

**AFRICAN DEVELOPMENT BANK GROUP**

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**Briefing Notes for AfDB's Long-Term Strategy**

**Briefing Note 6:  
INCLUSIVE GROWTH AGENDA**

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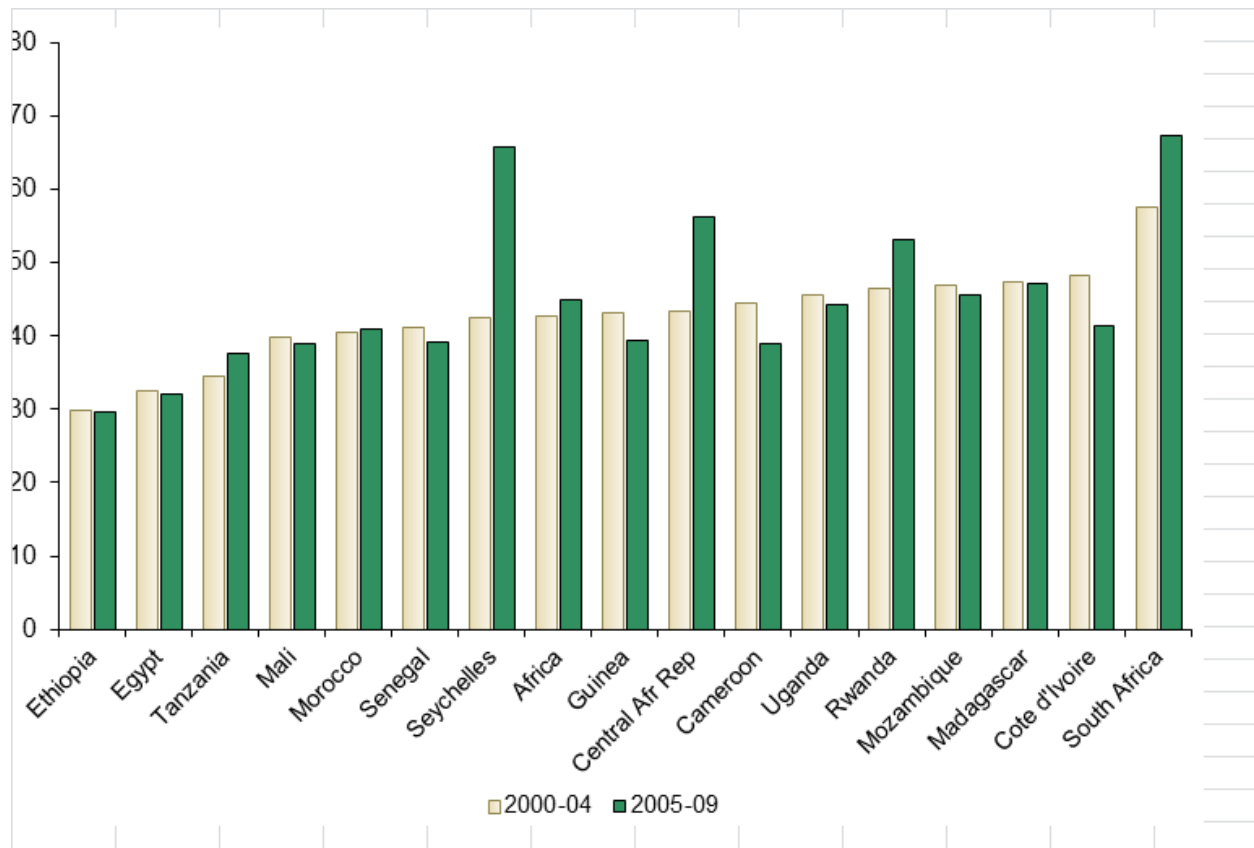
## INCLUSIVE GROWTH AGENDA

### I. INTRODUCTION

1.1 In the past decade, Africa’s economic growth rates have averaged 5.2% per annum. While this is an improvement over the 3.6% per annum for the five years between 1994 and 1999, poverty levels remain challenging. The majority of poor people (72%) are young (15-24 years); for them, unemployment, particularly for youth unemployment, remains high in most countries. In Nigeria, Ethiopia, Uganda, Zambia and Burundi, youth unemployment is over 80%.

1.2 The proportion of people living below a dollar a day dropped from 47% to 43% between 2000 and 2005 and the number of those living below 2 dollars a day is estimated to have dropped from 68.7% in 1990 to 60.8% in 2010, poverty remains a challenge. If poverty is being slightly improved, inequality among rich and poor is widening; in many Sub-Saharan Africa (SSA) countries (Fig 1). In 2010, six of the world’s 10 most unequal countries were in SSA: the top three, Namibia, South Africa and Lesotho, had Gini coefficients of 70, 65 and 63 respectively. In most Regional Member Countries (RMCs), the top 20% of the population gets more than half of all generated income.

**FIGURE 1: GINI INDEX FOR SELECTED AFRICAN COUNTRIES 2000-2004, 2005-2009**



Source: AfDB Statistics Department 2011, compiled from World Bank data, 2010

1.3 The emerging consensus is that rapid, sustainable economic growth in developing countries must also be equitable, which matters for poverty reduction (Stuart, 2011). The international community is, therefore, refocusing on “inclusive” and “sustainable” growth. The need has become more apparent in the wake of recent global economic and food and fuel crises, with the approach of the Millennium Development Goal (MDG) deadlines, and the emergence of the G20.

1.4 Beyond pro-poor growth policies that target only the poor, the continent must pursue an agenda of Inclusive growth targeting all segments of society and the economy. RMCs and development partners, including African Development Bank (AfDB), must design development policies, strategies, and interventions that produce inclusive growth. Thus, this brief examines the concept and challenges of inclusive growth in Africa and the way forward.

## II. DEFINING INCLUSIVE GROWTH

2.1 Various definitions of “Inclusive Growth” all express the need for new approaches to address social inequalities especially in the developing world. These include inequalities in income; assets, both financial and human, education and health; economic opportunities and all spheres of life.

2.2 **The AfDB defines Inclusive Growth (IG)** as economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality.

2.2.1 Inclusive growth is broad-based growth across sectors; includes productive employment and protects disadvantaged and marginalized groups from adverse shocks. Inclusive growth analysis takes into account parameters such as: age, gender, regional or geographical gaps and balances as well as sectoral differences and balances. Thus, inclusive growth has elements pertaining to “broad based growth, shared growth, and pro-poor growth”.

2.1.2 Inclusive growth focuses on the rate and pattern of growth, which must be addressed together because they are interlinked. Long-term sustainable high economic growth rates are necessary to reduce poverty and must be accompanied by growing productive employment to reduce inequality. Policies for inclusive growth must address productive employment, rather than employment *per se* or income redistribution, which generates new jobs and income for individuals, contrasted with the potential of lifting the wages of those employed and promoting the returns of the self-employed.

2.1.2 Unlike the pro-poor growth agenda which focuses mainly on the welfare of the poor, inclusive growth is concerned with opportunities for the labor force in the poor and middle-class alike. It takes a long-term view and focuses on raising the pace of growth, on productivity growth, and enlarging the size of an economy while leveling the playing field for investment and increasing productive employment opportunities. By contrast, pro-poor growth has

traditionally focused on measuring the impact of growth on poverty reduction by tracking various poverty measures (Ianchovichina and Lundsrom, 2009).

2.2 The **World Bank** (World Bank, 2009) argues that an inclusive growth approach is preferable to “shared growth,” which can be misconstrued as implying a focus on income distribution schemes. Inclusive growth has to create an environment of equality in opportunity for all, by addressing employment creation, market, consumption, production, and a platform for poor people to access good living conditions. Rapid paced growth is a necessary condition for substantial poverty reduction and must be *broad-based* across sectors and *inclusive* of a large part of a country’s labor force to be sustainable in the long run. This definition includes both the macro and micro determinants of growth dimensions, considers pace and patterns to be being interlinked, as necessarily addressed together, and critical for achieving a high, sustainable growth record and poverty reduction.

2.3 **The Commission on Growth and Development 2008, The Growth Report: Strategies for Sustained Growth and Inclusive Development** embraces equity, equality of opportunity, and protection in market and employment transitions. Its strong view is that successful growth strategies must have a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. This will contain social inequality between the low and top ends of income groups.

2.4 **The G20 Seoul Summit 2010 at the Seoul Development Consensus for Shared Growth** argued that development partners’ actions and policies should have the capacity to significantly improve the prospects for inclusive, sustainable and resilient growth beyond business as usual. Accelerated, strong, sustainable and inclusive growth will support higher incomes for the majority of the population, which can result in general improvements in living conditions.

### III. CHALLENGES TO INCLUSIVE GROWTH AGENDA

3.1 **Infrastructure:** Challenges to inclusive infrastructure development and maintenance in RMCs relate to project design and operational approach, financing restrictions, priorities and regulatory environments.

3.1.1 Data from 2006-2009 shows that only 28% of Africa’s population had access to electricity compared to 70% of other developing world; 69% of the population had access to improved water access compared to 88% of other developing world population. Improved infrastructure including a functional regulatory environment, will increase Africa’s competitiveness and productivity, lower the costs of doing business, and facilitate trade and foreign direct investment. It will deepen economic and social integration and create employment opportunities during project implementation and operations. Infrastructure also supports the delivery of social services, contributes to the IG.

3.1.2 Developing rural infrastructure in particular has a wide range of impacts on households, communities, and businesses income and other quality of life indicators. Yet, rural and urban infrastructure access rates are highly disparate. One in two city dwellers in SSA have access to grid electricity compared to one in ten rural. Populations in small states, fragile states and landlocked countries remain largely under-served. Infrastructure projects can provide IG when they ensure connectivity including for the poor and marginalized groups; create opportunities for local procurement of labor, inputs and services, and protect vulnerable groups. The Bank has allocated 60.4% of its total 2008-2010 investment to infrastructure.

3.2 **Regional Integration and Trade** provide opportunities for enhancing productive capacities of African economies, create economies of scale, and improve competitiveness. Regional integration and trade policies/regulations promote value addition on Africa's primary commodities that can have positive impacts on IG agenda. Regions that are well connected by road transportation, ICT, power supply and water systems, will see enhanced inclusion. Regional integration will create large, competitive economic spaces that are attractive to investors and lead to increased employment and mobility of people across borders. Transportation infrastructure promotes IG for instance, when it links businesses and farmers to markets, helps redress territorial imbalances within countries, or links small economies/fragile states to a regional economic hub. Provision of roadside socio-economic infrastructure and services, and integration of feeder roads into project design, enhance inclusiveness of interventions.

3.3 **Private Sector Development** activities are cross-cutting, and promote inclusive growth across all economic sectors and all firm sizes ranging from Medium, Small and Micro Enterprises (MSMEs) to large corporations, generating growth, jobs and economic opportunities for the majority, including the poor.

3.3.1 Africa's private sector accounts for over 80% of total production, 67% of total investment, 75% of total credit to the economy, and 90% of the labor force. However, productivity rates are low compared to other regions, with inefficient, labor-intensive farms in many African countries.

3.3.2 Most of Africa's largest businesses are concentrated in a few middle-income countries; however, small firms and informality dominate the private sector. Most mid-size enterprises (65%) operate in the informal sector, whose businesses account for over 40% of Africa's economy. It provides economic opportunities for the majority and for vulnerable groups and contributes to IG agenda. To increase their contribution to more jobs and wealth creation, value added, use of domestic raw materials, capital formation, government revenues, and export earnings, African enterprises need to be expanded to boost broad-based growth and allow private-sector development to promote sustainable inclusive growth.

### 3.4 **Weak governance institutions and instruments**

3.4.1 The inclusive growth agenda in governance entails establishing standards and conditions to foster resource mobilization, build strong institutions, mainstream transparency and support

voices and accountability to further broad-based growth. Africa needs strong institutions with the necessary capacity and resources to effectively establish a sound macroeconomic framework, through good public financial management. A better business environment with a legal and regulatory framework that facilitates contract enforcement, property rights will encourage jobs and help create a more stable and secure society.

3.4.2 A number of RMCs are improving their business environment, which poses a significant constraint to private investment. The 2012 *Doing Business* report includes, among the 10 economies recognized as having most improved the ease of doing business across several areas of regulation, five countries from Africa.

3.4.3 Inclusive growth also requires supporting the voices and democratic accountability of the poorest and vulnerable groups, the democratization and representation of all strata of the population in all economic and political spheres. Inclusiveness also means public participation in the control and monitoring of the management of public affairs, particularly public resources, and that governments are held accountable for their economic and fiduciary responsibilities. Such system requires strong control, audit and judicial systems that can enforce the rule of law and the management of public affairs.

### 3.5 Higher Education, Science and Technology

Higher education in science and technology and vocational training and skills development are critical to development. Africa's tertiary education systems must address the challenges of access, quality and relevance.

## IV. THE AFRICAN DEVELOPMENT BANK AND THE INCLUSIVE GROWTH AGENDA

4.1 The Bank notes that inequality is first and foremost the result of unequal opportunities that needs to be addressed comprehensively through IG policies and strategies. It identifies IG as a long term development challenge and immediate political challenge that cannot be ignored as evidenced in the recent Arab Spring revolts in Tunisia, Egypt, and Libya. Inclusive growth must be broad-based, yield productive employment, and protect disadvantaged and marginalized groups from adverse shocks. It must provide wider access to sustainable socio-economic opportunities for a broader number of people, regions and countries, while protecting the vulnerable in a context of fairness, equal justice, and political plurality.

4.2 Recognizing the evolving political and economic development in Africa, the Bank has endorsed an IG agenda as an overarching theme of its development work and advocacy for Africa's economic future. However, the Bank will have to be selective as it pursues its IG agenda and prioritize its areas of its interventions, which must complement other development partners' work in RMCs

4.3 The Bank's Medium Term Strategy (MTS) 2008-2012 and the Long Term Strategy (LTS) 2013-2022 outline its vision for stronger and more equitable growth. The four operational pillars of the MTS include infrastructure, private sector development, governance and higher

education. The LTS 2013-22 identifies 5 pillars: infrastructure, regional integration and trade, private sector development, governance and higher education. The Bank's IG agenda will be advanced through these broad strategic areas by prioritizing interventions with the potential to reduce regional and sector inequalities, increase voice and accountability and provide opportunities for the poor to participate in the growth process.

4.4 The Bank will make an analysis of its interventions and implementation of each pillar, which will be monitored and evaluated to measure outcomes and contributions to the IG agenda that should ensure access and equity of opportunities created by economic growth. The Bank is preparing an **Inclusive Growth Index based on the 8 pillars** derived from the 5 LTS Pillars that are in line with the its MTS 2008-12 and the LTS 2013-22:

- 4.4.1 Job Creation, including improving skills for competitiveness** - Joblessness has been a major constraint on Africa's positive growth in recent years. Countries should provide conditions for private investment in dynamic sectors while building capacity in sectors employing the majority of labor such as in agriculture. They must also pay the youth bulge particular attention.
- 4.4.2 Provide wider equal access to basic infrastructure and basic social services:** Transportation; Water and sanitation; Energy; ICT; Social protection; Basic and higher education, vocation education and skills development; and Better access to health services and health financing.
- 4.4.3 Access business opportunity:** Support MSMEs; Promote African entrepreneurship and local ownership; and Improve access to finance
- 4.4.4 Voice and accountability** - Sufficient research evidence has established the importance of institutions, governance, and regulation for economic growth. To ensure inclusivity, attention should be paid to property rights and Institutions, equal access to effective justice and participation.
- 4.4.5 Enhance regional integration, especially that of smaller and landlocked countries.**
- 4.4.6 Social Protection and Inclusion:** Gender equity; Youth and children; the disabled; and Peasant farmers.
- 4.4.7 Wider access to productive knowledge, including innovations and technologies that benefit and improve access to the broader population** - These may include agricultural biotechnology; health and health innovation systems, and new energy technologies.
- 4.4.8 Improve agriculture productivity in Africa** - Increase investment in agriculture, especially in irrigation, rural infrastructure, and skills, Increase spending in agricultural research and farm extension practices to improve yield and production, and Improve supply chain management in both procurement and distribution cycles.

## V. CONCLUSION AND RECOMMENDATIONS

5.1 The Bank and other development partners should focus on ensuring that all groups, including the vulnerable and the marginalized, are included in the development process, irrespective of their social classification, and have equal access to economic opportunities (the pace and pattern of growth). Key sectors can contribute to inclusive

growth in Africa and specific measures can stimulate strong, sustained and resilient growth and help remove the exclusions, address poverty, inequality, poor social indicators, and unemployment.

## 5.2 **Energy**

- Support grid extensions in a cost-effective inclusive manner to include rural areas.
- Support inclusive energy investments including those impacting the poor.
- During at least in the mid-term, consider subsidies targeting the poor and marginalized groups without diminishing efficiency in power service delivery and public expenditures.

## 5.3 **Transport**

Adopt project design features that improve local linkages, which require policy dialogue, careful technical design and implementation supervision arrangements.

## 5.4 **Agriculture and Rural Infrastructure**

- Support institutional reforms to better link remote areas to markets to develop rural agriculture based communities.
- Support RMCs to invest more in priority rural infrastructure: feeder roads, storage facilities, agro-processing, irrigation infrastructure and improved land and water management in agricultural growth corridors.

## 5.5 **ICT**

- Provide support for RMCs to scale up their ICT applications in all sectors to transform public service delivery.
- Extend ICT infrastructure to underserved areas and expand regional/national ICT broadband infrastructure.
- Create enabling policy/regulatory environment to leverage private investment and forge PPPs for improved connectivity.

## 5.6 **Clean urban-rural water and sanitation for a wider population**

Develop an incentive system for connections to the poor and promote the installation of public fountains in underserved areas such as informal settlements and slums. Strengthen water capacity building and mobilize resources. This will enhance the participation of communities, including women, artisans, mechanics, and vendors, in designing, implementing and operating and maintaining.

## 5.7 **Improved Business Environment and Productive Enterprises (Private Sector Development)**

- Support RMCs to improve their business environments and strengthen their international competitiveness; anchor development in social and environmental responsibility.
- Provide support to build robust African and pan African financial institutions.

## **5.8 Diversify Economies, Promote Regional Integration and Trade.**

Support RMCs to break into manufacturing through policy reform to ensure more competitive markets for transport and trade facilitation, improve the efficiency of government agencies at borders, and promote value addition, increase productivity, and invest in infrastructure for reduced cost of inputs.

Design projects/programs that improve productivity and market access for smallholders infrastructure development to open up and link farmers and markets from different regions; institutional and human capacity building to enhance efficiency, productivity, governance, absorptive capacity, etc.; regulatory and legislative harmonization work; macroeconomic convergence and financial integration; trade facilitation, including support to MSMEs/traders in meeting International Standards for exports; and support to streamline RECs and create grand free trade agreements.

## **5.9 Instruments (Governance)**

The Bank must design instruments supporting Policy-Based Lending, Institutional Support Project and Balance of Payment Support Project that appropriately address the missing links and time dimensions. These instruments at present most often focus on economic and fiduciary aspects, ignoring such key governance issues as transparency through freedom of the press, voice and democratic accountability. Nor do they significantly address domestic resource mobilization and the long-term approach necessary to resolve most structural governance issues. Developing a composite instrument mixing Policy Based Lending, Institutional Support Projects and capacity building instrument in order to comprehensively impact on governance is therefore critical, moving forward.

## **5.10 Education**

The Bank, development partners and regional member countries must overcome capacity constraints, prevent or reverse declines in education quality and ensure the relevance of tertiary education to national needs and industrial development and provide for its cost, financing, and governance. The Bank must also remove skills mismatch and address labor market needs, in addition to scaling up support for TVET linked to specific needs in the labor market, in both the formal and informal sectors, including the skills needed to create small businesses.

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