Africa's Future and the World Bank's Role in it

Introduction

For at least four reasons, Africa in 2010 has an unprecedented opportunity for transformation and sustained growth. First, until the onset of the global economic crisis, economic growth was averaging 5 percent a year for a decade, accelerating to 6 percent for 2006-8. Growth was widespread: some 22 non-oil exporters had 4 percent or higher growth from 1998-2008. While Africa was badly hit by the global crisis, thanks to prudent macroeconomic policies and financial support from multilateral agencies, the continent avoided an even worse growth shortfall in 2009, and has rebounded in 2010.

Second, alongside the acceleration in growth, progress on the MDGs has been sufficiently rapid that many countries (such as Malawi, Ghana and Ethiopia) are likely to reach most of the goals, if not by 2015 then soon thereafter. Africa's poverty rate was falling at one percentage point a year, from 59 percent in 1995 to 50 percent in 2005[1]. Child mortality rates are declining; HIV/AIDS is stabilizing; and primary completion rates are rising faster in Africa than anywhere else.

Third, Africa's private sector is increasingly attracting investment, with much of the funding coming from domestic banks and investors. Returns to investment in Africa are among the highest in the world[2]. Success of ICT, especially mobile phone penetration, shows how rapidly a sector can grow. Private capital flows are higher than official development assistance (and FDI is higher than in India). China, India and others are investing large sums in Africa.

Fourth, the climate for market-oriented, pro-poor reforms is proving robust. Although the payoffs to economic reforms fell during the global crisis, policymakers continued with prudent economic policies, even in the face of contradictory policies elsewhere—because the public demanded them. The voice of civil society is increasing, as evidenced by Uwezo on education in Kenya, citizen report cards in Ghana, and the various groups demanding accountability for resource revenues.

Putting all these factors together, we conclude that Africa could be on the brink of an economic takeoff, much like China was 30 years ago, and India 20 years ago.

To be sure, African countries still have to tackle persistent, long-term development challenges, such as undiversified production structure, low levels of human capital, poor service delivery, and weak governance, including corruption. Furthermore, in the last five years, more challenges have come into sharper focus:

[1] Others (Pinkovsky and Sala-i-Martin, Young) estimate that poverty was falling even faster. Note that Africa's rate of poverty decline is faster than India's.

[2] (Collier, McKinsey, BCG)

- Growth has not been accompanied by sufficient increase in productive employment, especially for the 7-10 million young Africans who enter the labor force every year.

- Even redistributed growth and productive employment may not be enough for the chronically poor, who suffer from food insecurity and under-nourishment.

- African women—who are both contributors to and beneficiaries from development—still lack legal and property rights, and access to finance and modern business practices. They also risk dying from childbirth at alarming rates.

- Climate change, through its effects on water, will threaten Africa's agriculture.

- The large number and persistence of fragile states indicates that these countries may be stuck in a low-level equilibrium "trap," for which non-traditional solutions must be found.

- The co-existence of a massive infrastructure deficit and the large number of small countries in Africa signals the need for regional solutions.

- Fiscal austerity in developed countries, as well as criticism and political backlash against foreign aid, means that official development assistance may be constrained.

The combination of the current dynamism and optimism on the continent (which came through loud and clear in the consultations) and development challenges ahead—not to mention changes in the global economy, in Africa, and in the World Bank—make it the right time for a new World Bank strategy for Africa. The Bank's current strategy has been guided by the 2005 Africa Action Plan which was developed at a time when the global economy was buoyant and there was considerable optimism about aid for Africa. Since 2008, the global economy has become much more volatile, and is likely to remain so for some time. Aid is becoming more constrained and criticized (in some quarters) for lack of results; traditional multilateralism is coming under greater strain. The emergence of new development partners such as China, the untapped potential of mobilizing domestic resources, as well as the rise in private capital flows to Africa, calls for a new approach—Africa as an investment proposition—and points to the need for new partnerships among governments, development partners and the private sector.

For Africa, integrating with the global economy is different today than it was forty years ago. The gap between Africa and emerging developing countries such as China has widened. These same countries' outstanding performance in manufacturing and service exports make it that much more difficult for African countries to compete. High costs and perceived risks of doing business in Africa hurt export competitiveness and keep businesses from forming or relocating to Africa. At the same time, some of these countries, especially China, have great demand for Africa's natural resources. Getting value out of these resource exports depends critically on governance. Land is another resource, whose potential depends on sound regulatory environment, with incentives and enforcement systems in place for good governance.

African countries are increasingly relying on the private sector as the engine of growth, and confronting governance problems, including corruption, head-on. There is political support for the role of the state as regulator, facilitator and the agent of redistribution for equity, as shown in the success stories such as Mali mangoes, Kenyan cut flowers or Rwanda tourism. Despite deep governance problems, including corruption, conflict and confrontational politics, coupled with weak public-sector capacity (reflected for example in the large "execution deficit" of investment budgets), African countries are beginning to address them through supply and demand side mechanisms, such as results-based financing for health in Rwanda or citizen monitoring (through cell phones) of conflict and disaster management in Kenya's Ushahidi. Regional organizations, such as the AU and NEPAD, are fostering private-sector growth (through trade agreements and regional infrastructure programs) on the one hand, and better governance (such as through the African Peer Review Mechanism) on the other.

The World Bank is changing. The "paradigmatic instability"[3] of the past notwithstanding, the Bank is supporting development models that allow for different mixes of government and market interventions. The Bank is not prescribing solutions. Rather, the Bank is using its knowledge assistance to nourish an evidence-based debate in countries on policy issues. The Bank is listening and learning. We are promoting South-South knowledge exchange for this purpose. Given the large number of public and private sector players in Africa, the Bank is seeing its role as a partner first, providing a platform on which development assistance and the country's own resources can be more effectively used. The Bank has to be selective because of its limited resources. The Bank and other development partners, including the country, should identify their comparative advantage and design the strategy accordingly. The Bank's own financial resources are sources of leveraging, made more possible by the reforms to the investment lending policy (Bujagali and the Liberia infrastructure programs are two examples).

Africa is not a country, so any strategy for Africa should take into account the differences among countries, in levels of development (per capita incomes range from $200 to $20,000[4]), economic structure, and political and social environment. Moreover, the strategy will largely be implemented at the country level. What then is the role of a strategy for Africa? The regional strategy provides the framework in which to embed country strategies. Any given country's strategy may deviate from the themes of the regional strategy (see below), depending on circumstances. Furthermore, a country strategy would be more selective, because it should be based on what other partners and the country are doing, and the Bank's comparative advantage[5]. The regional strategy provides the union of all the country strategy themes. In sum, the regional strategy highlights the directions of the Bank's strategy to help Africa transform.

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[3] A term used by one of the participants in the consultations to refer to the Bank's shift from a state-led model of development in the 1960s to a market-friendly approach in the 1980s and back to a state-friendly approach in the 2000s.

[4] Burundi and Equatorial Guinea, respectively.

[5] The results framework for the regional strategy will be different from an aggregation of country strategies. It will spell out the logic of the results chain (linking interventions with outcomes). Quantitative indicators to monitor progress will be at the country level.

At the same time, this regional strategy, since it is based on widespread consultations among all types of stakeholders (government, private sector, civil society), may provide the space for an African consensus, in which the private sector, government and development partners (including the Bank) may find their comparative strengths to select the nature of their interventions. This would also feed into the efforts towards nurturing regional solutions and platforms for more effective use of scarce resources.

The ten-year vision of the strategy is an Africa whose per-capita income is 60 percent higher than today, a production mix that is considerably more diversified, with manufacturing and services growing rapidly and absorbing labor at a rapid clip, with the continent's share in world trade doubling (to 8 percent), regionally integrated infrastructure providing services at globally competitive costs, and human development indicators going beyond the MDGs to achieve quality goals in health and education. These objectives are consistent with those in national vision statements. A further articulation of that vision is one where there are sub-regional drivers of growth—large and integrated countries such as South Africa, Nigeria, DR Congo, Ghana and Kenya—that would not only be the locomotives of their sub-regions, but also promote regional solutions that help Africa overcome the constraints of small states and markets. In particular, Africa's middle-income countries (MICs), especially South Africa, will play a key role, both as dynamic markets in their own right, and as links for many low-income countries for both inward and outward investment.

To realize this vision, the strategy must be transformative. It cannot rely on a single sector or product to trigger rapid growth and poverty reduction. Even if there is a consensus that there is a fundamental ingredient, such as education—without which nothing can be achieved—achieving the desired level of education requires the coordination of a number of sectors, such as health, education, transport and communication. Accordingly, the proposed strategy does not divide itself neatly into individual sectors, such as health, education, water and transport. Instead, it attempts to exploit the synergies among these sectors by organizing around critical themes. This does not mean that individual sectors are not important. Indeed, some such as health and education are important in their own right. But achieving health and education goals requires a multi-dimensional approach, involving achieving goals in other sectors. For this reason, we have chosen to organize around the three themes of the strategy. We've learned the hard way that a sector-by-sector approach will not work. Focusing on primary education contributed to the neglect of secondary and tertiary education and learning outcomes. Focusing on health led to a neglect of other factors such as water and sanitation that determine child survival. Likewise, gender is a cross-cutting issue because it is central in all three themes.

Themes of the Strategy

The proposed strategy has three, interdependent themes: (i) competitiveness and employment; (ii) vulnerability and resilience; and (iii) governance and public-sector capacity. Both the long-term challenges and the emerging issues described above fit within the three broad themes. Addressing them within country strategies may be the catalyst needed to realize the vision.

Competitiveness and Employment

The first theme, competitiveness and employment, represents the way to harness private sector growth for sustainable poverty reduction and, ultimately, wealth creation. Despite the greater emphasis on the private sector, and signs of its dynamism, Africa's private sector growth has not been sufficiently poverty-reducing, nor is it clear that it is sustainable. Most African enterprises are small (often employing only household members), low productivity and informal. While formal-sector jobs are growing at the same rate as GDP in countries like Uganda, this rate is not enough to absorb new entrants to the labor force. The share of workers in the informal sector will grow--informal is normal. The underlying reason is rapid population growth 15 years ago. While fertility rates have declined in some countries (mainly in southern and eastern Africa), they remain high in some West African countries. And countries with declining and constant fertility rate have the legacy of high birth rates in the past.

The infrastructure gap is widening, and is the main factor behind African exports' cost disadvantage in world markets. In general, African firms face the worst business climate, lowest access to finance, and the highest indirect costs. Most small and medium enterprises have problems accessing finance; all firms have problems getting long-term finance to fund productive investments. Only 20 percent of households have bank accounts. Africa's exports are mainly raw materials, which have limited employment-creating potential. Efforts to transform some of these raw materials to finished or even semi-finished goods have met with mixed results. Petroleum refining or mineral beneficiation have faced the same constraints as other manufacturing (infrastructure, skills, business climate). Africa's private investment/GDP ratio is still at 15 percent, half of Asia's. Finally, Africa's labor force lacks skills.

Agriculture, which is Africa's largest private sector, suffers from the same problems as well as some that are distinctive to the sector. Farms are businesses, and have similar needs as small enterprises, such as market stability, access to finance and information. Yet, there are a large number of government interventions, such as extension services and fertilizer subsidies, whose effectiveness is under question. The recent experience showed that African agriculture is not diversified, so farmers could not take advantage of higher food prices. Furthermore, since 93 percent of African agriculture is rain-fed, improving resilience to the effects (including floods and droughts) of climate change will be particularly challenging given among, other things, the limited storage capacity across the region.

At the same time, there are opportunities to enable small-scale entrepreneurs in agriculture, manufacturing and services to scale up. Africa is urbanizing rapidly, opening up possibilities for clusters, growth poles and agglomeration externalities. Rapid population growth also creates the possibility of a demographic dividend, with the dependency ratio falling. Africa's young population may be able to capitalize on the IT revolution and other employment options. The success of ICT, especially mobile phone technology, could improve access to finance (through mobile banking), good governance and agricultural productivity (through price discovery), and health care (through compliance monitoring). Several countries, including some fragile states, have improved their business climate. Rwanda was the world's top reformer in *Doing Business 2010.* Mining and tourism have improved their competitiveness. Tourism in particular could have spillover effects in job creation, agriculture, infrastructure services, and possibly regional integration. In some countries, commercial agriculture has been profitable and will become increasingly so in the future. Lessons of success stories, such as Mali's mangoes or Lesotho's textiles, show that it is possible to scale up.

The levers of the strategy for competitiveness and employment build on these opportunities to address the challenges. Since it is the most often-cited constraint, improving infrastructure services is the highest priority. The infrastructure financing gap (estimated at $48 billion a year for the continent) can only be filled by a combination of domestic, public and private funding. To attract private funding and to improve services more generally, there needs to be reform of infrastructure policies and institutions. Reform of regulatory policies, including infrastructure pricing, can be politically difficult, so dissemination of best practice and knowledge transfer on PPPs will be critical. Public expenditures can be improved in terms of value for money, as well as reducing the "execution deficit" (under-spending of the budget). Monitoring and evaluation of infrastructure programs can build public support for reforms as well as check on value-for-money and other indicators. Given the large number of small countries, many infrastructure programs should be regional (to benefit from scale economies). This adds an additional layer of complexity in harmonizing policies across countries. Nevertheless, the benefits are so huge that it is, and should be, pursued. And we should go beyond political protocols to execution. In the Nile basin regional infrastructure projects helped with conflict resolution. Within infrastructure, energy appears to be the highest priority, with transport second and water and sanitation third.

Next to infrastructure, improving the overall investment climate for business is the priority. The potential is enormous because, as one of the participants at a consultation said, "You don't have to pay me to go after a profit opportunity." The regulation of labor (in South Africa, for instance) and land (everywhere) often constrains businesses. Access to finance has been identified as one of the major constraints, especially for small and medium enterprises. Africa still lacks long-term financing instruments. SMEs are frequently left out of the capital markets. The Bank and IFC need to work together to improve this situation. Microfinance, while growing, has huge, untapped potential in Africa. But it is not all about credit: Households have a large demand for low-cost, save payment services (Mpesa in Kenya), savings accounts (Mzansi in South Africa) and insurance (weather insurance in Kenya). On the demand side, financial (and overall business) literacy has come into focus as a key constraint.

The empowerment of women—critical because "the future of Africa is in the hands of African women"— involves many cross-cutting challenges, from poor access to potable water to disadvantaged health and nutrition status. Women in Africa spend a considerable portion of their day fetching water, which leaves little time for family care, education and production. Identification and prioritization of such issues will help women better integrate and contribute to their economies. Education of women will be especially important in expanding the continent's skilled labor base and securing a better education for its youth. Empowerment entails making regulations and other business conditions more conducive to women entrepreneurs. Women farmers in particular would benefit from support and training in marketing products that women produce. Property rights and other protection of women can also yield high benefits.

Competitive growth poles, special economic zones (SEZs) and other innovative approaches to improving the investment climate can spur business growth. Since most enterprises are informal (often due to to burdensome business registration and operation procedures, high indirect costs, especially energy, and restrictive labor regulations), policies aimed at the informal sector could reap high returns. The reform of the business climate should ensure that the playing field is level between foreign and domestic investors, to allay suspicions that liberalization favors foreign investors (foreigners may have better skills in negotiating PPPs for instance). Otherwise, political support for reform will wane, and foreign investment will remain isolated with limited domestic spillovers and backward and forward linkages. Reforming labor and land regulations, and relaxing other constraints to business, can be deeply political. Disseminating information on the benefits of these reforms, for instance, can help build public support for them (Doing Business is an example). Public-private dialogue mechanisms and high-level multi-stakeholder fora (such as Presidential Investors Councils) enable consultations between policymakers and the private sector on key reforms.

In addition to infrastructure and an improved business climate, Africa's competitiveness and employment depends on its having a healthy and skilled workforce. Building on the success with primary education access, countries need to concentrate on improving quality overall, while increasing access to secondary and tertiary education, and better skills training. This shift involves changing the focus to the quality of education and learning outcomes. It also requires that the skills be oriented towards the market. Traditional, public-sector-driven vocational training programs often fail in this domain. Primary education access should emphasize hard-to-reach populations (such as girls in remote rural areas) to expand the labor pool. Two other neglected areas, early childhood development and nutrition, could, if scaled up, also contribute to better prepared students who are more able to learn and finish school. Adult health challenges (notably HIV/AIDS) also lead to absenteeism and lower productivity in the workplace. In some countries, such as South Africa (where the unemployment rate is 25 percent), more flexibility in the labor market will increase employment. Youth oriented programs have huge potential, but have yet to realize it. Second-chance programs, especially in post-conflict countries, could reap large benefits, so the recent experience in these areas should be carefully studied to learn lessons for future implementation. Programs run by sub-national governments or agencies have a better chance of succeeding. The African diaspora could play a role in stimulating productive employment by providing their own skills, helping to build the skills of the local population, and also supporting SMEs in agriculture, manufacturing and services.

Finally, there is the issue of perceptions, which often lag behind developments on the ground. This is a problem that business climate reforms and infrastructure investment cannot resolve. Given its legacy of poverty, slow growth, conflict and disease, not everybody sees Africa as the emerging frontier. If the mind-set can be shifted closer to the current reality, it can create a virtuous cycle of investment and growth. The Bank can play a role not just in providing the evidence of the changes on the continent and educating the rest of the world, but also in supporting those, such as the media, who interpret this evidence to the public and thereby shorten the lag between perceptions and reality.

Vulnerability and Resilience

African countries and their people are subject to a large number of shocks, such as droughts and floods, food shortages, macroeconomic crises, HIV/AIDS, malaria, and climate change. These shocks by themselves have an immediate impact of lowering living standards. Worse, because there are few possibilities to insure against these shocks, poor Africans adopt risk-averse behaviors, such as accumulating livestock even if the returns are low, which keeps them in poverty. Reducing vulnerability and building resilience to these shocks is therefore a major theme of our strategy.

There are at least four types of shocks:

Macroeconomic shocks, such as those to terms of trade or financial markets, the impact of which is exacerbated by inappropriate domestic policies. The food, fuel and financial crises of 2008-9 demonstrate that these shocks can have huge impacts on the real economy and on welfare, particularly of the poorest. Analysis from the recent crisis suggests that poverty rates rose on average by 4.2% in Africa, although the impact in rural areas may have been even higher.

Idiosyncratic shocks, such as those to individuals' health (AIDS, malaria, maternal mortality, road accidents). Some of these—malaria is a good example—are particularly acute in Africa. The economic impact of malaria has been estimated to cost Africa $12 billion every year. This includes the costs of health care, working days lost due to sickness, days lost in education, decreased productivity due to brain damage from cerebral malaria, and loss of investment and tourism.

Natural disasters such as droughts in Niger, cyclones in Madagascar and floods in Mozambique, are experienced in many parts of the continent. These types of extreme weather events are predicted to increase in the future as the effects of climate change begin to be felt. Climate change is likely to lead not only to increases in variability in weather, but also to slow-onset changes such as warmer temperatures, rising sea levels and desertification, all of which are likely to lead to increased chronic poverty and vulnerability.

Conflict and political violence have myriad effects at the national and household levels. According to a 2007 report[6] , between 1990 and 2005 the cost of conflict in Africa was equivalent to the funds granted to the continent in international aid over the same period – both conflicts and aid from 1990-2005 amounted to $284 billion. Conflicts in Burundi and Rwanda have cost their governments an annual economic loss of 37 percent and 32 percent of GDP respectively. It has been estimated that a conflict turns the development clock back by 10-15 years. As economic activity falters or grinds to a halt, the country suffers from inflation, debt, and reduced investment, while people suffer from unemployment, lack of public services, and trauma.

[6] Twenty-three African countries were involved in one form of conflict or another during this period. See: Oxfam International, the International Action Network on Small Arms and Saferworld. *Africa's Missing Billions*. October 2007.

The strategy for preventing or mitigating the effects of these shocks—for building resilience in other words—has to be tailored to the nature of the shock. For macroeconomic and some of the idiosyncratic shocks, social safety nets can be a powerful remedy. They can both strengthen resiliency (by helping households build assets) as well as smooth consumption once shocks do occur. Africa has a host of such programs, including public works programs (Ethiopia [see box] and Liberia), conditional and unconditional cash transfers (Nigeria, Kenya and Malawi), near-cash instruments (food vouchers in Burkina Faso), and food distribution schemes (Niger). In addition, some governments have used generalized price subsidies, but they have a poor track record because they are not necessarily targeted at the poor.

The choice of safety net program depends on the prevailing political environment. Rwanda's social protection program covers 90 percent of the population because there was strong political backing. Decentralization can help in the delivery of these programs, as the experience of AIDS programs shows. In addition to cushioning the poor from adverse shocks, social transfers may be necessary for the chronic poor—those who would otherwise be left behind by growth. Therefore, building permanent safety net systems that support the chronic poor but that can also be scaled up quickly and effectively in response to shocks is seen as important for building resiliency.

Ethiopia: Leveraging safety nets for effective crisis response

In 2008, Ethiopia faced a crisis that was broader, deeper and more complex than the food crisis in almost any other country. Despite a long-spell of strong economic growth, the long-standing problem of pervasive food insecurity and severe vulnerability to shocks had not been overcome. In 2008 the country, under threat from high inflation and a widening trade deficit suffered failed small season rains. The resulting drought and local food shortages in several parts of the country affected some 12 million people, and exacerbated the rise in food prices already under way due to global, regional and domestic factors. Food price inflation peaked at 91.7 percent for the 12 months ending July 2008, giving Ethiopia one of the highest food price inflation rates in the world.

Given the scale of the shock the government needed to launch a traditional humanitarian appeal to raise resources to protect the poorest. However the scale of the emergency appeal was much smaller than traditionally the case. The Government was able to leverage its existing safety net program, the PSNP, to provide additional resources to the program's existing 7.5 million beneficiaries to protect them until the next harvest. It then expanded the program to an additional 947,000 people. The Government adjusted the program wage rate from 6 to 8 birr and then again to 10 birr in early 2009 to ensure that inflation did not erode the purchasing power of the program transfer. It also shifted increasingly to food as the medium of transfer for part of the year to help mitigate the impact of seasonal food prices.

Health shocks require a combination of interventions. Public health interventions such as immunizations help to prevent these shocks. Insurance, or insurance-like mechanisms, help mitigate the health and financial effects of a shock once it has occurred. Rwanda and Ghana have introduced insurance for large swaths of the population (see African Successes). These programs have enabled the private sector to play a more active role in the provision of health services. In the absence of insurance mechanisms, Africa's health services suffer from many problems, including high out-of-pocket costs, poor delivery and distorted incentives—highlighting the need to focus on improving health care delivery systems encompassing better incentives and accountability for individual providers, upgraded management and more effective delivery mechanisms. Even with insurance, and especially without, certain vulnerable groups such as the handicapped or people living with HIV/AIDS suffer doubly—both from the ailment and from stigmatization.

An important case is female reproductive health. Maternal mortality is the "neglected MDG", with Africa accounting for 47 percent of global incidence. Having access to assisted birth attendants certainly helps. But in the case of complications, it is equally important to have access to higher-end care. A system by which mothers with complications can be quickly transferred to a hospital is needed. This is an insurance-like mechanism (high cost, low probability event). We should not forget, though, that cultural factors intervene. There is evidence that in some countries, husbands don't let their wives seek high-end care[7].

Responses to the adverse impact of *future* climate change are diverse, and start with enhancing the ability of African countries to cope with *current* variability. This includes better hydro-meteorological services, establishment of early warning systems, adoption of preparedness and emergency response plans, upgrading and enforcing building codes (as is being done in Madagascar to enhance resilience to cyclones), and testing or scaling up risk sharing or risk pooling mechanisms (including insurance, contingent financing, catastrophe-related bonds).

In the longer term, more pronounced shifts of climatic patterns might have implications, for example for infrastructure expansion, and for diversification of development across space and sectors. Infrastructure might need to built to withstand the 1 in 100 years flood rather than the 1 in 50 years event; economic development might need to be reoriented and diversified away from the most vulnerable coastal areas or the least resilient sectors such as rain-fed agriculture.

Wide margins of uncertainty still constrain the ability of climate models to determine the likelihood of a drier or a wetter future, and therefore the ability to deliver firm policy recommendations. But "no regret" options are beginning to emerge that can be pursued to enhance Africa's climate resilience. Recent research in Ethiopia suggests that more stringent norms for road building might be adopted relatively cheaply, while avoiding the larger cost of repair, and more importantly, the heavily damaging disruption in supply chains and access to health and education services that more frequent floods of the future might bring about.

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[7] Taiwo O Lawoyin, Olusheyi O C Lawoyin and David A Adewole, "Men's Perceptions of Maternal Mortality in Nigeria," *Journal of Public Health Policy* (2007) **28,** 299–318.

But some investment decisions might be more sensitive to climate outcomes, and therefore less clear-cut: for example, there might be significant opportunity cost of capital invested in long-lived hydraulic infrastructure in the presence of large enough declines in precipitation patterns. If water becomes scarcer, difficult trade-offs will need to be made among competing uses, such as irrigation and hydropower. In these more challenging situations, new "robust-decision making" paradigms will need to be adopted. Some projects might prove to be resilient under a wide range of climate outcomes; for others, scalable and phased approaches should be considered, to integrate new climate information into the decision making process as it becomes available; thereby avoiding the locking of large capital stocks into climate-vulnerable infrastructure.

Climate change, while possibly the biggest threat to Africa because of its potential impact, could also be an opportunity. Adaptation will have to address sustainable water management, including immediate and future needs for storage, while improving irrigation practices as well as developing better seeds. This adaptation response to climate change could spur development-oriented interventions. Furthermore, regional opportunities for collective action on hydropower and integrated water-basin management, hitherto constrained by national concerns, may become much more attractive, generating opportunities for local employment. Climate-triggered collective action could also improve soil and coastal management which, according to one estimate, could be worth about $1.47 billion a year.

Africa has a very small carbon footprint (4 percent of global greenhouse gas emissions) and only Africa's large and richer countries, such as South Africa, can meaningfully contribute to mitigating climate change. However, African economic development does not have to follow the same carbon-intensive growth path of the developed world. Africa's solar, wind, water and geo-thermal resources are so abundant, that it has the potential to leapfrog over a carbon-intensive development path.

Preventing conflict and political violence, and building institutions for inclusive growth, while mitigating these shocks requires peace-building mechanisms. More generally, preventing shocks and being better prepared for them will involve a mix of capacity-strengthening and institution-building. Examples include sound macroeconomic management, regulation of the financial sector, and adaptation to climate change.

The World Bank's comparative advantage in building resilience lies in three areas: (i) addressing the cumulative effects of these shocks, as in Burundi; (ii) providing finance, knowledge, global experience and technical assistance in designing, monitoring and evaluating safety net reforms, health system reforms as well as in smoothing the effects of macroeconomic shocks (as in the recent global crisis); and (iii) providing knowledge, finance, advocacy and convening power in helping countries adapt to climate change.

The Bank's role goes beyond assisting when shocks have happened to supporting policies and capacity development for shock prevention and crisis preparedness. Macro-economic management capacity, strengthening regulatory capacity to enhance financial stability, and climate change adaption are important examples. So are insurance mechanisms. While crises cannot be prevented, reducing their frequency and improving response management will help reduce their costs.

Governance and public-sector capacity

At the heart of governance and public-sector capacity—arguably Africa's major constraint—lies the notion of accountability—ensuring that politicians and civil servants do what they say they will do. A symptom of weak accountability is the high level of corruption in many African countries. The current state of governance in Africa demonstrates both positive and negative trends. There is greater political openness. Civil society's voice is growing, as demonstrated by the African Peer Review Mechanism and the number of countries' passing Freedom of Information Acts, etc. At the same time, there is an increase in non-democratic transfers of power, such as the coups d'état in Mauritania, Guinea, Niger, and Madagascar over the past two years.

The strategy for improving governance and public-sector capacity involves strengthening accountability at all levels of society. On the demand side, the strategy will introduce models of social accountability, most of which involve increasing citizens' access to information—and therefore their "voice"—through the use of citizen report cards, public expenditure tracking surveys, and NGO monitoring of projects. Much of this information uses statistics, making the case for building statistical capacity that much stronger. Impact evaluations and other evidence on performance provide robust results that not only guide policy, but provide information with which citizens can hold governments accountable. The media are important for disseminating this information, so greater engagement with them is equally necessary. Given the sensitive nature of such interventions, this is an area where South-South learning could be extremely powerful.

On the supply side, the strategy is to build the capacity of different actors so they can more effectively hold decision-makers accountable. In the traditional public sector, building public expenditure management systems and strengthening the incentives within the civil service for performance, especially in service delivery sectors such as health and education, will continue to be priority areas. Strengthening public expenditure management systems will emphasize public investment management, an area that has been neglected recently. Yet, this is where the execution deficit—when budgeted resources don't get spent—is largest. As countries, after debt relief, take on non-concessional debt, the need for sound public investment decision-making becomes all the more critical.

The Bank's experience with civil-service reform has been, to put it politely, mixed. We are building on the lessons to adopt a substantially different approach. We will try to scale up the experience with, for example, results-based financing in Rwanda, output-based assistance in Mauritius, and implementation by NGOs. The use of CSOs upstream in monitoring government processes will be promoted and evaluated. Greater attention will be given to building the capacity of the legislative and judicial branches of government, as well as sub-national governments.

Where there is a possible market failure, we will intervene to build the capacity of the private sector as well. The capacity of civil society will be built to enhance their legitimacy and accountability.

In addition to this focus on accountability, the strategy will consider an alternate view of governance, namely, that it is a function of good leadership. The strategy will explore what institutions are conducive to developing good leaders.

Implementing the Strategy

A strategy is only as good as its implementation. While this strategy, like its predecessors, will be implemented using the Bank's traditional instruments—finance, knowledge and partnerships—we will reverse the order to encourage greater selectivity and to better leverage policy and institutional reforms.

Partnerships

The main instrument of implementation will be partnerships—with African society and with other development actors. We will mobilize the development community to support a "Marshall Plan for Africa," aimed at relaxing the financing constraint to reach the MDGs (and beyond). Unlike the original Marshall Plan, this one will leverage public money to crowd-in private resources to Africa. Within the World Bank Group, we will therefore work together with the IFC and MIGA. The recently established Asset Management Company of IFC is an example. We will also use all possible partnership platforms (such as the G-20) to promote the idea of "Africa as an investment proposition"—a promising investment opportunity for both public and private actors. And, we will facilitate and support partnerships with the private sector, to ensure that there is a level playing field for African initiatives to thrive.

We will use our convening power for the voice of Africa to be heard. We will work closely with the AU, G-20 and other fora to support the formulation and voice of Africa's policy response on global issues, such as international financial regulations or climate change, because speaking with one voice is more likely to have impact. We will leverage the considerable resources from the African diaspora (who remit about $20 billion a year already). We will help African governments improve their domestic resource mobilization. We will leverage South-South relationships both for learning opportunities as well as for innovative financing (see discussion below on MICs).

We will continue to promote harmonization of our assistance along the lines of the Paris/Accra declarations. In particular, we will increasingly use country systems, and avoid Project Implementation Units, even in fragile states (see discussion below). At the same time, we will fine-tune our budget support strategies to make them more effective (and avoid some of the current pitfalls of watered-down policy assessment frameworks). We will be more selective based on what other partners are doing. We will reduce the costs of aid harmonization by greater transparency of information, as in the International Aid Transparency Initiative.

Our partnership with African society will be based on mutual learning and listening, as we did during the consultations leading up to this strategy

Knowledge

The second most important instrument for implementing the strategy is knowledge. Since the constraint to policy and institutional reform is often political, finance alone, or even "conditionality" cannot bring about change. Meanwhile, knowledge, by helping to nourish an evidence-based debate, could contribute to a domestic political consensus, paving the way for more financing and faster development.

We will therefore orient the Bank's knowledge products towards contributing evidence to the public debate on pressing policy issues. Such a reorientation will require changing incentives that are currently geared towards producing stand-alone reports aimed at a specialist audience. Incentives could be changed (and greater selectivity attained) by moving towards "output-based AAA." We will develop a global knowledge platform (like Wikipedia or the highly successful knowledge management platform, "Making Finance Work for Africa," www.mfw4a.org) that brings the best possible knowledge to bear on the problems of African development, among other things to facilitate local professionals' research and knowledge about their own economies. We will enable countries to access high-level skills, such as those needed to negotiate oil contracts. The Diaspora could play a greater role here.

The knowledge function cannot be divorced from the capacity-building function. Experience with business councils and reform teams shows that the Bank can play a useful role in supporting government's role as facilitator. Our knowledge should not just stimulate debate, but also help individuals; institutions and sectors better implement their development programs.

Finance

Finally, of course, we will use our traditional instrument of financing, whose effectiveness is determined by what we do on partnerships and knowledge. In the new strategy, the goal will be to leverage the Bank's financing to crowd-in other sources of financing. A large driver of our recent success in the southern African MICs in particular has been our ability to create innovative financial solutions (e.g. PCGs, DDOs, possible local currency lending etc.). These products have provided a framework for the crowding-in of large amounts of financing from other sources. Given the scale of the financing challenge that Africa faces, especially in infrastructure, the strategy will explore to what extent we can do this more with IBRD, and also with IDA. In addition, we will seek through the strategy to maximize the impact of other capabilities of our Treasury (e.g. weather insurance intermediation, commodity price hedging, debt management etc.). Our ability to be flexible and innovative financially is a true comparative advantage of the World Bank compared to other institutions. While we have improved our communication and clients and staff knowledge regarding treasury products (in line with the AFR MIC Strategy) much more can be done for both the MICs and LICs.

We will promote catalytic mechanisms that take limited IDA funding and generate large amounts of private investments (through guarantees, for example). We will explore innovative risk-management instruments to support PPPs. We will provide capacity support and advice to clients on risk-sharing instruments. In addition, we will prepare IDA countries for the transition to IBRD by, for example, enclave IBRD projects and strengthening public management reforms. Among low-income countries, we will reconsider the resource-allocation formula for small, fragile states.

Regional Solutions

In implementing the strategy, the three instruments will be deployed differently depending on country circumstances. Two distinct groups of countries are the fragile states and middle-income countries. But more important than these is the case when the instruments are deployed beyond countries—to obtain regional solutions.

While the evidence for regional cooperation is compelling, Africa has seen relatively little regional integration, especially compared to other regions—so the potential is vast. The most common form of integration is trade integration, which currently involves "second-generation" issues such as trade facilitation, Economic Partnership Agreements and the free movement of labor across borders. While the benefits of intra-African integration are limited (because most African countries produce similar goods), the steps towards regional integration will help overcome market inefficiencies due to low scale and also improve competitiveness with the rest of the world, trade with whom could have huge benefits. We support trade and financial sector integration through a mix of knowledge assistance and financing of trade logistics and regional financial sector projects, such as the Africa Trade Insurance project. Going forward, we will try to strengthen the capacity of regional economic communities (RECs), possibly by providing IDA grants to these entitities.

Much greater gains can be found in regional cooperation on infrastructure—power pools, multi-country transport corridors, river-basin management, broadband backbones, private-sector growth corridors, etc. We already finance several regional infrastructure projects. We will attempt to improve regional cooperation on policies and regulations to support regional infrastructure, possibly with development policy operations to complement regional investment loans. One reason that harmonization of these policies has not progressed as much is that the capacity of the RECs to promote such harmonization is weak. Another reason is that harmonization involves giving up sovereignty, something governments are reluctant to do.

Fragile States

Since they are distinct along many dimensions (political, economic, security), fragile states merit differentiated treatment. The same issues—infrastructure, business climate, employment, governance—play out differently in fragile states. Infrastructure development may require "quick wins" and employing demobilized soldiers, even if it is at a higher cost. It may also require longer-term actions that give these same people hope. The usual problems of corruption and weak governance are exacerbated by the need for enhanced security. Lack of jobs, especially for youth, could have disastrous consequences if these youth take up guns again.

In this light, the Bank's approaches should be different in these states. The use of PIUs makes the problems of weak capacity even worse. There should be greater tolerance for risk-taking by staff (or equivalently, greater flexibility in procedures). While remaining faithful to the Bank's Articles of Agreement, staff may have to become more engaged with political actors. Incentives for working on fragile states may have to be different. Managerial attention is always fragmented when a country director is in charge of a fragile and non-fragile state. Security and other hazards make it difficult to attract the best staff to work in fragile states. Both of these concerns can be partially addressed by developing "fragile states hubs," as we are currently doing in Nairobi and possibly in Dakar in the future.

Middle-income Countries

At the other end of the spectrum are Africa's middle-income countries, some of whom like Botswana and Mauritius are the continent's most successful economies. We should be helping them reach the next level (and avoid the "middle-income trap") while learning from their experience for other countries. At the same time, many of Africa's MICs have a lot in common with the low-income countries (LICs)—high income inequality, deep and widespread poverty, mediocre performance in service delivery, stubbornly high HIV prevalence, and serious unemployment problems.

The strategy should be to lead with our knowledge assistance. These countries are ideally suited for South-South cooperation, most naturally with MICs in other regions, but also with LICs in Africa. The cooperation could define a learning agenda. It could also be a source of possible financing options, such as hedging or guarantees.

In southern Africa in particular, the Bank's relationship with the MICs is at a critical juncture. The recent openness to borrowing has been built on the back of sustained and high quality country dialogue, AAA and TA, the demand for which continues. As supervision budgets rise exponentially as a consequence of new borrowing, the challenge is to continue to supply high quality, flexible, and tailored AAA and TA, and sustain a labor-intensive dialogue. It is imperative that the Bank deliver on the high expectations we have created, especially with many MICs now borrowing large amounts of IBRD.

Managing for Results

In order to implement this strategy successfully and cement a more client-driven focus on development and results, the Africa region is undertaking several management and organizational changes. Through these changes, the Bank will be closer to the clients and partners, respond quickly to the needs of our diverse clients and changing business needs, improve operational effectiveness, and better coordinate with important stake holders on the ground. In updating our services and systems, we will focus on flexibility, delivery, innovation and results, or more colloquially, we will work "faster, smarter, and cheaper."

Decentralization. Africa has made steady progress in devolving work and task management responsibilities closer to clients with increases in staffing, management capacity and decision-making in the countries. To date we have decentralized over 60 percent of our staff to country offices and will continue to devolve task management to the field. All country directors are based in-country and we are increasing the number of country management units from 11 to 15. This will increase field-based leadership and reduce the large span of control for country directors. However, challenges remain in recruiting staff to some of the difficult locations, staff mobility, and managing the high incremental costs of decentralization in a flat budget environment. Our goal is to make sure that benefits of decentralization outweigh its costs.

Sub-regional Technical and Knowledge Hubs. To mitigate some of the decentralization challenges, we are creating technical and knowledge hubs for better utilization and deployment of scarce technical resources and to build effective knowledge and learning connections. Two hubs for fragile states have been created and two practice groups are in place for the health sector (the latter being a partnership with AfDB, DfID and WHO). The sub-regional hubs will have cutting-edge technical skills, share global and regional knowledge, and develop strong familiarity with the clients. The hubs will be supported with appropriate technology and other support services to ensure connectivity with country and global levels.

Modernizing our Services and Instruments. In pursuit of increasing impact and expanding use of country systems to lower transaction costs, we are updating our operational policies, increasing the efficiency and effectiveness of existing instruments, developing new instruments, and streamlining our internal procedures. A new instrument mix—especially the new Results-based Investment Loans--will enable us to align better with government programs and priorities, be a better partner to donors including the African Development Bank and multilaterals in the region. The investment lending reforms will shift the focus from inputs and internal procedures to outcomes, development effectiveness, implementation support, risk management and accountability. We are streamlining and rationalizing portfolio management and improving our own "execution deficit".

To improve our internal effectiveness, we are investing in strengthening and updating our internal systems in human resources, Information, Management and Technology (IMT), and budget processes. Implementing this strategy will require us to have a flexible, mobile and a highly talented workforce. We are reviewing our skills mix with the aim of attracting new and diverse talent, and retaining and appropriately deploying the right talent to better address the needs of our diverse clients. Through our new global Human Resource framework, we will continue to promote diversity at all levels including management, effective staff mobility, while fostering recruitment efficiency to respond to business needs. Particular attention will be paid to nationally recruited staff—who are among the region's greatest assets—to provide them with appropriate opportunities for career development. More generally, we will continue to focus on managing for high performance and realizing the potential of our staff through investment in their learning and career development.

With the focus on results, we are refining our performance management to integrate external funds and align budget allocations with strategy priorities, staff planning and results. A greater share of our budget is now allocated to the frontlines, although this may have reached its limits. We are updating and aligning our IMT with other systems updates and reforms to improve connectivity, knowledge sharing, improve our transparency in the implementation of the new "Access to Information" (disclosure) policy, and promote efficiency standardizing data, technology and business processes. Maintaining fiduciary standards and quality will be critical to achieving the results of this strategy. In addition, measuring results, self evaluation, transparency, and risk management with strong internal checks and balances are key requirements to achieving our business objectives and contributing to the achievement of this strategy.

Finally, we will work closely with our clients and other stakeholders to improve performance measurement and strengthen statistical and monitoring and evaluation capacity. Through results-based Country Assistance Strategies, we will reinforce the results frameworks reporting framework to report on output and outcome core indicators and ensure that it is used to inform decision making. To foster accountability and improve learning from our work, impact evaluations will be conducted through the DIME initiative to get a better understanding of what works and what does not and the Independent Evaluation Group will continue to validate the Bank's own self evaluations of its operations and distill lessons of experience.