generally view the Bank as having a comparative advantage in infrastructure. Its support to country infrastructure development strategy is perceived as a prerequisite for economic growth and is visible on the ground and transformative.

The Bank’s Private Sector Development should focus on: (i) easing the constraint of access to capital by African entrepreneurs. Working more with the sub-regional banks closer to the clients would be one possibility in achieving this; (ii) creating an enabling environment for the private sector (improving policy, legal and regulatory frameworks); (iii) promoting effective Public Private Partnerships particularly in the infrastructure sector with the Bank serving as a bridge, and (iv) assisting countries in reducing the cost of doing business so that they can become more competitive and attract FDI.

The Bank plays a pivotal role in promoting good governance and should not be seen as taking sides in domestic politics. The Bank’s role in governance could include: (i) helping to develop effective accountability frameworks to ensure that public resources are properly used and accounted for; (ii) strictly enforcing fiduciary requirements to ensure that its development assistance is managed prudently and delivers results that benefit the people; (iii) deepening support for the African Peer Review Mechanism, recognizing the lead role of the AUC in matters
of political governance; (iii) assisting governments to build capacity in order to enhance their ability to foster better governance, and (iv) helping fragile states develop their institutions (the Bank’s role in South Sudan was appreciated by the Deputy Minister from South Sudan).

- The Bank has the capacity to bring its RMCs together and this should be expanded. It can leverage its convening power to help RMCs find solutions to problems and enhance their cooperation. For example, the Bank is playing an important role in South Sudan and was instrumental in getting Ethiopia and Kenya to cooperate in the implementation and management of the regional road corridor.

4. Financing

- The ADF resources envelop is becoming limited as financing needs for infrastructure and achieving the MDGs are growing. The Bank needs to allow greater flexibility in accessing non-concessional resources by ADF-only countries. A squeeze on the availability of resources from traditional donor sources is likely, so the Bank must leverage its ADF resources to mobilize additional resources to meet growing demand. Thus far, the Bank’s private sector lending has been successfully used to leverage financing from other financiers, for example, in the case of the Bujugali Hydropower Project in Uganda.

- The Bank should aim to be the primary vehicle for mobilizing development assistance for Africa. It should focus more on helping countries mobilize domestic resources by strengthening domestic and regional financial and capital markets and developing new financial instruments. Domestic resource mobilization will influence long-term prospects for sustained, inclusive growth on the continent. There is now a big push for countries to mobilize domestic resources by developing domestic financial markets (e.g. successful IPOs and issuance of infrastructure bonds in Kenya’s stock market) and more effective government resource mobilization (e.g. Ethiopia) for infrastructure development.

- Changes in global trade and investment patterns have given emerging economies (BRICS) such as China, India, and Brazil a more prominent role in Africa. This presents opportunities for infusions of capital, technology, and know-how and trade expansion but also poses a challenge in terms of developing critical internal capacity. What can the Bank do to effectively and beneficially leverage these new sources of financing?

5. Institutional Transformation

- In some instances, the Bank tends to micro manages projects where it should promote greater country ownership and accountability. The Bank should therefore encourage countries to own their projects by supporting their vision, development plans and programs.
- The Bank’s due diligence requirements are time-consuming and delay project execution. Many RMCs are turning to China because it offers a short project delivery time. The Bank must become more agile and responsive in designing and implementing infrastructure projects.

- The Bank’s close relationship with its RMCs puts it in a unique position to serve as a knowledge broker. It can facilitate links between countries and foster sharing of best practices. Its advisory role and technical assistance also add value but it needs to be more proactive rather than wait for World Bank reactions. It needs to build its capacity to become more ‘anticipatory’ and take preventive rather than reactive measures. (An ECA representative took exception to these views and urged the Bank to focus on its financing role).