Governors’ Dialogue

Long-Term Strategy
2022
Issues Paper

Bank Group Annual Meetings
Arusha, Tanzania

May 31, 2012
CONTEXT

1. The Bank is preparing a Long-Term Strategy (LTS) to take a fresh look at the kind of institution it should strive to become over the next decade. The LTS will provide a vision of how the Bank can build on its solid achievements to better support Africa’s development in a time of great change and promising prospects. Underpinning this vision are three strategic directions:

- First, becoming more agile in responding quickly to the varied needs of our many clients in a rapidly changing world.

- Second, becoming more selective in promoting Africa’s development priorities, including inclusive and sustainable growth. That will require greater attention to collaborating and dividing responsibilities with our many development partners.

- Third, becoming more insistent in delivering results. This means more than assessing the development results of our work—it means instilling a results-oriented culture throughout the Bank.

2. The rapidly evolving global context is creating new opportunities and challenges for Africa. The Bank has been transforming, but it must continue to evolve to keep up with the pace of change and remain relevant. The Bank’s Medium-Term Strategy (MTS) provided a clear framework for greater operational selectivity. But the Bank must also respond to the needs of a diverse client base. This means more meaningful partnerships where the Bank’s complementary interventions contribute to results in areas beyond its core focus. For example, the Bank’s work in infrastructure has had positive impacts on agriculture, through rural roads and irrigation, and on health and education, through generating electricity for schools and hospitals.

3. The long-term objectives proposed in this issues paper—promoting inclusive growth and transitioning to a green economy—are relevant for all the Bank’s regional member countries, but the way the Bank supports its clients in achieving these outcomes must be adapted to each country context. Fragile states need help delivering basic services and building institutions, while middle-income countries want more knowledge products, private sector finance or innovative financial instruments.

4. Fundamental changes in the traditional patterns of development capital flows have major implications for the way the Bank operates and call for new innovative approaches. New sources of development finance—emerging economies, foundations, sovereign wealth funds, private capital—are increasingly important. More African countries are tapping their extractive wealth—oil and gas discoveries in East Africa are recent examples—and will depend less on donor funding. This will put a premium on the Bank’s role as an advisor and knowledge hub. It will also force the Bank to look at innovative ways to use its limited resources to generate results as a catalyst and convener rather than just a financier.

5. This issues paper seeks the Governors’ guidance on the kind of institution the Bank should aim to become. It presents the emerging thinking on the LTS, drawing on the ideas and feedback from ongoing stakeholder consultations. Numerous meetings have been organized internally at all levels of the organization and across complexes. Bilateral meetings and a Board seminar have been held with the Bank’s executive directors. National and sub-regional discussions with government, private sector and civil society stakeholders have also been held, as have consultations with the Bank’s non-regional shareholders. And an
interactive portal has allowed internal and external stakeholders to participate in the LTS formulation.

A VISION FOR A NEW AFRICA

6. Over the last decade, Africa has seen an unparalleled and sustained improvement in growth, with more countries registering annual growth of 5% a year or more. Between 2000 and 2010 six of the world’s 10 fastest growing economies were in Africa. Growth is expected to remain strong, with the IMF predicting that seven of the 10 fastest growing economies over the next five years will be African. High commodity prices have played a role but so have improved macro-economic policies and sustained reform, as well as stronger governance and better conditions for private sector development. There has been a reduction in conflict—diminishing contagion for neighboring countries and boosting investor confidence in many sub-regions. And many countries are making progress towards achieving some of the Millennium Development Goals (MDGs). But recent events underline the vulnerability of Africa’s progress on peace and stability.

7. The combined food, fuel and financial crises had varied impacts across the continent. Africa fared relatively well, but uncertainties remain, and aftershocks, such as the current Eurozone crisis, are still being felt. An interconnected set of opportunities and challenges, including demographic trends and changing capital and trade flows, are driving change.

AFRICA IN THE NEXT DECADE

8. The 2008 High-Level Panel report foresaw Africa as “a stable, integrated, and prospering continent of competitive, diversified, and growing economies…a continent with strong, integrated domestic markets, participating fully in global trade and investment.” And yet, economic indicators since the HLP report was released suggest that this vision of a stable Africa is now modest. Africa can have a brighter future, and has the potential to become the next emerging market by the end of this decade. Several recent studies underpin this optimistic view of the future for Africa. This vision is consistent with the ambitions of African leaders and the goals of the African Union (AU), which sees Africa as a future pole of global growth. It is also consistent with the ambition of Regional Member Countries as articulated in their own long-term poverty reduction and development strategies.

9. In line with this vision, the LTS envisages that poverty in Africa will reduce and people will be more prosperous because growth will be more inclusive. As emerging markets, Africa’s economies will provide more employment opportunities particularly for women and youth, who are already leading the process of change in the continent. Appropriate policies and better infrastructure will further improve the enabling environment for private sector

---

2 Africa in 50 years’ time: the road to inclusive growth, AfDB report 2011; (ii) According to the McKinsey Global Institute, “the continent’s long-term growth prospects are strong, propelled by both external trends in the global economy and internal changes in the continent’s societies and economies.” See McKinsey Global Institute, “Lions on the Move: The Progress and Potential of African economies”, 2010. Further, the Center for Global Development identifies 17 fast-growing African nations that have shown through their recent success that it is possible to “combat poverty, secure peace, increase prosperity, and widen the global circle of development.” See Steve Radelet, Center for Global Development, “Emerging Africa”, 2010.
3 Lower-income countries (LICs) are targeting middle-income country (MIC) status, not just in terms of income but broader human development as captured in the MDGs. Africa’s MICs are looking to converge with more advanced emerging economies.
development, boosting investment, entrepreneurship and the development of micro, small and medium enterprises (MSMEs). Africa’s private sector will be more formalized, facilitating domestic resource mobilization and giving all enterprises better access to services. Many of Africa’s fragile states, having transitioned from conflict and poor governance, will be on a path of growth and recovery.

10. The LTS also envisages that African countries will progressively transition towards greener growth and become less carbon intensive. It envisages that green technologies will reinforce (not hinder) growth and development agendas. Many countries will have embarked on bold green growth strategies that address climate change by focusing on opportunities for adaptation and mitigation that also promote job and wealth generation. First-movers such as Ethiopia, South Africa and Rwanda—cognizant that greening their economies creates opportunities for growth and job creation—are already showing the way.

11. Achieving this vision will require overcoming formidable challenges. The continent’s infrastructure remains underdeveloped, hindering regional integration and making firms less competitive. Low energy access and high tariffs are a particular challenge. Poor infrastructure is also preventing Africa’s populations from achieving some of the MDGs. Inequality is high: six of the most unequal countries on the planet are African. Poverty rates remain unacceptably high with too many countries stuck in low-growth traps. Despite its agricultural potential, Africa still imports roughly $30 billion in foodstuffs annually.

12. While the vision for Africa is continental, Africa’s countries are diverse, and their progress towards this vision is unlikely to be linear. And the differences in challenges and opportunities across countries are stark. Some economies, still driven by a small basket of commodities, have not diversified. Some have already achieved middle-income status—characterized by diversified, internationally competitive economies—and other low-income countries are advancing confidently towards that objective. But growth and development in many countries, while promising, remains vulnerable, and others are having difficulty establishing the conditions necessary to start. There is a risk that only some African countries will overcome their specific challenges and achieve meaningful growth and development to markedly reduce poverty and capitalize on the opportunities offered by green growth. This could lead to growth that is increasingly differentiated across Africa ranging from highly successful emerging economies to countries that remains mired in poverty and vulnerability. This underlines the importance of effectively managing these disparities and adapting development assistance to reduce them.

AFRICA’S SHIFTING DEVELOPMENT LANDSCAPE

13. Core drivers of change, internal and external, are fundamentally altering the development landscape in Africa, with implications for the Bank’s LTS. These include internal factors:

- **Demographic trends:** Africa’s population is young and growing, with a rapidly expanding number of job seekers. The continent is fast transforming from a largely rural to an urbanized continent. The policy choices for sustainable growth, energy and food security, infrastructure development and private sector development will be fundamentally framed by these trends over the next decade.

---

4 Africa in 50 years’ time: the road to inclusive growth, AfDB report 2011.
• **Middle class**: An emerging middle class will help stabilize societies and create new market opportunities, although the lower end of this group remains vulnerable to shocks that could erase recent income gains.

• **Improved political and economic governance**: Government and CSOs actions, as well as those of regional and continental institutions such as the AU, to resolve conflicts and strengthen institutions of accountability and the rule of law are fostering economic policy stability in many regions. Many African nations are also implementing policy reforms to improve the investment climate.

14. And external factors:

• **Increased climate variability**: Global climate change will strain economic and social infrastructure and the productivity of land, with implications for food and water security. Even small increases in temperature could shift agricultural zones significantly, which might lead to substantial migration away from arid regions towards the coasts.

• **New development finance models**: Development finance in Africa will be increasingly characterized by reduced donor and aid financing, the diminished importance of traditional donors, and the emergence of new partners. The role for multilaterals will decline, and private investment will displace aid, with greater reliance on market-based financing, a growing number of countries will finance development through their own domestic revenues and royalties from extractive industries.

• **Shifting trade and investment patterns**: Major shifts in trade and capital flows to and from Africa will be game-changing. Emerging economies such as China, India, and Brazil, playing more prominent roles in Africa, will grow in significance in the coming years. The maturation of China and other emerging economies, with attendant rises in their real wages, opens an opportunity for Africa to capture a larger share of labor-intensive manufacturing.

• **Increasing demand for Africa’s natural resources**: Africa’s rich array of natural resources—land, water, forests, minerals—are increasingly valuable in global trade and the object of investor attention. Continuing strong global demand for energy, mineral and agricultural commodities will offer new opportunities for growth but pose significant policy and resource management challenges—among them creating domestic natural resource value chains and transparently and equitably managing resource flows from taxes and royalties. It will also require governments to maintain credible environmental and social protections.

• **New technologies are creating economic opportunities and driving accountability**: The infusion of communication technology is creating new opportunities for economic growth through greater connectivity within Africa and between Africa and the world. Examples include the rollout of new broadband infrastructure and the proliferation of mobile banking and other wireless applications. Increased connectivity is also increasing greater awareness and powering demand for more transparency and accountability.

15. These trends present both opportunities and threats, and underlining the need to manage them effectively. The rising youth population, if properly educated and skilled, and able to find work, could bring a demographic dividend. But a jobless and discontented youth could undermine social cohesion and stability. Africa’s abundant natural resources, if
managed sustainably, could drive growth, but failing to do so could lead to environmental and social conflict. How Africa responds to these drivers will ultimately determine whether the continent achieves its development objectives.

**WHAT AFRICA MUST DO TO REALIZE THE VISION**

16. The responsibility for realizing the positive vision is overwhelmingly in the hands of Africa itself—its leaders, entrepreneurs and populations. Strong and sustained growth will be a prerequisite for realizing Africa’s potential. But growth alone will not be sufficient, nor will it necessarily result in deep cuts in poverty unless it is inclusive. These must be explicit goals.

17. Despite Africa’s impressive performance over the last decade, insufficient access to education and job creation have blunted the impact of growth on poverty and contributed to high inequality. While Africa’s GDP growth has soared over the past decade, job growth has actually slowed slightly and remains too low at only 3%. Africa will need sustained growth that creates opportunities for women and youth and that stretches across the continent, including today’s fragile states. The events of the Arab Spring underline the need for broad participation in creating and sharing of wealth—to reduce poverty and increase job opportunities.

18. The state has a key role in facilitating and enabling private sector-led growth. It has to create the conditions for inclusive and increasingly green growth. It has to improve the investment climate, measured by the ease of doing business. And it has to strengthen regulatory, institutional, labor and financial frameworks, leading to more effective rule of law and reduced corruption. This will require sustained public investment in key infrastructure to support growth and diversification, particularly for agriculture, still the backbone of many African economies.

19. Africa must seize the opportunities that green growth presents a springboard for its development objectives. It must build its resilience in a changing and increasingly interconnected world and chart its own green path. This means getting more from less, making production more efficient and profitable. It means leveraging renewable energy, mass transport in greener cities. It means getting more value in production, with less pollution and waste. And it means meeting consumer needs, with less energy, less water, less waste. This green agenda must extend to all African regions and people, not compromising the continent’s development path or the efforts of individual countries.

20. Africa also needs to integrate to realize the vision, to draw on its human resources more effectively, to consolidate its internal market and to improve efficiency of resource use through regional approaches. This will require improving physical and virtual connectivity by building out transportation and ICT infrastructure. It will also require strengthening regional economic communities and other regional partnerships that can facilitate regional planning and economic integration by making it easier for goods and people to transit across borders, creating larger, more attractive regional markets and boosting intra-African trade. This effectively means creating more capable regional institutions that are truly accountable to Africa’s diverse populations.

21. Africa can be the next global emerging market. Growing external demand for Africa’s exports together with its growth as a market for imports could bring this about with increased political power to match. This will require Africa to confidently and adeptly seize its potential in agriculture, renewable energy and other sectors—moving away from preoccupations with the challenges to focus more on opportunities. Africa should see the trend toward greener technologies and development strategies as an opportunity to develop
this potential. One in four Africans lives in a country rich in oil or mineral resources that can generate wealth and help lead its citizens out of poverty. With political determination to implement appropriate governance, Africa’s extractive revenues should drive the continent’s transformation. Appropriate governance frameworks for land, water and natural resource management will also be the key to sustainably unlocking Africa’s potential.

22. But achieving this long-term potential is neither preordained nor certain. The future will be determined largely by the policy choices and actions of Africans. It will require a new mindset where Africa’s leaders and its people fully assume ownership for their development in much the same way as South Korea, Singapore, China, and India. It will require continuing support from the international community to reinforce Africa’s own efforts. But Africa should increasingly rely on domestic resources for development, supported by capable states with robust public administrations.

**OUR NEW STRATEGIC APPROACH—AGILE, SELECTIVE, INSISTENT**

23. The High Level Panel (HLP) report and the subsequent MTS covering 2008-2012 have provided a clear framework for the Bank’s operations. The MTS was endorsed by shareholders, underpinned by a tripling of the Bank’s capital and replenishment of the African Development Fund (ADF). The MTS was reviewed in 2010, highlighting the Bank’s increased operational selectivity but also the need to deepen reforms to improve institutional effectiveness and efficiency. In short, the position of the Bank in the international architecture has been transformed. It has proven its ability to respond when needed: in its response to the recent food and financial crises, the Bank demonstrated its ability to be agile, to respond to the needs of its RMCs by innovating, re-prioritizing, and shifting resources to where they were most needed. Although there is an unfinished reform agenda, the Bank is on its way to becoming the premier development institution for Africa.

24. The HLP set out an ambitious agenda for the Bank, and the Bank has already delivered a number of the core HLP recommendations under the MTS, such as scaled up operations, notably in the private sector, and greater operational selectivity. The Bank’s strong focus on infrastructure development has allowed it to develop a clear advantage in the eyes of its clients. But in Africa’s changing development landscape, the Bank must change too. This does not mean blurring the Bank’s focus. It means working differently within focus areas by developing the instruments and capacities to deliver results more effectively. It also means that the Bank will ensure that the Continent needs are met by fostering more meaningful partnerships where its interventions are complementary and contribute to results in areas beyond its core focus.

25. Consultations with regional stakeholders—RMCs, the private sector, academia, civil society—underline the Bank’s special role as a trusted partner. There is clear recognition of the Bank’s advantages as an African institution: it has a keen understanding of Africa’s development challenges, and it has legitimacy within Africa.

26. The Bank must remain relevant to its diverse stakeholders. It must engage with all countries in Africa—the raison d’être of the Bank. Its service delivery must continue to evolve to reinforce Africa’s emerging dynamism. This means expanding its operations and services, including more non-sovereign financing and advisory services, better tailored to the demands of a sharply differentiated client base.

27. Historically, the Bank has primarily been a conduit for development capital flows to public and private clients. But in this shifting landscape, the Bank should not be judged on lending volume alone. Delivering knowledge, innovation, and advice (domestic African
knowledge as well as global best practices adapted to an African context) will likely be as important as lending going forward, especially given the challenges in mobilizing resources in a tighter international fiscal environment. The Bank should also position itself as a catalyst for significantly scaling up development finance for Africa by better leveraging its own resources and those of its partners and by contributing to greater domestic resource mobilization.

28. Africa wants the Bank to be:

- **A partner of choice:** The Bank should consolidate and expand its role as a trusted partner and advisor for development in Africa. It should focus on developing more effective partnerships with its RMCs, RECs and African and international knowledge centers. Partnerships should also promote increased co-financing and leveraging of the Bank’s own scarce resources. The Bank should position itself to provide advice and support on socio-economic issues, with a focus on effective implementation of programs and projects. It should also work with more developed RMCs to transition away from dependence on aid to market-based financing. The private sector and civil society should be key development partners.

- **A connector, catalyst and convener:** The Bank should be a catalyst for development finance and solutions by leveraging its partnerships to convene and connect the right players and take the lead when appropriate. It is uniquely positioned to catalyze regional integration and public private partnerships (PPPs) in Africa. The Bank can identify partners with the right capacity and expertise and bring them together to provide comprehensive solutions to development challenges as a powerful complement to the Bank’s own investments. The Bank should increasingly view its investments as levers for mobilizing capital from a range of partners, both new and traditional.

- **A knowledge broker:** The Bank should not be judged by lending volume alone. In a changing landscape where donor resources are shrinking, knowledge can empower RMCs to build on past lessons. Consultations confirm that Africa wants the Bank to develop its role as an honest and credible knowledge broker. It can connect clients to relevant knowledge in partnership with existing African and international knowledge centers, with the Bank acting as a knowledge hub on African development issues. This will require stronger knowledge management within the Bank to ensure that operational lessons are identified and shared. The Bank’s knowledge on Africa as a product line could well provide a good entry point for effective engagement with Africa’s new partners.

- **A trusted advisor:** Building on its role as a knowledge hub, the Bank should also augment its ability to provide advice and analysis to clients. While the Bank may not be the largest financier, it should aim to become the Bank to which RMCs turn first for advice on the policies and strategies to adopt in order to tackle their challenges.

- **A voice for Africa:** The Bank should further develop its role as a voice for Africa on development issues in partnership with national and regional leaders, for which the Bank is well positioned. It should communicate better at all levels of the institution, sharing its views and experience.
INCLUSIVE GROWTH—GREEN GROWTH

29. Cognizant of the markedly different regional and global landscape for its operations over the next decade, the Bank will help Africa deliver two specific, measurable objectives:

- As the next emerging market, where growth is inclusive, especially for the continent’s fragile economies and its youths and women, driven by the private sector.
- As a continent where growth is sustainable and increasingly “green”.

Inclusive growth

30. The Bank’s LTS will emphasize inclusive economic growth that produces wider access to economic opportunities for Africans across age, gender, regional and geographic divides. Particular emphasis will be placed on addressing the constraints that limit the participation of women in the economy, while fragile states will be assisted so that they have equal opportunity in terms of access to finance and development assistance required to build capable states. The Bank will invest in infrastructure that unlocks the growth and development potential of the private sector and enhances community participation, including youth and women. It will improve skills for competitiveness and ensure that training better matches the opportunities and requirements of local job markets. And it will engage governments through policy dialogue and strengthening capacity, emphasizing the importance of institutions, good governance, and regulation for economic growth specifically in terms of property rights, equal access to effective justice, and participation in decision-making. The Bank’s private sector operations will put greater focus on micro, small, and medium enterprises as motors for job creation. In fragile states, the Bank will adopt flexible approaches, given the weak institutional environment, and work more with civil society.

31. Women must be empowered as political, economic and social actors in Africa, important in its own right but also as a driver of economic competitiveness. Quite simply, economies that harness the energy and talent of women will outperform those that do not. Studies indicate that leveling the playing field for women can lead to significant increases in productivity, particularly in agriculture. Allowing women to have a voice is also associated with better outcomes for children and smarter policies and investments in such public goods as water and sanitation.

32. For inclusive growth to take hold across the continent, the Bank must play a strong role in fragile and vulnerable states. Africa’s 19 fragile states present a major development challenge: no fragile state has yet achieved a single MDG. In addition, these countries are generally characterized by insecurity and ongoing or past violence, weak governance institutions and processes, particularly justice; and high unemployment, poverty and inequality. Hindering development within the fragile states themselves, these factors can be a source of insecurity and instability in neighboring countries and regions.

33. The Bank has become a key development partner for vulnerable states, demonstrating comparative advantage, and should consolidate its leadership role in the coming decade. Drawing on lessons from its experience to date, the Bank will refine its approach to provide more comprehensive support, not just finance, and employ a “continuum approach” rather than focusing strictly on a pre-identified pool of countries, so that there is greater flexibility in delivering support when and where needed. The Bank will focus on building capable states

---

that can deliver growth that is inclusive. Key priorities will be building capacity, generating employment, providing basic infrastructure, and reducing insecurity. Where relevant, the Bank will use regional approaches and stress greater collaboration with other development partners to achieve synergies.

**Transitioning to a green economy**

34. Climate change could undermine the livelihoods of millions of Africans. If unchecked, it could reduce food security and increase water stress, competition for natural resources and the risk of disease. But Africa is taking action to harness the green growth movement as an opportunity to spur economic development, job creation and innovation. And the Bank has an important role in this transition. South Africa, Ethiopia and Rwanda have recently formulated green growth strategies. Successfully doing so will enable sustainable growth and wealth creation in Africa despite the significant, environmental, social and economic challenges posed by climate change. Key green growth opportunities include:

- **Providing sustainable infrastructure**: Africa can improve its energy security, while promoting green development paths and harnessing Africa’s renewable energy potential. It can develop transport systems compatible with environmental and social concerns. In the face of rising urbanization, it can also reduce pollution, build sustainable cities to minimize disaster risk, and improve the provision of basic services.

- **Efficient and sustainable use of natural resources**: Africa has abundant natural resources. Land, water and forest resources can be leveraged for growth while maintaining biodiversity and ecosystem goods and services. It is also important to ensure that extractive industries develop in a socially and environmentally sustainable way.

- **Building resilience**: Africa’s populations and economies must become more resilient in the face of shocks, whether triggered by environmental or socio-economic events. This means identifying strategic climate risk management and adaptation measures that help to avoid the loss of lives, incomes and productive assets. Options include climate-proofing infrastructure, developing stronger insurance schemes (against crop losses, for example) and managing risk to counter increased price volatility.

35. In its approach to green growth, the Bank recognizes that change cannot happen overnight—instead, the transition to green growth is a process that needs to be tailored to specific circumstances of the African continent and its countries. The relative emphasis given to each of these opportunities will depend on the socioeconomic and environmental characteristics of the country and the country’s specific risk profiles. Green growth is about strengthening the focus on the quality of growth by increasing the capacity of African economies to reach their development objectives more efficiently by identifying development pathways that reduce the pressure on essential natural assets, minimize the carbon intensity per unit of GDP and better manage environmental and socioeconomic risks.

**THE BANK’S OPERATIONAL APPROACH—SELECTIVITY, NOT NEGLECT**

36. The feedback from consultations suggests that the Bank was right to sharpen its strategic focus and become more selective over the MTS period. More than 60% of Bank commitments from 2008-10 went to building Africa’s infrastructure. The Bank also delivered on other key MTS priorities including support for governance, private sector, regional
integration and fragile states. Over the LTS period, the Bank will continue to remain focused and selective in its operations in order to avoid strategic drift.

37. But selectivity does not mean neglect. In line with the Bank’s role as a knowledge broker, connector, catalyst and convener, it will increasingly achieve focus and complementarity through a division of labor and partnership with Africa’s other development actors. Selectivity will be defined at the country level through country strategies that will focus the Bank on areas of its demonstrated comparative advantage, driving the choices for direct interventions. But the Bank will work with partners to deliver results in other sectors, as illustrated in Table 1. For example, infrastructure investments in the water sector benefit the health sector. And investments in rural roads enable specialized agricultural agencies such as FAO and IFAD to be more effective in their work along the agriculture value chain. So, the mobilization of co-financing, particularly private financing will be an operational priority.

<table>
<thead>
<tr>
<th>ADB Priority Area</th>
<th>Table 1: Example of Cross-Sectoral Impact of ADB Investment in Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>Agriculture</td>
</tr>
<tr>
<td></td>
<td>Direct</td>
</tr>
<tr>
<td></td>
<td>Access to</td>
</tr>
<tr>
<td></td>
<td>markets and</td>
</tr>
<tr>
<td></td>
<td>inputs</td>
</tr>
<tr>
<td></td>
<td>Farmer</td>
</tr>
<tr>
<td></td>
<td>livelihoods</td>
</tr>
<tr>
<td></td>
<td>Value chains</td>
</tr>
<tr>
<td></td>
<td>Agricbusiness development</td>
</tr>
<tr>
<td></td>
<td>Irrigation</td>
</tr>
<tr>
<td></td>
<td>Mechanization</td>
</tr>
<tr>
<td></td>
<td>Food security</td>
</tr>
<tr>
<td></td>
<td>Healthy people</td>
</tr>
<tr>
<td></td>
<td>School</td>
</tr>
<tr>
<td></td>
<td>attendance</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

38. The Bank will focus on generating results that put Africa on the path to more inclusive and greener growth. Such growth should cut across national borders, in a way that fosters regional integration. It should be led by a vibrant private sector, and the Bank should increasingly demonstrate how its operations contribute to private sector development. The mix of public and private instruments and approaches will vary, anchored in country strategies.

39. Only a capable state can sustain economic growth and social progress, particularly in creating an enabling environment and ensuring good governance. Given the varying capacity constraints facing African governments, the Bank will play a major role in building the required governance capacity. This could mean helping to build basic institutions in vulnerable states—or enhancing accountability mechanisms in MICs.

40. **Regional integration:** The Bank is well positioned to play a lead role in fostering the integration of Africa’s economies to create larger, more attractive markets, link landlocked countries to international markets and support intra-African trade. Infrastructure is a key impediment. Africa’s annual infrastructure investment needs are estimated at nearly $100 billion, against realized investments of about $40 billion. Much of this infrastructure is regional.

41. With a clear mandate of the African Union, and as the lead partner of the Program for Infrastructure Development in Africa (PIDA), the Bank should lead the implementation of
this continent-wide program. It should leverage its financial instruments, knowledge and convening power to help countries mobilize domestic resources and attract foreign investment through PPPs where possible. The Bank should help governments ensure that infrastructure projects are developed through a consultative process that reflects international environmental and social standards and best practices regarding climate change—and inclusive, by providing access to rural areas and poor households, creating links to micro, small, and medium enterprises (MSMEs), increasing the share of local skilled workers and facilitating knowledge transfers to local companies and authorities.

42. The Bank also needs to address the “soft” aspects of regional infrastructure and trade. Physical interconnectivity, a means not an end, must be complemented by appropriate policies for goods to move and results to materialize. Regional infrastructure must connect Africa’s people as well. It is important to ensure that the legal and regulatory requirements are in place to facilitate labor movement. The Bank should also help Africa develop the skills to take advantage of more integrated economies. One option could be to champion regional learning centers and promote academic exchanges between regions and countries, which could help Africa’s population build competencies in foreign languages, science and IT skills, and entrepreneurship.

43. Private sector: Growth in Africa must be government-enabled but private sector-led. The Bank has dramatically repositioned itself over the past five years as a partner and facilitator of private investment in Africa, and this should continue. The challenge now is integrating private sector development and entrepreneurship as a cross-cutting theme that is systematically considered in the Bank’s work, whether through public or private instruments.

44. Flourishing MSMEs are needed to create private sector-led, inclusive growth. Currently, the Bank supports MSMEs using local financial institutions as intermediaries. While there is broad support for this approach as an efficient means of delivering MSME finance and developing local financial sector capacity, there are calls to do more. Successful direct MSME lending requires human resources and a strong local presence. It also requires risk appetite and processes that are not compatible with the Bank’s credit and due diligence policies. The LTS will explore the establishment of a stand-alone facility to support MSMEs, drawing on the experience of other similar initiatives. Such a fund would be exclusively focused on scaling up and leveraging financing for MSMEs, complemented by initiatives aimed at providing guarantees and insurance mechanisms, such as the African Guarantee Fund, to encourage the continent’s financial institutions to increase their exposure to MSMEs. A key objective should be to progressively formalize Africa’s MSMEs, which now operate mainly in the informal sector. But in the nearer term, it will also require solutions to reach informal sector actors.

45. The Bank must support the ongoing continent-wide effort to improve the enabling environment. By implementing PIDA and national initiatives, the Bank will contribute to the development of key national and regional infrastructure that improves the competitiveness of African businesses. The Bank will implement specific initiatives complementing other efforts to improve the investment climate, as measured by the ease of doing business, strengthen the regulatory, institutional, labor and financial framework to improve law enforcement and cut corruption, and boost intra-African trade.

46. The Bank must also help African develop the skills that will allow them to find employment in the private sector. Currently, unemployment across Sub-Saharan Africa remains high, with several countries reporting unemployment rates above 25%. Youth unemployment rates are even higher. By 2045, 40% of Africa’s population will be between 15 and 24 years old, adding another 173 million young people to the labor force. Africa’s
challenge therefore is not only to create jobs fast enough to keep pace with this population growth, but also to equip this population with the skills to join a productive workforce. Vocational training should be at the center of the skills development agenda.

47. **Governance**: Improved governance and accountability should underpin the Bank’s country and regional strategies. The recent client assessment of the ADB, the first MDB assessment of its kind, stresses that the Bank should reduce overlaps with other continental institutions such as the African Union and work of donors and focus on helping RMCs build institutions of voice and accountability. In line with these recommendations, the Bank will complement ongoing interventions with initiatives that increase accountability for public expenditure and service delivery. Public financial management remains a major challenge in many RMCs, and the Bank can add value in such subsectors as procurement and audit and in fragile states where other donors have more difficulty providing predictable financing to supply this type of state architecture.

48. The Bank will help deliver more transparent and accountable governance to support and improve inclusiveness, particularly for natural resources and infrastructure. The Extractive Industries Transparency Initiative has been a good first step, but regulatory frameworks and capacity for contract negotiations need to be bolstered to ensure lasting benefits from Africa’s vast resource base for future generations.

49. On the accountability side, civil society actors will play a crucial function in holding governments and service providers accountable. The Bank will work to strengthen the capacity and reach of parliamentarians, particularly those sitting on public accounts or budget committees, as well as CSOs whose focus is on anti-corruption, including extractive industries transparency, and accountability for public spending or service delivery.

**HOW THE BANK WILL WORK DIFFERENTLY**

50. To remain relevant to its member countries and help Africa realize its aspirations, the Bank will need to continue to evolve and adapt. Organizational effectiveness and efficiency must continue to improve, particularly if it is to be a more private sector-oriented bank. And it will need processes and procedures to match: more flexibility, more responsiveness. There are also fundamental questions for the Bank’s business model, which is currently based on stark distinctions between the African Development Fund and African Development Bank lending windows and between public and private sector operations. The Bank will need to leverage its resources more and act as a catalyst to bring larger volumes of both public and private sector resources.

“**One Bank**” approach

51. The significant changes in international development capital flows mean that new, innovative approaches and instruments must be developed; just as other development partners are doing (IMF, IDA). The Bank could be more effective, and unlock additional resources, by better integrating and leveraging its different financing windows (ADB, ADF, NTF, and various trust funds). This could include blending ADB and ADF resources to provide tailored instruments for a diverse set of RMCs. This could imply a rethink of country classifications for lending terms, with instruments linked to country needs and more flexible resources for regional projects. It could also mean developing greater synergies between the Bank’s public and private sector windows, particularly through more coordinated PPP-type transactions. This would underpin a vision of the institution over the next decade that is adaptable, fleet of foot, and able to respond quickly to changes in circumstances: in other words, One Bank,
driven by African needs and priorities, not corralled by separate instruments and resource envelopes.

**Mobilizing and leveraging the Bank’s resources**

52. The Bank’s financial resources will always be a small fraction of Africa’s needs. Fiscal constraints in donor countries suggest that ODA could be largely stagnant. The relative volume of multilateral aid continues to shrink, and competition for these resources from other multilateral channels, including vertical funds, will continue. The Bank will need to seek new and creative ways of mobilizing resources to deliver the vision for Africa and increase its effectiveness in leveraging its own resources for greater impact. The Bank’s role will shift from primarily a source of finance to that of a catalyst and convener of partners to deliver financing solutions. The objective will be to identify innovative financing sources and approaches that dramatically increase the scale of resources available.

- **New sources of finance:** To leverage additional resources for Africa’s development, the Bank can tap new sources of finance, including the BRICs. South-South investment is increasing, and the Bank can be a conduit by expanding the Bank’s shareholder base or using dedicated funds such as emerging partner Africa infrastructure bonds. Sovereign wealth funds and pension funds can also be mobilized alongside philanthropic funds and remittances from the diaspora. Climate finance will provide additional pools of liquidity for Africa’s green development.

- **Domestic resource mobilization:** There are pools of liquidity within African countries that the Bank could tap to channel resources to more resource-constrained countries, building on its experience of issuing local currency bonds. Domestic resources can be mobilized by deepening the domestic tax base and by fostering private savings to leverage local wealth funds and secure future resources inflows, including those coming from the diaspora and oil or mineral revenues.

- **Instruments:** Existing instruments can be better deployed or new instruments can be developed to create more leverage from the Bank’s resources. Examples include more extensive use of PPP structures, risk mitigation instruments that draw in new investors (guarantees) and collaborative co-financing structures (syndication through A/B loan structures) to increase the pot of available resources. These instruments will underpin the Bank’s role as a strong partner with the tools to facilitate collaborative solutions.

**Enhanced institutional effectiveness**

53. The Bank must continue to become more effective, efficient and results-oriented. It has implemented successfully a number of institutional reforms since 2006, but there is still unfinished business. Over the next decade, the Bank must build on these reforms with a strong focus on effective implementation. The LTS will explore options to achieve this in the following areas:

- **People:** Culture change will underpin the successful implementation of reforms, from the Bank’s shareholders, who must allow the ADB to be a Bank that dares to embrace new approaches, to senior leadership, which must be ready and able to promote an institutional culture focused on results. Staffing and skills will be continuously strengthened to better match institutional priorities, particularly as the Bank sharpens its focus on knowledge management, advisory services and private sector development. Measures under consideration include a Talent Management and Succession Planning initiative to ensure that the Bank develops and retains high-
performing staff to meet its evolving strategic focus while effectively dealing with poorly performing staff. Managers will be trained and tasked more clearly with people management and development. Uncertainty and instability have made the Bank’s working environment more challenging than other MDBs, so it is crucial to invest in providing a work environment that is conducive to attracting and retaining a high-quality workforce.

- **Business Processes:** The Bank will continue to streamline its business processes—operational, institutional and budget—weighing time and resource costs against value addition and necessary safeguards. The objective will be greater efficiency, flexibility and responsiveness, as is clearly demanded by the Bank’s clients.

- **ICT:** Effective ICT will enable high performance, critical in an increasingly decentralized Bank to provide a robust connectivity platform available “anywhere, anytime” to overcome the physical barriers of decentralization. Outsourcing some ICT and other corporate services will be explored where it is more cost-effective.

- **Budgets:** Budgets will be more flexible and linked to expected and actual results. Better time recording and cost accounting could strengthen the links between resources and results.

- **Country Presence:** Capacity for service delivery in country will increase, particularly in regional resource centers that will act as knowledge hubs and provide critical mass in the field. Delegation of authority to staff in field offices will also increase within a clear accountability framework. HR management and ICT improvements will support a more mobile staff, particularly in operations.

- **Partnerships:** In a resources-constrained environment, the Bank will not do everything. Instead, it will emphasize collaboration, coordination, harmonization and information-sharing with other development actors, with a view to maximizing synergies and complementarities.

**Focus on results**

54. Judged by its ability to help RMCs achieve concrete results, the Bank must create and foster an institutional culture driven by results. This will mean that changes must be introduced in incentive structures to shift from a focus on activities to a focus on results. Institutional and individual performance should increasingly be judged not only on the amounts invested but on the contributions to inclusive growth outcomes (poverty, inequality, GDP, employment) and to assisting RMCs transitioning to green growth. The results focus will be reinforced in budget and human resource allocations. The Bank will consolidate and extend its ability to measure and communicate results as a key driver of institutional transformation and performance.

55. With an overarching focus on fostering growth that is both inclusive and green, the Bank will move away from a strategy anchored primarily in outputs in sector pillars to one that is more outcome-oriented, while maintaining selectivity. The Bank’s results reporting will be adapted and reinforced to measure overall progress toward inclusive growth and greening the economy. The Bank will also do a better job of capturing and communicating its indirect contributions to important sectors where it is not leading. For example, it will better capture and communicate its contribution to improved agriculture and health outcomes through its interventions in infrastructure.
CONCLUSION

56. Africa is changing, and the Bank must evolve to remain relevant. The continent has seen a decade of unprecedented growth driven by internal and external trends that will continue to shape the continent’s fortunes over the coming years. Effectively managing these trends could allow Africa to emerge as a new global growth pole. But the African growth story remains vulnerable.

57. Africa wants a premier continental development bank that can help it overcome these vulnerabilities and seize its opportunities. Africa recognizes that the ADB is this bank. The proposed LTS focus on promoting growth that is more inclusive and sustainable resonates strongly with the Bank’s various stakeholders. It will allow the Bank to build on its recognized strengths to help Africa consolidate and accelerate its development.

58. While recognizing the steps that the Bank has taken towards being a more effective and focused institution, Africa wants a different bank. It wants a bank that can convene partners and catalyze finance for coordinated investment programs that allow countries to achieve results well beyond what the Bank’s limited resources could deliver. It wants a bank that provides knowledge and advice alongside its finance. And it wants a bank that is more nimble and responsive to the diverse needs of its clients.

Questions

i. What are the Governor's views on the twin strategic objectives of providing support to inclusive growth and Africa's transition to a green economy?

ii. What are the Governors’ views on the importance of new international and domestic sources of finance?

iii. What are the Governors’ views on the changes required to ensure that the Bank remains relevant and focused on results?