

# THE BANK AND THE AGENDA FOR INCLUSIVE GROWTH

*A Report on the Governors' Dialogue*

2011 Annual Meetings

Lisbon, 9 June 2011



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## SUMMARY

In the context of tremendous changes across the African continent in 2011, the African Development Bank's Board of Governors met to discuss the theme of inclusive growth. Growth is inclusive when it creates economic opportunities while ensuring equal access to them. Growth in Africa, however, has often been narrowly concentrated in a few sectors and geographical areas. Inequality has become more pronounced and more visible. Unless inclusive growth can be achieved, growth itself may become a source of instability.

The Board of Governors used the opportunity of the Bank Group's Annual Meetings to discuss the fit of inclusive growth in the Bank's Medium Term Strategy and how the Bank could work with its members to ensure that inclusive growth could be achieved.

## INTRODUCTION

1. Members of the Board of Governors of the African Development Bank (the "Bank") had their annual dialogue on 9 June 2011, during the Annual Meetings.

The Chairperson of the Boards of Governors, the Governor for Portugal, and Minister of

State for Finance of Portugal, His Excellency Fernando Teixeira dos Santos, presided over the dialogue.

### Keys to inclusive growth:

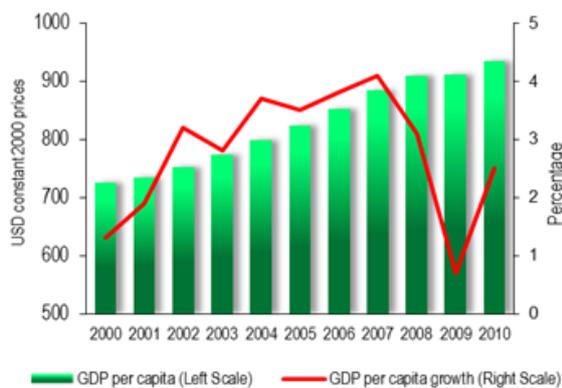
- ❖ Sound economic and political governance
- ❖ Institution building for fragile states
- ❖ Budgetary decentralization by member states
- ❖ Private sector development, including increased support for SMEs
- ❖ Well-targeted infrastructure development, including energy provision and inclusive green growth
- ❖ Continued investment in agriculture
- ❖ Country-owned, innovative, and flexible responses by the Bank
- ❖ Adaptation in the education sector, including vocational training
- ❖ Pro-poor social welfare systems based on sufficient tax revenue
- ❖ Continuation of gender as a cross-cutting issue
- ❖ New financial instruments and programs, especially for SMEs.
- ❖ Increased policy dialogue and greater donor coordination

2. The dialogue was guided by the paper prepared by the Bank, "The Bank and the Agenda for Inclusive Growth." The paper described the key factors which spurred recent economic growth in Africa, and analyzed the barriers to inclusive growth and greater social inclusion. African member states have achieved dynamic growth in the past decade, due in part to the demand for raw materials, improving macroeconomic stability and implementation of structural reforms as well as the progress made in

**"In the absence of pro-poor growth policies, the burden of unemployment has fallen disproportionately on the youth and the young"**

reforming the business and regulatory environments. However, high inequality has meant that growth delivered much less in terms of poverty reduction. The paper observed that wide regional disparities aggravated by poor infrastructure had made it difficult for rural areas to benefit from growth in urban centers. Given the failure of growth in Africa to deliver jobs, and in the absence of pro-poor growth policies, the burden of unemployment had fallen disproportionately on the youth and the young.

*Figure 1: Per Capita GDP and its Growth in Africa (2000-2010)*



3. The paper noted that the barriers to inclusive growth are many and that the causes of inequality vary across countries. However, certain key elements are particularly detrimental. These include the lack of government effectiveness and accountability, the lack of economic diversification in many African economies, the lack of economic integration across the continent, the lack of an enabling environment for private sector development and incentives for informality. These factors contribute to discourage investment and undermine entrepreneurship. In addition, poor access to finance impairs the development of small and medium sized enterprises, which are essential for more inclusive growth. The document also analyzed the Bank's current strategy and set out proposals to strengthen the Bank's effectiveness in supporting member countries to achieve inclusive growth.

4. President Kaberuka, President of the Bank Group, outlined the essence of the dialogue as a discussion on the challenges of inclusive growth, which has renewed urgency because of governance challenges in Regional Member Countries. He noted the importance of better integrating inclusive growth in the work of the Bank and leveraging the African character of the Bank to aid Regional Member Countries in their efforts to transform their economies to achieve inclusive growth.

## FOCUS OF DISCUSSION

### A. *How important do Governors see inclusive growth as an overarching policy objective?*

5. The Governors agreed that inclusive growth should be a priority in national policies in Africa and that the Bank should ensure it formed the backbone of its interventions with its members. Although inclusive growth is not a new economic theory; recent social unrest in North Africa has confirmed that inequities in growth were no longer sustainable. These inequities have posed a real threat for the younger generation aspiring to a decent standard of living through equal economic opportunities, democracy and employment. Governors agreed that promoting inclusive growth is a long-term development challenge and an immediate political challenge that cannot be ignored.

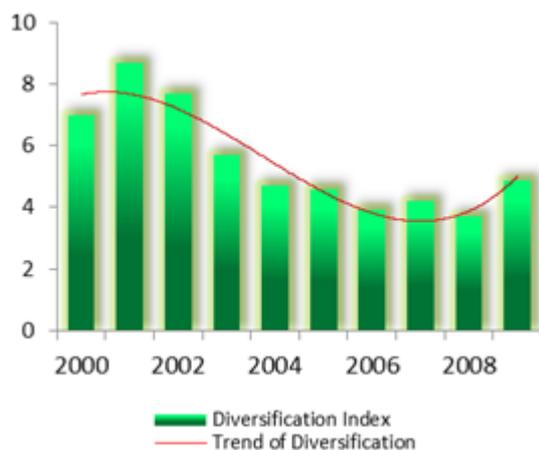
*“there is a need to identify in which areas the Bank can make the most effective contribution to the inclusive growth agenda.”*

**B. What changes if any, would governors want to see in the Bank's strategy, in order to deal with inclusive growth?**

6. The Governors confirmed the continued relevance of the Bank's Medium-Term Strategy, which focuses on key areas of inclusive growth and important obstacles to Africa's growth; including infrastructure, governance, private sector development, and higher education. Through investments in those areas the Bank contributes to agricultural development, regional integration, human development, as well as provides assistance to fragile states. As part of the strategy, knowledge generation, climate change, and gender are mainstreamed in all Bank operations to enhance effectiveness.

7. Inclusion and equity are not highlighted as central themes of the Bank's strategy. While there is scope within the Bank's Strategy to focus on inclusive growth, there is a need to identify in which areas the Bank can make the most effective contribution to the inclusive growth agenda.

*Figure 3: Diversification of African Economies*



8. To this end, Governors underscored the importance of **sound economic and political governance** in ensuring better public finance management and creating a favorable business environment for investors. **Institution building** was highlighted as vital to facilitating the transition of fragile states towards stability

and resilience. In this regard, the Bank should consider revising its governance strategy to better underpin inclusive growth. Governors expressed the view that the Bank's public finance interventions should include support for citizen participation in economic governance to increase government transparency. Furthermore, the Bank was urged to promote elements of good governance through its interventions.

9. The importance of **budgetary decentralization** by governments was highlighted as an essential aspect of governance for ensuring inclusive growth, particularly equitable resource allocation and management for the benefit of rural populations.

10. Governors reiterated their support for the Bank's focus on the **development of Africa's private sector** and the provision of much needed financing for private sector transactions, particularly in low income countries. Governors recalled that the Bank's increasing provision of financing to the private sector, in particular in low income and fragile countries, was a key determining factor for the Sixth General Capital Increase in 2010. This sector plays a key role in boosting growth in Africa. They underscored that **support to small and medium-sized enterprises (SMEs)** is essential for inclusive growth. Such support could be provided through access to financing or flexibility of tax laws to create incentives for formalizing informal businesses.

11. Despite the investments by countries and the Bank Group in the development of infrastructure, critical needs remain, particularly in the energy, transport and telecommunications sectors. Renewed emphasis on **well-targeted infrastructure development is required, including energy provision and complementary governance of the regulatory system**. Reduction in the critical infrastructure gaps on the continent will exponentially reduce transaction costs and boost economic activity and growth in all sectors. Governors also stressed the environmental implications of

investments in infrastructure and highlighted the need to promote renewable and clean energy for **inclusive green growth**.

12. The Bank was urged to continue to provide leadership in developing regional infrastructure and promoting regional integration, which are essential to provide opportunities for inclusive growth. To further encourage inclusion, Governors recognized the importance of investing in rural infrastructure to link rural with urban

“...reducing inequalities requires the establishment of a social welfare system that facilitates the transfer of resources to the poorest.”

areas and promote trade and investments.

13. Governors also highlighted the importance of **investments in the agricultural sector** to ensure food security and increase employment opportunities for the population. Since 60 percent of arable land in the world is in Africa, it is both a challenge and an opportunity to improve food security on the continent.

*C. Does the Bank have the right instruments to respond to the needs of its Regional Member Countries in dealing with inclusive growth?*

14. Governors affirmed that the Bank's responses must be rooted in the understanding that **an inclusive growth agenda must be country owned and based on genuine policy dialogue with member countries**. Furthermore, the Bank must make better use of existing instruments and be more **flexible and innovative** by **enhancing complementarity** and leveraging its comparative advantage.

15. Recent events in North Africa have demonstrated the need to integrate young people, particularly graduates, into the labor market. Cross-cutting solutions have already been identified through interventions in the private, infrastructure and agriculture sectors, which are significant potential sources of employment. Governors emphasized the need to **adapt the educational system, including vocational training, to the requirements of the private sector and the specific needs in the country**.

16. Government has an important role in the regulation and guarantee of social justice. In this connection, Governors recognized that reducing inequalities requires the **establishment of a social welfare system that facilitates the transfer of resources to the poorest**. This transfer system is possible only when Governments can generate **sufficient tax revenue**. Integrating informal economies into the formal sector and modernizing African economies will help to achieve this goal. Governors also reiterated the importance of **investing in the social sector**, particularly in health, through the establishment of health insurance schemes (or micro-insurance), to reduce maternal death and infant mortality, and thereby help achieve the millennium development goals.

17. The Bank was also urged not to overlook the **gender dimensions of its investments and programs**. Governors concluded that gender should continue to be a cross-cutting issue.

18. Regarding financial instruments, Governors noted with appreciation the programs embracing inclusive growth which the Bank had designed, and highlighted the need for the Bank to continue to **be innovative and develop new financial instruments and programs**. They highlighted the need to **consider direct lending to SMEs, going beyond**

**traditional lines of credit to banks as the key financing mechanism for SMEs.**

19. Overall, Governors welcomed the progress made by the Bank to improve its effectiveness. They called on the Bank to redouble efforts in coordination with other donors and **strengthen its capacity in all key areas, including policy dialogue** with partner countries, particularly under the Bank's Policy Based Operations.

## **FUTURE OUTLOOK**

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20. Governors urged the **Bank to translate the guidance provided during the dialogue into concrete actions** to assist member countries to meet the challenge of inclusive growth in the medium term, and thus lay the foundation for longer term sustainable development in Africa.

21. In his closing statement, the Chairperson indicated that inclusive growth is of immense relevance and that several factors could ensure its achievement. It is quite clear that Member Countries need inclusive growth to ensure the creation of employment for their youth. He affirmed the Board of Governors commitment for the support of the Bank as an active vehicle for the promotion of inclusive growth in Africa.